Kyushu Financial Group

2016 Annual Report

Higo Bank

Kagoshima Bank

Profile

The Kyushu Financial Group was born in 2015 through the management integration of two banks in Kyushu: The Higo Bank based in the Kumamoto prefecture and The Kagoshima Bank based in Kagoshima prefecture.

Kumamoto prefecture and Kagoshima prefecture are blessed with abundant natural resources, and are among the top agricultural producers in Japan. And even with the continuing trend of aging farmers, the industry is steadfastly growing due to the expansion of overseas distribution channels.

Moreover, in the tourism industry, tourists from other parts of Asia have increased due to the addition of more flights to the regions, and other factors. The increase in consumption of foreign tourists has had significant positive effects on the local economy.

However, it is an undisputed fact that these regions are facing issues such as a dwindling and aging population against declining birth rates, as well as low interest rates and economic contraction.

The Kyushu Financial Group aims to "become Kyushu's top comprehensive financial group for customers." We strive to improve every day as we work towards maximizing the potential of our integrated management while tackling various issues such as further revitalizing the region.

Kyushu Financial Group, Inc.

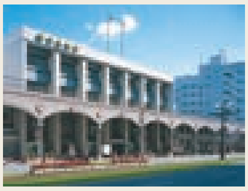
Location of head office:	6-6, Kinseicho, Kagoshima-shi, Kagoshima prefecture		
Location of headquarters:	1, Renpeicho, Chuo-ku,Kumamoto-shi, Kumamoto prefecture		
Representatives and offices: (As of September 1, 2016)	Chairman and Representative Director	Takahiro Kai	(currently, President of The Higo Bank, Ltd.)
	President and Representative Director:	Motohiro Kamimura	(currently, President of The Kagoshima Bank, Ltd.)
	Director	Akihisa Koriyama	(currently, Senior Managing Director of The Kagoshima Bank, Ltd.)
	Director	Tsuyoshi Mogami	(currently, Senior Executive Managing Officer and Director of The Higo Bank, Ltd.)
	Director	Hiroyuki Matsunaga	(currently, Managing Director, Manager of Corporate Planning Division of The Kagoshima Bank, Ltd., Director of The Higo Bank, Ltd.)
	Director	Yoshihisa Kasahara	(currently, Executive Managing Officer and Director of The Higo Bank, Ltd., Director of The Kagoshima Bank, Ltd.)
	Director	Toru Hayashida	-
	Director	Tsukasa Tsuruta	-
	Director (outside)	Katsuaki Watanabe	(currently, Senior Advisor of Toyota Motor Corporation)
	Director (outside)	Takejiro Sueyoshi	(currently, Special Advisor of UNEP Financial Initiative)
	Company Auditor	Shiichiro Shimoyama	(currently, Company Auditor of The Higo Bank, Ltd.)
	Company Auditor	Satoru Motomura	(currently, Company Auditor of The Kagoshima Bank, Ltd.)
	Company Auditor (outside)	Kenichi Sekiguchi	(currently, Special Advisor of Meiji Yasuda Life Insurance Company)
	Company Auditor (outside)	Katsuro Tanaka	(currently, Senior Managing Partner of TMI Associates)
	Company Auditor (outside)	Yuko Tashima	(currently, Partner Attorney of SAWAYAKA Law Office)
	Executive Officer	Jyunichi Nishimoto	-
	Executive Officer	Eichi Eto	(currently, Executive Managing Officer and Director of The Higo Bank, Ltd.)
	Executive Officer	Norihisa Akatsuka	(currently, Managing Director, Manager of System Division of The Kagoshima Bank, Ltd.)
	Executive Officer	Akira Kinjo	(currently, Executive Officer of The Kagoshima Bank, Ltd.)
	Executive Officer	Michiaki Miyawaki	(currently, Executive Officer, Manager of Audit Division of The Kagoshima Bank, Ltd.)
Business:	Management of banks and companies that are permitted to be owned as subsidiaries under the Banking Act, and all other work incidental thereto		
Capital:	36 billion yen		
Fiscal year end:	31-Mar		
Net Assets (consolidated):	To be determined		
Total assets (consolidated):	To be determined		
Listing exchange:	Tokyo Stock Exchange, Fukuoka Stock Exchange		
Accounting auditor:	Deloitte Touche Tohmatsu LLC		
Administrator of shareholder registry:	Mizuho Trust & Banking Co., Ltd.		

The Higo Bank, Ltd.

Established:	July 25, 1925
Capital:	18.128 billion yen
Head Office:	1, Rempeicho, Chuo-ku, Kumamoto-shi
Number of Branches:	123 (118 main branch and branches, 4 subbranches, 1 overseas representative office)
Number of Employees:	2,233

The Kagoshima Bank, Ltd.

Established:	October 6, 1879
Capital:	18.130 billion yen
Head Office:	6-6, Kinseicho, Kagoshima-shi
Number of Branches:	152 (113 main branch and branches, 11 subbranches, 27 agencies, 1 overseas representative office)
Number of Employees:	2,257



(As of the end of March 2016)

Contents

Group Management Philosophy

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

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

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

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

Corporate History

Nov. 1, 2014	The Higo Bank, Ltd. and THE KAGOSHIMA BANK, LTD. (hereinafter collectively referred to as the "Banks") entered into a basic agreement regarding the business integration.
Mar. 27, 2015	The Banks entered into a Business Integration Agreement and jointly prepared a Share Transfer Plan.
Jun. 23, 2015	The Banks resolved, at their respective general shareholders' meetings, to establish Kyushu Financial Group, Inc. (hereinafter referred to as the "Company") by way of joint share transfer and that the Banks become wholly-owned subsidiaries of the Company.
Oct. 1, 2015	The Banks established the Company by way of joint share transfer. The Company was listed in the First Section of the Tokyo Stock Exchange, as well as the main board of the Fukuoka Stock Exchange.

Our Logo

Kyushu FG

Concept

A continuously-growing large tree rooted in the natural-rich land of Kyushu. This implies our wish for the Kyushu Financial Group to be like a large tree rooted firmly in the region and growing with the region while bearing rich fruit for society.

Design

The sunlight filtering through the tree expresses the gentle light cast on the future. The fresh and rich future of Kyushu is depicted in a deeply impressionable way through a three-dimensional shape reminiscent of a water droplet.

Color

The basic color scheme is composed a deep "trust green" expressing the trust that has been built up until now, and "fresh green" expressing a young mind constantly taking on new challenges.

Message from the Management

Chairman and Representative Director:
Takahiro Kai

President and Representative Director:
Motohiro Kamimura

We would like to open our remarks by offering our condolences to everyone affected by the 2016 Kumamoto Earthquake.

During FY2015, although Japan's economy suffered some negative impact on exports and production due to the slowdown in emerging economies, improved income and employment conditions helped prevent downward movement in personal consumption and supported robust trends in capital investment, leading to a gradual recovery.

However, the financial and economic environment for our financial group has continued to grow increasingly challenging with the Bank of Japan introducing negative interest rates, and also due to increasing competition with other financial institutions including the Japan Post Bank, megabanks and other regional financial institutions.

In this environment, the Kyushu Financial Group, which was born through the management integration of The Higo Bank and The Kagoshima Bank on October 1, 2015, is working to implement its 1st Mid-Term Business Plan, with the aim of "building management foundations that enable the provision of the best, most optimum services to customers."

As a result of the Kumamoto Earthquake, which occurred as we were in the process of implementing this plan, the Kumamoto Region, where our group is based, suffered significant damage. We believe that our mission as a regional financial institution is, through our "overall financial capabilities that can respond to customers' diverse needs," one of the management foundations listed in our mid-term business plan, to continue providing stable financial services that assist the recovery and reconstruction of the region.

We are working to bring together all of our group capabilities so that we can do all we can to bring back prosperity and vitality to the affected regions and move forwards as we build for the future.

We hope that you will be able to offer us even greater support as we continue to move forward.

October 2016

Strategies

Vision “Become Kyushu's top comprehensive financial group for customers”

Realize in the two stages: “collaboration” and “integration”

(1) Collaboration stage
1st Medium-Term Management Plan period
(October 2015 - March 2018)

- Deepen mutual understanding and introduce effectiveness to each other.
- Solidify strengths (know-how) to maximize the synergy effects in the integration stage, and enhance the Group's comprehensive financial capabilities.
- Enhance Group governance and construct a framework for the optimal allocation of the Group's management resources.

(2) Integration stage
From 2nd Medium-Term Management Plan period
(April 2018 -)

- Advance the integration of the entire Group in a phased manner and build a solid management foundation.
- Maximize the Group's synergy effects in both consolidated gross profits and cost efficiency to realize sustainable growth.

The 1st Medium-Term Management Plan

Basic Policy

Establish a management base to provide optimal and best services to customers

Management Base

“Comprehensive financial capability”
to meet various customer needs

- Financial business fields, products and services that respond quickly and accurately to customers' financial needs
- Regional revitalization strategies that realize sustainable growth of the regions
- Stable revenue from market investment to support Group profitability

“Brand power”
trusted by stakeholders

- **Regional society/customers**
  High level of credibility making the Group to be selected continuously
  (human resources/product strengths)
- **Shareholders**
  Stable shareholder returns and proactive IR activities
- **Employees**
  Pride as a member of the Group and high motivation

“Organization management capability”
to optimize the entire Group

- Strengthen Group management base to adapt to changes in the environment
- Establish sophisticated Group management framework
- Improve managerial and operational efficiency and strategic allocation of personnel to support building comprehensive financial strength

Financial Highlights

Kyushu Financial Group

(Millions of yen)

Item	Year ended March 31, 2016
Ordinary income	131,224
Ordinary profit	25,606
Net income attributable to owners of the parent	108,471
Capital adequacy ratio	12.86%

HigoBank

(Millions of yen)

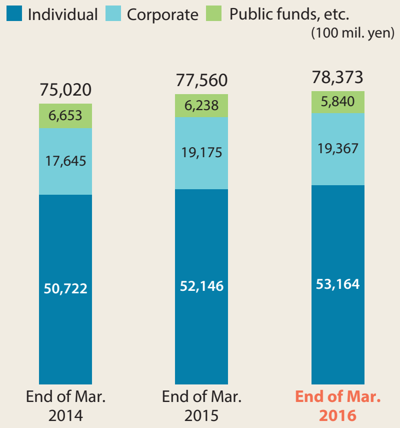
Item	Year ended March 31, 2016	Year-to-year change	Year ended March 31, 2015
Ordinary income	76,647	5,159	71,488
Gross income from business	55,415	(616)	56,031
Expenses	39,817	1,830	37,986
Net income from core business	13,957	(2,896)	16,853
Net income from business	15,598	(1,364)	16,962
Record-high Ordinary profit	21,420	1,153	20,267
Record-high Net income	13,977	1,756	12,221

Kagoshima Bank

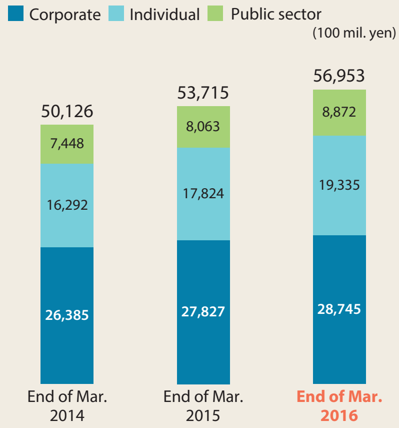
(Millions of yen)

Item	Year ended March 31, 2016	Year-to-year change	Year ended March 31, 2015
Ordinary income	71,039	6,380	64,659
Gross income from business	53,927	408	53,519
Expenses	35,712	(836)	36,548
Net income from core business	17,846	1,936	15,910
Net income from business	20,878	4,644	16,233
Ordinary profit	17,864	(505)	18,369
Record-high Net income	11,547	463	11,084

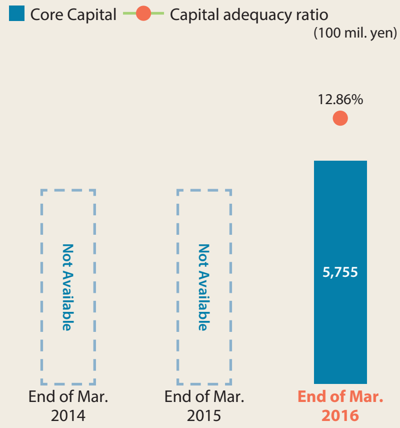
Deposits
(Non-consolidated total of the two Banks)



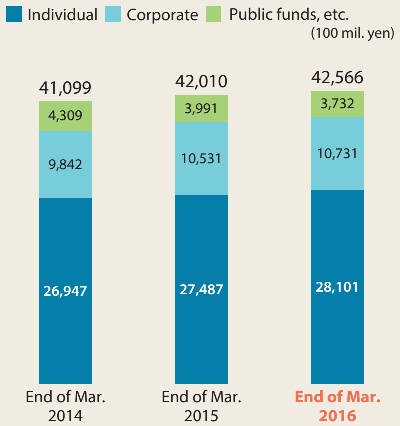
Loans
(Non-consolidated total of the two Banks)



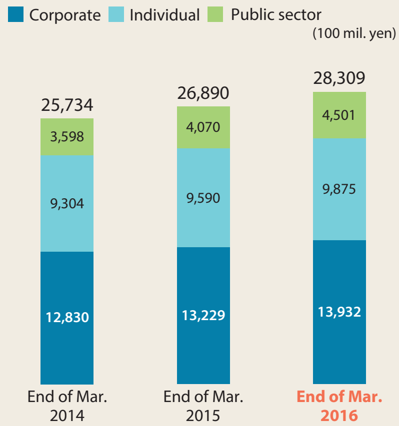
Capital Adequacy Ratio
(KFG Consolidated)



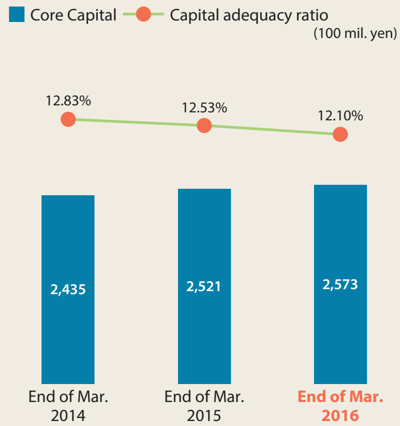
Deposits



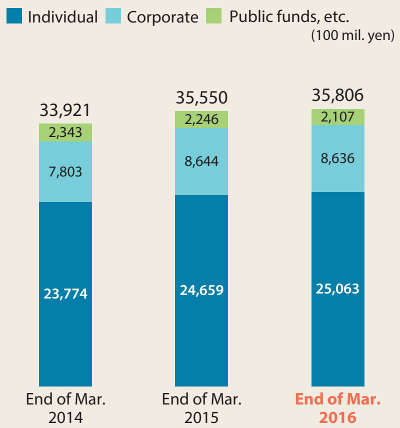
Loans



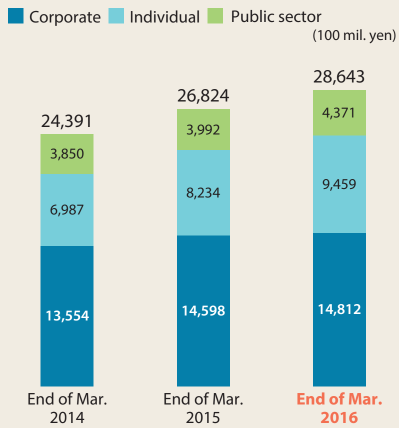
Capital Adequacy Ratio



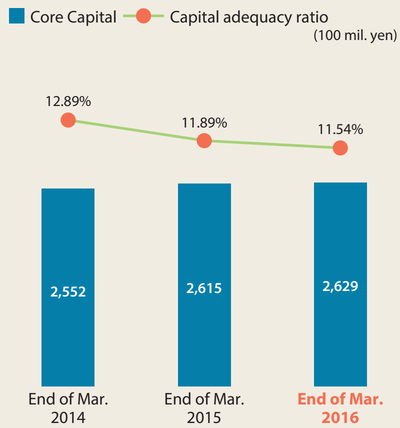
Deposits



Loans



Capital Adequacy Ratio



Management

Chairman and Representative Director
Takahiro Kai

(Representative Director and President of The Higo Bank, Ltd.)

President and Representative Director
Motohiro Kamimura

(President of The Kagoshima Bank, Ltd.)

Director
Akihisa Koriyama

(Senior Managing Director of The Kagoshima Bank, Ltd.)

Director
Tsuyoshi Mogami

(Director and Senior Managing Executive Officer of The Higo Bank, Ltd)

Director
Hiroyuki Matsunaga

(Managing Director and General Manager of Corporate Planning Division of The Kagoshima Bank, Ltd. and Director of The Higo Bank, Ltd.)

Director
Yoshihisa Kasahara

(Director and Managing Executive Officer of The Higo Bank, Ltd. and Director of The Kagoshima Bank, Ltd.)

Director
Toru Hayashida

Director
Tsukasa Tsuruta

Director (Outside)
Katsuaki Watanabe

(Advisor of Toyota Motor Corporation)

Director (Outside)
Takejiro Sueyoshi

(Special Advisor to UNEP Finance Initiative)

Corporate Auditor
Shiichiro Shimoyama

(Corporate Auditor of The Higo Bank, Ltd.)

Corporate Auditor
Satoru Motomura

(Corporate Auditor of The Kagoshima Bank, Ltd.)

Corporate Auditor (Outside)
Kenichi Sekiguchi

(Senior Advisor of Meiji Yasuda Life Insurance Co.)

Corporate Auditor (Outside)
Katsuro Tanaka

(Senior Managing Partner of TMI Associates)

Corporate Auditor (Outside)
Yuko Tashima

(Partner Attorney of Sawayaka Law Office)

Executive Officer
Jyunichi Nishimoto

Executive Officer
Eichi Eto

Executive Officer
Norihisa Akatsuka

Executive Officer
Akira Kinjo

Executive Officer
Michiaki Miyawaki

(Note 1) Directors Katsuaki Watanabe and Takejiro Sueyoshi are Outside Directors as stipulated in Article 2-15 of the Companies Act.
(Note 2) Corporate Auditors Kenichi Sekiguchi, Katsuro Tanaka, and Yuko Tashima are Outside Corporate Auditors as stipulated in Article 2-16 of the Companies Act.

(As of September 1, 2016)

Corporate Governance

Basic Philosophy on Corporate Governance

Our Group has established the Group management philosophy, and in order to implement it, adheres to laws and regulations and works to carry out appropriate business decision making and operations, while striving to enhance the corporate governance by improving management transparency, openness and soundness.

Our Group has established and released “Corporate Governance Guidelines” for the sustainable growth of the Group and the improvement of medium to long-term corporate values. Officers and employees of our Group share these “Corporate Governance Guidelines,” fully understand the intent and are putting it into practice.

Corporate Governance System Overview

A system where the Board of Directors of the Company, comprising 10 Directors (including 2 Outside Directors), supervises management decision making and execution of the duties of the Directors and the 5 Corporate Auditors (including 3 Outside Corporate Auditors) and the Board of Corporate Auditors audit execution of company operations is determined appropriate for the improvement of management efficiency and the strengthening of corporate governance, and thus the Company currently takes the form of a company with Board of Corporate Auditors.

Board of Directors and Directors

The Board of Directors comprises 8 Directors from the Group who are thoroughly familiar with the financial business, as well as 2 Outside Directors who have a high degree of independence in supervising the entire management of the Group from a neutral and objective perspective. The main role of the Board is making decisions on matters stipulated by laws and regulations and the Articles of Incorporation, as well as important operational matters related to the management of the Group, and supervising execution of the duties by the Directors.

Board of Corporate Auditors and Corporate Auditors

The Board of Corporate Auditors comprises 2 Corporate Auditors from the Group who are thoroughly familiar with the financial business and possess suitable knowledge of finance and accounting, as well as 3 Outside Corporate Auditors (including one female Corporate Auditor) who have a high degree of independence in conducting audits to secure Group soundness from a neutral and objective perspective. The Board carries out audits of the operations and financial conditions of the Group based on the Standards for Audits Conducted by Corporate Auditors, etc. auditing standards set by the Board.

Group Management Council

The Group Management Council comprises the Representative Directors and Directors, etc., and discusses and decides matters entrusted to it by the Board of Directors as well as deliberates important matters regarding management, and works to enrich and enliven deliberation for prompt and decisive decision making.

Committees

In order to effectively, efficiently and promptly respond to the cross-organizational issues of the Group, the following 5 committees have been established, and they regularly meet to discuss the matters under their respective jurisdictions.

(Comprehensive Budgeting Committee)
This Committee meets to discuss the composition of the Group comprehensive budget based on the Medium-Term Management Plan, the progress, and other cross-organizational issues, etc.

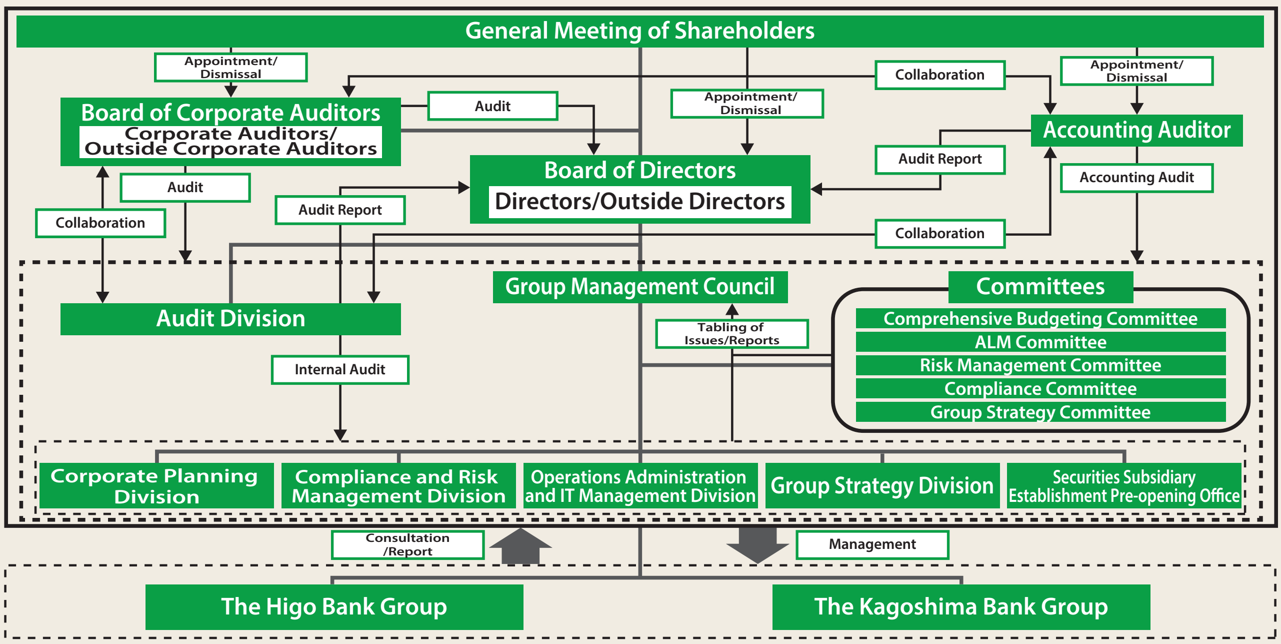
(ALM Committee)
This Committee meets to discuss the management and policies regarding integrated risks, credit risks, market risks, liquidity risks, etc., and issues regarding the revenue management, investments and financing for the entire Group.

(Risk Management Committee)
This Committee meets to discuss management of operational risks and development of crisis management system, etc. of the Group.

(Compliance Committee)
This Committee meets to discuss the verification of the effectiveness and adequacy of the Group’s system for compliance with laws and regulations, etc., as well as cross-organizational issues related to compliance with laws and regulations, etc.

(Group Strategy Committee)
This Committee meets to discuss the strategies and policies that contribute to operational efficiency and joint sales procedures for the achievement of Group synergy.

Corporate Governance Framework



Compliance

Compliance Basic Policy

The Group positions compliance as one of the most crucial management issues, and we are engaged in thorough compliance based on the following three principles.

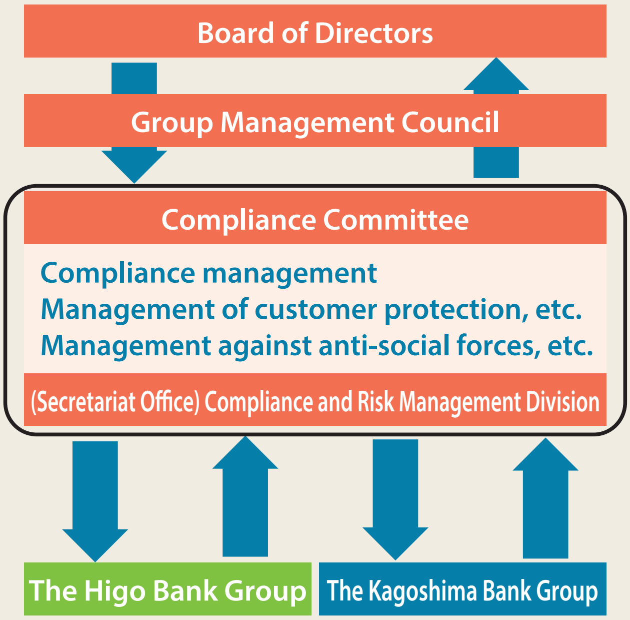
1. We recognize our social responsibilities and public mission, and we earn the trust of society through the sound and appropriate operation of our business.
2. We adhere to laws and regulations, rules and internal regulations, and we carry out sincere and fair corporate activities based on social norms and management philosophy.
3. In order to ensure the soundness and appropriateness of our business operations, we break off any relations with anti-social forces, etc. that threaten the order and safety of society.

Compliance Management System

The Group has established the "Compliance Basic Policy," which sets out our basic position and thinking towards compliance, and we are engaged in thorough compliance.

The Group has established a Compliance and Risk Management Division as a division to oversee compliance matters of the Group, and convenes the Compliance Committee with the President as its chairperson. In the Committee we report and hold discussions on the status of compliance management and the status of management against anti-social forces, in our efforts to maintain and enrich our compliance system.

Additionally, we have formulated a compliance program as a specific practical plan to achieve thorough compliance and by doing so we are engaged in the strengthening of our compliance system.



Exclusion of Anti-Social Forces

The Group is resolutely against anti-social forces who pose a threat to the order and safety of civil society, and we are carrying out efforts to create a system that blocks out relations with anti-social forces, as well as making efforts to eradicate all dealings with anti-social forces. Specifically, we are strengthening our response towards the exclusion of dealings with anti-social forces through the creation of a response policy and regulations, etc. against anti-social forces, the expansion of Group-wide anti-social forces database, and the introduction of anti-social forces exclusionary provisions in our legal contracts.

(Basic Response Policy to Anti-Social Forces)

The Group is resolutely against anti-social forces who pose a threat to the order and safety of civil society, and we have formulated the following basic policy to block all relations with anti-social forces based on our "Compliance Basic Policy."

1. Any inappropriate demands by anti-social forces shall be met with a legal response, both civilly and criminally, by the entire organization.
2. Close relations shall be built from peacetime with outside specialist organizations, such as police and lawyers, etc., to prepare a response against anti-social forces.
3. All ties that include business dealings shall be blocked with anti-social forces.
4. Absolutely no funding shall be provided and no profits granted to anti-social forces.
5. A management position, etc. shall be prepared to exclude anti-social forces and prevent any business dealings.

Risk Management

Status of Risk Management System

The Group positions risk management as one of the most crucial management issues, and the Company and companies within the Group are working together to strengthen risk management.

The Group is working to build up a risk management system by establishing the Compliance and Risk Management Division as a division to assume overall control for risk management, and convening the ALM Committee and Risk Management Committee with the President as their chairperson so that the status of credit risks, market risks, liquidity risks and operational risks are reported and discussed.

Risk Management Basic Policy

The Group positions risk management as one of the most crucial management issues to respond to the trust given to us by our customers, shareholders, officers and employees and the regional society.

We are engaged in management that prioritizes the balance between the stable profitability and the soundness and appropriateness of business operation, and in order to work towards establishing an unshakable management base, we work to have an accurate understanding of all of the risks faced by the entire Group, and we suitably manage these risks in light of our management resources (equity capital amount).

Integrated Risk Management

Integrated risk management is the integration of the various risks faced by the Group, the integrated assessment of the ripple effects of risks within the Group as well as risks specific to the Group system that cannot be addressed by the individual companies within the Group, and the management of these risks through comparing and contrasting with the Group's management resources (equity capital amount).

To optimize risk and return for the Group, the credit risks, market risks, liquidity risks and operational risks occurring in Group operations are quantitatively and qualitatively assessed and evaluated, and then integrated risk management takes place controlling the risks within the range of the management resources (equity capital amount) by appropriately dealing with the risks, as necessary, from in advance to after the fact.

Credit Risk Management

Credit risk refers to the risk of the Group incurring losses through the depreciation or loss of value of an asset (including off-balance assets) through the deterioration of financial condition of a party granted credit by the Group.

Credit risk management involves the timely and accurate assessment and evaluation of credit risk to the Group, and, through the appropriate management of the risk, we are working to maintain soundness of our assets and realize stable profitability.

Risk Management

Market Risk Management

Market risk refers to the risk of the Group incurring loss through fluctuating values of assets and liabilities (including off-balance types) as well as fluctuating profits from assets and liabilities, through various market risk factors, in interest rates, exchange rates, the stock market, etc.

Market risk management involves the timely and accurate assessment and evaluation of market risk to the Group. We strive to secure a profit through the active assumption of a certain level of market risk, and the appropriate management of such risks.

Liquidity Risk Management

Liquidity risk refers to the risk of our Group incurring losses through difficulties in securing the necessary fund or having to procure funding at interest rates significantly higher than usual, owing to a timing mismatch between the investment and fund procurement or an unexpected outflow of fund (cash management risk). It also refers to the risk of our Group incurring losses through the inability to perform transaction in the market owing to market confusion, etc., or being required to perform transactions at values significantly more unfavorable than usual (market liquidity risk).

In liquidity risk management, the Group works on funding management that is stable, appropriate, and suitable to the structure of the fund procurement and investment activities of the Group.

Operational Risk Management

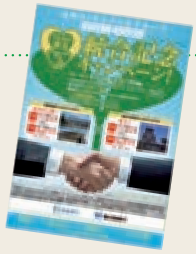
Operational risk refers to various risks, such as administrative risk, system risk, legal risk, personnel risk, tangible asset risk, reputational risk, and information asset risk. Each risk is defined below.

1. Administrative risk
   Administrative risk is the risk of the Group incurring losses through officers' or employees' negligence in accurately performing their administrative duties, or an accident or wrongdoing caused by them during the course of their administrative operations.
2. System risk
   System risk is the risk of the Group incurring losses through a system defect or misuse of a computer, such as a downed computer system or malfunction, etc.
3. Legal risk
   Legal risk is the risk of the Group incurring losses through a violation of the laws and regulations, etc., the conclusion of an inappropriate contract, or other legal cause.
4. Personnel risk
   Personnel risk is the risk of the Group incurring losses through the outflow or loss of human resources, a reduction in employee morale, inadequate human resource development, inappropriate work environment and work conditions, unfair and unjust human resource management practices (problems with remuneration, allowances, dismissals, etc.), and discriminatory behavior (such as sexual harassment).
5. Tangible asset risk
   Tangible asset risk is the risk of the Group incurring losses through damage to tangible assets (movable property or real estate, such as "land and buildings," "facilities attached to building," and "fixtures and equipment" that are owned or leased) due to natural disaster, crime or defective asset management, etc.
6. Reputational risk
   Reputational risk is the risk of the Group incurring losses through a loss in credit owing to a worsening reputation or the circulation of rumors.
7. Information asset risk
   Information asset risk is the risk of the Group incurring losses through the destruction, loss, alteration, leaking, theft, misuse, etc. of information assets.

In operational risk management we are striving to minimize the various operational risks by assessing and evaluating the various operational risks in a timely and accurate manner, and then appropriately dealing with the risks, as necessary, from in advance to after the fact.

Initiatives to leverage the synergy effects and support regional revitalization

Integration Commemorative Campaigns



To commemorate the establishment of Kyushu Financial Group, and to aspire for more interaction between the peoples of Kumamoto and Kagoshima prefectures, we held a campaign targeting individual customers (October 1 to December 30, 2015).

In addition to being offered a higher interest rate on individual yen-denominated term deposits, customers were also offered in a drawing lodging vouchers in pairs and local specialty products from both prefectures.

KFG Regional Enterprise Support Fund

The Higo Bank, The Kagoshima Bank and Kizuna Capital Co., Ltd. jointly established the KFG Regional Enterprise Support Fund for the purpose of offering support to enterprises with headquarters or bases in the region (Kumamoto, Kagoshima, Miyazaki) in all stages of business, such as revitalizing, strengthening, expanding or growing their business base and also in a stage of "second-time startup," etc. We will advance our initiatives that lead to the further development of regional industries and regional enterprises by utilizing the know-how and networks cultivated by both banks up to this point.

"Eel-flavored catfish" developed by Nihon Namazu Seisan K.K.
(1st investment case for the Fund)

One-day Tour to Kumamoto and Kagoshima

As part of our efforts to invigorate the region, in March 2016, we partnered with municipal governments to carry out one-day tour linking Kumamoto and Kagoshima. This was intended to invigorate the region by creating opportunities to lead to an expansion in the interaction between the populations of Kumamoto and Kagoshima, using the Orange Railway which connects Kumamoto and Kagoshima, and in addition to holding events that show the charms of the region along the rails, such as train station markets, sight-seeing was also held around the destination stations.

People in the community see off the departing Orange Railway train

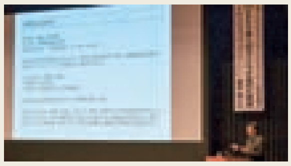
Revision of Transfer Fees between The Higo Bank and The Kagoshima Bank

Transfer fees from The Higo Bank to The Kagoshima Bank are revised to the same amount as those applicable to The Higo Bank main branch and branches, and the transfer fees from The Kagoshima Bank to The Higo Bank are also revised to the same amount as those applicable to The Kagoshima Bank main branch and branches. We will continue to work on expanding services to customers through our Group's collaboration strategies in the future.

*For details on transfer fees, please visit our Website or check at one of our branches.

Establishment of PPP/PFI Platform

In order to actively tackle the issues of ageing public facilities of municipal government, the Group established a platform which aims to popularize and promote PPP/PFI. The Higo Bank and The Kagoshima Bank serve as the secretariat, and are benefiting from the advisory participation of Research Center for Public/Private Partnership at Toyo University, the Development Bank of Japan, the Japan Economic Research Institute, and the Private Finance Initiative Promotion Corporation of Japan. In March 2016, we held commemorative lectures for the establishment of the PPP/PFI Platform, with Mr. Yuji Nemoto, Professor, Toyo University and the Director of the Research Center for Public/Private Partnership at Toyo University, as the lecturer, in both Kumamoto and Kagoshima, and the lecture was given by Mr. Yuji Nemoto, Professor, Toyo University and Director of the Research Center for Public/Private Partnership at Toyo University.



Mr. Yuji Nemoto gives a lecture on the theme "Overcoming the Issues of Aging Infrastructure with PPP."

Interchange among Human Resources

Aiming at strengthening human resources development, promoting mutual understanding, and fostering a sense of unity of the Group, we actively carry out interchange among human resources, such as participation in regional community events and joint training sessions. In March 2016, interchange among human resources involving personnel transfers was carried out where 35 employees from each bank were transferred to the partner bank.

Additionally, to understand the situation of our customers who were affected by the Kumamoto Earthquakes in April 2016, The Kagoshima Bank dispatched 30 of their employees to The Higo Bank. A total of 400 personnel including employees of The Higo Bank visited the people affected by the earthquakes.

24 new employees of The Higo Bank participated in the Ohara Festival of Kagoshima (November 2015)

About 20 female employees each from both banks participated in "Career 7 Training Seminar" for female employees who had reached their 7th year of employment

Employees of The Kagoshima Bank visited the customers of The Higo Bank who had been affected by the earthquakes

Review of Financial Results

Operating Results

Regarding operating results for the current consolidated fiscal year, ordinary income was 131,224 million yen consisting of interest on loans and discounts, interest and dividends on securities, etc.

On the other hand, ordinary expenses were 105,617 million yen consisting of interest on deposits, operating expenses, etc.

As a result, ordinary profit amounted to 25,606 million yen. Meanwhile, net income attributable to owners of parent was 108,471 million yen mainly due to gain on negative goodwill of 88,487 million yen arising from the business combination.

Moreover, upon the establishment of the Company, since The Higo Bank was made the acquiring company in the accounting for business combination, the consolidated operating results for the current consolidated fiscal year (from April 1, 2015 to March 31, 2016) is based on the consolidated operating results of The Higo Bank for the current consolidated fiscal year and consolidates the consolidated results of The Kagoshima Bank for the period from October 1, 2015 to March 31, 2016.

Results by business segments are as follows.

a. Banking business

Ordinary income amounted to 114,329 million yen, and segment profit amounted to 30,002 million yen.

b. Leasing business

Ordinary income amounted to 23,910 million yen, and segment profit amounted to 1,437 million yen.

c. Others

Ordinary income amounted to 5,628 million yen, and segment profit amounted to 696 million yen.

Status of Cash Flows

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

Net cash used in operating activities amounted to 77,324 million yen due to an increase in loans and bills discounted, etc.

Net cash provided by investing activities amounted to 37,950 million yen due to proceeds from sales of securities, etc.

Net cash used in financing activities amounted to 3,601 million yen due to cash dividends paid, etc. Additionally, there was an increase of 86,597 million yen in cash and cash equivalents due to share transfer, and the balance of cash and cash equivalents at the end of the current consolidated fiscal year was 320,712 million yen.

Analysis of Financial Position and Operating Results

The following is an analysis of the financial position, operating results and cash flows for the current consolidated fiscal year.

1) Financial position

Regarding the consolidated financial position at the end of the current consolidated fiscal year, total assets stood at 8,939,965 million yen, and total liabilities stood at 8,334,656 million yen, with total equity being 605,309 million yen.

Regarding the balances of primary accounting items, the balance of deposits was 7,821,015 million yen at the end of the current consolidated fiscal year.

The balance of loans and bills discounted at the end of the current consolidated fiscal year was 5,657,405 million yen.

The balance of securities at the end of the current consolidated fiscal year was 2,720,306 million yen.

2) Operating results

Regarding operating results for the current consolidated fiscal year, ordinary income was 131,224 million yen consisting of interest on loans and discounts, interest and dividends on securities, etc.

On the other hand, ordinary expenses were 105,617 million yen consisting of interest on deposits, operating expenses, etc.

As a result, ordinary profit amounted to 25,606 million yen. Meanwhile, net income attributable to owners of parent was 108,471 million yen mainly due to gain on negative goodwill of 88,487 million yen arising from the business combination.

Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2016

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	**2016**
ASSETS:		
Cash and due from banks *(Notes 3 and 14)*	¥ 322,832	$ 2,865,033
Call loans and bills bought *(Note 14)*	241	2,138
Monetary claims purchased	9,934	88,161
Trading assets *(Notes 4 and 14)*	1,669	14,811
Money held in trust *(Note 5)*	19,119	169,675
Securities *(Notes 4, 8 and 14)*	2,720,306	24,141,870
Loans and bills discounted *(Notes 6, 9 and 14)*	5,657,405	50,207,712
Foreign exchange assets	6,977	61,918
Lease receivables and investment assets *(Note 8)*	46,005	408,280
Other assets *(Note 8)*	73,583	653,026
Fixed assets *(Note 7)*	92,164	817,926
Intangible assets *(Note 7)*	9,875	87,637
Asset for retirement benefits *(Note 10)*	4,763	42,270
Deferred tax assets *(Note 13)*	870	7,720
Customers' liabilities for acceptances and guarantees	34,761	308,493
Reserve for possible loan losses *(Note 14)*	(60,544)	(537,309)
Total assets	¥ 8,939,965	$ 79,339,412
LIABILITIES AND EQUITY:		
Liabilities:		
Deposits *(Notes 8 and 14)*	¥ 7,821,017	$ 69,409,096
Call money and bills sold *(Note 14)*	71,126	631,221
Borrowing under securities lending transactions *(Notes 8 and 14)*	168,203	1,492,749
Trading liabilities	44	390
Borrowed money *(Notes 8 and 14)*	149,249	1,324,538
Other liabilities	56,948	505,395
Liability for retirement benefits *(Note 10)*	11,838	105,058
Reserve for repayments for dormant deposits	1,591	14,119
Reserve for contingent losses	612	5,431
Deferred tax liabilities *(Note 13)*	15,072	133,759
Deferred tax liabilities related to land revaluation *(Note 2(g))*	4,189	37,176
Acceptances and guarantees	34,761	308,493
Total liabilities	8,334,656	73,967,483
Equity *(Note 11)*		
Common stock authorized, 1,000,000,000 shares; issued, 463,375,978 shares	36,000	319,488
Capital surplus	191,686	1,701,153
Retained earnings *(Note 17)*	325,977	2,892,944
Treasury stock, at cost, 8,860,207 shares	(3,600)	(31,948)
Accumulated other comprehensive income:		
Unrealized gains (losses) on available-for-sale securities *(Note 4)*	53,041	470,722
Deferred gains (losses) on derivatives under hedge accounting	(7,702)	(68,352)
Excess of land revaluation *(Note 2(g))*	6,109	54,215
Defined retirement benefit plans *(Note 10)*	(6,574)	(58,342)
Total accumulated other comprehensive income	44,873	398,233
Noncontrolling interests	10,372	92,048
Total equity	605,309	5,371,929
Total liabilities and equity	¥ 8,939,965	$ 79,339,412

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2016

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	**2016**
Income:		
Interest income:		
Interest on loans and discounts	¥ 53,402	$ 473,926
Interest and dividends on securities	20,694	183,652
Other interest income	644	5,715
Fees and commissions income	17,300	153,532
Trading income	124	1,100
Other operating income	29,073	258,013
Gain on negative goodwill *(Note 18)*	88,487	785,294
Gain on step acquisitions *(Note 18)*	4,222	37,468
Other income *(Note 12)*	10,060	89,279
Total income	224,011	1,988,028
Expenses:		
Interest expenses:		
Interest on deposits	2,425	21,521
Other interest expenses	4,321	38,347
Fees and commissions expenses	5,764	51,153
Other operating expenses	24,056	213,489
General and administrative expenses	61,156	542,740
Provision for possible loan losses	4,929	43,743
Losses on impairment of long-lived assets	399	3,541
Other expenses	2,981	26,455
Total expenses	106,035	941,027
Income before income taxes	117,976	1,047,000
Income taxes *(Note 13):*		
Current	11,083	98,358
Deferred	(1,849)	(16,409)
Net income	108,742	965,051
Net income attributable to noncontrolling interests	271	2,405
Net income attributable to owners of the parent	¥ 108,471	$ 962,646
Per share of common stock *(Note 2 (p)):*	Yen	U.S. dollars
Basic net income	¥ 316.70	$ 2.81
Cash dividends applicable to the year	11.00	0.09

See notes to consolidated financial statements.

Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2016

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	**2016**
Net income	¥ 108,742	$ 965,051
Other comprehensive income (loss) ***(Note 16):***		
Unrealized gains (losses) on available-for-sale securities	(2,380)	(21,121)
Deferred gains (losses) on derivatives under hedge accounting	(2,088)	(18,530)
Excess of land revaluation	239	2,121
Defined retirement benefit plans	(5,061)	(44,914)
Total other comprehensive income (loss)	(9,290)	(82,445)
Comprehensive income	¥ 99,452	$ 882,605
Total comprehensive income attributable to:		
Owners of the parent	¥ 99,082	$ 879,321
Noncontrolling interests	369	3,274

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Changes in Equity

Year ended March 31, 2016

	Thousands	Millions of yen			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 2015	¥ 230,755	¥ 18,128	¥ 8,133	¥ 219,635	¥ (141)
Increase (decrease) due to share transfer	232,895	17,871	183,553		(3,592)
Cash dividends, ¥11.00 per share				(2,535)	
Net income attributable to owners of the parent				108,471	
Purchase of treasury stock					(16)
Disposal of treasury stock			0		0
Cancellation of treasury stock	(275)		(0)	(149)	149
Reversal of excess of land revaluation				555	
Net change in the year					
Balance at March 31, 2016	¥ 463,375	¥ 36,000	¥ 191,686	¥ 325,977	¥ (3,600)

	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	Non controlling interests	Total equity
Balance at April 1, 2015	¥ 55,519	¥ (5,614)	¥ 6,058	¥ (1,512)	¥ 54,450	¥ 2,026	¥ 302,233
Increase (decrease) due to share transfer							197,831
Cash dividends, ¥11.00 per share							(2,535)
Net income attributable to owners of the parent							108,471
Purchase of treasury stock							(16)
Disposal of treasury stock							0
Cancellation of treasury stock							
Reversal of excess of land revaluation							555
Net change in the year	(2,478)	(2,088)	50	(5,061)	(9,577)	8,346	(1,231)
Balance at March 31, 2016	¥ 53,041	¥ (7,702)	¥ 6,109	¥ (6,574)	¥ 44,873	¥ 10,372	¥ 605,309

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, 2016

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 2015	$ 160,880	$ 72,177	$ 1,949,192	$ (1,251)
Increase (decrease) due to share transfer	158,599	1,628,975		(31,877)
Cash dividends, $0.09 per share			(22,497)	
Net income attributable to owners of the parent			962,646	
Purchase of treasury stock				(141)
Disposal of treasury stock		0		0
Cancellation of treasury stock		(0)	(1,322)	1,322
Reversal of excess of land revaluation			4,925	
Net change in the year				
Balance at March 31, 2016	$ 319,488	$ 1,701,153	$ 2,892,944	$ (31,948)

	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	Non controlling interests	Total equity
Balance at April 1, 2015	$ 492,713	$ (49,822)	$ 53,762	$ (13,418)	$ 483,226	$ 17,980	$ 2,682,223
Increase (decrease) due to share transfer							1,755,688
Cash dividends, $0.09 per share							(22,497)
Net income attributable to owners of the parent							962,646
Purchase of treasury stock							(141)
Disposal of treasury stock							0
Cancellation of treasury stock							
Reversal of excess of land revaluation							4,925
Net change in the year	(21,991)	(18,530)	443	(44,914)	(84,992)	74,068	(10,924)
Balance at March 31, 2016	$ 470,722	$ (68,352)	$ 54,215	$ (58,342)	$ 398,233	$ 92,048	$ 5,371,929

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2016

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2016
Operating activities:		
Income before income taxes	¥ 117,976	$ 1,047,000
Adjustments for:		
Income taxes paid	(10,951)	(97,186)
Depreciation and amortization	7,475	66,338
Losses on impairment of long-lived assets	399	3,541
Gain on negative goodwill	(88,487)	(785,294)
Gain on step acquisitions	(4,222)	(37,468)
Increase (decrease) in reserve for possible loan losses	3,292	29,215
(Increase) decrease in asset for retirement benefits	(541)	(4,801)
Increase (decrease) in liability for retirement benefits	(120)	(1,064)
Increase (decrease) in reserve for repayments for dormant deposits	188	1,668
Increase (decrease) in reserve for contingent losses	(35)	(310)
Interest and dividend income	(74,741)	(663,303)
Interest expenses	6,747	59,877
(Gains) losses on securities	(5,686)	(50,461)
(Gains) losses on money held in trust	98	869
Net (increase) decrease in trading assets	(162)	(1,437)
Net (increase) decrease in loans and bills discounted	(283,138)	(2,512,761)
Net increase (decrease) in deposits	16,971	150,612
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	26,037	231,070
Net (increase) decrease in due from banks (excluding deposits paid to the Bank of Japan)	16,435	145,855
Net (increase) decrease in call loans and others	8,338	73,997
Net increase (decrease) in call money and others	69,327	615,255
Net increase (decrease) in borrowing under securities lending transactions	59,171	525,124
Net (increase) decrease in lease receivables and investment assets	(77)	(683)
Interest received	80,546	714,820
Interest paid	(6,606)	(58,626)
Other	(15,558)	(138,072)
Total adjustments	(195,300)	(1,733,226)
Net cash used in operating activities	(77,324)	(686,226)
Investing activities:		
Payments for purchases of securities	(534,158)	(4,740,486)
Proceeds from sales of securities	401,836	3,566,169
Proceeds from redemption of securities	177,700	1,577,032
Payments for purchases of fixed assets	(5,067)	(44,968)
Proceeds from sales of fixed assets	257	2,280
Payments for purchases of intangible assets	(2,617)	(23,225)
Net cash provided by investing activities	37,950	336,794
Financing activities:		
Cash dividends paid	(3,580)	(31,771)
Cash dividends paid to noncontrolling interests	(0)	(0)
Payment for purchase of treasury stock	(16)	(141)
Proceeds from sales of treasury stock	0	0
Other	(5)	(44)
Net cash used in financing activities	(3,601)	(31,957)
Foreign currency translation adjustments on cash and cash equivalents	15	133
Net increase (decrease) in cash and cash equivalents	(42,960)	(381,256)
Cash and cash equivalents at beginning of year	277,075	2,458,954
Increase in cash and cash equivalents due to share transfer	86,597	768,521
Cash and cash equivalents at end of year *(Note 3)*	¥ 320,712	$ 2,846,219

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, 2016

1. Basis of Presenting Consolidated Financial Statements

Kyushu Financial Group, Inc. (the "Company") was established as a joint holding company through a joint share transfer between The Higo Bank, Ltd. ("Higo Bank") and THE KAGOSHIMA BANK, LTD. ("Kagoshima Bank") on October 1, 2015 (collectively, the "Banks"). The joint share transfer was accounted for by applying the purchase method as stipulated in accounting standards relating to business combinations, with Higo Bank being the acquiring company and Kagoshima Bank being the acquired company. Accordingly, the accompanying consolidated statement of income for the year ended March 31, 2016 was prepared by consolidating the consolidated business results of Kagoshima Bank for the period from October 1, 2015 to March 31, 2016 into the consolidated business results of Higo Bank for the year ended March 31, 2016.

The accompanying consolidated financial statements of 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 ¥112.68 to $1.00, the approximate rate of exchange at March 31, 2016. 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 16 consolidated subsidiaries as of March 31, 2016. Due to establishment of the Company, Higo Bank and Kagoshima Bank became wholly owned subsidiaries of the Company. As a result, the Banks and their consolidated subsidiaries were included in the scope of consolidation from the year ended March 31, 2016. The fiscal periods of all consolidated subsidiaries end on March 31.

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 this company, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Business combinations

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only using the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with noncontrolling interest

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

(b) Presentation of the consolidated balance sheet

In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income

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

(d) Provisional accounting treatments for a business combination

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

(e) Acquisition-related costs

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

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the starting of annual periods beginning on or after April 1, 2015.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs that occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination that occurs on or after the starting of annual periods beginning on or after April 1, 2015.

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 the banking consolidated subsidiaries 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.

Other consolidated subsidiaries have not engaged in trading or similar transactions.

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 (the "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 after April 1, 1998. 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 ¥11,127 million ($98,748 thousand) as of March 31, 2016.

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. Deferred charges

Deferred charges are recognized as expense when incurred.

j. 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 calculated in accordance with the internal rules of the banking consolidated subsidiaries based on 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 July 4, 2012 (the JICPA Ad Hoc Committee for Audit of Banks, etc., Report No. 4).

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. 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 large-lot borrowers of certain banking consolidated subsidiaries who are classified as "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 other claims, the reserve is provided based on historical loan-loss ratio.

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.

k. Bonuses to directors and audit & supervisory board members

Bonuses to directors and audit & supervisory board members (including executive officers) of certain banking consolidated subsidiaries are accrued at the end of the year to which such bonuses are attributable.

l. Retirement and pension plans

The banking consolidated subsidiaries have cash balance-type pension plans, defined benefit corporate pension plans (fund type), and unfunded retirement benefit plans. 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. 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.

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

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

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period, are treated as reclassification adjustments (see Note 10).

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

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April

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

m. 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.

n. 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.

o. 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.

p. Per share information

The computation of basic net income per share is based on the weighted-average number of shares of common stock outstanding during the year. The weighted-average number of common shares used in the computation was 342,501 thousand shares for the year ended March 31, 2016.

As the Company was established as a joint holding company through a joint share transfer, the weighted-average number of shares of common stock outstanding for the year was obtained using the weighted-average number of shares of common stock outstanding of Higo Bank multiplied by the share transfer ratio for the period from April 1, 2015 to September 30, 2015, and the weighted-average number of shares of common stock outstanding of the Company for the period from October 1, 2015 to March 31, 2016.

Diluted net income per share is not disclosed for the year ended March 31, 2016, because there are no potential common shares.

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

q. 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.

r. Appropriations of retained earnings

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

s. Accounting changes and error corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under these standard and guidance are as follows:

(1) Changes in Accounting Policies

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation

When the presentation of the consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors

When an error in prior-period consolidated financial statements is discovered, those consolidated financial statements are restated.

t. New accounting pronouncements

Tax Effect Accounting—On March 28, 2016, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the JICPA. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework that included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in a future period.

The new guidance is effective for the starting of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods that ended on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Group expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

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
	2016	**2016**
Cash and due from banks	¥ 322,832	$ 2,865,033
Other due from banks	(2,119)	(18,805)
Cash and cash equivalents	¥ 320,712	$ 2,846,219

Major components of assets received and liabilities assumed as a result of consolidating Kagoshima Bank through a share transfer on October 1, 2015, were summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	**2016**
Total assets	¥ 4,073,432	$ 36,150,443
Loans and bills discounted	2,704,744	24,003,762
Securities	1,167,019	10,356,931
Reserve for possible loan losses	(36,447)	(323,455)
Total liabilities	3,771,219	33,468,397
Deposits	3,436,895	30,501,375

4. Securities

The costs and aggregate fair values of securities at March 31, 2016, 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		
	2016		
	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	¥ 1,620		
Available-for-sale:			
Equity securities	124,376	¥ 114,411	¥ 9,966
Debt securities	2,024,220	1,973,067	51,153
Other	551,260	537,624	13,635
Held-to-maturity:			
Debt securities	10,889	10,767	121

	Thousands of U.S. dollars		
	2016		
	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	$ 14,376		
Available-for-sale:			
Equity securities	1,103,798	$ 1,015,362	$ 88,445
Debt securities	17,964,323	17,510,356	453,966
Other	4,892,261	4,771,246	121,006
Held-to-maturity:			
Debt securities	96,636	95,553	1,073

Securities included equity investments in unconsolidated subsidiaries and affiliated companies that amounted to ¥1,206 million ($10,702 thousand) as of March 31, 2016.

Securities lending based on noncollateralized special contracts were included in debt securities and amounted to ¥22,801 million ($202,351 thousand) as of March 31, 2016.

Unlisted equity securities and other securities without readily available market price, amounting to ¥9,679 million ($85,898 thousand), were not included in the above table.

The information of available-for-sale securities that were sold for the year ended March 31, 2016, was as follows:

	Millions of yen		
	2016		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 19,115	¥ 3,463	¥ 503
Debt securities	134,113	2,039	1,853
Other	204,042	4,015	1,418
Total	¥ 357,270	¥ 9,519	¥ 3,775

	Thousands of U.S. dollars		
	2016		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 169,639	$ 30,733	$ 4,463
Debt securities	1,190,211	18,095	16,444
Other	1,810,809	35,631	12,584
Total	$ 3,170,660	$ 84,478	$ 33,501

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 year ended March 31, 2016, was ¥61 million ($541 thousand).

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 (losses) on available-for-sale securities for the year ended March 31, 2016, consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Valuation differences:		
Available-for-sale securities	¥ 74,753	$ 663,409
Deferred tax liabilities	(21,686)	(192,456)
Noncontrolling interests	(25)	(221)
Unrealized gains (losses) on available-for-sale securities	¥ 53,041	$ 470,722

5. Money Held in Trust

The carrying amount and unrealized gains (losses) of money held in trust as of March 31, 2016, were as follows:

Money held in trust held for trading

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Carrying amount	¥ 19,119	$ 169,675
Unrealized gains (losses) credited to income	(365)	(3,239)

6. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2016, included the following:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Bankruptcy loans	¥ 4,387	$ 38,933
Past-due loans	74,888	664,607
Loans past due for three months or more	588	5,218
Restructured loans	58,294	517,341
Total	¥ 138,159	$ 1,226,118

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 ¥21,097 million ($187,229 thousand) as of March 31, 2016. The Group is entitled, without limitation, to sell or pledge these discounted bills.

7. Fixed Assets and Intangible Assets

Fixed assets as of March 31, 2016, consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Buildings	¥ 30,757	$ 272,958
Land	48,184	427,618
Construction in progress	90	798
Other	13,132	116,542
Total	¥ 92,164	$ 817,926

Accumulated depreciation as of March 31, 2016, amounted to ¥70,395 million ($624,733 thousand).

Deferred gains for tax purposes as of March 31, 2016, amounted to ¥3,424 million ($30,386 thousand).

Intangible assets as of March 31, 2016, consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Software	¥ 9,557	$ 84,815
Other	317	2,813
Total	¥ 9,875	$ 87,637

8. Assets Pledged

Assets pledged as collateral as of March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Securities	¥ 743,581	$ 6,599,050
Lease receivables and investment assets	2,792	24,778
Other	369	3,274
Total	¥ 746,743	$ 6,627,112

Liabilities related to the above assets pledged as of March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Deposits	¥ 68,233	$ 605,546
Borrowing under securities lending transactions	168,203	1,492,749
Borrowed money	134,781	1,196,139

In addition, securities totaling ¥145,172 million ($1,288,356 thousand) were pledged as collateral for settlement of exchange, derivatives, and other transactions as of March 31, 2016.

Guarantee deposits amounting to ¥670 million ($5,946 thousand) and deposits to central counterparty of ¥13,000 million ($115,370 thousand) were included in other assets as of March 31, 2016.

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, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Original maturity is within one year or the Group can cancel at any time without any penalty	¥ 1,350,671	$ 11,986,785
Other	39,985	354,854
Total	¥ 1,390,656	$ 12,341,640

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 unfunded retirement benefit plans. 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 for certain banking consolidated subsidiaries.

(1) The changes in defined benefit obligation for the year ended March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Balance at beginning of year	¥ 39,120	$ 347,177
Increase due to share transfer	24,381	216,373
Current service cost	1,479	13,125
Interest cost	401	3,558
Actuarial (gains) losses	4,339	38,507
Benefits paid	(2,996)	(26,588)
Balance at end of year	¥ 66,726	$ 592,172

(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 above table.

(2) The changes in plan assets for the year ended March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Balance at beginning of year	¥ 31,875	$ 282,880
Increase due to share transfer	30,879	274,041
Expected return on plan assets	1,783	15,823
Actuarial gains (losses)	(3,610)	(32,037)
Contributions from the employer	919	8,155
Benefits paid	(2,195)	(19,479)
Balance at end of year	¥ 59,651	$ 529,384

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the year ended March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Funded defined benefit obligation	¥ 55,970	$ 496,716
Plan assets	(59,651)	(529,384)
Total	(3,681)	(32,667)
Unfunded defined benefit obligation	10,756	95,456
Net liability arising from defined benefit obligation	¥ 7,075	$ 62,788

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Liability for retirement benefits	¥ 11,838	$ 105,058
Asset for retirement benefits	(4,763)	(42,270)
Net liability arising from defined benefit obligation	¥ 7,075	$ 62,788

(4) The components of net periodic benefit costs for the year ended March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Current service cost	¥ 1,479	$ 13,125
Interest cost	401	3,558
Expected return on plan assets	(1,783)	(15,823)
Recognized actuarial (gains) losses	778	6,904
Amortization of prior service cost	(49)	(434)
Extra retirement payments	0	0
Net periodic benefit costs	¥ 827	$ 7,339

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

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the year ended March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Prior service cost	¥ (49)	$ (434)
Actuarial (gains) losses	(7,171)	(63,640)
Total	¥ (7,220)	$ (64,075)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Unrecognized prior service cost	¥ —	$ —
Unrecognized actuarial (gains) losses	9,445	83,821
Total	¥ 9,445	$ 83,821

(7) Plan assets

(a) Components of plan assets

Plan assets as of March 31, 2016, consisted of the following:

	2016
Debt investments	31%
Equity investments	22
General account of life insurance companies	37
Others	10
Total	100%

(Note) Retirement benefit trusts set against the corporate pension plan were included 8% in the total plan assets for the year ended March 31, 2016.

(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 performances 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.

(8) Assumptions used for the year ended March 31, 2016, were set forth as follows:

	2016
Discount rate	0.3%
Expected rate of return on plan assets:	
Plan assets (excluding the retirement benefit trust)	3.5% or 5.0%
Retirement benefit trust	1.0%
Expected rate of salary increase	3.7% or 5.6%

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 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 provides 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 ¥5,331 million ($47,310 thousand) for the year ended March 31, 2016.

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 32.8% for the year ended March 31, 2016.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities as of March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Deferred tax assets:		
Reserve for possible loan losses	¥ 17,685	$ 156,948
Liability for retirement benefits	3,604	31,984
Depreciation	1,423	12,628
Loss on impairment of securities	1,917	17,012
Losses on impairment of fixed assets	2,438	21,636
Deferred gains (losses) on derivatives under hedge accounting	3,364	29,854
Other	2,942	26,109
Subtotal	33,376	296,201
Valuation allowance	(4,817)	(42,749)
Deferred tax assets	28,558	253,443
Deferred tax liabilities:		
Unrealized gains on available-for-sale securities	(39,175)	(347,665)
Deferred income on fixed assets sold	(377)	(3,345)
Asset for retirement benefits	(385)	(3,416)
Valuation of assets	(2,766)	(24,547)
Other	(54)	(479)
Deferred tax liabilities	(42,760)	(379,481)
Net deferred tax liabilities	¥ (14,201)	$ (126,029)

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, 2016, was as follows:

	2016
Normal effective statutory tax rate	32.8%
Expenses not deductible for income tax purposes	0.1
Income not taxable for income tax purposes	(0.2)
Valuation allowance	(0.2)
Inhabitant taxes per capita	0.1
Change in effective statutory tax rate	0.8
Gain on negative goodwill	(24.6)
Gain on step acquisitions	(1.2)
Other-net	0.2
Actual effective tax rate	7.8%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal years beginning on or after April 1, 2016, and April 1, 2017, to approximately 30.6% and for the fiscal years beginning on or after April 1, 2018, to approximately 30.4%. The effect of these changes was to decrease deferred tax liabilities by ¥837 million ($7,428 thousand) and increase unrealized gains on available-for-sale securities by ¥2,085 million ($18,503 thousand) and deferred income taxes by ¥928 million ($8,235 thousand).

In addition, excess of land revaluation increased by ¥239 million ($2,121 thousand), with a decrease of ¥239 million ($2,121 thousand) in related deferred tax liability.

14. Financial Instruments and Related Disclosures

(a) Policy for financial instruments

The Group mainly provides banking services and other financial services, such as 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 their 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 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. In addition, audits are carried out by the external auditors to confirm that the standards for self-assessment and the operating effectiveness are appropriate.

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, bonds and derivatives related to interest rate, and financial instruments influenced by 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, 2016, VaR related to interest rate risks was ¥16,000 million ($141,995 thousand) and VaR related to price volatility risks was ¥18,800 million ($166,844 thousand).

Kagoshima Bank calculates VaR based on the variance-covariance method (a holding period of 60 days, a confidence interval of 99%, and observation period of 5 years for interest rate fluctuation risks, and a holding period from 10 to 125 days, a confidence interval of 99% and observation period of 1 year for price fluctuation risks). As of March 31, 2016, VaR related to interest rate risks was ¥8,400 million ($74,547 thousand) and VaR related to price volatility risks was ¥38,500 million ($341,675 thousand).

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 the 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.

Notes to Consolidated Financial Statements

(e) Fair value of financial instruments

Fair values and carrying amounts of financial instruments as of March 31, 2016, are shown below. Immaterial accounts in the consolidated balance sheet are not included in the table below. Some instruments, such as unlisted stocks, whose fair values cannot be reliably determined are not included in the table below (see Note 14 (e) (Note 2)).

	Millions of yen		
	2016		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 322,832	¥ 322,832	
(2) Call loans and bills bought	241	241	
(3) Trading assets			
Trading securities	1,620	1,620	
(4) Securities			
Held-to-maturity debt securities	10,767	10,889	¥ 121
Available-for-sale securities	2,699,858	2,699,858	
(5) Loans and bills discounted	5,657,405		
Reserve for possible loan losses (*1)	(57,507)		
	5,599,898	5,661,454	61,556
Total assets	8,635,219	8,696,897	61,678
(1) Deposits	7,821,017	7,822,381	1,363
(2) Call money and bills sold	71,126	71,126	
(3) Borrowing under securities lending transactions	168,203	168,203	
(4) Borrowed money	149,249	149,313	63
Total liabilities	8,209,597	8,211,025	1,427
Derivatives (*2)			
For which hedge accounting is not applied	10,735	10,735	
For which hedge accounting is applied	(11,172)	(11,172)	
Total	¥ (436)	¥ (436)	

	Thousands of U.S. dollars		
	2016		
	Carrying amount	**Fair value**	**Net unrealized gains (losses)**
(1) Cash and due from banks	$ 2,865,033	$ 2,865,033	
(2) Call loans and bills bought	2,138	2,138	
(3) Trading assets			
Trading securities	14,376	14,376	
(4) Securities			
Held-to-maturity debt securities	95,553	96,636	$ 1,073
Available-for-sale securities	23,960,401	23,960,401	
(5) Loans and bills discounted	50,207,712		
Reserve for possible loan losses (*1)	(510,356)		
	49,697,355	50,243,645	546,290
Total assets	76,634,886	77,182,259	547,373
(1) Deposits	69,409,096	69,421,201	12,096
(2) Call money and bills sold	631,221	631,221	
(3) Borrowing under securities lending transactions	1,492,749	1,492,749	
(4) Borrowed money	1,324,538	1,325,106	559
Total liabilities	72,857,623	72,870,296	12,664
Derivatives (*2)			
For which hedge accounting is not applied	95,269	95,269	
For which hedge accounting is applied	(99,148)	(99,148)	
Total	$ (3,869)	$ (3,869)	

(*1) General reserve for possible loan losses and specific reserve for possible loan losses provided to loans and bills discounted are separately presented in the above table.
(*2) Derivatives recorded in trading assets, trading liabilities, other assets and other liabilities are aggregated and shown herein. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented 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 purpose 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.

In capital investments in investment partnerships held by the banking consolidated subsidiaries, after applying the fair value to those partnership assets that can be measured at fair value, the equivalent amount of equity at said fair value is recorded at the deemed fair value of the partnership assets.

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 purpose, 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 new lendings 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 data (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) 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.

(4) 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 have a short repayment term (within one year) and its fair value and carrying amounts are nearly identical, their carrying amounts are assumed as their fair price.

Derivatives

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

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

The following instruments are not included in "Assets (4) Securities" in the above table showing the fair value of financial instruments as of March 31, 2016.

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Unlisted stocks (*1, *3)	¥ 4,267	$ 37,868
Investments in partnerships and others (*2)	5,412	48,029
Total	¥ 9,679	$ 85,898

(*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) 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.
(*3) The Group wrote off unlisted stocks amounting to ¥5 million ($44 thousand) for the year ended March 31, 2016.

(Note 3) Maturity analysis for claims and securities with contractual maturities as of March 31, 2016

	Millions of yen					
	2016					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	¥ 236,421					
Call loans and bills bought	241					
Securities						
Held-to-maturity debt securities	1,409	¥ 4,558	¥ 4,572	¥ 117	¥ 109	
Corporate bonds	1,409	4,558	4,572	117	109	
Available-for-sale securities with maturity	337,044	887,958	583,184	215,255	250,813	¥ 205,451
Japanese government bonds	100,640	499,428	323,741	44,849	29,397	107,549
Municipal government bonds	39,274	85,239	43,852	7,844	30,961	10,890
Corporate bonds	133,947	244,740	160,085	69,686	22,678	69,413
Loans and bills discounted (*1)	1,479,953	985,359	776,450	544,770	572,668	1,218,926
Total	¥ 2,055,069	¥ 1,877,876	¥ 1,364,207	¥ 760,143	¥ 823,590	¥ 1,424,377

	Thousands of U.S. dollars					
	2016					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Due from banks	$ 2,098,162					
Call loans and bills bought	2,138					
Securities						
Held-to-maturity debt securities	12,504	$ 40,450	$ 40,575	$ 1,038	$ 967	
Corporate bonds	12,504	40,450	40,575	1,038	967	
Available-for-sale securities with maturity	2,991,160	7,880,351	5,175,576	1,910,321	2,225,887	$ 1,823,313
Japanese government bonds	893,148	4,432,268	2,873,100	398,020	260,889	954,463
Municipal government bonds	348,544	756,469	389,172	69,613	274,769	96,645
Corporate bonds	1,188,738	2,171,991	1,420,704	618,441	201,260	616,018
Loans and bills discounted (*1)	13,134,123	8,744,755	6,890,752	4,834,664	5,082,250	10,817,589
Total	$ 18,238,099	$ 16,665,566	$ 12,106,913	$ 6,746,033	$ 7,309,105	$ 12,640,903

(*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 ¥79,276 million ($703,549 thousand), is not included in the above table.

(Note 4) Maturity analysis for interest bearing liabilities as of March 31, 2016

	Millions of yen					
	2016					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (*1)	¥ 7,564,028	¥ 229,629	¥ 23,442	¥ 1,100	¥ 2,816	
Call money and bills sold	71,126					
Borrowing under securities lending transactions	168,203					
Borrowed money	108,718	8,413	32,043	44	30	
Total	¥ 7,912,078	¥ 238,042	¥ 55,486	¥ 1,144	¥ 2,846	

	Thousands of U.S. dollars					
	2016					
	1 year or less	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years to 7 years	Over 7 years to 10 years	Over 10 years
Deposits (*1)	$ 67,128,399	$ 2,037,886	$ 208,040	$ 9,762	$ 24,991	
Call money and bills sold	631,221					
Borrowing under securities lending transactions	1,492,749					
Borrowed money	964,838	74,662	284,371	390	266	
Total	$ 70,217,234	$ 2,112,548	$ 492,421	$ 10,152	$ 25,257	

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

15. Derivative Financial Instruments

(a) Derivative financial instruments used by the 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, 2016

i) Interest rate-related transactions

There were no interest rate-related transactions as of March 31, 2016.

ii) Foreign exchange-related transactions

	Millions of yen			
	2016			
	Contractual value or notional principal amount	**Including over one year**	**Fair value**	**Unrealized gains (losses)**
Currency swaps	¥ 17,584	¥ 11,679	¥ 6	¥ (106)
Foreign exchange forward contracts:				
Selling	263,517	2,259	10,823	10,823
Buying	3,412		(94)	(94)

	Thousands of U.S. dollars			
	2016			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	$ 156,052	$ 103,647	$ 53	$ (940)
Foreign exchange forward contracts:				
Selling	2,338,631	20,047	96,050	96,050
Buying	30,280		(834)	(834)

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, 2016

i) Interest rate-related transactions

	Millions of yen			
	2016			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted Available-for-sale securities (debt securities)	¥ 229,856	¥ 227,265	¥ (11,055)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted	158,348	141,772	(Note 4)

	Thousands of U.S. dollars			
	2016			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted Available-for-sale securities (debt securities)	$ 2,039,900	$ 2,016,906	$ (98,109)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted	1,405,289	1,258,182	(Note 4)

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 above derivatives are based on quoted market prices, such as those of Tokyo Financial Exchange, Inc.
3. Calculation or quotation of fair value of the above derivatives is based on the discounted present value method or option pricing models, etc.
4. 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 14. Financial Instruments and Related Disclosures.

ii) Foreign exchange-related transactions

	Millions of yen			
	2016			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Foreign exchange forward contracts:				
Buying	Foreign currency time deposits	¥ 20,000		¥ (116)

	Thousands of U.S. dollars			
	2016			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Foreign exchange forward contracts:				
Buying	Foreign currency time deposits	$ 177,493		$ (1,029)

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. Comprehensive Income

The components of other comprehensive income (loss) for the year ended March 31, 2016, were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Unrealized gains (losses) on available-for-sale securities:		
Gains (losses) arising during the year	¥ 1,790	$ 15,885
Reclassification adjustments to profit or loss	(7,653)	(67,917)
Amount before income tax effect	(5,862)	(52,023)
Income tax effect	3,482	30,901
Total	(2,380)	(21,121)
Deferred gains (losses) on derivatives under hedge accounting:		
Gains (losses) arising during the year	(5,324)	(47,248)
Reclassification adjustments to profit or loss	2,546	22,594
Amount before income tax effect	(2,778)	(24,653)
Income tax effect	689	6,114
Total	(2,088)	(18,530)
Excess of land revaluation:		
Income tax effect	239	2,121
Total	239	2,121
Defined retirement benefit plans:		
Gains (losses) arising during the year	(7,949)	(70,544)
Reclassification adjustments to profit or loss	728	6,460
Amount before income tax effect	(7,220)	(64,075)
Income tax effect	2,159	19,160
Total	(5,061)	(44,914)
Total other comprehensive income (loss)	¥ (9,290)	$ (82,445)

17. Appropriation of Retained Earnings

The Board of Directors' meeting, which was held on May 13, 2016, approved the following appropriations of retained earnings for the year ended March 31, 2016:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Cash dividends (¥6.00 per share)	¥ 2,780	$ 24,671

18. Business Combinations

The Company was established through a joint share transfer between Higo Bank and Kagoshima Bank on October 1, 2015. The share transfer was accounted for by applying purchase method as stipulated in the accounting standards relating to business combinations with Higo Bank being the acquiring company and Kagoshima Bank being the acquired company.

(a) Outline of the business combination

1. Name of Acquired Company and Its Business Outline
   Name of acquired company: THE KAGOSHIMA BANK, LTD.
   Business outline: Banking

2. Major Reason for the Business Combination
   The Banks integrated their business in order to realize "Regional Revitalization" by working together with the region through establishment of a solid management foundation with which the Banks would be able to further exert their presence in the Kyushu region which is their respective local area and creation of a new expanded community-based business model.

3. Date of Business Combination
   October 1, 2015

4. Legal Form of Business Combination
   Establishment of a joint holding company through share transfer

5. Name of the Company after the Business Combination
   Kyushu Financial Group, Inc.

6. Ratio of Voting Rights Acquired
   100%

7. Basis for Determining the Acquirer
   Higo Bank was designated as the acquiring company as a result of comprehensive consideration of factors including acquisition-deciding factors under the applicable accounting standards for business combinations and various other factors.

(b) The period for which the operations of the acquired company are included in the consolidated financial statements
From October 1, 2015 to March 31, 2016

(c) Acquisition cost of the acquired company and related details of each class of consideration

	Millions of yen	Thousands of U.S. dollars
Fair value on the business combination date of the common stock of Kyushu Financial Group, Inc. exchanged for the common stock of Kagoshima Bank held immediately before the share transfer	¥ 4,837	$ 42,926
Fair value of the common stock of Kyushu Financial Group, Inc. delivered on the business combination date	200,809	1,782,117
Acquisition cost	¥ 205,647	$ 1,825,053

(d) Transfer ratio by type of stock, the calculation method and the number of shares delivered

1. Transfer Ratio by Type of Stock

(i) For every 1 share of the common stock of Higo Bank, 1 share of the common stock of the Company

(ii) For every 1 share of the common stock of Kagoshima Bank, 1.11 shares of the common stock of the Company

2. Calculation Method

The transfer ratio was determined through discussion among the parties involved based on reports prepared by multiple financial advisors as third-party calculation institutions.

3. Number of Shares of Delivered

Common stock: 463,375,978 shares

(e) Major acquisition-related costs

Fees to external advisors and others: ¥159 million ($1,411 thousand)

(f) Difference between the acquisition cost of the acquired company and the total of acquisition cost for each transaction leading to the acquisitions

Gain on step acquisitions: ¥4,222 million ($37,468 thousand)

(g) The assets acquired and the liabilities assumed on the business combination date are as follows:

	Millions of yen	Thousands of U.S. dollars
1. Assets		
Total Assets Acquired	¥ 4,073,432	$ 36,150,443
Loans and bills discounted	2,704,744	24,003,762
Securities	1,167,019	10,356,931
Reserve for possible loan losses	(36,447)	(323,455)
2. Liabilities		
Total Liabilities Assumed	3,771,219	33,468,397
Deposits	3,436,895	30,501,375

(h) Amount of negative goodwill incurred and reason for the negative goodwill incurred

1. The amount of gain on negative goodwill

¥88,487 million ($785,294 thousand)

2. Reasons for the negative goodwill incurred

The net amount of the assets acquired and the liabilities assumed on the business combination date exceeded the acquisition cost, and the excess amount was recognized as gain on negative goodwill.

(i) Pro forma information (unaudited)

If this business combination had been completed as of April 1, 2015, the beginning of the fiscal year, the effects on the consolidated statement of income for the year ended March 31, 2016, would be as follows:

	Millions of yen	Thousands of U.S. dollars
Total income	¥ 39,992	$ 354,916
Net income attributable to owners of the parent	6,607	58,635

The above estimated impact amounts were calculated based on the consolidated financial statements of the acquired company, Kagoshima Bank for the period from April 1, 2015 to September 30, 2015 and have not been audited by Deloitte Touche Tohmatsu LLC.

19. Segment Information

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

(a) Description of reportable segments
The Group's reportable segments are those for which separate financial information is available and regular evaluation by the 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.

(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								
	2016								
	Reportable segment								
	Banking								
	Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:									
Ordinary income by external customers	¥ 76,317	¥ 37,583	¥ 113,900	¥ 22,284	¥ 136,185	¥ 2,961	¥ 139,146	¥ (7,922)	¥ 131,224
Intersegment ordinary income	330	98	428	1,626	2,054	2,666	4,721	(4,721)	
Total	¥ 76,647	¥ 37,681	¥ 114,329	¥ 23,910	¥ 138,240	¥ 5,628	¥ 143,868	¥ (12,644)	¥ 131,224
Segment profit	¥ 21,420	¥ 8,582	¥ 30,002	¥ 1,437	¥ 31,440	¥ 696	¥ 32,137	¥ (6,530)	¥ 25,606
Segment assets	4,727,666	4,191,191	8,918,858	82,654	9,001,512	24,365	9,025,877	(85,912)	8,939,965
Other:									
Depreciation	4,853	2,150	7,003	140	7,144	246	7,391	84	7,475
Interest income	52,921	23,957	76,878	57	76,936	211	77,147	(2,406)	74,741
Interest expenses	5,471	1,235	6,707	252	6,960	23	6,983	(236)	6,747
Increase in fixed assets and intangible assets	5,453	1,633	7,086	9	7,096	119	7,215	185	7,401

	Thousands of U.S. dollars								
	2016								
	Reportable segment								
	Banking								
	Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:									
Ordinary income by external customers	$ 677,289	$ 333,537	$ 1,010,827	$ 197,763	$ 1,208,599	$ 26,277	$ 1,234,877	$ (70,305)	$ 1,164,572
Intersegment ordinary income	2,928	869	3,798	14,430	18,228	23,659	41,897	(41,897)	
Total	$ 680,218	$ 334,407	$ 1,014,634	$ 212,193	$ 1,226,837	$ 49,946	$ 1,276,783	$ (112,211)	$ 1,164,572
Segment profit	$ 190,095	$ 76,162	$ 266,258	$ 12,752	$ 279,020	$ 6,176	$ 285,205	$ (57,951)	$ 227,245
Segment assets	41,956,567	37,195,518	79,152,094	733,528	79,885,623	216,231	80,101,854	(762,442)	79,339,412
Other:									
Depreciation	43,068	19,080	62,149	1,242	63,400	2,183	65,592	745	66,338
Interest income	469,657	212,610	682,268	505	682,783	1,872	684,655	(21,352)	663,303
Interest expenses	48,553	10,960	59,522	2,236	61,767	204	61,971	(2,094)	59,877
Increase in fixed assets and intangible assets	48,393	14,492	62,886	79	62,974	1,056	64,030	1,641	65,681

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. For the year ended March 31, 2016, the reconciliations of ordinary income by external customers of ¥(7,922) million ($(70,305) thousand) include reconciliations relating to reclassifications due to consolidation of ¥(1,500) million ($(13,312) thousand) and reconciliations of ordinary income in accordance with purchase method application of ¥(6,423) million ($(57,002) thousand).
b. For the year ended March 31, 2016, the segment profit reconciliations of ¥(6,530) million ($(57,951) thousand) include reconciliations of profit in accordance with purchase method application of ¥(6,462) million ($(57,348) thousand).
c. For the year ended March 31, 2016, the interest income reconciliations in “Other” of ¥(2,406) million ($(21,352) thousand) include reconciliations of interest income in accordance with purchase method application of ¥(2,216) million ($(19,666) thousand).
d. For the year ended March 31, 2016, 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.

Related information

(a) Segment information by services

	Millions of yen				
	2016				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	¥ 53,402	¥ 30,630	¥ 22,023	¥ 25,167	¥ 131,224

	Thousands of U.S. dollars				
	2016				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	$ 473,926	$ 271,831	$ 195,447	$ 223,349	$ 1,164,572

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

(b) Segment information by geographic areas

Segment information by geographic areas is not disclosed 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 customers

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

Information about gain on negative goodwill

Gain on negative goodwill is recognized as a result of business integration of Higo Bank and Kagoshima Bank on October 1, 2015 in the banking segment, amounting to ¥88,487 million ($785,294 thousand)

20. Subsequent Event

As a result of the 2016 Kumamoto Earthquake that occurred intermittently from April 14, 2016, the business locations and customers of the Group in Kumamoto prefecture have been experiencing damages. The Group is investigating the impact of this disaster on financial position, result of the operations, and cash flows of the Group for the year ending March 31, 2017, and thereafter, and it is difficult to reasonably estimate the amount of the damage at this time.

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Kyushu Financial Group, Inc. (the "Company") and its consolidated subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

As discussed in Note 20 to the consolidated financial statements, the Company and its consolidated subsidiaries are investigating the impact of "2016 Kumamoto Earthquake" that occurred intermittently from April 14, 2016.
Our opinion is not modified in respect of this matter.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 21, 2016

Member of
Deloitte Touche Tohmatsu Limited

Non-Consolidated Financial Statements (Unaudited)

The Higo Bank, Ltd.

Non-Consolidated Balance Sheet

March 31, 2016

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
ASSETS:			
Cash and due from banks	¥ 228,963	¥ 294,480	$ 2,031,975
Call loans	241	147	2,138
Monetary claims purchased	869	806	7,712
Trading assets	749	1,830	6,647
Money held in trust	4,863	4,942	43,157
Securities	1,578,080	1,633,265	14,004,969
Loans and bills discounted	2,830,942	2,689,079	25,123,730
Foreign exchange assets	4,749	4,479	42,145
Other assets	27,643	42,302	245,323
Fixed assets	53,376	53,822	473,695
Intangible assets	5,672	5,779	50,337
Prepaid pension cost	3,849	3,676	34,158
Customers' liabilities for acceptances and guarantees	9,339	9,634	82,880
Reserve for possible loan losses	(17,824)	(19,629)	(158,182)
Total assets	¥ 4,731,515	¥ 4,724,617	$ 41,990,725
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits	¥ 4,256,640	¥ 4,201,039	$ 37,776,357
Call money	1,126	—	9,992
Borrowing under securities lending transactions	67,354	74,894	597,745
Trading liabilities	44	591	390
Borrowed money	42,253	42,403	374,982
Foreign exchange liabilities	69	34	612
Other liabilities	28,343	71,434	251,535
Reserve for bonuses to directors and audit & supervisory board members	91	78	807
Reserve for retirement benefits	8,201	8,398	72,781
Reserve for repayments for dormant deposits	800	852	7,099
Reserve for contingent losses	354	395	3,141
Deferred tax liabilities	10,470	12,454	92,917
Deferred tax liabilities related to land revaluation	4,556	4,886	40,433
Acceptances and guarantees	9,339	9,634	82,880
Total liabilities	4,429,648	4,427,098	39,311,750
Equity			
Common stock	18,128	18,128	160,880
Capital surplus	8,133	8,133	72,177
Retained earnings	224,518	215,585	1,992,527
Treasury stock, at cost	—	(141)	—
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	52,671	55,369	467,438
Deferred gains (losses) on derivatives under hedge accounting	(7,694)	(5,614)	(68,281)
Excess of land revaluation	6,109	6,058	54,215
Total valuation and translation adjustments	51,086	55,813	453,372
Total equity	301,867	297,519	2,678,975
Total liabilities and equity	¥ 4,731,515	¥ 4,724,617	$ 41,990,725

The Higo Bank, Ltd.

Non-Consolidated Statement of Income

Year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Income:			
Interest income:			
Interest on loans and discounts	¥ 34,801	¥ 35,599	$ 308,848
Interest and dividends on securities	17,555	17,040	155,795
Other interest income	563	676	4,996
Fees and commissions income	11,630	11,823	103,212
Trading income	20	32	177
Other operating income	3,865	1,860	34,300
Gain on disposal of fixed assets	50	211	443
Other income	8,209	4,452	72,852
Total income	76,697	71,699	680,662
Expenses:			
Interest expenses:			
Interest on deposits	1,759	1,846	15,610
Other interest expenses	3,712	3,809	32,942
Fees and commissions expenses	4,409	4,287	39,128
Other operating expenses	3,147	1,066	27,928
General and administrative expenses	40,652	38,382	360,773
Provision for possible loan losses	—	767	—
Losses on disposal of fixed assets	7	12	62
Losses on impairment of long-lived assets	399	221	3,541
Other expenses	1,546	1,062	13,720
Total expenses	55,633	51,454	493,725
Income before income taxes	21,064	20,244	186,936
Income taxes:			
Current	5,718	6,771	50,745
Deferred	1,367	1,251	12,131
Total income taxes	7,086	8,023	62,886
Net income	¥ 13,977	¥ 12,221	$ 124,041

The Higo Bank, Ltd.

Non-Consolidated Statement of Changes in Equity

Year ended March 31, 2016

	Millions of yen			
	Common stock	**Capital surplus**	**Retained earnings**	**Treasury stock**
Balance at April 1, 2014	¥ 18,128	¥ 8,133	¥ 205,920	¥ (119)
Cumulative effects of changes in accounting policies			(337)	
Restated balance	18,128	8,133	205,583	(119)
Cash dividends			(2,305)	
Net income			12,221	
Purchase of treasury stock				(22)
Disposal of treasury stock		0		0
Reversal of excess of land revaluation			85	
Net change in the year				
Balance at March 31, 2015	¥ 18,128	¥ 8,133	¥ 215,585	¥ (141)
Cash dividends			(5,083)	
Net income			13,977	
Purchase of treasury stock				(8)
Cancellation of treasury stock		(0)	(149)	149
Reversal of excess of land revaluation			188	
Net change in the year				
Balance at March 31, 2016	¥ 18,128	¥ 8,133	¥ 224,518	¥ —

	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, 2014	¥ 38,796	¥ (3,390)	¥ 5,639	¥ 41,045	¥ 273,109
Cumulative effects of changes in accounting policies					(337)
Restated balance	38,796	(3,390)	5,639	41,045	¥ 272,771
Cash dividends					(2,305)
Net income					12,221
Purchase of treasury stock					(22)
Disposal of treasury stock					0
Reversal of excess of land revaluation					85
Net change in the year	16,573	(2,223)	418	14,767	14,767
Balance at March 31, 2015	¥ 55,369	¥ (5,614)	¥ 6,058	¥ 55,813	¥ 297,519
Cash dividends					(5,083)
Net income					13,977
Purchase of treasury stock					(8)
Cancellation of treasury stock					—
Reversal of excess of land revaluation					188
Net change in the year	(2,697)	(2,080)	50	(4,726)	(4,726)
Balance at March 31, 2016	¥ 52,671	¥ (7,694)	¥ 6,109	¥ 51,086	¥ 301,867

The Higo Bank, Ltd.

Non-Consolidated Statement of Changes in Equity

Year ended March 31, 2016

	Thousands of U.S. dollars			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 2015	$ 160,880	$ 72,177	$ 1,913,249	$ (1,251)
Cash dividends			(45,110)	
Net income			124,041	
Purchase of treasury stock				(70)
Cancellation of treasury stock		(0)	(1,322)	1,322
Reversal of excess of land revaluation			1,668	
Net change in the year				
Balance at March 31, 2016	$ 160,880	$ 72,177	$ 1,992,527	$ —

	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, 2015	$ 491,382	$ (49,822)	$ 53,762	$ 495,323	$ 2,640,388
Cash dividends					(45,110)
Net income					124,041
Purchase of treasury stock					(70)
Cancellation of treasury stock					—
Reversal of excess of land revaluation					1,668
Net change in the year	(23,935)	(18,459)	443	(41,941)	(41,941)
Balance at March 31, 2016	$ 467,438	$ (68,281)	$ 54,215	$ 453,372	$ 2,678,975

Non-Consolidated Financial Statements (Unaudited)

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Balance Sheet

March 31, 2016

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
ASSETS:			
Cash and due from banks	¥ 93,535	¥ 103,026	$ 830,094
Monetary claims purchased	8,495	9,445	75,390
Trading securities	920	179	8,164
Money held in trust	14,255	13,462	126,508
Securities	1,151,148	1,180,456	10,216,080
Loans and bills discounted	2,864,390	2,682,489	25,420,571
Foreign exchange assets	2,228	2,248	19,772
Other assets	8,723	5,213	77,413
Fixed assets	54,423	54,632	482,987
Intangible assets	3,495	4,935	31,017
Prepaid pension cost	9,918	9,178	88,019
Customers' liabilities for acceptances and guarantees	24,969	24,667	221,592
Reserve for possible loan losses	(40,160)	(33,506)	(356,407)
Total assets	¥ 4,196,343	¥ 4,056,429	$ 37,241,240
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits	¥ 3,580,699	¥ 3,555,046	$ 31,777,591
Call money	70,000	24,514	621,228
Borrowing under securities lending transactions	100,848	16,628	894,994
Borrowed money	90,129	90,133	799,866
Foreign exchange liabilities	32	58	283
Other liabilities	16,314	18,233	144,781
Reserve for retirement benefits	1,697	1,602	15,060
Reserve for repayments for dormant deposits	791	550	7,019
Reserve for contingent losses	257	260	2,280
Deferred tax liabilities	4,895	13,033	43,441
Deferred tax liabilities related to land revaluation	6,971	7,387	61,865
Acceptances and guarantees	24,969	24,667	221,592
Total liabilities	3,897,606	3,752,117	34,590,042
Equity			
Common stock	18,130	18,130	160,898
Capital surplus	11,204	11,204	99,432
Retained earnings	215,064	208,564	1,908,626
Treasury stock, at cost	—	(385)	—
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	39,244	52,079	348,278
Deferred gains (losses) on derivatives under hedge accounting	(8)	(109)	(70)
Excess of land revaluation	15,101	14,827	134,016
Total valuation and translation adjustments	54,337	66,797	482,223
Total equity	298,736	304,311	2,651,189
Total liabilities and equity	¥ 4,196,343	¥ 4,056,429	$ 37,241,240

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Income

Year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Income:			
Interest income:			
Interest on loans and discounts	¥ 36,894	¥ 36,859	$ 327,422
Interest and dividends on securities	11,290	9,641	100,195
Other interest income	198	262	1,757
Fees and commissions income	11,239	11,082	99,742
Other operating income	1,170	1,767	10,383
Gain on disposal of fixed assets	0	342	0
Other income	10,244	5,044	90,912
Total income	71,039	65,001	630,449
Expenses:			
Interest expenses:			
Interest on deposits	1,341	1,271	11,900
Other interest expenses	1,050	995	9,318
Fees and commissions expenses	3,926	3,528	34,842
Other operating expenses	557	307	4,943
General and administrative expenses	36,170	37,033	320,997
Provision for possible loan losses	8,411	2,341	74,645
Losses on disposal of fixed assets	87	176	772
Other expenses	1,717	812	15,237
Total expenses	53,261	46,465	472,674
Income before income taxes	17,778	18,535	157,774
Income taxes:			
Current	7,872	6,126	69,861
Deferred	(1,641)	1,325	(14,563)
Total income taxes	6,230	7,451	55,289
Net income	¥ 11,547	¥ 11,084	$ 102,476

Non-Consolidated Financial Statements (Unaudited)

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Changes in Equity

Year ended March 31, 2016

	Millions of yen			
	Common stock	**Capital surplus**	**Retained earnings**	**Treasury stock**
Balance at April 1, 2014	¥ 18,130	¥ 11,204	¥ 199,706	¥ (371)
Cumulative effects of changes in accounting policies			(532)	
Restated balance	18,130	11,204	199,174	(371)
Cash dividends			(1,888)	
Net income			11,084	
Purchase of treasury stock				(15)
Disposal of treasury stock		0		1
Reversal of excess of land revaluation			194	
Net change in the year				
Balance at March 31, 2015	¥ 18,130	¥ 11,204	¥ 208,564	¥ (385)
Cash dividends			(4,751)	
Net income			11,547	
Purchase of treasury stock				(4)
Disposal of treasury stock		0		0
Cancellation of treasury stock		(0)	(389)	389
Reversal of excess of land revaluation			93	
Net change in the year				
Balance at March 31, 2016	¥ 18,130	¥ 11,204	¥ 215,064	¥ —

	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, 2014	¥ 31,770	¥ (196)	¥ 14,259	¥ 45,833	¥ 274,504
Cumulative effects of changes in accounting policies					(532)
Restated balance	31,770	(196)	14,259	45,833	¥ 273,971
Cash dividends					(1,888)
Net income					11,084
Purchase of treasury stock					(15)
Disposal of treasury stock					1
Reversal of excess of land revaluation					194
Net change in the year	20,309	86	567	20,963	20,963
Balance at March 31, 2015	¥ 52,079	¥ (109)	¥ 14,827	¥ 66,797	¥ 304,311
Cash dividends					(4,751)
Net income					11,547
Purchase of treasury stock					(4)
Disposal of treasury stock					0
Cancellation of treasury stock					
Reversal of excess of land revaluation					93
Net change in the year	(12,834)	101	273	(12,459)	(12,459)
Balance at March 31, 2016	¥ 39,244	¥ (8)	¥ 15,101	¥ 54,337	¥ 298,736

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Changes in Equity

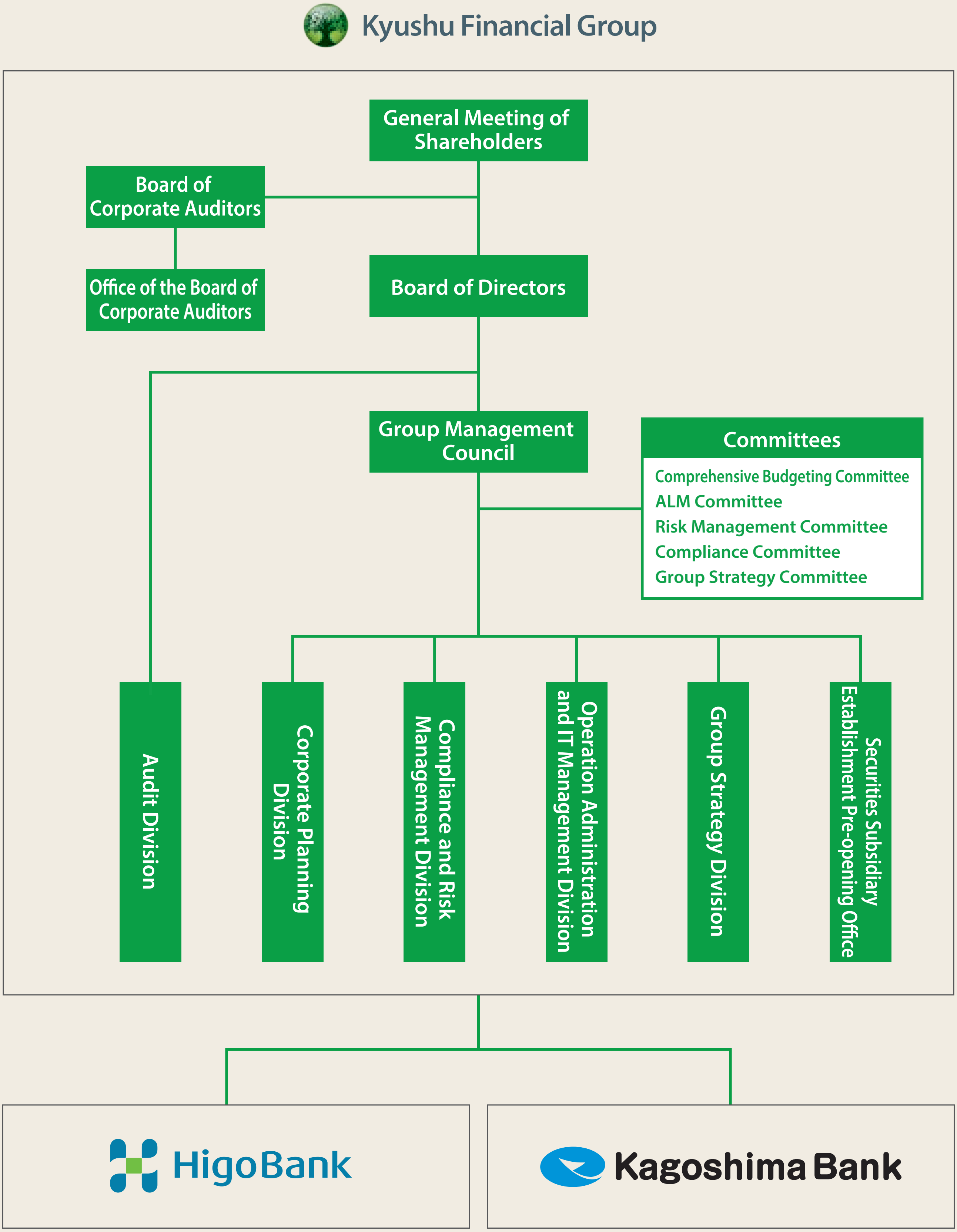
Year ended March 31, 2016

	Thousands of U.S. dollars			
	Common stock	Capital surplus	Retained earnings	Treasury Stock
Balance at April 1, 2015	$ 160,898	$ 99,432	$ 1,850,940	$ (3,416)
Cash dividends			(42,163)	
Net income			102,476	
Purchase of treasury stock				(35)
Disposal of treasury stock		0		0
Cancellation of treasury stock		(0)	(3,452)	3,452
Reversal of excess of land revaluation			825	
Net change in the year				
Balance at March 31, 2016	$ 160,898	$ 99,432	$ 1,908,626	$ —

	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, 2015	$ 462,184	$ (967)	$ 131,585	$ 592,802	$ 2,700,665
Cash dividends					(42,163)
Net income					102,476
Purchase of treasury stock					(35)
Disposal of treasury stock					0
Cancellation of treasury stock					
Reversal of excess of land revaluation					825
Net change in the year	(113,897)	896	2,422	(110,569)	(110,569)
Balance at March 31, 2016	$ 348,278	$ (70)	$ 134,016	$ 482,223	$ 2,651,189

Corporate Data

Organizational Chart (As of October 3, 2016)



(As of the end of March 2016)

Total Number of Shares

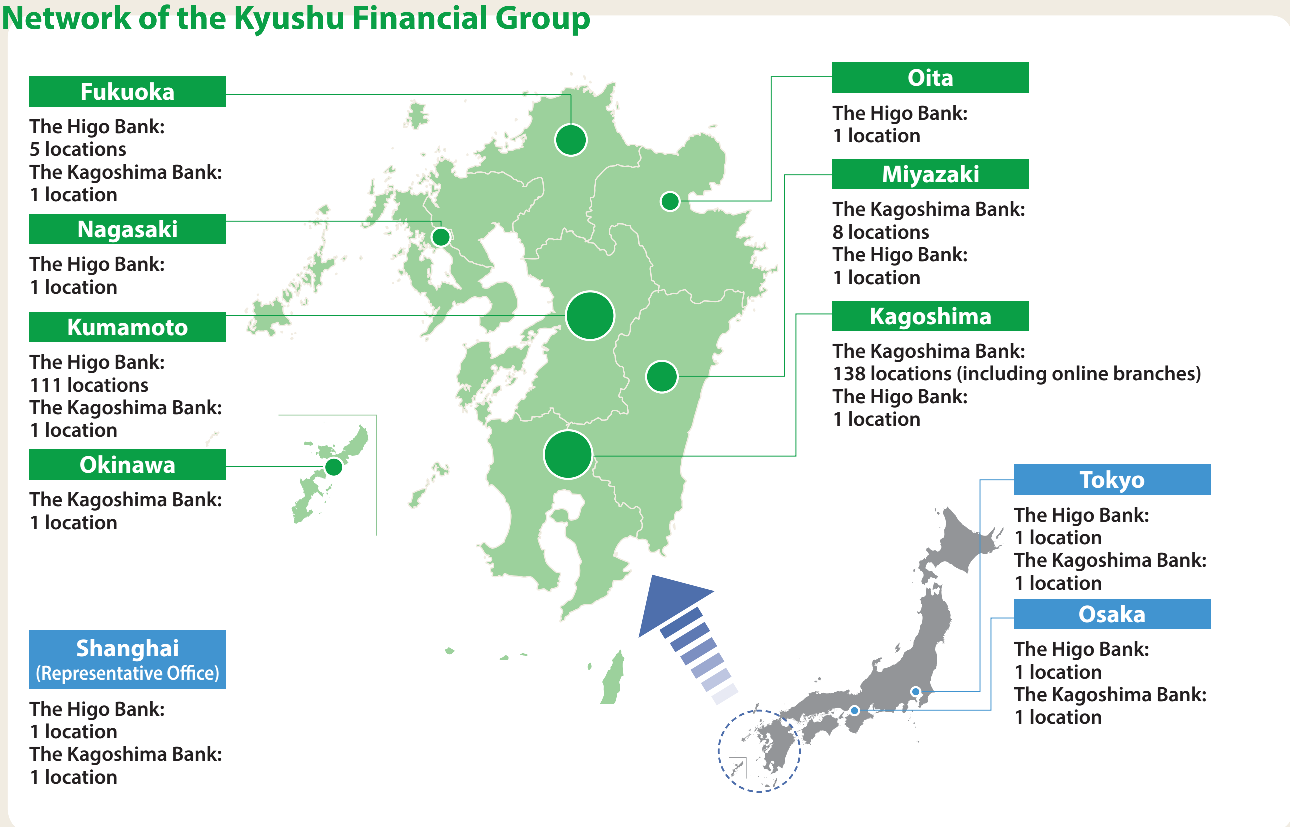
Total number of authorized shares	Ordinary stock	1,000,000,000 shares
Total number of issued shares	Ordinary stock	463,375,978 shares

Principal shareholders

Name	Number of shares (thousands)	Equity stake (%)
Iwasaki Ikuei Bunka Zaidan, General Foundation	20,936	4.51
Meiji Yasuda Life Insurance Co.	18,568	4.00
Japan Trustee & Services Bank, Ltd. (Trust account)	12,694	2.73
The Bank of Fukuoka, Ltd.	12,620	2.72
Mizuho Bank, Ltd.	9,521	2.05
Takara Kogyo Co., Ltd.	8,258	1.78
Kagoshima Bank Employees' Shareholding Association	7,849	1.69
Iwasaki Sangyo Co., Ltd.	7,616	1.64
Nippon Life Insurance Company	7,361	1.58
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,243	1.56

(Note 1) Number of shares is rounded down to the nearest thousand.
(Note 2) Equity stake is calculated by subtracting treasury stock (9,013 shares) from the total number of issued shares and rounded down to the second decimal place.

Network of the Kyushu Financial Group



Kyushu Financial Group

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