

FINANCIAL REPORT 2023



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Nishi-Nippon Financial Holdings, Inc.

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Consolidated Balance Sheet

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Assets:			
Cash and due from banks (Note 5)	¥1,946,575	¥2,614,747	\$14,577,813
Call loans and bills bought	8,011	—	60,000
Commercial paper and other debt purchased	42,733	39,621	320,030
Money held in trust (Note 26)	11,609	11,682	86,940
Securities (Notes 3, 5, 24 and 25)	1,792,650	1,773,344	13,425,078
Loans and bills discounted (Notes 4, 5, 6 and 24)	8,955,399	8,470,861	67,066,575
Foreign exchange assets (Note 7)	17,311	22,757	129,645
Other assets (Notes 5 and 8)	99,071	90,311	741,941
Tangible fixed assets (Notes 9 and 15)	116,854	116,172	875,115
Intangible fixed assets	5,204	4,160	38,974
Asset for retirement benefits (Note 28)	8,038	7,548	60,198
Deferred tax assets (Note 29)	6,367	2,109	47,688
Customers' liabilities for acceptances and guarantees	16,372	17,639	122,614
Reserve for possible loan losses (Note 24)	(40,455)	(42,473)	(302,973)
Reserve for devaluation of securities	(562)	(577)	(4,214)
Total assets	¥12,985,181	¥13,127,906	\$97,245,427
Liabilities and net assets:			
Liabilities:			
Deposits (Notes 5, 10, and 24)	¥9,959,196	¥9,834,637	\$74,583,962
Call money and bills sold (Note 5)	512,491	510,000	3,838,023
Payables under repurchase agreements (Note 5)	265,881	251,120	1,991,175
Guarantee deposits received under securities lending transactions (Note 5)	293,853	87,188	2,200,654
Borrowed money (Notes 5, 11 and 24)	1,249,709	1,755,240	9,359,019
Foreign exchange liabilities (Note 7)	504	201	3,777
Borrowed money from trust account	5,233	4,794	39,195
Other liabilities (Note 12)	120,171	113,952	899,957
Provision for share-based remuneration for directors	4	—	30
Liability for retirement benefits (Note 28)	4,647	4,773	34,805
Reserve for retirement benefits for directors and corporate auditors	200	201	1,504
Reserve for reimbursement of deposits	545	825	4,086
Reserve for other contingent losses	1,194	1,096	8,944
Reserve under the special laws	12	12	96
Deferred tax liabilities (Note 29)	1,070	844	8,016
Deferred tax liabilities on revaluation of premises (Note 15)	14,646	14,652	109,687
Acceptances and guarantees	16,372	17,639	122,614
Total liabilities	12,445,737	12,597,181	93,205,553
Net assets:			
Capital stock (Note 13)	50,000	50,000	374,447
Capital surplus	118,706	121,123	888,986
Earned surplus	325,460	304,236	2,437,361
Treasury stock (Note 14)	(5,698)	(5,522)	(42,677)
Total shareholders' equity	488,468	469,837	3,658,117
Net unrealized gains on securities available for sale, net of taxes (Note 25)	25,757	38,616	192,896
Net deferred gains (losses) on hedging instruments, net of taxes	1,015	(8)	7,606
Revaluation of premises, net of taxes (Note 15)	29,425	29,438	220,369
Retirement benefits liability adjustments, net of taxes (Note 28)	(14,843)	(15,715)	(111,165)
Total accumulated other comprehensive income	41,355	52,332	309,707
Non-controlling interests	9,620	8,555	72,049
Total net assets (Note 36)	539,444	530,724	4,039,874
Total liabilities and net assets	¥12,985,181	¥13,127,906	\$97,245,427

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥81,242	¥81,109	\$608,419
Interest and dividends on securities	21,012	12,893	157,364
Other interest income (Note 16)	3,886	4,225	29,108
Trust fees	0	0	0
Fees and commissions	33,136	32,468	248,156
Trading income	1,369	1,919	10,255
Other operating income (Note 17)	8,064	3,069	60,395
Other income (Note 18)	12,605	2,941	94,402
Total income	161,318	138,627	1,208,103
Expenses:			
Interest expenses:			
Interest on deposits	451	443	3,383
Interest on call money and bills sold	319	(113)	2,392
Interest on payables under repurchase agreements	7,627	383	57,124
Interest on guarantee deposits received under securities lending transactions	22	13	169
Interest on borrowings	589	52	4,411
Other interest expenses	3,390	75	25,389
Fees and commissions	12,021	11,536	90,029
Other operating expenses (Note 19)	16,130	1,654	120,802
General and administrative expenses (Note 20)	80,634	79,173	603,865
Other expenses (Note 21)	6,018	8,253	45,073
Total expenses	127,206	101,472	952,642
Profit (loss) before income taxes	34,111	37,154	255,461
Income taxes (Note 29)			
Current	6,513	10,824	48,781
Deferred	1,164	1,518	8,723
Total income taxes	7,678	12,342	57,504
Profit (loss)	26,433	24,811	197,956
Profit (loss) attributable to:			
Non-controlling interests	368	575	2,760
Owners of parent (Note 36)	¥26,064	¥24,236	\$195,195

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Profit (loss)	¥26,433	¥24,811	\$197,956
Other comprehensive income:			
Net unrealized gains on securities available for sale	(12,962)	(26,560)	(97,075)
Net deferred gains (losses) on hedging instruments	1,023	1,419	7,668
Retirement benefits liability adjustments	872	(11,963)	6,533
Share of other comprehensive income of affiliates accounted for by the equity method	56	—	426
Total other comprehensive income (Note 22)	(¥11,009)	(¥37,104)	(\$82,447)
Comprehensive income	¥15,423	(¥12,293)	\$115,509
Comprehensive income attributable to owners of parent	¥15,087	(¥12,928)	\$112,986
Comprehensive income attributable to non-controlling interests	¥336	¥635	\$2,522

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Changes in Net Assets

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries

Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Shareholders' equity			
Capital stock (Note 13)			
Balance at beginning of the year	¥50,000	¥50,000	\$374,447
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥50,000	¥50,000	\$374,447
Capital surplus			
Balance at beginning of the year	¥121,123	¥127,202	\$907,090
Changes during the year			
Sale of treasury stock	(0)	(0)	(0)
Retirement of treasury stock	(2,417)	(6,078)	(18,104)
Total changes during the year	(2,417)	(6,078)	(18,104)
Balance at end of the year	¥118,706	¥121,123	\$888,986
Earned surplus			
Balance at beginning of the year	¥304,236	¥284,535	\$2,278,410
Cumulative effects of changes in accounting policies	—	(¥244)	—
Restated balance	¥304,236	¥284,290	\$2,278,410
Changes during the year			
Cash dividends paid (Note 37)	(5,412)	(4,445)	(40,532)
Profit (loss) attributable to owners of parent	26,064	24,236	195,195
Increase in earned surplus due to an increase in the number of affiliates accounted for by the equity method	559	—	4,189
Reversal of revaluation of premises	13	153	97
Total changes during the year	21,224	19,945	158,950
Balance at end of the year	¥325,460	¥304,236	\$2,437,361
Treasury stock (Note 14)			
Balance at beginning of the year	(¥5,522)	(¥8,597)	(\$41,359)
Changes during the year			
Acquisition of treasury stock	(2,593)	(3,004)	(19,426)
Sale of treasury stock	0	0	3
Retirement of treasury stock	2,417	6,078	18,104
Total changes during the year	(176)	3,074	(1,318)
Balance at end of the year	(¥5,698)	(¥5,522)	(\$42,677)
Total shareholders' equity			
Balance at beginning of the year	¥469,837	¥453,140	\$3,518,589
Cumulative effects of changes in accounting policies	—	(¥244)	—
Restated balance	¥469,837	¥452,895	\$3,518,589
Changes during the year			
Cash dividends paid (Note 37)	(5,412)	(4,445)	(40,532)
Profit (loss) attributable to owners of parent	26,064	24,236	195,195
Acquisition of treasury stock	(2,593)	(3,004)	(19,426)
Sale of treasury stock	0	0	3
Increase in earned surplus due to an increase in the number of affiliates accounted for by the equity method	559	—	4,189
Reversal of revaluation of premises	13	153	97
Total changes during the year	18,631	16,941	139,527
Balance at end of the year	¥488,468	¥469,837	\$3,658,117

Consolidated Statement of Changes in Net Assets

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Accumulated other comprehensive income			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥38,616	¥65,238	\$289,199
Changes during the year			
Net changes in items other than shareholders' equity	(12,859)	(26,621)	(96,302)
Total changes during the year	(12,859)	(26,621)	(96,302)
Balance at end of the year	¥25,757	¥38,616	\$192,896
Net deferred gains (losses) on hedging instruments, net of taxes			
Balance at beginning of the year	(¥8)	(¥1,428)	(\$61)
Changes during the year			
Net changes in items other than shareholders' equity	1,023	1,419	7,668
Total changes during the year	1,023	1,419	7,668
Balance at end of the year	¥1,015	(¥8)	\$7,606
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥29,438	¥29,592	\$220,467
Changes during the year			
Net changes in items other than shareholders' equity	(13)	(153)	(97)
Total changes during the year	(13)	(153)	(97)
Balance at end of the year	¥29,425	¥29,438	\$220,369
Retirement benefits liability adjustments			
Balance at beginning of the year	(¥15,715)	(¥3,751)	(\$117,690)
Changes during the year			
Net changes in items other than shareholders' equity	871	(11,963)	6,524
Total changes during the year	871	(11,963)	6,524
Balance at end of the year	(¥14,843)	(¥15,715)	(\$111,165)
Total accumulated other comprehensive income			
Balance at beginning of the year	¥52,332	¥89,651	\$391,914
Changes during the year			
Net changes in items other than shareholders' equity	(10,977)	(37,319)	(82,207)
Total changes during the year	(10,977)	(37,319)	(82,207)
Balance at end of the year	¥41,355	¥52,332	\$309,707
Non-controlling interests			
Balance at beginning of the year	¥8,555	¥8,114	\$64,070
Cumulative effects of changes in accounting policies	—	(¥32)	—
Restated balance	¥8,555	¥8,081	\$64,070
Changes during the year			
Net changes in items other than shareholders' equity	1,065	473	7,979
Total changes during the year	1,065	473	7,979
Balance at end of the year	¥9,620	¥8,555	\$72,049
Total net assets			
Balance at beginning of the year	¥530,724	¥550,906	\$3,974,574
Cumulative effects of changes in accounting policies	—	(¥277)	—
Restated balance	¥530,724	¥550,629	\$3,974,574
Changes during the year			
Cash dividends paid (Note 37)	(5,412)	(4,445)	(40,532)
Profit (loss) attributable to owners of parent	26,064	24,236	195,195
Acquisition of treasury stock	(2,593)	(3,004)	(19,426)
Sale of treasury stock	0	0	3
Increase in earned surplus due to an increase in the number of affiliates accounted for by the equity method	559	—	4,189
Reversal of revaluation of premises	13	153	97
Net changes in items other than shareholders' equity	(9,911)	(36,845)	(74,227)
Total changes during the year	8,719	(19,904)	65,299
Balance at end of the year	¥539,444	¥530,724	\$4,039,874

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries

Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
I. Cash flows from operating activities:			
Profit (loss) before income taxes	¥34,111	¥37,154	\$255,461
Depreciation	5,845	5,674	43,773
Losses on impairment of fixed assets	66	465	500
Gain on negative goodwill	(564)	—	(4,228)
Gain on step acquisition	(272)	—	(2,043)
Equity in gains of nonconsolidated subsidiaries and affiliate	(8,319)	(56)	(62,306)
Decrease in reserve for possible loan losses	(2,025)	(1,595)	(15,172)
(Decrease) increase in reserve for devaluation of securities	(14)	0	(108)
Increase in provision for share-based remuneration for directors	4	—	30
(Increase) decrease in asset for retirement benefits	(489)	10,222	(3,669)
(Decrease) increase in liability for retirement benefits	(1,707)	4,295	(12,783)
Decrease in reserve for retirement benefits for directors and corporate auditors	(0)	(55)	(2)
Decrease in reserve for reimbursement of deposits	(279)	(360)	(2,092)
Increase (decrease) in reserve for other contingent losses	97	(158)	731
Income from lending activities	(106,142)	(98,228)	(794,892)
Funding costs	12,401	855	92,871
Gains on securities	8,195	(45)	61,374
Losses on money held in trust	74	5	557
Net foreign exchange gains	(1,260)	(674)	(9,438)
Losses on sale of tangible fixed assets	336	248	2,517
Net decrease in trading account assets	—	131	—
Net (increase) decrease in loans and bills discounted	(484,538)	73,084	(3,628,684)
Net increase in deposits	223,471	274,854	1,673,566
Net (decrease) increase in certificates of deposit	(96,869)	75,772	(725,454)
Net (decrease) increase in borrowed money, exclusive of subordinated borrowings	(505,531)	317,552	(3,785,898)
Net decrease (increase) in due from banks, exclusive of central bank	676	(979)	5,063
Net increase in call loans	(11,124)	(2,898)	(83,309)
Net increase in call money	17,252	358,698	129,202
Net increase in guarantee deposits received under securities lending transactions	206,665	46,053	1,547,705
Net decrease (increase) in foreign exchange assets	5,445	(11,682)	40,782
Net increase (decrease) in foreign exchange liabilities	303	(9)	2,269
Net increase in borrowed money from trust account	438	1,589	3,286
Interest and dividends received	106,488	99,359	797,489
Interest paid	(10,145)	(1,080)	(75,980)
Others	(17,602)	(32,145)	(131,827)
Subtotal	(625,015)	1,156,049	(4,680,709)
Income taxes paid	(14,716)	(4,950)	(110,209)
Net cash provided by operating activities	(¥639,731)	¥1,151,099	(\$4,790,918)
II. Cash flows from investing activities:			
Payments for purchase of securities	(¥484,648)	(¥500,365)	(\$3,629,507)
Proceeds from sale of securities	300,099	126,185	2,247,429
Proceeds from redemption of securities	173,881	111,026	1,302,192
Payments for increase in money held in trust	(17)	(426)	(132)
Payments for purchase of tangible fixed assets	(3,130)	(3,339)	(23,444)
Proceeds from sale of tangible fixed assets	112	419	843
Payments for purchase of intangible fixed assets	(2,358)	(1,995)	(17,666)
Payments for acquisition of subsidiaries' shares resulting in changes	(4,380)	—	(32,808)
Net cash provided by investing activities	(¥20,442)	(¥268,495)	(\$153,093)
III. Cash flows from financing activities:			
Dividends paid	(¥5,409)	(¥4,444)	(\$40,509)
Dividends paid to non-controlling shareholders	(172)	(162)	(1,294)
Payments for acquisition of treasury stock	(2,593)	(3,004)	(19,426)
Proceeds from sale of treasury stock	0	0	3
Net cash used in financing activities	(¥8,175)	(¥7,610)	(\$61,226)
IV. Effects of changes in exchange rates on cash and cash equivalents	¥8	¥13	\$62
V. Net increase in cash and cash equivalents	(¥668,341)	¥875,006	(\$5,005,176)
VI. Cash and cash equivalents at beginning of the year	¥2,608,074	¥1,733,067	\$19,531,750
VII. Cash and cash equivalents at end of the year (Note 35)	¥1,939,733	¥2,608,074	\$14,526,573

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 ¥133.53= U.S.\$ 1.00, the exchange rate on March 31st, 2023, has been used in translation. The translation is not intended to imply that the assets and liabilities which originated in yen have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

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

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries (the "Group").

The number of consolidated and non-consolidated subsidiaries for the years ended March 31st, 2023 and 2022 is as follows:

	2023	2022
i) Number of consolidated subsidiaries:	8	7
ii) Number of non-consolidated subsidiaries:	10	4

(Changes in scope of consolidation)

City Ascom Co., Ltd. was included in the scope of consolidation in the consolidated fiscal year under review as a result of stock acquisition on October 3rd, 2022.

(2) Application of the Equity Method

The number of non-consolidated subsidiaries and affiliates, which are accounted for by the equity method, for the years ended March 31st, 2023 and 2022 is as follows:

	2023	2022
i) Number of non-consolidated subsidiaries accounted for by the equity method:	0	0
ii) Number of affiliates accounted for by the equity method:	3	1
iii) Number of non-consolidated subsidiaries not accounted for by the equity method:	10	4
iv) Number of affiliates not accounted for by the equity method:	2	1

(Changes in scope of the equity method)

Kyushu Leasing Service Co., Ltd. and KLS Credit guarantee Co., Ltd. were included in the scope of the equity method in the consolidated fiscal year under review as a result of stock acquisition on October 5th, 2022.

(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 swaps, 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 valued at amortized cost using the straight-line method with cost determined by the moving average method. Investments in non-consolidated subsidiaries and affiliates not accounted for by the equity method are valued at cost determined by the moving average method. Securities available for sale are valued at fair value with cost of sales determined by the moving average method. However, shares, etc. that do not have a market 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 April 1st, 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, based on their estimated useful lives.

(8) Intangible Fixed 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 Group (5 years).

(9) Leased Assets

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

(10) Reserve for Possible Loan Losses

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

For loans to insolvent customers who are undergoing bankruptcy or special liquidation, etc. (hereinafter, "borrowers under bankruptcy proceedings") or who are in a similar financial condition although not yet in bankruptcy (hereinafter, "borrowers substantially in bankruptcy"), the reserve for possible loan losses is provided at the full amount of the book value of such loans after deducting the amount of direct write-offs (as defined below), and excluding the amounts deemed collectible from sale of the collateral pledged and the guarantees that are deemed recoverable. For the unsecured and unguaranteed portion of loans to customers not presently in the above circumstances, but with a high probability of becoming so (hereinafter "customers with high probability of becoming insolvent"), the reserve for possible loan losses is provided at the amounts deemed necessary after deduction of the estimated realizable value of collateral and guarantees based on the customer's overall financial condition.

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

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

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

For loans to borrowers under bankruptcy proceedings and borrowers substantially in bankruptcy that are secured by collateral and guarantees, the unrecoverable portion of such loans is determined by subtracting the estimated recoverable amounts from the disposal

of the collateral and the amounts deemed recoverable from the guarantors. The unrecoverable amount is written off directly against the value of the loan ("direct write-off"). The amounts of such direct write-offs at March 31st, 2023 and 2022 were ¥8,077 million (\$60,495 thousand) and ¥11,425 million, respectively.

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

(11) Reserve for Devaluation of Securities

In order to provide for a loss on investments, the Group estimates the amount deemed necessary based on a review of financial position, etc. of the companies issuing securities or golf club membership.

(12) Provision for share-based remuneration for directors

In order to provide for payment of compensation for directors of the Company (excluding those who are Audit and Supervisory Committee members) under the stock compensation plan, provision for share-based remuneration for directors is made for amount of compensation that is deemed to be accrued by the end of the fiscal year under review.

(13) 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.

(14) 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.

(15) 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 Group.

(16) 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.

(17) Accounting for Retirement Benefits

In calculating the retirement benefit obligation for employees for certain consolidated subsidiaries, 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.

(18) Recognition of earnings

The Company recognizes revenues from contracts with customers when control of a promised good or service is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods and services. For fees and commissions that may be refunded, the Company posts refund liabilities and deducts such amounts from revenues.

(19) 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.

Notes to Consolidated Financial Statements

(20) Accounting for Leases

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

(21) Hedge Accounting

i) Hedge accounting for interest rate risks

The consolidated subsidiaries engaged in the banking business apply the deferred method as hedge accounting for interest rate risks of certain financial assets and liabilities by using the individual hedging, which directly matches hedged items and hedging instruments. With regard to hedging transactions to offset fluctuations in the fair value of fixed-rate bonds classified as available-for-sale securities, in accordance with operational rules concerning hedge accounting, hedged items are distinguished by identical type of bonds and interest rate swaps are used as hedging instruments. Since significant terms related to those hedged items and hedging instruments are nearly identical, such hedging transactions are deemed highly effective in terms of evaluation of hedge effectiveness. No evaluation is performed for hedge effectiveness of qualifying interest rate swaps accounted for by the special treatment, as it is ascertained that the criteria for the special treatment are continually met.

ii) Hedge accounting for foreign exchange rate risk

The consolidated subsidiaries engaged in the banking business apply the deferred method as hedge accounting for foreign exchange risks of various foreign currency-denominated financial assets and liabilities in accordance with the "Accounting and Auditing Treatment for Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry-specific Committee Practical Guideline No. 25 of October 8th, 2020). The consolidated subsidiaries treat foreign exchange swap transactions as hedging instruments for the purpose of the hedge of foreign currency-denominated financial assets and liabilities, and the subsidiaries test hedge effectiveness by matching the foreign currency swap position as hedging instruments with the related foreign currency-denominated financial assets and liabilities as hedged items.

iii) Internal contract

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

(22) 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.

(23) Application of the Group Tax Sharing System

The Company and certain of its consolidated subsidiaries have applied the Group Tax Sharing System, with the Company serving as the aggregate parent corporation.

(24) Accounting Principles and Procedures when related Accounting Standards are not clear

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

(25) Significant Accounting Estimates

Reserve for possible loan losses:

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Reserve for possible loan losses	¥40,455	¥42,473	\$302,973

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

(1) Calculation method

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

(2) Key assumptions

Key assumptions include: i) Future outlook of debtors' business in the assessment of debtor companies; ii) Impact period of the novel coronavirus disease (COVID-19); and iii) Future transition in the assessment of debtor companies and the amount to be collected in the cash flow estimation method.

Details of each assumption are as follows:

- i) Future outlook of debtors' business in the assessment of debtor companies
The future outlook of debtors' business is determined by evaluating the repayment situation, financial position, business performance, etc., of each debtor.
- ii) Impact period of the novel coronavirus disease (COVID-19)
Under the assumption that the impact will continue to be felt into the following fiscal year (year ending March 31st, 2024), certain debtor companies have been re-classified in consideration of recent business and performance, the possible impact of COVID-19 on their future business performance, etc. for the consolidated fiscal year under review (year ended March 31st, 2023).
- iii) Future transition in the assessment of debtor companies and the amount to be collected in the cash flow estimation method
The future transition in the assessment of debtor companies and the amount to be collected are set by evaluating each debtor based on their repayment situation and future plans.

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

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

(26) Changes in Accounting Policies

- Application of the "Implementation Guidance on Accounting Standard for Fair Value Measurement"

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 of June 17th, 2021; hereinafter, "Fair Value Measurement Guidance") from the beginning of the fiscal year under review, and will prospectively apply the new accounting policies as stipulated by the "Fair Value Measurement Guidance" in accordance with the transitional treatment provided in paragraph 27-2 of the "Fair Value Measurement Guidance". This does not affect the consolidated financial statements.

The Company does not include notes pertaining to the previous fiscal year on investment trusts in fair value information by level within the fair value hierarchy in the notes on financial instruments in accordance with paragraph 27-3 of the "Fair Value Measurement Guidance".

(27) Accounting Standards Issued but Not Yet Effective

"Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27 of October 28th, 2022)

"Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25 of October 28th, 2022)

"Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28 of October 28th, 2022)

i) Overview

Classification of income taxes when other comprehensive income is subject to taxation and accounting of tax effect on sales of stocks of subsidiaries, etc. when the group taxation regime is applied have been determined.

ii) 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 March 31st, 2025.

iii) 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.

Additional information

- Board Benefit Trust

The Company has introduced the Board Benefit Trust (BBT) (hereinafter, the "Plan") to make clearer the link between compensation to the Company's directors (excluding those who are Audit and Supervisory Committee members; the same applies hereinafter in this section) and the Company's stock value and to further raise awareness of the need to contribute to the enhancement of corporate value over the mid- and long-term.

i) Overview of transactions

The Plan is a stock compensation plan whereby the Company's common stock (hereinafter, the "Company Stock") is acquired through a trust (hereinafter, trust set up under the Plan is referred to as the "Trust") by using money contributed by the Company, and the Company Stock and money in the amount equivalent to the fair value of the Company Stock (hereinafter, collectively the "Company Stock, Etc.") are paid to the Company's directors from the Trust. In principle, directors shall receive the Company Stock, Etc. at the time of retirement.

Notes to Consolidated Financial Statements

ii) The Company Stock remaining in the Trust

The Company Stock remaining in the Trust are recorded under net assets as treasury stock at the book value in the Trust (excluding incidental expenses). The book value of treasury stock was ¥89 million (\$672 thousand) and the number of shares of treasury stock was 121,000 shares as of March 31st, 2023.

• Application of the Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System

The Company and some of its consolidated subsidiaries have transitioned from the Consolidated Taxation System to the Group Tax Sharing System from the fiscal year under review. Accordingly, the accounting treatment and the disclosure of national and local income tax, as well as the treatment of tax effect accounting, follow the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ Practical Solution No. 42 of August 12th, 2021). Pursuant to the ASBJ Practical Solution No. 42, paragraph 32-1, changes in accounting policies due to the application of the ASBJ Practical Solution No. 42 are deemed not to have any impact.

3. Securities

Securities at March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Japanese government bonds	¥495,866	¥500,561	\$3,713,518
Japanese municipal bonds	421,892	400,698	3,159,532
Corporate bonds (including government-guaranteed bonds)*	185,910	221,488	1,392,271
Stock**	144,270	126,367	1,080,433
Other securities***	544,711	524,228	4,079,321
Total	¥1,792,650	¥1,773,344	\$13,425,078

* Corporate bonds included bonds offered through private placement. The guarantee obligation of Nishi-Nippon City Bank for such private placement bonds at March 31st, 2023 and 2022 were ¥17,634 million (\$132,060 thousand) and ¥19,228 million, respectively.

** Stock included stock of non-consolidated subsidiaries and affiliates of ¥13,321 million (\$99,767 thousand) and ¥702 million at March 31st, 2023 and 2022, respectively.

*** Other securities included investments in non-consolidated and affiliates subsidiaries of ¥2,091 million (\$15,663 thousand) and ¥161 million at March 31st, 2023 and 2022, respectively.

4. Loans and Bills Discounted

Loans and bills discounted at March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Bills discounted*	¥15,905	¥15,434	\$119,118
Loans on notes	186,919	169,458	1,399,830
Loans on deed	7,991,112	7,561,314	59,845,071
Overdraft	761,462	724,670	5,702,554
Total	¥8,955,399	¥8,470,861	\$67,066,575

* Bills discounted are recorded as cash lending / borrowing transactions in accordance with the “Accounting and Auditing Treatments for Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry-specific Committee Practical Guideline No. 24 of March 17th, 2022). 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 ¥15,905 million (\$119,119 thousand) and ¥15,434 million at March 31st, 2023 and 2022, respectively.

The following table shows the claims classified under the Banking Act and the Act on Emergency Measures for the Revitalization of the Financial Functions. Claims include corporate bonds included in “Securities” in the consolidated balance sheet (limited to corporate bonds for which the redemption of principal or interest payments, whether wholly or partly, is guaranteed by the financial institution that owns the corporate bonds, and for which the issuance is implemented through the private placement of securities as defined in Article 2, Item 3 of the Financial Instruments and Exchange Act), loans and bills discounted, foreign exchanges, amounts recorded in outstanding interest, temporary payments, and consideration for acceptance of payment under “Other assets” on the balance sheet, and, if securities are loaned (noted), such securities (limited to those via loan for use or lease contract).

Notes to Consolidated Financial Statements

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Claims in bankruptcy, reorganization, etc.**	¥16,709	¥14,575	\$125,138
Claims with risks***	95,408	95,815	714,506
Claims in arrears for three months or more****	796	374	5,965
Loans with altered lending conditions*****	32,771	32,514	245,424
Total	¥145,685	¥143,280	\$1,091,035

** Claims held against debtors with failed business status due to circumstances such as the commencement of bankruptcy proceedings, the commencement of corporate reorganization proceedings, or rehabilitation proceedings, and any other type of claims that are similar or equivalent thereto.

*** Claims whose debtor is not yet in the status of failure in business although such debtor's financial status and business performance have deteriorated and for which it is highly unlikely that the collection of principal or receipt of interest in accordance with the contract will be possible but that do not fall under claims in bankruptcy, reorganization, etc.

**** Claims in arrears for which the principal or interest is delinquent for three months or more from the date immediately following the contractual due date, and that do not fall under claims in bankruptcy, reorganization, etc. or claims with risks.

***** Loans for which there is a reduction in or an exemption of the interest rate, a grace period for the payment of interests, a grace period for the reimbursement of the principal, a waiver of the loan claim or any other arrangement that might be considered advantageous to a debtor are made for the purpose of the reconstruction of, or support to, the management of the debtor, and that do not fall under claims in bankruptcy, reorganization, etc., claims with risks, or claims in arrears for three months or more.

The amounts given above are gross amounts before the deduction of amounts of the allowance for loan losses.

5. Assets Pledged as Collateral

Assets pledged as collateral by the Group at March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Assets pledged as collateral			
Cash and due from banks	¥35	¥35	\$268
Securities	1,185,143	1,288,242	8,875,487
Loans	1,457,330	1,231,046	10,913,884
Total	¥2,642,510	¥2,519,324	\$19,789,639
Liabilities secured by the above assets			
Deposits	¥12,736	¥14,215	\$95,382
Call money and bills sold	—	40,100	—
Payables under repurchase agreements	265,881	251,120	1,991,175
Guarantee deposits received under securities lending transactions	293,853	87,188	2,200,654
Borrowed money	1,248,193	1,753,174	9,347,659

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 March 31st, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Securities	¥1,141	¥1,141	\$8,545
Other assets	¥1,400	¥1,400	\$10,484

Additionally, the following was included in other assets at March 31st, 2023 and 2022:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash collateral paid for financial instruments	¥45,418	¥48,746	\$340,135
Deposits included in other assets	2,464	2,474	18,459

Notes to Consolidated Financial Statements

6. 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 March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Aggregate amount under commitment contracts not yet drawn down	¥2,023,899	¥2,074,368	\$15,156,890
Of the above amount, those with original maturity of less than one year or cancellable at any time without penalty	1,939,425	1,980,801	14,524,264

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 Group. 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.

7. Foreign Exchange

Foreign exchange assets and liabilities at March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Assets:			
Foreign exchange bills bought	¥0	¥16	\$0
Foreign exchange bills receivable	170	315	1,275
Due from foreign banks (their accounts)	—	—	—
Due from foreign banks (our accounts)	17,141	22,424	128,369
Total	¥17,311	¥22,757	\$129,645
Liabilities:			
Foreign exchange bills sold	¥5	¥—	\$44
Foreign exchange bills payable	498	201	3,732
Total	¥504	¥201	\$3,777

8. Other Assets

Other assets at March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Domestic exchange settlement account*	¥31	¥35	\$238
Accrued income	7,233	6,359	54,174
Prepaid expenses	578	344	4,330
Financial derivative products	5,662	1,936	42,403
Cash collateral paid for financial instruments	45,418	48,746	340,135
Other	40,146	32,888	300,658
Total	¥99,071	¥90,311	\$741,941

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

9. Tangible Fixed Assets

Tangible fixed assets at March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Land	¥75,659	¥74,273	\$566,607
Buildings	31,622	32,542	236,818
Construction in progress	530	55	3,970
Leased assets	361	324	2,707
Other tangible fixed assets	8,680	8,977	65,010
Total	¥116,854	¥116,172	\$875,115

* The amounts of accumulated depreciation for tangible fixed assets at March 31st, 2023 and 2022 were ¥68,406 million (\$512,296 thousand) and ¥66,755 million, respectively.

The accelerated depreciation entry amounts for tangible fixed assets at March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
	¥6,573	¥6,614	\$49,228

10. Deposits

Deposits at March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Current deposits	¥451,568	¥438,071	\$3,381,777
Ordinary deposits	6,792,829	6,481,429	50,871,186
Deposits at notice	14,739	18,412	110,384
Time deposits	2,383,936	2,475,642	17,853,190
Negotiable certificates of deposit	167,423	264,293	1,253,827
Other deposits	148,698	156,787	1,113,597
Total	¥9,959,196	¥9,834,637	\$74,583,962

11. Borrowed Money

The weighted average interest rates on borrowed money is 0.07% at March 31st, 2023.

The aggregate annual maturity amounts within five years of borrowed money after March 31st, 2023 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31st		
2024	¥273,776	\$2,050,300
2025	245,097	1,835,525
2026	252,013	1,887,319
2027	478,814	3,585,818
2028	5	40

Notes to Consolidated Financial Statements

12. Other Liabilities

Other liabilities at March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Domestic exchange settlement account	¥181	¥41	\$1,356
Accrued income taxes	1,599	7,393	11,979
Accrued expenses	8,886	6,327	66,551
Unearned income	7,460	4,981	55,868
Financial derivative products	5,315	7,287	39,809
Lease obligations	365	341	2,736
Cash collateral received for financial instruments	2,630	496	19,695
Asset retirement obligations	1,079	1,069	8,086
Others	92,652	86,014	693,873
Total	¥120,171	¥113,952	\$899,957

13. Capital Stock

Capital stock during the year ended March 31st, 2023 consisted of the following:

	Common stock	Capital stock	
	Issued shares	Millions of yen	Thousands of U.S. dollars
April 1st, 2022	151,596,955	¥50,000	\$374,447
Increase	—	—	—
Decrease*	3,000,000	—	—
March 31st, 2023	148,596,955	¥50,000	\$374,447

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

Capital stock during the year ended March 31st, 2022 consisted of the following:

	Common stock	Capital stock
	Issued shares	Millions of yen
April 1st, 2021	159,596,955	¥50,000
Increase	—	—
Decrease*	8,000,000	—
March 31st, 2022	151,596,955	¥50,000

* The decrease of 8,000,000 shares is due to retirement of treasury shares.

14. Treasury Stock

Treasury stock during the year ended March 31st, 2023 consisted of the following:

	Common stock	Treasury stock	
	Number of shares	Millions of yen	Thousands of U.S. dollars
April 1st, 2022	7,288,911	(¥5,522)	(\$41,359)
Increase**	2,813,715	(2,593)	(19,426)
Decrease**	3,000,588	2,417	18,107
March 31st, 2023*	7,102,038	(¥5,698)	(\$42,677)

* The number of common shares under treasury stock at the end of the fiscal year under review includes 121,000 of the Company's own stock held by the BBT.

** The increase in the number of treasury stock by 2,813,715 shares is due to the acquisition of 2,687,400 shares of treasury stock, the demands for the purchase of 5,315 fractional shares, and the acquisition of 121,000 shares provided to the BBT. The decrease of 3,000,588 shares is due to retirement of treasury shares of 3,000,000 and sale of fractional shares of 588.

Treasury stock during the year ended March 31st, 2022 consisted of the following:

	Common stock	Treasury stock
	Number of shares	Millions of yen
April 1st, 2021	11,443,334	(¥8,597)
Increase*	3,846,145	(3,004)
Decrease*	8,000,568	6,079
March 31st, 2022	7,288,911	(¥5,522)

* The increase of 3,846,145 shares is due to acquisition of treasury shares of 3,839,800 and purchase of fractional shares of 6,345.
The decrease of 8,000,568 shares is due to retirement of treasury shares of 8,000,000 and sale of fractional shares of 568.

15. Revaluation of Premises Account

Based on the Law Concerning Land Revaluation (Law No. 34, promulgated on March 31st, 1998), the consolidated subsidiaries engaged in the banking business have revalued land used for business purposes. The deferred taxes on revaluation differences are presented in the account, "Deferred tax liabilities on revaluation of premises" in the liabilities of the consolidated balance sheet. The amount of revaluation differences, net of tax, is presented as "Revaluation of premises, net of taxes" in net assets.

The differences at March 31st, 2023 and 2022 are not presented as the aggregate market value of land subject to revaluation exceeded the book value after revaluation.

16. Other Interest Income

Other interest income for the years ended March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Interest on call loans and bills bought	¥28	¥0	\$212
Interest on deposits with banks	2,398	2,852	17,964
Others	1,459	1,372	10,932
Total	¥3,886	¥4,225	\$29,108

17. Other Operating Income

Other operating income for the years ended March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gains on foreign exchange transactions	¥1,260	¥674	\$9,438
Gains on sale of bonds	1,482	1,670	11,104
Others	5,321	724	39,852
Total	¥8,064	¥3,069	\$60,395

Notes to Consolidated Financial Statements

18. Other Income

Other income for the years ended March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gains on sale of stock and other securities	¥2,353	¥1,448	\$17,625
Gains on money held in trust	14	10	111
Equity in earnings of affiliates	8,319	56	62,306
Gains on disposition of fixed assets	32	142	242
Recoveries of written-off claims	251	378	1,886
Rental income on land and buildings	523	542	3,920
Gain from negative goodwill	564	—	4,228
Gain on step acquisition	272	—	2,043
Reversal of reserve for devaluation of securities	5	—	41
Others	266	362	1,995
Total	¥12,605	¥2,941	\$94,402

19. Other Operating Expenses

Other operating expenses for the years ended March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Losses on sale of bonds	¥11,737	¥417	\$87,901
Losses on redemption of bonds	214	273	1,606
Losses on devaluation of bonds	—	51	—
Expenses for derivatives other than trading derivatives	205	912	1,536
Others	3,973	—	29,758
Total	¥16,130	¥1,654	\$120,802

20. General and Administrative Expenses

General and administrative expenses for the years ended March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Salaries and allowances	¥30,410	¥30,893	\$227,739
Employee retirement benefits	2,238	245	16,762
Retirement benefits for directors and corporate auditors	48	54	360
Depreciation	5,780	5,674	43,291
Rental expenses	3,383	3,245	25,339
Taxes	5,621	5,731	42,101
Others	33,151	33,328	248,271
Total	¥80,634	¥79,173	\$603,865

21. Other Expenses

Other expenses for the years ended March 31st, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Provision for possible loan losses	¥1,984	¥1,939	\$14,863
Losses on write-offs of claims	1,378	2,430	10,322
Losses on sale of stock and other securities	64	0	483
Losses on devaluation of stock and other securities	52	2,358	396
Losses on disposition of tangible fixed assets	368	390	2,759
Impairment losses	66	465	500
Losses on sale of loans	182	20	1,366
Others	1,920	648	14,380
Total	¥6,018	¥8,253	\$45,073

22. Other Comprehensive Income

Reclassification adjustments and tax effects related to other comprehensive income for the years ended March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Net unrealized gains on securities available for sale:			
Amount arising during the year	(¥26,438)	(¥37,415)	(\$197,993)
Reclassification adjustments	8,306	(639)	62,209
Amount before tax effect	(18,131)	(38,054)	(135,783)
Tax effect	5,168	11,494	38,707
Net unrealized gains on securities available for sale	(¥12,962)	(¥26,560)	(\$97,075)
Net deferred gains (losses) on hedging instruments:			
Amount arising during the year	(¥2,117)	¥1,220	(\$15,860)
Reclassification adjustments	3,591	822	26,894
Amount before tax effect	1,473	2,042	11,033
Tax effect	(449)	(623)	(3,365)
Net deferred gains (losses) on hedging instruments	¥1,023	¥1,419	\$7,668
Retirement benefits liability adjustments:			
Amount arising during the year	(¥1,622)	(¥17,934)	(\$12,150)
Reclassification adjustments	2,877	720	21,551
Amount before tax effect	1,255	(17,214)	9,400
Tax effect	(382)	5,250	(2,867)
Retirement benefits liability adjustments	¥872	(¥11,963)	\$6,533
Share of other comprehensive income of affiliates accounted for using the equity method:			
Amount arising during the year	¥56	¥—	\$426
Reclassification adjustments	—	—	—
Share of other comprehensive income of associates accounted for using the equity method	¥56	¥—	\$426
Total other comprehensive income	(¥11,009)	(¥37,104)	(\$82,447)

Notes to Consolidated Financial Statements

23. Lease Transactions

(1) Finance leases

- i) Information on finance lease transactions which are accounted for as operating leases at March 31st, 2023 and 2022 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Amounts equivalent to acquisition cost			
Tangible fixed assets	¥970	¥970	\$7,269
Total	¥970	¥970	\$7,269
Amounts equivalent to accumulated depreciation			
Tangible fixed assets	¥923	¥890	\$6,914
Total	¥923	¥890	\$6,914
Amounts equivalent to carrying value			
Tangible fixed assets	¥47	¥79	\$355
Total	¥47	¥79	\$355

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.

- ii) Future lease payments of finance leases which are accounted for as operating leases at March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Future finance lease payments			
Due within one year	¥31	¥32	\$233
Due after one year	16	47	121
Total	¥47	¥79	\$355

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.

- iii) Total lease payments during the year and the amount equivalent to depreciation expenses for the years ended March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total lease payments during the year	¥32	¥32	\$242
The amount equivalent to depreciation expenses *	32	32	242

* 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 March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Future operating lease payments			
Due within one year	¥228	¥238	\$1,712
Due after one year	148	227	1,108
Total	¥376	¥466	\$2,821

24. Financial Instruments

(1) Matters related to status of financial instruments

i) Policies for financial instruments

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.

Notes to Consolidated Financial Statements

(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 March 31st, 2023 and 2022 were ¥73,872 million (\$553,231 thousand) and ¥69,811 million, respectively.

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

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

(c) Liquidity risk management

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

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

(d) Risk management for derivative transactions

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

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

Because various assumptions are used in the estimation of the fair value of financial instruments, 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 March 31st, 2023 and 2022 and their fair values and valuation differences are as follows.

Stocks, etc. that do not have a market value and investments in partnerships are excluded from the table below (refer to Note 1). Notes on cash and due from banks, call loans and bills bought, negotiable certificates of deposit, call money and bills sold, securities sold under repurchase agreements, and cash collateral received for securities sent are omitted, because they comprise short-term instruments whose carrying amounts approximate their fair value.

<At March 31st, 2023>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Securities:			
Held-to-maturity securities	¥6,000	¥6,186	¥185
Available-for-sale securities*	1,751,334	1,751,334	—
ii) Loans and bills discounted	8,955,399		
Reserve for possible loan losses**	(39,364)		
	8,916,034	8,979,316	63,281
Total assets	¥10,673,369	¥10,736,836	¥63,466
Liabilities:			
i) Deposits	¥9,791,772	¥9,791,886	¥113
ii) Borrowed money	1,249,709	1,230,518	(19,191)
Total liabilities	¥11,041,482	¥11,022,404	(¥19,077)
Derivatives***			
Hedge accounting not applied	¥189	¥189	¥—
Hedge accounting applied	157	157	—
Total derivatives	¥346	¥346	¥—

	Thousands of U.S. dollars		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Securities:			
Held-to-maturity securities	\$44,935	\$46,326	\$1,391
Available-for-sale securities*	13,115,663	13,115,663	—
ii) Loans and bills discounted	67,066,575		
Reserve for possible loan losses**	(294,801)		
	66,771,773	67,245,683	473,909
Total assets	\$79,932,372	\$80,407,673	\$475,300
Liabilities:			
i) Deposits	\$73,330,135	\$73,330,982	\$847
ii) Borrowed money	9,359,019	9,215,298	(143,720)
Total liabilities	\$82,689,154	\$82,546,281	(\$142,873)
Derivatives***			
Hedge accounting not applied	\$1,417	\$1,417	\$—
Hedge accounting applied	1,177	1,177	—
Total derivatives	\$2,594	\$2,594	\$—

* Available-for-sale securities include investment trusts that apply treatments considering net asset value to be the fair value in accordance with paragraph 24-9 of the "Fair Value Measurement Guidance" (ASBJ Guidance No. 31, June 17th, 2021).

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

*** Derivative transactions recorded in Other assets and Other liabilities are presented in total.

The value of assets and liabilities arising from derivative transactions is shown at net value, and with the amount in parentheses representing net liability position.

Notes to Consolidated Financial Statements

<At March 31st, 2022>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Assets:			
i) Securities:			
Held-to-maturity securities	¥15,989	¥16,341	¥351
Available-for-sale securities	1,734,539	1,734,539	—
ii) Loans and bills discounted	8,470,861		
Reserve for possible loan losses*	(41,148)		
	8,429,713	8,520,495	90,782
Total assets	¥10,180,242	¥10,271,376	¥91,134
Liabilities:			
i) Deposits	¥9,570,343	¥9,570,513	¥169
ii) Borrowed money	1,755,240	1,747,863	(7,377)
Total liabilities	¥11,325,584	¥11,318,376	(¥7,207)
Derivatives**			
Hedge accounting not applied	¥22	¥22	¥—
Hedge accounting applied	(5,373)	(5,373)	—
Total derivatives	(¥5,350)	(¥5,350)	¥—

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

** Derivative transactions recorded in Other assets and Other liabilities are presented in total.

The value of assets and liabilities arising from derivative transactions is shown at net value, and with the amount in parentheses representing net liability position.

(Note 1) The carrying amount of stocks, etc. that do not have a market value and investments in partnerships recorded on the consolidated balance sheet are as follows, and are not included in "Available for sale securities" of fair value information of financial instruments.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Non-listed stocks	¥31,362	¥19,249	\$234,871
Investments in partnerships	3,953	3,566	29,608
Total	¥35,315	¥22,815	\$264,479

Notes: 1. Non-listed stocks are not within the scope of disclosures about fair value in accordance with paragraph 5 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31st, 2020).

2. In the years ended March 31st, 2023 and 2022, impairment losses of ¥52 million (\$396 thousand) and ¥353 million were recorded for non-listed stocks, respectively.

3. Investments in partnerships are not within the scope of disclosures about fair value in accordance with paragraph 24-16 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31 of June 17th, 2021).

Notes to Consolidated Financial Statements

(Note 2) Repayment schedules for monetary claims and securities with stated maturity at March 31st, 2023 and 2022

<At March 31st, 2023>

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	¥1,852,561	¥—	¥—	¥—	¥—	¥—
Securities:						
Held-to-maturity securities	6,000	—	—	—	—	—
Government bonds	6,000	—	—	—	—	—
Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities available for sale with maturity	113,202	242,102	268,161	202,031	521,171	226,617
Government bonds	8,000	18,000	—	—	271,000	213,000
Municipal bonds	23,510	121,288	150,890	108,041	18,220	—
Corporate bonds	47,367	49,763	28,026	28,704	32,633	—
Others	34,325	53,051	89,245	65,284	199,317	13,617
Loans and bills discounted	2,210,870	1,367,984	1,159,899	883,477	988,744	2,164,792
Total	¥4,182,633	¥1,610,087	¥1,428,061	¥1,085,508	¥1,509,915	¥2,391,409

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	\$13,873,748	\$—	\$—	\$—	\$—	\$—
Securities:						
Held-to-maturity securities	44,933	—	—	—	—	—
Government bonds	44,933	—	—	—	—	—
Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities available for sale with maturity	847,765	1,813,094	2,008,252	1,513,001	3,903,029	1,697,128
Government bonds	59,911	134,801	—	—	2,029,506	1,595,147
Municipal bonds	176,065	908,323	1,130,012	809,117	136,448	—
Corporate bonds	354,729	372,672	209,887	214,967	244,392	—
Others	257,058	397,297	668,352	488,915	1,492,681	101,981
Loans and bills discounted	16,557,103	10,244,774	8,686,435	6,616,318	7,404,660	16,212,028
Total	\$31,323,550	\$12,057,869	\$10,694,688	\$8,129,320	\$11,307,689	\$17,909,156

Note: Excluded from Loans and bills discounted are ¥112,174 million (\$840,070 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 ¥67,457 million (\$505,183 thousand) relating to those that do not have contractual maturity.

Notes to Consolidated Financial Statements

<At March 31st, 2022>

	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	¥2,502,865	¥—	¥—	¥—	¥—	¥—
Securities:						
Held-to-maturity securities	10,000	6,000	—	—	—	—
Government bonds	10,000	6,000	—	—	—	—
Municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Others	—	—	—	—	—	—
Securities available for sale with maturity	145,254	223,733	237,953	276,189	455,656	197,034
Government bonds	25,000	26,000	—	—	291,000	150,000
Municipal bonds	14,005	66,460	145,839	136,560	35,990	—
Corporate bonds	81,567	57,314	21,488	29,951	30,178	—
Others	24,682	73,957	70,626	109,677	98,487	47,034
Loans and bills discounted	1,905,692	1,302,410	1,147,579	842,791	961,745	2,131,679
Total	¥4,563,812	¥1,532,143	¥1,385,532	¥1,118,980	¥1,417,402	¥2,328,713

Note: Excluded from Loans and bills discounted are ¥109,949 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 ¥69,014 million relating to those that do not have contractual maturity.

(Note 3) Repayment schedules for bonds, borrowed money and other interest-bearing debts at March 31st, 2023 and 2022

<At March 31st, 2023>

	Millions of yen					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Deposits	¥9,681,682	¥225,306	¥41,810	¥5,966	¥4,430	¥0
Call money and bills sold	512,491	—	—	—	—	—
Payables under repurchase agreements	265,881	—	—	—	—	—
Guarantee deposits received under securities lending transactions	293,853	—	—	—	—	—
Borrowed money	273,776	497,111	478,819	2	—	—
Total	¥11,027,685	¥722,417	¥520,630	¥5,968	¥4,430	¥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	\$72,505,676	\$1,687,307	\$313,118	\$44,683	\$33,177	\$0
Call money and bills sold	3,838,023	—	—	—	—	—
Payables under repurchase agreements	1,991,175	—	—	—	—	—
Guarantee deposits received under securities lending transactions	2,200,654	—	—	—	—	—
Borrowed money	2,050,300	3,722,844	3,585,858	15	—	—
Total	\$82,585,830	\$5,410,152	\$3,898,976	\$44,698	\$33,177	\$0

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

Notes to Consolidated Financial Statements

<At March 31st, 2022>

	Millions of yen					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Deposits	¥9,540,804	¥232,008	¥49,405	¥6,838	¥5,580	¥0
Call money and bills sold	510,000	—	—	—	—	—
Payables under repurchase agreements	251,120	—	—	—	—	—
Guarantee deposits received under securities lending transactions	87,188	—	—	—	—	—
Borrowed money	1,212,856	290,367	252,009	6	—	—
Total	¥11,601,969	¥522,376	¥301,415	¥6,845	¥5,580	¥0

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

(3) Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value:

Level 1 fair value: Fair value measured using observable inputs, i.e., quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 fair value: Fair value measured using observable inputs other than Level 1 inputs

Level 3 fair value: Fair value measured using unobservable inputs

If multiple inputs are used that are significant to the fair value measurement, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

i) Financial instruments measured at fair value

<At March 31st, 2023>

Category	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities:				
Available for sales securities:				
Government bonds, municipal bonds, etc.	¥489,865	¥421,892	¥—	¥911,758
Corporate bonds	—	103,861	18,048	121,910
Residential mortgage-backed securities	—	63,999	—	63,999
Stocks	112,907	—	—	112,907
Other	160,156	353,768	10,633	524,559
Derivative transactions:				
Interest rates	—	1,874	—	1,874
Currencies	—	3,787	—	3,787
Stocks	—	—	—	—
Bonds	—	—	—	—
Merchandise	—	—	—	—
Credit derivatives	—	—	—	—
Total assets	¥762,930	¥949,185	¥28,682	¥1,740,797
Derivative transactions:				
Interest rates	—	267	—	267
Currencies	—	5,047	—	5,047
Stocks	—	—	—	—
Bonds	—	—	—	—
Merchandise	—	—	—	—
Credit derivatives	—	—	—	—
Total liabilities	¥—	¥5,315	¥—	¥5,315

Notes to Consolidated Financial Statements

<At March 31st, 2023>

Category	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities:				
Available for sales securities:				
Government bonds, municipal bonds, etc.	\$3,668,583	\$3,159,532	\$—	\$6,828,115
Corporate bonds	—	777,814	135,164	912,979
Residential mortgage-backed securities	—	479,292	—	479,292
Stocks	845,562	—	—	845,562
Other	1,199,404	2,649,359	79,636	3,928,400
Derivative transactions:				
Interest rates	—	14,038	—	14,038
Currencies	—	28,364	—	28,364
Stocks	—	—	—	—
Bonds	—	—	—	—
Merchandise	—	—	—	—
Credit derivatives	—	—	—	—
Total assets	\$5,713,549	\$7,108,403	\$214,801	\$13,036,754
Derivative transactions:				
Interest rates	—	2,005	—	2,005
Currencies	—	37,803	—	37,803
Stocks	—	—	—	—
Bonds	—	—	—	—
Merchandise	—	—	—	—
Credit derivatives	—	—	—	—
Total liabilities	\$—	\$39,809	\$—	\$39,809

Note: Securities do not include investment trusts that apply treatments considering net asset value to be the fair value in accordance with paragraph 24-9 of the "Fair Value Measurement Guidance" (ASBJ Guidance No. 31, June 17th, 2021). The consolidated balance sheet amount of such investment trusts is ¥15,189 million (\$113,757 thousand).

Reconciliation of investment trusts that apply treatments as allowed by the provisions of paragraph 24-9

<At March 31st, 2023>

Millions of yen							
Beginning balance	Gain or loss or other comprehensive income for the period		Purchases, sales, issuance, and settlements, net	Amount for which the net asset value of investment trusts is regarded as the fair value	Amount for which the net asset value of investment trusts is not regarded as the fair value	Ending balance	Of gain/loss in fiscal year ended March 31st, 2023, net valuation gain/loss of investment trusts held on consolidated balance sheet date
	Recorded in gain or loss	Recorded in other comprehensive income for the period*					
¥10,859	¥—	¥439	¥3,891	¥—	¥—	¥15,189	¥—

Thousands of U.S. dollars							
Beginning balance	Gain or loss or other comprehensive income for the period		Purchases, sales, issuance, and settlements, net	Amount for which the net asset value of investment trusts is regarded as the fair value	Amount for which the net asset value of investment trusts is not regarded as the fair value	Ending balance	Of gain/loss in fiscal year ended March 31st, 2023, net valuation gain/loss of investment trusts held on consolidated balance sheet date
	Recorded in gain or loss	Recorded in other comprehensive income for the period*					
\$81,323	\$—	\$3,287	\$29,145	\$—	\$—	\$113,757	\$—

* Included in "Valuation difference on available-for-sale securities" under "Other comprehensive income" in the Consolidated Balance Sheet.

Notes to Consolidated Financial Statements

<At March 31st, 2022>

Category	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities:				
Available for sales securities:				
Government bonds, municipal bonds, etc.	¥472,474	¥412,796	¥—	¥885,271
Corporate bonds	—	140,969	19,693	160,663
Residential mortgage-backed securities	—	60,824	—	60,824
Stocks	107,117	—	—	107,117
Other	70,308	263,081	9,516	342,906
Derivative transactions:				
Interest rates	—	732	—	732
Currencies	—	1,203	—	1,203
Stocks	—	—	—	—
Bonds	—	—	—	—
Merchandise	—	—	—	—
Credit derivatives	—	—	—	—
Total assets	¥649,901	¥879,609	¥29,209	¥1,558,720
Derivative transactions:				
Interest rates	—	574	—	574
Currencies	—	6,712	—	6,712
Stocks	—	—	—	—
Bonds	—	—	—	—
Merchandise	—	—	—	—
Credit derivatives	—	—	—	—
Total liabilities	¥—	¥7,287	¥—	¥7,287

Note: Investment trusts, etc. to which the transitional treatment provided for in Article 5, Item 6 of the Supplementary Provisions to the "Cabinet Office Ordinance on Partial Amendment of the Regulations on Terminology, Format and Preparation Method of Financial Statements, etc." (Cabinet Office Ordinance No. 9, March 6th, 2020) is applied are not represented in the above table.

The amount of such investment trust, etc. on the consolidated balance sheet is ¥177,755 million.

ii) Financial instruments other than financial instruments measured at fair value

<At March 31st, 2023>

Category	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities:				
Securities Held-to-maturity:				
Government bonds, municipal bonds, etc.	¥—	¥6,186	¥—	¥6,186
Corporate bonds	—	—	—	—
Other	—	—	—	—
Loans and bills discounted:	—	—	8,979,316	8,979,316
Total assets	¥—	¥6,186	¥8,979,316	¥8,985,502
Deposits	—	9,791,886	—	9,791,886
Borrowings	—	1,230,518	—	1,230,518
Total liabilities	¥—	¥11,022,404	¥—	¥11,022,404

Notes to Consolidated Financial Statements

<At March 31st, 2023>

Category	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities:				
Securities Held-to-maturity:				
Government bonds, municipal bonds, etc.	\$—	\$46,326	\$—	\$46,326
Corporate bonds	—	—	—	—
Other	—	—	—	—
Loans and bills discounted	—	—	67,245,683	67,245,683
Total assets	\$—	\$46,326	\$67,245,683	\$67,292,010
Deposits	—	73,330,982	—	73,330,982
Borrowings	—	9,215,298	—	9,215,298
Total liabilities	\$—	\$82,546,281	\$—	\$82,546,281

<At March 31st, 2022>

Category	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities:				
Securities Held-to-maturity:				
Government bonds, municipal bonds, etc.	¥—	¥16,341	¥—	¥16,341
Corporate bonds	—	—	—	—
Other	—	—	—	—
Loans and bills discounted:	—	—	8,520,495	8,520,495
Total assets	¥—	¥16,341	¥8,520,495	¥8,536,836
Deposits	—	9,570,513	—	9,570,513
Borrowings	—	1,747,863	—	1,747,863
Total liabilities	¥—	¥11,318,376	¥—	¥11,318,376

(Note 1) Description of the valuation technique(s) and inputs used in the fair value measurements

Assets:

i) Securities

Fair value of securities that may be measured using non-adjusted quoted prices in active markets is classified as Level 1. Listed shares and government bonds are typically included here.

Fair value of securities that are measured using quoted prices and whose respective markets are not very active is classified as Level 2. Local government bonds, corporate bonds, and residential mortgage-backed securities are typically included here. For investment trusts with no transaction price on the market, in cases where there are no material restrictions that would require market participants to compensate for the risk associated with cancellation or repurchase requests, the net asset value is used as the fair value and they are classified as Level 2.

If quoted prices are not available, fair value is measured using the future cash flow present value technique and other valuation techniques. For valuation, observable inputs are used in the best manner. Such inputs include TIBOR, government bond yields, conditional prepayment rates, credit spreads, the probability of bankruptcy, and the rate of loss at the time of bankruptcy. Fair value of securities that are measured using significant unobservable inputs is classified as Level 3.

ii) Loans and bills discount

The fair value of loans and bills discounted is based on the present value of the total amount of principal and interest as categorized by loan type, internal rating, and term, discounted by the credit-risk-adjusted market interest rate. Because the fair value of loans with floating interest rates approximates their carrying value if a borrower's credit capability does not differ markedly from the borrower's credit capability after execution (since they reflect the prevailing interest rates in the short term), 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. Their fair value is classified as Level 3.

Liabilities:

i) Deposits

For demand deposits, the amount which would be paid if its repayment was demanded on the consolidated balance sheet date is deemed to be the fair value. The fair value of time deposits is based on the discounted present value of future cash flows as categorized by term duration. The prevailing interest rates are used to calculate the discount rate. Because the fair value of those demand deposits having short terms (one year or less) approximates their carrying value, the carrying value is treated as the fair value. Their fair value is classified as Level 2.

ii) Borrowed money

The fair value of borrowed money is based on the present value of the total amount of the principal and interest of the borrowed money as categorized by term duration, discounted by the remaining period of such borrowings and the credit-risk-adjusted market interest rate. For borrowed money with floating interest rates, because its fair value is deemed to approximate the carrying value, the carrying value is treated as the fair value. 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. Their fair value is classified as Level 2.

iii) Derivative transactions:

The fair value of derivative transactions for which unadjusted quoted prices in active markets may be used is classified as Level 1. Bond futures and interest rate futures are typically included here, provided, however, because the majority of derivative transactions are made over-the-counter and thus no published quoted prices exist, their fair value is measured by using valuation techniques such as the present value technique or the Black-Sholes model in accordance with the transaction type and the period until maturity. Among key inputs used for these valuation techniques are interest rates, foreign exchange rates, and volatility. The fair price is adjusted based on the credit risk of the transaction partner and the credit risk of consolidated subsidiaries engaged in the banking business. If unobservable inputs are not used or if the impact of such inputs, in the event that such inputs are used, is not significant, the fair value is classified as Level 2. Interest swaps, foreign exchange transactions, etc. are typically included here. If significant unobservable inputs are used, the fair value is classified as Level 3.

(Note 2) Information on financial instruments measured at fair value whose fair value is classified as Level 3

i) Quantitative information on significant unobservable inputs

<At March 31st, 2023>

Category	Valuation technique	Significant unobservable inputs	Range of inputs	Weighted average inputs
Securities:				
Available for sale securities:				
Private placement bonds	present value technique	Default rates by credit rating	0.03%—1.48%	0.07%
		Coverage ratio by credit rating	5.32%—78.35%	38.52%
Preferred equity securities	present value technique	Default rates by credit rating	0.03%	0.03%
		Coverage ratio by credit rating	33.33%	33.33%

<At March 31st, 2022>

Category	Valuation technique	Significant unobservable inputs	Range of inputs	Weighted average inputs
Securities:				
Available for sale securities:				
Private placement bonds	present value technique	Default rates by credit rating	0.03%—1.48%	0.07%
		Coverage ratio by credit rating	5.55%—80.86%	38.54%
Preferred equity securities	present value technique	Default rates by credit rating	0.11%	0.11%
		Coverage ratio by credit rating	49.12%	49.12%

Notes to Consolidated Financial Statements

- ii) A reconciliation from the beginning balances to the ending balances and gains or losses on valuation of financial assets and financial liabilities held at the end of the reporting period included in profit or loss for the period

<At March 31st, 2023>

Millions of yen								
Category	Beginning balance	Gain or loss or other comprehensive income for the period		Purchases, sales, issuances, and settlements, net***	Transfer into Level 3	Transfer out of Level 3	Ending balance	Gains or losses on valuation of financial assets and financial liabilities held at the end of the reporting period included in gain or loss for the period
		Recorded in gain or loss*	Recorded in other comprehensive income for the period**					
Securities:								
Available sales securities:								
Private placement bonds	¥19,693	¥38	(¥50)	(¥1,633)	¥—	¥—	¥18,048	¥—
Preferred equity securities	9,516	—	95	—	—	—	9,611	—
Foreign securities	—	—	22	1,000	—	—	1,022	—

<At March 31st, 2023>

Thousands of U.S. dollars								
Category	Beginning balance	Gain or loss or other comprehensive income for the period		Purchases, sales, issuances, and settlements, net***	Transfer into Level 3	Transfer out of Level 3	Ending balance	Gains or losses on valuation of financial assets and financial liabilities held at the end of the reporting period included in gain or loss for the period
		Recorded in gain or loss*	Recorded in other comprehensive income for the period**					
Securities:								
Available for sales securities:								
Private placement bonds	\$147,486	\$290	(\$380)	(\$12,231)	\$—	\$—	\$135,164	\$—
Preferred equity securities	71,265	—	715	—	—	—	71,981	—
Foreign securities	—	—	166	7,488	—	—	7,655	—

* Included in "Other operating income" and "Other operating expenses" of the consolidated statements of income

** Included in "Net unrealized gains on securities available for sale" under "Other comprehensive income" in the consolidated statement of comprehensive income.

*** The increase in foreign securities is due to the acquisition of a consolidated subsidiary.

<At March 31st, 2022>

Millions of yen								
Category	Beginning balance	Gain or loss or other comprehensive income for the period		Purchases, sales, issuances, and settlements, net	Transfer into Level 3	Transfer out of Level 3	Ending balance	Gains or losses on valuation of financial assets and financial liabilities held at the end of the reporting period included in gain or loss for the period*
		Recorded in gain or loss*	Recorded in other comprehensive income for the period**					
Securities:								
Available sales securities:								
Private placement bonds	¥17,836	(¥24)	(¥48)	¥1,930	¥—	¥—	¥19,693	¥—
Preferred equity securities	—	—	4,960	4,556	—	—	9,516	—
Foreign securities	—	—	—	—	—	—	—	—

* Included in "Other operating expenses" of the consolidated statements of income

** Included in "Net unrealized gains on securities available for sale" under "Other comprehensive income" in the consolidated statement of comprehensive income.

- iii) Description of valuation processes used for fair value measurements

In its manual, the Group has established policies and procedures for measuring fair value, and back-office departments measure fair value accordingly. Whether the fair value thus obtained is measured using valid valuation techniques and inputs as well as whether they are classified into an appropriate level of the fair value hierarchy is then verified to ensure that the policies and procedures for measuring fair value are appropriate.

In measuring fair value, the Group uses a valuation model that most accurately reflects the nature, characteristics, and risks of each asset. In addition, when using quoted prices obtained from third parties, the Group verifies whether the prices are valid using the methods deemed such as confirming the valuation techniques and inputs used.

- iv) Narrative description of sensitivity of the fair value measurement to changes in significant unobservable inputs
 Significant unobservable inputs used in measuring the fair value of private placement bonds, etc. are default rates by credit rating and coverage ratios measured by consolidated subsidiaries. The default rate indicates a probability of default, that is, borrowers falling into arrears within a certain period. A significant increase (decrease) of this input can cause a significant decline (rise) in the fair value.

25. Securities

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

Not applicable

(2) Held-to-maturity securities

- i) Securities whose fair value exceeds their carrying value

<At March 31st, 2023>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	¥6,000	¥6,186	¥185
Municipal bonds	—	—	—
Corporate bonds	—	—	—
	6,000	6,186	185
Others	—	—	—
Total	¥6,000	¥6,186	¥185

	Thousands of U.S. dollars		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	\$44,935	\$46,326	\$1,391
Municipal bonds	—	—	—
Corporate bonds	—	—	—
	44,935	46,326	1,391
Others	—	—	—
Total	\$44,935	\$46,326	\$1,391

<At March 31st, 2022>

	Millions of yen		
	Carrying value	Fair value	Valuation differences
Bonds:			
Government bonds	¥15,989	¥16,341	¥351
Municipal bonds	—	—	—
Corporate bonds	—	—	—
	15,989	16,341	351
Others	—	—	—
Total	¥15,989	¥16,341	¥351

- ii) Securities whose carrying value exceeds their fair value

<At March 31st, 2023>

None

<At March 31st, 2022>

None

Notes to Consolidated Financial Statements

(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 March 31st, 2023>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥105,039	¥33,548	¥71,490
Bonds:			
Government bonds	30,772	30,647	125
Municipal bonds	24,922	24,877	45
Corporate bonds	104,542	103,828	714
	160,237	159,352	884
Others	158,175	140,942	17,233
Total	¥423,452	¥333,844	¥89,608

	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Valuation differences
Stocks	\$786,637	\$251,246	\$535,390
Bonds:			
Government bonds	230,455	229,516	938
Municipal bonds	186,641	186,303	337
Corporate bonds	782,913	777,564	5,349
	1,200,010	1,193,384	6,626
Others	1,184,570	1,055,512	129,058
Total	\$3,171,219	\$2,500,143	\$671,075

<At March 31st, 2022>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥95,272	¥30,206	¥65,065
Bonds:			
Government bonds	51,497	51,165	331
Municipal bonds	19,935	19,898	37
Corporate bonds	130,862	129,891	971
	202,295	200,955	1,340
Others	221,322	205,364	15,958
Total	¥518,891	¥436,526	¥82,364

ii) Securities whose acquisition cost exceeds their carrying value

<At March 31st, 2023>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥7,868	¥9,928	(¥2,060)
Bonds:			
Government bonds	459,093	477,266	(18,173)
Municipal bonds	396,970	399,545	(2,575)
Corporate bonds	81,367	82,949	(1,581)
	937,430	959,761	(22,330)
Others	382,582	409,725	(27,142)
Total	¥1,327,881	¥1,379,416	(¥51,534)

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars		
	Carrying value	Acquisition cost	Valuation differences
Stocks	\$58,924	\$74,357	(\$15,432)
Bonds:			
Government bonds	3,438,127	3,574,226	(136,099)
Municipal bonds	2,972,890	2,992,181	(19,290)
Corporate bonds	609,358	621,203	(11,845)
	7,020,376	7,187,611	(167,234)
Others	2,865,142	3,068,415	(203,272)
Total	\$9,944,444	\$10,330,383	(\$385,939)

<At March 31st, 2022>

	Millions of yen		
	Carrying value	Acquisition cost	Valuation differences
Stocks	¥11,844	¥14,324	(¥2,479)
Bonds:			
Government bonds	433,075	441,519	(8,444)
Municipal bonds	380,763	382,508	(1,745)
Corporate bonds	90,626	91,160	(534)
	904,464	915,188	(10,723)
Others	299,339	312,295	(12,955)
Total	¥1,215,648	¥1,241,807	(¥26,159)

(4) Available for sales securities sold for the years ended March 31st, 2023 and 2022 are as follows:

<At March 31st, 2023>

	Millions of yen		
	Proceeds from sale	Gains	Losses
Stocks	¥429	¥1,296	(¥10)
Bonds:			
Government bonds	141,733	712	(594)
Municipal bonds	—	—	—
Corporate bonds	4,785	1	(8)
	146,519	713	(603)
Others	118,309	1,800	(11,133)
Total	¥265,258	¥3,810	(¥11,747)

	Thousands of U.S. dollars		
	Proceeds from sale	Gains	Losses
Stocks	\$3,215	\$9,707	(\$75)
Bonds:			
Government bonds	1,061,435	5,335	(4,454)
Municipal bonds	—	—	—
Corporate bonds	35,839	7	(65)
	1,097,274	5,343	(4,519)
Others	886,016	13,483	(83,381)
Total	\$1,986,506	\$28,534	(\$87,976)

Notes to Consolidated Financial Statements

<At March 31st, 2022>

	Millions of yen		
	Proceeds from sale	Gains	Losses
Stocks	¥870	¥766	(¥0)
Bonds:			
Government bonds	30,204	48	(118)
Municipal bonds	2,600	47	—
Corporate bonds	8,577	81	—
	41,382	177	(118)
Others	54,026	2,137	(299)
Total	¥96,279	¥3,081	(¥417)

(5) Securities whose purposes of holding have changed

There are no securities whose purposes of holding changed during the previous fiscal year.

Stocks of City Ascom Co., Ltd. and Kyushu Leasing Service Co., Ltd., which were held as available for sales securities, are held as stocks of subsidiaries and stocks of affiliates, respectively, from the fiscal year under review. With this change, available for sales securities decreased by ¥1,867 million (\$13,986 thousand) (net unrealized gains on securities available for sale down by ¥359 million (\$2,689 thousand) and deferred tax liabilities down by ¥157 million (\$1,180 thousand)).

(6) Devaluation of securities

Securities other than trading securities (excluding shares, etc. that do not have market prices and investments in partnerships) 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.

There are no impairment losses for the fiscal year under review.

The amount of devaluation was ¥2,056 million, of which ¥2,005 million for stocks and ¥51 million for bonds, for the year ended March 31st, 2022.

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 30% but is 50% 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.

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

The components of the unrealized gains/losses on securities available for sale at March 31st, 2023 and 2022 are as follows:

<At March 31st, 2023>

	Millions of yen	Thousands of U.S. dollars
Revaluation difference	¥38,074	\$285,136
Deferred tax liability	(11,881)	(88,979)
Revaluation difference (before non-controlling interest adjustment), net of taxes	26,192	196,156
Amount corresponding to non-controlling interests	(505)	(3,785)
Amount corresponding to the parent's share of net unrealized gains on available-for-sale securities owned by affiliates	70	525
Unrealized gains on securities available for sale, net of taxes	¥25,757	\$553,725

<At March 31st, 2022>

	Millions of yen
Revaluation difference	¥56,205
Deferred tax liability	(17,050)
Revaluation difference (before non-controlling interest adjustment), net of taxes	39,155
Amount corresponding to non-controlling interests	(538)
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	¥38,616

26. Money Held in Trust

Money held in trust at March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Money held in trust for investment purposes			
Carrying value	¥4,909	¥4,982	\$36,764
Unrealized gains/losses	—	—	—
Money held in trust for other purposes than investment purposes and held-to-maturity purposes:			
Acquisition Cost	¥6,700	¥6,700	\$50,175
Carrying value	6,700	6,700	50,175
Unrealized gains/losses	—	—	—

27. 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 March 31st, 2023 and 2022, 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 March 31st, 2023>

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	¥25,532	¥22,560	¥178	¥178
Receive-floating and pay-fixed	25,532	22,560	(12)	(12)
Total	—	—	¥165	¥165

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	\$191,212	\$168,951	\$1,338	\$1,338
Receive-floating and pay-fixed	191,212	168,951	(96)	(96)
Total	—	—	\$1,242	\$1,242

Note: The above transactions are marked to market and unrealized gains/losses are included in the consolidated statement of income.

<At March 31st, 2022>

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	¥29,540	¥27,940	¥496	¥496
Receive-floating and pay-fixed	29,540	27,940	(310)	(310)
Total	—	—	¥185	¥185

Note: The above transactions are marked to market and unrealized gains/losses are included in the consolidated statement of income.

Notes to Consolidated Financial Statements

ii) Currency related transactions <At March 31st, 2023>

Type of transactions	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Currency swaps	¥15,108	¥12,187	¥5	¥5
Forward foreign:				
Sell	8,523	—	49	49
Buy	5,575	—	23	23
Currency option:				
Sell	91,559	73,252	(1,157)	246
Buy	91,559	73,252	1,102	157
Total	—	—	¥23	¥482

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	\$113,149	\$91,274	\$42	\$42
Forward foreign:				
Sell	63,834	—	367	367
Buy	41,751	—	179	179
Currency option:				
Sell	685,684	548,582	(8,670)	1,849
Buy	685,684	548,582	8,255	1,176
Total	—	—	\$174	\$3,614

Note: The above transactions are marked to market and unrealized gains/losses are included in the consolidated statement of income.

<At March 31st, 2022>

Type of transactions	Millions of yen			
	Contract value		Fair value	Unrealized gain (loss)
	Total	Over one year		
Over-the-counter transactions:				
Currency swaps	¥18,469	¥14,757	¥7	¥7
Forward foreign:				
Sell	10,793	2	(335)	(335)
Buy	8,036	—	167	167
Currency option:				
Sell	29,597	19,666	(502)	(143)
Buy	29,597	19,666	499	284
Total	—	—	(¥162)	(¥19)

Note: The above transactions are marked to market and unrealized gains/losses are included in the consolidated statement of income.

(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 March 31st, 2023 and 2022, to which hedge accounting is applied. The amounts of the contract value are not necessarily indicative of the actual market risk of derivative transactions.

Notes to Consolidated Financial Statements

i) Interest related transactions
<At March 31st, 2023>

			Millions of yen		
Hedge accounting method	Type of transactions	Hedged item	Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Interest rate swaps:	Available-for-sale securities	¥38,436	¥25,343	¥1,440
	Receive-floating and pay-fixed				
Special treatment for interest rate swaps	Interest rate swaps:	Loans and bills discounted, and deposits	10,000	—	(Note)
	Receive-floating and pay-fixed				
	Interest rate options				
Total			—	—	¥1,440

			Thousands of U.S. dollars		
Hedge accounting method	Type of transactions	Hedged item	Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Interest rate swaps:	Available-for-sale securities	\$287,847	\$189,800	\$10,790
	Receive-floating and pay-fixed				
Special treatment for interest rate swaps	Interest rate swaps:	Loans and bills discounted, and deposits	74,889	—	(Note)
	Receive-floating and pay-fixed				
	Interest rate options				
Total			—	—	\$10,790

Note: 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 24)".

<At March 31st, 2022>

			Millions of yen		
Hedge accounting method	Type of transactions	Hedged item	Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Interest rate swaps:	Available-for-sale securities	¥37,677	¥35,229	(¥26)
	Receive-floating and pay-fixed				
Special treatment for interest rate swaps	Interest rate swaps:	Loans and bills discounted, and deposits	42,760	10,000	(Note)
	Receive-floating and pay-fixed				
	Interest rate options				
Total			—	—	(¥26)

Note: 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 24)".

ii) Currency related transactions
<At March 31st, 2023>

			Millions of yen		
Hedge accounting method	Type of transactions	Hedged item	Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Forward foreign	Securities denominated in foreign currencies	¥121,427	¥—	(¥1,283)
Total			—	—	(¥1,283)

			Thousands of U.S. dollars		
Hedge accounting method	Type of transactions	Hedged item	Contract value		Fair value
			Total	Over one year	
Principle hedge accounting method	Forward foreign	Securities denominated in foreign currencies	\$909,366	\$—	(\$9,612)
Total			—	—	(\$9,612)

Note: The deferred method is applied as hedge accounting in accordance primarily with "Accounting and Auditing Treatment for Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry-specific Committee Practical Guideline No. 25).

Notes to Consolidated Financial Statements

<At March 31st, 2022>

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	¥103,484	¥—	(¥5,346)
	Total		—	—	(¥5,346)

Note: The deferred method is applied as hedge accounting in accordance primarily with "Accounting and Auditing Treatment for Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry-specific Committee Practical Guideline No. 25).

28. Employee Retirement Benefits

(1) Description of the retirement benefit plans

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

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

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

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

As of March 31st, 2023, the lump-sum payment plans have been adopted by 7 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.

Some consolidated subsidiaries subscribe to the Japan Computer Information Service Employees' Pension Fund (multi-employer plan) but are accounted for in the same manner as the defined contribution plan because of the inability to reasonably assess the amount of pension assets that correspond to the amount of contributions by the Company.

(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 March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Retirement benefit obligation at beginning of the year	¥72,256	¥73,948	\$541,123
Service cost	2,247	2,285	16,831
Interest cost	87	87	652
Actuarial gain and loss	247	185	1,854
Retirement benefits paid	(4,622)	(4,250)	(34,615)
Others	1,581	—	11,841
Retirement benefit obligation at end of the year	¥71,797	¥72,256	\$537,686

Notes to Consolidated Financial Statements

- ii) Reconciliation between the balances of plan assets at the beginning and end of the year for the years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Plan assets at beginning of the year	¥75,031	¥91,241	\$561,904
Expected return on plan assets	2,467	3,002	18,478
Actuarial gain and loss	(737)	(17,749)	(5,522)
Contributions by employer	695	728	5,205
Contributions by employees	136	144	1,020
Retirement benefits paid	(2,404)	(2,336)	(18,006)
Others	—	—	—
Plan assets at end of the year	¥75,188	¥75,031	\$563,079

- 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 March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Retirement benefit obligation (funded)	¥71,277	¥71,796	\$533,795
Fair value of plan assets	(75,188)	(75,031)	(563,079)
	(3,910)	(3,235)	(29,284)
Retirement benefit obligation (unfunded)	519	460	3,891
Net liability (asset) for retirement benefits in the balance sheet	(¥3,390)	(¥2,774)	(\$25,392)

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Liability for retirement benefits	¥4,647	¥4,773	\$34,805
Asset for retirement benefits	(8,038)	(7,548)	(60,198)
Net liability (asset) for retirement benefits in the balance sheet	(¥3,390)	(¥2,774)	(\$25,392)

- iv) Components of retirement benefit expenses for the years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Service cost	¥2,111	¥2,141	\$15,810
Interest cost	87	87	652
Expected return on plan assets	(2,467)	(3,002)	(18,478)
Amortization of unrecognized actuarial gain and loss	2,240	720	16,778
Others	267	299	1,999
Retirement benefit expenses	¥2,238	¥245	\$16,762

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 March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Actuarial gain and loss	(¥1,255)	¥17,214	(\$9,400)

Notes to Consolidated Financial Statements

- vi) Items recorded in retirement benefits liability adjustments included in accumulated other comprehensive income (gross of income tax effects) at March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Unrecognized actuarial gain and loss	(¥21,364)	(¥22,620)	(\$160,000)

- vii) Matters concerning plan assets

(a) Percentages of each main category of the total plan assets at March 31st, 2023 and 2022 are as follows:

	2023	2022
Bonds	26%	24%
Stocks	48%	51%
Cash and deposits	0%	0%
Others	26%	25%
Total	100%	100%

Note: Retirement benefit trusts established for the corporate pension plans accounted for 22% and 21% of the total plan assets at March 31st, 2023 and 2022, respectively. Retirement benefit trusts established for the lump-sum payment plans accounted for 18% and 17% of the total plan assets at March 31st, 2023 and 2022, respectively.

- (b) 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 March 31st, 2023 and 2022

	2023	2022
1) Discount rates:	0.117%(principally)	0.117%(principally)
2) Expected long-term rate of return on plan assets:	3.30%(principally)	3.30%(principally)
3) Expected rate of pay increase:	2.76%(principally)	2.74%(principally)

(3) Defined contribution plans

Contributions of ¥0 million (\$1 thousand) and ¥0 million have been made to the defined contribution plan by the consolidated subsidiary for the years ended March 31st, 2023 and 2022, respectively.

(4) Multi-employer plan

Contributions of ¥24 million (\$181 thousand) were made to the corporate pension fund plan (multi-employer plan) in the fiscal year under review (no contributions were made in the previous fiscal year), which is accounted for in the same manner as the defined contribution plan.

- i) Latest amount of pension assets accumulated under the multi-employer plan

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Amount of pension assets	¥260,833	¥—	\$1,953,366
Amount of actuarial liabilities for the purpose of pension financing valuation	211,022	—	1,580,337
Balance	49,810	—	373,029

- ii) Percentages of the Group's premiums within the multi-employer plan

	2023	2022
Percentages of the Group's premiums	0.36%	—%

- iii) Supplementary explanations

Main factors behind the Balance in i) above are general reserves (previous fiscal year: nil, fiscal year under review: ¥49,810 million (\$373,029 thousand)). The percentages in ii) above do not match the actual percentages borne by the Group.

29. Income Taxes

(1) The tax effect of temporary differences and tax loss carryforwards that give rise to the deferred tax assets and liabilities at March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Reserve for possible loan losses	¥12,485	¥14,229	\$93,503
Liability for retirement benefits	7,509	7,429	56,238
Accumulated depreciation	2,002	1,957	14,997
Loss carryforwards for tax purposes	31	59	237
Others	7,613	7,439	57,019
Sub-total	29,643	31,115	221,997
Valuation allowance	(7,118)	(7,808)	(53,313)
Total deferred tax assets	22,524	23,306	168,683
Deferred tax liabilities:			
Reserve fund for deferred income of fixed assets	(0)	(0)	(6)
Unrealized losses on securities attributable to partition of corporation, net	(22)	(22)	(171)
Gains on establishment of a retirement benefit trust	(3,179)	(3,647)	(23,812)
Asset retirement obligations	(124)	(131)	(932)
Capital gain adjustments	(1,259)	(1,081)	(9,433)
Share of retained earnings of affiliates accounted for by the equity method	(308)	(103)	(2,313)
Unrealized gains on securities available for sale, net	(11,881)	(17,050)	(88,981)
Others	(448)	(2)	(3,361)
Total deferred tax liabilities	(17,226)	(22,040)	(129,011)
Net deferred tax assets (liabilities)	(¥5,297)	(¥1,265)	(\$39,671)

(2) The reconciliation between the statutory tax rate and the effective tax rate reflected in the consolidated statement of income for the year ended March 31st, 2023 is as follows:

	2023	2022
Statutory tax rate	30.5%	30.5%
(Adjustments)		
Items permanently not deductible for tax purposes such as entertainment expenses	0.5	0.3
Non-taxable dividend income and others	(0.9)	(0.7)
Inhabitant tax on per capita basis	0.3	0.3
Capital gain adjustments		
Increase in valuation allowance	(2.1)	2.8
Equity in earnings of affiliates	(7.4)	(0.0)
Others	1.6	0.0
Effective tax rate	22.5%	33.2%

(3) Accounting treatment of national and local income tax or accounting treatment of tax effect accounting thereof

The Company and some of its consolidated subsidiaries have adopted the Group Tax Sharing System from the fiscal year under review. Also, in accordance with the ASBJ Practical Solution No. 42, national and local income tax are accounted for, or tax effect accounting thereof is accounted for and disclosed.

(7) Amount of assets accepted and liabilities assumed on the date of the business combination, and major components thereof

- | | |
|---------------------------|-------------------------------------|
| i) Amount of assets | ¥10,073 million (\$75,436 thousand) |
| ii) Amount of liabilities | ¥3,695 million (\$27,679 thousand) |

Additional Information

· Acquisition of an affiliate accounted for by the equity method by stock

Pursuant to the capital and business alliance agreement signed on May 12th, 2022, the Company acquired shares of Kyushu Leasing Service Co., Ltd. on October 5th, 2022, to make it into an affiliate accounted for by the equity method.

(1) Outline of stock acquisition

- | | |
|---|--|
| i) Name and description of business of investee company | |
| Name of investee company | Kyushu Leasing Service Co., Ltd. |
| Description of business of investee company | Leasing/installment business, finance business, fee business |
| ii) Main reasons for making it into an affiliate accounted for by the equity method | |
| | To bring into the Group the leasing function as part of efforts to enhance the Group's collective strength |
| iii) The equity method application start date | |
| | October 1st, 2022 |
| iv) Ratio of voting rights after stock acquisition | |
| | 29.9% |

(2) Period of performance of the investee company included in the consolidated statement of income for the fiscal year under review

From October 1st, 2022 to March 31st, 2023

(3) Amount equivalent to negative goodwill

- | | |
|--|---|
| i) Amount of gain from negative goodwill | ¥7,637 million (\$57,199 thousand) |
| ii) The causes of occurrence | |
| | Since the acquisition cost fell below the Company's equity related to the net assets at fair value of the investee company on the stock acquisition date, the difference has been recognized as the amount equivalent to that of negative goodwill. |

31. Asset Retirement Obligations

Information on asset retirement obligations is as follows:

Asset retirement obligations that are recorded in the consolidated balance sheet

(1) Overview of asset retirement obligations

The Group 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 Group 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.

Notes to Consolidated Financial Statements

(3) Changes in total asset retirement obligations for the years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Balance at beginning of the year	¥1,069	¥813	\$8,011
Increase due to acquisition of tangible fixed assets	4	250	31
Adjustment for passage of time	12	11	93
Decrease due to fulfillment of asset retirement obligation	6	6	50
Balance at end of the year	¥1,079	¥1,069	\$8,086

32. Revenue Recognition

(1) Disaggregation of revenue from contracts with customers

<In 2023>

	Millions of yen		
	Reporting segment Banking	Other	Total
Fees and commissions	¥22,685	¥7,383	¥30,068
Deposit-taking and lending	8,251	4,596	12,847
Forex businesses	6,957	—	6,957
Securities-related businesses	2,586	2,447	5,033
Agency transactions	2,572	0	2,572
Ordinary revenues other than fees and commissions	29	5,020	5,049
Revenue from contracts with customers	22,714	12,403	35,118
Ordinary revenues other than the above	111,989	13,339	125,329
Ordinary revenues from third party customers	¥134,704	¥25,743	¥160,448

<In 2023>

	Thousands of U.S. dollars		
	Reporting segment Banking	Other	Total
Fees and commissions	\$169,891	\$55,292	\$225,184
Deposit-taking and lending	61,794	34,422	96,217
Forex businesses	52,106	—	52,106
Securities-related businesses	19,369	18,327	37,697
Agency transactions	19,266	1	19,268
Ordinary revenues other than fees and commissions	219	37,595	37,815
Revenue from contracts with customers	170,111	92,888	262,999
Ordinary revenues other than the above	838,687	99,901	938,589
Ordinary revenues from third party customers	\$1,008,798	\$192,790	\$1,201,588

Note: "Other" is a business segment that is not included in reporting segments and includes credit guarantees, credit cards, financial instruments transactions, and other financial businesses as well as information system service businesses.

<In 2022>

	Millions of yen		
	Reporting segment Banking	Other	Total
Fees and commissions	¥22,205	¥7,469	¥29,674
Deposit-taking and lending	7,936	4,186	12,122
Forex businesses	7,292	—	7,292
Securities-related businesses	3,378	2,960	6,338
Agency transactions	1,865	6	1,872
Ordinary revenues other than fees and commissions	27	14	41
Revenue from contracts with customers	22,232	7,483	29,716
Ordinary revenues other than the above	103,159	5,609	108,768
Ordinary revenues from third party customers	¥125,391	¥13,093	¥138,484

Note: "Other" is a business segment that is not included in reporting segments and includes credit guarantees, credit cards, financial instruments transactions, and other financial businesses.

(2) Useful information in understanding revenue from contracts with customers

Useful information in understanding revenue is as presented in "2. Summary of Significant Accounting Policies, (18) Recognition of earnings."

(3) Balance of contract liabilities and the transaction price allocated to the remaining performance obligations

i) Balance of contract liabilities, etc.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Receivables from contracts with customers (beginning balance)	¥810	¥844	\$6,070
Receivables from contracts with customers (ending balance)	3,088	810	23,126
Contract liabilities (beginning balance)	348	445	2,607
Contract liabilities (ending balance)	391	348	2,935

Notes: 1. Contract liabilities are mainly related to advances received from customers and their balance decreases as they are appropriated when recognizing earnings.
2. Of the amount of income recognized, the amount included in the balance of contract liabilities (beginning balance) was ¥445 million for the previous fiscal year and ¥348 million (\$2,607 thousand) for the fiscal year under review.

ii) Transaction price allocated to the remaining performance obligations

The Group does not have significant transactions with an original expected duration of one year or more. Accordingly, the Group has applied the practical expedient and omitted information on the remaining performance obligations.

33. 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 8 consolidated subsidiaries and 3 affiliates. 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 2023>

	Millions of yen				
	Reportable segment Banking	Other	Total	Adjustments	Consolidated
Ordinary income					
Ordinary income from third party customers	¥134,704	¥25,743	¥160,448	¥—	¥160,448
Internal ordinary income among segments	1,988	13,670	15,659	(15,659)	—
Total ordinary income	136,693	39,414	176,107	(15,659)	160,448
Segment profit	20,773	21,557	42,330	(8,653)	33,677
Segment assets	12,937,934	523,367	13,461,301	(476,120)	12,985,181
Segment liabilities	12,423,397	98,117	12,521,515	(75,777)	12,445,737
Other items					
Depreciation	5,516	263	5,780	(0)	5,780
Interest and dividend income	104,121	10,262	114,384	(8,242)	106,142
Interest expenses	12,394	134	12,529	(128)	12,401
Increase in tangible and intangible fixed assets	5,195	293	5,489	—	5,489

	Thousands of U.S. dollars				
	Reportable segment Banking	Other	Total	Adjustments	Consolidated
Ordinary income					
Ordinary income from third party customers	\$1,008,798	\$192,790	\$1,201,588	\$—	\$1,201,588
Internal ordinary income among segments	14,892	102,381	117,273	(117,273)	—
Total ordinary income	1,023,691	295,171	1,318,862	(117,273)	1,201,588
Segment profit	155,570	161,440	317,010	(64,803)	252,207
Segment assets	96,891,594	3,919,473	100,811,068	(3,565,640)	97,245,427
Segment liabilities	93,038,251	734,799	93,773,050	(567,497)	93,205,553
Other items					
Depreciation	41,316	1,974	43,291	(0)	43,291
Interest and dividend income	779,760	76,856	856,617	(61,724)	794,892
Interest expenses	92,822	1,009	93,831	(959)	92,871
Increase in tangible and intangible fixed assets	38,910	2,200	41,110	—	41,110

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, financial instruments exchange and system information service.

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

<In 2022>

	Millions of yen				
	Reportable segment Banking	Other	Total	Adjustments	Consolidated
Ordinary income					
Ordinary income from third party customers	¥125,391	¥13,093	¥138,484	¥—	¥138,484
Internal ordinary income among segments	1,534	11,671	13,205	(13,205)	—
Total ordinary income	126,925	24,764	151,690	(13,205)	138,484
Segment profit	32,367	11,681	44,049	(6,180)	37,868
Segment assets	13,106,794	501,223	13,608,017	(480,111)	13,127,906
Segment liabilities	12,578,718	89,100	12,667,818	(70,637)	12,597,181
Other items					
Depreciation	5,472	202	5,674	—	5,674
Interest and dividend income	96,301	8,289	104,591	(6,363)	98,228
Interest expenses	848	130	979	(123)	855
Increase in tangible and intangible fixed assets	4,849	486	5,335	—	5,335

Notes to Consolidated Financial Statements

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 2023>

	Millions of yen			Total
	Loan	Securities	Other	
Ordinary income from third party customers	¥87,959	¥26,271	¥46,217	¥160,448

	Thousands of U.S. dollars			Total
	Loan	Securities	Other	
Ordinary income from third party customers	\$658,721	\$196,744	\$346,122	\$1,201,588

Note: Ordinary income is presented instead of net sales.

<In 2022>

	Millions of yen			Total
	Loan	Securities	Other	
Ordinary income from third party customers	¥87,420	¥17,969	¥33,094	¥138,484

Note: Ordinary income is presented instead of net sales.

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

<In 2023>

	Millions of yen		Total
	Reportable segment Banking	Other	
Impairment losses	¥61	¥4	¥66

	Thousands of U.S. dollars		Total
	Reportable segment Banking	Other	
Impairment losses	\$463	\$37	\$500

<In 2022>

	Millions of yen		Total
	Reportable segment Banking	Other	
Impairment losses	¥465	¥—	¥465

(4) Amortization and Balance of Goodwill by Reportable Segments

Not applicable

(5) Information of Gain from Negative Goodwill by Reportable Segments

<In 2023>

Not applicable for the reportable segment of "Banking". Under "Other," negative goodwill occurred as City Ascom Co., Ltd. has been made into a consolidated subsidiary. For the fiscal year under review, ¥564 million (\$4,228 thousand) was posted as a gain from negative goodwill due to said event.

<In 2022>

Not applicable

Notes to Consolidated Financial Statements

34. Related Party Transactions

There are no related party transactions to report for the years ended March 31st, 2023 and 2022.

35. Reconciliation of Cash and Cash Equivalents

(Note 1) 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
	2023	2022	2023
Cash and due from banks on the consolidated balance sheet	¥1,946,575	¥2,614,747	\$14,577,813
Due from banks, exclusive of central bank	(6,842)	(6,672)	(51,239)
Cash and cash equivalents on the consolidated statement of cash flows	¥1,939,733	¥2,608,074	\$14,526,573

(Note 2) Main components of assets and liabilities of companies that have become consolidated subsidiaries due to the acquisition of their stock.

Components of assets and liabilities at the start of inclusion of City Ascom Co., Ltd. in the scope of consolidation due to the acquisition of their stock and the relationship between the value of acquisition of the stock of City Ascom Co., Ltd. and net disbursements for the acquisition of City Ascom Co., Ltd. are as follows.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Assets	¥10,073	¥—	\$75,436
Liabilities	(3,695)	—	(27,679)
Non-controlling interests	(901)	—	(6,752)
Gain on negative goodwill	(564)	—	(4,228)
Stock acquisition cost	4,910	—	36,775
Acquisition cost up to gaining control	(255)	—	(1,916)
Gain on step acquisition	(272)	—	(2,043)
Cash and cash equivalents on the consolidated statement of cash flows	(1)	—	(7)
Balance: Disbursements for the acquisition	4,380	—	32,808

36. Per Share Information

	Yen		U.S. dollars
	2023	2022	2023
Net assets per share at end of the year	¥3,744.47	¥3,618.43	\$28.042
Profit (loss) attributable to owners of parent per share*	181.56	164.31	1.359

(Note 1) Basis for net assets per share as of March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Net assets	¥539,444	¥530,724	\$4,039,874
Items to be deducted from net assets	9,620	8,555	72,049
Non-controlling interests	9,620	8,555	72,049
Net assets attributable to common stock	529,823	522,169	3,967,824
	Shares		
	2023	2022	
Number of shares of common stock outstanding at end of the year	141,494,917	144,308,044	

* The Company's own stock that remains in the BBT, which is posted as treasury stock under shareholders' equity, is included in treasury stock, which is subtracted from the total number of outstanding shares at the end of the fiscal year for the purpose of calculating net assets per share. The number of said treasury stock outstanding at the end of the fiscal year that was subtracted for the purpose of calculating net assets per share was 0 shares and 121,000 shares for the previous fiscal year and the fiscal year under review, respectively.

Notes to Consolidated Financial Statements

(Note 2) Basis for profit (loss) attributable to owners of parent per share for the years ended March 31st, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Basis:			
Profit (loss) attributable to owners of parent	¥26,064	¥24,236	\$195,195
Items not attributable to common stock	—	—	—
Profit (loss) attributable to owners of parent available for shareholders of common stock	26,064	24,236	195,195
	Shares		
	2023	2022	
Average number of shares of common stock outstanding during the year	143,551,305	147,500,789	

* The Company's own stock that remains in the BBT, which is posted as treasury stock under shareholders' equity, is included in treasury stock, which is subtracted in computing the average number of shares of common stock outstanding during the year for the purpose of calculating profit (loss) attributable to owners of parent per share. The average number of shares during the year of said treasury stock that was subtracted for the purpose of calculating profit (loss) attributable to owners of parent per share was 0 shares and 66,489 shares for the previous fiscal year and the fiscal year under review, respectively.

(Note 3) Diluted profit (loss) attributable to owners of parent per share for the years ended March 31st, 2023 and 2022 was not presented because the Group had no dilutive shares during the years.

37. Cash Dividends

Cash dividends paid during the years ended March 31st, 2023 and 2022 are as follows:

<In 2023>

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
June 29th, 2022 Ordinary General Meeting of Shareholders	Cash dividends (¥20.0 per share)	¥2,886	\$21,617	March 31st, 2022	June 30th, 2022
November 10th, 2022 Meeting of Board of Directors	Cash dividends (¥17.5 per share)	¥2,525	\$18,914	September 30th, 2022	December 9th, 2022

* The total amount of dividends resolved by the Board of Directors on November 10th, 2022 includes dividends of ¥2 million (\$15 thousand) on the Company's own stock that remains in the BBT.

<In 2022>

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
June 29th, 2021 Ordinary General Meeting of Shareholders	Cash dividends (¥15.0 per share)	¥2,222		March 31st, 2021	June 30th, 2021
November 9th, 2021 Meeting of Board of Directors	Cash dividends (¥15.0 per share)	¥2,222		September 30th, 2021	December 10th, 2021

38. Subsequent Event

The following appropriation of earned surplus for the year ended March 31st, 2023 was approved at the shareholders' meeting held on June 29th, 2023:

Resolution	Types	Millions of yen	Thousands of U.S. dollars	Cut-off date	Effective date
June 29th, 2023 Ordinary General Meeting of Shareholders	Cash dividends (¥27.5 per share)	¥3,895	\$29,169	March 31st, 2023	June 30th, 2023

* The total amount of dividends resolved by the Ordinary General Meeting of Shareholders on June 29th, 2023 includes dividends of ¥3 million (\$24 thousand) on the Company's own stock that remains in the BBT.

Quarterly Information (Unaudited)

Nishi-Nippon Financial Holdings, Inc. and Subsidiaries
Year ended March 31st, 2023

	Millions of yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from April 1st, 2022 to June 30th, 2022	from April 1st, 2022 to September 30th, 2022	from April 1st, 2022 to December 31st, 2022	from April 1st, 2022 to March 31st, 2023
Ordinary income	¥36,930	¥73,839	¥121,220	¥160,448
Profit (loss) before income taxes	12,128	18,914	33,222	34,111
Profit (loss) attributable to owners of parent	8,283	13,500	25,823	26,064

	yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from April 1st, 2022 to June 30th, 2022	from April 1st, 2022 to September 30th, 2022	from April 1st, 2022 to December 31st, 2022	from April 1st, 2022 to March 31st, 2023
Profit (loss) attributable to owners of parent per share	¥57.39	¥93.56	¥179.19	¥181.56

	yen			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from April 1st, 2022 to June 30th, 2022	from July 1st, 2022 to September 30th, 2022	from October 1st, 2022 to December 31st, 2022	from January 1st, 2023 to March 31st, 2023
Profit (loss) attributable to owners of parent per share	¥57.39	¥36.15	¥85.73	¥1.69

	Thousands of U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from April 1st, 2022 to June 30th, 2022	from July 1st, 2022 to September 30th, 2022	from October 1st, 2022 to December 31st, 2022	from January 1st, 2023 to March 31st, 2023
Ordinary income	\$276,568	\$552,983	\$907,814	\$1,201,588
Profit (loss) before income taxes	90,831	141,646	248,804	255,461
Profit (loss) attributable to owners of parent	62,031	101,102	193,394	195,195

	U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from April 1st, 2022 to June 30th, 2022	from April 1st, 2022 to September 30th, 2022	from April 1st, 2022 to December 31st, 2022	from April 1st, 2022 to March 31st, 2023
Profit (loss) attributable to owners of parent per share	\$0.42	\$0.70	\$1.34	\$1.35

	U.S. dollars			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	from April 1st, 2022 to June 30th, 2022	from July 1st, 2022 to September 30th, 2022	from October 1st, 2022 to December 31st, 2022	from January 1st, 2023 to March 31st, 2023
Profit (loss) attributable to owners of parent per share	\$0.42	\$0.27	\$0.64	\$0.01

Non-Consolidated Balance Sheet (Unaudited)

The Nishi-Nippon City Bank, Ltd.

March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Assets:			
Cash and due from banks	¥1,911,245	¥2,559,666	\$14,313,231
Call loans	39,011	40,000	292,157
Money held in trust	11,609	11,682	86,940
Securities	1,757,285	1,753,670	13,160,226
Loans and bills discounted	8,737,883	8,236,035	65,437,607
Foreign exchange assets	17,311	22,757	129,645
Other assets	81,623	78,110	611,271
Tangible fixed assets	110,891	111,825	830,464
Intangible fixed assets	4,646	3,706	34,793
Prepaid pension cost	26,730	25,862	200,181
Customers' liabilities for acceptances and guarantees	14,737	15,849	110,368
Reserve for possible loan losses	(35,799)	(36,995)	(268,100)
Reserve for devaluation of securities	(440)	(458)	(3,302)
Total assets	¥12,676,735	¥12,821,711	\$94,935,487
Liabilities and Net assets:			
Liabilities:			
Deposits	¥9,722,332	¥9,591,957	\$72,810,098
Call money and bills sold	512,491	510,000	3,838,023
Payables under repurchase agreements	265,881	251,120	1,991,175
Guarantee deposits received under securities lending transactions	293,853	87,188	2,200,654
Borrowed money	1,242,152	1,732,473	9,302,421
Foreign exchange liabilities	504	201	3,777
Borrowed money from trust account	5,233	4,794	39,195
Other liabilities	80,485	79,138	602,755
Reserve for employee retirement benefits	214	192	1,604
Reserve for reimbursement of deposits	531	775	3,977
Reserve for other contingent losses	1,172	1,082	8,782
Deferred tax liabilities	1,600	5,938	11,985
Deferred tax liabilities on revaluation of premises	14,376	14,381	107,667
Acceptances and guarantees	14,737	15,849	110,368
Total liabilities	12,155,568	12,295,093	91,032,488
Net assets:			
Capital stock	85,745	85,745	642,144
Capital surplus			
Capital reserve	85,684	85,684	641,683
Earned surplus			
Legal reserve	61	61	460
Reserve for deferred capital gains	1	1	13
Unappropriated retained earnings	296,356	289,868	2,219,402
Total shareholders' equity	467,849	461,362	3,503,705
Net unrealized gains on securities available for sale, net of taxes	22,874	35,824	171,305
Net deferred gains (losses) on hedging instruments, net of taxes	1,015	(8)	7,606
Revaluation of premises, net of taxes	29,427	29,438	220,380
Total valuation and translation adjustments	53,317	65,255	399,293
Total net assets	521,167	526,617	3,902,999
Total liabilities and net assets	¥12,676,735	¥12,821,711	\$94,935,487

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Nishi-Nippon City Bank, Ltd.

Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Income:			
Interest income:			
Interest on loans and discounts	¥77,310	¥77,121	\$578,974
Interest and dividends on securities	20,517	12,546	153,656
Other interest income	2,422	2,800	18,142
Trust fees	0	0	0
Fees and commissions	25,384	24,817	190,099
Trading income	3	0	25
Other operating income	2,811	2,373	21,058
Other income	3,676	2,827	27,532
Total income	132,126	122,486	989,491
Expenses:			
Interest expenses:			
Interest on deposits	407	455	3,053
Interest on call money and bills sold	319	(113)	2,392
Interest on payables under repurchase agreements	7,627	383	57,124
Interest on borrowings	585	47	4,383
Interest on guarantee deposits received under securities lending transactions	22	13	169
Other interest expenses	3,386	72	25,365
Fees and commissions	15,135	14,694	113,351
Other operating expenses	12,155	1,653	91,033
General and administrative expenses	67,648	67,084	506,614
Other expenses	4,822	6,827	36,115
Total expenses	112,112	91,119	839,604
Income before income taxes	20,014	31,367	149,886
Income taxes			
Current	4,570	9,056	34,231
Deferred	949	1,267	7,111
Total income taxes	5,520	10,324	41,343
Net income	¥14,493	¥21,043	\$108,543

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 March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Shareholders' equity			
Capital stock			
Balance at beginning of the year	¥85,745	¥85,745	\$642,144
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,745	¥85,745	\$642,144
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥85,684	¥85,684	\$641,683
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,684	¥85,684	\$641,683
Total capital surplus			
Balance at beginning of the year	¥85,684	¥85,684	\$641,683
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥85,684	¥85,684	\$641,683
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥61	¥61	\$460
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥61	¥61	\$460
Other earned surplus:			
Reserve for deferred capital gains			
Balance at beginning of the year	¥1	¥2	\$14
Changes during the year			
Transfer from reserve for deferred capital gains	(0)	(0)	0
Total changes during the year	(0)	(0)	(1)
Balance at end of the year	¥1	¥1	\$13
Unappropriated retained earnings			
Balance at beginning of the year	¥289,868	¥275,004	\$2,170,815
Cumulative effect of change in accounting principle	—	(93)	—
Restated balance at beginning of the year	¥—	¥274,910	\$—
Changes during the year			
Cash dividends paid	(8,017)	(6,239)	(60,043)
Transfer from reserve for deferred capital gains	0	0	0
Net income	14,493	21,043	108,543
Reversal of revaluation of premises	11	153	86
Total changes during the year	6,487	14,958	48,587
Balance at end of the year	¥296,356	¥289,868	\$2,219,402

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

The Nishi-Nippon City Bank, Ltd.

Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total earned surplus			
Balance at beginning of the year	¥289,932	¥275,068	\$2,171,290
Cumulative effect of change in accounting principle	—	(93)	—
Restated balance at beginning of the year	¥289,932	¥274,974	\$2,171,290
Changes during the year			
Cash dividends paid	(8,017)	(6,239)	(60,043)
Net income	14,493	21,043	108,543
Reversal of revaluation of premises	11	153	86
Total changes during the year	6,487	14,957	48,586
Balance at end of the year	¥296,420	¥289,932	\$2,219,876
Total shareholders' equity			
Balance at beginning of the year	¥461,362	¥446,498	\$3,455,118
Cumulative effect of change in accounting principle	—	(93)	—
Restated balance at beginning of the year	¥461,362	¥446,404	\$3,455,118
Changes during the year			
Cash dividends paid	(8,017)	(6,239)	(60,043)
Net income	14,493	21,043	108,543
Reversal of revaluation of premises	11	153	86
Total changes during the year	6,487	14,957	48,586
Balance at end of the year	¥467,849	¥461,362	\$3,503,705
Valuation and translation adjustments			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥35,824	¥62,724	\$268,289
Changes during the year			
Net changes in items other than shareholders' equity	(12,950)	(26,899)	(96,983)
Total changes during the year	(12,950)	(26,899)	(96,983)
Balance at end of the year	¥22,874	¥35,824	\$171,305
Net deferred gains (losses) on hedging instruments, net of taxes			
Balance at beginning of the year	(¥8)	(¥1,428)	(\$61)
Changes during the year			
Net changes in items other than shareholders' equity	1,023	1,419	7,668
Total changes during the year	1,023	1,419	7,668
Balance at end of the year	¥1,015	(¥8)	\$7,606
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥29,438	¥29,592	\$220,467
Changes during the year			
Net changes in items other than shareholders' equity	(11)	(153)	(86)
Total changes during the year	(11)	(153)	(86)
Balance at end of the year	¥29,427	¥29,438	\$220,380
Total valuation and translation adjustments			
Balance at beginning of the year	¥65,255	¥90,888	\$488,695
Changes during the year			
Net changes in items other than shareholders' equity	(11,937)	(25,633)	(89,401)
Total changes during the year	(11,937)	(25,633)	(89,401)
Balance at end of the year	¥53,317	¥65,255	\$399,293

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

The Nishi-Nippon City Bank, Ltd.
Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total net assets			
Balance at beginning of the year	¥526,617	¥537,386	\$3,943,814
Cumulative effect of change in accounting principle	—	(93)	—
Restated balance at beginning of the year	¥526,617	¥537,293	\$3,943,814
Changes during the year			
Cash dividends paid	(8,017)	(6,239)	(60,043)
Net income	14,493	21,043	108,543
Reversal of revaluation of premises	11	153	86
Net changes in items other than shareholders' equity	(11,937)	(25,633)	(89,401)
Total changes during the year	(5,450)	(10,675)	(40,814)
Balance at end of the year	¥521,167	¥526,617	\$3,902,999

See accompanying Notes to Non-Consolidated Financial Statements.

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Nagasaki, Ltd.
March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Assets:			
Cash and due from banks	¥32,095	¥52,921	\$240,362
Securities	11,560	9,029	86,578
Loans and bills discounted	267,312	275,993	2,001,889
Other assets	1,837	1,834	13,764
Tangible fixed assets	4,364	4,490	32,687
Intangible fixed assets	174	285	1,303
Prepaid pension cost	86	—	650
Deferred tax assets	—	132	—
Customers' liabilities for acceptances and guarantees	10	12	77
Reserve for possible loan losses	(318)	(396)	(2,386)
Reserve for devaluation of securities	(43)	(43)	(325)
Total assets	¥317,080	¥344,261	\$2,374,602
Liabilities and net assets:			
Liabilities:			
Deposits	¥259,069	¥262,977	\$1,940,156
Call money and bills sold	31,000	40,000	232,157
Borrowed money	6,200	20,900	46,431
Other liabilities	1,313	1,184	9,838
Reserve for employee retirement benefits	9	14	69
Reserve for retirement benefits for directors and corporate auditors	76	100	570
Reserve for reimbursement of deposits	14	50	108
Reserve for other contingent losses	21	14	162
Deferred tax liabilities	11	—	88
Deferred tax liabilities on revaluation of premises	508	509	3,808
Acceptances and guarantees	10	12	77
Total liabilities	298,235	325,763	2,233,469
Net assets:			
Capital stock	7,621	7,621	57,078
Capital surplus			
Capital reserve	3,500	3,500	26,211
Other capital surplus	2,463	2,463	18,452
Earned surplus			
Legal reserve	224	210	1,682
Unappropriated retained earnings	3,547	3,380	26,567
Total shareholders' equity	17,357	17,176	129,991
Net unrealized gains on securities available for sale, net of taxes	337	169	2,525
Revaluation of premises, net of taxes	1,150	1,151	8,615
Total valuation and translation adjustments	1,487	1,321	11,141
Total net assets	18,845	18,497	141,132
Total liabilities and net assets	¥317,080	¥344,261	\$2,374,602

See accompanying Notes to Non Consolidated Financial Statements.

Non-Consolidated Statement of Income (Unaudited)

The Bank of Nagasaki, Ltd.

Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Income:			
Interest and dividend income:			
Interest on loans and discounts	¥3,492	¥3,525	\$26,155
Interest and dividends on securities	¥332	¥239	\$2,488
Other interest income	28	115	214
Fees and commissions	676	700	5,064
Other income	118	57	889
Total income	4,648	4,638	34,812
Expenses:			
Interest expenses:			
Interest on deposits	44	55	332
Interest on call money and bills sold	(18)	(23)	(138)
Interest on borrowings	—	0	—
Other interest expenses	1	3	10
Fees and commissions	975	969	7,304
Other operating expenses	0	0	7
General and administrative expenses	3,184	3,262	23,846
Other expenses	90	59	681
Total expenses	4,278	4,328	32,043
Income before income taxes	369	310	2,768
Income taxes			
Current	49	32	371
Deferred	70	45	526
Total income taxes	119	77	897
Net income	¥249	¥232	\$1,870

See accompanying Notes to Non Consolidated Financial Statements.

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

The Bank of Nagasaki, Ltd.

Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Shareholders' equity			
Capital stock			
Balance at beginning of the year	¥7,621	¥6,121	\$57,078
Changes during the year			
Issuance of new shares	—	1,500	—
Total changes during the year	—	1,500	—
Balance at end of the year	¥7,621	¥7,621	\$57,078
Capital surplus:			
Capital reserve			
Balance at beginning of the year	¥3,500	¥2,000	\$26,211
Changes during the year			
Issuance of new shares	—	1,500	—
Total changes during the year	—	1,500	—
Balance at end of the year	¥3,500	¥3,500	\$26,211
Other capital surplus			
Balance at beginning of the year	¥2,463	¥2,463	\$18,452
Changes during the year			
Total changes during the year	—	—	—
Balance at end of the year	¥2,463	¥2,463	\$18,452
Total capital surplus			
Balance at beginning of the year	¥5,963	¥4,463	\$44,663
Changes during the year			
Issuance of new shares	—	1,500	—
Total changes during the year	—	1,500	—
Balance at end of the year	¥5,963	¥5,963	\$44,663
Earned surplus:			
Legal reserve			
Balance at beginning of the year	¥210	¥210	\$1,577
Changes during the year			
Reserve of legal retained earnings	14	—	104
Total changes during the year	14	—	104
Balance at end of the year	¥224	¥210	\$1,682
Other earned surplus:			
Unappropriated retained earnings			
Balance at beginning of the year	¥3,380	¥3,201	\$25,314
Changes during the year			
Reserve of legal retained earnings	(14)	—	(104)
Cash dividends paid	(70)	—	(524)
Net income	249	232	1,870
Reversal of revaluation of premises	1	(54)	11
Total changes during the year	167	178	1,253
Balance at end of the year	¥3,547	¥3,380	\$26,567
Total earned surplus			
Balance at beginning of the year	¥3,590	¥3,412	\$26,891
Changes during the year			
Cash dividends paid	(70)	—	(524)
Net income	249	232	1,870
Reversal of revaluation of premises	1	(54)	11
Total changes during the year	181	178	1,358
Balance at end of the year	¥3,772	¥3,590	\$28,249

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

The Bank of Nagasaki, Ltd.
Years ended March 31st, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Total shareholders' equity			
Balance at beginning of the year	¥17,176	¥13,997	\$128,633
Changes during the year			
Issuance of new shares	—	3,000	—
Cash dividends paid	(70)	—	(524)
Net income	249	232	1,870
Reversal of revaluation of premises	1	(54)	11
Total changes during the year	181	3,178	1,358
Balance at end of the year	¥17,357	¥17,176	\$129,991
Valuation and translation adjustments			
Net unrealized gains on securities available for sale, net of taxes			
Balance at beginning of the year	¥169	¥44	\$1,269
Changes during the year			
Net changes in items other than shareholders' equity	167	125	1,256
Total changes during the year	167	125	1,256
Balance at end of the year	¥337	¥169	\$2,525
Revaluation of premises, net of taxes			
Balance at beginning of the year	¥1,151	¥1,097	\$8,626
Changes during the year			
Net changes in items other than shareholders' equity	(1)	54	(11)
Total changes during the year	(1)	54	(11)
Balance at end of the year	¥1,150	¥1,151	\$8,615
Total valuation and translation adjustments			
Balance at beginning of the year	¥1,321	¥1,141	\$9,896
Changes during the year			
Net changes in items other than shareholders' equity	166	179	1,244
Total changes during the year	166	179	1,244
Balance at end of the year	¥1,487	¥1,321	\$11,141
Total net assets			
Balance at beginning of the year	¥18,497	¥15,139	\$138,530
Changes during the year			
Issuance of new shares	—	3,000	—
Cash dividends paid	(70)	—	(524)
Net income	249	232	1,870
Reversal of revaluation of premises	1	(54)	11
Net changes in items other than shareholders' equity	166	179	1,244
Total changes during the year	347	3,357	2,602
Balance at end of the year	¥18,845	¥18,497	\$141,132

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.
March 31st, 2023 and 2022

1. Basis of Presentation of Financial Statements

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

2. Other Accounting Principles and Practices Employed by the Bank

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

Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Nishi-Nippon Financial Holdings, Inc. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Determination of debtor classification in self-assessments of debtors that have formulated business improvement plans and debtors affected by COVID-19 and calculation of the reserve for possible loan losses for debtors for which the cash flow estimation method is applied	
Description of Key Audit Matter	Auditor's Response
Nishi-Nippon Financial Holdings, Inc. and its consolidated subsidiaries (the Group) recorded loans and bills discounted of ¥8,955,399 million and reserve for possible loan losses of ¥40,455 million on its consolidated balance sheet as of March 31, 2023.	We mainly performed the following audit procedures: (1) Overall procedures <ul style="list-style-type: none">In order to assess whether the Group's policies comply with generally accepted corporate accounting standards, we considered the Group's self-assessment standards and write-offs and allowances standards with reference to Accounting Standards for Financial Instruments.

<p>The Group has as its core subsidiary The Nishi-Nippon City Bank, Ltd., and is engaged in the loan business mainly in Fukuoka. Loans and bills discounted is a significant part of the Group's business as it accounts for approximately 70% of the total assets on the consolidated balance sheet, and loan losses may arise if, for example, the creditworthiness of debtors deteriorates or the value of collateral such as real estate declines.</p> <p>Accordingly, the Group records the amount of expected losses that won't be collected as a reserve for possible loan losses, and the details of this process are noted in "(10) Reserve for Possible Loan Losses," and "(25) Significant Accounting Estimates" under Note 2 "Summary of Significant Accounting Policies."</p> <p>The reserve for possible loan losses is calculated in line with the write-offs and allowances method for each debtor class based on the determination of the debtor classification through self-assessment.</p> <p>The determination of the debtor classification through self-assessment is made by evaluating the relevant debtor's ability to repay loans based on the debtor's repayment status, financial position, business performance, and future prospects thereof.</p> <p>In particular, categorizing debtors as Requiring Caution when the debtor formulates 'highly feasible drastic business improvement plans' or 'reasonable and highly feasible business improvement plans' requires validation of the reasonableness and feasibility of such business improvement plans. 'Highly feasible drastic business improvement plans' (or 'reasonable and highly feasible business improvement plans') are formulated based on significant assumptions such as expected future sales and future earnings levels, including profit or loss, of debtors, and are affected by factors such as changes in the operating environment surrounding debtors and the outcome of business strategies. Therefore, the determination of the debtor classification is highly dependent on judgement by the Group's management.</p>	<ul style="list-style-type: none"> • We evaluated whether the Group's internal controls ensure the accuracy and completeness of the calculation of the reserve for possible loan losses, determinations of the debtor classification and credit ratings relevant to such determinations, as well as debtor information upon which such determinations are made. • We sampled debtors that formulated highly feasible drastic business improvement plans (or reasonable and highly feasible business improvement plans) for which the impact of the change in debtor classification on the reserve for possible loan losses exceeded a certain amount. We also sampled debtors that were affected by COVID-19 from the standpoint of the industry to which they belong or their operating results, and debtors for which the cash flow estimation method is applied to test management's classification of the sampled debtor. • With regard to the determination of the debtor classification, we inspected a set of materials related to the Group's self-assessment, which included materials related to a description of the debtor's business, materials related to the borrowing and repayment status, research materials that provide details of the actual financial position, financial statements, and the trial balance, to gain an understanding of the sampled debtors' status of recent repayments, financial position, and business performance. In addition, we made inquiries as necessary of the Credit Supervision Division and Credit Management Division and evaluated the responses we received.
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<p>Additionally, these determinations become even more dependent on judgement by the Group's management in cases where COVID-19 has had a significant impact on the business conditions of the debtor. The Group includes a discussion of the impact of COVID-19 in "(24) Significant Accounting Estimates" under Note 2.</p> <p>Further, calculation of the reserve for possible loan losses for debtors for which the cash flow estimation method is applied is highly dependent on judgement by the Group's management since such calculation is based on significant assumptions, such as future changes in debtor classification and amounts expected to be collected in the future.</p> <p>Therefore, we determined that the reasonableness and feasibility of highly feasible drastic business improvement plans (reasonable and highly feasible business improvement plans) and the outlook on the recovery of the operating results of debtors after COVID-19 is contained, which have a significant impact on the determination of debtor classification in self-assessments conducted by The Nishi-Nippon City Bank, Ltd., a consolidated subsidiary of the Group, and future changes in debtor classification and amounts expected to be collected in the future, which are used in the cash flow estimation method and have a significant impact on the calculation of the reserve for possible loan losses, are key audit matters.</p>	<p>(2) Procedures addressing key audit matters</p> <ul style="list-style-type: none"> • To examine the reasonableness and feasibility of highly feasible drastic business improvement plans (or reasonable and highly feasible business improvement plans), we analyzed trends from past results of major plan items such as future sales and earnings levels, including profit or loss, of debtors and compared the assumptions used in these business improvement plans with the actual results to evaluate whether the debtor had historically achieved its previous business improvement plans. We also made inquiries as necessary of the Credit Supervision Division and Credit Management Division regarding items such as progress of business improvement plans and evaluated the responses we received. In addition, we inspected the contact history between the Group and its debtors as well as materials such as minutes of meetings and interim trial balances to assess whether there was new information or indications that targets set out in plans will significantly fall short of being achieved. • To examine the recoverability of future operating results of debtors affected by COVID-19, we inspected materials regarding the extent of the deterioration in their business performance compared to past operating results and future actions to be taken by debtors, and made inquiries as necessary of the Credit Supervision Division and Credit Management Division and evaluated the responses we received. • Regarding debtors for which the cash flow estimation method is applied in the calculation of the reserve for possible loan losses, in order to assess whether future expectations for debtors identified through self-assessment are reflected in the calculation of the reserve for possible loan losses, we agreed the future changes of debtor classification and amounts expected to be collected in the future to supporting documentation, and made inquiries as necessary of the Credit Supervision Division and Credit Management Division about the latest information and considered the consistency of the responses we received with the basis for determination of the reserve for possible loan losses.
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Appropriateness of determination of amount equivalent to negative goodwill	
Description of Key Audit Matter	Auditor's Response
<p>As described in “Acquisition of an affiliate accounted for by the equity method by stock acquisition” under “Additional Information” of Note 30 “Overview of Business Combinations,” the Group recorded an amount equivalent to negative goodwill of ¥7,637 million as part of equity in earnings of affiliates on its consolidated statement of income for the year ended March 31, 2023.</p> <p>This amount equivalent to negative goodwill arose from the Group acquiring 29.9% of the total outstanding shares of Kyushu Leasing Service Co., Ltd. on October 5, 2022.</p> <p>When an amount equivalent to negative goodwill is expected to arise, the Group reviews whether all identifiable assets and liabilities have been identified and whether the purchase price has been appropriately allocated and, as a result of this review, if the purchase price is less than the net amount allocated to the assets acquired and liabilities assumed, then the Group recognizes an amount equivalent to negative goodwill, which is treated as profit for the year in which such amount arise.</p> <p>As part of the above process, the valuation of assets and liabilities, which serves as the basis for allocating the purchase price to all identifiable assets and liabilities, includes elements of significant judgments and estimates by management.</p> <p>Therefore, we determined that the appropriateness of the determination of the amount equivalent to negative goodwill is a key audit matter.</p>	<p>We mainly performed the following audit procedures:</p> <ul style="list-style-type: none"> • We evaluated the Group’s internal controls to assess whether the amount equivalent to negative goodwill was appropriately determined. • In order to obtain an understanding of the background of the acquisition of shares and the determination process regarding the purchase price of the shares, we made inquiries of management and inspected the related minutes of meetings of the board of directors and others. • In order to consider the reasonableness of the purchase price calculation method, we made inquiries of the division in the Group responsible for the calculation and inspected related documents. • We recalculated the fair value of the identifiable assets acquired and liabilities assumed. • In considering the fair value measurements for significant real estate included in the identifiable assets, we evaluated the competence, capabilities, and objectivity of external specialists used by the Group. In addition, we obtained and considered the results of appraisals of real estate acquired by the Group. • In order to assess the accuracy of the amount equivalent to negative goodwill, we obtained materials used in the determination of the amount and considered the consistency between such materials and related documents and, in addition, considered the accuracy of the calculation.

Other Information

The other information comprises the information included in Financial Report that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Audit and Supervisory Committee is responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

August 9, 2023

/s/ 小澤裕治

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