HigoBank

2015
Annual Report

Profile

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 Higo Bank Group to provide comprehensive support that matches the growth stages of local companies.

In addition to our main business 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 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

In the fiscal year ended March 31, 2015, the Japanese economy was influenced by a rush to purchase ahead of an increase in the consumption tax rate in April 2014. Nevertheless, corporate earnings moved toward improvement and the domestic economy continued to show a moderate recovery, as evidenced by capital investment maintaining a moderate increase. In addition, consumer spending solidly progressed, supported by a steady improvement in the employment and income environment.

On the other hand, as with the nationwide economy, the economy in Kumamoto was also influenced by the increase in the consumption tax rate and weakening trends were observed to a certain extent in consumer spending and housing investment. Nonetheless, the economy in Kumamoto continued to show moderate recovery, such as in the steady recovery of manufacturing production in Kumamoto, and also the improvement in both labor supply/demand and income with regard to employment.

In this economic environment, Higo Bank worked to expand and deepen its dealings with customers through the two-way relationship between "The creation of value with customers" and "The provision of the best financial services," as called for in the final year of our Fifth Medium-Term Management Plan, Phase II. In the current fiscal year, we are preparing for the upcoming 90th anniversary of our establishment, and we have started our Sixth Medium-Term Management Plan based on the theme of the "Pursuit of possibilities—Toward the creation of an enriched future." All officers and employees of Higo Bank are united in making further serious efforts to meet the expectations of everyone with whom we are involved.

Moreover, we have reached a final agreement with Kagoshima Bank in Kagoshima Prefecture concerning the business integration of the two banks, and established a holding company in October 2015. We will further strengthen our relationships of trust with the local communities with the aim of creating a vibrant region, and strive to become a superior financial group that is truly loved by all its customers in Kyushu.

We look forward to the continued support and encouragement of all our stakeholders.

July 2015

Takahiro Kai, *President*

Management Policy

Sixth Medium-Term Management Plan

When viewing the regional economy from a long-term perspective, the Bank expects that the scale of the economy will be reduced due to the shrinking population and that economic structures will be changed due to the advancement of Japan's aging society coupled with the decrease in the birth rate. Under such circumstances, the Bank recognizes that it is its mission as a local bank to make proactive efforts to reinvigorate local communities by way of further deepening the provision of local support and creating local industries and employment.

The Bank has developed the Sixth Medium-Term Management Plan for the commencement of construction measures for the maintenance and development of the local economy that has continued to show a tendency toward structural contraction.

Higo Bank Group is both working to further strengthen its corporate governance and implement its corporate philosophy of customer first through its Sixth Medium-Term Management Plan. In this manner, the Group will strengthen marketing and create value together with its customers through strict management.

Plan Period The three years from April 1, 2015 to March 31, 2018

Objective To become a "Bank that provides the best financial services and is truly loved by its customers"

As a long-term objective, the Bank will continuously conduct corporate-climate and structural reform and construct strong corporate structures that can respond to environmental changes in a flexible manner, while at the same time promoting local support and contributing to the reinvigoration of the local economy, thereby striving to realize the Bank's corporate philosophy.

Theme "Pursuit of possibilities—Toward the creation of an enriched future"

In the midst of the large shift in the environment surrounding financial institutions and as the Bank embarks on a new stage, namely, business integration, the Bank has designated the "Pursuit of possibilities—Toward the creation of an enriched future" as a theme, encapsulating its aim to achieve perpetual growth without being bound by conventional policies and approaches. The three items on the right are the fields in which the Bank will pursue its potential possibilities:

1. Possibilities for expansion of close transactions with customers
2. Possibilities for growth of human resources
3. Possibilities for expansion of earning opportunities

Basic Strategies

1. Practice and management of the corporate philosophy of customer first
2. Maximize the synergistic effects of business integration
3. Marketing strategy
4. Management strategy
5. Manpower strategy

Financial Targets (Fiscal 2017)

Core targets

Gross income from business	Net income from business	Non-consolidated income	Capital adequacy ratio	ROA	OHR
¥55.6 billion	¥15.9 billion	¥12.4 billion	12.5%	0.25%	70.4%

Sub-targets

Shareholders' equity ROE	Total deposits + NCD daily average balance	Total loans daily average balance
4.0% level	+¥260.0 billion	+¥280.0 billion

Results (Non-Consolidated)

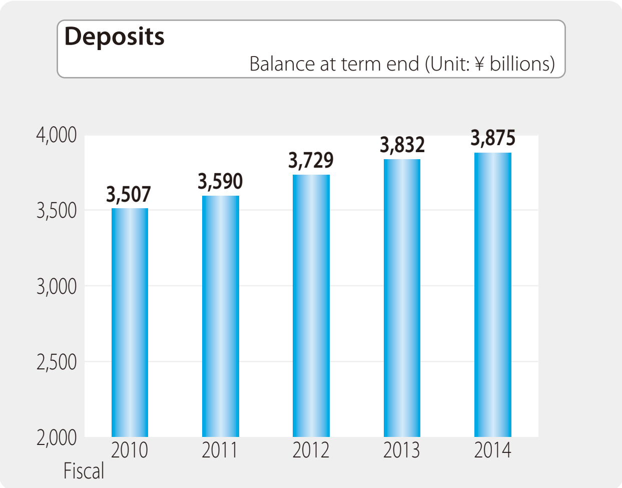
Deposits and Loans

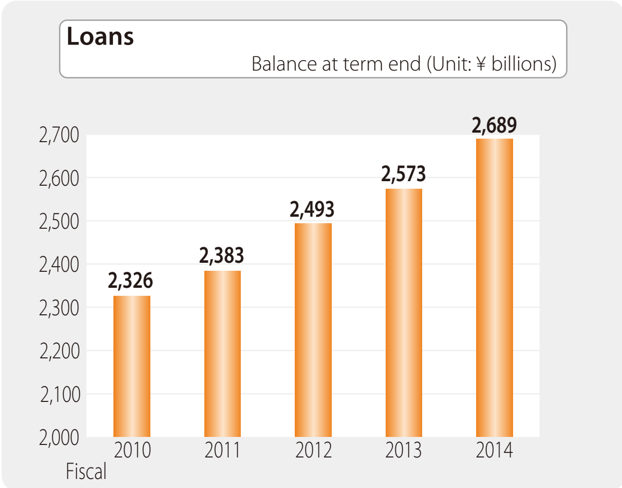
Deposits

The balance of deposits at the end of fiscal 2014 stood at ¥3,875.0 billion, a ¥42.0 billion increase from the end of fiscal 2013. This was due mainly to an increase in corporate deposits in addition to steady growth of individual deposits. The year-end balance of negotiable certificates of deposits was ¥326.0 billion. As a result, the total balance of deposits and negotiable certificates of deposits at the end of fiscal 2014 stood at ¥4,196.5 billion, a ¥90.4 billion increase from the end of fiscal 2013.

Loans

The balance of loans at the end of fiscal 2014 stood at ¥2,689.0 billion, a ¥115.6 billion increase from the end of fiscal 2013. This was mainly due to an increase in housing loans and other lending to individuals in addition to growth of corporate and public institution loans.





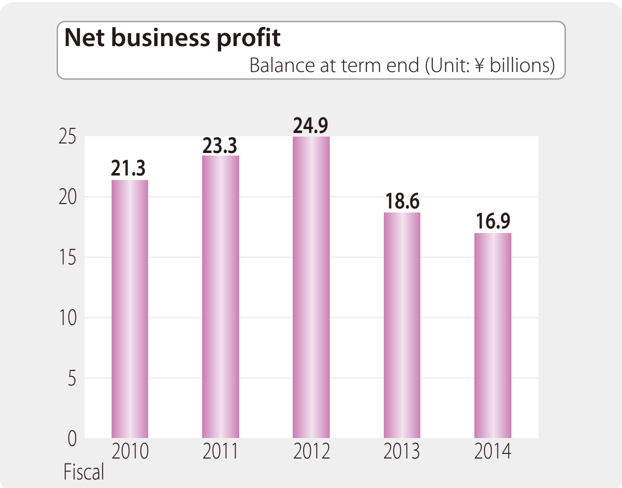
Earnings

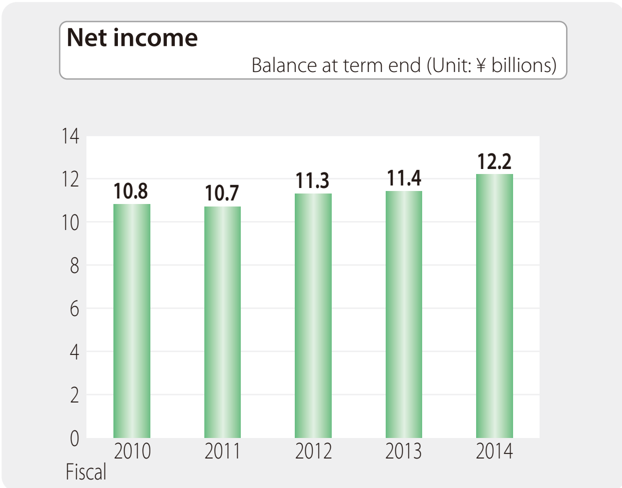
Net business profit

Net business profit decreased ¥1.6 billion year on year to ¥16.9 billion, due mainly to an increase in expenses and provision of general reserve for possible loan losses in addition to a decrease in gross business profit.

Net income

Net income increased ¥0.7 billion to ¥12.2 billion, a record high.





Excellent Financial Indicators

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

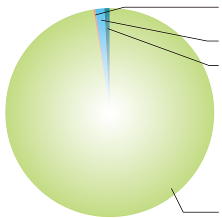
Disclosure of claims under the Financial Reconstruction Law (non-consolidated)

As of March 31, 2015 (Unit: ¥ billions)

	Loan balance	Coverage by collateral and guarantees	Reserve for possible loan losses	Coverage ratio
Loans to borrowers under bankruptcy proceedings and equivalent loans	¥ 3.9	¥ 2.5	¥ 1.3	100.00%
Loans at risk	41.2	27.3	9.9	90.21%
Loans requiring caution	15.9	6.4	3.7	63.95%
Subtotal	61.1	36.3	15.0	83.97%
Normal loans	2,646.1			
Total	¥2,707.3			

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 ¥61.1 billion in non-performing loans for which disclosure is mandatory under the Financial Reconstruction Law, accounting for 2.26% of its total loans and claims—a low level for a Japanese regional bank. Of these non-performing loans, 83.97% 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 ¥62.9 billion in non-performing loans, accounting for 2.30% 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.

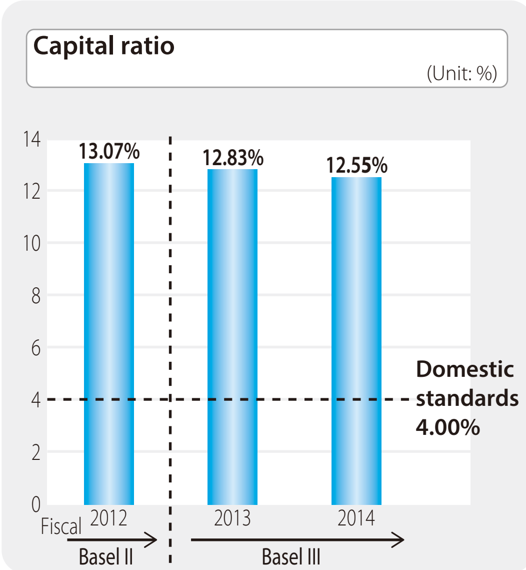
One of the Highest Capital Ratios among Japan's Regional Banks

The capital ratio is the ratio of a bank's regulatory capital (capital stock, retained earnings and others) 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, 2015, Higo Bank's capital ratio was 12.55% based on domestic standards. This is one of the highest ratios of any regional bank in Japan, and is far above the 4.00% standard for capital adequacy under the Prompt Corrective Action measures.

Notes: 1. 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.

2. 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 Rankings

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—a "A"-level rankings—for each of its long-term credit ratings.

(Long-term credit rating: as of March 31, 2015)

- ❖ **Moody's Japan** **A1**
- ❖ **Standard & Poor's Ratings Japan** .... **A**
- ❖ **Rating and Investment Information, Inc.** .... **A+**

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

Moody's Japan 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

Higo Bank's Future

Higo Bank and Kagoshima Bank, Ltd. established Kyushu Financial Group, Inc. as a joint holding company on October 1, 2015.

Group Management Philosophy

Kyushu Financial Group will aim to become a comprehensive financial group which will be truly favored by customers based on the following three philosophical pillars, targeting the realization of sustainable growth.

(1) The group will respond to the trust and expectations of customers and will provide optimal, high-level comprehensive financial services to its customers.

(2) The group will develop alongside local regions and actively contribute in the realization of a vigorous regional society and economy.

(3) The group will nurture an abundance of creativity and a free-spirited organizational culture, continuing to challenge itself to move toward a better future.

Overview of the Group

Head office location:	6-6, Kinsei, Kagoshima, Kagoshima Prefecture
Headquarters location:	1, Rempeicho, Chuo-ku, Kumamoto, Kumamoto Prefecture
Representatives:	Takahiro Kai Chairman and Representative Director (President of Higo Bank) Motohiro Kamimura President and Representative Director (President of Kagoshima Bank)
Capital stock:	¥36,000 million
Established:	October 1, 2015
Listing exchange:	First Section of the Tokyo Stock Exchange Fukuoka Stock Exchange

Kyushu Financial Group Sales Base (Both banks combined as of March 31, 2015)

Total assets
¥8,781.0 billion

Net assets
¥601.8 billion

Deposit balance
¥7,756.0 billion

Loan balance
¥5,371.5 billion

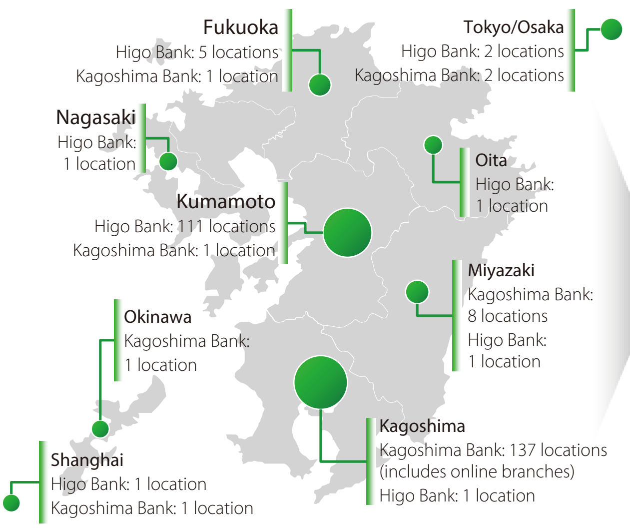
Number of branches
273

Number of ATMs
1,533

Number of personnel working at banking offices
3,284

Branches covering all of Kyushu

As of September 30, 2015



Regional bank total asset ranking

As of March 31, 2015

Position	Name of bank	Total assets (¥ trillions)
1	The Bank of Yokohama / The Higashi-Nippon Bank	¥17.4
2	Fukuoka Financial Group	15.6
3	The Chiba Bank	12.9
4	Hokuhoku Financial Group	11.6
5	The Shizuoka Bank	11.2
6	Yamaguchi Financial Group	10.1
7	Joyo Bank	9.0
8	**Kyushu Financial Group**	**8.7**
9	The Nishi-Nippon City Bank	8.5
10	The 77 Bank	8.5
⋮		
26	**Higo Bank**	**4.7**
33	**Kagoshima Bank**	**4.0**

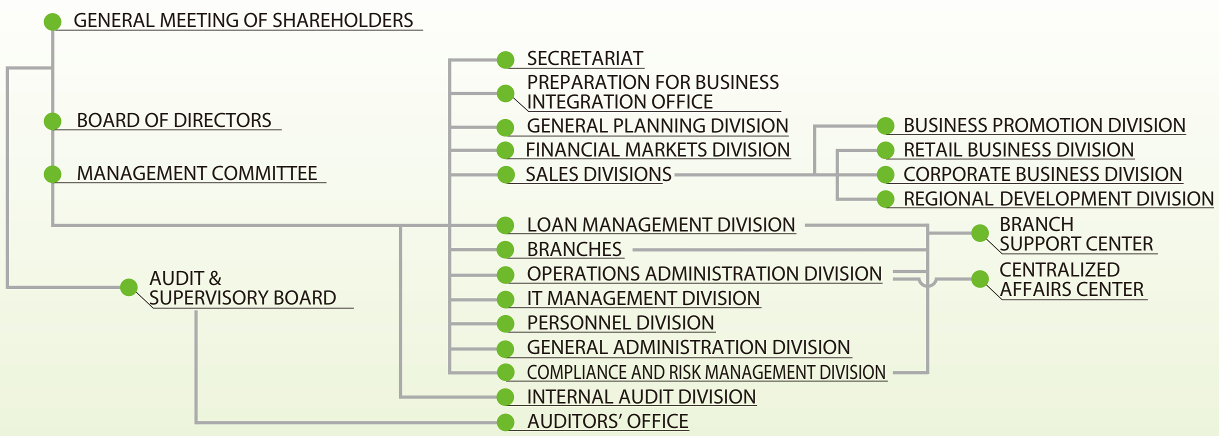
Corporate Data

Established: July 25, 1925
Total Assets: ¥4,724.6 billion
Deposits: ¥3,875.0 billion
Loans and Bills Discounted: ¥2,689.0 billion
Capital Stock: ¥18.1 billion

Capital Ratio: 12.55% (domestic standards)
Number of Employees: 2,234
Number of Offices: 122
(1 overseas representative office)

(As of March 31, 2015)

Organization (As of July 1, 2015)



Directors, Audit & Supervisory Board Members & Executive Officers (As of June 23, 2015)

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

Principal Shareholders (As of March 31, 2015)

Name	Number of shares (thousands)	Equity stake (%)
Meiji Yasuda Life Insurance Co.	11,621	5.03
Takara Kogyo Co., Ltd.	8,258	3.57
Higo Bank Employees' Shareholding Association	7,553	3.27
Mizuho Bank, Ltd.	6,869	2.97
Japan Trustee & Services Bank, Ltd. (Trust account)	6,370	2.76
The Bank of Fukuoka, Ltd.	5,864	2.54
The Dai-ichi Mutual Life Insurance Company	5,371	2.32
Sompo Japan Nipponkoa Insurance Inc.	3,854	1.67
The Eighteenth Bank, Limited	3,433	1.48
Kagoshima Bank, Limited	3,372	1.46
Total	**62,568**	**27.11**

Service Network

Head Office

1, Rempeicho, Chuo-ku,
Kumamoto 860-8615
Phone: (096) 325-2111

Operations Administration Division

1 Rempeicho, Chuo-ku,
Kumamoto 860-8615
Phone: (096) 326-8646
Facsimile: (096) 326-8027

Foreign Exchange Offices

Corporate Banking Division
1, Rempeicho, Chuo-ku,
Kumamoto 860-8615
Phone: (096) 325-2111

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, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
ASSETS:			
Cash and due from banks (Notes 3 and 14)	¥ 294,806	¥ 248,161	$ 2,453,248
Call loans and bills bought	147	14,225	1,226
Monetary claims purchased	806	860	6,709
Trading assets (Notes 4, 14 and 15)	1,830	1,066	15,233
Money held in trust (Note 5)	4,942	4,943	41,128
Securities (Notes 4, 8 and 14)	1,629,695	1,571,717	13,561,582
Loans and bills discounted (Notes 6, 9 and 14)	2,669,577	2,556,401	22,215,008
Foreign exchange assets	4,479	5,200	37,274
Lease receivables and investment assets (Note 8)	23,873	23,621	198,663
Other assets	62,672	26,643	521,536
Fixed assets (Note 7)	54,219	47,252	451,187
Intangible assets (Note 7)	6,517	6,728	54,233
Asset for retirement benefits (Note 10)	1,578	333	13,134
Deferred tax assets (Note 13)	372	420	3,100
Customers' liabilities for acceptances and guarantees	9,634	11,122	80,172
Reserve for possible loan losses (Note 14)	(20,804)	(20,349)	(173,126)
Total assets	¥4,744,349	¥4,498,349	$39,480,314
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits (Notes 8 and 14)	¥4,196,538	¥4,106,069	$34,921,683
Borrowing under securities lending transactions (Notes 8 and 14)	74,894	33,797	623,240
Trading liabilities (Notes 14 and 15)	591	361	4,918
Borrowed money (Notes 8 and 14)	56,060	14,078	466,510
Other liabilities	77,603	33,900	645,777
Liability for retirement benefits (Note 10)	8,823	8,250	73,426
Reserve for contingent losses	395	423	3,288
Reserve for repayments for dormant deposits	852	801	7,092
Deferred tax liabilities (Note 13)	11,835	6,285	98,489
Deferred tax liabilities related to land revaluation	4,886	5,451	40,665
Acceptances and guarantees	9,634	11,122	80,172
Total liabilities	4,442,115	4,220,541	36,965,264
Equity (Note 11)**:**			
Common stock			
authorized, 482,858,000 shares; issued, 230,755,291 shares in 2015 and 2014	18,128	18,128	150,860
Capital surplus	8,133	8,133	67,684
Retained earnings (Note 17)	219,635	209,304	1,827,707
Treasury stock at cost, 264,888 shares in 2015 and 228,794 shares in 2014	(141)	(119)	(1,178)
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities (Note 4)	55,519	38,849	462,008
Deferred gains (losses) on derivatives under hedge accounting	(5,614)	(3,390)	(46,717)
Excess of land revaluation	6,058	5,639	50,412
Defined retirement benefit plans (Note 10)	(1,512)	(2,110)	(12,589)
Total accumulated other comprehensive income	54,450	38,988	453,114
Minority interests in consolidated subsidiaries	2,026	3,372	16,861
Total equity	302,233	277,808	2,515,049
Total liabilities and equity	¥4,744,349	¥4,498,349	$39,480,314

See notes to consolidated financial statements.

Consolidated Statement of Income

Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Income:			
Interest on loans and discounts	¥35,674	¥36,523	$296,868
Interest and dividends on securities	17,048	15,757	141,866
Other interest income	677	449	5,639
Fees and commissions income	11,730	11,139	97,614
Trading income	32	43	270
Other operating income	17,299	18,803	143,956
Gain on negative goodwill	101		844
Other income (Note 12)	4,712	3,291	39,218
Total income	87,276	86,008	726,278
Expenses:			
Interest on deposits	1,846	1,637	15,362
Other interest expenses	3,903	3,264	32,483
Fees and commissions expenses	3,802	3,682	31,643
Trading expenses		0	
Other operating expenses	13,733	14,145	114,282
General and administrative expenses	40,131	40,050	333,954
Losses on impairment of long-lived assets	221	141	1,843
Other expenses	2,005	3,319	16,690
Total expenses	65,644	66,243	546,261
Income before income taxes and minority interests	21,632	19,764	180,017
Income taxes (Note 13)**:**			
Current	7,238	8,169	60,231
Deferred	1,347	(550)	11,211
Net income before minority interests	13,047	12,145	108,573
Minority interests in net income	159	319	1,326
Net income	¥12,887	¥11,826	$107,247

	Yen		U.S. dollars
Per share of common stock (Note 2 (o))**:**			
Basic net income	¥55.91	¥51.08	$0.46
Cash dividends applicable to the year	11.00	9.50	0.09

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net income before minority interests	¥13,047	¥12,145	$108,573
Other comprehensive income (Note 16)			
Unrealized gains (losses) on available-for-sale securities	16,683	(5,301)	138,829
Deferred gains (losses) on derivatives under hedge accounting	(2,223)	1,036	(18,504)
Excess of land revaluation	503		4,193
Defined retirement benefit plans	598		4,976
Total other comprehensive income	15,561	(4,264)	129,495
Comprehensive income	¥28,608	¥ 7,880	$238,068
Total comprehensive income attributable to			
Owners of the parent	¥28,436	¥ 7,559	$236,631
Minority interests	172	321	1,437

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended March 31, 2015

	Thousands	Millions of yen			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
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 (April 1, 2014, as previously reported)	230,526	18,128	8,133	209,304	(119)
Cumulative effect of accounting change				(337)	
Balance at April 1, 2014 (as restated)		18,128	8,133	208,967	(119)
Net income				12,887	
Cash dividends, ¥10.00 per share				(2,305)	
Purchase of treasury stock	(36)				(22)
Disposal of treasury stock			0		0
Reversal of excess of land revaluation				85	
Net change in the year					
Balance at March 31, 2015	230,491	¥18,128	¥8,133	¥219,635	¥(141)

	Millions of yen						
	Accumulated other comprehensive income						
	Unrealized gains (losses) on available-for-sale securities	Deferred gain (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	¥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 (April 1, 2014, as previously reported)	38,849	(3,390)	5,639	(2,110)	38,988	3,372	277,808
Cumulative effect of accounting change							(337)
Balance at April 1, 2014 (as restated)	38,849	(3,390)	5,639	(2,110)	38,988	3,372	277,470
Net income							12,887
Cash dividends, ¥10.00 per share							(2,305)
Purchase of treasury stock							(22)
Disposal of treasury stock							0
Reversal of excess of land revaluation							85
Net change in the year	16,669	(2,223)	418	598	15,462	(1,346)	14,116
Balance at March 31, 2015	¥55,519	¥(5,614)	¥6,058	¥(1,512)	¥54,450	¥ 2,026	¥302,233

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Year ended March 31, 2015

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at March 31, 2014 (April 1, 2014, as previously reported)	$150,860	$67,683	$1,741,736	$ (996)
Cumulative effect of accounting change			(2,807)	
Balance at April 1, 2014 (as restated)	150,860	67,683	1,738,929	(996)
Net income			107,247	
Cash dividends, $0.08 per share			(19,182)	
Purchase of treasury stock				(186)
Disposal of treasury stock		0		3
Reversal of excess of land revaluation			713	
Net change in the year				
Balance at March 31, 2015	$150,860	$67,684	$1,827,707	$(1,178)

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income						
	Unrealized gains (losses) on available-for-sale securities	Deferred gain (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, 2014 (April 1, 2014, as previously reported)	$323,290	$(28,213)	$46,932	$(17,566)	$324,443	$ 28,064	$2,311,792
Cumulative effect of accounting change							(2,807)
Balance at April 1, 2014 (as restated)	323,290	(28,213)	46,932	(17,566)	324,443	28,064	2,308,985
Net income							107,247
Cash dividends, $0.08 per share							(19,182)
Purchase of treasury stock							(186)
Disposal of treasury stock							4
Reversal of excess of land revaluation							713
Net change in the year	138,718	(18,504)	3,479	4,976	128,670	(11,203)	117,467
Balance at March 31, 2015	$462,008	$(46,717)	$50,412	$(12,589)	$453,114	$ 16,861	$2,515,049

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Operating activities:			
Income before income taxes and minority interests	¥ 21,632	¥ 19,764	$ 180,017
Adjustments for:			
Income taxes paid	(8,631)	(4,961)	(71,826)
Depreciation and amortization	4,152	3,976	34,553
Losses on impairment of long-lived assets	221	141	1,843
Gain on negative goodwill	(101)		(844)
Increase (decrease) in reserve for possible loan losses	455	(10)	3,790
Decrease in asset for retirement benefits	173	544	1,442
(Decrease) increase in liability for retirement benefits	(328)	27	(2,735)
Decrease in reserve for contingent losses	(28)	(73)	(237)
Increase in reserve for repayments for dormant deposits	51	88	425
Decrease in reserve for loss of head office rebuilding		(281)	
Interest and dividend income	(53,400)	(52,731)	(444,374)
Interest expenses	5,749	4,902	47,846
Gains on securities	(3,675)	(3,765)	(30,586)
Gains on money held in trust	(212)	(1)	(1,765)
Net (increase) decrease in trading assets	(540)	400	(4,499)
Net increase in loans and bills discounted	(113,272)	(80,307)	(942,603)
Net increase in deposits	90,469	161,148	752,843
Net increase in borrowed money (excluding subordinated borrowings)	41,982	2,971	349,357
Net decrease in due from banks (excluding deposits paid to the Bank of Japan)	4,568	8,627	38,015
Net decrease (increase) in call loans and others	14,132	(6,167)	117,604
Net increase in borrowing under securities lending transactions	41,097	4,670	341,994
Increase in lease receivables and investment assets	(251)	(2,724)	(2,093)
Interest received	56,301	56,558	468,514
Interest paid	(5,936)	(4,966)	(49,403)
Other	(8,260)	(9,608)	(68,737)
Total adjustments	64,714	78,458	538,526
Net cash provided by operating activities	86,347	98,223	718,543
Investing activities:			
Payments for purchases of securities	(330,000)	(644,531)	(2,746,112)
Proceeds from sales of securities	237,829	516,849	1,979,109
Proceeds from redemption of securities	71,203	120,840	592,522
Proceeds from decrease in money held in trust	202	17	1,681
Payments for purchases of fixed assets	(9,124)	(3,150)	(75,926)
Proceeds from sales of fixed assets	396	43	3,300
Payments for purchases of intangible assets	(1,918)	(2,401)	(15,968)
Payments for purchases of investments in subsidiaries	(1,417)		(11,791)
Net cash used in investing activities	(32,828)	(12,332)	(273,186)
Financing activities:			
Cash dividends paid	(2,299)	(2,079)	(19,137)
Cash dividends paid to minority shareholders	(0)	(0)	(4)
Payment for purchase of treasury stock	(22)	(532)	(186)
Proceeds from sales of treasury stock	0	0	4
Net cash used in financing activities	(2,322)	(2,611)	(19,323)
Foreign currency translation adjustments on cash and cash equivalents	16	(6)	138
Net increase in cash and cash equivalents	51,213	83,272	426,172
Cash and cash equivalents at beginning of year	225,862	142,590	1,879,526
Cash and cash equivalents at end of year (Note 3)	¥ 277,075	¥ 225,862	$ 2,305,699

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended March 31, 2015

1. Basis of Presenting 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 2014 financial statements to conform to the classifications used in 2015.

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 ¥120.17 to $1, the approximate rate of exchange at March 31, 2015. 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, 2015 and 2014, 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 Accounting Standards Board of Japan (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. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

c. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement 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 in the consolidated balance sheet. Income or expenses generated on the relevant trading transactions are recorded in Trading income or Trading expenses in 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 ¥11,674 million ($97,152 thousand) and ¥11,737 million as of March 31, 2015 and 2014, respectively.

h. Long-lived assets

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

i. Reserve for possible loan losses

Reserve for possible loan losses is provided as follows:

i) The reserve for claims on debtors who are legally or substantially bankrupt is provided based on the amount remaining after deducting the amount expected to be collected through the disposal of collateral or through the execution of guarantees.

ii) The reserve for claims on debtors who are not currently legally bankrupt but are likely to become bankrupt is provided at the amount considered necessary after due consideration of the results of a solvency assessment. The solvency assessment identifies the amounts expected to remain after deducting the amounts expected to be collected through the disposal of collateral or through the execution of guarantees.

iii) The reserve for claims on debtors other than the above is provided based on the loan-loss rates calculated using the actual historical loss experience during a certain period in the past.

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

With respect to the claims with collateral or guarantees on debtors who are legally or substantially bankrupt, estimated uncollectible amounts have been directly charged off against claims. The charge off amounted to ¥2,158 million ($17,965 thousand) and ¥3,627 million for the years ended March 31, 2015 and 2014, 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, are treated as reclassification adjustments (see Note 10).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, 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, all 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, and for (c) above, effective April 1, 2014.

With respect to (c) above, the Bank changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, the method of determining the discount rate from a method based on the number of years that is an approximation of the average remaining service lives for employees with regard to the term of claims serving as a basis for determination of the discount rate to a method using a single weighted-average discount rate which reflects the expected period of payment of retirement benefits and the amount of retirement benefits for each expected period of payment timing and amount of benefit payment, and recorded the effect of (c) above as of April 1, 2014, in retained earnings. As a result, liability for retirement benefits as of April 1, 2014, increased by ¥693 million ($5,768 thousand), asset for retirement benefits as of April 1, 2014, increased by ¥171 million ($1,429 thousand) and retained earnings as of April 1, 2014, decreased by ¥337 million ($2,807 thousand), respectively.

l. Reserve for contingent losses

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

m. Reserve for repayments for dormant deposits

Reserve for repayments for dormant deposits is provided for possible losses on future withdrawal of inactive deposits which had been recognized as income.

n. Leases

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

o. Per share information

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during the year. The average number of common shares used in the computation was 230,510 thousand shares and 231,521 thousand shares for the years ended March 31, 2015 and 2014, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2015 and 2014, because there are no potential common shares.

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

p. Income taxes

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

q. Appropriations of retained earnings

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

r. 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.

s. New accounting pronouncements

Accounting Standards for Business Combinations and Consolidated Financial Statements—In September 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:

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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 (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs 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 (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) 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 shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income 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 (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs 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 for (a), (b), (c) and (e) above from April 1, 2015, and for (d) above for a business combination which will occur on or after 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 statement of cash flows and the account balances in the consolidated balance sheet was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and due from banks	¥294,806	¥248,161	$2,453,248
Time deposit due from banks	(10,010)	(10,010)	(83,298)
Foreign currency due from banks	(6,008)	(10,292)	(50,000)
Other due from banks	(1,712)	(1,997)	(14,250)
Cash and cash equivalents	¥277,075	¥225,862	$2,305,699

4. Securities

The costs and aggregate fair values of securities at March 31, 2015 and 2014, 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 sheet.

	Millions of yen		
March 31, 2015	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	¥ 1,229		
Available-for-sale:			
Equity securities	66,469	¥ 33,785	¥32,684
Debt securities	1,201,298	1,166,445	34,853
Other	352,649	339,658	12,990
Held-to-maturity:			
Debt securities	7,952	7,902	50

	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

	Thousands of U.S. Dollars		
March 31, 2015	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	$ 10,228		
Available-for-sale:			
Equity securities	553,133	$ 281,149	$271,983
Debt securities	9,996,658	9,706,627	290,031
Other	2,934,585	2,826,480	108,104
Held-to-maturity:			
Debt securities	66,180	65,759	421

The information of available-for-sale securities which were sold for the years ended March 31, 2015 and 2014, was as follows:

	Millions of yen		
March 31, 2015	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 5,975	¥2,015	¥ (48)
Debt securities	204,756	752	(577)
Other	51,878	1,625	(91)
Total	¥262,611	¥4,392	¥(717)

March 31, 2014	Millions of yen		
	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)

March 31, 2015	Thousands of U.S. Dollars		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 49,727	$16,772	$ (404)
Debt securities	1,703,892	6,258	(4,802)
Other	431,712	13,525	(762)
Total	$2,185,331	$36,555	$(5,969)

The impairment losses on available-for-sale equity securities for the years ended March 31, 2015 and 2014, were zero.

Net unrealized gains (losses) on available-for-sale securities for the years ended March 31, 2015 and 2014, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Valuation differences:			
Available-for-sale securities	¥80,528	¥59,119	$670,119
Deferred tax liabilities	(24,979)	(20,253)	(207,869)
Minority interests	(29)	(15)	(242)
Net unrealized gains (losses) on available-for-sale securities	¥55,519	¥38,849	$462,008

5. Money Held in Trust

The carrying amounts and unrealized gains (losses) of money held in trust, as of March 31, 2015 and 2014, were as follows:

Money held in trust held for trading

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Carrying amounts	¥4,942	¥4,943	$41,128
Unrealized gains (losses) credited to income	67	20	565

6. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2015 and 2014, included the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Bankruptcy loans	¥ 550	¥ 336	$ 4,581
Past due loans	44,800	46,691	372,811
Loans past due for three months or more	22	46	189
Restructured loans	15,976	11,885	132,949
Total	¥61,350	¥58,959	$510,531

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 ¥12,175 million ($101,322 thousand) and ¥14,005 million as of March 31, 2015 and 2014, 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, 2015 and 2014, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Buildings	¥ 9,837	¥ 8,641	$ 81,861
Land	27,651	27,863	230,102
Construction in progress	10,582	4,305	88,060
Other	6,148	6,441	51,162
Total	¥54,219	¥47,252	$451,187

Accumulated depreciation at March 31, 2015 and 2014, amounted to ¥35,492 million ($295,349 thousand) and ¥36,090 million, respectively.
As of March 31, 2015 and 2014, deferred gains for tax purposes amounted to ¥3,487 million ($29,019 thousand) and ¥3,487 million, respectively.

Intangible assets as of March 31, 2015 and 2014, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Software	¥6,349	¥6,559	$52,837
Other	167	169	1,396
Total	¥6,517	¥6,728	$54,233

8. Assets Pledged

Assets pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Securities	¥153,121	¥67,085	$1,274,208
Lease receivables and investment assets	2,830	4,551	23,554
Other	714	1,036	5,948
Total	¥156,667	¥72,673	$1,303,712

Liabilities related to the above assets pledged were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deposits	¥34,236	¥25,455	$284,902
Borrowing under securities lending transactions	74,894	33,797	623,240
Borrowed money	45,472	4,916	378,398

In addition, securities totaling ¥127,421 million ($1,060,343 thousand) and ¥127,852 million were pledged as collateral for settlement of exchange as of March 31, 2015 and 2014, respectively.

Guarantee deposits amounting to ¥365 million ($3,043 thousand) and ¥405 million were included in other assets at March 31, 2015 and 2014, 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
	2015	2014	2015
Original maturity is within one year or the Bank can cancel at any time without any penalty	¥620,727	¥631,007	$5,165,414
Other	25,731	27,704	214,125
Total	¥646,459	¥658,712	$5,379,540

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. 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.

(1) The changes in defined benefit obligation for the years ended March 31, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of year (as previously reported)	¥38,428	¥39,465	$319,785
Cumulative effect of accounting change	521		4,338
Balance at beginning of year (as restated)	38,950	39,465	324,124
Current service cost	1,052	1,209	8,759
Interest cost	390	391	3,250
Actuarial (gains) losses	1,166	(524)	9,703
Benefits paid	(2,438)	(2,113)	(20,295)
Balance at end of year	¥39,120	¥38,428	$325,543

(2) The changes in plan assets for the years ended March 31, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Balance at beginning of year	¥30,511	¥30,896	$253,903
Expected return on plan assets	610	617	5,078
Actuarial gains (losses)	1,894	(3)	15,767
Contributions from the employer	573	581	4,772
Benefits paid	(1,714)	(1,580)	(14,270)
Balance at end of year	¥31,875	¥30,511	$265,251

(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
	2015	2014	2015
Funded defined benefit obligation	¥ 30,296	¥ 30,178	$ 252,116
Plan assets	(31,875)	(30,511)	(265,251)
Total	(1,578)	(333)	(13,134)
Unfunded defined benefit obligation	8,823	8,250	73,426
Net liability arising from defined benefit obligation	¥ 7,245	¥ 7,917	$ 60,291

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Liability for retirement benefits	¥ 8,823	¥8,250	$ 73,426
Asset for retirement benefits	(1,578)	(333)	(13,134)
Net liability arising from defined benefit obligation	¥ 7,245	¥7,917	$ 60,291

(4) The components of net periodic benefit costs for the years ended March 31, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥1,052	¥1,209	$ 8,759
Interest cost	390	391	3,250
Expected return on plan assets	(610)	(617)	(5,078)
Amortization of prior service cost	(597)	(597)	(4,968)
Recognized actuarial (gains) losses	906	1,299	7,541
Others	0	0	2
Net periodic benefit costs	¥1,142	¥1,686	$ 9,506

(5) Other comprehensive income on defined retirement benefit plans for the years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Prior service cost	¥ 597		$ 4,968
Actuarial (gains) losses	(1,634)		(13,604)
Total	¥(1,037)		$ (8,636)

(6) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized prior service cost	¥ (49)	¥ (646)	$ (414)
Unrecognized actuarial (gains) losses	2,274	3,909	18,928
Total	¥2,224	¥3,262	$18,514

(7) Plan assets

(a) Components of plan assets

Plan assets as of March 31, 2015 and 2014, consisted of the following:

	2015	2014
Debt investments	35%	26%
Equity investments	29	13
General account of life insurance companies	32	46
Others	4	15
Total	100%	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.

(8) Assumptions used for the years ended March 31, 2015 and 2014, were set forth as follows:

	2015	2014
Discount rate	0.7%	1.1%
Expected rate of return on plan assets	2.0%	2.0%
Expected rate of salary increase	5.5%	5.2%

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 ¥2,532 million ($21,072 thousand) and ¥1,667 million for the years ended March 31, 2015 and 2014, respectively.

13. Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 35.3% and 37.7% for the years ended March 31, 2015 and 2014.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities as of March 31, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Reserve for possible loan losses	¥ 6,918	¥7,902	$ 57,571
Liability for retirement benefits	2,823	2,912	23,496
Depreciation	860	990	7,160
Loss on impairment of securities	1,311	1,474	10,913
Deferred gains (losses) on derivatives under hedge accounting	2,642	1,849	21,985
Other	1,969	2,246	16,388
Subtotal	16,525	17,376	137,516
Valuation allowance	(2,206)	(2,444)	(18,362)
Deferred tax assets	14,318	14,932	119,153
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(25,077)	(20,350)	(208,679)
Deferred income on fixed assets sold	(167)	(288)	(1,390)
Asset for retirement benefits	(505)	(117)	(4,203)
Other	(32)	(40)	(268)
Deferred tax liabilities	(25,781)	(20,797)	(214,542)
Net deferred tax liabilities	¥(11,462)	¥ (5,865)	$ (95,388)

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, 2015, was as follows:

	2015
Normal effective statutory tax rate	35.3%
Expenses not deductible for income tax purposes	0.2
Income not taxable for income tax purposes	(0.9)
Valuation allowance	0.0
Inhabitant taxes per capita	0.4
Change in effective statutory tax rate	4.7
Gain on negative goodwill	(0.2)
Other-net	0.2
Actual effective tax rate	39.7%

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 2015 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2015, to approximately 32.8% and for the fiscal year beginning on or after April 1, 2016, to approximately 32.0%. The effect of these changes was to decrease deferred tax assets by ¥34 million ($289 thousand), deferred tax liabilities by ¥1,256 million ($10,459 thousand), deferred tax liabilities related to land revaluation by ¥503 million ($4,193 thousand) and increase unrealized gains on available-for-sale securities by ¥2,583 million ($21,497 thousand), deferred income taxes by ¥1,018 million ($8,472 thousand), excess of land revaluation by ¥503 million ($4,193 thousand).

14. 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 Compliance and Risk management 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, 2015, VaR related to interest rate risks was ¥16,255 million ($135,270 thousand) and VaR related to price volatility risks was ¥18,055 million ($150,252 thousand) and as of March 31, 2014, VaR related to interest rate risks was ¥14,283 million and VaR related to price volatility risks was ¥24,343 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 value of financial instruments

Fair values and carrying amounts of financial instruments as of March 31, 2015 and 2014, 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 14 (e) (Note 2)).

	Millions of yen		
	2015		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 294,806	¥ 294,806	
(2) Securities:			
Held-to-maturity debt securities	7,902	7,952	¥ 50
Available-for-sale securities	1,620,417	1,620,417	
(3) Loans and bills discounted	2,669,577		
Reserve for possible loan losses (*1)	(19,778)		
	2,649,799	2,677,306	27,507
Total assets	4,572,926	4,600,483	27,557
(1) Deposits	4,196,538	4,197,519	980
(2) Borrowing under securities lending transactions	74,894	74,894	
(3) Borrowed money	56,060	56,058	(2)
Total liabilities	4,327,493	4,328,472	978
Derivatives (*2)			
For which hedge accounting is not applied	(9,487)	(9,487)	
For which hedge accounting is applied	(9,054)	(9,054)	
Total	¥ (18,542)	¥ (18,542)	

	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
(1) Deposits	4,106,069	4,107,212	1,142
(2) Borrowing under securities lending transactions	33,797	33,797	
(3) Borrowed money	14,078	14,082	3
Total liabilities	4,153,945	4,155,091	1,146
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)	

	Thousands of U.S. dollars		
	2015		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	$ 2,453,248	$ 2,453,248	
(2) Securities:			
Held-to-maturity debt securities	65,759	66,180	$ 421
Available-for-sale securities	13,484,377	13,484,377	
(3) Loans and bills discounted	22,215,008		
Reserve for possible loan losses (*1)	(164,585)		
	22,050,423	22,279,324	228,901
Total assets	38,053,808	38,283,130	229,322
(1) Deposits	34,921,683	34,929,843	8,160
(2) Borrowing under securities lending transactions	623,240	623,240	
(3) Borrowed money	466,510	466,492	(17)
Total liabilities	36,011,433	36,019,577	8,143
Derivatives (*2)			
For which hedge accounting is not applied	(78,954)	(78,954)	
For which hedge accounting is applied	(75,347)	(75,347)	
Total	$ (154,301)	$ (154,301)	

*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

(1) Deposits

For demand deposits, fair value is assumed as the amount to be paid when demanded on the balance sheet data (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.

(2) Borrowing under securities lending transactions

As their remaining term is short (within one year) and their fair value and carrying amounts are nearly identical, their carrying amounts are assumed as their fair value.

(3) Borrowed money

As borrowed money bearing floating rates of interest reflects market rates of interest in the short term, the credit conditions of the Bank and the consolidated subsidiaries have not changed significantly after lending the loans their fair value and carrying amounts are nearly identical, and their carrying amounts are assumed as their fair value. For those with fixed-rate interest, the fair value is determined by segmenting such borrowed money by term and discounting the total amount of principal and interest by the rate of interest on new borrowings of the same type. As for borrowed money which have a short repayment term (within one year), their fair value and carrying amounts are nearly identical, so their carrying amounts are assumed as their fair price.

Derivatives

The information of the fair value for derivatives is included in Note 15.

(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, 2015 and 2014.

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unlisted stocks (*1, *2)	¥1,369	¥1,373	$11,399
Other (*1)	5	5	46
Total	¥1,375	¥1,379	$11,446

*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 zero and ¥14 million for the years ended March 31, 2015 and 2014, respectively.

(Note 3) Maturity analysis for claims and securities with contractual maturities as of March 31, 2015 and 2014

	Millions of yen					
	2015					
	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	¥253,593					
Securities						
Held-to-maturity debt securities	881	¥ 3,708	¥ 3,006	¥ 146	¥ 159	
Corporate bonds	881	3,708	3,006	146	159	
Available-for-sale securities with maturity	77,475	418,183	569,377	167,183	117,977	¥147,671
Japanese government bonds	1,867	220,544	384,484	127,584	23,133	74,361
Municipal government bonds	23,130	51,722	63,584	9,203	9,390	12,227
Corporate bonds	21,224	56,856	51,714	19,129	14,136	36,993
Loans and bills discounted (*1)	348,365	430,853	360,579	293,620	285,173	613,818
Total	¥680,315	¥852,744	¥932,964	¥460,950	¥403,309	¥761,490

	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 (*2)	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

	Thousands of U.S. dollars					
	2015					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	$2,110,289					
Securities						
Held-to-maturity debt securities	7,336	$ 30,857	$ 25,020	$ 1,221	$ 1,323	
Corporate bonds	7,336	30,857	25,020	1,221	1,323	
Available-for-sale securities with maturity	644,715	3,479,928	4,738,103	1,391,228	981,752	$1,228,853
Japanese government bonds	15,539	1,835,273	3,199,506	1,061,703	192,506	618,802
Municipal government bonds	192,479	430,415	529,119	76,591	78,147	101,752
Corporate bonds	176,623	473,134	430,347	159,186	117,633	307,844
Loans and bills discounted (*1)	2,898,937	3,585,364	3,000,581	2,443,374	2,373,084	5,107,920
Total	$5,661,278	$7,096,150	$7,763,705	$3,835,823	$3,356,160	$6,336,773

*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 ¥45,351 million ($377,393 thousand), is not included in the above table. Loans that do not have contractual maturity, amounting to ¥291,815 million ($2,428,354 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 ¥47,027 million, is not included in the above table. Loans that do not have contractual maturity, amounting to ¥280,829 million, are not included either.

(Note 4) Maturity analysis for interest bearing liabilities as of March 31, 2015 and 2014

	Millions of yen					
	2015					
	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)	¥4,048,725	¥129,930	¥15,374	¥985	¥1,521	
Borrowing under securities lending transactions	74,894					
Borrowed money	45,917	8,989	1,153			
Total	¥4,169,537	¥138,920	¥16,528	¥985	¥1,521	

	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	
Borrowing under securities lending transactions	33,797					
Borrowed money	4,479	7,868	1,730			
Total	¥3,994,349	¥137,362	¥19,574	¥1,274	¥1,383	

	Thousands of U.S. dollars					
	2015					
	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)	$33,691,651	$1,081,226	$127,941	$8,202	$12,661	
Borrowing under securities lending transactions	623,240					
Borrowed money	382,101	74,810	9,597			
Total	$34,696,993	$1,156,036	$137,539	$8,202	$12,661	

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

15. 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, 2015 and 2014

i) Interest rate related transactions

There were no interest rate related transactions as of March 31, 2015 and 2014.

ii) Foreign exchange related transactions

	Millions of yen			
	2015			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	¥ 19,125	¥4,461	¥ (855)	¥ (26)
Foreign exchange forward contracts:				
Selling	191,999	784	(9,069)	(9,069)
Buying	6,364	783	437	437

	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

	Thousands of U.S. dollars			
	2015			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	$ 159,152	$37,129	$ (7,119)	$ (224)
Foreign exchange forward contracts:				
Selling	1,597,735	6,532	(75,471)	(75,471)
Buying	52,962	6,519	3,637	3,637

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, 2015 and 2014

i) Interest rate related transactions

	Millions of yen			
	2015			
	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)	¥242,977	¥242,977	¥(8,245)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	138,885	138,416	(2,973)

	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)

	Thousands of U.S. dollars			
	2015			
	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)	$2,021,944	$2,021,944	$(68,615)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and Bills discounted	1,155,737	1,151,842	(24,742)

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			
	2015			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Foreign exchange forward contracts	Foreign currency due from banks and deposits	¥25,109		¥(808)

	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)

	Thousands of U.S. dollars			
	2015			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Foreign exchange forward contracts	Foreign currency due from banks and deposits	$208,948		$(6,731)

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.

16. Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2015 and 2014, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrealized gains (losses) on available-for-sale securities:			
Gains arising during the year	¥25,465	¥(4,672)	$211,912
Reclassification adjustments to profit or loss	(4,056)	(3,783)	(33,755)
Amount before income tax effect	21,409	(8,456)	178,157
Income tax effect	(4,726)	3,154	(39,328)
Total	16,683	(5,301)	138,829
Deferred gains (losses) on derivatives under hedge accounting:			
Gains arising during the year	(5,740)	(386)	(47,765)
Reclassification adjustments to profit or loss	2,724	1,989	22,669
Amount before income tax effect	(3,015)	1,602	(25,096)
Income tax effect	792	(566)	6,592
Total	(2,223)	1,036	(18,504)
Excess of land revaluation:			
Income tax effect	503		4,193
Total	503		4,193
Defined retirement benefit plans:			
Adjustments arising during the year	728		6,063
Reclassification adjustments to profit or loss	309		2,573
Amount before income tax effect	1,037		8,636
Income tax effect	(439)		(3,659)
Total	598		4,976
Total other comprehensive income	¥15,561	¥(4,264)	$129,495

17. Appropriation of Retained Earnings

The annual shareholders' meeting, which was held on June 23, 2015, approved the following appropriations of retained earnings for the year ended March 31, 2015:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Cash dividends (¥6.00 per share)	¥1,382	$11,508

18. Business combination

Additional Information

Business integration between the Bank and Kagoshima Bank

The Bank and The Kagoshima Bank, Ltd. (Representative: Motohiro Kamimura, President ("Kagoshima Bank"); the Bank and Kagoshima Bank shall be collectively referred to as the "Banks") have resolved, at their respective board of directors' meetings held on March 27, 2015: (i) to establish "Kyushu Financial Group Inc," a wholly owning parent company of the Banks (the "Joint Holding Company") by way of share transfer (the "Share Transfer") on October 1, 2015 (the "Effective Date"); and (ii) to establish an outline of the Joint Holding Company and the conditions, etc., of the Share Transfer, on the condition that the approval of the general shareholders' meetings of the Banks will be obtained and that the necessary licenses and permits will be obtained from the competent authorities, and thus, as of the same day, have entered into a "Business Integration Agreement" and jointly prepared a "Share Transfer Plan" as set forth below.

In addition, the share transfer plan was approved at the general shareholder's meetings held on June 23, 2015.

1. Purpose of Business Integration through Share Transfer

(1) Background and Purpose of Business Integration

The Banks, in serving their corporate missions as regional banks based in the Kyushu region, have been dedicating themselves to establishing stable revenue bases thanks to the strong patronage provided by the people living in each of the respective areas. However, in terms of future bank management, the Banks have recognized that they will be further required to respond to changes in the surrounding environment, including the coming population decrease and the transformation in the competitive landscape.

In view of such changes in the future environment and in order to realize "regional revitalization" by working together with the region as regional banks, the Banks determined it necessary to establish a solid management foundation with which the Banks would be able to further exert their presence in the Kyushu region with a strong focus on their respective local areas, and to create a new expanded community-based business model. As the Banks have already announced in the November 10, 2014, press release regarding the "Basic Agreement Regarding Business Integration between The Higo Bank, Ltd. and The Kagoshima Bank, Ltd.," the Banks entered into a basic agreement on November 10, 2014, to engage in consultations and discussions targeting a business integration through the establishment of a holding company, and since such time have engaged in consultations and discussions targeting the establishment of the Joint Holding Company through the Share Transfer scheduled to take place on October 1, 2015. As a result thereof, on March 27, 2015, the Banks have reached a final agreement regarding conducting the business integration "on an equal footing" between the Banks.

(2) Method of Share Transfer and Contents of the Allotment in the Share Transfer

(i) Method of Share Transfer

Based on the Share Transfer Plan, the Joint Holding Company plans to acquire all of the Banks' issued and outstanding shares on or around October 1, 2015, and, in exchange for such shares, to allot new shares in the Joint Holding Company to shareholders of the Banks.

Please note that the above schedule or form of the business integration may change in the future, in the course of engaging in the consultations and discussions towards the business integration.

(ii) Contents of the Allotment in the Share Transfer (Share Transfer Ratio)

Company	Bank	Kagoshima Bank
Share Transfer Ratio	1	1.11

(Note 1) Share allotment ratio

The Bank shareholders will receive one share of Joint Holding Company common stock for each share of the Bank's common stock and the Kagoshima Bank shareholders will receive 1.11 shares of Joint Holding Company common stock for each share of Kagoshima Bank common stock. The total number of shares in the Joint Holding Company to be delivered to the shareholders of the Bank and the total number of shares in the Joint Holding Company to be delivered to the shareholders of Kagoshima Bank under the Share Transfer Plan will be approximately the same ("1:1"). The number of shares constituting one share unit of the Joint Holding Company will be 100 shares.

If there are any fractional shares less than one share in the common stock of the Joint Holding Company which must be delivered to the shareholders of the Banks as a result of the Share Transfer, the amount in proportion to such fractional portion less than one share shall be paid to the relevant shareholders in accordance with the provisions of Article 234 of the Companies Act (Law No. 86 of July 26, 2005 (as amended); hereinafter the same shall apply) and the provisions of other related laws and regulations.

Please note that the above-mentioned share transfer ratio is subject to change through mutual consultation between the Banks if any material change occurs to, or if it is found that there is any event that will have a significant impact on the property condition or financial condition of the Bank or Kagoshima Bank during the period from the preparation date of the Share Transfer Plan to the formation date of the Joint Holding Company.

(Note 2) Number of new shares to be delivered by the Joint Holding Company (planned)

463,407,669 shares of common stock

The above number is based on the total number of issued and outstanding shares of the Bank's common stock as of

December 31, 2014, i.e., 230,755,291 shares and the total number of issued and outstanding shares of Kagoshima Bank common stock as of December 31, 2014, i.e., 210,403,655 shares. Each bank plans to cancel its treasury stock that it owns, to the extent practically possible, immediately before the Joint Holding Company acquires all of the Banks' issued and outstanding shares (the "Record Time"). Accordingly, the amount of the Bank's treasury stock as of December 31, 2014, i.e., 256,172 shares and the amount of Kagoshima Bank treasury stock as of December 31, 2014, i.e., 576,132 shares are excluded from the calculation of the above-mentioned numbers of new shares of common stock to be delivered by the Joint Holding Company.

If the amount of the Banks' treasury stock as of December 31, 2014, changes on or before the Record Time, such as where a shareholder of the Bank or Kagoshima exercises its right to demand such bank to repurchase such shareholder's shares, the number of new shares to be delivered by the Joint Holding Company may change.

(Note 3) Treatment of shares less than one share unit

The shareholders of the Banks who receive a fractional unit (a unit equals 100 shares) of Joint Holding Company common stock as a result of the Share Transfer will not be able to sell their fractional units on the Tokyo Stock Exchange, Inc. ("TSE") or any other financial instruments exchange. The shareholders who hold such fractional units may compel the Joint Holding Company to repurchase their fractional units in accordance with the provisions of Article 192(1) of the Companies Act. In accordance with Article 194(1) of the Companies Act, the shareholders holding fractional units may compel the Joint Holding Company to offer for sale the number of shares necessary to achieve a whole unit with respect to shares for which they only have a fractional unit.

2. Schedule

March 27, 2015 (Friday)	Resolution at the board of directors' meeting regarding the Business Integration Agreement and Share Transfer Plan; entering into the Business Integration Agreement; and preparing the Share Transfer Plan
March 31, 2015 (Tuesday)	Reference date for annual general meeting of shareholders of the Banks
June 23, 2015 (Tuesday)	Annual general meeting of shareholders of the Banks for approval of the Share Transfer Plan
September 28, 2015 (Monday) (planned)	Delisting the shares of the Banks from the TSE and Fukuoka Stock Exchange ("FSE")
October 1, 2015 (Thursday) (planned)	Registration of the incorporation of the Joint Holding Company (Effective Date) and listing of shares of the Joint Holding Company

Please note that the above schedule may change in the future depending upon the discussion between the Banks due to reasons, such as unforeseeable requirements arising in the course of implementing the Share Transfer.

3. Company overview (as of end of December 2014)

Trade name		The Higo Bank, Ltd.	The Kagoshima Bank, Ltd.
Content of business		Ordinary banking business	Ordinary banking business
Date of establishment		July 25, 1925	October 6, 1879
Location of head office		13-5, Koyamachi 1-chome, Chuo-ku, Kumamoto-shi, Kumamoto prefecture	6-6, Kinsei-cho, Kagoshima-shi, Kagoshima prefecture
Representative		Takahiro Kai, President	Motohiro Kamimura, President
Capital		18,128 million yen	18,130 million yen
Number of issued shares		230,755 thousand shares	210,403 thousand shares
Total assets (consolidated)		4,520,643 million yen	4,077,604 million yen
Total equity (consolidated)		295,502 million yen	311,814 million yen
Deposit balance (nonconsolidated)		4,009,093 million yen	3,595,059 million yen
Loan balance (nonconsolidated)		2,656,231 million yen	2,636,657 million yen
Fiscal year end		March 31	March 31
Number of employees (nonconsolidated)		2,283	2,359
Number of branches (including subbranches)		122	152
Results of operations	Fiscal year	FY ended March 2014	FY ended March 2014
	Ordinary income (consolidated)	86,004 million yen	79,030 million yen
	Ordinary income (consolidated)	19,904 million yen	14,646 million yen
	Net income (consolidated)	11,826 million yen	9,653 million yen

4. Status of the Newly Established Company in the Share Transfer

Trade name	Kyushu Financial Group Inc.	
Location of head office	6-6, Kinsei-cho, Kagoshima-shi, Kagoshima prefecture	
Location of headquarters	1, Renpeicho, Chuo-ku, Kumamoto-shi, Kumamoto prefecture	
Representatives and officers (planned)	Chairman and Representative Director: Takahiro Kai	(currently, President of Higo Bank)
	President and Representative Director: Motohiro Kamimura	(currently, President of Kagoshima Bank)
	Director: Shiichiro Shimoyama	(currently, Senior Executive Managing Officer and Director of Higo Bank)
	Director: Akihisa Koriyama	(currently, Senior Managing Director of Kagoshima Bank)
	Director: Tsuyoshi Mogami	(currently, Executive Managing Officer and Director of Higo Bank)
	Director: Hiroyuki Matsunaga	(currently, Executive Officer, Manager of Corporate Planning Division, and Manager of Business Integration Preparation Office, Corporate Planning Division, Kagoshima Bank)
	Director: Koji Tsumagari	(currently, Corporate Auditor of Kagoshima Bank)
	Director: Tooru Hayashida	(currently, Director and Executive Officer, Manager of Business Integration Preparation Office, Higo Bank)
	Director: Katsuaki Watanabe	(currently, Senior Advisor of Toyota Motor Corporation)
	Director: Takejiro Sueyoshi	(currently, Special Advisor of UNEP Financial Initiative)
	Company Auditor: Toyonori Ueno	(currently, Corporate Auditor of Higo Bank)
	Company Auditor: Satoru Motomura	(currently, Corporate Auditor of Kagoshima Bank)
	Company Auditor: Kenichi Sekiguchi	(currently, Special Advisor of Meiji Yasuda Life Insurance Company)
	Company Auditor: Katsuro Tanaka	(currently, Senior Managing Partner of TMI Associates)
	Company Auditor: Yuko Tashima	(currently, attorney)
	(Note 1) Directors Katsuaki Watanabe and Takejiro Sueyoshi are outside directors as defined under Article 2(15) of the Companies Act. (Note 2) Company Auditors Kenichi Sekiguchi, Katsuro Tanaka and Yuko Tashima are outside company auditors as defined under Article 2(16) of the Companies Act.	
Capital stock	¥36,000 million	
Legal capital surplus	¥9,000 million	
Fiscal year end	March 31	

5. Overview of Accounting in Connection with the Share Transfer

The purchase method of accounting is expected to be used since the Share Transfer is regarded as an acquisition under the Accounting Standards for Business Combinations. The amount of goodwill (or negative goodwill) arising as a result of the Share Transfer has not been determined at the present stage.

19. 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						
	2015						
	Reportable Segment						
	Banking	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:							
Ordinary income by external customers	¥ 71,265	¥13,948	¥ 85,213	¥1,750	¥ 86,964		¥ 86,964
Intersegment ordinary income	279	1,142	1,422	961	2,383	¥ (2,383)	
Total	¥ 71,545	¥15,090	¥ 86,636	¥2,711	¥ 89,347	¥ (2,383)	¥ 86,964
Segment profit	¥ 20,276	¥ 885	¥ 21,162	¥ 552	¥ 21,715	¥ (161)	¥ 21,553
Segment assets	4,722,480	47,223	4,769,703	9,208	4,778,911	(34,562)	4,744,349
Other:							
Depreciation	3,956	89	4,046	39	4,085	66	4,152
Interest income	53,318	45	53,363	173	53,536	(136)	53,400
Interest expenses	5,655	208	5,863	17	5,881	(131)	5,749
Increase in fixed assets and intangible assets	10,403	53	10,456	941	11,398	30	11,428

	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
Increase in fixed assets and intangible assets	5,466	119	5,585	147	5,733	(120)	5,612

	Thousands of U.S. dollars						
	2015						
	Reportable Segment						
	Banking	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:							
Ordinary income by external customers	$ 593,041	$116,069	$ 709,110	$14,566	$ 723,677		$ 723,677
Intersegment ordinary income	2,329	9,506	11,835	7,998	19,834	$ (19,834)	
Total	$ 595,370	$125,575	$ 720,945	$22,565	$ 743,511	$ (19,834)	$ 723,677
Segment profit	$ 168,734	$ 7,372	$ 176,106	$ 4,596	$ 180,703	$ (1,343)	$ 179,360
Segment assets	39,298,329	392,970	39,691,299	76,627	39,767,927	(287,613)	39,480,314
Other:							
Depreciation	32,924	745	33,670	330	34,000	552	34,553
Interest income	443,689	375	444,065	1,443	445,509	(1,135)	444,374
Interest expenses	47,059	1,734	48,794	149	48,943	(1,097)	47,846
Increase in fixed assets and intangible assets	86,570	442	87,013	7,836	94,849	252	95,102

Notes: 1. Ordinary income means total income less certain special income included in other income in the accompanying consolidated statement 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, 2015, the segment profit reconciliations of ¥(161) million ($(1,343) thousand) include reconciliations in reserve for possible loan losses of ¥(21) million ($(177) thousand) and eliminations of intersegment transactions of ¥(140) million ($(1,166) thousand).
b. For the year ended March 31, 2014, the segment profit reconciliations of ¥(138) million include eliminations of intersegment transactions of ¥(139) million.
c. For the years ended March 31, 2015 and 2014, 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				
	2015				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	¥35,674	¥21,878	¥13,827	¥15,583	¥86,964

	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

	Thousands of U.S. dollars				
	2015				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	$296,868	$182,066	$115,062	$129,679	$723,677

Note: Instead of the net sales of a nonfinancial company, ordinary income is presented.

(b) Segment information by geographic areas

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

(c) Segment information by major customers

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

Deloitte.

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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. (the "Bank") and its consolidated subsidiaries as of March 31, 2015, 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 Bank and its consolidated subsidiaries as of March 31, 2015, 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.

Emphasis of Matter

As discussed in Note 18 to the consolidated financial statements, the Bank and The Kagoshima Bank, Ltd. resolved, at their respective board of directors' meetings held on March 27, 2015, to establish "Kyushu Financial Group, Inc." a wholly owning parent company of both banks (the "Joint Holding Company") by way of a share transfer on October 1, 2015, and established an outline of the joint holding company and the conditions, etc., of the share transfer and on the same date entered into a "Business Integration Agreement."
In addition, the share transfer plan was approved at the general shareholders' meetings held on June 23, 2015.
Our opinion is not modified in respect of this matter.

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 23, 2015

Member of
Deloitte Touche Tohmatsu Limited

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