

ANNUAL REPORT 2019



©GROOMVISIONS



NNFH

Nishi-Nippon Financial Holdings, Inc.

Contents

Message from the President	01
Profile of the Company (Joint Holding Company)/Organization Chart	02
Board of Directors of Nishi-Nippon Financial Holdings Inc.	03
Outline of Nishi-Nippon Financial Holdings Group	04
Outline of Medium-Term Business Plan	05
Financial Highlights	06
Toward a Sounder Financial Position	07
Financial Results	08
Initiatives for Improvement of Management at SMEs and Regional Revitalization	09
Providing Broader/Deeper Support for International Business	12
ESG/SDGs Initiatives	13
Risk Management Systems	15
Financial Section	17
Outline of Banking Subsidiaries.....	70
Organization Chart of Banking Subsidiaries	71

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 ¥110.99 to \$1.

Message from the President

I am pleased to report on the business performance of Nishi-Nippon Financial Holdings, Inc. (NNFH) for the fiscal year ended 31st March 2019.

In line with the current Medium-Term Business Plan, “Leaping Forward 2020 - Innovating Ideas for Our Clients,” NNFH Group (the Group) is pushing ahead with various initiatives under the concept of “enhancement of the Group’s comprehensive financial strengths” stage when we accelerate our drive to become customers’ preferred regional financial group by focusing on expansion of our business foundations for a greater leap forward.

During the fiscal year ended 31st March, 2019, the Japanese economy followed a moderate recovery trend, primarily on the back of a pickup in private consumption and an increase in capital expenditures. However, it experienced a slowdown during the second half of the year under review as the outlook of the overseas economy became increasingly uncertain.

The economy in our host region of Kyushu also remained solid in the first half of the year but gradually began to weaken afterwards due in part to the heavy rains and typhoons that hit southwestern Japan.

The management environment in which the Group finds itself continues to see dramatic changes. These have been brought about by the continuation of extremely low interest rates, rapid progress in information and communications technology, and deregulation due to revision of the Banking Act and other regulations. Against this backdrop, we will further cement relationships within the Group in order to deliver financial services that exceed customers’ expectations.

Going forward, we will continue to aim to become the regional financial group with “No. 1” collective strength that grows together with its customers and local communities. Your continued support for and cooperation in our future endeavors would be most greatly appreciated.

July 2019

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



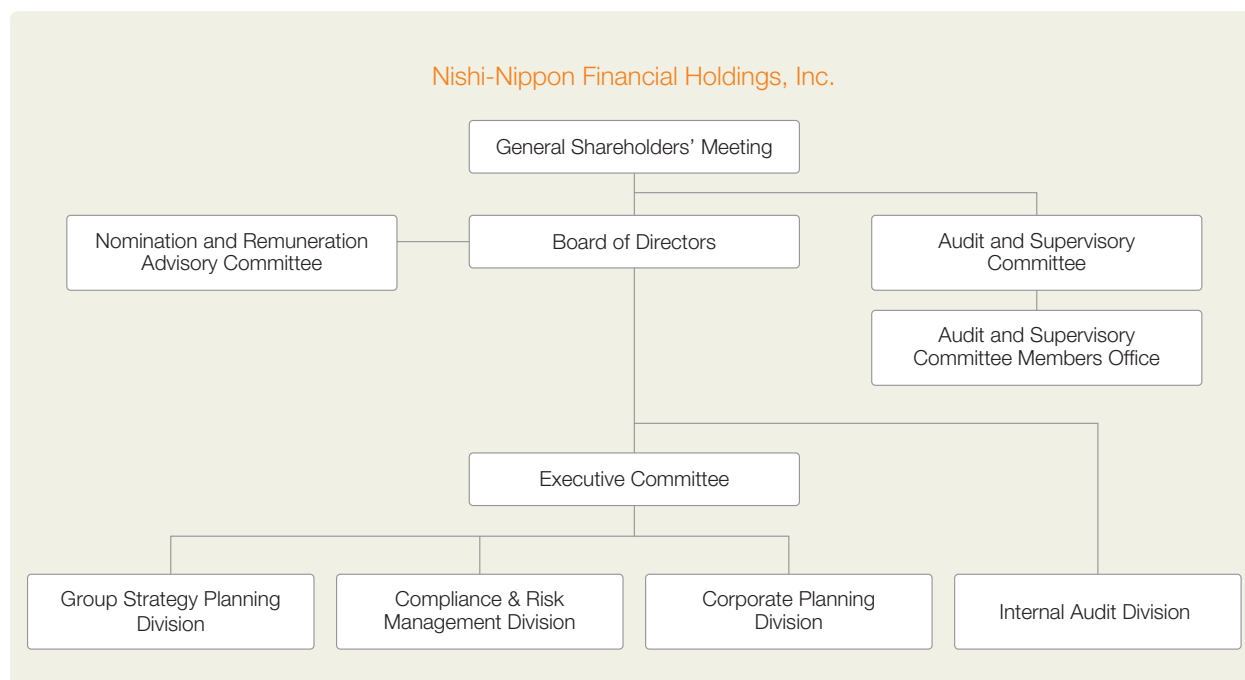
Profile of the Company (Joint Holding Company)

Name: Nishi-Nippon Financial Holdings, Inc.

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

(As of 30th June, 2019)

Organization Chart



(As of 30th June, 2019)

Board of Directors of Nishi-Nippon Financial Holdings Inc.



Chairman
Isao Kubota



President
Hiromichi Tanigawa



Deputy President
Souichi Kawamoto

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

(As of 30th June, 2019)

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

Major Shareholders (Common Stock)

Name	Shares held (thousands) (Note 1)	(%) (Note 2)
Japan Trustee Services Bank, Ltd. (Trust Account)	15,330	10.06
Japan Trustee Services Bank, Ltd. (Trust Account No.4)	9,727	6.38
Japan Trustee Services Bank, Ltd. (Trust Account No.9)	5,834	3.83
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,792	3.80
Nippon Life Insurance Company	3,861	2.53
Meiji Yasuda Life Insurance Company	2,765	1.81
J.P. MORGAN BANK LUXEMBOURG S.A. 380578	2,577	1.69
Japan Trustee Services Bank, Ltd. (Trust Account No.5)	2,474	1.62
JP MORGAN CHASE BANK 385151	2,415	1.58
The Nishi-Nippon City Bank Employee Shareholding Association	2,265	1.48
Total	53,044	34.83

(As of 31st March, 2019)

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

Outline of Nishi-Nippon Financial Holdings Group

Group Management Philosophy

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

Group Brand Slogan

Sincere Relationships, Best Solutions

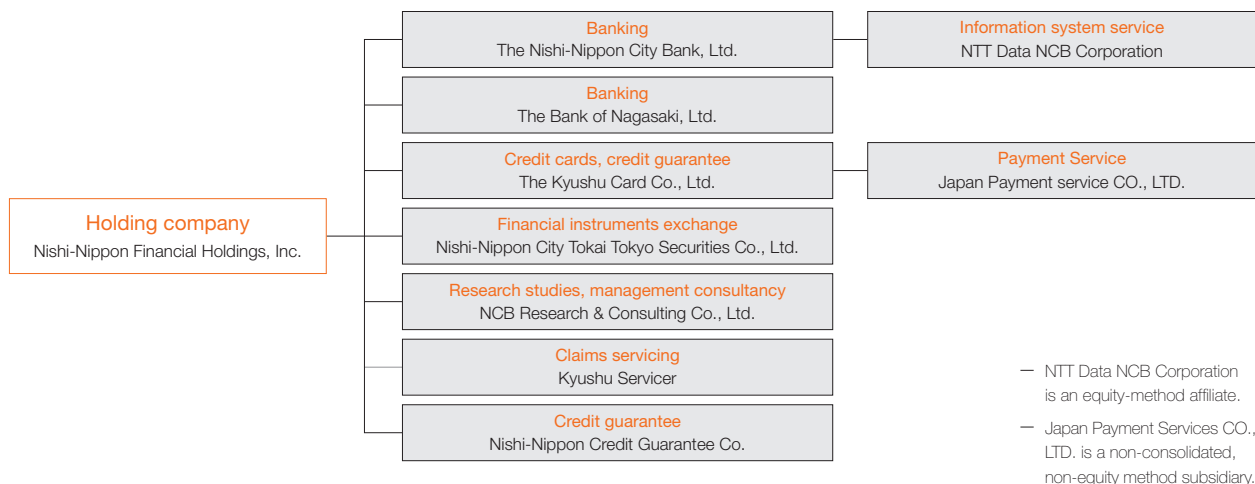
Meaning behind Our Logo



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

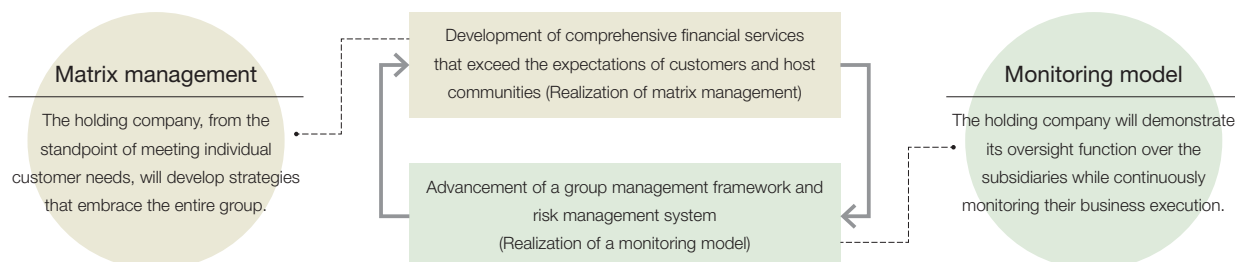
Strengths as a “Comprehensive Financial Group”

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



Group Management Strategy

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



Outline of Medium-Term Business Plan

Framework



Basic Strategy 1	Enhancement of customer-oriented, comprehensive financial services - Service innovation -
<p>Aiming to become customers' preferred comprehensive financial group</p> <ul style="list-style-type: none"> We will aim to become a comprehensive financial group that customers choose by providing products/services that tap into the merits/strengths of each Group company and building a sales system/channel capable of catering to customers' diverse needs. 	
	Priority Measures
	<ol style="list-style-type: none"> Developing "comprehensive support" through concerted efforts of the Group Advancing "business promotion with optimal solutions for each customer" Achieving "best mix channel"

Basic Strategy 2	Establishment of robust earnings structure - Behavioral innovation -
<p>Realizing sustainable growth</p> <ul style="list-style-type: none"> We will build up staying power that ensures sustainable growth into the future by further raising all employees' earnings/costs awareness, expanding the customer base for the entire Group, and becoming our customers' house bank. 	
	Priority Measures
	<ol style="list-style-type: none"> Generating synergies through collaboration among Group companies Forging efforts to improve earnings and reduce costs

Basic Strategy 3	Empowerment of trustworthy human resources and organizations - Human resources innovation -
<p>Further developing trustworthiness in human resources and consolidating "individual" strengths into "organizational" power</p> <ul style="list-style-type: none"> We will aim to consolidate "individual" strengths into "organizational" power by establishing all employees' behavioral patterns as "a member of the Group," while also further developing trustworthiness in human resources, which is the very source of our competitiveness. 	
	Priority Measures
	<ol style="list-style-type: none"> Developing human resources so that everyone can play an active role Establishing behavioral patterns as "a member of the Group"

Basic Strategy 4	Advancement of group management - Corporate governance innovation -
<p>Becoming able to respond to any environmental change both appropriately and flexibly</p> <ul style="list-style-type: none"> We will build an advanced risk management system for the entire Group and allocate the Group's resources in an optimal manner that takes into account business fields meriting attention and the conditions of each regional market, so that we can flexibly respond to the various environmental changes and risks that may lie ahead. 	
	Priority Measures
	<ol style="list-style-type: none"> Establishing a functioning governance structure Advancing the Group's risk management system Allocating the Group's resources optimally

Financial Highlights

On a consolidated basis, profit attributable to owners of parent for the year ended March 31, 2019 increased by ¥1.4 billion year-on-year to ¥22.9 billion (\$0.2 billion), due primarily to an improvement in the balance of the net interest income, increases in interest and dividends on securities, and a decrease in expenses.

On a consolidated basis, total assets at the end of the fiscal year period under review were ¥10,449.1 billion (\$94.1 billion); total liabilities were ¥9,939.3 billion (\$89.6 billion); and total net assets stood at ¥509.7 billion (\$4.6 billion).

The year-end balance of deposits was ¥8,508.8 billion (\$76.7 billion); the year-end balance of loans and bills discounted was ¥7,341.2 billion (\$66.1 billion); and the year-end balance of securities was ¥1,372.4 billion (\$12.4 billion).

Consolidated

	2019		2018
	Millions of yen	Thousands of US dollars	Millions of yen
Total income	143,799	1,295,609	142,824
Total expenses	109,744	988,782	110,401
Profit (loss) before income taxes	34,054	306,827	32,422
Profit (loss) attributable to owners of parent	22,899	206,323	21,467
	Yen	US dollars	Yen
Profit (loss) attributable to owners of parent per share	148.79	1.340	137.78
	Millions of yen	Thousands of US dollars	Millions of yen
Total assets	10,449,051	94,144,082	9,961,663
Total liabilities	9,939,317	89,551,465	9,426,768
Deposits	8,508,767	76,662,472	8,345,294
Loans and bills discounted	7,341,204	66,142,939	7,041,558
Securities	1,372,367	12,364,788	1,563,859
Capital stock	50,000	450,491	50,000
Total net assets	509,734	4,592,617	534,895

The Nishi-Nippon City Bank, Ltd.

	2019		2018
	Millions of yen	Thousands of US dollars	Millions of yen
Total income	128,298	1,155,948	140,168
Total expenses	99,121	893,063	100,554
Income before income taxes	29,177	262,885	39,614
Net income	19,970	179,930	31,671
Total assets	10,218,746	92,069,075	9,682,635
Total liabilities	9,709,971	87,485,098	9,166,010
Deposits	8,309,734	74,869,213	8,145,409
Loans and bills discounted	7,132,208	64,259,920	6,836,291
Securities	1,365,544	12,303,313	1,556,641
Capital stock	85,745	772,552	85,745
Total net assets	508,775	4,583,976	516,625

The Bank of Nagasaki, Ltd.

	2019		2018
	Millions of yen	Thousands of US dollars	Millions of yen
Total income	4,883	43,999	5,432
Total expenses	4,607	41,516	4,751
Income before income taxes	275	2,483	680
Net income	225	2,031	551
Total assets	286,972	2,585,569	278,090
Total liabilities	271,985	2,450,541	263,304
Deposits	235,483	2,121,668	237,606
Loans and bills discounted	246,791	2,223,543	242,536
Capital stock	6,121	55,155	6,121
Total net assets	14,986	135,028	14,786

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).

Capital Ratio at 9.36% (On a Consolidated Basis)*

The capital ratio as of 31st March, 2019, stood at 9.36% on a consolidated basis, 9.61% for The Nishi-Nippon City Bank, Ltd. ("Nishi-Nippon City Bank") and 8.54% for The Bank of Nagasaki, Ltd. ("Bank of Nagasaki")

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 of banks operating in Japan : 4%

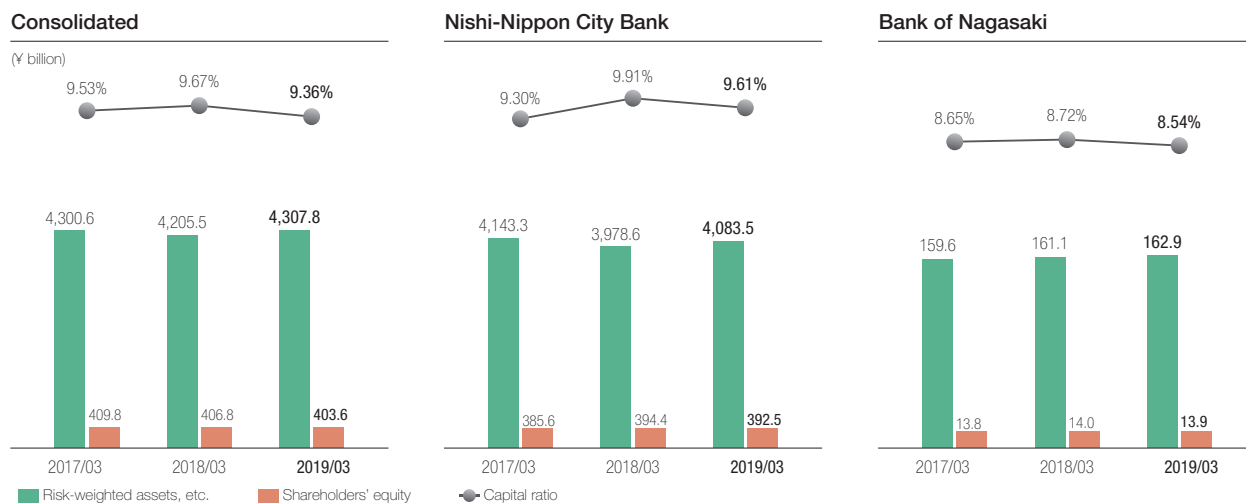
NPL Ratio Improved by 0.07 Percentage Points to 1.90% (On a Consolidated Basis)

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, 2019, the Group's NPL ratio (subject to mandatory disclosure of claims under the Financial Reconstruction Law) declined to 1.90%, compared to 1.97% at the end of the previous fiscal year.

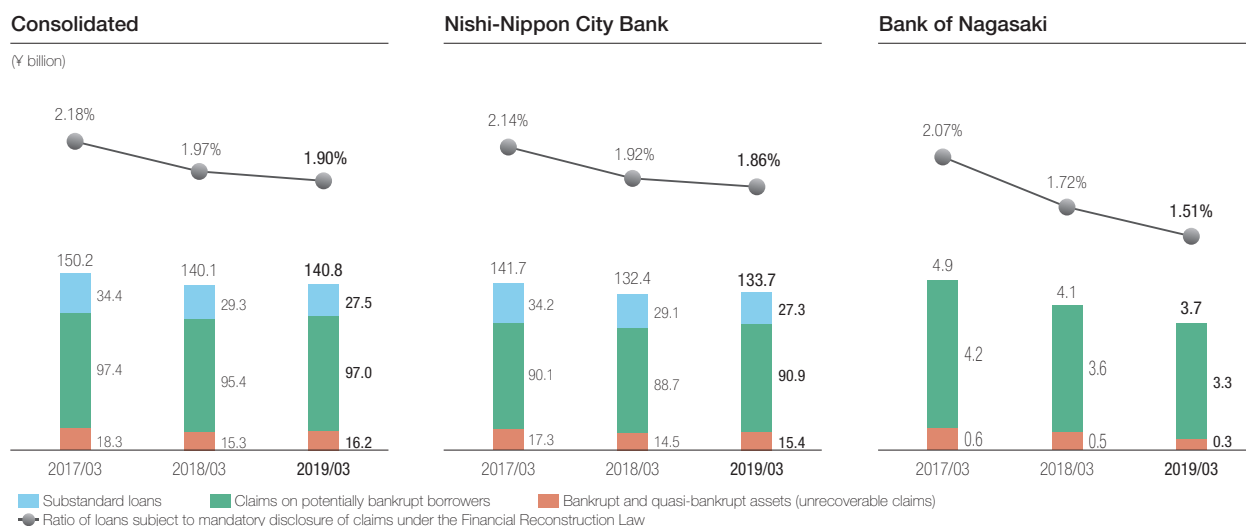
On a consolidated basis, the coverage ratio for loans subject to mandatory disclosure of claims under the Financial Reconstruction Law, mainly through collateral and guarantees, is 83.70% and the coverage ratio for bankrupt and quasi-bankrupt assets remains at 100%.

Capital ratio



Note: The following approaches are adopted to calculate risk-weighted assets, etc.
 Amount of credit risk-weighted assets: Foundation Internal Ratings-Based (FIRB) approach
 Operational risk equivalent amounts: The Standardized Approach (TSA)

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



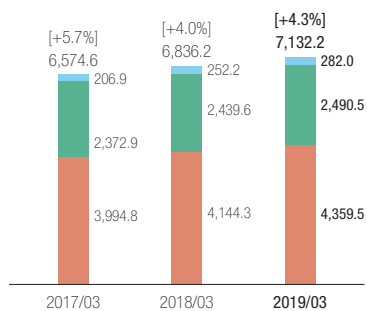
Financial Results

Balance of loans

Nishi-Nippon City Bank

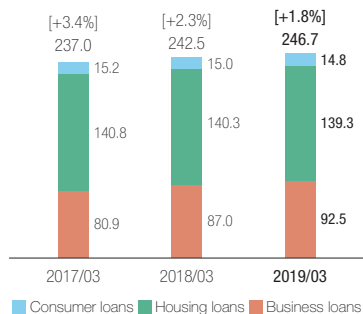
Total outstanding loans

(¥ billion)
[] YoY change



Bank of Nagasaki

Total outstanding loans



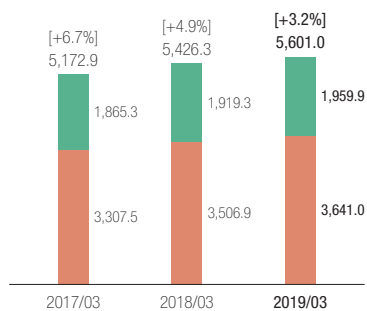
Consumer loans Housing loans Business loans

Balance of loans to small and medium-sized enterprises, etc.

Nishi-Nippon City Bank

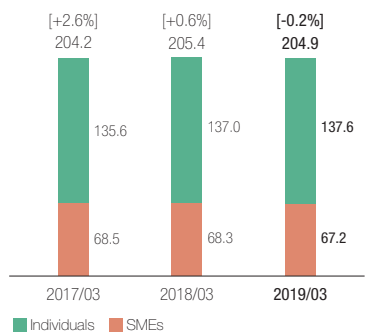
Total outstanding loans to SMEs, etc.

(¥ billion)
[] YoY change



Bank of Nagasaki

Total outstanding loans to SMEs, etc.



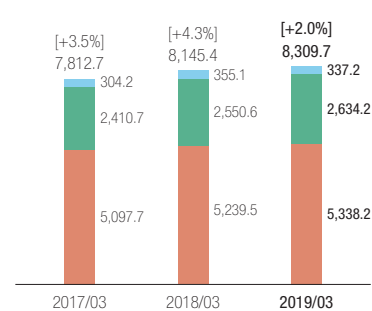
Individuals SMEs

Balance of deposits/NCD

Nishi-Nippon City Bank

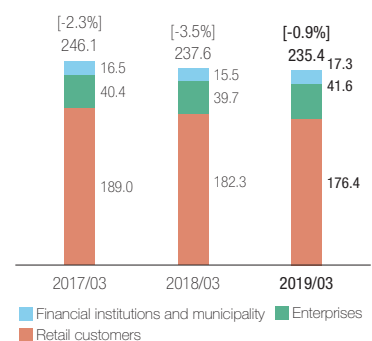
Total outstanding deposits/NCD

(¥ billion)
[] YoY change



Bank of Nagasaki

Total outstanding deposits/NCD

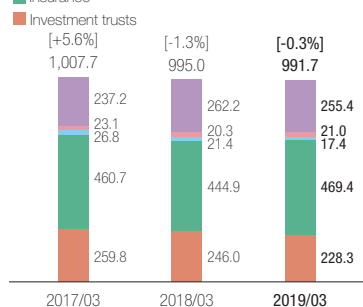


Financial institutions and municipality Enterprises Retail customers

Management of client assets

Group total

(¥ billion)
[] YoY change (term-end balance)



* Group total = Nishi-Nippon City Bank + Bank of Nagasaki + Nishi-Nippon City Tokai Tokyo Securities

Initiatives for Improvement of Management at SMEs and Regional Revitalization

Support for Customers Starting Businesses

The Group offers a range of services designed specifically for customers who are planning to start up new businesses or diversify their existing ones. These services include helping to meet their funding and consulting needs at the time of startup through financing, venture fund investment and other means, provision of information on government subsidies and public loans, and arrangement of partnerships with external organizations for the purposes of commercializing and marketing new technologies.

[Startup/second startup* projects assisted by the banking subsidiaries (fiscal year ended March 2019)]
(Cases)

	Nishi-Nippon City Bank	Bank of Nagasaki
Startup	3,736	15
Second startup	99	1

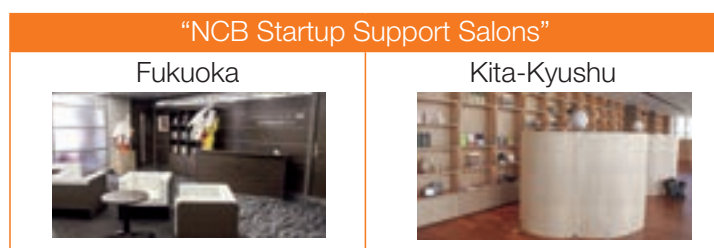
* Definition of "second startup"

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

Establishment of "NCB Startup Support Salons"

Nishi-Nippon City Bank operates an "NCB Startup Support Salon" within its small business funds consulting service centers, BSC (Business Support Center) Fukuoka and BSC Kita-Kyushu. These salons offer consulting services on everything to do with starting a business, including support for pre-startup business plan formulation, financing at the time of startup, post-startup management guidance/consultation, and organization of seminars. They also provide entrepreneurs with opportunities to network with their peers.

At these salons, customers can avail themselves of in-depth consultations with consultants specializing in startup support, covering everything from pre-startup business plan formulation and financing at the time of startup through post-startup management consultation.



5,333 visitors in total
30 startup consultants

(As of 31st March, 2019)

Establishment of a consulting office

In April 2019, Nishi-Nippon City Bank established a section providing consulting services for corporate customers under the Corporate Business Solution Division with a view to further reinforcing its function of providing high-value-added services.

Personnel in this new office listen carefully to managerial issues that customers have and offer solutions.

Entry into employment agency business

In April 2019, NCB Research & Consulting was granted a license to operate a fee-charging employment agency, making the NNFH Group the first regional banking group in Kyushu to enter the employment agency business. The Group helps customers to resolve human resources-related issues, which are on the rise as the population ages and the birthrate declines.

Initiatives for Improvement of Management at SMEs and Regional Revitalization

Business Feasibility Assessment

The Group has always believed that, in order to fulfill its social responsibility, facilitation of regional financing is its single most important role. In line with this principle, the Group continues to proactively enhance its support services for small- and medium-sized enterprises.

By fairly and adequately evaluating feasibility of the contents and growth potential of enterprises' businesses, the Group helps these clients to find solutions to any management issues and enhance the value of their businesses.

[Financing based on Business feasibility assessment]

	Nishi-Nippon City Bank	Bank of Nagasaki
Total number of businesses assessed (instances) (Percentage share in all borrowers)	4,824 (11.6%)	406 (15.8%)
Total outstanding loans to businesses assessed (¥ billion) (Percentage share in loan balance)	2,499.3 (47.4%)	30.0 (40.1%)

(As of 31st March, 2019)

[Improvement of management at main customers]

	Nishi-Nippon City Bank	Bank of Nagasaki
Total number of main customers (instances)	16,996	1,430
Total outstanding loans to main customers (¥ billion)	2,679.6	43.5
Total number of businesses improved (instances)	13,466	798
Total outstanding loans to businesses improved (¥ billion)	2,285.2	31.0

(As of 31st March, 2019)

* Main customer refers to the customer we have the largest share in their borrowings.

* Number of businesses showing year-on-year improvement of net sales, operating income margin, etc.

Provision of Funds and Various Other Financing Means

The Group makes capital commitments to a variety of funds for businesses in various stages, including support for startups and new businesses, business growth, business succession, shift to "sixth-order industrialization," and commercialization of business seeds, as well as improvement of management and support for business turnaround. In addition to lending, which is the Group's main business activity as a financial institution, it financially supports the growth of regional businesses by tapping into those funds.

[Cases where funds issued by Nishi-Nippon City Bank were utilized]

(Cases)

	fiscal year ended March 2019	cumulative total
NCB Kyushu Six-Order Industrialization Support Fund*1	0	11
NCB Kyushu Revitalization Fund*2	4	10
QB Fund No. 1*3	12	20
Total	16	41

*1 Established to create new business opportunities in Kyushu through collaboration among those in the primary, secondary, and tertiary industries, with the aim of creating added value. To date, a total of ¥722 million from this fund has been invested in 11 cases (as of 31st March, 2019), which places the Group in the leading position among regional banks.

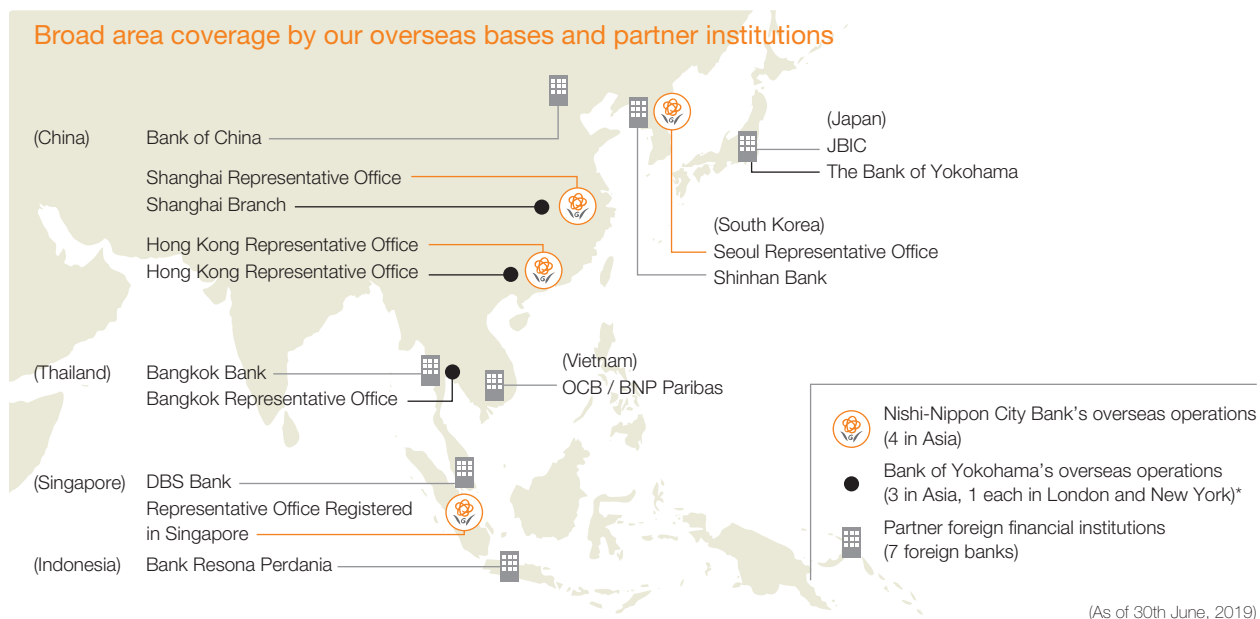
*2 By providing growth capital in various forms, this fund is aimed at supporting local businesses contributing to revitalization of the local economy and creation of jobs.

*3 Managed by QB Capital, LLC, which was established jointly with Kyushu TLO Company, Limited, this fund is aimed at revitalizing the regional economy in Kyushu by creating new industries through use of research outcomes from universities in Kyushu.

Providing Broader/Deeper Support for International Business

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

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



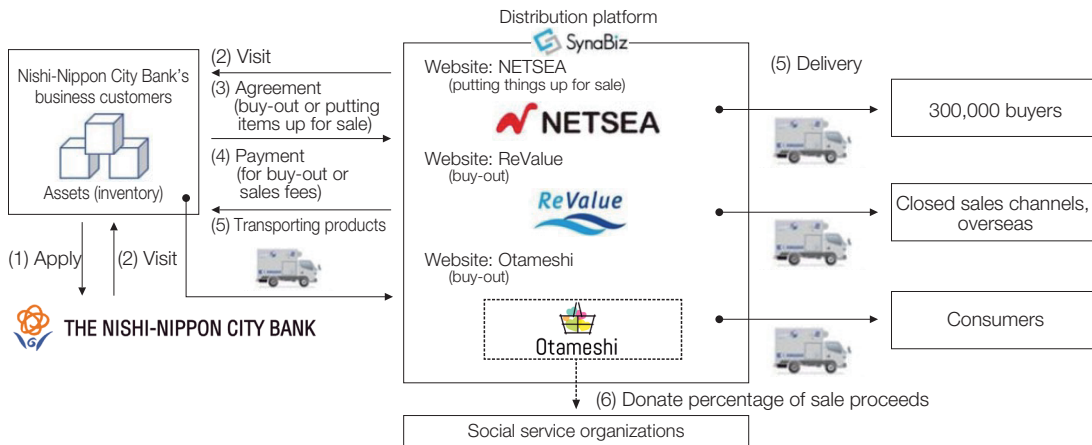
* Nishi-Nippon City Bank concluded Basic Agreement for Overseas Business Support Services with The Bank of Yokohama in September 2016.

ESG/SDGs Initiatives

With the aim of enhancing corporate value and realizing a sustainable society, the Group is actively engaged in ESG/SDGs initiatives in ways that only a regional financial institution can accomplish.

Environment

In April 2019 Nishi-Nippon City Bank signed a partnership agreement with Sagawa Express Co., Ltd. and SynaBiz Co., Ltd. to introduce services that help business customers to curb inventory control/disposal costs and reduce disposal losses. (First among regional banking groups in Japan)



Financing for Environment-Related Businesses

- We began handling private placement bonds for businesses with eco-friendly management, as certified by national and local governments (first case underwritten in February 2008).



Rebuilding as Eco-Friendly Offices

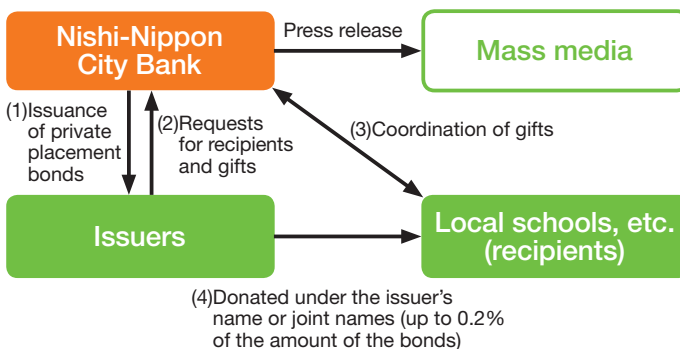
- We are rebuilding existing offices as “eco-friendly offices” equipped with solar power generators, rainwater recycling systems, eco-friendly glass, LED lighting, and energy-conserving air conditioners.



Social

“Tsunagu Kokoro (Connecting Hearts)” Private Placement Bonds in Support of Local Community

How the Donations Work



Nishi-Nippon City Bank began handling “Tsunagu Kokoro” private placement bonds in support of the local community, under which donations are offered for the purchase of books and sports gear for local schools in support of learning and the personal growth of the children who will play an important role in the future of the Kyushu region. A total ¥6.77 billion in bonds have been underwritten for 61 companies as of 31st March, 2019 (first case underwritten in March 2017).



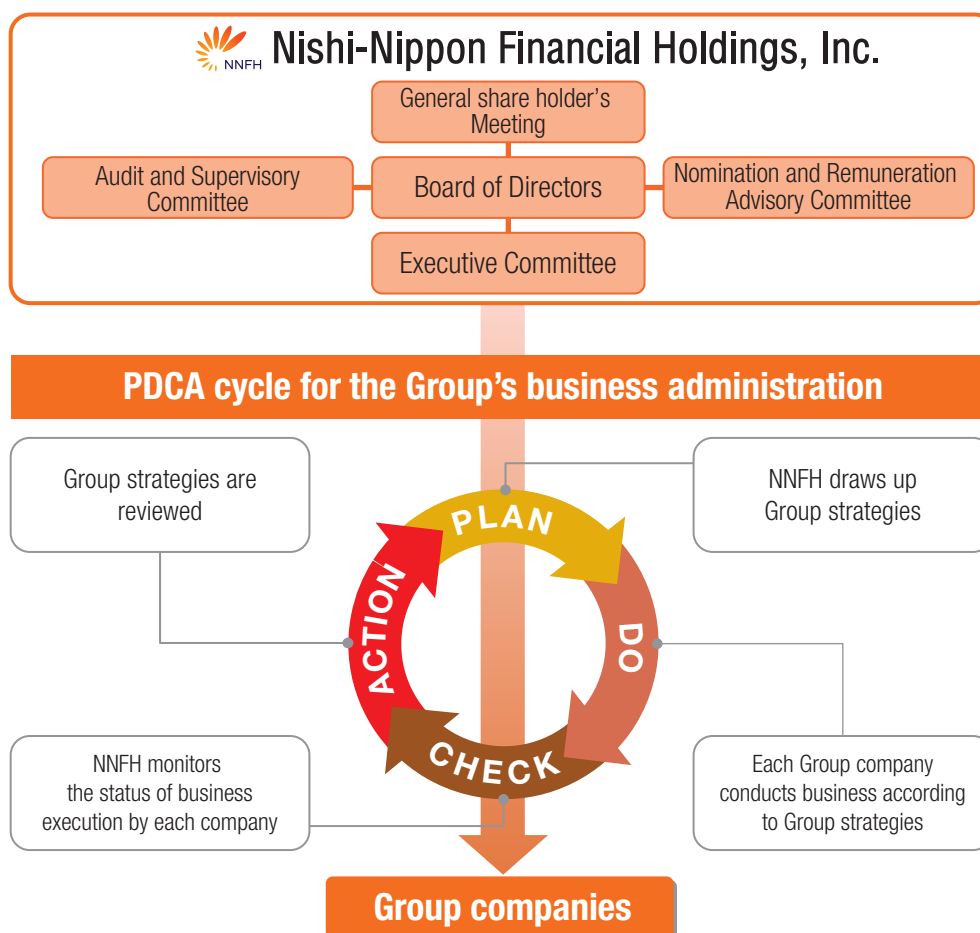
Intellectual Contributions to Local Community

Since 2008, Chairman Isao Kubota has regularly given lectures on economic matters to share the latest economic and financial information collected from both Japanese and overseas sources.



In an effort to help improve financial literacy, we also organize the “School of Money,” an event for students from local elementary schools, as well as financial lectures for university students.

Governance



PDCA Cycle for Group Business Administration

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

Company with Audit and Supervisory Committee

Reinforcing governance and building a prompt and efficient decision-making system
Ensuring effectiveness of auditing and oversight functions by ensuring that outside directors comprise a majority of board members.

Establishment of "Nomination and Remuneration Advisory Committee"

Nomination and Remuneration Advisory Committee has been established to discuss appointment and dismissal of, and a remuneration scheme for, management executives in response to an inquiry made in Board of Directors.

Risk Management Systems

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

Integrated Risk Management:

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

Credit Risk Management:

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

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

Market Risk Management:

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

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

Liquidity Risk Management:

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

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

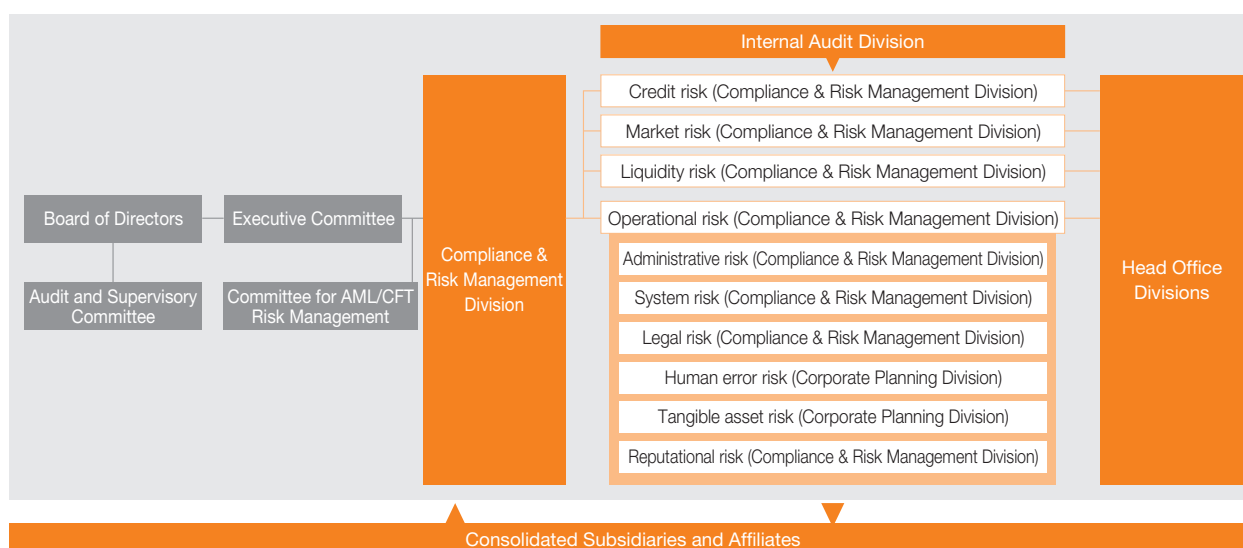
Operational Risk Management:

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

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

Crisis Management:

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



NNFH established a Compliance & Risk Management Division to manage all matters concerning 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.

Commitment to Anti-Money Laundering (AML) Compliance

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

Financial Section

Contents

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries

Consolidated Balance Sheet	18
Consolidated Statement of Income	19
Consolidated Statement of Comprehensive Income	19
Consolidated Statement of Changes in Net Assets	20
Consolidated Statement of Cash Flows	22
Notes to Consolidated Financial Statements	23
Quarterly Information (Unaudited)	59

The Nishi-Nippon City Bank, Ltd.

Non-Consolidated Balance Sheet (Unaudited)	60
Non-Consolidated Statement of Income (Unaudited)	61
Non-Consolidated Statement of Changes in Net Assets (Unaudited)	62

The Bank of Nagasaki, Ltd.

Non-Consolidated Balance Sheet (Unaudited)	64
Non-Consolidated Statement of Income (Unaudited)	65
Non-Consolidated Statement of Changes in Net Assets (Unaudited)	66

Notes to Non-Consolidated Financial Statements (Unaudited)	68
Independent Auditor's Report	69

Consolidated Balance Sheet

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Assets:			
Cash and due from banks (Notes 6 and 27)	¥1,474,517	¥1,076,592	\$13,285,139
Call loans and bills bought	471	—	4,251
Commercial paper and other debt purchased	37,436	35,993	337,296
Trading account assets (Notes 3 and 28)	1,166	1,142	10,512
Money held in trust (Note 29)	4,870	2,850	43,877
Securities (Notes 4, 6, 27 and 28)	1,372,367	1,563,859	12,364,788
Loans and bills discounted (Notes 5, 6, 7 and 27)	7,341,204	7,041,558	66,142,939
Foreign exchange assets (Note 8)	8,396	8,359	75,647
Other assets (Notes 6, 9)	94,023	96,070	847,132
Tangible fixed assets (Notes 10 and 17)	123,930	124,793	1,116,592
Intangible fixed assets	4,525	4,198	40,775
Asset for retirement benefits (Note 31)	6,162	25,652	55,521
Deferred tax assets (Note 32)	645	631	5,818
Customers' liabilities for acceptances and guarantees	23,254	23,537	209,517
Reserve for possible loan losses (Note 27)	(43,343)	(42,958)	(390,514)
Reserve for devaluation of securities	(578)	(618)	(5,213)
Total assets	¥10,449,051	¥9,961,663	\$94,144,082
Liabilities and net assets:			
Liabilities:			
Deposits (Notes 6, 11, and 27)	¥8,508,767	¥8,345,294	\$76,662,472
Call money and bills sold (Notes 6 and 27)	109,084	64,387	982,833
Payables under repurchase agreements (Notes 6 and 27)	166,666	100,753	1,501,634
Guarantee deposits received under securities lending transactions (Note 6)	145,718	27,630	1,312,896
Borrowed money (Notes 6, 13 and 27)	891,921	748,876	8,036,054
Foreign exchange liabilities (Note 8)	172	113	1,551
Bonds (Notes 12 and 27)	10,000	20,000	90,098
Other liabilities (Note 14)	55,522	55,006	500,247
Liability for retirement benefits (Note 31)	2,864	751	25,806
Reserve for retirement benefits for directors and corporate auditors	246	232	2,223
Reserve for reimbursement of deposits	2,151	2,539	19,386
Reserve for other contingent losses	1,380	1,409	12,441
Reserve under the special laws	10	9	97
Deferred tax liabilities (Note 32)	6,571	21,224	59,211
Deferred tax liabilities on revaluation of premises (Note 17)	14,982	15,000	134,993
Acceptances and guarantees	23,254	23,537	209,517
Total liabilities	9,939,317	9,426,768	89,551,465
Net assets:			
Capital stock (Note 15)	50,000	50,000	450,491
Capital surplus	132,510	134,791	1,193,893
Earned surplus	255,229	236,924	2,299,570
Treasury stock (Note 16)	(10,896)	(10,668)	(98,171)
Total shareholders' equity	426,843	411,048	3,845,783
Net unrealized gains on securities available for sale, net of taxes (Note 28)	57,200	79,474	515,368
Net deferred gains (losses) on hedging instruments, net of taxes	(205)	(33)	(1,849)
Revaluation of premises, net of taxes (Note 17)	30,017	30,058	270,452
Retirement benefits liability adjustments, net of taxes (Note 31)	(11,612)	6,927	(104,629)
Total accumulated other comprehensive income	75,400	116,426	679,341
Non-controlling interests	7,490	7,420	67,492
Total net assets (Note 37)	509,734	534,895	4,592,617
Total liabilities and net assets	¥10,449,051	¥9,961,663	\$94,144,082

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥84,400	¥84,759	\$760,437
Interest and dividends on securities	16,799	14,086	151,360
Other interest income (Note 18)	1,626	1,573	14,658
Fees and commissions	32,631	32,584	294,002
Trading income	1,433	2,489	12,918
Other operating income (Note 19)	1,285	1,241	11,580
Other income (Note 20)	5,621	6,090	50,651
Total income	143,799	142,824	1,295,609
Expenses:			
Interest expenses:			
Interest on deposits	1,304	2,381	11,748
Interest on call money and bills sold	57	180	518
Interest on payables under repurchase agreements	2,640	932	23,789
Interest on guarantee deposits received under securities lending transactions	250	206	2,258
Interest on borrowings	708	455	6,384
Other interest expenses (Note 21)	1,113	931	10,032
Fees and commissions	11,786	11,509	106,193
Other operating expenses (Note 22)	3,378	2,148	30,435
General and administrative expenses (Note 23)	81,002	85,238	729,816
Other expenses (Note 24)	7,503	6,417	67,602
Total expenses	109,744	110,401	988,782
Profit (loss) before income taxes	34,054	32,422	306,827
Income taxes (Note 32)			
Current	9,036	9,609	81,414
Deferred	1,874	546	16,884
Total income taxes	10,910	10,155	98,299
Profit (loss)	23,144	22,266	208,527
Profit (loss) attributable to:			
Non-controlling interests	244	798	2,204
Owners of parent (Note 37)	¥22,899	¥21,467	\$206,323

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Profit (loss)	¥23,144	¥22,266	\$208,527
Other comprehensive income:			
Net unrealized gains on securities available for sale	(22,268)	17,424	(200,633)
Net deferred gains (losses) on hedging instruments	(171)	350	(1,546)
Retirement benefits liability adjustments	(18,540)	7,119	(167,043)
Total other comprehensive income (Note 25)	(¥40,980)	¥24,894	(\$369,223)
Comprehensive income	(¥17,835)	¥47,161	(\$160,695)
Comprehensive income attributable to owners of parent	(¥18,085)	¥46,290	(\$162,951)
Comprehensive income attributable to non-controlling interests	¥250	¥870	\$2,255

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Shareholders' equity:			
Capital stock (Note 15)			
Balance at beginning of the year	¥50,000	¥50,000	\$450,491
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥50,000	¥50,000	\$450,491
Capital surplus			
Balance at beginning of the year	¥134,791	¥141,868	\$1,214,449
Changes during the year			
Sale of treasury stock	0	0	2
Retirement of treasury stock	(2,281)	(7,076)	(20,557)
Total changes during the year	(2,281)	(7,076)	(20,555)
Balance at end of the year	¥132,510	¥134,791	\$1,193,893
Earned surplus			
Balance at beginning of the year	¥236,924	¥219,793	\$2,134,648
Changes during the year			
Cash dividends paid (Note 38)	(4,635)	(4,679)	(41,765)
Profit (loss) attributable to owners of parent	22,899	21,467	206,323
Reversal of revaluation of premises	40	342	364
Total changes during the year	18,304	17,131	164,921
Balance at end of the year	¥255,229	¥236,924	\$2,299,570
Treasury stock (Note 16)			
Balance at beginning of the year	(¥10,668)	(¥15,829)	(\$96,120)
Changes during the year			
Acquisition of treasury stock	(2,509)	(1,916)	(22,612)
Sale of treasury stock	0	0	3
Retirement of treasury stock	2,281	7,076	20,557
Total changes during the year	(227)	5,161	(2,051)
Balance at end of the year	(¥10,896)	(¥10,668)	(\$98,171)
Total shareholders' equity			
Balance at beginning of the year	¥411,048	¥395,831	\$3,703,469
Changes during the year			
Cash dividends paid (Note 38)	(4,635)	(4,679)	(41,765)
Profit (loss) attributable to owners of parent	22,899	21,467	206,323
Acquisition of treasury stock	(2,509)	(1,916)	(22,612)
Sale of treasury stock	0	0	5
Reversal of revaluation of premises	40	342	364
Total changes during the year	15,795	15,216	142,314
Balance at end of the year	¥426,843	¥411,048	\$3,845,783

Consolidated Statement of Changes in Net Assets

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Accumulated other comprehensive income:			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥79,474	¥62,122	\$716,052
Changes during the year			
Net changes in items other than shareholders' equity	(22,273)	17,352	(200,684)
Total changes during the year	(22,273)	17,352	(200,684)
Balance at end of the year	¥57,200	¥79,474	\$515,368
Net deferred gains (losses) on hedging instruments, net of taxes			
Balance at beginning of the year	(¥33)	(¥384)	(\$303)
Changes during the year			
Net changes in items other than shareholders' equity	(171)	350	(1,546)
Total changes during the year	(171)	350	(1,546)
Balance at end of the year	(¥205)	(¥33)	(\$1,849)
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥30,058	¥30,400	\$270,817
Changes during the year			
Net changes in items other than shareholders' equity	(40)	(342)	(364)
Total changes during the year	(40)	(342)	(364)
Balance at end of the year	¥30,017	¥30,058	\$270,452
Retirement benefits liability adjustments			
Balance at beginning of the year	¥6,927	(¥192)	\$62,414
Changes during the year			
Net changes in items other than shareholders' equity	(18,540)	7,119	(167,043)
Total changes during the year	(18,540)	7,119	(167,043)
Balance at end of the year	(¥11,612)	¥6,927	(\$104,629)
Total accumulated other comprehensive income			
Balance at beginning of the year	¥116,426	¥91,946	\$1,048,981
Changes during the year			
Net changes in items other than shareholders' equity	(41,026)	24,479	(369,639)
Total changes during the year	(41,026)	24,479	(369,639)
Balance at end of the year	¥75,400	¥116,426	\$679,341
Non-controlling interests:			
Balance at beginning of the year	¥7,420	¥23,899	\$66,861
Changes during the year			
Net changes in items other than shareholders' equity	70	(16,479)	630
Total changes during the year	70	(16,479)	630
Balance at end of the year	¥7,490	¥7,420	\$67,492
Total net assets:			
Balance at beginning of the year	¥534,895	¥511,678	\$4,819,311
Changes during the year			
Cash dividends paid (Note 38)	(4,635)	(4,679)	(41,765)
Profit (loss) attributable to owners of parent	22,899	21,467	206,323
Acquisition of treasury stock	(2,509)	(1,916)	(22,612)
Sale of treasury stock	0	0	5
Reversal of revaluation of premises	40	342	364
Net changes in items other than shareholders' equity	(40,956)	8,000	(369,008)
Total changes during the year	(25,160)	23,216	(226,694)
Balance at end of the year	¥509,734	¥534,895	\$4,592,617

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries

Year ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
I. Cash flows from operating activities:			
Profit (loss) before income taxes	¥34,054	¥32,422	\$306,827
Depreciation	5,669	6,861	51,080
Losses on impairment of fixed assets	98	1,135	889
Amortization of goodwill	283	283	2,555
Equity in gains of nonconsolidated subsidiaries and affiliate	(84)	(233)	(757)
Increase (decrease) in reserve for possible loan losses	384	(1,381)	3,462
(Decrease) increase in reserve for devaluation of securities	(39)	0	(360)
Decrease (increase) in asset for retirement benefits	19,490	(13,324)	175,605
Increase (decrease) in liability for retirement benefits	2,113	(60)	19,040
Increase (decrease) in reserve for retirement benefits for directors and corporate auditors	14	(15)	127
(Decrease) increase in reserve for reimbursement of deposits	(387)	118	(3,490)
Decrease in reserve for other contingent losses	(28)	(88)	(258)
Income from lending activities	(102,827)	(100,419)	(926,456)
Funding costs	6,074	5,087	54,733
Gains on securities	(2,891)	(2,343)	(26,055)
Gains on money held in trust	(10)	(4)	(91)
Net foreign exchange gains	(653)	(691)	(5,886)
Losses on sale of tangible fixed assets	258	376	2,328
Net increase in trading account assets	(23)	(273)	(214)
Net increase in loans and bills discounted	(299,646)	(237,730)	(2,699,760)
Net increase in deposits	225,860	268,620	2,034,963
Net (decrease) increase in certificates of deposit	(62,387)	57,661	(562,101)
Net increase in borrowed money, exclusive of subordinated borrowings	143,044	118,214	1,288,807
Net increase in due from banks, exclusive of central bank	(373)	(88)	(3,367)
Net increase in call loans	(1,915)	(2,258)	(17,254)
Net increase in call money	110,610	36,041	996,580
Net increase in guarantee deposits received under securities lending transactions	118,087	8,916	1,063,948
Net increase in foreign exchange assets	(36)	(819)	(331)
Net increase in foreign exchange liabilities	58	24	527
Interest and dividends received	104,219	101,776	938,998
Interest paid	(6,349)	(5,565)	(57,210)
Others	(32,920)	(59,777)	(296,606)
Subtotal	259,746	212,463	2,340,273
Income taxes paid	(10,400)	(7,634)	(93,704)
Net cash provided by operating activities	¥249,346	¥204,828	\$2,246,569
II. Cash flows from investing activities:			
Payments for purchase of securities	(¥170,544)	(¥241,402)	(\$1,536,577)
Proceeds from sale of securities	113,604	55,252	1,023,552
Proceeds from redemption of securities	229,525	296,928	2,067,984
Payments for increase in money held in trust	(2,020)	(2,000)	(18,199)
Payments for purchase of tangible fixed assets	(3,452)	(10,071)	(31,102)
Proceeds from sale of tangible fixed assets	172	966	1,557
Payments for purchase of intangible fixed assets	(1,766)	(958)	(15,915)
Payments for acquisition of subsidiaries' shares resulting in changes in scope of consolidation	—	(181)	—
Net cash provided by investing activities	¥165,519	¥98,535	\$1,491,298
III. Cash flows from financing activities:			
Redemption of subordinated bonds	(¥10,000)	(¥10,000)	(\$90,098)
Dividends paid	(4,635)	(4,678)	(41,764)
Dividends paid to non-controlling shareholders	(180)	(349)	(1,625)
Payments for distribution to non-controlling shareholders	—	(17,000)	—
Payments for acquisition of treasury stock	(2,509)	(1,916)	(22,612)
Proceeds from sale of treasury stock	0	0	5
Net cash used in financing activities	(¥17,325)	(¥33,943)	(\$156,095)
IV. Effects of changes in exchange rates on cash and cash equivalents	¥10	(¥12)	\$92
V. Net increase in cash and cash equivalents	¥397,551	¥269,407	\$3,581,864
VI. Cash and cash equivalents at beginning of the year	¥1,073,168	¥803,760	\$9,669,052
VII. Cash and cash equivalents at end of the year (Note 36)	¥1,470,719	¥1,073,168	\$13,250,917

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries

1. Basis of Presentation of Consolidated Financial Statements

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

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

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

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

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

The amounts in U.S. dollars are included solely for the convenience of readers outside Japan. A rate of ¥110.99= U.S.\$ 1.00, the exchange rate on 31st March, 2019, 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

(1) Scope of Consolidation

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

The number of consolidated and non-consolidated subsidiaries for the years ended 31st March, 2019 and 2018 is as follows:

	2019	2018
i) Number of consolidated subsidiaries:	7	7
ii) Number of non-consolidated subsidiaries:	2	2

(2) Application of Equity Method

The number of non-consolidated subsidiaries and affiliates, which are accounted for by the equity method, for the years ended 31st March, 2019 and 2018 is as follows:

	2019	2018
i) Number of non-consolidated subsidiaries accounted for by the equity method:	0	0
ii) Number of affiliates accounted for by the equity method:	1	1
iii) Number of non-consolidated subsidiaries not accounted for by the equity method:	2	2
iv) Number of affiliates not accounted for by the equity method:	0	0

(3) Fiscal Years of Consolidated Subsidiaries

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

(4) Trading Account Assets and Liabilities

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

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

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

Notes to Consolidated Financial Statements

(5) Securities

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

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

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

(6) Derivatives

Derivatives held or written are stated at fair value.

(7) Tangible Fixed Assets (excluding leased assets)

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

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

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

(8) Intangible Fixed Assets (excluding leased assets)

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

(9) Leased Assets

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

(10) Reserve for Possible Loan Losses

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

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

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

For 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 amounts of such direct write-offs at 31st March, 2019 and 2018 were ¥5,813 million (\$52,375 thousand) and ¥5,193 million, respectively.

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.

(11) Reserve for Devaluation of Securities

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

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

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

(13) Reserve for Reimbursement of Deposits

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

(14) Reserve for Other Contingent Losses

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

(15) Reserve under the Special Laws

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

(16) Accounting for Retirement Benefits

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

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

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

(17) Foreign Currency Translation

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

(18) Accounting for Leases

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

(19) Hedge Accounting

i) Hedge accounting for interest rate risks

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

With regard to hedging transactions to offset fluctuations in the fair value of fixed-rate bonds classified as available-for-sale securities, in accordance with operational rules concerning hedge accounting, hedged items are distinguished by identical type of bonds and interest rate swaps are used as hedging instruments. Since significant terms related to those hedged items and hedging instruments are nearly identical, such hedging transactions are deemed highly effective in terms of evaluation of hedge effectiveness.

Notes to Consolidated Financial Statements

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

ii) Hedge accounting for foreign exchange rate risk

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

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

iii) Internal contract

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

(20) Amortization of Goodwill

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

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

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

(22) Accounting Treatment for Consumption Taxes

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

(23) Application of the Consolidated Tax Payment System

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

(Accounting Standards Issued but Not Yet Effective)

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 of 30th March, 2018)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 of 30th March, 2018)

Overview

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

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

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

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

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

Scheduled date of adoption

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

Impact of the adoption of the accounting standard and implementation guidance

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

3. Trading Account Assets

Trading account assets at 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trading securities	¥1,166	¥1,142	\$10,512
Other trading assets	—	—	—
Total	¥1,166	¥1,142	\$10,512

4. Securities

Securities at 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Japanese government bonds	¥381,450	¥472,435	\$3,436,801
Japanese municipal bonds	77,433	88,204	697,657
Corporate bonds (including government-guaranteed bonds)*	374,498	447,921	3,374,164
Stock**	132,421	162,398	1,193,093
Other securities***	406,564	392,900	3,663,071
Total	¥1,372,367	¥1,563,859	\$12,364,788

* Corporate bonds included bonds offered through private placement. The guarantee obligation of Nishi-Nippon City Bank for such private placement bonds at 31st March, 2019 and 2018 were ¥11,951 million (\$107,676 thousand) and ¥8,619 million, respectively.

** Stock included stock of affiliates of ¥748 million (\$6,741 thousand) and ¥739 million at 31st March, 2019 and 2018, respectively.

*** Other securities included investments in non-consolidated subsidiaries of ¥206 million (\$1,858 thousand) and ¥211 million at 31st March, 2019 and 2018, respectively.

5. Loans and Bills Discounted

Loans and bills discounted at 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bills discounted*	¥27,617	¥30,287	\$248,831
Loans on notes	236,420	236,589	2,130,103
Loans on deed	6,331,978	6,066,631	57,049,990
Overdraft	745,188	708,050	6,714,012
Total	¥7,341,204	¥7,041,558	\$66,142,939

* 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 ¥28,182 million (\$253,920 thousand) and ¥31,142 million at 31st March, 2019 and 2018, respectively.

Notes to Consolidated Financial Statements

Non-performing loans included in the loans at 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans to legally bankrupt entities**	¥2,764	¥2,214	\$24,905
Delinquent loans***	109,808	108,218	989,359
Loans past due for three months or more****	884	1,624	7,969
Loans with altered lending conditions*****	26,471	27,558	238,499
Total	¥139,928	¥139,615	\$1,260,733

** 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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets pledged as collateral			
Cash and due from banks	¥36	¥37	\$329
Securities	929,308	967,933	8,372,903
Loans	781,585	—	7,041,949
Total	¥1,710,931	¥967,970	\$15,415,182
Liabilities secured by the above assets			
Deposits	¥18,814	¥11,672	\$169,515
Call money and bills sold	38,200	38,200	\$344,175
Payables under repurchase agreements	166,666	100,753	1,501,634
Guarantee deposits received under securities lending transactions	145,718	27,630	1,312,896
Borrowed money	885,269	740,116	7,976,117

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, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities	¥2,644	¥2,644	\$23,823

Additionally, the following was included in other assets at 31st March, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash collateral paid for financial instruments	¥45,827	¥47,303	\$412,900
Deposits included in other assets	2,267	2,176	20,427

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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Aggregate amount under commitment contracts not yet drawn down	¥1,935,369	¥2,016,916	\$17,437,332
Of the above amount, those with original maturity of less than one year or cancellable at any time without penalty	1,900,535	1,978,716	17,123,480

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, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets:			
Foreign exchange bills bought	¥564	¥855	\$5,088
Foreign exchange bills receivable	169	187	1,530
Due from foreign banks (their accounts)	—	—	—
Due from foreign banks (our accounts)	7,661	7,316	69,028
Total	¥8,396	¥8,359	\$75,647
Liabilities:			
Foreign exchange bills sold	¥3	¥38	\$29
Foreign exchange bills payable	168	74	1,521
Total	¥172	¥113	\$1,551

9. Other Assets

Other assets at 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Domestic exchange settlement account*	¥24	¥19	\$220
Accrued income	6,585	6,783	59,338
Prepaid expenses	114	90	1,032
Financial derivative products	5,046	7,330	45,465
Cash collateral paid for financial instruments	45,827	47,303	412,900
Other	36,424	34,543	328,175
Total	¥94,023	¥96,070	\$847,132

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

Notes to Consolidated Financial Statements

10. Tangible Fixed Assets

Tangible fixed assets at 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Land	¥75,549	¥75,821	\$680,688
Buildings	35,406	36,939	319,009
Construction in progress	1,649	267	14,858
Leased assets	300	265	2,709
Other tangible fixed assets	11,024	11,501	99,326
Total	¥123,930	¥124,793	\$1,116,592

* The amounts of accumulated depreciation for tangible fixed assets at 31st March, 2019 and 2018 were ¥74,887 million (\$674,727 thousand) and ¥72,651, respectively.

The accelerated depreciation entry amounts for tangible fixed assets at 31st March, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
	¥7,142	¥7,305	\$64,354

11. Deposits

Deposits at 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current deposits	¥385,520	¥380,573	\$3,473,469
Ordinary deposits	4,791,230	4,458,586	43,168,124
Deposits at notice	13,062	14,713	117,693
Time deposits	2,779,485	2,902,618	25,042,663
Negotiable certificates of deposit	416,232	478,620	3,750,184
Other deposits	123,236	110,182	1,110,337
Total	¥8,508,767	¥8,345,294	\$76,662,472

12. Bonds

Bonds at 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bonds:			
0.67% Japanese yen callable subordinated bonds due 2023	¥—	¥10,000	\$—
0.87% Japanese yen callable subordinated bonds due 2025	10,000	10,000	90,098
Total	¥10,000	¥20,000	\$90,098

13. Borrowed Money

The weighted average interest rates on borrowed money is 0.09% at 31st March, 2019.

The aggregate annual maturity amounts within five years of borrowed money after 31st March, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March		
2020	¥36,180	\$325,977
2021	65,274	588,109
2022	345,144	3,109,694
2023	445,106	4,010,331
2024	104	938

14. Other Liabilities

Other liabilities at 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Domestic exchange settlement account	¥63	¥43	\$571
Accrued income taxes	3,485	5,571	31,406
Accrued expenses	7,974	8,301	71,848
Unearned income	2,361	2,440	21,274
Financial derivative products	5,684	4,958	51,220
Lease obligations	304	282	2,741
Cash collateral received for financial instruments	364	1,345	3,279
Asset retirement obligations	778	785	7,018
Others	34,505	31,278	310,886
Total	¥55,522	¥55,006	\$500,247

15. Capital Stock

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

	Common stock	Capital stock	
	Issued shares	Millions of yen	Thousands of U.S. dollars
1st April, 2018	169,596,955	¥50,000	\$450,491
Increase	—	—	—
Decrease*	3,000,000	—	—
31st March, 2019	166,596,955	¥50,000	\$450,491

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

Capital stock during the year ended 31st March, 2018 consisted of the following:

	Common stock	Capital stock
	Issued shares	Millions of yen
1st April, 2017	179,596,955	¥50,000
Increase	—	—
Decrease*	10,000,000	—
31st March, 2018	169,596,955	¥50,000

* The decrease of 10,000,000 shares is due to retirement of treasury shares.

Notes to Consolidated Financial Statements

16. Treasury Stock

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

	Common stock	Treasury stock	
	Number of shares	Millions of yen	Thousands of U.S. dollars
1st April, 2018	15,095,538	(¥10,668)	(\$96,120)
Increase*	2,251,709	(2,509)	(22,612)
Decrease*	3,000,484	2,282	20,561
31st March, 2019	14,346,763	(¥10,896)	(\$98,171)

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

Treasury stock during the year ended 31st March, 2018 consisted of the following:

	Common stock	Treasury stock
	Number of shares	Millions of yen
1st April, 2017	23,641,266	(¥15,829)
Increase*	1,454,907	(1,916)
Decrease*	10,000,595	7,077
31st March, 2018	15,095,538	(¥10,668)

* The increase of 1,454,907 shares is due to acquisition of treasury shares of 1,441,700 and purchase of fractional shares of 13,207.
The decrease of 10,000,595 shares is due to retirement of treasury shares of 10,000,000 and sale of fractional shares of 595.

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 difference between the aggregate market value of land for business use revalued in accordance with Article 10 of the Law Concerning Land Revaluation and the book value after revaluation at 31st March, 2018 is as follows:

Millions of yen
2018
¥6,862

* The difference at 31st March, 2019 is not presented as the aggregate market value of land subject to revaluation exceeded the book value after revaluation.

18. Other Interest Income

Other interest income for the years ended 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Interest on call loans and bills bought	¥10	¥8	\$92
Interest on deposits with banks	179	181	1,616
Others	1,437	1,383	12,949
Total	¥1,626	¥1,573	\$14,658

19. Other Operating Income

Other operating income for the years ended 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Gains on foreign exchange transactions	¥653	¥691	\$5,886
Gains on sale of bonds	141	129	1,273
Others	490	419	4,420
Total	¥1,285	¥1,241	\$11,580

20. Other Income

Other income for the years ended 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Gains on sale of stock and other securities	¥3,770	¥2,656	\$33,974
Gains on money held in trust	10	4	91
Equity in earnings of affiliates	84	233	757
Gains on disposition of fixed assets	58	211	529
Reversal of reserve for possible loan losses	—	102	—
Recoveries of written-off claims	433	161	3,907
Rental income on land and buildings	403	390	3,635
Others	860	2,329	7,755
Total	¥5,621	¥6,090	\$50,651

21. Other Interest Expenses

Other interest expenses for the years ended 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bonds	¥136	¥166	\$1,231
Others	976	764	8,801
Total	¥1,113	¥931	\$10,032

22. Other Operating Expenses

Other operating expenses for the years ended 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Losses on sale of bonds	¥783	¥298	\$7,061
Losses on redemption of bonds	108	125	979
Losses on devaluation of bonds	7	12	69
Expenses for derivatives other than trading derivatives	2,477	1,712	22,324
Total	¥3,378	¥2,148	\$30,435

Notes to Consolidated Financial Statements

23. General and Administrative Expenses

General and administrative expenses for the years ended 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Salaries and allowances	¥32,111	¥32,439	\$289,315
Employee retirement benefits	(355)	1,895	(3,205)
Retirement benefits for directors and corporate auditors	48	38	437
Depreciation	5,669	6,861	51,080
Rental expenses	3,156	3,288	28,440
Taxes	5,491	5,411	49,475
Others	34,881	35,304	314,272
Total	¥81,002	¥85,238	\$729,816

24. Other Expenses

Other expenses for the years ended 31st March, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Provision for possible loan losses	¥2,735	¥—	\$24,643
Losses on write-offs of claims	2,503	2,727	22,558
Losses on sale of stock and other securities	100	0	904
Losses on devaluation of stock and other securities	19	5	176
Losses on disposition of tangible fixed assets	317	587	2,858
Impairment losses	98	1,135	889
Losses on sale of loans	300	136	2,708
Others	1,427	1,823	12,863
Total	¥7,503	¥6,417	\$67,602

25. Other Comprehensive Income

Reclassification adjustments and tax effects related to other comprehensive income for the years ended 31st March, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized gains on securities available for sale:			
Amount arising during the year	(¥24,050)	¥28,834	(\$216,690)
Reclassification adjustments	(6,564)	(3,154)	(59,146)
Amount before tax effect	(30,615)	25,679	(275,837)
Tax effect	8,346	(8,255)	75,204
Net unrealized gains on securities available for sale	(¥22,268)	¥17,424	(\$200,633)
Net deferred gains (losses) on hedging instruments:			
Amount arising during the year	(¥1,270)	(¥436)	(\$11,451)
Reclassification adjustments	1,023	940	9,225
Amount before tax effect	(246)	504	(2,225)
Tax effect	75	(153)	678
Net deferred gains (losses) on hedging instruments	(¥171)	¥350	(\$1,546)
Retirement benefits liability adjustments			
Amount arising during the year	(¥26,604)	¥8,633	(\$239,697)
Reclassification adjustments	(72)	1,609	(653)
Amount before tax effect	(26,676)	10,243	(240,350)
Tax effect	8,136	(3,123)	73,306
Retirement benefits liability adjustments	(¥18,540)	¥7,119	(\$167,043)
Total other comprehensive income	(¥40,980)	¥24,894	(\$369,223)

26. Lease Transactions

(1) Finance leases

Information on finance lease transactions which are accounted for as operating leases at 31st March, 2019 and 2018 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amounts equivalent to acquisition cost			
Tangible fixed assets	¥1,867	¥1,867	\$16,827
Total	¥1,867	¥1,867	\$16,827
Amounts equivalent to accumulated depreciation			
Tangible fixed assets	¥1,605	¥1,527	\$14,460
Total	¥1,605	¥1,527	\$14,460
Amounts equivalent to carrying value			
Tangible fixed assets	¥262	¥339	\$2,367
Total	¥262	¥339	\$2,367

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.

Notes to Consolidated Financial Statements

Future lease payments of finance leases which are accounted for as operating leases at 31st March, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Future finance lease payments			
Due within one year	¥77	¥77	\$695
Due after one year	185	262	1,671
Total	¥262	¥339	\$2,367

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

Total lease payments during the year and the amount equivalent to depreciation expenses for the years ended 31st March, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total lease payments during the year	¥77	¥77	\$695
The amount equivalent to depreciation expenses *	77	77	695

* 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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Future operating lease payments			
Due within one year	¥345	¥355	\$3,112
Due after one year	264	347	2,381
Total	¥609	¥702	\$5,494

27. Financial Instruments

(1) Matters related to status of financial instruments

i) Policies for financial instruments

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

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

ii) Types of financial instruments and related risks

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

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

Borrowed money and bonds are exposed to liquidity risks that, if some problems arise in cash management due to deterioration in financial positions at the Group, the Group is forced to raise funds at higher interest rates than usual, market transactions are

suspended as a result of market turmoil, or it is forced to make transactions at a drastically unfavorable price than usual, it could impact future operations of the Group.

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

iii) Risk management system for financial instruments

(a) Credit risk management

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

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

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

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

(b) Market risk management

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

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

(Quantitative information on market risks)

The measured quantity of market risks of the Group as a whole at 31st March, 2019 and 2018 were ¥33,368 million (\$300,643 thousand) and ¥32,745 million, respectively.

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

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

(c) Liquidity risk management

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

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

Notes to Consolidated Financial Statements

(d) Risk management for derivative transactions

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

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

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

(2) Estimated fair value of financial instruments

Carrying value of financial instruments in the consolidated balance sheets at 31st March, 2019 and 2018 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, 2019>

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

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Cash and due from banks	\$13,285,139	\$13,285,139	\$—
ii) Securities:			
Held-to-maturity securities	434,882	442,058	7,176
Available-for-sale securities	11,771,056	11,771,056	—
iii) Loans and bills discounted			
Reserve for possible loan losses*	(375,972)		
	65,766,966	66,745,128	978,161
Total assets	\$91,258,045	\$92,243,383	\$985,337
Liabilities:			
i) Deposits	\$76,662,472	\$76,664,952	\$2,479
ii) Call money and bills sold	982,833	982,833	—
iii) Payables under repurchase agreements	1,501,634	1,501,634	—
iv) Guarantee deposits received under securities lending transactions	1,312,896	1,312,896	—
v) Borrowed money	8,036,054	7,980,535	(55,518)
Total liabilities	\$88,495,890	\$88,442,850	(\$53,039)
Derivatives**			
Hedge accounting not applied	\$465	\$465	\$—
Hedge accounting applied	(4,310)	(4,310)	—
Total derivatives	(\$3,844)	(\$3,844)	\$—

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

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

<At 31st March, 2018>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Cash and due from banks	¥1,076,592	¥1,076,592	¥—
ii) Securities:			
Held-to-maturity securities	57,364	58,533	1,168
Available-for-sale securities	1,490,487	1,490,487	—
iii) Loans and bills discounted			
Reserve for possible loan losses*	(41,256)		
	7,000,301	7,106,552	106,250
Total assets	¥9,624,746	¥9,732,166	¥107,419
Liabilities:			
i) Deposits	¥8,345,294	¥8,345,745	¥450
ii) Call money and bills sold	64,387	64,387	—
iii) Payables under repurchase agreements	100,753	100,753	—
iv) Guarantee deposits received under securities lending transactions	27,630	27,630	—
v) Borrowed money	748,876	742,424	(6,451)
vi) Bonds	20,000	20,113	113
Total liabilities	¥9,306,943	¥9,301,055	(¥5,887)
Derivatives**			
Hedge accounting not applied	¥189	¥189	¥—
Hedge accounting applied	771	771	—
Total derivatives	¥960	¥960	¥—

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

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

Notes to Consolidated Financial Statements

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

Assets:

i) Cash and due from banks

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

ii) Securities

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

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

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

iii) Loans and bills discount

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

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

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

Liabilities:

i) Deposits

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

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

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

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

v) Borrowed money

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

vi) 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.

Notes to Consolidated Financial Statements

Derivative transactions:

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Non-listed stocks	¥14,109	¥14,470	\$127,125
Investments in partnerships	3,520	1,537	31,723
Total	¥17,630	¥16,007	\$158,849

- Notes: 1. Because non-listed stocks have no market price and because it is extremely difficult to estimate their fair value, they are not subject to the fair value disclosure.
2. In the years ended 31st March, 2019 and 2018, impairment losses of ¥0 million (\$0 thousand) and ¥5 million were recorded for non-listed stocks, respectively.
3. Investments in partnerships whose fair value is extremely difficult to be estimated because the partnership's assets are non-listed stocks, etc. are not subject to the fair value disclosure.

(Note 3) Repayment schedules for monetary claims and securities with stated maturity at 31st March, 2019 and 2018

<At 31st March, 2019>

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

	Thousands of U.S. dollars					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Due from banks	\$12,312,071	\$—	\$—	\$—	\$—	\$—
Securities:						
Held-to-maturity securities	158,545	135,147	144,157	—	—	—
Government bonds	90,098	135,147	144,157	—	—	—
Municipal bonds	47,661	—	—	—	—	—
Corporate bonds	20,785	—	—	—	—	—
Securities available for sale with maturity	2,541,234	2,597,976	1,910,569	1,751,461	1,342,289	380,804
Government bonds	1,673,123	797,369	297,324	162,176	108,117	—
Municipal bonds	59,915	103,108	130,687	193,630	154,518	—
Corporate bonds	424,213	1,196,403	973,389	431,928	268,105	—
Others	383,981	501,095	509,168	963,725	811,547	380,804
Loans and bills discounted	13,613,210	10,545,224	9,016,857	6,378,088	7,015,757	17,747,219
Total	\$28,625,062	\$13,278,348	\$11,071,584	\$8,129,550	\$8,358,046	\$18,128,023

Note: Excluded from Loans and bills discounted are ¥112,490 million (\$1,013,519 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 ¥90,241 million (\$813,062 thousand) relating to those that do not have contractual maturity.

Notes to Consolidated Financial Statements

<At 31st March, 2018>

	Millions of yen					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Due from banks	¥971,364	¥—	¥—	¥—	¥—	¥—
Securities:						
Held-to-maturity securities	9,309	32,597	10,000	6,000	—	—
Government bonds	—	25,000	10,000	6,000	—	—
Municipal bonds	1,000	5,290	—	—	—	—
Corporate bonds	8,309	2,307	—	—	—	—
Securities available for sale with maturity	216,617	501,035	216,515	157,482	195,155	29,332
Government bonds	97,000	261,200	38,000	26,000	5,000	—
Municipal bonds	15,080	13,034	10,365	18,990	23,651	—
Corporate bonds	76,775	132,325	116,042	58,192	46,786	—
Others	27,762	94,476	52,108	54,299	119,717	29,332
Loans and bills discounted	1,414,042	1,135,524	984,423	660,639	793,015	1,848,052
Total	¥2,611,334	¥1,669,157	¥1,210,938	¥824,121	¥988,171	¥1,877,384

Note: Excluded from Loans and bills discounted are ¥109,997 million relating to those whose repayment is not reasonably estimable because the debtors are borrowers under bankruptcy proceedings, borrowers substantially in bankruptcy, or customers with high probability of becoming insolvent and ¥95,862 million relating to those that do not have contractual maturity.

(Note 4) Repayment schedules for bonds, borrowed money and other interest-bearing debts at 31st March, 2019 and 2018

<At 31st March, 2019>

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

	Thousands of U.S. dollars					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Deposits	\$73,808,330	\$2,279,101	\$442,726	\$60,221	\$72,093	\$0
Call money and bills sold	982,833	—	—	—	—	—
Payables under repurchase agreements	1,501,634	—	—	—	—	—
Guarantee deposits received under securities lending transactions	1,312,896	—	—	—	—	—
Borrowed money	325,977	3,697,804	4,011,269	908	95	—
Bonds	—	—	—	90,098	—	—
Total	\$77,931,670	\$5,976,905	\$4,453,995	\$151,227	\$72,188	\$0

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

<At 31st March, 2018>

	Millions of yen					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Deposits	¥8,024,310	¥265,564	¥41,643	¥6,288	¥7,487	¥0
Call money and bills sold	64,387	—	—	—	—	—
Payables under repurchase agreements	100,753	—	—	—	—	—
Guarantee deposits received under securities lending transactions	27,630	—	—	—	—	—
Borrowed money	35,186	180,255	533,251	157	26	—
Bonds	—	—	—	10,000	10,000	—
Total	¥8,252,268	¥445,819	¥574,894	¥16,445	¥17,514	¥0

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

28. Securities

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Holding gains (losses) recognized in income	¥2	(¥7)	\$19

(2) Held-to-maturity securities

i) Securities whose fair value exceeds their carrying value

<At 31st March, 2019>

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

	Thousands of U.S. dollars		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	\$366,334	\$373,195	\$6,861
Municipal bonds	47,744	47,992	247
Corporate bonds	20,803	20,870	67
	434,882	442,058	7,176
Others	—	—	—
Total	\$434,882	\$442,058	\$7,176

Notes to Consolidated Financial Statements

<At 31st March, 2018>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	¥40,410	¥41,421	¥1,010
Municipal bonds	6,319	6,403	84
Corporate bonds	10,634	10,708	73
	57,364	58,533	1,168
Others	—	—	—
Total	¥57,364	¥58,533	¥1,168

ii) Securities whose carrying value exceeds their fair value

<At 31st March, 2019>

None

<At 31st March, 2018>

None

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

i) Securities whose carrying value exceeds their acquisition cost

<At 31st March, 2019>

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

	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Valuation differences
Stocks	\$1,012,682	\$397,559	\$615,122
Bonds:			
Government bonds	3,070,467	3,047,229	23,237
Municipal bonds	451,555	449,317	2,237
Corporate bonds	3,286,418	3,253,223	33,194
	6,808,440	6,749,771	58,669
Others	1,911,896	1,787,497	124,398
Total	\$9,733,019	\$8,934,828	\$798,190

Notes to Consolidated Financial Statements

<At 31st March, 2018>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥142,540	¥47,215	¥95,324
Bonds:			
Government bonds	432,024	428,908	3,116
Municipal bonds	38,533	38,393	140
Corporate bonds	366,527	363,307	3,220
	837,086	830,609	6,476
Others	122,842	105,514	17,327
Total	¥1,102,468	¥983,340	¥119,128

ii) Securities whose acquisition cost exceeds their carrying value

<At 31st March, 2019>

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

	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Valuation differences
Stocks	\$53,284	\$66,599	(\$13,314)
Bonds:			
Government bonds	—	—	—
Municipal bonds	198,357	198,481	(123)
Corporate bonds	66,942	66,964	(21)
	265,300	265,445	(145)
Others	1,719,451	1,765,630	(46,178)
Total	\$2,038,037	\$2,097,676	(\$59,638)

<At 31st March, 2018>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥5,387	¥6,138	(¥751)
Bonds:			
Government bonds	—	—	—
Municipal bonds	43,351	43,563	(211)
Corporate bonds	70,759	70,867	(107)
	114,110	114,430	(319)
Others	268,520	274,295	(5,775)
Total	¥388,018	¥394,865	(¥6,846)

Notes to Consolidated Financial Statements

(4) Available-for-sale securities sold for the years ended 31st March, 2019 and 2018 are as follows:

<At 31st March, 2019>

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

	Thousands of U.S. dollars		
	Proceeds from sale	Gains	Losses
Stocks	\$29,586	\$30,314	(\$903)
Bonds:			
Government bonds	—	—	—
Municipal bonds	—	—	—
Corporate bonds	270	1	—
	270	1	—
Others	476,575	4,931	(7,064)
Total	\$506,432	\$35,247	(\$7,966)

<At 31st March, 2018>

	Millions of yen		
	Proceeds from sale	Gains	Losses
Stocks	¥1,991	¥2,662	(¥0)
Bonds:			
Government bonds	—	—	—
Municipal bonds	—	—	—
Corporate bonds	120	1	—
	120	1	—
Others	14,670	107	(298)
Total	¥16,782	¥2,771	(¥298)

(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 ¥27 million (\$245 thousand), of which ¥19 million (\$176 thousand) for stocks and ¥7 million (\$69 thousand) for bonds, for the year ended 31st March, 2019.

The amount of devaluation was ¥12 million for bonds for the year ended 31st March, 2018.

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, 2019 and 2018 are as follows:

<At 31st March, 2019>

	Millions of yen	Thousands of U.S. dollars
Revaluation difference	¥81,971	\$738,552
Deferred tax liability	(24,091)	(217,056)
Revaluation difference (before non-controlling interest adjustment), net of taxes	57,880	521,496
Amount corresponding to non-controlling interests	(680)	(6,128)
Amount corresponding to the parent's share of net unrealized gains on available-for-sale securities owned by affiliates	—	—
Unrealized gains on securities available for sale, net of taxes	¥57,200	\$553,725

<At 31st March, 2018>

	Millions of yen
Revaluation difference	¥112,282
Deferred tax liability	(32,437)
Revaluation difference (before non-controlling interest adjustment), net of taxes	79,844
Amount corresponding to non-controlling interests	(369)
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	¥79,474

29. Money Held in Trust

Money held in trust at 31st March, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Money held in trust for other purposes than investment purposes and held-to-maturity purposes:			
Acquisition cost	¥4,870	¥2,850	\$43,877
Carrying value	4,870	2,850	43,877
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, 2019 and 2018, to which hedge accounting is not applied. The amounts of the contract value are not necessarily indicative of the actual market risk of derivative transactions.

i) Interest related transactions**<At 31st March, 2019>**

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

Notes to Consolidated Financial Statements

Type of transactions	Thousands of U.S. dollars			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Interest rate swaps:				
Receive-fixed and pay-floating	\$315,784	\$292,493	\$8,680	\$8,680
Receive-floating and pay-fixed	315,784	292,493	(6,994)	(6,994)
Total	—	—	\$1,686	\$1,686

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

<At 31st March, 2018>

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	¥37,793	¥37,529	¥814	¥814
Receive-floating and pay-fixed	37,793	37,529	(589)	(589)
Total	—	—	¥225	¥225

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

ii. Currency related transactions

<At 31st March, 2019>

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

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	\$740,983	\$230,435	(\$1,342)	(\$1,342)
Forward foreign:				
Sell	42,792	—	(254)	(254)
Buy	79,896	—	376	376
Currency option:				
Sell	628,655	353,227	(19,071)	1,866
Buy	628,655	353,227	19,071	3,218
Total	—	—	(\$1,220)	\$3,864

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

Notes to Consolidated Financial Statements

<At 31st March, 2018>

Type of transactions	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Currency swaps	¥141,010	¥24,802	(¥209)	(¥209)
Forward foreign:				
Sell	12,219	182	258	258
Buy	7,671	127	(84)	(84)
Currency option:				
Sell	77,457	46,951	(2,824)	(225)
Buy	77,457	46,951	2,824	884
Total	—	—	(¥35)	¥623

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, 2019 and 2018, to which hedge accounting is applied. The amounts of the contract value are not necessarily indicative of the actual market risk of derivative transactions.

i) Interest related transactions

<At 31st March, 2019>

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

Hedge accounting method	Type of transactions	Hedged item	Thousands of U.S. dollars		
			Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Interest rate swaps: Receive-floating and pay-fixed	Available-for-sale securities	\$145,000	\$125,000	(\$2,695)
Special treatment for interest rate swaps	Interest rate swaps: Receive-floating and pay-fixed Interest rate options	Loans and bills discounted, and deposits	1,489,647 —	1,422,074 —	(Note 2)
Total			—	—	(\$2,695)

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)".

Notes to Consolidated Financial Statements

<At 31st March, 2018>

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	¥15,404	¥15,404	(¥54)
Special treatment for interest rate swaps	Interest rate swaps: Receive-floating and pay-fixed	Loans and bills discounted, and deposits	170,769	167,364	(Note 2)
	Interest rate options		—	—	
Total			—	—	(¥54)

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

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

ii) Currency related transactions

<At 31st March, 2019>

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

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	Forward foreign	Securities denominated in foreign currencies	\$442,790	\$—	(\$1,615)
Total			—	—	(\$1,615)

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

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

<At 31st March, 2018>

Hedge accounting method	Type of transactions	Hedged item	Millions of yen		Fair value
			Contract value		
			Total	Over one year	
Principle hedge accounting method	Forward foreign	Securities denominated in foreign currencies	¥38,481	¥—	¥825
Total			—	—	¥825

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

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

31. Employee Retirement Benefits

(1) Description of the retirement benefit plans

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

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

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

Notes to Consolidated Financial Statements

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

As of 31st March, 2019, the lump-sum payment plans have been adopted by 6 consolidated subsidiaries. The corporate pension fund plans have been adopted by 2 consolidated subsidiaries. The defined contribution plan has been adopted by 1 consolidated subsidiary.

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

(2) Defined benefit plans

- i) Reconciliation between the balances of retirement benefit obligation at the beginning and end of the year for the years ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligation at beginning of the year	¥69,142	¥70,357	\$622,963
Service cost	2,068	2,129	18,637
Interest cost	605	616	5,459
Actuarial gain and loss	7,544	(104)	67,977
Retirement benefits paid	(3,782)	(3,856)	(34,075)
Others	—	—	—
Retirement benefit obligation at end of the year	¥75,580	¥69,142	\$680,963

- ii) Reconciliation between the balances of plan assets at the beginning and end of the year for the years ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Plan assets at beginning of the year	¥94,044	¥81,875	\$847,324
Expected return on plan assets	3,096	2,694	27,894
Actuarial gain and loss	(19,059)	8,529	(171,719)
Contributions by employer	2,901	2,914	26,140
Contributions by employees	149	152	1,347
Retirement benefits paid	(2,254)	(2,122)	(20,309)
Others	—	—	—
Plan assets at end of the year	¥78,878	¥94,044	\$710,677

- iii) Reconciliation between the balances of retirement benefit obligation and plan assets at the end of the year and the amounts of the liability and asset for retirement benefits recognized in the consolidated balance sheets at 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligation (funded)	¥75,116	¥68,686	\$676,786
Fair value of plan assets	(78,878)	(94,044)	(710,677)
	(3,761)	(25,358)	(33,891)
Retirement benefit obligation (unfunded)	463	456	4,176
Net liability (asset) for retirement benefits in the balance sheet	(¥3,298)	(¥24,901)	(\$29,714)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Liability for retirement benefits	¥2,864	¥751	\$25,806
Asset for retirement benefits	(6,162)	(25,652)	(55,521)
Net liability (asset) for retirement benefits in the balance sheet	(¥3,298)	(¥24,901)	(\$29,714)

Notes to Consolidated Financial Statements

iv) Components of retirement benefit expenses for the years ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥1,919	¥1,976	\$17,290
Interest cost	605	616	5,459
Expected return on plan assets	(3,096)	(2,694)	(27,894)
Amortization of unrecognized actuarial gain and loss	(72)	1,609	(653)
Others	287	387	2,590
Retirement benefit expenses	(¥356)	¥1,895	(\$3,207)

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

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

v) Items recorded in retirement benefits liability adjustments included in other comprehensive income (gross of income tax effects) for the years ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial gain and loss	(¥26,676)	¥10,243	(\$240,350)

vi) Items recorded in retirement benefits liability adjustments included in accumulated other comprehensive income (gross of income tax effects) at 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized actuarial gain and loss	(¥16,717)	¥9,959	(\$150,620)

vii) Matters concerning plan assets

1) Percentages of each main category of the total plan assets at 31st March, 2019 and 2018 are as follows:

	2019	2018
Bonds	28%	25%
Stocks	52%	63%
Cash and deposits	1%	1%
Others	19%	11%
Total	100%	100%

* Retirement benefit trusts established for the corporate pension plans accounted for 23% and 30% of the total plan assets at 31st March, 2019 and 2018, respectively. Retirement benefit trusts established for the lump-sum payment plans accounted for 21% and 25% of the total plan assets at 31st March, 2019 and 2018, respectively.

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

viii) Assumptions for actuarial calculation

Major assumptions for actuarial calculation as of 31st March, 2019 and 2018

	2019	2018
1) Discount rates:	0.117% (principally)	0.893% (principally)
2) Expected long-term rate of return on plan assets:	3.3% (principally)	3.3% (principally)
3) Expected rate of pay increase:	3.08% (principally)	3.36% (principally)

(3) Defined contribution plans

Contributions of ¥0 million (\$1thousand) and ¥0 million have been made to the defined contribution plan by the consolidated subsidiary for the years ended 31st March, 2019 and 2018, respectively.

32. Income Taxes

The tax effect of temporary differences and tax loss carryforwards that give rise to the deferred tax assets and liabilities at 31st March, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Reserve for possible loan losses	¥14,079	¥13,768	\$126,849
Liability for retirement benefits	6,790	57	0
Accumulated depreciation	2,086	2,024	18,794
Loss carryforwards for tax purposes	121	115	1,097
Others	7,954	8,425	71,666
Sub-total	31,031	24,391	279,590
Valuation allowance	(7,979)	(7,657)	(71,896)
Total deferred tax assets	23,051	16,733	207,693
Deferred tax liabilities:			
Reserve fund for deferred income of fixed assets	(1)	(1)	(11)
Unrealized losses on securities attributable to partition of corporation, net	(23)	(35)	(216)
Gains on establishment of a retirement benefit trust	(3,647)	(3,647)	(32,864)
Asset retirement obligations	(36)	(38)	(325)
Capital gain adjustments	(1,081)	(1,081)	(9,748)
Share of retained earnings of affiliates accounted for by the equity method	(91)	(83)	(828)
Unrealized gains on securities available for sale, net	(24,091)	(32,437)	(217,056)
Others	(3)	—	(35)
Total deferred tax liabilities	(28,978)	(37,326)	(261,086)
Net deferred tax assets (liabilities)	(¥5,926)	(¥20,592)	(\$53,393)

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

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

The reconciliation between the statutory tax rate and the effective tax rate reflected in the consolidated statement of income for the year ended 31st March, 2018 is not presented since the difference between those rates was not more than 5% of the statutory tax rate.

Notes to Consolidated Financial Statements

33. Asset Retirement Obligations

Information on asset retirement obligations is as follows:

Asset retirement obligations that are recorded in the consolidated balance sheet

(1) Outline of asset retirement obligations

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

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

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

(3) Changes in total asset retirement obligations for the years ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of the year	¥785	¥849	\$7,073
Increase due to acquisition of tangible fixed assets	5	10	51
Adjustment for passage of time	11	11	103
Decrease due to fulfillment of asset retirement obligation	23	86	209
Balance at end of the year	¥778	¥785	\$7,018

34. Business Segment Information

(1) Segment Information

i) Segment information summary

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

<In 2019>

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

Thousands of U.S. dollars					
	Reportable segment Banking	Other	Total	Adjustments	Consolidated
Ordinary income					
Ordinary income from third party customers	\$1,186,715	\$108,363	\$1,295,079	\$—	\$1,295,079
Internal ordinary income among segments	9,776	105,889	115,666	(115,666)	—
Total ordinary income	1,196,492	214,253	1,410,746	(115,666)	1,295,079
Segment profit	268,583	91,474	360,058	(50,003)	310,054
Segment assets	94,021,950	4,367,650	98,389,601	(4,245,518)	94,144,082
Segment liabilities	89,419,400	717,930	90,137,331	(585,866)	89,551,465
Other items					
Depreciation	49,235	1,844	51,080	—	51,080
Interest and dividend income	906,841	71,868	978,709	(52,253)	926,456
Interest expenses	54,470	1,346	55,816	(1,082)	54,733
Increase in tangible and intangible fixed assets	45,124	1,893	47,018	—	47,018

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

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

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

Notes to Consolidated Financial Statements

<In 2018>

	Millions of yen				Consolidated
	Reportable segment Banking	Other	Total	Adjustments	
Ordinary income					
Ordinary income from third party customers	¥129,286	¥13,326	¥142,613	¥—	¥142,613
Internal ordinary income among segments	15,329	11,349	26,678	(26,678)	—
Total ordinary income	144,616	24,676	169,292	(26,678)	142,613
Segment profit	41,801	11,143	52,945	(19,007)	33,937
Segment assets	9,947,861	485,941	10,433,803	(472,139)	9,961,663
Segment liabilities	9,410,723	81,268	9,491,992	(65,224)	9,426,768
Other items					
Depreciation	6,630	230	6,861	—	6,861
Interest and dividend income	98,671	7,524	106,196	(5,777)	100,419
Interest expenses	5,255	126	5,382	(295)	5,087
Increase in tangible and intangible fixed assets	10,780	248	11,029	—	11,029

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

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

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

(2) Related Information

Ordinary income by services:

<In 2019>

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

	Thousands of U.S. dollars			
	Loan	Securities	Other	Total
Ordinary income from third party customers	\$812,826	\$199,618	\$282,634	\$1,295,079

Note: Ordinary income is presented instead of net sales.

<In 2018>

	Millions of yen			
	Loan	Securities	Other	Total
Ordinary income from third party customers	¥90,055	¥19,366	¥33,191	¥142,613

Note: Ordinary income is presented instead of net sales.

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

<In 2019>

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

	Thousands of U.S. dollars		
	Reportable segment Banking	Other	Total
Impairment losses	\$889	\$—	\$889

<In 2018>

	Millions of yen		
	Reportable segment Banking	Other	Total
Impairment losses	¥1,135	¥—	¥1,135

(4) Amortization and Balance of Goodwill by Reportable Segments

<In 2019>

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

	Thousands of U.S. dollars		
	Reportable segment Banking	Other	Total
Goodwill			
Amortization of goodwill	\$—	\$2,555	\$2,555
Balance at end of the year	\$—	\$5,961	\$5,961

<In 2018>

	Millions of yen		
	Reportable segment Banking	Other	Total
Goodwill			
Amortization of goodwill	¥—	¥283	¥283
Balance at end of the year	¥—	¥945	¥945

35. Related Party Transactions

There are no related party transactions to report for the years ended 31st March, 2019 and 2018.

36. Reconciliation of Cash and Cash Equivalents

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and due from banks on the consolidated balance sheet	¥1,474,517	¥1,076,592	\$13,285,139
Due from banks, exclusive of central bank	(3,798)	(3,424)	(34,222)
Cash and cash equivalents on the consolidated statement of cash flows	¥1,470,719	¥1,073,168	\$13,250,917

37. Per Share Information

	Yen		U.S. dollars
	2019	2018	2019
Net assets per share at end of the year	¥3,298.80	¥3,414.04	\$29.721
Profit (loss) attributable to owners of parent per share*	148.79	137.78	1.340

Notes to Consolidated Financial Statements

Basis for net assets per share as of 31st March, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net assets	¥509,734	¥534,895	\$4,592,617
Items to be deducted from net assets	7,490	7,420	67,492
Non-controlling interests	7,490	7,420	67,492
Net assets attributable to common stock	502,243	527,474	4,525,125
	Shares		
	2019	2018	
Number of shares of common stock outstanding at end of the year	152,250,192	154,501,417	

Basis for profit (loss) attributable to owners of parent per share for the years ended 31st March, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Basis:			
Profit (loss) attributable to owners of parent	¥22,899	¥21,467	\$206,323
Items not attributable to common stock	—	—	—
Profit (loss) attributable to owners of parent available for shareholders of common stock	22,899	21,467	206,323
	Shares		
	2019	2018	
Average number of shares of common stock outstanding during the year	153,903,301	155,811,275	

* Diluted profit (loss) attributable to owners of parent per share for the years ended 31st March, 2019 and 2018 was not presented because the Company and its consolidated subsidiaries had no dilutive shares during the years.

38. Cash Dividends

Cash dividends paid during the years ended 31st March, 2019 and 2018 are as follows:

<In 2019>

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
28th June, 2018 Ordinary General Meeting of Shareholders	Cash dividends (¥17.5 per share)	¥2,704	\$24,363	31st March, 2018	29th June, 2018
8th November, 2018 Meeting of Board of Directors	Cash dividends (¥12.5 per share)	¥1,931	\$17,402	30th September, 2018	10th December, 2018

<In 2018>

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
29th June, 2017 Ordinary General Meeting of Shareholders	Cash dividends (¥17.5 per share)	¥3,142		31st March, 2017	30th June, 2017
9th November, 2017 Meeting of Board of Directors	Cash dividends (¥12.5 per share)	¥1,949		30th September, 2017	8th December, 2017

39. Subsequent Event

The following appropriation of earned surplus for the year ended 31st March, 2019 was approved at the shareholders' meeting held on 27th June, 2019:

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
27th June, 2019 Ordinary General Meeting of Shareholders	Cash dividends (¥17.5 per share)	¥2,664	\$24,008	31st March, 2019	28th June, 2019

Quarterly Information (Unaudited)

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries

Year ended 31st March, 2019

	Millions of yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2018 to 30th June, 2018	from 1st April, 2018 to 30th September, 2018	from 1st April, 2018 to 31st December, 2018	from 1st April, 2018 to 31st March, 2019
Ordinary income	¥36,344	¥70,942	¥108,462	¥143,740
Profit (loss) before income taxes	11,611	18,686	28,774	34,054
Profit (loss) attributable to owners of parent	7,823	12,743	19,527	22,899

	Yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2018 to 30th June, 2018	from 1st April, 2018 to 30th September, 2018	from 1st April, 2018 to 31st December, 2018	from 1st April, 2018 to 31st March, 2019
Profit (loss) attributable to owners of parent per share	¥50.63	¥82.48	¥126.56	¥148.79

	Yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2018 to 30th June, 2018	from 1st July, 2018 to 30th September, 2018	from 1st October, 2018 to 31st December, 2018	from 1st January, 2019 to 31st March, 2019
Profit (loss) attributable to owners of parent per share	¥50.63	¥31.84	¥44.08	¥22.07

	Thousands of U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2018 to 30th June, 2018	from 1st April, 2018 to 30th September, 2018	from 1st April, 2018 to 31st December, 2018	from 1st April, 2018 to 31st March, 2019
Ordinary income	\$327,453	\$639,179	\$977,230	\$1,295,079
Profit (loss) before income taxes	104,614	168,364	259,251	306,827
Profit (loss) attributable to owners of parent	70,484	114,818	175,941	206,323

	U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2018 to 30th June, 2018	from 1st April, 2018 to 30th September, 2018	from 1st April, 2018 to 31st December, 2018	from 1st April, 2018 to 31st March, 2019
Profit (loss) attributable to owners of parent per share	\$0.45	\$0.74	\$1.14	\$1.34

	U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from 1st April, 2018 to 30th June, 2018	from 1st July, 2018 to 30th September, 2018	from 1st October, 2018 to 31st December, 2018	from 1st January, 2019 to 31st March, 2019
Profit (loss) attributable to owners of parent per share	\$0.45	\$0.28	\$0.39	\$0.19

Non-Consolidated Balance Sheet (Unaudited)

The Nishi-Nippon City Bank, Ltd.
31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets:			
Cash and due from banks	¥1,458,178	¥1,064,236	\$13,137,931
Call loans and bills bought	34,471	—	310,585
Trading account assets	1,166	1,142	10,512
Money held in trust	4,870	2,850	43,877
Securities	1,365,544	1,556,641	12,303,313
Loans and bills discounted	7,132,208	6,836,291	64,259,920
Foreign exchange assets	8,396	8,359	75,647
Other assets	86,827	88,830	782,300
Tangible fixed assets	119,473	120,435	1,076,437
Intangible fixed assets	3,266	3,001	29,434
Prepaid pension cost	20,774	16,954	187,176
Customers' liabilities for acceptances and guarantees	20,592	20,512	185,536
Reserve for possible loan losses	(36,564)	(36,120)	(329,442)
Reserve for devaluation of securities	(461)	(501)	(4,156)
Total assets	¥10,218,746	¥9,682,635	\$92,069,075
Liabilities and Net assets:			
Liabilities:			
Deposits	¥8,309,734	¥8,145,409	\$74,869,213
Call money and bills sold	109,084	41,387	982,833
Payables under repurchase agreements	166,666	100,753	1,501,634
Guarantee deposits received under securities lending transactions	145,718	27,630	1,312,896
Borrowed money	885,101	740,104	7,974,607
Foreign exchange liabilities	172	113	1,551
Bonds	10,000	20,000	90,098
Other liabilities	32,083	31,195	289,066
Reserve for employee retirement benefits	216	1,358	1,948
Reserve for reimbursement of deposits	2,116	2,503	19,072
Reserve for other contingent losses	1,328	1,348	11,972
Deferred tax liabilities	12,443	18,961	112,110
Deferred tax liabilities on revaluation of premises	14,712	14,730	132,556
Acceptances and guarantees	20,592	20,512	185,536
Total liabilities	9,709,971	9,166,010	87,485,098
Net assets:			
Capital stock	85,745	85,745	772,552
Capital surplus			
Capital reserve	85,684	85,684	771,997
Earned surplus			
Legal reserve	61	61	554
Reserve for deferred capital gains	3	3	27
Unappropriated retained earnings	252,405	238,049	2,274,129
Total shareholders' equity	423,899	409,543	3,819,261
Net unrealized gains on securities available for sale, net of taxes	55,063	77,057	496,111
Net deferred gains (losses) on hedging instruments, net of taxes	(205)	(33)	(1,849)
Revaluation of premises, net of taxes	30,017	30,058	270,452
Total valuation and translation adjustments	84,875	107,082	764,714
Total net assets	508,775	516,625	4,583,976
Total liabilities and net assets	¥10,218,746	¥9,682,635	\$92,069,075

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Nishi-Nippon City Bank, Ltd.

Years ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Income:			
Interest income:			
Interest on loans and discounts	¥79,840	¥79,929	\$719,349
Interest and dividends on securities	16,724	14,453	150,682
Other interest income	221	228	1,995
Fees and commissions	25,812	25,476	232,569
Trading income	10	5	96
Other operating income	806	841	7,264
Other income	4,882	19,234	43,990
Total income	128,298	140,168	1,155,948
Expenses:			
Interest expenses:			
Interest on deposits	1,432	2,451	12,902
Interest on call money and bills sold	59	181	540
Interest on payables under repurchase agreements	2,640	932	23,789
Interest on borrowings	678	621	6,111
Interest on guarantee deposits received under securities lending transactions	250	206	2,258
Other interest expenses	1,113	931	10,032
Fees and commissions	15,401	14,951	138,763
Other operating expenses	3,377	2,148	30,431
General and administrative expenses	68,756	73,065	619,481
Other expenses	5,410	5,066	48,750
Total expenses	99,121	100,554	893,063
Income before income taxes	29,177	39,614	262,885
Income taxes			
Current	7,445	7,611	67,084
Deferred	1,761	330	15,870
Total income taxes	9,207	7,942	82,955
Net income	¥19,970	¥31,671	\$179,930

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Shareholders' equity			
Capital stock			
Balance at beginning of the year	¥85,745	¥85,745	\$772,552
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,745	¥85,745	\$772,552
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥85,684	¥85,684	\$771,997
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,684	¥85,684	\$771,997
Total capital surplus			
Balance at beginning of the year	¥85,684	¥85,684	\$771,997
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,684	¥85,684	\$771,997
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥61	¥61	\$554
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥61	¥61	\$554
Other earned surplus:			
Reserve for deferred capital gains			
Balance at beginning of the year	¥3	¥3	\$28
Changes during the year			
Transfer from reserve for deferred capital gains	(0)	(0)	(1)
Total changes during the year	(0)	(0)	(1)
Balance at end of the year	¥3	¥3	\$27
Unappropriated retained earnings			
Balance at beginning of the year	¥238,049	¥211,041	\$2,144,779
Changes during the year			
Cash dividends paid	(5,654)	(5,007)	(50,945)
Transfer from reserve for deferred capital gains	0	0	1
Net income	19,970	31,671	179,930
Reversal of revaluation of premises	40	342	364
Total changes during the year	14,356	27,007	129,350
Balance at end of the year	¥252,405	¥238,049	\$2,274,129

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

The Nishi-Nippon City Bank, Ltd.
Years ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total earned surplus			
Balance at beginning of the year	¥238,113	¥211,106	\$2,145,362
Changes during the year			
Cash dividends paid	(5,654)	(5,007)	(50,945)
Net income	19,970	31,671	179,930
Reversal of revaluation of premises	40	342	364
Total changes during the year	14,356	27,007	129,349
Balance at end of the year	¥252,470	¥238,113	\$2,274,711
Total shareholders' equity			
Balance at beginning of the year	¥409,543	¥382,536	\$3,689,912
Changes during the year			
Cash dividends paid	(5,654)	(5,007)	(50,945)
Net income	19,970	31,671	179,930
Reversal of revaluation of premises	40	342	364
Total changes during the year	14,356	27,007	129,349
Balance at end of the year	¥423,899	¥409,543	\$3,819,261
Valuation and translation adjustments			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥77,057	¥67,429	\$694,275
Changes during the year			
Net changes in items other than shareholders' equity	(21,994)	9,628	(198,164)
Total changes during the year	(21,994)	9,628	(198,164)
Balance at end of the year	¥55,063	¥77,057	\$496,111
Net deferred gains (losses) on hedging instruments, net of taxes			
Balance at beginning of the year	(¥33)	(¥384)	(\$303)
Changes during the year			
Net changes in items other than shareholders' equity	(171)	350	(1,546)
Total changes during the year	(171)	350	(1,546)
Balance at end of the year	(¥205)	(¥33)	(\$1,849)
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥30,058	¥30,400	\$270,817
Changes during the year			
Net changes in items other than shareholders' equity	(40)	(342)	(364)
Total changes during the year	(40)	(342)	(364)
Balance at end of the year	¥30,017	¥30,058	\$270,452
Total valuation and translation adjustments			
Balance at beginning of the year	¥107,082	¥97,445	\$964,789
Changes during the year			
Net changes in items other than shareholders' equity	(22,206)	9,636	(200,075)
Total changes during the year	(22,206)	9,636	(200,075)
Balance at end of the year	¥84,875	¥107,082	\$764,714
Total net assets			
Balance at beginning of the year	¥516,625	¥479,981	\$4,654,702
Changes during the year			
Cash dividends paid	(5,654)	(5,007)	(50,945)
Net income	19,970	31,671	179,930
Reversal of revaluation of premises	40	342	364
Net changes in items other than shareholders' equity	(22,206)	9,636	(200,075)
Total changes during the year	(7,849)	36,643	(70,725)
Balance at end of the year	¥508,775	¥516,625	\$4,583,976

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Nagasaki, Ltd.
31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Assets:			
Cash and due from banks	¥33,832	¥29,653	\$304,828
Securities	9	8	84
Loans and bills discounted	246,791	242,536	2,223,543
Other assets	1,091	1,038	9,832
Tangible fixed assets	4,845	4,766	43,659
Intangible fixed assets	558	253	5,034
Deferred tax assets	389	458	3,511
Customers' liabilities for acceptances and guarantees	28	44	256
Reserve for possible loan losses	(575)	(668)	(5,182)
Total assets	¥286,972	¥278,090	\$2,585,569
Liabilities and net assets:			
Liabilities:			
Deposits	¥235,483	¥237,606	\$2,121,668
Call money and bills sold	34,000	23,000	306,333
Borrowed money	600	600	5,405
Other liabilities	876	960	7,895
Reserve for employee retirement benefits	299	405	2,695
Reserve for retirement benefits for directors and corporate auditors	101	82	915
Reserve for reimbursement of deposits	34	35	313
Reserve for other contingent losses	52	60	468
Deferred tax liabilities on revaluation of premises	509	509	4,587
Acceptances and guarantees	28	44	256
Total liabilities	271,985	263,304	2,450,541
Net assets:			
Capital stock	6,121	6,121	55,155
Capital surplus			
Capital reserve	2,000	2,000	18,019
Other capital surplus	2,463	2,463	22,199
Earned surplus			
Legal reserve	205	200	1,852
Unappropriated retained earnings	3,102	2,908	27,950
Total shareholders' equity	13,893	13,694	125,177
Revaluation of premises, net of taxes	1,093	1,091	9,850
Total valuation and translation adjustments	1,093	1,091	9,850
Total net assets	14,986	14,786	135,028
Total liabilities and net assets	¥286,972	¥278,090	\$2,585,569

See accompanying Notes to Non Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Bank of Nagasaki, Ltd.

Years ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥3,856	¥4,055	\$34,749
Other interest income	251	251	2,262
Fees and commissions	582	710	5,243
Other income	193	415	1,743
Total income	4,883	5,432	43,999
Expenses:			
Interest expenses:			
Interest on deposits	116	175	1,047
Interest on call money and bills sold	(4)	(0)	(36)
Interest on borrowings	0	0	0
Other interest expenses	2	2	22
Fees and commissions	1,036	1,215	9,337
Other operating expenses	0	0	3
General and administrative expenses	3,423	3,314	30,842
Other expenses	33	43	298
Total expenses	4,607	4,751	41,516
Income before income taxes	275	680	2,483
Income taxes			
Current	(18)	(30)	(164)
Deferred	68	159	616
Total income taxes	50	128	451
Net income	¥225	¥551	\$2,031

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, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Shareholders' equity			
Capital stock			
Balance at beginning of the year	¥6,121	¥6,121	\$55,155
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥6,121	¥6,121	\$55,155
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥2,000	¥2,000	\$18,019
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥2,000	¥2,000	\$18,019
Other capital surplus			
Balance at beginning of the year	¥2,463	¥2,463	\$22,199
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥2,463	¥2,463	\$22,199
Total capital surplus			
Balance at beginning of the year	¥4,463	¥4,463	\$40,219
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥4,463	¥4,463	\$40,219
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥200	¥195	\$1,807
Changes during the year			
Reserve of legal retained earnings	5	5	45
Total changes during the year	5	5	45
Balance at end of the year	¥205	¥200	\$1,852
Other earned surplus:			
Unappropriated retained earnings			
Balance at beginning of the year	¥2,908	¥2,387	\$26,206
Changes during the year			
Reserve of legal retained earnings	(5)	(5)	(45)
Cash dividends paid	(25)	(25)	(225)
Net income	225	551	2,031
Reversal of revaluation of premises	(2)	—	(18)
Total changes during the year	193	521	1,743
Balance at end of the year	¥3,102	¥2,908	\$27,950
Total earned surplus			
Balance at beginning of the year	¥3,109	¥2,582	\$28,014
Changes during the year			
Cash dividends paid	(25)	(25)	(225)
Net income	225	551	2,031
Reversal of revaluation of premises	(2)	—	(18)
Total changes during the year	198	526	1,788
Balance at end of the year	¥3,307	¥3,109	\$29,802

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

The Bank of Nagasaki, Ltd.
Years ended 31st March, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total shareholders' equity			
Balance at beginning of the year	¥13,694	¥13,168	\$123,389
Changes during the year			
Cash dividends paid	(25)	(25)	(225)
Net income	225	551	2,031
Reversal of revaluation of premises	(2)	—	(18)
Total changes during the year	198	526	1,788
Balance at end of the year	¥13,893	¥13,694	\$125,177
Valuation and translation adjustments			
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥1,091	¥1,091	\$9,832
Changes during the year			
Net changes in items other than shareholders' equity	2	—	18
Total changes during the year	2	—	18
Balance at end of the year	¥1,093	¥1,091	\$9,850
Total valuation and translation adjustments			
Balance at beginning of the year	¥1,091	¥1,091	\$9,832
Changes during the year			
Net changes in items other than shareholders' equity	2	—	18
Total changes during the year	2	—	18
Balance at end of the year	¥1,093	¥1,091	\$9,850
Total net assets			
Balance at beginning of the year	¥14,786	¥14,259	\$133,221
Changes during the year			
Cash dividends paid	(25)	(25)	(225)
Net income	225	551	2,031
Reversal of revaluation of premises	(2)	—	(18)
Net changes in items other than shareholders' equity	2	—	18
Total changes during the year	200	526	1,806
Balance at end of the year	¥14,986	¥14,786	\$135,028

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, 2019 and 2018

1. Basis of Presentation of Financial Statements

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

2. Other Accounting Principles and Practices Employed by the Bank

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



Tenjin Bldg.
2-12-1 Tenjin, Chuo-ku, Fukuoka-shi,
Fukuoka, 810-0001, Japan

Tel: +81 92 781 7231
Fax: +81 92 752 0164
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, 2019, 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, 2019, 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 27, 2019
Fukuoka, Japan

Outline of Banking Subsidiaries

As of 31st March, 2019, the Group has a nationwide network of 175 branches of Nishi-Nippon City Bank, and 23 branches of Bank of Nagasaki, and 4 overseas representative offices of Nishi-Nippon City Bank, in Hong Kong, Seoul, Shanghai, and Singapore.

The Nishi-Nippon City Bank, Ltd.

▶ Business	Banking
▶ Established	1st December, 1944
▶ Headquarters	1-1, Hakata-ekimae 3-chome, Hakata-ku, Fukuoka 812-0011, Japan
▶ Number of Employees	3,703
▶ Number of Domestic Offices	175
▶ Number of Correspondent Banks	86
▶ Parent Company	Nishi-Nippon Financial Holdings, Inc. (NNFH's share of voting rights 100%)

(As of 31st March, 2019)

Board of Directors

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

(As of 30th June, 2019)

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

The Bank of Nagasaki, Ltd.

▶ Business	Banking
▶ Established	11th November, 1912
▶ Headquarters	3-14, Sakaemachi, Nagasaki 850-8666, Japan
▶ Number of Employees	241
▶ Number of Domestic Offices	23
▶ Parent Company	Nishi-Nippon Financial Holdings, Inc. (NNFH's share of voting rights 100%)

(As of 31st March, 2019)

Board of Directors and Audit and Supervisory Board Members

President	Ryutaro Kaichi
Managing Directors	Yutaka Matsuyama Tetsuhisa Matsumoto Naoshi Taguchi Yasuyuki Shigetomi
Directors	Hiroji Mochida Toshihiro Takaki Hideyuki Murakami (part-time)
Audit and Supervisory Board Members	Kouji Nozu Mitsuru Kawatani (part-time) Junichi Sakaguchi (part-time)

(As of 30th June, 2019)

Organization Chart of Banking Subsidiaries

The Nishi-Nippon City Bank, Ltd.



(As of 30th June, 2019)

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

INTERNATIONAL BUSINESS DIVISION

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

TREASURY & PORTFOLIO INVESTMENT DIVISION

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

TREASURY & SECURITIES TRANSACTION DIVISION

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

HONG KONG REPRESENTATIVE OFFICE

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

SEOUL REPRESENTATIVE OFFICE

6th Fl., The Exchange Seoul Bldg, 21 Mugyo-ro, Chung-ku, Seoul 04520, Republic of Korea
 Phone: +82-2-755-0670
 Fax: +82-2-756-2160

SHANGHAI REPRESENTATIVE OFFICE

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

REPRESENTATIVE OFFICE REGISTERED IN SINGAPORE

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

The Bank of Nagasaki, Ltd.



(As of 30th June, 2019)



NNFH

Nishi-Nippon Financial Holdings, Inc.

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