

ANNUAL REPORT 2010



The Koshoken Tea House (the ruins of Taishoji Temple)

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. The Kyushu Shinkansen Line from Fukuoka to Kagoshima is scheduled for completion in March 2011, and the construction of a modern road traffic network, principally to feed the Kyushu Expressway is progressing.

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 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. The Bank has been engaged in social contribution activities, centered on its Culture and Public Relations Office.

Contents

<i>Profile</i>	1
<i>Message from the President</i>	2
<i>Management Policy</i>	3
<i>Results (Non-Consolidated)</i>	5
<i>Excellent Financial Indicators</i>	6
<i>Environmental Initiative</i>	8
<i>Corporate Data</i>	9
<i>Service Network</i>	10
<i>Financial Section</i>	11

Message from the President



In the first half of fiscal 2009, ended March 31, 2010, the overall economy was sluggish and the unemployment rate reached a record high as the domestic economic situation grew even direr in the wake of the dramatic slowdown in the global economy, starting with the global financial crisis of the year before last.

In the second half of the fiscal year, with overseas economies, particularly in Asia, trending more strongly upward, corporate profits improved, owing to recovering exports and production coupled with progress in inventory adjustment. While the employment situation remained severe, government economic initiatives began to have some effect and some signs of recovery in personal consumption were seen.

Furthermore, amid such demographic changes as a declining population, a low birth rate and a graying society, shifts in the industrial structure that will encourage job creation are underway. However, greater efforts to invigorate regional economies are needed.

Amid these circumstances, the Bank launched its Fifth Medium-term Management Plan under the title “Rebuilding the customer-first principle — The rediscovery of home” in April 2010. In the prefecture, we conducted thorough market research and analysis of the concept “the rediscovery of home.” We have rebuilt the “customer-first” management philosophy to provide financial services from to the customers’ point of view with the goal of creating even stronger relationships with customers and the community.

Looking ahead, the opening of the Kyushu Shinkansen Line, scheduled for March 2011, and Kumamoto’s becoming a designated city by government ordinance in 2012, were major turning points for Kumamoto Prefecture. Despite the growing severity of the environment surrounding regional financial institutions, all executives and employees are working to achieve a banking group that will contribute to the entire region by further strengthening the Bank’s foundations and deepening relationships with customers. We are doing everything we can to surpass the expectations of our stakeholders.

We hope that our shareholders will continue to favor us with their support and encouragement in our future endeavors.

July 2010

A handwritten signature in black ink, consisting of stylized, fluid characters.

Takahiro Kai, *President*

Management Policy

Fifth Medium-term Management Plan

In the continuing harsh environment that surrounds financial institutions, we believe it is more important than ever to provide financial services that are closely linked to the region. We must understand things from the customers' perspective and come up with the most appropriate and timely measures so that our relationship of trust with the customer is further strengthened.

In recognition of this, the Bank launched its Fifth Medium-term Management Plan (Rebuilding the customer-first principle — The rediscovery of home) in April 2010. By subjecting the Plan to thorough market research and analysis within the prefecture we seek to further solidify our relationship with the customer.

Theme

Rebuilding the Principle of Putting the Customer-First — The Rediscovery of Home

The theme of our Fifth Medium-term Management Plan is a bi-directional concept that puts the corporate philosophy of "putting the customer-first" into practice through the "rediscovery of home." At the same time, by conducting research that helps us to rediscover our market (home), we build a better customer-first approach.

Plan Period

The Five Years from April 1, 2010 to March 31, 2015

Looking ahead, in light of social infrastructure developments such as the opening of the Kyushu Shinkansen Line and Kumamoto becoming a designated city by government ordinance, we forecast a major turnaround for Kumamoto over the medium to long term. This requires a management plan that is based on a long-term vision. Therefore, we have decided to implement our plan over a five-year period, divided into two phases, Phase 1 (two years) and Phase 2 (three years).



Basic Policy

1. Sound and Strong Management Practices for Strategic Improvement

Ensure earnings based on the soundness of our assets and human resources

2. Expand and Deepen Business Relations with Local-area Customers

Increase and deepen transactional relations so that customers use all of the Bank's financial products.

3. Develop Independent and Creative Talent

Develop employees that are capable of independent thought and action

Strategy

1. Rebuild Sales Structure Beginning with the Customer: "Customer & Market Oriented"

We provide optimal financial services to our customers and inform them of all of our financial products as we work to improve customer convenience through the promotion of our branch infrastructure and paperless banking. In this way, we are rebuilding our sales structure beginning with the customer. To ensure the soundness of the structure, we will improve customer protection and management preparedness.

2. Pursue Business Reform through Information and Communication Technology: "Computer and Communication Oriented"

While upgrading our systems infrastructure and developing our IT-based operational structure, we will develop a framework that provides customers with optimal financial services through trouble-free and intelligent communications, thereby improving service quality and productivity.

3. Demonstrate the Independence, Spontaneity, Autonomy and Self Help that Underpin Creativity: "Creative Man-Power Oriented"

Throughout the organization, the Bank employs a host of training activities to develop a sense of responsibility and creativity within our personnel. In this way, we will foster an environment throughout the Group that encourages professional development. Through the high-level capabilities and specialized expertise they develop, our employees will provide services that meet customers' expectations.

Financial Targets (Fiscal 2011)

1. Core targets

Gross business profit	Net income	ROA (net income basis)	Tier I ratio	Adjusted OHR
¥61.5 billion	¥10.0 billion	0.26%	12.4%	62.0%

2. Sub-targets

Increase in total funds under management	Ratio of non-performing loans
+¥200.0 billion	2.2%

* Total funds under management: The total balance of deposits and balance of assets under management is the Bank's own indicator.

Results (Non-Consolidated)

Deposits and Loans

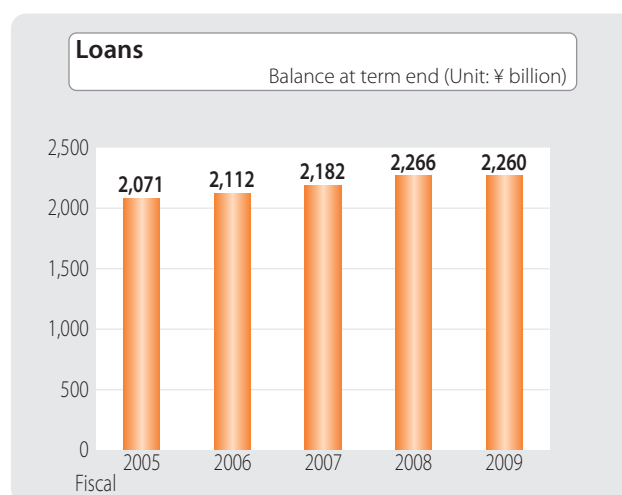
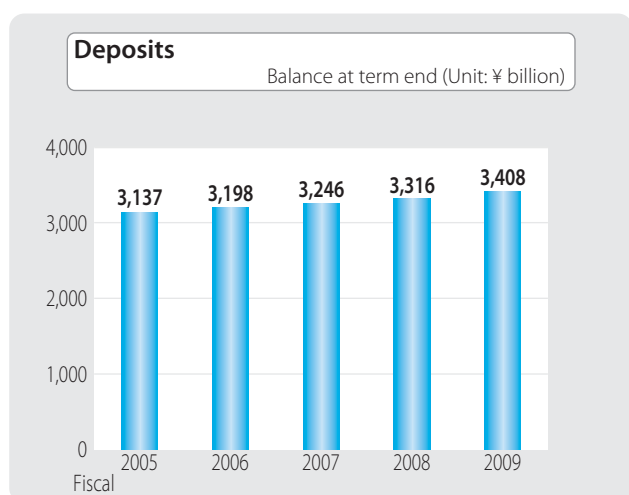
Deposits

As a result of closely tailoring its marketing initiatives to customer and regional needs, Higo Bank increased total deposits by ¥92,511 million, or 2.8%, to ¥3,408,929 million. The term-end balance of negotiable certificate of deposits stood at ¥84,678 million.

As a result, the term-end balance of deposits, including negotiable certificates of deposit, stood at ¥3,493,607 million, up ¥127,563 million.

Loans

The Bank responded proactively to the needs of local SMEs, public bodies and retail banking customers (individuals). However, with declining demand primarily from larger corporations, loans outstanding decreased by ¥6,027 million compared with the previous term-end, to ¥2,260,383 million.



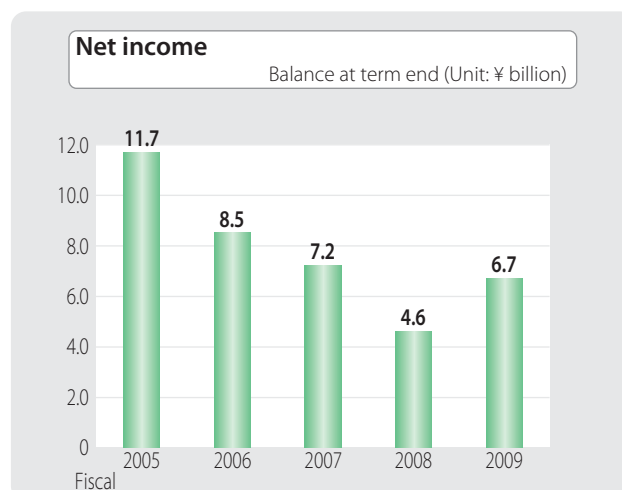
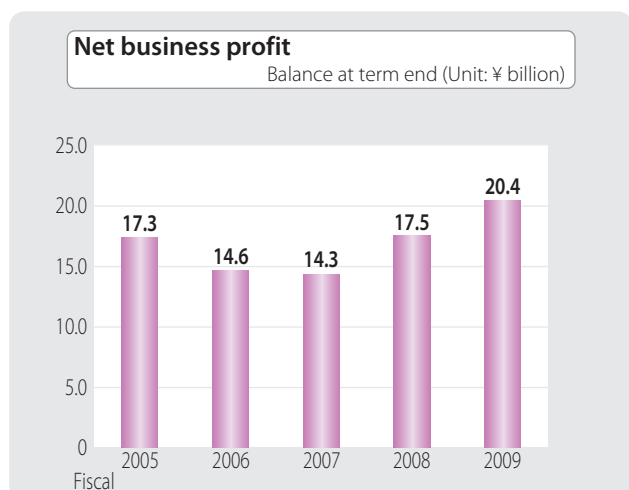
Earnings

Net business profit

Despite an increase in the reserve for possible loan losses, due to increased gross business profit, net business profit for the year increased by ¥2,906 million to ¥20,414 million.

Net income

Net income for the term increased ¥2,103 million to ¥6,710 million.



Excellent Financial Indicators

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

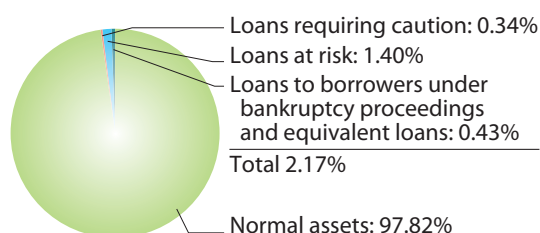
Disclosure of Claims under the Financial Reconstruction Law (non-consolidated)

As of March 31, 2010 (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	5.2	2.6	100.0%
Loans at risk	31.9	18.9	10.9	93.4%
Loans requiring caution	9.8	4.3	2.3	67.9%
Subtotal	49.6	28.4	15.9	89.4%
Normal loans	2,229.0			
Total	2,278.6			

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 ¥49.6 billion in non-performing loans for which disclosure is mandatory under the Financial Reconstruction Law, accounting for 2.18% of its total credit portfolio — a low level for a Japanese regional bank. Of these non-performing loans, 89.4% 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 ¥51.9 billion in non-performing loans, accounting for 2.26% 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.



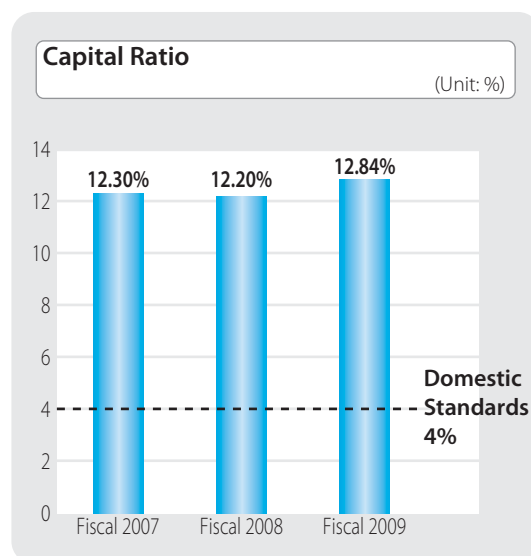
Excellent Financial Indicators

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, 2010, Higo Bank's capital ratio was 12.84% 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 11.87%.



* 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.

* Tier I capital is a core item within owned capital and is composed of capital stock, additional paid-in capital and retained earnings.

Higo Bank Wins "A"-Level Ranking

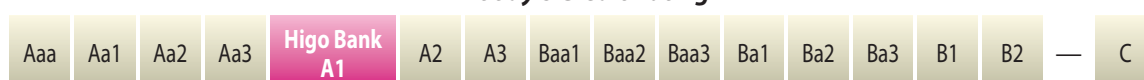
Higo Bank, recognized for its sound management and stable financial position, has received official ratings from three credit rating agencies in Japan and abroad. These evaluations have been high — an "A" ranking — for each of its long-term issue credit ratings.

(Long-term credit rating: as of March 31, 2010)

- ❖ **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



Environmental Initiative

Acquisition of ISO 14001 Certification

In 2004, The Higo Bank became the first financial institution in Kyushu to acquire ISO 14001 certification, an international standard covering environment-related matters. In 2008, in addition to the Bank's head office and annex, this certification was acquired by all departments and related companies. As a result of our efforts to conserve energy and resources, we have successfully reduced our consumption of electricity, water and paper to a fixed level.



Environmental Policy

Kumamoto's Mt. Aso boasts a volcanic caldera that supplies clean and fresh underground water to one million Kumamoto city residents. This natural wonder is an integral part of our home town of Kumamoto, and to ensure that it is passed on to future generations, each and every employee of The Higo Bank takes their role seriously. Through the planting of forests and other activities the Bank will create prosperous and vibrant communities.

1. With the reduction of the environmental impact of the Bank's corporate activities as one of its basic core corporate activities, the Bank will work to continuously improve its environment management system.
2. By providing environmental-friendly financial products and information to the Bank's customers, and help them to become more environmentally aware.
3. Through planting programs that are part of our Aso Taikan-no Mori project, and the cultivation and maintenance of water conservation forests, we will prevent global warming through CO₂ absorption, as well as preserve and prevent the pollution of ground water.
4. We will faithfully follow all laws and regulations related to the environment, as well as other related requirements agreed to by the Bank.
5. These environmental policies shall be distributed and displayed throughout the Bank, and shall be similarly communicated to those outside of the Bank.

July 1, 2009
The Higo Bank, Ltd.
Takahiro Kai, *President*

Corporate Data

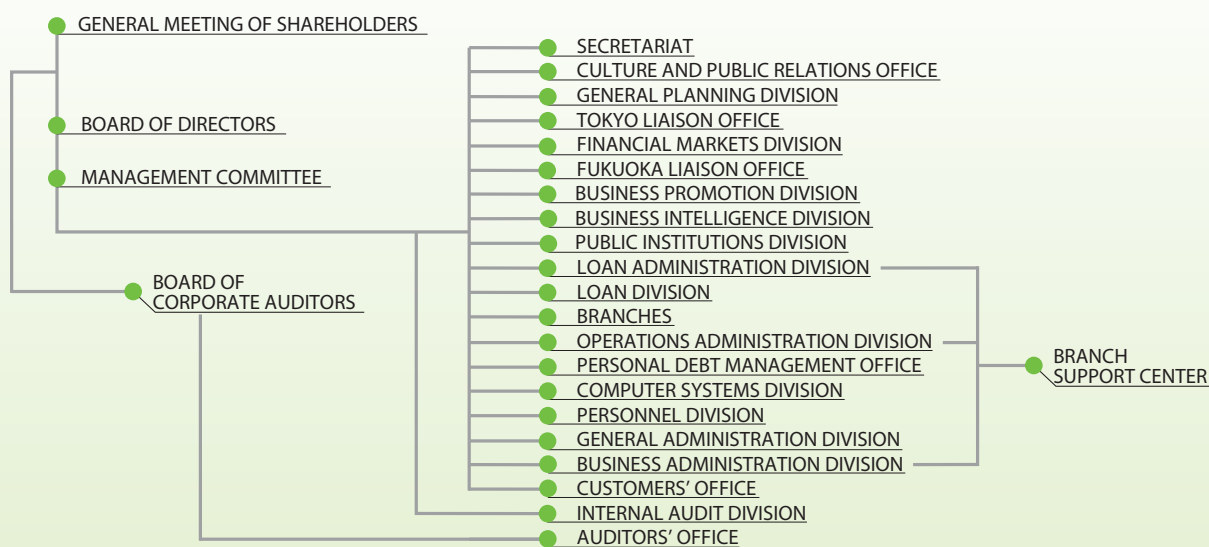
Established: July 25, 1925
 Total Assets: ¥3,784.1 billion
 Deposits: ¥3,408.9 billion
 Loans and Bills Discounted: ¥2,260.3 billion
 Capital Stock: ¥18.1 billion

Capital Ratio: 12.84% (domestic standards)
 Number of Employees: 2,028
 Number of Offices: 123

(Head Office and 116 domestic branches, 6 sub-branches and 1 overseas representative office)

(As of July 30, 2010)

Organization



Board of Directors and Corporate Auditors (As of June 25, 2010)

Chairman	Hiroo Oguri		
President and Representative Director	Takahiro Kai		
Executive Vice President and Representative Director	Hiroo Nagata		
Senior Executive Managing Officer and Directors	Tetsuo Uemura	Masaaki Eguchi	
Executive Managing Officer and Directors	Katsuhiko Oda	Shiichiro Shimoyama	
Executive Officer and Directors	Toyonori Ueno	Yusuke Okazaki	
	Shoji Kojima	Yoshihiro Iwamoto	
Standing Corporate Auditors	Kenichi Hida	Katsutoshi Yoshizu	
Outside Corporate Auditors	Jiro Yamada	Akira Kawakami	Toshitaka Manabe
Executive Managing Officers	Hisayuki Kawamura	Hiroshi Sakai	
Executive Officers	Yasuaki Yamamoto	Yoshikazu Miyata	Tsuyoshi Mogami
	Toshiro Kunitake	Hiroshi Takii	

Principal Shareholders (As of March 31, 2010)

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	8,396	3.53
Takara Kogyo Co., Ltd.	7,683	3.23
Sompo Japan Insurance Inc.	6,854	2.88
Japan Trustee & Services Bank, Ltd. (trust account)	6,479	2.72
Tokio Marine & Nichido Fire Insurance Co., Ltd.	5,921	2.49
The Bank of Fukuoka, Ltd.	5,864	2.46
The Dai-ichi Mutual Life Insurance Company	5,371	2.25
The Eighteenth Bank, Limited	3,433	1.44
Total	71,678	30.14

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

Kagoshima Branch

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

Suidocho Branch

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

Tamana Branch

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

Ozu Branch

213-1, Muro, Ozumachi 869-1235
Phone: (096) 293-3131

Matsubase Branch

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

Yatsushiro Branch

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

Amakusa Branch

6-1, Minamishinmachi,
Amakusa 863-0031
Phone: (0969) 22-2151

Consolidated Balance Sheets

March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
ASSETS:			
Cash and due from banks (Notes 4 and 15)	¥ 204,008	¥ 150,430	\$ 2,192,693
Call loans and bills bought (Note 15)	57,216	86,042	614,961
Monetary claims purchased	1,337	2,088	14,379
Trading assets	1,190	1,040	12,791
Money held in trust (Note 6)	4,343	4,371	46,679
Securities (Notes 5, 8 and 15)	1,194,692	1,064,531	12,840,632
Loans and bills discounted (Notes 7 and 15)	2,260,131	2,267,097	24,292,042
Foreign exchange assets	2,939	3,895	31,598
Other assets	17,632	18,013	189,512
Fixed assets (Note 14)	42,671	42,625	458,631
Intangible assets (Note 14)	5,819	4,784	62,551
Deferred tax assets (Note 13)	4,824	18,461	51,855
Customers' liabilities for acceptances and guarantees	14,744	15,332	158,471
Reserve for possible loan losses (Note 15)	(25,388)	(25,308)	(272,878)
Total assets	¥3,786,162	¥3,653,407	\$40,693,923
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits (Notes 8 and 15)	¥3,490,313	¥3,364,702	\$37,514,121
Call money and bills sold	10,234	31,964	110,000
Borrowing under securities lending transactions (Note 8)	8,761		94,173
Trading liabilities	91	98	987
Other liabilities	22,772	27,973	244,761
Reserve for employees' retirement benefits (Note 10)	8,204	8,371	88,182
Reserve for directors' and corporate auditors' retirement benefits	525	489	5,651
Reserve for contingent losses	495	690	5,323
Reserve for repayments for dormant deposits	567	437	6,101
Deferred tax liabilities related to land revaluation	7,231	7,300	77,719
Acceptances and guarantees	14,744	15,332	158,471
Total liabilities	3,563,943	3,457,360	38,305,493
Equity (Note 11):			
Common stock			
authorized, 482,858,000 shares;			
issued, 237,785,291 shares in 2010 and 2009	18,128	18,128	194,850
Capital surplus	8,133	8,133	87,419
Retained earnings (Note 17)	173,172	168,033	1,861,264
Unrealized losses on available-for-sale securities (Note 5)	16,315	(4,567)	175,364
Deferred gains (losses) on derivatives under hedge accounting	(36)	(157)	(391)
Excess of land revaluation	5,599	5,675	60,180
Treasury stock at cost, 1,460,842 shares in 2010 and 1,404,327 shares in 2009	(907)	(877)	(9,757)
Total	220,405	194,368	2,368,929
Minority interests in consolidated subsidiaries	1,814	1,678	19,499
Total equity	222,219	196,047	2,388,429
Total liabilities and equity	¥3,786,162	¥3,653,407	\$40,693,923

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended March 31, 2010 and 2009

	Thousands Outstanding number of shares of common stock	Millions of yen				
		Common stock	Capital surplus	Retained earnings	Unrealized gains (losses) on available-for-sale securities	Deferred losses on derivatives under hedge accounting
Balance at April 1, 2008	237,777	¥18,128	¥8,133	¥165,002	¥13,353	¥(142)
Net income.....				4,644		
Cash dividends, ¥7.00 per share.....				(1,659)		
Purchase of treasury stock.....	(1,408)					
Sale of treasury stock.....	11			(0)		
Reversal of excess of land revaluation.....				47		
Net change in the year.....					(17,921)	(14)
Balance at March 31, 2009	236,380	18,128	8,133	168,033	(4,567)	(157)
Net income.....				6,716		
Cash dividends, ¥7.00 per share.....				(1,654)		
Purchase of treasury stock.....	(59)					
Sale of treasury stock.....	2			(0)		
Reversal of excess of land revaluation.....				76		
Net change in the year.....					20,883	121
Balance at March 31, 2010	236,324	¥18,128	¥8,133	¥173,172	¥16,315	¥ (36)

	Millions of yen				
	Excess of land revaluation	Treasury stock	Total	Minority interests in consolidated subsidiaries	Total equity
Balance at April 1, 2008	¥5,723	¥ (4)	¥210,194	¥1,560	¥211,754
Net income.....			4,644		4,644
Cash dividends, ¥7.00 per share.....			(1,659)		(1,659)
Purchase of treasury stock.....		(881)	(881)		(881)
Sale of treasury stock.....		7	6		6
Reversal of excess of land revaluation.....			47		47
Net change in the year.....	(47)		(17,983)	118	(17,865)
Balance at March 31, 2009	5,675	(877)	194,368	1,678	196,047
Net income.....			6,716		6,716
Cash dividends, ¥7.00 per share.....			(1,654)		(1,654)
Purchase of treasury stock.....		(31)	(31)		(31)
Sale of treasury stock.....		1	1		1
Reversal of excess of land revaluation.....			76		76
Net change in the year.....	(76)		20,928	135	21,063
Balance at March 31, 2010	¥5,599	¥(907)	¥220,405	¥1,814	¥222,219

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended March 31, 2010 and 2009

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Unrealized gains (losses) on available-for-sale securities	Deferred losses on derivatives under hedge accounting
Balance at March 31, 2009	\$194,850	\$87,419	\$1,806,034	\$ (49,092)	\$ (1,696)
Net income.....			72,192		
Cash dividends, \$0.07 per share.....			(17,784)		
Purchase of treasury stock.....					
Sale of treasury stock.....			(2)		
Reversal of excess of land revaluation.....			824		
Net change in the year.....				224,456	1,305
Balance at March 31, 2010	\$194,850	\$87,419	\$1,861,264	\$175,364	\$ (391)

	Thousands of U.S. dollars (Note 1)				
	Excess of land revaluation	Treasury stock	Total	Minority interests in consolidated subsidiaries	Total equity
Balance at March 31, 2009	\$61,004	\$(9,436)	\$2,089,084	\$18,043	\$2,107,127
Net income.....			72,192		72,192
Cash dividends, \$0.07 per share.....			(17,784)		(17,784)
Purchase of treasury stock.....		(338)	(338)		(338)
Sale of treasury stock.....		17	14		14
Reversal of excess of land revaluation.....			824		824
Net change in the year.....	(824)		224,937	1,456	226,394
Balance at March 31, 2010	\$60,180	\$(9,757)	\$2,368,929	\$19,499	\$2,388,429

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Operating activities:			
Income before income taxes and minority interests	¥ 10,828	¥ 8,626	\$ 116,387
Adjustments for:			
Income taxes paid.....	(3,549)	(4,096)	(38,145)
Depreciation and amortization	2,740	2,576	29,455
Losses on impairment of long-lived assets.....	38	29	411
Increase (decrease) in reserve for possible loan losses.....	79	(1,172)	858
(Decrease) increase in reserve for employees' retirement benefits.....	(167)	147	(1,795)
Increase (decrease) in reserve for directors' and corporate auditors' retirement benefits	36	(99)	389
(Decrease) increase in reserve for contingent losses.....	(194)	643	(2,094)
Increase in reserve for repayments for dormant deposits.....	130	42	1,402
Interest and dividend income.....	(59,156)	(62,513)	(635,818)
Interest expenses	7,832	11,151	84,181
Losses on securities	3,839	5,891	41,268
Losses on money held in trust.....	19	61	210
Increase in trading assets	(165)	(257)	(1,783)
Decrease (increase) in loans and bills discounted.....	4,838	(86,730)	52,004
Increase in deposits	125,611	84,040	1,350,081
(Increase) decrease in due from banks (excluding deposits paid to BOJ).....	(50,943)	70,658	(547,545)
Decrease (increase) in call loans and others	29,577	(59,858)	317,903
(Decrease) increase in call money and others	(21,730)	18,457	(233,557)
Increase (decrease) in borrowing under securities lending transactions.....	8,761	(10,085)	94,173
Interest income (cash basis).....	59,479	63,321	639,287
Interest expense (cash basis).....	(8,223)	(11,081)	(88,390)
Other.....	4,742	11,359	50,977
Total adjustments.....	103,597	32,484	1,113,477
Net cash provided by operating activities	114,426	41,111	1,229,865
Investing activities:			
Payments for purchases of securities	(428,105)	(327,904)	(4,601,304)
Proceeds from sales of securities	135,345	138,633	1,454,704
Proceeds from redemption of securities.....	186,333	163,140	2,002,726
Proceeds from decrease in money held in trust.....	4		43
Payments for purchases of fixed assets.....	(1,145)	(1,895)	(12,312)
Proceeds from sales of fixed assets.....	129	20	1,394
Payments for purchases of intangible assets.....	(2,670)	(1,657)	(28,702)
Proceeds from sales of intangible assets.....	0		0
Net cash used in investing activities.....	(110,108)	(29,662)	(1,183,449)
Financing activities:			
Cash dividends paid.....	(1,650)	(1,655)	(17,738)
Payment for purchase of treasury stock	(31)	(881)	(338)
Proceeds from sales of treasury stock.....	1	6	14
Net cash used in financing activities	(1,680)	(2,529)	(18,062)
Effect of exchange rate changes on cash and cash equivalents.....	(3)	(12)	(37)
Net increase in cash and cash equivalents.....	2,634	8,906	28,315
Cash and cash equivalents at beginning of year.....	65,036	56,130	699,020
Cash and cash equivalents at end of year (Note 4).....	¥ 67,671	¥ 65,036	\$ 727,335

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

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 Instruments and Exchange Act, 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. In addition certain reclassifications have been made in the 2009 financial statements to conform to the classifications used in 2010.

Amounts of less than ¥1 million and \$1 thousand have been omitted. As a result, the 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 translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥93.04 to \$1, the approximate rate of exchange at March 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Bank and its seven significant subsidiaries. The fiscal periods of all consolidated subsidiaries end on March 31.

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.

Investment in an associated company is accounted for by the equity method. Investment in a remaining unconsolidated subsidiary is stated at cost. If the equity method of accounting had been applied to the investment in this company, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

(b) 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.

(c) 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 date.

(d) Trading assets & liabilities and Trading income & expenses

Trading transactions intended to take advantage of short-term fluctuations and arbitrage opportunities in interest rates, currency exchange rates, market prices of securities and related indices are recognized on a trade-date-basis and recorded in Trading assets or Trading liabilities on the consolidated balance sheets. Income or expenses generated on the relevant trading transactions are recorded in Trading income or Trading expenses on the consolidated statements of income.

Securities and other monetary claims held for trading purposes are stated at fair value at the consolidated balance sheet date. Derivative financial products, such as swaps, forward contracts and option transactions, are stated at their fair values, assuming that such transactions were terminated and settled at the consolidated balance sheet date.

Trading income and Trading expenses include the interest received and interest paid during the fiscal year, the gains or losses resulting from any change in the value of securities and other monetary claims between the beginning and the end of the fiscal year and the gains or losses resulting from any change in the value of financial derivatives between the beginning and the end of the fiscal year, assuming they were settled at the end of the fiscal year.

(e) 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 on 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, the market quotations of which are extremely difficult to calculate 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. Securities included in money held in trusts managed separately, the primary objective of which is to invest, are stated at market prices.

ii) Derivatives

Derivatives other than those designated as "Trading assets and Trading liabilities" (see (d) 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 deferral hedge accounting to hedges of interest rate risk associated with financial assets and liabilities in accordance with the Industry Audit Committee Report No. 24, "Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry," issued by the Japanese Institute of Certified Public Accountants ("the JICPA"). Specific matching criteria are not measured at fair value, but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.

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 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.

(f) Fixed assets and intangible assets

i) Fixed assets and intangible assets are stated at cost less accumulated depreciation

Depreciation of fixed assets owned by the Group is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally from 20 to 50 years for buildings and from 5 to 20 years for other fixed assets.

Amortization of intangible assets owned by the Group is computed by the straight-line method over the estimated useful lives of the assets. Cost of computer software obtained for internal use is amortized over the estimated useful lives of five years.

Leased assets under finance lease transactions, in which substantial ownership is not deemed to be transferred, are depreciated by the straight-line method over the lease term. The salvage value is either zero or guaranteed amounts if it is specified in the lease contracts.

ii) Land revaluation

Under the "Law of Land Revaluation," 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 was 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 fair value by ¥9,908 million (\$106,501 thousand) and ¥11,783 million as of March 31, 2010 and 2009, respectively.

(g) Long-lived assets

The Group reviews its 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 ¥5,054 million (\$54,322 thousand) and ¥4,878 million for the years ended March 31, 2010 and 2009, respectively.

(i) 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.

The Accounting Standards Board of Japan (the "ASBJ") issued, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3) (the ASBJ Statement No. 19, July 31, 2008)." The Group applied this partial amendment to the standard from the year ended March 31, 2010. There was no effect on the consolidated financial statements from applying the amendment because the discount rate the Bank applied for the calculation of the projected benefit obligations as of March 31, 2010 was unchanged from the rate applied in the previous year.

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

Reserve for directors' and corporate auditors' retirement benefits are provided at the amount that would be required if all directors and corporate auditors retired at the balanced sheet date.

(l) Reserve for contingent losses

Under the joint responsibility system with governmental credit guarantee organizations, the Bank is provided for possible future payments to the organizations in an amount deemed necessary based on estimated losses in the future.

(m) Reserve for repayments for dormant deposits

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

(n) Leases

In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

(o) Valuation of assets and liabilities in consolidated subsidiaries

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

(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 236,360 thousand shares and 236,994 thousand shares for the years ended March 31, 2010 and 2009, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2010 and 2009 because there are no potential common shares.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years 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

Asset Retirement Obligations – In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revision to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Business Combinations – In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows;

(1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combinations is essentially regarded as uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.

(3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Segment Information Disclosures – In March 2008, the ASBJ revised ASBJ Statement No. 17 “Accounting Standard for Segment Information Disclosures” and issued ASBJ Guidance No. 20 “Guidance on Accounting Standard for Segment Information Disclosures.” Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

Accounting Changes and Error Corrections – In December 2009, ASBJ issued ASBJ Statement No. 24 “Accounting Standard for Accounting Changes and Error Corrections” and ASBJ Guidance No. 24 “Guidance on Accounting Standard for Accounting Changes and Error Corrections.” Accounting treatments under this standard and guidance are as follows;

(1) Changes in Accounting Policies

When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) Changes in Presentations

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors

When an error in prior period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. Accounting Change

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 “Accounting Standard for Financial Instruments” and issued ASBJ Guidance No. 19 “Guidance on Accounting Standard for Financial Instruments and Related Disclosures.” This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010. The effect of this change on the statement of income was immaterial.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

4. Cash and Cash Equivalents

A reconciliation of the cash and cash equivalents balances in the consolidated statements of cash flows and the account balances in the consolidated balance sheets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and due from banks.....	¥204,008	¥150,430	\$2,192,693
Foreign currency deposits due from banks.....	(135,390)	(83,513)	(1,455,184)
Other deposits due from banks.....	(946)	(1,879)	(10,172)
Cash and cash equivalents.....	¥ 67,671	¥ 65,036	\$ 727,335

5. Securities

The cost and aggregate fair values of securities at March 31, 2010 and 2009 were as shown in the table below. The amounts shown in the following tables include trading securities classified as "trading assets" and beneficiary interests in trusts classified as "monetary claims purchased" in addition to "securities" stated in the consolidated balance sheets.

March 31, 2010	Millions of yen		
	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading.....	¥ 1,055		
Available-for-sale:			
Equity securities.....	60,924	¥ 47,325	¥13,598
Debt securities.....	1,036,209	1,022,987	13,222
Other.....	88,217	88,486	(269)
Held-to-maturity:			
Debt securities.....	9,068	8,150	918

March 31, 2009	Millions of yen				
	Fair value	Cost	Net unrealized gains (losses)	Gains	Losses
Securities classified as:					
Trading.....	¥ 916				
Available-for-sale:					
Equity securities.....	60,309	¥ 59,319	¥ 989	¥15,388	¥(14,398)
Debt securities.....	891,344	890,646	697	9,071	(8,373)
Other.....	107,300	117,099	(9,798)	1,898	(11,696)
Held-to-maturity:					
Debt securities.....	3,468	3,436	32	36	(4)

March 31, 2010	Thousands of U.S. Dollars		
	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading.....	\$ 11,349		
Available-for-sale:			
Equity securities.....	654,815	\$ 508,662	\$146,153
Debt securities.....	11,137,250	10,995,136	142,113
Other.....	948,166	951,059	(2,892)
Held-to-maturity:			
Debt securities.....	97,469	87,601	9,868

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2009 were as follows. The similar information for 2010 is disclosed in Note 15.

March 31, 2009	Carrying amount Millions of yen
Held-to-maturity:	
Debt securities.....	¥ 550
Available-for-sale:	
Unlisted stocks.....	1,324
Beneficiary interests in trusts.....	1,005

Proceeds from sales of available-for-sale securities for the year ended March 31, 2009 were ¥140,259 million. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥4,187 million and ¥7,022 million, respectively, for the year ended March 31, 2009.

The information of available-for-sale securities which were sold for the year ended March 31, 2010 was as follows:

March 31, 2010	Millions of yen		
	Proceeds	Realized gains	Realized loss
Available-for-sale:			
Equity securities.....	¥ 13,508	¥1,021	¥ (618)
Debt securities.....	72,572	1,679	(213)
Other.....	54,555	444	(5,541)
Total.....	¥140,636	¥3,145	¥(6,374)

March 31, 2010	Thousands of U.S. Dollars		
	Proceeds	Realized gains	Realized loss
Available-for-sale:			
Equity securities.....	\$ 145,191	\$10,976	\$ (6,650)
Debt securities.....	780,010	18,053	(2,298)
Other.....	586,369	4,772	(59,561)
Total.....	\$1,511,570	\$33,802	\$(68,510)

Net unrealized gains (losses) on available-for-sale securities for the years ended March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Valuation differences:			
Available-for-sale securities.....	¥26,551	¥(8,111)	\$285,373
Deferred tax assets (liabilities).....	(10,241)	3,541	(110,077)
Minority interests.....	(1)	(0)	(21)
Unrealized gains on available-for-sale securities of affiliates attributable to the parent company.....	8	2	88
Net unrealized gains (losses) on available-for-sale securities.....	¥16,315	¥(4,567)	\$175,364

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

6. Money Held in Trust

The carrying amounts and unrealized gains (losses) of money held in trust, as of March 31, 2010 and 2009, were as follows:

Money held in trust held for investment

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Carrying amounts.....	¥4,343	¥4,371	\$46,679
Unrealized gains credited to income.....	2	0	21

7. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2010 and 2009 included the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Bankruptcy loans.....	¥ 2,507	¥ 3,839	\$ 26,947
Past due loans.....	35,714	34,760	383,858
Loans past due for three months or more.....	1,386	298	14,900
Restructured loans.....	8,444	10,123	90,759
Total.....	¥48,051	¥49,021	\$516,465

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).

Past due loans represent non-accrual loans other than bankruptcy loans and loans for which payments of interest are deferred in order to assist or facilitate the restructuring of borrowers in financial difficulties.

Loans past due for three months or more include loans for which payments of principal or interest are delinquent by three months or more, as calculated from the day following the contracted payment date, but do not include bankruptcy loans or past due loans.

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 ¥16,001 million (\$171,987 thousand) and ¥19,289 million as March 31, 2010 and 2009, respectively. The Bank is entitled, without limitation, to dispose of these discounted bills.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

8. Assets Pledged

Assets pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Securities.....	¥34,971	¥25,636	\$375,874

Liabilities related to the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deposits.....	¥36,134	¥17,854	\$388,378
Borrowing under securities lending transactions.....	8,761		94,173

In addition, securities totaling ¥118,920 million (\$1,278,167 thousand) and ¥115,644 million were pledged as collateral for settlement of exchange, short-term funding, derivatives or as variation margin as of March 31, 2010 and 2009, respectively.

9. 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
	2010	2009	2010
Original maturity is within one year or the Bank can cancel at any time without any penalty.....	¥607,346	¥586,559	\$6,527,804
Other.....	11,442	12,055	122,986
Total.....	¥618,789	¥598,614	\$6,650,790

The amount of unexercised commitment lines does not necessarily affect the future cash flows of the Group because most such agreements are terminated without being exercised. Most 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.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

10. Reserve for Employees' Retirement Benefits

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

The reserve for employees' retirement benefits as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligations	¥(38,006)	¥(39,061)	\$(408,499)
Plan assets.....	26,300	24,793	282,681
	(11,706)	(14,267)	(125,817)
Unrecognized actuarial differences	8,815	13,255	94,751
Unrecognized prior service cost	(3,481)	(4,267)	(37,420)
	(6,371)	(5,279)	(68,486)
Prepaid pension cost.....	1,832	3,092	19,696
Reserve for employees' retirement benefits.....	¥ (8,204)	¥ (8,371)	\$ (88,182)

Notes: 1. Discretionary additional payments are not included.

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

Net pension expenses related to the retirement benefits for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥1,108	¥1,104	\$11,909
Interest cost.....	659	666	7,091
Expected return on plan assets	(619)	(907)	(6,662)
Amortization of prior service cost.....	(785)	(785)	(8,444)
Amortization of actuarial differences	2,191	1,653	23,550
Other	28	26	306
Net pension expenses.....	¥2,581	¥1,757	\$27,751

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

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

	2010	2009
Discount rate.....	1.8%	1.7%
Expected rate of return on plan assets	2.5%	2.5%
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

11. Equity

Japanese banks are subject to the Companies Act of Japan (the "Companies Act") and the Banking Law. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, 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 Companies Act 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 Companies Act 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 common stock. Under the Companies Act, the total amount of additional paid-in common and legal reserve may be reversed without limitation. The Companies Act also provides that common 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 Companies Act 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 Companies Act, stock acquisition rights, are presented as a separate component of equity. The Companies Act 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.

12. Other Expenses

Other expenses included losses on sales stocks and other securities in the amount of ¥5,584 million (\$60,022 thousand) for the year ended March 31, 2010.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

13. Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.4% for the years ended March 31, 2010 and 2009.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Reserve for possible loan losses.....	¥10,323	¥ 9,875	\$110,953
Reserve for employees' retirement benefits	3,313	3,376	35,610
Depreciation.....	1,336	1,374	14,363
Loss on impairment of securities.....	2,458	3,301	26,425
Unrealized losses on available-for-sale securities		3,541	
Other.....	1,983	2,139	21,316
Subtotal.....	19,414	23,608	208,669
Valuation allowance.....	(3,414)	(3,730)	(36,696)
Deferred tax assets.....	16,000	19,877	171,973
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities.....	(10,241)		(110,077)
Deferred income on fixed assets sold.....	(194)	(166)	(2,086)
Prepaid pension cost.....	(740)	(1,249)	(7,957)
Deferred tax liabilities.....	(11,176)	(1,416)	(120,122)
Net deferred tax assets.....	¥ 4,824	¥18,461	\$ 51,850

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009 was as follows:

	2010	2009
Normal effective statutory tax rate.....	40.4%	40.4%
Expenses not deductible for income tax purposes.....	0.7	0.8
Income not taxable for income tax purposes.....	(2.4)	(4.1)
Valuation allowance.....	(2.7)	7.6
Inhabitant taxes per capita.....	0.3	0.4
Other-net.....	0.4	(0.3)
Actual effective tax rate.....	36.7%	44.8%

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

14. Leases

The Group leases certain equipment and other assets.

Total lease payments under finance leases for the years ended March 31, 2010 and 2009 were ¥740 million (\$7,961 thousand) and ¥1,074 million, respectively.

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, the ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the financial statements. The Group applied the ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost.....	¥3,106	¥4,040	\$33,390
Accumulated depreciation.....	(2,067)	(2,339)	(22,216)
Net leased property.....	¥1,039	¥1,700	\$11,173
Obligations under finance leases:			
Due within one year.....	¥ 526	¥ 669	\$ 5,660
Due after one year.....	587	1,117	6,316
Total.....	¥1,114	¥1,786	\$11,976
Depreciation expense.....	¥ 657	¥ 954	\$ 7,066
Interest expense.....	69	107	745

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.

The amounts of future lease payments as of March 31, 2010 and 2009 on operating lease contracts were nil.

15. Financial Instruments and Related Disclosures

As discussed in Note 3, the Group applied the revised accounting standard "Accounting Standard for Financial Instruments" and the new guidance "Guidance on Accounting Standard for Financial Instruments and Related Disclosures" effective March 31, 2010.

(a) Bank policy for financial instruments

The main business of the Bank is procuring funds directly from deposits accepted from individual and corporate customers and from financial markets including call money markets, and managing such funds in the form of loans and investments in securities. Moreover, the Bank is engaged in a variety of services related to financial instruments including the trading of stocks and bonds associated with securities investment, as well as over-the-counter sales of public debt securities.

The Bank's major means of raising funds are accepting customer deposits (including negotiable certificates of deposit). Deposits from individual customers in particular form a significant proportion of total deposits. In raising funds, the Bank actively solicits fixed-term deposits to ensure funding stability. Some funds are raised directly from financial markets using such means of funding as call money, as well as derivatives including currency swaps as a means of raising foreign currency funds.

The Bank's major means of operating funds are lending, followed by securities investment such as in stocks and bonds. Loans are primarily provided to small- and medium-sized enterprises (SMEs) and individual customers in Kumamoto Prefecture, besides loans are also provided to the public sector and to large corporations outside the Prefecture. Securities investments are primarily investments in Japanese government bonds (JGBs) and public debt securities, besides the Bank also invests in corporate bonds, stocks, foreign securities and other financial instruments.

As mentioned above, the Bank holds substantial financial assets and liabilities that are subject to fluctuations in interest rates and prices. To protect itself from the negative effects of the fluctuations, the Bank practices Asset Liability Management (ALM).

In addition, some of the subsidiaries that engage in credit card business and lending activities raise funds from borrowing, and that engage in the venture capital business invest in securities.

(b) Nature and extent of risks arising from financial instruments

i) Financial assets

The significant proportion of financial assets held by the Group is loans, which are primarily provided to domestic institutions and individual customers. Loans are subject to credit risk, which represents loss on default caused by deteriorated credit of the borrowers. Additionally, fixed interest rate loans are subject to market risk (interest-rate risk) and their fair value is exposed to risk of fluctuation in market interest rate.

The second largest proportion of financial assets held by the Bank is securities, which include JGBs, stocks, foreign bonds and investment trusts. Securities held by the Bank are subject to market risk, and their fair value is exposed to risk of fluctuation in variable risk factors including interest rates, stock prices and exchange rates. The Bank is also subject to the liquidity risk and their fair value is exposed to risk of fluctuation in market prices. Some securities, such as stocks and bonds, are subject to credit risk, which represents loss on default caused by deteriorated credit of the issuers.

ii) Financial liabilities

Deposits and marketable funds procured are subject to liquidity risk, which represents the outflow of deposits and an inability to raise needed funds caused by deteriorated credit of the Bank, as well as losses caused by having to make transactions under unfavorable conditions. Some of the Group companies raise funds by borrowing, which are subject to liquidity risk in turn.

In addition, funds procured at fixed interest rates are subject to market risks (interest-rate risk) and their fair value is exposed to risk of fluctuation in market interest rate.

iii) Derivatives

The derivative transactions conducted by the Bank include interest rate swaps and currency swaps. The Bank applies deferred hedge and specific matching criteria to transactions undertaken as hedges against risk and evaluates hedge effectiveness on the basis of the market price fluctuation rate and the details of the contract. Derivative transactions are subject to market risk associated with the deteriorating credit standing of the counter party and credit risk of default of contract and changing risk factors. The consolidated subsidiaries and the associated company do not undertake derivative transactions.

(c) Risk management for financial instruments

i) Basic risk management policy

The Bank positions risk management as an important business challenge and enhances organization and system for managing risk rigorously. By monitoring various types of risk properly and managing risk by responding to changing financial conditions appropriately, we maintain and enhance the financial soundness of the Group companies and establish a business foundation.

ii) Risks and the risk management system

To enhance the risk management system, the Bank has instituted "Integrated Risk Management Rules" which define risk management policies each fiscal year for each type of risk – credit risk, market risk and liquidity risk, and define the risk management organizations and corresponding authorities. With respect to risk management for operating divisions such as divisions, sections, offices, branches, and Group companies, each headquarter division assumes functional responsibility for risk management each type of risk. The Business Administration Division assumes overall control for risk management of all banking-related risk and reports on the risk management status to the Board of Directors. In addition, the Internal Audit Division, which is independent of the operating divisions, audits the risk management functions in operating division and in Business Administration Division and reports the results to the Board of Directors.

iii) Integrated risk management

The Bank manages integrated risk in order to grasp and combine the various types of risk together in an integrated manner and to manage it so that the overall volume of risk does not get too big for management to handle. In addition, the Bank has introduced a system for allocating risk capital within the range of shareholders' equity as a provision against various types of risk, and is taking steps to ensure management soundness and to raise profitability and efficiency.

1. Credit risk

To enhance credit risk management, at headquarters, the Loan Division and the Loan Administration Division have been separated from the business promotion division, and have been operating under a system of mutual checks and balances, resulting in rigorous loan assessment and management. In addition, the Loan Division manages loan balances and the Board of Directors reviews the status of those balances so that loans are not biased to particular regions, businesses, companies and groups.

A credit rating system has been introduced to accurately grasp the creditworthiness of customers and to refine our credit risk management. Credit rating is a basic credit risk management concept and forms the basis of self-assessment. The Bank has established an independent self-assessment division that performs audit and is working to enhance its functions by giving it the ability to perform checks and balances at branches and The Loan Division.

2. Market risk

As the middle office for market transactions, the Business Administration Division manages for market risk. The ALM Committee is convened monthly to identify overall risks for the Bank using various measures such as gap analysis, present value analysis, and the Value at Risk (VaR) method, to determine risk and hedge policies based on interest rate forecasts and profit targets, and to control risks through derivative transactions such as swaps to ensure stable profitability.

3. Liquidity risk

The General Planning Division manages liquidity risk. The General Planning Division also grasps and analyzes the uses of funds on a daily, weekly, and monthly, and performs simulations the sources of funds. In addition, to provide for contingencies, the Bank implements a three-phased system of cash management, depending on the relative tightness of its cash position, so that it can swiftly respond to any situation. The Bank has also established action plans and a reporting system.

(d) Supplemental explanation for fair value of financial instruments

Fair values of financial instruments include market prices as well as reasonably calculated prices in cases where there are no market prices available. Since the calculations of the reasonably calculated prices are implemented under certain conditions and assumptions, the result of calculations would differ if such calculations are made under different conditions and assumptions.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

(e) Fair value of financial instruments

Fair value and carrying amounts of financial instruments as of March 31, 2010 are shown below. Immaterial accounts on the consolidated balance sheet are not included in the table below. Some instruments, such as unlisted stocks, whose fair value cannot be reliably determined, are not in the table below (see Note 15(e) (Note 2)).

	Millions of yen		
	Carrying amount	2010 Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 204,008	¥ 204,008	
(2) Call loans and bills bought	57,216	57,216	
(3) Securities:			
Held-to-maturity debt securities	8,150	9,068	¥ 918
Available-for-sale securities	1,184,928	1,184,928	
(4) Loans and bills discounted.....	2,260,131		
Reserve for possible loan losses (*1).....	(23,125)		
	2,237,006	2,264,550	27,544
Total assets	3,691,308	3,719,771	28,462
(1) Deposits	3,405,635	3,410,813	5,177
(2) Negotiable certificates of deposits.....	84,678	84,764	86
Total liabilities.....	3,490,313	3,495,578	5,264
Derivatives (*2).....			
For which hedge accounting is not applied	869	869	
For which hedge accounting is applied.....	(1,503)	(1,503)	
Total.....	¥ (633)	¥ (633)	

	Thousands of U.S. dollars		
	Carrying amount	2010 Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	\$ 2,192,693	\$ 2,192,693	
(2) Call loans and bills bought	614,961	614,961	
(3) Securities:			
Held-to-maturity debt securities	87,601	97,469	\$ 9,868
Available-for-sale securities	12,735,685	12,735,685	
(4) Loans and bills discounted.....	24,292,042		
Reserve for possible loan losses (*1).....	(248,555)		
	24,043,487	24,339,539	296,052
Total assets	39,674,428	39,980,348	305,920
(1) Deposits	36,603,993	36,659,646	55,652
(2) Negotiable certificates of deposits.....	910,127	911,057	929
Total liabilities.....	37,514,121	37,570,704	56,582
Derivatives (*2).....			
For which hedge accounting is not applied	9,345	9,345	
For which hedge accounting is applied.....	(16,158)	(16,158)	
Total.....	\$ (6,813)	\$ (6,813)	

*1. General reserve for possible loan losses and specific reserve for possible loan losses provided to loans and bills discounted are separately presented in the above table.

*2. Derivatives recorded in Trading assets, Trading liabilities, Other assets and Other liabilities are aggregated and shown herein. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented with brackets.

(Note 1) Valuation method of financial instruments assets.

Assets

(1) Cash and due from banks

With regard to amounts due from banks without maturity and short-term (within one year) due from banks, as these instruments are settled within a short term and their fair value and carrying amounts are nearly identical, their carrying amounts are assumed as their fair value.

(2) Call loans and bills bought

For items with a short commitment term (within one year), as their fair value and carrying amounts are nearly identical, their carrying amounts are assumed as their fair value.

(3) Securities

The fair value of equity securities is determined based on their prices quoted by the stock exchanges. The fair value of bonds is determined based on their prices quoted by the exchanges or at rates indicated by financial institutions handling these transactions for the Bank. The fair value of investment trusts is based on the base value publicly disclosed. In capital investments in investment partnerships, after applying the fair value to those partnership assets that can be measured at fair value, the equivalent amount of equity in said fair value is recorded at the deemed fair value of the partnership assets. The fair value of privately placed bonds guaranteed by the Bank is calculated using the same method as described in (4) Loans and bills accounted below. For information pertaining to investment securities by holding purpose, please refer to Note 5.

(4) Loans and bills discounted

As loans bearing floating rates of interest reflect market rates of interest in the short term, unless credit conditions of the lending entity have changed significantly after lending the loans, their fair value and carrying amounts are nearly identical, so their carrying amounts are assumed as their fair value. Fixed-rate loans are segmented by loan type, internal rating and period, and their fair value is determined by discounting the total amount of principal and interest by the interest rate that consist of the swap rate and the credit spread and the assumed interest rate on new lendings of the same type. The fair value of loans lended to entities that are bankrupt, substantially bankrupt or in danger of bankruptcy are determined according to the current value of expected future cash flows or the amount of collateral that is expected to be recoverable and guarantee amounts that are determined to be recoverable. As these amounts are nearly identical to the carrying amounts after deducting the allowance for doubtful accounts, these amounts are assumed as their fair value. For loans that are fully secured by collateral and that have no specified repayment term, as in terms of their expected repayment periods and interest conditions their fair value and carrying amounts are nearly identical, their carrying amounts are assumed as their fair value.

Liabilities

(1) Deposits and (2) Negotiable certificates of deposits

For demand deposits, fair value is assumed as amount to be paid when demanded on the balance sheet date (i.e., the carrying amounts.) The fair value of time deposits is determined by segmenting such deposits by term and discounting future cash flows to their current value. The discount rate used is the rate of interest on new borrowings of the same type. As the term on deposits is short (within one year), their fair value and carrying amounts are nearly identical, so their carrying amounts are assumed as their fair value.

Derivatives

The information of the fair value for derivatives is included in Note 16.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

(Note 2) Financial instruments, whose fair value cannot be reliably determined.

The following instruments are not included in "Assets (3) Securities" in the above table showing the fair value of financial instruments as of March 31, 2010."

	Carrying amount	
	Millions of yen	Thousands of U.S. dollars
Unlisted stocks (*1).....	¥1,607	\$17,277
Other (*1, *2).....	6	68
Total.....	¥1,613	\$17,346

*1. Fair value of unlisted stocks is exempt from disclosure because they do not have a market price and their fair value cannot be reliably determined.

*2. The Group wrote off unlisted stocks amounting to ¥42 million (\$452 thousand) for the year ended March 31, 2010.

(Note 3) Maturity analysis for claims and securities with contractual maturities as of March 31, 2010

	Millions of yen					
	2010					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks.....	¥166,736					
Call loans and bills bought.....	57,216					
Securities						
Held-to-maturity debt securities....	721	¥ 846	¥ 5,705	¥ 412	¥ 465	
Municipal government bonds...	117	234	117			
Corporate bonds.....	604	612	5,588	412	465	
Available-for-sale securities with maturity.....	96,821	227,606	229,377	94,877	435,495	¥ 29,929
Government bonds.....	12,087	74,824	113,553	51,257	306,265	8,698
Municipal government bonds..	18,314	45,402	52,306	30,403	58,349	20,643
Corporate bonds.....	48,167	87,119	54,148	13,217	40,861	587
Loans and bills discounted (*1).....	394,828	407,415	348,550	185,001	213,364	373,301
Total.....	¥716,323	¥635,869	¥583,633	¥280,290	¥649,324	¥403,230

	Thousands of U.S. dollars					
	2010					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks.....	\$1,792,091					
Call loans and bills bought.....	614,961					
Securities						
Held-to-maturity debt securities....	7,751	\$ 9,097	\$ 61,326	\$ 4,428	\$ 4,997	
Municipal government bonds...	1,259	2,519	1,266			
Corporate bonds.....	6,491	6,577	60,060	4,428	4,997	
Available-for-sale securities with maturity.....	1,040,646	2,446,334	2,465,361	1,019,749	4,680,732	\$ 321,687
Government bonds.....	129,918	804,219	1,220,480	550,914	3,291,765	93,492
Municipal government bonds..	196,844	487,994	562,194	326,777	627,141	221,882
Corporate bonds.....	517,704	936,368	581,996	142,057	439,184	6,312
Loans and bills discounted (*1).....	4,243,639	4,378,932	3,746,248	1,988,406	2,293,256	4,012,264
Total.....	\$7,699,090	\$6,834,364	\$6,272,936	\$3,012,584	\$6,978,986	\$4,333,951

*1. Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loans to "Legally bankrupt" borrowers, loans to "De facto bankrupt" borrowers and loans to "In danger of bankruptcy" borrowers, amounting to ¥38,221 million (\$410,806 thousand), is not included in the above table. Loans that do not have contractual maturity, amounting to ¥299,448 million (\$3,218,489 thousand), are not included either.

Notes to Consolidated Financial Statements

Years ended March 31, 2009 and 2008

(Note 4) Maturity analysis for interest bearing liabilities as of March 31, 2010

	Millions of yen					
	2010					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (*1)	¥3,217,441	¥165,508	¥20,191	¥764	¥1,730	
Negotiable certificates of deposits.....	65,957	18,720				
Call money and bills sold.....	10,234					
Total	¥3,293,633	¥184,228	¥20,191	¥764	¥1,730	

	Thousands of U.S. dollars					
	2010					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (*1)	\$34,581,269	\$1,778,892	\$217,021	\$8,212	\$18,598	
Negotiable certificates of deposits.....	708,920	201,206				
Call money and bills sold.....	110,000					
Total	\$35,400,190	\$1,980,099	\$217,021	\$8,212	\$18,598	

*1. Deposits on demand (current deposit, ordinary deposit and deposit at notice) are included in "1 year or less"

16. Derivative Financial Instruments

(a) Derivative financial instruments used by the Bank

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

(b) 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 fair 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.

(c) 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.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

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.

As noted in Note 3, the Group applied ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

(d) Fair value of derivative financial instruments

Derivative transactions to which hedge accounting is not applied as of March 31, 2010

i) Interest rate related transactions

	Millions of yen			
	2010			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Interest rate swaps:				
Receive floating and pay fixed.....	¥2,913	¥2,913	¥(78)	¥(78)

	Thousands of U.S. dollars			
	2010			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Interest rate swaps:				
Receive floating and pay fixed.....	\$31,309	\$31,309	\$(840)	\$(840)

- Notes: 1. Derivative transactions shown above are stated at fair value in the accompanying consolidated financial statements.
2. Fair values of above derivatives are based on quoted market prices, such as those of the Tokyo Financial Exchange Inc.
3. Calculation on quotation of fair value of above derivatives are based on the discounted present value method or option pricing models, etc.

ii) Foreign exchange related transactions

	Millions of yen			
	2010			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps.....	¥26,817	¥19,378	¥953	¥953
Foreign exchange forward contracts:				
Selling.....	1,406	181	(25)	(25)
Buying.....	782	180	19	19

	Thousands of U.S. dollars			
	2010			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps.....	\$288,237	\$208,277	\$10,244	\$10,244
Foreign exchange forward contracts:				
Selling.....	15,113	1,949	(270)	(270)
Buying.....	8,412	1,944	210	210

- Notes: 1. Derivative transactions shown above are stated at fair value in the accompanying consolidated financial statements.
2. Calculation or quotation of fair value of above derivatives are based on the discounted present value method, etc.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

Derivative transactions to which hedge accounting is applied as of March 31, 2010

i) Interest rate related transactions

	Millions of yen			Fair value
	Hedged item	Contractual value or notional principal amount	Including over one year	
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted available-for-sale (Debt securities)	¥76,294	¥71,766	¥ (58)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	92,866	80,908	(2,346)

	Thousands of U.S. dollars			Fair value
	Hedged item	Contractual value or notional principal amount	Including over one year	
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted available-for-sale (Debt securities)	\$820,018	\$771,347	\$ (628)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	998,136	869,604	(25,217)

Notes: 1. As for interest rate swaps shown above, deferred hedge accounting is applied in accordance with JICPA Industry Audit Committee Report No. 24.

2. Fair values of above derivatives are based on quoted market prices, such as those of the Tokyo Financial Exchange Inc.

3. Calculation or quotation of fair value of above derivatives are based on the discounted present value method or option pricing models, etc.

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

ii) Foreign exchange related transactions

		Millions of yen		
		2010		
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
	Foreign exchange forward contracts.....	Foreign currency call loans and due from banks	¥60,010	¥(1,444)

		Thousands of U.S. dollars		
		2010		
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
	Foreign exchange forward contracts.....	Foreign currency call loans and due from banks	\$644,994	\$(15,530)

Notes: 1. As for currency swaps shown above, deferred hedge accounting is applied in accordance with JICPA Industry Audit Committee Report No. 25.

2. Calculation or quotation of fair value of above derivatives are based on the discounted present value method, etc.

The following is the fair value information for foreign currency forward contracts and commodity options to which hedge accounting is not applied at March 31, 2009. Foreign currency forward contracts and commodity options which qualify for hedge accounting are excluded from the information below.

i) Foreign exchange related transactions

		Millions of yen		
		2009		
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps.....	¥30,259	¥14,733	¥ 24	¥ 24
Foreign exchange forward contracts:				
Selling.....	13,351		(472)	(472)
Buying.....	266		1	1

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

2. The balances as of March 31, 2009 disclosed above exclude derivatives accounted for as hedges, respectively. The derivatives disclosed are valued at fair value on the balance sheet with resulting gains and losses taken to the statement of income.

ii) Commodity related transactions

		Millions of yen		
		2009		
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Commodity options:				
Selling.....	¥19		¥ (1)	¥ (1)
Buying.....	17		1	1

Notes: 1. Fair values of exchange-traded instruments are based on closing prices of the Tokyo International Commodity Futures Exchange and others. Market values of over-the-counter transactions are based on factors such as price of the relevant commodity and contact term.

2. The balances as of March 31, 2009 disclosed above exclude derivatives accounted for as hedges. The derivatives disclosed are valued at fair value on the balance sheet with resulting gains and losses taken to the statement of income.

17. Appropriation of Retained Earnings

The annual shareholders' meeting, which was held on June 25, 2010, approved the following appropriations of retained earnings for the year ended March 31, 2010:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥4.00 per share).....	¥945	\$10,160

18. Segment Information

(a) 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 those activities is insignificant to the Group.

(b) Segment information by geographic area

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

(c) Ordinary income from international operations

Ordinary income from international operations for the years ended March 31, 2010 and 2009 are not provided, as these are less than 10% of consolidated operating income.

Independent Auditors' Report



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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, 2010 and 2009, 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, 2010 and 2009, 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 LLC

June 25, 2010

Member of
Deloitte Touche Tohmatsu

■ Explanation of front cover

The Koshoken Tea House (the ruins of Taishoji Temple)

Within the ruins of the Taishoji Temple—the Hosokawa family temple within the Tatsuda Nature Park in the Northeastern part of Kumamoto City—are the Four Mausoleums, in which rest the four tombs of the first-generation feudal lord (daimyo) Hosokawa Fujitaka and his wife, and the second-generation daimyo Hosokawa Tadaoki and his wife Garasha. Also within the temple are the memorial tower of Miyamoto Musashi and the tomb of the Taishoji Temple head priest.

Located within the park, where a garden unfolds, seasonal flowers bloom, and a moss garden, bamboo grove and a pond in the shape of the Japanese character for “heart” are laid out, is the Koshoken tea house, which was frequently used by Hosokawa Tadaoki (who took the Buddhist name “Sansai”), one of Sen no Rikyu’s (the person who most profoundly influenced the Japanese tea ceremony) seven chief disciples, and a warrior who also gained prominence as a master of the tea ceremony.



The Four Mausoleums



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