Kyushu Financial Group

2017 Annual Report

HigoBank   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 June 21, 2017)	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	(currently, Director of Kyushu FG Securities Establishment Pre-Opening, Inc.)
	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. and Auditor of Kyushu FG Securities Establishment Pre-Opening, Inc.)
	Company Auditor	Hirofumi Kaigakura	(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	Tsutomu Tajima	(currently, Executive Managing Officer and Director of The Higo Bank, Ltd. and Director of Kyushu FG Securities Establishment Pre-Opening, Inc.)
	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	Michiaki Miyawaki	(currently, Executive Officer, Manager of Audit Division of The Kagoshima Bank, Ltd.)
	Executive Officer	Seiji Yamamoto	-
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:	36.0 billion yen		
Fiscal year end:	31-Mar		
Net Assets (consolidated):	615.035 billion yen		
Total assets (consolidated):	9,638.577 billion yen		
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:	2,236

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:	2,192

(As of the end of March 2017)

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.

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.

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.
June 1, 2017	Kyushu FG Securities Establishment Pre-Opening, Inc. established.

Message from the Management

Chairman and Representative Director:
Takahiro Kai

President and Representative Director:
Motohiro Kamimura

We would like to take this opportunity to thank you for your continued patronage.

The Kyushu Financial Group celebrated its first anniversary in October 2016. Once again, we would like to extend our sincere gratitude to you all for your support.

During FY2016, Japan's economy continued a moderate recovery trend, as evidenced by an upturn in exports and production supported by the moderate recovery of the global economy, and an improved employment and income environment amid signs of rising corporate earnings.

However, the financial and economic environment for our financial group has experienced major changes, including the negative interest rates introduced in February 2016 and the trend toward accelerated financial restructuring, as well as the United Kingdom's withdrawal from the EU and the inauguration of a new political administration in the United States.

Under these circumstances, the Kyushu Financial Group has steadily created synergy effects based on our three management foundations of "comprehensive financial capability," "brand power," and "organization management capability" in order to "establish a management base to provide optimal and best services to customers," which is the basic policy of the Group's 1st Mid-Term Management Plan.

During this fiscal year, which is the final year of the Plan, we will bring together the knowledge and knowhow of The Higo Bank Group and The Kagoshima Bank Group in our efforts to support regional revitalization, while also working to strengthen the group structure and further improve our corporate value in preparation for the "Integration Stage," which is our next Mid-Term Management Plan starting in April 2018.

Furthermore, although a year has passed since the Kumamoto Earthquake inflicted significant damage on the Kumamoto Region where our group is based, going forward we will work together as a group to offer continuous support for "creative reconstruction."

We hope that you will continue to offer us even greater support and encouragement.

November 2017

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, 2017	Year-to-year change	Year ended March 31, 2016
Ordinary income	172,216	40,992	131,224
Ordinary profit	21,532	(4,074)	25,606
Net income attributable to owners of the parent	14,602	(93,868)	108,471
Capital adequacy ratio	12.38%	(0.48%)	12.86%

HigoBank

(Millions of yen)

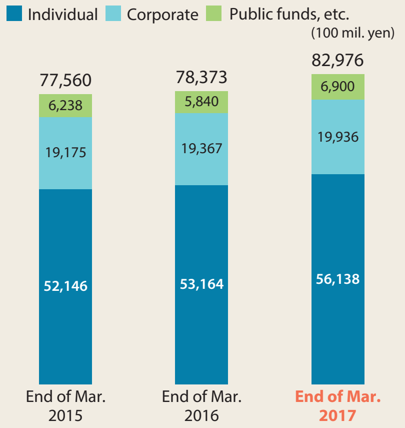
Item	Year ended March 31, 2017	Year-to-year change	Year ended March 31, 2016
Ordinary income	76,920	272	76,647
Gross income from business	54,273	(1,141)	55,415
Expenses	39,383	(433)	39,817
Net income from core business	12,870	(1,086)	13,957
Net income from business	15,483	(115)	15,598
Ordinary profit	12,364	(9,056)	21,420
Net income	8,759	(5,218)	13,977

Kagoshima Bank

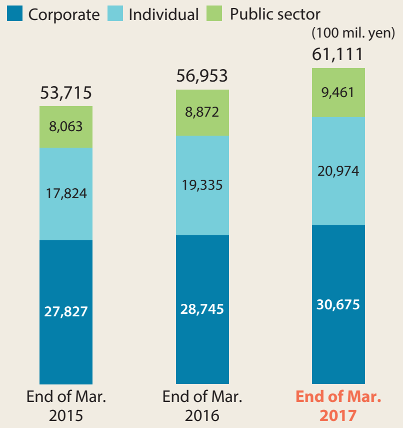
(Millions of yen)

Item	Year ended March 31, 2017	Year-to-year change	Year ended March 31, 2016
Ordinary income	72,922	1,882	71,039
Gross income from business	49,495	(4,431)	53,927
Expenses	34,663	(1,048)	35,712
Net income from core business	16,944	(902)	17,846
Net income from business	12,763	(8,114)	20,878
Ordinary profit	16,160	(1,704)	17,864
Net income	10,842	(704)	11,547

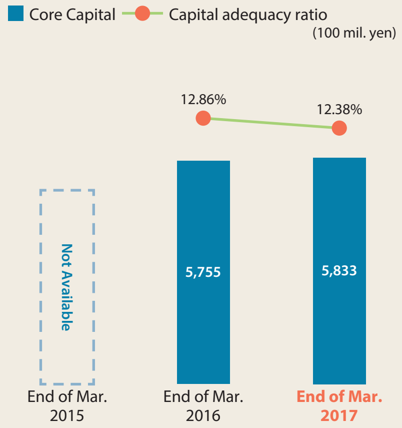
Deposits
(Non-consolidated total of the two Banks)



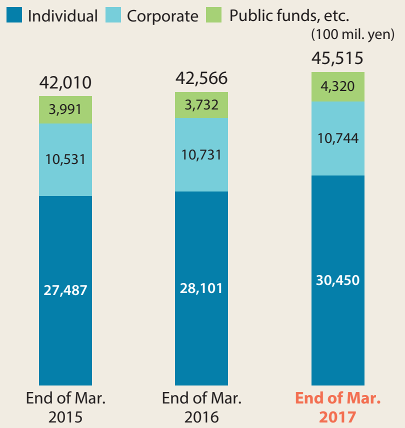
Loans
(Non-consolidated total of the two Banks)



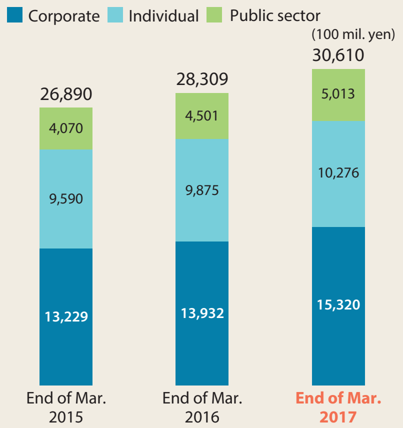
Capital Adequacy Ratio
(KFG Consolidated)



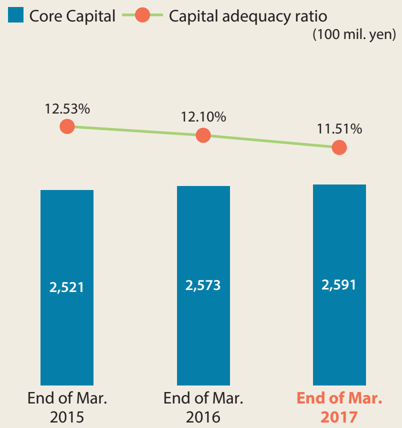
Deposits
(Higo Bank)



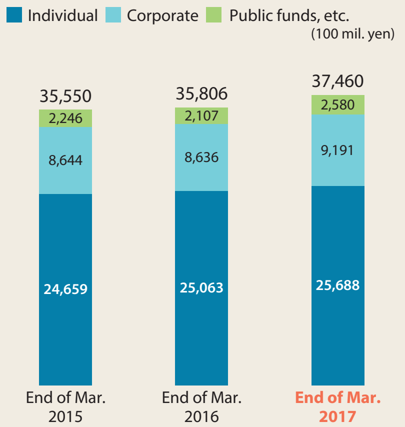
Loans
(Higo Bank)



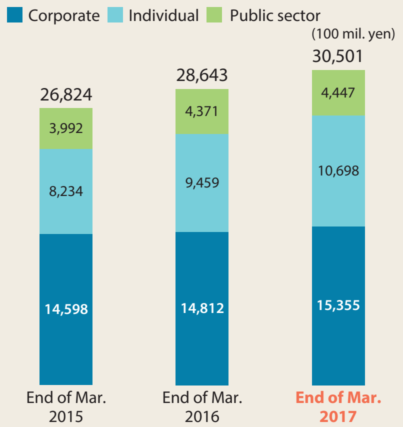
Capital Adequacy Ratio
(Higo Bank)



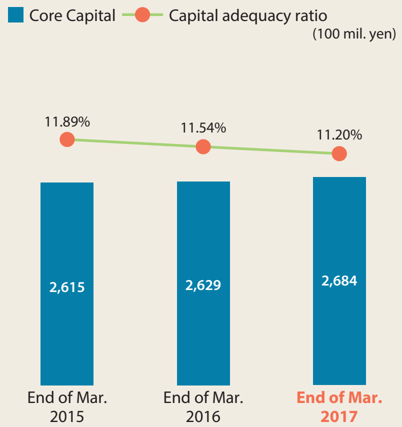
Deposits
(Kagoshima Bank)



Loans
(Kagoshima Bank)



Capital Adequacy Ratio
(Kagoshima Bank)



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

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

Director
Toru Hayashida

Director
Tsukasa Tsuruta

(Director of Kyushu FG Securities Establishment Pre-Opening, Inc.)

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. and Auditor of Kyushu FG Securities Establishment Pre-Opening, Inc.)

Corporate Auditor
Hirofumi Kaigakura

(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
Tsutomu Tajima

Executive Officer
Eichi Eto

Executive Officer
Norihisa Akatsuka

Executive Officer
Michiaki Miyawaki

Executive Officer
Seiji Yamamoto

(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 June 21, 2017)

Corporate Governance

Basic Philosophy on Corporate Governance

Kyushu Financial Group, Inc. is the holding company of a regional financial group that has under its aegis The Higo Bank, Ltd., THE KAGOSHIMA BANK, LTD. and Kyushu FG Securities Establishment Pre-Opening, Inc. 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.

In addition, 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.

(URL: https://www.kyushu-fg.co.jp/company/governance.html)

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 1 female Corporate Auditor) who have a high degree of independence in conducting audits to secure Group soundness and legality 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.

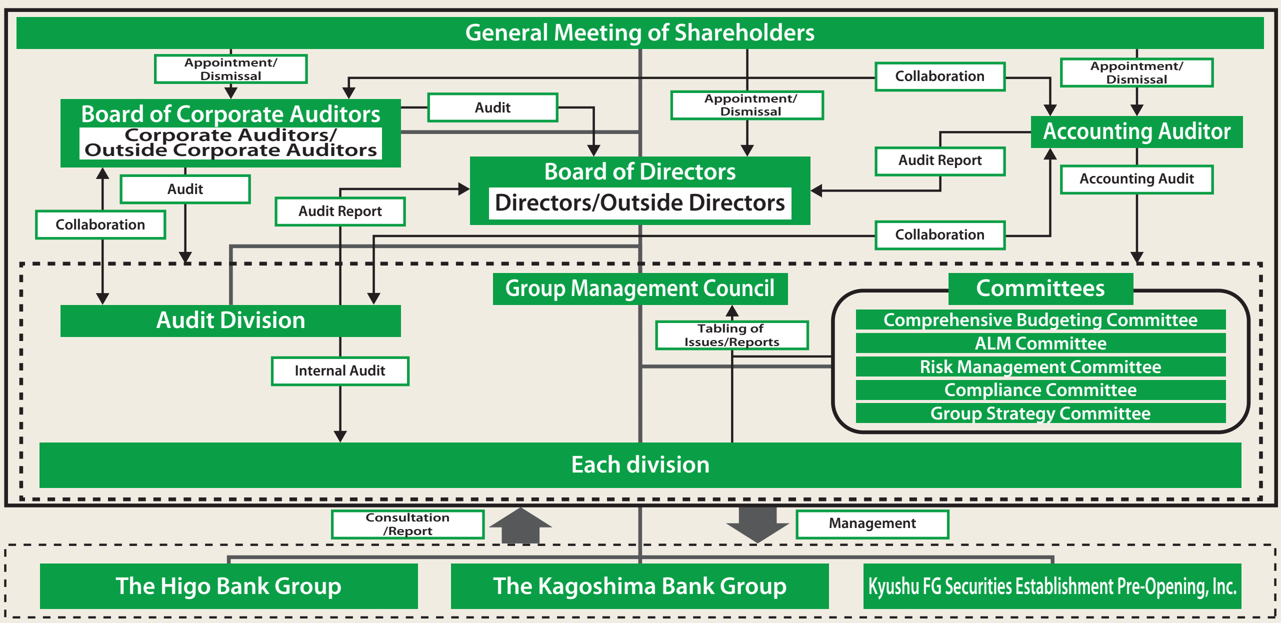
(ALM Committee)
This Committee meets to discuss the management and policies regarding integrated risks, credit risks, market risks, liquidity risks, etc., and issues regarding the revenue management, investments and financing for the entire Group.

(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.

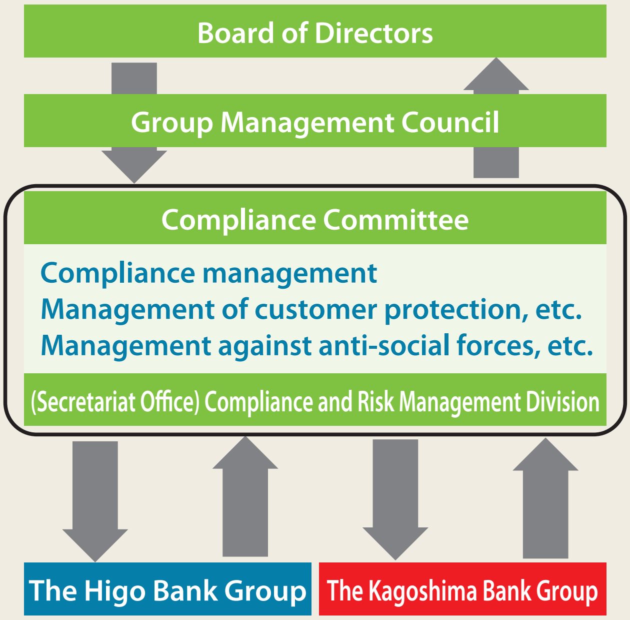
1. We recognize our social responsibilities and public mission, and we earn the trust of society through the sound and appropriate operation of our business.
2. We adhere to laws and regulations, rules and internal regulations, and we carry out sincere and fair corporate activities based on social norms 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.

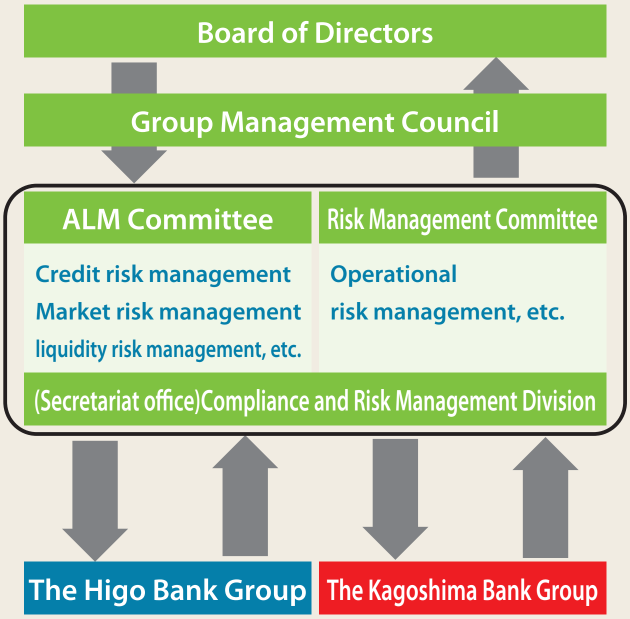
(Basic Response Policy to Anti-Social Forces)

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.

Cyber Security and Risk Management

In response to the various threats directly faced by the Group, including cybercrime, the Group is working on appropriate cyber security and risk management in accordance with the scale and characteristics of the inherent risks of each group company.

Specifically, we have established a CSIRT (Computer Security Incident Response Team), consisting of the relevant departments, under the supervision of the CISO (Chief Information Security Officer), and are working to upgrade our management system and prevent the spread of any damage.

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.

Our Initiatives

The Higo Bank and The Kagoshima Bank are engaged in various initiatives with the single aim of "energizing the region."

HigoBank

Accelerating initiatives toward creative reconstruction

The Higo Bank is undertaking various initiatives toward the creative reconstruction of "our hometown, Kumamoto." These initiatives include holding various reconstruction seminars, distributing "Taxation for the Kumamoto Earthquake," an earthquake reconstruction handbook, and providing finance through various loans and funds. In April 2017, we set up "disaster prevention wells" at 10 locations throughout the prefecture to help provide water for daily living in the event of a disaster.

Concluding the "Comprehensive Collaboration Agreement on Regional Revitalization"

The Higo Bank is working to invigorate local communities through activities such as regional development and the promotion of tourism by actively collaborating and cooperating with local governments in the area of regional revitalization activities. So far, the Bank has concluded the "Comprehensive Collaboration Agreement on Regional Revitalization" with Kumamoto City and Mashiki Town, and in FY2016 entered into the same agreement with Aso City and Uki City.

The "Satoyama Gallery of Higo" a base for the dissemination of regional culture

From the opening in May 2015 of the "Satoyama Gallery of Higo" on the first floor of The Higo Bank's main branch until the end of March 2016, we held 12 exhibitions that covered themes such as cultural artifacts and the natural features of Kumamoto. In FY2016, we held 6 exhibitions, including the "Tomishige Photography Museum Exhibition," attracting approximately 21,000 visitors.

Kagoshima Bank

Holding an opinion exchange forum with local companies and students

At Kagoshima University, we held an opinion exchange forum with local companies and students as part of our initiatives for regional revitalization aimed at resolving regional issues, including the lack of human resources at local companies as the result of migration away from the prefecture. As a result, 33 students from 8 universities in the prefecture participated in The Kagoshima Bank's internship program where they engaged in collaborative projects such as the creation of information fliers.

Entering into a collaborative agreement aimed at expanding sales routes for Kagoshima products and promoting tourism

Kagoshima Agri & Food Finance Council (chairman: Motohiro Kamimura) entered into a collaborative agreement with Kagoshima Prefecture, YAMATO HOLDINGS CO., LTD., and ANA Strategic Research Institute Co., Ltd. aimed at expanding sales routes for Kagoshima products and promoting tourism. The participating parties to this agreement will collaborate with one another in efforts to invigorate the regional economy.

Decision to launch a new brand

The Kagoshima Bank, which is entering a period of "change" that includes business integration with The Higo Bank (October 2015), the upcoming 140th anniversary of our foundation, and the completion of a new head office building, has decided to launch a new brand based on our renewed resolve to continue to be a bank forever loved by our customers. In conjunction with this, we have also adopted an original character named "SHIRODON."
(Adopted as of April 1, 2017)

Review of Financial Results

Operating Results

Regarding operating results for the current consolidated fiscal year, ordinary income increased 40,992 million yen from the previous consolidated fiscal year to 172,216 million yen.

On the other hand, ordinary expenses increased 45,066 million yen from the previous consolidated fiscal year to 150,684 million yen.

As a result, ordinary profit decreased 4,074 million yen from the previous consolidated fiscal year to 21,532 million yen. Meanwhile, net income attributable to owners of parent decreased 93,868 million yen from the previous consolidated fiscal year to 14,602 million yen. This was due to the inclusion of a gain on negative goodwill of 88,487 million yen in the previous consolidated fiscal year.

Results by business segments are as follows.

a. Banking business

Ordinary income increased 35,514 million yen from the previous consolidated fiscal year to 149,843 million yen, and segment profit decreased 1,478 million yen from the previous consolidated fiscal year to 28,524 million yen.

b. Leasing business

Ordinary income increased 6,213 million yen from the previous consolidated fiscal year to 30,124 million yen, and segment profit increased 655 million yen from the previous consolidated fiscal year to 2,093 million yen.

c. Others

Ordinary income increased 1,733 million yen from the previous consolidated fiscal year to 7,361 million yen, and segment profit increased 576 million yen from the previous consolidated fiscal year to 1,272 million yen.

Moreover, upon the establishment of the Company on October 1, 2015, since The Higo Bank was made the acquiring company in the accounting for business combination, the operating results of the Group for the previous consolidated fiscal year were based on the operating results of The Higo Bank, which was the acquiring company, for the previous consolidated fiscal year, and consolidated the consolidated operating results of The Kagoshima Bank for the period from October 1, 2015 to March 31, 2016, the operating results of the Company for the period from October 1, 2015 to March 31, 2016, and other necessary amendments arising in conjunction with the consolidated accounting (including gain on negative goodwill).

Status of Cash Flows

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

Net cash provided by operating activities amounted to 295,430 million yen due to an increase in deposits, etc.

Net cash provided by investing activities amounted to 130,489 million yen due to proceeds from sales of securities, etc.

Net cash used in financing activities amounted to 5,598 million yen due to cash dividends paid, etc.

As a result of the above, the balance of cash and cash equivalents at the end of the current consolidated fiscal year increased 420,340 million yen from the end of the previous consolidated fiscal year to 741,053 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.

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

1) Financial position

Regarding the financial position at the end of the current consolidated fiscal year, total assets increased 698,612 million yen from the end of the previous consolidated fiscal year to 9,638,577 million yen, and total equity increased 9,726 million yen from the end of the previous consolidated fiscal year to 615,035 million yen.

Regarding the balances of primary accounting items, the balance of deposits increased 461,449 million yen from the end of the previous consolidated fiscal year to 8,282,466 million yen.

The balance of loans and bills discounted increased 413,091 million yen from the end of the previous consolidated fiscal year to 6,070,496 million yen.

The balance of securities decreased 143,700 million yen from the end of the previous consolidated fiscal year to 2,576,606 million yen.

2) Operating results

Regarding operating results for the current consolidated fiscal year, ordinary income increased 40,992 million yen from the previous consolidated fiscal year to 172,216 million yen.

On the other hand, ordinary expenses increased 45,066 million yen from the previous consolidated fiscal year to 150,684 million yen.

As a result, ordinary profit decreased 4,074 million yen from the previous consolidated fiscal year to 21,532 million yen. Meanwhile, net income attributable to owners of parent decreased 93,868 million yen from the previous consolidated fiscal year to 14,602 million yen. This was due to the inclusion of a gain on negative goodwill of 88,487 million yen in the previous consolidated fiscal year.

Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
ASSETS:			
Cash and due from banks *(Notes 3 and 14)*	¥ 742,960	¥ 322,832	$ 6,622,337
Call loans and bills bought *(Note 14)*	317	241	2,825
Monetary claims purchased	10,503	9,934	93,617
Trading assets *(Notes 4 and 14)*	2,025	1,669	18,049
Money held in trust *(Note 5)*	18,769	19,119	167,296
Securities *(Notes 4, 8 and 14)*	2,576,606	2,720,306	22,966,449
Loans and bills discounted *(Notes 6, 9 and 14)*	6,070,496	5,657,405	54,109,064
Foreign exchange assets	18,499	6,977	164,889
Lease receivables and investment assets *(Note 8)*	49,211	46,005	438,639
Other assets *(Note 8)*	73,565	73,583	655,717
Fixed assets *(Note 7)*	90,614	92,164	807,683
Intangible assets *(Note 7)*	9,735	9,875	86,772
Asset for retirement benefits *(Note 10)*	6,689	4,763	59,622
Deferred tax assets *(Note 13)*	878	870	7,826
Customers' liabilities for acceptances and guarantees	34,376	34,761	306,408
Reserve for possible loan losses *(Note 14)*	(66,673)	(60,544)	(594,286)
Total assets	¥ 9,638,577	¥ 8,939,965	$ 85,912,977
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits *(Notes 8 and 14)*	¥ 8,282,466	¥ 7,821,017	$ 73,825,349
Call money and bills sold *(Note 14)*	90,000	71,126	802,210
Payables under repurchase agreements *(Notes 8 and 14)*	17,525	—	156,208
Borrowing under securities lending transactions *(Notes 8 and 14)*	233,891	168,203	2,084,775
Trading liabilities	21	44	187
Borrowed money *(Notes 8 and 14)*	278,885	149,249	2,485,827
Other liabilities	60,494	56,948	539,210
Liability for retirement benefits *(Note 10)*	10,210	11,838	91,006
Reserve for repayments for dormant deposits	1,716	1,591	15,295
Reserve for contingent losses	491	612	4,376
Deferred tax liabilities *(Note 13)*	9,279	15,072	82,707
Deferred tax liabilities related to land revaluation *(Note 2(g))*	4,180	4,189	37,258
Acceptances and guarantees	34,376	34,761	306,408
Total liabilities	9,023,542	8,334,656	80,430,894
Equity *(Note 11)*			
Common stock authorized, 1,000,000,000 shares; issued, 463,375,978 shares in 2017 and 2016	36,000	36,000	320,884
Capital surplus	194,112	191,686	1,730,207
Retained earnings	335,146	325,977	2,987,307
Treasury stock, at cost,8,861,112 shares in 2017 and 8,860,207 shares in 2016	(3,601)	(3,600)	(32,097)
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities *(Note 4)*	45,937	53,041	409,457
Deferred gains (losses) on derivatives under hedge accounting	(3,580)	(7,702)	(31,910)
Excess of land revaluation *(Note 2(g))*	6,088	6,109	54,265
Defined retirement benefit plans *(Note 10)*	(3,332)	(6,574)	(29,699)
Total accumulated other comprehensive income	45,112	44,873	402,103
Noncontrolling interests	8,265	10,372	73,669
Total equity	615,035	605,309	5,482,083
Total liabilities and equity	¥ 9,638,577	¥ 8,939,965	$ 85,912,977

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	**2016**	**2017**
Income:			
Interest income:			
Interest on loans and discounts	¥ 69,922	¥ 53,402	$ 623,246
Interest and dividends on securities	25,931	20,694	231,134
Other interest income	400	644	3,565
Fees and commissions income	21,948	17,300	195,632
Trading income	42	124	374
Other operating income	44,146	29,073	393,493
Gain on negative goodwill	—	88,487	—
Gain on step acquisitions	—	4,222	—
Other income *(Note 12)*	9,833	10,060	87,645
Total income	172,227	224,011	1,535,136
Expenses:			
Interest expenses:			
Interest on deposits	1,768	2,425	15,758
Other interest expenses	5,711	4,321	50,904
Fees and commissions expenses	8,472	5,764	75,514
Other operating expenses	40,154	24,056	357,910
General and administrative expenses	79,825	61,156	711,516
Provision for possible loan losses	10,267	4,929	91,514
Losses on impairment of long-lived assets	487	399	4,340
Other expenses	4,558	2,981	40,627
Total expenses	151,247	106,035	1,348,132
Income before income taxes	20,980	117,976	187,004
Income taxes *(Note 13):*			
Current	11,429	11,083	101,871
Deferred	(5,510)	(1,849)	(49,113)
Net income	15,060	108,742	134,236
Net income attributable to noncontrolling interests	458	271	4,082
Net income attributable to owners of the parent	¥ 14,602	¥ 108,471	$ 130,154

	Yen		U.S. dollars
Per share of common stock *(Note 2 (n)):*			
Basic net income	¥ 32.12	¥ 316.70	$ 0.28
Cash dividends applicable to the year	12.00	11.00	0.10

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	**2016**	**2017**
Net income	¥ 15,060	¥ 108,742	$ 134,236
Other comprehensive income (loss) ***(Note 16):***			
Unrealized gains (losses) on available-for-sale securities	(7,087)	(2,380)	(63,169)
Deferred gains (losses) on derivatives under hedge accounting	4,121	(2,088)	36,732
Excess of land revaluation	—	239	—
Defined retirement benefit plans	3,241	(5,061)	28,888
Total other comprehensive income (loss)	275	(9,290)	2,451
Comprehensive income	¥ 15,336	¥ 99,452	$ 136,696
Total comprehensive income attributable to:			
Owners of the parent	¥ 14,862	¥ 99,082	$ 132,471
Noncontrolling interests	474	369	4,224

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Changes in Equity

Year ended March 31, 2017

	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)
Purchase of shares of consolidated subsidiaries			2,425		
Cash dividends, ¥12.00 per share				(5,454)	
Net income attributable to owners of the parent				14,602	
Purchase of treasury stock					(0)
Disposal of treasury stock			(0)		0
Reversal of excess of land revaluation				20	
Net change in the year					
Balance at March 31, 2017	463,375	¥ 36,000	¥ 194,112	¥ 335,146	¥ (3,601)

	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
Purchase of shares of consolidated subsidiaries							2,425
Cash dividends, ¥12.00 per share							(5,454)
Net income attributable to owners of the parent							14,602
Purchase of treasury stock							(0)
Disposal of treasury stock							0
Reversal of excess of land revaluation							20
Net change in the year	(7,103)	4,121	(20)	3,241	239	(2,106)	(1,867)
Balance at March 31, 2017	¥ 45,937	¥ (3,580)	¥ 6,088	¥ (3,332)	¥ 45,112	¥ 8,265	¥ 615,035

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, 2017

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 2016	$ 320,884	$ 1,708,583	$ 2,905,579	$ (32,088)
Purchase of shares of consolidated subsidiaries		21,615		
Cash dividends, $0.10 per share			(48,613)	
Net income attributable to owners of the parent			130,154	
Purchase of treasury stock				(0)
Disposal of treasury stock		(0)		0
Reversal of excess of land revaluation			178	
Net change in the year				
Balance at March 31, 2017	$ 320,884	$ 1,730,207	$ 2,987,307	$ (32,097)

	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, 2016	$ 472,778	$ (68,651)	$ 54,452	$ (58,597)	$ 399,973	$ 92,450	$ 5,395,391
Purchase of shares of consolidated subsidiaries							21,615
Cash dividends, $0.10 per share							(48,613)
Net income attributable to owners of the parent							130,154
Purchase of treasury stock							(0)
Disposal of treasury stock							0
Reversal of excess of land revaluation							178
Net change in the year	(63,312)	36,732	(178)	28,888	2,130	(18,771)	(16,641)
Balance at March 31, 2017	$ 409,457	$ (31,910)	$ 54,265	$ (29,699)	$ 402,103	$ 73,669	$ 5,482,083

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Operating activities:			
Income before income taxes	¥ 20,980	¥ 117,976	$ 187,004
Adjustments for:			
Income taxes paid	(14,724)	(10,951)	(131,241)
Depreciation and amortization	8,014	7,475	71,432
Losses on impairment of long-lived assets	487	399	4,340
Gain on negative goodwill	—	(88,487)	—
Gain on step acquisitions	—	(4,222)	—
Increase (decrease) in reserve for possible loan losses	6,128	3,292	54,621
(Increase) decrease in asset for retirement benefits	1,553	(541)	13,842
Increase (decrease) in liability for retirement benefits	(217)	(120)	(1,934)
Increase (decrease) in reserve for repayments for dormant deposits	124	188	1,105
Increase (decrease) in reserve for contingent losses	(120)	(35)	(1,069)
Interest and dividend income	(96,257)	(74,741)	(857,981)
Interest expenses	7,482	6,747	66,690
(Gains) losses on securities	(2,554)	(5,686)	(22,764)
(Gains) losses on money held in trust	(93)	98	(828)
Net (increase) decrease in trading assets	(382)	(162)	(3,404)
Net (increase) decrease in loans and bills discounted	(413,115)	(283,138)	(3,682,280)
Net increase (decrease) in deposits	461,449	16,971	4,113,102
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	129,636	26,037	1,155,504
Net (increase) decrease in due from banks (excluding deposits paid to the Bank of Japan)	212	16,435	1,889
Net (increase) decrease in call loans and others	(644)	8,338	(5,740)
Net increase (decrease) in call money and others	18,873	69,327	168,223
Net increase (decrease) in payables under repurchase agreements	17,525	—	156,208
Net increase (decrease) in borrowing under securities lending transactions	65,687	59,171	585,497
Net (increase) decrease in lease receivables and investment assets	(3,206)	(77)	(28,576)
Interest received	104,182	80,546	928,621
Interest paid	(7,700)	(6,606)	(68,633)
Other	(7,891)	(15,558)	(70,336)
Total adjustments	274,450	(195,300)	2,446,296
Net cash provided by (used in) operating activities	295,430	(77,324)	2,633,300
Investing activities:			
Payments for purchase of securities	(1,213,370)	(534,158)	(10,815,313)
Proceeds from sales of securities	739,566	401,836	6,592,084
Proceeds from redemption of securities	611,108	177,700	5,447,080
Increase in money held in trust	(244)	—	(2,174)
Decrease in money held in trust	542	—	4,831
Payments for purchase of fixed assets	(3,936)	(5,067)	(35,083)
Proceeds from sales of fixed assets	74	257	659
Payments for purchase of intangible assets	(3,250)	(2,617)	(28,968)
Net cash provided by investing activities	130,489	37,950	1,163,107
Financing activities:			
Cash dividends paid	(5,441)	(3,580)	(48,498)
Cash dividends paid to noncontrolling interests	(9)	(0)	(80)
Payments for purchase of treasury stock	(0)	(16)	(0)
Proceeds from sales of treasury stock	0	0	0
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(146)	—	(1,301)
Other	—	(5)	—
Net cash used in financing activities	(5,598)	(3,601)	(49,897)
Foreign currency translation adjustments on cash and cash equivalents	19	15	169
Net increase (decrease) in cash and cash equivalents	420,340	(42,960)	3,746,679
Cash and cash equivalents at beginning of year	320,712	277,075	2,858,650
Increase in cash and cash equivalents due to share transfer	—	86,597	—
Cash and cash equivalents at end of year *(Note 3)*	¥ 741,053	¥ 320,712	$ 6,605,339

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, 2017

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 ¥112.19 to $1.00, the approximate rate of exchange at March 31, 2017. 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, 2017 and 2016 respectively. 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 these companies, the effect on the accompanying consolidated financial statements would not be material.

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

b. Business combinations

Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interests is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interests are adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

c. Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand and due from the Bank of Japan.

d. Foreign currency translation

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

e. Trading assets/liabilities and trading income/expenses

Trading transactions of 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 on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016. The range of useful lives is principally from 19 to 50 years for buildings and from 2 to 20 years for other fixed assets. Tangible fixed assets of other consolidated subsidiaries are principally depreciated using the declining-balance method over the estimated useful lives of the assets.

Amortization of intangible assets owned by the Group is computed using the straight-line method over the estimated useful lives of the assets. Cost of computer software obtained for internal use is amortized over the estimated useful lives of five years.

ii) Land revaluation

Under the "Law of Land Revaluation," the Group elected a one-time revaluation of land for use by Higo Bank to a value based on real estate appraisal information as of March 31, 1999.

The resulting excess of land revaluation represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the excess of land revaluation account and related deferred tax liabilities.

The carrying amount of the land after the above one-time revaluation exceeded the fair value by ¥10,976 million ($97,834 thousand) and ¥11,127 million as of March 31, 2017 and 2016, respectively.

h. Long-lived assets

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

i. Reserve for possible loan losses

Reserve for possible loan losses of the banking consolidated subsidiaries is provided to cover future credit losses in accordance with the internal rules for self-assessment of asset quality.

Reserve for possible loan losses is 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.

j. 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. The projected benefit obligations are attributed to periods on a benefit formula basis.

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

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

k. Reserve for contingent losses

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

l. Reserve for repayments for dormant deposits

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

m. 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.

n. 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 454,515 thousand shares and 342,501 thousand shares for the years ended March 31, 2017 and 2016, respectively.

As the Company was established on October 1, 2015 as a joint holding company through a joint share transfer, the weighted-average number of shares of common stock outstanding for the year ended March 31, 2016 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 years ended March 31, 2017 and 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.

o. 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.

p. 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.

q. Accounting changes

Pursuant to an amendment to the Corporate Tax Act, the Company adopted Accounting Standards Board of Japan (the "ASBJ") Practical Issues Task Force No. 32 "Practical Solution on a change in depreciation method due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method.

The effect of this change on income before income taxes for the year ended March 31, 2017, was immaterial.

r. Additional information

The Company applied ASBJ Guidance No. 26 "Guidance on Recoverability of Deferred Tax Assets" effective April 1, 2016.

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
	2017	2016	2017
Cash and due from banks	¥ 742,960	¥ 322,832	$ 6,622,337
Other due from banks	(1,906)	(2,119)	(16,989)
Cash and cash equivalents	¥ 741,053	¥ 320,712	$ 6,605,339

4. Securities

The costs and aggregate fair values of securities at March 31, 2017 and 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		
	2017		
	Fair value	**Cost**	**Net unrealized gains (losses)**
Securities classified as:			
Trading	¥ 2,001		
Available-for-sale:			
Equity securities	137,889	¥ 104,879	¥ 33,010
Debt securities	1,906,902	1,881,951	24,951
Other	510,087	503,814	6,274
Held-to-maturity:			
Debt securities	13,003	12,940	63

	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		
	2017		
	Fair value	**Cost**	**Net unrealized gains (losses)**
Securities classified as:			
Trading	$ 17,835		
Available-for-sale:			
Equity securities	1,229,066	$ 934,833	$ 294,232
Debt securities	16,997,076	16,774,676	222,399
Other	4,546,635	4,490,721	55,922
Held-to-maturity:			
Debt securities	115,901	115,340	561

Securities included equity investments in unconsolidated subsidiaries and affiliated companies that amounted to ¥2,290 million ($20,411 thousand) and ¥1,206 million as of March 31, 2017 and 2016, respectively.

Securities lending based on noncollateralized special contracts were included in debt securities and amounted to ¥38,875 million ($346,510 thousand) and ¥22,801 million as of March 31, 2017 and 2016, respectively.

The amount of guarantee obligations for private placement bonds, out of bonds included in securities amounted to ¥18,067 million ($161,039 thousand) and ¥15,786 million as of March 31, 2017 and 2016, respectively.

Unlisted equity securities and other securities without readily available market price, amounting to ¥8,783 million ($78,286 thousand) and ¥9,679 million as of March 31, 2017 and 2016, respectively, were not included in the above table.

The information of available-for-sale securities that were sold for the years ended March 31, 2017 and 2016, was as follows:

	Millions of yen		
	2017		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 37,367	¥ 4,708	¥ 1,244
Debt securities	326,917	7,993	4,205
Other	358,119	4,912	8,866
Total	¥ 722,404	¥ 17,614	¥ 14,316

	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		
	2017		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 333,068	$ 41,964	$ 11,088
Debt securities	2,913,958	71,245	37,481
Other	3,192,075	43,782	79,026
Total	$ 6,439,112	$ 157,001	$ 127,604

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

Impairment loss on equity securities for the years ended March 31, 2017 and 2016, was ¥641 million ($5,713 thousand) and ¥61 million, respectively.

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

Net unrealized gains (losses) on available-for-sale securities for the years ended March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Valuation differences:			
Available-for-sale securities	¥ 64,234	¥ 74,753	$ 572,546
Deferred tax liabilities	(18,154)	(21,686)	(161,814)
Noncontrolling interests	(143)	(25)	(1,274)
Unrealized gains (losses) on available-for-sale securities	¥ 45,937	¥ 53,041	$ 409,457

5. Money Held in Trust

The carrying amounts and unrealized gains (losses) of money held in trust as of March 31, 2017 and 2016, were as follows:

Money held in trust held for trading

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Carrying amounts	¥ 18,769	¥ 19,119	$ 167,296
Unrealized gains (losses) credited to income	522	(365)	4,652

6. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2017 and 2016, included the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bankruptcy loans	¥ 3,633	¥ 4,387	$ 32,382
Past-due loans	83,839	74,888	747,294
Loans past due for three months or more	139	588	1,238
Restructured loans	58,521	58,294	521,624
Total	¥ 146,134	¥ 138,159	$ 1,302,558

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 ¥19,791 million ($176,406 thousand) and ¥21,097 million as of March 31, 2017 and 2016, respectively. 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, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings	¥ 29,445	¥ 30,757	$ 262,456
Land	48,519	48,184	432,471
Construction in progress	529	90	4,715
Other	12,120	13,132	108,031
Total	¥ 90,614	¥ 92,164	$ 807,683

Accumulated depreciation as of March 31, 2017 and 2016, amounted to ¥72,511 million ($646,323 thousand) and ¥70,395 million, respectively.

Deferred gains for tax purposes as of March 31, 2017 and 2016, amounted to ¥3,424 million ($30,519 thousand) and ¥3,424 million, respectively.

Intangible assets as of March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Software	¥ 9,418	¥ 9,557	$ 83,946
Other	317	317	2,825
Total	¥ 9,735	¥ 9,875	$ 86,772

8. Assets Pledged

Assets pledged as collateral as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Securities	¥ 874,578	¥ 743,581	$ 7,795,507
Lease receivables and investment assets	1,864	2,792	16,614
Other	133	369	1,185
Total	¥ 876,576	¥ 746,743	$ 7,813,316

Liabilities related to the above assets pledged as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deposits	¥ 72,857	¥ 68,233	$ 649,407
Payables under repurchase agreements	17,525	—	156,208
Borrowing under securities lending transactions	233,891	168,203	2,084,775
Borrowed money	265,069	134,781	2,362,679

In addition, securities totaling ¥142,724 million ($1,272,163 thousand) and ¥145,172 million were pledged as collateral for settlement of exchange, derivatives, and other transactions as of March 31, 2017 and 2016, respectively.

Guarantee deposits amounting to ¥685 million ($6,105 thousand) and ¥670 million, cash collateral for financial instruments amounting to ¥5,921 million ($52,776 thousand) and nil, and deposits to central counterparty of ¥12,551 million ($111,872 thousand) and ¥13,000 million were included in other assets as of March 31, 2017 and 2016, respectively.

9. Commitment Line Agreements Related to Overdrafts and Loans

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

Unused commitment lines under such agreements as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Original maturity is within one year or the Group can cancel at any time without any penalty	¥ 1,420,850	¥ 1,350,671	$ 12,664,675
Other	45,300	39,985	403,779
Total	¥ 1,466,150	¥ 1,390,656	$ 13,068,455

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 years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥ 66,726	¥ 39,120	$ 594,758
Increase due to share transfer	—	24,381	—
Current service cost	1,999	1,479	17,817
Interest cost	227	401	2,023
Actuarial (gains) losses	(1,998)	4,339	(17,809)
Benefits paid	(3,745)	(2,996)	(33,380)
Balance at end of year	¥ 63,209	¥ 66,726	$ 563,410

(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.

Notes to Consolidated Financial Statements

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at beginning of year	¥ 59,651	¥ 31,875	$ 531,696
Increase due to share transfer	—	30,879	—
Expected return on plan assets	1,886	1,783	16,810
Actuarial gains (losses)	506	(3,610)	4,510
Contributions from the employer	1,220	919	10,874
Benefits paid	(2,900)	(2,195)	(25,849)
Partial return of retirement benefit trusts	(676)	—	(6,025)
Balance at end of year	¥ 59,687	¥ 59,651	$ 532,017

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2017 and 2016, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 52,998	¥ 55,970	$ 472,395
Plan assets	(59,687)	(59,651)	(532,017)
Total	(6,689)	(3,681)	(59,622)
Unfunded defined benefit obligation	10,210	10,756	91,006
Net liability arising from defined benefit obligation	¥ 3,521	¥ 7,075	$ 31,384

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Liability for retirement benefits	¥ 10,210	¥ 11,838	$ 91,006
Asset for retirement benefits	(6,689)	(4,763)	(59,622)
Net liability arising from defined benefit obligation	¥ 3,521	¥ 7,075	$ 31,384

(4) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Current service cost	¥ 1,999	¥ 1,479	$ 17,817
Interest cost	227	401	2,023
Expected return on plan assets	(1,886)	(1,783)	(16,810)
Recognized actuarial (gains) losses	2,152	778	19,181
Amortization of prior service cost	—	(49)	—
Extra retirement payments	—	0	—
Net periodic benefit costs	¥ 2,492	¥ 827	$ 22,212

(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 years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Prior service cost	¥ —	¥ (49)	$ —
Actuarial (gains) losses	4,657	(7,171)	41,509
Total	¥ 4,657	¥ (7,220)	$ 41,509

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized prior service cost	¥ —	¥ —	$ —
Unrecognized actuarial (gains) losses	4,788	9,445	42,677
Total	¥ 4,788	¥ 9,445	$ 42,677

(7) Plan assets

(a) Components of plan assets

Plan assets as of March 31, 2017 and 2016, consisted of the following:

	2017	2016
Debt investments	32%	31%
Equity investments	24	22
General account of life insurance companies	37	37
Others	7	10
Total	100%	100%

(Note) Retirement benefit trusts set against the corporate pension plan were included 7% and 8% in the total plan assets for the years ended March 31, 2017 and 2016, respectively.

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

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

(8) Assumptions used for the years ended March 31, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	0.4% or 0.5%	0.3%
Expected rate of return on plan assets:		
Plan assets (excluding the retirement benefit trust)	2.5% or 4.5%	3.5% or 5.0%
Retirement benefit trust	0.5%	1.0%
Expected rate of salary increase	3.8% or 5.9%	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 of the above criteria.

The Companies Act permits companies to distribute dividends in kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act and the Banking Law 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 ¥5,217 million ($46,501 thousand) and ¥5,331 million for the years ended March 31, 2017 and 2016, respectively.

13. Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% and 32.8% for the years ended March 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Reserve for possible loan losses	¥ 19,735	¥ 17,685	$ 175,906
Liability for retirement benefits	3,109	3,604	27,711
Depreciation	1,472	1,423	13,120
Loss on impairment of securities	1,698	1,917	15,135
Losses on impairment of fixed assets	2,557	2,438	22,791
Deferred gains (losses) on derivatives under hedge accounting	1,563	3,364	13,931
Other	2,611	2,942	23,273
Subtotal	32,749	33,376	291,906
Valuation allowance	(4,672)	(4,817)	(41,643)
Deferred tax assets	28,076	28,558	250,254
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(31,374)	(39,175)	(279,650)
Deferred income on fixed assets sold	(396)	(377)	(3,529)
Asset for retirement benefits	(1,191)	(385)	(10,615)
Valuation of assets	(3,478)	(2,766)	(31,000)
Other	(36)	(54)	(320)
Deferred tax liabilities	(36,477)	(42,760)	(325,135)
Net deferred tax liabilities	¥ (8,400)	¥ (14,201)	$ (74,872)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2017 and 2016, was as follows:

	2017	2016
Normal effective statutory tax rate	30.6%	32.8%
Expenses not deductible for income tax purposes	0.7	0.1
Income not taxable for income tax purposes	(1.7)	(0.2)
Valuation allowance	(1.1)	(0.2)
Inhabitant taxes per capita	0.5	0.1
Change in effective statutory tax rate	0.1	0.8
Gain on negative goodwill	—	(24.6)
Gain on step acquisitions	—	(1.2)
Other-net	(0.9)	0.2
Actual effective tax rate	28.2%	7.8%

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, 2017 and 2016, VaR related to interest rate risks was ¥14,000 million ($124,788 thousand) and ¥16,000 million and VaR related to price volatility risks was ¥17,000 million ($151,528 thousand) and ¥18,800 million, respectively.

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, 2017 and 2016, VaR related to interest rate risks was ¥10,500 million ($93,591 thousand) and ¥8,400 million and VaR related to price volatility risks was ¥31,100 million ($277,208 thousand) and ¥38,500 million, respectively.

Both banks perform back-testing to validate VaR periodically. However, VaR measures the amount of market risk by certain occurrence probabilities which are statistically calculated based on past market movements. Therefore, there are cases in which VaR cannot capture risk under sudden and drastic changes in market beyond normal circumstances. The Group does not apply quantitative analysis to certain financial instruments that are small in value and financial instruments held by 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.

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(e) Fair value of financial instruments

Fair values and carrying amounts of financial instruments as of March 31, 2017 and 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		
	2017		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 742,960	¥ 742,960	
(2) Call loans and bills bought	317	317	
(3) Trading assets			
Trading securities	2,001	2,001	
(4) Securities			
Held-to-maturity debt securities	12,940	13,003	¥ 63
Available-for-sale securities	2,554,881	2,554,881	
(5) Loans and bills discounted	6,070,496		
Reserve for possible loan losses (*1)	(63,297)		
	6,007,199	6,050,783	43,583
Total assets	9,320,301	9,363,948	43,647
(1) Deposits	8,282,466	8,283,485	1,019
(2) Call money and bills sold	90,000	90,000	
(3) Payables under repurchase agreements	17,525	17,525	
(4) Borrowing under securities lending transactions	233,891	233,891	
(5) Borrowed money	278,885	278,879	(5)
Total liabilities	8,902,769	8,903,783	1,013
Derivatives (*2)			
For which hedge accounting is not applied	(3,162)	(3,162)	
For which hedge accounting is applied	(5,144)	(5,144)	
Total	¥ (8,307)	¥ (8,307)	

	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) Payables under repurchase agreements			
(4) Borrowing under securities lending transactions	168,203	168,203	
(5) 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		
	2017		
	Carrying amount	**Fair value**	**Net unrealized gains (losses)**
(1) Cash and due from banks	$ 6,622,337	$ 6,622,337	
(2) Call loans and bills bought	2,825	2,825	
(3) Trading assets			
Trading securities	17,835	17,835	
(4) Securities			
Held-to-maturity debt securities	115,340	115,901	$ 561
Available-for-sale securities	22,772,805	22,772,805	
(5) Loans and bills discounted	54,109,064		
Reserve for possible loan losses (*1)	(564,194)		
	53,544,870	53,933,354	388,474
Total assets	83,076,040	83,465,086	389,045
(1) Deposits	73,825,349	73,834,432	9,082
(2) Call money and bills sold	802,210	802,210	
(3) Payables under repurchase agreements	156,208	156,208	
(4) Borrowing under securities lending transactions	2,084,775	2,084,775	
(5) Borrowed money	2,485,827	2,485,774	(44)
Total liabilities	79,354,389	79,363,428	9,029
Derivatives (*2)			
For which hedge accounting is not applied	(28,184)	(28,184)	
For which hedge accounting is applied	(45,850)	(45,850)	
Total	$ (74,044)	$ (74,044)	

(*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 purposes is determined based on their prices quoted by the stock exchanges or their quoted prices obtained from financial institutions.

(4) Securities

The fair value of equity securities is determined mainly based on their prices quoted by the stock exchanges. The fair value of bonds is determined based on their prices quoted by the exchanges or at rates indicated by financial institutions handling these transactions for the Group. The fair value of investment trusts is based on the base value publicly disclosed.

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 purposes, please refer to Note 4.

(5) Loans and bills discounted

As loans bearing floating rates of interest reflect market rates of interest in the short term, unless credit conditions of the lending entity have changed significantly after lending the loans, their fair value and carrying amounts are nearly identical, so their carrying amounts are assumed as their fair value. Fixed-rate loans are segmented by loan type, internal rating and period, and their fair value is determined by discounting the total amount of principal and interest by the interest rate that consists of the swap rate and the credit spread or the assumed interest rate on 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 date (i.e., the carrying amounts). The fair value of time deposits and negotiable certificates of deposit is determined by segmenting such deposits by term and discounting future cash flows to their current value. The discount rate used is the rate of interest on new deposits of the same type. For foreign currency time deposits, as the term is short (within one year) and their fair value and carrying amounts are nearly identical, so their carrying amounts are assumed as their fair value.

(2) Call money and bills sold

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

(3) Payables under repurchase agreements

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

(4) Borrowing under securities lending transactions

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

(5) Borrowed money

As borrowed money bearing floating rates of interest reflects market rates of interest in the short term, the credit conditions of the Group have not changed significantly after lending the loans and their fair value and carrying amounts are nearly identical, their carrying amounts are assumed as their fair value. For those with fixed-rate interest, the fair value is determined by segmenting such borrowed money by term and discounting the total amount of principal and interest by the rate of interest on new borrowings of the same type. As for borrowed money that 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, 2017 and 2016.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted stocks (*1, *2)	¥ 4,039	¥ 4,267	$ 36,001
Investments in partnerships and others (*3)	4,744	5,412	42,285
Total	¥ 8,783	¥ 9,679	$ 78,286

(*1) Fair value of unlisted stocks is exempt from disclosure because they do not have a market price and their fair value cannot be reliably determined.
(*2) The Group wrote off unlisted stocks amounting to ¥16 million ($142 thousand) and ¥5 million for the years ended March 31, 2017 and 2016, respectively.
(*3) Investments in partnerships and others, the assets of which comprise equity securities without a readily available market price, are out of the scope of fair values disclosure because the fair value of those investments cannot be reliably determined.

(Note 3) Maturity analysis for claims and securities with contractual maturities as of March 31, 2017 and 2016

	Millions of yen					
	2017					
	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	¥ 654,511					
Call loans and bills bought	317					
Securities						
Held-to-maturity debt securities	2,779	¥ 5,202	¥ 4,400	¥ 504	¥ 55	
Corporate bonds	2,779	5,202	4,400	504	55	
Available-for-sale securities with maturity	378,974	834,017	334,416	171,397	170,992	¥ 449,627
Japanese government bonds	158,630	497,987	139,353	30,475	23,244	175,326
Municipal government bonds	33,171	78,672	30,587	8,432	28,144	39,119
Short-term corporate bonds	5,000					
Corporate bonds	145,684	189,788	128,942	42,671	11,823	139,846
Loans and bills discounted (*1)	1,492,383	1,037,702	856,408	569,741	652,936	1,373,851
Total	¥ 2,528,966	¥ 1,876,922	¥ 1,195,225	¥ 741,643	¥ 823,983	¥ 1,823,479

	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

Notes to Consolidated Financial Statements

	Thousands of U.S. dollars					
	2017					
	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	$ 5,833,951					
Call loans and bills bought	2,825					
Securities						
Held-to-maturity debt securities	24,770	$ 46,367	$ 39,219	$ 4,492	$ 490	
Corporate bonds	24,770	46,367	39,219	4,492	490	
Available-for-sale securities with maturity	3,377,965	7,433,969	2,980,800	1,527,738	1,524,128	$ 4,007,727
Japanese government bonds	1,413,940	4,438,782	1,242,116	271,637	207,184	1,562,759
Municipal government bonds	295,668	701,238	272,635	75,158	250,860	348,685
Short-term corporate bonds	44,567					
Corporate bonds	1,298,547	1,691,665	1,149,318	380,345	105,383	1,246,510
Loans and bills discounted (*1)	13,302,281	9,249,505	7,633,550	5,078,358	5,819,912	12,245,752
Total	$ 22,541,812	$ 16,729,851	$ 10,653,578	$ 6,610,598	$ 7,344,531	$ 16,253,489

(*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 ¥87,473 million ($779,686 thousand) (¥79,276 million in 2016), is not included in the above table.

(Note 4) Maturity analysis for interest bearing liabilities as of March 31, 2017 and 2016

	Millions of yen					
	2017					
	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)	¥ 8,030,639	¥ 225,897	¥ 21,907	¥ 1,173	¥ 2,847	
Call money and bills sold	90,000					
Payables under repurchase agreements	17,525					
Borrowing under securities lending transactions	233,891					
Borrowed money	239,812	37,097	1,925	40	10	
Total	¥ 8,611,870	¥ 262,995	¥ 23,833	¥ 1,213	¥ 2,857	

	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					
	2017					
	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)	$ 71,580,702	$ 2,013,521	$ 195,266	$ 10,455	$ 25,376	
Call money and bills sold	802,210					
Payables under repurchase agreements	156,208					
Borrowing under securities lending transactions	2,084,775					
Borrowed money	2,137,552	330,662	17,158	356	89	
Total	$ 76,761,476	$ 2,344,192	$ 212,434	$ 10,812	$ 25,465	

(*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, 2017 and 2016

i) Interest rate-related transactions

There were no interest rate-related transactions as of March 31, 2017 and 2016.

ii) Foreign exchange-related transactions

	Millions of yen			
	2017			
	Contractual value or notional principal amount	**Including over one year**	**Fair value**	**Unrealized gains (losses)**
Currency swaps	¥ 13,605	¥ 5,284	¥ 81	¥ (27)
Foreign exchange forward contracts:				
Selling	156,994	2,567	(3,160)	(3,160)
Buying	7,442	299	(83)	(83)

	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			
	2017			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	$ 121,267	$ 47,098	$ 721	$ (240)
Foreign exchange forward contracts:				
Selling	1,399,358	22,880	(28,166)	(28,166)
Buying	66,333	2,665	(739)	(739)

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, 2017 and 2016

i) Interest rate-related transactions

	Millions of yen			
	2017			
	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)	¥ 192,166	¥ 181,732	¥ (5,114)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted	133,178	100,258	(Note 4)

	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)

	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
	Thousands of U.S. dollars			
	2017			
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted Available-for-sale securities (debt securities)	$ 1,712,862	$ 1,619,859	$ (45,583)
Specific matching criteria				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted	1,187,075	893,644	(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

	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
	Millions of yen			
	2017			
Deferred method				
Currency swaps	Loans and bills discounted	¥ 785	¥ 785	¥ (29)

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

	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
	Thousands of U.S. dollars			
	2017			
Deferred method				
Currency swaps	Loans and bills discounted	$ 6,997	$ 6,997	$ (258)

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 years ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrealized gains (losses) on available-for-sale securities:			
Gains (losses) arising during the year	¥ (13,296)	¥ 1,790	$ (118,513)
Reclassification adjustments to profit or loss	2,693	(7,653)	24,003
Amount before income tax effect	(10,603)	(5,862)	(94,509)
Income tax effect	3,516	3,482	31,339
Total	(7,087)	(2,380)	(63,169)
Deferred gains (losses) on derivatives under hedge accounting:			
Gains (losses) arising during the year	4,609	(5,324)	41,082
Reclassification adjustments to profit or loss	1,313	2,546	11,703
Amount before income tax effect	5,922	(2,778)	52,785
Income tax effect	(1,800)	689	(16,044)
Total	4,121	(2,088)	36,732
Excess of land revaluation:			
Income tax effect	—	239	—
Total	—	239	—
Defined retirement benefit plans:			
Gains (losses) arising during the year	2,504	(7,949)	22,319
Reclassification adjustments to profit or loss	2,152	728	19,181
Amount before income tax effect	4,657	(7,220)	41,509
Income tax effect	(1,415)	2,159	(12,612)
Total	3,241	(5,061)	28,888
Total other comprehensive income (loss)	¥ 275	¥ (9,290)	$ 2,451

17. Business Combinations

Year ended March 31, 2017

(Transaction under common control)

Higo Bank and Kagoshima Bank, both of which are consolidated subsidiaries of the Company, acquired shares of Kagoshima Bank's subsidiaries The Kagoshima Guarantee Service Co., Ltd. and The Kyushu Economic Research Institute, Inc. from noncontrolling shareholders.

(a) Outline of the transaction

i) Names of acquired companies and their business outlines

The Kagoshima Guarantee Service Co., Ltd. (credit guarantee business)

The Kyushu Economic Research Institute, Inc. (survey and study of finance and economy, management consulting, etc.)

ii) Date of business combination

January 13, 2017

iii) Legal form of business combination

Share acquisition from noncontrolling shareholders

iv) Name of the company after the business combination

No change

v) Other matters

The two banks acquired some of the common stock issued by the above consolidated subsidiaries from noncontrolling shareholders for the purpose of strengthening group-wide management.

(b) Overview of accounting treatments

The Company accounted for the transaction as a transaction under common control in accordance with ASBJ Statement No. 21 "Accounting Standard for Business Combinations" (issued on September 13, 2013) and ASBJ Guidance No. 10 "Guidance on Accounting Standard for Business Combinations and Business Divestitures" (issued on September 13, 2013).

(c) Matters related to acquisition of additional shares in the subsidiaries

	Millions of yen	Thousands of U.S. dollars
Consideration for acquisition—Cash and due from banks	¥ 146	$ 1,301
Acquisition cost	¥ 146	$ 1,301

(d) Changes in the Company's equity related to transactions with noncontrolling shareholders

i) Main reasons for change in capital surplus

Acquisition of additional shares in subsidiaries

ii) Amount of capital surplus increased due to the transaction with noncontrolling shareholders

¥944 million ($8,414 thousand)

In addition to the above transactions, capital surplus increased by ¥1,480 million ($13,191 thousand) due to other transactions among the consolidated companies.

18. Segment Information

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

(a) Description of reportable segments

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

(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."

Notes to Consolidated Financial Statements

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

	Millions of yen								
	2017								
	Reportable segment								
	Banking								
	Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:									
Ordinary income by external customers	¥ 76,576	¥ 72,617	¥ 149,194	¥ 27,769	¥ 176,964	¥ 3,813	¥ 180,777	¥ (8,560)	¥ 172,216
Intersegment ordinary income	343	304	648	2,354	3,003	3,548	6,551	(6,551)	
Total	¥ 76,920	¥ 72,922	¥ 149,843	¥ 30,124	¥ 179,967	¥ 7,361	¥ 187,329	¥ (15,112)	¥ 172,216
Segment profit	¥ 12,364	¥ 16,160	¥ 28,524	¥ 2,093	¥ 30,618	¥ 1,272	¥ 31,891	¥ (10,358)	¥ 21,532
Segment assets	5,283,113	4,327,352	9,610,465	84,766	9,695,232	24,576	9,719,808	(81,230)	9,638,577
Other:									
Depreciation	4,678	2,833	7,511	139	7,650	261	7,912	102	8,014
Interest income	51,943	48,028	99,971	94	100,066	231	100,297	(4,040)	96,257
Interest expenses	4,860	2,654	7,515	265	7,781	22	7,804	(322)	7,482
Increase in fixed assets and intangible assets	2,879	3,909	6,788	24	6,813	100	6,914	65	6,979

Notes: 1. Ordinary income means total income less certain special income included in other income in the accompanying consolidated statement of income.
2. "Other" consists of other banking-related activities such as credit card operations.
3. Reconciliations include items below.
a. The reconciliations of ordinary income by external customers of ¥(8,560) million ($(76,299) thousand) include reconciliations of ordinary income in accordance with purchase method application of ¥(8,481) million ($(75,594) thousand).
b. The segment profit reconciliations of ¥(10,358) million ($(92,325) thousand) include reconciliations of profit in accordance with purchase method application of ¥(9,681) million ($(86,291) thousand).
c. The interest income reconciliations in "Other" of ¥(4,040) million ($(36,010) thousand) include reconciliations of interest income in accordance with purchase method application of ¥(3,677) million ($(32,774) thousand).
d. Reconciliations of segment assets and interest expenses were eliminations of intersegment transactions. Reconciliations of depreciation and increase in fixed assets and intangible assets were reconciliations in lease investments assets.
4. Segment profit is reflected as an adjustment to ordinary profit in the consolidated statement of income.

	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

Notes: 1. Ordinary income means total income less certain special income included in other income in the accompanying consolidated statement of income.
2. "Other" consists of other banking-related activities such as credit card operations.
3. Reconciliations include items below.
a. The reconciliations of ordinary income by external customers of ¥(7,922) million include reconciliations relating to reclassifications due to consolidation of ¥(1,500) million and reconciliations of ordinary income in accordance with purchase method application of ¥(6,423) million.
b. The segment profit reconciliations of ¥(6,530) million include reconciliations of profit in accordance with purchase method application of ¥(6,462) million.
c. The interest income reconciliations in "Other" of ¥(2,406) million include reconciliations of interest income in accordance with purchase method application of ¥(2,216) million.
d. Reconciliations of segment assets and interest expenses were eliminations of intersegment transactions. Reconciliations of depreciation and increase in fixed assets and intangible assets were reconciliations in lease investments assets.
4. Segment profit is reflected as an adjustment to ordinary profit in the consolidated statement of income.

	Thousands of U.S. dollars								
	2017								
	Reportable segment								
	Banking								
	Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:									
Ordinary income by external customers	$ 682,556	$ 647,268	$ 1,329,833	$ 247,517	$ 1,577,359	$ 33,986	$ 1,611,346	$ (76,299)	$ 1,535,038
Intersegment ordinary income	3,057	2,709	5,775	20,982	26,767	31,624	58,392	(58,392)	
Total	$ 685,622	$ 649,986	$ 1,335,618	$ 268,508	$ 1,604,126	$ 65,611	$ 1,669,747	$ (134,700)	$ 1,535,038
Segment profit	$ 110,205	$ 144,041	$ 254,247	$ 18,655	$ 272,912	$ 11,337	$ 284,258	$ (92,325)	$ 191,924
Segment assets	47,090,765	38,571,637	85,662,403	755,557	86,417,969	219,056	86,637,026	(724,039)	85,912,977
Other:									
Depreciation	41,697	25,251	66,948	1,238	68,187	2,326	70,523	909	71,432
Interest income	462,991	428,095	891,086	837	891,933	2,059	893,992	(36,010)	857,981
Interest expenses	43,319	23,656	66,984	2,362	69,355	196	69,560	(2,870)	66,690
Increase in fixed assets and intangible assets	25,661	34,842	60,504	213	60,727	891	61,627	579	62,206

Related information

(a) Segment information by services

	Millions of yen				
	2017				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	¥ 69,922	¥ 43,914	¥ 27,585	¥ 30,793	¥ 172,216

	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				
	2017				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	$ 623,246	$ 391,425	$ 245,877	$ 274,471	$ 1,535,038

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

For the year ended March 31, 2017
Not applicable

For the year ended March 31, 2016
Gain on negative goodwill was 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.

19. Subsequent Event

Appropriations of Retained Earnings
The following appropriation of retained earnings at March 31, 2017, was approved at the meeting of the Board of Directors held on May 11, 2017:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥6.00 ($0.05) per share	¥ 2,727	$ 24,306

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, 2017, 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, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 21, 2017

Member of
Deloitte Touche Tohmatsu Limited

Non-Consolidated Financial Statements (Unaudited)

The Higo Bank, Ltd.

Non-Consolidated Balance Sheet

March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
ASSETS:			
Cash and due from banks	¥ 566,355	¥ 228,963	$ 5,048,177
Call loans	317	241	2,825
Monetary claims purchased	908	869	8,093
Trading assets	509	749	4,536
Money held in trust	4,855	4,863	43,274
Securities	1,562,774	1,578,080	13,929,708
Loans and bills discounted	3,061,010	2,830,942	27,284,160
Foreign exchange assets	11,732	4,749	104,572
Other assets	28,935	27,643	257,910
Fixed assets	51,759	53,376	461,351
Intangible assets	5,427	5,672	48,373
Prepaid pension cost	3,176	3,849	28,309
Customers' liabilities for acceptances and guarantees	10,298	9,339	91,790
Reserve for possible loan losses	(22,211)	(17,824)	(197,976)
Total assets	¥ 5,285,851	¥ 4,731,515	$ 47,115,170
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits	¥ 4,551,518	¥ 4,256,640	$ 40,569,729
Call money	90,000	1,126	802,210
Payables under repurchase agreements	17,525	—	156,208
Borrowing under securities lending transactions	98,754	67,354	880,238
Trading liabilities	21	44	187
Borrowed money	172,565	42,253	1,538,149
Foreign exchange liabilities	72	69	641
Other liabilities	33,501	28,343	298,609
Reserve for bonuses to directors and audit & supervisory board members	—	91	—
Reserve for retirement benefits	7,867	8,201	70,122
Reserve for repayments for dormant deposits	814	800	7,255
Reserve for contingent losses	268	354	2,388
Deferred tax liabilities	3,566	10,470	31,785
Deferred tax liabilities related to land revaluation	4,547	4,556	40,529
Acceptances and guarantees	10,298	9,339	91,790
Total liabilities	4,991,323	4,429,648	44,489,909
Equity			
Common stock	18,128	18,128	161,583
Capital surplus	8,133	8,133	72,493
Retained earnings	229,930	224,518	2,049,469
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	35,745	52,671	318,611
Deferred gains (losses) on derivatives under hedge accounting	(3,498)	(7,694)	(31,179)
Excess of land revaluation	6,088	6,109	54,265
Total valuation and translation adjustments	38,334	51,086	341,688
Total equity	294,527	301,867	2,625,251
Total liabilities and equity	¥ 5,285,851	¥ 4,731,515	$ 47,115,170

The Higo Bank, Ltd.

Non-Consolidated Statement of Income

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Income:			
Interest income:			
Interest on loans and discounts	¥ 33,275	¥ 34,801	$ 296,595
Interest and dividends on securities	18,400	17,555	164,007
Other interest income	267	563	2,379
Fees and commissions income	10,845	11,630	96,666
Trading income	127	20	1,132
Other operating income	9,883	3,865	88,091
Gain on disposal of fixed assets	9	50	80
Other income	4,121	8,209	36,732
Total income	76,929	76,697	685,702
Expenses:			
Interest expenses:			
Interest on deposits	950	1,759	8,467
Other interest expenses	3,910	3,712	34,851
Fees and commissions expenses	4,544	4,409	40,502
Other operating expenses	9,124	3,147	81,326
General and administrative expenses	40,512	40,652	361,101
Provision for possible loan losses	4,525	—	40,333
Losses on disposal of fixed assets	16	7	142
Losses on impairment of long-lived assets	—	399	—
Other expenses	989	1,546	8,815
Total expenses	64,572	55,633	575,559
Income before income taxes	12,356	21,064	110,134
Income taxes:			
Current	4,930	5,718	43,943
Deferred	(1,333)	1,367	(11,881)
Total income taxes	3,597	7,086	32,061
Net income	¥ 8,759	¥ 13,977	$ 78,072

The Higo Bank, Ltd.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2017 and 2016

	Millions of yen			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 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 April 1, 2016	¥ 18,128	¥ 8,133	¥ 224,518	¥ —
Cash dividends			(3,368)	
Net income			8,759	
Reversal of excess of land revaluation			20	
Net change in the year				
Balance at March 31, 2017	¥ 18,128	¥ 8,133	¥ 229,930	¥ —

	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, 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 April 1, 2016	¥ 52,671	¥ (7,694)	¥ 6,109	¥ 51,086	¥ 301,867
Cash dividends					(3,368)
Net income					8,759
Reversal of excess of land revaluation					20
Net change in the year	(16,926)	4,195	(20)	(12,751)	(12,751)
Balance at March 31, 2017	¥ 35,745	¥ (3,498)	¥ 6,088	¥ 38,334	¥ 294,527

The Higo Bank, Ltd.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2017 and 2016

	Thousands of U.S. dollars			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 2016	$ 161,583	$ 72,493	$ 2,001,230	$ —
Cash dividends			(30,020)	
Net income			78,072	
Reversal of excess of land revaluation			178	
Net change in the year				
Balance at March 31, 2017	$ 161,583	$ 72,493	$ 2,049,469	$ —

	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, 2016	$ 469,480	$ (68,580)	$ 54,452	$ 455,352	$ 2,690,676
Cash dividends					(30,020)
Net income					78,072
Reversal of excess of land revaluation					178
Net change in the year	(150,869)	37,391	(178)	(113,655)	(113,655)
Balance at March 31, 2017	$ 318,611	$ (31,179)	$ 54,265	$ 341,688	$ 2,625,251

Non-Consolidated Financial Statements (Unaudited)

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Balance Sheet

March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	**2016**	**2017**
ASSETS:			
Cash and due from banks	¥ 176,282	¥ 93,535	$ 1,571,280
Monetary claims purchased	9,043	8,495	80,604
Trading securities	1,515	920	13,503
Money held in trust	13,913	14,255	124,012
Securities	1,017,102	1,151,148	9,065,888
Loans and bills discounted	3,050,166	2,864,390	27,187,503
Foreign exchange assets	6,767	2,228	60,317
Other assets	6,359	8,723	56,680
Fixed assets	54,673	54,423	487,325
Intangible assets	3,692	3,495	32,908
Prepaid pension cost	9,037	9,918	80,550
Customers' liabilities for acceptances and guarantees	23,595	24,969	210,312
Reserve for possible loan losses	(42,014)	(40,160)	(374,489)
Total assets	¥ 4,330,136	¥ 4,196,343	$ 38,596,452
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits	¥ 3,746,091	¥ 3,580,699	$ 33,390,596
Call money	—	70,000	—
Borrowing under securities lending transactions	135,136	100,848	1,204,528
Borrowed money	91,137	90,129	812,345
Foreign exchange liabilities	25	32	222
Other liabilities	14,725	16,314	131,250
Reserve for retirement benefits	1,796	1,697	16,008
Reserve for repayments for dormant deposits	902	791	8,039
Reserve for contingent losses	223	257	1,987
Deferred tax liabilities	3,761	4,895	33,523
Deferred tax liabilities related to land revaluation	6,950	6,971	61,948
Acceptances and guarantees	23,595	24,969	210,312
Total liabilities	4,024,344	3,897,606	35,870,790
Equity			
Common stock	18,130	18,130	161,600
Capital surplus	11,204	11,204	99,866
Retained earnings	222,553	215,064	1,983,715
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	38,931	39,244	347,009
Deferred gains (losses) on derivatives under hedge accounting	(81)	(8)	(721)
Excess of land revaluation	15,053	15,101	134,174
Total valuation and translation adjustments	53,902	54,337	480,452
Total equity	305,791	298,736	2,725,652
Total liabilities and equity	¥ 4,330,136	¥ 4,196,343	$ 38,596,452

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Income

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	**2016**	**2017**
Income:			
Interest income:			
Interest on loans and discounts	¥ 36,597	¥ 36,894	$ 326,205
Interest and dividends on securities	11,302	11,290	100,739
Other interest income	127	198	1,132
Fees and commissions income	10,927	11,239	97,397
Other operating income	3,785	1,170	33,737
Gain on disposal of fixed assets	0	0	0
Other income	10,181	10,244	90,747
Total income	72,922	71,039	649,986
Expenses:			
Interest expenses:			
Interest on deposits	819	1,341	7,300
Other interest expenses	1,831	1,050	16,320
Fees and commissions expenses	4,814	3,926	42,909
Other operating expenses	5,781	557	51,528
General and administrative expenses	35,934	36,170	320,295
Provision for possible loan losses	5,583	8,411	49,763
Losses on disposal of fixed assets	58	87	516
Losses on impairment of long-lived assets	549	—	4,893
Other expenses	1,993	1,717	17,764
Total expenses	57,370	53,261	511,364
Income before income taxes	15,553	17,778	138,630
Income taxes:			
Current	5,424	7,872	48,346
Deferred	(713)	(1,641)	(6,355)
Total income taxes	4,710	6,230	41,982
Net income	¥ 10,842	¥ 11,547	$ 96,639

Non-Consolidated Financial Statements (Unaudited)

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2017 and 2016

	Millions of yen			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 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 April 1, 2016	¥ 18,130	¥ 11,204	¥ 215,064	¥ —
Cash dividends			(3,401)	
Net income			10,842	
Reversal of excess of land revaluation			47	
Net change in the year				
Balance at March 31, 2017	¥ 18,130	¥ 11,204	¥ 222,553	¥ —

	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, 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 April 1, 2016	¥ 39,244	¥ (8)	¥ 15,101	¥ 54,337	¥ 298,736
Cash dividends					(3,401)
Net income					10,842
Reversal of excess of land revaluation					47
Net change in the year	(313)	(73)	(47)	(434)	(434)
Balance at March 31, 2017	¥ 38,931	¥ (81)	¥ 15,053	¥ 53,902	¥ 305,791

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Changes in Equity

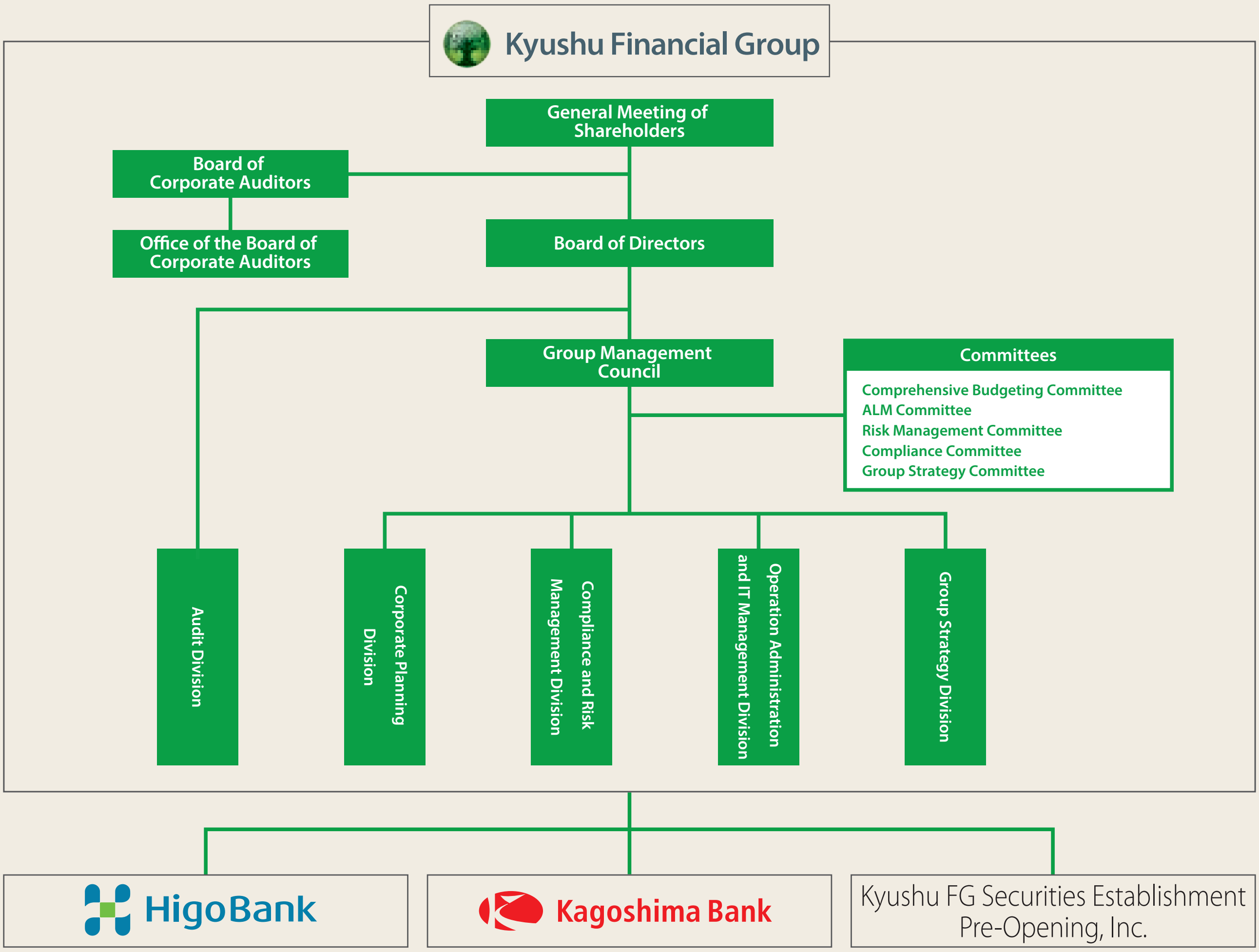
Years ended March 31, 2017 and 2016

	Thousands of U.S. dollars			
	Common stock	Capital surplus	Retained earnings	Treasury Stock
Balance at April 1, 2016	$ 161,600	$ 99,866	$ 1,916,962	$ —
Cash dividends			(30,314)	
Net income			96,639	
Reversal of excess of land revaluation			418	
Net change in the year				
Balance at March 31, 2017	$ 161,600	$ 99,866	$ 1,983,715	$ —

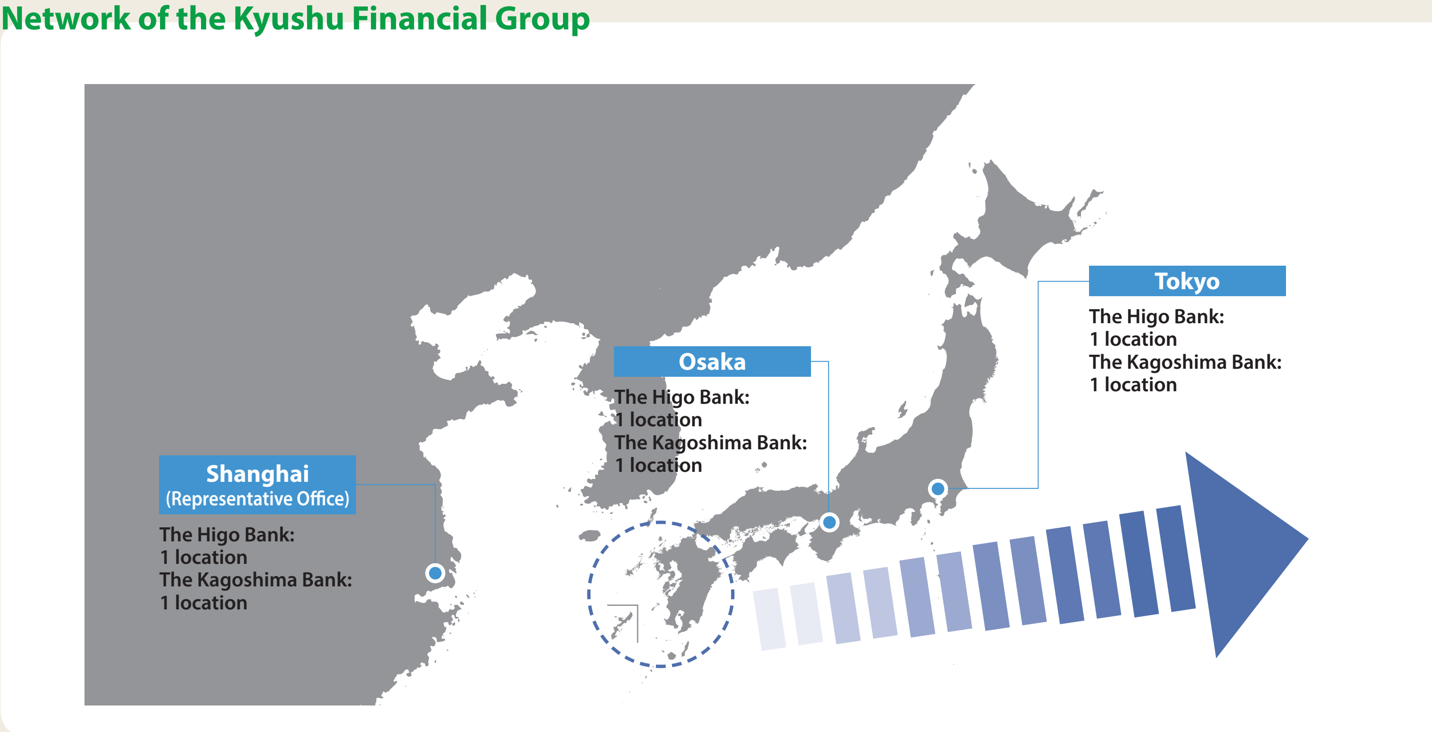
	Thousands of U.S. dollars				
	Valuation and translation adjustments				
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
Balance at April 1, 2016	$ 349,799	$ (71)	$ 134,602	$ 484,330	$ 2,662,768
Cash dividends					(30,314)
Net income					96,639
Reversal of excess of land revaluation					418
Net change in the year	(2,789)	(650)	(418)	(3,868)	(3,868)
Balance at March 31, 2017	$ 347,009	$ (721)	$ 134,174	$ 480,452	$ 2,725,652

Corporate Data

Organizational Chart (As of June 1, 2017)



Network of the Kyushu Financial Group



(As of the end of March 2017)

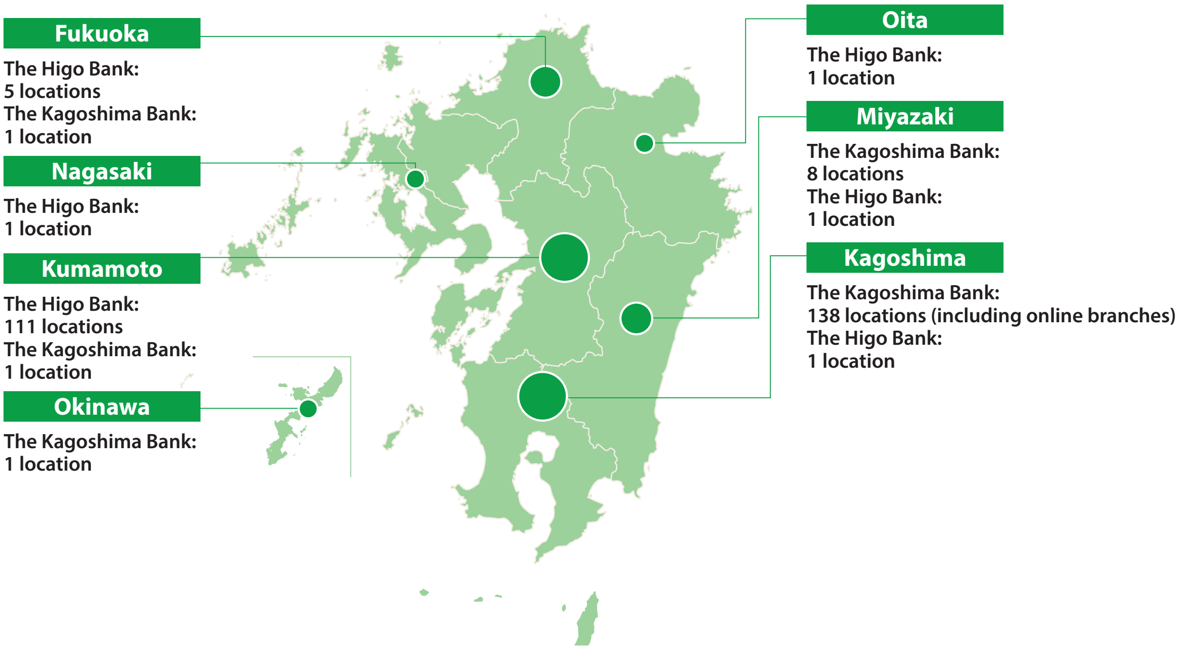
Total Number of Shares

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	4.60
Meiji Yasuda Life Insurance Co.	18,568	4.08
The Bank of Fukuoka, Ltd.	12,620	2.77
Japan Trustee & Services Bank, Ltd. (Trust account)	11,968	2.63
Mizuho Bank, Ltd.	9,521	2.09
The Master Trust Bank of Japan, Ltd. (Trust account)	8,307	1.82
Takara Kogyo Co., Ltd.	8,258	1.81
Kagoshima Bank Employees' Shareholding Association	7,732	1.70
Iwasaki Sangyo Co., Ltd.	7,616	1.67
Nippon Life Insurance Company	7,361	1.61

(Note 1) Number of shares is rounded down to the nearest thousand.
(Note 2) Equity stake is calculated by subtracting treasury stock (8,861,112 shares) from the total number of issued shares and rounded down to the second decimal place.



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