Nabegataki Falls (Oguni-machi, Aso-gun, Kumamoto Prefecture)

ANNUAL REPORT 2011

Higo Bank

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 opened 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. Higin Capital Co., Ltd., established in 1996, also cooperates with these organizations to provide comprehensive support to match the growth stage of local 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 is commuted to a wide range of social contribution activities.

Contents

Message from the President

In the first half of fiscal 2010, ended March 31, 2011, with the Japanese economy maintaining an upward trend in exports and production, corporate profits improved substantially and consumer spending also followed a moderate upswing. In the second half of the fiscal year, overseas economies, particularly in Asia, rebounded and there were various economic stimulus benefits. Despite signs of recovery up to the second half, some production activities declined significantly due to supply chain disruption and electrical supply restrictions caused by the Great East Japan Earthquake. As a result, momentum was weak in the second half.

Meanwhile, within the prefecture, the economy continued to recover modestly until the second half due to better employment and income conditions, strong home investment, private capital investment, and other factors. However, at the end of fiscal 2010, the prefecture faced downward economic pressure owing to a drop in some production in manufacturing industries in the prefecture caused by the impact of the earthquake disaster and rapidly cooling business and consumer sentiment.

Amid these circumstances, the Bank has been implementing its Fifth Medium-term Management Plan entitled "Rebuilding the customer first principle — The rediscovery of home" since April 2010. Under the theme "the rediscovery of home," we have rebuilt the "customer-first" management philosophy to provide financial services from the customers' point of view with the goal of creating even stronger relationships with customers and the community.

In Kumamoto, the opening of the Kyushu Shinkansen Line, in March 2011, the project to elevate the existing JR Line and Kumamoto's becoming a designated city by government ordinance in 2012 were major turning points for Kumamoto Prefecture. Taking this as an opportunity, all executives and employees are working to achieve a banking group that will contribute to the entire region. 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 2011

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

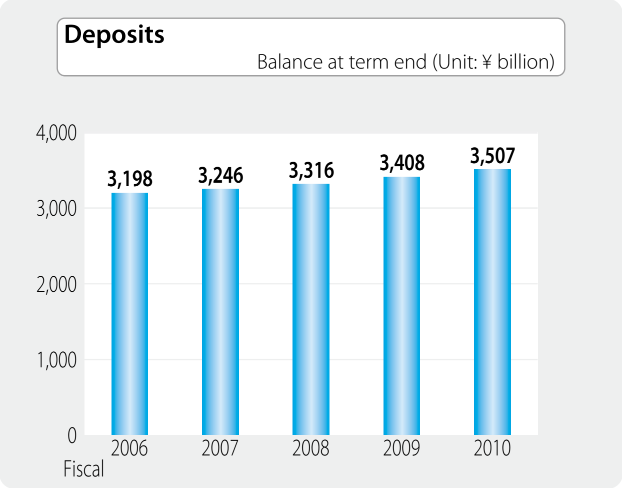
Deposits

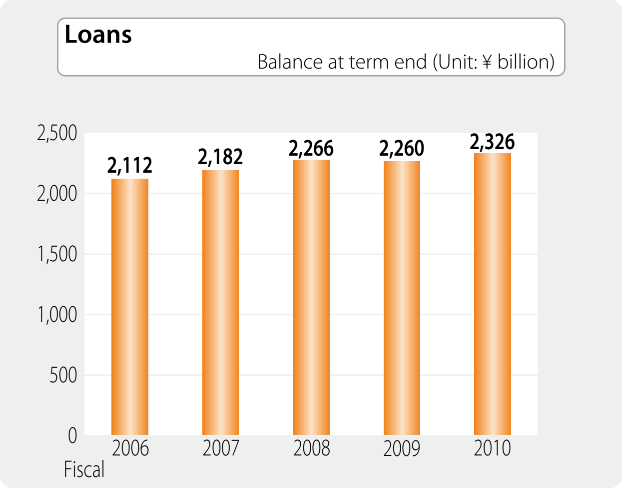
As a result of closely tailoring its marketing initiatives to customer and regional needs, Higo Bank increased total deposits by ¥98 billion, or 2.9%, to ¥3,507 billion. The term-end balance of negotiable certificates of deposit stood at ¥135 billion.

As a result, the term-end balance of deposits, including negotiable certificates of deposit, stood at ¥3,643 billion, up ¥149 billion, or 4.3%.

Loans

The Bank responded proactively to the needs of local SMEs, public bodies and retail banking customers (individuals). As a result, loans outstanding increased by ¥66 billion, or 2.9%, compared with the previous term-end, to ¥2,326 billion.





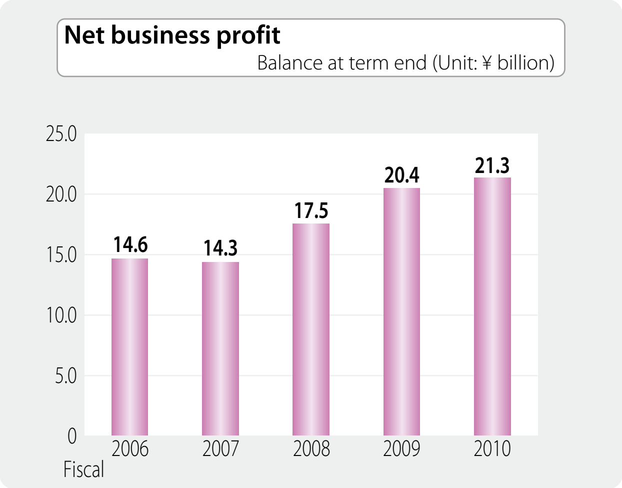
Earnings

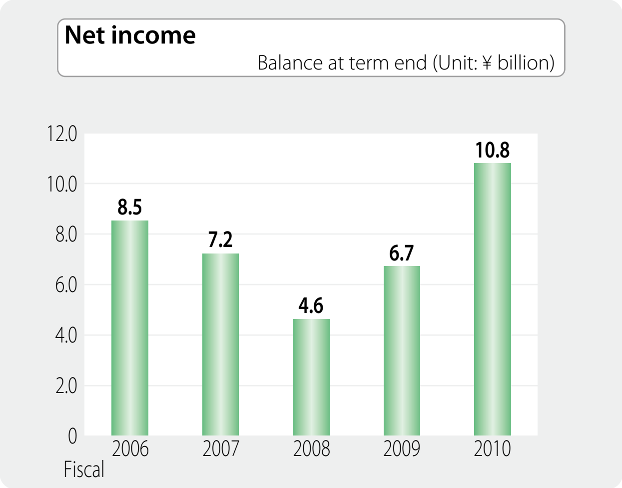
Net business profit

Despite a decline in gross business profit, net business profit increased ¥0.9 billion, to ¥21.3 billion year on year due to expense reductions and decreased provision of reserve for possible loan losses (recorded to extraordinary profit due to excess reversal).

Net income

Net income for the term increased ¥4.1 billion, to ¥10.8 billion, due to the reversal of reserve for possible loan losses.





Excellent Financial Indicators

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

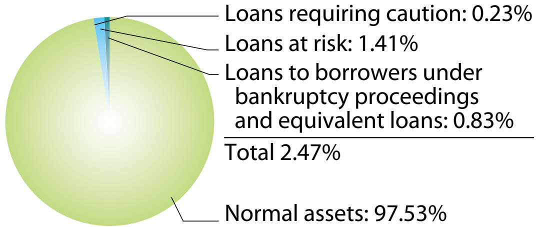
Disclosure of Claims under the Financial Reconstruction Law (non-consolidated)

As of March 31, 2011 (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	5.4	3.6	1.8	100.0%
Loans at risk	32.9	21.0	9.6	93.4%
Loans requiring caution	19.4	10.6	4.3	77.1%
Subtotal	57.7	35.2	15.8	88.5%
Normal loans	2,283.7			
Total	2,341.5			

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

Higo Bank carries a total of ¥57.7 billion in non-performing loans for which disclosure is mandatory under the Financial Reconstruction Law, accounting for 2.47% of its total loans and claims — a low level for a Japanese regional bank. Of these non-performing loans, 88.5% 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 ¥59.7 billion in non-performing loans, accounting for 2.53% 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.

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.

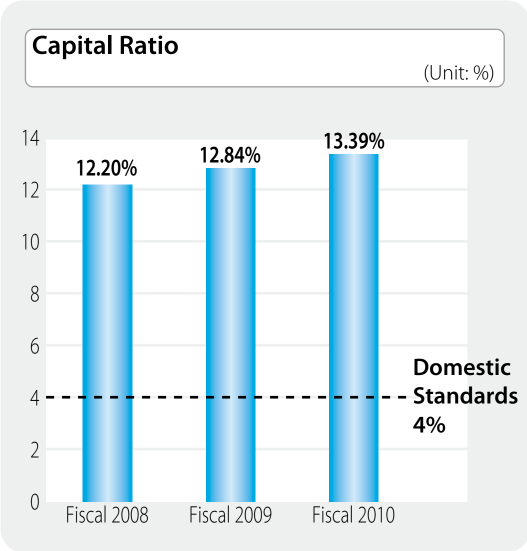
As of March 31, 2011, Higo Bank's capital ratio was 13.39% based on domestic standards. This is one of the highest ratios of any regional bank in Japan, and is far above the 4% standard for capital adequacy under the Prompt Corrective Action measures.

Using only Tier I capital, which includes common stock and certain other elements of equity, the capital ratio stands at 12.43%.

* 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. 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 Japan** **A1**
- **Standard & Poor's Ratings Japan** .... **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

Aaa	Aa1	Aa2	Aa3	Higo Bank A1	A2	A3	Baa1	Baa2	Baa3	Ba1	Ba2	Ba3	B1	B2	—	C

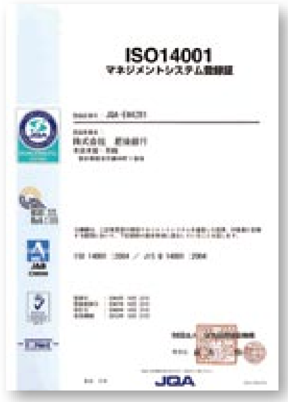
S&P Credit Rating

AAA	AA+	AA	AA–	A+	Higo Bank A	A–	BBB+	BBB	BBB–	BB+	BB	BB–	B+	—	C

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 CO_2 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*

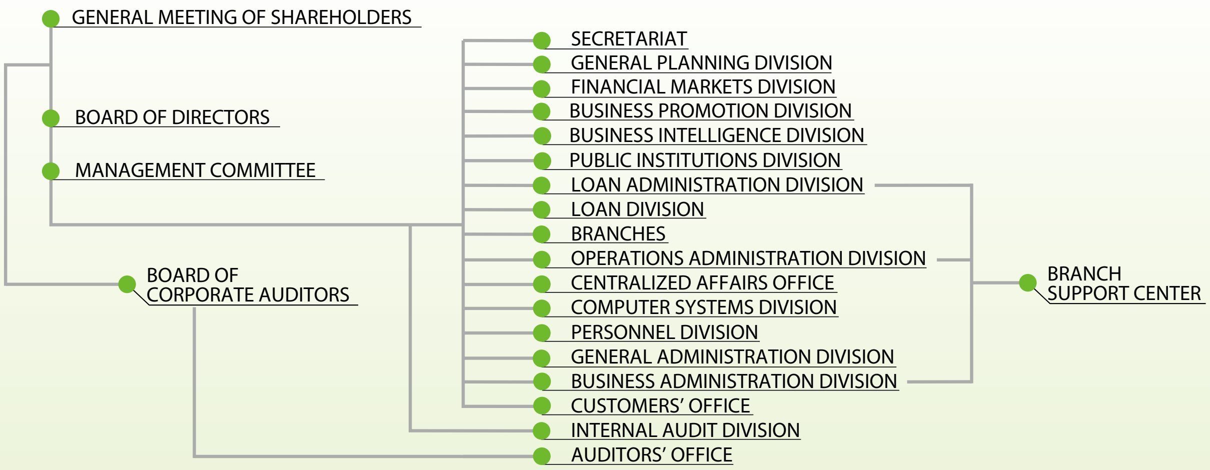
Corporate Data

Established: July 25, 1925
Total Assets: ¥3,929.5 billion
Deposits: ¥3,507.6 billion
Loans and Bills Discounted: ¥2,326.5 billion
Capital Stock: ¥18.1 billion

Capital Ratio: 13.39% (domestic standards)
Number of Employees: 2,277
Number of Offices: 123
(Head Office and 116 domestic branches, 6 sub-branches and 1 overseas representative office)

(As of March 31, 2011)

Organization



Board of Directors and Corporate Auditors (As of June 25, 2011)

Chairman	Hiroo Oguri		
President and Representative Director	Takahiro Kai		
Executive Vice President and Representative Director	Hiroo Nagata		
Senior Executive Managing Officer and Director	Masaaki Eguchi		
Executive Managing Officer and Directors	Katsuhiko Oda	Shiichiro Shimoyama	Toyonori Ueno
Executive Officer and Directors	Yusuke Okazaki Yoshihiro Iwamoto	Shoji Kojima Tsuyoshi Mogami	
Standing Corporate Auditors	Katsutoshi Yoshizu	Junichi Nishimoto	
Outside Corporate Auditors	Akira Kawakami	Toshitaka Manabe	Yoshihiro Kataoka
Executive Managing Officer	Hiroshi Sakai		
Executive Officers	Yasuaki Yamamoto Hiroshi Takii	Yoshikazu Miyata Yasuo Kobayashi	Toshiro Kunitake Kazunori Tomita

Principal Shareholders (As of March 31, 2011)

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	8,221	3.45
Takara Kogyo Co., Ltd.	7,683	3.23
Japan Trustee & Services Bank, Ltd. (trust account)	6,171	2.59
The Bank of Fukuoka, Ltd.	5,864	2.46
The Dai-ichi Mutual Life Insurance Company	5,371	2.25
The Master Trust Bank of Japan, Ltd. (Trust account)	4,654	1.95
Sompo Japan Insurance Inc.	3,854	1.62
The Eighteenth Bank, Limited	3,433	1.44
Total	**66,927**	**28.14**

Service Network

Head Office

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

Operations Administration Division

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
Muromachi Higashi Mitsui Bldg 17F,
2-1, Nihombashi Muromachi 2-chome
Chuo-ku, Tokyo 103-0022
Phone: (03) 3277-1589

Osaka Branch
NM Plaza Midosuji 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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
ASSETS:			
Cash and due from banks (Notes 4 and 16)	¥ 236,120	¥ 204,008	$ 2,839,688
Call loans and bills bought (Note 16)	28,866	57,216	347,157
Monetary claims purchased	1,076	1,337	12,951
Trading assets (Note 17)	1,304	1,190	15,684
Money held in trust (Note 6)	4,292	4,343	51,622
Securities (Notes 5, 9 and 16)	1,272,250	1,194,692	15,300,667
Loans and bills discounted (Notes 7, 10 and 16)	2,325,979	2,260,131	27,973,300
Foreign exchange assets	5,668	2,939	68,177
Other assets	16,553	17,632	199,083
Fixed assets (Notes 8 and 15)	42,353	42,671	509,366
Intangible assets (Notes 8 and 15)	6,171	5,819	74,216
Deferred tax assets (Note 14)	2,442	4,824	29,370
Customers' liabilities for acceptances and guarantees	12,135	14,744	145,950
Reserve for possible loan losses (Note 16)	(23,326)	(25,388)	(280,530)
Total assets	¥3,931,889	¥3,786,162	$47,286,707
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits (Notes 9 and 16)	¥3,641,753	¥3,490,313	$43,797,401
Call money and bills sold		10,234	
Borrowing under securities lending transactions (Note 9)	5,814	8,761	69,927
Trading liabilities (Note 17)	231	91	2,782
Borrowed money (Note 9)	5,000		60,132
Other liabilities	19,486	22,772	234,349
Reserve for employees' retirement benefits (Note 11)	8,141	8,204	97,918
Reserve for directors' and corporate auditors' retirement benefits	610	525	7,345
Reserve for contingent losses	369	495	4,449
Reserve for repayments for dormant deposits	528	567	6,359
Deferred tax liabilities related to land revaluation	7,125	7,231	85,699
Acceptances and guarantees	12,135	14,744	145,950
Total liabilities	3,701,199	3,563,943	44,512,317
Equity (Note 12)**:**			
Common stock			
authorized, 482,858,000 shares; issued, 237,785,291 shares in 2011 and 2010	18,128	18,128	218,026
Capital surplus	8,133	8,133	97,817
Retained earnings (Note 19)	181,918	173,172	2,187,830
Treasury stock at cost, 3,156,533 shares in 2011 and 1,460,842 shares in 2010	(1,552)	(907)	(18,675)
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities (Note 5)	17,243	16,315	207,372
Deferred gains (losses) on derivatives under hedge accounting	(539)	(36)	(6,489)
Excess of land revaluation	5,460	5,599	65,665
Total accumulated other comprehensive income	22,163	21,878	266,548
Minority interests in consolidated subsidiaries	1,899	1,814	22,843
Total equity	230,690	222,219	2,774,390
Total liabilities and equity	¥3,931,889	¥3,786,162	$47,286,707

See notes to consolidated financial statements.

Consolidated Statements of Income

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Income:			
Interest on loans and discounts	¥40,952	¥42,875	$492,509
Interest and dividends on securities	16,724	15,177	201,135
Other interest income	487	1,103	5,865
Fees and commissions income	10,647	10,745	128,057
Trading income	74	110	896
Other operating income	3,956	3,284	47,588
Other income	2,712	2,989	32,625
Total income	75,556	76,286	908,679
Expenses:			
Interest on deposits	3,113	5,923	37,450
Interest expenses	2,021	1,908	24,314
Fees and commissions expenses	3,477	3,470	41,826
Other operating expenses	3,795	1,003	45,642
General and administrative expenses	40,038	40,364	481,517
Provision of reserve for possible loan losses		3,061	
Losses on impairment of long-lived assets	232	38	2,797
Other expenses (Note 13)	6,275	9,685	75,468
Total expenses	58,954	65,457	709,016
Income before income taxes and minority interests	16,601	10,828	199,662
Income taxes (Note 14)**:**			
Current	3,909	4,275	47,020
Deferred	1,709	(297)	20,554
Net income before minority interests	10,982		132,086
Minority interests in net income	87	133	1,049
Net income	¥10,895	¥ 6,716	$131,036

	Yen		U.S. dollars
Per share of common stock (Note 2 (o))**:**			
Basic net income	¥46.01	¥28.41	$0.55
Cash dividends applicable to the year	8.00	7.50	0.09

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Net income before minority interests	¥10,982	$132,086
Other comprehensive income (Note 18)**:**		
Unrealized gains (losses) on available-for-sale securities	926	11,137
Deferred gains (losses) on derivatives under hedge accounting	(503)	(6,051)
Share of other comprehensive income in affiliates	(0)	(11)
Total other comprehensive income	421	5,074
Comprehensive income (Note 18)	¥11,404	$137,160
Total comprehensive income attributable to (Note 18)**:**		
Owners of the parent	¥11,319	$136,136
Minority interests	85	1,024

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended March 31, 2011 and 2010

	Thousands	Millions of yen			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 2009	236,380	¥18,128	¥8,133	¥168,033	¥ (877)
Net income				6,716	
Cash dividends, ¥7.00 per share				(1,654)	
Purchase of treasury stock	(59)				(31)
Sale of treasury stock	2			(0)	1
Reversal of excess of land revaluation				76	
Net change in the year					
Balance at March 31, 2010	236,324	18,128	8,133	173,172	(907)
Net income				10,895	
Cash dividends, ¥8.00 per share				(1,890)	
Purchase of treasury stock	(3,048)				(1,483)
Sale of treasury stock	1,352			(398)	838
Change in equity in affiliates accounted for by equity method —treasury stock					(0)
Reversal of excess of land revaluation				139	
Net change in the year					
Balance at March 31, 2011	234,628	¥18,128	¥8,133	¥181,918	¥(1,552)

	Millions of yen					
	Accumulated other comprehensive income					
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total equity
Balance at April 1, 2009	¥ (4,567)	¥(157)	¥5,675	¥ 950	¥1,678	¥196,047
Net income						6,716
Cash dividends, ¥7.00 per share						(1,654)
Purchase of treasury stock						(31)
Sale of treasury stock						1
Reversal of excess of land revaluation						76
Net change in the year	20,883	121	(76)	20,928	135	21,063
Balance at March 31, 2010	16,315	(36)	5,599	21,878	1,814	222,219
Net income						10,895
Cash dividends, ¥8.00 per share						(1,890)
Purchase of treasury stock						(1,483)
Sale of treasury stock						439
Change in equity in affiliates accounted for by equity method —treasury stock						(0)
Reversal of excess of land revaluation						139
Net change in the year	927	(503)	(139)	284	85	370
Balance at March 31, 2011	¥17,243	¥(539)	¥5,460	¥22,163	¥1,899	¥230,690

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Years ended March 31, 2011 and 2010

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2010	$218,026	$97,817	$2,082,645	$(10,918)
Net income			131,036	
Cash dividends, $0.09 per share			(22,736)	
Purchase of treasury stock				(17,836)
Sale of treasury stock			(4,788)	10,079
Change in equity in affiliates accounted for by equity method —treasury stock				(0)
Reversal of excess of land revaluation			1,672	
Net change in the year				
Balance at March 31, 2011	$218,026	$97,817	$2,187,830	$(18,675)

	Thousands of U.S. dollars (Note 1)					
	Accumulated other comprehensive income					
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total equity
Balance at March 31, 2010	$196,222	$ (437)	$67,338	$263,122	$21,819	$2,672,513
Net income						131,036
Cash dividends, $0.09 per share						(22,736)
Purchase of treasury stock						(17,836)
Sale of treasury stock						5,290
Change in equity in affiliates accounted for by equity method —treasury stock						(0)
Reversal of excess of land revaluation						1,672
Net change in the year	11,150	(6,051)	(1,672)	3,425	1,024	4,450
Balance at March 31, 2011	$207,372	$(6,489)	$65,665	$266,548	$22,843	$2,774,390

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Operating activities:			
Income before income taxes and minority interests	¥ 16,601	¥ 10,828	$ 199,662
Adjustments for:			
Income taxes paid	(4,399)	(3,549)	(52,914)
Depreciation and amortization	2,982	2,740	35,865
Losses on impairment of long-lived assets	232	38	2,797
(Decrease) increase in reserve for possible loan losses	(2,062)	79	(24,804)
Decrease in reserve for employees' retirement benefits	(62)	(167)	(753)
Increase in reserve for directors' and corporate auditors' retirement benefits	84	36	1,021
Decrease in reserve for contingent losses	(125)	(194)	(1,507)
(Decrease) increase in reserve for repayments for dormant deposits	(38)	130	(466)
Interest and dividend income	(58,164)	(59,156)	(699,511)
Interest expenses	5,135	7,832	61,764
Losses on securities	5,147	3,839	61,907
Losses on money held in trust	42	19	511
Net decrease (increase) in trading assets	44	(165)	537
Net (increase) decrease in loans and bills discounted	(66,259)	4,838	(796,866)
Net increase in deposits	151,440	125,611	1,821,288
Net increase in borrowed money (excluding subordinated borrowings)	5,000		60,132
Net decrease (increase) in due from banks (excluding deposits paid to the Bank of Japan)	88,156	(50,943)	1,060,204
Net decrease in call loans and others	28,611	29,577	344,099
Net decrease in call money and others	(10,234)	(21,730)	(123,083)
Net (decrease) increase in borrowing under securities lending transactions	(2,947)	8,761	(35,447)
Interest income (cash basis)	58,463	59,479	703,103
Interest expense (cash basis)	(6,292)	(8,223)	(75,673)
Other	(394)	4,742	(4,738)
Total adjustments	194,360	103,597	2,337,466
Net cash provided by operating activities	210,962	114,426	2,537,128
Investing activities:			
Payments for purchases of securities	(552,363)	(428,105)	(6,642,981)
Proceeds from sales of securities	368,242	135,345	4,428,656
Proceeds from redemption of securities	99,470	186,333	1,196,275
Proceeds from decrease in money held in trust	3	4	36
Payments for purchases of fixed assets	(1,104)	(1,145)	(13,285)
Proceeds from sales of fixed assets	222	129	2,676
Payments for purchases of intangible assets	(2,227)	(2,670)	(26,783)
Proceeds from sales of intangible assets		0	
Net cash used in investing activities	(87,756)	(110,108)	(1,055,405)
Financing activities:			
Cash dividends paid	(1,885)	(1,650)	(22,679)
Payment for purchase of treasury stock	(1,483)	(31)	(17,836)
Proceeds from sales of treasury stock	439	1	5,290
Net cash used in financing activities	(2,929)	(1,680)	(35,225)
Foreign currency translation adjustments on cash and cash equivalents	(8)	(3)	(100)
Net increase in cash and cash equivalents	120,267	2,634	1,446,396
Cash and cash equivalents at beginning of year	67,671	65,036	813,846
Cash and cash equivalents at end of year (Note 4)	¥187,939	¥ 67,671	$2,260,243

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years ended March 31, 2011 and 2010

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 (the "Banking Law"), 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.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 18. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

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 2010 financial statements to conform to the classifications used in 2011.

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 ¥83.15 to $1, the approximate rate of exchange at March 31, 2011. 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 six and seven significant subsidiaries as of March 31, 2011 and 2010, respectively. The fiscal periods of all consolidated subsidiaries end on March 31.

HIGIN JCB Card Ltd., a former consolidated subsidiary, merged with Higin World Card CO., Ltd., another consolidated subsidiary, to form THE HIGIN CARD.CO., LTD. on October 1, 2010.

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 affiliated 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 obtain 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/liabilities and Trading income/expenses) 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 ¥11,209 million ($134,804 thousand) and ¥9,908 million as of March 31, 2011 and 2010, 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 ¥3,365 million ($40,473 thousand) and ¥5,054 million for the years ended March 31, 2011 and 2010, 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.

k. Reserve for directors' and corporate auditors' retirement benefits

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

l. Reserve for contingent losses

Under the joint responsibility system with governmental credit guarantee organizations, reserve for contingent losses 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 for dormant deposits is provided for possible losses on future withdrawal of inactive deposits which had been recognized as income.

n. Leases

In March 2007, the Accounting Standards Board of Japan (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 was 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. 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 236,806 thousand shares and 236,360 thousand shares for the years ended March 31, 2011 and 2010, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2011 and 2010 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.

p. 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.

q. 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.

r. New accounting pronouncements

Accounting Changes and Error Corrections

In December 2009, the 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, the 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

Asset Retirement Obligations

In March, 2008, the ASBJ published the 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." The Group applied this accounting standard effective April 1, 2010. The effect of this change was to decrease income before income taxes and minority interests by ¥139 million ($1,677 thousand).

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 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and due from banks	¥236,120	¥204,008	$2,839,688
Foreign currency due from banks	(47,472)	(135,390)	(570,925)
Other due from banks	(708)	(946)	(8,519)
Cash and cash equivalents	¥187,939	¥ 67,671	$2,260,243

5. Securities

The costs and aggregate fair values of securities at March 31, 2011 and 2010 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.

	Millions of yen		
March 31, 2011	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	¥ 1,022		
Available-for-sale:			
Equity securities	45,100	¥ 35,641	¥ 9,458
Debt securities	1,147,186	1,129,416	17,770
Other	70,841	69,684	1,157
Held-to-maturity:			
Debt securities	8,529	7,679	850

	Millions of yen		
March 31, 2010	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

	Thousands of U.S. Dollars		
March 31, 2011	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	$ 12,301		
Available-for-sale:			
Equity securities	542,400	$ 428,646	$113,753
Debt securities	13,796,590	13,582,874	213,716
Other	851,970	838,054	13,916
Held-to-maturity:			
Debt securities	102,583	92,353	10,230

The information of available-for-sale securities which were sold for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen		
March 31, 2011	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 12,423	¥ 320	¥(3,994)
Debt securities	333,952	2,466	(2,407)
Other	20,313	260	(1,475)
Total	¥366,689	¥3,047	¥(7,877)

	Millions of yen		
March 31, 2010	Proceeds	Realized gains	Realized losses
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)

	Thousands of U.S. Dollars		
March 31, 2011	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 149,408	$ 3,852	$(48,042)
Debt securities	4,016,263	29,667	(28,956)
Other	244,303	3,127	(17,740)
Total	$4,409,976	$36,648	$(94,739)

The impairment losses on available-for-sale equity securities for the years ended March 31, 2011 and 2010 were ¥314 million ($3,778 thousand) and ¥568 million, respectively.

Net unrealized gains (losses) on available-for-sale securities for the years ended March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Valuation differences:			
Available-for-sale securities	¥28,386	¥26,551	$341,385
Deferred tax liabilities	(11,150)	(10,241)	(134,101)
Minority interests		(1)	
Unrealized gains (losses) on available-for-sale securities of affiliates attributable to the parent company	7	8	87
Net unrealized gains (losses) on available-for-sale securities	¥17,243	¥16,315	$207,372

6. Money Held in Trust

The carrying amounts and unrealized gains (losses) of money held in trust, as of March 31, 2011 and 2010, were as follows:

Money held in trust held for trading

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Carrying amounts	¥4,292	¥4,343	$51,622
Unrealized gains (losses) credited to income	(1)	2	(23)

7. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2011 and 2010 included the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Bankruptcy loans	¥ 1,388	¥ 2,507	$ 16,693
Past due loans	36,043	35,714	433,469
Loans past due for three months or more	567	1,386	6,821
Restructured loans	18,859	8,444	226,816
Total	¥56,857	¥48,051	$683,800

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 ¥15,332 million ($184,392 thousand) and ¥16,001 million as of March 31, 2011 and 2010, respectively. The Bank is entitled, without limitation, to sell or pledge these discounted bills.

8. Fixed Assets and Intangible Assets

Fixed assets as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Buildings	¥ 8,752	¥ 8,573	$103,094
Land	29,099	29,467	349,960
Lease assets	453	466	5,457
Construction in progress	8	108	100
Other	4,220	4,055	50,754
Total	¥42,353	¥42,671	$509,366

Accumulated depreciation at March 31, 2011 and 2010 amounted to ¥36,474 million ($438,660 thousand) and ¥36,279 million, respectively.

As of March 31, 2011 and 2010, deferred gains for tax purposes of ¥2,804 million ($33,729 thousand) and ¥2,801 million, respectively.

Intangible assets as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Software	¥5,975	¥5,628	$71,864
Lease assets	22	25	267
Other	173	165	2,083
Total	¥6,171	¥5,819	$74,216

9. Assets Pledged

Assets pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Securities	¥39,122	¥34,971	$470,505

Liabilities related to the above assets pledged were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deposits	¥21,231	¥36,134	$255,337
Borrowing under securities lending transactions	5,814	8,761	69,927
Borrowed money	5,000		60,132

In addition, securities totaling ¥123,264 million ($1,482,435 thousand) was pledged as collateral for settlement of exchange as of March 31, 2011. Securities totaling ¥118,920 million was pledged as collateral for settlement of exchange, short-term funding, derivatives or as variation margin as of March 31, 2010.

10. Commitment Line Agreements Related to Overdrafts and Loans

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

Unused commitment lines under such agreements were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Original maturity is within one year or the Bank can cancel at any time without any penalty	¥611,882	¥607,346	$7,358,781
Other	12,072	11,442	145,183
Total	¥623,954	¥618,789	$7,503,965

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.

11. 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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligations	¥(37,788)	¥(38,006)	$(454,460)
Plan assets	27,017	26,300	324,924
	(10,770)	(11,706)	(129,535)
Unrecognized actuarial differences	7,832	8,815	94,194
Unrecognized prior service cost	(2,695)	(3,481)	(32,422)
	(5,634)	(6,371)	(67,763)
Prepaid pension cost	2,507	1,832	30,154
Reserve for employees' retirement benefits	¥ (8,141)	¥ (8,204)	$ (97,918)

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, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥1,066	¥1,108	$12,830
Interest cost	681	659	8,192
Expected return on plan assets	(657)	(619)	(7,907)
Amortization of prior service cost	(785)	(785)	(9,449)
Amortization of actuarial differences	1,966	2,191	23,646
Other	34	28	415
Net pension expenses	¥2,305	¥2,581	$27,728

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:

	2011	2010
Discount rate	1.7%	1.8%
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

12. 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 and the Banking Law 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.

13. Other Expenses

Other expenses included losses on sales stocks and other securities in the amount of ¥5,584 million for the year ended March 31, 2010.

14. 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, 2011 and 2010.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Reserve for possible loan losses	¥ 9,024	¥10,323	$108,533
Reserve for employees' retirement benefits	3,288	3,313	39,550
Depreciation	1,262	1,336	15,180
Loss on impairment of securities	1,409	2,458	16,956
Other	2,401	1,983	28,878
Subtotal	17,386	19,414	209,099
Valuation allowance	(2,521)	(3,414)	(30,323)
Deferred tax assets	14,865	16,000	178,776
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(11,150)	(10,241)	(134,101)
Deferred income on fixed assets sold	(211)	(194)	(2,537)
Prepaid pension cost	(1,012)	(740)	(12,182)
Other	(48)		(584)
Deferred tax liabilities	(12,423)	(11,176)	(149,406)
Net deferred tax assets	¥ 2,442	¥ 4,824	$ 29,369

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, 2011 and 2010 was as follows:

	2011	2010
Normal effective statutory tax rate	40.4%	40.4%
Expenses not deductible for income tax purposes	0.3	0.7
Income not taxable for income tax purposes	(1.4)	(2.4)
Valuation allowance	(5.5)	(2.7)
Inhabitant taxes per capita	0.4	0.3
Other-net	(0.4)	0.4
Actual effective tax rate	33.8%	36.7%

15. Leases

The Group leases certain equipment and other assets.

Total lease payments under finance leases for the years ended March 31, 2011 and 2010 were ¥569 million ($6,849 thousand) and ¥740 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
	2011	2010	2011
Acquisition cost	¥2,412	¥3,106	$29,009
Accumulated depreciation	(1,876)	(2,067)	(22,565)
Net leased property	¥ 535	¥1,039	$ 6,443
Obligations under finance leases:			
Due within one year	¥ 393	¥ 526	$ 4,732
Due after one year	194	587	2,333
Total	¥ 587	¥1,114	$ 7,066
Depreciation expense	¥ 503	¥ 657	$ 6,055
Interest expense	40	69	492

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 minimum rental commitments under non-cancellable operating leases at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥ 99		$1,196
Due after one year	140		1,695
Total	¥240		$2,891

16. Financial Instruments and Related Disclosures

In March 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 was applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the guidance 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, 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, 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 those 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 and their fair value is exposed to risk of fluctuation in market interest rate.
The second largest proportion of financial assets held by the Group is securities, which include JGBs, stocks, foreign bonds and investment trusts. Securities held by the Group 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 Group 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 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 the 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.

a) 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.

Audits are carried out by our accounting auditors to confirm that our standards for in-house credit assessment are appropriate, and that such standards are rigorously applied.

b) Market risk

The Bank determines risk acceptance and risk hedge policies in the comprehensive risk control committee and ALM committee based on interest rate forecasts and profit targets through Value at Risk (VaR) method due to ensure stable profitability.

In the banking account and trading account, financial instruments influenced by interest rate risks are deposits, loans and bills discounted, bonds and derivatives related to interest rate and financial instruments influenced by price volatility risks are stocks, mutual funds related to stocks and derivatives related to stocks.

The Bank calculates VaR based on the historical simulation method (a holding period of from 10 days to 6 months, a confidence interval of 99% and observation period of 5 years). As of March 31, 2011, VaR related to interest rate risks was ¥19,596 million ($235,678 thousand) and VaR related to price volatility risks was ¥17,741 million ($213,362 thousand).

The Bank performed back testing to validate VaR periodically. However, VaR measures the amount of market risk by certain occurrence probabilities which are statistically calculated based on past market movements. Therefore, there are cases in which VaR cannot capture risk under sudden and dramatic changes in market beyond normal circumstances. The Bank does not do quantitative analysis to a part of financial instruments which are small in value and financial instruments held by the consolidated subsidiaries and affiliated companies.

c) 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.

(e) Fair value of financial instruments

Fair value and carrying amounts of financial instruments as of March 31, 2011 and 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 included in the table below (see Note 16(e) (Note 2)).

	Millions of yen		
	2011		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 236,120	¥ 236,120	
(2) Call loans and bills bought			
(3) Securities:			
Held-to-maturity debt securities	7,679	8,529	¥ 850
Available-for-sale securities	1,262,942	1,262,942	
(4) Loans and bills discounted	2,325,979		
Reserve for possible loan losses (*1)	(21,034)		
	2,304,945	2,333,899	28,954
Total assets	3,811,687	3,841,492	29,805
Deposits	3,641,753	3,645,139	3,385
Total liabilities	3,641,753	3,645,139	3,385
Derivatives (*2)			
For which hedge accounting is not applied	(433)	(433)	
For which hedge accounting is applied	(1,460)	(1,460)	
Total	¥ (1,893)	¥ (1,893)	

	Thousands of U.S. dollars		
	2011		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	$ 2,839,688	$ 2,839,688	
(2) Call loans and bills bought			
(3) Securities:			
Held-to-maturity debt securities	92,353	102,583	$ 10,230
Available-for-sale securities	15,188,728	15,188,728	
(4) Loans and bills discounted	27,973,300		
Reserve for possible loan losses (*1)	(252,974)		
	27,720,326	28,068,549	348,222
Total assets	45,841,096	46,199,549	358,452
Deposits	43,797,401	43,838,119	40,717
Total liabilities	43,797,401	43,838,119	40,717
Derivatives (*2)			
For which hedge accounting is not applied	(5,212)	(5,212)	
For which hedge accounting is applied	(17,560)	(17,560)	
Total	$ (22,773)	$ (22,773)	

*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.

	Millions of yen		
	2010		
	Carrying amount	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
Deposits	3,490,313	3,495,578	5,264
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)	

*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

(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 lent 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

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 17.

(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, 2011 and 2010.

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unlisted stocks (*1, *2)	¥1,622	¥1,607	$19,517
Other (*1)	5	6	66
Total	¥1,628	¥1,613	$19,584

*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 ¥3 million ($37 thousand) and ¥42 million for the years ended March 31, 2011 and 2010, respectively.

(Note 3) Maturity analysis for claims and securities with contractual maturities as of March 31, 2011

	Millions of yen					
	2011					
	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	¥195,614					
Securities						
Held-to-maturity debt securities	496	¥ 837	¥ 5,618	¥ 398	¥ 330	
Municipal government bonds	117	235				
Corporate bonds	379	602	5,618	398	330	
Available-for-sale securities with maturity	77,988	276,259	155,849	153,872	527,561	¥ 17,380
Government bonds	12,318	114,609	52,023	82,052	413,507	
Municipal government bonds	35,906	39,720	56,448	35,354	65,507	16,897
Corporate bonds	18,223	105,808	40,999	36,465	20,847	482
Loans and bills discounted (*1)	373,420	414,522	335,104	214,709	229,679	431,161
Total	¥647,518	¥691,619	¥496,572	¥368,979	¥757,570	¥448,541

	Thousands of U.S. dollars					
	2011					
	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	$2,352,548					
Securities						
Held-to-maturity debt securities	5,967	$ 10,066	$ 67,564	$ 4,786	$ 3,968	
Municipal government bonds	1,409	2,826				
Corporate bonds	4,558	7,239	67,564	4,786	3,968	
Available-for-sale securities with maturity	937,919	3,322,420	1,874,315	1,850,540	6,344,692	$ 209,026
Government bonds	148,148	1,378,350	625,661	986,797	4,973,033	
Municipal government bonds	431,832	477,698	678,878	425,191	787,821	203,218
Corporate bonds	219,167	1,272,507	493,076	438,550	250,727	5,807
Loans and bills discounted (*1)	4,490,924	4,985,241	4,030,125	2,582,190	2,762,233	5,185,339
Total	$7,787,360	$8,317,727	$5,972,005	$4,437,517	$9,110,894	$5,394,366

*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 ¥37,431 million ($450,163 thousand), is not included in the above table. Loans that do not have contractual maturity, amounting to ¥289,950 million ($3,487,083 thousand), are not included either.

(Note 4) Maturity analysis for interest bearing liabilities as of March 31, 2011

	Millions of yen					
	2011					
	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)	¥3,464,631	¥158,425	¥15,369	¥1,504	¥1,822	

	Thousands of U.S. dollars					
	2011					
	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)	$41,667,244	$1,905,300	$184,842	$18,096	$21,917	

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

17. 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.

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.

(d) Fair value of derivative financial instruments

Derivative transactions to which hedge accounting were not applied as of March 31, 2011 and 2010

i) Interest rate related transactions

	Millions of yen			
	2011			
	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	¥(63)	¥(63)

	Thousands of U.S. dollars			
	2011			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Interest rate swaps:				
Receive floating and pay fixed	$35,033	$35,033	$(766)	$(766)

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.

	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)

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			
	2011			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	¥23,909	¥23,909	¥ 49	¥ 49
Foreign exchange forward contracts:				
Selling	18,165	678	(432)	(432)
Buying	2,958	670	12	12

	Thousands of U.S. dollars			
	2011			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	$287,547	$287,547	$ 600	$ 600
Foreign exchange forward contracts:				
Selling	218,463	8,155	(5,199)	(5,199)
Buying	35,578	8,064	153	153

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.

	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

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.

Derivative transactions to which hedge accounting were applied as of March 31, 2011 and 2010

i) Interest rate related transactions

	Millions of yen			
	2011			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted Available-for-sale securities (Debt securities)	¥124,106	¥114,955	¥ (893)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	77,172	76,041	(2,576)

	Thousands of U.S. dollars			
	2011			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted Available-for-sale securities (Debt securities)	$1,492,564	$1,382,502	$(10,749)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	928,106	914,509	(30,988)

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.

	Millions of yen			
	2010			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted Available-for-sale securities (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)

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.

ii) Foreign exchange related transactions

	Millions of yen			
	2011			
	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	¥39,005		¥(566)

	Thousands of U.S. dollars			
	2011			
	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	$469,096		$(6,811)

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.

	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)

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.

18. Comprehensive Income

Other comprehensive income for the year ended March 31, 2010 consists of the following:

	Millions of yen
	2010
Other comprehensive income:	
Unrealized gains (losses) on available-for-sale securities	¥20,879
Deferred gains (losses) on derivatives under hedge accounting	121
Share of other comprehensive income in associates	6
Total other comprehensive income	¥21,006

Total comprehensive income for the year ended March 31, 2010 comprises the following:

	Millions of yen
	2010
Total comprehensive income attributable to:	
Owners of the parent	¥27,721
Minority interests	135
Total comprehensive income	¥27,857

19. Appropriation of Retained Earnings

The annual shareholders' meeting, which was held on June 24, 2011, approved the following appropriations of retained earnings for the year ended March 31, 2011:

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Cash dividends (¥4.00 per share)	¥938	$11,287

20. Segment Information

Segment information

As the Group is engaged in only banking segment, segment information is not provided.

Related information

(a) Segment information by services

Year ended March 31, 2011

	Millions of yen			
	2011			
	Lending	Securities investment	Others	Total
Ordinary income from external customers	¥40,952	¥19,877	¥13,813	¥74,642

	Thousands of U.S. dollars			
	2011			
	Lending	Securities investment	Others	Total
Ordinary income from external customers	$492,509	$239,051	$166,128	$897,690

Note: Instead of the net sales of a non-financial company, ordinary income is presented.

(b) Segment information by geographic areas

Segment information by geographic areas is not disclosed since over 90% of the total consolidated ordinary income and tangible fixed assets of the Group resides in Japan.

(c) Segment information by major customers

Segment information by major customers is not disclosed since ordinary income by any customer has been fewer than 10% of total ordinary income.

Deloitte.

Deloitte Touche Tohmatsu LLC
Kumamoto Dai-ichiseimei Building
11-18 Shinshigai
Kumamoto-shi, Kumamoto 860-0803
Japan

Tel:+81 (96) 311 2185
Fax:+81 (96) 311 2187
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of The Higo Bank, Ltd. (the "Bank") and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of 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, 2011 and 2010, 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 24, 2011

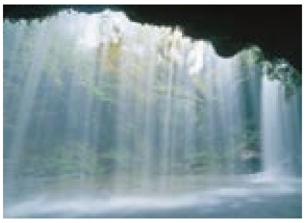
Member of
Deloitte Touche Tohmatsu Limited

■ Explanation of front cover

Nabegataki Falls
(Oguni-machi, Aso-gun, Kumamoto Prefecture)

Within Kumamoto Prefecture are nearly 150 waterfalls, each with their own distinctive character. The Nabegataki Falls flow into the Horai River, a tributary of the Tsuetate River located in Oguni-machi, Aso-gun, Kumamoto Prefecture. Behind the waterfall is the view from a hollowed cavern from which you can gaze through the waterfall to the outside. The water, which flows down from a height of nine meters and stretches 20 meters across, looks just like a sparkling white lace curtain fitting in perfect harmony with the greenery of the trees that surround it, and creates a breathtaking view.

Minami Oguni-machi, which is famous for Oguni-machi with its Nabegataki Falls, and Kurokawa Hot Springs, has 13 waterfalls both large and small, and is noted for its scenic beauty, which includes a giant gingko tree that is over 1,000 years old. The town attracts tourists and visitors who want to escape the summer heat.



The Higo Bank, Ltd.

1, Renpeicho, Kumamoto 860-8615, Japan
Phone: (096)325-2111
http://www.higobank.co.jp/