ANNUAL REPORT 2013

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 120 islands of widely varying sizes, the prefecture is home to thriving agricultural, forestry, and fisheries industries. In particular, the prefecture's agricultural industry boasts a level of output that is among the highest in Japan.

Kumamoto Prefecture has become an attractive location for numerous highly competitive, cutting-edge industries from throughout the world. Notably, Kumamoto Prefecture boasts leading production and research facilities in the field of semiconductors. The support Kumamoto is lending to these important industries is expected to contribute greatly to the area's development in the near future.

In March 2011, the Kyushu Shinkansen Line went into full operation. In addition, Kumamoto City became an ordinance-designated city in April 2012, giving it greater authority and access to financial resources. Against this backdrop, redevelopment projects are currently being implemented in the area surrounding Kumamoto Station and the center of Kumamoto City in order to enhance the city's functions. In addition, Kumamoto Prefecture's rapid transit network, including expressways and high-grade trunk highways, is being progressively upgraded.

Kumamoto Prefecture is also home to many new industries. In an effort to develop these industries, the Bank supports entrepreneurs and local companies in new fields through the Kumamoto Prefecture Business Promotion Support Center, which was established in 1996 in cooperation with the Kumamoto prefectural government and other organizations.

The Bank's consolidated subsidiary, Higin Capital Co., Ltd., cooperates with this and other organizations to enable the Higo Bank Group to provide comprehensive support that matches the growth stages of local companies.

In addition to our main work of banking operations, we lend our support to such organizations as The District Economics Research Institute of Kumamoto Area, which conducts surveys of and makes comprehensive proposals for revitalizing the regional economy.

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 centered on groundwater through its support of the public interest incorporated foundation, Foundation for the Preservation of Green and Water Resources in the Province of Higo. Looking ahead, the Bank will make every possible effort to participate in a wide range of social contribution activities.

Contents

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

Message from the President

In fiscal 2012, ended March 31, 2012, the Japanese economy began to move gradually toward recovery due to the demand related to reconstruction after the Great East Japan Earthquake, and other factors, but remained weak due to the continued slowdown of overseas economies. However, with the change in government expectations rose that the government's policy stance of carrying out agile and flexible economic and fiscal management targeting the correction of the yen appreciation and quick recovery from deflation would be successful, and along with these expectations signs that the economy had bottomed out appeared.

Meanwhile, as Kumamoto became an ordinance-designated city in April last year, the pace of improvement to the prefecture's economy continued to be sluggish due to the damage caused by the heavy rains in northern Kyushu, the prolonged decline in orders from overseas, particularly in the IT-related industries, and other factors. Nonetheless, just as in the case of the overall Japanese economy, production activities in the prefectural manufacturing industries were also bottoming out due to increases in public investment and other factors.

Amid these circumstances, from April 2012 the Bank launched the second phase of its Fifth Medium-term Management Plan under the theme of "Co-creating value with customers — Providing optimal financial services."

The Bank will put a qualitatively improved "customer first" principle into practice by providing optimal financial services that accurately ascertain the needs of each and every customer and fully utilize the power of the Higo Bank Group.

All executives and employees are working to become 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 2013

Takahiro Kai, *President*

Management Policy

Fifth Medium-term Management Plan

In the continuing harsh environment that surrounds financial institutions, 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, from April 2012, the Bank launched the second phase of its Fifth Medium-term Management Plan under the theme of "Co-creating value with customers — Providing optimal financial services." "We will raise customer value and the Group's corporate value by getting customers to utilize the Group's diverse financial capabilities and services.

Second Phase Theme

Co-creating value with customers — Providing optimal financial services

The Bank will put an improved "customer first" principle into practice by providing optimal financial services based on customer needs and through the customer and Bank's co-creation of value.

Plan Period

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

In light of 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).

Management Policy

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

Basic Strategy

1. Expand profit opportunities to stabilize periodic profits and losses
2. Strengthen operation and risk management capabilities to raise management quality
3. Strengthen the Group's organizational operation capacity and human resources capability

Financial Targets (Fiscal 2014)

1. Core targets

Gross business profit	Operating income	Non-Consolidated net income	Consolidated net income	ROA (net income basis)	Tier I ratio	OHR	Consolidated/ Non-Consolidated ratio
¥59.5 billion	¥20.6 billion	¥11.0 billion	¥11.7 billion	0.26%	13.0%	65.3%	1.06 times

2. Sub-targets

Increase in total funds under management	Ratio of non-performing loans
+¥300.0 billion	2.37%

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

Results (Non-Consolidated)

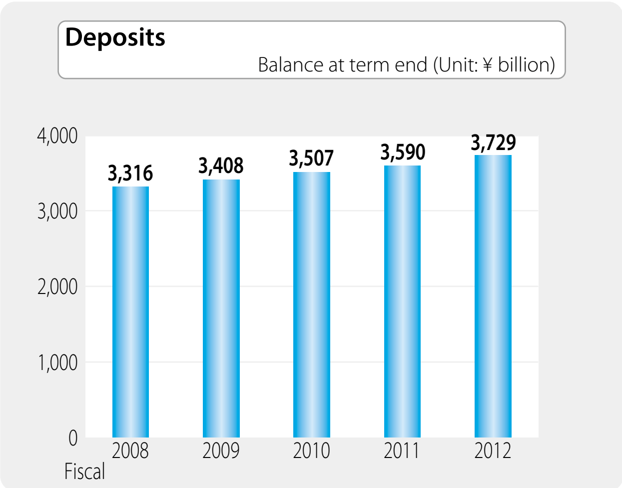
Deposits and Loans

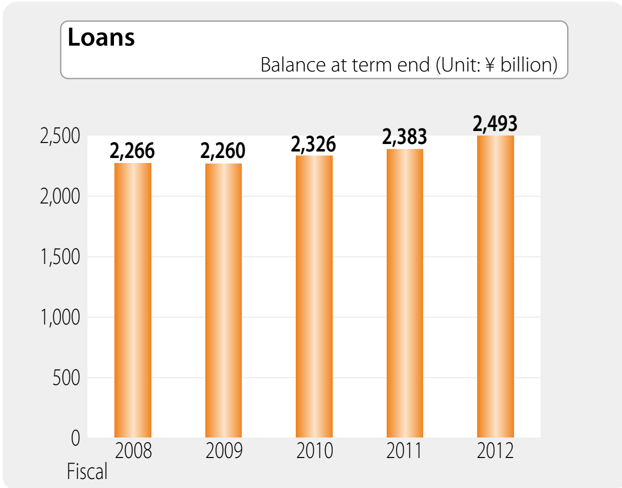
Deposits

Total deposits increased ¥138 billion, or 3.9%, to ¥3,729 billion. The term-end balance of negotiable certificates of deposit stood at ¥218 billion. As a result, the term-end balance of deposits, including negotiable certificates of deposit, stood at ¥3,947 billion, up ¥163 billion, or 4.3%.

Loans

The term-end balance of loans and bills discounted increased ¥109.8 billion, or 4.6%, to ¥2,493 billion.





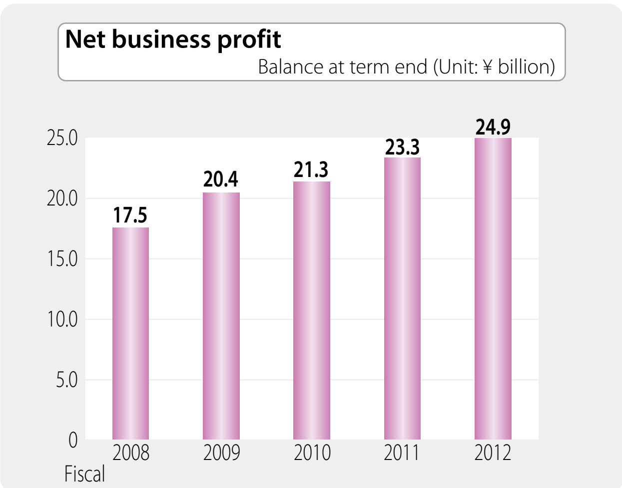
Earnings

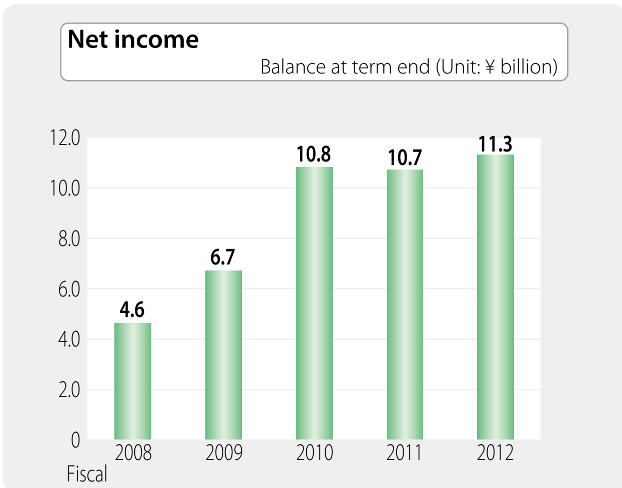
Net business profit

Although gross business profit declined, we implemented cost-cutting measures and the general reserve for possible loan losses went into excess reversal, so as a result net business profit increased ¥1.6 billion yen on year, to ¥24.9 billion.

Net income

Net income increased ¥500 million, to ¥11.3 billion due to a decline in tax expenses, and other factors.





Excellent Financial Indicators

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

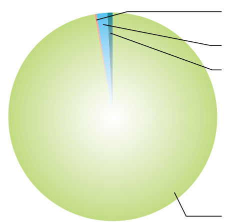
Disclosure of Claims under the Financial Reconstruction Law (non-consolidated)

As of March 31, 2013 (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	4.9	3.0	1.9	100.00%
Loans at risk	44.5	30.9	10.5	93.18%
Loans requiring caution	14.6	7.9	2.9	74.48%
Subtotal	64.1	41.9	15.4	89.45%
Normal loans	2,444.9			
Total	2,509.1			

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 ¥64.1 billion in non-performing loans for which disclosure is mandatory under the Financial Reconstruction Law, accounting for 2.56% of its total loans and claims — a low level for a Japanese regional bank. Of these non-performing loans, 89.45% 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 ¥66.2 billion in nonperforming loans, accounting for 2.61% 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.

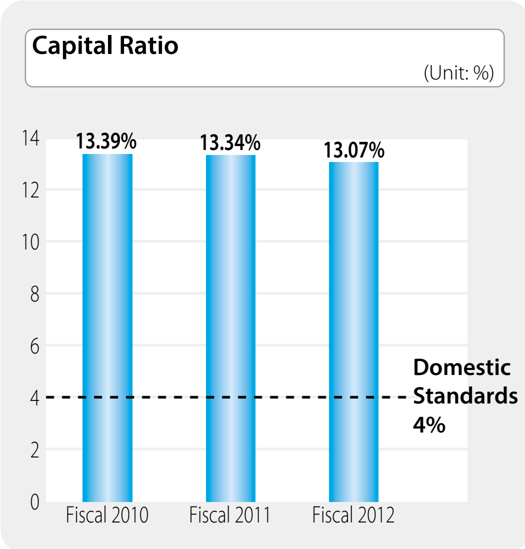
As of March 31, 2013, Higo Bank's capital ratio was 13.07% based on domestic standards. This is one of the highest ratios of any regional bank in Japan, and is far above the 4% standard for capital adequacy under the Prompt Corrective Action measures.

Using only Tier I capital, which includes common stock and certain other elements of equity, the capital ratio stands at 12.40%.

* 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, 2013)

- **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. The Bank is also tackling environmental measures through bank operations, including reducing our consumption of electricity, water and office paper, and selling products that support environmental measures.

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*

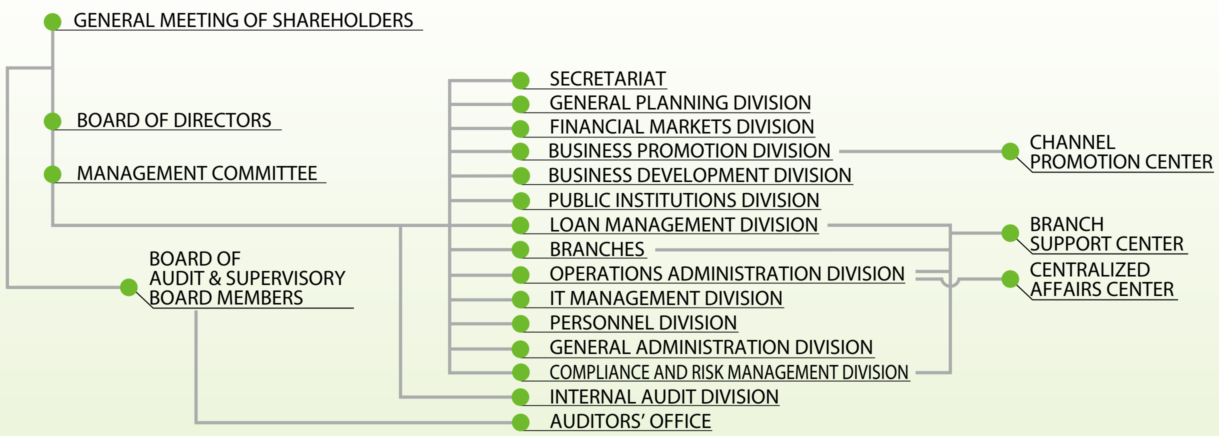
Corporate Data

Established: July 25, 1925
Total Assets: ¥4,304.8 billion
Deposits: ¥3,729.8 billion
Loans and Bills Discounted: ¥2,493.0 billion
Capital Stock: ¥18.1 billion

Capital Ratio: 13.07% (domestic standards)
Number of Employees: 2,267
Number of Offices: 123
(Head Office and 116 domestic branches, 5 sub-branches and 1 overseas representative office)

(As of June 30, 2013)

Organization



Board of Directors and Audit & Supervisory Board Members (As of June 25, 2013)

President and Representative Director	Takahiro Kai		
Senior Executive Managing Officers and Representative Directors	Shiichiro Shimoyama	Toyonori Ueno	
Executive Managing Officers and Directors	Yusuke Okazaki Tsuyoshi Mogami	Shoji Kojima	Yoshihiro Iwamoto
Executive Officers and Directors	Kazunori Tomita	Naokuni Motoda	Tsutomu Tajima
Outside director	Masaki Masudo		
Permanent Audit & Supervisory Board Member	Masaaki Eguchi		
Standing Audit & Supervisory Board Member	Junichi Nishimoto		
Outside Audit & Supervisory Board Members	Terunobu Maeda	Toshio Manabe	Yoshihiro Kataoka
Senior Executive Officers	Toshiro Kunitake	Yasuo Kobayashi	
Executive Officers	Satoshi Tsuchiyama Tooru Hayashida	Masaaki Kimura	Hitoshi Yamaki

Principal Shareholders (As of March 31, 2013)

Name	Number of shares (thousand)	Equity stake (%)
Meiji Yasuda Life Insurance Co.	11,621	5.01
Mizuho Corporate Bank, Ltd.	10,053	4.33
Higo Bank Employees' Shareholding Association	8,205	3.54
Takara Kogyo Co., Ltd.	7,683	3.31
The Bank of Fukuoka, Ltd.	5,864	2.53
The Dai-ichi Mutual Life Insurance Company	5,371	2.31
Japan Trustee & Services Bank, Ltd. (Trust account)	4,985	2.15
Sompo Japan Insurance Inc.	3,854	1.66
The Master Trust Bank of Japan, Ltd. (Trust account)	3,688	1.59
The Eighteenth Bank, Limited	3,433	1.48
Total	**64,759**	**27.94**

Service Network

Head Office

13-5, Koyamachi 1-chome, Chuo-ku,
Kumamoto 860-8615
Phone: (096) 325-2111

Operations Administration Division

13-5, Koyamachi 1-chome, Chuo-ku,
Kumamoto 860-8615
Phone: (096) 326-8646
Facsimile: (096) 326-8027

Foreign Exchange Offices

Corporate Banking Division
Nihon Seimei Kumamoto Bldg 1/2F,
5-1 Karashimacho Chuo-ku,
Kumamoto 860-0804
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,
Chuo-ku, 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 Sheet

March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
ASSETS:			
Cash and due from banks (Notes 3 and 17)	¥ 173,516	¥ 186,006	$ 1,844,938
Call loans and bills bought	7,819	107,650	83,136
Monetary claims purchased	1,097	866	11,671
Trading assets (Notes 4, 17 and 18)	1,325	1,447	14,093
Money held in trust (Note 5)	4,969	4,979	52,841
Securities (Notes 4, 8 and 17)	1,556,765	1,358,735	16,552,530
Loans and bills discounted (Notes 6, 9 and 17)	2,477,055	2,383,112	26,337,643
Foreign exchange assets	5,480	3,189	58,272
Lease receivables and investment assets (Note 8)	20,897		222,194
Other assets	30,168	17,229	320,770
Fixed assets (Note 7)	46,417	43,053	493,544
Intangible assets (Note 7)	6,369	6,161	67,723
Deferred tax assets (Note 15)	532	373	5,658
Customers' liabilities for acceptances and guarantees	11,481	10,932	122,074
Reserve for possible loan losses (Note 17)	(20,359)	(20,547)	(216,479)
Total assets	¥4,323,536	¥4,103,190	$45,970,614
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits (Notes 8 and 17)	¥3,944,920	¥3,781,002	$41,944,930
Borrowing under securities lending transactions (Note 8)	29,126	20,409	309,692
Trading liabilities (Note 18)	210	149	2,242
Borrowed money (Note 8)	11,106		118,093
Other liabilities	26,098	23,008	277,496
Reserve for employees' retirement benefits (Note 10)	8,305	8,237	88,306
Reserve for contingent losses	497	471	5,290
Reserve for repayments for dormant deposits	713	567	7,581
Reserve for loss of head office rebuilding	281	173	2,992
Deferred tax liabilities (Note 15)	10,631	2,404	113,037
Deferred tax liabilities related to land revaluation	5,508	5,935	58,567
Acceptances and guarantees	11,481	10,932	122,074
Total liabilities	4,048,881	3,853,292	43,050,305
Equity (Note 11)**:**			
Common stock			
authorized, 482,858,000 shares; issued, 231,755,291 shares in 2013 and 232,755,291 shares in 2012	18,128	18,128	192,757
Capital surplus	8,133	8,133	86,481
Retained earnings (Note 20)	199,981	188,829	2,126,334
Treasury stock at cost, 204,365 shares in 2013 and 190,634 shares in 2012	(111)	(90)	(1,180)
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities (Note 4)	44,153	29,348	469,464
Deferred gains (losses) on derivatives under hedge accounting	(4,426)	(2,373)	(47,068)
Excess of land revaluation	5,743	5,832	61,071
Total accumulated other comprehensive income	45,470	32,808	483,466
Minority interests in consolidated subsidiaries	3,051	2,087	32,450
Total equity	274,655	249,898	2,920,309
Total liabilities and equity	¥4,323,536	¥4,103,190	$45,970,614

See notes to consolidated financial statements.

Consolidated Statement of Income

Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Income:			
Interest on loans and discounts	¥37,872	¥39,512	$402,680
Interest and dividends on securities	16,712	16,744	177,694
Other interest income	302	371	3,215
Fees and commissions income	11,033	10,799	117,315
Trading income	47	70	501
Other operating income	16,738	3,721	177,977
Gain on negative goodwill (Note 21)	1,885		20,047
Other income (Note 12)	3,490	3,742	37,114
Total income	88,082	74,962	936,546
Expenses:			
Interest on deposits	1,668	2,018	17,740
Other interest expenses	2,483	2,082	26,404
Fees and commissions expenses	3,547	3,511	37,722
Trading expenses	6		67
Other operating expenses	11,941	848	126,972
General and administrative expenses	40,051	39,931	425,854
Losses on impairment of long-lived assets	513	345	5,460
Other expenses (Note 13)	6,145	5,774	65,344
Total expenses	66,358	54,512	705,568
Income before income taxes and minority interests	21,723	20,449	230,978
Income taxes (Note 15)**:**			
Current	6,547	8,738	69,620
Deferred	1,171	708	12,454
Net income before minority interests	14,004	11,002	148,902
Minority interests in net income	294	188	3,129
Net income	¥13,710	¥10,814	$145,773

	Yen		U.S. dollars
Per share of common stock (Note 2 (p))**:**			
Basic net income	¥58.96	¥46.12	$0.62
Cash dividends applicable to the year	9.00	9.00	0.09

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net income before minority interests	¥14,004	¥11,002	$148,902
Other comprehensive income (Note 19)**:**			
Unrealized gains (losses) on available-for-sale securities	14,828	12,103	157,661
Deferred gains (losses) on derivatives under hedge accounting	(2,053)	(1,833)	(21,836)
Excess of land revaluation		898	
Share of other comprehensive income in associates	(9)	2	(105)
Total other comprehensive income	12,764	11,171	135,718
Comprehensive income	¥26,768	¥22,173	$284,621
Total comprehensive income attributable to:			
Owners of the parent	¥26,460	¥21,985	$281,344
Minority interests	308	188	3,277

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended March 31, 2013

	Thousands	Millions of yen			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 2011	234,628	¥18,128	¥8,133	¥181,918	¥(1,552)
Net income				10,814	
Cash dividends, ¥8.50 per share				(1,994)	
Purchase of treasury stock	(2,065)				(971)
Disposal of treasury stock	0			(0)	0
Cancellation of treasury stock				(2,434)	2,434
Reversal of excess of land revaluation				525	
Net change in the year					
Balance at March 31, 2012	232,564	18,128	8,133	188,829	(90)
Net income				13,710	
Cash dividends, ¥9.00 per share				(2,097)	
Purchase of treasury stock	(1,020)				(567)
Disposal of treasury stock	86			(6)	39
Cancellation of treasury stock				(543)	543
Increase due to increase in consolidated subsidiaries — treasury stock	(85)				(39)
Decrease due to decrease in affiliates accounted for by equity method — treasury stock	5				2
Reversal of excess of land revaluation				88	
Net change in the year					
Balance at March 31, 2013	231,550	¥18,128	¥8,133	¥199,981	¥ (111)

	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, 2011	¥17,243	¥ (539)	¥5,460	¥22,163	¥1,899	¥230,690
Net income						10,814
Cash dividends, ¥8.50 per share						(1,994)
Purchase of treasury stock						(971)
Disposal of treasury stock						0
Cancellation of treasury stock						
Reversal of excess of land revaluation						525
Net change in the year	12,105	(1,833)	372	10,645	188	10,833
Balance at March 31, 2012	29,348	(2,373)	5,832	32,808	2,087	249,898
Net income						13,710
Cash dividends, ¥9.00 per share						(2,097)
Purchase of treasury stock						(567)
Disposal of treasury stock						33
Cancellation of treasury stock						
Increase due to increase in consolidated subsidiaries — treasury stock						(39)
Decrease due to decrease in affiliates accounted for by equity method — treasury stock						2
Reversal of excess of land revaluation						88
Net change in the year	14,804	(2,053)	(88)	12,661	964	13,625
Balance at March 31, 2013	¥44,153	¥(4,426)	¥5,743	¥45,470	¥3,051	¥274,655

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended March 31, 2013

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2012	$192,757	$86,481	$2,007,758	$ (957)
Net income			145,773	
Cash dividends, $0.09 per share			(22,297)	
Purchase of treasury stock				(6,034)
Disposal of treasury stock			(66)	421
Cancellation of treasury stock			(5,778)	5,778
Increase due to increase in consolidated subsidiaries — treasury stock				(416)
Decrease due to decrease in affiliates accounted for by equity method — treasury stock				26
Reversal of excess of land revaluation			945	
Net change in the year				
Balance at March 31, 2013	$192,757	$86,481	$2,126,334	$(1,180)

	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, 2012	$312,056	$(25,232)	$62,017	$348,842	$22,195	$2,657,077
Net income						145,773
Cash dividends, $0.09 per share						(22,297)
Purchase of treasury stock						(6,034)
Disposal of treasury stock						354
Cancellation of treasury stock						
Increase due to increase in consolidated subsidiaries — treasury stock						(416)
Decrease due to decrease in affiliates accounted for by equity method — treasury stock						26
Reversal of excess of land revaluation						945
Net change in the year	157,407	(21,836)	(945)	134,624	10,254	144,879
Balance at March 31, 2013	$469,464	$(47,068)	$61,071	$483,466	$32,450	$2,920,309

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Operating activities:			
Income before income taxes and minority interests	¥ 21,723	¥ 20,449	$ 230,978
Adjustments for:			
Income taxes paid	(11,614)	(3,761)	(123,489)
Depreciation and amortization	3,897	3,246	41,439
Losses on impairment of long-lived assets	513	345	5,460
Gain on negative goodwill	(1,885)		(20,047)
Decrease in reserve for possible loan losses	(1,052)	(2,778)	(11,194)
(Decrease) increase in reserve for employees' retirement benefits	(18)	95	(195)
Decrease in reserve for directors' and audit & supervisory board members' retirement benefits		(610)	
Increase in reserve for contingent losses	25	102	272
Increase in reserve for repayments for dormant deposits	145	38	1,550
Increase in reserve for loss of head office rebuilding	107	173	1,148
Interest and dividend income	(54,886)	(56,628)	(583,590)
Interest expenses	4,151	4,101	44,145
Gains on securities	(0)	(206)	(10)
Losses (gains) on money held in trust	20	(14)	219
Net decrease (increase) in trading assets	172	(272)	1,836
Net increase in loans and bills discounted	(108,194)	(59,046)	(1,150,391)
Net increase in deposits	165,901	139,248	1,763,972
Net decrease in borrowed money (excluding subordinated borrowings)	(1,579)	(5,000)	(16,789)
Net decrease (increase) in due from banks (excluding deposits paid to the Bank of Japan)	25,354	(7,603)	269,588
Net decrease (increase) in call loans and others	99,602	(78,573)	1,059,033
Net increase in borrowing under securities lending transactions	8,717	14,595	92,685
Decrease in lease receivables and investment assets	540		5,751
Interest received	57,032	56,975	606,408
Interest paid	(4,454)	(4,744)	(47,364)
Other	(16,711)	3,763	(177,691)
Total adjustments	165,786	3,445	1,762,751
Net cash provided by operating activities	187,510	23,895	1,993,729
Investing activities:			
Payments for purchases of securities	(560,469)	(482,167)	(5,959,267)
Proceeds from sales of securities	250,593	339,620	2,664,471
Proceeds from redemption of securities	147,887	68,291	1,572,434
Payments for increase in money held in trust	(20)	(707)	(212)
Proceeds from decrease in money held in trust	0	25	3
Payments for purchases of fixed assets	(6,739)	(2,553)	(71,663)
Proceeds from sales of fixed assets	1,480	830	15,743
Payments for purchases of intangible assets	(2,249)	(1,984)	(23,922)
Purchases of investments in subsidiaries resulting in change in scope of consolidation (Note 14)	(3,002)		(31,928)
Net cash used in investing activities	(172,519)	(78,645)	(1,834,342)
Financing activities:			
Cash dividends paid	(2,093)	(1,989)	(22,262)
Payment for purchase of treasury stock	(567)	(971)	(6,034)
Proceeds from disposal of treasury stock	41	0	444
Net cash used in financing activities	(2,619)	(2,960)	(27,851)
Foreign currency translation adjustments on cash and cash equivalents	(3)	(5)	(33)
Net increase (decrease) in cash and cash equivalents	12,367	(57,716)	131,501
Cash and cash equivalents at beginning of year	130,222	187,939	1,384,607
Cash and cash equivalents at end of year (Note 3)	¥142,590	¥130,222	$1,516,109

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements of The Higo Bank, Ltd. (the "Bank") and its 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 accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2012 financial statements to conform to the classifications used in 2013.

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 ¥94.05 to $1, the approximate rate of exchange at March 31, 2013. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements include the accounts of the Bank and its seven significant subsidiaries as of March 31, 2013, six in 2012. The fiscal periods of all consolidated subsidiaries end on March 31.

Higin lease Co., Ltd., which had been accounted by the equity method, became a consolidated company as a result of the additional acquisition of shares.

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.

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. Business combinations

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.

c. 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.

d. 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.

e. 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.

f. 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 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. In addition, investments in an unconsolidated subsidiary that is not accounted for by the equity method are stated at cost determined by the moving average method.

ii) Derivatives

Derivatives other than those designated as "Trading assets and Trading liabilities" (see (e) 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.

g. 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.

Effective April 1, 2012, the Group applied the depreciation method based on the revised Corporation Tax Act to premises and equipment acquired on or after April 1, 2012, in accordance with the amendment of the Corporation Tax Act. The effect of this application on the consolidated statement of income for the fiscal year ended March 31, 2013, was immaterial.

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 ¥11,661 million ($123,991 thousand) and ¥11,398 million as of March 31, 2013 and 2012, respectively.

h. 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.

i. 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 ¥2,462 million ($26,178 thousand) and ¥3,592 million for the years ended March 31, 2013 and 2012, respectively.

j. Bonuses to directors and audit & supervisory board members

Bonuses to directors and audit & supervisory board members are accrued at the year end to which such bonuses are attributable.

k. 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.

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. Reserve for loss of head office rebuilding

The Bank made a reserve to cover estimated losses arising from the rebuilding of the head office of the Bank.

o. Leases

Revenues and cost of revenues of finance lease transactions are recognized when lease payments are made.

p. Per share information

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during the year. The average number of common shares used in the computation was 232,528 thousand shares and 234,444 thousand shares for the years ended March 31, 2013 and 2012, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2013 and 2012, because there are no potential common shares.

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

q. Income taxes

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

r. Appropriations of retained earnings

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

s. 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.

t. New accounting pronouncements

Accounting Standard for Retirement Benefits — On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.

Major changes are as follows:
(a) Treatment in the balance sheet
Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income
The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases
The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Bank expects to apply the revised accounting standard for (a) and (b) above from the end of the annual period beginning on April 1, 2013, and for (c) above from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

3. 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
	2013	2012	2013
Cash and due from banks	¥173,516	¥186,006	$1,844,938
Time deposit due from banks	(10,010)		(106,432)
Foreign currency due from banks	(19,702)	(55,000)	(209,489)
Other due from banks	(1,213)	(784)	(12,906)
Cash and cash equivalents	¥142,590	¥130,222	$1,516,109

4. Securities

The costs and aggregate fair values of securities at March 31, 2013 and 2012, 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, 2013	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	¥ 1,086		
Available-for-sale:			
Equity securities	46,774	¥ 31,042	¥15,731
Debt securities	1,358,637	1,312,437	46,199
Other	141,018	135,374	5,644
Held-to-maturity:			
Debt securities	9,326	8,946	380

	Millions of yen		
March 31, 2012	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	¥ 1,257		
Available-for-sale:			
Equity securities	43,930	¥ 34,899	¥ 9,031
Debt securities	1,228,991	1,196,349	32,642
Other	76,414	73,195	3,219
Held-to-maturity:			
Debt securities	8,367	7,763	604

	Thousands of U.S. Dollars		
March 31, 2013	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	$ 11,550		
Available-for-sale:			
Equity securities	497,332	$ 330,067	$167,265
Debt securities	14,445,906	13,954,682	491,223
Other	1,499,399	1,439,384	60,015
Held-to-maturity:			
Debt securities	99,168	95,122	4,045

The information of available-for-sale securities which were sold for the years ended March 31, 2013 and 2012, was as follows:

	Millions of yen		
March 31, 2013	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 5,076	¥ 433	¥(2,100)
Debt securities	231,179	2,592	(32)
Other	13,313	91	(118)
Total	¥249,569	¥3,116	¥(2,251)

	Millions of yen		
March 31, 2012	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 4,491	¥ 255	¥(1,053)
Debt securities	320,131	2,073	(671)
Other	15,420	372	(130)
Total	¥340,043	¥2,700	¥(1,855)

	Thousands of U.S. Dollars		
March 31, 2013	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 53,976	$ 4,604	$(22,338)
Debt securities	2,458,046	27,566	(340)
Other	141,557	967	(1,261)
Total	$2,653,580	$33,138	$(23,940)

The impairment losses on available-for-sale equity securities for the years ended March 31, 2013 and 2012, were ¥854 million ($9,089 thousand) and ¥676 million, respectively.

Net unrealized gains (losses) on available-for-sale securities for the years ended March 31, 2013 and 2012, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Valuation differences:			
Available-for-sale securities	¥67,575	¥44,893	$718,504
Deferred tax liabilities	(23,408)	(15,554)	(248,892)
Minority interests	(13)		(147)
Unrealized gains (losses) on available-for-sale securities of affiliates attributable to the parent company		9	
Net unrealized gains (losses) on available-for-sale securities	¥44,153	¥29,348	$469,464

5. Money Held in Trust

The carrying amounts and unrealized gains (losses) of money held in trust, as of March 31, 2013 and 2012, were as follows:

Money held in trust held for trading

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Carrying amounts	¥4,969	¥4,979	$52,841
Unrealized gains (losses) credited to income	31	4	337

6. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2013 and 2012, included the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Bankruptcy loans	¥ 542	¥ 724	$ 5,765
Past due loans	48,705	45,323	517,871
Loans past due for three months or more	203	169	2,168
Restructured loans	14,420	20,308	153,324
Total	¥63,872	¥66,526	$679,129

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 ¥15,868 million ($168,724 thousand) and ¥17,207 million as of March 31, 2013 and 2012, respectively. The Bank is entitled, without limitation, to sell or pledge these discounted bills.

7. Fixed Assets and Intangible Assets

Fixed assets as of March 31, 2013 and 2012, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Buildings	¥ 9,201	¥ 8,314	$ 97,832
Land	27,693	29,281	294,453
Lease assets		1,569	
Construction in progress	3,626	518	38,563
Other	5,896	3,369	62,694
Total	¥46,417	¥43,053	$493,544

Accumulated depreciation at March 31, 2013 and 2012, amounted to ¥37,420 million ($397,874 thousand) and ¥36,927 million, respectively.
As of March 31, 2013 and 2012, deferred gains for tax purposes of ¥3,487 million ($37,081 thousand) and ¥3,487 million, respectively.

The Bank reviews their long-lived assets for impairment continuously. As of March 31, 2013 and 2012, the Bank recognized impairment losses of ¥513 million ($5,460 thousand) and ¥345 million for certain branches and idle fixed assets due to the carrying amount of the assets exceeds its recoverable amount and the carrying amount of the relevant assets was written down to the recoverable amount.
The Bank principally groups operating assets by branch office, which is the minimum unit for management accounting and idle fixed assets are individually assessed for impairment.

The recoverable amount of operating assets is measured at the valuation of the assets using the valuation techniques of a real estate appraiser less estimated costs to dispose.

Intangible assets as of March 31, 2013 and 2012, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Software	¥6,198	¥5,962	$65,903
Lease assets		27	
Other	171	171	1,820
Total	¥6,369	¥6,161	$67,723

8. Assets Pledged

Assets pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Securities	¥63,690	¥53,969	$677,202
Lease receivables and investment assets	5,030		53,482
Other	1,196		12,724

Liabilities related to the above assets pledged were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deposits	¥12,541	¥ 9,559	$133,350
Borrowing under securities lending transactions	29,126	20,409	309,692
Borrowed money	5,602		59,574

In addition, securities totaling ¥129,325 million ($1,375,072 thousand) and ¥126,180 million were pledged as collateral for settlement of exchange as of March 31, 2013 and 2012, respectively.

9. Commitment Line Agreements Related to Overdrafts and Loans

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

Unused commitment lines under such agreements were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Original maturity is within one year or the Bank can cancel at any time without any penalty	¥617,609	¥609,369	$6,566,816
Other	20,724	13,955	220,355
Total	¥638,333	¥623,325	$6,787,172

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.

10. Reserve for Employees' Retirement Benefits

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

The reserve for employees' retirement benefits as of March 31, 2013 and 2012, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligations	¥(39,465)	¥(38,474)	$(419,617)
Plan assets	30,896	28,436	328,512
	(8,568)	(10,037)	(91,105)
Unrecognized actuarial differences	5,729	7,038	60,916
Unrecognized prior service cost	(1,243)	(1,910)	(13,225)
	(4,083)	(4,909)	(43,414)
Prepaid pension cost	4,222	3,328	44,892
Reserve for employees' retirement benefits	¥ (8,305)	¥ (8,237)	$ (88,306)

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, 2013 and 2012, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥1,150	¥1,093	$12,230
Interest cost	536	639	5,699
Expected return on plan assets	(568)	(675)	(6,047)
Amortization of prior service cost	(666)	(785)	(7,084)
Amortization of actuarial differences	1,485	1,779	15,797
Other	0	0	6
Net pension expenses	¥1,937	¥2,051	$20,601

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:

	2013	2012
Discount rate	1.0%	1.4%
Expected rate of return on plan assets	2.0%	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Amortization period of prior service cost	10 years	10 years
Amortization period of unrecognized actuarial differences	10 years	10 years

11. Equity

Japanese banks are subject to the Companies Act of Japan (the "Companies Act") and the Banking Law. The significant provisions in the Companies Act 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 Audit & Supervisory Board, 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 aggregate amount of legal reserve and additional paid-in capital equals 100% of common stock. Under the Companies Act, the total amount of additional paid-in common and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

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

12. Other Income

Other income included gains on sales stocks and other securities in the amount of ¥497 million ($5,290 thousand) and ¥331 million for the years ended March 31, 2013 and 2012, respectively.

13. Other Expenses

Other expenses included losses on sales stocks and other securities in the amount of ¥2,105 million ($22,386 thousand) and ¥1,094 million for the year ended March 31, 2013 and 2012, and write-off costs of securities in the amount of ¥860 million ($9,145 thousand) and ¥685 million for the years ended March 31, 2013 and 2012, respectively.

14. Supplemental Cash Flow Information

During the year ended March 31, 2013, additional shares of Higin Lease Co., Ltd. were acquired. Assets and liabilities of the company at the time of consolidation, cash paid for the capital and cash paid in conjunction with the purchases of consolidated subsidiary were as follows:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Assets	¥37,790	$401,809
Liabilities	(31,827)	(338,406)
Gain on negative goodwill	(1,528)	(16,254)
Minority interests	(1,053)	(11,202)
Unrealized gains on available-for-sale securities	(2)	(21)
Stocks held until conjunction	(375)	(3,987)
Cash paid for the capital	3,003	31,937
Cash of Higin Lease Co., Ltd.	(0)	(8)
Cash paid in conjunction with the purchases of Higin Lease Co., Ltd.	¥ 3,002	$ 31,928

15. 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 37.7 and 40.4% for the years ended March 31, 2013 and 2012.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2013 and 2012, were as follows.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Reserve for possible loan losses	¥ 7,722	¥ 8,263	$ 82,110
Reserve for employees' retirement benefits	2,932	2,907	31,177
Depreciation	1,101	1,175	11,708
Loss on impairment of securities	1,530	1,276	16,276
Deferred gains (losses) on derivatives under hedge accounting	2,416	1,296	25,690
Other	2,295	2,220	24,405
Subtotal	17,998	17,140	191,368
Valuation allowance	(2,587)	(2,218)	(27,513)
Deferred tax assets	15,410	14,922	163,854
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(23,505)	(15,554)	(249,928)
Deferred income on fixed assets sold	(244)	(184)	(2,594)
Prepaid pension cost	(1,490)	(1,174)	(15,846)
Other	(269)	(39)	(2,864)
Deferred tax liabilities	(25,509)	(16,953)	(271,234)
Net deferred tax liabilities	¥(10,099)	¥ (2,031)	$(107,379)

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, 2013 and 2012, was as follows:

	2013	2012
Normal effective statutory tax rate	37.7%	40.4%
Expenses not deductible for income tax purposes	0.2	0.3
Income not taxable for income tax purposes	(0.8)	(1.1)
Valuation allowance	1.8	(0.1)
Inhabitant taxes per capita	0.2	0.4
Changes in effective statutory tax rate		6.0
Gain on negative goodwill	(3.3)	
Other-net	(0.3)	0.3
Actual effective tax rate	35.5%	46.2%

16. Leases

As lessee, the minimum rental commitments under noncancellable operating leases at March 31, 2013 and 2012, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year	¥41	¥ 99	$440
Due after one year		41	
Total	¥41	¥140	$440

As lessor, the minimum rental commitments under noncancellable operating leases at March 31, 2013 and 2012, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Due within one year	¥ 39		$ 425
Due after one year	142		1,514
Total	¥182		$1,939

17. Financial Instruments and Related Disclosures

(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 and foreign repurchase transactions 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 some of the subsidiaries acquire, hold and sell 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 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 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, 2013, VaR related to interest rate risks was ¥17,494 million ($186,010 thousand) and VaR related to price volatility risks was ¥21,882 million ($232,671 thousand) and as of March 31, 2012, VaR related to interest rate risks was ¥11,292 million and VaR related to price volatility risks was ¥19,035 million.

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 values of financial instruments

Fair values and carrying amounts of financial instruments as of March 31, 2013 and 2012, 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 values cannot be reliably determined, are not included in the table below (see Note 17 (e) (Note 2)).

	Millions of yen		
	2013		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 173,516	¥ 173,516	
(2) Securities:			
Held-to-maturity debt securities	8,946	9,326	¥ 380
Available-for-sale securities	1,546,430	1,546,430	
(3) Loans and bills discounted	2,477,055		
Reserve for possible loan losses (*1)	(18,686)		
	2,458,368	2,493,337	34,969
Total assets	4,187,261	4,222,611	35,349
Deposits	3,944,920	3,946,378	1,458
Total liabilities	3,944,920	3,946,378	1,458
Derivatives (*2)			
For which hedge accounting is not applied	(1,993)	(1,993)	
For which hedge accounting is applied	(6,714)	(6,714)	
Total	¥ (8,707)	¥ (8,707)	

	Millions of yen		
	2012		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 186,006	¥ 186,006	
(2) Securities:			
Held-to-maturity debt securities	7,763	8,367	¥ 604
Available-for-sale securities	1,349,337	1,349,337	
(3) Loans and bills discounted	2,383,112		
Reserve for possible loan losses (*1)	(19,093)		
	2,364,019	2,393,446	29,427
Total assets	3,907,126	3,937,157	30,031
Deposits	3,781,002	3,783,171	2,168
Total liabilities	3,781,002	3,783,171	2,168
Derivatives (*2)			
For which hedge accounting is not applied	(453)	(453)	
For which hedge accounting is applied	(3,628)	(3,628)	
Total	¥ (4,081)	¥ (4,081)	

	Thousands of U.S. dollars		
	2013		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	$ 1,844,938	$ 1,844,938	
(2) Securities:			
Held-to-maturity debt securities	95,122	99,168	$ 4,045
Available-for-sale securities	16,442,639	16,442,639	
(3) Loans and bills discounted	26,337,643		
Reserve for possible loan losses (*1)	(198,690)		
	26,138,953	26,510,767	371,814
Total assets	44,521,653	44,897,514	375,860
Deposits	41,944,930	41,960,435	15,505
Total liabilities	41,944,930	41,960,435	15,505
Derivatives (*2)			
For which hedge accounting is not applied	(21,190)	(21,190)	
For which hedge accounting is applied	(71,395)	(71,395)	
Total	$ (92,585)	$ (92,585)	

*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) 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 4.

(3) 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 18.

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

The following instruments are not included in "Assets (2) Securities" in the above table showing the fair value of financial instruments as of March 31, 2013 and 2012.

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unlisted stocks (*1, *2)	¥1,383	¥1,628	$14,709
Other (*1)	5	5	59
Total	¥1,389	¥1,634	$14,769

*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 ¥9 million ($97 thousand) and ¥8 million for the years ended March 31, 2013 and 2012, respectively.

(Note 3) Maturity analysis for claims and securities with contractual maturities as of March 31, 2013

	Millions of yen					
	2013					
	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	¥134,126					
Securities						
Held-to-maturity debt securities	473	¥ 6,182	¥ 1,852	¥ 284	¥ 154	
Municipal government bonds	117					
Corporate bonds	356	6,182	1,852	284	154	
Available-for-sale securities with maturity	120,283	167,464	389,125	514,131	265,530	¥ 33,394
Government bonds	41,696	52,284	223,462	401,750	217,447	9,848
Municipal government bonds	27,536	59,407	53,303	64,375	13,327	15,311
Corporate bonds	38,812	34,779	56,634	17,383	23,035	8,234
Loans and bills discounted (*1)	377,763	408,203	340,631	239,900	282,319	496,981
Total	¥632,647	¥581,849	¥731,609	¥754,316	¥548,004	¥530,376

	Thousands of U.S. dollars					
	2013					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	$1,426,114					
Securities						
Held-to-maturity debt securities	5,037	$ 65,730	$ 19,691	$ 3,024	$ 1,637	
Municipal government bonds	1,252					
Corporate bonds	3,785	65,730	19,691	3,024	1,637	
Available-for-sale securities with maturity	1,278,934	1,780,590	4,137,433	5,466,574	2,823,289	$ 355,075
Government bonds	443,347	555,917	2,375,999	4,271,673	2,312,040	104,718
Municipal government bonds	292,788	631,654	566,752	684,477	141,705	162,798
Corporate bonds	412,681	369,797	602,171	184,836	244,923	87,558
Loans and bills discounted (*1)	4,016,628	4,340,280	3,621,816	2,550,774	3,001,806	5,284,222
Total	$6,726,715	$6,186,601	$7,778,941	$8,020,374	$5,826,733	$5,639,298

*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 ¥49,248 million ($523,636 thousand), is not included in the above table. Loans that do not have contractual maturity, amounting to ¥282,006 million ($2,998,477 thousand), are not included either.

(Note 4) Maturity analysis for interest bearing liabilities as of March 31, 2013

	Millions of yen					
	2013					
	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)	¥3,775,661	¥147,106	¥19,333	¥1,313	¥1,505	

	Thousands of U.S. dollars					
	2013					
	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)	$40,145,252	$1,564,128	$205,570	$13,970	$16,008	

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

18. 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 established 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, 2013 and 2012

i) Interest rate related transactions

	Millions of yen			
	2013			
	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		¥(6)	¥(6)

	Millions of yen			
	2012			
	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	¥(30)	¥(30)

	Thousands of U.S. dollars			
	2013			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Interest rate swaps:				
Receive floating and pay fixed	$30,972		$(63)	$(63)

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			
	2013			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	¥18,690	¥18,690	¥ 28	¥ 28
Foreign exchange forward contracts:				
Selling	75,189	365	(2,082)	(2,082)
Buying	1,241	364	67	67

	Millions of yen			
	2012			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	¥23,909	¥23,909	¥ 41	¥ 41
Foreign exchange forward contracts:				
Selling	18,599		(461)	(461)
Buying	2,914		(1)	(1)

	Thousands of U.S. dollars			
	2013			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	$198,732	$198,732	$ 299	$ 299
Foreign exchange forward contracts:				
Selling	799,462	3,891	(22,144)	(22,144)
Buying	13,197	3,879	717	717

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, 2013 and 2012

i) Interest rate related transactions

	Millions of yen			
	2013			
	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)	¥181,059	¥178,841	¥(6,842)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	79,665	78,875	(2,692)

	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
	Millions of yen			
	2012			
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted Available-for-sale securities (Debt securities)	¥125,178	¥125,178	¥(3,669)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	68,789	68,289	(2,677)

	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
	Thousands of U.S. dollars			
	2013			
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted Available-for-sale securities (Debt securities)	$1,925,143	$1,901,558	$(72,756)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	847,058	838,653	$(28,632)

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

	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
	Millions of yen			
	2013			
Deferred method				
Foreign exchange forward contracts	Foreign currency call loans and due from banks	¥12,362		¥128

	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
	Millions of yen			
	2012			
Deferred method				
Foreign exchange forward contracts	Foreign currency call loans	¥17,392		¥40

	Thousands of U.S. dollars			
	2013			
	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	$131,447		$1,361

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.

19. Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2013 and 2012, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gains (losses) on available-for-sale securities:			
Gains arising during the year	¥22,602	¥17,498	$240,324
Reclassification adjustments to profit or loss	79	(991)	846
Amount before income tax effect	22,682	16,506	241,170
Income tax effect	(7,854)	(4,403)	(83,509)
Total	¥14,828	¥12,103	$157,661
Deferred gains (losses) on derivatives under hedge accounting:			
Gains arising during the year	¥ (4,633)	¥ (3,931)	$ (49,265)
Reclassification adjustments to profit or loss	1,460	1,166	15,525
Amount before income tax effect	(3,173)	(2,764)	(33,739)
Income tax effect	1,119	930	11,902
Total	¥ (2,053)	¥ (1,833)	$ (21,836)
Excess of land revaluation:			
Income tax effect		¥ 898	
Total		¥ 898	
Share of other comprehensive income in affiliates:			
Gains arising during the year	¥ (9)	¥ 2	$ (105)
Total	¥ (9)	¥ 2	$ (105)
Total other comprehensive income	¥12,764	¥11,171	$135,718

20. Appropriation of Retained Earnings

The annual shareholders' meeting, which was held on June 25, 2013, approved the following appropriations of retained earnings for the year ended March 31, 2013:

	Millions of yen	Thousands of U.S. dollars
	2013	2013
Cash dividends (¥4.50 per share)	¥1,041	$11,078

21. Business Combination

(a) Overview of integration

i) Name of acquired company and details of business
Acquired company: Higin Lease Co., Ltd.
Business acquired: Lease and lending

ii) Reasons for corporate integration
Higin Lease Co., Ltd., has built up its business of general leasing services as a member of the local community since its founding. Mindful of the increasingly diversified and sophisticated aspirations of our customers, the Bank has now elevated Higin Lease Co., Ltd. to the role of core subsidiary, charged with providing optimized financial services. The Bank believes that it is essential to leverage the leasing services of Higin Lease Co., Ltd. as it goes about developing itself into a comprehensive financial services provider.

iii) Date of integration
April 1, 2012

iv) Legal form of the integration
Stock acquisition by cash

v) Name after integration
Higin Lease Co., Ltd.

vi) Percentage of voting rights acquired
Voting rights owned before business combination: 10.0% (Including indirect voting rights: 5.0%)
Voting rights additionally acquired on the date of integration: 80.0% (Including indirect voting rights: 5.0%)
Voting rights after business combination: 90.0% (Including indirect voting rights: 10.0%)

vii) Basis for determination of the acquiring company
The Group acquired the majority of voting rights due to stock acquisition by cash

(b) Period of business results of the acquired company included in the financial statement for the year ended March 31, 2013
From April 1, 2012, to March 31, 2013

(c) Purchase price for acquired company and breakdown

	Millions of yen	Thousands of U.S. dollars
Fair value of common stock of Higin Lease Co., Ltd. owned before business combination	¥ 375	$ 3,987
Fair value of common stock of Higin Lease Co., Ltd. acquired on the date of integration	3,000	31,897
Expenses directly required for acquisition	3	39
Purchase price of the acquired company	¥3,378	$35,924

(d) Difference between purchase price of acquired company and the sum of all transactions in the acquisition process
Gains on step acquisition ¥60 million ($648 thousand)

(e) Amount of negative goodwill incurred, reasons for negative goodwill

i) Amount of negative goodwill incurred
¥1,885 million ($20,047 thousand)

ii) Reasons for negative goodwill
Fair values of the net assets exceeded the acquisition costs

(f) Amount and breakdown of assets and liabilities received due to integration

	Millions of yen	Thousands of U.S. dollars
Total assets	¥37,790	$401,809
Lease receivables and investment assets	23,233	247,029
Total liabilities	31,827	338,406
Borrowed money	27,845	296,070

(g) If this business combination had been completed as of April 1, 2012, the beginning of the current fiscal year, the condensed pro forma consolidated statement of income for the year ended March 31, 2013, would be as follows:
There is no impact on the consolidated statements of income for the year ended March 31, 2013, because the date of integration is April 1, 2012.

22. Segment Information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(a) Description of reportable segments
The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Bank's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the Banking and Leasing. Banking consists of deposit taking, lending, domestic and foreign exchange transactions and securities trading. Leasing consists of leasing and lending.

Effective April 1, 2012, the Group changed its operating segments from only Banking to Banking and Leasing because segment profit in Leasing exceeded 10% of the total segment profit as Higin Lease Co., Ltd. which had been an affiliate accounted for by equity method became a consolidated subsidiary.
Credit card operations which had been in Banking for the year ended March 31, 2012, were changed to Other for the year ended March 31, 2013.
The segment information for the year ended March 31, 2012, is also disclosed using the new operating segments.

(b) Methods of measurement for the amounts of ordinary income, profit (loss), assets, and other items for each reportable segment
The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(c) Information about ordinary income, profit (loss), assets, and other items is as follows.

	Millions of yen						
	2013						
	Reportable Segment						
	Banking	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:							
Ordinary income by external customers	¥ 71,661	¥12,899	¥ 84,561	¥1,429	¥ 85,990		¥ 85,990
Inter segment ordinary income	1,540	899	2,439	916	3,356	¥ (3,356)	
Total	¥ 73,202	¥13,799	¥ 87,001	¥2,346	¥ 89,347	¥ (3,356)	¥ 85,990
Segment profit	¥ 19,277	¥ 799	¥ 20,076	¥ 446	¥ 20,523	¥ (86)	¥ 20,436
Segment assets	4,305,309	38,918	4,344,228	7,191	4,351,419	(27,882)	4,323,536
Other:							
Depreciation	3,587	97	3,685	31	3,717	180	3,897
Interest income	54,810	39	54,850	188	55,038	(151)	54,886
Interest expenses	4,022	256	4,279	23	4,302	(151)	4,151
Gain on negative good will	1,885		1,885		1,885		1,885
Losses on impairment of long-lived assets	513		513		513		513
Increase in fixed assets and intangible assets	3,385	(12)	3,372	(13)	3,359	212	3,571

	Millions of yen						
	2012						
	Reportable Segment						
	Banking	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:							
Ordinary income by external customers	¥ 73,695		¥ 73,695	¥1,244	¥ 74,939		¥ 74,939
Inter segment ordinary income	1,359		1,359	908	2,267	¥(2,267)	
Total	¥ 75,054		¥ 75,054	¥2,152	¥ 77,207	¥(2,267)	¥ 74,939
Segment profit	¥ 21,348		¥ 21,348	¥ 389	¥ 21,737	¥ 5	¥ 21,743
Segment assets	4,100,415		4,100,415	7,761	4,108,176	(4,985)	4,103,190
Other:							
Depreciation	3,218		3,218	29	3,247	(1)	3,246
Interest income	56,426		56,426	215	56,642	(13)	56,628
Interest expenses	4,088		4,088	26	4,114	(13)	4,101
Losses on impairment of long-lived assets	345		345		345		345
Increase in fixed assets and intangible assets	687		687	2	690		690

	Thousands of U.S. dollars						
	2013						
	Reportable Segment						
	Banking	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:							
Ordinary income by external customers	$ 761,953	$137,158	$ 899,111	$15,196	$ 914,308		$ 914,308
Inter segment ordinary income	16,378	9,562	25,941	9,749	35,690	$ (35,690)	
Total	$ 778,331	$146,721	$ 925,052	$24,946	$ 949,998	$ (35,690)	$ 914,308
Segment profit	$ 204,967	$ 8,503	$ 213,471	$ 4,745	$ 213,216	$ (921)	$ 217,295
Segment assets	45,776,815	413,806	46,190,622	76,460	46,267,082	(296,467)	45,970,614
Other:							
Depreciation	38,147	1,040	39,187	335	39,523	1,916	41,439
Interest income	582,783	421	583,204	2,001	585,206	(1,616)	583,590
Interest expenses	42,774	2,725	45,499	251	45,751	(1,605)	44,145
Gain on negative good will	20,047		20,047		20,047		20,047
Losses on impairment of long-lived assets	5,460		5,460		5,460		5,460
Increase in fixed assets and intangible assets	35,993	(133)	35,859	(142)	35,716	2,262	37,979

Notes: 1. Ordinary income mean total income less certain special income included in other income in the accompanying consolidated statements of income.
2. "Other" consists of other banking related activities such as credit card operations.
3. Segment profit is reflected as an adjustment to ordinary profit on the consolidated statement of income.
4. Reconciliations include items below.
a. For the year ended March 31, 2013, the segment profit reconciliations ¥(86) million ($(921) thousand) include reconciliations in reserve for possible loan losses ¥25 million ($268 thousand) and eliminations of inter segment transactions ¥(111) ($(1,190) thousand).
b. For the year ended March 31, 2012, the segment profit adjustment of ¥5 million includes an equity method investment gain of ¥8 million and a reserve for possible loan losses adjustment of ¥(2) million.
c. For the year ended March 31, 2013, reconciliations of segment assets, interest income and interest expenses were eliminations of inter segment transactions. Reconciliations of depreciation and increase in fixed assets and intangible assets were reconciliations in lease investments assets.
d. For the year ended March 31, 2012, reconciliations of segment assets and other were elimination of inter segment transactions.

Related information

(a) Segment information by services

	Millions of yen				
	2013				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	¥37,872	¥20,661	¥12,811	¥14,646	¥85,990

	Millions of yen				
	2012				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	¥39,512	¥20,383		¥15,044	¥74,939

	Thousands of U.S. dollars				
	2013				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	$402,680	$219,684	$136,214	$155,728	$914,308

Note: Instead of the net sales of a nonfinancial 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, Chuo-ku
Kumamoto-shi, Kumamoto 860-0803
Japan

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of The Higo Bank, Ltd. and its consolidated subsidiaries as of March 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 25, 2013

Member of
Deloitte Touche Tohmatsu Limited

Higo Bank

The Higo Bank, Ltd.

13-5, Koyamachi 1-chome, Chuo-ku, Kumamoto 860-8615, Japan
Phone: (096)325-2111
http://www.higobank.co.jp/