



Isao Kubota,
President

Aiming to be No. 1 in Kyushu

Progress under the medium-term plan

In the year ended March 31, 2007, the Nishi-Nippon City Group booked its highest-ever earnings (consolidated basis). I would like to take this opportunity to report our business performance over the term and say something about our progress in our medium-term management plan, which aims to make us the leading bank in Kyushu.

Review of Operations

During the term under review, economic conditions in Japan remained firm, with continuing increases in capital expenditure and personal spending against a background of sustained improvement in corporate earnings. On the financial front, the Bank of Japan's policy of zero-interest rates was discontinued in July 2006, and benchmark rates began to edge upwards again in February 2007.

In the financial sector, competitive pressures were increased significantly by the aggressive expansion of major banks into retail markets, cross-border realignments among regional financial institutions previously confined to their home prefectures and the creation of a mega-bank through the privatization of the financial operations of Japan Post, scheduled for October 2007.

In this business environment, Nishi-Nippon City Group posted record profits on the back of an expanded customer base, and strengthened earnings capability and operating efficiency — the fruit of expansion and earnings improvement measures.

Turning to performance (consolidated basis), total

income declined 7.9% year-on-year to ¥186.980 billion (\$1,583 million), reflecting the absence of gains booked in the previous term from the securitization of mortgage loans. However, drastic cuts in credit costs and reduced operating expenses boosted income before income taxes and minority interests by 78.0% year-on-year to ¥45.644 billion (\$386 million) and net income by 96.3% to ¥25.330 billion (\$214 million).

A Business Model Rooted in the Community

Under our “Active NCB” plan, we are working toward our goal of becoming the leading financial institution in Kyushu in SME-oriented and individual-customer business. Our aim is for Nishi-Nippon City Bank to strike deep roots in its community, through a commitment to providing loans and deposits and other financial services to customers in our home prefecture as well as all of Kyushu.

The balance of loans at the end of the term stood at ¥4,551.0 billion, up ¥29.6 billion year-on-year. Loans to

customers within Kyushu accounted for 93.1%, or ¥4,238.9 billion, of this total. Loans to small and medium-sized enterprises (SMEs) accounted for as much as 87.4% or ¥3,705.5 billion of all loans we made within Kyushu.

The term-end balance of deposits and certificates of deposit rose ¥93.1 billion year-on-year to ¥5,805.9 billion. Of this total, 96.3%, with a total value of ¥5,594.6 billion, belonged to customers in Kyushu. Assets under custody at the end of the term rose by ¥109.2 billion to ¥548.3 billion. Customers within Kyushu accounted for an overwhelming 97.2% or ¥533.2 billion of this total.

We will continue our evolution into the leading bank in Kyushu as we service SMEs and individual customers within the region.

Supporting the Development of the Regional Economy

I would like to say a few words about the revitalization of the regional economy. First, we have various business policies in place to support regional SMEs, including all kinds of free seminars, frequent business consultation sessions, business matchmaking for customers seeking new opportunities, and roundtable sessions.

In December 2005, Nishi-Nippon City Bank concluded an alliance with the Risk Data Bank of Japan Limited (RDB), under which the Bank began a credit

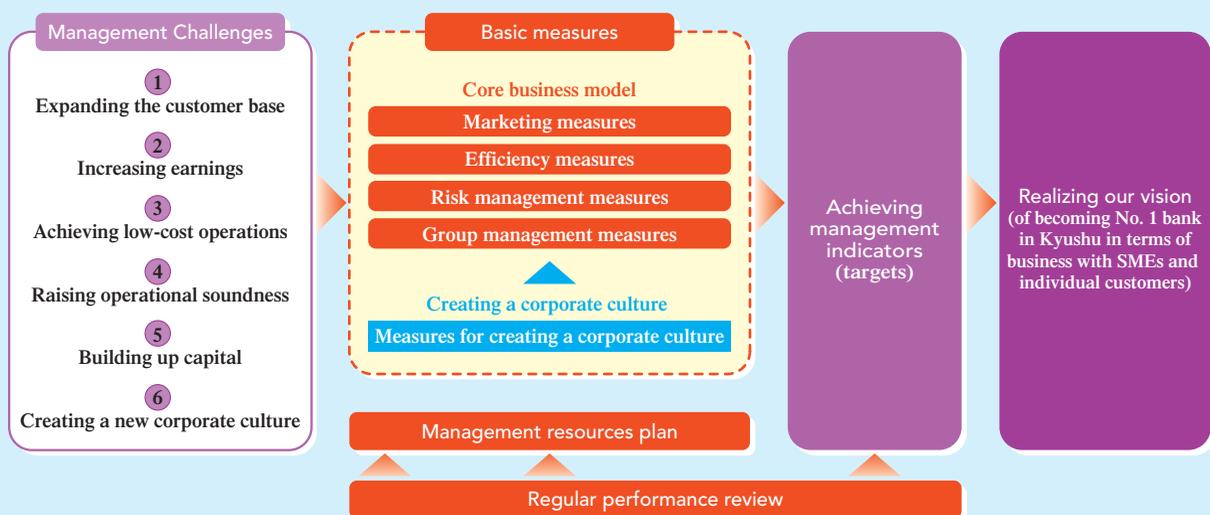
rating intermediary service for SMEs. Through this service, we help SMEs acquire Standard & Poor's ratings. By the end of the term, a total of 11 companies had improved their ratings from AAA to AA and A. In September 2006, we launched our first "CSR private bond" placements in the Kyushu area, aimed at supporting the finances of companies showing rigorous commitment to corporate social responsibility.

With regard to business nurturing, we lent a total of ¥840 million in fiscal 2006, to 29 customers founding new businesses or developing established businesses in new directions. A further ¥330 million was lent to five customers through partnerships and co-operative arrangements with government-affiliated financial institutions.

Turning to corporate rehabilitation activities, we helped 10 customers to improve their borrower categories in fiscal 2006, after screening 169 candidates and providing support for all aspects of their operations – financial base, marketing, management – under our management support program. Of eight companies assisted by our joint program with Resolution and Collection Corporation, seven have completed turnaround processes, and one is still working problems out.

In loans to individual customers, we expanded our line-up of products offering greater convenience and

The Active NCB plan



tailored to age group. In February 2007, we launched two card products that help customers guard against card fraud and theft: a bio-identification bank card with embedded chip, launched at 19 branches prior to adoption at all branches in September, and a bank card with embedded chip accepted at all branches.

In March 2007, in a move to increase mortgage flexibility, we also launched a new mortgage loan product developed jointly with Merrill Lynch Japan Securities Co., Ltd., in which mortgage credits are securitized and transferred to Merrill Lynch Japan for resale.

Responding flexibly and effectively to regional financial needs

Fiscal 2007 will be another year of growth measures for our bank. To strengthen earnings capability, we equipped our branches in May 2007 to more effectively respond to diversification and increasing scope of transactions. As part of this initiative, we established a Corporate Solutions Department, bringing together our experts in this field, a Kyushu Regional Headquarters aimed at strengthening network operations over the entire island and a Direct Marketing Office targeting a broader range of customers. We have also expanded our network of offices specializing in loans.

In addition to these initiatives, we have established a

Tokyo Headquarters and an International Business Office to support customers setting up operations overseas.

In May 2007, we also invested in the Kyushu Bridge Fund, Kyushu's first fund supported by Organization for Small & Medium Enterprises and Regional Innovation. This fund aims to support SMEs in the Kyushu region facing business succession issues such as absence of a successor. I believe this fund will contribute to the further invigoration of the Kyushu economy, by supporting long-term growth at local companies and SMEs.

Even as economic conditions in our region grow tougher, we plan to further rationalize operations, build up competitiveness and increase earnings capability, by steadily addressing management issues and implementing basic policies under the medium-term management plan. By ensuring reliable funding services and high-quality financial services, I believe we can contribute to the development of the regional economy, winning the support of all our customers and investors. I hope that our shareholders will continue to favor us with their support and goodwill.



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Management indicators

(results and targets)

		Year ended March 2005	Year ended March 2006	Year ended March 2007	Year ending March 2009
Expanding the customer base	Balance of consumer loans	No. 1 in Kyushu			
	Loans to SMEs	No. 1 in Kyushu			
Increasing earnings	Profit on core banking operations	¥39.4 billion	¥58.0 billion	¥53.9 billion	¥70.0 billion or more
	Ordinary profit	¥21.4 billion	¥30.2 billion	¥43.1 billion	¥50.0 billion or more
	Net income	¥12.3 billion	¥12.6 billion	¥22.8 billion	¥30.0 billion or more
Raising operational soundness	Credit disclosure ratio under the Financial Reconstruction Law	7.18%	6.02%	4.49%	Around 4%
Building up capital	Consolidated capital ratio	8.49%	8.79%	9.30%	8% or more
	Tier I ratio	5.31%	5.68%	5.79%	6% or more