ANNUAL REPORT 2014

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

Message from the President

This annual report was prepared to give the reader a deeper understanding of the Higo Bank. Herein are summarized the Bank's management policies, its most recent performance, the initiatives being taken to achieve its various strategies, and other related topics. I hope that after reading it you will come away with a better understanding of the Higo Bank.

In fiscal 2013, ended March 31, 2014, with a corporate earnings recovery buoyed by the government's economic and fiscal management to quickly overcome deflation and achieve economic recovery, along with monetary easing by the Bank of Japan, the Japanese economy continued on a moderate recovery track, showing signs of a moderate increase in production and a recovery in capital investment. Moreover, consumer spending stabilized after bottoming out and there was last-minute demand up to the end of the fiscal year prior to the consumption tax rate increase.

Meanwhile, Kumamoto Prefecture's economy continued to steadily recover on the back of a substantial increase in public-sector investment, consumer spending stabilizing after bottoming out, a modest recovery of production in the prefecture's manufacturing industries, and also last-minute demand before the consumption tax rate increase.

Amid these circumstances, in the second phase of our Fifth Medium-term Management Plan, we took steps to expand and fortify transactions with customers under the theme of "Co-creating value with customers – Providing optimal financial services."

In fiscal 2014, the second phase of the Fifth Medium-term Management Plan, we capped off the year with an enormous effort by all executives and employees to meet the expectations of our customers with the aim of becoming a banking group that will contribute to the entire region.

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

July 2014

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)

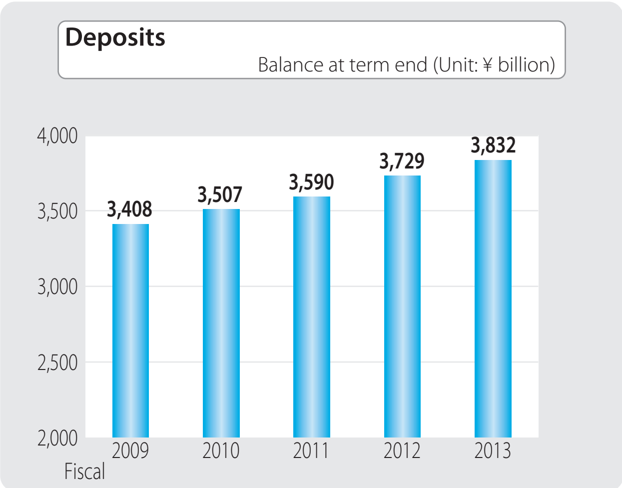
Deposits and Loans

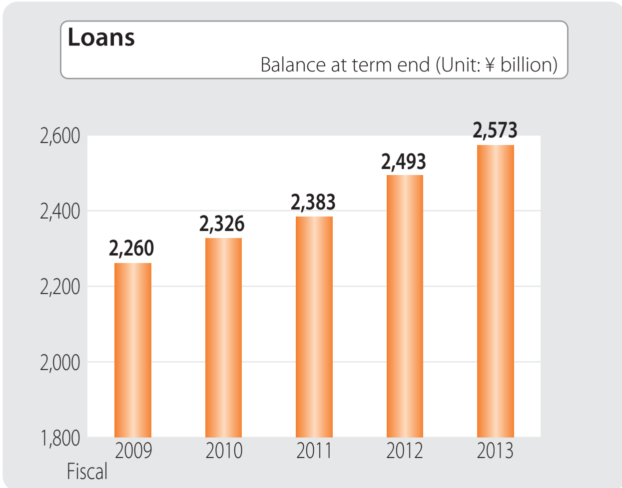
Deposits

Total deposits increased ¥102 billion, or 2.7%, to ¥3,832 billion. The term-end balance of negotiable certificates of deposit stood at ¥277 billion. As a result, the term-end balance of deposits, including negotiable certificates of deposit, stood at ¥4,109 billion, up ¥161 billion, or 4.1%.

Loans

The term-end balance of loans and bills discounted increased ¥80.3 billion, or 3.2%, to ¥2,573 billion.





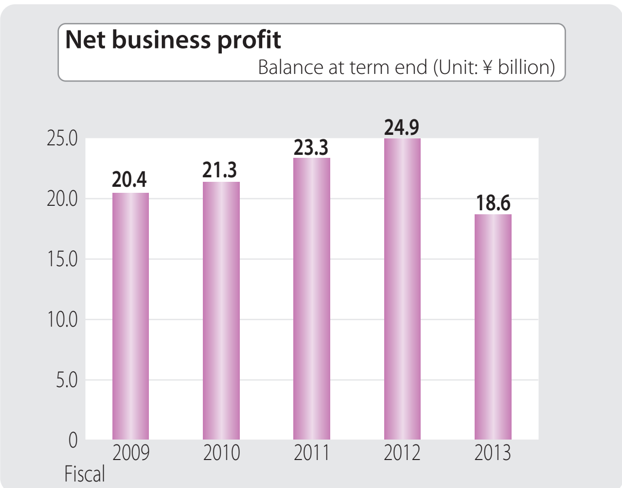
Earnings

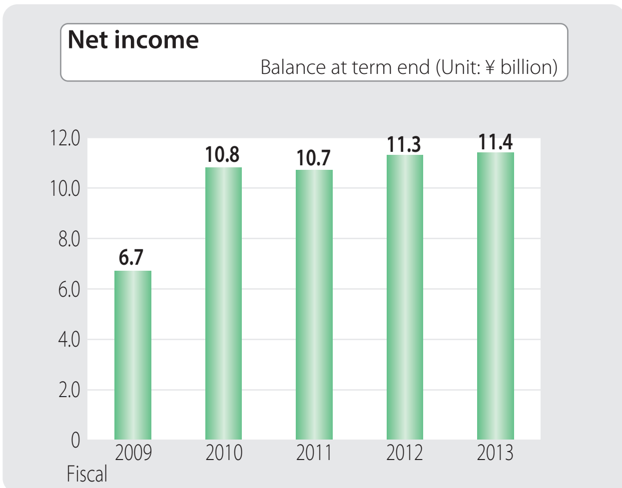
Net business profit

Net business profit decreased ¥6.3 billion year on year, to ¥18.6 billion due to a decline in interest income, a shift in the general reserve for possible loan losses from reversal to provision, and other factors.

Net income

Net income increased ¥6.2 billion, to ¥11.4 billion due to an extraordinary gain and other factors.





Excellent Financial Indicators

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

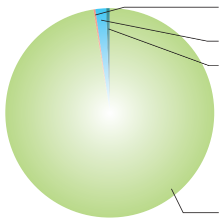
Disclosure of Claims under the Financial Reconstruction Law (non-consolidated)

As of March 31, 2014 (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	4.5	3.0	1.4	100.00%
Loans at risk	42.5	28.6	10.3	91.85%
Loans requiring caution	11.9	5.4	2.2	65.04%
Subtotal	58.9	37.1	14.1	87.06%
Normal loans	2,531.2			
Total	2,590.1			

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 ¥58.9 billion in non-performing loans for which disclosure is mandatory under the Financial Reconstruction Law, accounting for 2,28% of its total loans and claims — a low level for a Japanese regional bank. Of these non-performing loans, 87.06% 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 ¥60.7 billion in nonperforming loans, accounting for 2.32% 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.

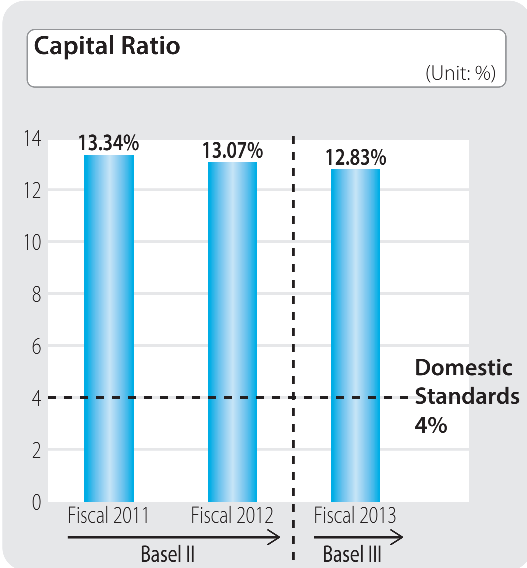
One of the Highest Capital Ratios Among Japan's Regional Banks

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, 2014, Higo Bank's capital ratio was 12.83% 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.

* 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.



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, 2014)

- ❖ **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*

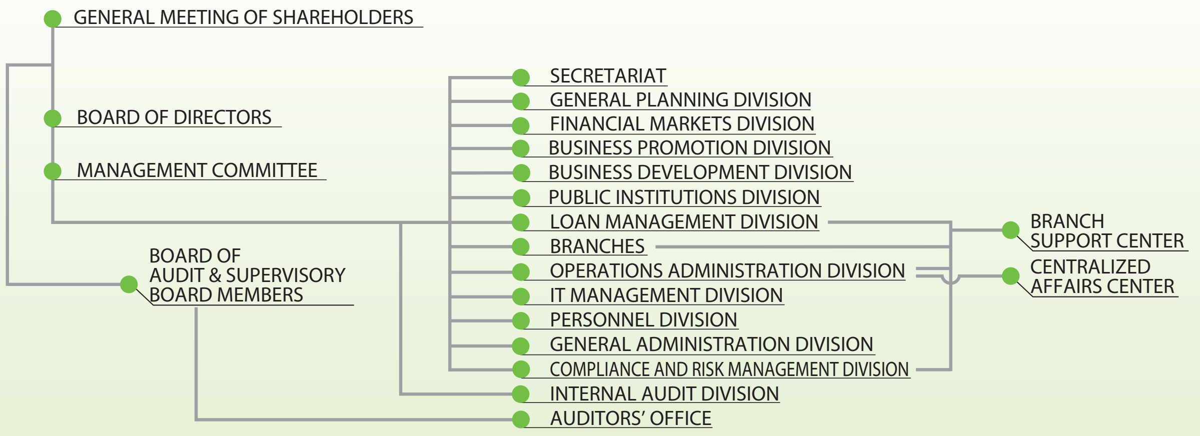
Corporate Data

Established: July 25, 1925
Total Assets: ¥4,479.1 billion
Deposits: ¥3,832.3 billion
Loans and Bills Discounted: ¥2,573.4 billion
Capital Stock: ¥18.1 billion

Capital Ratio: 12.83% (domestic standards)
Number of Employees: 2,249
Number of Offices: 123
(Head Office and 118 domestic branches, 4 sub-branches and 1 overseas representative office)

(As of March 31, 2014)

Organization (As of July 1, 2014)



Directors, Corporate Auditors & Executive Officers (As of June 25, 2014)

Representative Director and President	Takahiro Kai		
Representative Directors and Senior Managing Executive Officers	Shiichiro Shimoyama	Toyonori Ueno	
Directors and Managing Executive Officers	Yusuke Okazaki	Tsuyoshi Mogami	Junichi Nishimoto
Directors and Senior Executive Officers	Tsutomu Tajima	Satoshi Tsuchiyama	
Outside director	Masaki Masudo		
Permanent Audit & Supervisory Board Member	Masaaki Eguchi		
Standing Audit & Supervisory Board Member	Yoshihiro Iwamoto		
Outside Audit & Supervisory Board Members	Terunobu Maeda	Toshio Manabe	Yoshihiro Kataoka
Senior Executive Officers	Toshiro Kunitake		
Executive Officers	Masaaki Kimura Hiroaki Ishihara Eiichi Eto	Hitoshi Yamaki Shigeru Motoyama Masaaki Ookushi	Tooru Hayashida Yoshinori Oono

Principal Shareholders (As of March 31, 2014)

Name	Number of shares (thousand)	Equity stake (%)
Meiji Yasuda Life Insurance Co.	11,621	5.03
Higo Bank Employees' Shareholding Association	7,938	3.44
Takara Kogyo Co., Ltd.	7,858	3.40
Japan Trustee & Services Bank, Ltd. (Trust account)	7,578	3.28
Mizuho Bank, Ltd.	6,869	2.97
The Bank of Fukuoka, Ltd.	5,864	2.54
The Dai-ichi Mutual Life Insurance Company	5,371	2.32
Sompo Japan Insurance Inc.	3,854	1.67
The Eighteenth Bank, Limited	3,433	1.48
The Master Trust Bank of Japan, Ltd. (Trust account)	3,392	1.46
Total	**63,780**	**27.64**

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, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
ASSETS:			
Cash and due from banks (Notes 3 and 16)	¥ 248,161	¥ 173,516	$ 2,411,212
Call loans and bills bought	14,225	7,819	138,216
Monetary claims purchased	860	1,097	8,356
Trading assets (Notes 4, 16 and 17)	1,066	1,325	10,365
Money held in trust (Note 5)	4,943	4,969	48,032
Securities (Notes 4, 8 and 16)	1,571,717	1,556,765	15,271,254
Loans and bills discounted (Notes 6, 9 and 16)	2,556,401	2,477,055	24,838,724
Foreign exchange assets	5,200	5,480	50,526
Lease receivables and investment assets (Note 8)	23,621	20,897	229,516
Other assets	26,643	30,168	258,871
Fixed assets (Note 7)	47,252	46,417	459,121
Intangible assets (Note 7)	6,728	6,369	65,377
Asset for retirement benefits (Note 10)	333		3,236
Deferred tax assets (Note 14)	420	532	4,081
Customers' liabilities for acceptances and guarantees	11,122	11,481	108,069
Reserve for possible loan losses (Note 16)	(20,349)	(20,359)	(197,716)
Total assets	¥4,498,349	¥4,323,536	$43,707,245
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits (Notes 8 and 16)	¥4,106,069	¥3,944,920	$39,895,739
Borrowing under securities lending transactions (Note 8)	33,797	29,126	328,384
Trading liabilities (Note 17)	361	210	3,514
Borrowed money (Note 8)	14,078	11,106	136,788
Other liabilities	33,900	26,098	329,384
Reserve for employees' retirement benefits (Note 10)		8,305	
Liability for retirement benefits (Note 10)	8,250		80,161
Reserve for contingent losses	423	497	4,116
Reserve for repayments for dormant deposits	801	713	7,785
Reserve for loss of head office rebuilding		281	
Deferred tax liabilities (Note 14)	6,285	10,631	61,068
Deferred tax liabilities related to land revaluation	5,451	5,508	52,969
Acceptances and guarantees	11,122	11,481	108,069
Total liabilities	4,220,541	4,048,881	41,007,983
Equity (Note 11)**:**			
Common stock			
authorized, 482,858,000 shares; issued, 230,755,291 shares in 2014 and 231,755,291 shares in 2013	18,128	18,128	176,145
Capital surplus	8,133	8,133	79,027
Retained earnings (Note 19)	209,304	199,981	2,033,662
Treasury stock at cost, 228,794 shares in 2014 and 204,365 shares in 2013	(119)	(111)	(1,163)
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities (Note 4)	38,849	44,153	377,475
Deferred gains (losses) on derivatives under hedge accounting	(3,390)	(4,426)	(32,941)
Excess of land revaluation	5,639	5,743	54,798
Defined retirement benefit plans (Note 10)	(2,110)		(20,510)
Total accumulated other comprehensive income	38,988	45,470	378,822
Minority interests in consolidated subsidiaries	3,372	3,051	32,768
Total equity	277,808	274,655	2,699,262
Total liabilities and equity	¥4,498,349	¥4,323,536	$43,707,245

See notes to consolidated financial statements.

Consolidated Statement of Income

Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income:			
Interest on loans and discounts	¥36,523	¥37,872	$354,875
Interest and dividends on securities	15,757	16,712	153,106
Other interest income	449	302	4,368
Fees and commissions income	11,139	11,033	108,231
Trading income	43	47	425
Other operating income	18,803	16,738	182,696
Gain on negative goodwill		1,885	
Other income (Note 12)	3,291	3,490	31,978
Total income	86,008	88,082	835,683
Expenses:			
Interest on deposits	1,637	1,668	15,913
Other interest expenses	3,264	2,483	31,718
Fees and commissions expenses	3,682	3,547	35,784
Trading expenses	0	6	9
Other operating expenses	14,145	11,941	137,445
General and administrative expenses	40,050	40,051	389,140
Losses on impairment of long-lived assets	141	513	1,378
Other expenses (Note 13)	3,319	6,145	32,251
Total expenses	66,243	66,358	643,642
Income before income taxes and minority interests	19,764	21,723	192,040
Income taxes (Note 14)**:**			
Current	8,169	6,547	79,381
Deferred	(550)	1,171	(5,348)
Net income before minority interests	12,145	14,004	118,007
Minority interests in net income	319	294	3,101
Net income	¥11,826	¥13,710	$114,905

	Yen		U.S. dollars
Per share of common stock (Note 2 (p))**:**			
Basic net income	¥51.08	¥58.96	$0.49
Cash dividends applicable to the year	9.50	9.00	0.09

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net income before minority interests	¥12,145	¥14,004	$118,007
Other comprehensive income (Note 18)**:**			
Unrealized gains (losses) on available-for-sale securities	(5,301)	14,828	(51,510)
Deferred gains (losses) on derivatives under hedge accounting	1,036	(2,053)	10,070
Share of other comprehensive income in associates		(9)	
Total other comprehensive income	(4,264)	12,764	(41,439)
Comprehensive income	¥ 7,880	¥26,768	$ 76,567
Total comprehensive income attributable to:			
Owners of the parent	¥ 7,559	¥26,460	$ 73,448
Minority interests	321	308	3,119

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended March 31, 2014

	Thousands	Millions of yen			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 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)
Net income				11,826	
Cash dividends, ¥9.00 per share				(2,083)	
Purchase of treasury stock	(1,025)				(532)
Disposal of treasury stock				(0)	0
Cancellation of treasury stock				(523)	523
Reversal of excess of land revaluation				103	
Net change in the year					
Balance at March 31, 2014	230,526	¥18,128	¥8,133	¥209,304	¥(119)

	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	Defined retirement benefit plans	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total equity
Balance at April 1, 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
Net income							11,826
Cash dividends, ¥9.00 per share							(2,083)
Purchase of treasury stock							(532)
Disposal of treasury stock							0
Cancellation of treasury stock							
Reversal of excess of land revaluation							103
Net change in the year	(5,303)	1,036	(103)	¥(2,110)	(6,481)	320	(6,161)
Balance at March 31, 2014	¥38,849	¥(3,390)	¥5,639	¥(2,110)	¥38,988	¥3,372	¥277,808

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended March 31, 2014

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2013	$176,145	$79,027	$1,943,079	$(1,079)
Net income			114,905	
Cash dividends, $0.09 per share			(20,247)	
Purchase of treasury stock				(5,173)
Disposal of treasury stock			(0)	4
Cancellation of treasury stock			(5,084)	5,084
Reversal of excess of land revaluation			1,009	
Net change in the year				
Balance at March 31, 2014	$176,145	$79,027	$2,033,662	$(1,163)

	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	Defined retirement benefit plans	Total accumulated other comprehensive income	Minority interests in consolidated subsidiaries	Total equity
Balance at March 31, 2013	$429,004	$(43,012)	$55,808		$441,800	$29,653	$2,668,627
Net income							114,905
Cash dividends, $0.09 per share							(20,247)
Purchase of treasury stock							(5,173)
Disposal of treasury stock							4
Cancellation of treasury stock							
Reversal of excess of land revaluation							1,009
Net change in the year	(51,528)	10,070	(1,009)	$(20,510)	(62,977)	3,114	(59,863)
Balance at March 31, 2014	$377,475	$(32,941)	$54,798	$(20,510)	$378,822	$32,768	$2,699,262

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Operating activities:			
Income before income taxes and minority interests	¥ 19,764	¥ 21,723	$ 192,040
Adjustments for:			
Income taxes paid	(4,961)	(11,614)	(48,203)
Depreciation and amortization	3,976	3,897	38,632
Losses on impairment of long-lived assets	141	513	1,378
Gain on negative goodwill		(1,885)	
Decrease in reserve for possible loan losses	(10)	(1,052)	(105)
Decrease in reserve for employees' retirement benefits		(18)	
Decrease in asset for retirement benefits	544		5,286
Increase in liability for retirement benefits	27		263
(Decrease) increase in reserve for contingent losses	(73)	25	(718)
Increase in reserve for repayments for dormant deposits	88	145	857
(Decrease) increase in reserve for loss of head office rebuilding	(281)	107	(2,734)
Interest and dividend income	(52,731)	(54,886)	(512,350)
Interest expenses	4,902	4,151	47,631
Gains on securities	(3,765)	(0)	(36,585)
(Gains) losses on money held in trust	(1)	20	(13)
Net decrease in trading assets	400	172	3,893
Net increase in loans and bills discounted	(80,307)	(108,194)	(780,289)
Net increase in deposits	161,148	165,901	1,565,767
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	2,971	(1,579)	28,872
Net decrease in due from banks (excluding deposits paid to the Bank of Japan)	8,627	25,354	83,823
Net (increase) decrease in call loans and others	(6,167)	99,602	(59,925)
Net increase in borrowing under securities lending transactions	4,670	8,717	45,382
(Increase) decrease in lease receivables and investment assets	(2,724)	540	(26,470)
Interest received	56,558	57,032	549,543
Interest paid	(4,966)	(4,454)	(48,253)
Other	(9,608)	(16,711)	(93,360)
Total adjustments	78,458	165,786	762,322
Net cash provided by operating activities	98,223	187,510	954,362
Investing activities:			
Payments for purchases of securities	(644,531)	(560,469)	(6,262,451)
Proceeds from sales of securities	516,849	250,593	5,021,855
Proceeds from redemption of securities	120,840	147,887	1,174,116
Payments for increase in money held in trust		(20)	
Proceeds from decrease in money held in trust	17	0	173
Payments for purchases of fixed assets	(3,150)	(6,739)	(30,613)
Proceeds from sales of fixed assets	43	1,480	425
Payments for purchases of intangible assets	(2,401)	(2,249)	(23,331)
Purchases of investments in subsidiaries resulting in change in scope of consolidation		(3,002)	
Net cash used in investing activities	(12,332)	(172,519)	(119,826)
Financing activities:			
Cash dividends paid	(2,079)	(2,093)	(20,200)
Cash dividends paid to minority shareholders	(0)		(4)
Payment for purchase of treasury stock	(532)	(567)	(5,173)
Proceeds from disposal of treasury stock	0	41	4
Net cash used in financing activities	(2,611)	(2,619)	(25,374)
Foreign currency translation adjustments on cash and cash equivalents	(6)	(3)	(62)
Net increase in cash and cash equivalents	83,272	12,367	809,100
Cash and cash equivalents at beginning of year	142,590	130,222	1,385,445
Cash and cash equivalents at end of year (Note 3)	¥225,862	¥142,590	$2,194,545

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 2013 financial statements to conform to the classifications used in 2014.

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 ¥102.92 to $1, the approximate rate of exchange at March 31, 2014. 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, 2014 and 2013, respectively. The fiscal periods of all consolidated subsidiaries end on March 31.

Under the control or influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in remaining unconsolidated subsidiaries and an affiliated company are 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 sheet. Income or expenses generated on the relevant trading transactions are recorded in Trading income or Trading expenses on the consolidated statement 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 unconsolidated subsidiaries and an affiliated company that are 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.

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 ¥11,737 million ($114,046 thousand) and ¥11,661 million as of March 31, 2014 and 2013, 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 ¥3,627 million ($35,242 thousand) and ¥2,462 million for the years ended March 31, 2014 and 2013, respectively.

j. Bonuses to directors and audit & supervisory board members

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

k. Retirement and pension plans

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 amount of liability for employees' retirement benefit is determined based on the projected benefit obligations and the pension assets at the balance sheet date. Past service cost is amortized using the straight-line method over ten years. Net actuarial gain or loss is amortized using the straight-line method over ten years commencing from the next fiscal year of occurrence.

In May 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 BAC in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

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

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period 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 are 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 (see Note 2.t).

(c) 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 applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, asset for retirement benefits of ¥333 million ($3,236 thousand) and liability for retirement benefits of ¥8,250 million ($80,161 thousand) were recorded as of March 31, 2014, and deferred tax liabilities for the year ended March 31, 2014, decreased by ¥1,151 million ($11,190 thousand) and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥2,110 million ($20,510 thousand).

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 231,521 thousand shares and 232,528 thousand shares for the years ended March 31, 2014 and 2013, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2014 and 2013, 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 following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation
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 were 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 service period 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 applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods.

Accounting Standards for Business Combinations and Consolidated Financial Statements—On September 13, 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements."

Major accounting changes are as follows:

Transactions with noncontrolling interest

A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

Presentation of the consolidated balance sheet

In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

Presentation of the consolidated statement of income

In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

Provisional accounting treatments for a business combination

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

Acquisition-related costs

Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for "transactions with noncontrolling interest," "acquisition-related costs" and "presentation changes in the consolidated financial statements" are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for the presentation changes in the consolidated financial statements. In case of earlier application, all accounting standards and guidance above, except for the presentation changes, should be applied simultaneously. Either retrospective or prospective application of the revised accounting standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" is permitted. In retrospective application of the revised standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs," accumulated effects of retrospective adjustments for all "transactions with noncontrolling interest" and "acquisition-related costs" which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application.

In prospective application, the new standards and guidance for "transactions with noncontrolling interest" and "acquisition-related costs" shall be applied prospectively from the beginning of the year of the first-time application. The changes in presentation shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for "provisional accounting treatments for a business combination" is effective for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which will occur on or after the beginning of annual periods beginning on or after April 1, 2014.

The Bank expects to apply the revised accounting standards and guidance from the beginning of the annual period beginning on April 1, 2015, and is in the process of measuring the effects of applying the revised accounting standards and guidance 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 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and due from banks	¥248,161	¥173,516	$2,411,212
Time deposit due from banks	(10,010)	(10,010)	(97,260)
Foreign currency due from banks	(10,292)	(19,702)	(100,000)
Other due from banks	(1,997)	(1,213)	(19,406)
Cash and cash equivalents	¥225,862	¥142,590	$2,194,545

4. Securities

The costs and aggregate fair values of securities at March 31, 2014 and 2013, 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, 2014	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	¥ 685		
Available-for-sale:			
Equity securities	52,131	¥ 31,349	¥20,781
Debt securities	1,283,126	1,249,319	33,806
Other	224,823	220,293	4,530
Held-to-maturity:			
Debt securities	10,371	10,256	114

	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

	Thousands of U.S. Dollars		
March 31, 2014	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	$ 6,663		
Available-for-sale:			
Equity securities	506,528	$ 304,604	$201,923
Debt securities	12,467,220	12,138,742	328,477
Other	2,184,447	2,140,430	44,017
Held-to-maturity:			
Debt securities	100,772	99,655	1,117

The information of available-for-sale securities which were sold for the years ended March 31, 2014 and 2013, was as follows:

	Millions of yen		
March 31, 2014	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 6,570	¥1,473	¥ (70)
Debt securities	478,463	3,903	(1,518)
Other	29,648	258	(275)
Total	¥514,682	¥5,635	¥(1,865)

	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)

	Thousands of U.S. Dollars		
March 31, 2014	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 63,836	$14,313	$ (686)
Debt securities	4,648,884	37,931	(14,758)
Other	288,075	2,510	(2,679)
Total	$5,000,797	$54,754	$(18,124)

The impairment losses on available-for-sale equity securities for the years ended March 31, 2014 and 2013, were zero and ¥854 million, respectively.

Net unrealized gains (losses) on available-for-sale securities for the years ended March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Valuation differences:			
Available-for-sale securities	¥59,119	¥67,575	$574,418
Deferred tax liabilities	(20,253)	(23,408)	(196,789)
Minority interests	(15)	(13)	(153)
Net unrealized gains (losses) on available-for-sale securities	¥38,849	¥44,153	$377,475

5. Money Held in Trust

The carrying amounts and unrealized gains (losses) of money held in trust, as of March 31, 2014 and 2013, were as follows:

Money held in trust held for trading

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Carrying amounts	¥4,943	¥4,969	$48,032
Unrealized gains (losses) credited to income	20	31	200

6. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2014 and 2013, included the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Bankruptcy loans	¥ 336	¥ 542	$ 3,266
Past due loans	46,691	48,705	453,667
Loans past due for three months or more	46	203	455
Restructured loans	11,885	14,420	115,478
Total	¥58,959	¥63,872	$572,868

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, but do not include bankruptcy loans, past due loans or loans past due for three months.

Loans include discounted bills amounting to ¥14,005 million ($136,081 thousand) and ¥15,868 million as of March 31, 2014 and 2013, 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, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings	¥ 8,641	¥ 9,201	$ 83,966
Land	27,863	27,693	270,732
Construction in progress	4,305	3,626	41,837
Other	6,441	5,896	62,585
Total	¥47,252	¥46,417	$459,121

Accumulated depreciation at March 31, 2014 and 2013, amounted to ¥36,090 million ($350,668 thousand) and ¥37,420 million, respectively.
As of March 31, 2014 and 2013, deferred gains for tax purposes amounted to ¥3,487 million ($33,885 thousand) and ¥3,487 million, respectively.

The Bank reviews its long-lived assets for impairment continuously. For the year ended March 31, 2014, the Bank did not recognize significant impairment losses. As of March 31, 2013, the Bank recognized impairment losses of ¥513 million for certain branches and idle fixed assets due to the carrying amount of the assets exceeding 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, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Software	¥6,559	¥6,198	$63,730
Other	169	171	1,646
Total	¥6,728	¥6,369	$65,377

8. Assets Pledged

Assets pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Securities	¥67,085	¥63,690	$651,823
Lease receivables and investment assets	4,551	5,030	44,223
Other	1,036	1,196	10,069
Total	¥72,673	¥69,917	$706,116

Liabilities related to the above assets pledged were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deposits	¥25,455	¥12,541	$247,335
Borrowing under securities lending transactions	33,797	29,126	328,384
Borrowed money	4,916	5,602	47,767

In addition, securities totaling ¥127,852 million ($1,242,254 thousand) and ¥129,325 million were pledged as collateral for settlement of exchange as of March 31, 2014 and 2013, 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
	2014	2013	2014
Original maturity is within one year or the Bank can cancel at any time without any penalty	¥631,007	¥617,609	$6,131,050
Other	27,704	20,724	269,183
Total	¥658,712	¥638,333	$6,400,233

The amount of unexercised commitment lines does not necessarily affect the future cash flows of the Group because most of such agreements are terminated without being exercised. Most of these agreements have provisions, which stipulate that 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. Liability for 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.

Year ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at beginning of year	¥39,465	$383,453
Current service cost	1,209	11,756
Interest cost	391	3,808
Actuarial (gains) losses	(524)	(5,095)
Benefits paid	(2,113)	(20,538)
Balance at end of year	¥38,428	$373,383

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at beginning of year	¥30,896	$300,199
Expected return on plan assets	617	6,003
Actuarial gains (losses)	(3)	(37)
Contributions from the employer	581	5,645
Benefits paid	(1,580)	(15,351)
Balance at end of year	¥30,511	$296,459

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded defined benefit obligation	¥30,178	$293,222
Plan assets	(30,511)	(296,459)
	(333)	(3,236)
Unfunded defined benefit obligation	8,250	80,161
Net liability (asset) arising from defined benefit obligation	¥ 7,917	$ 76,924

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Liability for retirement benefits	¥8,250	$80,161
Asset for retirement benefits	(333)	(3,236)
Net liability (asset) arising from defined benefit obligation	¥7,917	$76,924

(4) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥1,209	$11,756
Interest cost	391	3,808
Expected return on plan assets	(617)	(6,003)
Amortization of prior service cost	(597)	(5,801)
Recognized actuarial (gains) losses	1,299	12,622
Other	0	7
Net periodic benefit costs	¥1,686	$16,389

(5) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service cost	¥ (646)	$ (6,284)
Unrecognized actuarial (gains) losses	3,909	37,986
Total	¥3,262	$31,701

(6) Plan assets

(a) Components of plan assets

Plan assets consisted of the following:

	2014
Debt investments	26%
Equity investments	13
General account of life insurance companies	46
Others	15
Total	100%

(b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering distribution of plan assets currently and in the future, investment performance of the past 10 years and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(7) Assumptions used for the year ended March 31, 2014, were set forth as follows:

	2014
Discount rate	1.1%
Expected rate of return on plan assets	2.0%

Year ended March 31, 2013

The liability for retirement benefits as of March 31, 2013, consisted of the following:

	Millions of yen
	2013
Projected benefit obligations	¥(39,465)
Plan assets	30,896
	(8,568)
Unrecognized actuarial (gains) losses	5,729
Unrecognized prior service cost	(1,243)
	(4,083)
Prepaid pension cost	4,222
Liability for retirement benefits	¥ (8,305)

Notes: 1. Discretionary additional payments are not included.
2. Consolidated subsidiaries apply the simplified method to calculate projected benefit obligations.

Net pension expenses related to the retirement benefits for the year ended March 31, 2013, were as follows:

	Millions of yen
	2013
Service cost	¥1,150
Interest cost	536
Expected return on plan assets	(568)
Amortization of prior service cost	(666)
Amortization of actuarial (gains) losses	1,485
Other	0
Net pension expenses	¥1,937

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

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

	2013
Discount rate	1.0%
Expected rate of return on plan assets	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis
Amortization period of prior service cost	10 years
Amortization period of unrecognized actuarial gain/loss	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 a 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 ¥1,667 million ($16,197 thousand) and ¥497 million for the years ended March 31, 2014 and 2013, respectively.

13. Other Expenses

Other expenses included losses on sales stocks and other securities in the amount of ¥154 million ($1,504 thousand) and ¥2,105 million for the years ended March 31, 2014 and 2013, and write-off costs of securities in the amount of ¥14 million ($141 thousand) and ¥860 million for the years ended March 31, 2014 and 2013, respectively.

14. Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 37.7% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Reserve for possible loan losses	¥ 7,902	¥ 7,722	$ 76,786
Reserve for employees' retirement benefits		2,932	
Liability for retirement benefits	2,912		28,296
Depreciation	990	1,101	9,624
Loss on impairment of securities	1,474	1,530	14,331
Deferred gains (losses) on derivatives under hedge accounting	1,849	2,416	17,972
Other	2,246	2,295	21,824
Subtotal	17,376	17,998	168,836
Valuation allowance	(2,444)	(2,587)	(23,748)
Deferred tax assets	14,932	15,410	145,087
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(20,350)	(23,505)	(197,735)
Deferred income on fixed assets sold	(288)	(244)	(2,799)
Prepaid pension cost		(1,490)	
Asset for retirement benefits	(117)		(1,142)
Other	(40)	(269)	(396)
Deferred tax liabilities	(20,797)	(25,509)	(202,074)
Net deferred tax liabilities	¥ (5,865)	¥(10,099)	$ (56,987)

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 year ended March 31, 2013, was as follows:

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

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2014, is not disclosed due to immaterial difference.

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 37.7% to 35.3%. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2014, by ¥5 million ($51 thousand) and to increase deferred tax liabilities in the consolidated balance sheet as of March 31, 2014, by ¥200 million ($1,949 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥205 million ($2,000 thousand).

15. Leases

As lessee, the minimum rental commitments under noncancelable operating leases at March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	¥105	¥41	$1,023
Due after one year	157		1,534
Total	¥263	¥41	$2,557

As lessor, the minimum rental commitments under noncancelable operating leases at March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	¥ 39	¥ 39	$ 388
Due after one year	102	142	995
Total	¥142	¥182	$1,383

16. 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 is lending, and the following is 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 domestic bonds, 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 counterparty and credit risk of default of the contract and changing risk factors. The consolidated subsidiaries 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 of each type of risk. The Business Administration Division assumes overall control for risk management of all banking-related risks 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 risks 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 risks, 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 external 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 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, 2014, VaR related to interest rate risks was ¥14,283 million ($138,770 thousand) and VaR related to price volatility risks was ¥24,343 million ($236,519 thousand) and as of March 31, 2013, VaR related to interest rate risks was ¥17,494 million and VaR related to price volatility risks was ¥21,882 million.

The Bank performs 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 apply quantitative analysis to some financial instruments that are small in value and financial instruments held by the consolidated subsidiaries and affiliated companies.

c) Liquidity risk

Management department of liquidity risk grasps and analyzes the uses of funds on a daily, weekly, and monthly basis, 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, 2014 and 2013, are shown below. Immaterial accounts in 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 16 (e) (Note 2)).

	Millions of yen		
	2014		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 248,161	¥ 248,161	
(2) Securities:			
Held-to-maturity debt securities	10,256	10,371	¥ 114
Available-for-sale securities	1,560,081	1,560,081	
(3) Loans and bills discounted	2,556,401		
Reserve for possible loan losses (*1)	(19,050)		
	2,537,350	2,562,919	25,568
Total assets	4,355,850	4,381,534	25,683
Deposits	4,106,069	4,107,212	1,142
Total liabilities	4,106,069	4,107,212	1,142
Derivatives (*2)			
For which hedge accounting is not applied	(3,188)	(3,188)	
For which hedge accounting is applied	(5,467)	(5,467)	
Total	¥ (8,656)	¥ (8,656)	

	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)	

	Thousands of U.S. dollars		
	2014		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	$ 2,411,212	$ 2,411,212	
(2) Securities:			
Held-to-maturity debt securities	99,655	100,772	$ 1,117
Available-for-sale securities	15,158,196	15,158,196	
(3) Loans and bills discounted	24,838,724		
Reserve for possible loan losses (*1)	(185,102)		
	24,653,622	24,902,056	248,433
Total assets	42,322,686	42,572,236	249,550
Deposits	39,895,739	39,906,845	11,105
Total liabilities	39,895,739	39,906,845	11,105
Derivatives (*2)			
For which hedge accounting is not applied	(30,980)	(30,980)	
For which hedge accounting is applied	(53,126)	(53,126)	
Total	$ (84,107)	$ (84,107)	

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

Derivatives

The information of the fair value for derivatives is included in Note 17.

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

The following instruments are not included in "Assets (2) Securities" in the above table showing the fair value of financial instruments as of March 31, 2014 and 2013.

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unlisted stocks (*1, *2)	¥1,373	¥1,383	$13,348
Other (*1)	5	5	54
Total	¥1,379	¥1,389	$13,403

*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 ¥14 million ($141 thousand) and ¥9 million for the years ended March 31, 2014 and 2013, respectively.

(Note 3) Maturity analysis for claims and securities with contractual maturities as of March 31, 2014 and 2013.

	Millions of yen					
	2014					
	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	¥204,842					
Securities						
Held-to-maturity debt securities	5,656	¥ 1,756	¥ 2,524	¥ 161	¥ 158	
Corporate bonds	5,656	1,756	2,524	161	158	
Available-for-sale securities with maturity	63,528	390,468	565,670	312,798	77,280	¥ 69,885
Japanese government bonds	4,581	218,883	365,907	244,164	36,918	18,484
Municipal government bonds	34,907	50,945	66,777	24,856	8,553	13,535
Corporate bonds	11,926	46,855	65,801	14,739	18,449	36,833
Loans and bills discounted (*1)	364,842	399,619	358,973	266,609	285,245	553,253
Total	¥638,869	¥791,844	¥927,168	¥579,568	¥362,683	¥623,139

	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
Japanese 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 (*2)	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					
	2014					
	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	$1,990,309					
Securities						
Held-to-maturity debt securities	54,957	$ 17,065	$ 24,532	$ 1,564	$ 1,535	
Corporate bonds	54,957	17,065	24,532	1,564	1,535	
Available-for-sale securities with maturity	617,259	3,793,902	5,496,212	3,039,235	750,876	$ 679,023
Japanese government bonds	44,517	2,126,730	3,555,256	2,372,368	358,709	179,601
Municipal government bonds	339,174	495,002	648,831	241,512	83,104	131,513
Corporate bonds	115,880	455,258	639,343	143,209	179,262	357,884
Loans and bills discounted (*1)	3,544,915	3,882,820	3,487,884	2,590,450	2,771,526	5,375,572
Total	$6,207,441	$7,693,789	$9,008,629	$5,631,250	$3,523,938	$6,054,595

*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 ¥47,027 million ($456,934 thousand), is not included in the above table. Loans that do not have contractual maturity, amounting to ¥280,829 million ($2,728,620 thousand), are not included either.

*2. 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, is not included in the above table. Loans that do not have contractual maturity, amounting to ¥282,006 million, are not included either.

(Note 4) Maturity analysis for interest bearing liabilities as of March 31, 2014 and 2013.

	Millions of yen					
	2014					
	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)	¥3,956,072	¥129,493	¥17,844	¥1,274	¥1,383	

	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					
	2014					
	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)	$38,438,327	$1,258,196	$173,385	$12,387	$13,442	

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

17. Derivative Financial Instruments

(a) Derivative financial instruments used by the Bank
The Bank enters into transactions with futures and options on interest rates, currencies, stocks, bonds, commodity, interest rate swaps and currency swaps.

The Bank executes these derivative transactions in order to manage and hedge the risks associated with interest rate fluctuations and exposure to changes in the market value of assets and liabilities held by the Bank. In addition, the Bank enters into derivative transactions for trading purposes, within the position and loss limits 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 was not applied as of March 31, 2014 and 2013

i) Interest rate related transactions

There were no interest rate related transactions as of March 31, 2014.

	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)

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

ii) Foreign exchange related transactions

	Millions of yen			
	2014			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	¥ 21,374	¥13,230	¥ 22	¥ 15
Foreign exchange forward contracts:				
Selling	143,035	784	(3,262)	(3,262)
Buying	5,117	783	51	51

	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

	Thousands of U.S. dollars			
	2014			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	$ 207,676	$128,554	$ 219	$ 148
Foreign exchange forward contracts:				
Selling	1,389,778	7,627	(31,702)	(31,702)
Buying	49,724	7,611	503	503

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 is based on the discounted present value method, etc.

Derivative transactions to which hedge accounting was applied as of March 31, 2014 and 2013

i) Interest rate related transactions

	Millions of yen			
	2014			
	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)	¥238,788	¥238,093	¥(5,239)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	107,152	106,152	(2,500)

	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)

	Thousands of U.S. dollars			
	2014			
	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)	$2,320,137	$2,313,385	$(50,909)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	1,041,122	1,031,405	(24,294)

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 is based on the discounted present value method or option pricing models, etc.

ii) Foreign exchange related transactions

	Millions of yen			
	2014			
	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	¥24,083		¥(228)

	Millions of yen			
	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	¥12,362		¥128

	Thousands of U.S. dollars			
	2014			
	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	$234,002		$(2,217)

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 is based on the discounted present value method, etc.

18. Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized gains (losses) on available-for-sale securities:			
Gains arising during the year	¥(4,672)	¥22,602	$(45,402)
Reclassification adjustments to profit or loss	(3,783)	79	(36,760)
Amount before income tax effect	(8,456)	22,682	(82,163)
Income tax effect	3,154	(7,854)	30,652
Total	¥(5,301)	¥14,828	$(51,510)
Deferred gains (losses) on derivatives under hedge accounting:			
Gains arising during the year	¥ (386)	¥ (4,633)	$ (3,753)
Reclassification adjustments to profit or loss	1,989	1,460	19,327
Amount before income tax effect	1,602	(3,173)	15,574
Income tax effect	(566)	1,119	(5,503)
Total	¥ 1,036	¥ (2,053)	$ 10,070
Share of other comprehensive income in affiliate:			
Gains arising during the year		¥ (9)	
Total		¥ (9)	
Total other comprehensive income	¥(4,264)	¥12,764	$(41,439)

19. Appropriation of Retained Earnings

The annual shareholders' meeting, which was held on June 25, 2014, approved the following appropriation of retained earnings for the year ended March 31, 2014:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Cash dividends (¥5.00 per share)	¥1,152	$11,199

20. 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 Banking and Leasing. Banking consists of deposit taking, lending, domestic and foreign exchange transactions and securities trading. Leasing consists of leasing and lending.

(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						
	2014						
	Reportable Segment						
	Banking	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:							
Ordinary income by external customers	¥ 70,933	¥13,486	¥ 84,419	¥1,585	¥ 86,004		¥ 86,004
Intersegment ordinary income	289	1,115	1,405	942	2,347	¥(2,347)	
Total	¥ 71,222	¥14,602	¥ 85,825	¥2,527	¥ 88,352	¥(2,347)	¥ 86,004
Segment profit	¥ 18,674	¥ 879	¥ 19,553	¥ 489	¥ 20,043	¥ (138)	¥ 19,904
Segment assets	4,475,727	44,639	4,520,367	8,208	4,528,575	(30,225)	4,498,349
Other:							
Depreciation	3,786	85	3,872	36	3,909	66	3,976
Interest income	52,665	39	52,705	177	52,882	(151)	52,731
Interest expenses	4,794	233	5,028	21	5,049	(147)	4,902
Losses on impairment of long-lived assets	141		141		141		141
Increase in fixed assets and intangible assets	5,466	119	5,585	147	5,733	(120)	5,612

Millions of yen 2013	Reportable Segment: Banking	Reportable Segment: Leasing	Reportable Segment: Total	Other	Total	Reconciliations	Consolidated
Ordinary income:							
Ordinary income by external customers	¥ 71,661	¥12,899	¥ 84,561	¥1,429	¥ 85,990		¥ 85,990
Intersegment 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 goodwill	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

Thousands of U.S. dollars 2014	Reportable Segment: Banking	Reportable Segment: Leasing	Reportable Segment: Total	Other	Total	Reconciliations	Consolidated
Ordinary income:							
Ordinary income by external customers	$ 689,206	$131,038	$ 820,244	$15,402	$ 835,647		$ 835,647
Intersegment ordinary income	2,813	10,842	13,655	9,154	22,810	$ (22,810)	
Total	$ 692,019	$141,880	$ 833,900	$24,557	$ 858,457	$ (22,810)	$ 835,647
Segment profit	$ 181,450	$ 8,540	$ 189,991	$ 4,755	$ 194,746	$ (1,349)	$ 193,397
Segment assets	43,487,446	433,727	43,921,174	79,752	44,000,926	(293,680)	43,707,245
Other:							
Depreciation	36,793	835	37,628	353	37,981	650	38,632
Interest income	511,714	385	512,099	1,725	513,825	(1,474)	512,350
Interest expenses	46,580	2,273	48,854	208	49,063	(1,431)	47,631
Losses on impairment of long-lived assets	1,378		1,378		1,378		1,378
Increase in fixed assets and intangible assets	53,111	1,158	54,270	1,436	55,706	(1,175)	54,531

Notes: 1. Ordinary income means 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 in the consolidated statement of income.
4. Reconciliations include items below.
a. For the year ended March 31, 2014, the segment profit reconciliations of ¥(138) million ($(1,349) thousand) include eliminations of intersegment transactions of ¥(139) ($(1,351) thousand).
b. For the year ended March 31, 2013, the segment profit reconciliations of ¥(86) million include reconciliations in reserve for possible loan losses of ¥25 million and eliminations of intersegment transactions of ¥(111).
c. For the years ended March 31, 2014 and 2013, reconciliations of segment assets, interest income and interest expenses were eliminations of intersegment transactions. Reconciliations of depreciation and increase in fixed assets and intangible assets were reconciliations in lease investments assets.

Related information

(a) Segment information by services

	Millions of yen				
	2014				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	¥36,523	¥21,495	¥13,374	¥14,610	¥86,004

	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

	Thousands of U.S. dollars				
	2014				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	$354,875	$208,857	$129,951	$141,962	$835,647

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.

Independent Auditor's Report

Deloitte.

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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, 2014, 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, 2014, 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, 2014

Member of
Deloitte Touche Tohmatsu Limited

Higo Bank

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