Annual Report 2018

CREATING A PROSPEROUS FUTURE TOGETHER WITH KYUSHU

Kyushu Financial Group

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
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):	633,548 billion yen
Total assets (consolidated):	10,084,039 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:	2,277

The Kagoshima Bank, Ltd.

Established:	October 6, 1879
Capital:	18,130 billion yen
Head Office:	6-6, Kinseicho, Kagoshima-shi
Number of Branches:	151 (114 main branch and branches, 11 subbranches, 25 agencies, 1 overseas representative office)
Number of Employees:	2,186

Kyushu FG Securities, Inc.

Established:	June 1, 2017
Capital:	3.0 billion yen
Head Office:	1-13-5 Koyamachi, Chuo-ku, Kumamoto-shi
Number of Branches:	4 (4 main branch and branches)
Number of Employees:	60

Long-term Ratings

	Rating and Investment Information, Inc.	S&P Global Ratings Japan Inc.
Kyushu FG	A+	
HigoBank	A+	A-
Kagoshima Bank	A+	A-

(As of the end of March 2018)

Contents

Disclaimer regarding forward-looking statements

This Annual Report contains certain forward-looking statements, including estimates, forecasts, targets and plans. Such forward-looking statements are based on the information available and the assumptions deemed reasonable by management at the time of publication of the Annual Report, and do not represent any guarantee by management of future performance. We are under no obligation, and disclaim any obligation, to update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

Message from the Management

The "Integration Stage": Maximizing group synergy based on the management foundation built in the Collaboration Stage.

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 second anniversary in October 2017. Once again, we would like to extend our sincere gratitude to you all for your support.

During FY2017, Japan's economy continued on a recovery trend, buoyed by the moderate growth of the global economy. However, the financial and economic environment surrounding regional banks continued to be harsh, due to declining populations, prolonged low interest rates and other factors.

Under these circumstances, the Kyushu Financial Group established the Group's 1st Medium-Term Management Plan (Collaboration Stage: October 2015 to March 2018) with the vision to "become Kyushu's top comprehensive financial group for customers," and has steadily created synergy effects in order to "establish a management foundation to provide optimal and best services to customers."

From this fiscal year, we began the Group's 2nd Medium-Term Management Plan, which we position as the Integration Stage. We aim to evolve into a Group that co-creates regional vitality to create a vigorous regional society and economy in partnership with customers and local regions, by speedily integrating the Group and maximizing group synergy.

The Group remains united in its commitment to supporting the "creative reconstruction" of our hometown, Kumamoto, which suffered massive damage in the Kumamoto Earthquake.

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

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.

The Group's 2nd Medium-Term Management Plan

In establishing the Group's 2nd Medium-Term Management Plan, the Group identified the following as management challenges, from the perspective of the external environment, internal environment, and reflections on the Group's 1st Medium-Term Management Plan: "contributing to local revitalization," "enhancing comprehensive financial capability," "enhancing Group governance," and "enhancing human resource development." In order to resolve these issues, we will create new value on the social axis in addition to the conventional axes of growth, profitability, and financial soundness.

We have positioned the current Medium-Term Management Plan as a period for maximizing Group synergy (the Integration Stage), combining the synergy from collaboration which we have developed in the Group with the synergy from integration, toward achieving the goal to "become Kyushu's top comprehensive financial group for customers" based on the management foundation built in the Group's 1st Medium-Term Management Plan (the Collaboration Stage).

We will work creatively and responsibly as a Group that co-creates regional vitality to achieve a vigorous regional society and economy together with customers and local regions, by further enhancing our main business of regional comprehensive financial functions (financial

External environment

Regional structural issues
Population outflow, low birthrate, aging population
Shrinkage of regional industry
Outflow of inheritance deposits from the region

Prolonged negative interest rates

Rapid technological innovation and accelerated implementation

Increasing geopolitical risk

Management challenges of the Group

Local revitalization

Comprehensive financial capability
- Enhancing profitability
- Enhancing added value
- Technological innovation
- Improving productivity

Group governance

Human resource development

Internal environment/reflection on the 1st Medium-Term Management Plan

Profitability/efficiency

Response to technological innovation

Consultation/solution capabilities

Improving productivity (optimal allocation of resources)

Penetration of Kyushu FG brand

Enhancing human resource development

The

on the

Basic policy **Maximizing group**

Basic strategy

1 Evolution into a Group that co-creates regional vitality

2 Strengthening of Group's human resources

3 Raise the level of Group governance

initiatives) as well as enhancing our regional industry development function (non-financial initiatives), with a basic policy of "maximize group synergy toward providing optimal and best services to customers," and basic strategies of "evolution into a Group that co-creates regional vitality," "strengthening of Group's human resources," and "raising the level of Group governance."

We will also harness these efforts for the continuous growth of the Group, by such means as raising the level of Group governance and working to improve productivity, as well as enhancing the Group's human resource capabilities, constructing a framework for the optimal allocation of the Group's management resources (people, things, money, time, and information), and prioritizing the allocation of resources toward strengthening customer relationships and diversifying our business domains.

"Integration Stage": Maximizing group synergy based management foundation built in the Collaboration Stage.

synergy toward providing optimal and best services to customers

Strategic pillars

1. Enhancement of regional comprehensive financial functions
2. Demonstration of function of promoting regional industry

1. Enhancement of human resources management
2. Enhancement of human resources development

1. Enhancement of business management structure
2. Improvement of productivity

Numerical targets

	Item	Target for final year	Reference
Growth	Average balance of loans	¥7.6 trillion	Simple sum of two banks
	Average balance of deposits/NCD	¥9.2 trillion	
Profitability	Net income	¥25,000 million	Consolidated
	Business profits from services provided to customers*	¥14,000 million	
	Return on shareholders' equity	4% level	
Efficiency	OHR	Under 70%	
Financial soundness	Capital adequacy ratio	10% or higher	

* Business profits from services provided to customers:
Average balance of loans x interest margin for loans and deposits + fees and commissions - expenses

Financial Highlights

Kyushu Financial Group

(Millions of yen)

Item	Year ended March 31, 2018	Year-to-year change	Year ended March 31, 2017
Ordinary income	**164,696**	(7,520)	172,216
Ordinary profit	**29,381**	7,848	21,532
Net income attributable to owners of the parent	**19,395**	4,793	14,602
Capital adequacy ratio	**11.77%**	(0.61%)	12.38%

HigoBank

(Millions of yen)

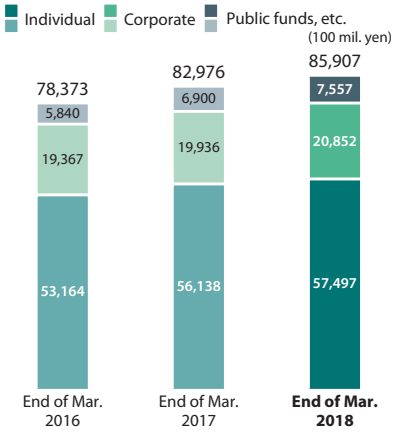
Item	Year ended March 31, 2018	Year-to-year change	Year ended March 31, 2017
Ordinary income	**70,428**	(6,491)	76,920
Gross income from business	**52,203**	(2,069)	54,273
Expenses	**37,186**	(2,196)	39,383
Net income from core business	**14,720**	1,849	12,870
Net income from business	**16,173**	690	15,483
Ordinary profit	**17,971**	5,606	12,364
Net income	**12,311**	3,552	8,759

Kagoshima Bank

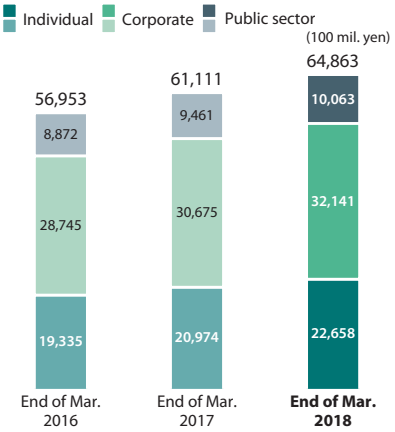
(Millions of yen)

Item	Year ended March 31, 2018	Year-to-year change	Year ended March 31, 2017
Ordinary income	**66,742**	(6,179)	72,922
Gross income from business	**46,920**	(2,575)	49,495
Expenses	**33,858**	(804)	34,663
Net income from core business	**17,060**	115	16,944
Net income from business	**16,793**	4,029	12,763
Ordinary profit	**15,711**	(449)	16,160
Net income	**10,991**	148	10,842

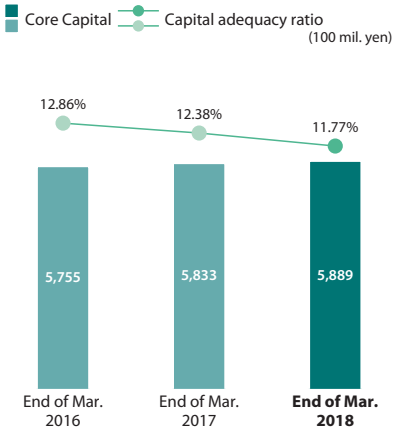
Deposits
(Non-consolidated total of the two Banks)



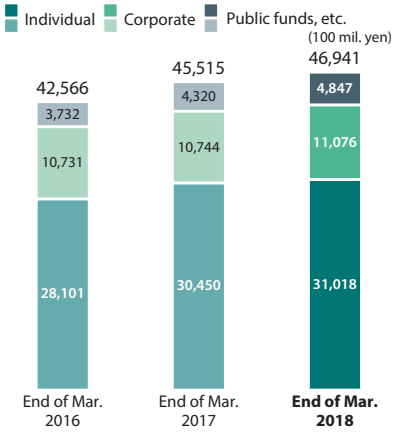
Loans
(Non-consolidated total of the two Banks)



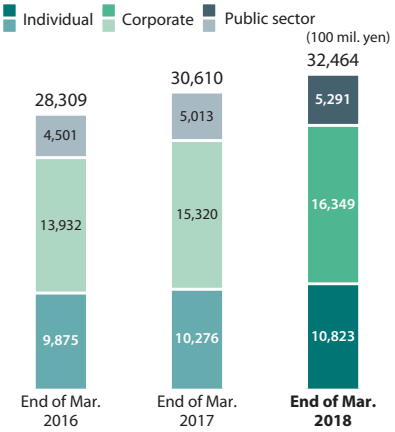
Capital Adequacy Ratio
(KFG Consolidated)



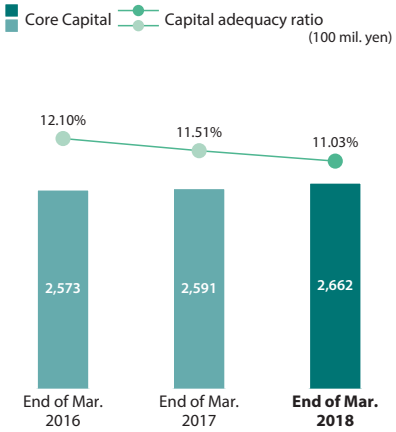
Deposits
(Higo Bank)



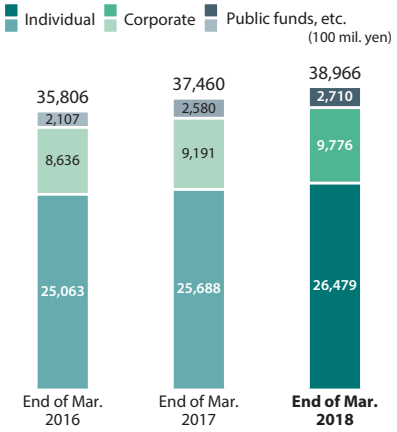
Loans
(Higo Bank)



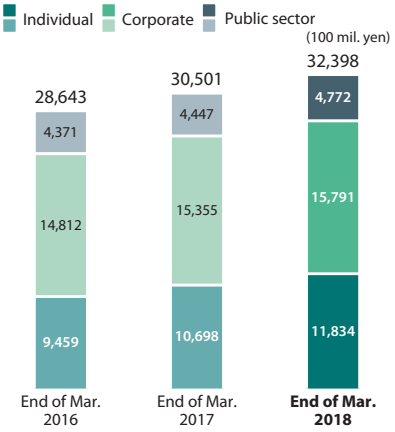
Capital Adequacy Ratio
(Higo Bank)



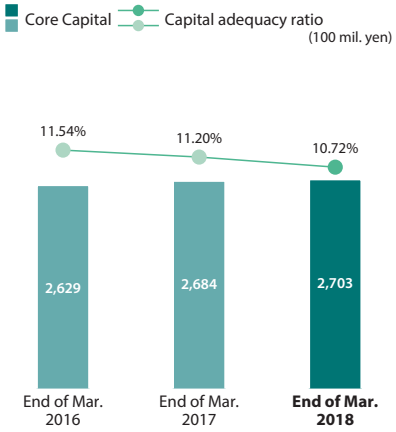
Deposits
(Kagoshima Bank)



Loans
(Kagoshima Bank)



Capital Adequacy Ratio
(Kagoshima Bank)



Achieving Sustainable Growth
~Together with our customers and the region~

The Kyushu Financial Group works to solve various issues concerning customers and the region from environmental, social, and governance perspectives, in order to contribute to the sustainable development of regional society and economy and increase corporate value through these initiatives.

Environment

Customer and regional issues

Regional structural issues

Population outflow

Low birthrate, aging population

Shrinkage of regional industry

Group Management Philosophy

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.

Environment

- Environment-related financing
- Signed "National Park Official Partnership" agreement with the Ministry of the Environment
- Environmental conservation activities

Regional society and economy

- Joint establishment and investment in regional funds
- Promotion of regional tourism

Regional society

Initiatives for resolution

Human resource development

- Initiatives to empower women
- Establishment of Higin Business Education Co., Ltd.
- Implementation of internship for "Kagoshima Bank Regional Revitalization Project"
- Partnerships with eight high schools in Kagoshima Prefecture

Raising the level of Group governance

- Enhancement of business management structure
- Improvement of productivity

Vision

Become Kyushu's top comprehensive financial group for customers

Governance

Environment Passing on a beautiful environment to future generations

Environment-related financing

We offer a variety of financing programs and loans to support customers committed to environmentally responsible business management.

Signed "National Park Official Partner" agreement with the Ministry of the Environment

We signed a "National Park Official Partner" agreement with the Ministry of the Environment to introduce the beautiful scenery and appeal of Japan's national parks to the world, and to vitalize regions where national parks are located.

We will carry out initiatives to promote tourism at two of the national park areas located in our homeland, out of the eight national parks designated by the Ministry of the Environment's "Project to Fully Enjoy National Parks."

- Aso Kuju National Park
- Kirishima-Kinkowan National Park

Environmental conservation activities

Since 2001, Higo Bank has been planting trees to conserve and develop watershed protection forests, and since 2 0 1 1, it has been planting and harvesting rice using fallow rice paddies as part of a rice-paddy flooding project.

Kagoshima Bank works to protect the environment through tree-planting activities, participating in the Kyushu Forest Day Tree-planting Festival each year since FY2012.

Rice planting as part of rice-paddy flooding project

Kyushu Forest Day Tree-planting Festival

Regional society and economy Aiming for a vigorous regional society and economy

Joint establishment and investment in regional funds

We jointly establish and invest in funds with the goal of resolving various issues facing local regions, and supporting the recovery and restoration of companies affected by the Kumamoto Earthquake.

Recipient of financing from KFG Agri-Fund
Haru Ichiban Co., Ltd.

Results FY2017
Invested a total of 4.5 billion yen in 28 funds

- Higo/Kagoshima Regional Vitalization Fund
- KFG Regional Enterprise Support Fund
- KFG Agri-Fund
- Kumamoto Recovery Support Fund
- Kumamoto Mirai Sosei Fund

Recipient of financing from Higo/Kagoshima Regional Vitalization Fund
Kappo ro ann (Hong Kong)

Promotion of regional tourism

We enhanced tourism promotion in Kumamoto and Kagoshima Prefectures, promoted the use of regular international flights, and attracted tourists using Japan tourism information sites and KUMAMOTO DMC Co., Ltd., based on the "Agreement on Promoting Local Tourism" signed with both prefectures.

The signing of partnership agreements to expand sales channels of Kagoshima products and promote tourism

A Kumamoto PR project at ro ann, an antenna shop in Hong Kong

Human resource development Leveraging diverse characters

Initiatives to empower women

We actively work on such initiatives as "support for balancing work with child care and nursing care," "training for career development," and "work-style reform."

Numbers of female managers and executives (as of March 31, 2018)

	Higo Bank	Kagoshima Bank
Managers	25	11
Executives	151	175

See the following pages for details.
- https://www.kyushu-fg.co.jp/english/csr/index.html

Management

Chairman and Representative Director
Takahiro Kai

(Chairman of The Higo Bank, Ltd.)

President and Representative Director
Motohiro Kamimura

(President of The Kagoshima Bank, Ltd.)

Director and Senior Managing Executive Officer
Tsuyoshi Mogami

(Director of Kyushu FG Securities, Inc.)

Director and Senior Managing Executive Officer
Tsutomu Nakamura

(Director of Kyushu FG Securities, Inc.)

Director
Yoshihisa Kasahara

(President of The Higo Bank, Ltd.)

Director
Akihisa Koriyama

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

Director, Executive Officer and General Manager of Corporate Planning Division
Toru Hayashida

Director, Executive Officer and General Manager of Group Strategy Department
Tsukasa Tsuruta

Director (Outside)
Katsuaki Watanabe

(Corporate Auditor of Sumitomo Electric Industries, Ltd.)

Director (Outside)
Yuji Nemoto

(Professor of Toyo University)

Corporate Auditor
Yuichi Tanabe

(Corporate Auditor of The Higo Bank, Ltd.)

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 Yuji Nemoto 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 26, 2018)

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.

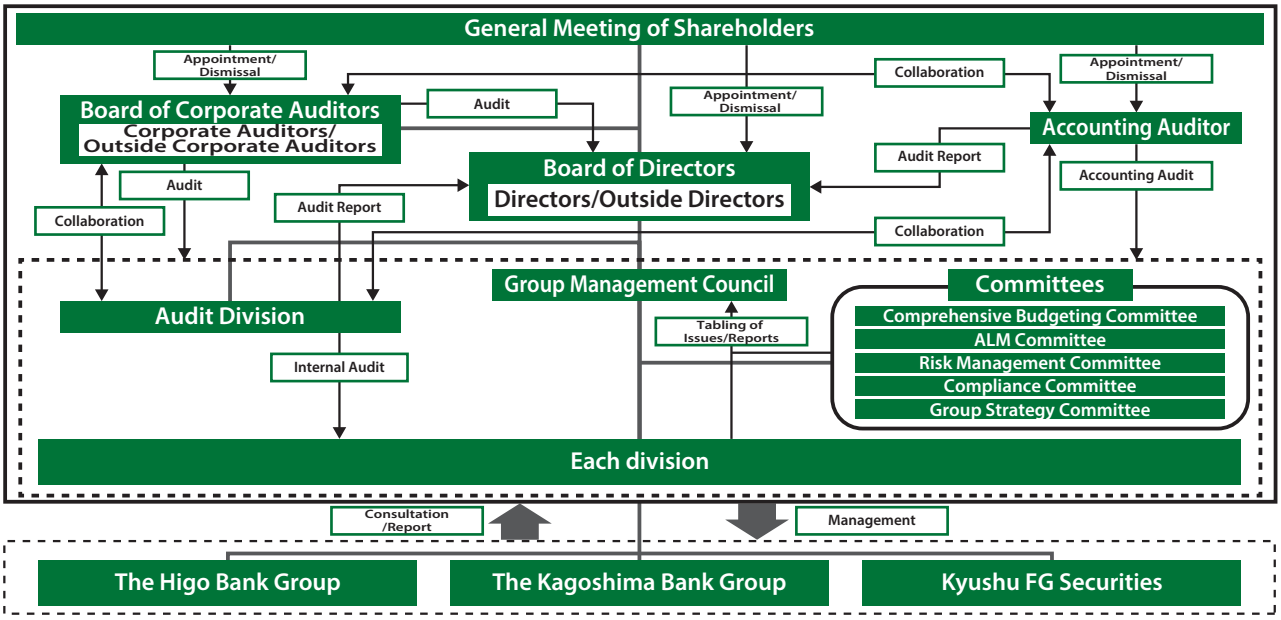
(ALM Committee)
This Committee meets to discuss the management and policies regarding integrated risks, credit risks, market risks, liquidity risks, etc., and issues regarding the revenue management, investments and financing for the entire Group.

(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.

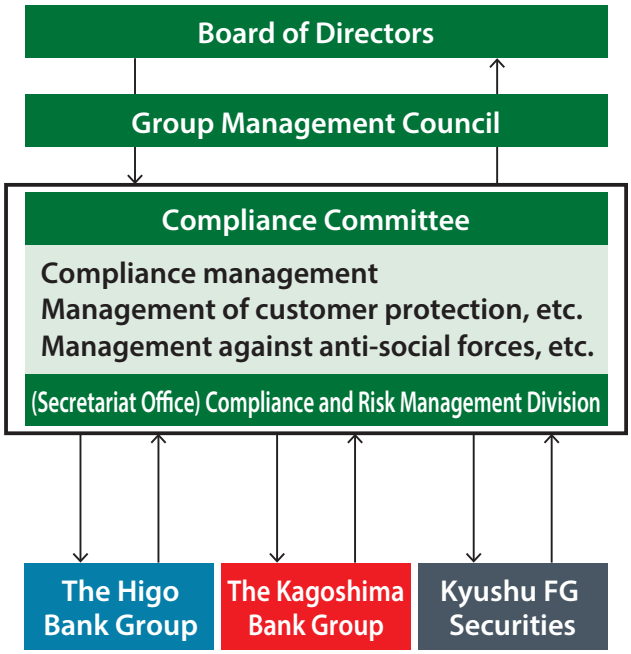
1. We recognize our social responsibilities and public mission, and we earn the trust of society through the sound and appropriate operation of our business.
2. We adhere to laws and regulations, rules and internal regulations, and we carry out sincere and fair corporate activities based on social norms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

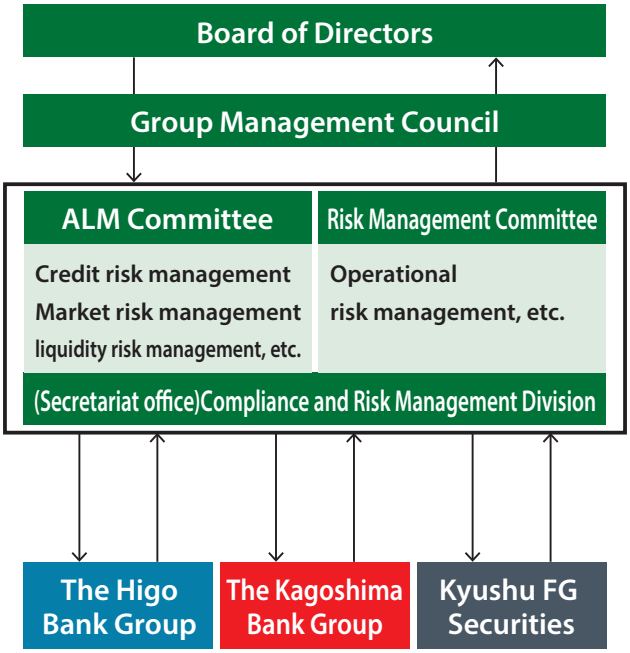
1. Any inappropriate demands by anti-social forces shall be met with a legal response, both civilly and criminally, by the entire organization.
2. Close relations shall be built from peacetime with outside specialist organizations, such as police and lawyers, etc., to prepare a response against anti-social 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.

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.

Review of Financial Results

Operating Results

Regarding operating results for the current consolidated fiscal year, ordinary income decreased 7,520 million yen from the previous consolidated fiscal year to 164,696 million yen due to a decrease in other operating income and other factors resulting from a decrease in gains on sales of securities including Japanese government bonds.

On the other hand, ordinary expenses decreased 15,368 million yen from the previous consolidated fiscal year to 135,315 million yen due to a decrease in other operating expenses and other factors resulting from a decrease in provision for possible loan losses.

As a result, ordinary profit increased 7,848 million yen from the previous consolidated fiscal year to 29,381 million yen. Meanwhile, net income attributable to owners of parent increased 4,793 million yen from the previous consolidated fiscal year to 19,395 million yen.

Results by business segments are as follows.

a. Banking business

Ordinary income decreased 12,671 million yen from the previous consolidated fiscal year to 137,171 million yen, and segment profit increased 5,157 million yen from the previous consolidated fiscal year to 33,682 million yen.

b. Leasing business

Ordinary income increased 1,800 million yen from the previous consolidated fiscal year to 31,924 million yen, and segment profit decreased 666 million yen from the previous consolidated fiscal year to 1,427 million yen.

c. Others

Ordinary income increased 418 million yen from the previous consolidated fiscal year to 7,780 million yen, and segment profit decreased 627 million yen from the previous consolidated fiscal year to 645 million yen.

Status of Cash Flows

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

Net cash used in operating activities amounted to 65,602 million yen, down 361,033 million yen from the previous consolidated fiscal year, due to a decrease in negotiable certificates of deposits and other factors.

Net cash provided by investing activities amounted to 253,711 million yen, up 123,222 million yen from the previous consolidated fiscal year, due a decrease of 389,140 million yen from the previous consolidated fiscal year in payments for purchase of securities and other factors.

Net cash used in financing activities amounted to 5,458 million yen, up 139 million yen from the previous consolidated fiscal year, as there were no payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation (146 million yen paid in the previous consolidated fiscal year).

As a result of the above, the balance of cash and cash equivalents at the end of the current consolidated fiscal year increased 182,651 million yen from the end of the previous consolidated fiscal year to 923,705 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 445,462 million yen from the end of the previous consolidated fiscal year to 10,084,039 million yen, and total equity increased 18,513 million yen from the end of the previous consolidated fiscal year to 633,548 million yen.

Regarding the balances of primary accounting items, the balance of deposits increased 290,527 million yen from the end of the previous consolidated fiscal year to 8,572,993 million yen.

The balance of loans and bills discounted increased 375,703 million yen from the end of the previous consolidated fiscal year to 6,446,199 million yen.

The balance of securities decreased 272,455 million yen from the end of the previous consolidated fiscal year to 2,304,151 million yen.

2) Operating results

Regarding operating results for the current consolidated fiscal year, ordinary income decreased 7,520 million yen from the previous consolidated fiscal year to 164,696 million yen due to a decrease in other operating income and other factors resulting from a decrease in gains on sales of securities including Japanese government bonds.

On the other hand, ordinary expenses decreased 15,368 million yen from the previous consolidated fiscal year to 135,315 million yen due to a decrease in other operating expenses and other factors resulting from a decrease in provision for possible loan losses.

As a result, ordinary profit increased 7,848 million yen from the previous consolidated fiscal year to 29,381 million yen. Meanwhile, net income attributable to owners of parent increased 4,793 million yen from the previous consolidated fiscal year to 19,395 million yen.

Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	**2017**	**2018**
ASSETS:			
Cash and due from banks *(Notes 3 and 14)*	¥ 926,404	¥ 742,960	$ 8,719,917
Call loans and bills bought *(Note 14)*	41,184	317	387,650
Monetary claims purchased	10,505	10,503	98,879
Trading assets *(Notes 4 and 14)*	3,426	2,025	32,247
Money held in trust *(Note 5)*	17,955	18,769	169,004
Securities *(Notes 4, 8, and 14)*	2,304,151	2,576,606	21,688,168
Loans and bills discounted *(Notes 6, 9, and 14)*	6,446,199	6,070,496	60,675,818
Foreign exchange assets	14,387	18,499	135,419
Lease receivables and investment assets *(Note 8)*	51,338	49,211	483,226
Other assets *(Note 8)*	190,602	73,565	1,794,070
Fixed assets *(Note 7)*	92,647	90,614	872,053
Intangible assets *(Note 7)*	9,746	9,735	91,735
Asset for retirement benefits *(Note 10)*	6,152	6,689	57,906
Deferred tax assets *(Note 13)*	1,091	878	10,269
Customers' liabilities for acceptances and guarantees	34,335	34,376	323,183
Reserve for possible loan losses *(Note 14)*	(66,089)	(66,673)	(622,072)
Total assets	¥ 10,084,039	¥ 9,638,577	$ 94,917,535
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits *(Notes 8 and 14)*	¥ 8,572,993	¥ 8,282,466	$ 80,694,587
Call money and bills sold *(Note 14)*		90,000	
Payables under repurchase agreements *(Notes 8 and 14)*	161,458	17,525	1,519,747
Borrowing under securities lending transactions *(Notes 8 and 14)*	305,962	233,891	2,879,913
Trading liabilities	5	21	47
Borrowed money *(Notes 8 and 14)*	299,159	278,885	2,815,879
Other liabilities	57,197	60,494	538,375
Liability for retirement benefits *(Note 10)*	2,811	10,210	26,458
Reserve for repayments for dormant deposits	2,215	1,716	20,849
Reserve for contingent losses	489	491	4,602
Reserve under special laws	0		0
Deferred tax liabilities *(Note 13)*	9,687	9,279	91,180
Deferred tax liabilities related to land revaluation *(Note 2(g))*	4,173	4,180	39,278
Acceptances and guarantees	34,335	34,376	323,183
Total liabilities	9,450,491	9,023,542	88,954,169
Equity *(Note 11)*			
Common stock			
authorized, 1,000,000,000 shares;			
issued, 463,375,978 shares in 2018 and 2017	36,000	36,000	338,855
Capital surplus	194,112	194,112	1,827,108
Retained earnings	349,103	335,146	3,285,984
Treasury stock, at cost, 8,861,730 shares in 2018 and 8,861,112 shares in 2017	(3,601)	(3,601)	(33,894)
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities *(Note 4)*	48,255	45,937	454,207
Deferred gains (losses) on derivatives under hedge accounting	(1,876)	(3,580)	(17,658)
Excess of land revaluation *(Note 2(g))*	6,072	6,088	57,153
Defined retirement benefit plans *(Note 10)*	(3,254)	(3,332)	(30,628)
Total accumulated other comprehensive income	49,196	45,112	463,064
Noncontrolling interests	8,737	8,265	82,238
Total equity	633,548	615,035	5,963,365
Total liabilities and equity	¥ 10,084,039	¥ 9,638,577	$ 94,917,535

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	**2017**	**2018**
Income:			
Interest income:			
Interest on loans and discounts	¥ 69,501	¥ 69,922	$ 654,188
Interest and dividends on securities	25,888	25,931	243,674
Other interest income	377	400	3,548
Fees and commissions income	21,370	21,948	201,148
Trading income	69	42	649
Other operating income	36,489	44,146	343,458
Other income *(Note 12)*	10,999	9,833	103,529
Total income	164,697	172,227	1,550,235
Expenses:			
Interest expenses:			
Interest on deposits	1,358	1,768	12,782
Other interest expenses	6,009	5,711	56,560
Fees and commissions expenses	9,086	8,472	85,523
Trading expenses	0		0
Other operating expenses	35,199	40,154	331,315
General and administrative expenses	76,564	79,825	720,670
Provision for possible loan losses	4,573	10,267	43,044
Losses on impairment of long-lived assets	63	487	592
Other expenses	2,627	4,558	24,727
Total expenses	135,481	151,247	1,275,235
Income before income taxes	29,216	20,980	275,000
Income taxes *(Note 13)*:			
Current	11,200	11,429	105,421
Deferred	(1,792)	(5,510)	(16,867)
Total income taxes	9,407	5,919	88,544
Net income	19,808	15,060	186,445
Net income attributable to noncontrolling interests	412	458	3,878
Net income attributable to owners of the parent	¥ 19,395	¥ 14,602	$ 182,558
Per share of common stock *(Note 2 (o))*:	Yen		U.S. dollars
Basic net income	¥ 42.67	¥ 32.12	$ 0.40
Cash dividends applicable to the year	12.00	12.00	0.11

See notes to consolidated financial statements.

Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	**2017**	**2018**
Net income	¥ 19,808	¥ 15,060	$ 186,445
Other comprehensive income (loss) ***(Note 16):***			
Unrealized gains (losses) on available-for-sale securities	2,381	(7,087)	22,411
Deferred gains (losses) on derivatives under hedge accounting	1,703	4,121	16,029
Defined retirement benefit plans	78	3,241	734
Total other comprehensive income (loss)	4,163	275	39,184
Comprehensive income	¥ 23,971	¥ 15,336	$ 225,630
Total comprehensive income attributable to:			
Owners of the parent	¥ 23,495	¥ 14,862	$ 221,150
Noncontrolling interests	476	474	4,480

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Changes in Equity

Year ended March 31, 2018

	Thousands	Millions of yen			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 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 April 1, 2017	463,375	36,000	194,112	335,146	(3,601)
Cash dividends, ¥12.00 per share				(5,454)	
Net income attributable to owners of the parent				19,395	
Purchase of treasury stock					(0)
Disposal of treasury stock			0		0
Reversal of excess of land revaluation				15	
Net change in the year					
Balance at March 31, 2018	463,375	¥ 36,000	¥ 194,112	¥ 349,103	¥ (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	Noncontrolling interests	Total equity
Balance at April 1, 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 April 1, 2017	45,937	(3,580)	6,088	(3,332)	45,112	8,265	615,035
Cash dividends, ¥12.00 per share							(5,454)
Net income attributable to owners of the parent							19,395
Purchase of treasury stock							(0)
Disposal of treasury stock							0
Reversal of excess of land revaluation							15
Net change in the year	2,317	1,703	(15)	78	4,083	472	4,556
Balance at March 31, 2018	¥ 48,255	¥ (1,876)	¥ 6,072	¥ (3,254)	¥ 49,196	¥ 8,737	¥ 633,548

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, 2018

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
Balance at April 1, 2017	$ 338,855	$ 1,827,108	$ 3,154,612	$ (33,894)
Cash dividends, $0.11 per share			(51,336)	
Net income attributable to owners of the parent			182,558	
Purchase of treasury stock				(0)
Disposal of treasury stock		0		0
Reversal of excess of land revaluation			141	
Net change in the year				
Balance at March 31, 2018	$ 338,855	$ 1,827,108	$ 3,285,984	$ (33,894)

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive income						
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Defined retirement benefit plans	Total accumulated other comprehensive income	Noncontrolling interests	Total equity
Balance at April 1, 2017	$ 432,388	$ (33,697)	$ 57,304	$ (31,362)	$ 424,623	$ 77,795	$ 5,789,109
Cash dividends, $0.11 per share							(51,336)
Net income attributable to owners of the parent							182,558
Purchase of treasury stock							(0)
Disposal of treasury stock							0
Reversal of excess of land revaluation							141
Net change in the year	21,809	16,029	(141)	734	38,431	4,442	42,884
Balance at March 31, 2018	$ 454,207	$ (17,658)	$ 57,153	$ (30,628)	$ 463,064	$ 82,238	$ 5,963,365

See notes to consolidated financial statements.

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	**2017**	**2018**
Operating activities:			
Income before income taxes	¥ 29,216	¥ 20,980	$ 275,000
Adjustments for:			
Income taxes paid	(11,530)	(14,724)	(108,527)
Depreciation and amortization	7,679	8,014	72,279
Losses on impairment of long-lived assets	63	487	592
Increase (decrease) in reserve for possible loan losses	(583)	6,128	(5,487)
(Increase) decrease in asset for retirement benefits	536	1,553	5,045
Increase (decrease) in liability for retirement benefits	(7,399)	(217)	(69,644)
Increase (decrease) in reserve for repayments for dormant deposits	498	124	4,687
Increase (decrease) in reserve for contingent losses	(2)	(120)	(18)
Interest and dividend income	(95,768)	(96,257)	(901,430)
Interest expenses	7,367	7,482	69,342
(Gains) losses on securities	(1,152)	(2,554)	(10,843)
(Gains) losses on money held in trust	(268)	(93)	(2,522)
Net (increase) decrease in trading assets	(1,421)	(382)	(13,375)
Net (increase) decrease in loans and bills discounted	(375,736)	(413,115)	(3,536,671)
Net increase (decrease) in deposits	290,527	461,449	2,734,629
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	20,273	129,636	190,822
Net (increase) decrease in due from banks (excluding deposits paid to the Bank of Japan)	(792)	212	(7,454)
Net (increase) decrease in call loans and others	(40,868)	(644)	(384,676)
Net increase (decrease) in call money and others	(90,000)	18,873	(847,138)
Net increase (decrease) in payables under repurchase agreements	143,932	17,525	1,354,781
Net increase (decrease) in borrowing under securities lending transactions	72,071	65,687	678,379
Net (increase) decrease in lease receivables and investment assets	(2,126)	(3,206)	(20,011)
Interest received	100,303	104,182	944,117
Interest paid	(7,426)	(7,700)	(69,898)
Other	(102,996)	(7,891)	(969,465)
Total adjustments	(94,818)	274,450	(892,488)
Net cash provided by (used in) operating activities	(65,602)	295,430	(617,488)
Investing activities:			
Payments for purchase of securities	(824,230)	(1,213,370)	(7,758,189)
Proceeds from sales of securities	472,857	739,566	4,450,837
Proceeds from redemption of securities	614,197	611,108	5,781,221
Increase in money held in trust	(2,296)	(244)	(21,611)
Decrease in money held in trust	3,083	542	29,019
Payments for purchase of fixed assets	(6,563)	(3,936)	(61,775)
Proceeds from sales of fixed assets	35	74	329
Payments for purchase of intangible assets	(3,370)	(3,250)	(31,720)
Net cash provided by investing activities	253,711	130,489	2,388,092
Financing activities:			
Cash dividends paid	(5,454)	(5,441)	(51,336)
Cash dividends paid to noncontrolling interests	(4)	(9)	(37)
Payments for purchase of treasury stock	(0)	(0)	(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)	
Net cash used in financing activities	(5,458)	(5,598)	(51,374)
Foreign currency translation adjustments on cash and cash equivalents	1	19	9
Net increase (decrease) in cash and cash equivalents	182,651	420,340	1,719,230
Cash and cash equivalents at beginning of year	741,053	320,712	6,975,272
Cash and cash equivalents at end of year *(Note 3)*	¥ 923,705	¥ 741,053	$ 8,694,512

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, 2018

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of the Kyushu Financial Group, Inc. (the "Company") and its consolidated subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act, its related accounting regulations and the Enforcement Regulation for the Banking Law of Japan (the "Banking Law"), and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

Amounts of less than ¥1 million and $1 thousand have been omitted. As a result, the totals shown in the consolidated financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.24 to $1.00, the approximate rate of exchange at March 31, 2018. 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 17 and 16 consolidated subsidiaries as of March 31, 2018 and 2017, respectively.

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 (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 ¥11,015 million ($103,680 thousand) and ¥10,976 million as of March 31, 2018 and 2017, 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 lump-sum retirement benefit plans, which became fund type plans after the establishment of the retirement benefit trust. The amount of liability for employees' retirement benefit is determined based on the projected benefit obligations and the pension assets on the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis.

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

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

k. Reserve for contingent losses

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

l. Reserve for repayments for dormant deposits

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

m. Reserve under special laws

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

n. Leases

Revenues and cost of revenues of finance lease transactions are recognized and included in other operating income and other operating expenses when lease payments are made.

o. Per share information

The computation of basic net income per share is based on the weighted-average number of shares of common stock outstanding during the year. The weighted-average number of common shares used in the computation was 454,514 thousand shares and 454,515 thousand shares for the years ended March 31, 2018 and 2017, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2018 and 2017, because there are no potentially dilutive common shares.

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

p. Income taxes

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

q. Appropriations of retained earnings

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

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
	2018	**2017**	**2018**
Cash and due from banks	¥ 926,404	¥ 742,960	$ 8,719,917
Other due from banks	(2,699)	(1,906)	(25,404)
Cash and cash equivalents	¥ 923,705	¥ 741,053	$ 8,694,512

4. Securities

The costs and aggregate fair values of securities at March 31, 2018 and 2017, 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		
	2018		
	Fair value	**Cost**	**Net unrealized gains**
Securities classified as:			
Trading	¥ 3, 420		
Available-for-sale:			
Equity securities	149,418	¥ 105,816	¥ 43,603
Debt securities	1,619,144	1,598,544	20,600
Other	508,852	505,230	3,622
Held-to-maturity:			
Debt securities	14,812	14,763	48

	Millions of yen		
	2017		
	Fair value	**Cost**	**Net unrealized gains**
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

	Thousands of U.S. dollars		
	2018		
	Fair value	Cost	Net unrealized gains
Securities classified as:			
Trading	$ 32,191		
Available-for-sale:			
Equity securities	1,406,419	$ 996,009	$ 410,419
Debt securities	15,240,436	15,046,536	193,900
Other	4,789,646	4,755,553	34,092
Held-to-maturity:			
Debt securities	139,420	138,958	451

Securities included equity investments in unconsolidated subsidiaries and affiliated companies that amounted to ¥3,458 million ($32,548 thousand) and ¥2,290 million as of March 31, 2018 and 2017, respectively.

Securities lending based on noncollateralized special contracts were included in debt securities and amounted to ¥58,005 million ($545,980 thousand) and ¥38,875 million as of March 31, 2018 and 2017, respectively.

Guarantee obligations for private placement bonds, out of bonds included in securities, amounted to ¥20,135 million ($189,523 thousand) and ¥18,067 million as of March 31, 2018 and 2017, respectively.

Unlisted equity securities and other securities without readily available fair values, amounting to ¥11,971 million ($112,678 thousand) and ¥8,783 million as of March 31, 2018 and 2017, respectively, were not included in the above table.

The information of held-to-maturity securities that were sold for the year ended March 31, 2018, was as follows (no held-to-maturity securities were sold for the year ended March 31, 2017):

	Millions of yen		
	2018		
	Cost of sales	Proceeds	Realized Gains (losses)
Held-to-maturity securities:			
Japanese government bonds			
Municipal government bonds			
Corporate bonds	¥ 220	¥ 220	¥ 0
Other			
Total	¥ 220	¥ 220	¥ 0

	Thousands of U.S. dollars		
	2018		
	Cost of sales	Proceeds	Realized Gains (losses)
Held-to-maturity securities:			
Japanese government bonds			
Municipal government bonds			
Corporate bonds	$ 2,070	$ 2,070	$ 0
Other			
Total	$ 2,070	$ 2,070	$ 0

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

The information of available-for-sale securities that were sold for the years ended March 31, 2018 and 2017, was as follows:

	Millions of yen		
	2018		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 25,655	¥ 5,342	¥ 253
Debt securities	212,318	2,137	742
Other	224,862	1,070	6,463
Total	¥ 462,837	¥ 8,549	¥ 7,459

	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

	Thousands of U.S. dollars		
	2018		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	$ 241,481	$ 50,282	$ 2,381
Debt securities	1,998,475	20,114	6,984
Other	2,116,547	10,071	60,833
Total	$ 4,356,522	$ 80,468	$ 70,208

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, 2018 and 2017, was nil and ¥641 million, respectively.

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

Net unrealized gains on available-for-sale securities for the years ended March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Valuation differences:			
Available-for-sale securities	¥ 67,824	¥ 64,234	$ 638,403
Deferred tax liabilities	(19,361)	(18,154)	(182,238)
Noncontrolling interests	(207)	(143)	(1,948)
Unrealized gains on available-for-sale securities	¥ 48,255	¥ 45,937	$ 454,207

5. Money Held in Trust

The carrying amounts and unrealized gains (losses) of money held in trust as of March 31, 2018 and 2017, were as follows:

Money held in trust held for trading

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Carrying amounts	¥ 17,815	¥ 18,769	$ 167,686
Unrealized gains (losses) credited to income	(193)	522	(1,816)

Money held in trust other than those held for trading purposes or held to maturity as of March 31, 2018

(there was no money held in trust other than those held for trading purposes or held to maturity as of March 31, 2017.)

	Millions of yen		
	2018		
	Carrying amounts	**Cost**	**Net unrealized gains (losses)**
Other money held in trust	¥ 140	¥ 140	

	Thousands of U.S. dollars		
	2018		
	Carrying amounts	**Cost**	**Net unrealized gains (losses)**
Other money held in trust	$ 1,317	$ 1,317	

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

6. Loans and Bills Discounted

Loans and bills discounted as of March 31, 2018 and 2017, included the following:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Bankruptcy loans	¥ 2,473	¥ 3,633	$ 23,277
Past-due loans	83,980	83,839	790,474
Loans past due for three months or more	198	139	1,863
Restructured loans	53,742	58,521	505,854
Total	¥ 140,394	¥ 146,134	$ 1,321,479

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 ¥23,040 million ($216,867 thousand) and ¥19,791 million as of March 31, 2018 and 2017, 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, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Buildings	¥ 28,780	¥ 29,445	$ 270,896
Land	50,225	48,519	472,750
Construction in progress	2,475	529	23,296
Other	11,166	12,120	105,101
Total	¥ 92,647	¥ 90,614	$ 872,053

Accumulated depreciation as of March 31, 2018 and 2017, amounted to ¥72,044 million ($678,125 thousand) and ¥72,511 million, respectively.

Deferred gains for tax purposes as of March 31, 2018 and 2017, amounted to ¥3,424 million ($32,228 thousand) and ¥3,424 million, respectively.

Intangible assets as of March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Software	¥ 9,430	¥ 9,418	$ 88,761
Other	315	317	2,964
Total	¥ 9,746	¥ 9,735	$ 91,735

8. Assets Pledged

Assets pledged as collateral as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Securities	¥ 1,001,423	¥ 874,578	$ 9,426,044
Lease receivables and investment assets	1,708	1,864	16,076
Other	4	133	37
Total	¥ 1,003,137	¥ 876,576	$ 9,442,178

Liabilities related to the above assets pledged as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deposits	¥ 32,908	¥ 72,857	$ 309,751
Payables under repurchase agreements	158,393	17,525	1,490,897
Borrowing under securities-lending transactions	301,903	233,891	2,841,707
Borrowed money	284,658	265,069	2,679,386

In addition, securities amounting to ¥13,854 million ($130,402 thousand) and ¥142,724 million and other assets amounting to ¥108,096 million ($1,017,469 thousand) and nil were pledged as collateral for settlement of exchange and other transactions with designated financial institutions, etc., as of March 31, 2018 and 2017, respectively.

Guarantee deposits amounting to ¥703 million ($6,617 thousand) and ¥685 million, cash collateral for financial instruments amounting to ¥4,646 million ($43,731 thousand) and ¥5,921 million, and deposits to a central counterparty of ¥13,201 million ($124,256 thousand) and ¥12,551 million were included in other assets as of March 31, 2018 and 2017, 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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Original maturity is within one year or the Group can cancel at any time without any penalty	¥ 1,500,599	¥ 1,420,850	$ 14,124,614
Other	47,326	45,300	445,463
Total	¥ 1,547,925	¥ 1,466,150	$ 14,570,077

The amount of unexercised commitment lines does not necessarily affect the future cash flows of the Group because most of such agreements are terminated without being exercised. Most of these agreements have provisions, which stipulate that the Group may deny extending loans or decrease the commitment line when there are certain changes in financial markets, certain issues in securing loans, and other reasons. The consolidated subsidiaries request collateral in the form of premises or securities as deemed necessary upon providing such commitments. In addition, the Group monitors the financial conditions of customers in accordance with its internal rules on a regular basis and takes necessary measures, including revisiting the terms of commitments and other means to prevent credit losses.

10. Retirement and Pension Plans

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

(1) The changes in defined benefit obligation for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Balance at beginning of year	¥ 63,209	¥ 66,726	$ 594,964
Current service cost	1,869	1,999	17,592
Interest cost	297	227	2,795
Actuarial (gains) losses	1,528	(1,998)	14,382
Benefits paid	(3,585)	(3,745)	(33,744)
Balance at end of year	¥ 63,320	¥ 63,209	$ 596,009

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

(2) The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Balance at beginning of year	¥ 59,687	¥ 59,651	$ 561,812
Expected return on plan assets	1,953	1,886	18,382
Actuarial gains	291	506	2,739
Contributions from the employer	1,264	1,220	11,897
Benefits paid	(2,811)	(2,900)	(26,458)
Amount of contribution to retirement benefit trust	7,000	—	65,888
Partial return of retirement benefit trusts	(724)	(676)	(6,814)
Balance at end of year	¥ 66,661	¥ 59,687	$ 627,456

(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, 2018 and 2017, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Funded defined benefit obligation	¥ 61,246	¥ 52,998	$ 576,487
Plan assets	(66,661)	(59,687)	(627,456)
Total	(5,414)	(6,689)	(50,960)
Unfunded defined benefit obligation	2,073	10,210	19,512
Net (asset) liability arising from defined benefit obligation	¥ (3,340)	¥ 3,521	$ (31,438)

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Liability for retirement benefits	¥ 2,811	¥ 10,210	$ 26,458
Asset for retirement benefits	(6,152)	(6,689)	(57,906)
Net (asset) liability arising from defined benefit obligation	¥ (3,340)	¥ 3,521	$ (31,438)

(4) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Current service cost	¥ 1,869	¥ 1,999	$ 17,592
Interest cost	297	227	2,795
Expected return on plan assets	(1,953)	(1,886)	(18,382)
Recognized actuarial (gains) losses	1,350	2,152	12,707
Amortization of prior service cost	—	—	—
Extra retirement payments	0	—	0
Net periodic benefit costs	¥ 1,564	¥ 2,492	$ 14,721

(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, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Prior service cost			
Actuarial (gains) losses	¥ 112	¥ 4,657	$ 1,054
Total	¥ 112	¥ 4,657	$ 1,054

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Unrecognized prior service cost			
Unrecognized actuarial (gains) losses	¥ 4,675	¥ 4,788	$ 44,004
Total	¥ 4,675	¥ 4,788	$ 44,004

(7) Plan assets

(a) Components of plan assets

Plan assets as of March 31, 2018 and 2017, consisted of the following:

	2018	**2017**
Debt investments	26%	32%
Equity investments	24	24
General account of life insurance companies	34	37
Others	16	7
Total	100%	100%

(Note) Retirement benefit trusts set against the corporate pension plans and lump-sum retirement benefit plans accounted for 16% and 7% of the total plan assets for the years ended March 31, 2018 and 2017, 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, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	0.3% or 0.4%	0.4% or 0.5%
Expected rate of return on plan assets:		
Plan assets (excluding the retirement benefit trust)	2.5% or 4.5%	2.5% or 4.5%
Retirement benefit trust	0.5% or 4.0%	0.5%
Expected rate of salary increase	3.7% or 6.4%	3.8% or 5.9%

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 ¥5,747 million ($54,094 thousand) and ¥5,217 million for the years ended March 31, 2018 and 2017, 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% for the years ended March 31, 2018 and 2017, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Deferred tax assets:			
Reserve for possible loan losses	¥ 19,947	¥ 19,735	$ 187,754
Liability for retirement benefits	2,988	3,109	28,125
Depreciation	1,311	1,472	12,339
Loss on impairment of securities	1,639	1,698	15,427
Losses on impairment of fixed assets	1,785	2,557	16,801
Deferred gains (losses) on derivatives under hedge accounting	819	1,563	7,708
Other	3,543	2,611	33,349
Subtotal	32,036	32,749	301,543
Valuation allowance	(4,670)	(4,672)	(43,957)
Deferred tax assets	27,366	28,076	257,586
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(30,832)	(31,374)	(290,210)
Deferred income on fixed assets sold	(396)	(396)	(3,727)
Asset for retirement benefits	(1,227)	(1,191)	(11,549)
Valuation of assets	(3,478)	(3,478)	(32,737)
Other	(27)	(36)	(254)
Deferred tax liabilities	(35,962)	(36,477)	(338,497)
Net deferred tax liabilities	¥ (8,596)	¥ (8,400)	$ (80,911)

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, 2018 and 2017, was as follows:

	2018	**2017**
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	0.5	0.7
Income not taxable for income tax purposes	(1.4)	(1.7)
Valuation allowance	(0.1)	(1.1)
Inhabitant taxes per capita	0.4	0.5
Change in effective statutory tax rate	0.0	0.1
Other-net	2.2	(0.9)
Actual effective tax rate	32.2%	28.2%

14. Financial Instruments and Related Disclosures

(a) Policy for financial instruments

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

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

(b) Nature and extent of risks arising from financial instruments

i) Financial assets

The significant proportion of financial assets held by the Group is loans, which are primarily provided to domestic corporations and individual customers. Loans are subject to credit risk, which represents loss on default caused by deteriorated credit of the borrowers. Additionally, fixed-interest-rate loans are subject to market risk and their fair value is exposed to risk of fluctuation in market interest rate.

The second largest proportion of financial assets held by the Group is securities, which include domestic bonds, stocks, foreign bonds, and investment trusts. Securities held by the Group are subject to market risk and their fair value is exposed to risk of fluctuation in variable risk factors, including interest rates, stock prices, and exchange rates. The Group is also subject to the liquidity risk, and its fair value is exposed to risk of fluctuation in market prices. Certain securities, such as stocks and bonds, are subject to credit risk, which represents loss on default caused by deteriorated credit of the issuers.

ii) Financial liabilities

Deposits and marketable funds procured are subject to liquidity risk, which represents the outflow of deposits and an inability to raise needed funds caused by deteriorated credit of the Group, as well as losses caused by having to make transactions under unfavorable conditions. Certain Group's companies raise funds by borrowing, which are subject to liquidity risk.

In addition, funds procured at fixed interest rates are subject to market risk and their fair value is exposed to risk of fluctuation in market interest rate.

iii) Derivatives

The derivative transactions conducted by the Group include interest rate swaps and currency swaps. The Group applies deferred hedge and specific matching criteria to transactions undertaken as hedges against risk and evaluates hedge effectiveness on the basis of the market price fluctuation rate and the details of the contract. Derivative transactions are subject to credit risk associated with the deteriorating credit standing of the counterparty, credit risk of default of the contract, and changing market risk imposed by risk factors.

(c) Risk management for financial instruments

i) Basic risk management policy

The Group positions risk management as an important business challenge and enhances organization and system for managing risk rigorously. By monitoring various types of risk properly and managing risk by responding to changing financial conditions appropriately, the Group maintains and enhances the financial soundness of the Group and establishes a business foundation.

ii) Integrated risk management

The Group manages integrated risk in order to grasp and combine the various types of risks together in an integrated manner and to manage it so that the overall volume of risk does not get too big for management to handle. In addition, the Group has introduced a system for allocating risk capital within the range of shareholders' equity as a provision against various types of risks, and is taking steps to ensure management soundness and to raise profitability and efficiency.

a) Credit risk

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

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

b) Market risk

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

Financial instruments influenced by interest rate risks are deposits; loans and bills discounted; bonds and derivatives related to interest rate. 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, 2018 and 2017, VaR related to interest rate risks was ¥16,200 million ($152,484 thousand) and ¥14,000 million and VaR related to price volatility risks was ¥17,300 million ($162,838 thousand) and ¥17,000 million, respectively.

Kagoshima Bank calculates VaR based on the historical simulation method (a holding period of 10 days to 6 months, a confidence interval of 99%, and observation period of 5 years) from the year ended March 31, 2018. As of March 31, 2018, VaR related to interest rate risks was ¥12,700 million ($119,540 thousand) and VaR related to price volatility risks was ¥17,600 million ($165,662 thousand). For the year ended March 31, 2017, Kagoshima Bank calculated 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, VaR related to interest rate risks was ¥10,500 million and VaR related to price volatility risks was ¥31,100 million.

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.

(e) Fair value of financial instruments

Fair values and carrying amounts of financial instruments as of March 31, 2018 and 2017, 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		
	2018		
	Carrying amount	**Fair value**	**Net unrealized gains (losses)**
(1) Cash and due from banks	¥ 926,404	¥ 926,404	
(2) Call loans and bills bought	41,184	41,184	
(3) Trading assets			
Trading securities	3,420	3,420	
(4) Securities			
Held-to-maturity debt securities	14,763	14,812	¥ 48
Available-for-sale securities	2,277,417	2,277,417	
(5) Loans and bills discounted	6,446,199		
Reserve for possible loan losses (*1)	(61,099)		
	6,385,099	6,428,783	43,684
Total assets	9,648,290	9,692,023	43,733
(1) Deposits	8,572,993	8,573,950	956
(2) Call money and bills sold			
(3) Payables under repurchase agreements	161,458	161,458	
(4) Borrowing under securities-lending transactions	305,962	305,962	
(5) Borrowed money	299,159	299,144	(14)
Total liabilities	9,339,574	9,340,516	942
Derivatives (*2)			
For which hedge accounting is not applied	202	202	
For which hedge accounting is applied	(2,696)	(2,696)	
Total	¥ (2,494)	¥ (2,494)	

	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)	

	Thousands of U.S. dollars		
	2018		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	$ 8,719,917	$ 8,719,917	
(2) Call loans and bills bought	387,650	387,650	
(3) Trading assets			
Trading securities	32,191	32,191	
(4) Securities			
Held-to-maturity debt securities	138,958	139,420	$ 451
Available-for-sale securities	21,436,530	21,436,530	
(5) Loans and bills discounted	60,675,818		
Reserve for possible loan losses (*1)	(575,103)		
	60,100,705	60,511,888	411,182
Total assets	90,815,982	91,227,626	411,643
(1) Deposits	80,694,587	80,703,595	8,998
(2) Call money and bills sold			
(3) Payables under repurchase agreements	1,519,747	1,519,747	
(4) Borrowing under securities-lending transactions	2,879,913	2,879,913	
(5) Borrowed money	2,815,879	2,815,737	(131)
Total liabilities	87,910,146	87,919,013	8,866
Derivatives (*2)			
For which hedge accounting is not applied	1,901	1,901	
For which hedge accounting is applied	(25,376)	(25,376)	
Total	$ (23,475)	$ (23,475)	

(*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.

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, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Unlisted stocks (*1, *2)	¥ 4,015	¥ 4,039	$ 37,791
Investments in partnerships and others (*3)	7,955	4,744	74,877
Total	¥ 11,971	¥ 8,783	$ 112,678

(*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 ¥2 million ($18 thousand) and ¥16 million for the years ended March 31, 2018 and 2017, 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, 2018 and 2017

	Millions of yen					
	2018					
	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	¥ 836,290					
Call loans and bills bought	41,184					
Securities						
Held-to-maturity debt securities	2,942	¥ 7,059	¥ 3,951	¥ 810		
Corporate bonds	2,942	7,059	3,951	810		
Available-for-sale securities with maturity	521,208	545,771	169,315	120,861	¥ 176,426	¥ 495,016
Japanese government bonds	330,948	289,368	33,353	23,811	5,165	156,926
Municipal government bonds	52,762	47,014	20,239	11,462	30,589	49,338
Short-term corporate bonds	17,000					
Corporate bonds	95,732	162,765	84,066	33,396	10,733	164,467
Loans and bills discounted (*1)	1,580,017	1,064,670	869,786	593,688	727,363	1,524,218
Total	¥ 2,981,642	¥ 1,617,501	¥ 1,043,054	¥ 715,359	¥ 903,789	¥ 2,019,235

	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

	Thousands of U.S. dollars					
	2018					
	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	$ 7,871,705					
Call loans and bills bought	387,650					
Securities						
Held-to-maturity debt securities	27,692	$ 66,443	$ 37,189	$ 7,624		
Corporate bonds	27,692	66,443	37,189	7,624		
Available-for-sale securities with maturity	4,905,948	5,137,151	1,593,702	1,137,622	$ 1,660,636	$ 4,659,412
Japanese government bonds	3,115,097	2,723,719	313,940	224,124	48,616	1,477,089
Municipal government bonds	496,630	442,526	190,502	107,887	287,923	464,401
Short-term corporate bonds	160,015					
Corporate bonds	901,091	1,532,050	791,283	314,344	101,025	1,548,070
Loans and bills discounted (*1)	14,872,147	10,021,366	8,186,991	5,588,177	6,846,413	14,346,931
Total	$ 28,065,154	$ 15,224,971	$ 9,817,902	$ 6,733,424	$ 8,507,050	$ 19,006,353

(*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 ¥86,453 million ($813,751 thousand) (¥87,473 million in 2017), is not included in the above table.

(Note 4) Maturity analysis for interest-bearing liabilities as of March 31, 2018 and 2017

	Millions of yen					
	2018					
	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)	¥ 8,343,335	¥ 200,579	¥ 23,627	¥ 1,253	¥ 4,198	
Call money and bills sold						
Payables under repurchase agreements	161,458					
Borrowing under securities lending transactions	305,962					
Borrowed money	180,590	38,276	80,262	30		
Total	¥ 8,991,347	¥ 238,855	¥ 103,889	¥ 1,283	¥ 4,198	

	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	

	Thousands of U.S. dollars					
	2018					
	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)	$ 78,532,897	$ 1,887,980	$ 222,392	$ 11,794	$ 39,514	
Call money and bills sold						
Payables under repurchase agreements	1,519,747					
Borrowing under securities lending transactions	2,879,913					
Borrowed money	1,699,830	360,278	755,478	282		
Total	$ 84,632,407	$ 2,248,258	$ 977,870	$ 12,076	$ 39,514	

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

15. Derivative Financial Instruments

(a) Derivative financial instruments used by the Group

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

The Group executes these derivative transactions in order to manage and hedge the risks associated with interest rate fluctuations and exposure to changes in the market value of assets and liabilities held by the Group. In addition, the Banks enter into derivative transactions for trading purposes, within the position and loss limits established by the Group.

(b) Risks on derivative transactions

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

Market risk is related to the increase and decrease in the fair value of the positions held by the Group due to changes in the market price and interest rates of the underlying assets. Market risk is also subject to changes in liquidity and the volatility of the markets. Credit risk refers to possible losses on the positions held by the Group, which result from a counterparty's failure to perform according to the terms and conditions of the contract.

The banking consolidated subsidiaries mainly apply a quantitative measurement method in order to capture market risk. The banking consolidated subsidiaries monitor the outstanding balance and profit and loss for each type of transaction on a daily basis. In addition, the banking consolidated subsidiaries apply a "VaR" measurement method to transactions for which it is considered necessary to apply a more sophisticated method. The Group manages credit risk by establishing credit limits for counterparties. Reviews of the adequacy of established credit lines are made on a regular basis and as deemed necessary.

(c) Risk management system of the Group

The Group exercises and controls the derivative transactions using limits, including position limits, credit limits for each counterparty, and stop-loss limits, in accordance with the Group's policy on derivative transactions. Risks quantified are reported to the department and the director responsible for monitoring the transactions and the Board of Directors. The front-office function and the back-office function are segregated. The middle office is responsible for risk management and monitors front and back offices' compliance with regulations and internal rules.

Contract amounts or notional principal amounts of derivative financial instruments disclosed represent nominal contract amounts or the notional principal amounts set up for the calculation of the settlement amounts. Generally, they do not represent the amounts for which the actual assets are exchanged. These amounts do not represent, by themselves, the volume of market risk and credit risk related to the underlying derivative financial instruments.

(d) Fair value of derivative financial instruments

Derivative transactions to which hedge accounting was not applied as of March 31, 2018 and 2017.

i) Interest rate-related transactions

There were no interest rate-related transactions as of March 31, 2018 and 2017.

ii) Foreign exchange-related transactions

	Millions of yen			
	2018			
	Contractual value or notional principal amount	**Including over one year**	**Fair value**	**Unrealized gains (losses)**
Currency swaps	¥ 38,456	¥ 31,733	¥ 457	¥ 187
Foreign exchange forward contracts:				
Selling	50,850		108	108
Buying	12,236		(364)	(364)

	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)

	Thousands of U.S. dollars			
	2018			
	Contractual value or notional principal amount	Including over one year	Fair value	Unrealized gains (losses)
Currency swaps	$ 361,972	$ 298,691	$ 4,301	$ 1,760
Foreign exchange forward contracts:				
Selling	478,633		1,016	1,016
Buying	115,173		(3,426)	(3,426)

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, 2018 and 2017

i) Interest rate-related transactions

	Millions of yen			
	2018			
	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)	¥ 252,328	¥ 218,503	¥ (2,687)
Specific matching criteria				
Interest rate swaps:				
Receive fixed and pay floating	Loans and bills discounted	7,360	7,360	(Note 3)
Receive floating and pay fixed		95,115	93,615	

	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 3)

	Thousands of U.S. dollars			
	2018			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted Available-for-sale securities (debt securities)	$ 2,375,075	$ 2,056,692	$ (25,291)
Specific matching criteria				
Interest rate swaps:				
Receive fixed and pay floating	Loans and bills discounted	69,277	69,277	(Note 3)
Receive floating and pay fixed		895,284	881,165	

Notes: 1. For the interest rate swaps shown above, deferred hedge accounting is applied in accordance with JICPA Industry Audit Committee Report No. 24, which was issued on February 13, 2002.
2. Fair values of the exchange traded derivatives are based on quoted market prices, such as those of Tokyo Financial Exchange, Inc. Calculation or quotation of fair value of the over-the-counter traded derivatives is based on the discounted present value method or option-pricing models, etc.
3. The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not measured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in that of loans and bills discounted (the hedged items) stated in Note 14. Financial Instruments and Related Disclosures.

ii) Foreign exchange-related transactions

	Millions of yen			
	2018			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Currency swaps	Loans and bills discounted	¥ 1,589	¥ 1,589	¥ (8)

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

	Thousands of U.S. dollars			
	2018			
	Hedged item	Contractual value or notional principal amount	Including over one year	Fair value
Deferred method				
Currency swaps	Loans and bills discounted	$ 14,956	$ 14,956	$ (75)

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

16. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Unrealized gains (losses) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 2,198	¥ (13,296)	$ 20,689
Reclassification adjustments to profit or loss	1,385	2,693	13,036
Amount before income tax effect	3,584	(10,603)	33,734
Income tax effect	(1,202)	3,516	(11,314)
Total	2,381	(7,087)	22,411
Deferred gains on derivatives under hedge accounting:			
Gains (losses) arising during the year	466	4,609	4,386
Reclassification adjustments to profit or loss	1,981	1,313	18,646
Amount before income tax effect	2,447	5,922	23,032
Income tax effect	(744)	(1,800)	(7,003)
Total	1,703	4,121	16,029
Defined retirement benefit plans:			
Gains (losses) arising during the year	(1,237)	2,504	(11,643)
Reclassification adjustments to profit or loss	1,350	2,152	12,707
Amount before income tax effect	112	4,657	1,054
Income tax effect	(34)	(1,415)	(320)
Total	78	3,241	734
Total other comprehensive income	¥ 4,163	¥ 275	$ 39,184

17. Segment Information

Under Accounting Standards Board of Japan (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.

The financial instrument business of Kyushu FG Securities, Inc., which was newly established in the year ended March 31, 2018, is included in "Other."

(b) Methods of measurement for the amounts of ordinary income, profit (loss), assets, and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

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

	Millions of yen								
	2018								
	Reportable segment								
	Banking								
	Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:									
Ordinary income by external customers	¥ 70,043	¥ 65,944	¥ 135,987	¥ 30,028	¥ 166,016	¥ 3,906	¥ 169,923	¥ (5,226)	¥ 164,696
Intersegment ordinary income	385	798	1,183	1,895	3,079	3,873	6,953	(6,953)	
Total	¥ 70,428	¥ 66,742	¥ 137,171	¥ 31,924	¥ 169,096	¥ 7,780	¥ 176,876	¥ (12,179)	¥ 164,696
Segment profit	¥ 17,971	¥ 15,711	¥ 33,682	¥ 1,427	¥ 35,109	¥ 645	¥ 35,755	¥ (6,373)	¥ 29,381
Segment assets	5,585,720	4,465,441	10,051,161	84,615	10,135,777	29,581	10,165,359	(81,319)	10,084,039
Other:									
Depreciation	4,347	2,789	7,136	89	7,225	294	7,520	159	7,679
Interest income	51,437	47,758	99,195	66	99,261	215	99,477	(3,708)	95,768
Interest expenses	5,263	2,151	7,415	236	7,651	35	7,687	(320)	7,367
Increase in fixed assets and intangible assets	3,276	4,120	7,397	14	7,411	564	7,975	1,944	9,919

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 ¥(5,226) million ($(49,190) thousand) include reconciliations of ordinary income in accordance with purchase method application of ¥(5,089) million ($(47,900) thousand).
b. The segment profit reconciliations of ¥(6,373) million ($(59,986) thousand) include reconciliations of profit in accordance with purchase method application of ¥(5,556) million ($(52,296) thousand).
c. The interest income reconciliations in "Other" of ¥(3,708) million ($(34,902) thousand) include reconciliations of interest income in accordance with purchase method application of ¥(2,906) million ($(27,353) 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.

Notes to Consolidated Financial Statements

	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 include reconciliations of ordinary income in accordance with purchase method application of ¥(8,481) million.
b. The segment profit reconciliations of ¥(10,358) million include reconciliations of profit in accordance with purchase method application of ¥(9,681) million.
c. The interest income reconciliations in "Other" of ¥(4,040) million include reconciliations of interest income in accordance with purchase method application of ¥(3,677) 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								
	2018								
	Reportable segment								
	Banking								
	Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated
Ordinary income:									
Ordinary income by external customers	$ 659,290	$ 620,707	$ 1,279,998	$ 282,643	$ 1,562,650	$ 36,765	$ 1,599,425	$ (49,190)	$ 1,550,225
Intersegment ordinary income	3,623	7,511	11,135	17,836	28,981	36,455	65,446	(65,446)	
Total	$ 662,914	$ 628,219	$ 1,291,142	$ 300,489	$ 1,591,641	$ 73,230	$ 1,664,871	$ (114,636)	$ 1,550,225
Segment profit	$ 169,154	$ 147,882	$ 317,036	$ 13,431	$ 330,468	$ 6,071	$ 336,549	$ (59,986)	$ 276,553
Segment assets	52,576,430	42,031,635	94,608,066	796,451	95,404,527	278,435	95,682,972	(765,427)	94,917,535
Other:									
Depreciation	40,916	26,251	67,168	837	68,006	2,767	70,783	1,496	72,279
Interest income	484,158	449,529	933,687	621	934,309	2,023	936,342	(34,902)	901,430
Interest expenses	49,538	20,246	69,794	2,221	72,016	329	72,355	(3,012)	69,342
Increase in fixed assets and intangible assets	30,835	38,780	69,625	131	69,757	5,308	75,065	18,298	93,364

Related information

(a) Segment information by service

	Millions of yen				
	2018				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	¥ 69,501	¥ 34,817	¥ 29,798	¥ 30,578	¥ 164,696

	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

	Thousands of U.S. dollars				
	2018				
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	$ 654,188	$ 327,720	$ 280,478	$ 287,820	$ 1,550,225

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

(b) Segment information by geographic area

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 customer

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

18. Subsequent Events

a. Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2018, was approved at the meeting of the Board of Directors held on May 11, 2018:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥6.00 ($0.05) per share	¥ 2,727	$ 25,668

b. Acquisition of Treasury Stock

Based on the provisions of Article 156 of the Companies Act applied by replacing the terms and phrases pursuant to the provisions of Article 165, Paragraph 3 of the Companies Act, the Company resolved to acquire treasury stock at the Board of Directors' meeting held on May 11, 2018, in order to increase capital efficiency for the purpose of enhancing returns to its shareholders.

Type of shares to be acquired:	Common stock
Total number of shares to be acquired:	3,000,000 shares (upper limit) (ratio to total outstanding number of shares issued (excluding treasury stock) is 0.66%)
Total amount of acquisition of shares:	¥1,740 million (upper limit) ($16,378 thousand)
Period of acquisition:	From May 16, 2018, through June 15, 2018

The Company acquired treasury stock based on the above resolution of the Board of Directors' meeting as follows:

Type of shares acquired:	Common stock
Total number of shares acquired:	3,000,000 shares
Total amount of acquisition of shares:	¥1,668 million ($15,700 thousand)
Period of acquisition:	From May 16, 2018, through May 25, 2018
Method of acquisition:	Purchase from the stock market (the Tokyo Stock Exchange)

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, 2018, 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, 2018, 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 26, 2018

Member of
Deloitte Touche Tohmatsu Limited

Non-Consolidated Financial Statements (Unaudited)

The Higo Bank, Ltd.

Non-Consolidated Balance Sheet

March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
ASSETS:			
Cash and due from banks	¥ 665,651	¥ 566,355	$ 6,265,540
Call loans	40,326	317	379,574
Monetary claims purchased	870	908	8,189
Trading assets	452	509	4,254
Money held in trust	4,848	4,855	45,632
Securities	1,445,164	1,562,774	13,602,823
Loans and bills discounted	3,246,496	3,061,010	30,558,132
Foreign exchange assets	8,064	11,732	75,903
Other assets	129,255	28,935	1,216,632
Fixed assets	50,687	51,759	477,099
Intangible assets	5,235	5,427	49,275
Prepaid pension cost	2,637	3,176	24,821
Customers' liabilities for acceptances and guarantees	10,055	10,298	94,644
Reserve for possible loan losses	(22,189)	(22,211)	(208,857)
Total assets	¥ 5,587,556	¥ 5,285,851	$ 52,593,712
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits	¥ 4,694,149	¥ 4,551,518	$ 44,184,384
Call money		90,000	
Payables under repurchase agreements	148,880	17,525	1,401,355
Borrowing under securities lending transactions	222,512	98,754	2,094,427
Trading liabilities	5	21	47
Borrowed money	173,386	172,565	1,632,021
Foreign exchange liabilities	40	72	376
Other liabilities	25,992	33,501	244,653
Reserve for retirement benefits	539	7,867	5,073
Reserve for repayments for dormant deposits	1,156	814	10,881
Reserve for contingent losses	243	268	2,287
Deferred tax liabilities	3,337	3,566	31,410
Deferred tax liabilities related to land revaluation	4,540	4,547	42,733
Acceptances and guarantees	10,055	10,298	94,644
Total liabilities	5,284,840	4,991,323	49,744,352
Equity			
Common stock	18,128	18,128	170,632
Capital surplus	8,133	8,133	76,553
Retained earnings	238,030	229,930	2,240,493
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	34,217	35,745	322,072
Deferred gains (losses) on derivatives under hedge accounting	(1,866)	(3,498)	(17,564)
Excess of land revaluation	6,072	6,088	57,153
Total valuation and translation adjustments	38,423	38,334	361,662
Total equity	302,716	294,527	2,849,359
Total liabilities and equity	¥ 5,587,556	¥ 5,285,851	$ 52,593,712

The Higo Bank, Ltd.

Non-Consolidated Statement of Income

Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Income:			
Interest income:			
Interest on loans and discounts	¥ 33,341	¥ 33,275	$ 313,827
Interest and dividends on securities	17,820	18,400	167,733
Other interest income	274	267	2,579
Fees and commissions income	11,019	10,845	103,717
Trading income	5	127	47
Other operating income	2,666	9,883	25,094
Gain on disposal of fixed assets	1	9	9
Other income	5,299	4,121	49,877
Total income	70,429	76,929	662,923
Expenses:			
Interest expenses:			
Interest on deposits	657	950	6,184
Other interest expenses	4,606	3,910	43,354
Fees and commissions expenses	4,656	4,544	43,825
Other operating expenses	3,008	9,124	28,313
General and administrative expenses	38,178	40,512	359,356
Provision for possible loan losses	157	4,525	1,477
Losses on disposal of fixed assets	12	16	112
Losses on impairment of long-lived assets	63		592
Other expenses	1,193	989	11,229
Total expenses	52,532	64,572	494,465
Income before income taxes	17,897	12,356	168,458
Income taxes:			
Current	5,851	4,930	55,073
Deferred	(266)	(1,333)	(2,503)
Total income taxes	5,585	3,597	52,569
Net income	¥ 12,311	¥ 8,759	$ 115,879

Non-Consolidated Financial Statements (Unaudited)

The Higo Bank, Ltd.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2018 and 2017

	Millions of yen		
	Common stock	Capital surplus	Retained earnings
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 April 1, 2017	¥ 18,128	¥ 8,133	¥ 229,930
Cash dividends			(4,227)
Net income			12,311
Reversal of excess of land revaluation			15
Net change in the year			
Balance at March 31, 2018	¥ 18,128	¥ 8,133	¥ 238,030

	Millions of yen				
	Valuation and translation adjustments				
	Unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
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 April 1, 2017	¥ 35,745	¥ (3,498)	¥ 6,088	¥ 38,334	¥ 294,527
Cash dividends					(4,227)
Net income					12,311
Reversal of excess of land revaluation					15
Net change in the year	(1,527)	1,632	(15)	88	88
Balance at March 31, 2018	¥ 34,217	¥ (1,866)	¥ 6,072	¥ 38,423	¥ 302,716

The Higo Bank, Ltd.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2018 and 2017

	Thousands of U.S. dollars		
	Common stock	Capital surplus	Retained earnings
Balance at April 1, 2017	$ 170,632	$ 76,553	$ 2,164,250
Cash dividends			(39,787)
Net income			115,879
Reversal of excess of land revaluation			141
Net change in the year			
Balance at March 31, 2018	$ 170,632	$ 76,553	$ 2,240,493

	Thousands of U.S. dollars				
	Valuation and translation adjustments				
	Unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
Balance at April 1, 2017	$ 336,455	$ (32,925)	$ 57,304	$ 360,824	$ 2,772,279
Cash dividends					(39,787)
Net income					115,879
Reversal of excess of land revaluation					141
Net change in the year	(14,373)	15,361	(141)	828	828
Balance at March 31, 2018	$ 322,072	$ (17,564)	$ 57,153	$ 361,662	$ 2,849,359

Non-Consolidated Financial Statements (Unaudited)

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Balance Sheet

March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
ASSETS:			
Cash and due from banks	¥ 260,314	¥ 176,282	$ 2,450,244
Call loans	857		8,066
Monetary claims purchased	8,968	9,043	84,412
Trading securities	2,974	1,515	27,993
Money held in trust	12,967	13,913	122,053
Securities	862,067	1,017,102	8,114,335
Loans and bills discounted	3,239,867	3,050,166	30,495,736
Foreign exchange assets	6,323	6,767	59,516
Other assets	23,211	6,359	218,477
Fixed assets	56,007	54,673	527,174
Intangible assets	3,618	3,692	34,054
Prepaid pension cost	8,788	9,037	82,718
Customers' liabilities for acceptances and guarantees	23,741	23,595	223,465
Reserve for possible loan losses	(40,832)	(42,014)	(384,337)
Total assets	¥ 4,468,875	¥ 4,330,136	$ 42,063,958
LIABILITIES AND EQUITY:			
Liabilities:			
Deposits	¥ 3,896,639	¥ 3,746,091	$ 36,677,701
Payables under repurchase agreements	12,577		118,382
Borrowing under securities lending transactions	83,450	135,136	785,485
Borrowed money	110,037	91,137	1,035,739
Foreign exchange liabilities	81	25	762
Other liabilities	15,932	14,725	149,962
Reserve for retirement benefits	1,745	1,796	16,425
Reserve for repayments for dormant deposits	1,058	902	9,958
Reserve for contingent losses	245	223	2,306
Deferred tax liabilities	4,146	3,761	39,024
Deferred tax liabilities related to land revaluation	6,949	6,950	65,408
Acceptances and guarantees	23,741	23,595	223,465
Total liabilities	4,156,605	4,024,344	39,124,670
Equity			
Common stock	18,130	18,130	170,651
Capital surplus	11,204	11,204	105,459
Retained earnings	229,313	222,553	2,158,443
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	38,572	38,931	363,064
Deferred gains (losses) on derivatives under hedge accounting	(10)	(81)	(94)
Excess of land revaluation	15,058	15,053	141,735
Total valuation and translation adjustments	53,620	53,902	504,706
Total equity	312,269	305,791	2,939,278
Total liabilities and equity	¥ 4,468,875	¥ 4,330,136	$ 42,063,958

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Income

Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	**2017**	**2018**
Income:			
Interest income:			
Interest on loans and discounts	¥ 36,119	¥ 36,597	$ 339,975
Interest and dividends on securities	11,543	11,302	108,650
Other interest income	95	127	894
Fees and commissions income	10,213	10,927	96,131
Other operating income	977	3,785	9,196
Gain on disposal of fixed assets		0	
Other income	7,793	10,181	73,352
Total income	66,742	72,922	628,219
Expenses:			
Interest expenses:			
Interest on deposits	702	819	6,607
Other interest expenses	1,449	1,831	13,638
Fees and commissions expenses	5,477	4,814	51,553
Other operating expenses	4,403	5,781	41,443
General and administrative expenses	34,416	35,934	323,945
Provision for possible loan losses	3,539	5,583	33,311
Losses on disposal of fixed assets	94	58	884
Losses on impairment of long-lived assets		549	
Other expenses	1,044	1,993	9,826
Total expenses	51,125	57,370	481,221
Income before income taxes	15,616	15,553	146,987
Income taxes:			
Current	4,272	5,424	40,210
Deferred	352	(713)	3,313
Total income taxes	4,624	4,710	43,524
Net income	¥ 10,991	¥ 10,842	$ 103,454

Non-Consolidated Financial Statements (Unaudited)

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2018 and 2017

	Millions of yen		
	Common stock	Capital surplus	Retained earnings
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 April 1, 2017	¥ 18,130	¥ 11,204	¥ 222,553
Cash dividends			(4,227)
Net income			10,991
Reversal of excess of land revaluation			(4)
Net change in the year			
Balance at March 31, 2018	¥ 18,130	¥ 11,204	¥ 229,313

	Millions of yen				
	Valuation and translation adjustments				
	Unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
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 April 1, 2017	¥ 38,931	¥ (81)	¥ 15,053	¥ 53,902	¥ 305,791
Cash dividends					(4,227)
Net income					10,991
Reversal of excess of land revaluation					(4)
Net change in the year	(358)	71	4	(281)	(281)
Balance at March 31, 2018	¥ 38,572	¥ (10)	¥ 15,058	¥ 53,620	¥ 312,269

THE KAGOSHIMA BANK, LTD.

Non-Consolidated Statement of Changes in Equity

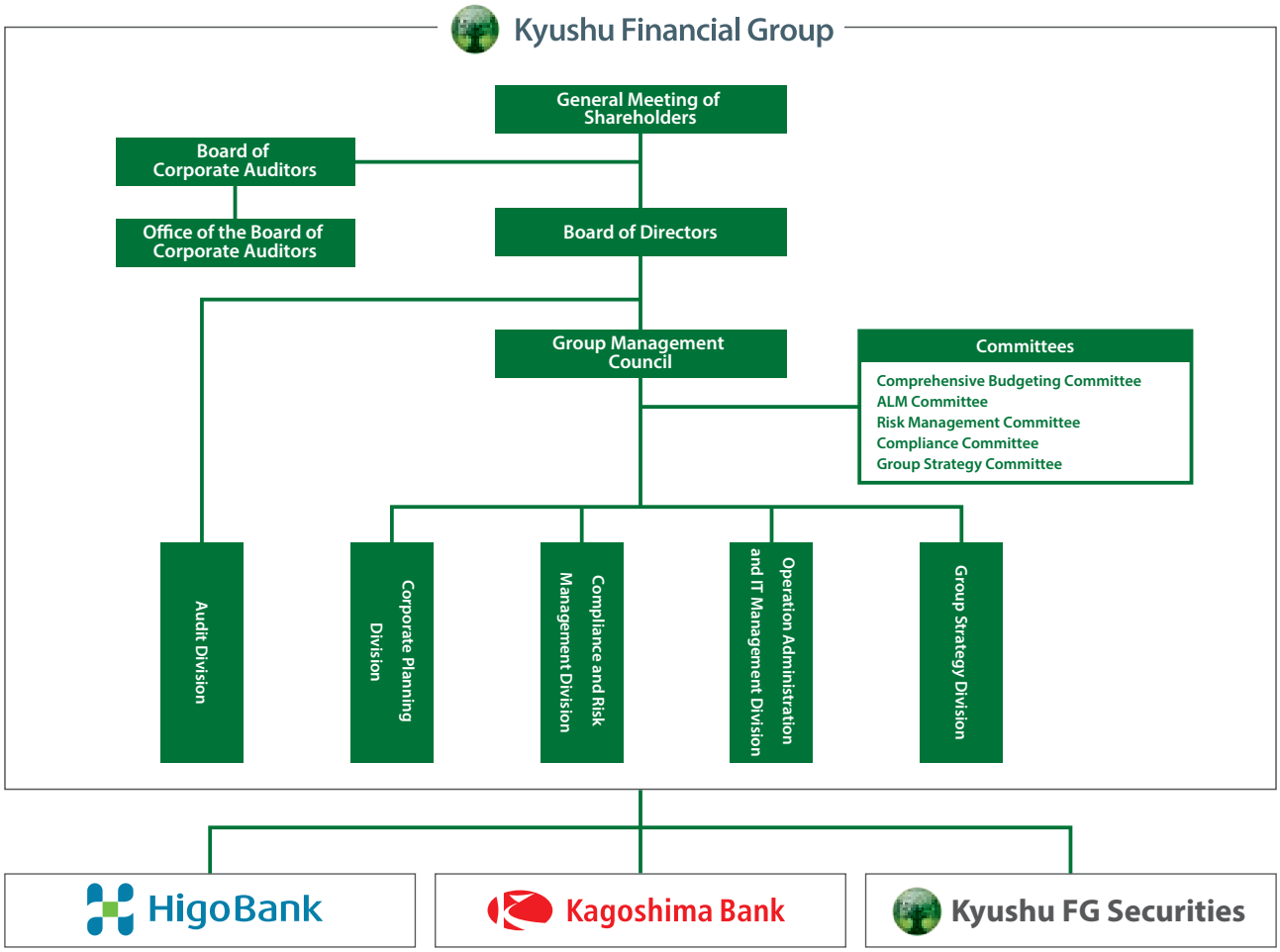
Years ended March 31, 2018 and 2017

	Thousands of U.S. dollars		
	Common stock	Capital surplus	Retained earnings
Balance at April 1, 2017	$ 170,651	$ 105,459	$ 2,094,813
Cash dividends			(39,787)
Net income			103,454
Reversal of excess of land revaluation			(37)
Net change in the year			
Balance at March 31, 2018	$ 170,651	$ 105,459	$ 2,158,443

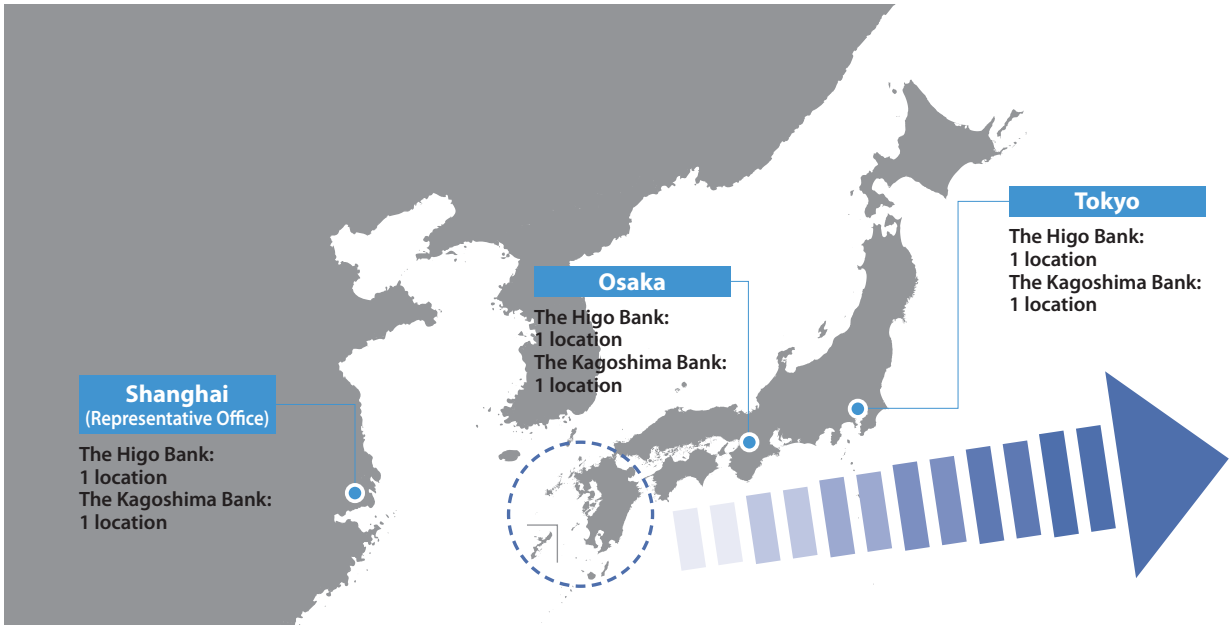
	Thousands of U.S. dollars				
	Valuation and translation adjustments				
	Unrealized gains on available-for-sale securities	Deferred losses on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
Balance at April 1, 2017	$ 366,443	$ (762)	$ 141,688	$ 507,360	$ 2,878,303
Cash dividends					(39,787)
Net income					103,454
Reversal of excess of land revaluation					(37)
Net change in the year	(3,369)	668	37	(2,644)	(2,644)
Balance at March 31, 2018	$ 363,064	$ (94)	$ 141,735	$ 504,706	$ 2,939,278

Corporate Data

Organizational Chart (As of June 1, 2018)



Network of the Kyushu Financial Group



(As of the end of March 2018)

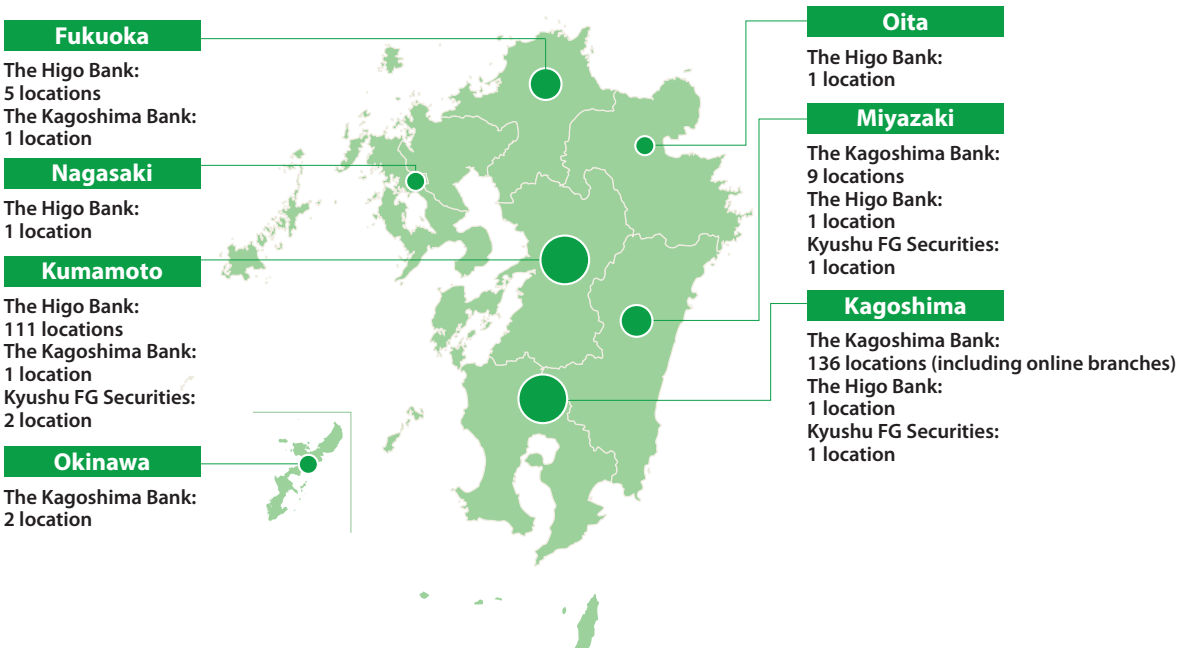
Total Number of Shares

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
Japan Trustee & Services Bank, Ltd. (Trust account)	15,142	3.33
The Bank of Fukuoka, Ltd.	12,620	2.77
The Master Trust Bank of Japan, Ltd. (Trust account)	11,168	2.45
Takara Kogyo Co., Ltd.	8,258	1.81
Iwasaki Sangyo Co., Ltd.	7,616	1.67
Kagoshima Bank Employees' Shareholding Association	7,569	1.66
Nippon Life Insurance Company	7,361	1.61
The Dai-ichi Life Insurance Company, Limited	7,209	1.58

(Note 1) Number of shares is rounded down to the nearest thousand.
(Note 2) Equity stake is calculated by subtracting treasury stock (8,861,730 shares) from the total number of issued shares and rounded down to the second decimal place.



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