

ANNUAL REPORT 2017



NNFH

Nishi-Nippon Financial Holdings, Inc.

Headquartered in Kyushu's largest urban center, Fukuoka City (population: 1.57 million), Nishi-Nippon Financial Holdings Group (the Group) comprises a parent company, eight consolidated subsidiaries and one affiliate. While banking services are its primary focus, the Group also provides a diverse range of financial services, including investing and lending operations, credit guarantees and credit card services, as well as credit management and business consulting services.

Guided by its 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 Group's core banking services provide community-oriented financial services that cater mainly to individuals and small and medium-sized enterprises (SMEs) in its host region of Kyushu.

Consolidated Financial Highlights

◆ Nishi-Nippon Financial Holdings, Inc. and its consolidated subsidiaries Years ended 31st March, 2017

	Millions of yen (Note 1)	Thousands of U.S. dollars (Note 2)
	2017	2017
Total income	¥145,938	\$1,300,816
Total expenses	113,516	1,011,824
Profit (loss) before income taxes	32,422	288,992
Profit (loss) attributable to owners of parent	22,214	198,004
	Yen	U.S. dollars (Note 2)
Profit (loss) attributable to owners of parent per share	¥142.24	\$1.267

◆ Nishi-Nippon Financial Holdings, Inc. and its consolidated subsidiaries As of 31st March, 2017

	Millions of yen (Note 1)	Thousands of U.S. dollars (Note 2)
Total assets	¥9,486,448	\$84,556,986
Deposits	8,019,012	71,477,072
Loans and bills discounted	6,803,828	60,645,583
Securities	1,655,774	14,758,662
Capital stock	50,000	445,672
Total net assets	511,678	4,560,821

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

2. Conversion into U.S. dollars (solely for the convenience of readers outside Japan) has been made at the exchange rate of ¥112.19 to \$1.

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Message from the President

I am pleased to report on the business performance of Nishi-Nippon Financial Holdings, Inc. (Nishi-Nippon FH) for the fiscal year ended March 2017.

In October 2016, we completed the shift to a holding company structure headed by Nishi-Nippon FH to establish a new group management framework, with a view toward further strengthening intragroup bonds and collaborations that will allow each Nishi-Nippon FH Group company to show its unique characteristics and strengths as well as adequately respond to various potential environmental changes and risks. Under the new structure, we will further enhance our collective strength as an integrated financial group catering to its host communities so that we can “make greater contributions to regional economies” and “maximize our Group’s corporate value.”

During the fiscal year ended 31st March, 2017, Japan’s economy followed a moderate recovery path on the back of a recovery in exports and production as well as improvements in the employment and income environments.

The economy in our host region of Kyushu is also experiencing a moderate recovery, underpinned by government subsidies supporting local tourism and brisk inbound demands despite a temporary drop in production following the 2016 Kumamoto earthquakes.

Amid these business conditions, our Group launched its new Medium-Term Business Plan, “Leaping Forward 2020—Innovating Ideas for Our Clients—,” which will guide us through the three-year period from April 2017 to March 2020.

The management environment surrounding financial institutions is changing more rapidly and dramatically than ever before, and initiatives to change management have become pressing and critical issues in the banking sector. Based on an understanding of this environment, the Nishi-Nippon FH Group will work harder to become customers’ preferred regional financial group by focusing on expansion of its business foundations for a greater leap forward in an attempt to enhance the Group’s collective financial strength. We purposely chose the title “Leaping Forward” for our new Medium-Term Business Plan in the hope that each and every member of the Nishi-Nippon FH Group would come together to reach even greater heights so that our Group could make a leap forward into the future hand-in-hand with its customers and host communities. The Plan’s subtitle, “Innovating Ideas for Our Clients,” reflects the dedication of all of our employees to innovate ideas for the benefit of our customers and host communities.

As members of a comprehensive financial group rooted in the region, both our staff and management will stay committed to actively helping revitalize regional economy through generously offering solutions that exceed customers’ expectations. Your continued support for, and cooperation in our future endeavors would be greatly appreciated.

July 2017

Hiromichi Tanigawa
President
Nishi-Nippon Financial Holdings, Inc.



Board of Directors of Nishi-Nippon Financial Holdings Inc.



Chairman
Isao Kubota



President
Hiromichi Tanigawa

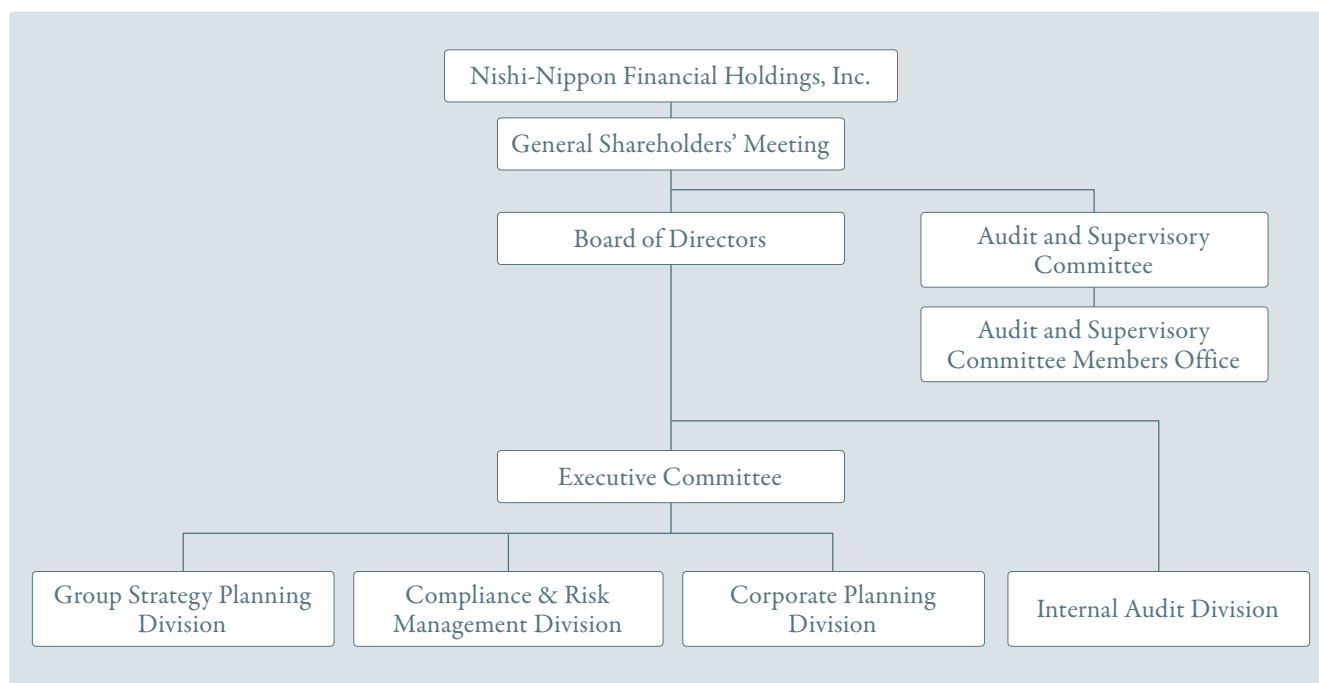


Deputy President
Seiji Isoyama

Chairman	Isao Kubota
President	Hiromichi Tanigawa
Deputy President	Seiji Isoyama
Directors	Souichi Kawamoto Kiyota Takata Hiroyuki Irie Shinya Hirota Hideyuki Murakami Hiroyuki Takeo
Directors (Audit and Supervisory Committee Members)	Masaru Ikeda Yuji Tanaka (outside) Hirohiko Okumura (outside) Nobuko Takahashi (outside)

(as of 30th June, 2017)

Organization Chart



◆ Major Shareholders (Common Stock)

Name	Shares held (thousands)	(%)
The Nishi-Nippon City Bank, Ltd.	23,613	13.14
Japan Trustee Services Bank, Ltd. (Trust Account)	19,151	10.66
Japan Trustee Services Bank, Ltd. (Trust Account No.4)	9,596	5.34
Japan Trustee Services Bank, Ltd. (Trust Account No.9)	6,965	3.87
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,922	2.74
Nippon Life Insurance Company	3,861	2.15
Meiji Yasuda Life Insurance Company	2,765	1.53
Japan Trustee Services Bank, Ltd. (Trust Account No.5)	2,458	1.36
Government of Norway	2,315	1.28
Mizuho Bank, Ltd.	2,300	1.28
Total	77,950	43.40

(as of 31st March, 2017)

Outline of Nishi-Nippon Financial Holdings Group

Profile of the Company (Joint Holding Company)

◆ Name: Nishi-Nippon Financial Holdings, Inc.

▶ Location	1-1, Hakata-ekimae 3-chome, Hakata-ku, Fukuoka, Japan
▶ Representatives	Chairman: Isao Kubota (Concurrently serving as Chairman of The Nishi-Nippon City Bank, Ltd.) President: Hiromichi Tanigawa (Concurrently serving as President of The Nishi-Nippon City Bank, Ltd.) Deputy President: Seiji Ioyama (Concurrently serving as Deputy President of The Nishi-Nippon City Bank, Ltd.)
▶ Business	Management and operation of banks and other companies that Nishi-Nippon FH 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

In October 2016, The Nishi-Nippon City Bank decided to shift to a holding company structure and establish a new group management framework as Nishi-Nippon Financial Holdings, Inc. (Nishi-Nippon FH), with a view to further strengthening intra-group bonds/collaboration, appropriately responding to various environmental changes, and addressing potential risks, so that each Group company can demonstrate its unique characteristics and strengths.

As a comprehensive financial group rooted in the region, the Group will aim to enhance its comprehensive financial strengths and achieve “further contributions to the regional economy” and “maximization of the corporate value of the Group” under the holding company structure.

Major subsidiaries

Company name	Address	Main business activity	Established	Capital (Millions of yen)	NNFH's share of voting rights (%)
The Nishi-Nippon City Bank, Ltd.	3-1-1, Hakata-ekimae, Hakata-ku, Fukuoka	Banking	December 1, 1944	85,745	100
The Bank of Nagasaki, Ltd.	3-14, Sakaemachi, Nagasaki	Banking	August 1, 1941	6,121	100
Nishi-Nippon Credit Guarantee Co.	3-1-1, Hakata-ekimae, Hakata-ku, Fukuoka	Credit guarantee	April 24, 1984	50	100
Kyushu Servicer	2-5-19, Hakata- ekihigashi, Hakata-ku, Fukuoka	Claims servicing	February 15, 2001	500	85
The Kyushu Card Co., Ltd.	4-3-18, Hakata-ekimae, Hakata-ku, Fukuoka	Credit cards, credit guarantee	July 3, 1980	100	82.1
Nishi-Nippon City Tokai Tokyo Securities Co., Ltd.	1-3-6, Hakata-ekimae, Hakata-ku, Fukuoka	Financial instruments exchange	September 30, 2009	3,000	60
NCB Research & Consulting Co., Ltd.	2-1, Kawabatomachi, Hakata-ku, Fukuoka	Research studies, management consultancy	December 5, 1986	20	40

(as of 31st March, 2017)

Group Management Philosophy

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

Group Brand Slogan

Sincere Relationships, Best Solutions

Meaning behind Our Logo



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

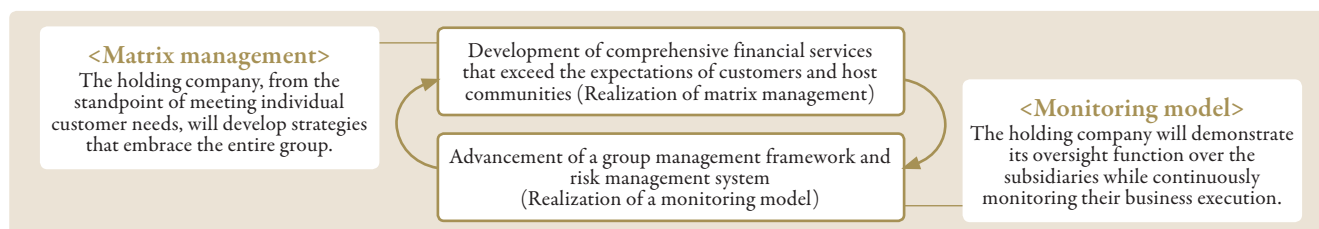
Strengths as a “Comprehensive Financial Group”

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



Group Management Strategy

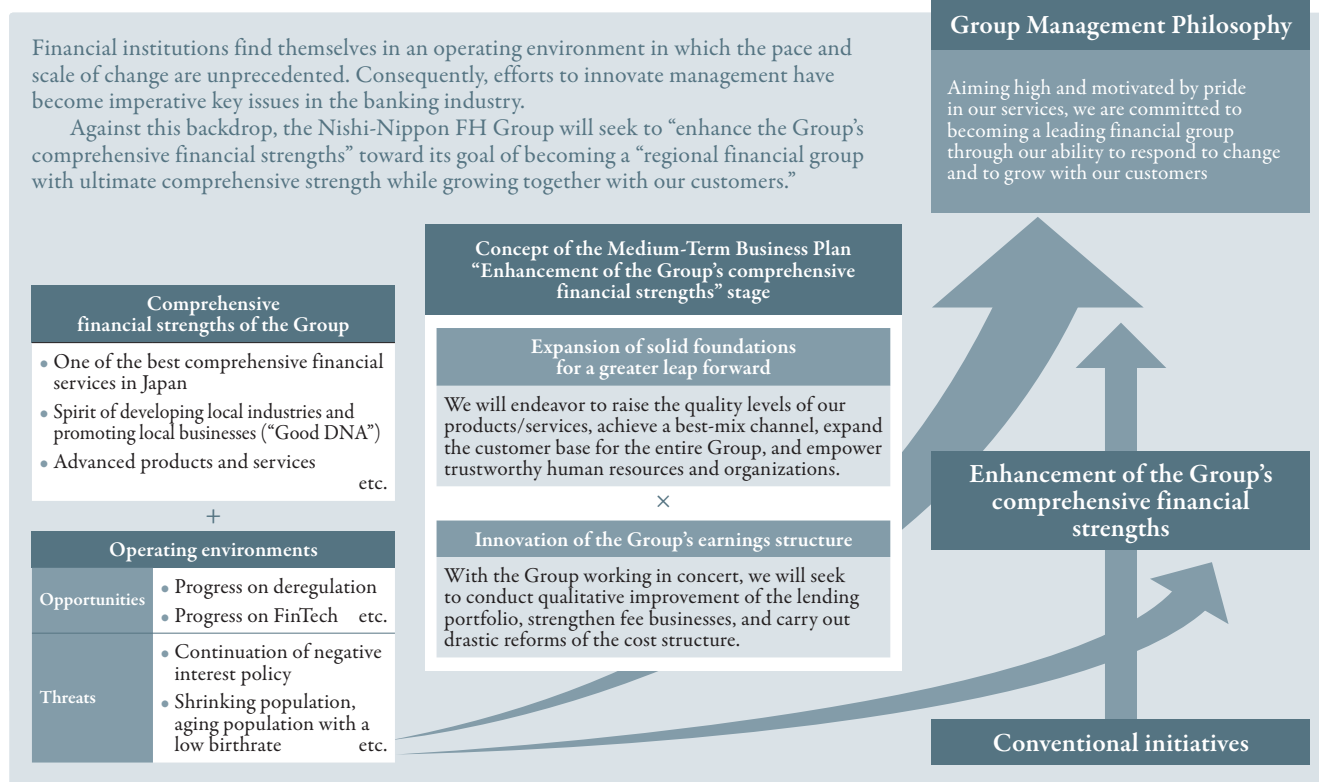
Under the holding company structure, we will promote two Group Management Strategies: “Development of comprehensive financial services that exceed the expectations of customers and host communities (Realization of matrix management)” and “Advancement of a group management framework and risk management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



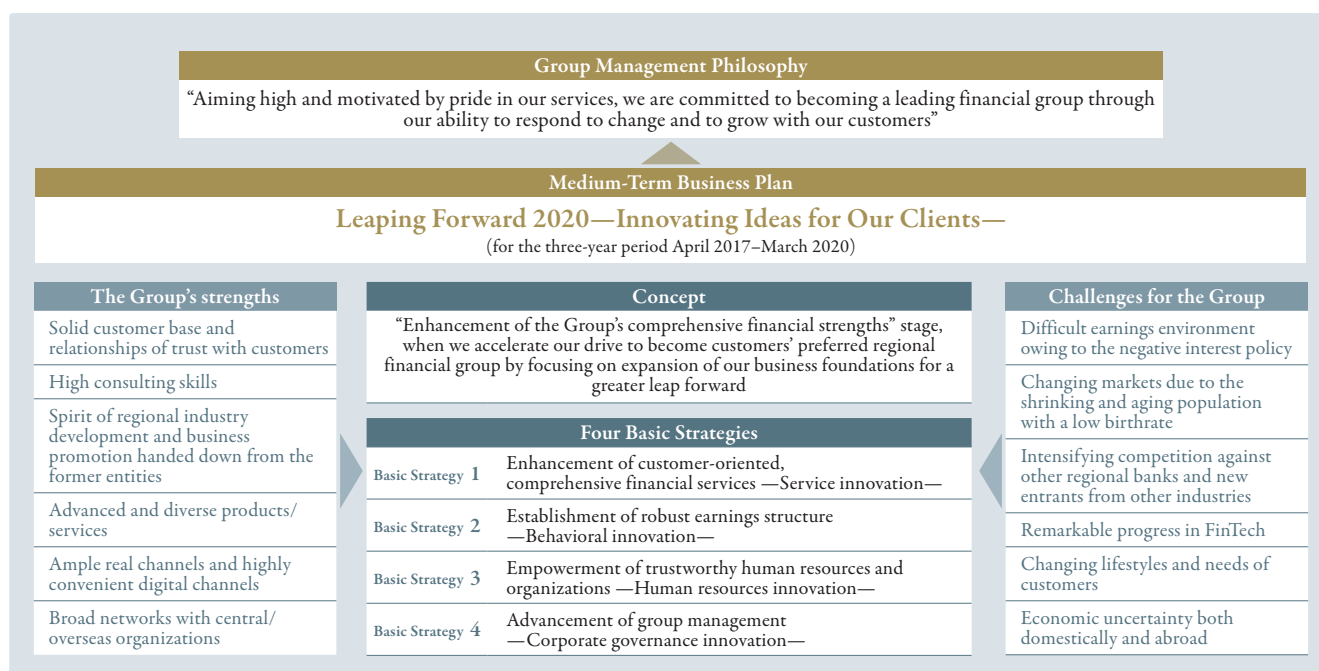
Outline of Medium-Term Business Plan

Guided by “Leaping Forward 2020—Innovating Ideas for Our Clients—,” which is the very first Medium-Term Business Plan for the Nishi-Nippon FH Group, we will pursue the Four Basic Strategies of innovating our services, behaviors, human resources, and corporate governance.

Concept



Framework

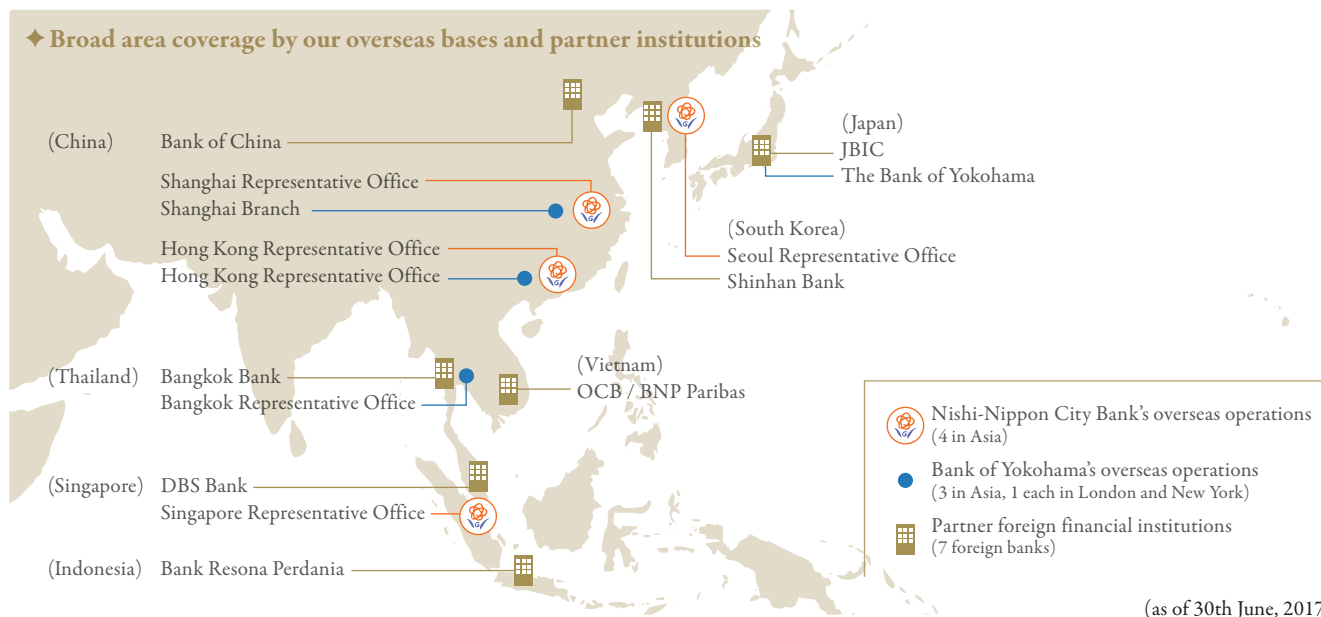


Providing Broader/Deeper Support for International Business

- In accordance with shrinking population in Japan, many Japanese companies are seeking opportunities overseas, but there are still quite a few issues that need to be addressed. The Nishi-Nippon FH Group has been providing finely tuned support for their international business activities to help companies deal with such issues.
- In March 2017, in response to the growing needs to expand into Southeast Asia, where a huge market has developed since the inauguration of the ASEAN Economic Community, Nishi-Nippon City Bank opened a representative office in Singapore.
- In order to foster greater support for Japanese SMEs in Asia in corporate banking account services, trade finance and capital market advisory solutions, the Nishi-Nippon City Bank signed a memorandum of understanding (MOU) with DBS Bank, Southeast Asia's largest bank in May 2017.
- In collaboration with international and domestic partner institutions, we will leverage our overseas operations and further strengthen intra-group collaborations so as to provide broader/deeper support for international business.



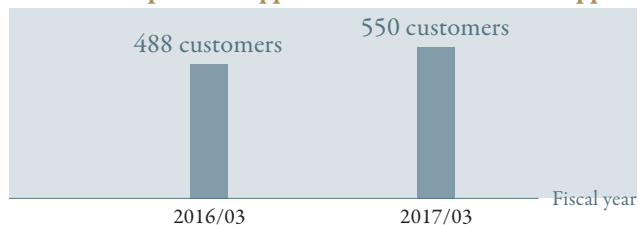
Multifaceted windows for international business support	
Nishi-Nippon City Bank	<ul style="list-style-type: none"> • International Business Support Office, International Business Div. Support for international business provided by personnel with professional skills and know-how • World Business Square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



◆ Major initiatives by Nishi-Nippon City Bank

Month/Year	Details
September 2016	Concluded Basic Agreement for Overseas Business Support Services with The Bank of Yokohama
March 2017	Opened a representative office in Singapore
May 2017	Signed Memorandum of Understanding regarding Business Tie-ups with DBS Bank, Southeast Asia's largest bank

◆ Number of Nishi-Nippon City Bank customers receiving overseas expansion support and overseas business support



Financial Results

On a consolidated basis, total income amounted to ¥145,938 million (\$1,300 million), primarily consisting of interest and dividend income as well as fees and commissions. Total expenses came to ¥113,516 million (\$1,011 million), mainly comprising interest expenses and general and administrative expenses. As a result, profit before income taxes was ¥32,422 million (\$288 million) and profit attributable to owners of parent was ¥22,214 million (\$198 million).

◆ Loan Balance and Deposit Balance

On a consolidated basis, total assets at the end of the fiscal year period under review were ¥9,486.4 billion (\$84 billion); total liabilities were ¥8,974.7 billion (\$79 billion); and net assets stood at ¥511.6 billion (\$4 billion).

The year-end balance of deposits, including certificates of deposits, was ¥8,019.0 billion (\$71 billion); the loan balance at the end of the fiscal year was ¥6,803.8 billion (\$60 billion); and the year-end balance of securities was ¥1,655.7 billion (\$14 billion).

◆ Enhancing Comprehensive Business Support

We worked to address the start-up funding and consulting needs of customers aiming to expand existing businesses or develop new businesses by providing financing or investing in business development funds. We also provide support in the form of information on subsidies and financing systems, as well as helping them to commercialize new technologies through collaborations with external institutions such as local universities, public finance institutions, and regional public bodies.

We also provided assistance to customers looking to further grow their businesses by expanding sales channels and/or investing in new business areas, including business matching, by holding business-matching sessions in Japan in conjunction with organizations such as regional public bodies and other financial institutions as well as overseas business-matching sessions in Shanghai and Hong Kong.

Other initiatives included providing support for companies looking to expand their business activities overseas through collaborations with financial institutions outside of Japan and external experts, and consulting services to identify and find solutions to obstacles that might be hindering the growth of customers' businesses.



Toward a Sounder Financial Position

Pursuit of a sounder financial position is ranked as one of the Group's key priorities. Accordingly, we are strengthening our capital adequacy and reducing non-performing loans (NPLs).

◆NPL Ratio Improved by 0.16 Percentage Points to 2.18% (On a Consolidated Basis)

The Group carries out write-offs and provision of reserves for its NPLs according to strict standards, based on self-assessment of assets. As of 31st March, 2017, the Group's NPL balance (subject to mandatory disclosure of claims under the Financial Reconstruction Law, consolidated basis) decreased by ¥2.3 billion year-on-year to ¥150.2 billion. As a result, the NPL ratio declined to 2.18%, compared to 2.34% at the end of the previous fiscal year.

The coverage ratio for loans subject to mandatory disclosure of claims under the Financial Reconstruction Law, mainly through collateral and guarantees, are 82.77% for The Nishi-Nippon City Bank, Ltd. and 90.68% for The

Bank of Nagasaki, Ltd. The coverage ratio for bankrupt and quasi-bankrupt assets remains at 100% for both The Nishi-Nippon City Bank, Ltd. and The Bank of Nagasaki, Ltd.

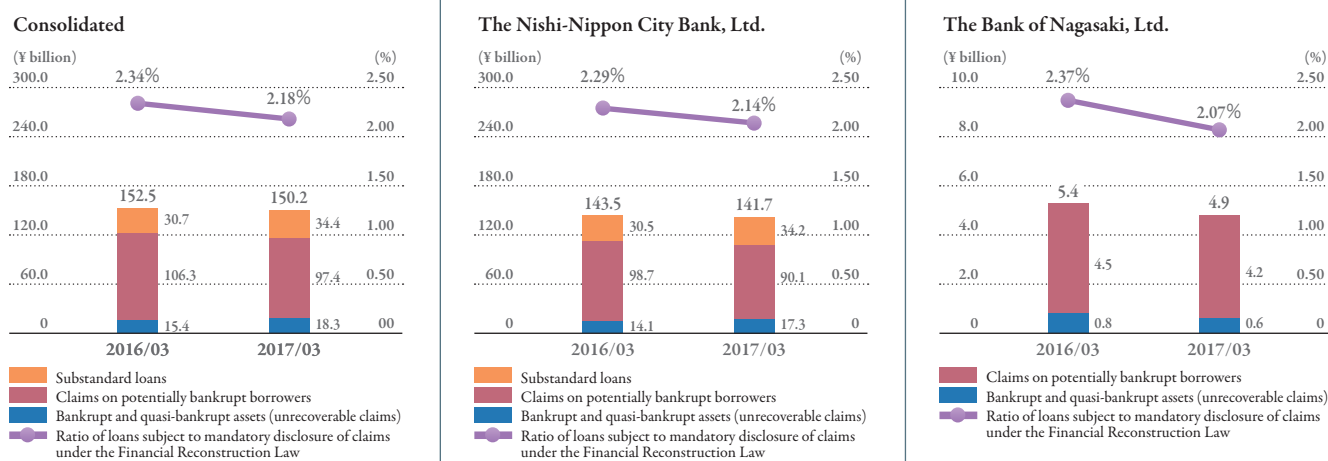
◆Capital Ratio at 9.53% (On a Consolidated Basis)*

The capital ratio as of 31st March, 2017, stood at 9.53% on a consolidated basis, 9.30% for The Nishi-Nippon City Bank, Ltd. and 8.65% for The Bank of Nagasaki, Ltd. These figures are significantly higher than the minimum level of 4.0% required of banks operating in Japan.

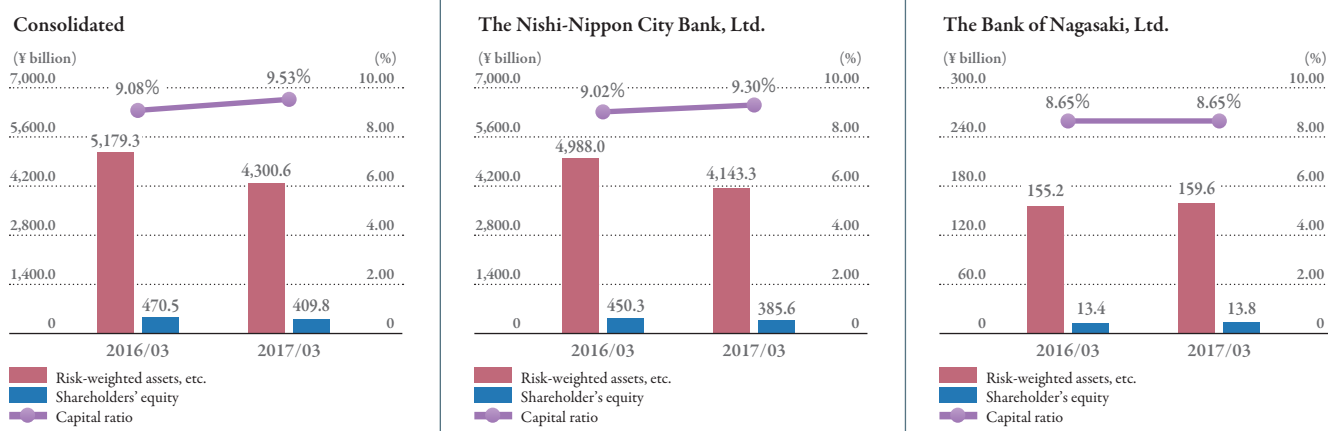
We will be implementing measures to further strengthen our capital adequacy and raise the capital ratio.

* Minimum level required for banks operating in Japan: 4%

Balance of NPLs and ratio of loans subject to mandatory disclosure of claims under the Financial Reconstruction Law



Capital ratio



- Notes: 1. The following approaches are adopted to calculate risk-weighted assets, etc. Amount of credit risk-weighted assets
 2017/03: Foundation Internal Ratings-Based (FIRB) approach for consolidated figures and The Nishi-Nippon City Bank, Ltd., Standardized Approach (SA)
 for The Bank of Nagasaki, Ltd.
 2016/03: Standardized Approach (SA)
 Operational risk equivalent amounts: The Standardized Approach (TSA)
2. The capital ratio (consolidated) for the fiscal year ended 31st March 2016 is for the Group in which The Nishi-Nippon City Bank, Ltd. is a parent company.

Outline of Banking Subsidiaries

As of 31st March, 2017, the Group has a nationwide network of 186 branches of The Nishi-Nippon City Bank, Ltd. (Head Office, 164 branches and 21 sub-branches) and 23 branches of The Bank of Nagasaki, Ltd. (Head Office and 22 branches), and four overseas representative offices of The Nishi-Nippon City Bank, Ltd., in Hong Kong, Seoul, Shanghai, and Singapore.

The Nishi-Nippon City Bank, Ltd.

▶ Business	Banking
▶ Established	December 1, 1944
▶ Headquarters	1-1, Hakata-ekimae 3-chome, Hakata-ku, Fukuoka 812-0011, Japan
▶ Number of Employees	3,492
▶ Number of Domestic Offices	186
▶ Number of Correspondent Banks	122

(As of 31st March, 2017)

Board of Directors

Chairman	Isao KUBOTA
President	Hikomichi TANIGAWA
Deputy Presidents	Seiji ISOYAMA Souichi KAWAMOTO Kiyota TAKATA
Representative Executive Director	Shigeru URAYAMA
Executive Directors	Hiroyuki IRIE Shinya HIROTA
Managing Directors	Hideyuki MURAKAMI Hiroyuki TAKEO Junichi SAKAGUCHI
Directors (Audit and Supervisory Committee Member)	Seiji INO Michiaki URIU (outside) Hiroshi FUJIOKA (outside)

(As of 30th June, 2017)

Financial Highlights

◆ The Nishi-Nippon City Bank, Ltd. Years ended 31st March, 2017 and 2016

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Total income	¥136,484	¥146,351	\$1,216,549
Total expenses	104,016	104,252	927,148
Income before income taxes	32,467	42,098	289,400
Net income	25,177	30,016	224,420

◆ The Nishi-Nippon City Bank, Ltd. As of 31st March, 2017 and 2016

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Total assets	¥9,227,333	¥8,831,638	\$82,247,376
Deposits	7,812,742	7,547,963	69,638,493
Loans and bills discounted	6,574,638	6,220,199	58,602,713
Securities	1,677,231	1,835,516	14,949,921
Capital stock	85,745	85,745	764,288
Total net assets	479,981	460,104	4,278,295

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

2. Conversion into U.S. dollars (solely for the convenience of readers outside Japan) has been made at the exchange rate of ¥112.19 to \$1.

The Bank of Nagasaki, Ltd.

▶ Business	Banking
▶ Established	November 11, 1912
▶ Headquarters	3-14, Sakaemachi, Nagasaki 850-0875, Japan
▶ Number of Employees	250
▶ Number of Domestic Offices	23

(As of 31st March, 2017)

Board of Directors and Audit and Supervisory Board Members

President	Kazuo YAMAMOTO
Managing Directors	Yutaka MATSUYAMA Tetsuhisa MATSUMOTO
Directors	Tsunehiro NAKAO Yasuyuki SHIGETOMI Hideyuki MURAKAMI
Audit and Supervisory Board Members	Kouji NOZU Hiromi UCHIO (outside) Mitsuru KAWATANI (outside)

(As of 30th June, 2017)

Financial Highlights

◆ The Bank of Nagasaki, Ltd. Years ended 31st March, 2017 and 2016

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Total income	¥5,416	¥5,412	\$48,276
Total expenses	4,840	4,888	43,144
Income before income taxes	575	524	5,132
Net income	440	441	3,926

◆ The Bank of Nagasaki, Ltd. As of 31st March, 2017 and 2016

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Total assets	¥273,033	¥267,694	\$2,433,669
Deposits	246,127	251,842	2,193,845
Loans and bills discounted	237,047	229,181	2,112,911
Securities	3	—	29
Capital stock	6,121	6,121	54,565
Total net assets	14,259	13,847	127,105

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

2. Conversion into U.S. dollars (solely for the convenience of readers outside Japan) has been made at the exchange rate of ¥112.19 to \$1.

Risk Management Systems

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

◆◆ Integrated Risk Management:

Integrated risk management refers to a series of practices designed to keep abreast of the general picture of risks that are unique to the Group's structure but which each Group company could not be expected to deal with individually, including those facing the entire Group and those spreading within it, and to assess and manage such risks by comparing them against the Group's management resilience (equity capital).

◆◆ Credit Risk Management:

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

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

◆◆ Market Risk Management:

Nishi-Nippon FH established a Market Risk Management Policy under its Risk Management Regulations to reinforce its market risk management system.

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

◆◆ Liquidity Risk Management:

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

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

◆◆ Operational Risk Management:

Nishi-Nippon FH established an Operational Risk Management Policy under its Risk Management Regulations, thereby strengthening its operational risk management system.

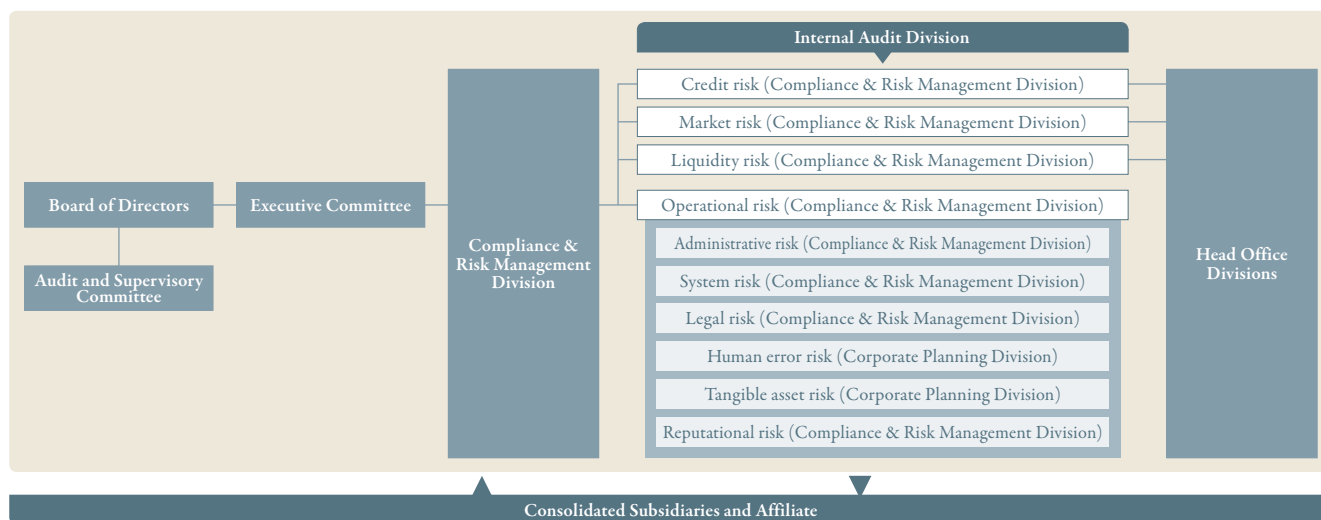
Given that operational risks are so extensive, varied, and diverse that they concern every single operation and section and thus must be avoided as far as possible in business management, the Group has developed an organizational setup and system that properly manage such risks, in order to prevent them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

◆◆ Crisis Management:

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

◆◆ Status of Internal Control System Development:

In accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act, Nishi-Nippon FH passed a resolution in a Board of Directors meeting on its basic policy concerning development of a system for ensuring operational adequacy (Basic Policy on the Development of the Internal Control System), and it strives to develop the internal control system and enhance its effectiveness accordingly.



Nishi-Nippon FH established a Compliance & Risk Management Division to manage all matters concerning credit 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.

Financial Section

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The Bank of Nagasaki, Ltd.

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Consolidated Balance Sheet

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries 31st March, 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
Assets:		
Cash and due from banks (Notes 6 and 27)	¥807,097	\$7,194,019
Call loans and bills bought	128	1,147
Commercial paper and other debt purchased	33,606	299,545
Trading account assets (Notes 3 and 28)	869	7,749
Money held in trust (Note 29)	850	7,576
Securities (Notes 4, 6, 27 and 28)	1,655,774	14,758,662
Loans and bills discounted (Notes 5, 7 and 27)	6,803,828	60,645,583
Foreign exchange assets (Note 8)	7,539	67,207
Other assets (Notes 6, 9)	55,567	495,300
Tangible fixed assets (Notes 10 and 17)	121,035	1,078,845
Intangible fixed assets	5,704	50,848
Asset for retirement benefits (Note 31)	12,328	109,890
Deferred tax assets (Note 32)	952	8,490
Customers' liabilities for acceptances and guarantees	26,123	232,852
Reserve for possible loan losses (Note 27)	(44,339)	(395,222)
Reserve for devaluation of securities	(618)	(5,511)
Total assets	¥9,486,448	\$84,556,986
Liabilities and net assets:		
Liabilities		
Deposits (Notes 6, 11, and 27)	¥8,019,012	\$71,477,072
Call money and bills sold (Note 27)	59,924	534,134
Payables under repurchase agreements (Notes 6 and 27)	69,174	616,583
Guarantee deposits received under securities lending transactions (Note 6)	18,714	166,807
Borrowed money (Notes 6, 13 and 27)	630,662	5,621,378
Foreign exchange liabilities (Note 8)	89	798
Bonds (Notes 12 and 27)	30,000	267,403
Other liabilities (Note 14)	91,616	816,615
Liability for retirement benefits (Note 31)	811	7,229
Reserve for retirement benefits for directors and corporate auditors	248	2,214
Reserve for reimbursement of deposits	2,420	21,575
Reserve for other contingent losses	1,497	13,348
Reserve under the special laws	7	63
Deferred tax liabilities (Note 32)	9,210	82,097
Deferred tax liabilities on revaluation of premises (Note 17)	15,256	135,988
Acceptances and guarantees	26,123	232,852
Total liabilities	8,974,769	79,996,165
Net assets:		
Capital stock (Note 15)	50,000	445,672
Capital surplus	141,868	1,264,537
Earned surplus	219,793	1,959,115
Treasury stock (Note 16)	(15,829)	(141,097)
Total shareholders' equity	395,831	3,528,228
Net unrealized gains on securities available for sale, net of taxes (Note 28)	62,122	553,725
Net deferred gains (losses) on hedging instruments, net of taxes	(384)	(3,424)
Revaluation of premises, net of taxes (Note 17)	30,400	270,975
Retirement benefits liability adjustments, net of taxes (Note 31)	(192)	(1,714)
Total accumulated other comprehensive income	91,946	819,561
Non-controlling interests	23,899	213,031
Total net assets (Note 38)	511,678	4,560,821
Total liabilities and net assets	¥9,486,448	\$84,556,986

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries Year ended 31st March, 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
Income:		
Interest and dividend income:		
Interest on loans and discounts	¥85,498	\$762,088
Interest and dividends on securities	14,274	127,238
Other interest income (Note 18)	1,498	13,353
Fees and commissions	31,745	282,958
Trading income	1,222	10,894
Other operating income (Note 19)	2,667	23,772
Other income (Note 20)	9,032	80,510
Total income	145,938	1,300,816
Expenses:		
Interest expenses:		
Interest on deposits	3,718	33,142
Interest on call money and bills sold	382	3,406
Interest on payables under repurchase agreements	659	5,881
Interest on borrowings	405	3,609
Other interest expenses (Note 21)	1,162	10,358
Fees and commissions	10,987	97,934
Other operating expenses (Note 22)	2,023	18,033
General and administrative expenses (Note 23)	85,608	763,071
Other expenses (Note 24)	8,569	76,386
Total expenses	113,516	1,011,824
Profit (loss) before income taxes	32,422	288,992
Income taxes (Note 32)		
Current	9,979	88,955
Deferred	(881)	(7,853)
Total income taxes	9,098	81,102
Profit (loss)	23,323	207,889
Profit (loss) attributable to:		
Non-controlling interests	1,108	9,884
Owners of parent (Note 38)	¥22,214	\$198,004

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries Year ended 31st March, 2017

	Millions of yen		Thousands of
	2017		U.S. dollars (Note 1)
	2017		2017
Profit (loss)	¥23,323		\$207,889
Other comprehensive income:			
Net unrealized gains on securities available for sale	(1,033)		(9,212)
Net deferred gains (losses) on hedging instruments	626		5,588
Retirement benefits liability adjustments	5,830		51,973
Total other comprehensive income (Note 25)	¥5,424		\$48,350
Comprehensive income	¥28,747		\$256,239
Comprehensive income attributable to owners of parent	¥27,590		\$245,930
Comprehensive income attributable to non-controlling interests	¥1,156		\$10,308

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, 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
Shareholders' equity		
Capital stock (Note 15)		
Balance at beginning of the year	¥85,745	\$764,288
Changes during the year		
Changes due to share transfer	(35,745)	(318,616)
Total changes during the year	(35,745)	(318,616)
Balance at end of the year	¥50,000	\$445,672
Capital surplus		
Balance at beginning of the year	¥90,531	\$806,950
Changes during the year		
Changes due to share transfer	51,567	459,642
Sale of treasury stock	(2)	(22)
Retirement of treasury stock	(228)	(2,033)
Total changes during the year	51,336	457,586
Balance at end of the year	¥141,868	\$1,264,537
Earned surplus		
Balance at beginning of the year	¥207,138	\$1,846,321
Changes during the year	(4,697)	
Cash dividends paid (Note 39)	22,214	(41,872)
Profit (loss) attributable to owners of parent	(4,968)	198,004
Retirement of treasury stock	106	(44,286)
Reversal of revaluation of premises	12,654	949
Total changes during the year	12,654	112,794
Balance at end of the year	¥219,793	\$1,959,115
Treasury stock (Note 16)		
Balance at beginning of the year	(¥4,189)	(\$37,340)
Changes during the year		
Changes due to share transfer	(15,821)	(141,025)
Acquisition of treasury stock	(1,022)	(9,113)
Sale of treasury stock	6	61
Retirement of treasury stock	5,196	46,320
Total changes during the year	(11,640)	(103,757)
Balance at end of the year	(¥15,829)	(\$141,097)
Total shareholders' equity		
Balance at beginning of the year	¥379,226	\$3,380,220
Changes during the year		
Cash dividends paid (Note 39)	(4,697)	(41,872)
Profit (loss) attributable to owners of parent	22,214	198,004
Acquisition of treasury stock	(1,022)	(9,113)
Sale of treasury stock	4	39
Reversal of revaluation of premises	106	949
Total changes during the year	16,605	148,007
Balance at end of the year	¥395,831	\$3,528,228

Consolidated Statement of Changes in Net Assets

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries Year ended 31st March, 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
Accumulated other comprehensive income		
Net unrealized gains on securities available for sale, net of taxes		
Balance at beginning of the year	¥63,203	\$563,361
Changes during the year		
Net changes in items other than shareholders' equity	(1,081)	(9,636)
Total changes during the year	(1,081)	(9,636)
Balance at end of the year	¥62,122	\$553,725
Net deferred gains (losses) on hedging instruments, net of taxes		
Balance at beginning of the year	(¥1,011)	(\$9,013)
Changes during the year		
Net changes in items other than shareholders' equity	626	5,588
Total changes during the year	626	5,588
Balance at end of the year	(¥384)	(\$3,424)
Revaluation of premises, net of taxes		
Balance at beginning of the year	¥30,507	\$271,925
Changes during the year		
Net changes in items other than shareholders' equity	(106)	(949)
Total changes during the year	(106)	(949)
Balance at end of the year	¥30,400	\$270,975
Retirement benefits liability adjustment		
Balance at beginning of the year	(¥6,023)	(\$53,688)
Changes during the year		
Net changes in items other than shareholders' equity	5,830	51,973
Total changes during the year	5,830	51,973
Balance at end of the year	(¥192)	(\$1,714)
Total accumulated other comprehensive income		
Balance at beginning of the year	¥86,676	\$772,584
Changes during the year		
Net changes in items other than shareholders' equity	5,270	46,976
Total changes during the year	5,270	46,976
Balance at end of the year	¥91,946	\$819,561
Non-controlling interests		
Balance at beginning of the year	¥21,927	\$195,454
Changes during the year		
Net changes in items other than shareholders' equity	1,971	17,576
Total changes during the year	1,971	17,576
Balance at end of the year	¥23,899	\$213,031
Total net assets		
Balance at beginning of the year	¥487,831	\$4,348,259
Changes during the year		
Cash dividends paid (Note 39)	(4,697)	(41,872)
Profit (loss) attributable to owners of parent	22,214	198,004
Acquisition of treasury stock	(1,022)	(9,113)
Sale of treasury stock	4	39
Reversal of revaluation of premises	106	949
Net changes in items other than shareholders' equity	7,242	64,553
Total changes during the year	23,847	212,561
Balance at end of the year	¥511,678	\$4,560,821

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries Year ended 31st March, 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
I. Cash flows from operating activities:		
Profit (loss) before income taxes	¥32,422	\$288,992
Depreciation	6,615	58,962
Losses on impairment of fixed assets	974	8,688
Amortization of goodwill	189	1,685
Equity in gains of nonconsolidated subsidiaries and affiliate	(111)	(991)
Increase in reserve for possible loan losses	2,623	23,383
Increase in reserve for devaluation of securities	0	2
Increase in asset for retirement benefits	(6,972)	(62,147)
Decrease in liability for retirement benefits	(3,534)	(31,506)
Increase in reserve for retirement benefits for directors and corporate auditors	30	273
Increase in reserve for reimbursement of deposits	246	2,196
Decrease in reserve for other contingent losses	(0)	(1)
Income from lending activities	(101,271)	(902,680)
Funding costs	6,327	56,398
Gains on securities	(4,608)	(41,074)
Gains on money held in trust	(3)	(29)
Net foreign exchange gains	(1,293)	(11,533)
Losses on sale of tangible fixed assets	468	4,174
Net decrease in trading account assets	414	3,691
Net increase in loans and bills discounted	(351,874)	(3,136,414)
Net increase in deposits	232,344	2,070,992
Net increase in certificates of deposit	23,330	207,954
Net increase in borrowed money, exclusive of subordinated borrowings	124,392	1,108,763
Net decrease in due from banks, exclusive of central bank	1,107	9,869
Net increase in call loans	(1,236)	(11,017)
Net increase in call money	21,601	192,539
Net decrease in guarantee deposits received under securities lending transactions	(1,178)	(10,505)
Net decrease in foreign exchange assets	744	6,634
Net increase in foreign exchange liabilities	15	137
Interest and dividends received	104,052	927,463
Interest paid	(6,766)	(60,315)
Others	2,796	24,922
Subtotal	81,843	729,509
Income taxes paid	(14,869)	(132,539)
Net cash provided by operating activities	¥66,974	\$596,970

Consolidated Statement of Cash Flows

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries Year ended 31st March, 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2017	2017
II. Cash flows from investing activities:		
Payments for purchase of securities	(¥206,745)	(\$1,842,813)
Proceeds from sale of securities	83,218	741,761
Proceeds from redemption of securities	282,300	2,516,269
Payments for increase in money held in trust	(450)	(4,017)
Proceeds from decrease in money held in trust	1,603	14,290
Payments for purchase of tangible fixed assets	(11,879)	(105,886)
Proceeds from sale of tangible fixed assets	88	789
Payments for purchase of intangible fixed assets	(1,417)	(12,630)
Net cash provided by investing activities	¥146,717	\$1,307,762
III. Cash flows from financing activities:		
Redemption of subordinated bonds and bonds with stock subscription rights	(18,800)	(167,572)
Dividends paid	(4,697)	(41,869)
Dividends paid to non-controlling shareholders	(684)	(6,102)
Payments for acquisition of treasury stock	(1,022)	(9,113)
Proceeds from sale of treasury stock	4	39
Net cash used in financing activities	(¥25,199)	(\$224,618)
IV. Effects of changes in exchange rates on cash and cash equivalents	(¥5)	(\$45)
V. Net increase in cash and cash equivalents	¥188,486	\$1,680,068
VI. Cash and cash equivalents at beginning of the year	¥615,274	\$5,484,214
VII. Cash and cash equivalents at end of the year (Note 37)	¥803,760	\$7,164,283

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.

As the Company was established on 3rd October, 2016, the consolidated financial statements and the notes to the consolidated financial statements do not include the information for the year ended 31st March, 2016.

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 ¥112.19= U.S.\$ 1.00, the exchange rate on 31st March, 2017, has been used in translation.

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

(a) 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 year ended 31st March, 2017 is as follows:

	2017
i) Number of consolidated subsidiaries:	8
ii) Number of non-consolidated subsidiaries:	1

i) The Company was established on 3rd October, 2016, as a sole parent company through the share transfer by The Nishi-Nippon City Bank, Ltd. ("Nishi-Nippon City Bank"), the Bank of Nagasaki, Ltd. and Nishi-Nippon Credit Guarantee Co. in which the three companies became the wholly-owned subsidiaries of the Company. In addition, the Company acquired directly from Nishi-Nippon City Bank the stocks of its consolidated subsidiaries upon the share transfer.

Accordingly, the above wholly-owned three subsidiaries and the consolidated subsidiaries of Nishi-Nippon City Bank were included in scope of consolidation in 2017.

ii) NCB Kyushu Rokujika Ouen Investment, Limited Partnership was excluded from consolidation due to its insignificance in 2017.

(b) Application of Equity Method

The number of non-consolidated subsidiaries and affiliates, which are accounted for by the equity method, for the year ended 31st March, 2017 is as follows:

	2017
i) Number of non-consolidated subsidiaries accounted for by the equity method:	0
ii) Number of affiliates accounted for by the equity method:	1
iii) Number of non-consolidated subsidiaries not accounted for by the equity method:	1
iv) Number of affiliates not accounted for by the equity method:	0

(c) Fiscal Years of Consolidated Subsidiaries

The closing dates of consolidated subsidiaries in 2017 are as follows:

	2017
January 14 *	1
March 31	7

*A subsidiary with the closing date of January 14 is consolidated based on the financial statements at the provisional closing of accounts performed as of 31st March. Other subsidiaries are consolidated based on the financial statements at their respective closing dates.

(d) 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.

(e) 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.

(f) Derivatives

Derivatives held or written are stated at fair value.

(g) 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.

(h) 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).

(i) 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.

(j) Accounting Treatment for Deferred Assets

Deferred assets are charged to expenses when incurred.

(k) 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 other loans, the reserve for possible loan losses is provided at an amount based on the anticipated loss rates calculated from the actual losses for a certain period.

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 amount of such direct write-offs at 31st March, 2017 was ¥5,130 million (\$45,731 thousand).

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.

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.

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) *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 subsidiaries in Japan 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.

(q) *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.

(r) *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.

(s) *Accounting for Leases*

Finance lease transactions which were initially engaged by the domestic 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.

(t) *Hedge Accounting*

① 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.

② Hedge accounting for foreign exchange rate risk

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

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

③ Internal contract

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

(u) Amortization of Goodwill

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

(v) 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.

(w) 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 domestic consolidated subsidiaries.

(x) Application of the Consolidated Tax Payment System

Effective from the year ended 31st March, 2017, the Company and some of its consolidated subsidiaries have adopted the consolidated tax payment system, where the Company is designated as a parent company.

(Additional information)

The Company and its consolidated subsidiaries have adopted the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26 of 28th March, 2016) from the fiscal year ended 31st March, 2017.

3. Trading Account Assets	Trading account assets at 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Trading securities	¥869	\$7,749
Other trading assets	—	—
Total	¥869	\$7,749

4. Securities	Securities at 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Japanese government bonds	¥596,276	\$5,314,883
Japanese municipal bonds	114,840	1,023,623
Corporate bonds (including government-guaranteed bonds)*	484,892	4,322,064
Stock**	129,149	1,151,169
Other securities***	330,615	2,946,922
Total	¥1,655,774	\$14,758,662

* Corporate bonds included bonds offered through private placement. The guarantee obligation of Nishi-Nippon City Bank for such private placement bonds at 31st March, 2017 was ¥4,266 million (\$38,024 thousand).

** Stock included stock of affiliates of ¥548 million (\$4,887 thousand) at 31st March, 2017.

*** Other securities included investments in non-consolidated subsidiaries of ¥241 million (\$2,155 thousand) at 31st March, 2017.

5. Loans and Bills Discounted	Loans and bills discounted at 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Bills discounted*	¥25,862	\$230,519
Loans on notes	223,452	1,991,730
Loans on deed	5,894,192	52,537,590
Overdraft	660,321	5,885,743
Total	¥6,803,828	\$60,645,583

* Bills discounted are recorded as cash lending / borrowing transactions in accordance with the "Accounting and Auditing Treatments for Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24). The consolidated subsidiaries engaged in the banking business have right to sell or collateralize such bills at its discretion. Total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥26,094 million (\$232,590 thousand) at 31st March, 2017.

Non-performing loans included in the loans at 31st March, 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Loans to legally bankrupt entities**	¥1,778	\$15,853
Delinquent loans***	113,541	1,012,046
Loans past due for three months or more****	936	8,351
Loans with altered lending conditions*****	33,360	297,361
Total	¥149,617	\$1,333,612

** 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, 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Assets pledged as collateral		
Cash and due from banks	¥40	\$356
Securities	802,332	7,151,547
Total	¥802,372	\$7,151,904
Liabilities secured by the above assets		
Deposits	¥18,514	\$165,025
Payables under repurchase agreements	69,174	616,583
Guarantee deposits received under securities lending transactions	18,714	166,807
Borrowed money	621,618	5,540,762

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, 2017:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Cash and due from bank	¥2	\$17
Securities	65,892	587,330

Additionally, the following was included in other assets at 31st March, 2017:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Cash collateral paid for financial instruments	¥9,716	\$86,604
Deposits included in other assets	2,406	21,448

- 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, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Aggregate amount under commitment contracts not yet drawn down	¥2,046,944	\$18,245,342
Of the above amount, those with original maturity of less than one year or cancellable at any time without penalty	1,993,150	17,765,843

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, 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Assets:		
Foreign exchange bills bought	¥232	\$2,070
Foreign exchange bills receivable	289	2,582
Due from foreign banks (their accounts)	—	—
Due from foreign banks (our accounts)	7,017	62,553
Total	¥7,539	\$67,207
Liabilities:		
Foreign exchange bills sold	¥13	\$122
Foreign exchange bills payable	75	676
Total	¥89	\$798

- 9. Other Assets** Other assets at 31st March, 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Domestic exchange settlement account*	¥12	\$113
Accrued income	6,538	58,276
Prepaid expenses	70	628
Financial derivative products	6,609	58,912
Cash collateral paid for financial instruments	9,716	86,604
Other	32,621	290,766
Total	¥55,567	\$495,300

* 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, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Land	¥75,828	\$675,897
Buildings	29,897	266,489
Construction in progress	3,058	27,264
Leased assets	191	1,706
Other tangible fixed assets	12,059	107,487
Total	¥121,035	\$1,078,845

* The amount of accumulated depreciation for tangible fixed assets at 31st March, 2017 was ¥71,380 million (\$636,242 thousand).

The accelerated depreciation entry amount for tangible fixed assets at 31st March, 2017 is as follows:

Millions of yen	Thousands of U.S. dollars
2017	2017
¥7,440	\$66,322

11. Deposits	Deposits at 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Current deposits	¥358,781	\$3,197,982
Ordinary deposits	4,113,424	36,664,809
Deposits at notice	15,145	134,997
Time deposits	2,990,162	26,652,667
Negotiable certificates of deposit	420,959	3,752,200
Other deposits	120,538	1,074,415
Total	¥8,019,012	\$71,477,072

12. Bonds	Bonds at 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Bonds:		
2.70% Japanese yen subordinated bonds due 2017	¥10,000	\$89,134
0.67% Japanese yen callable subordinated bonds due 2023	10,000	89,134
0.87% Japanese yen callable subordinated bonds due 2025	10,000	89,134
Total	¥30,000	\$267,403

13. Borrowed Money

The weighted average interest rates on borrowed money at 31st March, 2017 is 0.07%.

The aggregate annual maturity amounts within five years of borrowed money after 31st March, 2017 are as follows:

Year ending 31st March	Millions of yen	Thousands of U.S. dollars
2018	¥36,381	\$324,283
2019	50,779	452,618
2020	95,937	855,133
2021	447,263	3,986,662
2022	131	1,176

14. Other Liabilities	Other liabilities at 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Domestic exchange settlement account	¥36	\$325
Accrued income taxes	2,879	25,663
Accrued expenses	8,620	76,837
Unearned income	2,777	24,756
Financial derivative products	6,739	60,072
Lease obligations	226	2,020
Cash collateral received for financial instruments	546	4,866
Asset retirement obligations	849	7,572
Others	68,940	614,499
Total	¥91,616	\$816,615

15. Capital Stock	Capital stock during the year ended 31st March, 2017 consisted of the following:		
	Common stock	Capital stock	
	Issued shares	Millions of yen	Thousands of U.S. dollars
1st April, 2016	796,732,552	¥85,745	\$764,288
Increase	—	—	—
Decrease*	617,135,597	(35,745)	(318,616)
31st March, 2017	179,596,955	¥50,000	\$445,672

* The decrease of 617,135,597 shares is due to retirement of treasury shares of 16,813,800 and a decrease resulting from the share transfer of 600,321,797.

16. Treasury Stock	Treasury stock during the year ended 31st March, 2017 consisted of the following:		
	Common stock	Treasury stock	
	Number of shares	Millions of yen	Thousands of U.S. dollars
1st April, 2016	11,734,569	(¥4,189)	(\$37,340)
Increase*	28,742,222	(16,844)	(150,139)
Decrease*	16,835,565	5,203	46,382
31st March, 2017	23,641,226	(¥15,829)	(\$141,097)

* The increase of 28,742,222 shares is due to an increase resulting from the share transfer of 23,529,205, acquisition of treasury shares of 5,131,000 and purchase of fractional shares of 82,017.
The decrease of 16,835,565 shares is due to retirement of treasury shares of 16,813,800 and sale of fractional shares of 21,765.

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 excess of the aggregate market value of land for business use revalued in accordance with Article 10 of the Law Concerning Land Revaluation over the book value after revaluation at 31st March, 2017 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
	¥14,774	\$131,691

18. Other Interest Income Other interest income for the year ended 31st March, 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Interest on call loans and bills bought	¥8	\$76
Interest on deposits with banks	191	1,703
Others	1,298	11,572
Total	¥1,498	\$13,353

19. Other Operating Income Other operating income for the year ended 31st March, 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Gains on foreign exchange transactions	¥1,293	\$11,533
Gains on sale of bonds	693	6,181
Others	679	6,058
Total	¥2,667	\$23,772

20. Other Income Other income for the year ended 31st March, 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Gains on sale of stock and other securities	¥5,720	\$50,990
Gains on money held in trust	3	29
Equity in earnings of affiliates	111	991
Gains on disposition of fixed assets	75	674
Recoveries of written-off claims	240	2,140
Rental income on land and buildings	382	3,410
Others	2,498	22,272
Total	¥9,032	\$80,510

21. Other Interest Expenses	Other interest expenses for the year ended 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Bonds	¥531	\$4,734
Securities lending transactions	27	241
Others	603	5,383
Total	¥1,162	\$10,358

22. Other Operating Expenses	Other operating expenses for the year ended 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Losses on sale of bonds	¥1,249	\$11,133
Losses on redemption of bonds	148	1,319
Losses on devaluation of bonds	29	266
Expenses for derivatives other than trading derivatives	596	5,313
Total	¥2,023	\$18,033

23. General and Administrative Expenses	General and administrative expenses for the year ended 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Salaries and allowances	¥32,685	\$291,340
Employee retirement benefits	3,079	27,447
Retirement benefits for directors and corporate auditors	45	402
Depreciation	6,615	58,962
Rental expenses	3,548	31,628
Taxes	5,321	47,435
Others	34,313	305,853
Total	¥85,608	\$763,071

24. Other Expenses	Other expenses for the year ended 31st March, 2017 consisted of the following:	
	Millions of yen	Thousands of U.S. dollars
	2017	2017
Provision for possible loan losses	¥2,553	\$22,758
Losses on write-offs of claims	1,510	13,466
Losses on sale of stock and other securities	300	2,680
Losses on devaluation of stock and other securities	78	697
Losses on money held in trust	0	0
Losses on disposition of tangible fixed assets	543	4,848
Impairment losses	974	8,688
Losses on sale of loans	208	1,854
Others	2,399	21,391
Total	¥8,569	\$76,386

25. Other Comprehensive Income	Reclassification adjustments and tax effects related to other comprehensive income for the year ended 31st March, 2017 are as follows:	
	Millions of yen 2017	Thousands of U.S. dollars 2017
Net unrealized gains on securities available for sale:		
Amount arising during the year	¥4,078	\$36,349
Reclassification adjustments	(7,396)	(65,928)
Amount before tax effect	(3,318)	(29,578)
Tax effect	2,284	20,366
Net unrealized gains on securities available for sale	(¥1,033)	(\$9,212)
Net deferred gains (losses) on hedging instruments:		
Amount arising during the year	¥40	\$365
Reclassification adjustments	861	7,675
Amount before tax effect	902	8,040
Tax effect	(275)	(2,451)
Net deferred gains (losses) on hedging instruments	¥626	\$5,588
Retirement benefits liability adjustments		
Amount arising during the year	¥6,062	\$54,041
Reclassification adjustments	2,324	20,722
Amount before tax effect	8,387	74,763
Tax effect	(2,556)	(22,789)
Retirement benefits liability adjustments	¥5,830	\$51,973
Total other comprehensive income	¥5,424	\$48,350

26. Lease Transactions

(1) Finance leases

Information on finance lease transactions which are accounted for as operating leases at 31st March, 2017 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Amounts equivalent to acquisition cost		
Tangible fixed assets	¥1,867	\$16,647
Total	¥1,867	\$16,647
Amounts equivalent to accumulated depreciation		
Tangible fixed assets	¥1,450	\$12,930
Total	¥1,450	\$12,930
Amounts equivalent to carrying value		
Tangible fixed assets	¥417	\$3,717
Total	¥417	\$3,717

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, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Future finance lease payments		
Due within one year	¥77	\$688
Due after one year	339	3,029
Total	¥417	\$3,717

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 year ended 31st March, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Total lease payments during the year	¥77	\$688
The amount equivalent to depreciation expenses *	77	688

* 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, 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Future operating lease payments		
Due within one year	¥383	\$3,416
Due after one year	671	5,985
Total	¥1,054	\$9,401

27. Financial Instruments

(1) Matters related to status of financial instruments

1. Policies for financial instrument

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.

2. 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 callable time deposits, 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.

3. Risk management system for financial instrument

① 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 credit 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.

② 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, 2017 was ¥31,581 million (\$281,498 thousand).

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.

③ Liquidity risk management

The Group recognizes the liquidity risk as one of the most significant risks, because there are concern over potential business failures and systemic risks when the liquidity risk rises.

The Group provide 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.

④ 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.

4. 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 sheet at 31st March, 2017 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, 2017>

	Millions of yen		Valuation differences
	Carrying value	Fair value	
Assets:			
(1) Cash and due from banks	¥807,097	¥807,097	¥ —
(2) Securities:			
Held-to-maturity securities	69,130	70,827	1,697
Available-for-sale securities	1,569,923	1,569,923	—
(3) Loans and bills discounted	6,803,828		
Reserve for possible loan losses*	(41,860)		
	6,761,967	6,878,601	116,634
Total assets	¥9,208,117	¥9,326,449	¥118,331
Liabilities:			
(1) Deposits	¥8,019,012	¥8,019,719	¥707
(2) Call money and bills sold	59,924	59,924	—
(3) Payables under repurchase agreements	69,174	69,174	—
(4) Guarantee deposits received under securities lending transactions	18,714	18,714	—
(5) Borrowed money	630,662	625,411	(5,251)
(6) Bonds	30,000	30,156	156
Total liabilities	¥8,827,488	¥8,823,100	(¥4,388)
Derivatives**			
Hedge accounting not applied	¥273	¥273	¥ —
Hedge accounting applied	(809)	(809)	—
Total derivatives	(¥536)	(¥536)	¥ —

	Thousands of U.S. dollars		Valuation differences
	Carrying value	Fair value	
Assets:			
(1) Cash and due from banks	\$7,194,019	\$7,194,019	—
(2) Securities:			
Held-to-maturity securities	616,187	631,313	15,126
Available-for-sale securities	13,993,434	13,993,434	—
(3) Loans and bills discounted	60,645,583		
Reserve for possible loan losses*	(373,123)		
	60,272,460	61,312,074	1,039,613
Total assets	\$82,076,101	\$83,130,841	\$1,054,740
Liabilities:			
(1) Deposits	\$71,477,072	71,483,375	\$6,302
(2) Call money and bills sold	534,134	534,134	—
(3) Payables under repurchase agreements	616,583	616,583	—
(4) Guarantee deposits received under securities lending transactions	166,807	166,807	—
(5) Borrowed money	5,621,378	5,574,569	(46,808)
(6) Bonds	267,403	268,794	1,390
Total liabilities	\$78,683,381	\$78,644,264	(\$39,116)
Derivatives**			
Hedge accounting not applied	\$2,433	\$2,433	\$ —
Hedge accounting applied	(7,210)	(7,210)	—
Total derivatives	(\$4,777)	(\$4,777)	\$ —

* 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:

(1) 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.

(2) 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."

(3) 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:

(1) 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.

(2) Call money and bills sold, (3) Payables under repurchase agreements, and (4) 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.

(5) 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.

(6) Bonds

The fair value of bonds is based on the Reference Price (Yields) for OTC Bond Transactions published by the Japan Securities Dealers Association or the price quoted by the securities company.

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: (2) Available-for-sale securities" presented in "Estimated fair value of financial instruments."

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Non-listed stocks	¥14,420	\$128,533
Investments in partnerships	2,300	20,507
Total	¥16,720	\$149,041

- 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 year ended 31st March, 2017, impairment losses of ¥78 million (\$697 thousand) were recorded for non-listed stocks.
 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, 2017.

<At 31st March, 2017>

	Millions of yen					
	Due in	Due from	Due from	Due from	Due from	Due after
	1 year or less	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	10 years
Due from banks	¥710,798	¥ —	¥ —	¥ —	¥ —	¥ —
Securities:						
Held-to-maturity securities						
Government bonds	11,927	26,906	15,000	16,000	—	—
Municipal bonds	—	10,000	15,000	16,000	—	—
Corporate bonds	6,089	6,290	—	—	—	—
Others	5,838	10,616	—	—	—	—
Securities available for sale with maturity	291,257	494,506	284,883	194,566	138,439	16,571
Government bonds	126,500	282,700	88,500	33,000	18,000	—
Municipal bonds	25,267	21,730	11,444	8,605	34,341	—
Corporate bonds	89,267	123,261	120,028	96,745	30,125	—
Others	50,223	66,815	64,911	56,216	55,972	16,571
Loans and bills discounted	1,362,805	1,096,062	959,112	666,652	776,223	1,735,955
Total	¥2,376,788	¥1,617,475	¥1,258,995	¥877,219	¥914,662	¥1,752,526

	Thousands of U.S. dollars					
	Due in	Due from	Due from	Due from	Due from	Due after
	1 year or less	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	10 years
Due from banks	\$6,335,664	\$ —	\$ —	\$ —	\$ —	\$ —
Securities:						
Held-to-maturity securities						
Government bonds	106,310	239,825	133,701	142,615	—	—
Municipal bonds	—	89,134	133,701	142,615	—	—
Corporate bonds	54,273	56,065	—	—	—	—
Others	52,036	94,625	—	—	—	—
Securities available for sale with maturity	2,596,106	4,407,761	2,539,298	1,734,262	1,233,969	147,705
Government bonds	1,127,551	2,519,832	788,840	294,143	160,442	—
Municipal bonds	225,217	193,689	102,005	76,700	306,096	—
Corporate bonds	795,676	1,098,687	1,069,864	862,334	268,521	—
Others	447,660	595,552	578,588	501,083	498,908	147,705
Loans and bills discounted	12,147,303	9,769,702	8,548,998	5,942,173	6,918,826	15,473,356
Total	\$21,185,384	\$14,417,288	\$11,221,998	\$7,819,050	\$8,152,795	\$15,621,062

Note: Excluded from Loans and bills discounted are ¥114,623 million (\$1,021,693 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 ¥92,391 million (\$823,530 thousand) 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, 2017

<At 31st March, 2017>

	Millions of yen					
	Due in	Due from	Due from	Due from	Due from	Due after
	1 year or less	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	10 years
Deposits	¥7,656,225	¥307,274	¥44,694	¥4,270	¥6,545	¥0
Call money and bills sold	59,924	—	—	—	—	—
Payables under repurchase agreements	69,174	—	—	—	—	—
Guarantee deposits received under securities lending transactions	18,714	—	—	—	—	—
Borrowed money	36,381	146,716	447,395	130	38	—
Bonds	10,000	—	—	10,000	10,000	—
Total	¥7,850,420	¥453,991	¥492,090	¥14,401	¥16,583	¥0

	Thousands of U.S. dollars					
	Due in	Due from	Due from	Due from	Due from	Due after
	1 year or less	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	10 years
Deposits	\$68,243,390	\$2,738,878	\$398,384	\$38,067	\$58,345	\$7
Call money and bills sold	534,134	—	—	—	—	—
Payables under repurchase agreements	616,583	—	—	—	—	—
Guarantee deposits received under securities lending transactions	166,807	—	—	—	—	—
Borrowed money	324,283	1,307,752	3,987,838	1,162	340	—
Bonds	89,134	—	—	89,134	89,134	—
Total	\$69,974,334	\$4,046,631	\$4,386,223	\$128,364	\$147,820	\$7

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
	2017	2017
Holding losses recognized in income	(¥3)	(\$30)

(2) Held-to-maturity securities

1. Securities whose fair value exceeds their carrying value

<At 31st March, 2017>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	¥40,161	¥41,421	¥1,259
Municipal bonds	12,458	12,663	205
Corporate bonds	16,510	16,742	231
	69,130	70,827	1,697
Others	—	—	—
Total	¥69,130	¥70,827	¥1,697

	Thousands of U.S. dollars		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	\$357,975	\$369,204	\$11,228
Municipal bonds	111,047	112,878	1,830
Corporate bonds	147,164	149,231	2,066
	616,187	631,313	15,126
Others	—	—	—
Total	\$616,187	\$631,313	\$15,126

2. Securities whose carrying value exceeds their fair value

<At 31st March, 2017>

None

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

1. Securities whose carrying value exceeds their acquisition cost

<At 31st March, 2017>

	Millions of yen		Valuation differences
	Carrying value	Acquisition cost	
Stocks	¥110,079	¥48,309	¥61,769
Bonds:			
Government bonds	556,115	551,340	4,774
Municipal bonds	61,612	61,377	234
Corporate bonds	410,867	406,913	3,953
	1,028,595	1,019,632	8,962
Others	231,185	212,272	18,912
Total	¥1,369,859	¥1,280,215	¥89,644

	Thousands of U.S. dollars		Valuation differences
	Carrying value	Acquisition cost	
Stocks	\$981,185	\$430,608	\$550,576
Bonds:			
Government bonds	4,956,907	4,914,349	42,557
Municipal bonds	549,181	547,087	2,093
Corporate bonds	3,662,244	3,627,005	35,239
	9,168,333	9,088,442	79,891
Others	2,060,659	1,892,083	168,575
Total	\$12,210,178	\$11,411,134	\$799,043

2. Securities whose acquisition cost exceeds their carrying value

<At 31st March, 2017>

	Millions of yen		Valuation differences
	Carrying value	Acquisition cost	
Stocks	¥4,650	¥5,819	(¥1,169)
Bonds:			
Government bonds	—	—	—
Municipal bonds	40,769	41,086	(317)
Corporate bonds	57,514	57,693	(178)
	98,284	98,779	(495)
Others	97,129	98,505	(1,376)
Total	¥200,063	¥203,105	(¥3,041)

	Thousands of U.S. dollars		Valuation differences
	Carrying value	Acquisition cost	
Stocks	\$41,450	\$51,875	(\$10,424)
Bonds:			
Government bonds	—	—	—
Municipal bonds	363,394	366,225	(2,830)
Corporate bonds	512,655	514,244	(1,589)
	876,049	880,469	(4,420)
Others	865,755	878,022	(12,267)
Total	\$1,783,255	\$1,810,368	(\$27,112)

(4) Available-for-sale securities sold for the year ended 31st March, 2017 are as follows:

<At 31st March, 2017>

	Millions of yen		
	Proceeds from sale	Gains	Losses
Stocks	¥2,737	¥1,029	(¥150)
Bonds:			
Government bonds	—	—	—
Municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	28,421	5,283	(1,249)
Total	¥31,159	¥6,312	(¥1,399)

	Thousands of U.S. dollars		
	Proceeds from sale	Gains	Losses
Stocks	\$24,404	\$9,173	(\$1,343)
Bonds:			
Government bonds	—	—	—
Municipal bonds	—	—	—
Corporate bonds	—	—	—
Others	253,330	47,091	(11,133)
Total	\$277,735	\$56,264	(\$12,476)

(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 ¥29 million (\$266 thousand) for bonds for the year ended 31st March, 2017.

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, 2017 are as follows:

<At 31st March, 2017>

	Millions of yen	Thousands of U.S. dollars
Revaluation difference	¥86,602	\$771,922
Deferred tax liability	(24,182)	(215,545)
Revaluation difference (before non-controlling interest adjustment), net of taxes	62,420	556,377
Amount corresponding to non-controlling interests	(297)	(2,647)
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	¥62,122	\$553,725

29. Money Held in Trust Money held in trust at 31st March, 2017 is as follows:

	Millions of yen		Thousands of
	2017		U.S. dollars
			2017
Money held in trust for other purposes than investment purposes and held-to-maturity purposes:			
Acquisition Cost	¥850		\$7,576
Carrying value	850		7,576
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, 2017, 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.

1. Interest related transactions
<At 31st March, 2017>

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	¥44,627	¥38,627	¥923	¥923
Receive-floating and pay-fixed	44,627	38,627	(667)	(667)
Total	—	—	¥255	¥255

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	\$397,786	\$344,305	\$8,227	\$8,227
Receive-floating and pay-fixed	397,786	344,305	(5,948)	(5,948)
Total	—	—	\$2,278	\$2,278

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. Currency related transactions
<At 31st March, 2017>

Type of transactions	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Currency swaps	¥93,938	¥49,453	(¥18)	(¥18)
Forward foreign:				
Sell	6,416	201	(122)	(122)
Buy	4,399	172	158	158
Currency option:				
Sell	98,592	55,040	(3,043)	(132)
Buy	98,592	55,040	3,043	929
Total	—	—	¥17	¥814

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	\$837,320	\$440,800	(\$164)	(\$164)
Forward foreign:				
Sell	57,195	1,797	(1,090)	(1,090)
Buy	39,212	1,540	1,412	1,412
Currency option:				
Sell	878,800	490,596	(27,128)	(1,179)
Buy	878,800	490,596	27,128	8,282
Total	—	—	\$157	\$7,260

- 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, 2017, to which hedge accounting is applied. The amounts of the contract value are not necessarily indicative of the actual market risk of derivative transactions.

1. Interest related transactions

<At 31st March, 2017>

Hedge accounting method	Type of transactions	Hedged item	Millions of yen		Fair value
			Contract value		
			Total	Over one year	
Principle hedge accounting method	Interest rate swaps: Receive-floating and pay-fixed	Available-for-sale securities	¥16,267	¥16,267	(¥528)
Special treatment for interest rate swaps	Interest rate swaps: Receive-fixed and pay-floating Receive-floating and pay-fixed Interest rate options	Loans and bills discounted, and deposits	— 203,020 5,000	— 173,035 —	(Note 2)
Total			—	—	(¥528)

Hedge accounting method	Type of transactions	Hedged item	Thousands of U.S. dollars		Fair value
			Contract value		
			Total	Over one year	
Principle hedge accounting method	Interest rate swaps: Receive-floating and pay-fixed	Available-for-sale securities	\$145,000	\$145,000	(\$4,708)
Special treatment for interest rate swaps	Interest rate swaps: Receive-fixed and pay-floating Receive-floating and pay-fixed Interest rate options	Loans and bills discounted, and deposits	— 1,809,615 44,567	— 1,542,340 —	(Note 2)
Total			—	—	(\$4,708)

- 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)". The balance of unamortized premium for interest rate options is ¥2 million (\$24 thousand).

2. Currency related transactions
<At 31st March, 2017>

			Millions of yen		
Hedge accounting method	Type of transactions	Hedged item	Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Forward foreign	Securities denominated in foreign currencies	¥44,245	¥ —	(¥284)
Total			—	—	(¥284)

			Thousands of U.S. dollars		
Hedge accounting method	Type of transactions	Hedged item	Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Forward foreign	Securities denominated in foreign currencies	\$394,377	\$ —	(\$2,534)
Total			—	—	(\$2,534)

- Notes: 1. The deferred method is applied as hedge accounting in accordance primarily with "Accounting and Auditing Treatment for Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25 of 29th July, 2002).
2. Calculation of fair value is based on the discounted cash flows and others.

31. Employee Retirement Benefits

(1) Description of the retirement benefit plans

The Company's domestic 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, 2017, 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

(a) Reconciliation between the balances of retirement benefit obligation at the beginning and end of the year for the year ended 31st March, 2017

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Retirement benefit obligation at beginning of the year	¥70,499	\$628,389
Service cost	2,203	19,637
Interest cost	617	5,499
Actuarial gain and loss	1,034	9,217
Retirement benefits paid	(3,995)	(35,616)
Others	—	—
Retirement benefit obligation at end of the year	¥70,357	\$627,128

(b) Reconciliation between the balances of plan assets at the beginning and end of the year for the year ended 31st March, 2017

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Plan assets at beginning of the year	¥71,509	\$637,395
Expected return on plan assets	2,352	20,969
Actuarial gain and loss	7,097	63,258
Contributions by employer	2,911	25,954
Contributions by employees	154	1,381
Retirement benefits paid	(2,150)	(19,171)
Others	—	—
Plan assets at end of the year	¥81,875	\$729,789

(c) 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 sheet at 31st March, 2017

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Retirement benefit obligation (funded)	¥69,955	\$623,541
Fair value of plan assets	(81,875)	(729,789)
	(11,919)	(106,247)
Retirement benefit obligation (unfunded)	402	3,587
Net liability (asset) for retirement benefits in the balance sheet	(¥11,517)	(\$102,660)

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Liability for retirement benefits	¥811	\$7,229
Asset for retirement benefits	(12,328)	(109,890)
Net liability (asset) for retirement benefits in the balance sheet	(¥11,517)	(\$102,660)

(d) Components of retirement benefit expenses for the year ended 31st March, 2017

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Service cost	¥2,047	\$18,252
Interest cost	617	5,499
Expected return on plan assets	(2,352)	(20,969)
Amortization of unrecognized actuarial gain and loss	2,324	20,722
Others	441	3,936
Retirement benefit expenses	¥3,078	\$27,441

- Notes:
- Contributions by employees to corporate pension funds, etc. have been deducted from the service cost.
 - Retirement benefit expenses of consolidated subsidiaries that have adopted the simplified method are reported in total under "Service cost."

(e) Items recorded in retirement benefits liability adjustments included in other comprehensive income (gross of income tax effects) for the year ended 31st March, 2017

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Actuarial gain and loss	(¥8,387)	(\$74,763)

(f) Items recorded in retirement benefits liability adjustments included in accumulated other comprehensive income (gross of income tax effects) at 31st March, 2017

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Unrecognized actuarial gain and loss	¥284	\$2,535

(g) Matters concerning plan assets

1) Percentages of each main category of the total plan asset at 31st March, 2017 are as follows:

	2017
Bonds	28%
Stocks	59%
Cash and deposits	1%
Others	12%
Total	100%

* Retirement benefit trusts established for the corporate pension plans accounted for 27% of the total plan asset at 31st March, 2017. Retirement benefit trusts established for the lump-sum payment plans accounted for 23% of the total plan asset at 31st March, 2017.

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.

(h) Assumptions for actuarial calculation

Major assumptions for actuarial calculation as of 31st March, 2017

	2017
1) Discount rates:	0.893% (principally)
2) Expected long-term rate of return on plan assets:	3.3% (principally)
3) Expected rate of pay increase:	3.71% (principally)

(3) Defined contribution plans

Contributions of ¥0 million (\$1thousand) have been made to the defined contribution plan by the consolidated subsidiary for the year ended 31st March, 2017.

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, 2017 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Deferred tax assets:		
Reserve for possible loan losses	¥13,944	\$124,291
Liability for retirement benefits	339	3,027
Accumulated depreciation	1,831	16,323
Loss carryforwards for tax purposes	289	2,584
Others	8,291	73,908
Sub-total	24,696	220,134
Valuation allowance	(7,610)	(67,832)
Total deferred tax assets	17,086	152,302
Deferred tax liabilities:		
Reserve fund for deferred income of fixed assets	(1)	(12)
Unrealized losses on securities attributable to partition of corporation, net	(35)	(319)
Asset retirement obligations	(42)	(381)
Capital gain adjustments	(1,081)	(9,644)
Unrealized gains on securities available for sale, net	(24,182)	(215,552)
Total deferred tax liabilities	(25,344)	(225,910)
Net deferred tax assets (liabilities)	(¥8,257)	(\$73,607)

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, 2017 is as follows:

	2017
Statutory tax rate	30.7 %
(Adjustments)	
Items permanently not deductible for tax purposes such as entertainment expenses	0.6
Non-taxable dividend income and others	(0.6)
Inhabitant tax on per capita basis	0.3
Capital gain adjustments	3.3
Increase in valuation allowance	(6.7)
Others	0.4
Effective tax rate	28.0 %

33. Business Combination

<For the year ended 31st March, 2017>

Transactions under common control

1. Overview of business combination

(1) Legal form of business combination

Establishment of a holding company by means of a joint share transfer

(2) Name of the company after business combination

Sole parent company established through the share transfer: Nishi-Nippon Financial Holdings, Inc.

(3) Name and business outline of the combined companies

Wholly owned subsidiaries through the share transfer:

The Nishi-Nippon City Bank, Ltd. (Banking)

The Bank of Nagasaki, Ltd. (Banking)

Nishi-Nippon Credit Guarantee Co. (Credit guarantee)

(4) Date of business combination

3rd October, 2016

(5) Other matters concerning the transaction overview

The Company was established to shift into a holding company structure and build a new group management framework, in order to further strengthen intragroup collaboration that would allow each of the Group companies to exhibit its unique characteristics and strengths as well as to appropriately respond to any environmental changes and address risks that might lie ahead.

2. Outline of accounting treatment for the transaction

This transaction was treated as a transaction under common control based on "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of 13rd September, 2013).

34. 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 year ended 31st March, 2017

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Balance at beginning of the year	¥843	\$7,514
Increase due to acquisition of tangible fixed assets	33	302
Adjustment for passage of time	13	119
Decrease due to fulfillment of asset retirement obligation	40	363
Balance at end of the year	¥849	\$7,572

35. Business Segment Information

Segment Information

(1) 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 8 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.

(2) 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.

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

<In 2017>

	Millions of yen				
	Reportable segment		Total	Adjustments	Consolidated
	Banking	Other			
Ordinary income					
Ordinary income from third party customers	¥134,140	¥11,722	¥145,862	¥ —	¥145,862
Internal ordinary income among segments	7,327	12,696	20,023	(20,023)	—
Total ordinary income	141,467	24,419	165,886	(20,023)	145,862
Segment profit	34,409	11,774	46,183	(12,315)	33,868
Segment assets	9,449,568	498,696	9,948,264	(461,816)	9,486,448
Segment liabilities	8,979,476	48,673	9,028,149	(53,379)	8,974,769
Other items					
Depreciation	6,385	229	6,615	—	6,615
Interest and dividend income	99,150	8,957	108,107	(6,835)	101,271
Interest expenses	6,984	80	7,064	(736)	6,327
Increase in tangible and intangible fixed assets	13,042	254	13,296	0	13,296

	Thousands of U.S. dollars				
	Reportable segment		Total	Adjustments	Consolidated
	Banking	Other			
Ordinary income					
Ordinary income from third party customers	\$1,195,650	\$104,491	\$1,300,142	\$ —	\$1,300,142
Internal ordinary income among segments	65,311	113,167	178,478	(178,478)	—
Total ordinary income	1,260,962	217,659	1,478,621	(178,478)	1,300,142
Segment profit	306,703	104,953	411,656	(109,770)	301,886
Segment assets	84,228,256	4,445,107	88,673,363	(4,116,377)	84,556,986
Segment liabilities	80,038,115	433,849	80,471,964	(475,798)	79,996,165
Other items					
Depreciation	56,914	2,047	58,962	—	58,962
Interest and dividend income	883,769	79,841	963,611	(60,931)	902,680
Interest expenses	62,251	714	62,966	(6,567)	56,398
Increase in tangible and intangible fixed assets	116,252	2,264	118,517	0	118,517

- 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.

Related Information

Ordinary income by services:

<In 2017>

	Millions of yen			
	Loan	Securities	Other	Total
Ordinary income from third party customers	¥90,529	¥21,914	¥33,418	¥145,862

	Thousands of U.S. dollars			
	Loan	Securities	Other	Total
Ordinary income from third party customers	\$806,930	\$195,335	\$297,876	\$1,300,142

Note: Ordinary income is presented instead of net sales.

Impairment Losses on Tangible Fixed Assets by Reportable Segments

<In 2017>

	Millions of yen		
	Reportable segment		Total
	Banking	Other	
Impairment losses	¥974	—	¥974

	Thousands of U.S. dollars		
	Reportable segment		Total
	Banking	Other	
Impairment losses	\$8,688	\$ —	\$8,688

Amortization and Balance of Goodwill by Reportable Segments

<In 2017>

	Millions of yen		
	Reportable segment		Total
	Banking	Other	
Goodwill			
Amortization of goodwill	—	¥189	¥189
Balance at end of the year	—	¥1,228	¥1,228

	Thousands of U.S. dollars		
	Reportable segment		Total
	Banking	Other	
Goodwill			
Amortization of goodwill	\$ —	\$1,685	\$1,685
Balance at end of the year	\$ —	\$10,953	\$10,953

36. Related Party Transactions

Related party transactions for the year ended 31st March, 2017 are as follows:

1. There are no relevant transactions of the Company with related parties to report.
2. Transactions of the Company's consolidated subsidiaries with related individuals, including shareholders and directors

<In 2017>

Attribute	Name	Address	Common stock	Business/ occupation	Equity ownership	Relationship	Transactions	Transaction amount	Account	Balance at end of year
Company owned by the Company's directors and their close relatives	Takata Kosan Ltd.	Chuo-ku Fukuoka	¥4 (million)	Real-estate leasing	—	Company owned by close relatives of the Company's director (Kiyota Takata)	Loan	— (million) — (thousand)	Loans	¥54 (million) \$483 (thousand)

* Terms and conditions of the transactions are similar to those with unrelated parties.

37. 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
	2017	2017
Cash and due from banks on the consolidated balance sheet	¥807,097	\$7,194,019
Due from banks, exclusive of central bank	(3,336)	(29,736)
Cash and cash equivalents on the consolidated statement of cash flows	¥803,760	\$7,164,283

38. Per Share Information

	Yen	U.S. dollars
	2017	2017
Net assets per share at end of the year	¥3,127.67	\$27.878
Profit (loss) attributable to owners of parent per share*	142.24	1.267

Basis for net assets per share as of 31st March, 2017 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Net assets	¥511,678	\$4,560,821
Items to be deducted from net assets	23,899	213,031
Non-controlling interests	23,899	213,031
Net assets attributable to common stock	487,778	4,347,790

	Shares
	2017
Number of shares of common stock outstanding at end of the year	155,955,729

Basis for profit (loss) attributable to owners of parent per share for the year ended 31st March, 2017 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2017	2017
Basic:		
Profit (loss) attributable to owners of parent	¥22,214	\$198,004
Items not attributable to common stock	—	—
Profit (loss) attributable to owners of parent available for shareholders of common stock	22,214	198,004
	Shares	
	2017	
Average number of shares of common stock outstanding during the year**	156,171,533	

* Diluted profit (loss) attributable to owners of parent per share for the year ended 31st March, 2017 was not presented because the Company and its consolidated subsidiaries had no dilutive shares during the year

**Because the Company was established on 3rd October, 2016 through a joint share transfer, the average number of shares of common stock outstanding during the year has been calculated for the period before the establishment of the Company, from 1st April to 2nd October, 2016, by multiplying the average number of shares outstanding during the period of Nishi-Nippon City Bank by its share transfer ratio, and for the period from 3rd October, 2016 to 31st March, 2017 by using the Company's average number of shares outstanding during the period.

39. Cash Dividends

Cash dividends paid during the year ended 31st March, 2017 are as follows:

The Company is a joint holding company that was established on 3rd October, 2016 through a joint share transfer. Accordingly, the cash dividends were paid at the amounts approved at the meetings of shareholders and the Board of Directors of the following wholly owned subsidiary.

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
June 29, 2016 Ordinary General Meeting of Shareholders	Cash dividends (¥3.5 per share), for common stock of Nishi-Nippon City Bank	¥2,747	\$24,485	31st March, 2016	30th June, 2016
November 8, 2016 Meeting of Board of Directors	Cash dividends (¥2.5 per share), for common stock of Nishi-Nippon City Bank	¥1,949	\$17,372	30th September, 2016	9th December, 2016

40. Subsequent Event

The following appropriation of earned surplus for the year ended 31st March, 2017 was approved at the shareholders' meeting held on 29th June, 2017:

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
June 29, 2017 Ordinary General Meeting of Shareholders	Cash dividends (¥17.5 per share), for common stock of Nishi-Nippon Financial Holding, Inc.	¥3,142	\$28,006	31st March, 2017	30th June, 2017

The Company and its consolidated subsidiary, Nishi-Nippon City Bank, decided on 2nd June, 2017 to redeem the preferred securities issued by an overseas special purpose company which is a consolidated subsidiary of Nishi-Nippon City Bank.

The outline of the preferred securities to be redeemed is as follows:

1. Issuing entity
Nishi-Nippon City Preferred Capital (Cayman) Limited
2. Type of securities issued
Yen-denominated non-cumulative perpetual preferred securities
3. Total amount to be redeemed
17 billions of yen
4. Planned redemption date
18th July, 2017
5. Reason for redemption
Arrival of the voluntary redemption date

Quarterly Information (Unaudited)

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries Year ended 31st March, 2017

	Millions of yen	
	Third Quarter	Fourth Quarter
	from 1st April, 2016 to 31st December, 2016	from 1st April, 2016 to 31st March, 2017
Ordinary income	¥110,701	¥145,862
Profit (loss) before income taxes	30,784	32,422
Profit (loss) attributable to owners of parent	21,765	22,214

	Yen	
	Third Quarter	Fourth Quarter
	from 1st April, 2016 to 31st December, 2016	from 1st April, 2016 to 31st March, 2017
Profit (loss) attributable to owners of parent per share	¥139.30	¥142.24

	Yen	
	Third Quarter	Fourth Quarter
	from 1st October, 2016 to 31st December, 2016	from 1st January, 2017 to 31st March, 2017
Profit (loss) attributable to owners of parent per share	¥36.05	¥2.87

	Thousands of U.S. dollars	
	Third Quarter	Fourth Quarter
	from 1st April, 2016 to 31st December, 2016	from 1st April, 2016 to 31st March, 2017
Ordinary income	\$986,734	\$1,300,142
Profit (loss) before income taxes	274,396	288,992
Profit (loss) attributable to owners of parent	194,004	198,004

	U.S. dollars	
	Third Quarter	Fourth Quarter
	from 1st April, 2016 to 31st December, 2016	from 1st April, 2016 to 31st March, 2017
Profit (loss) attributable to owners of parent per share	\$1.24	\$1.26

	U.S. dollars	
	Third Quarter	Fourth Quarter
	from 1st October, 2016 to 31st December, 2016	from 1st January, 2017 to 31st March, 2017
Profit (loss) attributable to owners of parent per share	\$0.32	\$0.02

Notes: The Company was established on October 3, 2016. Hence, quarterly information for the first and second quarters is not shown above.

Non-Consolidated Balance Sheet (Unaudited)

The Nishi-Nippon City Bank, Ltd. 31st March, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Assets:			
Cash and due from banks	¥794,047	¥605,350	\$7,077,701
Call loans and bills bought	128	129	1,147
Trading account assets	869	1,283	7,749
Money held in trust	850	1,999	7,576
Securities	1,677,231	1,835,516	14,949,921
Loans and bills discounted	6,574,638	6,220,199	58,602,713
Foreign exchange assets	7,539	8,284	67,207
Other assets	50,130	38,814	446,837
Tangible fixed assets	116,778	109,648	1,040,903
Intangible fixed assets	4,508	5,798	40,183
Prepaid pension cost	15,233	14,143	135,782
Customers' liabilities for acceptances and guarantees	22,868	25,712	203,833
Reserve for possible loan losses	(36,990)	(34,740)	(329,714)
Reserve for devaluation of securities	(501)	(500)	(4,466)
Total assets	¥9,227,333	¥8,831,638	\$82,247,376
Liabilities and Net assets:			
Liabilities			
Deposits	¥7,812,742	¥7,547,963	\$69,638,493
Call money and bills sold	49,924	41,691	445,000
Payables under repurchase agreements	69,174	65,806	616,583
Guarantee deposits received under securities lending transactions	18,714	19,892	166,807
Borrowed money	640,375	515,061	5,707,957
Foreign exchange liabilities	89	74	798
Bonds	30,000	48,800	267,403
Other liabilities	68,560	71,126	611,113
Reserve for employee retirement benefits	2,670	3,631	23,801
Reserve for reimbursement of deposits	2,386	2,141	21,273
Reserve for other contingent losses	1,427	1,437	12,726
Deferred tax liabilities	13,430	13,126	119,709
Deferred tax liabilities on revaluation of premises	14,986	15,067	133,577
Acceptances and guarantees	22,868	25,712	203,833
Total liabilities	8,747,351	8,371,534	77,969,080
Net assets:			
Capital stock	85,745	85,745	764,288
Capital surplus			
Capital reserve	85,684	85,684	763,740
Other capital surplus	—	230	—
Earned surplus			
Legal reserve	61	61	548
Voluntary reserves	3	171,203	29
Unappropriated retained earnings	211,041	30,228	1,881,109
Treasury stock	—	(4,188)	—
Total shareholders' equity	382,536	368,965	3,409,716
Net unrealized gains on securities available for sale, net of taxes	67,429	61,643	601,028
Net deferred gains (losses) on hedging instruments, net of taxes	(384)	(1,011)	(3,424)
Revaluation of premises, net of taxes	30,400	30,507	270,975
Total valuation and translation adjustments	97,445	91,139	868,579
Total net assets	479,981	460,104	4,278,295
Total liabilities and net assets	¥9,227,333	¥8,831,638	\$82,247,376

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Nishi-Nippon City Bank, Ltd. Years ended 31st March, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Income:			
Interest income:			
Interest on loans and discounts	¥80,465	¥83,200	\$717,220
Interest and dividends on securities	14,322	22,001	127,666
Other interest income	224	301	2,004
Fees and commissions	24,297	25,710	216,572
Trading income	1	24	10
Other operating income	2,000	2,311	17,827
Other income	15,173	12,801	135,247
Total income	136,484	146,351	1,216,549
Expenses:			
Interest expenses:			
Interest on deposits	3,722	4,546	33,184
Interest on call money and bills sold	382	557	3,406
Interest on payables under repurchase agreements	659	267	5,881
Interest on borrowings	1,059	1,054	9,443
Other interest expenses	1,162	1,207	10,358
Fees and commissions	14,309	13,024	127,543
Other operating expenses	2,022	1,915	18,030
General and administrative expenses	74,143	72,826	660,875
Other expenses	6,554	8,851	58,424
Total expenses	104,016	104,252	927,148
Income before income taxes	32,467	42,098	289,400
Income taxes			
Current	8,012	9,781	71,423
Deferred	(722)	2,301	(6,443)
Total income taxes	7,290	12,082	64,980
Net income	¥25,177	¥30,016	\$224,420

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, 2017 and 2016

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Shareholders' equity			2017
Capital stock			
Balance at beginning of the year	¥85,745	¥85,745	\$764,288
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,745	¥85,745	\$764,288
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥85,684	¥85,684	\$763,740
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,684	¥85,684	\$763,740
Other capital surplus			
Balance at beginning of the year	¥230	¥231	\$2,055
Changes during the year			
Sale of treasury stock	(2)	(0)	(22)
Retirement of treasury stock	(228)	—	(2,033)
Total changes during the year	(230)	(0)	(2,055)
Balance at end of the year	¥ —	¥230	\$ —
Total capital surplus			
Balance at beginning of the year	¥85,914	¥85,915	\$765,796
Changes during the year			
Sale of treasury stock	(2)	(0)	(22)
Retirement of treasury stock	(228)	—	(2,033)
Total changes during the year	(230)	(0)	(2,055)
Balance at end of the year	¥85,684	¥85,914	\$763,740
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥61	¥61	\$548
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥61	¥61	\$548
Other earned surplus:			
Reserve for deferred capital gains			
Balance at beginning of the year	¥3	¥3	\$30
Changes during the year			
Transfer from reserve for deferred capital gains	(0)	(0)	(1)
Transfer to reserve for deferred capital gains	—	0	—
Total changes during the year	(0)	(0)	(1)
Balance at end of the year	¥3	¥3	\$29
Other voluntary reserves			
Balance at beginning of the year	¥171,200	¥155,300	\$1,525,984
Changes during the year			
Transfer to other voluntary reserves	25,500	15,900	227,292
Transfer from other voluntary reserves	(196,700)	—	(1,753,277)
Total changes during the year	(171,200)	15,900	(1,525,984)
Balance at end of the year	¥ —	¥171,200	\$ —
Unappropriated retained earnings			
Balance at beginning of the year	¥30,228	¥21,126	\$269,441
Changes during the year			
Cash dividends paid	(10,703)	(5,133)	(95,400)
Transfer from reserve for deferred capital gains	0	0	1
Transfer to other voluntary reserves	(25,500)	(15,900)	(227,292)
Transfer from other voluntary reserves	196,700	—	1,753,277
Net income	25,177	30,016	224,420
Retirement of treasury stock	(4,968)	—	(44,286)
Reversal of revaluation of premises	106	119	949
Total changes during the year	180,813	9,102	1,611,667
Balance at end of the year	¥211,041	¥30,228	\$1,881,109

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

The Nishi-Nippon City Bank, Ltd. Years ended 31st March, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total earned surplus			
Balance at beginning of the year	¥201,493	¥176,491	\$1,796,004
Changes during the year			
Cash dividends paid	(10,703)	(5,133)	(95,400)
Transfer to reserve for deferred capital gains	—	0	—
Net income	25,177	30,016	224,420
Retirement of treasury stock	(4,968)	—	(44,286)
Reversal of revaluation of premises	106	119	949
Total changes during the year	9,612	25,002	85,682
Balance at end of the year	¥211,106	¥201,493	\$1,881,686
Treasury stock			
Balance at beginning of the year	(¥4,188)	(¥2,128)	(\$37,337)
Changes during the year			
Acquisition of treasury stock	(1,014)	(2,066)	(9,042)
Sale of treasury stock	6	6	59
Retirement of treasury stock	5,196	—	46,320
Total changes during the year	4,188	(2,060)	37,337
Balance at end of the year	¥ —	(¥4,188)	\$ —
Total shareholders' equity			
Balance at beginning of the year	¥368,965	¥346,023	\$3,288,752
Changes during the year			
Cash dividends paid	(10,703)	(5,133)	(95,400)
Transfer to reserve for deferred capital gains	—	0	—
Net income	25,177	¥30,016	224,420
Acquisition of treasury stock	(1,014)	(2,066)	(9,042)
Sale of treasury stock	4	5	37
Reversal of revaluation of premises	106	119	949
Total changes during the year	13,570	22,941	120,964
Balance at end of the year	¥382,536	¥368,965	\$3,409,716
Valuation and translation adjustments			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥61,643	¥63,359	\$549,452
Changes during the year			
Net changes in items other than shareholders' equity	5,786	(1,716)	51,575
Total changes during the year	5,786	(1,716)	51,575
Balance at end of the year	¥67,429	¥61,643	\$601,028
Net deferred gains (losses) on hedging instruments, net of taxes			
Balance at beginning of the year	(¥1,011)	(¥763)	(\$9,013)
Changes during the year			
Net changes in items other than shareholders' equity	626	(247)	5,588
Total changes during the year	626	(247)	5,588
Balance at end of the year	(¥384)	(¥1,011)	(\$3,424)
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥30,507	¥29,836	\$271,925
Changes during the year			
Net changes in items other than shareholders' equity	(106)	670	(949)
Total changes during the year	(106)	670	(949)
Balance at end of the year	¥30,400	¥30,507	\$270,975
Total valuation and translation adjustments			
Balance at beginning of the year	¥91,139	¥92,432	\$812,364
Changes during the year			
Net changes in items other than shareholders' equity	6,306	(1,293)	56,215
Total changes during the year	6,306	(1,293)	56,215
Balance at end of the year	¥97,445	¥91,139	\$868,579
Total net assets			
Balance at beginning of the year	¥460,104	¥438,455	\$4,101,116
Changes during the year			
Cash dividends paid	(10,703)	(5,133)	(95,400)
Transfer to reserve for deferred capital gains	—	0	—
Net income	25,177	30,016	224,420
Acquisition of treasury stock	(1,014)	(2,066)	(9,042)
Sale of treasury stock	4	5	37
Reversal of revaluation of premises	106	119	949
Net changes in items other than shareholders' equity	6,306	(1,293)	56,215
Total changes during the year	19,877	21,648	177,179
Balance at end of the year	¥479,981	¥460,104	\$4,278,295

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Nagasaki, Ltd. 31st March, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Assets:			
Cash and due from banks	¥30,455	¥32,998	\$271,461
Securities	3	—	29
Loans and bills discounted	237,047	229,181	2,112,911
Other assets	995	843	8,870
Tangible fixed assets	4,715	4,741	42,026
Intangible fixed assets	108	90	970
Deferred tax assets	617	815	5,506
Customers' liabilities for acceptances and guarantees	48	40	429
Reserve for possible loan losses	(957)	(1,017)	(8,537)
Total assets	¥273,033	¥267,694	\$2,433,669
Liabilities and net assets:			
Liabilities			
Deposits	¥246,127	¥251,842	\$2,193,845
Call money and bills sold	10,000	—	89,134
Borrowed money	600	—	5,348
Other liabilities	812	716	7,240
Reserve for employee retirement benefit	507	589	4,527
Reserve for retirement benefits for directors and corporate auditors	64	46	574
Reserve for reimbursement of deposits	33	32	302
Reserve for other contingent losses	69	60	622
Deferred tax liabilities on revaluation of premises	509	518	4,538
Acceptances and guarantees	48	40	429
Total liabilities	258,773	253,847	2,306,563
Net assets:			
Capital stock	6,121	6,121	54,565
Capital surplus			
Capital reserve	2,000	2,000	17,826
Other capital surplus	2,463	2,463	21,962
Earned surplus			
Legal reserve	195	190	1,743
Unappropriated retained earnings	2,387	1,959	21,279
Total shareholders' equity	13,168	12,735	117,377
Revaluation of premises, net of taxes	1,091	1,112	9,727
Total valuation and translation adjustments	1,091	1,112	9,727
Total net assets	14,259	13,847	127,105
Total liabilities and net assets	¥273,033	¥267,694	\$2,433,669

See accompanying Notes to Non Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Bank of Nagasaki, Ltd. Years ended 31st March, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥4,160	¥4,278	\$37,081
Other interest income	251	257	2,238
Fees and commissions	728	680	6,496
Other income	275	195	2,459
Total income	5,416	5,412	48,276
Expenses:			
Interest expenses:			
Interest on deposits	240	327	2,144
Interest on call money and bills sold	—	1	—
Interest on borrowings	—	48	—
Other interest expenses	2	2	24
Fees and commissions	1,175	954	10,475
General and administrative expenses	3,367	3,437	30,013
Other expenses	54	114	486
Total expenses	4,840	4,888	43,144
Income before income taxes	575	524	5,132
Income taxes			
Current	(53)	35	(476)
Deferred	188	46	1,681
Total income taxes	135	82	1,205
Net income	¥440	¥441	\$3,926

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, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Shareholders' equity			
Capital stock			
Balance at beginning of the year	¥6,121	¥4,121	\$54,565
Changes during the year			
Issuance of new shares	—	2,000	—
Total changes during the year	—	2,000	—
Balance at end of the year	¥6,121	¥6,121	\$54,565
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥2,000	¥ —	\$17,826
Changes during the year			
Issuance of new shares	—	2,000	—
Total changes during the year	—	2,000	—
Balance at end of the year	¥2,000	¥2,000	\$17,826
Other capital surplus			
Balance at beginning of the year	¥2,463	¥2,463	\$21,962
Changes during the year			
Payment for fractional shares resulting from exercise of the right to claim exchange for common stock	—	(0)	—
Total changes during the year	—	(0)	—
Balance at end of the year	¥2,463	¥2,463	\$21,962
Total capital surplus			
Balance at beginning of the year	¥4,463	¥2,463	\$39,789
Changes during the year			
Issuance of new shares	—	2,000	—
Payment for fractional shares resulting from exercise of the right to claim exchange for common stock	—	(0)	—
Total changes during the year	—	1,999	—
Balance at end of the year	¥4,463	¥4,463	\$39,789
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥190	¥185	\$1,693
Changes during the year			
Reserve of legal retained earnings	5	5	50
Total changes during the year	5	5	50
Balance at end of the year	¥195	¥190	\$1,743
Other earned surplus:			
Unappropriated retained earnings			
Balance at beginning of the year	¥1,959	¥1,527	\$17,468
Changes during the year			
Reserve of legal retained earnings	(5)	(5)	(50)
Cash dividends paid	(28)	(25)	(250)
Net income	440	441	3,926
Reversal of revaluation of premises	20	21	184
Total changes during the year	427	432	3,810
Balance at end of the year	¥2,387	¥1,959	\$21,279
Total earned surplus			
Balance at beginning of the year	¥2,149	¥1,712	\$19,162
Changes during the year			
Cash dividends paid	(28)	(25)	(250)
Net income	440	441	3,926
Reversal of revaluation of premises	20	21	184
Total changes during the year	433	437	3,860
Balance at end of the year	¥2,582	¥2,149	\$23,023

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

The Bank of Nagasaki, Ltd. Years ended 31st March, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total shareholders' equity			
Balance at beginning of the year	¥12,735	¥8,297	\$113,516
Changes during the year			
Issuance of new shares	—	4,000	—
Cash dividends paid	(28)	(25)	(250)
Net income	440	441	3,926
Reversal of revaluation of premises	20	21	184
Payment for fractional shares resulting from exercise of the right to claim exchange for common stock	—	(0)	—
Total changes during the year	433	4,437	3,860
Balance at end of the year	¥13,168	¥12,735	\$117,377
Valuation and translation adjustments			
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥1,112	¥1,105	\$9,912
Changes during the year			
Net changes in items other than shareholders' equity	(20)	6	(184)
Total changes during the year	(20)	6	(184)
Balance at end of the year	¥1,091	¥1,112	\$9,727
Total valuation and translation adjustments			
Balance at beginning of the year	¥1,112	¥1,105	\$9,912
Changes during the year			
Net changes in items other than shareholders' equity	(20)	6	(184)
Total changes during the year	(20)	6	(184)
Balance at end of the year	¥1,091	¥1,112	\$9,727
Total net assets			
Balance at beginning of the year	¥13,847	¥9,403	\$123,428
Changes during the year			
Issuance of new shares	—	4,000	—
Cash dividends paid	(28)	(25)	(250)
Net income	440	441	3,926
Reversal of revaluation of premises	20	21	184
Payment for fractional shares resulting from exercise of the right to claim exchange for common stock	—	(0)	—
Net changes in items other than shareholders' equity	(20)	6	(184)
Total changes during the year	412	4,443	3,676
Balance at end of the year	¥14,259	¥13,847	\$127,105

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, 2017 and 2016

- | | |
|---|--|
| 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 Banks | 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. |
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www.shinnihon.or.jp

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Nishi-Nippon Financial Holdings, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nishi-Nippon Financial Holdings, Inc. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

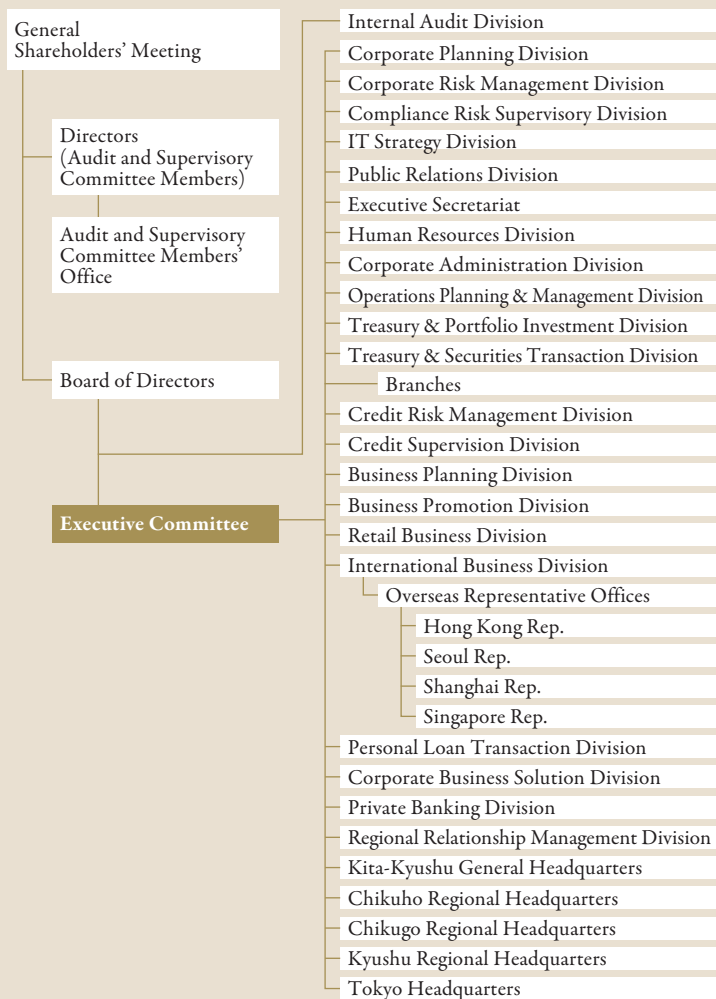
Ernst & Young Shinnihon LLC

June 29, 2017

Fukuoka, Japan

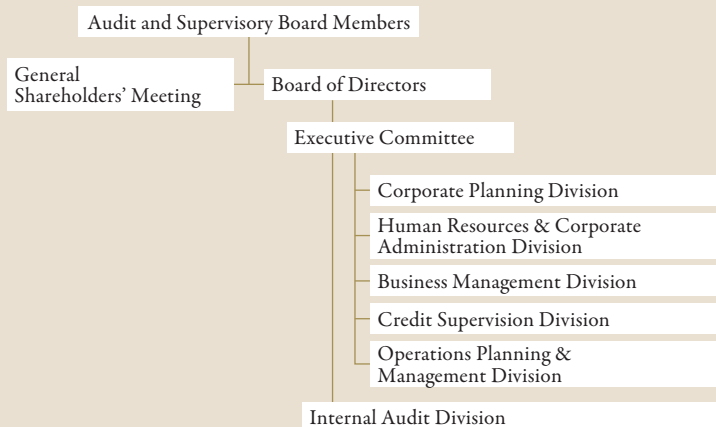
Organization Chart of Banking Subsidiaries

The Nishi-Nippon City Bank, Ltd.



(As of 30th June, 2017)

The Bank of Nagasaki, Ltd.



(As of 30th June, 2017)

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

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