Annual Report 2020

Kyushu Financial Group

HigoBank Kagoshima Bank Kyushu FG Securities

Review of Financial Results

Status of Cash Flows

The status of cash flows for the current consolidated fiscal year and the primary reasons are as follows.

Net cash provided by operating activities amounted to 195,306 million yen, due to an increase in deposits and other factors.

Net cash used in investing activities amounted to 222,741 million yen, due to payments for purchase of securities and other factors.

Net cash used in financing activities amounted to 11,805 million yen, due to payments for purchase of treasury stock, cash dividends paid, and other factors.

As a result of the above, the balance of cash and cash equivalents at the end of the current consolidated fiscal year is 1,169,723 million yen.

Analysis of Financial Position and Operating Results

Regarding the financial position at the end of the current consolidated fiscal year, total assets increased 635,207 million yen from the end of the previous consolidated fiscal year to 11,079,796 million yen, and total equity decreased 32,563 million yen from the end of the previous consolidated fiscal year to 619,754 million yen.

Regarding the balances of primary accounting items, the balance of deposits increased 198,764 million yen from the end of the previous consolidated fiscal year to 8,766,321 million yen.

The balance of loans and bills discounted increased 3 3 3,7 6 3 million yen from the end of the previous consolidated fiscal year to 7,186,901 million yen.

The balance of securities increased 204,086 million yen from the end of the previous consolidated fiscal year to 2,216,941 million yen.

Regarding operating results for the current consolidated fiscal year, ordinary income increased 1,817 million yen from the previous consolidated fiscal year to 172,140 million yen due to an increase in other operating income and other factors resulting from an in- crease in gains on sales of securities including Japanese government bonds and acquisition of a subsidiary.

On the other hand, ordinary expenses increased 8,502 million yen from the previous consolidated fiscal year to 145,106 million yen due to increase in other expenses and other factors resulting from an increase in loss on impairment of securities and other factors.

As a result, ordinary profit decreased 6,684 million yen from the previous consolidated fiscal year to 27,033 million yen. Meanwhile, net income attributable to owners of parent decreased 3,941 million yen from the previous consolidated fiscal year to 18,261 million yen.

Results by business segments are as follows.

a. Banking business

Ordinary income decreased 1,835 million yen from the previous consolidated fiscal year to 139,042 million yen, and segment profit decreased 812 million yen from the previous consolidated fiscal year to 34,775 million yen.

b. Leasing business

Ordinary income increased 2,423 million yen from the previous consolidated fiscal year to 32,934 million yen, and segment profit decreased 246 million yen from the previous consolidated fiscal year to 1,349 million yen.

c. Others

Ordinary income increased 76 million yen from the previous consolidated fiscal year to 9,360 million yen, and segment profit decreased 35 million yen from the previous consolidated fiscal year to 1,090 million yen.

Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
ASSETS:			
Cash and due from banks *(Notes 3 and 14)*	¥ 1,173,509	¥ 1,211,471	$ 10,782,955
Call loans and bills bought *(Note 14)*	388	314	3,565
Monetary claims purchased	14,542	10,557	133,621
Trading assets *(Notes 4 and 14)*	876	1,183	8,049
Money held in trust *(Note 5)*	18,746	18,621	172,250
Securities *(Notes 4, 8, and 14)*	2,216,941	2,012,855	20,370,679
Loans and bills discounted *(Notes 6, 9, and 14)*	7,186,901	6,853,138	66,037,866
Foreign exchange assets	13,273	12,419	121,960
Lease receivables and investment assets *(Note 8)*	67,150	52,606	617,017
Other assets *(Note 8)*	285,610	191,314	2,624,368
Fixed assets *(Note 7)*	108,885	98,306	1,000,505
Intangible assets *(Note 7)*	11,011	9,317	101,176
Asset for retirement benefits *(Note 10)*	4,681	5,857	43,012
Deferred tax assets *(Note 13)*	9,301	972	85,463
Customers' liabilities for acceptances and guarantees	35,927	33,893	330,120
Reserve for possible loan losses *(Note 14)*	(67,950)	(68,241)	(624,368)
Total assets	¥ 11,079,796	¥ 10,444,589	$ 101,808,288
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits *(Notes 8 and 14)*	¥ 8,766,321	¥ 8,567,557	$ 80,550,592
Call money and bills sold *(Notes 8 and 14)*	12,733		116,998
Payables under repurchase agreements *(Notes 8 and 14)*	232,754	207,630	2,138,693
Borrowing under securities lending transactions *(Notes 8 and 14)*	647,317	479,347	5,947,964
Trading liabilities	11		101
Borrowed money *(Notes 8 and 14)*	594,946	402,402	5,466,746
Foreign exchange liabilities	82	172	753
Borrowed money from trust account	2,586		23,761
Other liabilities	158,278	81,540	1,454,360
Liability for retirement benefits *(Note 10)*	2,437	2,785	22,392
Reserve for repayments for dormant deposits	2,101	2,267	19,305
Reserve for contingent losses	473	484	4,346
Reserve under special laws	0	0	0
Deferred tax liabilities *(Note 13)*	37	10,114	339
Deferred tax liabilities related to land revaluation *(Note 2(g))*	4,028	4,076	37,011
Acceptances and guarantees	35,927	33,893	330,120
Total liabilities	10,460,041	9,792,272	96,113,580
Equity *(Note 11)*:			
Common stock			
authorized, 1,000,000,000 shares;			
issued, 463,375,978 shares in 2020 and 2019	36,000	36,000	330,791
Capital surplus	199,636	198,362	1,834,383
Retained earnings	379,006	366,087	3,482,550
Treasury stock, at cost, 23,464,212 shares in 2020 and 11,862,526 shares in 2019	(10,771)	(5,270)	(98,970)
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities *(Note 4)*	74,783	58,987	687,154
Deferred gains (losses) on derivatives under hedge accounting	(61,458)	(7,915)	(564,715)
Excess of land revaluation *(Note 2(g))*	5,779	5,855	53,101
Defined retirement benefit plans *(Note 10)*	(5,024)	(3,575)	(46,163)
Total accumulated other comprehensive income	14,080	53,350	129,376
Noncontrolling interests	1,803	3,788	16,567
Total equity	619,754	652,317	5,694,698
Total liabilities and equity	¥ 11,079,796	¥ 10,444,589	$ 101,808,288

See notes to consolidated financial statements.

Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Income:			
Interest income:			
Interest on loans and discounts	¥ 71,302	¥ 70,254	$ 655,168
Interest and dividends on securities	26,941	27,446	247,551
Other interest income	409	418	3,758
Trust fees	41		376
Fees and commissions income	21,284	21,661	195,571
Trading income	474	827	4,355
Other operating income	45,947	41,002	422,190
Other income *(Note 12)*	6,135	8,825	56,372
Total income	172,538	170,437	1,585,390
Expenses:			
Interest expenses:			
Interest on deposits	787	904	7,231
Other interest expenses	11,042	6,856	101,460
Fees and commissions expenses	8,612	8,132	79,132
Other operating expenses	34,227	36,658	314,499
General and administrative expenses	76,686	75,645	704,640
Provision for possible loan losses	1,208	3,809	11,099
Losses on impairment of long-lived assets	118	92	1,084
Other expenses	13,038	4,971	119,801
Total expenses	145,726	137,070	1,339,024
Income before income taxes	26,810	33,366	246,347
Income taxes *(Note 13)*:			
Current	10,177	12,185	93,512
Deferred	(1,755)	(1,484)	(16,126)
Total income taxes	8,421	10,701	77,377
Net income	18,389	22,665	168,969
Net income attributable to noncontrolling interests	127	462	1,166
Net income attributable to owners of the parent	¥ 18,261	¥ 22,202	$ 167,793

	Yen		U.S. dollars
Per share of common stock *(Note 2 (o))*:			
Basic net income	¥ 40.70	¥ 49.12	$ 0.37
Cash dividends applicable to the year	12.00	12.00	0.11

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2020

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2020		2019		2020	
Net income	¥	18,389	¥	22,665	$	168,969
Other comprehensive income (loss) *(Note 16)*:						
Unrealized gains (losses) on available-for-sale securities		15,796		10,708		145,143
Deferred gains (losses) on derivatives under hedge accounting		(53,542)		(6,039)		(491,978)
Defined retirement benefit plans		(1,449)		(321)		(13,314)
Total other comprehensive income (loss)		(39,194)		4,347		(360,139)
Comprehensive income (loss)	¥	(20,805)	¥	27,012	$	(191,169)
Total comprehensive income (loss) attributable to:						
Owners of the parent	¥	(20,933)	¥	26,574	$	(192,345)
Noncontrolling interests		127		438		1,166

See notes to consolidated financial statements.

Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Changes in Equity

Year ended March 31, 2020

	Thousands	Millions of yen			
	Outstanding number of shares of common stock	**Common stock**	**Capital surplus**	**Retained earnings**	**Treasury stock**
Balance at April 1, 2018	463,375	¥ 36,000	¥ 194,112	¥ 349,103	¥ (3,601)
Purchase of shares of consolidated subsidiaries			4,249		
Cash dividends, ¥12.00 per share				(5,436)	
Net income attributable to owners of the parent				22,202	
Purchase of treasury stock					(1,668)
Disposal of treasury stock			(0)		0
Reversal of excess of land revaluation				217	
Net change in the year					
Balance at March 31, 2019	463,375	36,000	198,362	366,087	(5,270)
Purchase of shares of consolidated subsidiaries			1,273		
Cash dividends, ¥12.00 per share				(5,418)	
Net income attributable to owners of the parent				18,261	
Purchase of treasury stock					(5,500)
Reversal of excess of land revaluation				75	
Net change in the year					
Balance at March 31, 2020	463,375	¥ 36,000	¥ 199,636	¥ 379,006	¥ (10,771)

	Millions of yen						
	Accumulated other comprehensive income						
	Unrealized gains (losses) on available-for-sale securities	**Deferred gains (losses) on derivatives under hedge accounting**	**Excess of land revaluation**	**Defined retirement benefit plans**	**Total accumulated other comprehensive income**	**Noncontrolling interests**	**Total equity**
Balance at April 1, 2018	¥ 48,255	¥ (1,876)	¥ 6,072	¥ (3,254)	¥ 49,196	¥ 8,737	¥ 633,548
Purchase of shares of consolidated subsidiaries							4,249
Cash dividends, ¥12.00 per share							(5,436)
Net income attributable to owners of the parent							22,202
Purchase of treasury stock							(1,668)
Disposal of treasury stock							0
Reversal of excess of land revaluation							217
Net change in the year	10,731	(6,039)	(217)	(321)	4,154	(4,949)	(795)
Balance at March 31, 2019	58,987	(7,915)	5,855	(3,575)	53,350	3,788	652,317
Purchase of shares of consolidated subsidiaries							1,273
Cash dividends, ¥12.00 per share							(5,418)
Net income attributable to owners of the parent							18,261
Purchase of treasury stock							(5,500)
Reversal of excess of land revaluation							75
Net change in the year	15,796	(53,542)	(75)	(1,449)	(39,269)	(1,985)	(41,254)
Balance at March 31, 2020	¥ 74,783	¥ (61,458)	¥ 5,779	¥ (5,024)	¥ 14,080	¥ 1,803	¥ 619,754

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Changes in Equity

Year ended March 31, 2020

	Thousands of U.S. dollars (Note 1)			
	Common stock	**Capital surplus**	**Retained earnings**	**Treasury stock**
Balance at March 31, 2019	$ 330,791	$ 1,822,677	$ 3,363,842	$ (48,424)
Purchase of shares of consolidated subsidiaries		11,697		
Cash dividends, $0.11 per share			(49,784)	
Net income attributable to owners of the parent			167,793	
Purchase of treasury stock				(50,537)
Reversal of excess of land revaluation			689	
Net change in the year				
Balance at March 31, 2020	$ 330,791	$ 1,834,383	$ 3,482,550	$ (98,970)

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income						
	Unrealized gains (losses) on available-for-sale securities	**Deferred gains (losses) on derivatives under hedge accounting**	**Excess of land revaluation**	**Defined retirement benefit plans**	**Total accumulated other comprehensive income**	**Noncontrolling interests**	**Total equity**
Balance at March 31, 2019	$ 542,010	$ (72,728)	$ 53,799	$ (32,849)	$ 490,214	$ 34,806	$ 5,993,907
Purchase of shares of consolidated subsidiaries							11,697
Cash dividends, $0.11 per share							(49,784)
Net income attributable to owners of the parent							167,793
Purchase of treasury stock							(50,537)
Reversal of excess of land revaluation							689
Net change in the year	145,143	(491,978)	(689)	(13,314)	(360,828)	(18,239)	(379,068)
Balance at March 31, 2020	$ 687,154	$ (564,715)	$ 53,101	$ (46,163)	$ 129,376	$ 16,567	$ 5,694,698

See notes to consolidated financial statements.

Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Operating activities:			
Income before income taxes	¥ 26,810	¥ 33,366	$ 246,347
Adjustments for:			
Income taxes paid	(12,604)	(10,040)	(115,813)
Depreciation and amortization	7,421	7,212	68,188
Losses on impairment of long-lived assets	118	92	1,084
Amortization of goodwill	935		8,591
Increase (decrease) in reserve for possible loan losses	(374)	2,151	(3,436)
(Increase) decrease in asset for retirement benefits	1,176	294	10,805
Increase (decrease) in liability for retirement benefits	(406)	(25)	(3,730)
Increase (decrease) in reserve for repayments for dormant deposits	(165)	51	(1,516)
Increase (decrease) in reserve for contingent losses	(10)	(4)	(91)
Interest and dividend income	(98,654)	(98,120)	(906,496)
Interest expenses	11,834	7,760	108,738
(Gains) losses on securities	93	(4,300)	854
(Gains) losses on money held in trust	125	164	1,148
(Gains) losses on foreign exchanges	(434)	701	(3,987)
(Gains) losses on disposal of fixed assets	103	259	946
Net (increase) decrease in trading assets	306	2,243	2,811
Net (increase) decrease in loans and bills discounted	(333,762)	(406,939)	(3,066,819)
Net increase (decrease) in deposits	198,765	(5,437)	1,826,380
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	175,897	103,242	1,616,254
Net (increase) decrease in due from banks (excluding deposits paid to the Bank of Japan)	(24)	183	(220)
Net (increase) decrease in call loans and others	477	40,816	4,382
Net increase (decrease) in call money and others	12,733		116,998
Net increase (decrease) in payables under repurchase agreements	25,124	46,172	230,855
Net increase (decrease) in borrowing under securities lending transactions	167,970	173,384	1,543,416
Net (increase) decrease in foreign exchange assets	(853)	1,967	(7,837)
Net increase (decrease) in foreign exchange liabilities	(90)	49	(826)
Net (increase) decrease in lease receivables and investment assets	(4,405)	(1,268)	(40,475)
Net (increase) decrease in collateral offered for financial instruments, etc.	(79,779)	(5,033)	(733,060)
Net increase (decrease) in borrowed money from trust accounts	2,586		23,761
Interest received	101,516	100,368	932,794
Interest paid	(10,648)	(7,718)	(97,840)
Other	3,521	(14,004)	32,353
Total adjustments	168,496	(65,774)	1,548,249
Net cash provided by (used in) operating activities	195,306	(32,408)	1,794,597
Investing activities:			
Payments for purchase of securities	(1,676,373)	(1,744,197)	(15,403,592)
Proceeds from sales of securities	278,355	482,494	2,557,704
Proceeds from redemption of securities	1,196,256	1,600,974	10,991,969
Increase in money held in trust	(8,450)	(14,239)	(77,644)
Decrease in money held in trust	8,102	13,303	74,446
Payments for purchase of fixed assets	(14,592)	(10,196)	(134,080)
Proceeds from sales of fixed assets	524	566	4,814
Payments for purchase of intangible assets	(5,163)	(2,814)	(47,440)
Payments for purchases of shares of subsidiaries that result in change in scope of consolidation	(1,400)		(12,864)
Net cash provided by (used in) investing activities	(222,741)	325,890	(2,046,687)
Financing activities:			
Cash dividends paid	(5,418)	(5,436)	(49,784)
Cash dividends paid to noncontrolling interests	(0)	(4)	(0)
Payments for purchases of treasury stock	(5,500)	(1,668)	(50,537)
Proceeds from sales of treasury stock		0	
Payments for purchases of shares of subsidiaries that do not result in change in scope of consolidation	(886)	(1,134)	(8,141)
Net cash used in financing activities	(11,805)	(8,243)	(108,471)
Foreign currency translation adjustments on cash and cash equivalents	8	10	73
Net increase (decrease) in cash and cash equivalents	(39,231)	285,249	(360,479)
Cash and cash equivalents at beginning of year	1,208,955	923,705	11,108,655
Cash and cash equivalents at end of year *(Note 3)*	¥ 1,169,723	¥ 1,208,955	$ 10,748,166

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries
Notes to Consolidated Financial Statements
Year ended March 31, 2020

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of the Kyushu Financial Group, Inc. (the "Company") and its consolidated subsidiaries (collectively, 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.

Amounts of less than ¥1 million and $1 thousand have been omitted. As a result, the totals shown in the consolidated 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 Company 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 ¥108.83 to $1.00, the approximate rate of exchange at March 31, 2020. 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 accompanying consolidated financial statements include the accounts of the Company and its 18 and 17 consolidated subsidiaries as of March 31, 2020 and 2019, respectively.

On October 2, 2019, the Higo Bank, Ltd., a consolidated subsidiary of the Company, acquired 90% of the shares issued by JR Kyushu Financial Management Company, which was later renamed as JR Kyushu FG Lease, Inc. Accordingly, JR Kyushu FG Lease, Inc. has been consolidated from the year ended March 31, 2020.

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

Investments in remaining unconsolidated subsidiaries and affiliated companies are stated at cost. If the equity method of accounting had been applied to the investment in these companies, 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

Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. 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. 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. The acquirer recognizes any 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. 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 noncontrolling interests 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. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interests are adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

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 Group maintains its accounting records in Japanese yen. Foreign currency assets and liabilities are translated into Japanese yen at the exchange rates prevailing on the consolidated balance sheet date.

e. Trading assets/liabilities and trading income/expenses

Trading transactions of consolidated subsidiaries, which are engaged in banking business and financial instruments business 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 fair value, 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 using the moving-average method. Available-for-sale securities, with market quotations, are stated at the market prices prevailing on the consolidated balance sheet date. Cost of sales of such securities is determined using 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 using 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 affiliated companies that are not accounted for by the equity method are stated at cost as determined using 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 banking consolidated subsidiaries apply 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 on February 13, 2002, by the Japanese Institute of Certified Public Accountants (JICPA). Under this rule, the effectiveness of cash flow hedges and hedges for the purpose of reducing interest rate fluctuation risk of loans and debt securities is assessed based on the correlation between a base interest rate index of the hedged items and that of the hedging instruments. 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 banking consolidated subsidiaries apply 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," issued on July 29, 2002 (the JICPA Industry Audit Committee Report No. 25). The banking consolidated subsidiaries assess 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 Company and the banking consolidated subsidiaries is computed using the declining-balance method, while the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016. The range of useful lives is principally from 19 to 50 years for buildings and from 2 to 20 years for other fixed assets. Tangible fixed assets of other consolidated subsidiaries are principally depreciated using the declining-balance method over the estimated useful lives of the assets.

Amortization of intangible assets owned by the Group is computed using 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 Group elected a one-time revaluation of land for use by Higo Bank 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 consolidated statement of income. Continuous readjustment is not permitted, unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the excess of land revaluation account and related deferred tax liabilities.

The carrying amount of the land after the above one-time revaluation exceeded the fair value by ¥9,459 million ($86,915 thousand) and ¥9,610 million as of March 31, 2020 and 2019, 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 of the banking consolidated subsidiaries is provided to cover future credit losses in accordance with the internal rules for self-assessment of asset quality.

Reserve for possible loan losses is provided based on historical loan-loss ratio computed for a certain period in the past for claims to normal borrowers and claims to borrowers who need attention as stipulated by the "Practical Guidelines for Audits of the Self-Assessment of Assets of Financial Institutions Including Banks, Write-Down and Allowance for Doubtful Accounts," issued on March 17, 2020 (the JICPA Ad Hoc Committee for Audit of Banks, etc., Report No. 4).

For claims to large-lot borrowers who need attention, whose loans are classified as restructured loans, and whose future cash flows of principal and interest are reasonably estimated, the reserve is provided for as the difference between the present value of expected future cash flows discounted at the contracted interest rate and the carrying amount of the claims. In cases where it is difficult to reasonably estimate future cash flows, the reserve is provided based on the estimated credit losses within the remaining loan terms calculated by the banks.

For claims to borrowers who are possibly bankrupt, the reserve is provided for loan losses at the amount considered necessary based on overall solvency assessment of the borrowers after deducting the amount expected to be collected through the disposal of collateral or execution of guarantees.

For claims to borrowers who are legally bankrupt and virtually bankrupt, the reserve is provided based on the net of amounts exceeding the expected collectible amounts through the disposal of collateral or execution of guarantees.

All claims are assessed by the operating divisions of the banking consolidated subsidiaries in accordance with the internal rules for the self-assessment of asset quality. The asset examination division, which is independent from the operating divisions, conducts audits of these assessments.

Regarding other consolidated subsidiaries, a general reserve for loan losses is provided in the amount deemed necessary based on historical loan-loss ratio, and the reserve for specific claims is provided in the amount deemed uncollectible based on the respective assessment.

(Additional information)
The Group assumes that the spread of the novel coronavirus disease (COVID-19) and its effects on the economic activities will continue for approximately one year. Accordingly, it is presumed that there will be certain impacts on credit risk associated with the Group's loans, etc. Under these circumstances, the Group records reserves for possible loan losses, reflecting available information that may impact estimates related to borrowers.

However, such assumptions are uncertain, and the amount of losses may change depending on changes in the spread of COVID-19 and its impact on economic activities in the future.

j. Retirement and pension plans

The banking consolidated subsidiaries have cash balance-type pension plans, defined benefit corporate pension plans (fund type), and lump-sum retirement benefit plans, which became fund type plans after the establishment of the retirement benefit trust. The amount of liability for employees' retirement benefit is determined based on the projected benefit obligations and the pension assets on the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis.

Past service cost is amortized using the straight-line method over 10 years. Net actuarial gain or loss is amortized using the straight-line method or declining-balance method over 10 years commencing from the next fiscal year of occurrence.

Other consolidated subsidiaries adopt the simplified method in determining liabilities for retirement benefits and net periodic benefit costs under which liability for retirement benefits is computed based on projected benefit obligations.

k. 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.

l. Reserve for repayments for dormant deposits

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

m. Reserve under special laws

Reserve under special laws is a reserve for liability for financial instruments transactions of consolidated subsidiary and is recorded as determined in accordance with the provisions of Article 46-5 of the Financial Instruments and Exchange Act and Article 175 of the Cabinet Office Ordinance on Financial Instruments Business in order to provide for losses arising from security-related accidents.

n. Leases

Revenues and cost of revenues of finance lease transactions are recognized and included in other operating income and other operating expenses 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 weighted-average number of common shares used in the computation was 448,630 thousand shares and 451,921 thousand shares for the years ended March 31, 2020 and 2019, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2020 and 2019, because there are no potentially dilutive 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. New accounting pronouncements

1. Accounting Standards for Fair Value Measurement, etc.
Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)
(1) Overview
In order to enhance comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively referred to as "Fair Value Measurement Accounting Standards, etc.") have been developed and guidance on the method of fair value measurement has been provided. Fair Value Measurement Accounting Standards, etc. will be applied to the fair value of the following items:
・Financial instruments defined in "Accounting Standard for Financial Instruments"
In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised and notes on items including breakdowns by level of the fair value of financial instruments have been provided.
(2) Date of adoption
The accounting standards are effective for the annual periods beginning on or after April 1, 2021.
(3) The effect of adopting the accounting standards
The effect of adopting the Standards and Implementation Guidance is under evaluation.

2. Accounting Standard for Disclosure of Accounting Estimates (ASBJ No. 31, March 31, 2020)
(1) Overview
The Standard aims to disclose information that will help users of the financial statements understand the details of accounting estimates on the items which may potentially have significant impacts on the financial statements for the following fiscal year from among the amounts recorded in the financial statements for the current fiscal year that are based on accounting estimates.
(2) Date of adoption
The Standard is scheduled to be applied from the end of the fiscal year ending on and after March 31, 2021.

s. Changes in presentation

"Net (increase) decrease in collateral offered for financial instruments, etc.," which was included in "Other" under "Operating activities" for the year ended March 31, 2019, has been separately presented from the year ended March 31, 2020 due to the significant increase from the prior year. In order to reflect this change in presentation, the consolidated financial statements for the year ended March 31, 2019 was reclassified.

As a result, ¥(19,037) million of "Other" under "Operating activities" in the Consolidated Statement of Cash Flows for the year ended March 31, 2019 has been reclassified into ¥(5,033) million of "Net (increase) decrease in collateral offered for financial instruments, etc." and ¥(14,004) million of "Other."

3. Cash and Cash Equivalents

A reconciliation of the cash and cash equivalent 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
	2020	2019	2020
Cash and due from banks	¥ 1,173,509	¥ 1,211,471	$ 10,782,955
Other due from banks	(3,786)	(2,515)	(34,788)
Cash and cash equivalents	¥ 1,169,723	¥ 1,208,955	$ 10,748,166

4. Securities

The costs and aggregate fair values of securities at March 31, 2020 and 2019, were as shown in the table below. The amounts shown in the following tables include trading securities classified as "trading assets" in addition to "securities" stated in the consolidated balance sheet.

	Millions of yen			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair value
Securities classified as:				
Trading				¥ 876
Available-for-sale:				
Equity securities	¥ 112,272	¥ 25,917	¥ 12,397	125,791
Debt securities	1,176,781	19,409	3,505	1,192,684
Other	782,425	92,752	15,819	859,358
Held-to-maturity:				
Debt securities	18,760	135	21	18,874

	Millions of yen			
	2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair value
Securities classified as:				
Trading				¥ 1,183
Available-for-sale:				
Equity securities	¥ 107,436	¥ 37,204	¥ 8,247	136,393
Debt securities	1,222,564	23,953	410	1,246,106
Other	569,954	33,025	2,285	600,695
Held-to-maturity:				
Debt securities	14,716	125	10	14,830

	Thousands of U.S. dollars			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair value
Securities classified as:				
Trading				$ 8,049
Available-for-sale:				
Equity securities	$ 1,031,627	$ 238,142	$ 113,911	1,155,848
Debt securities	10,813,020	178,342	32,206	10,959,147
Other	7,189,423	852,265	145,355	7,896,333
Held-to-maturity:				
Debt securities	172,378	1,240	192	173,426

Securities included equity investments in unconsolidated subsidiaries and affiliated companies that amounted to ¥4,387 million ($40,310 thousand) and ¥3,641 million as of March 31, 2020 and 2019, respectively.

Securities lending based on noncollateralized special contracts were included in debt securities and amounted to ¥72,893 million ($669,787 thousand) and ¥65,289 million as of March 31, 2020 and 2019, respectively.

Guarantee obligations for private placement bonds, out of bonds included in securities, amounted to ¥27,508 million ($252,761 thousand) and ¥20,825 million as of March 31, 2020 and 2019, respectively.

Unlisted equity securities and other securities without readily available fair values, amounting to ¥20,344 million ($186,933 thousand) and ¥14,941 million as of March 31, 2020 and 2019, respectively, were not included in the table above.

The information of held-to-maturity securities that were sold for the years ended March 31, 2020 and 2019, was as follows:

	Millions of yen		
	2020		
	Cost of sales	Proceeds	Realized gains (losses)
Held-to-maturity securities:			
Japanese government bonds			
Municipal government bonds			
Corporate bonds	¥ 27	¥ 27	¥ 0
Other			
Total	¥ 27	¥ 27	¥ 0

	Millions of yen		
	2019		
	Cost of sales	Proceeds	Realized gains (losses)
Held-to-maturity securities:			
Japanese government bonds			
Municipal government bonds			
Corporate bonds	¥ 150	¥ 151	¥ 1
Other			
Total	¥ 150	¥ 151	¥ 1

	Thousands of U.S. dollars		
	2020		
	Cost of sales	Proceeds	Realized gains (losses)
Held-to-maturity securities:			
Japanese government bonds			
Municipal government bonds			
Corporate bonds	$ 248	$ 248	$ 0
Other			
Total	$ 248	$ 248	$ 0

Note: (Reason for sales) Due to retirement of bonds through purchase

The information of available-for-sale securities that were sold for the years ended March 31, 2020 and 2019, was as follows:

	Millions of yen		
	2020		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 21,759	¥ 3,558	¥ 1,640
Debt securities	53,096	787	
Other	193,645	9,780	4,713
Total	¥ 268,501	¥ 14,126	¥ 6,353

	Millions of yen		
	2019		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 36,635	¥ 5,874	¥ 1,185
Debt securities	143,796	5,330	2,780
Other	255,477	3,393	5,588
Total	¥ 435,909	¥ 14,598	¥ 9,554

	Thousands of U.S. dollars		
	2020		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 199,935	$ 32,693	$ 15,069
Debt securities	487,880	7,231	
Other	1,779,334	89,864	43,306
Total	$ 2,467,159	$ 129,798	$ 58,375

Securities other than trading securities (excluding those securities whose fair value cannot be reliably determined) whose fair value significantly declined compared with the acquisition cost and was considered not to recover to the acquisition cost were written down to the respective fair value, which was recorded as the carrying amount in the consolidated balance sheet.

Impairment loss on equity securities for the years ended March 31, 2020 and 2019, was ¥7,842 million ($72,057 thousand) and ¥747 million, respectively.

Impairment loss was recorded for all securities whose fair value declined by 50% or more of the acquisition cost. For securities whose fair value declined by more than 30%, but less than 50%, the necessity of recording impairment loss was determined based on the transition of fair values over a certain period in the past and the credit risk of the issuing company.

Net unrealized gains on available-for-sale securities for the years ended March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation differences:			
Available-for-sale securities	¥ 106,367	¥ 83,242	$ 977,368
Deferred tax liabilities	(31,553)	(24,071)	(289,929)
Noncontrolling interests	(30)	(183)	(275)
Unrealized gains on available-for-sale securities	¥ 74,783	¥ 58,987	$ 687,154

5. Money Held in Trust

The carrying amounts and unrealized gains (losses) of money held in trust as of March 31, 2020 and 2019, were as follows:

Money held in trust held for trading

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Carrying amounts	¥ 16,616	¥ 15,851	$ 152,678
Unrealized gains (losses) credited to income	(164)	(6)	(1,506)

Money held in trust other than those held for trading purposes or held to maturity as of March 31, 2020 and 2019 were as follows:

	Millions of yen		
	2020		
	Carrying amount	Cost	Net unrealized gains (losses)
Other money held in trust	¥ 2,130	¥ 2,130	

	Millions of yen		
	2019		
	Carrying amount	Cost	Net unrealized gains (losses)
Other money held in trust	¥ 2,770	¥ 2,770	

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Cost	Net unrealized gains (losses)
Other money held in trust	$ 19,571	$ 19,571	

Note: Net unrealized gains (losses) were nil because the carrying amounts of other money held in trust did not exceed the cost, nor the cost exceeded the carrying amounts.

6. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2020 and 2019, included the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Bankruptcy loans	¥ 7,645	¥ 3,098	$ 70,247
Past-due loans	74,070	81,465	680,602
Loans past due for three months or more	180	179	1,653
Restructured loans	50,977	46,756	468,409
Total	¥ 132,874	¥ 131,500	$ 1,220,931

Bankruptcy loans represent nonaccrual 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 nonaccrual 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, and 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 ¥18,089 million ($166,213 thousand) and ¥21,877 million as of March 31, 2020 and 2019, respectively. The Group is entitled, without limitation, to sell or pledge these discounted bills.

The carrying amounts of loan participations, which were accounted for as loans to original debtors in accordance with "Accounting and Presentation of Loan Participation" issued on November 28, 2014 (the JICPA Accounting System Committee Report No. 3), were ¥3,449 million ($31,691 thousand) and ¥2,985 million as of March 31, 2020 and 2019, respectively.

7. Fixed Assets and Intangible Assets

Fixed assets as of March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Buildings	¥ 34,365	¥ 27,728	$ 315,767
Land	50,185	50,494	461,132
Construction in progress	12,925	9,268	118,763
Other	11,409	10,815	104,833
Total	¥ 108,885	¥ 98,306	$ 1,000,505

Accumulated depreciation as of March 31, 2020 and 2019, amounted to ¥73,453 million ($674,933 thousand) and ¥72,947 million, respectively.

Deferred gains for tax purposes as of March 31, 2020 and 2019, amounted to ¥3,771 million ($34,650 thousand) and ¥3,517 million, respectively.

Intangible assets as of March 31, 2020 and 2019, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Software	¥ 10,754	¥ 9,002	$ 98,814
Other	256	315	2,352
Total	¥ 11,011	¥ 9,317	$ 101,176

8. Assets Pledged

Assets pledged as collateral as of March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Securities	¥ 1,367,469	¥ 1,226,049	$ 12,565,184
Lease receivables and investment assets	1,449	1,815	13,314
Total	¥ 1,368,919	¥ 1,227,864	$ 12,578,507

Liabilities related to the above assets pledged as of March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deposits	¥ 76,741	¥ 46,433	$ 705,145
Call money and bills sold	9,250		84,994
Payables under repurchase agreements	232,754	207,630	2,138,693
Borrowing under securities-lending transactions	647,317	479,347	5,947,964
Borrowed money	578,696	387,693	5,317,430

In addition, the following assets are deposited as collateral for foreign exchange settlements, transactions with designated financial institutions, etc.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Other assets	¥ 115,697	¥ 115,696	$ 1,063,098
of which:			
Guarantee deposits	779	715	7,157
Cash collateral for financial instruments	89,458	9,679	821,997
Deposits to a central counterparty	21,287	12,635	195,598

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 as of March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unused commitment lines	¥ 1,549,414	¥ 1,523,061	$ 14,237,011
of which:			
Those with original maturity periods of one year or less or cancellable unconditionally at any time	¥ 1,506,311	¥ 1,480,118	$ 13,840,953

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 consolidated subsidiaries request collateral in the form of premises or securities as deemed necessary upon providing such commitments. In addition, the Group monitors the financial conditions of customers in accordance with its internal rules on a regular basis and takes necessary measures, including revisiting the terms of commitments and other means to prevent credit losses.

10. Retirement and Pension Plans

The banking consolidated subsidiaries have cash balance-type pension plans, defined benefit corporate pension plans (fund type), and lump-sum retirement benefit plans, which became fund type plans after the establishment of the retirement benefit trust. Under the cash balance-type plans in the corporate pension plans, a pension or lump-sum money will be paid on the basis of length of service, professional qualification, and age. In addition, under the unfunded retirement benefit plans, lump-sum money will be paid on the basis of length of service at certain professional qualification and other factors. Some of the other consolidated subsidiaries have retirement benefit plans and adopt the simplified method in determining liabilities for retirement benefits. Extra retirement benefit may be paid upon the retirement of employees of the Group. Retirement benefit trusts were set up on the corporate pension fund plans and lump-sum retirement benefit plans for certain banking consolidated subsidiaries.

(a) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year	¥ 62,709	¥ 63,320	$ 576,210
Current service cost	1,845	1,862	16,953
Interest cost	194	248	1,782
Actuarial (gains) losses	(290)	687	(2,664)
Benefits paid	(3,640)	(3,410)	(33,446)
Prior service cost incurred	(401)		(3,684)
Increase due to new consolidation	57		523
Balance at end of year	¥ 60,475	¥ 62,709	$ 555,683

(Note) Consolidated subsidiaries adopted the simplified method in calculating defined benefit obligations, and the retirement benefit costs were recognized as "Current service cost." Extraordinary additional retirement benefits were not included in the table above.

(b) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of year	¥ 65,781	¥ 66,661	$ 604,438
Expected return on plan assets	1,909	1,956	17,541
Actuarial gains (losses)	(3,593)	(983)	(33,014)
Contributions from the employer	1,605	1,247	14,747
Benefits paid	(2,984)	(2,806)	(27,418)
Partial return of retirement benefit trusts		(294)	
Balance at end of year	¥ 62,719	¥ 65,781	$ 576,302

(c) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2020 and 2019, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded defined benefit obligation	¥ 58,365	¥ 60,542	$ 536,295
Plan assets	(62,719)	(65,781)	(576,302)
Total	(4,353)	(5,238)	(39,998)
Unfunded defined benefit obligation	2,110	2,166	19,388
Net (asset) liability arising from defined benefit obligation	¥ (2,243)	¥ (3,071)	$ (20,610)

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liability for retirement benefits	¥ 2,437	¥ 2,785	$ 22,392
Asset for retirement benefits	(4,681)	(5,857)	(43,012)
Net (asset) liability arising from defined benefit obligation	¥ (2,243)	¥ (3,071)	$ (20,610)

(d) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Current service cost	¥ 1,845	¥ 1,862	$ 16,953
Interest cost	194	248	1,782
Expected return on plan assets	(1,909)	(1,956)	(17,541)
Recognized actuarial (gains) losses	849	1,209	7,801
Amortization of prior service cost	(30)	(275)	
Net periodic benefit costs	¥ 949	¥ 1,363	$ 8,720

(Note) Net periodic benefit costs of consolidated subsidiaries that adopted the simplified method were included in "Current service cost."

(e) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Prior service cost	¥	370			$	3,399
Actuarial (losses) gains		(2,452)	¥	(461)		(22,530)
Total	¥	(2,082)	¥	(461)	$	(19,130)

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Unrecognized prior service cost	¥	(370)			$	(3,399)
Unrecognized actuarial (gains) losses		7,590	¥	5,137		69,741
Total	¥	7,219	¥	5,137	$	66,332

(g) Plan assets

a)Components of plan assets

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	2020	2019
Debt investments	27%	26%
Equity investments	20	24
General account of life insurance companies	37	35
Others	16	15
Total	100%	100%

(Note) Retirement benefit trusts set against the corporate pension plans and lump-sum retirement benefit plans accounted for 15% and 16% of the total plan assets for the years ended March 31, 2020 and 2019, respectively.

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

The expected rate of return on plan assets was determined by considering investment performance in the past as well as considering distribution of plan assets currently and in the future and the long-term rates of return that were expected currently and in the future from the various components of the plan assets.

(h) Assumptions used for the years ended March 31, 2020 and 2019, were set forth as follows:

	2020	2019
Discount rate	0.2% or 0.3%	0.2% or 0.3%
Expected rate of return on plan assets:		
Plan assets (excluding the retirement benefit trust)	2.5% or 3.5%	3.0% or 3.5%
Retirement benefit trust	0.5% or 3.0%	0.5% or 2.0%
Expected rate of salary increase	3.7% or 6.0%	3.6% or 5.8%

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 Company meets all of the above criteria.

The Companies Act permits companies to distribute dividends in kind (noncash 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 provide certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(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 stock 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 by 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 upon resolution by the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined using 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 of stocks and other securities in the amount of ¥4,116 million ($37,820 thousand) and ¥6,249 million for the years ended March 31, 2020 and 2019, 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 30.4% for the years ended March 31, 2020 and 2019.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities as of March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Reserve for possible loan losses	¥ 19,808	¥ 20,497	$ 182,008
Liability for retirement benefits	2,842	2,981	26,114
Depreciation	1,274	1,303	11,706
Loss on impairment of securities	1,429	1,578	13,130
Losses on impairment of fixed assets	2,567	1,839	23,587
Deferred losses on derivatives under hedge accounting	26,843	3,457	246,650
Other	3,160	3,715	29,036
Subtotal	57,925	35,373	532,252
Valuation allowance	(4,823)	(4,827)	(44,316)
Deferred tax assets	53,101	30,545	487,926
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(39,147)	(34,580)	(359,707)
Deferred income on fixed assets sold	(416)	(252)	(3,822)
Asset for retirement benefits	(788)	(1,033)	(7,240)
Valuation of assets	(3,450)	(3,793)	(31,700)
Other	(36)	(27)	(330)
Deferred tax liabilities	(43,838)	(39,687)	(402,811)
Net deferred tax assets (liabilities)	¥ 9,263	¥ (9,141)	$ 85,114

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, 2020 is omitted since the difference is not more than 5% of the normal effective statutory tax rate.

	2020	2019
Normal effective statutory tax rate		30.4%
Expenses not deductible for income tax purposes		0.5
Income not taxable for income tax purposes		(1.3)
Valuation allowance		0.1
Inhabitant taxes per capita		0.3
Other-net		2.0
Actual effective tax rate		32.0%

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 years ended March 31, 2020 and 2019 was as follows:

14. Financial Instruments and Related Disclosures

(a) Policy for financial instruments

The Group mainly provides banking services and other financial services, such as securities operations and credit card and leasing services. In the banking services, the Group procures funds from deposits accepted from individual and corporate customers and from short-term financial markets and manages such funds in the form of loans and investments in securities.

The Group holds substantial financial assets and liabilities that are subject to fluctuations in interest rates and prices. The Group conducts Asset-Liability Management (ALM) on the assets and liabilities, including off-balance-sheet transactions of the Group, to integrally monitor and control risks and to improve and stabilize profitability with the aim of protecting themselves from the negative effects of the fluctuations. The Group also utilizes derivative transactions for this purpose.

(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 corporations 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 its fair value is exposed to risk of fluctuation in market prices. Certain 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 Group, as well as losses caused by having to make transactions under unfavorable conditions. Certain Group's companies raise funds by borrowing, which are subject to liquidity risk.

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 Group include interest rate swaps and currency swaps. The Group 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 credit risk associated with the deteriorating credit standing of the counterparty, credit risk of default of the contract, and changing market risk imposed by risk factors.

(c) Risk management for financial instruments

i) Basic risk management policy

The Group 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, the Group maintains and enhances the financial soundness of the Group and establishes a business foundation.

ii) Integrated risk management

The Group 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 Group 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

The divisions in charge of credit examination and administration of loans have been separated from business promotion divisions, and have been performing rigorous loan assessment and management under a system of mutual checks and balances. In addition, with regard to credit portfolios, concentration on particular regions, businesses, companies, and groups within the credit portfolios is appropriately managed.

A credit-rating system has been introduced to accurately grasp the creditworthiness of customers and to refine the credit risk management, and is effectively utilized for determining lending policies and interest rates. The Group improves the accuracy of self-assessment by establishing an independent division that performs audit and giving it the ability to perform checks and balances at branches and the division in charge of credit examination.

b) Market risk

The Group determines risk acceptance and risk hedge policies in the ALM committee and other committees based on interest rate forecasts and profit targets through value at risk (VaR) method to ensure stable profitability.

Financial instruments influenced by interest rate risks are deposits; loans and bills discounted; and bonds and derivatives related to interest rate. Financial instruments influenced by stock price volatility risks are bonds, stocks, mutual funds related to stocks, and derivatives related to stocks. Higo Bank and Kagoshima Bank separately calculate and manage market risk.

Higo Bank calculates VaR based primarily on the historical simulation method (a holding period from 10 days to 6 months, a confidence interval of 99%, and observation period of 5 years). As of March 31, 2020 and 2019, VaR related to interest rate risks was ¥11,900 million ($109,344 thousand) and ¥6,800 million and VaR related to price volatility risks was ¥19,900 million ($182,853 thousand) and ¥17,200 million, respectively.

Kagoshima Bank calculates VaR based on the historical simulation method (a holding period of 1 0 days to 6 months, a confidence interval of 99%, and observation period of 5 years). As of March 31, 2020 and 2019, VaR related to interest rate risks was ¥13,600 million ($124,965 thousand) and ¥8,500 million and VaR related to price volatility risks was ¥18,900 million ($173,665 thousand) and ¥18,100 million, respectively.

Both banks perform 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 drastic changes in market beyond normal circumstances. The Group does not apply quantitative analysis to certain financial instruments that are small in value and financial instruments held by certain 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 conducts appropriate procurement of funds from the market, as necessary. In addition, to provide for contingencies, the Group has established action plans and a reporting system, depending on the relative tightness of its cash position, so that it can swiftly respond to any situation.

(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. As 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, 2020 and 2019, 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 15 (e) (Note 2)).

	Millions of yen		
	2020		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 1,173,509	¥ 1,173,509	
(2) Call loans and bills bought	388	388	
(3) Trading assets			
Trading securities	863	863	
(4) Securities			
Held-to-maturity debt securities	18,760	18,874	¥ 113
Available-for-sale securities	2,177,836	2,177,836	
(5) Loans and bills discounted	7,186,901		
Reserve for possible loan losses (*1)	(62,775)		
	7,124,125	7,178,834	54,709
Total assets	10,495,484	10,550,307	54,822
(1) Deposits	8,766,321	8,766,791	470
(2) Call money and bills sold	12,733	12,733	
(3) Payables under repurchase agreements	232,754	232,754	
(4) Borrowing under securities lending transactions	647,317	647,317	
(5) Borrowed money	594,946	594,941	(5)
Total liabilities	10,254,074	10,254,539	465
Derivatives (*2)			
For which hedge accounting is not applied	(631)	(631)	
For which hedge accounting is applied	(88,133)	(88,133)	
Total	¥ (88,765)	¥ (88,765)	

	Millions of yen		
	2019		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 1,211,471	¥ 1,211,471	
(2) Call loans and bills bought	314	314	
(3) Trading assets			
Trading securities	1,183	1,183	
(4) Securities			
Held-to-maturity debt securities	14,716	14,830	¥ 114
Available-for-sale securities	1,983,197	1,983,197	
(5) Loans and bills discounted	6,853,138		
Reserve for possible loan losses (*1)	(63,218)		
	6,789,919	6,847,057	57,137
Total assets	10,000,803	10,058,054	57,251
(1) Deposits	8,567,557	8,568,115	558
(2) Call money and bills sold			
(3) Payables under repurchase agreements	207,630	207,630	
(4) Borrowing under securities lending transactions	479,347	479,347	
(5) Borrowed money	402,402	402,406	4
Total liabilities	9,656,937	9,657,500	563
Derivatives (*2)			
For which hedge accounting is not applied	458	458	
For which hedge accounting is applied	(11,423)	(11,423)	
Total	¥ (10,965)	¥ (10,965)	

	Thousands of U.S. dollars		
	2020		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	$ 10,782,955	$ 10,782,955	
(2) Call loans and bills bought	3,565	3,565	
(3) Trading assets			
Trading securities	7,929	7,929	
(4) Securities			
Held-to-maturity debt securities	172,378	173,426	$ 1,038
Available-for-sale securities	20,011,357	20,011,357	
(5) Loans and bills discounted	66,037,866		
Reserve for possible loan losses (*1)	(576,817)		
	65,461,040	65,963,741	502,701
Total assets	96,439,253	96,943,002	503,739
(1) Deposits	80,550,592	80,554,911	4,318
(2) Call money and bills sold	116,998	116,998	
(3) Payables under repurchase agreements	2,138,693	2,138,693	
(4) Borrowing under securities lending transactions	5,947,964	5,947,964	
(5) Borrowed money	5,466,746	5,466,700	(45)
Total liabilities	94,221,023	94,225,296	4,272
Derivatives (*2)			
For which hedge accounting is not applied	(5,798)	(5,798)	
For which hedge accounting is applied	(809,822)	(809,822)	
Total	$ (815,629)	$ (815,629)	

(*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 table above.
(*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 within brackets.

(Note 1) Valuation method of financial instruments

Assets

(1) Cash and due from banks

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

(2) Call loans and bills bought

As maturity of these instruments is within one year and their fair value and carrying amounts are nearly identical, their carrying amounts are assumed as their fair value.

(3) Trading assets

The fair value of securities, such as debt securities held for trading purposes, is determined based on their prices quoted by the stock exchanges or their quoted prices obtained from financial institutions.

(4) Securities

The fair value of equity securities is determined mainly 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 Group. The fair value of investment trusts is based on the base value publicly disclosed.

The fair value of privately placed bonds guaranteed by the Group is calculated using the same method as described in "(5) Loans and bills discounted" accounted below.

For information pertaining to investment securities for holding purposes, please refer to Note 4.

(5) 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 or the assumed interest rate on a new lending of the same type.

The fair value of loans lent to entities that are legally bankrupt, virtually bankrupt, or possibly bankrupt is 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 consolidated balance sheet date (i.e., the carrying amounts). The fair value of time deposits and negotiable certificates of deposit 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 deposits of the same type. For foreign currency time deposits, as the term is short (within one year) and their fair value and carrying amounts are nearly identical, so their carrying amounts are assumed as their fair value.

(2) Call money and bills sold

As maturity of these instruments is within one year and their fair value and carrying amounts are nearly identical, their carrying amounts are assumed as their fair value.

(3) Payables under repurchase agreements

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.

(4) 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.

(5) Borrowed money

As borrowed money bearing floating rates of interest reflects market rates of interest in the short term, the credit conditions of the Group have not changed significantly after lending the loans and their fair value and carrying amounts are nearly identical, 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 that has a short repayment term (within one year), their carrying amounts are assumed as their fair price, since its fair value and the carrying amount are nearly identical.

Derivatives

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

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

The following instruments are not included in "Assets (4) Securities" in the table above showing the fair value of financial instruments as of March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	**2019**	**2020**
Unlisted stocks (*1 and *2)	¥ 4,828	¥ 4,529	$ 44,362
Investments in partnerships and others (*3)	15,515	10,411	142,561
Total	¥ 20,344	¥ 14,941	$ 186,933

(*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 ¥32 million ($294 thousand) and ¥2 million for the years ended March 31, 2020 and 2019, respectively.
(*3) Investments in partnerships and others, the assets of which comprise equity securities without a readily available market price, are out of the scope of fair values disclosure because the fair value of those investments cannot be reliably determined.

(Note 3) Maturity analysis for claims and securities with contractual maturities as of March 31, 2020 and 2019

	Millions of yen					
	2020					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Due from banks	¥ 1,074,214					
Call loans and bills bought	388					
Securities						
Held-to-maturity debt securities	4,752	¥ 6,588	¥ 6,851	¥ 568		
Corporate bonds	4,752	6,588	6,851	568		
Available-for-sale securities with maturity	226,708	178,888	201,881	106,930	¥ 236,381	¥ 980,703
Japanese government bonds	125,286	32,743	23,609	5,143	38,342	233,267
Municipal government bonds	23,067	25,649	25,471	30,045	40,498	102,807
Corporate bonds	67,060	85,062	62,716	21,578	34,178	216,156
Loans and bills discounted (*1)	1,712,989	1,142,022	953,760	713,211	774,567	1,808,633
Total	¥ 3,019,052	¥ 1,327,498	¥ 1,162,493	¥ 820,710	¥ 1,010,949	¥ 2,789,336

	Millions of yen					
	2019					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Due from banks	¥ 1,107,758					
Call loans and bills bought	314					
Securities						
Held-to-maturity debt securities	2,966	¥ 6,502	¥ 4,695	¥ 551		
Corporate bonds	2,966	6,502	4,695	551		
Available-for-sale securities with maturity	316,622	330,597	165,788	139,221	¥ 158,453	¥ 639,656
Japanese government bonds	158,861	135,859	30,075	23,322		133,384
Municipal government bonds	27,453	35,012	20,767	23,200	45,501	84,891
Corporate bonds	92,488	128,295	64,837	22,280	25,689	194,185
Loans and bills discounted (*1)	1,670,326	1,121,318	907,504	624,862	782,117	1,662,445
Total	¥ 3,097,988	¥ 1,458,417	¥ 1,077,988	¥ 764,635	¥ 940,570	¥ 2,302,102

	Thousands of U.S. dollars					
	2020					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Due from banks	$ 9,870,568					
Call loans and bills bought	3,565					
Securities						
Held-to-maturity debt securities	43,664	$ 60,534	$ 62,951	$ 5,219		
Corporate bonds	43,664	60,534	62,951	5,219		
Available-for-sale securities with maturity	2,083,138	1,643,737	1,855,012	982,541	$ 2,172,020	$ 9,011,329
Japanese government bonds	1,151,208	300,863	216,934	47,257	352,310	2,143,407
Municipal government bonds	211,954	235,679	234,043	276,072	372,121	944,656
Corporate bonds	616,190	781,604	576,274	198,272	314,049	1,986,180
Loans and bills discounted (*1)	15,740,044	10,493,632	8,763,759	6,553,441	7,117,219	16,618,882
Total	$ 27,740,990	$ 12,197,904	$ 10,681,732	$ 7,541,211	$ 9,289,249	$ 25,630,212

(*1) Of loans and bills discounted, the portion whose timing of collection is unforeseeable, such as loans to "Legally bankrupt" borrowers, loans to "Virtually bankrupt" borrowers, and loans to "Possibly bankruptcy" borrowers, amounting to ¥81,716 million ($750,859 thousand) (¥84,564 million in 2019), is not included in the table above.

(Note 4) Maturity analysis for interest-bearing liabilities as of March 31, 2020 and 2019

	Millions of yen					
	2020					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Deposits (*1)	¥ 8,554,484	¥ 179,677	¥ 26,648	¥ 2,450	¥ 3,059	
Call money and bills sold	12,733					
Payables under repurchase agreements	232,754					
Borrowing under securities lending transactions	647,317					
Borrowed money	316,912	85,493	192,541			
Total	¥ 9,764,202	¥ 265,171	¥ 219,190	¥ 2,450	¥ 3,059	

	Millions of yen					
	2019					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Deposits (*1)	¥ 8,338,765	¥ 197,131	¥ 25,855	¥ 2,273	¥ 3,530	
Call money and bills sold						
Payables under repurchase agreements	207,630					
Borrowing under securities lending transactions	479,347					
Borrowed money	314,177	85,501	2,713	10		
Total	¥ 9,339,920	¥ 282,632	¥ 28,569	¥ 2,283	¥ 3,530	

	Thousands of U.S. dollars					
	2020					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Deposits (*1)	$ 78,604,098	$ 1,650,987	$ 244,858	$ 22,512	$ 28,108	
Call money and bills sold	116,998					
Payables under repurchase agreements	2,138,693					
Borrowing under securities lending transactions	5,947,964					
Borrowed money	2,911,991	785,564	1,769,190			
Total	$ 89,719,764	$ 2,436,561	$ 2,014,058	$ 22,512	$ 28,108	

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

15. Derivative Financial Instruments

(a) Derivative financial instruments used by the Group

The Group enters into transactions with interest rate swaps, currency swaps, and foreign exchange forward contracts.

The Group 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 Group. In addition, the banks enter into derivative transactions for trading purposes, within the position and loss limits established by the Group.

(b) Risks on derivative transactions

The major risks associated with derivative transactions, which have the potential to materially impact the Group's financial condition, are market and credit.

Market risk is related to the increase and decrease in the fair value of the positions held by the Group 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 Group, which result from a counterparty's failure to perform according to the terms and conditions of the contract.

The banking consolidated subsidiaries mainly apply a quantitative measurement method in order to capture market risk. The banking consolidated subsidiaries monitor the outstanding balance and profit and loss for each type of transaction on a daily basis. In addition, the banking consolidated subsidiaries apply a "VaR" measurement method to transactions for which it is considered necessary to apply a more sophisticated method. The Group 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 Group

The Group exercises and controls the derivative transactions using limits, including position limits, credit limits for each counterparty, and stop-loss limits, in accordance with the Group'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, 2020 and 2019.

i) Interest rate-related transactions

There were no interest rate-related transactions as of March 31, 2020 and 2019.

ii) Currency-related transactions

	Millions of yen			
	2020			
	Contractual value or notional principal amount	**Including more than one year**	**Fair value**	**Unrealized gains (losses)**
Currency swaps	¥ 61,105	¥ 43,685	¥ (55)	¥ 189
Foreign exchange forward contracts:				
Selling	43,417	1,510	(223)	(223)
Buying	149,201	1,582	(352)	(352)

	Millions of yen			
	2019			
	Contractual value or notional principal amount	**Including more than one year**	**Fair value**	**Unrealized gains (losses)**
Currency swaps	¥ 46,191	¥ 23,780	¥ 224	¥ 69
Foreign exchange forward contracts:				
Selling	28,141	25	248	248
Buying	10,852	23	(14)	(14)

	Thousands of U.S. dollars			
	2020			
	Contractual value or notional principal amount	**Including more than one year**	**Fair value**	**Unrealized gains (losses)**
Currency swaps	$ 561,472	$ 401,405	$ (505)	$ 1,736
Foreign exchange forward contracts:				
Selling	398,943	13,874	(2,049)	(2,049)
Buying	1,370,954	14,536	(3,234)	(3,234)

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 the above derivatives is based on the discounted present value method, etc.

Derivative transactions to which hedge accounting was applied as of March 31, 2020 and 2019

i) Interest rate-related transactions

	Millions of yen			
	2020			
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted Available-for-sale securities (debt securities)	¥ 477,862	¥ 443,726	¥ (88,358)
Specific matching criteria				
Interest rate swaps:				
Receive fixed and pay floating	Loans and bills discounted	7,280	7,280	(Note 3)
Receive floating and pay fixed		78,675	76,759	

	Millions of yen			
	2019			
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted Available-for-sale securities (debt securities)	¥ 303,774	¥ 259,461	¥ (11,328)
Specific matching criteria				
Interest rate swaps:				
Receive fixed and pay floating	Loans and bills discounted	7,320	7,320	(Note 3)
Receive floating and pay fixed		88,386	83,583	

	Thousands of U.S. dollars			
	2020			
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted Available-for-sale securities (debt securities)	$ 4,390,903	$ 4,077,239	$ (811,890)
Specific matching criteria				
Interest rate swaps:				
Receive fixed and pay floating	Loans and bills discounted	66,893	66,893	(Note 3)
Receive floating and pay fixed		722,916	705,311	

Notes: 1. For the interest rate swaps shown above, deferred hedge accounting is applied in accordance with JICPA Industry Audit Committee Report No. 24, which was issued on February 13, 2002.
2. Fair values of the exchange traded derivatives are based on quoted market prices, such as those of Tokyo Financial Exchange, Inc.
Calculation or quotation of fair value of the over-the-counter traded derivatives is based on the discounted present value method or option-pricing models, etc.
3. The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not measured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in that of loans and bills discounted (the hedged items) stated in Note 15. Financial Instruments and Related Disclosures.

ii) Currency-related transactions

	Millions of yen			
	2020			
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Currency swaps	Loans and bills discounted	¥ 17,380	¥ 17,380	¥ 225

	Millions of yen			
	2019			
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Currency swaps	Loans and bills discounted	¥ 11,421	¥ 11,421	¥ (94)

	Thousands of U.S. dollars			
	2020			
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Currency swaps	Loans and bills discounted	$ 159,698	$ 159,698	$ 2,067

Notes: 1. For the currency swaps shown above, deferred hedge accounting is applied in accordance with JICPA Industry Audit Committee Report No. 25, which was issued on July 29, 2002.
2. Calculation of fair value of the above derivatives is based on the discounted present value method, etc.

16. Other Comprehensive Income

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrealized gains (losses) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 21,602	¥ 18,668	$ 198,493
Reclassification adjustments to profit or loss	1,523	(3,250)	13,994
Amount before income tax effect	23,125	15,418	212,487
Income tax effect	(7,329)	(4,710)	(67,343)
Total	15,796	10,708	145,143
Deferred gains (losses) on derivatives under hedge accounting:			
Gains (losses) arising during the year	(78,955)	(10,235)	(725,489)
Reclassification adjustments to profit or loss	2,027	1,558	18,625
Amount before income tax effect	(76,928)	(8,676)	(706,863)
Income tax effect	23,386	2,637	214,885
Total	(53,542)	(6,039)	(491,978)
Defined retirement benefit plans:			
Gains (losses) arising during the year	(2,901)	(1,670)	(26,656)
Reclassification adjustments to profit or loss	819	1,209	7,525
Amount before income tax effect	(2,082)	(461)	(19,130)
Income tax effect	632	140	5,807
Total	(1,449)	(321)	(13,314)
Total other comprehensive income (loss)	¥ (39,194)	¥ 4,347	$ (360,139)

17. Business Combinations

Business combination by acquisition

1. Outline of the business combination

a) Name of the acquired company and its business outline

JR Kyushu Financial Management Company (leasing business, cash management services and financial shared services operations)

b) Main reasons for business combination

The Group has launched "2nd Medium-Term Management Plan" since April 2018 toward the realization of "Becoming one of the largest financial groups in the Kyushu region," representing the Group's management philosophy and vision.

We have determined that through this share acquisition, the Group will be able to provide customers with more enhanced solutions, strengthen the Group's management foundation, and further enhance its corporate value, by enhancing its "regional comprehensive financial function" and reinforcing its "function of promoting regional industry," which are the key pillars under the medium-term management plan.

Cash management services business and financial shared services operations business for JR Kyushu Group conducted by JR Kyushu Financial Management Company have been succeeded by JR Kyushu Business Partners Company, a subsidiary of Kyushu Railway Company, through the absorption-type company split effective October 1, 2019.

c) Date of the business combination

October 2, 2019

d) Legal form of the business combination

Share acquisition in consideration for cash

e) Name of the company after the business combination

JR Kyushu FG Lease, Inc.

f) Ratio of voting rights acquired

90%

g) Basis for determining the acquirer

It is based on the fact that the Higo Bank, Ltd. acquired shares in consideration for cash.

2. The period for which the operations of the acquired company are included in the consolidated statement of income

From October 1, 2019 to March 31, 2020

3. Acquisition cost and breakdowns by type of consideration

This information is not disclosed pursuant to confidential obligations between the parties, but is representative of fair value. Such transaction price was evaluated by an independent appraiser.

4.Major acquisition-related costs

Due diligence costs, etc. ¥28 million ($257 thousand)

5. Amount of goodwill incurred, reasons for the goodwill incurred, and the method and period of amortization

(1) Amount of goodwill incurred

¥935 million ($8,591 thousand)

(2) Reasons for the goodwill incurred

Goodwill is incurred from the difference between equity interest in the acquired company and its acquisition value.

(3) Method and period of amortization

Goodwill was amortized in lump sum in the year ended March 31, 2020.

6. The assets acquired and liabilities assumed at the acquisition date are as follows:

Total assets	¥18,126 million	($166,553 thousand)
of which, other assets (accounts receivable)	4,536 million	($41,679 thousand)
of which, lease receivables and investment assets	10,138 million	($93,154 thousand)
Total liabilities	¥17,641 million	($162,096 thousand)
of which, borrowed money	16,647 million	($152,963 thousand)

7. Estimates of impacts on the consolidated statement of income for the year ended March 31, 2020 and its calculation method, assuming the business combination had been completed on the beginning date of the current fiscal year

This information is omitted because it is immaterial.

18. 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 Company'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.

Leasing and lending businesses of JR Kyushu FG Lease, Inc., which was acquired in the year ended March 31, 2020, are included in "Leasing."

(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 was as follows:

	Millions of yen								
	2020								
	Reportable segment								
	Banking								
	Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:									
Ordinary income by external customers	¥ 74,098	¥ 63,327	¥ 137,426	¥ 31,184	¥ 168,610	¥ 5,324	¥ 173,935	¥ (1,794)	¥ 172,140
Intersegment ordinary income	534	1,081	1,616	1,749	3,366	4,036	7,402	(7,402)	
Total	¥ 74,633	¥ 64,408	¥ 139,042	¥ 32,934	¥ 171,976	¥ 9,360	¥ 181,337	¥ (9,197)	¥ 172,140
Segment profit	¥ 18,559	¥ 16,216	¥ 34,775	¥ 1,349	¥ 36,125	¥ 1,090	¥ 37,215	¥ (10,182)	¥ 27,033
Segment assets	6,018,601	5,027,719	11,046,321	105,593	11,151,915	31,696	11,183,611	(103,814)	11,079,796
Other:									
Depreciation	3,833	2,970	6,803	118	6,921	333	7,255	165	7,421
Interest income	52,442	48,238	100,680	110	100,791	180	100,971	(2,317)	98,654
Interest expenses	8,507	3,381	11,889	280	12,169	40	12,210	(376)	11,834
Increase in fixed assets and intangible assets	6,260	11,655	17,916	117	18,033	291	18,324	1,642	19,967

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. Reconciliations include items below:
a. The reconciliations of ordinary income by external customers of ¥(1,794) million ($(16,484) thousand) include reconciliations of ordinary income in accordance with purchase method application of ¥(1,865) million ($(17,136) thousand).
b. The segment profit reconciliations of ¥(10,182) million ($(93,558) thousand) include reconciliations of profit in accordance with purchase method application of ¥(8,514) million ($(78,232) thousand) and amortization of goodwill of ¥(935) million ($(8,591) thousand).
c. The interest income reconciliations in "Other" of ¥(2,317) million ($(21,290) thousand) include reconciliations of interest income in accordance with purchase method application of ¥(1,421) million ($(13,057) thousand).
d. Reconciliations of segment assets and interest expenses were eliminations of intersegment transactions. Reconciliations of depreciation and increase in fixed assets and intangible assets were increases in the depreciation, fixed assets and intangible assets not allocated to reportable segments.
4. Segment profit is reflected as an adjustment to ordinary profit in the consolidated statement of income.

	Millions of yen								
	2019								
	Reportable segment								
	Banking								
	Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:									
Ordinary income by external customers	¥ 75,173	¥ 64,288	¥ 139,461	¥ 28,829	¥ 168,290	¥ 5,006	¥ 173,297	¥ (2,974)	¥ 170,322
Intersegment ordinary income	485	931	1,416	1,681	3,098	4,277	7,375	(7,375)	
Total	¥ 75,658	¥ 65,219	¥ 140,878	¥ 30,510	¥ 171,388	¥ 9,284	¥ 180,672	¥ (10,350)	¥ 170,322
Segment profit	¥ 18,170	¥ 17,418	¥ 35,588	¥ 1,596	¥ 37,185	¥ 1,125	¥ 38,310	¥ (4,592)	¥ 33,717
Segment assets	5,830,251	4,576,181	10,406,433	85,735	10,492,168	33,694	10,525,863	(81,273)	10,444,589
Other:									
Depreciation	3,838	2,746	6,585	93	6,678	371	7,050	161	7,212
Interest income	52,412	48,434	100,846	59	100,906	208	101,114	(2,994)	98,120
Interest expenses	5,845	1,961	7,807	236	8,043	39	8,083	(322)	7,760
Increase in fixed assets and intangible assets	2,780	7,706	10,487	117	10,604	106	10,711	2,417	13,128

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. Reconciliations include items below:
a. The reconciliations of ordinary income by external customers of ¥(2,974) million include reconciliations of ordinary income in accordance with purchase method application of ¥(2,979) million.
b. The segment profit reconciliations of ¥(4,592) million include reconciliations of profit in accordance with purchase method application of ¥(3,766) million.
c. The interest income reconciliations in "Other" of ¥(2,994) million include reconciliations of interest income in accordance with purchase method application of ¥(2,161) million.
d. Reconciliations of segment assets 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.

4. Segment profit is reflected as an adjustment to ordinary profit in the consolidated statement of income.

	Thousands of U.S. dollars								
	2020								
	Reportable segment								
	Banking								
	Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:									
Ordinary income by external customers	$ 680,860	$ 581,889	$ 1,262,758	$ 286,538	$ 1,549,297	$ 48,920	$ 1,598,226	$ (16,484)	$ 1,581,732
Intersegment ordinary income	4,906	9,932	14,848	16,070	30,928	37,085	68,014	(68,014)	
Total	$ 685,775	$ 591,822	$ 1,277,607	$ 302,618	$ 1,580,226	$ 86,005	$ 1,666,240	$ (84,507)	$ 1,581,732
Segment profit	$ 170,532	$ 149,003	$ 319,535	$ 12,395	$ 331,939	$ 10,015	$ 341,955	$ (93,558)	$ 248,396
Segment assets	55,302,774	46,197,914	101,500,698	970,256	102,470,963	291,243	102,762,207	(953,909)	101,808,288
Other:									
Depreciation	35,220	27,290	62,510	1,084	63,594	3,059	66,663	1,516	68,188
Interest income	481,870	443,241	925,112	1,010	926,132	1,653	927,786	(21,290)	906,496
Interest expenses	78,167	31,066	109,243	2,572	111,816	367	112,193	(3,454)	108,738
Increase in fixed assets and intangible assets	57,520	107,093	164,623	1,075	165,698	2,673	168,372	15,087	183,469

Related information

(a) Segment information by service

	Millions of yen				
	2020				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	¥ 71,302	¥ 41,784	¥ 31,059	¥ 27,993	¥ 172,140

	Millions of yen				
	2019				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	¥ 70,254	¥ 43,087	¥ 28,684	¥ 28,296	¥ 170,322

	Thousands of U.S. dollars				
	2020				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	$ 655,168	$ 383,938	$ 285,390	$ 257,217	$ 1,581,732

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

(b) Segment information by geographic area

Segment information by geographic area is not disclosed as more than 90% of the total consolidated ordinary income and tangible fixed assets of the Group resides in Japan.

(c) Segment information by major customer

Segment information by major customers is not disclosed as there was no customer for which ordinary income was more than 10% of total ordinary income.

19. Subsequent Events

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2020, was approved at the meeting of the Board of Directors held on May 13, 2020:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥6.00 ($0.05) per share	¥ 2,639	$ 24,248

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kyushu Financial Group, Inc.:

Opinion

We have audited the consolidated financial statements of Kyushu Financial Group, Inc.(the "Company") and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Member of
Deloitte Touche Tohmatsu Limited

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 19, 2020

Non-Consolidated Financial Statements (Unaudited)

The Higo Bank, Ltd.

Non-Consolidated Balance Sheet

March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
ASSETS:			
Cash and due from banks	¥ 688,379	¥ 945,255	$ 6,325,268
Call loans	388	314	3,565
Monetary claims purchased	726	1,062	6,670
Trading assets	45	273	413
Money held in trust	4,838	4,841	44,454
Securities	1,367,552	1,208,958	12,565,946
Loans and bills discounted	3,696,443	3,488,486	33,965,294
Foreign exchange assets	5,791	7,609	53,211
Other assets	201,444	130,829	1,850,996
Fixed assets	49,163	49,620	451,741
Intangible assets	6,897	4,803	63,374
Prepaid pension cost	3,726	2,610	34,236
Deferred tax assets	5,634		51,768
Customers' liabilities for acceptances and guarantees	9,979	9,402	91,693
Reserve for possible loan losses	(22,018)	(22,299)	(202,315)
Total assets	¥ 6,018,993	¥ 5,831,767	$ 55,306,376
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits	¥ 4,677,499	¥ 4,623,028	$ 42,979,867
Call money	9,250		84,994
Payables under repurchase agreements	129,434	148,888	1,189,322
Borrowing under securities lending transactions	499,938	406,595	4,593,751
Trading liabilities	11		101
Borrowed money	282,963	275,937	2,600,045
Foreign exchange liabilities	18	74	165
Borrowed money from trust account	1,461		13,424
Other liabilities	104,273	47,033	958,127
Reserve for retirement benefits		256	
Reserve for repayments for dormant deposits	1,038	1,206	9,537
Reserve for contingent losses	253	260	2,324
Deferred tax liabilities		3,207	
Deferred tax liabilities related to land revaluation	4,395	4,443	40,384
Acceptances and guarantees	9,979	9,402	91,693
Total liabilities	5,720,519	5,520,335	52,563,805
Equity			
Common stock	18,128	18,128	166,571
Capital surplus	8,133	8,133	74,731
Retained earnings	258,252	248,025	2,372,985
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	56,464	39,171	518,827
Deferred gains (losses) on derivatives under hedge accounting	(48,285)	(7,882)	(443,673)
Excess of land revaluation	5,779	5,855	53,101
Total valuation and translation adjustments	13,959	37,143	128,264
Total equity	298,474	311,432	2,742,570
Total liabilities and equity	¥ 6,018,993	¥ 5,831,767	$ 55,306,376

The Higo Bank, Ltd.
Non-Consolidated Statement of Income
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Income:			
Interest income:			
Interest on loans and discounts	¥ 34,609	¥ 33,927	$ 318,009
Interest and dividends on securities	17,549	18,165	161,251
Other interest income	284	320	2,609
Trust fees	25		229
Fees and commissions income	10,794	11,040	99,182
Trading income	28	32	257
Other operating income	7,556	7,261	69,429
Gain on disposal of fixed assets	394	5	3,620
Other income	3,786	4,910	34,788
Total income	75,027	75,663	689,396
Expenses:			
Interest expenses:			
Interest on deposits	364	377	3,344
Other interest expenses	8,142	5,468	74,813
Fees and commissions expenses	4,488	4,134	41,238
Other operating expenses	5,164	8,596	47,450
General and administrative expenses	35,697	36,810	328,006
Provision for possible loan losses	158	624	1,451
Losses on disposal of fixed assets	327	112	3,004
Losses on impairment of long-lived assets		43	
Other expenses	2,057	1,477	18,901
Total expenses	56,401	57,644	518,248
Income before income taxes	18,626	18,019	171,147
Income taxes:			
Current	4,627	5,447	42,515
Deferred	1,138	77	10,456
Total income taxes	5,765	5,524	52,972
Net income	¥ 12,860	¥ 12,495	$ 118,165

Non-Consolidated Financial Statements (Unaudited)

The Higo Bank, Ltd.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2020 and 2019

	Millions of yen		
	Common stock	Capital surplus	Retained earnings
Balance at April 1, 2018	¥ 18,128	¥ 8,133	¥ 238,030
Cash dividends			(2,718)
Net income			12,495
Reversal of excess of land revaluation			217
Net change in the year			
Balance at April 1, 2019	¥ 18,128	¥ 8,133	¥ 248,025
Cash dividends			(2,709)
Net income			12,860
Reversal of excess of land revaluation			75
Net change in the year			
Balance at March 31, 2020	¥ 18,128	¥ 8,133	¥ 258,252

	Millions of yen				
	Valuation and translation adjustments				
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
Balance at April 1, 2018	¥ 34,217	¥ (1,866)	¥ 6,072	¥ 38,423	¥ 302,716
Cash dividends					(2,718)
Net income					12,495
Reversal of excess of land revaluation					217
Net change in the year	4,954	(6,016)	(217)	(1,279)	(1,279)
Balance at April 1, 2019	¥ 39,171	¥ (7,882)	¥ 5,855	¥ 37,143	¥ 311,432
Cash dividends					(2,709)
Net income					12,860
Reversal of excess of land revaluation					75
Net change in the year	17,292	(40,402)	(75)	(23,184)	(23,184)
Balance at March 31, 2020	¥ 56,464	¥ (48,285)	¥ 5,779	¥ 13,959	¥ 298,474

The Higo Bank, Ltd.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2020 and 2019

	Thousands of U.S. dollars		
	Common stock	**Capital surplus**	**Retained earnings**
Balance at April 1, 2019	$ 166,571	$ 74,731	$ 2,279,013
Cash dividends			(24,892)
Net income			118,165
Reversal of excess of land revaluation			689
Net change in the year			
Balance at March 31, 2020	$ 166,571	$ 74,731	$ 2,372,985

	Thousands of U.S. dollars				
	Valuation and translation adjustments				
	Unrealized gains (losses) on available-for-sale securities	**Deferred gains (losses) on derivatives under hedge accounting**	**Excess of land revaluation**	**Total valuation and translation adjustments**	**Total equity**
Balance at April 1, 2019	$ 359,928	$ (72,424)	$ 53,799	$ 341,293	$ 2,861,637
Cash dividends					(24,892)
Net income					118,165
Reversal of excess of land revaluation					689
Net change in the year	158,890	(371,239)	(689)	(213,029)	(213,029)
Balance at March 31, 2020	$ 518,827	$ (443,673)	$ 53,101	$ 128,264	$ 2,742,570

Non-Consolidated Financial Statements (Unaudited)

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Balance Sheet

March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
ASSETS:			
Cash and due from banks	¥ 484,465	¥ 265,358	$ 4,451,575
Monetary claims purchased	9,177	9,495	84,324
Trading securities	831	910	7,635
Money held in trust	11,777	11,010	108,214
Securities	853,678	806,476	7,844,142
Loans and bills discounted	3,558,174	3,407,595	32,694,790
Foreign exchange assets	7,481	4,809	68,740
Other assets	43,223	20,429	397,160
Fixed assets	68,589	60,368	630,239
Intangible assets	3,466	3,733	31,847
Prepaid pension cost	8,388	8,600	77,074
Deferred tax assets	3,819		35,091
Customers' liabilities for acceptances and guarantees	25,434	24,002	233,703
Reserve for possible loan losses	(42,622)	(42,775)	(391,638)
Total assets	¥ 5,035,884	¥ 4,580,015	$ 46,272,939
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits	¥ 4,101,761	¥ 3,958,284	$ 37,689,616
Call money	3,482		31,994
Payables under repurchase agreements	103,320	58,742	949,370
Borrowing under securities lending transactions	147,378	72,751	1,354,203
Borrowed money	294,717	110,453	2,708,049
Foreign exchange liabilities	63	97	578
Borrowed money from trust account	1,125		10,337
Other liabilities	36,261	16,182	333,189
Reserve for retirement benefits	1,705	1,749	15,666
Reserve for repayments for dormant deposits	1,063	1,060	9,767
Reserve for contingent losses	220	223	2,021
Deferred tax liabilities		5,054	
Deferred tax liabilities related to land revaluation	6,817	6,904	62,638
Acceptances and guarantees	25,434	24,002	233,703
Total liabilities	4,723,353	4,255,508	43,401,203
Equity			
Common stock	18,130	18,130	166,590
Capital surplus	11,204	11,204	102,949
Retained earnings	247,411	238,713	2,273,371
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	34,162	41,525	313,902
Deferred gains (losses) on derivatives under hedge accounting	(13,172)	(33)	(121,032)
Excess of land revaluation	14,793	14,964	135,927
Total valuation and translation adjustments	35,784	56,457	328,806
Total equity	312,530	324,506	2,871,726
Total liabilities and equity	¥ 5,035,884	¥ 4,580,015	$ 46,272,939

THE KAGOSHIMA BANK, LTD.
Non-Consolidated Statement of Income
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Income:			
Interest income:			
Interest on loans and discounts	¥ 36,776	¥ 36,319	$ 337,921
Interest and dividends on securities	11,380	12,017	104,566
Other interest income	81	95	744
Trust fees	15		137
Fees and commissions income	10,129	10,333	93,071
Other operating income	3,351	1,693	30,791
Gain on disposal of fixed assets	3	106	27
Other income	2,673	4,866	24,561
Total income	64,411	65,433	591,849
Expenses:			
Interest expenses:			
Interest on deposits	424	528	3,895
Other interest expenses	2,954	1,433	27,143
Fees and commissions expenses	4,994	5,091	45,888
Other operating expenses	502	1,762	4,612
General and administrative expenses	35,350	34,291	324,818
Provision for possible loan losses	547	2,690	5,026
Losses on disposal of fixed assets	142	274	1,304
Losses on impairment of long-lived assets	549	182	5,044
Other expenses	3,416	2,111	31,388
Total expenses	48,883	48,365	449,168
Income before income taxes	15,527	17,067	142,672
Income taxes:			
Current	4,457	5,670	40,953
Deferred	(165)	(627)	(1,516)
Total income taxes	4,291	5,042	39,428
Net income	¥ 11,236	¥ 12,024	$ 103,243

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2020 and 2019

	Millions of yen		
	Common stock	Capital surplus	Retained earnings
Balance at April 1, 2018	¥ 18,130	¥ 11,204	¥ 229,313
Cash dividends			(2,718)
Net income			12,024
Reversal of excess of land revaluation			93
Net change in the year			
Balance at April 1, 2019	¥ 18,130	¥ 11,204	¥ 238,713
Cash dividends			(2,709)
Net income			11,236
Reversal of excess of land revaluation			170
Net change in the year			
Balance at March 31, 2020	¥ 18,130	¥ 11,204	¥ 247,411

	Millions of yen				
	Valuation and translation adjustments				
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
Balance at April 1, 2018	¥ 38,572	¥ (10)	¥ 15,058	¥ 53,620	¥ 312,269
Cash dividends					(2,718)
Net income					12,024
Reversal of excess of land revaluation					93
Net change in the year	2,952	(23)	(93)	2,836	2,836
Balance at April 1, 2019	¥ 41,525	¥ (33)	¥ 14,964	¥ 56,457	¥ 324,506
Cash dividends					(2,709)
Net income					11,236
Reversal of excess of land revaluation					170
Net change in the year	(7,362)	(13,139)	(170)	(20,673)	(20,673)
Balance at March 31, 2020	¥ 34,162	¥ (13,172)	¥ 14,793	¥ 35,784	¥ 312,530

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2020 and 2019

	Thousands of U.S. dollars		
	Common stock	Capital surplus	Retained earnings
Balance at April 1, 2019	$ 166,590	$ 102,949	$ 2,193,448
Cash dividends			(24,892)
Net income			103,243
Reversal of excess of land revaluation			1,562
Net change in the year			
Balance at March 31, 2020	$ 166,590	$ 102,949	$ 2,273,371

	Thousands of U.S. dollars				
	Valuation and translation adjustments				
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
Balance at April 1, 2019	$ 381,558	$ (303)	$ 137,498	$ 518,763	$ 2,981,769
Cash dividends					(24,892)
Net income					103,243
Reversal of excess of land revaluation					1,562
Net change in the year	(67,646)	(120,729)	(1,562)	(189,956)	(189,956)
Balance at March 31, 2020	$ 313,902	$ (121,032)	$ 135,927	$ 328,806	$ 2,871,726

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