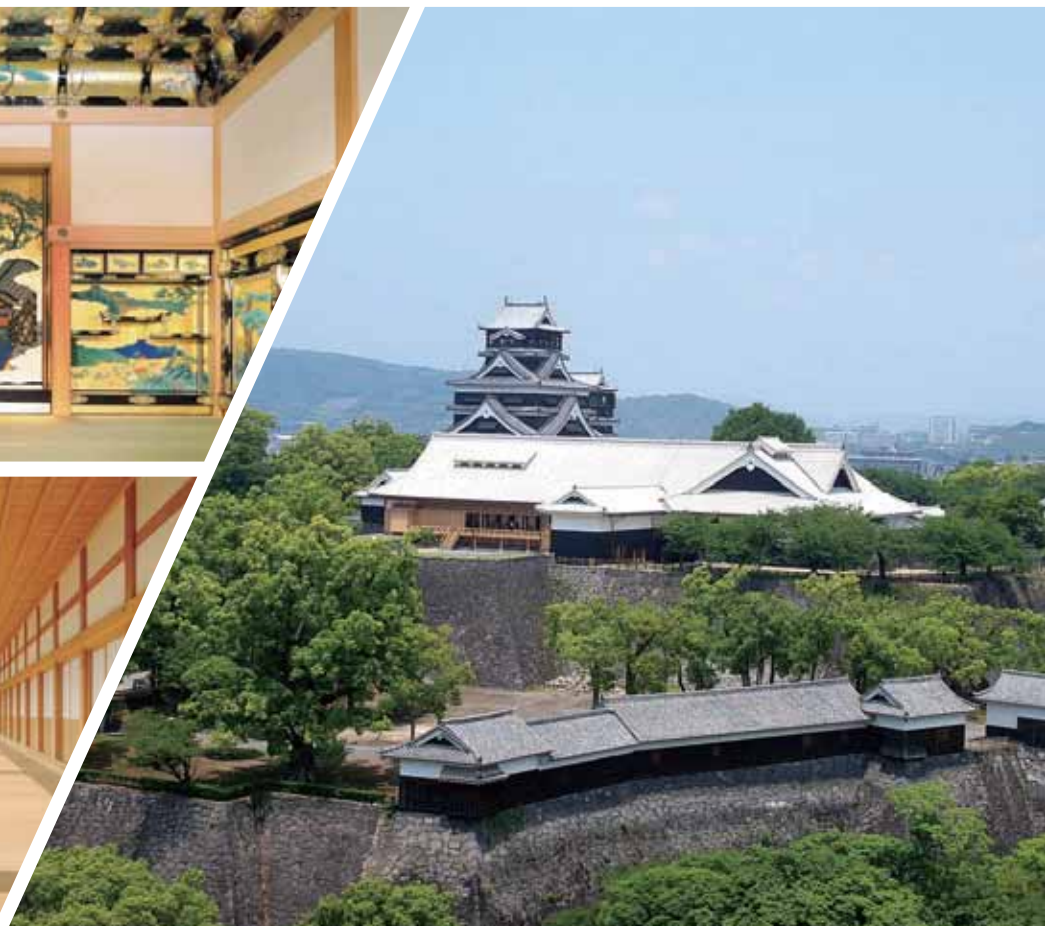


ANNUAL REPORT 2008



Profile

The Higo Bank is a regional bank whose main business base is Kumamoto Prefecture in central Kyushu. Possessing a varied sweep of natural beauty, including the volcano Mt. Aso, which boasts the world's largest caldera, and the scenic Amakusa area with its 200 islands of widely varying sizes, the prefecture is home to thriving agricultural, forestry, and fisheries industries.

In recent years, Kumamoto Prefecture has become a center for leading-edge industries, notably semiconductors, for which it has been called "Japan's Silicon Valley." The number of high-tech companies setting up shop in Kumamoto is still on the increase, and is expected to contribute greatly to the area's development in the near future.

The center of Kumamoto city has also been seeing the successive start-ups of a number of redevelopment projects, and accelerating progress is being made in bolstering the city's transport infrastructure. Roughly half of the extension of the Shinkansen Line from Fukuoka down the west coast of Kyushu to Kagoshima has been completed, and the construction of a modern road traffic network, principally to feed the Kyushu Expressway is making progress.

These conditions offer many opportunities to vitalize the region by cultivating small and medium-sized mainstay businesses and promoting new businesses



to support these new industries. Kumamoto is home to many new industries, and we have a support organization in which the public and private sectors work together, called the Kumamoto Prefecture Business Promotion Support Center. The center was established with funds from the Kumamoto prefectural government and the Higo Bank.

In addition to our main work of banking operations, we also put our energy into creating a better living environment for the prefecture's citizens by supporting organizations such as The Distribution Economics Institute of Kumamoto Area and the Kumamoto Development Research Center. Higin Venture Capital Co., Ltd., established in 1996, also cooperates with these organizations to provide comprehensive support to match the growth stage of the venture companies.

The Bank has continued to be active in supporting cultural events such as concerts and art exhibits as well as in promoting environmental conservation efforts, with the establishment of the Higo Water Resources Protection Foundation. Believing that it will become all the more important for us to make broad social contributions, we set up a Regional Culture Department in our Head Office in 1995 to act as a organization specializing in social contributions.

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Message from the President



During the reporting period, the Japanese economy expanded at a moderate pace, supported by increased capital investment and firm consumer spending, as corporate earnings maintained robust levels from the beginning of fiscal 2007. In the second half of the term, however, the corporate sector began to display increasing caution, reflecting factors such as rising energy and raw material prices and a decline in housing loans in the wake of the amendments to the Building Standards Law.

On the financial front, the Nikkei Stock Average, which was in the ¥17,000 range at the beginning of the fiscal year, declined to around ¥12,500 by yearend, as the U.S. subprime mortgage loan crisis rocked markets, and cautious forecasts for domestic results gained ground.

In the financial community, cross-sector and cross-regional competition among financial institutions grew more intense with the market entry of Japan Post Bank, the emergence of retailer-operated and Internet banks, and accelerated moves toward management integration and business tie-ups among regional financial institutions.

In this operating environment, the Higo Bank launched its fourth medium-term management plan, adopting “improvement of customer support capabilities” as a key concept in April 2008. This concept encompasses the bolstering of the Bank’s profitability through expansion of its transactional base with customers, and the enhancement of customer satisfaction through improvements in operating quality. The Bank is resolved to improve its operating results by boosting the quality of contacts with customers it has cultivated, raising its level of involvement with customers and local communities, and offering optimum financial services.

This report presents our corporate outline and the current state of the Bank’s business to provide our stakeholders with an insight into these initiatives.

We hope you will find this report a useful reference tool, and we look forward to your continued support and encouragement.

A handwritten signature in black ink that reads "H. Oguri". The signature is written in a cursive, flowing style.

September 2008
Hiroo Oguri, *President*

Management Policy

Fourth Medium-term Management Plan

In April 2008 Higo Bank launched its fourth medium-term management plan, covering the next two fiscal years.

Under this plan, we seek to improve our customer relations. We aim to achieve this goal by strengthening contacts with customers, as pursued under the preceding medium-term management plan. This includes taking steps to double the number of customer visits, building and relocating strategic branches, and increasing the number of ATMs installed at convenience stores. The plan also calls for a "3S" (Smile, Service and Solution) campaign that supports these initiatives, a program for training our frontline marketing staff to a higher level, and initiatives to upgrade our headquarters organization.

The Bank seeks to improve the quality of its operations, including customer responses and administration, provide convenience via a range of marketing channels, and improve the quality of service provided by its frontline staff. This will enable high value-added, proposal-based sales, which are the basic concepts for the Bank as it offers the best possible services to its customers and strengthens its relationships with both customers and the communities in which it operates.

Main Strategies

1) Marketing Strategy

Through its "Smile, Service and Solution" (3S) campaign, Bank aims to raise the quality of its services by improving contacts with and responses to customers, shortening customer waiting times, and taking other customer-oriented measures. In addition, the Bank will step up environmental protection measures and regional contribution activities. The scope of ISO14001 certification activities will be expanded, and the Aso Taikan-no Mori Project will be further pursued.

2) Management Strategy

With efficiency enhancement through risk management as its theme, the Bank will bolster self-assessment by enhancing assessment systems, and will seek to upgrade its administrative accounting. At the same time, we will step up control in areas such as the establishment of a legal compliance body and a customer protection system. We will also put in place other management units to offer the best possible financial services to customers.

3) Human Resources Strategy

The Bank will facilitate growth with an organized personnel training system by introducing minimal requirements that clearly set out the basic knowledge and skills employees at each level need to acquire, urging employees to improve their operational knowledge and IT skills and taking other actions.

Numerical Targets (term ending March 31, 2010)

- ▶ Funds under management (term-end balance): ¥4 trillion
- ▶ Gross business profit: ¥60 billion
- ▶ Core net business profit: ¥22 billion
- ▶ Adjusted OHR (ratio of expenses to core gross business profit): 63%

Results (Non-Consolidated)

Deposits and Loans

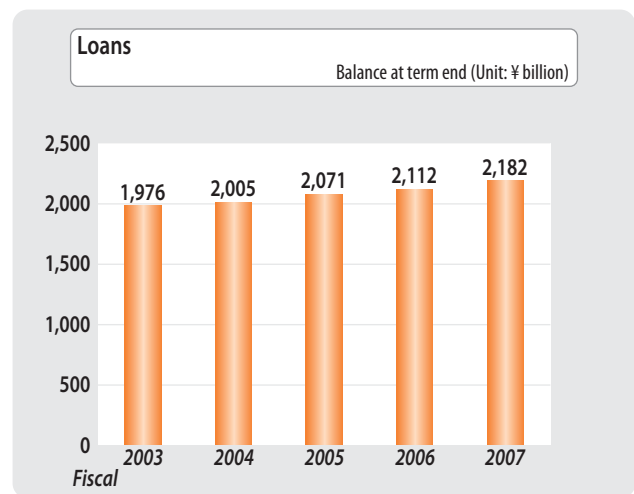
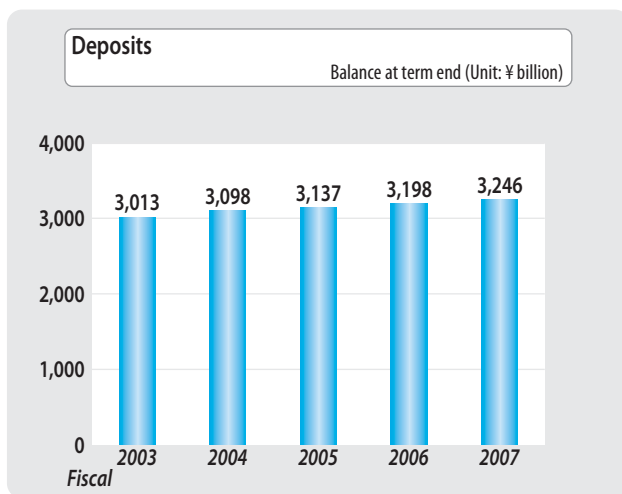
Deposits

As a result of closely tailoring its marketing initiatives to customer and regional needs, Higo Bank increased total deposits by ¥48,006 million, or 1.5%, to ¥3,246,626 million. The term-end balance of negotiable certificate of deposits stood at ¥35,717 million.

As a result, the term-end balance of deposits, including negotiable certificates of deposit, stood at ¥3,282,344 million, up ¥45,242 million.

Loans

By actively responding to the needs of local SMEs, public bodies and retail banking customers (individuals), the Bank raised its term-end balance of loans outstanding by ¥70,199 million, or 3.3% compared with the previous term-end, to ¥2,182,537 million.



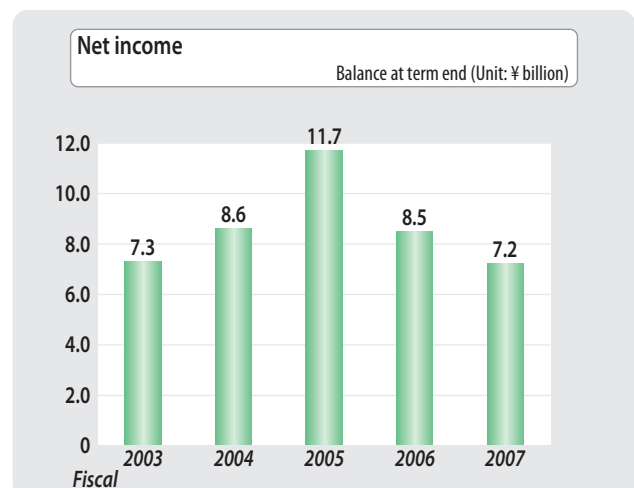
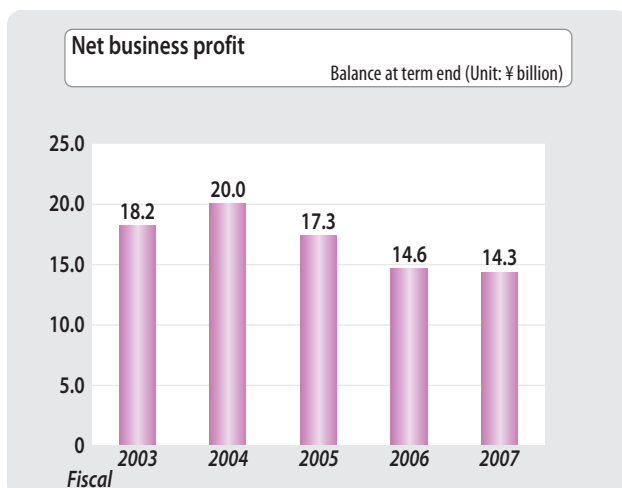
Earnings

Net business profit

Net business profit declined ¥260 million to ¥14,353 million year-on-year due to a decline in gross business profit and increased transfers to the reserve for possible loan losses.

Net income

Net income for the term declined ¥1,293 million to ¥7,271 million.



Excellent Financial Indicators

Higo Bank Wins “A”-Level Ranking

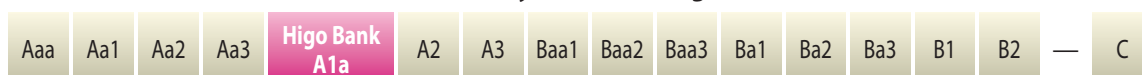
Higo Bank, recognized for its sound management and stable financial position, has received official ratings from three credit rating agencies in Japan and abroad. These evaluations have been high — an “A” ranking — for each of its long-term issue credit ratings.

(Long-term credit rating: as of March 31, 2008)

- ❖ **Moody’s Investors Service** **A1**
- ❖ **Standard & Poor’s** **A**
- ❖ **Rating and Investment Information, Inc.** **A+**

* A top-class regional bank in Kyushu, with high standards among the domestic banks.

Moody’s Credit Rating



S&P Credit Rating



Unrealized Gain on Securities

The Bank recorded a ¥21,100 million gain on valuation of securities.



Period ended March 31, 2008

(billions of yen)

	Unrealized gain
Held-to-maturity	0
Available-for-sale securities	21.0
Shares	26.3
Bonds, etc.	(5.3)
Total	21.1

Higo Bank has an Excellent Reputation as a Financially Sound Bank Carrying Few Non-Performing Loans

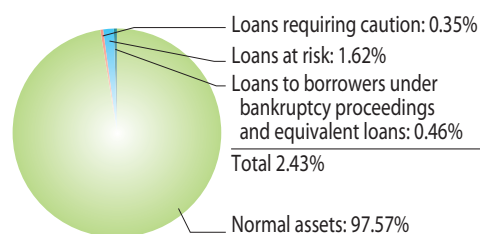
Disclosure of Claims under the Financial Reconstruction Law (non-consolidated)

As of March 31, 2008 (billions of yen)

	Loan balance	Coverage by collateral and guarantees	Reserve for possible loan losses	Coverage ratio
Loans to borrowers under bankruptcy proceedings and equivalent loans	7.8	5.3	2.4	100.0%
Loans at risk	35.6	19.9	13.6	94.4%
Loans requiring caution	10.1	3.4	2.8	61.7%
Subtotal	53.6	28.7	19.0	89.1%
Normal loans	2,149.8			
Total	2,203.5			

Note: Figures have been rounded down to the nearest ¥100 million. Fractions in the coverage ratios up to 0.04 have been rounded down, and from 0.05 upward have been rounded up.

Higo Bank carries a total of ¥53.6 billion in non-performing loans for which disclosure is mandatory under the Financial Reconstruction Law, accounting for 2.43% of its total credit portfolio — a low level for a Japanese regional bank. Of these non-performing loans, 89.1% are covered by collateral, guarantees, and the reserve for possible loan losses, providing a sufficient buffer for the Bank. On a consolidated basis, the Bank carries a total of ¥55.9 billion in non-performing loans, accounting for 2.51% of the credit portfolio.



Explanation of terms

Loans to borrowers under bankruptcy proceedings and equivalent loans

This category indicates loans to borrowers undergoing bankruptcy proceedings or corporate rehabilitation, or loans to borrowers in a state of virtual bankruptcy.

Loans at risk

This category indicates loans to borrowers who, while not yet in a state of bankruptcy, are suffering from a severe deterioration in financial conditions and are very likely to be unable to repay outstanding loans.

Loans requiring caution

This category indicates loans for which no repayments, including payments of interest, have been made for 3 months or more, or whose repayment conditions have been eased.



Note: Non-performing loans held by the entire Higo Bank Group on a consolidated basis, including subsidiaries and affiliates, in accordance with the disclosure standards under the Financial Reconstruction Law, totaled ¥55.9 billion, accounting for 2.51% of the group's total loan balance.

One of the Highest Capital Ratios Among Japan's Regional Banks

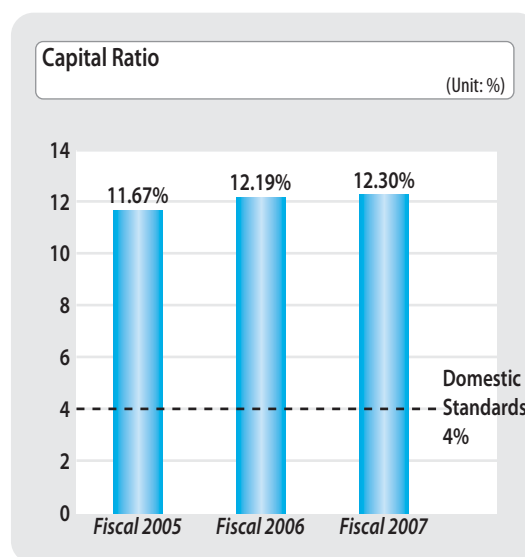
The capital ratio is the ratio of a bank's regulatory capital (capital stock, retained earnings and other items) to total risk-weighted assets, including loans, marketable securities and others. This figure is important for banks as an indicator of their financial soundness.

As of March 31, 2008, Higo Bank's capital ratio was 12.30% based on domestic standards. This is one of the highest ratios of any regional bank in Japan, and is far above the 4% standard for capital adequacy under the Prompt Corrective Action measures.

Using only Tier I capital, which includes common stock and certain other elements of equity, the capital ratio stands at 11.41%.

* With effect from the term ended March 2007, capital adequacy calculations have been made in line with the new Basel II standards relating to banks' regulatory capital. The new standards allow banks to adopt more sophisticated methods for calculating capital adequacy. The Bank has employed the standardized approach for the calculation of the credit risk amount and the basic indication approach for the calculation of the operational risk amount.

* Risk-weighted assets are calculated by multiplying assets and the credit equivalents of off-balance-sheet transactions by a risk factor that varies depending on the credit quality of each asset.



Acquisition of Bank's Own Shares and Retirement of Shares in Treasury

To bolster investor value, in December 2001 Higo Bank began purchasing its own shares as part of its capital policy. In line with the higher management priority we now place on our shareholders, we are putting greater emphasis on enhancing the Bank's investment value. In fiscal 2007, we acquired 1,080,000 of our own shares at a total acquisition cost of ¥789 million, and we had retired these shares by the end of the term.

By retiring treasury stock and reducing the number of shares issued, we are increasing per-share stock value and improving capital efficiency. By continuing to focus on improving earnings capability, we believe we will achieve higher investment returns, responding to the expectations of our customers' and investors.

Environmental Initiative

Higo Bank is actively addressing environmental issues, as demonstrated by our efforts to protect water resources over many years. In October 2006, we became the first financial institution in Kyushu to gain ISO14001 environmental certification.

Environmental Measures in Detail

We are working to reduce the environmental burden generated by the business activities of the Bank.

As a result of undertaking energy and resource conservation activities, we have been able to reduce expenditures for electricity and water, and minimize the amount of photocopier paper used at both the Bank's main head office building and the annex.

	Target	Fiscal 2006 results
Power usage	Reduce electric power usage in fiscal 2006 by more than 1% compared with the fiscal 2005 level.	Down 1.5% compared with the fiscal 2005 level.
Water usage	Reduce water usage in fiscal 2006 by more than 1% compared with the fiscal 2005 level.	Down 6.3% compared with the fiscal 2005 level.
Paper consumption	Reduce paper consumption in fiscal 2006 by more than 3% compared with the fiscal 2005 level.	Down 4.6% compared with the fiscal 2005 level.
Green purchasing	In purchasing, ensure that both automobiles for business use and complimentary gifts for sales promotion are eco-friendly.	Based on procurement guidelines for PR products, we selected eco-friendly products (100.0%).

Corporate Data

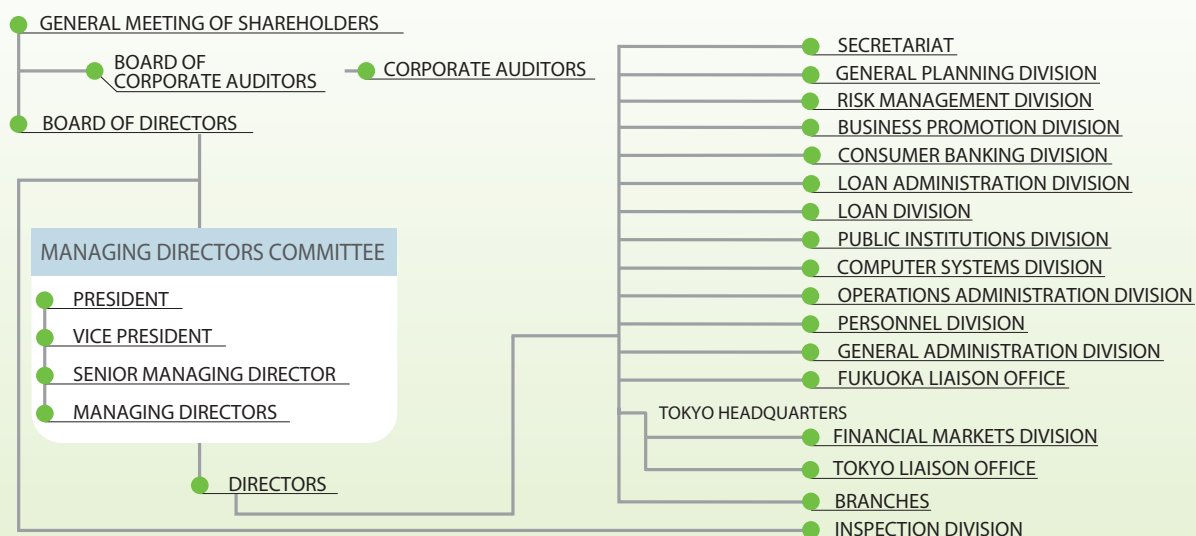
Established: July 25, 1925
 Total Assets: ¥3,564.3 billion
 Deposits: ¥3,246.6 billion
 Loans and Bills Discounted: ¥2,182.5 billion
 Capital Stock: ¥18.1 billion

Capital Ratio: 12.30% (domestic standards)
 Number of Employees: 1,972
 Number of Offices: 126

(Head Office and 113 domestic branches, 8 sub-branches,
 3 agencies and 1 overseas representative office)

(As of March 31, 2008)

Organization



Board of Directors and Corporate Auditors (As of June 26, 2008)

President and Representative Director	Hiroo Oguri		
Executive Vice President and Representative Director	Takahiro Kai		
Senior Managing Directors	Hiroo Nagata		
Managing Directors	Kenichi Hida	Tetsuo Uemura	Masaaki Eguchi
Directors	Katsuhiko Oda	Shiichiro Shimoyama	
	Hisayuki Kawamura	Hiroshi Sakai	
Corporate Auditors	Masaomi Mori (standing)	Tatsuo Omichi (standing)	
	Jiro Yamada	Akira Kawakami	Toshio Manabe

Principal Shareholders (As of March 31, 2008)

Name	Number of shares (thousand)	Equity stake (%)
Meiji Yasuda Life Insurance Co.	11,621	4.88
Mizuho Corporate Bank, Ltd.	10,053	4.22
Higo Bank Employees' Shareholding Association	8,700	3.65
Takara Kogyo Co., Ltd.	7,683	3.23
Sompo Japan Insurance Inc.	6,854	2.88
Tokio Marine & Nichido Fire Insurance Co., Ltd.	5,921	2.49
Japan Trustee Services Bank, Ltd. (trust account)	5,885	2.47
The Bank of Fukuoka, Ltd.	5,864	2.46
The Dai-ichi Mutual Life Insurance Company	4,841	2.03
The Master Trust Bank of Japan, Ltd. (trust account)	3,819	1.60
Total	71,243	29.96

Service Network

Head Office

1, Renpeicho, Kumamoto 860-8615
Phone: (096) 325-2111

Financial Markets Division

Tokyo Main Office

10-2, Kyobashi 2-chome,
Chuo-ku, Tokyo 104-0031
Phone: (03) 3535-2431
Facsimile: (03) 3535-6129

Kumamoto Office

1, Renpeicho, Kumamoto 860-8615
Phone: (096) 326-8646
Facsimile: (096) 326-8027

Foreign Exchange Offices

Head Office

1, Renpeicho, Kumamoto 860-8615
Phone: (096) 326-8642

Tokyo Branch

10-2, Kyobashi 2-chome,
Chuo-ku, Tokyo 104-0031
Phone: (03) 3561-3121

Osaka Branch

NM Plaza Midotsuji 6F,
6-3, Awaji-cho 3-chome,
Chuo-ku, Osaka 541-0047
Phone: (06) 6208-6551

Fukuoka Branch

8-1, Daimyo 2-chome,
Chuo-ku, Fukuoka 810-0041
Phone: (092) 741-7935

Yatsushiro Branch

3-25, Honmachi 2-chome,
Yatsushiro 866-0861
Phone: (0965) 32-3171

Tamana Branch

548, Takase, Tamana 865-0025
Phone: (0968) 73-2151

Suidocho Branch

3-31, Kamitoricho,
Kumamoto 860-0845
Phone: (096) 352-3111

Kagoshima Branch

1-3, Yamanokuchicho,
Kagoshima 892-0844
Phone: (099) 223-7221

Amakusa Branch

1-1, Suwamachi, Hondo 863-0037
Phone: (0969) 22-2151

Ozu Branch

182-1, Muro, Ozumachi 869-1235
Phone: (096) 293-3131

Matsubase Branch

920-1, Matsubase, Matsubasemachi
869-0502
Phone: (0964) 32-1121

Consolidated Balance Sheets

March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
ASSETS:			
Cash and due from banks (Note 4)	¥ 212,181	¥ 61,710	\$ 2,117,791
Call loans and bills bought	25,482	72,945	254,346
Monetary claims purchased	2,788	3,828	27,831
Trading assets (Note 5)	778	631	7,769
Money held in trust (Note 7)	4,438	4,825	44,296
Securities (Notes 6 and 9)	1,066,353	1,191,943	10,643,314
Loans and bills discounted (Note 8)	2,182,792	2,112,727	21,786,532
Foreign exchange assets	3,757	2,104	37,504
Other assets	23,991	41,147	239,458
Fixed assets	41,835	42,124	417,558
Intangible assets	4,652	4,598	46,433
Deferred tax assets (Note 13)	7,349	509	73,350
Customers' liabilities for acceptances and guarantees	16,451	18,107	164,207
Reserve for possible loan losses	(26,481)	(24,780)	(264,307)
Total assets	¥3,566,371	¥3,532,424	\$35,596,086
LIABILITIES AND EQUITY :			
Liabilities:			
Deposits (Note 9)	¥3,280,661	¥3,234,448	\$32,744,404
Call money and bills sold (Note 9)	13,506	5,742	134,810
Collateral received under securities lending transactions (Note 9)	10,085		100,667
Trading liabilities	71		717
Other liabilities	17,250	20,701	172,182
Reserve for employees' retirement benefits (Note 11)	8,224	8,094	82,088
Reserve for directors' and corporate auditors' retirement benefits	589		5,879
Reserve for contingent losses	46		461
Reserve for repayments for dormant deposits	394		3,938
Deferred tax liabilities (Note 13)	1	7,793	13
Deferred tax liabilities related to land revaluation (Note 3 (e))	7,332	7,382	73,183
Acceptances and guarantees	16,451	18,107	164,207
Total liabilities	¥3,354,617	¥3,302,271	\$33,482,554
Equity (Note 12):			
Common stock			
authorized, 482,858,000 shares; issued, 237,785,291 shares in 2008 and 238,865,000 shares in 2007	¥ 18,128	¥ 18,128	\$ 180,945
Capital surplus	8,133	8,133	81,181
Retained earnings (Note 16)	165,002	160,108	1,646,892
Less: Treasury stock at cost, 2,000 shares in 2008 and 98,000 shares in 2007 ...	(4)	(81)	(42)
Unrealized gains on securities, net of taxes	13,353	36,519	133,285
Deferred hedge income	(142)	82	(1,427)
Excess of land revaluation (Note 3 (e))	5,723	5,797	57,124
Total	210,194	228,688	2,097,959
Minority interests in consolidated subsidiaries	1,560	1,464	15,572
Total equity	211,754	230,153	2,113,532
Total liabilities and equity	¥3,566,371	¥3,532,424	\$35,596,086

See notes to consolidated financial statements.

Consolidated Statements of Income

Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Income:			
Interest on loans and discounts.....	¥42,451	¥38,420	\$423,707
Interest and dividends on securities.....	14,646	16,807	146,191
Other interest income.....	3,649	581	36,430
Fees and commissions income.....	11,261	11,397	112,400
Trading income.....	211	261	2,114
Other operating income.....	3,918	2,234	39,107
Other income.....	2,713	8,367	27,080
Total income.....	78,852	78,069	787,032
Expenses:			
Interest on deposits.....	8,498	3,364	84,822
Interest on borrowings and rediscounts.....	235	554	2,346
Interest on securities lending transactions.....	19	327	190
Other interest expenses.....	2,380	1,226	23,763
Fees and commissions expenses.....	3,513	3,248	35,070
Other operating expenses.....	3,812	7,020	38,051
General and administrative expenses.....	39,605	39,182	395,306
Provision of reserve for possible loan losses.....	5,180	7,842	51,706
Losses on impairment of long-lived assets.....	98	108	985
Other expenses.....	3,495	1,612	34,887
Total expenses.....	66,839	64,489	667,128
Income before income taxes and minority interests.....	12,013	13,580	119,903
Income taxes (Note 13)			
- Current.....	4,917	7,934	49,078
- Deferred.....	(310)	(2,902)	(3,102)
Minority interests (loss)	97	(35)	968
Net income.....	¥ 7,309	¥ 8,583	\$ 72,958

	Yen		U.S. dollars
	2008	2007	2008
Per share of common stock			
Primary net income.....	¥30.64	¥35.78	\$0.30
Cash dividends applicable to the year.....	7.00	7.00	0.06

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended March 31, 2008, and 2007

	Thousands		Millions of yen				Millions of yen					
	Outstanding number of shares of common stock	common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on securities, net of tax	Deferred hedge income	Excess of land revaluation	Total	Minority interests in consolidated subsidiaries	Total equity
Balance at April 1, 2006	239,978	¥18,128	¥8,133	¥154,162	(1,678)	¥ (23)	¥35,216		¥5,815	¥221,433	¥1,500	¥222,934
Cash dividends				(1,678)						(1,678)		(1,678)
Bonuses to directors and corporate auditors				(53)						(53)		(53)
Net income				8,583						8,583		8,583
Redemption of treasury stock			(0)	(922)		922				(986)		(986)
Purchase of treasury stock	(1,223)					(986)						
Disposal of treasury stock	6					5						
Reversal of excess of land revaluation				17					(17)			
Net change in the year							1,302	¥ 82		1,384	(35)	1,348
Balance at March 31, 2007	238,761	18,128	8,133	160,108	(1,671)	(81)	36,519	82	5,797	228,688	1,464	230,153
Cash dividends				(1,671)						(1,671)		(1,671)
Net income				7,309		789				7,309		7,309
Redemption of treasury stock				(789)						(935)		(935)
Purchase of treasury stock	(1,276)			(29)		223						
Disposal of treasury stock	292			74					(74)			
Reversal of excess of land revaluation												
Net change in the year						(4)	(23,165)	(225)		(23,390)	95	(23,295)
Balance at March 31, 2008	237,777	¥18,128	¥8,133	¥165,002	¥ (4)	¥ (4)	¥13,353	¥(142)	¥5,723	¥210,194	¥1,560	¥211,754

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 1)				Thousands of U.S. dollars (Note 1)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains on securities, net of tax	Deferred hedge income	Excess of land revaluation	Total	Minority interests in consolidated subsidiaries	Total equity
Balance at March 31, 2007	\$180,945	\$81,181	\$1,598,046	\$ (813)	\$364,501	\$ 821	\$2,282,548	\$14,619	\$2,297,168	\$2,297,168
Cash dividends			(16,684)						(16,684)	(16,684)
Net income			72,958						72,958	72,958
Redemption of treasury stock			(7,876)	7,876					(9,335)	(9,335)
Purchase of treasury stock			(291)	2,230					1,938	1,938
Disposal of treasury stock			741						(741)	
Reversal of excess of land revaluation									(2,249)	(2,249)
Net change in the year				(42)	(231,216)	\$ (1,427)	\$57,124	\$15,572	\$2,097,959	\$15,572
Balance at March 31, 2008	\$180,945	\$81,181	\$1,646,892	\$ (42)	\$133,285	\$ (1,427)	\$2,097,959	\$15,572	\$2,113,532	\$2,113,532

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥ 12,013	¥ 13,580	\$ 119,903
Depreciation and amortization	2,847	2,775	28,423
Losses on impairment of long-lived assets.....	98	108	985
Increase (decrease) in reserve for possible loans losses.....	1,700	6,546	16,976
Increase in accrued bonuses to directors and corporate auditors	4	48	45
Increase (decrease) in reserve for employees' retirement benefits	129	126	1,292
Increase (decrease) in reserve for directors' and corporate auditors' retirement benefits	589		5,879
Increase (decrease) in reserve for contingent losses	46		461
Increase (decrease) in reserve for repayments for dormant deposits.....	394		3,938
Interest and dividend income.....	(60,748)	(55,809)	(606,329)
Interest expenses	11,133	5,473	111,122
(Gains) losses on securities.....	(2,779)	(4,605)	(27,738)
Gains (losses) on money held in trust	371	53	3,702
Increase in loans and bills discounted	(70,742)	(41,165)	(706,081)
Increase in deposits	48,978	59,714	488,853
Decrease in negotiable certificates of deposits	(2,764)	(10,086)	(27,591)
(Increase) decrease in due from banks	(148,666)	(4,209)	(1,483,841)
Decrease (increase) in call loans	48,502	20,903	484,109
(Decrease) increase in call money	7,763	(20,851)	77,489
Decrease in collateral received under securities lending transactions	10,085	(5,558)	100,667
Interest income (cash basis)	62,152	55,790	620,342
Interest expense (cash basis)	(9,651)	(4,353)	(96,331)
Other	(1,321)	(954)	(13,194)
Total.....	(89,862)	17,528	(896,916)
Payments for income taxes.....	(9,652)	(3,705)	(96,338)
Net cash provided by (used in) operating activities	(99,514)	13,822	(993,254)
Cash flows from investing activities:			
Payments for purchases of securities	(465,211)	(519,333)	(4,643,295)
Proceeds from sales of securities	463,570	295,886	4,626,911
Proceeds from redemption of securities.....	108,257	214,815	1,080,517
Proceeds from decrease in money held in trust.....	8	76	86
Payments for purchases of fixed assets.....	(1,258)	(1,918)	(12,564)
Proceeds from sales of fixed assets.....	175	408	1,753
Payments for purchases of intangible assets.....	(1,795)	(1,477)	(17,919)
Net cash provided by (used in) investing activities	103,745	(11,542)	1,035,489
Cash flows from financing activities:			
Cash dividends paid.....	(1,668)	(1,677)	(16,653)
Payment for purchase of treasury stock	(935)	(986)	(9,335)
Proceeds from sales of treasury stock.....	194	5	1,938
Net cash used in financing activities	(2,409)	(2,658)	(24,050)
Effect of exchange rate changes on cash and cash equivalents.....	(17)	6	(173)
Net increase (decrease) in cash and cash equivalents.....	1,804	(371)	18,010
Cash and cash equivalents at beginning of year.....	54,325	54,697	542,227
Cash and cash equivalents at end of year (Note 4).....	¥ 56,130	¥ 54,325	\$ 560,237

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of The Higo Bank, Ltd. (the "Bank") and consolidated subsidiaries (together, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instrument and Exchange Law (formerly, Japanese Securities and Exchange Law) and its related accounting regulations and the Enforcement Regulation for the Banking Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Amounts of less than ¥1 million have been omitted. As a result, the yen totals shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥100.19 to \$1, the approximate exchange rate prevailing on March 31, 2008. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its consolidated subsidiaries, after the elimination of all material intercompany transactions, balances, and unrealized gains and losses. Under the control or influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The number of subsidiaries and affiliates as of March 31, 2008 and 2007 was as follows:

Consolidated subsidiaries.....	7
Affiliates (accounted for under the equity method).....	1

Two other subsidiaries were neither consolidated nor accounted for under the equity method for the years ended March 31, 2008 and 2007, since their total assets, total revenues, net income and retained earnings were not significant for the Group.

3. Summary of Significant Accounting Policies

(a) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand and due from the Bank of Japan.

(b) Foreign currency translation

The Bank maintains its accounting records in Japanese yen. Foreign currency assets and liabilities are translated into Japanese yen at the exchange rates prevailing on the balance-sheet dates. There were no assets/liabilities denominated in foreign currency held by consolidated subsidiaries.

(c) Trading assets and trading liabilities

Securities, monetary claims, etc. included in "Trading assets" or "Trading liabilities", which are held for the purpose of earning capital gains in a short term, are stated at market value. Trading-related derivative financial instruments are valued based on the assumption that they are settled at the end of the fiscal year.

(d) Financial instruments

i) Securities

Held-to-maturity debt securities are stated at amortized cost as determined by the moving average method. Available-for-sale securities with market quotations are stated at the market prices prevailing at the balance sheet date. Cost of sales of such securities is determined by the moving average method. Net unrealized gains or losses on these securities, net of taxes, are reported in a separate component of equity. Available-for-sale securities without market quotations are stated at cost or amortized cost as determined by the moving average method. For other than temporary declines in fair value, securities are reduced to net realizable value by a charge to income. Investments in securities included in money trusts managed separately, the primary objective of which is to invest in securities, are stated at market prices. Other investments in money trusts are accounted for in a manner consistent with those described above.

ii) Derivatives

Derivatives other than those designated as "Trading assets and Trading liabilities" (see (c) Trading assets and trading liabilities above) are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see iii) Hedge accounting below).

iii) Hedge accounting

a) Hedge of interest rate risks

The Bank applies the deferral method of hedge accounting and, for specific interest rate swaps, the accrual method of hedge accounting.

b) Hedge of foreign currency exchange risks

The Bank applies the deferral method of hedge accounting for hedges of the risks arising from financial assets and liabilities due to the fluctuation of foreign exchange rates which is described in "Treatment for Accounting and Auditing of Application of Accounting Standard for Foreign Currency Transactions in Banking Industry" (The Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No. 25). The Bank assesses the effectiveness of hedging instruments executed for reducing the risk of changes in currency exchange rates with currency swaps or foreign exchange swaps, by verifying that there exist foreign currency positions of the hedging instruments corresponding to the foreign currency monetary assets and liabilities to be hedged.

(e) Fixed assets

i) Depreciation of fixed assets is computed as follows.

Buildings: Depreciation is computed using the declining balance method over the estimated useful lives of the respective assets.

However, depreciation on buildings acquired after April 1, 1998 (excluding facilities attached to buildings) is computed by the straight-line method.

Equipment: Depreciation is computed by the declining balance method over the estimated useful lives of the respective assets.

The estimated useful lives of fixed assets are generally as follows:

Building 20 ~ 50 years

Equipment 5 ~ 20 years

ii) Land revaluation

Under the "Law of Land Revaluation", promulgated on March 31, 1998 and revised on March 31, 1999 and 2001, the Bank elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 1999.

The resulting excess of land revaluation represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There is no effect on the statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the excess of land revaluation account and related deferred tax liabilities.

The carrying amount of the land after the above one-time revaluation exceeded the market value by ¥11,450 million (\$114,291 thousand) and ¥10,711 million as of March 31, 2008 and 2007, respectively.

(f) Intangible assets

Intangible assets are mainly computer software developed or obtained for internal use and are amortized using the straight-line method over the estimated useful lives mainly five years.

(g) Long-lived assets

The Group reviews their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

(h) Reserve for possible loan losses

Reserve for possible loan losses is provided as follows:

- i) The reserve for claims on debtors who are legally or substantially bankrupt is provided based on the amount remaining after deducting the amount expected to be collected through the disposal of collateral or through the execution of guarantees.
- ii) The reserve for claims on debtors who are not currently legally bankrupt but are likely to become bankrupt is provided at the amount considered necessary after due consideration of the results of a solvency assessment. The solvency assessment identifies the amounts expected to remain after deducting the amounts expected to be collected through the disposal of collateral or through the execution of guarantees.
- iii) The reserve for claims on debtors other than the above is provided based on the loan-loss rates calculated using the actual historical loss experience during a certain period in the past.

All claims are assessed by the branches and credit supervision divisions based on the internal rules for the self-assessment of assets. The asset examination division, which is independent from the branches and credit supervision divisions, examines these self-assessments, and the reserve is provided based on the examination results.

With respect to the claims with collateral or guarantees on debtors who are legally or substantially bankrupt, estimated uncollectible amounts have been directly charged off against claims. The charge off amounted to ¥6,717 million (\$67,046 thousand) and ¥10,499 million for the years ended March 31, 2008 and 2007, respectively.

(i) Accrued bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

(j) Reserve for employees' retirement benefits

Reserve for retirement benefits, which is provided for the payment of employees' retirement benefits, represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, taking into account adjustments for unrecognized prior year service costs and unrecognized actuarial differences. Unrecognized prior service costs and unrecognized actuarial differences are amortized on a straight-line basis over a period of ten years from the year following the year in which they arise.

(k) Reserve for directors' and corporate auditors' retirements benefits

Prior to April 1, 2007, directors' and corporate auditors' retirements benefits were expensed when paid. Effective April 1, 2007, directors' and corporate auditors' retirements benefits are provided at the amount that would be required if all directors and corporate auditors retired at the balanced sheet date in accordance with "Auditing Treatment relating to Reserve defined under the Special Tax Measurement Law, Reserves defined under the Special Law and Reserve for Directors' and Corporate Auditors' Retirement Benefits" (JICPA Auditing and Assurance Practice Committee Report No. 42, April 13, 2007) effective from the fiscal year 2007. The effect of this change was to decrease income before income taxes and minority interests by ¥589 million (\$5,879 thousand) compared with the corresponding amounts under the previously applied method.

(l) Reserve for contingent losses

Upon the establishment of the joint responsibility system with governmental credit guarantee organizations on October 1, 2007, the Bank provides for future possible payments to the organizations, beginning in the year ended March 31.

(m) Reserve for repayments for dormant deposits

Reserve for repayments to depositors is provided for dormant deposits recognized as income.

Formerly, dormant accounts satisfying certain conditions were recognized as income, while repayments to depositors were charged to income when the claims were made. In accordance with "Auditing Treatment relating to Reserve defined under the Special Tax Measurement Law, Reserves defined under the Special Law and Reserve for Directors' and Corporate Auditors' Retirement Benefits" (JICPA Auditing and Assurance Practice Committee report No. 42, April 13, 2007) effective for the fiscal year 2007, the Bank has adopted this treatment. The effect of this treatment was to decrease income before income taxes and minority interests by ¥394 million (\$3,938 thousand).

(n) Leases

All leases are accounted for as operating leases. Under Japanese accounting standard for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(o) Valuation of assets and liabilities in consolidated subsidiaries

Assets and liabilities in consolidated subsidiaries are revalued to fair market value when a majority interest in the subsidiaries is purchased.

(p) Per share information

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during the year. The average number of common shares used in the computation was 238,507 thousand shares and 239,889 thousand shares for the years ended March 31, 2008 and 2007, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2008 and 2007 because there were no dilutive securities outstanding.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective year including dividends to be paid after the end of the year.

(q) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(r) Appropriations of retained earnings

Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

(s) New accounting pronouncements

Lease Accounting

On March 30, 2007, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transaction is effective for fiscal years beginning on or after April 1, 2008.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions shall be capitalized recognizing lease assets and lease obligations in the balance sheet.

4. Cash and Cash Equivalents

A reconciliation of the cash and cash equivalent balances on the consolidated statements of cash flows and the account balances on the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and due from banks	¥212,181	¥61,710	\$2,117,791
Foreign currency deposits	(150,919)	—	(1,506,331)
Other deposits	(5,131)	(7,385)	(51,222)
Cash and cash equivalent	¥ 56,130	¥54,325	\$ 560,237

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

5. Trading Assets

Trading securities included in trading assets on the consolidated balance sheets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Carrying value.....	¥695	¥631	\$6,940
Unrealized gain (loss) charged to income.....	7	2	79

In addition to the above, the Bank had trading-related financial derivatives in the amount of ¥83 million (US\$829 thousand) as of March 31, 2008.

6. Securities

(1) Carrying value and market value of securities at March 31, 2008 and 2007

(a) Held-to-maturity debt securities with market value

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Municipal government bonds:			
Carrying value.....	¥3,178	¥5,631	\$31,722
Market value.....	3,217	5,699	32,110
Net unrealized gains:.....	38	68	387
Gains.....	38	68	387

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Corporate bonds:			
Carrying value.....	¥2,903	¥3,111	\$28,974
Market value.....	2,950	3,117	29,446
Net unrealized gains:.....	47	6	471
Gains.....	47	16	476
Losses.....	(0)	(9)	(5)

Note: Market values are mainly based on their market prices at the balance sheet date.

(b) Available-for-sale securities with market value

	Millions of yen				
	2008				
	Cost	Carrying value	Net unrealized gains	Gains	Losses
Stock.....	¥ 64,633	¥ 90,967	¥26,334	¥32,707	¥ (6,373)
Bonds					
Japanese					
Government bonds.....	409,857	404,435	(5,421)	3,077	(8,499)
Municipal					
Government bonds.....	164,299	166,439	2,139	2,164	(24)
Corporate bonds.....	267,886	270,865	2,978	3,317	(338)
Total bonds.....	842,042	841,739	(303)	8,559	(8,862)
Others.....	129,781	124,787	(4,994)	1,994	(6,988)
Total.....	¥1,036,457	¥1,057,494	¥21,037	¥43,261	¥(22,224)

	Millions of yen				
	2007				
	Cost	Carrying value	Net unrealized gains	Gains	Losses
Stock.....	¥ 53,099	¥ 117,072	¥63,972	¥64,893	¥ (920)
Bonds					
Japanese					
Government bonds.....	526,591	521,137	(5,454)	1,298	(6,752)
Municipal					
Government bonds.....	183,274	183,134	(139)	754	(893)
Corporate bonds.....	237,069	237,013	(56)	864	(920)
Total bonds.....	946,935	941,285	(5,650)	2,916	(8,567)
Others.....	120,999	121,091	92	1,889	(1,797)
Total.....	¥1,121,034	¥1,179,449	¥58,414	¥69,699	¥(11,284)

	Thousands of U.S. dollars				
	2008				
	Cost	Carrying value	Net unrealized gains	Gains	Losses
Stock.....	\$ 645,105	\$ 907,948	\$262,844	\$326,457	\$ 63,613
Bonds					
Japanese					
Government bonds.....	4,090,798	4,036,684	(54,114)	30,716	84,830
Municipal					
Government bonds.....	1,639,876	1,661,235	21,358	21,602	243
Corporate bonds.....	2,673,786	2,703,516	29,730	33,110	3,380
Total bonds.....	8,404,461	8,401,436	(3,024)	85,430	88,455
Others.....	1,295,354	1,245,508	(49,845)	19,904	69,750
Total.....	\$10,344,920	\$10,554,892	\$209,973	\$431,792	\$221,819

Note: Carrying values on the Consolidated Balance Sheet are stated mainly based on their market prices at the balance sheet date.

(2) Held-to-maturity debt securities sold during the fiscal years ended March 31, 2008 and 2007

Bonds:	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cost.....	¥100	¥68	\$ 998
Sold at.....	100	68	1,000
Net gains.....	0	0	2

Bonds sold for 2008 and 2007 were corporate bonds and municipal government bonds, respectively. The bonds were sold due to early redemptions.

(3) Available-for-sale securities sold during fiscal years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Amounts sold.....	¥432,888	¥308,117	\$4,320,677
Gross gains.....	4,138	8,060	41,302
Gross losses.....	(824)	(3,395)	(8,228)

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

(4) Carrying value of securities without market value at March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Held-to-maturity debt securities	¥1,200	¥2,250	\$11,977
Other unlisted shares	1,314	1,254	13,118
Beneficial interests in loan trust.....	1,506	—	15,031

(5) Maturities of held-to-maturity debt securities and available-for-sale securities held at March 31, 2008 and 2007

	Millions of yen			
	2008			
	Within one year	Over one year but within 5 years	Over 5 years but within 10 years	Over 10 years
Japanese government bonds.....	¥ 94,596	¥125,613	¥ 93,549	¥90,675
Municipal government bonds	43,797	63,002	62,817	—
Corporate bonds.....	33,894	182,387	56,241	2,454
Total bonds	172,287	371,003	212,609	93,130
Others	12,373	75,384	17,344	2,243
Total	¥184,661	¥446,387	¥229,953	¥95,374

	Millions of yen			
	2007			
	Within one year	Over one year but within 5 years	Over 5 years but within 10 years	Over 10 years
Japanese government bonds.....	¥23,021	¥350,735	¥ 23,255	¥124,125
Municipal government bonds	27,544	106,732	48,857	—
Corporate bonds.....	24,831	185,438	24,231	2,510
Total bonds	75,397	642,907	96,344	126,636
Others	11,755	82,216	16,185	991
Total	¥87,153	¥725,123	¥112,529	¥127,628

	Thousands of U.S. dollars			
	2008			
	Within one year	Over one year but within 5 years	Over 5 years but within 10 years	Over 10 years
Japanese government bonds.....	\$ 944,169	\$1,253,754	\$ 933,720	\$905,039
Municipal government bonds	437,140	628,829	626,987	—
Corporate bonds.....	338,302	1,820,413	561,350	24,503
Total bonds	1,719,612	3,702,997	2,122,058	929,542
Others	123,503	752,415	173,118	22,394
Total	\$1,843,116	\$4,455,413	\$2,295,176	\$951,937

(6) Details of unrealized gains on available-for-sale securities at March 31, 2008 and 2007

The unrealized gains on available-for-sale securities on the balance sheet consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Gross unrealized gains on available-for-sale securities	¥21,037	¥58,414	\$209,973
Less: deferred tax liabilities.....	(7,691)	(21,909)	76,768
Net unrealized gains on available-for-sale securities.....	13,345	36,504	133,204
Less: Minority interest.....	(1)	(3)	(18)
Unrealized gains on available-for-sale securities of Affiliates attributable to the parent company	9	18	98
Unrealized gains on available-for-sale securities on the balance sheet	¥13,353	¥36,519	\$133,285

7. Money Held in Trust

The carrying and market values of money held in trust, as of March 31, 2008 and 2007, were as follows:

(1) Money held in trust held for investment

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Carrying value.....	¥4,438	¥4,825	\$44,296
Unrealized gain credited to income.....	(7)	116	(75)

8. Loans and Bills Discounted

Loans at March 31, 2008 and 2007 included the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Bankruptcy loans (i).....	¥ 1,355	¥ 2,865	\$ 13,528
Non-accrual loans (ii).....	40,405	40,553	403,286
Accruing loans past due three months or more	737	170	7,363
Restructured loans (iii)	9,400	9,266	93,824
Total.....	¥51,898	¥52,854	\$518,002

(i) Bankruptcy loans represent non-accrual loans to borrowers who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation (Article 97 of 1965 Cabinet Order).

(ii) Non-accrual loans represent non-accrual loans other than (i) bankruptcy loans and (iii) loans for which payments of interest are deferred in order to assist or facilitate the restructuring of borrowers in financial difficulties.

(iii) Restructured loans represent loans on which contracts were amended in favor of borrowers (e.g., reduction of or exemption from stated interest, deferral of interest payments, extension of maturity dates, renunciation of claims) in order to assist or facilitate the restructuring of borrowers in financial difficulties.

Loans included discounted bills amounting to ¥23,760 million (\$237,152 thousand) and ¥27,780 million at March 31, 2008 and 2007, respectively. The Bank is entitled, without limitation, to dispose of these discounted bills.

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

9. Assets Pledged

Assets pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Securities.....	¥45,938	¥25,919	\$458,514

Liabilities related to the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deposits.....	¥21,538	¥7,149	\$214,979
Call money and bills sold.....	10,000	—	99,810
Collateral received under securities lending transactions.....	10,085	—	100,667

In addition, securities totalling ¥107,493 million (\$1,072,897 thousand) and ¥107,750 million were pledged as collateral for settlement of exchange, short-term funding, derivatives or as variation margin at March 31, 2008 and 2007, respectively.

10. Commitment Line Agreements Related to Overdrafts and Loans

Commitment line agreements relating to overdrafts and loans represent agreements to allow customers to extend overdrafts or loans up to agreed amounts at the customer's request as long as no violation against the conditions of the agreements exists.

Unused commitment lines under such agreements were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Original maturity within one year or cancelable by the Bank at any time without any penalty.....	¥576,838	¥576,471	\$5,757,444
Others.....	16,868	14,032	168,362
Total.....	¥593,706	¥590,503	\$5,925,806

The amount of unexercised commitment lines does not necessarily affect the future cash flows of the Group because many such agreements are terminated without being exercised. Many of these agreements have provisions, which stipulate the Group may deny extending loans or decrease the commitment line when there are certain changes in financial markets, certain issues in securing loans and other reasons. The Group requests collateral in the form of premises or securities as deemed necessary upon providing such commitments. In addition, the Group monitors the financial condition of customers in accordance with its internal rules on a regular basis (semi-annually) and takes necessary measures including revisiting the terms of commitments and other means to prevent credit losses.

11. Reserve for Employees' Retirement Benefits

The Bank has a cash-balance type pension plan and a defined benefit corporate pension plan (fund type). Consolidated subsidiaries have unfunded retirement benefit plans.

The reserve for employees' retirement benefits as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligations.....	¥(39,430)	¥(40,073)	\$(393,555)
Plan assets.....	30,253	33,593	301,963
	(9,176)	(6,479)	(91,591)
Unrecognized actuarial differences.....	9,532	7,724	95,149
Unrecognized prior service cost.....	(5,053)	(5,838)	(50,434)
	(4,696)	(4,594)	(46,877)
Prepaid pension cost.....	3,527	3,500	35,211
Reserve for employees' retirement benefits.....	¥ (8,224)	¥ (8,094)	\$ (82,088)

Notes: 1. Discretionary additional payments are not included.

2. Consolidated subsidiaries apply simplified method to calculate projected benefit obligations.

Net pension expense related to the retirement benefits for the year ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost.....	¥1,129	¥1,161	\$11,275
Interest cost.....	637	672	6,365
Expected return on plan assets.....	(1,007)	(991)	(10,059)
Amortization of prior service cost.....	(785)	(785)	(7,842)
Amortization of actuarial differences.....	1,338	1,320	13,362
Other.....	27	30	271
Net pension expense.....	¥1,339	¥1,406	\$13,373

Note: Net pension expense of certain consolidated subsidiaries adopting simplified method is included in the service cost.

Assumptions used in the calculation of the above information were as follows:

	2008	2007
Discount rate.....	1.7%	1.6%
Expected rate of return on plan assets		
Defined benefit corporate pension plan.....	3.0%	3.0%
Method of attributing the projected benefits to periods of services.....	Straight-line basis	Straight-line basis
Amortization period of prior service cost.....	10 years	10 years
Amortization period of unrecognized actuarial differences.....	10 years	10 years

12. Equity

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Bank meets all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law and the Banking Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Banking Law requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 100% of capital stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

13. Income Taxes

At March 31, 2008 and 2007, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Reserve for possible loan losses.....	¥10,767	¥10,578	\$107,470
Reserve for employees' retirement benefits.....	3,315	3,261	33,092
Depreciation.....	1,464	1,575	14,621
Loss on impairment of securities.....	2,318	2,318	23,145
Other.....	1,842	1,630	18,392
Total.....	19,709	19,364	196,723
Valuation allowance.....	(3,078)	(3,101)	(30,726)
Deferred tax assets.....	16,631	16,262	165,996
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities.....	(7,691)	(21,909)	(76,768)
Reserve fund for deferred income of fixed assets.....	(166)	(166)	(1,664)
Prepaid pension cost.....	(1,425)	(1,414)	(14,225)
Other.....	—	(55)	—
Total.....	(9,283)	(23,546)	(92,659)
Net deferred tax liabilities.....	¥ 7,347	¥ (7,283)	\$ 73,337

The reconciliation of the statutory tax rate to the effective tax rate for the years ended March 31, 2008 and 2007 was as follows:

	2008	2007
Statutory tax rate.....	40.4%	40.4%
Reconciliation:		
Non-deductible expenses.....	0.6	0.4
Non-taxable income.....	(2.7)	(2.0)
Decrease in valuation allowance.....	(0.1)	(1.8)
Inhabitant taxes per capita.....	0.4	0.3
Other.....	(0.3)	(0.3)
Effective tax rate.....	38.3%	37.0%

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

14. Leases

The Group leases certain equipment and other assets.

(1) Information on finance lease contracts without an ownership transfer for the years ended March 31, 2008 and 2007 were as follows:

(a) Acquisition cost, accumulated depreciation, net book value, lease expense, depreciation expense, and interest expense on the leased assets (assuming capitalization of finance leases) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition cost.....	¥5,328	¥5,207	\$53,188
Accumulated depreciation	(2,716)	(2,881)	(27,114)
Net book value.....	¥2,612	¥2,325	\$26,073
Lease expense	¥1,241	¥1,248	\$12,395
Depreciation expense	¥1,102	¥1,104	\$11,000
Interest expense.....	¥ 137	¥ 124	\$ 1,368

Depreciation is computed based on the straight-line method over the lease term of the leased assets. Interest expense, computed as total lease payments less acquisition cost of the leased assets, are allocated over the lease term, using the interest method.

(b) The amount of future lease payments at March 31, 2008 and 2007, which excluded the interest portion, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Future lease payments:			
Due within one year.....	¥ 955	¥ 917	\$ 9,533
Due after one year	1,752	1,506	17,486
Total.....	¥2,707	¥2,424	\$27,020

(2) The amounts of future lease payments at March 31, 2008 and 2007 on operating lease contracts were nil.

15. Derivative Financial Instruments

(1) Derivative financial instruments used by the Bank

The Bank enters into transactions with futures and options on interest rates, currencies, stocks, bonds, interest rate swaps and currency swaps.

The Bank executes these derivative transactions in order to manage and hedge the risks associated with interest rate fluctuations and exposure to changes in the market value of assets and liabilities held by the Bank. In addition, the Bank enters into derivative transactions for trading purposes, within the position and loss limits set up by the Bank.

Consolidated subsidiaries in the Group do not enter into derivative transactions.

(2) Risks on derivative transactions

The major risks associated with derivative transactions, which have the potential to materially impact the Bank's financial condition, are market risk and credit risk.

Market risk is related to the increase and decrease in the market value of the positions held by the Bank due to changes in the market price and interest rates of the underlying assets. Market risk is also subject to changes in liquidity and the volatility of the markets. Credit risk refers to possible losses on the positions held by the Bank, which result from a counterparty's failure to perform according to the terms and conditions of the contract.

The Bank mainly applies a quantitative measurement method in order to capture market risk. The Bank monitors the outstanding balance and profit and loss for each type of transaction on a daily basis. In addition, the Bank applies a "Value-at-Risk" measurement method to transactions for which it is considered necessary to apply a more sophisticated method. The Bank manages credit risk by establishing credit limits for counterparties. Reviews of the adequacy of established credit lines are made on a regular basis and as deemed necessary.

(3) Risk management system of the Bank

The Bank exercises and controls the derivative transactions using limits including position limits, credit limits for each counterparty and stop loss limits in accordance with the Bank's policy on derivative transactions. Risks quantified are reported to the department and the director responsible for monitoring the transactions and the board of directors. The front office function and the back office function are segregated. The middle office is responsible for risk management and monitors front and back offices' compliance with regulations and internal rules.

Contract amounts or notional principal amounts of derivative financial instruments disclosed represent nominal contract amounts or the notional principal amounts set up for the calculation of the settlement amounts. Generally, they do not represent the amounts for which the actual assets are exchanged. These amounts do not represent, by themselves, the volume of market risk and credit risk related to the underlying derivative financial instruments.

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

(4) Market value of derivative financial instruments

(a) Interest rate related transactions

	Millions of yen			
	2008			
	Contractual value or notional principal amount	Including over one year	Market value	Unrealized gains (losses)
Over-the-counter				
Interest rate swaps				
Receipts floating-payments fixed.....	¥300	¥300	¥(20)	¥(20)

	Millions of yen			
	2007			
	Contractual value or notional principal amount	Including over one year	Market value	Unrealized gains (losses)
Over-the-counter				
Interest rate swaps				
Receipts fixed-payments floating.....	¥1,770	¥ —	¥(7)	¥(7)
Receipts floating-payments fixed.....	354	354	6	6
Total.....			¥(0)	¥(0)

	Thousands of U.S. dollars			
	2008			
	Contractual value or notional principal amount	Including over one year	Market value	Unrealized gains (losses)
Over-the-counter				
Interest rate swaps				
Receipts floating-payments fixed.....	\$3,000	\$3,000	\$(206)	\$(206)

Notes: 1. Market values of exchange-traded instruments are based on closing prices of the Tokyo International Financial Futures Exchange and others. Market values of over-the-counter transactions are based on the discounted present values or the option pricing calculation model.

2. The balances as of March 31, 2008 and 2007 disclosed above exclude derivatives accounted for as hedges. The derivatives disclosed are valued at market value on the balance sheet with resulting gains and losses taken to the statement of income.

(b) Foreign exchange related transactions

	Millions of yen			
	2008			
	Contractual value or notional principal amount	Including over one year	Market value	Unrealized gains (losses)
Over-the-counter				
currency swaps.....	¥47,950	¥19,670	¥(11)	¥(11)
Over-the-counter				
Foreign exchange forward contracts				
Sold.....	862	160	64	64
Bought.....	1,696	—	(38)	(38)
Total.....			¥ 15	¥15

	Millions of yen			
	2007			
	Contractual value or notional principal amount	Including over one year	Market value	Unrealized gains (losses)
Over-the-counter				
currency swaps.....	¥58,665	¥37,272	¥ (5)	¥ (5)
Over-the-counter				
Foreign exchange forward contracts				
Sold.....	1,475		(8)	(8)
Bought.....	1,867		37	37
Total.....			¥23	¥23

	Thousands of U.S. dollars			
	2008			
	Contractual value or notional principal amount	Including over one year	Market value	Unrealized gains (losses)
Over-the-counter				
currency swaps.....	\$478,594	\$196,335	\$(114)	\$(114)
Over-the-counter				
Foreign exchange forward contracts				
Sold.....	8,605	1,598	647	647
Bought.....	16,934	—	(379)	(379)
Total.....			\$ 152	\$ 152

Notes: 1. Market values are based on the discounted present values and market prices prevailing as of the year-end date.

2. Balances as of March 31, 2008 and 2007 are valued at market value on the balance sheet with resulting gains and losses taken to the statement of income. The balance disclosed above exclude derivatives accounted for as hedges.

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

16. Appropriation of Retained Earnings

The annual shareholders' meeting, which was held on June 27, 2008, approved the following appropriations of retained earnings for the year ended March 31, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.50 per share).....	¥832	\$8,306

17. Segment Information

(1) Segment information by type of business

In addition to the banking business, the Group is also engaged in the credit card business, credit guarantee business and other businesses. Such segment information has not been provided, as the percentage of those activities is insignificant to the Group.

(2) Segment information by geographic area

All of the Group's entities or branches are in Japan.

(3) Operating income from international operations

Operating income from international operations for the years ended March 31, 2008 and 2007 are not provided, as these are less than 10% of consolidated operating income.

Independent Auditors' Report



Deloitte Touche Tohmatsu
Kumamoto Dai-ichiseimei Building
11-18, Shinshigai
Kumamoto 860-0803
Japan
Tel: +81(96)311 2185
Fax: +81(96)311 2187
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of The Higo Bank, Ltd:

We have audited the accompanying consolidated balance sheets of The Higo Bank, Ltd. (the "Bank") and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Higo Bank, Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 26, 2008

Member of
Deloitte Touche Tohmatsu



1, Renpeicho, Kumamoto 860-8615, Japan

Phone: (096)325-2111

<http://www.higobank.co.jp/>