



Isao Kubota,  
President

## Providing top-level services in Kyushu, aiming to become the No. 1 bank in the region

*The Nishi-Nippon City Bank launched its new medium-term management plan “New Stage 2008” in April 2008. We would like to take this opportunity to report on our earnings performance in fiscal 2007 and provide an overview of our new medium-term management plan.*

### Review of Operations

The Japanese economy continued to grow at a moderate pace in the first half of the reporting period. In the second half, however, the economic outlook became increasingly unclear owing to the impact on corporate earnings of volatility in the world’s financial markets in the wake of the U.S. subprime mortgage loan crisis, as well as soaring raw materials prices accompanying a surge in the price of crude oil and LNG.

In the financial sector, the business environment has changed significantly. The Financial Instruments and Exchange Law, which went into effect in September 2007, mandates adequate information disclosure and the enforcement of stricter penalties for violations of the law. In

October, the financial operations of Japan Post were privatized. In addition, new competitors entered the banking industry from other industries.

In this business environment, the Nishi-Nippon City Bank Group continued efforts to upgrade its asset portfolio and improve its earnings performance.

Turning to performance (on a consolidated basis), total income rose 1.5% year-on-year to ¥184,269 million (\$1,839 million), reflecting increases in interest on loans and discounts, and gains on the trading of bonds, principally JGBs. However, rising fund procurement costs — centered primarily on interest on deposits and higher credit costs — caused income before income taxes and minority interests to decline 34.7% to ¥29,789 million (\$297 million). Net income also declined 43.5% to ¥14,316 million (\$142 million).

### Support for the regional economy

The Bank bolstered its efforts to further the development of the regional economy and to more effectively fulfill its core function as a financial institution – providing support for its customers at all stages of their lives.

The balance of loans at the end of the term stood at ¥4,677.1 billion (\$46,682 million), up ¥12.6 billion year-on-year. Loans to customers within Kyushu accounted for 93.0%, or ¥4,352.4 billion (\$43,441 million). Loans to small and medium-sized enterprises (SMEs) and individuals accounted for 83.9% of total loans.

The term-end balance of deposits (including certificates of deposit) rose ¥111.1 billion year-on-year to ¥5,917 billion (\$5,905 million), primarily centered on the deposits of individual customers. Of this total, 96.1%, with a total value of ¥5,688.7 billion, belonged to customers in Kyushu.

With regard to products and services, we have begun to undertake intermediary services for commodity derivatives to help minimize the price fluctuation risk associated with rapid changes in raw materials prices. We have also started undertaking private placements of bonds to finance environmental preservation projects, which target companies that make environmental initiatives a priority.

In addition, we are providing support to our corporate customers in the foodstuffs sector by hosting food safety seminars, at which experts are invited to answer various questions relating to food production safety and the appropriate identification of additives and ingredients on product packaging.

In the future, we will continue to work together as a group to achieve sustainable growth, adequately fulfill our role as a regional financial institution, and energize the local economy.



## New medium-term management plan

Since the merger of Nishi-Nippon Bank and Fukuoka City Bank in October 2004, we have been working to realize the benefits of the merger as quickly as possible while also strengthening our financial position through the disposal of our NPLs. We have nearly achieved these goals, and building on these achievements, in October 2006 we switched to an aggressive management stance. We are making steady progress, largely thanks to extensive efforts to bolster our marketing capabilities.

Meanwhile, Japan's financial sector and economy are making some progress in the move toward normalization. However, competition in the financial sector is becoming even fiercer amid rising uncertainty regarding the future outlook of the global economy.

In our new medium-term management plan — “New Stage 2008” — we have drawn up our blueprint for the future and have devised growth strategies for execution during this critical transition period.

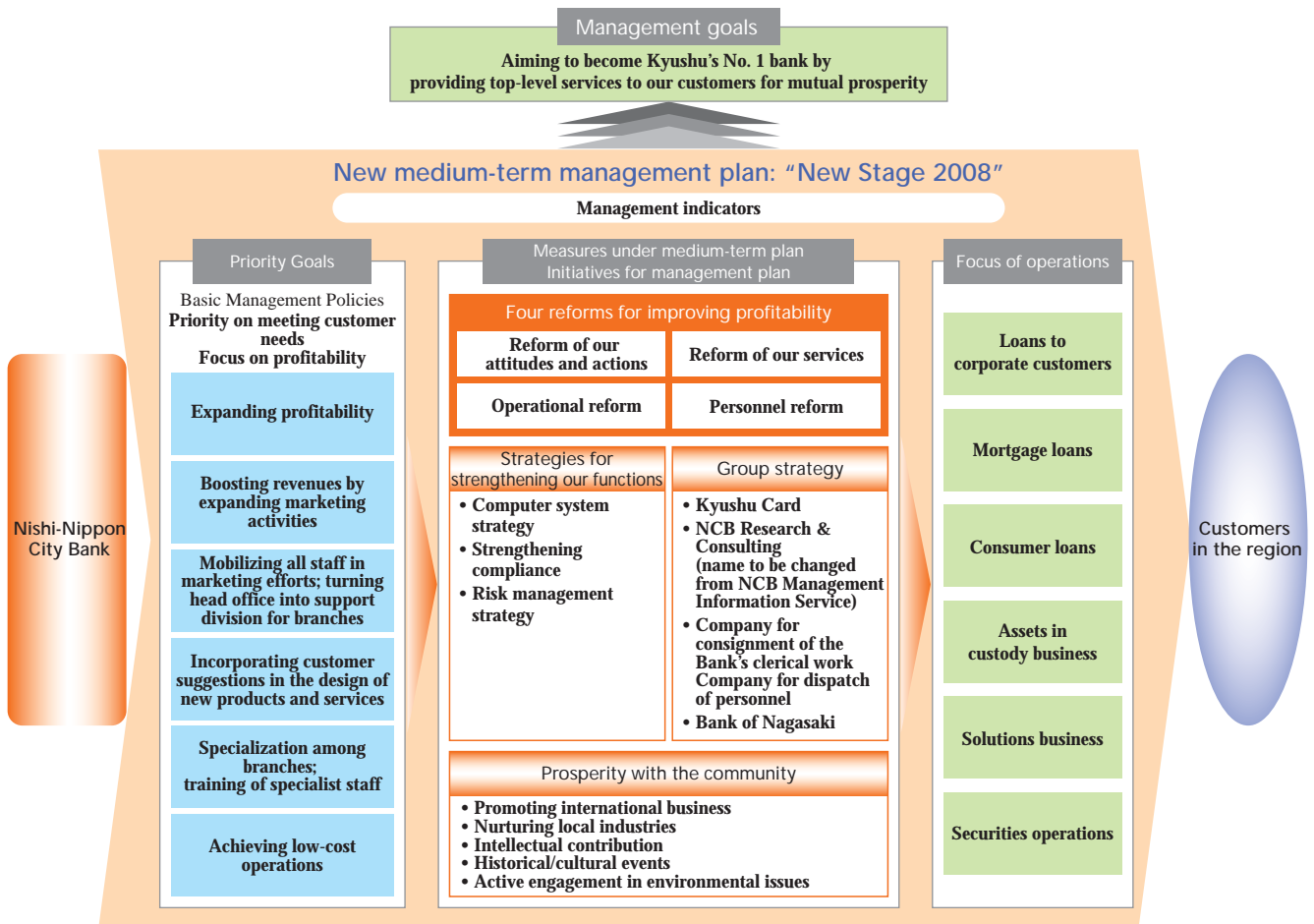
## Making top-level services available to the local community

We have set management goals to provide sophisticated solutions incorporating cutting-edge financial services to bolster our system for supporting local companies in their overseas expansion of operations, and to enhance our think-tank capabilities to contribute more substantially to the development of the local economy. Moreover, we are taking part in economic revitalization activities, and are putting greater emphasis on CSR to make a more substantial social contribution to the local community. Based on the recognition that our Group's prosperity is contingent on the prosperity of the region, we aim to grow in tandem with the region, and ultimately become No. 1 in Kyushu.

## Four initiatives for improving profitability

We are undertaking: 1) the reform of our attitudes and actions to raise awareness about the need to put the customer first; 2) a reform of our services, so that our services will precisely meet customer needs; 3) operational reform, through which operations are streamlined to ensure maximum contact with

## Framework for “New Stage 2008”



the customer; and 4) personnel reform, to afford female staff opportunities for promotion, and to optimize the allocation of staff with specialized skills.

### Strategies for strengthening our functions

To support these four reforms, we intend to strengthen our core management infrastructure. We plan to formulate a “system strategy” for building our next core computer system. We will also strengthen compliance, which we have positioned as a priority management issue, and will devise a risk management strategy to enable the Bank’s sound management and ensure a sufficient level of profit.

### Further enhancement of the Group’s overall capabilities

We aim to improve the overall capabilities of the Group by further strengthening the business functions of Group companies, which engage in such fields as credit card operations, consulting and think tank services, the consignment of the Bank’s clerical work, and the dispatch of personnel.

### Focus of operations

We have designated the following business fields as the priority focus of our operations: loans to corporate customers, mortgage loans to individuals, consumer loans, assets in custody, including investment trusts and personal pension insurance plans, a solutions business, and securities operations. Through these business activities, we will endeavor to raise our profile as a regional financial institution and raise the profitability of our business operations.

### Strengthening our internal control system and compliance with laws and regulations

The Bank has positioned adequate corporate governance as a top management priority, and is consequently working to increase management soundness and transparency, speed up decision-making, and smooth out the implementation of operations. A review of the internal controls system was undertaken at a Board of Directors meeting held in April

2008, and steps are being taken to expand this system and enhance its effectiveness.

In addition, the Compliance Committee, as well as others, are working to create a corporate culture that places a priority on compliance with all laws and regulations, and has top management communicate its resolute stance on upholding legal compliance.

The Bank is also undertaking strict management of personal information, and has outlined a policy on the solicitation of financial products. In this way, we are working to creating a marketing system that will maintain the trust of our customers.

### Toward enhanced competitiveness and profitability

With regard to forecasts for the current fiscal year, we anticipate a return to the moderate recovery track from the second half onward, despite the sluggish condition of the Japanese economy amid concerns of an economic recession in the U.S. and soaring crude oil prices.

On the other hand, the Japan Post Bank will be moving to expand its scope of operations, and thus the operating environment for regional banks is expected to become increasingly severe. Against this backdrop, the Bank will steadily implement the new medium-term management plan introduced in April 2008, and work to raise its competitiveness and profitability to meet the expectations of its shareholders and investors.

I hope that our shareholders and other stakeholders will continue to favor the Nishi-Nippon City Bank Group with their support and goodwill.



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## Numerical targets of the Medium-Term Management Plan

Earnings	Year ended March 2008	Year ending March 2011
Gross business profit	¥121.2 billion	¥134 billion
Expenses	¥73.7 billion	¥74 billion
Core banking profit	¥47.4 billion	¥60.0 billion
Net income	¥19.3 billion	¥30.0 billion

\* Non-consolidated basis

Management indicators	Year ended March 2008	Year ending March 2011
ROE (net income basis)	7.82%	approx. 9%
OHR (Core gross business profit basis)	60.36%	approx. 55%
Capital ratio (consolidated)	9.23%	approx. 9.5%
Tier I ratio (consolidated)	5.89%	approx. 6.5%