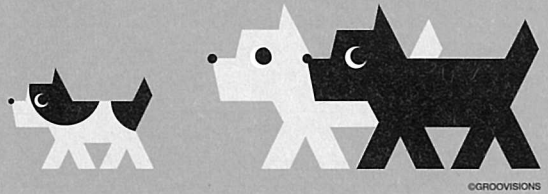
INTEGRATED REPORT 2021



©GROOVISIONS

NNFH Nishi-Nippon Financial Holdings, Inc.

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.

Editorial Policy

The Nishi-Nippon Financial Holdings, Inc. (NNFH) has put together this Integrated Report 2021 in a bid to help investors and other stakeholders understand the initiatives by the NNFH Group to sustain business growth and create value. It has been compiled with reference to the International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC), bringing together financial and non-financial information, including management philosophy, management plans, and ESG (environmental, social, and governance) information.

Scope of Report

Period covered: April 2020 to March 2021 (Some subsequent information is also included.)
Organizations covered: The Nishi-Nippon Financial Holdings, Inc. and its subsidiaries and affiliates

Cautionary Statement Regarding Forward-Looking Statements

The Report contains statements about the NNFH Group's future operating results. These forward-looking statements are not a guarantee of future performance but involve risks and uncertainty. Please note that actual results could differ from those indicated due to a variety of factors, including changes in the operating environment.

Notes

1. Amounts have been rounded down to the nearest unit in principle.
2. Conversion into U.S, dollars (solely for the convenience of readers outside Japan) has been made at the exchange rate of ¥110.71 to $1.

Contents

Profile of the Company (Joint Holding Company)/Organization Chart 02

Board of Directors of Nishi-Nippon Financial Holdings Inc. 03

Outline of Nishi-Nippon Financial Holdings Group 04

Providing Broader/Deeper Support for International Business 05

Financial/Non-Financial Highlights 06

Strengths of the Nishi-Nippon Financial Holdings Group 08

A Brief Sketch of our Operating Base 10

Message from the President 12

Value Creation Process/Medium-Term Business Plan 18

Growth Strategy Work reform 20

Growth Strategy Digital strategy 21

Growth Strategy Initiatives for ESG and the SDGs 22

Communication with Shareholders and Investors 36

Corporate Governance 38

Risk Management 42

Compliance 46

Financial Section 48

Outline of Banking Subsidiaries 108

Organization Chart of Banking Subsidiaries 109

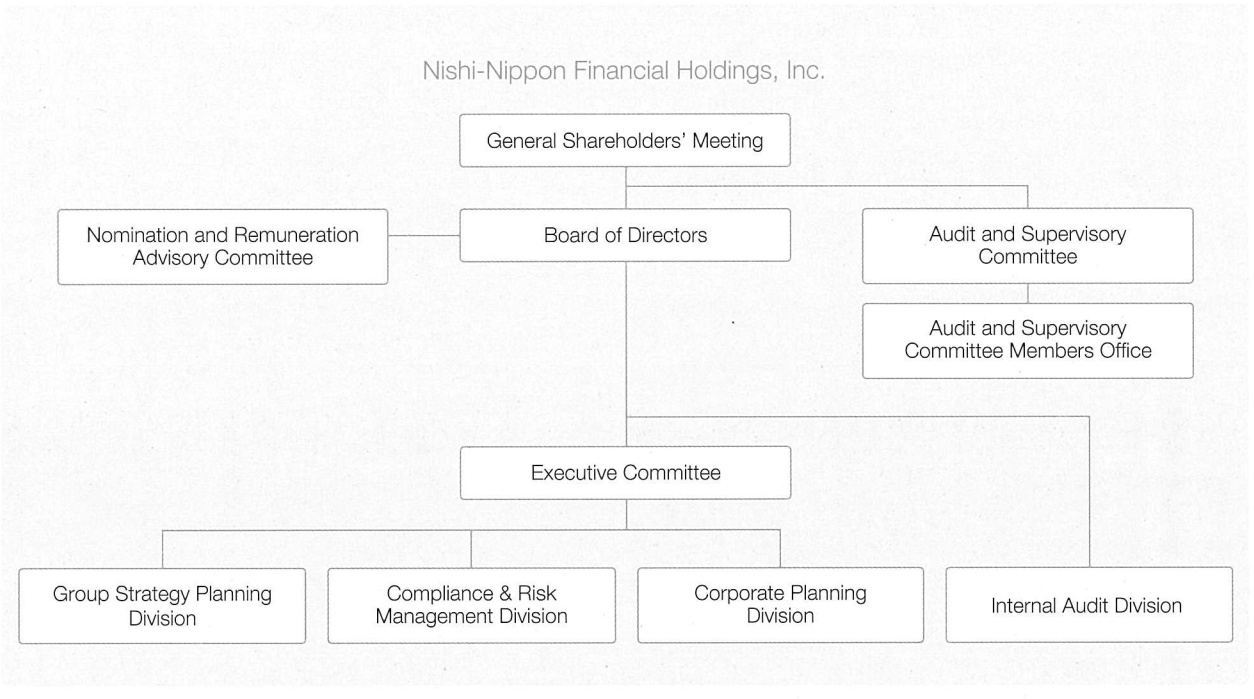
Profile of the Company (Joint Holding Company)

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, 2021)

Organization Chart



(As of 30th June, 2021)

Board of Directors of Nishi-Nippon Financial Holdings Inc.



Chairman
Isao Kubota



Deputy Chairman
Hiromichi Tanigawa



President
Hideyuki Murakami

Chairman	Isao Kubota
Deputy Chairman	Hiromichi Tanigawa
President	Hideyuki Murakami
Directors	Kiyota Takata Takashige Honda
Directors (Audit and Supervisory Committee Members)	Kiyotaka Tomoike Nobuko Takahashi (outside) Toshio Sakemi (outside) Chiharu Kubo (outside)

(As of 30th June, 2021)

* Directors/Audit and Supervisory Committee Members Nobuko Takahashi, Toshio Sakemi, and Chiharu Kubo 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)
Custody Bank of Japan, Ltd. (Trust Account)	12,265	8.27
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,868	6.66
Custody Bank of Japan, Ltd. (Trust Account No.4)	9,155	6.17
Nippon Life Insurance Company	3,861	2.60
Aso Corporation	3,308	2.23
Meiji Yasuda Life Insurance Company	2,765	1.86
The Nishi-Nippon City Bank Employee Shareholding Association	2,465	1.66
Resona Bank, Ltd.	2,200	1.48
Custody Bank of Japan, Ltd. (Trust Account No.5)	2,060	1.39
JP MORGAN CHASE BANK 385781	2,041	1.37
Total	49,991	33.73

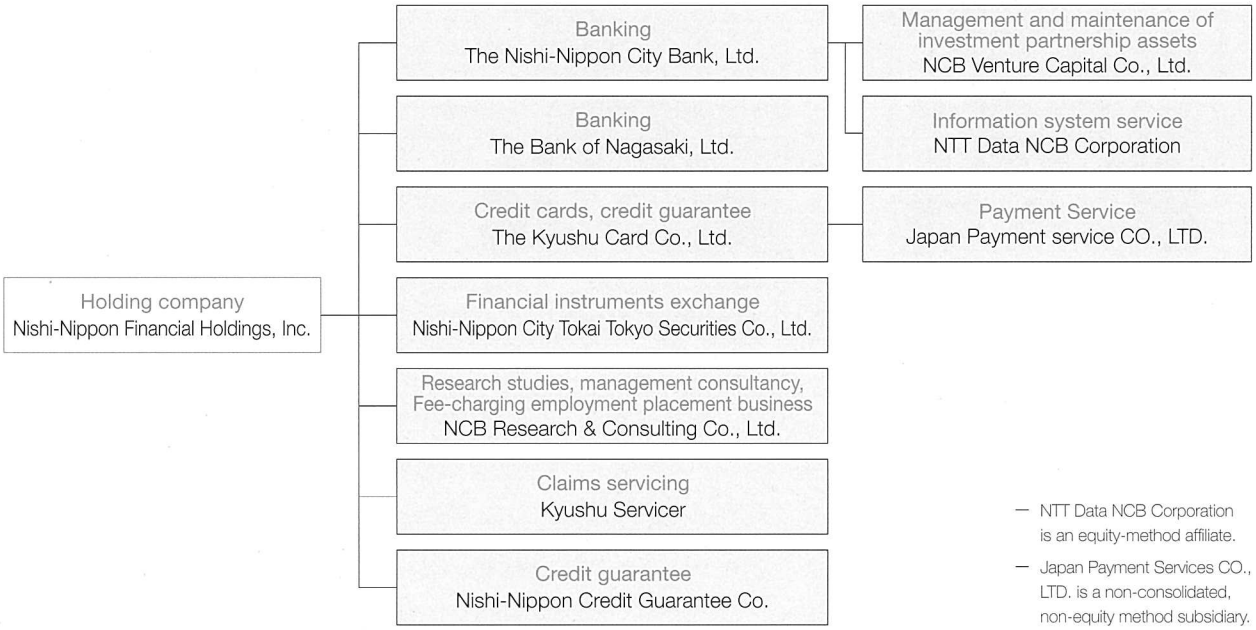
(As of 31st March, 2021)

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

Outline of Nishi-Nippon Financial Holdings Group

Strengths as a "Comprehensive Financial Group"

The NNFH 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.



— NTT Data NCB Corporation is an equity-method affiliate.

— Japan Payment Services CO., LTD. is a non-consolidated, non-equity method subsidiary.

(As of 30th June, 2021)

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)."

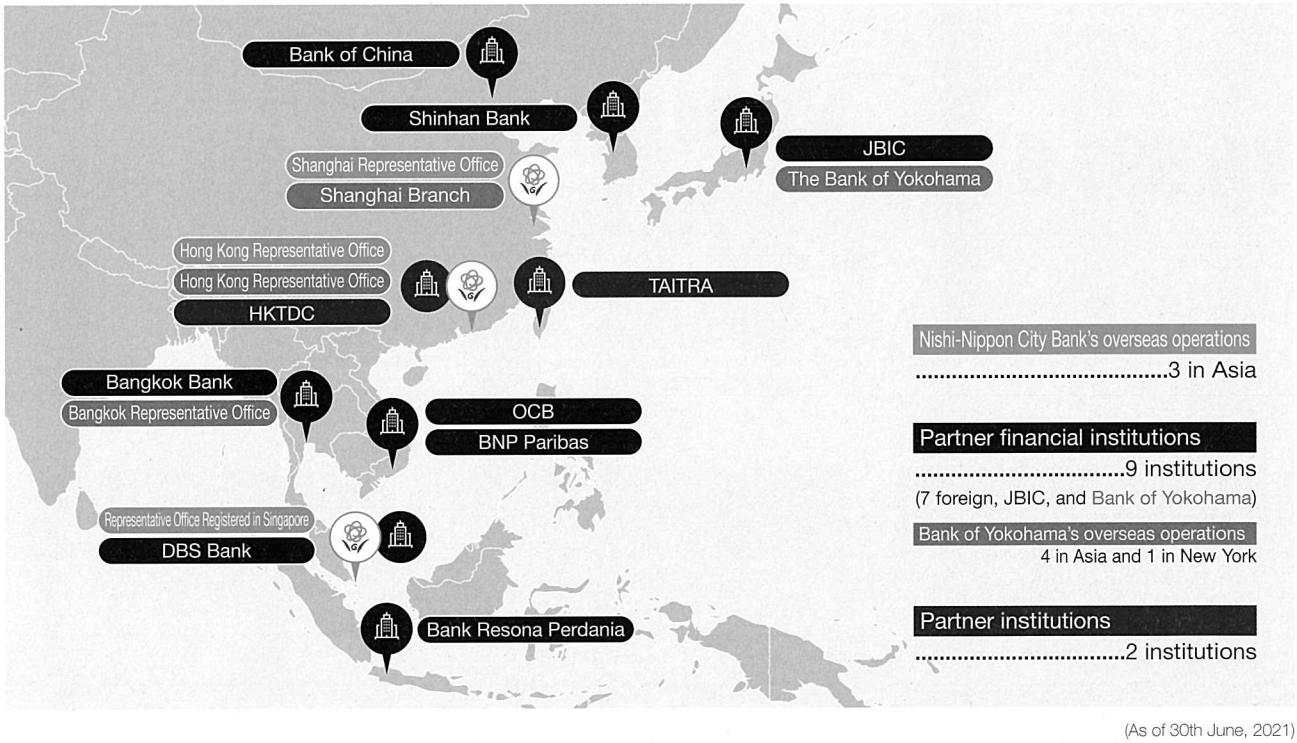


Providing Broader/Deeper Support for International Business

The NNFH Group supports local businesses by addressing their requirements for doing business in Asia and other parts of the world. To this end, the NNFH 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	• International Business Support Office, International Business Div. Support for international business provided by personnel with professional skills and know-how • "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	• 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	• A variety of credit cards Support for all major cards, including VISA, MasterCard, JCB, AMEX, and UnionPay

Broad area coverage by our overseas bases and partner institutions



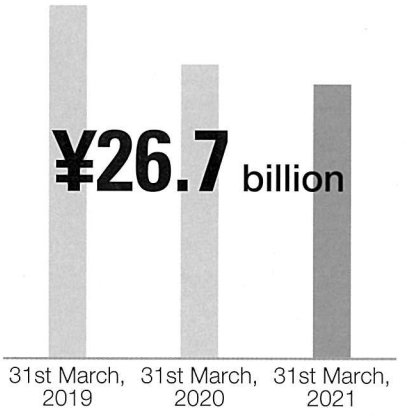
(As of 30th June, 2021)

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

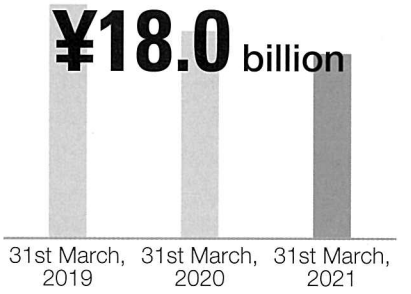
Financial/Non-Financial Highlights

Financial Highlights

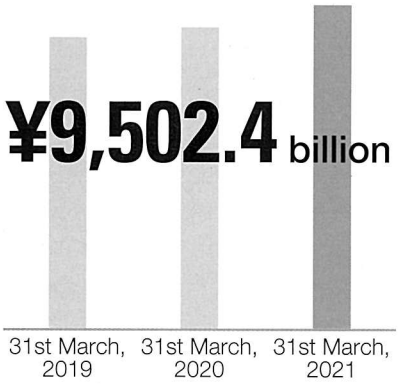
Ordinary income
(consolidated)



Profit attributable to owners of parent
(consolidated)



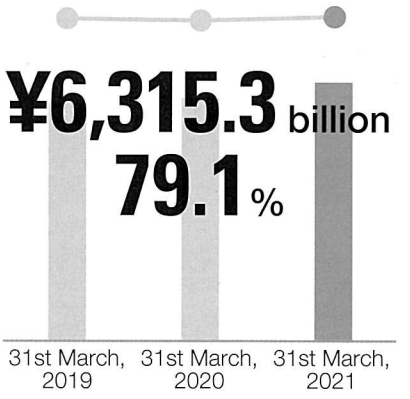
Balance of deposits/NCD
(two banks combined)



Balance of loans
(two banks combined)



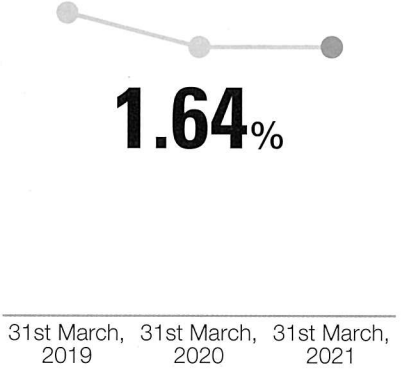
Balance and % of loans to SMEs
(two banks combined)



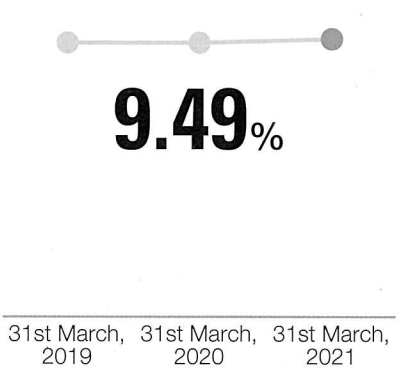
Management of client assets
(Group total)



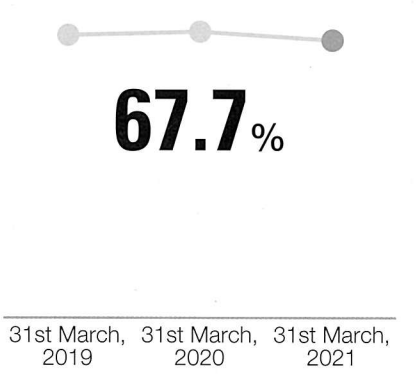
Ratio of loans subject to mandatory disclosure of claims under the Financial Reconstruction Law
(two banks combined)



Capital ratio
(consolidated)



OHR
(consolidated)



Non-Financial Highlights

Number of private customers

Two banks combined **4,095K**

Kyushu Card (membership) **912K**

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

(as of 31st March, 2021)

Number of corporate customers

Two banks combined **136K**

Kyushu Card (member stores) **55K**

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

NCB Research & Consulting (membership) **5K**

(as of 31st March, 2021)

Number of main customers*

(Nishi-Nippon City Bank)

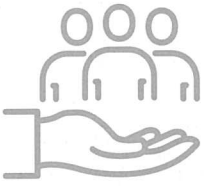


22,497

(as of 31st March, 2021)

COVID-19-related Lending

(two banks combined)



22K
¥729.4 billion

(March 2020-May 2021)

Number/amount of loans to support startups and second startups

(Nishi-Nippon City Bank)



5,745 cases
¥132.6 billion

(year ended 31st March, 2021)

Recipients of The Excellent Executive Award*

* Granted by the Prize of Excellent Executive



Total : **174 executives**

(January 1973-April 2021)

the Nishi-Nippon City Bank app



Total : **950,000 downloads**

(as of 30th June, 2021)

Number/amount of SDGs Private Placement Bonds underwritten

(Nishi-Nippon City Bank)



Total : **266 cases / ¥25.8 billion**

(as of 31st March, 2021)

Reduction of CO_2 Emissions*

(Nishi-Nippon City Bank)



Vs. FY2013
-46.6%

* As measured according to the standards on periodical reports stipulated in the Act on the Rational Use of Energy

(FY2020)

Strengths of the Nishi-Nippon Financial Holdings Group

A Solid Customer Base Built upon Mutual Trust

Number of main customers
(current as of 31st March, 2021)

Nishi-Nippon City Bank

22,497

Since its foundation in October 2004, The Nishi-Nippon City Bank, Ltd., the primary subsidiary of Nishi-Nippon Financial Holdings, Inc. (NNFH), has continuously expanded its scale of operations. It now boasts total assets of 11,789,400 million yen, a balance of deposits and negotiable certificates of deposit (NCD) of 9,262,700 million yen, a balance of loans of 8,318,700 million yen, and 22,497 main customers (current as of 31st March, 2021).

The Kyushu Card Co., Ltd., on the other hand, offers full brand settlement services to support all major international credit card brands, thus building one of the largest customer bases among bank-affiliated credit card issuers. It has 912,000 cardmembers, 55,000 merchants, and a transaction volume of 363,100 million yen (current as of 31st March, 2021, except the transaction volume, which is for the fiscal year ended 31st March, 2021).

Financial Service for the Benefit of Local Communities

% of loans by prefecture

	Kyushu	Fukuoka Prefecture
Nishi-Nippon City Bank	**88.4%**	**78.5%**

% of loans to SMEs, etc.

Nishi-Nippon City Bank **79.0%**

((current as of 31st March, 2021), excluding loans to the Ministry of Finance, Japan)

Under the belief that "Without regional development, there will be no growth of the Group," the NNFH Group remains committed to developing and supporting local businesses and industries.

The Nishi-Nippon City Bank preferentially caters to its host region, with approximately 90% of its borrowers based in the Kyushu region and 80% in Fukuoka Prefecture, and approximately 80% of its borrowers are SMEs or individuals. The Nishi-Nippon City Bank makes a fair assessment of the feasibility of their businesses and growth potential and, if needed, suggests solutions and provides support.

DNA of developing SMEs

Number/amount of loans support startups and second startups (the year ended March 2021)

Nishi-Nippon City Bank **5,745** cases / ¥**132.6** billion

Recipients of The Excellent Executive Award
(current as of 30th April, 2021)

Total : **174** executives

Having started as a financial service catering exclusively to small- and medium-sized enterprises, the NNFH Group maintains the unaltered DNA of developing SMEs.

The Nishi-Nippon City Bank remains committed to supporting business startups in a bid to create industries and jobs in the region; listening carefully to the needs of many SMEs, including fledgling businesses, they offer finely-tuned support. For the fiscal year ended 31st March, 2021, their support was extended to 5,745 startups and second startups, with the total amount of loans reaching 132,600 million yen.

Since 1973, they have granted the Excellent Executive Award to outstanding business managers who have provided distinguished services to the development of the regional economy via the Prize of Excellent Executive. A total of 174 executives have been commended thus far.

Extensive Global Network

Japan

Nishi-Nippon City Bank **163** locations*

Bank of Nagasaki **23** locations

Nishi-Nippon City Tokai Tokyo Securities **16** outlets

* The number does not include online branches and in-store branches. (current as of 30th June, 2021)

Overseas

Nishi-Nippon City Bank's overseas operations **3** in Asia

Partner financial institutions **9** institutions

Partner institutions **2** institutions

The Nishi-Nippon City Bank app
(current as of 30th June, 2021)

Total : **950,000** downloads

The NNFH Group has built an extensive network that spans domestic and international locations.

In Japan, we maintain a network of sales locations for banking and brokerage services in Fukuoka, Kyushu, to offer services with a "human touch" that can only be done through physical channels. Meanwhile, we are keen to enhance convenience for customers by strengthening the functions of our digital channels; The Nishi-Nippon City Bank app, a smartphone app for retail customers and the "NCB Business Station", a platform for corporate customers.

Overseas, we meet customers' needs for their business in Asia and elsewhere at the Nishi-Nippon City Bank's three overseas operations in Shanghai, Hong Kong, and Singapore and through collaboration with our partner institutions and experts in respective regions.

A Group Capable of Offering Comprehensive Financial Services

In October 2016, the Nishi-Nippon City Bank and six other companies transformed themselves to establish a holding company (NNFH) to further bolster their collective strengths. With seven subsidiaries offering a diverse range of distinctive services in parallel, including banking, financial instruments exchange, and credit cards, under its umbrella, the NNFH Group offers comprehensive financial services. Implementing matrix management, which oversees business activities by each Group company in an integrated manner, the new Group structure makes it possible to offer a broad range of financial services.

We are also focused on developing new business domains. Established in May 2020, NCB Venture Capital Co., Ltd. formed NCB Venture Investment Limited Partnership (a.k.a. NCB Venture Fund) in September 2020 to develop a platform for start-to-finish support of local businesses, from foundation to IPO.

Collaboration with Partner Companies and External Organizations

The NNFH Group enjoys close ties with a group of influential companies with a diverse array of businesses, which allow us to respond to a broad spectrum of customer needs through alliances with such external partners, as well as our Group companies.

Among the partner companies are Kyushu Leasing Service Co., Ltd., the leading company of its kind in the Kyushu region listed on the first section of the Tokyo Stock Exchange, Nishi-Nippon Yuukoh shoji, Inc. one of the largest insurance agents for financial institutions in the Kyushu region, and City Ascom Co., Ltd., which provides a variety of nationwide IT solutions.

We are also proactive in forming open and innovative partnerships and alliances with external companies, universities, and others, with a view toward providing diverse and advanced services and revitalizing the local economy.

A Brief Sketch of our Operating Base

- An Unmatched Potential of Fukuoka, Kyushu -

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

Kyushu

The Kyushu region accounts for approx. 10% of Japan's GDP.

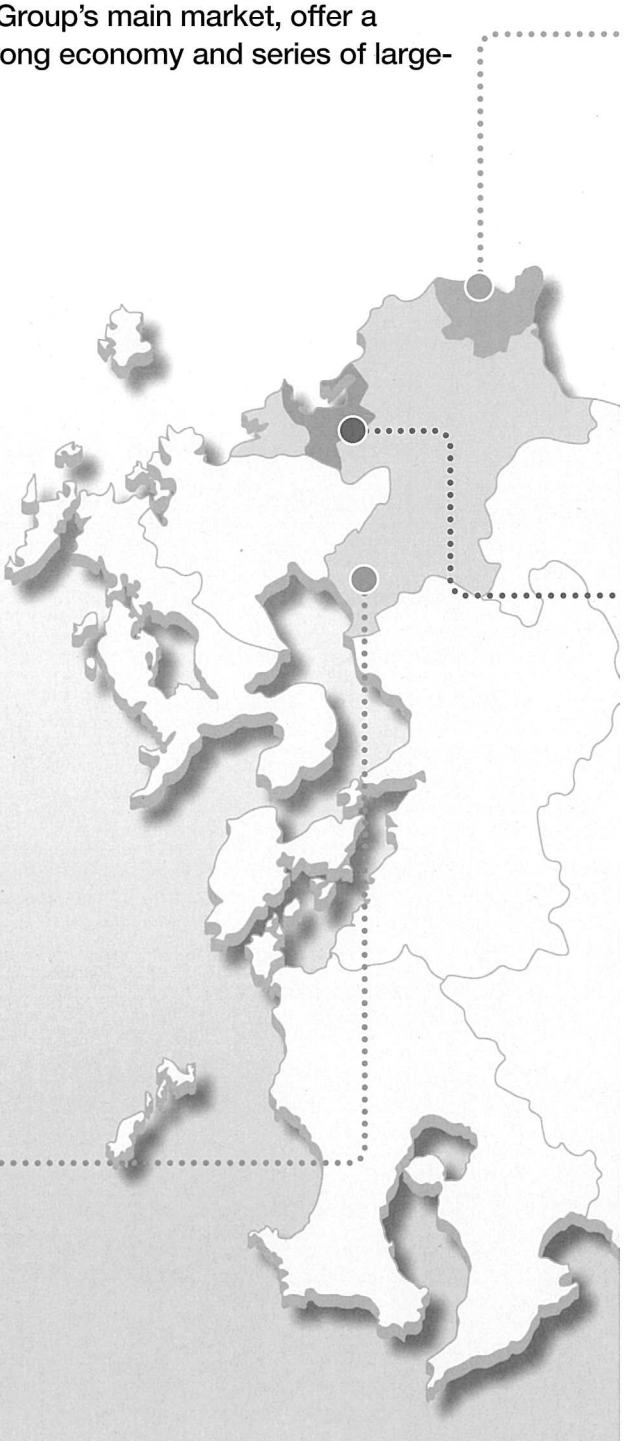
A robust economy of a size smaller only than the three major metropolitan areas

Kyushu maintains close mutual relationships with fast-growing Asian countries.

Kyushu hosts a diverse range of industries.

Automobiles	Unit production of automobiles in the Kyushu region National market share: 15% (2018)
Semiconductors	Unit production of integrated circuits (ICs) in the Kyushu region National market share: 28% (2018)
Agriculture	Agricultural production value in the Kyushu region National market share: 21% (2017)

Source: Kyushu Economy International, Kyushu Economic Research Center



Fukuoka Prefecture

Fukuoka Prefecture accounts for 40+% of Kyushu's GDP.

Fukuoka Prefecture driving the Kyushu economy

Of 370,000 SMEs based in the Kyushu region,
130,000 (36%) are in Fukuoka.

Kita-Kyushu City

Kita-Kyushu City's approach to create "harmony between industry and environment" has been met with great acclaim both in Japan and abroad.

Designated as an SDGs Model City by the OECD (2018)
Designated as an SDGs Future City and an Environmental Future City by the Japanese government (2018)

Signed an Agreement on Cooperation for the Achievement of the SDGs with Kita-Kyushu City

In January 2020, the Nishi-Nippon City Bank and Kita-Kyushu City agreed to support regional businesses' SDGs initiatives toward the shared target of achieving the SDGs.

Fukuoka City

Fukuoka City's population growth rate (7.1%*) is the highest among major cities.

*Growth between 2010 and 2017

Fukuoka City plays host to universities and other educational institutions

Fukuoka has the largest number of schools per 100,000 persons in Japan* (2015)

* A comparison of the number of schools (universities, graduate schools, junior colleges, colleges of technology, and specialized training colleges) in the 21 large cities, including government ordinance cities and special wards of Tokyo

Fukuoka City ranks highest among metropolitan areas in Japan at 5.8%* in terms of the startup rate

* FY2019. National average: 4.9%
Source: *Overview of Fukuoka City's Economy*, Economy, Tourism & Culture Bureau, Fukuoka City

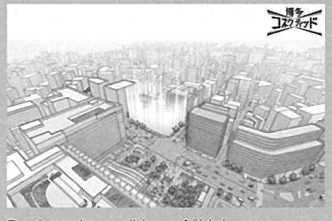
Fukuoka City plays host to many urban redevelopment projects.

Project Names	Construction investment	Knock-on effect/year
Hakata Connected	¥260.0 billion	¥500.0 billion
Tenjin Big Bang	¥290.0 billion	¥850.0 billion

Participating in the two largest urban redevelopment projects in Fukuoka City

The NNFH Group will participate in the two largest urban re-development projects in Fukuoka City, "Hakata Connected" and "Tenjin Big Bang."

See p.30



Designer's rendition of "Hakata Connected"



The first project of "Tenjin Big Bang"
Designer's rendition of "Tenjin Business Center"



The Best Mix Solutions to

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

Introduction

Please allow me to begin by briefly introducing myself. Effective 29th June 2021, I, Hideyuki Murakami, assumed the presidency of Nishi-Nippon Financial Holdings, Inc. (NNFH) and the Nishi-Nippon City Bank, Ltd.

It gives me great pleasure to report on the business performance of NNFH for the fiscal year ended 31st March, 2021.

To soundly fulfill the duties and roles as a regional financial group, I am determined to accelerate the implementation of priority measures in my sincere desire to develop the NNFH Group (the Group) and serve our host community of Fukuoka, Kyushu.

Making the True Worth of a Regional Financial Institution Felt Amid the COVID-19 Pandemic

First of all, I express my heartfelt sympathy to all those affected by the novel coronavirus disease (COVID-19). As a responsible regional financial institution, we at the NNFH Group have put our heart and soul into supporting customers in our home territory of Kyushu and elsewhere who have suffered from the COVID-19 pandemic.

During these unusual times, we need to carefully modify customer support according to relevant priorities, such as the state of infection and the extent of the impact on each customer. Prioritizing the well-being and protection of the lives of our customers and employees, the NNFH Group began by assisting customers in financing while working to prevent the further spread of infection. We then shifted our focus to fact-finding interviews with customers, analyzing realities, and implementing the initiatives based on resultant findings.

between Human Touch and Digital Become a Leading Financial Group

By virtue of this approach, we are among the largest COVID-19-related loan providing banks in Japan, both in terms of the number of cases and the total amount loaned, which is a testament to the level of confidence our customers place in us. I feel heartened to reconfirm the relationship of deep trust with small- and medium-sized enterprises (SMEs) and retail customers, which the NNFH Group has long fostered, and it is reassuring to know that our officers and employees are highly motivated to fulfill their duties with a sense of responsibility as a financial institution catering to the customer needs of our home region.

Moving on to the next step, we are currently focusing on hands-on support, that is, joining our customers in putting our heads together to consider how their business models, which differ greatly among different sectors and enterprises, can be adjusted to fit into the world with and after COVID-19. Corporate earnings are becoming polarized, as seen in the "K-shaped" recovery from the disturbances brought about by the COVID-19 pandemic. To corporate customers whose business is thriving, we finance their capital expenditures or offer solutions that may lead to the expansion of their business, such as M&As. To customers who are struggling but are expected to recover once the pandemic is over, we offer financial support until they recover. And to customers whose business model and services demand a drastic change, we suggest ways to improve their management.

COVID-19 vaccination is well underway in Japan, but we still find it hard to shake off the mood of uncertainty. We, everyone in the NNFH Group, will continue to innovate ideas and work up a sweat together with our valued customers, thus strongly underpinning regional economies.

NNFH Group's Growth Strategy

In the Medium-Term Business Plan, "Leaping Forward 2023 - Bringing Vibrancy to the Kyushu Region and Beyond - (the MTBP)," whose compilation I was involved in as an MTBP formulation committee chair, we made clear the course of action that our growth strategy would take, and it remains unchanged. Let me take this opportunity to share the review of the first year of the MTBP and walk you through our management policy for fiscal 2021.

The First Year of the MTBP in Review

I think it is safe to say that we made a good start in fiscal 2020, the first year of the MTBP.

If we look at the numbers, our net income decreased by 2.1 billion yen year-on-year to 18.0 billion yen. This is primarily because of an increase in credit costs due to a conservative allowance for loan losses, despite an increase in net interest income and a decrease in expenses.

Looking back on fiscal 2020, our business environment was tougher and more opaque than usual, as COVID-19 infections exploded while the negative interest rate policy continued adding downward pressure on our earnings. Portions of our fiscal 2020 financial results were affected by these negative impacts.

That said, looking ahead to our future business performance, we can find three positives. First, our extended financing support for COVID-19-hit customers has increased our lending, which in turn has expanded our customer base. Second, our expenses dropped sharply due partly to our work reform. And third, as we increased the allowance for lending, we were able to preemptively assuage a source of future concern in the form of credit costs due to the pandemic and prepare for it reasonably well.

Given the above, I must say that, despite the decrease in consolidated net income by 2.1 billion yen, it was a rather solid and substantial showing, striking a good balance between offense and defense.

As for specific measures taken, we accelerated our initiatives for work reform and digital-related measures for corporate and retail customers.

FY2021 Management Policy

The magnitude of the changes to society and the economy brought about by the COVID-19 pandemic—polarization of corporate earnings and acceleration of digitization, to name but a few—is both expansive and substantial. Meanwhile, initiatives for ESG and the SDGs have become elements that no enterprise can do without in their pursuit of business.

Given these external circumstances, we have deliberately chosen five priority areas for fiscal 2021, the second year of the MTBP. They are: 1) Hands-on support for corporate customers amid the COVID-19 pandemic, 2) Proper management of credit risks, 3) Initiatives for ESG and the SDGs, 4) Digital strategy, and 5) Work reform.

The first priority area of "Hands-on support for corporate customers amid the COVID-19 pandemic" is the one that puts to test the true worth of a regional bank. While many enterprises are being forced to retool their business models as the pandemic drags on, it will be increasingly important to "stand close by customers to put our heads together to work out solutions to their business challenges." We will continue putting our heart and soul into going above and beyond fulfilling the roles regional banks are expected to play.

Next comes "Proper management of credit risks." In fiscal 2020, the Nishi-Nippon City Bank increased its allowance for loan losses by conservatively re-categorizing borrowers who are likely to be adversely affected significantly by the ongoing pandemic. Since we had increased allowance for loan losses in preparation for the expected repercussions of COVID-19 the year before, we believe that we are reasonably well prepared for the future. We will also have our branch offices and the Headquarters check loan proposals from more than one perspective to prevent any risk from being overlooked, thus curbing a potential increase in credit costs into the future. Meanwhile, our branch offices will investigate the real conditions of COVID-19-affected customers to provide the support they need both proactively and continuously.

Now, I will move on to elaborate on the other three areas of: 3) Initiatives for ESG and the SDGs, 4) Digital strategy, and 5) Work reform.

Initiatives for ESG and the SDGs

The SDGs have become a shared commitment of the international community. What regional financial institutions, including the NNFH Group, are expected to do in this regard is, I believe, to proactively address challenges facing the host community to realize a sustainable society.

The NNFH Group has long been proactive in a diverse range of community services, beyond the cultivation and support for local enterprises and industries, as well as startups. ESG and the SDGs, which are rapidly garnering interest, are, so to speak, our forte. The NNFH Group will remain committed to ESG and the SDGs as we reorganize and improve our extensive service menu. In April 2020, we established the specialized organization to promote the SDGs under the Corporate Planning Division, which takes the lead in orchestrating unified initiatives throughout the Group.

Initiatives for the Environment and Climate Change

In April 2021, the NNFH Group expressed its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Among the ESG topics, carbon neutrality is one of the greatest concerns for the world. Amidst this major trend, how the NNFH Group and its customers in our host region go about achieving carbon neutrality while driving business growth is crucially important.

They say that there are two aspects to carbon neutrality for enterprises. One is "defensive," or reducing their greenhouse effect gases (GHGs) emissions, and the other is "offensive," namely, representing various growth strategies, including the transition to decarbonization. Going forward, there is every reason to believe that a massive amount of capital will be invested across the globe to achieve carbon neutrality, which should bring us a significant business opportunity.

We are ready to support our customers both on the "defensive" and "offensive" fronts. For example, we can extend loans or offer consulting services to customers working on capex projects aimed at

reducing GHGs emissions by introducing solar power generation, constructing a net zero energy building (ZEB), or other means. We can also assist customers in utilizing various subsidies and grants from governments. We may need to offer an integrated service between regional revitalization and the cultivation of startups in addition to the aforementioned services.

Assisting customers' transition to a carbon-neutral business model in terms of both financing and consulting—This is one of the priority measures we will focus on in the second year of the MTBP and beyond.

Initiatives to Create Jobs and Industries in the Region

The NNFH Group's founding business is a financial service provider exclusively for SMEs. Having inherited the "DNA of developing SMEs" from our former entities, we will remain committed to creating industries and jobs in the region through the provision of finely-tuned support for startups and the utilization of funds.

The Nishi-Nippon City Bank maintains NCB Startup Support Salons in the Fukuoka and Kita-Kyushu areas. There, a specialist team of Business Startup Consultants is available to provide fine-tuned consultation services to answer questions customers might have about their startup plans, such as support for drawing up business plans and initial funding. Given the COVID-19 pandemic, customers may seek their service remotely over the internet.

We are also planning to open a new incubation (startup support) center within the Nishi-Nippon City Bank Daimyo Branch building. A place for founders of new businesses to network and find matches, the new facility will be operated in an integrated manner with NCB Startup Support Salons.

With regard to the utilization of funds, in September 2020, we set up the 2.0-billion-yen NCB Venture Fund to invest in venture businesses and businesses marking their second foundation from a broad range of sectors. In April 2021, we formed the QB Fund No. 2, a vehicle to invest in university-launched venture businesses and the like, for 3.1 billion yen.

In addition, in September 2020, we organized an open innovation business competition for startups. After the final selection in March 2021, we commended promising entrepreneurs.

We will forge ahead with these measures to extend our support to 13,000 startups, a target we set for the ongoing MTBP (10,000 for the previous MTBP).

Human Resources Strategy

I want the NNFH Group to be a diverse and vibrant organization.

In a time of change like this, for us to live up to our Group Management Philosophy and "respond to change and grow with our customers," it is vital that ours is a diverse and vibrant organization.

Employees with diverse backgrounds, regardless of age, gender, and whether or not they started their career at the NNFH Group, all bring irreplaceable opinions and ideas to raise the Group's value through trial and error, taking on challenges without fear of failure—This is the corporate culture I want to create for our organization.

Speaking of mid-career recruitment, we are aggressively hiring industry-ready specialists in digital technology and technical and advanced consulting, and we put 17 of such employees on our payroll in fiscal 2020. Going forward, we will remain aggressive in recruiting outstanding talents with broad backgrounds.

For an enterprise to sustain its business growth, all employees must be given equal opportunities to shine, regardless of their gender. The NNFH Group is committed to the empowerment of female employees and the expansion of the work-life balance program, and it is with pleasure that I can report that the number of female managers has almost tripled over the last ten years.

For the development of young employees, to coincide with the restructuring of the branch office network this fiscal year, we have reengineered our training program, in which a group of new recruits follow a special curriculum to become professionally trained from a long-term perspective.

We will continue to forge ahead with these initiatives.

Digital Strategy

One of the basic strategies for the current MTBP reads, "Providing customer-oriented 'One to One Solutions.'" This stems from our fundamental idea of making the best use of digital technology where tasks can be performed digitally while offering quality solutions with a "human touch" in regard to technical and advanced consultation services that only humans can do.

Our basic strategy for digitalization takes the form of a "partnership model," under which we offer industry-leading digital services through partnerships with third parties. Since its debut in March 2015, the Nishi-Nippon City Bank app has constantly added functions and services that increase convenience for retail customers. Topping 950,000 downloads (current as of 30th June, 2021), ours is one of the most downloaded regional bank apps in Japan. In December 2020, we launched the "NCB Business Station," a platform for corporate customers that offers the first one-stop financial and non-financial services from any regional bank in Kyushu.

In October 2020, we invited IT specialists from external partner businesses to establish the Digital Solutions Team. Working closely with Group companies and partner businesses, we are proactively supporting corporate customers in addressing the needs to digitalize their operations, and we are looking forward to undertaking projects of a higher level. In the ongoing MTBP, we have laid out a plan to reallocate about 100 personnel to such key fields as digitalization, corporate solutions, and market operation, and I am delighted to say that we have almost accomplished the plan one year after its implementation. We now have nearly 100 members working in the digital field. We will continue to preferentially allocate human and monetary resources to this tremendously important field.

I think that the goal of digital transformation (DX) we should reach for is to create a new business domain or an innovative business model by analyzing and utilizing data made available to us via digital technology. We will make the most of the data we have accumulated thus far and team up with external partners to work on DX.

But this does not mean that the NNFH Group's ultimate forte is digital solutions. We do need digital skills, but our greatest strength is, after all, a human touch.

When the pandemic broke out, clerks at the Nishi-Nippon City Bank voluntarily gave up holidays to support customers, despite a legitimate concern about infection, out of their sincere wish to lend to customers in need as quickly as possible. Their dedication is, in my mind, an embodiment of human touch. A leading financial group that is deeply entrenched in its home territory and is growing with customers—This is the goal we should reach for, and I have no doubt whatsoever that we need a human touch to make it a reality.

We will ceaselessly seek, through trial and error, to bring the best mix between digital technology and human touch to a higher dimension.

Work Reform

In April 2018, the Nishi-Nippon City Bank commenced work reform, which is comprised of "work flow innovation," "digital innovation," and "resource innovation."

I am delighted to say that these initiatives for work reform are bearing much fruit. Instead of being a mere reduction in administrative work or expenses, it is safe to say that the work reform is bringing about a massive qualitative change to the entire organization on a never-before scale in the history of the Nishi-Nippon City Bank.

We are taking an integrated approach to "work flow innovation" and "digital innovation." By thoroughly streamlining the work flow, digitalizing operations through the strategic use of tablet computers, Robotic Process Automation (RPA, automating business processes by software robots), and other techniques, and restructuring the branch office network, we have drastically reviewed operations at branch offices and the Headquarters, with the result that the work volume has been reduced substantially; for example, time spent on administrative work at branch offices has been reduced by more than 30% since commencing work reform.

For "resource innovation," we are optimizing branch functions and operations according to the scale and characteristics of the market and reallocating human resources to priority fields. Within three years since April 2018, we have closed 15 branches and are beginning to see expected effects in such forms as fulfillment of roles according to the quality of each branch. In April 2020, we abolished a region-specific clerical position, with the result that some 800 clerks simultaneously changed their career trajectory to the regional managerial track, thus preparing ourselves to shift more persons to sales operations.

Given a pickup in lending process efficiency, in April 2021, we shifted from a three-division system of saving, lending, and sales to a two-division system of in-store service and outside sales. We also recalculated the required number of personnel at each branch.

In forging ahead with work reform like this, we make it a rule to listen to what persons in the field, who have direct contact with customers, think and face in the form of challenges, so that we can feed their input back to our reform. I am glad to report that communication between the Headquarters and branch offices has been significantly improved thanks to this constant effort.

In the second year of the MTBP, we will further deepen such initiatives for work reform and roll them out throughout the NNFH Group.

In Conclusion

The operating environment that regional financial institutions find themselves in remains difficult. With the spread of COVID-19 and its impact on the Japanese and global economies, as well as Japan's declining and aging population with a low birthrate, and the negative interest rate policy becoming a long-term norm, challenges abound.

Meanwhile, on the back of the changes in work styles and lifestyles, progress in digitalization, and the growing interest in ESG and the SDGs, customer issues and needs are becoming increasingly diverse and advanced.

Against this backdrop, while making constant efforts to adapt to such changes, the NNFH Group provides customer-oriented "One to One Solutions" in the forms of a human touch and digital solutions, thus contributing to the development of customers and the regional community.

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 customers—To achieve this goal that remains unchanged, we are determined to aggressively respond to major shifts in society as we establish a new business style for the NNFH Group. Your continued support for and guidance in our future endeavors is most appreciated.

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



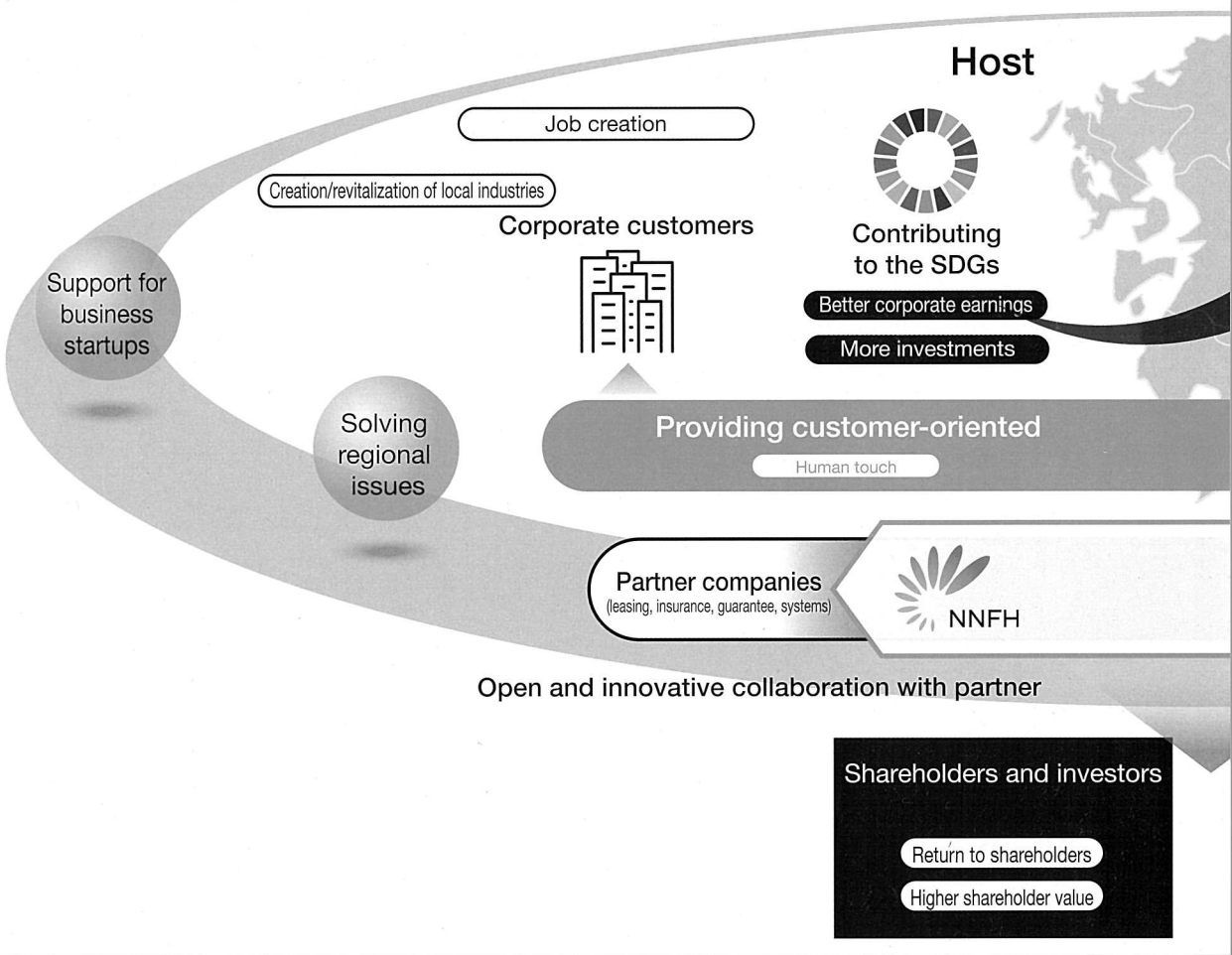
Value Creation Process/Medium-Term Business Plan

Group Management

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

- Creating Vibrancy to the

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



Medium-Term Business Plan Leaping Forward 2023 - Creating Vibrancy to the Region and Beyond -

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

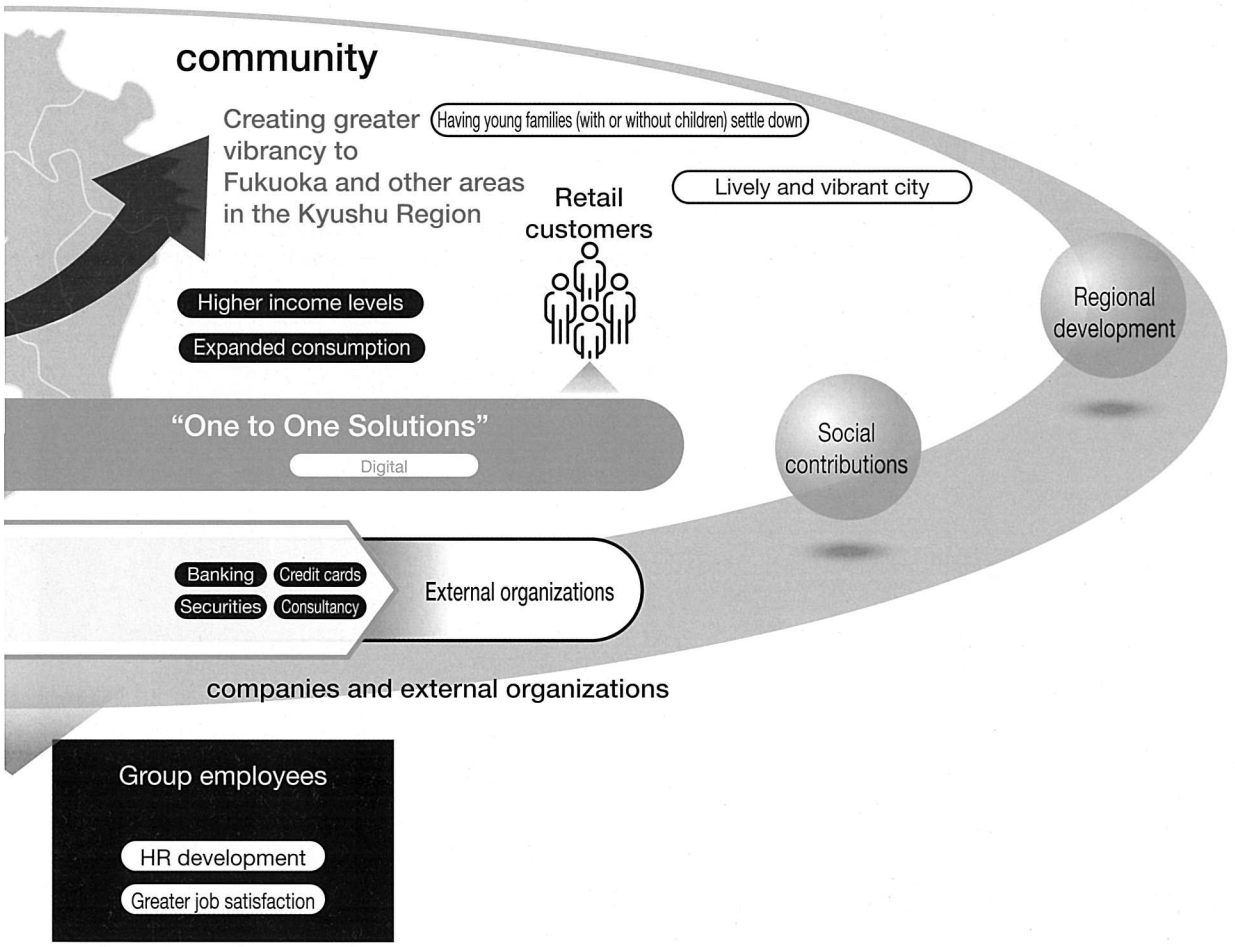
services, we are committed to becoming a leading
to change and to grow with our customers.

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

Region and Beyond -

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



NNFH's priority SDGs

SUSTAINABLE DEVELOPMENT GOALS

Target management indices			
	Results for the year ended March 2020	Results for the year ended March 2021	Targets for the year ending March 2023
Consolidated net income*1	¥20.2 billion	¥18.0 billion	¥21.5 billion
5% of non-interest-earnings*2	20.2%	18.5%	Approx.22%
Consolidated OHR	69.8%	67.7%	60-69%
Consolidated equity ratio	9.36%	9.49%	Approx.10%

*1 Net income attributable to owners of parent
*2 (Net fee and commission income + Net trading income + Net other operating income excluding net gains (losses) related to bonds and the cost of currency swaps) / Gross operating profit (all consolidated numbers)

Growth Strategy Work reform

In April 2018, the Nishi-Nippon City Bank embarked on a series of work reforms, comprising the three pillars of work flow innovation, digital innovation, and resource innovation. These attempts to carry out work reform have helped reduce the amount of paperwork and expenses, and brought about qualitative changes in the entire organization on a scale that is arguably the largest in the company's history by a wide margin.

A general picture of work reform

Three pillars of work reform

work flow innovation	digital innovation	resource innovation	
Thoroughly streamlining work flow	Utilizing ICT (RPA, tablet computers, etc.)	Reviewing the configuration of branches according to market needs	Streamlining labor at branch offices

What we have achieved (April 2018–March 2021)

Reducing the amount of paperwork, branch offices, expenses, etc.

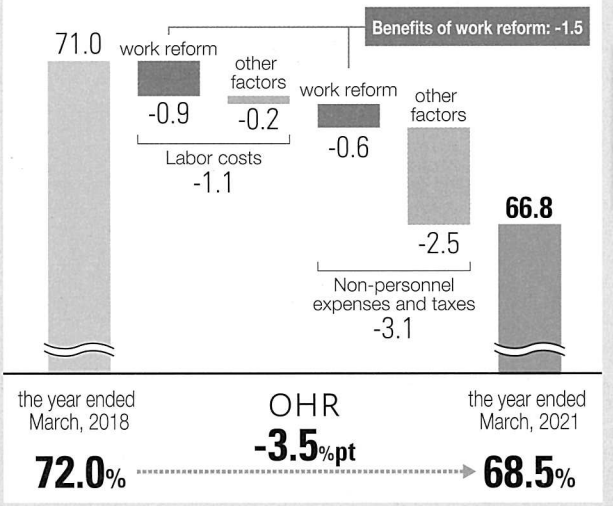
Paperwork at HQ and branches **-811** human-minutes

Number of branches **-15**

Number of ATMs **-300**

Reducing expenses
(more than 1.5 billion yen was cut due to work reform)

Factors for a reduction in expenses (Nishi-Nippon City Bank) (billion yen)



the year ended March, 2018 **72.0%** → OHR **-3.5%pt** → the year ended March, 2021 **68.5%**

Building an organization with a trend of increasing productivity

Re-allocating personnel to priority fields

Digital field / Corporate solutions field / Market operation field / Group companies, etc.

Headcount for the priority fields above

current as of March 2018: about 120 → Approx. +150 → current as of March 2021: about 270

Upgrading the branch network to enhance consulting service

- Simultaneous switch from region-specific clerical positions to a regional managerial track (April 2020)
- Introducing a two-division system, establishing a special training program for new recruits (April 2021)

Reinforcing the sales structure

Increasing the job satisfaction of individual employees

Our goals

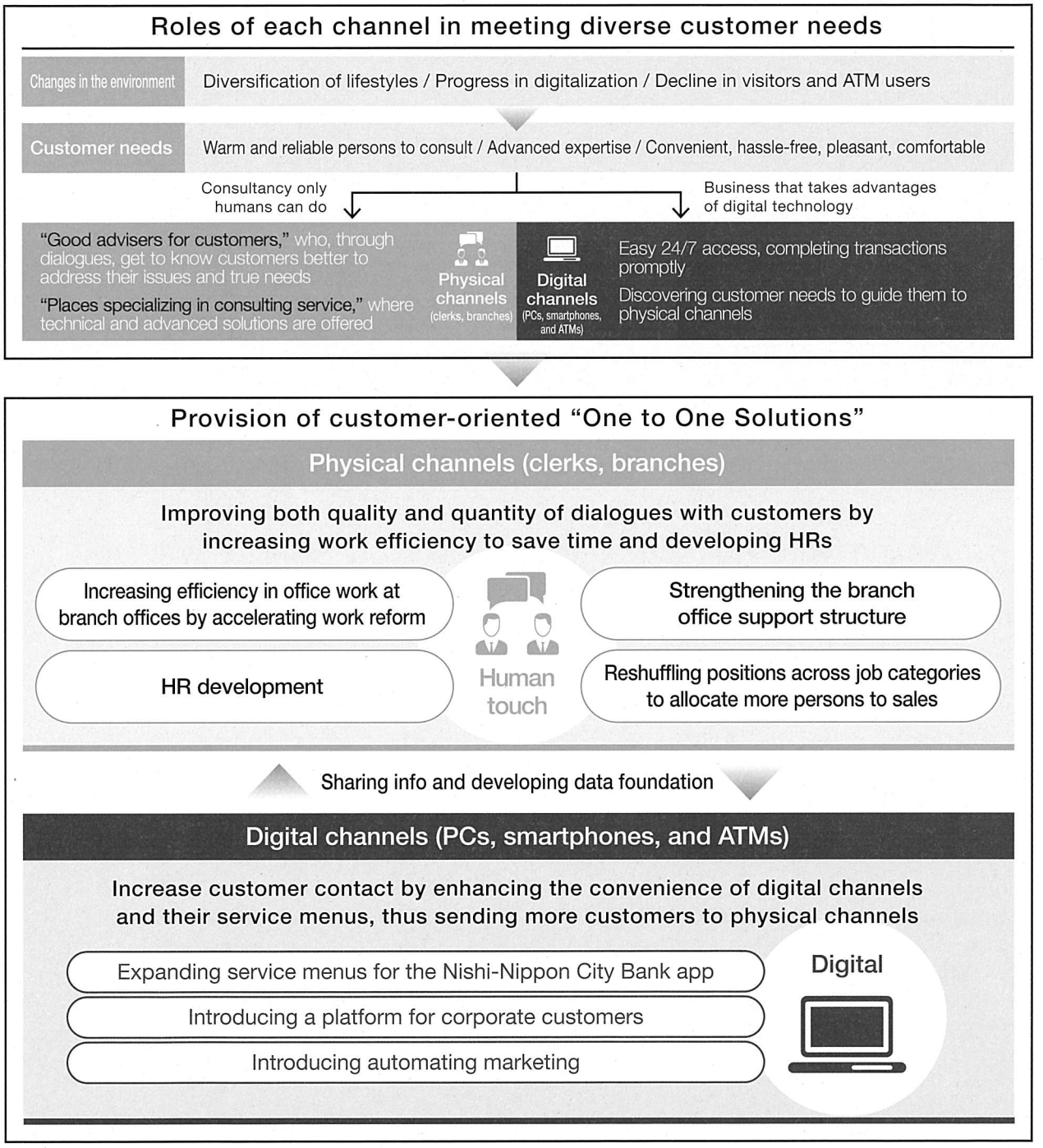
- Rolling out work reform initiatives throughout the Group
- Enhancing the earnings power and productivity of the NNFH Group
- Making branch offices a hub for consulting services

Growth Strategy Digital strategy

In an effort to meet increasingly diversified and advanced customer needs, the NNFH Group provides customer-oriented "One to One Solutions" in the forms of human touch and digital solutions, thus contributing to the development of customers and the regional community.

Providing customer-oriented "One to One 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).



A Vehicle to Promote the Digital Strategy

In April 2020, the Nishi-Nippon City Bank set up the Digital Strategy Division, which specializes in flexibly planning financial services that leverage digital technology to enhance customers' convenience. In addition to the four areas of activities, namely, digitalization of customer transactions, utilization of customer data, promotion of open innovation, and digitalization of the sales process, this new division is focused on the recruitment and development of human resources by, for example, putting more effort into hiring mid-career specialists.

Growth Strategy　Initiatives for ESG and the SDGs

With the firm belief that "Without regional development, there will be no growth of the Group," the NNFH Group has dedicated itself to wide-ranging community activities as we offer solutions that address regional challenges through our primary services of support for startups and funding environmental projects.

In the current Medium-Term Business Plan, "Leaping Forward 2023 - Creating Vibrancy to the Region and Beyond -," which was kicked off in April 2020, we prioritize Environmental, Social, and Governance (ESG) criteria and the Sustainable Development Goals (SDGs) in our management strategies and determine the NNFH's priority SDGs. At the same time, we established the specialized organization to promote the SDGs, which orchestrates diverse initiatives taken in this regard within the Group.

Then in April 2021, the NNFH Group stipulated its policies concerning ESG and the SDGs in the form of the Nishi-Nippon Financial Holdings Group Sustainability Declaration.

Going forward, the NNFH Group will continue to bolster its ESG/SDGs initiatives in ways exclusive to regional financial institutions.



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.

The Nishi-Nippon Financial Holdings Group Sustainability Declaration

Guided by the Group Management Philosophy, we at the NNFH Group aim to develop the regional economy and enhance our enterprise value, while at the same time contributing to the realization of a sustainable society.

NNFH's priority SDGs



	Selected measures	Corresponding SDGs
Initiatives for the Environment and Climate Change	● Support for the TCFD Recommendations and relevant initiatives ● Eco-Friendly Branches ● Committed to Beautification of the Local Environment ● Participation in environmental initiatives See p.24 – p.25	
Initiatives for ESG Finance	● Supporting corporate customers' ESG/SDGs initiatives ● Supporting retail customers' ESG/SDGs initiatives ● ESG investment by the NNFH Group See p.26– p.27	
Efforts to create jobs and industries in the region	● Finely-tuned startup support ● Business support through funds ● Solutions to labor-related challenges facing local companies ● Participation in regional development projects See p.28 – p.30	
Partnership with the Local Community	● Collaborating with Local Governments ● Collaborating with Universities See p.31	
Multifaceted Programs Benefitting the Local Community	● Commendation ● Provision of economic/financial information and finance education ● Support for customers' efforts to achieve the SDGs ● Cultural/artistic activities See p.31	
Human resource strategy	● HR development ● Diversity & Inclusion ● Work style reform See p.32 – p.34	

Initiatives for the Environment and Climate Change

|| Support for the TCFD Recommendations and relevant initiatives

In 2009, the NNFH Group established the specialized organization related to the enninronment at its subsidiary, the Nishi-Nippon City Bank (which was restructured into the specialized organization to promote the SDGs, the NNFH, in April 2020), to take a variety of environmental measures, including renovation of our branches to fully equip them with eco-friendly features and underwriting of private placement bonds.

Recent years have seen abnormal weather causing increasingly frequent damage throughout the world on an unprecedented scale. In our hometown Fukuoka, Kyushu, too, we have had major disasters, including the Northern Kyushu floods in July 2017 and another localized downpour in July 2020, which left us with serious damage. Without a doubt, climate control is one of the major challenges facing our community.

It was against this background that in April 2021, the NNFH Group declared its support for the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)* with the recognition that it is important to assess and prepare for the impact that climate-related risks and opportunities may have on its business. Going forward, we will make arrangements and disclose relevant information in accordance with the TCFD Recommendations while supporting our customers in dealing with the challenges posed by climate change.

* A set of recommendations that the TCFD, created by the Financial Stability Board (FSB), published in June 2017 to help public companies and other organizations disclose the impact of climate-related risks and opportunities to investors and other stakeholders.

● Governance

The NNFH Group ensures that its policies and important matters concerning sustainability, including climate change, are reflected in its management strategies and risk management after deliberations at the Executive Committee chaired by the President and reported to the Board of Directors as needed. Day-to-day operations are left to central supervision by the specialized organization to promote the SDGs of the Corporate Planning Division, which monitors the status of the measures taken by the NNFH Group and follows upon such efforts.

With regard to the fulfillment of the TCFD Recommendations, we have launched a cross-divisional project team to proceed with arrangements and disclosures in compliance with them.

● Strategies

The NNFH Group has made it clear that it "aims to develop the regional economy and enhance its enterprise value while contributing to the realization of a sustainable society" in its Group Sustainability Declaration, which describes its policies on its initiatives for ESG and the SDGs. Accordingly, the Group has selected "Goal 13: Take urgent action to combat climate change and its impacts" as one of its priority SDGs, thus including climate control in its management imperatives and deploying a variety of environmental-related measures.

We will intensify our support for customers' initiatives to deal with climate change, including transitioning to de-carbonized operations and other capex projects designed to reduce greenhouse gas (GHG) emissions.

Selected Environmental Measures

Products and services offered to customers	● Underwriting environmental private placement bonds ● Underwriting "Green Bonds" ● Financing renewable energy power generation business ● Offering preferential interest rates to eco-friendly equipment funds (business loans, housing mortgages) ● Sale of ESG/SDGs-related investment trust …etc.
Group's activities	● Investing in SDGs bonds (social bonds, green bonds, etc.) ● Participating in external initiatives (Principles for Financial Action for the 21st Century) ● Renovating branches into eco-friendly ones ● Promoting energy-saving initiatives (closing part of ATMs during certain blocks of time, proper control of air-conditioners, etc.) ● Paperless campaign ● Committed to Beautification of the Local Environment …etc.

● Impact Climate Change Has on the NNFH Group's Management

The NNFH will analyze based on some future scenarios the risks and opportunities that may come about through climate change and impact our management over the mid- and long-term. We will also implement measures based on the findings of the analysis.

● Risk Management

The NNFH is aware of the fact that physical risks and transition risks attributable to climate change will have an impact on the NNFH Group's business administration and financial position. We will thus continue to monitor and analyze the possible impacts arising from the risks associated with climate change and build a framework for controlling such risks.

Risks Associated with Climate Change

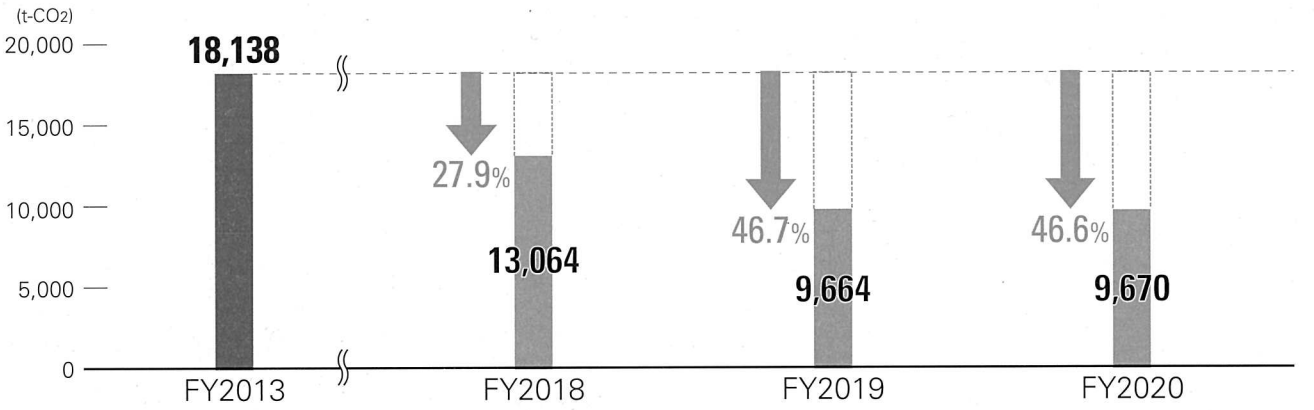
Climate Change Risks	Changes in the world	Descriptions of risks	Risk category
Physical risks	Wind and flood damage due to typhoons, torrential rains, etc.	Damage to Group companies' sales offices	Operational Risk (Tangible asset risk)
		Degradation of the value of assets pledged by investees/borrowers	Credit Risk
		Loss generated by the shutdown of operations by investees/borrowers	Credit Risk
		Confusion in the financial market due to serious/extensive damage	Market Risk
Transition risks	Tightening of environmental regulations	Loss generated by rapid changes in policies/regulations on the part of investees/borrowers	Credit Risk
	Development of innovative technologies	Degradation of asset value and/or loss generated on the part of investees/borrowers at the time of rapid structural changes brought about by technological innovation	Credit Risk

Indices and Targets

The NNFH Group works to monitor its CO_2 emissions from business activities and to reduce its environmental load. In fiscal 2020, the Nishi-Nippon City Bank successfully reduced its CO_2 emissions* by 46.6% compared to fiscal 2013.

* As measured according to the standards on periodical reports stipulated in the Act on the Rational Use of Energy

CO_2 Emissions (Nishi-Nippon City Bank)



Eco-Friendly Branches

The Nishi-Nippon City Bank is renovating branches to make them fully equipped with eco-friendly features, such as solar power generation, rainwater utilization, LED lighting, and energy-saving air-conditioning (26 branches renovated current as of 31st March, 2021).



Nishi-Nippon City Bank Shime Branch (renovated in July 2020)

Committed to Beautification of the Local Environment

The NNFH Group is an active participant in environment beautification activities, including Fukuoka City's Flower Town one person one flower movement and volunteer-clean-up in each community.

Participation in environmental initiatives

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

(Nishi-Nippon Financial Holdings)

PFA21 Principles for Financial Action for the 21st Century

(Nishi-Nippon City Bank)

Initiatives for ESG Finance

|| Supporting corporate customer's ESG/SDGs initiatives

● Implementing Feasibility Studies That Take ESG Factors into Account

In October 2019, the Nishi-Nippon City Bank was selected as a recipient of support under the framework of the Project to Promote ESG Finance in Each Region*, which was publicly offered by the Ministry of the Environment, Government of Japan (MOE).

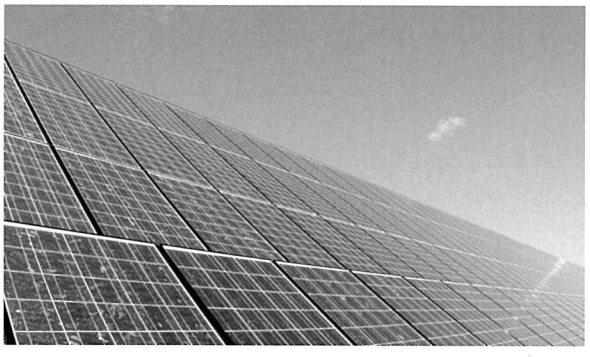
In April 2020, we incorporated ESG elements into feasibility study sheets, a tool for communicating with business partners, by tapping into the knowledge and know-how gained through support from the project.



* With the purpose of stimulating ESG regional finance, the project is designed to support recipient organizations in conducting market surveys to discover and shed light on the future potential and profitability of promising green projects and other initiatives in their region, and conducting a feasibility study by taking into account ESG elements and building its process. (MOE)

● Financing Renewable Energy Power Generation Businesses

The Nishi-Nippon City Bank offers financing to renewable energy power generation businesses that help to reduce GHGs, including solar power generation and wind power generation.



Balance of loans outstanding
¥55.2 billion
(current as of March 2021)

|| Supporting retail customer's ESG/SDGs initiatives

● Sales of ESG/SDGs-Related Investment Trust

The NNFH Group provides its customers with opportunities to make ESG investments through sales of ESG/SDGs-related investment trust.



Sales figures thus far (Group total)
¥12.1 billion
(the year ended March 2021)

● 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.

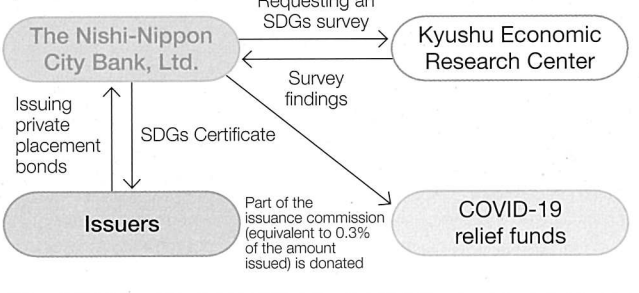
Cumulative total underwritten
266 cases
¥25.86 billion
(current as of March 2021)

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 current as of 31st March, 2021
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 ¥5.10 billion in bonds underwritten for 45 cases current as of 31st March, 2021

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 ¥11.97 billion in bonds underwritten for 129 cases current as of 31st March, 2021
"*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 current as of 31st March, 2021
"*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 ¥4.87 billion in bonds underwritten for 65 cases current as of 31st March, 2021
"*Kansha-no-Kokoro*" Private Placement Bonds in Support of Combat against COVID-19 (First case underwritten in August 2020)	Donations are offered under the issuer's name or joint name to COVID-19 relief funds, etc. A total of ¥1.67 billion in bonds underwritten for 15 cases current as of 31st March, 2021







SDGs Certificate

|| ESG Investment by the NNFH Group

● Investment in SDGs Bonds

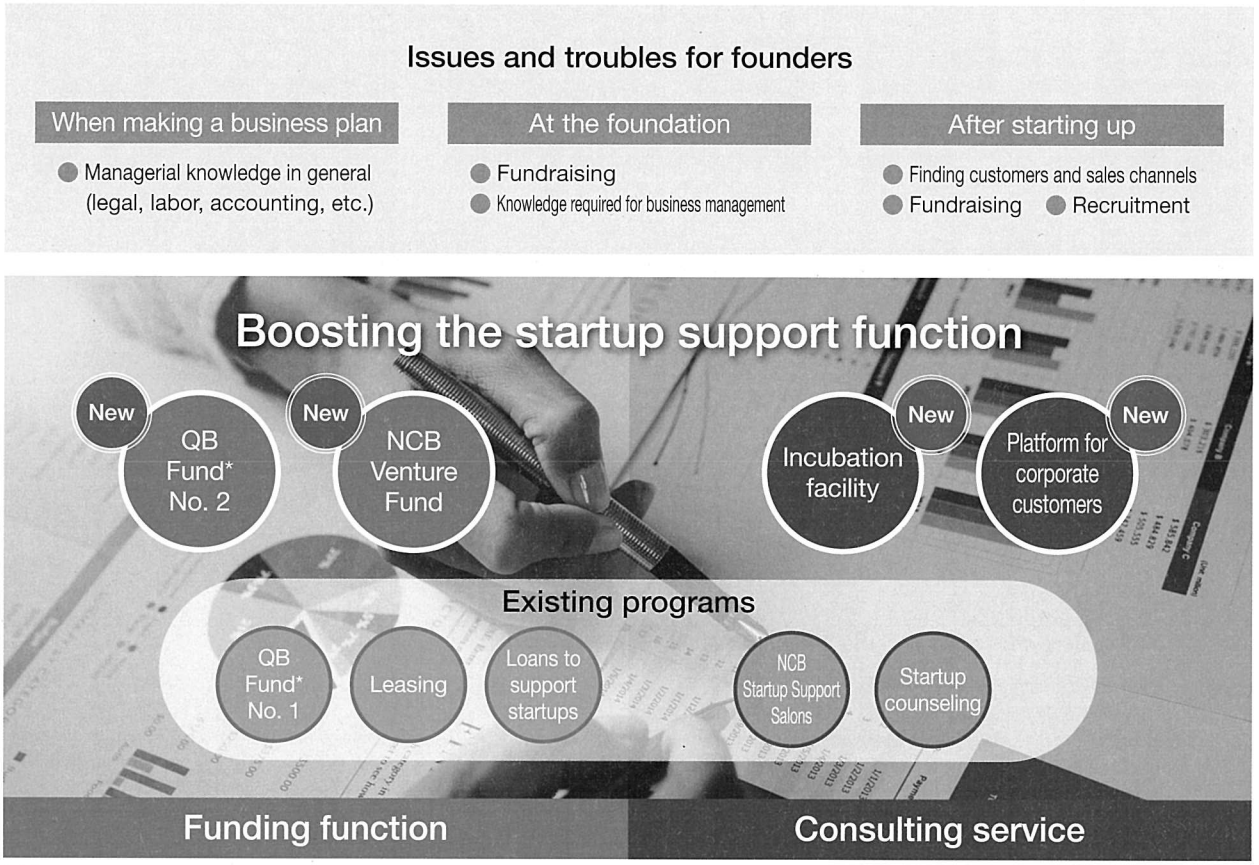
As part of its investment activities designed to ameliorate environmental and social challenges, the Nishi-Nippon City Bank invests in various SDGs bonds, including Japan Student Support Bonds, social bonds issued by the Japan Student Services Organization (JASSO) and green bonds issued by Sumitomo Mitsui Trust Bank, Limited.

Investment records
¥13.4 billion
(the year ended March 2021)



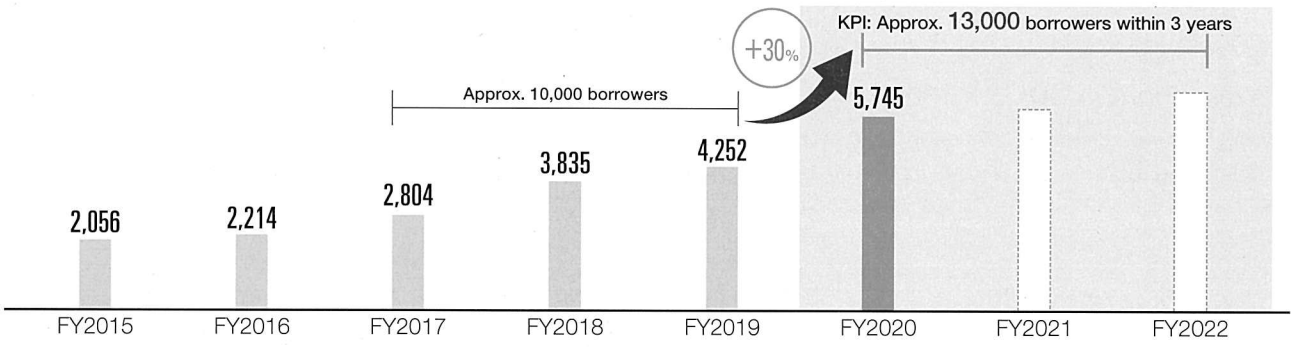
Efforts to create jobs and industries in the region

The NNFH Group started as a financial institution specializing in financial services for SMEs. The NNFH Group is making active contributions to the creation of jobs and industries in the region by providing funds and consulting services to venture businesses before and after their foundation by giving full play to the unaltered DNA of developing SMEs.



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

Support Extended to Startups and Second Startups*1: Number of Cases*2 (Nishi-Nippon City Bank)



*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 business within five years of startup or second startup

|| Finely-tuned startup support

● 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), the 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.

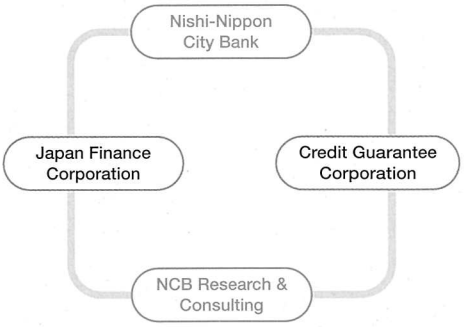
At these salons, customers can avail themselves of in-depth consultations with consultants specializing in startup support. Given the spread of COVID-19, online consultation services are also available.





10,323 visitors in total

(current as of 31st March,2021)



Support programs

- Drawing up of startup prospectuses
- Startup funds
- Following up with founders
- Follow-up seminars

● NNFH Business Competition 2020 - OPEN INNVOATION HUB -

NNFH organized an open innovation business competition for startups. In September 2020, there were a total of 68 entrants, and a shortlist of 10 contestants who survived the first two rounds of screening gave presentations at the final round in March 2021. The first and second most outstanding contestants were commended.

● A Platform for Corporate Customers

In December 2020, the Nishi-Nippon City Bank opened the "NCB Business Station", a platform for corporate customers. A one-stop service providing financial and non-financial trading for corporate customers, this online platform also provides information that helps to assist customers with their main businesses in their fledgling years, including business matching service, management information, and subsidies information.

|| Business support through funds

● NCB Venture Fund

NCB Venture Capital Co., Ltd., a wholly-owned subsidiary of the Nishi-Nippon City Bank, formed the NCB Venture Fund (total value 2.0 billion yen) in September 2020 to meet the diverse financing needs of foundation days. By tapping into the know-how that its parent company has cultivated through the management of funds, NCB Venture Capital is poised to offer hands-on support to venture businesses.

Investee: Kyulux, Inc.
A venture business launched by Kyushu University. Developing novel organic electroluminescent materials that achieve efficient light emission without using rare metals (mass production scheduled to start in fiscal 2022).

● QB Fund No. 2

In April 2021, the Nishi-Nippon City Bank teamed up with NCB Venture Capital Co., Ltd., and QB Capital, LLC to form the QB No. 2 Investment Limited Partnership (a.k.a. QB Fund No. 2) in a bid to support university-launched venture businesses (total value: 3.1 billion yen). This fund is a successor to QB Fund No. 1, which was jointly formed with QB Capital in September 2015 (total amount invested: 2.17 billion yen). The QB Fund No. 2 aims to raise at least 5.0 billion yen.

|| Solutions to labor-related challenges facing local companies

● Entry into Staffing Agency Business

In April 2019, NCB Research & Consulting Co., Ltd. gained a license for a fee-charging employment placement business to become the first Kyushu-based regional bank group to start a staffing agency business. The move is out of a desire to help local companies to solve their challenges concerning human resources. Through alliances with external staffing agencies, they are fulfilling customers' diverse staffing demands.

Participation in regional development projects

The NNFH Group spares no effort in bringing liveliness and vibrancy to the region by playing a leading role in development projects in the Kyushu region, including the two largest urban redevelopment projects in Fukuoka City, "Hakata Connected" and "Tenjin Big Bang," which are detailed below.

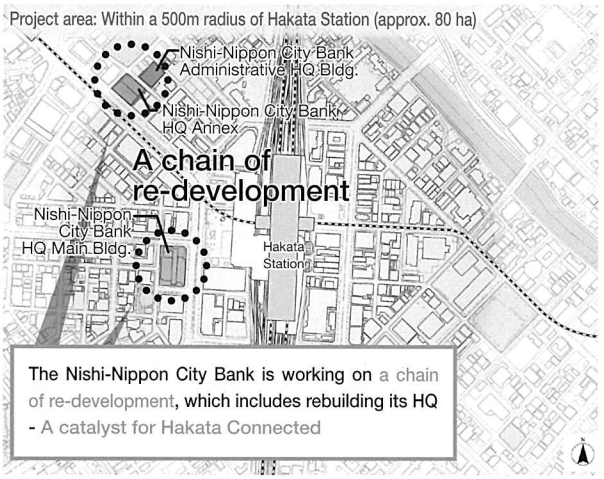
Hakata Connected

In December 2019, the Nishi-Nippon City Bank decided to launch a chain of redevelopment, which includes rebuilding its HQ Main Building, HQ Annex, and Administrative HQ Building that have become obsolete, in the hopes that doing so will catalyze "Hakata Connected." After the demolition of the HQ Main Building started in June 2020, the project has been almost in line with plans. Construction of the new HQ Building is due to start sometime in fiscal 2022 for scheduled completion in fiscal 2025.

To reduce the environmental load by introducing low-carbon technology, the new HQ Building will feature a variety of the latest environmental equipment (natural draft, high-performance glass, lighting control system, use of recycled water, etc.), as well as environmentally friendly equipment. Furthermore, for the sake of business continuity planning (BCP), the new HQ Building will come with a base-isolation structure and an emergency power system to offer shelter to customers and community members in the wake of natural disasters.



Designer's rendition of "Hakata Connected"



Economic effect

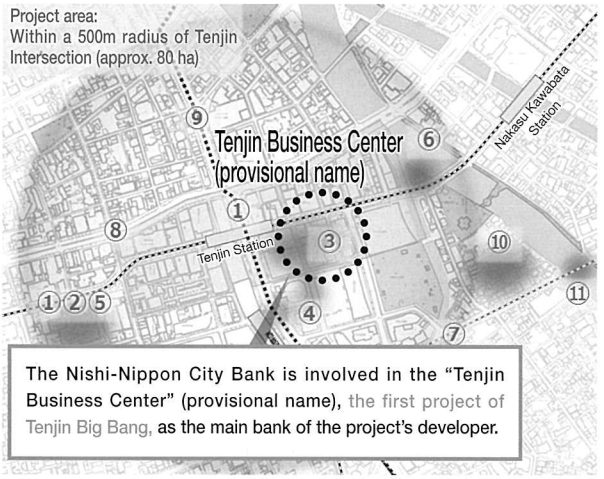
Construction investment	¥260.0 billion
Knock-on effect/year	¥500.0 billion
Total floor area	x1.5 times
Jobs	x1.6 times

Source: Fukuoka City

Tenjin Big Bang

For the first project of "Tenjin Big Bang," the Nishi-Nippon City Bank has been appointed as the main bank for the "Tenjin Business Center," the first office building in the Kyushu region to feature cutting-edge anti-infection facilities (developer: Fukuoka Jisho Co., Ltd., scheduled completion: September 2021). Their Tenjin Branch and the Fukuoka Branch of Nishi-Nippon City Tokai Tokyo Securities Co., Ltd. are due to move into the brand new building as a tenant.


Designer's rendition of "Tenjin Business Center"



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

Partnership with the Local Community

|| Collaborating with Local Governments

● Agreement with Local Public Organizations

The NNFH 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.

● Helping Local Public Bodies to Go Cashless

The Nishi-Nippon City Bank is advocating that local public bodies introduce a taxes and utility charges settlement service using smartphone apps offered by PayPay and LINE Pay, in support of their move toward cashless payments that are non-face-to-face and contactless, the demand for which is growing amid the pandemic. (As of this writing, 14 local public organizations have introduced the service.)

The Kyushu Card Co., Ltd. has signed a membership contract with 59 local public bodies in Fukuoka Prefecture and elsewhere, assisting them in their efforts to introduce credit card payments of hometown tax, municipal tax, and other public charges.

|| Collaborating with Universities

The NNFH 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.

As part of its community service, in fiscal 2020 the Nishi-Nippon City Bank sent its officers and clerks to universities to provide students with opportunities to gain practical financial knowledge through lectures.

Multifaceted Programs Benefitting the Local Community

|| Commendation

● 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 174 executives have been commended current as of 30th April, 2021.

● The Asian Contribution Award / The Asian Youth 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 22 times current as of 31st March, 2021, since March 2000) or The Asian Youth Award (held 16 times current as of 31st March, 2021, since March 2006).

* The Asian Kids Award has been renamed The Asian Youth Award.

|| Provision of economic/financial information and finance education

● Lectures on economic matters

The 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 14 sessions have been held current as of 31st March, 2021.

To prevent the further spread of COVID-19, the January 2021 lecture was given in a hybrid model, which allowed visitors to attend either physically or virtually.

● Finance Literacy Education

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

The August 2020 session was given via a webinar to prevent the further spread of COVID-19.

|| Support for customer's efforts to achieve the SDGs

● colabora

In June 2020, the Nishi-Nippon City Bank launched "colabora", a website focusing on the SDGs for regional revitalization.

Other than the NNFH Group's initiatives to achieve the SDGs, this special website features articles on local companies' efforts to achieve the SDGs and local governments' initiatives for regional revitalization (a total of 19 articles were uploaded by the end of March 2021).

|| Cultural/artistic activities

● Music Festival

The 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 6 times current as of 31st March, 2021).

Human resource strategy



The NNFH Group strives to foster financial professionals full of humanitarianism and expert knowledge by developing trustworthy human resources, enhancing organizational resilience, and fostering a corporate culture that supports the growth of its people.

HR development

Human Resource Development Programs for Each Job Class

New Graduates

At the Nishi-Nippon City Bank, all new graduates undergo initial in-service training at the Kokoro-kan to take their first step on their career path. As they ready themselves for their career and foster camaraderie with peers, they learn the fundamental knowledge required to take the lead in shaping the future of the bank.

After the initial in-service training, the trainees take both off-the-job training outside of their workplaces and on-the-job training (OJT), including coaching at their branches, to establish themselves as full-fledged salespersons two years later.

For the OJT at branches, they are taken care of by "buddies" who assist them in acquiring the knowledge they need to pursue their career and give them advice on their private life, and by coaches, who provide them with professional guidance.

The trainees are also given numerous opportunities to self-study, such as holiday seminars and a home learning support system.



FY2021 Initial In-service Training

Younger Employees

Employees will take more practical training sessions from their third year on, alternating between OJT and classroom lectures.

They are also given opportunities to have dialogues with their supervisors to give shape to the career path they desire based on their vocational aptitude and preferences.

Middle-Ranking Employees

At the midpoint in their career, they take follow-up training sessions or are put on temporary assignments to learn about advanced solutions that are required to provide products and services tailored to the needs of each customer.

Depending on their vocational aptitude and preferences, they may be assigned to the planning department or IT/digital department of any division, where they may gain greater job satisfaction, which also helps to enhance the organizational strength of the NNFH Group.

Managerial candidates

Managerial candidates undergo the most rigorous assessments to determine if they have the aptitudes and skills required of managers.

Upon promotion, they are required to take periodical management seminars and training sessions for which outside experts are invited, so that they can continue to hone their skills as managers.

Experienced employees

Amid the drastic changes in the environment that financial institutions find themselves in, experienced employees are encouraged to change their career for the purposes of maintaining/increasing job satisfaction for all employees, prompting a generational shift, and making better use of their plentiful knowledge and experiences.

Development of Specialists

In the current Medium-Term Business Plan, "Leaping Forward 2023 - Creating Vibrancy to the Region and Beyond -," we made it clear that we provide customer-oriented "One to One Solutions" in the forms of human touch and digital solutions.

To this end, we are systematically developing specialists in digital technology as well as human resources capable of offering technical and advanced consultation services.

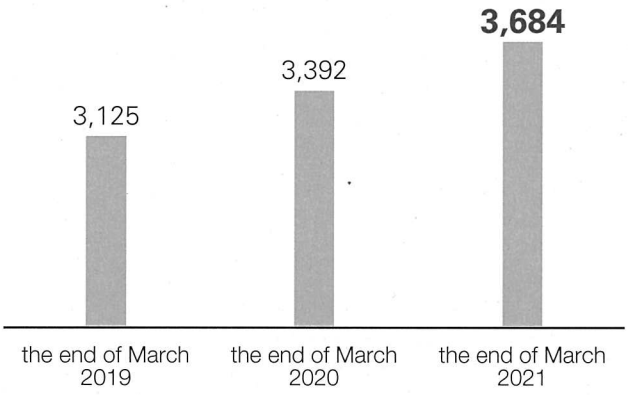
In addition to training such personnel in-house, we remain aggressive in mid-career hiring to seek persons who can add immediate value to the company.

In fiscal 2020, the Nishi-Nippon City Bank placed 17 such specialists on its payroll.



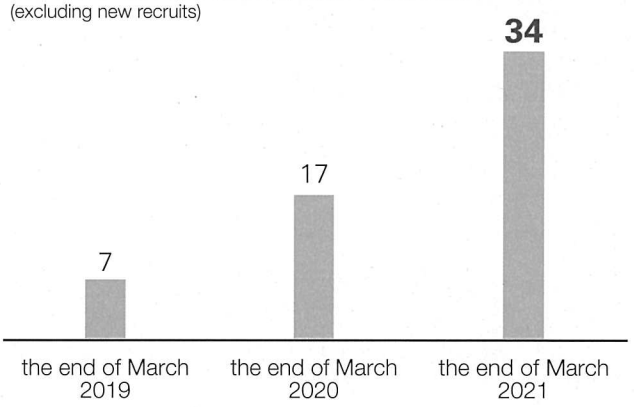


Number of Certified Skilled Professional of Financial Planning (grade of 3 or higher)



Mid-Career Hiring

*The total number of specialists hired mid-career after the foundation of the Nishi-Nippon City Bank in October 2004 (excluding new recruits)



The Kokoro-kan—Where Human Resources Rich in Humanity are Fostered

Built to "develop trustworthy human resources," the Kokoro-kan is our human resource training center (12 floors above ground and one basement floor), which houses training facilities, the bachelors' dormitory, a gymnasium, and cultural facilities.

Some of the latest facilities include the main hall with a capacity of 300 persons, a mock branch, and the computer and terminal training room. Employees who forge the future of the bank may also self-study in a learning room.

They may also enjoy reading at the library, learning about the history of the Group at the archives, or enjoy cultural activities offered by circles of like-minded colleagues. In the multi-purpose arena (gymnasium) and martial arts dojo, members of the kendo, badminton, and other sports clubs hone their skills, or employees gather for recreational activities to foster enriched humanity.

The café and spacious rooftop garden with ATMs are open to the public for local residents to mingle with each other.









|| Diversity & Inclusion

The NNFH Group believes that employees of all genders should be given opportunities to shine in order to sustain its business growth. Accordingly, we empower female employees and constantly improve programs designed to help them to maintain a good work-life balance.

● Programs for Good Work-Life Balance

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

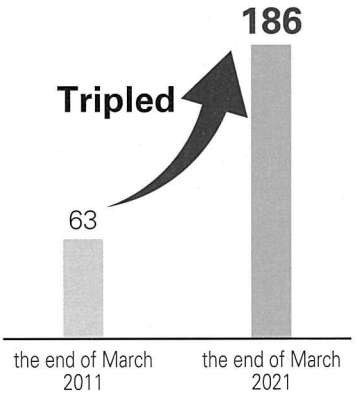
- Childcare leave (until a child is up to 4 years of age)
- Short-hour shift (until a child finishes third grade in elementary school) Etc.
- Support Room for Employees on Childcare Leave (Kokoro-kan)



Support Room for Employees on Childcare Leave (Kokoro-kan)

● Women in Managerial Positions

Over the last decade, the number of women in managerial positions has tripled.



● Networking support for female employees

The 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.

|| Work style reform

To provide workplaces where its employees feel satisfied with what they do, the Nishi-Nippon City Bank supports flexible work styles of their choice, in addition to increasing work efficiency by robotic process automation or otherwise.

● Telework



Work-from-Home

- Working from home without going to their offices
- Mitigates the burden of commuting and enables efficient use of time



Mobile work

- Working while on the move (in the car, train, etc.) or at a café
- Reduces travel time, as one does not need to return to their office from their destinations



Satellite office

- Working at an office other than their own or a facility for teleworkers
- Easy access to a workplace reduces commuting time



Use of secured notebook computers on which the workflow system that enables electronic decision-making is installed adds to the number of terminals available for telework.

Telework-capable computers and tablet computers: **2,600** units (current as of 31st March, 2021)

● Staggered Office Hours

Employees may start early or finish late by a margin of up to four hours.

Prevent the further spread of COVID-19

The NNFH Group is doing everything it can to prevent the further spread of COVID-19 to ensure that customers can visit its branches without anxiety and protect its officers and clerks from infection.



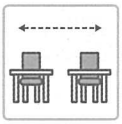
Wearing masks

We always wear masks both inside and outside of branches.



Setting acrylic partitions on the counter

Acrylic plates are placed between customers and clerks



Appropriately distanced seats

Appropriate distance is kept within offices



Frequent hand washing and gargling

Everyone is encouraged to wash their hands and gargle at regular intervals.



Eating lunch / taking a break at separate seats or in different time slots

Time and place of eating/break are staggered to prevent congestion in the break room



Increasing Accessibility to Customers

Barrier-Free Facilities

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



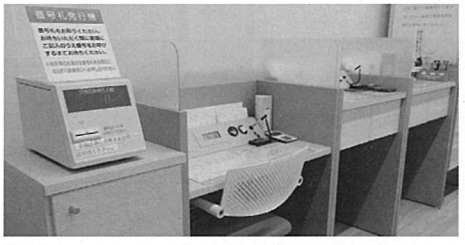
Entrance with no steps (slope)



Accessible Toilet

Services Friendly to Persons with Disabilities

The Nishi-Nippon City Bank and Bank of Nagasaki have installed a total of 868 and 44 ATMs (including those outside branches) for visually-impaired persons, respectively, with at least one at every branch (current as of 31st March, 2021). Customers are also welcome to ask our staff to write/read for them.



Customers can write here while seated



Priority ATM for visually-impaired persons

Communication with Shareholders and Investors

NNFH is engaged in the following to promote constructive dialogue with shareholders and investors.

1	Appointing responsible persons	A director in charge of the Corporate Planning Division is responsible for ensuring that constructive dialogue occurs at financial results briefings and other opportunities to engage with shareholders and investors and for providing as many of such opportunities as possible.
2	A framework for promoting constructive dialogue	Through cooperation with each division and Group company, the Corporate Planning Division develops a framework under which varying management information is gathered, analyzed, and offered to shareholders and investors in an appropriate form.
3	Measures to promote opportunities for dialogue	As part of dialogues with shareholders and investors, financial results briefings and other events are organized.
4	Feeding back shareholders' opinions	Opinions presented in dialogues with shareholders and investors are appropriately fed back to the management team by persons participating in the dialogues.
5	Control of insider information	To manage important corporate information appropriately and prevent insider trading, we establish and keep everyone informed of relevant in-house regulations. We will not include matters that have yet to be made publicly available in handouts for investors or make any comment on issues that may be deemed material facts.

IR Calendar

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Financial results announcement Financial results releases		● Third-quarter financial settlement			● Full-year financial settlement			● First-quarter financial settlement			● Second-quarter financial settlement	
Annual Securities Report and quarterly reports		● Third-quarter financial results report					● Annual Securities Report	● First-quarter financial results report				● Second-quarter financial results report
Issuance of disclosure materials		● Interim Disclosure Report					● Integrated Report (Disclosure Report) ● Mini Disclosure Report		● Interim Mini Disclosure Report			
General Meeting of Shareholders							● Annual General Meeting of Shareholders					
Briefing for institutional investors and analysts						● Full-year financial results briefing			● Second-quarter financial results briefing			

General Meetings of Shareholders

At Annual General Meetings of Shareholders held every June, we report our business performance to shareholders in the most digestible way possible, using videos and other tools. We held the 5th Annual General Meeting of Shareholders on 29th June, 2021, by taking appropriate measures to minimize the chance of infection with COVID-19, by placing shareholders' well-being and safety before everything else.

We make it a rule to send a convocation notice to shareholders well before the meeting and disclose the notice on our and stock exchanges' websites prior to the dispatch.

We also make it easy for our shareholders to exercise their voting rights by allowing them to vote on the internet or otherwise and participating in the electronic voting platform for institutional investors operated by ICJ, Inc.

For the convenience of international shareholders and other parties, we disclose an English version of the convocation notice alongside its Japanese original on the websites of stock exchanges and NNFH.

Investor Relations

For Institutional Investors and Analysts

We organize financial results briefings twice a year for institutional investors, analysts, and others, with the President making the presentation after announcing the full-year results and interim results.

In addition, we invite a director in charge of IR and others to do one-on-one meetings to explain the financial conditions, management strategies, and other information of the NNFH Group and gather opinions and comments.

For Private Investors

To help deepen understanding of the NNFH Group, we organize informational meetings for private investors in the host community as we see fit, with the President or a Deputy President speaking on such occasions.

Shareholder Return Policy

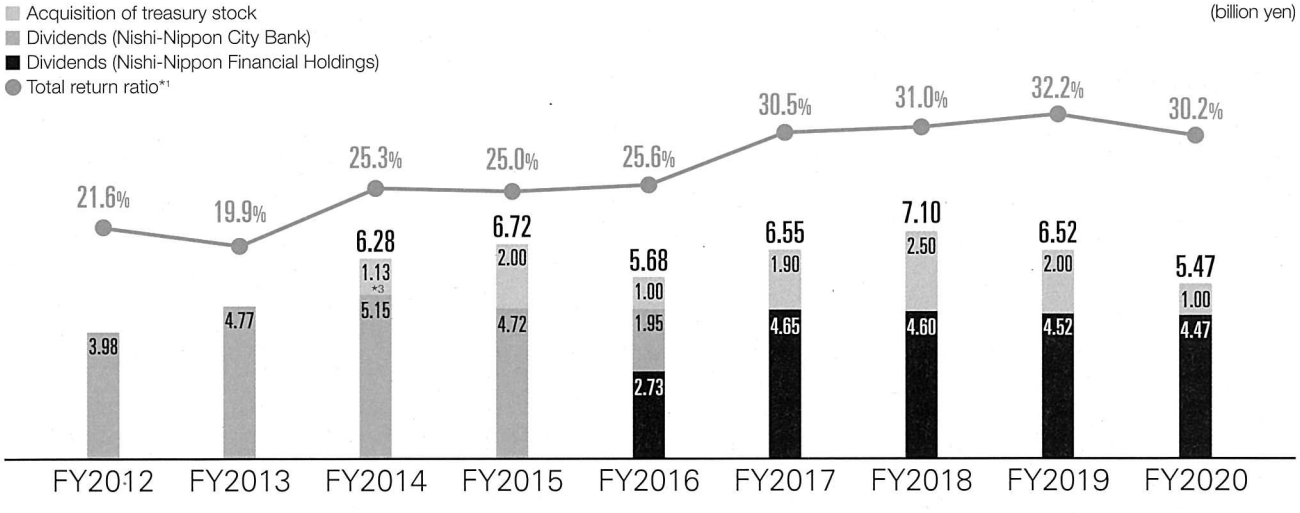
In light of the public nature of a bank holding company and the importance of maintaining its sound management, we strive to strengthen our financial resilience by retaining an appropriate level of internal reserves and continue with stable dividend payments to our shareholders. Our basic policy on shareholder returns is as follows:

1. With a stable annual dividend of 25 yen per share as the base,
2. Maintain around 30% of the ratio of total return to net income attributable to owners of parent

With the above as rough guidance for the time being, we will decide what and how much to each term by taking into account the current economic circumstances, financial conditions, earnings forecasts, and other parameters.

Return to shareholders

The Amount of Profit Distribution to Shareholders and Total Return Ratio



Nishi-Nippon City Bank (consolidated)*2 | Nishi-Nippon Financial Holdings (consolidated)

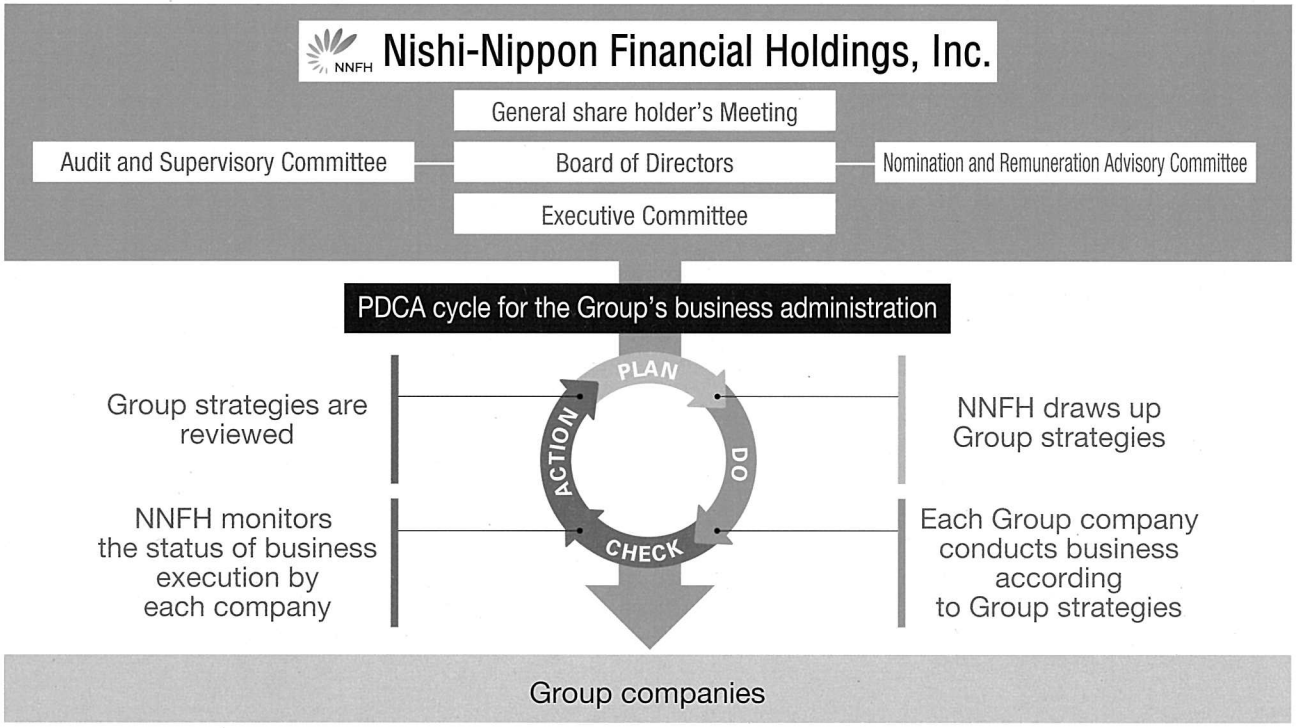
*1 Total return ratio: Amount of profit distributed to shareholders (dividends + acquisition of treasury stock) / Net income attributable to owners of parent x 100
*2 Consolidated with the Nishi-Nippon City Bank as the parent prior to the fiscal year ended March 2016
*3 4.99 billion yen earned during the fiscal year ended March 2015 minus 3.87 billion yen, which was used for the stock swap to acquire 100% ownership of two subsidiaries

Corporate Governance

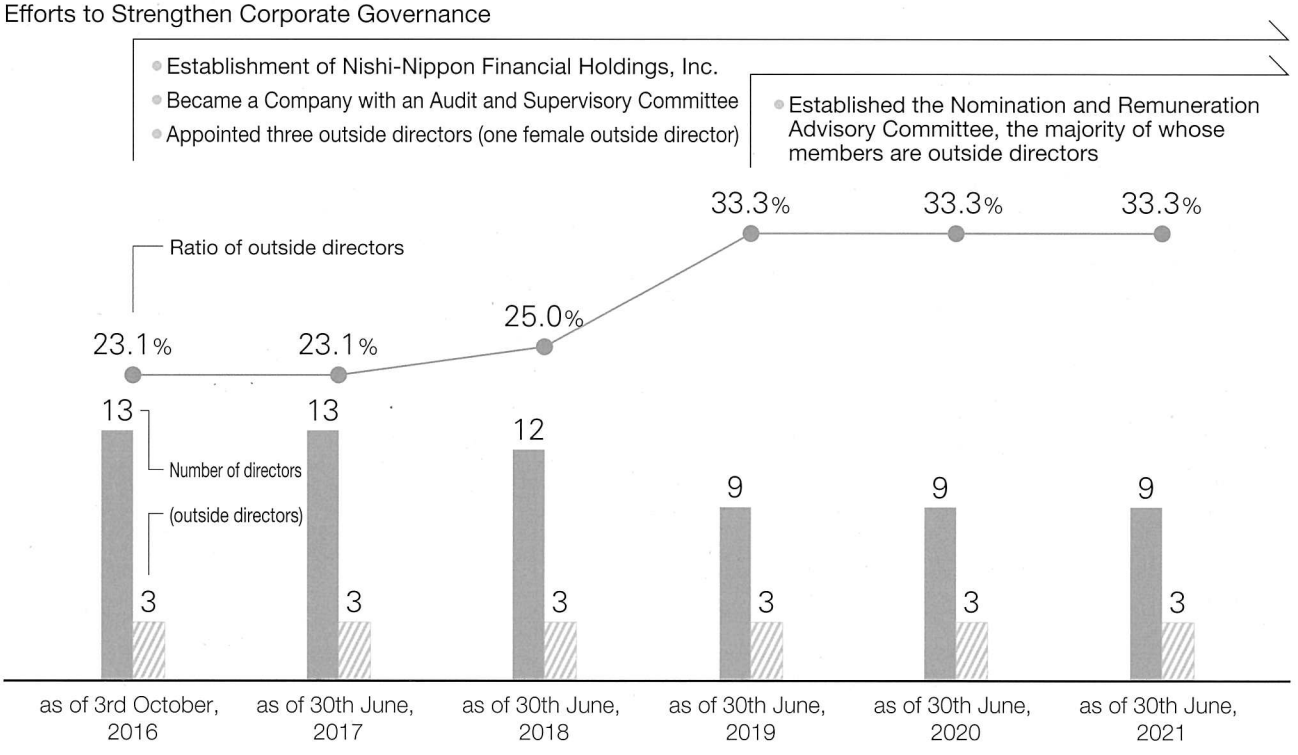
Basic Approaches

At the NNFH 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.

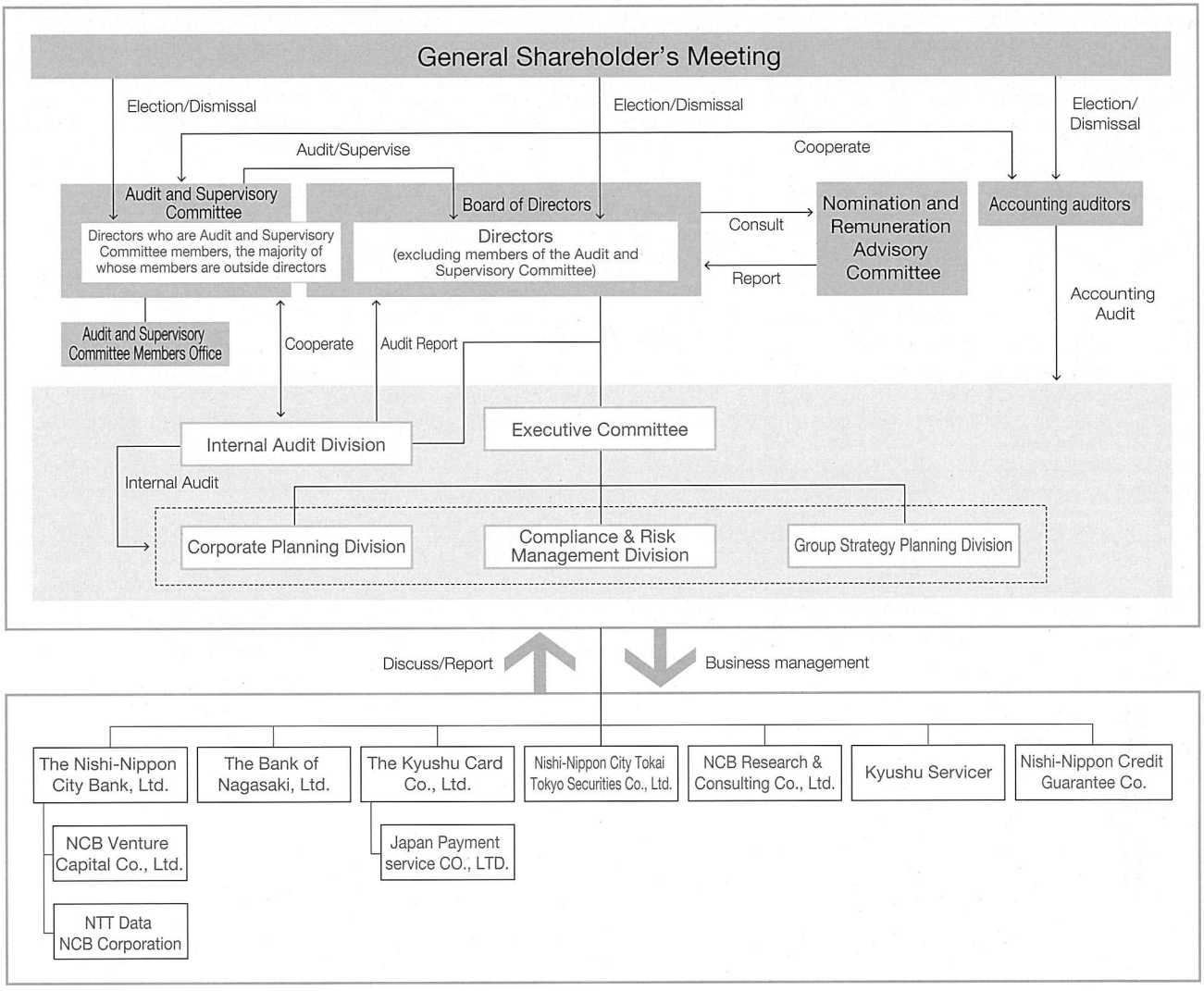


Efforts to Strengthen Corporate Governance





Overview of the Corporate Governance Structure



Appointment of Directors

Policy and Procedures for Nomination of Candidates for Directors

For the Board of Directors to effectively fulfill its roles and responsibilities, we believe it important to ensure that its members have a diverse range of knowledge, experience, and skills, on top of knowledge of the business and challenges of the NNFH Group. Our basic policy is to ensure that the Board of Directors is well balanced overall by appointing those with diverse expertise and backgrounds as candidates for outside directors.

From this perspective, we appoint those well-versed in the NNFH Group's business and challenges as candidates for directors. We also ensure the objectivity and transparency of the decision-making process of the Board of Directors by allowing each Audit and Supervisory Committee member to exercise his/her voting right held by the directors at the board meeting and the Audit and Supervisory Committee to exercise the statutory right to state its opinion at the general shareholders' meeting in relation to appointment/dismissal and remuneration of directors who are not Audit and Supervisory Committee members.

Our articles of incorporation prescribe that the number of directors should be no more than twenty and that the number of directors who are Audit and Supervisory Committee members should be three or more. Accordingly, we have appointed nine directors, four of whom are Audit and Supervisory Committee members (current as of 30th June, 2021).

Policy and Procedures for Appointment/Dismissal of Senior Management

Our Board of Directors appoints a representative director and senior managements (directors with special titles) after taking into consideration reports by the Nomination and Remuneration Advisory Committee and, in the event that the performance of any representative director or member of senior management falls under the standards of removal as stipulated by the Board of Directors, deliberates on his/her removal, thereby ensuring objective, timely, and transparent procedures for appointment/removal of senior management.

Independence Standards for Outside Directors

We determine the independence of our outside directors based on whether or not we can expect them to proactively offer suggestions and raise questions on the NNFH Group's business challenges, assuming that the independence standards stipulated by the Tokyo Stock Exchange, Inc. are fulfilled.

For instance, we take special care to determine if the independence of a person who has any of the following relationships with the NNFH Group is compromised because of such relationships, and disclose to shareholders the relationships between the NNFH Group and said person to the extent necessary.

1	A person who was an executing person of NNFH or any of its subsidiaries
2	A person for whom NNFH or any of its subsidiaries is his/her major counterparty*1 (If he/she belongs to a company, an executing person of said company now or in the past)
3	A major counterparty of NNFH or any of its subsidiaries*2 (If he/she belongs to a company, an executing person of said company now or in the past)
4	A person who is a consultant, accounting professional or legal professional who has received a large amount of money or other compensation*3, excluding remuneration for directors from NNFH or any of its subsidiaries, within the last three years (If he/she belongs to a company or other form of organization, an executing person of said company or organization now or in the past)
5	A person who is a major shareholder*4 of NNFH (If he/she belongs to a company, an executing person of said company)
6	A person who has kinship status with a person outlined in 1-5 above
7	An executing person of a company where an officer or a clerk of NNFH or any of its subsidiaries is an outside officer
8	An executing person of a company or other form of organization who has received a large sum of donations*5 from NNFH or any of its subsidiaries within the last three years

*1 A counterparty that has received 2% or more of its consolidated net sales in the latest fiscal year from NNFH or any of its subsidiaries

*2 A counterparty from which NNFH or any of its subsidiaries have received 2% or more of their consolidated gross profit in the latest fiscal year

*3 A total of 30 million yen or more in cash or other compensations over the last three years

*4 A shareholder who holds 10% or more of the shares outstanding

*5 A donation of 15 million yen or more in total received over the past three years

Descriptions of the Organs of the Company

Board of Directors

Comprised of nine directors (including four directors who are Audit and Supervisory Committee members, as of 30th June, 2021), 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 (current as of 30th June, 2021) 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.

Analysis and evaluation of board effectiveness

Every year, we analyze and evaluate the effectiveness of our Board of Directors at the board meeting.

At the board meeting held in June 2021, we analyzed and evaluated the effectiveness of our Board of Directors based on the findings of a self-evaluation questionnaire distributed to all directors to verify that effectiveness is largely ensured.

Going forward, we will seek every opportunity available to provide outside directors with pertinent information in order to stimulate discussions among directors.

Support for Outside Directors

We make it a rule to fully explain the business, financial position, organizations, and other matters of the NNFH Group to our outside directors upon the assumption of their position. We are also taking appropriate measures to develop an environment in which outside directors can fulfill their roles and responsibilities effectively by, for example, providing prior explanations of the agenda for the board meeting and briefings on their duties, and organizing on-site visits.

We also appoint full-time Audit and Supervisory Committee Members, who support outside Audit and Supervisory Committee Members, and we have established the Audit and Supervisory Committee Members Office, which is directly managed by the Audit and Supervisory Committee. Full-time members of the Office assist all Audit and Supervisory Committee Members, including outside members, and the Audit and Supervisory Committee in performing their duties.

Audit and Supervisory Committee

Comprised of four directors who are Audit and Supervisory Committee members (including three outside directors, current as of 30th June, 2021), 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 the representative directors and five directors who are appointed by the president (current as of 30th June, 2021), 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.

Status of Internal Audit, Audit by the Audit and Supervisory Committee, and Accounting Audit

Internal Audit Division

NNFH has the Internal Audit Division, which conducts internal audits independent from all operations divisions and has 37 members as of 31st March, 2021. 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.

Audits by the Audit and Supervisory Committee

The Audit and Supervisory Committee comprises four members, including three outside directors and one full-time director. A full-time member of the Audit and Supervisory Committee, Kiyotaka Tomoike, has considerable knowledge on finance and accounting through his experience of serving as a manager of several branch offices, in addition to work experience at the Corporate Planning Division of the Nishi-Nippon City Bank, Ltd.

The Audit and Supervisory Committee audits the performance of directors' duties by having directors and others report on the status of execution of their business, as well as their development and implementation of an internal control system, and by investigating their attendance at important meetings, their consultation of documents on important managerial decisions, and the status of their business execution and properties, in accordance with the audit policy and division of business as stipulated by the Audit and Supervisory Committee.

The Audit and Supervisory Committee also verifies the appropriateness of the methods and findings of audits conducted by accounting auditors by having them report on the status of business execution and by witnessing audits by accounting auditors.

Accounting Audit

The NNFH's accounting audit business is executed by certified accountants affiliated with Ernst & Young ShinNihon LLC.

Directors' Remuneration System

Policy for Decisions on the Content of Remuneration, Etc. of Individual Directors

We established the Nomination and Remuneration Advisory Committee, the majority of whose members are outside directors of the NNFH Group, in order to enhance the objectivity and transparency of decisions on remuneration, etc. of directors (excluding directors who are Audit and Supervisory Committee members; the same applies hereinafter).

Remuneration that directors receive shall be limited to monthly fixed price remuneration. The total amount of remuneration, etc. of directors shall be no more than 25 million yen per month, which was approved at the general shareholders' meeting held on 29th June, 2017.

The amount of remuneration, etc. to individual directors shall be decided for each position with a resolution of the Board of Directors, by taking into consideration reports by the Nomination and Remuneration Advisory Committee.

Procedures for Decisions on Remuneration, Etc. of Directors

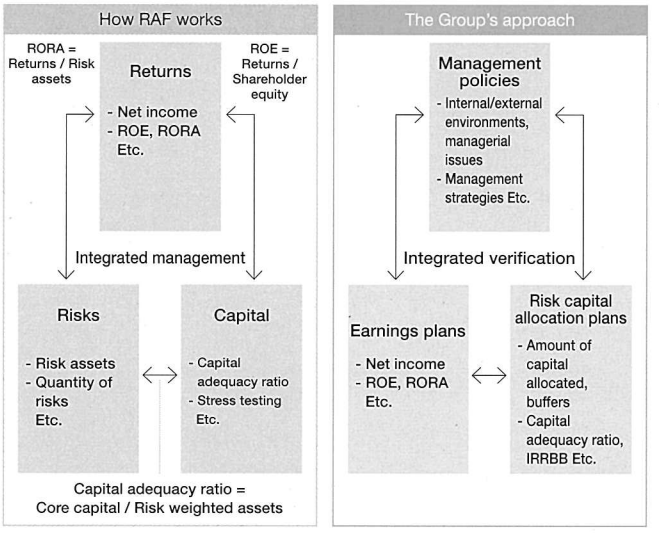
The Nomination and Remuneration Advisory Committee met in February 2021 to deliberate on remuneration, etc. of directors (excluding directors who are Audit and Supervisory Committee members). Remuneration, etc. of directors who are Audit and Supervisory Committee members has been decided through consultation among Audit and Supervisory Committee members.

Risk Appetite Framework (RAF)

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

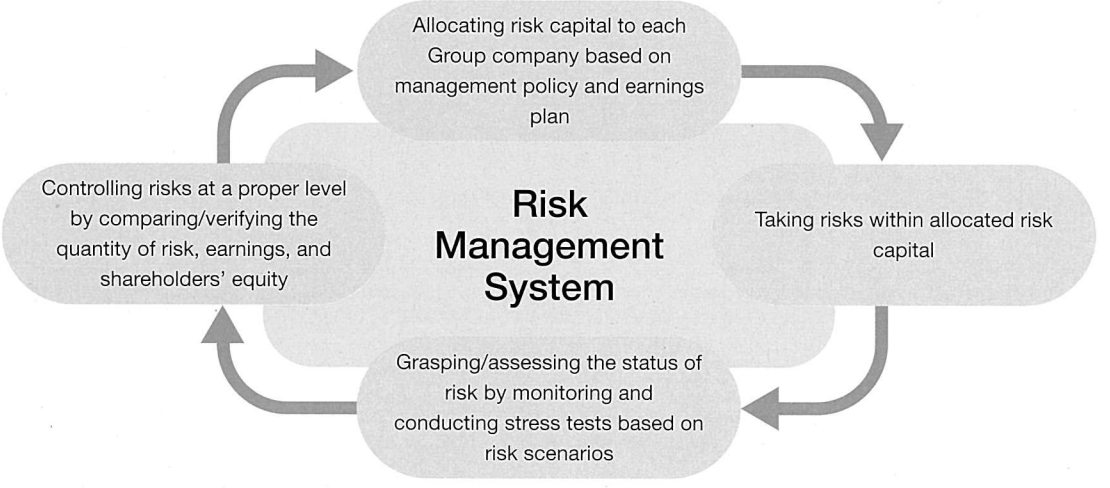
Initiatives for Risk Management

Risk management is one of the top priority issues in the management of the NNFH Group. Accordingly, we established the Basic Policy on Risk Management, which serves as a set of shared norms for the Group, and we make concerted efforts to advance our risk management structure to establish a sound management base and ensure stable earnings.

Risk Management System

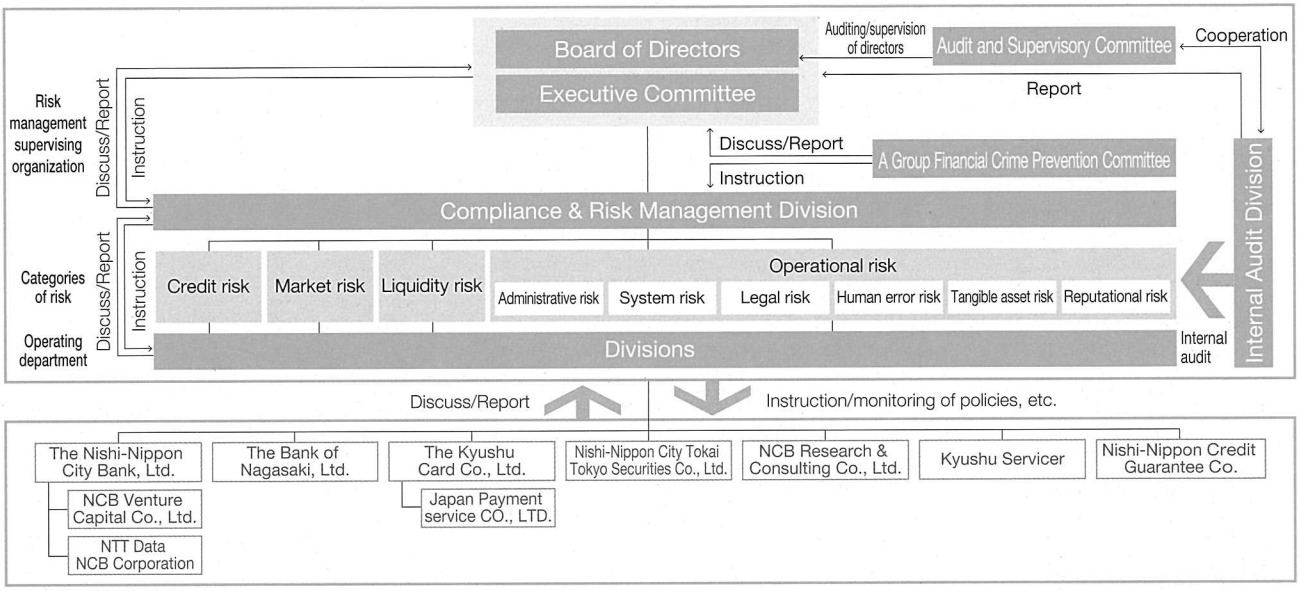
Centralized management by the risk management supervising department

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.



Committees

Each Group company establishes a consultative body, such as an ALM Committee and Operational Risk Committee, according to the characteristics of their operational risks, and deliberates on and assesses matters concerning risk management both periodically and cross-sectionally.



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).

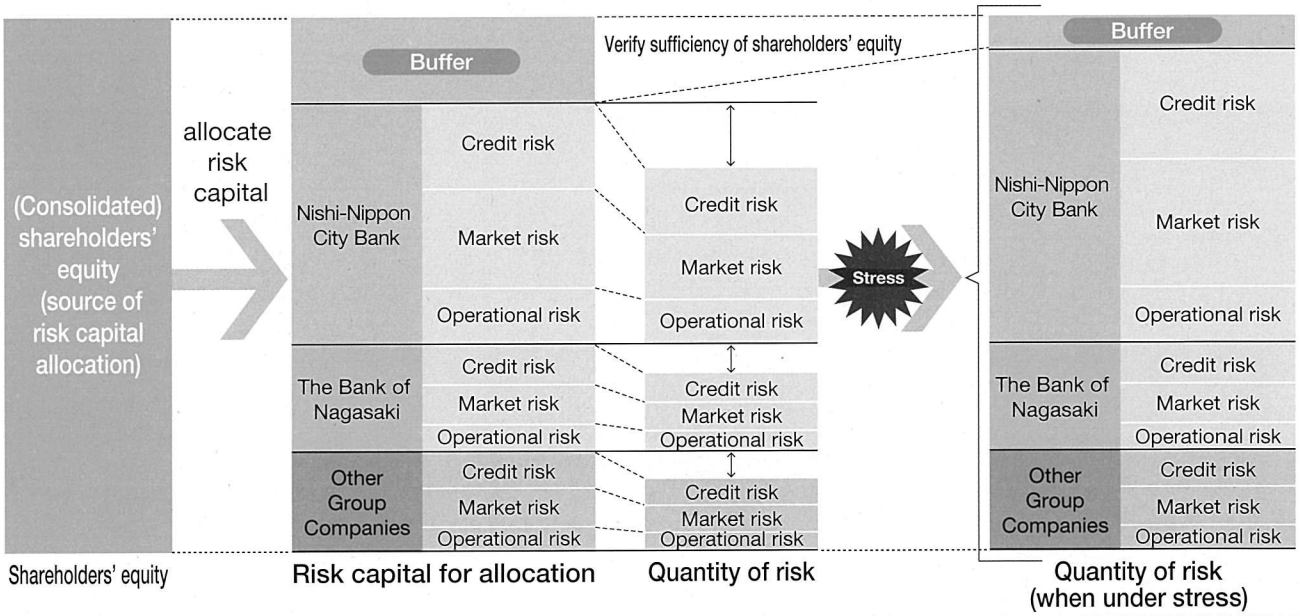
Allocating Risk capital

NNFH allocates risk capital to each Group company under the framework of integrated risk management.

In more concrete terms, we use consolidated shareholders' equity to allocate risk capital to each Group company in each category of credibility risk, market risk, and operational risk. We also monitor the quantity of risk and earnings results at each Group company to ensure that risk is taken appropriately within the scope of allocated risk capital.

Stress Tests

The NNFH Group conducts stress tests to verify the impact that deterioration of the economic environment or market environment may have on the equity capital ratio, sufficiency of shareholders' equity, and appropriateness of risk-taking. We also set shared stress scenarios throughout the Group by taking into account cases of economic free fall from the past and risks that could occur in the future.



Risk Management Framework by Category

Credit Risk Management

Credit risk is the possibility of a loss resulting from a reduction or complete loss of the value of assets (including off-balance assets) due to such reasons as a deterioration in the financial situation of borrowers. Recognizing credit risk as the most important type of risk for the NNFH 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.

Also, in order to control the risk of a major loss occurring to the Group due to a concentration of credit to specific customers, we manage credit appropriately and ensure the soundness of management. To properly depreciate and provide allowances for assets, we set unified standards for strict self-assessment of assets. Our subsidiary banks fully examine each borrower for their application for funds, sources of repayment, revenue and expenditure planning, investment effect, and other parameters in light of their public nature, safety, profitability, and growth potential. By making careful credit decisions based on the customer's situation thus determined, we maintain and improve the soundness of management.

Market Risk Management

Market risk is the possibility of a loss due to fluctuations in the value of assets/liabilities (including off-balance assets) in response to movements in interest rates, forex market, stock prices, and other parameters, and a loss due to fluctuations in earnings generated from such assets/liabilities. NNFH established a Market Risk Management Policy under its Risk Management Regulations to reinforce its market risk management system. The NNFH Group sets limits on market risks so as to enable adequate management of such risks and undertakes them within the Our subsidiary banks set various limits, including risk limits, position limits, and loss limits, for each operations division and risk category, and manage their funds within the confines of applicable limits. The management status is reported periodically to the ALM Committee of each subsidiary bank, thus ensuring appropriate management.

Liquidity Risk Management

Liquidity risk is the possibility of a loss due to a difficulty in securing necessary funds because of a timing mismatch between management and procurement or an unexpected outflow of funds or due to being obliged to procure funds at an interest rate significantly higher than usual (collectively, financing risk). It also refers to the possibility of a loss due to the inability to make transactions in the market on account of confusion in the market or other reasons or due to being forced to make transactions at prices significantly less favorable than usual (collectively, market liquidity risk). 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 NNFH Group maintains the soundness of its assets so that it can ensure market liquidity and stabilize cash flows. To prepare for unforeseeable circumstances, our subsidiary banks secured a sufficient amount of liquidity reserve assets that can be converted into funds on short notice. At the same time, they compiled Contingency Plans, in which they define their responses when financing constraints are threatened or become obvious so that they can act promptly when needed.

Operational Risk Management

Operational risk is the possibility of a loss incurred by inappropriate business processes, behaviors of officers and clerks, or systems, or by exogenous events. 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 NNFH 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.

We group operational risks into six categories: 1. Office work risks, 2. System risks, 3. Legal risks, 4. Human risks, 5. Tangible asset risks, and 6. Reputational risks, thus managing them according to the characteristics of risks each Group company is faced with. Meanwhile, our Risk Management Department monitors and manages the operational risks faced by the NNFH Group as a whole.

Categories of Risk	Definitions of Risk
①Administrative risk	Risk of losses being incurred as officers and/or clerks fail to perform their office work accurately or become involved in accidents, irregularities, etc.
②System risk	Risk of losses being incurred due to system failures, such as computer system shutdowns, malfunctioning, etc. or unauthorized use of computers
③Legal risk	Risk of losses/damage being incurred as a result of a breach of duty due to fault involving customers or inappropriate business/market practices
④Human error risk	Risk of losses/damage being incurred due to unfair/unjust personnel practices (involving remuneration, allowance, dismissal, and other issues) and discriminatory behavior (sexual harassment, etc.)
⑤Tangible asset risk	Risk of harm/damage to tangible assets being incurred due to wind and flood damage by typhoons, torrential rain, and other forms of natural disasters, as well as other events
⑥Reputational risk	Risk of losses/damage being incurred due to lowering of credibility as a result of reputational damage, the spread of rumors, etc.

Office work risks and system risks—two of the major operational risks for the NNFH Group—are managed as follows.

Office Work Risk Management

The NNFH Group sees office work risk as one that is inherent in all types of work. As such, everyone in the Group is working to improve the quality of office work and reduce the risks associated with it. Our subsidiary banks have developed operational rules for the entire range of their work and strive to improve the quality of their paperwork through training sessions and on-site guidance on office work. In addition, they centralize paperwork, use a computer system to check outcomes, and promote automation to increase the accuracy and consistency of paperwork. For the sake of enhancing internal checks, we ask each branch office to conduct self-inspections and have the Internal Audit Division to conduct internal audits so that we can quickly locate problems and prevent office work accidents from occurring.

System Risk Management

With the understanding that proper and smooth operation of computer systems is crucially important for us to provide our customers with quality service, the NNFH Group is working on the reinforcement of system risk management. Our subsidiary banks are enhancing safety measures for the system and its backup to take every possible precaution toward the safe operation of systems. Furthermore, by taking measures such as using duplex lines for computers and communication lines, we prevent system failures, minimize the impact of any failure, and achieve early recovery of systems, while at the same time taking safety measures according to the usage situation of each system, the magnitude of imminent risks, and the importance of information to be protected, thus ensuring information security.

Also, in order to prevent damage from cyber attacks, which are growing in sophistication and severity, we are constantly working to reinforce our security control structure by establishing a Cyber Security Incidence Response Team (NCB-CSIRT) within the Nishi-Nippon City Bank. The structure will gather and analyze information on cyber attacks even when none are occurring, and build a system to promptly respond to cybersecurity incidents within the Group.

Crisis Management

NNFH has compiled the Business Continuity Regulations, which serve as a basic policy on the development of arrangements needed to continue with minimal operations required to maintain the functions of the financial system in the face of a large-scale disaster, system failure, or other unforeseen contingency. In compliance with this basic policy, each Group company has established a business continuity plan (BCP) and, by conducting various training, is working to improve the effectiveness of the business continuity arrangement.

Our Response to COVID-19

The NNFH Group has established countermeasures headquarters and other organizations at each Group company to gather information on COVID-19, draw up anti-infection measures, and ensure business continuity arrangements when any employees are infected. Furthermore, we have established arrangements for information exchange and crisis management across Group companies to ensure the safety of our customers and employees so that customers may use our services without anxiety.

Compliance

Initiatives for Compliance

Effective compliance is one of the overriding management issues for the NNFH Group. As such, we have established the Basic Policy for Compliance for the Group to follow and, based on the recognition that the compliance framework is a key infrastructure upon which to build a relationship of mutual trust with our local communities and business partners, our management has announced to all employees the resolution to ensure compliance in an effort to foster a corporate culture that considers compliance to be of critical import.

Compliance Management Structure

Unified Management by the compliance supervising organization

Our Compliance & Risk Management Division is responsible for the unified management of matters related to compliance and periodically monitors the status of compliance initiatives within the NNFH Group. They also work to ensure the effectiveness of compliance efforts by issuing improvement orders when deemed necessary.

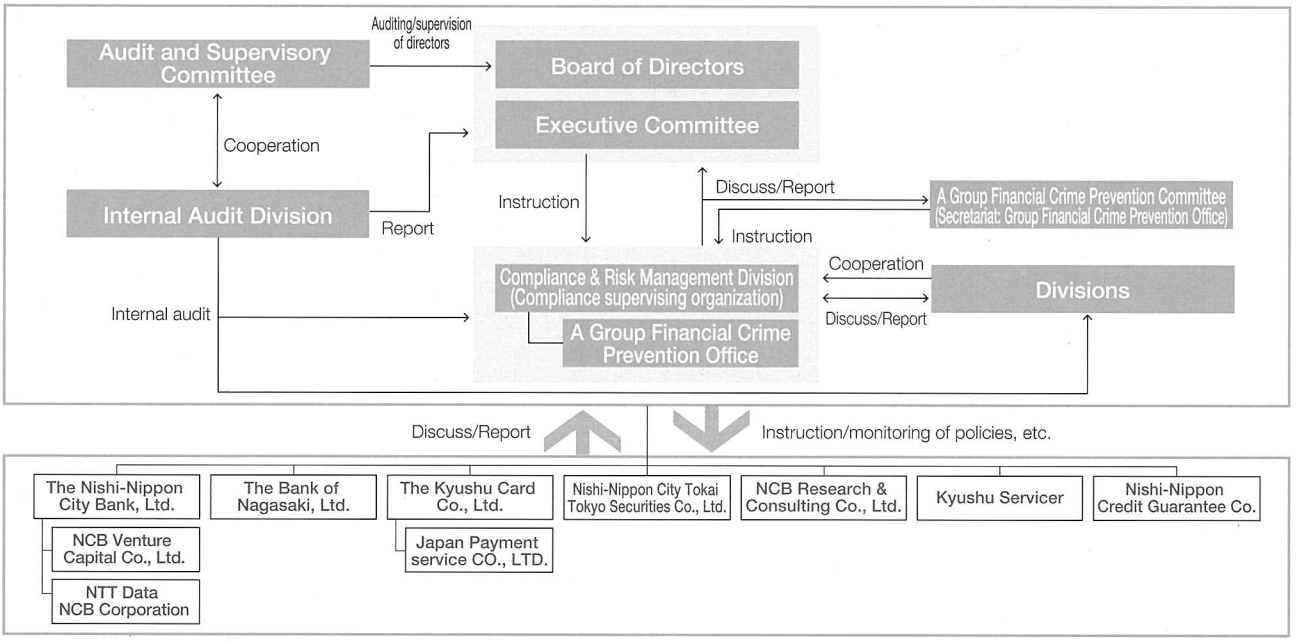
Compliance Committee

Each Group company has established a Compliance Committee to conduct concrete and substantial discussions and assessments of matters regarding compliance that carry weight on their management on a regular basis.

Compliance Program

Pursuant to the Basic Policy for Compliance of the NNFH Group, each Group company draws up a compliance program, an annual plan for practicing compliance, thus enhancing and reinforcing the compliance risk management framework.

The NNFH Group's Compliance Management Structure



Measures against Money Laundering and Terrorism Financing

As threats of proliferation of weapons of mass destruction and terrorism increase globally, Japan and the international community must come together to prevent funds from being distributed to criminals or terrorist organizations, making efforts to prevent money laundering and terrorism financing more important than ever.

The NNFH Group has established the Basic Policy for Measures against Money Laundering and Terrorism Financing, under which the entire Group commits itself to prevent money laundering and terrorism financing.

Basic Policy for Measures against Money Laundering and Terrorism Financing (Excerpts)

1. Organizational Structure

- The NNFH Group's management recognizes the importance of measures to prevent money laundering and other illegal financial transactions and is actively committed to the prevention of such activities by appointing an officer in charge of measures to prevent money laundering and other illegal financial transactions, while at the same time ensuring that all officers and clerks are dedicated to prevention in this regard, thus reinforcing a framework for their management.
- The NNFH Group establishes a framework for unified management of money laundering and other illegal financial transactions by appointing persons and departments responsible for preventing such illegal financial transactions and has them draw up and manage policies on our responses, so that we can deal with them cross-sectionally. The concrete content of such policies will be determined after

taking into account specific circumstances, for example, whether or not a Group company falls under "specified business operators" as stipulated in Article 2, Paragraph 2, Act on Prevention of Transfer of Criminal Proceeds.

- The NNFH Group assesses risks that involve the entire Group and develops a framework needed to share information within the Group to ensure the effectiveness of the measures to prevent money laundering and other illegal financial transactions.
- The NNFH Group makes a confirmation at times of transaction or takes other measures appropriately pursuant to relevant laws and regulations of Japan and other countries and strives to make constant verifications and advance its responses in this regard, in order to prevent customers or officials and clerks of the Group from committing or being involved in money laundering and other illegal financial transactions.

2. Initiatives for Reducing Risks

- The NNFH Group identifies and assesses the risks that it faces in a timely and appropriate manner and takes measures to reduce such risks in accordance with the risk-based approach, in an effort to implement effective measures to prevent money laundering and other illegal financial transactions.
- In order to put these initiatives into practice, the NNFH Group identifies and assesses the risks associated with the products and services that it offers based on the content of the National Risk Assessment of Money Laundering and Terrorist Financing released by the National Public Safety Commission, and compiles its measures to reduce such risks in a Risk Assessment Report.

3. Transaction Policy

- The NNFH Group takes management measures commensurate with the risk with the customers or transactions in question, and implements continued management in order to keep their information updated.
- The NNFH Group takes appropriate measures as dictated by relevant laws and regulations with regard to declining/eliminating business relationships with financial criminals, those penalized for financial crimes, and the like, with whom developing or continuing a relationship is deemed inappropriate.

Severing relations with anti-social forces

Strongly recognizing its social responsibility, the NNFH Group is working to block its relationships with antisocial forces that threaten the order and security of civil society.

In concrete terms, we designate a department that deals with antisocial forces and, through cooperation with police, lawyers, and other external professional bodies, firmly decline undue claims and interventions from antisocial forces, involving the entire organization in doing so. Also, we ensure that we include an article to the effect that organized crime groups and other antisocial forces should be eliminated in various application forms and contracts of the Group, in order to prevent transactions and relationships with such groups.

Whistle-blowing System

In consideration of the purpose of the Whistleblower Protection Act, the NNFH Group has established the Whistle-blowing Regulations and a whistle-blowing desk at each Group company, with a view toward the early discovery and correction of acts in violation of relevant laws and regulations by the Group and strengthening compliance-oriented management. We have also established a whistle-blowing desk where employees of each Group company may directly report to or seek consultation from without going through their company within NNFH and external law firms, in a bid to improve the effectiveness of the whistle-blowing system.

Framework for Customer Protection

For the sake of customer protection, enhanced convenience, and facilitation of financing, the NNFH Group makes constant efforts to establish a framework for customer protection by, for example, providing explanations to customers, responding to consultation and complaints from customers, managing customer information, supervising third-parties to whom it outsources part of its operations, and appropriately managing conflicts of interest that may arise from transactions with customers.

To develop a framework for the safe management of customer information, we have established the Privacy Policy for public announcements and put it to appropriate use pursuant to applicable laws and regulations.

Initiatives for the Financial ADR System

When a customer has a dispute with a financial institution that they find difficult to resolve, no matter how much they consult with each other, they can avail themselves of the financial alternative dispute resolution* (ADR) system. Upon application by a customer or a financial institution, a neutral dispute settlement organization designated by the national government attempts to solve complaints and problems.

* A procedure for bringing about a flexible solution to daily troubles through the involvement of a neutral and fair third-party, rather than by a court.

Financial Section

Contents

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries

- Consolidated Balance Sheet 50
- Consolidated Statement of Income 51
- Consolidated Statement of Comprehensive Income 51
- Consolidated Statement of Changes in Net Assets 52
- Consolidated Statement of Cash Flows 54
- Notes to Consolidated Financial Statements 55
- Quarterly Information (Unaudited) 92

The Nishi-Nippon City Bank, Ltd.

- Non-Consolidated Balance Sheet (Unaudited) 93
- Non-Consolidated Statement of Income (Unaudited) 94
- Non-Consolidated Statement of Changes in Net Assets (Unaudited) 95

The Bank of Nagasaki, Ltd.

- Non-Consolidated Balance Sheet (Unaudited) 97
- Non-Consolidated Statement of Income (Unaudited) 98
- Non-Consolidated Statement of Changes in Net Assets (Unaudited) 99

Notes to Non-Consolidated Financial Statements (Unaudited) 100

Independent Auditor's Report 101

Consolidated Balance Sheet

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Assets:			
Cash and due from banks (Notes 6 and 27)	¥1,738,761	¥1,714,664	$15,705,549
Call loans and bills bought	—	1,189	—
Commercial paper and other debt purchased	36,722	36,956	331,701
Trading account assets (Notes 3 and 28)	131	1,385	1,184
Money held in trust (Note 29)	11,273	5,370	101,831
Securities (Notes 4, 6, 27 and 28)	1,506,834	1,297,874	13,610,642
Loans and bills discounted (Notes 5, 6, 7 and 27)	8,543,946	7,554,143	77,174,113
Foreign exchange assets (Note 8)	11,074	14,407	100,034
Other assets (Notes 6, 9)	115,565	88,913	1,043,861
Tangible fixed assets (Notes 10 and 17)	117,551	119,647	1,061,797
Intangible fixed assets	3,542	3,719	32,001
Asset for retirement benefits (Note 31)	17,770	5,279	160,515
Deferred tax assets (Note 32)	473	672	4,275
Customers' liabilities for acceptances and guarantees	16,565	20,248	149,627
Reserve for possible loan losses (Note 27)	(44,068)	(41,135)	(398,056)
Reserve for devaluation of securities	(577)	(571)	(5,213)
Total assets	¥12,075,567	¥10,822,765	$109,073,866
Liabilities and net assets:			
Liabilities:			
Deposits (Notes 6, 11, and 27)	¥9,484,009	¥8,831,047	$85,665,340
Call money and bills sold (Notes 6 and 27)	208,128	39,000	1,879,942
Payables under repurchase agreements (Notes 6 and 27)	194,294	207,019	1,754,981
Guarantee deposits received under securities lending transactions (Note 6)	41,135	89,108	371,556
Borrowed money (Notes 6, 13 and 27)	1,437,688	994,175	12,986,074
Foreign exchange liabilities (Note 8)	210	118	1,901
Bonds (Notes 12 and 27)	—	10,000	—
Borrowed money from trust account	3,205	835	28,951
Other liabilities (Note 14)	107,648	99,962	972,344
Liability for retirement benefits (Note 31)	477	3,708	4,315
Reserve for retirement benefits for directors and corporate auditors	256	247	2,318
Reserve for reimbursement of deposits	1,185	1,630	10,709
Reserve for other contingent losses	1,254	1,430	11,334
Reserve under the special laws	12	10	116
Deferred tax liabilities (Note 32)	13,841	534	125,024
Deferred tax liabilities on revaluation of premises (Note 17)	14,746	14,930	133,202
Acceptances and guarantees	16,565	20,248	149,627
Total liabilities	11,524,660	10,314,007	104,097,741
Net assets:			
Capital stock (Note 15)	50,000	50,000	451,630
Capital surplus	127,202	129,477	1,148,971
Earned surplus	284,535	270,954	2,570,097
Treasury stock (Note 16)	(8,597)	(9,868)	(77,658)
Total shareholders' equity	453,140	440,563	4,093,039
Net unrealized gains on securities available for sale, net of taxes (Note 28)	65,238	47,032	589,269
Net deferred gains (losses) on hedging instruments, net of taxes	(1,428)	(1,841)	(12,898)
Revaluation of premises, net of taxes (Note 17)	29,592	29,946	267,301
Retirement benefits liability adjustments, net of taxes (Note 31)	(3,751)	(14,486)	(33,883)
Total accumulated other comprehensive income	89,651	60,650	809,788
Non-controlling interests	8,114	7,544	73,296
Total net assets (Note 37)	550,906	508,758	4,976,124
Total liabilities and net assets	¥12,075,567	¥10,822,765	$109,073,866

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥82,193	¥82,692	$742,422
Interest and dividends on securities	9,985	14,271	90,198
Other interest income (Note 18)	1,911	1,660	17,261
Trust fees	0	0	0
Fees and commissions	30,879	32,638	278,918
Trading income	1,842	1,382	16,643
Other operating income (Note 19)	4,972	3,995	44,918
Other income (Note 20)	3,585	6,958	32,390
Total income	135,371	143,599	1,222,755
Expenses:			
Interest expenses:			
Interest on deposits	699	1,022	6,320
Interest on call money and bills sold	(39)	106	(354)
Interest on payables under repurchase agreements	911	4,120	8,229
Interest on guarantee deposits received under securities lending transactions	44	382	402
Interest on borrowings	253	769	2,293
Other interest expenses (Note 21)	194	948	1,760
Fees and commissions	11,832	12,373	106,880
Other operating expenses (Note 22)	1,855	1,684	16,760
General and administrative expenses (Note 23)	81,272	82,308	734,101
Other expenses (Note 24)	12,446	10,734	112,427
Total expenses	109,472	114,451	988,821
Profit (loss) before income taxes	25,898	29,148	233,933
Income taxes (Note 32)			
Current	6,719	9,169	60,695
Deferred	552	(398)	4,991
Total income taxes	7,272	8,771	65,686
Profit (loss)	18,626	20,377	168,246
Profit (loss) attributable to:			
Non-controlling interests	537	154	4,858
Owners of parent (Note 37)	¥18,088	¥20,222	$163,387

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Profit (loss)	¥18,626	¥20,377	$168,246
Other comprehensive income:			
Net unrealized gains on securities available for sale	18,329	(10,179)	165,562
Net deferred gains (losses) on hedging instruments	413	(1,636)	3,735
Retirement benefits liability adjustments	10,735	(2,873)	96,965
Total other comprehensive income (Note 25)	¥29,478	(¥14,689)	$266,263
Comprehensive income	¥48,104	¥5,688	$434,510
Comprehensive income attributable to owners of parent	¥47,443	¥5,543	$428,534
Comprehensive income attributable to non-controlling interests	¥661	¥144	$5,975

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Shareholders' equity:			
Capital stock (Note 15)			
Balance at beginning of the year	¥50,000	¥50,000	$451,630
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥50,000	¥50,000	$451,630
Capital surplus			
Balance at beginning of the year	¥129,477	¥132,510	$1,169,517
Changes during the year			
Sale of treasury stock	(0)	(0)	(0)
Retirement of treasury stock	(2,274)	(3,032)	(20,546)
Total changes during the year	(2,274)	(3,032)	(20,546)
Balance at end of the year	¥127,202	¥129,477	$1,148,971
Earned surplus			
Balance at beginning of the year	¥270,954	¥255,229	$2,447,425
Changes during the year			
Cash dividends paid (Note 38)	(4,861)	(4,568)	(43,910)
Profit (loss) attributable to owners of parent	18,088	20,222	163,387
Reversal of revaluation of premises	353	71	3,194
Total changes during the year	13,580	15,725	122,671
Balance at end of the year	¥284,535	¥270,954	$2,570,097
Treasury stock (Note 16)			
Balance at beginning of the year	(¥9,868)	(¥10,896)	($89,137)
Changes during the year			
Acquisition of treasury stock	(1,004)	(2,005)	(9,071)
Sale of treasury stock	0	0	4
Retirement of treasury stock	2,274	3,032	20,546
Total changes during the year	1,270	1,027	11,479
Balance at end of the year	(¥8,597)	(¥9,868)	($77,658)
Total shareholders' equity			
Balance at beginning of the year	¥440,563	¥426,843	$3,979,436
Changes during the year			
Cash dividends paid (Note 38)	(4,861)	(4,568)	(43,910)
Profit (loss) attributable to owners of parent	18,088	20,222	163,387
Acquisition of treasury stock	(1,004)	(2,005)	(9,071)
Sale of treasury stock	0	0	3
Reversal of revaluation of premises	353	71	3,194
Total changes during the year	12,577	13,719	113,603
Balance at end of the year	¥453,140	¥440,563	$4,093,039

Consolidated Statement of Changes in Net Assets

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Accumulated other comprehensive income:			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥47,032	¥57,200	$424,823
Changes during the year			
Net changes in items other than shareholders' equity	18,205	(10,168)	164,446
Total changes during the year	18,205	(10,168)	164,446
Balance at end of the year	¥65,238	¥47,032	$589,269
Net deferred gains (losses) on hedging instruments, net of taxes			
Balance at beginning of the year	(¥1,841)	(¥205)	($16,634)
Changes during the year			
Net changes in items other than shareholders' equity	413	(1,636)	3,735
Total changes during the year	413	(1,636)	3,735
Balance at end of the year	(¥1,428)	(¥1,841)	($12,898)
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥29,946	¥30,017	$270,495
Changes during the year			
Net changes in items other than shareholders' equity	(353)	(71)	(3,194)
Total changes during the year	(353)	(71)	(3,194)
Balance at end of the year	¥29,592	¥29,946	$267,301
Retirement benefits liability adjustments			
Balance at beginning of the year	(¥14,486)	(¥11,612)	($130,848)
Changes during the year			
Net changes in items other than shareholders' equity	10,735	(2,873)	96,965
Total changes during the year	10,735	(2,873)	96,965
Balance at end of the year	(¥3,751)	(¥14,486)	($33,883)
Total accumulated other comprehensive income			
Balance at beginning of the year	¥60,650	¥75,400	$547,835
Changes during the year			
Net changes in items other than shareholders' equity	29,000	(14,749)	261,952
Total changes during the year	29,000	(14,749)	261,952
Balance at end of the year	¥89,651	¥60,650	$809,788
Non-controlling interests:			
Balance at beginning of the year	¥7,544	¥7,490	$68,144
Changes during the year			
Net changes in items other than shareholders' equity	570	53	5,151
Total changes during the year	570	53	5,151
Balance at end of the year	¥8,114	¥7,544	$73,296
Total net assets:			
Balance at beginning of the year	¥508,758	¥509,734	$4,595,416
Changes during the year			
Cash dividends paid (Note 38)	(4,861)	(4,568)	(43,910)
Profit (loss) attributable to owners of parent	18,088	20,222	163,387
Acquisition of treasury stock	(1,004)	(2,005)	(9,071)
Sale of treasury stock	0	0	3
Reversal of revaluation of premises	353	71	3,194
Net changes in items other than shareholders' equity	29,571	(14,695)	267,104
Total changes during the year	42,148	(976)	380,708
Balance at end of the year	¥550,906	¥508,758	$4,976,124

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
I. Cash flows from operating activities:			
Profit (loss) before income taxes	¥25,898	¥29,148	$233,933
Depreciation	5,729	5,692	51,751
Losses on impairment of fixed assets	818	1,046	7,397
Amortization of goodwill	—	283	—
Equity in gains of nonconsolidated subsidiaries and affiliate	(86)	(101)	(785)
Increase (decrease) in reserve for possible loan losses	2,933	(2,207)	26,496
Increase (decrease) in reserve for devaluation of securities	5	(7)	53
(Increase) decrease in asset for retirement benefits	(12,490)	882	(112,826)
(Decrease) increase in liability for retirement benefits	(3,230)	843	(29,179)
Increase in reserve for retirement benefits for directors and corporate auditors	9	0	82
Decrease in reserve for reimbursement of deposits	(444)	(521)	(4,018)
(Decrease) increase in reserve for other contingent losses	(175)	49	(1,582)
Income from lending activities	(94,090)	(98,624)	(849,882)
Funding costs	2,064	7,349	18,651
Gains on securities	(4,698)	(4,385)	(42,436)
Losses (gains) on money held in trust	11	(12)	99
Net foreign exchange gains	(589)	(740)	(5,322)
Losses (gains) on sale of tangible fixed assets	34	(1,478)	315
Net decrease (increase) in trading account assets	1,254	(218)	11,331
Net increase in loans and bills discounted	(989,802)	(212,938)	(8,940,497)
Net increase in deposits	813,917	389,036	7,351,795
Net decrease in certificates of deposit	(160,955)	(66,756)	(1,453,845)
Net increase in borrowed money, exclusive of subordinated borrowings	443,513	102,253	4,006,080
Net increase in due from banks, exclusive of central bank	(1,368)	(526)	(12,357)
Net decrease (increase) in call loans	1,423	(237)	12,858
Net increase (decrease) in call money	156,403	(29,731)	1,412,728
Net decrease in guarantee deposits received under securities lending transactions	(47,973)	(56,610)	(433,321)
Net decrease (increase) in foreign exchange assets	3,332	(6,011)	30,101
Net increase (decrease) in foreign exchange liabilities	92	(53)	833
Net increase in borrowed money from trust account	2,369	835	21,401
Interest and dividends received	96,159	100,483	868,574
Interest paid	(3,318)	(7,357)	(29,976)
Others	16,025	47,195	144,755
Subtotal	252,774	196,578	2,283,208
Income taxes paid	(9,717)	(8,336)	(87,770)
Net cash provided by operating activities	¥243,056	¥188,242	$2,195,438
II. Cash flows from investing activities:			
Payments for purchase of securities	(¥551,762)	(¥402,810)	($4,983,857)
Proceeds from sale of securities	116,648	131,843	1,053,636
Proceeds from redemption of securities	240,120	328,957	2,168,915
Payments for increase in money held in trust	(5,930)	(500)	(53,563)
Payments for purchase of tangible fixed assets	(3,701)	(3,425)	(33,431)
Proceeds from sale of tangible fixed assets	1,376	4,938	12,431
Payments for purchase of intangible fixed assets	(1,132)	(968)	(10,226)
Net cash provided by investing activities	(¥204,381)	¥58,034	($1,846,095)
III. Cash flows from financing activities:			
Redemption of subordinated bonds	(¥10,000)	¥—	($90,326)
Dividends paid	(4,860)	(4,567)	(43,899)
Dividends paid to non-controlling shareholders	(91)	(90)	(823)
Payments for acquisition of treasury stock	(1,004)	(2,005)	(9,071)
Proceeds from sale of treasury stock	0	0	3
Net cash used in financing activities	(¥15,955)	(¥6,663)	($144,117)
IV. Effects of changes in exchange rates on cash and cash equivalents	¥8	¥6	$75
V. Net increase in cash and cash equivalents	¥22,728	¥239,619	$205,302
VI. Cash and cash equivalents at beginning of the year	¥1,710,338	¥1,470,719	$15,448,820
VII. Cash and cash equivalents at end of the year (Note 36)	¥1,733,067	¥1,710,338	$15,654,122

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 ¥110.71= U.S.$ 1.00, the exchange rate on 31st March, 2021, 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, 2021 and 2020 is as follows:

	2021	2020
i) Number of consolidated subsidiaries:	7	7
ii) Number of non-consolidated subsidiaries:	4	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, 2021 and 2020 is as follows:

	2021	2020
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:	4	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.

(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, 2021 and 2020 were ¥9,590 million ($86,623 thousand) and ¥9,517 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

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-specific Committee Practical Guideline No. 25 of 8th October, 2020).

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-specific Committee Practical Guideline 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.

(24) Accounting principles and procedures when related accounting standards are not clear

Gains/losses from cancellation/redemption of investment trusts are recorded under "Interest and dividends on securities," provided, however, that the amount of interim dividends from investment trusts is recorded in "Loss on redemption of bonds" under "Other operating expenses" if such is negative overall.

Because the amount of interim dividends from investment trusts was negative overall for the fiscal year under review, we posted ¥92 million ($835 thousand) in "Loss on redemption of bonds" under "Other operating expenses."

(25) Significant accounting estimates

Reserve for possible loan losses:

Amount recorded on the consolidated financial statements for the fiscal year under review:

<At 31st March, 2021>

	Millions of yen	Thousands of U.S. dollars
Reserve for possible loan losses	¥44,068	$398,056

Information about the content of significant accounting estimates concerning disclosure items identified:

(1) Calculation method

For the calculation method of reserve for possible loan losses, see "(10) Reserve for Possible Loan Losses," under the "Summary of Significant Accounting policies."

(2) Key assumptions

Key assumptions include: i) Future outlook of debtors' business in the assessment of debtor companies; ii) Period when the economy is stagnant due to the spread of the novel coronavirus disease <COVID-19>; and iii) Future transition in the

assessment of debtor companies and the amount to be collected in the cash flow estimation method.

Details of each assumption are as follows:

i) Future outlook of debtors' business in the assessment of debtor companies

The future outlook of debtors' business is determined by evaluating the repayment situation, financial position, business performance, etc., of each debtor.

ii) Period when the economy is stagnant due to the spread of COVID-19

Under the assumption that the impact will continue to be felt into the following fiscal year (year ending 31st March, 2022), ¥4,742 million ($42,832 thousand) is reserve for possible loan losses by reviewing the assessment of specified debtor companies in consideration of recent business performance, the possible impact of COVID-19 on their future business performance, etc.

iii) Future transition in the assessment of debtor companies and the amount to be collected in the cash flow estimation method

The future transition in the assessment of debtor companies and the amount to be collected are set by evaluating each debtor based on their repayment situation and future plans.

(3) Possible impact on consolidated financial statements for the following fiscal year

All of the key assumptions are surrounded by uncertainty. As such, a change in the assumptions based on which the original estimates were made can have a material impact on reserve for possible loan losses on consolidated financial statements for the following fiscal year.

(26) 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 26th March, 2021)

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.

(27) Changes in methods of representation

- Application of the Accounting Standard for Disclosure of Accounting Estimates

From the consolidated financial statements at the end of the fiscal year under review, we applied the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, 31st March, 2020) and added notes on significant accounting estimates to the consolidated financial statements, provided, however, that the notes do not describe the content pertaining to the previous fiscal year in accordance with the transitional handling as specified in the note in Paragraph 11 of said standard.

(28) Additional information

- Application of the Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

From the consolidated financial statements at the end of the fiscal year under review, we applied the Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24, 31st March, 2020). Accordingly, we disclose "accounting principles and procedures when related accounting standards are not clear."

- 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)

3. Trading Account Assets

Trading account assets at 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Trading securities	¥131	¥1,385	$1,184
Other trading assets	—	—	—
Total	¥131	¥1,385	$1,184

4. Securities

Securities at 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Japanese government bonds	¥365,537	¥212,516	$3,301,758
Japanese municipal bonds	332,141	261,087	3,000,104
Corporate bonds (including government-guaranteed bonds)*	259,233	312,426	2,341,550
Stock**	142,409	107,457	1,286,330
Other securities***	407,512	404,387	3,680,898
Total	¥1,506,834	¥1,297,874	$13,610,642

* Corporate bonds included bonds offered through private placement. The guarantee obligation of Nishi-Nippon City Bank for such private placement bonds at 31st March, 2021 and 2020 were ¥17,386 million ($157,040 thousand) and ¥17,550 million, respectively.

** Stock included stock of affiliates of ¥802 million ($7,246 thousand) and ¥759 million at 31st March, 2021 and 2020, respectively.

*** Other securities included investments in non-consolidated subsidiaries of ¥163 million ($1,474 thousand) and ¥200 million at 31st March, 2021 and 2020, respectively.

5. Loans and Bills Discounted

Loans and bills discounted at 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bills discounted*	¥17,915	¥23,764	$161,821
Loans on notes	178,913	232,460	1,616,059
Loans on deed	7,638,927	6,548,871	68,999,434
Overdraft	708,189	749,047	6,396,798
Total	¥8,543,946	¥7,554,143	$77,174,113

* 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-specific Committee Practical Guideline 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 ¥18,172 million ($164,149 thousand) and ¥24,249 million at 31st March, 2021 and 2020, respectively.

Non-performing loans included in the loans at 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loans to legally bankrupt entities**	¥4,128	¥4,283	$37,287
Delinquent loans***	105,266	97,045	950,833
Loans past due for three months or more****	128	873	1,161
Loans with altered lending conditions*****	34,762	26,200	313,999
Total	¥144,286	¥128,403	$1,303,282

** 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, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Assets pledged as collateral			
Cash and due from banks	¥35	¥35	$323
Securities	1,059,343	849,233	9,568,634
Loans	1,456,647	915,137	13,157,328
Total	¥2,516,027	¥1,764,407	$22,726,287
Liabilities secured by the above assets			
Deposits	¥16,917	¥17,974	$152,810
Call money and bills sold	39,300	39,000	$354,981
Payables under repurchase agreements	194,294	207,019	1,754,981
Guarantee deposits received under securities lending transactions	41,135	89,108	371,556
Borrowed money	1,434,420	988,684	12,956,559

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, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Securities	¥1,141	¥2,643	$10,312

Additionally, the following was included in other assets at 31st March, 2021 and 2020:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash collateral paid for financial instruments	¥46,683	¥45,300	$421,672
Deposits included in other assets	2,270	2,295	20,511

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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Aggregate amount under commitment contracts not yet drawn down	¥2,194,895	¥2,123,441	$19,825,630
Of the above amount, those with original maturity of less than one year or cancellable at any time without penalty	2,109,259	2,053,257	19,052,113

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, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Assets:			
Foreign exchange bills bought	¥257	¥485	$2,328
Foreign exchange bills receivable	129	168	1,174
Due from foreign banks (their accounts)	—	—	—
Due from foreign banks (our accounts)	10,687	13,752	96,532
Total	¥11,074	¥14,407	$100,034
Liabilities:			
Foreign exchange bills sold	¥5	¥13	$47
Foreign exchange bills payable	205	104	1,854
Total	¥210	¥118	$1,901

9. Other Assets

Other assets at 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Domestic exchange settlement account*	¥16	¥22	$152
Accrued income	5,753	6,179	51,970
Income tax refund receivable, etc.	205	—	1,852
Prepaid expenses	460	227	4,157
Financial derivative products	4,661	5,014	42,104
Cash collateral paid for financial instruments	46,683	45,300	421,672
Other	57,785	32,169	521,951
Total	¥115,565	¥88,913	$1,043,861

* 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, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Land	¥74,282	¥75,412	$670,960
Buildings	32,491	33,512	293,484
Construction in progress	354	398	3,206
Leased assets	391	261	3,534
Other tangible fixed assets	10,031	10,062	90,612
Total	¥117,551	¥119,647	$1,061,797

* The amounts of accumulated depreciation for tangible fixed assets at 31st March, 2021 and 2020 were ¥65,657 million ($593,054 thousand) and ¥65,722 million, respectively.

The accelerated depreciation entry amounts for tangible fixed assets at 31st March, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
	¥6,629	¥6,646	$59,885

11. Deposits

Deposits at 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Current deposits	¥444,207	¥393,134	$4,012,347
Ordinary deposits	6,078,238	5,255,681	54,902,344
Deposits at notice	17,528	14,581	158,327
Time deposits	2,603,150	2,684,690	23,513,235
Negotiable certificates of deposit	188,520	349,475	1,702,833
Other deposits	152,364	133,483	1,376,251
Total	¥9,484,009	¥8,831,047	$85,665,340

12. Bonds

Bonds at 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bonds:			
0.87% Japanese yen callable subordinated bonds due 2025	—	¥10,000	—
Total	—	¥10,000	—

13. Borrowed Money

The weighted average interest rates on borrowed money is 0.00% at 31st March, 2021.

The aggregate annual maturity amounts within five years of borrowed money after 31st March, 2021 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March		
2022	¥807,025	$7,289,543
2023	160,281	1,447,755
2024	175,278	1,583,222
2025	295,088	2,665,418
2026	4	40

14. Other Liabilities

Other liabilities at 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Domestic exchange settlement account	¥36	¥32	$329
Accrued income taxes	1,420	4,342	12,828
Accrued expenses	6,739	8,070	60,872
Unearned income	3,263	2,548	29,481
Financial derivative products	9,238	7,565	83,451
Lease obligations	411	264	3,713
Cash collateral received for financial instruments	595	310	5,374
Asset retirement obligations	813	804	7,351
Others	85,129	76,023	768,941
Total	¥107,648	¥99,962	$972,344

15. Capital Stock

Capital stock during the year ended 31st March, 2021 consisted of the following:

	Common stock	Capital stock	
	Issued shares	Millions of yen	Thousands of U.S. dollars
1st April, 2020	162,596,955	¥50,000	$451,630
Increase	—	—	—
Decrease*	3,000,000	—	—
31st March, 2021	159,596,955	¥50,000	$451,630

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

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

	Common stock	Capital stock
	Issued shares	Millions of yen
1st April, 2019	166,596,955	¥50,000
Increase	—	—
Decrease*	4,000,000	—
31st March, 2020	162,596,955	¥50,000

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

16. Treasury Stock

Treasury stock during the year ended 31st March, 2021 consisted of the following:

	Common stock	Treasury stock	
	Number of shares	Millions of yen	Thousands of U.S. dollars
1st April, 2020	13,035,479	(¥9,868)	($89,137)
Increase*	1,408,448	(1,004)	(9,071)
Decrease*	3,000,593	2,275	20,550
31st March, 2021	11,443,334	(¥8,597)	($77,658)

* The increase of 1,408,448 shares is due to acquisition of treasury shares of 1,402,500 and purchase of fractional shares of 5,948.
The decrease of 3,000,593 shares is due to retirement of treasury shares of 3,000,000 and sale of fractional shares of 593.

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

	Common stock	Treasury stock
	Number of shares	Millions of yen
1st April, 2019	14,346,763	(¥10,896)
Increase*	2,689,162	(2,005)
Decrease*	4,000,462	3,033
31st March, 2020	13,035,479	(¥9,868)

* 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 4,000,446 shares is due to retirement of treasury shares of 4,000,000 and sale of fractional shares of 446.

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, 2021 and 2020 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, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Interest on call loans and bills bought	¥2	¥16	$21
Interest on deposits with banks	546	164	4,935
Others	1,362	1,478	12,305
Total	¥1,911	¥1,660	$17,261

19. Other Operating Income

Other operating income for the years ended 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Gains on foreign exchange transactions	¥589	¥740	$5,322
Gains on sale of bonds	3,997	2,936	36,108
Others	386	318	3,487
Total	¥4,972	¥3,995	$44,918

20. Other Income

Other income for the years ended 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Gains on sale of stock and other securities	¥2,059	¥3,945	$18,600
Gains on money held in trust	14	12	128
Equity in earnings of affiliates	86	101	785
Gains on disposition of fixed assets	401	1,900	3,626
Recoveries of written-off claims	239	97	2,160
Rental income on land and buildings	538	412	4,860
Others	246	487	2,229
Total	¥3,585	¥6,958	$32,390

21. Other Interest Expenses

Other interest expenses for the years ended 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Bonds	¥61	¥87	$558
Others	133	861	1,202
Total	¥194	¥948	$1,760

22. Other Operating Expenses

Other operating expenses for the years ended 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Losses on sale of bonds	¥846	¥100	$7,647
Losses on redemption of bonds	336	256	3,038
Losses on devaluation of bonds	88	—	796
Expenses for derivatives other than trading derivatives	584	1,327	5,277
Total	¥1,855	¥1,684	$16,760

23. General and Administrative Expenses

General and administrative expenses for the years ended 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Salaries and allowances	¥31,300	¥31,641	$282,725
Employee retirement benefits	2,321	1,454	20,966
Retirement benefits for directors and corporate auditors	54	50	493
Depreciation	5,729	5,692	51,751
Rental expenses	3,008	3,076	27,173
Taxes	5,596	5,549	50,552
Others	33,261	34,843	300,438
Total	¥81,272	¥82,308	$734,101

24. Other Expenses

Other expenses for the years ended 31st March, 2021 and 2020 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Provision for possible loan losses	¥6,218	¥3,843	$56,170
Losses on write-offs of claims	1,989	2,220	17,968
Losses on sale of stock and other securities	94	5	854
Losses on devaluation of stock and other securities	18	1,735	163
Losses on disposition of tangible fixed assets	436	422	3,942
Impairment losses	818	1,046	7,397
Losses on sale of loans	1,105	8	9,989
Others	1,764	1,453	15,713
Total	¥12,446	¥10,734	$112,427

25. Other Comprehensive Income

Reclassification adjustments and tax effects related to other comprehensive income for the years ended 31st March, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net unrealized gains on securities available for sale:			
Amount arising during the year	¥30,557	(¥7,360)	$276,010
Reclassification adjustments	(4,350)	(6,558)	(39,298)
Amount before tax effect	26,206	(13,918)	236,711
Tax effect	(7,876)	3,738	(71,148)
Net unrealized gains on securities available for sale	¥18,329	(¥10,179)	$165,562
Net deferred gains (losses) on hedging instruments:			
Amount arising during the year	¥32	(¥3,218)	$290
Reclassification adjustments	562	864	5,085
Amount before tax effect	595	(2,354)	5,375
Tax effect	(181)	718	(1,639)
Net deferred gains (losses) on hedging instruments	¥413	(¥1,636)	$3,735
Retirement benefits liability adjustments			
Amount arising during the year	¥13,117	(¥5,596)	$118,485
Reclassification adjustments	2,328	1,461	21,032
Amount before tax effect	15,445	(4,134)	139,517
Tax effect	(4,710)	1,260	(42,552)
Retirement benefits liability adjustments	¥10,735	(¥2,873)	$96,965
Total other comprehensive income	¥29,478	(¥14,689)	$266,263

26. Lease Transactions

(1) Finance leases

Information on finance lease transactions which are accounted for as operating leases at 31st March, 2021 and 2020 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Amounts equivalent to acquisition cost			
Tangible fixed assets	¥970	¥1,867	$8,767
Total	¥970	¥1,867	$8,767
Amounts equivalent to accumulated depreciation			
Tangible fixed assets	¥858	¥1,682	$7,755
Total	¥858	¥1,682	$7,755
Amounts equivalent to carrying value			
Tangible fixed assets	¥112	¥185	$1,012
Total	¥112	¥185	$1,012

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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Future finance lease payments			
Due within one year	¥32	¥73	$292
Due after one year	79	112	720
Total	¥112	¥185	$1,012

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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total lease payments during the year	¥32	¥77	$292
The amount equivalent to depreciation expenses *	32	77	292

* 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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Future operating lease payments			
Due within one year	¥263	¥270	$2,381
Due after one year	422	435	3,820
Total	¥686	¥705	$6,202

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, 2021 and 2020 were ¥53,172 million ($480,289 thousand) and ¥30,369 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, 2021 and 2020 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, 2021>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Cash and due from banks	¥1,738,761	¥1,738,827	¥66
ii) Securities:			
Held-to-maturity securities	15,971	16,341	369
Available-for-sale securities	1,469,229	1,469,229	—
iii) Loans and bills discounted	8,543,946		
Reserve for possible loan losses*	(42,647)		
	8,501,298	8,610,739	109,440
Total assets	¥11,725,261	¥11,835,138	¥109,877
Liabilities:			
i) Deposits	¥9,484,009	¥9,484,241	¥231
ii) Call money and bills sold	208,128	208,128	—
iii) Payables under repurchase agreements	194,294	194,294	—
iv) Guarantee deposits received under securities lending transactions	41,135	41,135	—
v) Borrowed money	1,437,688	1,431,487	(6,200)
Total liabilities	¥11,365,255	¥11,359,286	(¥5,969)
Derivatives**			
Hedge accounting not applied	¥100	¥100	¥—
Hedge accounting applied	(2,315)	(2,315)	—
Total derivatives	(¥2,215)	(¥2,215)	¥—

	Thousands of U.S. dollars		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Cash and due from banks	$15,705,549	$15,706,150	$601
ii) Securities:			
Held-to-maturity securities	144,259	147,601	3,341
Available-for-sale securities	13,270,977	13,270,977	—
iii) Loans and bills discounted	77,174,113		
Reserve for possible loan losses*	(385,215)		
	76,788,898	77,777,433	988,535
Total assets	$105,909,684	$106,902,163	$992,479
Liabilities:			
i) Deposits	$85,665,340	$85,667,428	$2,088
ii) Call money and bills sold	1,879,942	1,879,942	—
iii) Payables under repurchase agreements	1,754,981	1,754,981	—
iv) Guarantee deposits received under securities lending transactions	371,556	371,556	—
v) Borrowed money	12,986,074	12,930,065	(56,008)
Total liabilities	$102,657,894	$102,603,974	($53,920)
Derivatives**			
Hedge accounting not applied	$903	$903	$—
Hedge accounting applied	(20,918)	(20,918)	—
Total derivatives	($20,014)	($20,014)	$—

* 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.

<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)	¥—

* 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
	2021	2020	2021
Non-listed stocks	¥18,605	¥13,766	$168,055
Investments in partnerships	3,027	3,050	27,349
Total	¥21,633	¥16,816	$195,404

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, 2021 and 2020, impairment losses of ¥1 million ($15 thousand) and ¥285 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.

(Note 3) Repayment schedules for monetary claims and securities with stated maturity at 31st March, 2021 and 2020

<At 31st March, 2021>

	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	¥1,630,402	¥—	¥—	¥—	¥—	¥—
Securities:						
Held-to-maturity securities	—	16,000	—	—	—	—
Government bonds	—	16,000	—	—	—	—
Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities available for sale with maturity	84,253	245,349	275,884	210,410	308,750	135,226
Government bonds	13,000	33,000	18,000	5,000	183,000	97,000
Municipal bonds	4,860	37,515	121,988	114,578	50,093	—
Corporate bonds	54,679	119,373	21,785	38,739	21,938	—
Others	11,714	55,461	114,110	52,092	53,719	38,226
Loans and bills discounted	2,091,900	1,295,872	1,106,892	829,239	963,135	2,073,284
Total	¥3,806,555	¥1,557,222	¥1,382,777	¥1,039,649	¥1,271,886	¥2,208,511

	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	$14,726,782	$—	$—	$—	$—	$—
Securities:						
Held-to-maturity securities	—	144,521	—	—	—	—
Government bonds	—	144,521	—	—	—	—
Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities available for sale with maturity	761,030	2,216,146	2,491,958	1,900,552	2,788,824	1,221,450
Government bonds	117,423	298,076	162,586	45,163	1,652,967	876,162
Municipal bonds	43,898	338,858	1,101,873	1,034,943	452,470	—
Corporate bonds	493,896	1,078,254	196,782	349,914	198,160	—
Others	105,811	500,957	1,030,714	470,531	485,226	345,287
Loans and bills discounted	18,895,314	11,705,109	9,998,125	7,490,190	8,699,622	18,727,167
Total	$34,383,126	$14,065,777	$12,490,084	$9,390,743	$11,488,447	$19,948,617

Note: Excluded from Loans and bills discounted are ¥109,034 million ($984,864 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 ¥74,587 million ($673,718 thousand) relating to those that do not have contractual maturity.

<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	—	—	—	—	—	—
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

Note: Excluded from Loans and bills discounted are ¥101,332 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 ¥86,889 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, 2021 and 2020

<At 31st March, 2021>

	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	¥9,175,332	¥233,055	¥61,967	¥7,147	¥6,507	¥0
Call money and bills sold	208,128	—	—	—	—	—
Payables under repurchase agreements	194,294	—	—	—	—	—
Guarantee deposits received under securities lending transactions	41,135	—	—	—	—	—
Borrowed money	807,025	335,559	295,092	8	1	—
Total	¥10,425,914	¥568,614	¥357,060	¥7,156	¥6,509	¥0

	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	$82,877,176	$2,105,095	$559,731	$64,559	$58,778	$0
Call money and bills sold	1,879,942	—	—	—	—	—
Payables under repurchase agreements	1,754,981	—	—	—	—	—
Guarantee deposits received under securities lending transactions	371,556	—	—	—	—	—
Borrowed money	7,289,543	3,030,977	2,665,458	80	15	—
Total	$94,173,199	$5,136,073	$3,225,189	$64,639	$58,793	$0

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

<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	—
Total	¥8,955,291	¥788,816	¥402,177	¥6,481	¥7,583	—

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
	2021	2020	2021
Holding gains (losses) recognized in income	(¥0)	(¥1)	($4)

(2) Held-to-maturity securities

i) Securities whose fair value exceeds their carrying value

<At 31st March, 2021>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	¥15,971	¥16,341	¥369
Municipal bonds	—	—	—
Corporate bonds	—	—	—
	15,971	16,341	369
Others	—	—	—
Total	¥15,971	¥16,341	¥369

	Thousands of U.S. dollars		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	$144,259	$147,601	$3,341
Municipal bonds	—	—	—
Corporate bonds	—	—	—
	144,259	147,601	3,341
Others	—	—	—
Total	$144,259	$147,601	$3,341

<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

ii) Securities whose carrying value exceeds their fair value

<At 31st March, 2021>

None

<At 31st March, 2020>

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, 2021>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥112,859	¥34,060	¥78,799
Bonds:			
Government bonds	98,274	97,412	861
Municipal bonds	105,396	105,219	176
Corporate bonds	216,625	215,009	1,616
	420,296	417,642	2,654
Others	283,370	263,100	20,269
Total	¥816,526	¥714,803	¥101,723

	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Valuation differences
Stocks	$1,019,417	$307,652	$711,764
Bonds:			
Government bonds	887,670	879,892	7,777
Municipal bonds	952,006	950,408	1,597
Corporate bonds	1,956,696	1,942,095	14,600
	3,796,373	3,772,397	23,976
Others	2,559,576	2,376,486	183,090
Total	$7,375,367	$6,456,536	$918,830

<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

ii) Securities whose acquisition cost exceeds their carrying value

<At 31st March, 2021>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥10,944	¥12,981	(¥2,036)
Bonds:			
Government bonds	251,292	252,880	(1,587)
Municipal bonds	226,744	227,232	(487)
Corporate bonds	42,607	42,733	(126)
	520,644	522,845	(2,200)
Others	121,113	124,339	(3,225)
Total	¥652,703	¥660,166	(¥7,463)

	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Valuation differences
Stocks	$98,857	$117,254	($18,397)
Bonds:			
Government bonds	2,269,828	2,284,167	(14,339)
Municipal bonds	2,048,098	2,052,497	(4,399)
Corporate bonds	384,853	385,994	(1,141)
	4,702,780	4,722,660	(19,880)
Others	1,093,972	1,123,110	(29,138)
Total	$5,895,610	$5,963,025	($67,415)

<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)

(4) Available-for-sale securities sold for the years ended 31st March, 2021 and 2020 are as follows:

<At 31st March, 2021>

	Millions of yen		
	Proceeds from sale	Gains	Losses
Stocks	¥190	¥280	¥—
Bonds:			
Government bonds	13,146	—	(267)
Municipal bonds	—	—	—
Corporate bonds	95	1	—
	13,241	1	(267)
Others	59,414	5,754	(578)
Total	¥72,846	¥6,036	(¥846)

	Thousands of U.S. dollars		
	Proceeds from sale	Gains	Losses
Stocks	$1,721	$2,532	$—
Bonds:			
Government bonds	118,746	—	(2,417)
Municipal bonds	—	—	—
Corporate bonds	858	15	—
	119,604	15	(2,417)
Others	536,664	51,981	(5,229)
Total	$657,990	$54,529	($7,647)

<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)

(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 ¥104 million($944 thousand), of which ¥16 million($147 thousand) for stocks and ¥88 million($796 thousand) for bonds, for the year ended 31st March,2021.

The amount of devaluation was ¥1,450 million ($13,329 thousand), for stocks for the year ended 31st March, 2020.

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.

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

The components of the unrealized gains/losses on securities available for sale at 31st March, 2021 and 2020 are as follows:

<At 31st March, 2021>

	Millions of yen	Thousands of U.S. dollars
Revaluation difference	¥94,260	$851,414
Deferred tax liability	(28,538)	(257,778)
Revaluation difference (before non-controlling interest adjustment), net of taxes	65,721	593,636
Amount corresponding to non-controlling interests	(483)	(4,367)
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	¥65,238	$553,725

<At 31st March, 2020>

	Millions of yen
Revaluation difference	¥68,053
Deferred tax liability	(20,352)
Revaluation difference (before non-controlling interest adjustment), net of taxes	47,701
Amount corresponding to non-controlling interests	(669)
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

29. Money Held in Trust

Money held in trust at 31st March, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Money held in trust for investment purposes			
Carrying value	¥4,973	—	$44,926
Unrealized gains/losses	—	—	—
Money held in trust for other purposes than investment purposes and held-to-maturity purposes:			
Acquisition Cost	¥6,300	¥5,370	$56,905
Carrying value	6,300	5,370	56,905
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, 2021 and 2020, 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, 2021>

	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
Type of transactions	Total	Over one year		
Over-the-counter transactions:				
Interest rate swaps:				
Receive-fixed and pay-floating	¥31,860	¥31,860	¥792	¥792
Receive-floating and pay-fixed	31,860	31,860	(586)	(586)
Total	—	—	¥206	¥206

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	$287,780	$287,780	$7,160	$7,160
Receive-floating and pay-fixed	287,780	287,780	(5,299)	(5,299)
Total	—	—	$1,861	$1,861

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, 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: 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, 2021>

Type of transactions	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Currency swaps	¥67,903	¥17,485	(¥17)	(¥17)
Forward foreign:				
Sell	5,671	—	(217)	(217)
Buy	4,245	—	129	129
Currency option:				
Sell	72,476	44,260	(1,564)	423
Buy	72,476	44,260	1,564	42
Total	—	—	(¥105)	¥360

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	$613,348	$157,943	($157)	($157)
Forward foreign:				
Sell	51,224	—	(1,968)	(1,968)
Buy	38,348	—	1,169	1,169
Currency option:				
Sell	654,651	399,789	(14,128)	3,822
Buy	654,651	399,789	14,128	386
Total	—	—	($957)	$3,251

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, 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

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, 2021 and 2020, 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, 2021>

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	¥34,081	¥34,081	(¥2,054)
Special treatment for interest rate swaps	Interest rate swaps: Receive-floating and pay-fixed	Loans and bills discounted, and deposits	112,780	43,944	(Note 2)
	Interest rate options		—	—	
Total			—	—	(¥2,054)

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	($18,561)
Special treatment for interest rate swaps	Interest rate swaps: Receive-floating and pay-fixed	Loans and bills discounted, and deposits	1,018,697	396,928	(Note 2)
	Interest rate options		—	—	
Total			—	—	($18,561)

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, 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)

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, 2021>

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	¥12,293	¥—	(¥260)
Total			—	—	(¥260)

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	$111,044	$—	($2,356)
Total			—	—	($2,356)

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-specific Committee Practical Guideline No. 25).
2. Calculation of fair value is based on the discounted cash flows and others.

<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

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-specific Committee Practical Guideline No. 25).
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.

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

As of 31st March, 2021, 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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Retirement benefit obligation at beginning of the year	¥75,297	¥75,580	$680,136
Service cost	2,323	2,349	20,988
Interest cost	89	89	807
Actuarial gain and loss	265	1,315	2,398
Retirement benefits paid	(4,028)	(4,036)	(36,384)
Others	—	—	—
Retirement benefit obligation at end of the year	¥73,948	¥75,297	$667,946

ii) Reconciliation between the balances of plan assets at the beginning and end of the year for the years ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Plan assets at beginning of the year	¥76,869	¥78,878	$694,330
Expected return on plan assets	2,529	2,595	22,846
Actuarial gain and loss	13,383	(4,280)	120,883
Contributions by employer	734	1,816	6,630
Contributions by employees	146	147	1,323
Retirement benefits paid	(2,421)	(2,287)	(21,868)
Others	—	—	—
Plan assets at end of the year	¥91,241	¥76,869	$824,146

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Retirement benefit obligation (funded)	¥73,483	¥74,815	$663,751
Fair value of plan assets	(91,241)	(76,869)	(824,146)
	(17,757)	(2,053)	(160,395)
Retirement benefit obligation (unfunded)	464	482	4,195
Net liability (asset) for retirement benefits in the balance sheet	(¥17,292)	(¥1,571)	($156,199)

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Liability for retirement benefits	¥477	¥3,708	$4,315
Asset for retirement benefits	(17,770)	(5,279)	(160,515)
Net liability (asset) for retirement benefits in the balance sheet	(¥17,292)	(¥1,571)	($156,199)

iv) Components of retirement benefit expenses for the years ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost	¥2,177	¥2,201	$19,665
Interest cost	89	89	807
Expected return on plan assets	(2,529)	(2,595)	(22,846)
Amortization of unrecognized actuarial gain and loss	2,328	1,461	21,032
Others	255	296	2,307
Retirement benefit expenses	¥2,321	¥1,454	$20,966

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial gain and loss	¥15,445	(¥4,134)	$139,517

vi) Items recorded in retirement benefits liability adjustments included in accumulated other comprehensive income (gross of income tax effects) at 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial gain and loss	(¥5,405)	(¥20,851)	($48,828)

vii) Matters concerning plan assets

1) Percentages of each main category of the total plan assets at 31st March, 2021 and 2020 are as follows:

	2021	2020
Bonds	24%	30%
Stocks	60%	53%
Cash and deposits	0%	0%
Others	16%	17%
Total	100%	100%

* Retirement benefit trusts established for the corporate pension plans accounted for 28% and 24% of the total plan assets at 31st March, 2021 and 2020, respectively. Retirement benefit trusts established for the lump-sum payment plans accounted for 20% and 20% of the total plan assets at 31st March, 2021 and 2020, 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, 2021 and 2020

	2021	2020
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:	2.81% (principally)	3.04% (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, 2021 and 2020, respectively.

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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Reserve for possible loan losses	¥14,771	¥14,272	$133,421
Liability for retirement benefits	2,820	7,479	25,475
Accumulated depreciation	1,971	2,067	17,808
Loss carryforwards for tax purposes	142	133	1,284
Others	6,837	8,947	61,758
Sub-total	26,542	32,900	239,746
Valuation allowance	(6,767)	(7,496)	(61,126)
Total deferred tax assets	19,775	25,403	178,620
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)	(213)
Gains on establishment of a retirement benefit trust	(3,647)	(3,647)	(32,947)
Asset retirement obligations	(60)	(62)	(542)
Capital gain adjustments	(1,081)	(1,081)	(9,773)
Share of retained earnings of affiliates accounted for by the equity method	(98)	(94)	(888)
Unrealized gains on securities available for sale, net	(28,229)	(20,352)	(254,982)
Others	(1)	(2)	(11)
Total deferred tax liabilities	(33,143)	(25,266)	(299,369)
Net deferred tax assets (liabilities)	(¥13,368)	¥137	($120,749)

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, 2021 is as follows:

	2021
Statutory tax rate	30.5%
(Adjustments)	
Items permanently not deductible for tax purposes such as entertainment expenses	0.5
Non-taxable dividend income and others	(0.8)
Inhabitant tax on per capita basis	0.4
Increase in valuation allowance	(2.8)
Others	0.3
Effective tax rate	28.1%

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Balance at beginning of the year	¥804	¥778	$7,263
Increase due to acquisition of tangible fixed assets	6	102	58
Adjustment for passage of time	10	11	99
Decrease due to fulfillment of asset retirement obligation	7	88	70
Balance at end of the year	¥813	¥804	$7,351

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.

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

<In 2021>

	Millions of yen				
	Reportable segment Banking	Other	Total	Adjustments	Consolidated
Ordinary income					
Ordinary income from third party customers	¥122,757	¥12,192	¥134,949	¥—	¥134,949
Internal ordinary income among segments	1,328	10,179	11,508	(11,508)	—
Total ordinary income	124,085	22,372	146,457	(11,508)	134,949
Segment profit	21,167	10,023	31,191	(4,427)	26,763
Segment assets	12,054,300	489,276	12,543,576	(468,009)	12,075,567
Segment liabilities	11,506,845	79,340	11,586,186	(61,525)	11,524,660
Other items					
Depreciation	5,526	202	5,729	—	5,729
Interest and dividend income	92,159	6,568	98,727	(4,637)	94,090
Interest expenses	2,052	125	2,178	(113)	2,064
Increase in tangible and intangible fixed assets	4,748	84	4,833	—	4,833

	Thousands of U.S. dollars				
	Reportable segment Banking	Other	Total	Adjustments	Consolidated
Ordinary income					
Ordinary income from third party customers	$1,108,821	$110,127	$1,218,948	$—	$1,218,948
Internal ordinary income among segments	11,998	91,950	103,948	(103,948)	—
Total ordinary income	1,120,819	202,078	1,322,897	(103,948)	1,218,948
Segment profit	191,198	90,538	281,736	(39,995)	241,741
Segment assets	108,881,768	4,419,439	113,301,207	(4,227,341)	109,073,866
Segment liabilities	103,936,822	716,653	104,653,476	(555,734)	104,097,741
Other items					
Depreciation	49,920	1,830	51,751	—	51,751
Interest and dividend income	832,437	59,330	891,768	(41,885)	849,882
Interest expenses	18,543	1,135	19,678	(1,026)	18,651
Increase in tangible and intangible fixed assets	42,892	765	43,658	—	43,658

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.

<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

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 2021>

	Millions of yen			
	Loan	Securities	Other	Total
Ordinary income from third party customers	¥87,683	¥17,924	¥29,341	¥134,949

	Thousands of U.S. dollars			
	Loan	Securities	Other	Total
Ordinary income from third party customers	$792,006	$161,907	$265,034	$1,218,948

Note: Ordinary income is presented instead of net sales.

<In 2020>

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

Note: Ordinary income is presented instead of net sales.

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

<In 2021>

	Millions of yen		
	Reportable segment Banking	Other	Total
Impairment losses	¥818	¥—	¥818

	Thousands of U.S. dollars		
	Reportable segment Banking	Other	Total
Impairment losses	$7,397	$—	$7,397

<In 2020>

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

(4) Amortization and Balance of Goodwill by Reportable Segments

<In 2021>

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

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

<In 2020>

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

35. Related Party Transactions

There are no related party transactions to report for the years ended 31st March, 2021 and 2020.

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
	2021	2020	2021
Cash and due from banks on the consolidated balance sheet	¥1,738,761	¥1,714,664	$15,705,549
Due from banks, exclusive of central bank	(5,693)	(4,325)	(51,426)
Cash and cash equivalents on the consolidated statement of cash flows	¥1,733,067	¥1,710,338	$15,654,122

37. Per Share Information

	Yen		U.S. dollars
	2021	2020	2021
Net assets per share at end of the year	¥3,663.71	¥3,351.22	$33.092
Profit (loss) attributable to owners of parent per share*	121.03	133.32	1.093

Basis for net assets per share as of 31st March, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net assets	¥550,906	¥508,758	$4,976,124
Items to be deducted from net assets	8,114	7,544	73,296
Non-controlling interests	8,114	7,544	73,296
Net assets attributable to common stock	542,792	501,214	4,902,828

	Shares	
	2021	2020
Number of shares of common stock outstanding at end of the year	148,153,621	149,561,476

Basis for profit (loss) attributable to owners of parent per share for the years ended 31st March, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Basis:			
Profit (loss) attributable to owners of parent	¥18,088	¥20,222	$163,387
Items not attributable to common stock	—	—	—
Profit (loss) attributable to owners of parent available for shareholders of common stock	18,088	20,222	163,387

	Shares	
	2021	2020
Average number of shares of common stock outstanding during the year	149,450,688	151,678,187

* Diluted profit (loss) attributable to owners of parent per share for the years ended 31st March, 2021 and 2020 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, 2021 and 2020 are as follows:

<In 2021>

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	$23,644	31st March, 2020	29th June, 2020
6th November, 2020 Meeting of Board of Directors	Cash dividends (¥15.0 per share)	¥2,243	$20,266	30th September, 2020	10th December, 2020

<In 2020>

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

39. Subsequent Event

The following appropriation of earned surplus for the year ended 31st March, 2021 was approved at the shareholders' meeting held on 29th June, 2021:

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
29th June, 2021 Ordinary General Meeting of Shareholders	Cash dividends (¥15.0 per share)	¥2,222	$23,644	31st March, 2021	30th June, 2021

Quarterly Information (Unaudited)

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2021

	Millions of yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2020 to 30th June, 2020	from 1st April, 2020 to 30th September, 2020	from 1st April, 2020 to 31st December, 2020	from 1st April, 2020 to 31st March, 2021
Ordinary income	¥33,920	¥66,456	¥101,744	¥134,949
Profit (loss) before income taxes	7,875	13,794	25,606	25,898
Profit (loss) attributable to owners of parent	5,381	9,444	17,372	18,088

	Yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2020 to 30th June, 2020	from 1st April, 2020 to 30th September, 2020	from 1st April, 2020 to 31st December, 2020	from 1st April, 2020 to 31st March, 2021
Profit (loss) attributable to owners of parent per share	¥35.98	¥63.15	¥116.16	¥121.03

	Yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2020 to 30th June, 2020	from 1st July, 2020 to 30th September, 2020	from 1st October, 2020 to 31st December, 2020	from 1st January, 2021 to 31st March, 2021
Profit (loss) attributable to owners of parent per share	¥35.98	¥27.16	¥53.01	¥4.80

	Thousands of U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2020 to 30th June, 2020	from 1st April, 2020 to 30th September, 2020	from 1st April, 2020 to 31st December, 2020	from 1st April, 2020 to 31st March, 2021
Ordinary income	$306,393	$600,273	$919,014	$1,218,948
Profit (loss) before income taxes	71,135	124,599	231,294	233,933
Profit (loss) attributable to owners of parent	48,609	85,310	156,922	163,387

	U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2020 to 30th June, 2020	from 1st April, 2020 to 30th September, 2020	from 1st April, 2020 to 31st December, 2020	from 1st April, 2020 to 31st March, 2021
Profit (loss) attributable to owners of parent per share	$0.32	$0.57	$1.04	$1.09

	U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2020 to 30th June, 2020	from 1st July, 2020 to 30th September, 2020	from 1st October, 2020 to 31st December, 2020	from 1st January, 2021 to 31st March, 2021
Profit (loss) attributable to owners of parent per share	$0.32	$0.24	$0.47	$0.04

Non-Consolidated Balance Sheet (Unaudited)

The Nishi-Nippon City Bank, Ltd.
31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Assets:			
Cash and due from banks	¥1,710,262	¥1,700,704	$15,448,131
Call loans and bills bought	¥30,000	43,189	$270,978
Trading account assets	131	1,385	1,184
Money held in trust	11,273	5,370	101,831
Securities	1,489,922	1,287,828	13,457,888
Loans and bills discounted	8,318,793	7,341,274	75,140,398
Foreign exchange assets	11,074	14,407	100,034
Other assets	102,551	80,447	926,311
Tangible fixed assets	113,463	115,389	1,024,868
Intangible fixed assets	2,998	3,077	27,081
Prepaid pension cost	23,276	23,103	210,251
Customers' liabilities for acceptances and guarantees	14,600	17,954	131,884
Reserve for possible loan losses	(38,432)	(34,703)	(347,144)
Reserve for devaluation of securities	(458)	(454)	(4,144)
Total assets	¥11,789,458	¥10,598,974	$106,489,555
Liabilities and Net assets:			
Liabilities:			
Deposits	¥9,262,757	¥8,639,546	$83,666,853
Call money and bills sold	208,128	39,000	1,879,942
Payables under repurchase agreements	194,294	207,019	1,754,981
Guarantee deposits received under securities lending transactions	41,135	89,108	371,556
Borrowed money	1,419,110	988,441	12,818,270
Foreign exchange liabilities	210	118	1,901
Bonds	—	10,000	—
Borrowed money from trust account	3,205	835	28,951
Other liabilities	75,920	72,201	685,761
Reserve for employee retirement benefits	212	224	1,919
Reserve for reimbursement of deposits	1,129	1,577	10,205
Reserve for other contingent losses	1,220	1,380	11,025
Deferred tax liabilities	15,669	7,708	141,535
Deferred tax liabilities on revaluation of premises	14,476	14,660	130,760
Acceptances and guarantees	14,600	17,954	131,884
Total liabilities	11,252,071	10,089,776	101,635,550
Net assets:			
Capital stock	85,745	85,745	774,506
Capital surplus			
Capital reserve	85,684	85,684	773,950
Earned surplus			
Legal reserve	61	61	555
Reserve for deferred capital gains	2	2	25
Unappropriated retained earnings	275,004	264,335	2,484,003
Total shareholders' equity	446,498	435,829	4,033,041
Net unrealized gains on securities available for sale, net of taxes	62,724	45,263	566,561
Net deferred gains (losses) on hedging instruments, net of taxes	(1,428)	(1,841)	(12,898)
Revaluation of premises, net of taxes	29,592	29,946	267,301
Total valuation and translation adjustments	90,888	73,368	820,963
Total net assets	537,386	509,197	4,854,005
Total liabilities and net assets	¥11,789,458	¥10,598,974	$106,489,555

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Nishi-Nippon City Bank, Ltd.
Years ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Income:			
Interest income:			
Interest on loans and discounts	¥78,091	¥78,352	$705,367
Interest and dividends on securities	9,761	14,195	88,170
Other interest income	529	206	4,781
Trust fees	0	0	0
Fees and commissions	23,727	25,298	214,317
Trading income	—	1	—
Other operating income	4,614	3,872	41,680
Other income	3,303	5,915	29,843
Total income	120,027	127,843	1,084,161
Expenses:			
Interest expenses:			
Interest on deposits	774	1,149	6,996
Interest on call money and bills sold	(39)	108	(354)
Interest on payables under repurchase agreements	911	4,120	8,229
Interest on borrowings	241	744	2,178
Interest on guarantee deposits received under securities lending transactions	44	382	402
Other interest expenses	194	948	1,760
Fees and commissions	15,313	15,961	138,317
Trading expenses	4	—	42
Other operating expenses	1,854	1,684	16,753
General and administrative expenses	69,366	69,784	626,559
Other expenses	11,137	8,620	100,604
Total expenses	99,804	103,503	901,490
Income before income taxes	20,223	24,340	182,671
Income taxes			
Current	5,229	7,414	47,235
Deferred	155	(469)	1,404
Total income taxes	5,384	6,944	48,640
Net income	¥14,838	¥17,395	$134,031

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Shareholders' equity			
Capital stock			
Balance at beginning of the year	¥85,745	¥85,745	$774,506
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,745	¥85,745	$774,506
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥85,684	¥85,684	$773,950
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,684	¥85,684	$773,950
Total capital surplus			
Balance at beginning of the year	¥85,684	¥85,684	$773,950
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,684	¥85,684	$773,950
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥61	¥61	$555
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥61	¥61	$555
Other earned surplus:			
Reserve for deferred capital gains			
Balance at beginning of the year	¥2	¥3	$26
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	¥2	$25
Unappropriated retained earnings			
Balance at beginning of the year	¥264,335	¥252,405	$2,387,636
Changes during the year			
Cash dividends paid	(4,523)	(5,537)	(40,859)
Transfer from reserve for deferred capital gains	0	0	1
Net income	14,838	17,395	134,031
Reversal of revaluation of premises	353	71	3,194
Total changes during the year	10,668	11,929	96,367
Balance at end of the year	¥275,004	¥264,335	$2,484,003

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

The Nishi-Nippon City Bank, Ltd.

Years ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total earned surplus			
Balance at beginning of the year	¥264,399	¥252,470	$2,388,218
Changes during the year			
Cash dividends paid	(4,523)	(5,537)	(40,859)
Net income	14,838	17,395	134,031
Reversal of revaluation of premises	353	71	3,194
Total changes during the year	10,668	11,929	96,366
Balance at end of the year	¥275,068	¥264,399	$2,484,584
Total shareholders' equity			
Balance at beginning of the year	¥435,829	¥423,899	$3,936,675
Changes during the year			
Cash dividends paid	(4,523)	(5,537)	(40,859)
Net income	14,838	17,395	134,031
Reversal of revaluation of premises	353	71	3,194
Total changes during the year	10,668	11,929	96,366
Balance at end of the year	¥446,498	¥435,829	$4,033,041
Valuation and translation adjustments			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥45,263	¥55,063	$408,846
Changes during the year			
Net changes in items other than shareholders' equity	17,460	(9,799)	157,714
Total changes during the year	17,460	(9,799)	157,714
Balance at end of the year	¥62,724	¥45,263	$566,561
Net deferred gains (losses) on hedging instruments, net of taxes			
Balance at beginning of the year	(¥1,841)	(¥205)	($16,634)
Changes during the year			
Net changes in items other than shareholders' equity	413	(1,636)	3,735
Total changes during the year	413	(1,636)	3,735
Balance at end of the year	(¥1,428)	(¥1,841)	($12,898)
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥29,946	¥30,017	$270,495
Changes during the year			
Net changes in items other than shareholders' equity	(353)	(71)	(3,194)
Total changes during the year	(353)	(71)	(3,194)
Balance at end of the year	¥29,592	¥29,946	$267,301
Total valuation and translation adjustments			
Balance at beginning of the year	¥73,368	¥84,875	$662,707
Changes during the year			
Net changes in items other than shareholders' equity	17,520	(11,507)	158,256
Total changes during the year	17,520	(11,507)	158,256
Balance at end of the year	¥90,888	¥73,368	$820,963
Total net assets			
Balance at beginning of the year	¥509,197	¥508,775	$4,599,383
Changes during the year			
Cash dividends paid	(4,523)	(5,537)	(40,859)
Net income	14,838	17,395	134,031
Reversal of revaluation of premises	353	71	3,194
Net changes in items other than shareholders' equity	17,520	(11,507)	158,256
Total changes during the year	28,189	422	254,622
Balance at end of the year	¥537,386	¥509,197	$4,854,005

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Nagasaki, Ltd.
31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Assets:			
Cash and due from banks	¥38,703	¥25,065	$349,589
Securities	6,758	4,942	61,050
Loans and bills discounted	263,067	250,072	2,376,186
Other assets	2,348	831	21,213
Tangible fixed assets	4,633	4,700	41,851
Intangible fixed assets	358	470	3,240
Deferred tax assets	233	316	2,105
Customers' liabilities for acceptances and guarantees	18	14	169
Reserve for possible loan losses	(379)	(457)	(3,424)
Reserve for devaluation of securities	(43)	(43)	(392)
Total assets	¥315,699	¥285,913	$2,851,590
Liabilities and net assets:			
Liabilities:			
Deposits	¥252,918	¥226,149	$2,284,511
Call money and bills sold	30,000	42,000	270,978
Borrowed money	15,600	600	140,908
Other liabilities	1,207	1,235	10,903
Reserve for employee retirement benefits	118	199	1,066
Reserve for retirement benefits for directors and corporate auditors	98	85	887
Reserve for reimbursement of deposits	55	53	503
Reserve for other contingent losses	34	49	309
Deferred tax liabilities on revaluation of premises	509	509	4,599
Acceptances and guarantees	18	14	169
Total liabilities	300,559	270,897	2,714,837
Net assets:			
Capital stock	6,121	6,121	55,294
Capital surplus			
Capital reserve	2,000	2,000	18,065
Other capital surplus	2,463	2,463	22,255
Earned surplus			
Legal reserve	210	210	1,902
Unappropriated retained earnings	3,201	3,122	28,919
Total shareholders' equity	13,997	13,918	126,438
Net unrealized gains on securities available for sale, net of taxes (Note 30)	44	—	399
Revaluation of premises, net of taxes	1,097	1,097	9,915
Total valuation and translation adjustments	1,141	1,097	10,315
Total net assets	15,139	15,016	136,753
Total liabilities and net assets	¥315,699	¥285,913	$2,851,590

See accompanying Notes to Non Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Bank of Nagasaki, Ltd.
Years ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥3,576	¥3,685	$32,306
Interest and dividends on securities	164	—	1,487
Other interest income	150	215	1,360
Fees and commissions	631	634	5,704
Other income	208	212	1,879
Total income	4,731	4,747	42,739
Expenses:			
Interest expenses:			
Interest on deposits	60	82	546
Interest on call money and bills sold	(22)	(3)	(202)
Interest on borrowings	0	0	0
Other interest expenses	2	2	23
Fees and commissions	991	1,110	8,955
Other operating expenses	0	—	6
General and administrative expenses	3,310	3,387	29,899
Other expenses	263	63	2,376
Total expenses	4,606	4,642	41,605
Income before income taxes	125	104	1,134
Income taxes			
Current	(18)	(22)	(166)
Deferred	64	73	580
Total income taxes	45	50	414
Net income	¥79	¥54	$719

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, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Shareholders' equity			
Capital stock			
Balance at beginning of the year	¥6,121	¥6,121	$55,294
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥6,121	¥6,121	$55,294
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥2,000	¥2,000	$18,065
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥2,000	¥2,000	$18,065
Other capital surplus			
Balance at beginning of the year	¥2,463	¥2,463	$22,255
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥2,463	¥2,463	$22,255
Total capital surplus			
Balance at beginning of the year	¥4,463	¥4,463	$40,321
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥4,463	¥4,463	$40,321
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥210	¥205	$1,902
Changes during the year			
Reserve of legal retained earnings	—	5	—
Total changes during the year	—	5	—
Balance at end of the year	¥210	¥210	$1,902
Other earned surplus:			
Unappropriated retained earnings			
Balance at beginning of the year	¥3,122	¥3,102	$28,199
Changes during the year			
Reserve of legal retained earnings	—	(5)	—
Cash dividends paid	—	(25)	—
Net income	79	54	719
Reversal of revaluation of premises	—	(4)	—
Total changes during the year	79	19	719
Balance at end of the year	¥3,201	¥3,122	$28,919
Total earned surplus			
Balance at beginning of the year	¥3,332	¥3,307	$30,102
Changes during the year			
Cash dividends paid	—	(25)	—
Net income	79	54	719
Reversal of revaluation of premises	—	(4)	—
Total changes during the year	79	24	719
Balance at end of the year	¥3,412	¥3,332	$30,822

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

The Bank of Nagasaki, Ltd.

Years ended 31st March, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total shareholders' equity			
Balance at beginning of the year	¥13,918	¥13,893	$125,718
Changes during the year			
Cash dividends paid	—	(25)	—
Net income	79	54	719
Reversal of revaluation of premises	—	(4)	—
Total changes during the year	79	24	719
Balance at end of the year	¥13,997	¥13,918	$126,438
Valuation and translation adjustments			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥—	¥—	$—
Changes during the year			
Net changes in items other than shareholders' equity	44	—	399
Total changes during the year	44	—	399
Balance at end of the year	¥44	¥—	$399
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥1,097	¥1,093	$9,915
Changes during the year			
Net changes in items other than shareholders' equity	—	4	—
Total changes during the year	—	4	—
Balance at end of the year	¥1,097	¥1,097	$9,915
Total valuation and translation adjustments			
Balance at beginning of the year	¥1,097	¥1,093	$9,915
Changes during the year			
Net changes in items other than shareholders' equity	44	4	399
Total changes during the year	44	4	399
Balance at end of the year	¥1,141	¥1,097	$10,315
Total net assets			
Balance at beginning of the year	¥15,016	¥14,986	$135,633
Changes during the year			
Cash dividends paid	—	(25)	—
Net income	79	54	719
Reversal of revaluation of premises	—	(4)	—
Net changes in items other than shareholders' equity	44	4	399
Total changes during the year	123	29	1,119
Balance at end of the year	¥15,139	¥15,016	$136,753

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, 2021 and 2020

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, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

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

Basis for Opinion

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

Key Audit Matters

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

Determination of debtor classification in self-assessments of debtors that have formulated business improvement plans and debtors affected by the COVID-19 pandemic and calculation of the reserve for possible loan losses for debtors for which the cash flow estimation method is applied	
Description of Key Audit Matter	Auditor's Response
The Group recorded loans and bills discounted of ¥8,543,946 million and reserve for possible loan losses of ¥44,068 million on its consolidated balance sheet as of March 31, 2021. The Group has as its core subsidiary The Nishi-Nippon City Bank, Ltd., and is engaged in the loan business mainly in Fukuoka. Loans and bills discounted is a significant part of the Group's business as it accounts for approximately 70% of the total assets on the consolidated balance sheet, and loan losses may arise if, for example, the creditworthiness of debtors deteriorates or the value of collateral such as real estate declines. Accordingly, the Group records the amount of expected losses that won't be collected as a reserve for possible loan losses, and the details of this process are noted in Note 2 "Significant Accounting Policies (10) Reserve for Possible Loan Losses", and "(25) Significant accounting estimates". The reserve for possible loan losses is calculated in line with the write-offs and allowances method for each debtor class based on the determination of the debtor classification through self-assessment. The determination of the debtor classification through self-assessment is made by evaluating the relevant debtor's ability to repay loans based on debtor's repayment status, financial position, business performance, and future prospects.	We mainly performed the following audit procedures: (1) Overall procedures ・ In order to confirm that the Group's policies comply with generally accepted corporate accounting standards, we considered the Group's self-assessment standards and write-offs and allowances standards with reference to Accounting Standards for Financial Instruments. ・ We evaluated whether the Group's internal controls ensure the accuracy and completeness of the calculation of the reserve for possible loan losses, determinations of the debtor classification and credit ratings relevant to such determinations, as well as debtor information upon which such determinations are made. ・ We selected debtors that formulated highly feasible drastic business improvement plans (or reasonable and highly feasible business improvement plans) for which change in debtor classification had an impact on the reserve for possible loan losses more than a certain amount. We also sampled debtors that were affected by the COVID-19 pandemic from the standpoint of the industry to which they belong or their operating results, and debtors for which the cash flow estimation method is applied to test management's classification of the sampled debtor.

In particular, categorizing debtors as Requiring Caution when the debtor formulates 'highly feasible drastic business improvement plans' or 'reasonable and highly feasible business improvement plans' requires validation of reasonableness and feasibility of such business improvement plans. 'Highly feasible drastic business improvement plans' (or 'reasonable and highly feasible business improvement plans') are formulated based on significant assumptions such as expected future sales, cost of sales, and expenses of debtors, and are affected by factors such as changes in the operating environment surrounding debtors and the outcome of business strategies. As such, the determination of the debtor classification requires judgement by the Group. Additionally, these determinations require judgement by the Group to an even greater extent in cases where the COVID-19 pandemic has had a significant impact on the business conditions of the debtor. The Group includes a discussion of the impact of the COVID-19 pandemic in "(25) Significant accounting estimates" in Notes 2. Further, calculation of the reserve for possible loan losses for debtors for which the cash flow estimation method is applied relies greatly on management's judgment since such calculation is based on significant assumptions, such as future transition in debtor classification and amounts expected to be collected in the future. Accordingly, we have identified determination of debtor classification in self-assessments of debtors that have formulated business improvement plans and debtors affected by the COVID-19 pandemic and calculation of the reserve for possible loan losses for debtors for which the cash flow estimation method is applied, as a Key Audit Matter.	• With regard to the determination of the debtor classification, we evaluated data regarding sampled debtors' recent repayment status, financial position, and business performance, by inspecting a set of materials related to the Group's self-assessment, such as explanatory materials including a description of the business, borrowing and repayment status, research materials providing an understanding of actual financial position, financial statements, and the trial balance, in addition, we made inquiries as necessary of the Credit Supervision Division and Credit Management Division and evaluated the responses we received. (2) Procedures addressing key audit matters • To examine the reasonableness and feasibility of highly feasible drastic business improvement plans (or reasonable and highly feasible business improvement plans), we analyzed the trends from past results of major income statement items such as sales, cost of sales, and expenses of debtors and compared the assumptions used in these business improvement plans with the actual results to evaluate whether the debtor had historically achieved its previous business improvement plans. We also made inquiries as necessary of the Credit Supervision Division and Credit Management Division regarding items such as progress of business improvement plans and evaluated the responses we received. In addition, we inspected the contact history between the Group and its debtor as well as materials such as minutes of meetings and interim trial balances to confirm and whether there are new information and indications that actual results of target items set out in business improvement plans may significantly fall short of being planned.

	• To examine the recoverability of future operating results of debtors affected by the COVID-19 pandemic, we inspected materials regarding the extent of the deterioration in their business performance compared from the past operating results and future actions to be taken by debtors, and made inquiries as necessary of the Credit Supervision Division and Credit Management Division and evaluated the responses we received. • Regarding debtors for which the cash flow estimation method is applied for the calculation of the reserve for possible loan losses, in order to confirm whether future expectations for debtors identified through self-assessment are reflected in the calculation of the reserve for possible loan losses, we agreed future prospect of debtor classification and amounts expected to be collected in the future to supporting documentation, and made inquiries as necessary of the Credit Supervision Division and Credit Management Division about the latest information and considered the consistency of the responses we received with the basis for determination of the reserve for possible loan losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 29, 2021

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, 2021, 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	3,584
▶ Number of Domestic Offices	175
▶ Number of Correspondent Banks	75
▶ Parent Company	Nishi-Nippon Financial Holdings, Inc. (NNFH's share of voting rights 100%)

(As of 31st March, 2021)

Board of Directors

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

(As of 30th June, 2021)

*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	207
▶ Number of Domestic Offices	23
▶ Parent Company	Nishi-Nippon Financial Holdings, Inc. (NNFH's share of voting rights 100%)

(As of 31st March, 2021)

Board of Directors and Audit and Supervisory Board Members

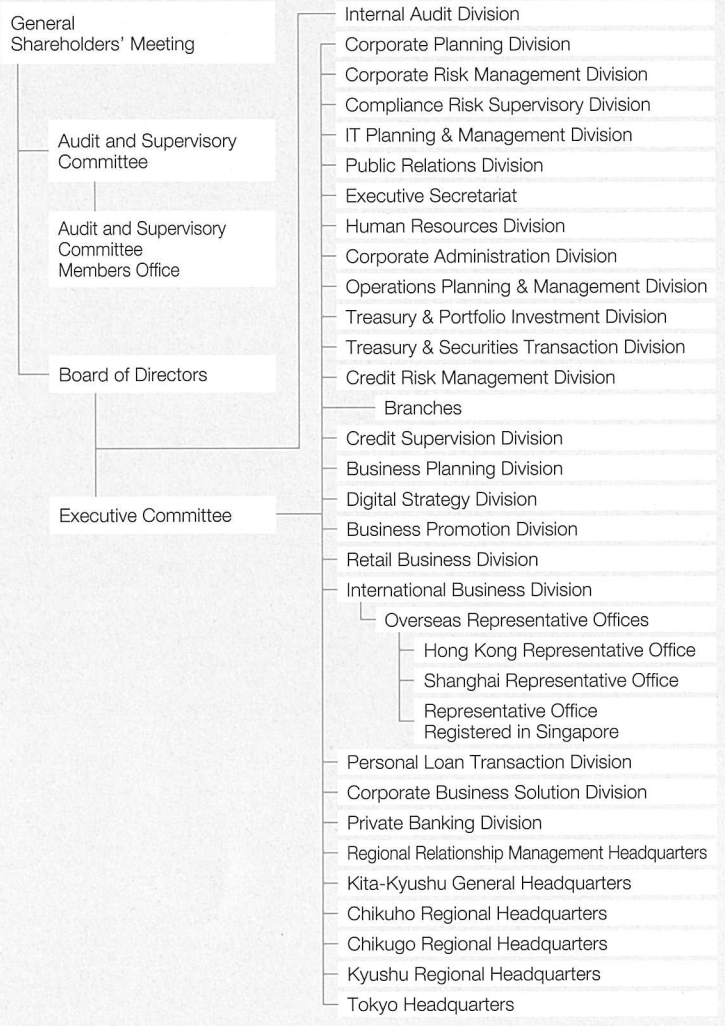
President	Ryutaro Kaichi
Managing Directors	Tetsuhisa Matsumoto
	Naoshi Taguchi
	Yasuyuki Shigetomi
	Kiyotaka Imamura
Directors	Hiroji Mochida
	Toshihiro Takaki
	Takashige Honda
Audit and Supervisory Board Members	Kenji Miyata
	Mitsuru Kawatani (outside)
	Junichi Sakaguchi (outside)

(As of 30th June, 2021)

*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.

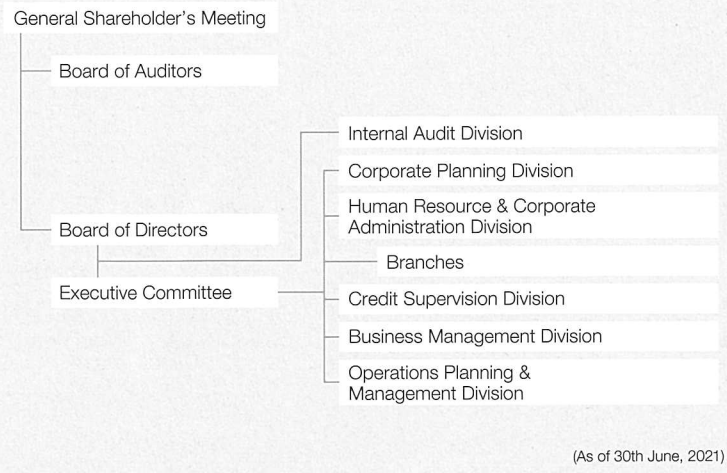
Organization Chart of Banking Subsidiaries

The Nishi-Nippon City Bank, Ltd.



(As of 30th June, 2021)

The Bank of Nagasaki, Ltd.



(As of 30th June, 2021)

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

INTERNATIONAL BUSINESS DIVISION

3-6, Hakata-ekimae 1-chome, Hakata-ku, Fukuoka 812-0011, Japan
Phone: +81-92-476-2481
SWIFT: NISIJPJTFKK
Fax: +81-92-476-2488

TREASURY & PORTFOLIO INVESTMENT DIVISION

4th Fl., Nittetsu Nihonbashi Bldg, 13-1, Nihonbashi 1-chome, Chuo-ku, Tokyo 103-0027, Japan
Phone: +81-3-6262-7957
SWIFT: NISIJPJT
Fax: +81-3-3273-2255

TREASURY & SECURITIES TRANSACTION DIVISION

3-6, Hakata-ekimae 1-chome, Hakata-ku, Fukuoka 812-0011, Japan
Phone: +81-92-476-2540, +81-92-476-2484
SWIFT: NISIJPJT, NISIJPJTFKK
Fax: +81-92-441-6106

HONG KONG REPRESENTATIVE OFFICE

Suite 3112, Tower 6, The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong
Phone: +852-2526-2259
Fax: +852-2845-9264

SHANGHAI REPRESENTATIVE OFFICE

Room No. 2209 Shanghai International Trade Center, 2201 Yan-An Road (West), Chang Ning District,Shanghai, People's Republic of China
Phone: +86-21-6219-0600
Fax: +86-21-6278-5940

REPRESENTATIVE OFFICE REGISTERED IN SINGAPORE

1 Marina Boulevard Unit#25-07
One Marina Boulevard, Singapore 018989
Phone: +65-6222-0115
Fax: +65-6222-0171

NNFH

Nishi-Nippon Financial Holdings, Inc.

1-1, Hakata-ekimae 3-chome, Hakata-ku,
Fukuoka, 812-0011, Japan
Phone: +81-92-461-1867

K30 R70 VEGETABLE OIL INK

This brochure is printed on "*Kininaru Kami*" paper using vegetable oil ink.
"*Kininaru Kami*" is made from timber thinned from forests in Fukuoka and other parts of the Kyushu Region.

Printed in Japan