

# Annual Report 2019



Kyushu Financial Group



HigoBank



Kagoshima Bank



Kyushu FG Securities



# CREATING A PROSPEROUS FUTURE TOGETHER WITH KYUSHU

## 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.

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### 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.



# 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):	652,317 billion yen
Total assets (consolidated):	10,444,589 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, Renpeicho, Chuo-ku, Kumamoto-shi, Kumamoto prefecture
Number of Branches:	124* (118 main branch and branches, 5 subbranches, 1 overseas representative office)
Number of Employees:	2,191

\*As of the end of July 2019

## The Kagoshima Bank, Ltd.



Established:	October 6, 1879
Capital:	18.130 billion yen
Head Office:	6-6, Kinseicho, Kagoshima-shi, Kagoshima prefecture
Number of Branches:	153* (115 main branch and branches, 15 subbranches, 21 agencies, 2 overseas representative office)
Number of Employees:	2,149

\*As of the end of July 2019

## Kyushu FG Securities, Inc.

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

## Long-term Ratings

 Kyushu FG Rating and Investment Information, Inc. <b>A+</b>	 Higo Bank Rating and Investment Information, Inc. <b>A+</b>	 S&P Global Ratings Japan Inc. <b>A-</b>	 Kagoshima Bank Rating and Investment Information, Inc. <b>A+</b>	 S&P Global Ratings Japan Inc. <b>A-</b>
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(As of the end of March 2019)

## Message from the Management

The Kyushu Financial Group will aim to become a comprehensive financial group which will be truly favored by customers and permanently contribute to the realization of a sustainable regional society.

President and Representative Director,  
**Yoshihisa Kasahara**



Thank you for your continued support of the Kyushu Financial Group.

At the Board of Directors meeting held after the recent Ordinary General Meeting of Shareholders, I was honored to have been appointed President and Representative Director. Together with the officers and employees of the Group, I will continue to work toward the further growth and development of the region. I would like to take this opportunity to seek your further patronage and support.

### Business environment

The Japanese economy in FY2018 continued its path of moderate recovery against a background of steady growth in the global economy. Personal spending held firm based on improvements in the income and employment environments, and, while there was some weakness in housing investment and public spending, capital investment increased. On the other hand, while the economy is projected to keep up its expansionary momentum, the slowdown in overseas economies, including the effects of trade friction

between the United States and China, is expected to have an impact, leading to the weakening of exports and capital investment.

The management environment surrounding regional banks will remain severe due to population decline, the impact of negative interest rate policies, and other factors. Banks will also need to take action in response to digital technological innovations accompanying the progress in FinTech.

### Key initiatives in FY2018

The Group established the 2nd Medium-Term Management Plan (Integration Stage) in April 2018. Aiming to be “Kyushu’s top comprehensive financial group for customers,” the Group is working on enhanced corporate value and sustainable growth of the Group with a basic strategy including three items: “evolution into a Group that co-creates regional vitality,” “strengthening of Group’s human resources,” and “raise the level of Group governance.”

During FY2018, the first year of the Plan, Kyushu FG Securities, which began operations in January 2018, worked with both Higo Bank and Kagoshima Bank (hereinafter “Both Banks”) on sales of products that use a Kyushu FG Securities account. As a result of the efforts to correspond to customers’ needs and requests, the amount of sales of deposited assets (excluding public bonds and insurance) through cooperation between banks and securities reached 75.0 billion yen, showing a positive start.

To contribute to regional revitalization, the Group promoted efforts on providing solutions for customers and regions such as promoting investments and loans through funds jointly established and invested in by Both Banks, identifying and nurturing

next-generation businesses through the “Kumamoto Tech Grand Prix” and “Future Creation Plan Contest,” and support for strengthening businesses in the fields of agriculture, forestry, and fisheries as well as promoting tourism.

With the aim of promoting the integration of the Group, we have implemented ongoing exchanges involving transfers of personnel, in addition to joint training. Also aiming to further bolster benefits for Group employees and promote workstyle reform, the Group introduced a unified “selective defined contribution pension plan,” an early-morning work attendance system, an interval work attendance system, and a staggered work attendance system.

In addition, the Company has made the decision to construct a head office building as a further exertion of the Group’s combined strength. Not only bringing together head office functions and raising productivity, we will also create an environmentally-friendly, healthy, and comfortable office environment and contribute to ensuring the safety of the region with the aim of improved safety in the event of a large-scale disaster.

## Initiatives in FY2019

Both Banks began their own trust businesses in April 2019, which was the first direct approach as a bank of a regional financial group in Kyushu. Through connections between “banks, securities, and trusts,” we will provide one-stop services matched to the customer’s stage of life in terms of “saving,” “growing,” and “bequeathing.”

In April 2019, Kagoshima Bank opened a representative office in Taipei, which will strengthen its links with existing representative offices operated by Both Banks in Shanghai, and support the broader development of customers.

In addition, in July 2019, the Company’s Fukuoka Building opened in Fukuoka City, which will be tenanted by Group companies including the Kagoshima Bank Fukuoka Branch, Higo Bank Fukuoka Branch (Fukuoka corporate sales office), and the Kyushu Economic Research Institute, and strengthen its function as a sales and information base in Fukuoka.

Moreover, we will further promote the integration of the Group and work on initiatives to improve productivity and raise the level of Group governance.

Going forward, as a regional comprehensive financial group with its main management foundation in South Kyushu, we will

work on connecting metropolitan/urban and overseas areas with the region for evolution into a “Group that co-creates regional vitality” so that a “vigorous regional society and economy” can be achieved together with customers and local regions.



Kyushu Financial Group Fukuoka Building

## Toward the realization of a sustainable regional society

The Group is working on initiatives to assist in sustainable economic development and the creation of sustainable communities in the region. To reinforce these initiatives further, we established the Sustainability Management Office, with the goal of taking on perspectives such as those of Sustainable Development Goals (SDGs) drawn up by the United Nations, and of Environmental,

Social and Governance (ESG), in order to systematically manage sustainable business activities for the Group as a whole. We also drew up a “Sustainability Declaration,” becoming the first regional bank in Kyushu to do so. In addition to social contribution activities such as nature conservation, the Group is reinforcing initiatives aimed at resolving issues faced by the region and society.

### Sustainability Declaration

#### 1. Initiatives for the creation of a sustainable society

We will work on the creation of a society where each customer and person in the region can feel happiness and satisfaction over the future through environmentally-friendly management practices.

We, the Kyushu Financial Group, support the concept of SDGs established by the United Nations and declare that officers and employees of the Group will responsibly work on the SDGs.

#### 2. Initiatives for growth of the regional economy

We will contribute to the sustainable growth of the regional economy by making full use of the strengths of a regional comprehensive financial group, and assisting customers and local regions in solving their issues.

#### 3. Initiatives for dissemination and expansion

We will have closer dialogue with customers and local regions, and expand our network of activities to make the overall region a sustainable society.

## Our mission

The Group aims to be “Kyushu’s top comprehensive financial group for customers,” and provides comprehensive financial services tailored to each of our customers in addition to making lasting contributions to the creation of sustainable regional

communities that take into account the special characteristics of the region.

We sincerely appreciate your further support and encouragement.

# Financial Highlights



## Kyushu Financial Group

(Millions of yen)

Item	Year ended March 31, 2019	Year-to-year change	Year ended March 31, 2018
Ordinary income	170,322	5,625	164,696
Ordinary profit	33,717	4,336	29,381
Net income attributable to owners of the parent	22,202	2,807	19,395
Capital adequacy ratio	11.34%	(0.45%)	11.79%



## HigoBank

(Millions of yen)

Item	Year ended March 31, 2019	Year-to-year change	Year ended March 31, 2018
Ordinary income	75,658	5,229	70,428
Gross income from business	52,174	(29)	52,203
Expenses	36,129	(1,056)	37,186
Net income from core business	15,614	894	14,720
Net income from business	16,177	3	16,173
Ordinary profit	18,170	199	17,971
Net income	12,495	183	12,311



## Kagoshima Bank

(Millions of yen)

Item	Year ended March 31, 2019	Year-to-year change	Year ended March 31, 2018
Ordinary income	65,327	(1,415)	66,742
Gross income from business	51,646	4,726	46,920
Expenses	33,601	(257)	33,858
Net income from core business	18,410	1,350	17,060
Net income from business	18,428	1,635	16,793
Ordinary profit	17,418	1,707	15,711
Net income	12,024	1,033	10,991



## Kyushu FG Securities

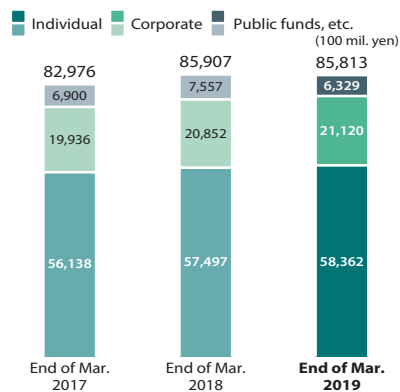
### Profit and loss

(Millions of yen)

Item	Year ended March 31, 2019	Year-to-year change	Year ended March 31, 2018
Operating revenue	1,018	999	18
Ordinary profit	(137)	381	(518)
Net income	(140)	380	(520)

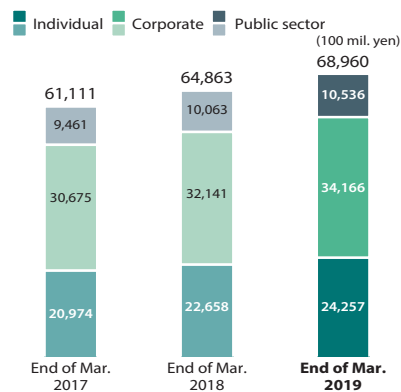
## Deposits

(Non-consolidated total of the two Banks)

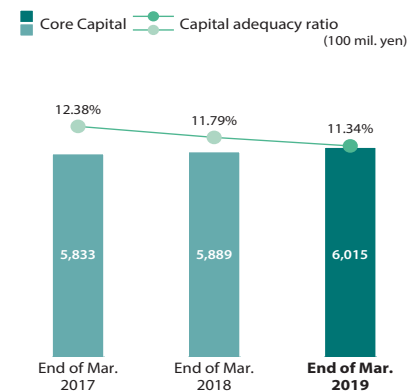


## Loans

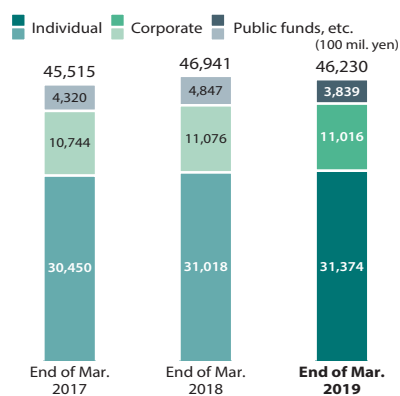
(Non-consolidated total of the two Banks)



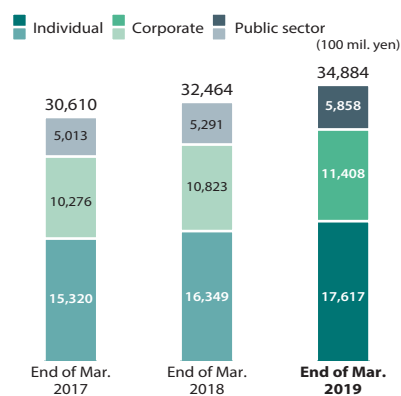
## Capital Adequacy Ratio (KFG Consolidated)



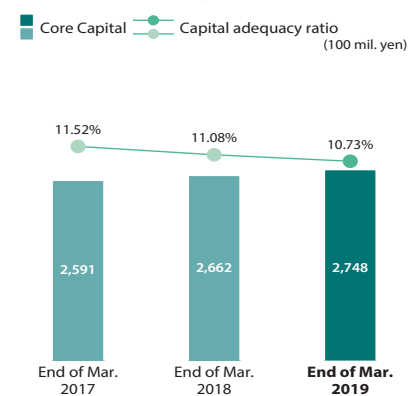
## Deposits (Higo Bank)



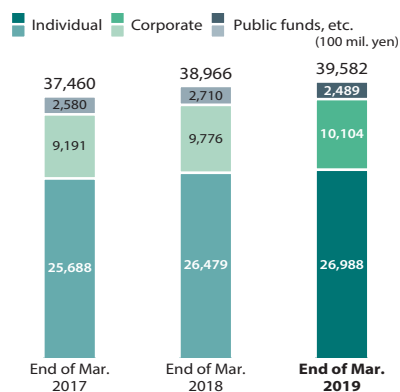
## Loans (Higo Bank)



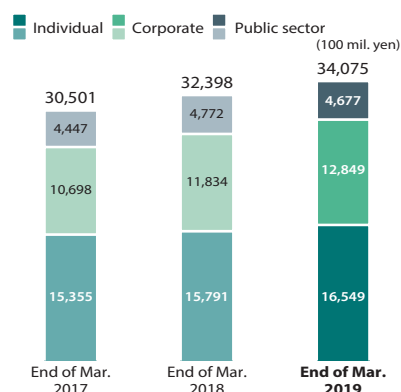
## Capital Adequacy Ratio (Higo Bank)



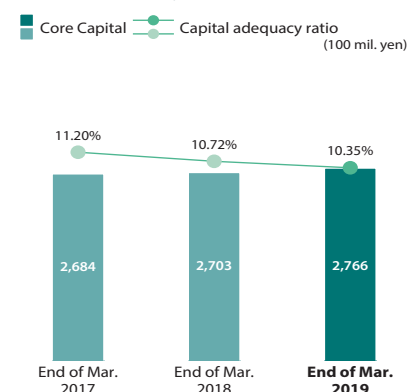
## Deposits (Kagoshima Bank)



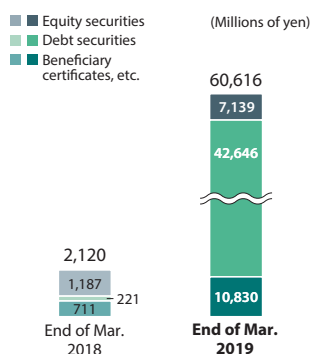
## Loans (Kagoshima Bank)



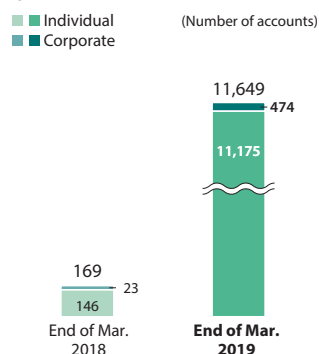
## Capital Adequacy Ratio (Kagoshima Bank)



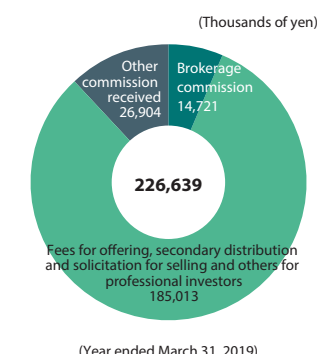
## Deposited assets



## Number of accounts (Number of accounts with balances)



## Commission received



(Reference)  
Number of accounts opened 2,131

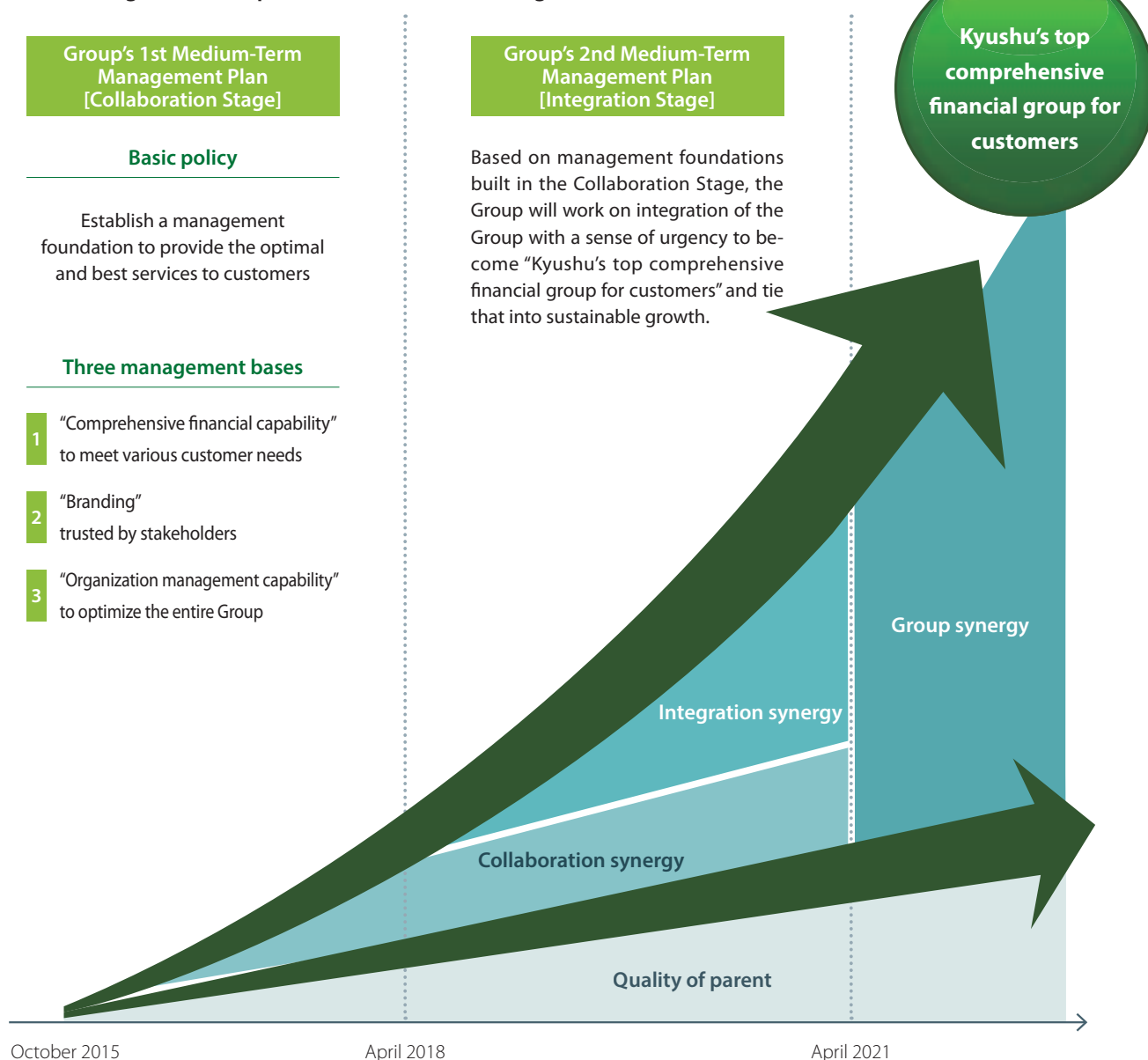
20,807

## Medium-Term Management Plan

The “Integration Stage,” which maximizes group synergy  
the management foundation built in the Collaboration

Given structural problems in the region and the management environment surrounding regional financial institutions, the Kyushu Financial Group identified the following as the Group’s management challenges: “contributing to local revitalization,” “enhancing comprehensive financial capability,” “raising the level of Group governance,” and “enhancing human resource development.” In order to grow as a regional comprehensive financial group together with customers and local regions, the Group established the 2nd Medium-Term Management Plan for enhanced corporate value and sustainable growth.

### ■ Positioning of the Group’s 2nd Medium-Term Management Plan





based on  
Stage



## Basic policy

Maximizing group synergy toward providing the optimal and best services to customers

### Basic strategy

### Strategic pillars

- |          |   |   |
|----------|---|---|
| <b>1</b> | <b>Evolution into a Group that co-creates regional vitality</b> | 1. Enhancement of regional comprehensive financial functions<br>2. Demonstration of function of promoting regional industry |
| <b>2</b> | <b>Strengthening of Group's human resources</b>                 | 1. Enhancement of human resources management<br>2. Enhancement of human resources development                               |
| <b>3</b> | <b>Raise the level of Group governance</b>                      | 1. Enhancement of business management structure<br>2. Improvement of productivity   |

## Numerical targets

	Item	Target for final year	Results for FY2018	Reference
<b>Growth</b>	Average balance of loans	¥7.6 trillion	¥6.7 trillion	Simple sum of two banks
	Average balance of deposits/NCD	¥9.2 trillion	¥8.5 trillion	
<b>Profitability</b>	Net income	¥25,000 million	¥22,200 million	Consolidated
	Business profits from services provided to customers*	¥14,000 million	¥12,100 million	
	Return on shareholders' equity	4% level	3.7%	
<b>Efficiency</b>	OHR	Under 70%	68.2%	
<b>Financial soundness</b>	Capital adequacy ratio	10% or higher	11.34%	

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

### Establishing connections between “banks, securities, and trusts”

With the launch of trust businesses by Both Banks from April 2019, we became the first regional financial group in Kyushu to have put in place within the group a system that enables the provision of one-stop services matched to customer needs such as inheritance, or to the customer's stage of life in terms of “saving,” “growing,” and “leaving.” Going forward, we will work to provide even more specialized financial products and services, so as to respond to the diversification of customer needs.



## Kyushu Financial Group



## Strengthening the Group's human resources

In order to nurture professional personnel and construct a framework for the optimal allocation of human resources to realize the strategy, the Group will work on the enhancement of human resources management and human resources development.

FY2020

### Strengthening of Group's human resources (increase human resources based on the strategy)

FY2019

### Enhancement of human resources management and human resources development

- Develop capabilities of the Group's human resources (e.g., development of capability data management tools)
- Integration of personnel systems and facilitation of personnel utilization
- Preparation for establishing a body specialized in nurturing human resources in the Group and region
- Drastic reform of hiring methods

FY2018

### Group's unified platform (facilitating integration of human resources departments)

#### Hiring

- Integration of programs (holding 11 joint job fairs, introduction of common tools for hiring and public relations, etc.)
- Establishment of unified Group hiring management

#### Development

- Implementation of "next-generation leadership development training" (January 2018 - March 2019) \*to be continued in FY2019
- Joint implementation of overseas training for branch chiefs and junior/mid-level employees, and training for new employees
- Personnel exchanges (20 employees: one year, six branch chiefs: two years) to be continued



Joint training for new employees



Joint overseas training



Personnel exchanges

#### System (benefits)

- Decision on introduction of a unified "selective defined contribution pension plan" throughout the Group in FY2020

#### Workstyle reform

- Introduction of "early-morning work attendance system," "interval work attendance system," and "staggered work attendance system," and study on introducing "flextime"
- Starting trials for teleworking (introduction of "peeping prevention system" using face recognition technology)



Teleworking

Enhance regional comprehensive financial functions/  
demonstrate function of promoting regional industry

Realize strategic allocation of human resources





# 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.

### Regional structural issues

Population outflow

Low birthrate, aging population

Shrinkage of regional industry

#### Group Management Philosophy

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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.

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We, the Kyushu Financial Group, support the concept of SDGs established by the United Nations and declare that officers and employees of the Group will responsibly work on the SDGs.

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2

#### Initiatives for growth of the regional economy

We will contribute to the sustainable growth of the regional economy by making full use of the strengths of a regional comprehensive financial group, and assisting customers and local regions in solving their issues.

3

#### Initiatives for dissemination and expansion

We will have closer dialogue with customers and local regions, and expand our network of activities to make the overall region a sustainable society.

### Key issues sustainable

#### Key issues

Creation of an environmentally friendly region

Creation of a regional foundation to support all people

Creation of a workplace and region where all people take an active part

Creation of an organization needed from the region





## addressed by the Kyushu Financial Group for the creation of regional communities

### Actions taken

- Practice environmentally responsible management and nurturing environmental awareness in the region
- Three pillars of groundwater conservation activities
  - [Forests] Cultivate watershed protection forests: Tree planting in *Aso Daikan no Mori*
  - [Rice paddies] Utilize watershed protection functions: Rice planting in *Aso Mizukake no Tanada* (Aso terraced rice paddies)
  - [Grass fields] Conserve watershed protection functions: Maintaining *Aso no Sogen* (Aso grassland)
- Promotion of disaster-resistant towns
- Promotion of ESG-related investments and loans
- Support for commercialization by utilizing regional resources
- Initiatives for CO<sub>2</sub> reduction such as reduction of use of paper resources

### Related SDGs



- Strengthen initiatives for promoting regional industry and supporting reconstruction
- Provide support for regional vitalization through support of business succession
- Provide fair financial services in the era of FinTech, IT, and cashless transactions
- Provide financial services without regional disparity
- Nurture awareness of support for the socially vulnerable
- Support to eliminate regional disparity in healthcare



- Provide financial products and services tailored to diverse needs
- Practice health management, and support for health enhancement for customers and regions
- Strengthen initiatives to empower women
- Implement financial education activities for improved financial literacy and provide equal opportunities for education
- Nurture personnel who solve customer and regional issues
- Enhancement of systems to promote diversified work styles



- Ongoing practice of Group's sound management
- Eliminate anti-social forces and eradication of social misconduct
- Develop alliances and trends to take region-wide initiatives for realization of a sustainable society



## Vision

Become Kyushu's  
top comprehensive  
financial group for  
customers

# Environment

The Kyushu Financial Group is engaged in environmentally responsible management through business activities and various social contribution activities to protect the region's rich natural environments and ensure that they can be enjoyed for generations to come.

## Amount of environment-related financing

¥14.1 billion

## Balance of environmentally responsible time deposits

¥212.5 billion

## Support for recommendations of the Task Force on Climate-related Financial Disclosures

In 2019, we showed our support for the recommendations of the "Task Force on Climate-related Financial Disclosures (TCFD\*)." We will proceed with analysis of risks and opportunities of businesses affected by climate change, and counter them through disclosure of related information.



\*The private sector-led task force was established according to the recommendations of the Financial Stability Board in December 2015 for the purpose of reinforced disclosure of corporate information concerning climate change.

<b>Governance</b>	<ul style="list-style-type: none"> <li>● In March 2019, deliberations on the "Guideline for Investments and Loans" were made at the Group Management Council to promote investments and loans that would solve environmental and social issues including climate change, with a report made to the Board of Directors</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>● Identify environmental and social issues to be addressed with priority (identify material issues for the entire sustainability framework)</li> <li>● Support for decarbonation initiatives (reduction of CO<sub>2</sub>) under the "Guideline for Investments and Loans"</li> <li>● Initiatives for promotion of renewable energy</li> </ul>
<b>Risk management</b>	<ul style="list-style-type: none"> <li>● Establish a comprehensive risk management system including credit risk management and operational risk management</li> </ul>
<b>Goal and numerical targets</b>	<ul style="list-style-type: none"> <li>● Calculate greenhouse gas emissions for Higo Bank and Kagoshima Bank</li> </ul>

## Participation in the TCFD Consortium

For the effective disclosure of climate-related information, we take advantage of the TCFD Consortium (\*) and exchange information with other corporations and financial institutions which support these recommendations.

\*TCFD Consortium

Established on May 27, 2019, as a body for discussions on initiatives for effective information disclosure by companies and for proper investment decisions by financial institutions based on information disclosed.

Related  
SDGs



Tackling environmental issues through social contribution activities (Eco-friendly bank branches, groundwater conservation activities, etc.)

### Three pillars of groundwater conservation activities

Higo Bank is working on groundwater conservation activities with “forests,” “rice paddies,” and “grasslands” as the three pillars.

#### Forests

#### Cultivate watershed protection forests

Tree planting in *Aso Daikan no Mori*

Number of trees planted: 130 thousand trees (cumulative total)

#### Rice paddies

#### Utilize watershed protection functions

Rice planting in *Aso Mizukake no Tanada* (Aso terraced rice paddies)

Rice planted area: 10 ha (cumulative total)

#### Grass-lands

#### Conserve watershed protection functions

Maintaining *Aso no Sogen* (Aso grassland)



### Kagoshima Environment Partners Agreement

As a part of environmental conservation activities, Kagoshima Bank signed the “Kagoshima Environment Partners Agreement” with Kagoshima Prefecture. Based on this Agreement, we participate in the “afforestation project by companies to nurture the environment” and work on forest management focused on thinning. With the expansion of the afforestation project, we will contribute to environmental conservation by reinforcing forest functions to absorb CO<sub>2</sub> and other multilateral functions such as landslide disaster prevention.



### “National Park Official Partner” agreement

We are carrying out initiatives to promote tourism at the national park areas located in Kumamoto and Kagoshima, 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

### Creation of eco-friendly bank branches

The Group aims at creating its branches to be in harmony with the townscape, with consideration on environmental aspects and barrier-free designs.



Eco-friendly bank branch

# Society

The Kyushu Financial Group will support regional long-term growth and create a “vigorous regional society and economy” together with local regions and customers by demonstrating regional comprehensive financial functions and regional industry promotion function.

Joint funds  
Cumulative total\* ¥8.7 billion

Loans executed  
for supporting  
restoration ¥234.7 billion

\*The amount of joint funds indicates cumulative results from October 2015 to March 2019 while other items indicate results for FY2018.

## Regional revitalization

### Partnerships with local governments

Aiming at realizing a “vigorous regional society and economy” which is essential for sustainable regional development, we have partnership agreements with local governments concerning regional revitalization and utilization of regional resources such as historic buildings and agricultural products.

Higo Bank

- **Comprehensive Collaboration Agreement on Regional Revitalization**  
Kumamoto City, Aso City, Uki City, and Mashiki Town
- **Collaboration Agreement on Utilization of Historic Buildings, etc.**  
Hitoyoshi City and Kosa Town



Kagoshima Bank

- **Agreement relating to Mutual Cooperation and Collaboration for Regional Revitalization**  
Minamikyushu City, Satsuma Town, Kirishima City, Kimotsuki Town, Ebino City, and Ibusuki City
- **Comprehensive Business Cooperation Agreement, etc.**  
Hioki City, Satsumasendai City, Minamisatsuma City, Tarumizu City, and Kanoya City

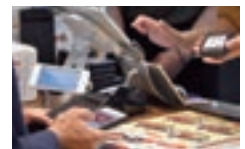


### Support for founders

We held a contest to support entrepreneurs and students who are going to take a new step with a vision for regional vitalization and nurturing venture-minded people.

### Promotion of cashless transactions

“YOCADO KAGOSHIMA,” a commercial facility located on the first and second floors of the Annex Building, Head



Office, Kagoshima Bank, opened in June 2019, introduced cashless settlement at all stores. Through taking active initiatives as a bank that handles cash, the bank is facilitating the spread of cashless settlement in the region.

## Diversity and work-life balance

### Empowerment of women

We actively work on such initiatives as “support for balancing work with childcare and nursing care,” “training for career development,” and “work style reform.”

■ **Female managers** As of March 31, 2019

Higo Bank

24  
people

Kagoshima Bank

11  
people

■ **Childcare support** Results in FY2018

Number of staff who  
took childcare leave

135  
people

Number of staff on  
short-time working

46  
people

### In-house daycare centers

In-house daycare centers are established to provide an environment where people can work and raise children without worry.



Higokko no Mori Daycare Center



Kagin Daycare Center Yumeiro



## Related SDGs



## Regional contribution

### Promotion of culture and sports

#### Recovery and restoration of cultural artifacts

The Group's donated a total amount of 2.0 billion yen in three years to help recover and restore cultural artifacts affected by the Kumamoto Earthquake, such as Kumamoto Castle and Aso Shrine.



Donation ceremony

#### Support for local sport teams

In addition to support and volunteering activities for the Kumamoto Castle Marathon and Kagoshima Marathon, we have entered into contracts as an official partner of Kagoshima United FC (soccer team) and Kagoshima Rebnise (basketball team) to take active initiatives for promoting sports.



Commemorating the official partner contract with Kagoshima United FC

#### Promotion of regional sports

We are working to contribute to the region through athletic sports by providing opportunities for female track and field athletes within the prefecture.



Higo Bank Women's Ekiden Club



Kagoshima Bank Athletics Club

#### Sponsorship for Women's Handball World Championship

As an official sponsor of the Women's Handball World Championship 2019, we contribute to regional vitalization through sports.



Sponsorship for Women's Handball World Championship 2019

## Social contribution

#### Bank on wheels

HarmoniCar, a bank on wheels, is operated with the goals of improving customer convenience and facilitating business continuity planning (BCP) during times of disaster. We provide financial services in areas with few bank branches, event sites, and other various places.



#### Financial education

As a part of financial education for elementary school students, a "money class" is conducted every year. In 2019, an SDGs learning program was launched for children to develop their "skills for living sustainably." We also hold the Kagoshima regional tournament of the All Japan High School Economics Quiz Tournament (Economics Koshien).



Money class

#### Sponsorship for Smile Baby Project

The "Hajimetebako (first box)" is handed out to families raising children in Kagoshima Prefecture. Kagoshima Bank offers goods featuring our original character "SHIRODON" to encourage the healthy growth of children who will create the future.



Hajimetebako (first box)

#### Privately-placed bonds that include donations

In commemoration of the issuance of privately-placed bonds by our partners, we donate educational materials and other goods to schools designated by our partners. We are actively working on offering learning opportunities including study, sports, and cultural activities for children to encourage their future growth.



# Corporate Governance

## Basic Philosophy on Corporate Governance

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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

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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.

### ➤ Nominating and Remuneration Committee

This Committee meets to discuss matters related to the nomination and remuneration of management and Corporate Auditors with the aim of providing a venue for Representative Directors and outside officers to exchange opinions, etc., to raise the transparency and fairness of the decision-making process, and to assist in strengthening corporate governance.

### ➤ 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.

Related  
SDGs



## 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.

(Organizational Integration and Headquarters Building Construction Committee)

Combines Group organization and functions (integration, consolidation and unification), and conducts discussions on construction of the headquarters building

(New Business Development Committee)

Mainly discusses new businesses that contribute to strengthened consolidated Group revenue, the development of new revenue streams, as well as new markets in and outside Japan and in the Group's business domain

(Digital Innovation Committee)

Formulates policies and strategies for utilizing and developing a foundation for digital technology that transforms the Group's marketing, business processes, and other areas, and discusses their realization and effectiveness

(Comprehensive Budgeting Committee)

Formulates the Group comprehensive budget based on the Medium-Term Management Plan, manages progress and operates the risk appetite framework

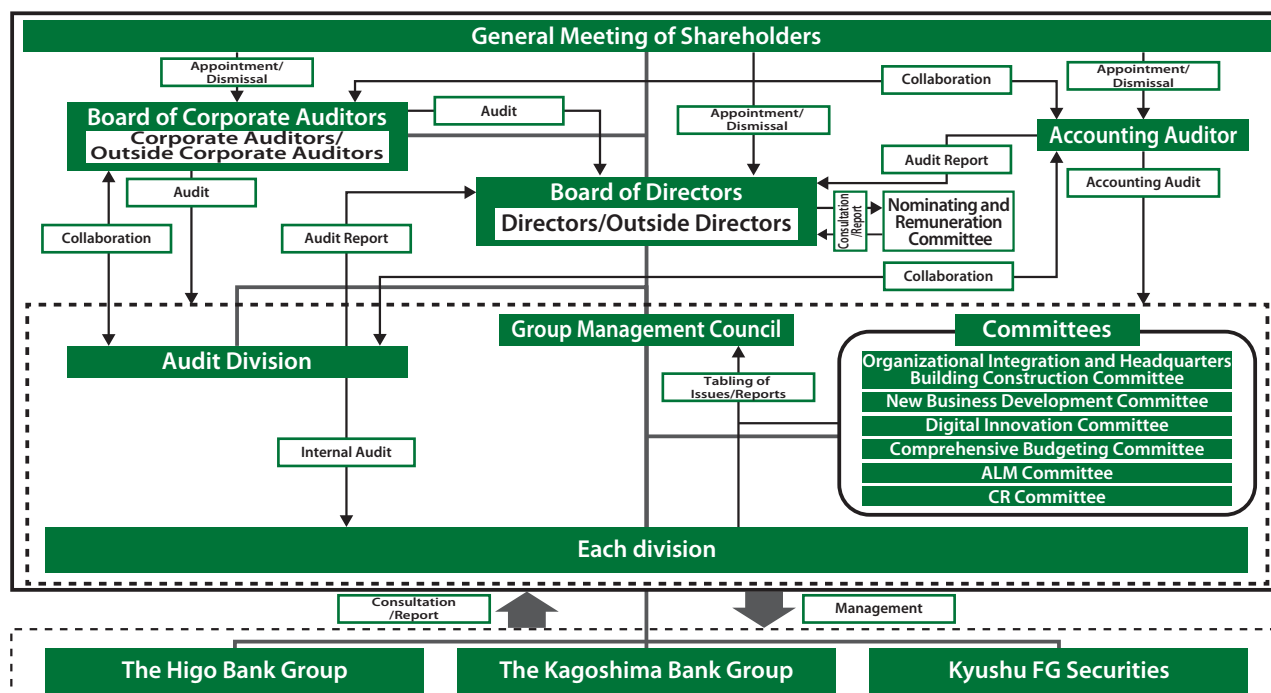
(ALM Committee)

Comprehensively manages assets and liabilities for the entire Group, and performs revenue management against risks

(CR Committee)

Manages the Group's strict compliance with laws, regulations, customer protection and other issues, as well as comprehensively manages such points as operational risk

## Corporate Governance Framework



## 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.

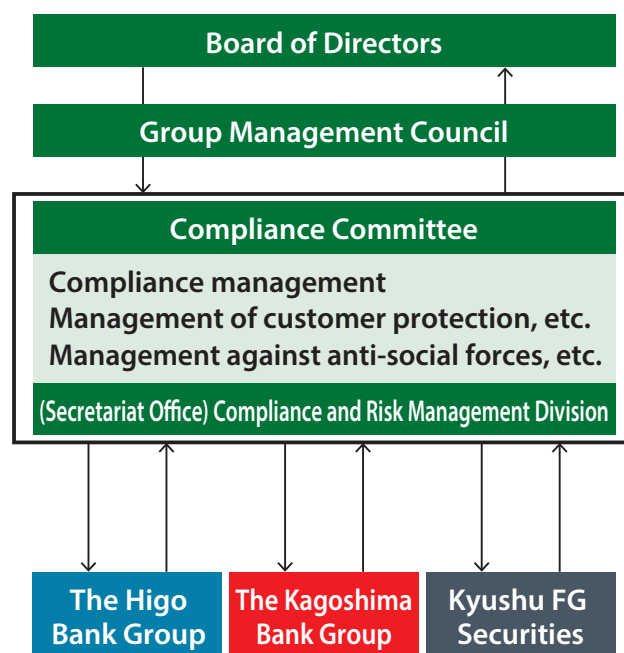
1. We recognize our social responsibilities and public mission, and we earn the trust of society through the sound and appropriate operation of our business.
2. We adhere to laws and regulations, rules and internal regulations, and we carry out sincere and fair corporate activities based on social norms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



## Initiatives for preventing money laundering, etc.

With the Group's recognition that the deterrence of organized crime by preventing money laundering and terrorism financing (“money laundering, etc.”) is a universal issue, the Group is fully committed to preventing money laundering, etc., as one of the highest priorities in the management of its business, and complies with all relevant laws and regulations to address the issue. Specifically, the Group establishes unified policies and regulations for the issue throughout the Group, ensures conducting checks at the time of transaction, detects any unusual transactions through systems and other tools, and makes notification on any suspicious transactions to prevent money laundering, etc.

[Basic Policies for Preventing Money Laundering and Terrorism Financing]

Kyushu Financial Group (hereafter, “Kyushu FG”) is fully committed to preventing money laundering, etc., as one of the highest priorities in the management of its business. As such, Kyushu FG shall comply with all relevant laws and regulations, and shall establish effective control environments.

### 1. Involvement of management

The management fully understands that money laundering, etc., can be a major operational risk to Kyushu FG. Therefore, Kyushu FG shall come up with a system of sophisticated measures to prevent money laundering, etc. in an independent and proactive manner.

### 2. Risk-based approaches

Kyushu FG shall take into consideration the results of national risk assessments (National Risk Assessment of Money Laundering and Terrorist Financing) etc., as part of comprehensive and concrete investigations on risks pertaining to its products and services, forms



of transactions, regions and countries involved in transactions, and customer attributes. Kyushu FG shall identify and assess potential risks like money laundering, etc., and shall come up with suitable measures to reduce risks.

3. Customer management

Kyushu FG shall conduct appropriate checks at the time of transaction and manage customers in accordance with the customer's attributes and the transaction at hand. In addition, Kyushu FG shall conduct regular surveys and analysis of transaction records and revise its customer management measures accordingly.

4. Economic sanctions and the freezing of assets

Kyushu FG shall take appropriate approaches to dealing with those who are the target of economic sanctions, including the cessation of business relations and the freezing of assets.

5. Notification of suspicious transactions

Kyushu FG shall take appropriate steps to notify the authorities in the event it encounters suspicious transactions in the course of its routine work and monitoring. In addition, if necessary, Kyushu FG shall use the situation surrounding the notification to reinforce its own management stance.

6. Management of correspondent banks

Kyushu FG shall regularly check up on a correspondent bank's management stance to money laundering, etc. In the event that the correspondent bank turns out to be a shell bank or an institution that is allowed to be used by a shell bank, Kyushu FG shall not enter into or continue contracts with the correspondent bank in question.

7. Implementation of training, etc.

Kyushu FG shall conduct appropriate and ongoing training according to the roles of staff, and maintain and improve its expertise and suitability as an organization as a whole by enhancing its understanding of issues relating to the prevention of money laundering, etc., among all employees.

8. Inspections of compliance status

Kyushu FG shall regularly inspect its compliance status in terms of the prevention of money laundering, etc., and work to make ongoing improvements based on the results of these inspections.

## Exclusion of Anti-Social Forces

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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."

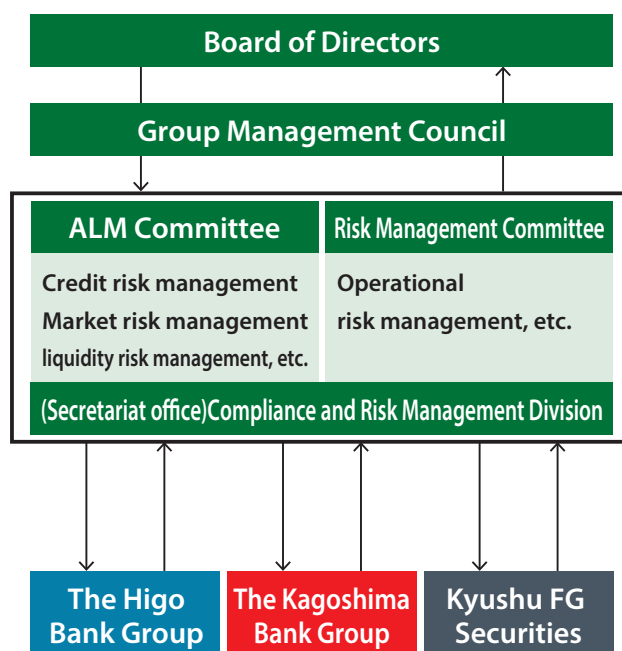
1. Any inappropriate demands by anti-social forces shall be met with a legal response, both civilly and criminally, by the entire organization.
2. Close relations shall be built from peacetime with outside specialist organizations, such as police and lawyers, etc., to prepare a response against anti-social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

# Management



**Chairman and Representative Director**  
**Sumihiro Matsuyama**

(President, The Kagoshima Bank, Ltd.)



**President and Representative Director**  
**Yoshihisa Kasahara**

(President of The Higo 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 and Executive Officer, General Manager of Corporate Planning Division**  
**Toru Hayashida**



**Director and Executive Officer, General Manager of Business Strategy Division**  
**Tadataka Tokunaga**



**Director**  
**Takahiro Kai**

(Chairman of The Higo Bank, Ltd.)



**Director**  
**Motohiro Kamimura**

(Chairman of The Kagoshima Bank, Ltd.)



**Director (Outside)**  
**Katsuaki Watanabe**

(Corporate Auditor of Sumitomo Electric Industries, Ltd.)



**Director (Outside)**  
**Yuji Nemoto**

(Professor of Toyo University)



**Corporate Auditor (Full-time)**  
**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**  
**Seiji Yamamoto**

**Executive Officer**  
**Takeshi Jinnouchi**

(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 October 1, 2019)



# Review of Financial Results

## Operating Results

Regarding operating results for the current consolidated fiscal year, ordinary income increased 5,625 million yen from the previous consolidated fiscal year to 170,322 million yen due to an increase in other operating income and other factors resulting from an increase in gains on sales of securities including Japanese government bonds.

On the other hand, ordinary expenses increased 1,288 million yen from the previous consolidated fiscal year to 136,604 million yen due to an increase in other operating expenses resulting from an increase in losses on sales of securities including Japanese government bonds and an increase in other expenses, and other factors due to an increase in loss on impairment of securities.

As a result, ordinary profit increased 4,336 million yen from the previous consolidated fiscal year to 33,717 million yen. Meanwhile, net income attributable to owners of parent increased 2,807 million yen from the previous consolidated fiscal year to 22,202 million yen.

Results by business segments are as follows.

### a. Banking business

Ordinary income increased 3,706 million yen from the previous consolidated fiscal year to 140,878 million yen, and segment profit increased 1,906 million yen from the previous consolidated fiscal year to 35,588 million yen.

### b. Leasing business

Ordinary income decreased 1,413 million yen from the previous consolidated fiscal year to 30,510 million yen, and segment profit increased 169 million yen from the previous consolidated fiscal year to 1,596 million yen.

### c. Others

Ordinary income increased 1,503 million yen from the previous consolidated fiscal year to 9,284 million yen, and segment profit increased 480 million yen from the previous consolidated fiscal year to 1,125 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 32,408 million yen, despite an increase of 33,194 million yen from the previous consolidated fiscal year, due to an increase in negotiable certificates of deposits and other factors.

Net cash provided by investing activities amounted to 325,890 million yen, up 72,178 million yen from the previous consolidated fiscal year, due proceeds from redemption of securities and other factors.

Net cash used in financing activities amounted to 8,243 million yen, down 2,784 million yen from the previous consolidated fiscal year due to payments for purchase of treasury stock and other factors.

As a result of the above, the balance of cash and cash equivalents at the end of the current consolidated fiscal year increased 285,249 million yen from the end of the previous consolidated fiscal year to 1,208,955 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 360,549 million yen from the end of the previous consolidated fiscal year to 10,444,589 million yen, and total equity increased 18,769 million yen from the end of the previous consolidated fiscal year to 652,317 million yen.

Regarding the balances of primary accounting items, the balance of deposits decreased 5,436 million yen from the end of the previous consolidated fiscal year to 8,567,557 million yen.

The balance of loans and bills discounted increased 406,939 million yen from the end of the previous consolidated fiscal year to 6,853,138 million yen.

The balance of securities decreased 291,296 million yen from the end of the previous consolidated fiscal year to 2,012,855 million yen.

### 2) Operating results

Regarding operating results for the current consolidated fiscal year, ordinary income increased 5,625 million yen from the previous consolidated fiscal year to 170,322 million yen due to an increase in other operating income and other factors resulting from an increase in gains on sales of securities including Japanese government bonds.

On the other hand, ordinary expenses increased 1,288 million yen from the previous consolidated fiscal year to 136,604 million yen due to an increase in other operating expenses resulting from an increase in losses on sales of securities including Japanese government bonds and an increase in other expenses, and other factors due to an increase in loss on impairment of securities.

As a result, ordinary profit increased 4,336 million yen from the previous consolidated fiscal year to 33,717 million yen. Meanwhile, net income attributable to owners of parent increased 2,807 million yen from the previous consolidated fiscal year to 22,202 million yen.

# Consolidated Financial Statements

Kyushu Financial Group, Inc. and its Consolidated Subsidiaries

## Consolidated Balance Sheet

March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>ASSETS:</b>			
Cash and due from banks (Notes 3 and 14)	¥ 1,211,471	¥ 926,404	\$ 10,915,136
Call loans and bills bought (Note 14)	314	41,184	2,829
Monetary claims purchased	10,557	10,505	95,116
Trading assets (Notes 4 and 14)	1,183	3,426	10,658
Money held in trust (Note 5)	18,621	17,955	167,771
Securities (Notes 4, 8, and 14)	2,012,855	2,304,151	18,135,462
Loans and bills discounted (Notes 6, 9, and 14)	6,853,138	6,446,199	61,745,544
Foreign exchange assets	12,419	14,387	111,892
Lease receivables and investment assets (Note 8)	52,606	51,338	473,970
Other assets (Note 8)	191,314	190,602	1,723,704
Fixed assets (Note 7)	98,306	92,647	885,719
Intangible assets (Note 7)	9,317	9,746	83,944
Asset for retirement benefits (Note 10)	5,857	6,152	52,770
Deferred tax assets (Note 13)	972	1,091	8,757
Customers' liabilities for acceptances and guarantees	33,893	34,335	305,369
Reserve for possible loan losses (Note 14)	(68,241)	(66,089)	(614,839)
Total assets	¥ 10,444,589	¥ 10,084,039	\$ 94,103,874
<b>LIABILITIES AND EQUITY:</b>			
<b>Liabilities:</b>			
Deposits (Notes 8 and 14)	¥ 8,567,557	¥ 8,572,993	\$ 77,192,152
Payables under repurchase agreements (Notes 8 and 14)	207,630	161,458	1,870,709
Borrowing under securities lending transactions (Notes 8 and 14)	479,347	305,962	4,318,830
Trading liabilities		5	
Borrowed money (Notes 8 and 14)	402,402	299,159	3,625,569
Other liabilities	81,712	57,197	736,210
Liability for retirement benefits (Note 10)	2,785	2,811	25,092
Reserve for repayments for dormant deposits	2,267	2,215	20,425
Reserve for contingent losses	484	489	4,360
Reserve under special laws	0	0	0
Deferred tax liabilities (Note 13)	10,114	9,687	91,125
Deferred tax liabilities related to land revaluation (Note 2(g))	4,076	4,173	36,724
Acceptances and guarantees	33,893	34,335	305,369
Total liabilities	9,792,272	9,450,491	88,226,615
<b>Equity (Note 11):</b>			
Common stock			
authorized, 1,000,000,000 shares;			
issued, 463,375,978 shares in 2019 and 2018	36,000	36,000	324,353
Capital surplus	198,362	194,112	1,787,206
Retained earnings	366,087	349,103	3,298,378
Treasury stock, at cost, 11,862,526 shares in 2019 and 8,861,730 shares in 2018	(5,270)	(3,601)	(47,481)
Accumulated other comprehensive income:			
Unrealized gains (losses) on available-for-sale securities (Note 4)	58,987	48,255	531,462
Deferred gains (losses) on derivatives under hedge accounting	(7,915)	(1,876)	(71,312)
Excess of land revaluation (Note 2(g))	5,855	6,072	52,752
Defined retirement benefit plans (Note 10)	(3,575)	(3,254)	(32,210)
Total accumulated other comprehensive income	53,350	49,196	480,673
Noncontrolling interests	3,788	8,737	34,129
Total equity	652,317	633,548	5,877,259
Total liabilities and equity	¥ 10,444,589	¥ 10,084,039	\$ 94,103,874

See notes to consolidated financial statements.

**Consolidated Statement of Income**

Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 70,254	¥ 69,501	\$ 632,975
Interest and dividends on securities	27,446	25,888	247,283
Other interest income	418	377	3,766
Fees and commissions income	21,661	21,370	195,161
Trading income	827	69	7,451
Other operating income	41,002	36,489	369,420
Other income (Note 12)	8,825	10,999	79,511
Total income	170,437	164,697	1,535,606
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	904	1,358	8,144
Other interest expenses	6,856	6,009	61,771
Fees and commissions expenses	8,132	9,086	73,267
Trading expenses		0	
Other operating expenses	36,658	35,199	330,282
General and administrative expenses	75,645	76,564	681,547
Provision for possible loan losses	3,809	4,573	34,318
Losses on impairment of long-lived assets	92	63	828
Other expenses	4,971	2,627	44,787
Total expenses	137,070	135,481	1,234,976
<b>Income before income taxes</b>	33,366	29,216	300,621
<b>Income taxes (Note 13):</b>			
Current	12,185	11,200	109,784
Deferred	(1,484)	(1,792)	(13,370)
Total income taxes	10,701	9,407	96,414
<b>Net income</b>	22,665	19,808	204,207
<b>Net income attributable to noncontrolling interests</b>	462	412	4,162
<b>Net income attributable to owners of the parent</b>	¥ 22,202	¥ 19,395	\$ 200,036
<b>Per share of common stock (Note 2 (o)):</b>			
Basic net income	¥ 49.12	¥ 42.67	\$ 0.44
Cash dividends applicable to the year	12.00	12.00	0.10

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, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Net income</b>	¥ 22,665	¥ 19,808	\$ 204,207
<b>Other comprehensive income (Note 16):</b>			
Unrealized gains (losses) on available-for-sale securities	10,708	2,381	96,477
Deferred gains (losses) on derivatives under hedge accounting	(6,039)	1,703	(54,410)
Defined retirement benefit plans	(321)	78	(2,892)
Total other comprehensive income	4,347	4,163	39,165
<b>Comprehensive income</b>	¥ 27,012	¥ 23,971	\$ 243,373
<b>Total comprehensive income attributable to:</b>			
Owners of the parent	¥ 26,574	¥ 23,495	\$ 239,426
Noncontrolling interests	438	476	3,946

See notes to consolidated financial statements.



Kyushu Financial Group, Inc. and its Consolidated Subsidiaries  
**Consolidated Statement of Changes in Equity**  
Year ended March 31, 2019

	Thousands	Millions of yen			
	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock
<b>Balance at April 1, 2017</b>	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					
<b>Balance at March 31, 2018</b>	463,375	36,000	194,112	349,103	(3,601)
Purchase of shares of consolidated subsidiaries			4,249		
Cash dividends, ¥12.00 per share				(5,436)	
Net income attributable to owners of the parent				22,202	
Purchase of treasury stock					(1,668)
Disposal of treasury stock			(0)		0
Reversal of excess of land revaluation				217	
Net change in the year					
<b>Balance at March 31, 2019</b>	463,375	¥ 36,000	¥ 198,362	¥ 366,087	¥ (5,270)

	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
<b>Balance at April 1, 2017</b>	¥ 45,937	¥ (3,580)	¥ 6,088	¥ (3,332)	¥ 45,112	¥ 8,265
Cash dividends, ¥12.00 per share						
Net income attributable to owners of the parent						
Purchase of treasury stock						
Disposal of treasury stock						
Reversal of excess of land revaluation						
Net change in the year	2,317	1,703	(15)	78	4,083	472
<b>Balance at March 31, 2018</b>	48,255	(1,876)	6,072	(3,254)	49,196	8,737
Purchase of shares of consolidated subsidiaries						
Cash dividends, ¥12.00 per share						
Net income attributable to owners of the parent						
Purchase of treasury stock						
Disposal of treasury stock						
Reversal of excess of land revaluation						
Net change in the year	10,731	(6,039)	(217)	(321)	4,154	(4,949)
<b>Balance at March 31, 2019</b>	¥ 58,987	¥ (7,915)	¥ 5,855	¥ (3,575)	¥ 53,350	¥ 3,788

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, 2019

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Treasury stock
<b>Balance at March 31, 2018</b>	\$ 324,353	\$ 1,748,914	\$ 3,145,355	\$ (32,444)
Purchase of shares of consolidated subsidiaries		38,282		
Cash dividends, \$0.10 per share			(48,977)	
Net income attributable to owners of the parent			200,036	
Purchase of treasury stock				(15,028)
Disposal of treasury stock		(0)		0
Reversal of excess of land revaluation			1,955	
Net change in the year				
<b>Balance at March 31, 2019</b>	<u>\$ 324,353</u>	<u>\$ 1,787,206</u>	<u>\$ 3,298,378</u>	<u>\$ (47,481)</u>

	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
<b>Balance at March 31, 2018</b>	\$ 434,768	\$ (16,902)	\$ 54,707	\$ (29,317)	\$ 443,247	\$ 78,718	\$ 5,708,153
Purchase of shares of consolidated subsidiaries							38,282
Cash dividends, \$0.10 per share							(48,977)
Net income attributable to owners of the parent							200,036
Purchase of treasury stock							(15,028)
Disposal of treasury stock							0
Reversal of excess of land revaluation							1,955
Net change in the year	96,684	(54,410)	(1,955)	(2,892)	37,426	(44,589)	(7,162)
<b>Balance at March 31, 2019</b>	<u>\$ 531,462</u>	<u>\$ (71,312)</u>	<u>\$ 52,752</u>	<u>\$ (32,210)</u>	<u>\$ 480,673</u>	<u>\$ 34,129</u>	<u>\$ 5,877,259</u>

See notes to consolidated financial statements.

**Consolidated Statement of Cash Flows**

Year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Operating activities:</b>			
Income before income taxes	¥ 33,366	¥ 29,216	\$ 300,621
Adjustments for:			
Income taxes paid	(10,040)	(11,530)	(90,458)
Depreciation and amortization	7,212	7,679	64,978
Losses on impairment of long-lived assets	92	63	828
Increase (decrease) in reserve for possible loan losses	2,151	(583)	19,380
(Increase) decrease in asset for retirement benefits	294	536	2,648
Increase (decrease) in liability for retirement benefits	(25)	(7,399)	(225)
Increase (decrease) in reserve for repayments for dormant deposits	51	498	459
Increase (decrease) in reserve for contingent losses	(4)	(2)	(36)
Interest and dividend income	(98,120)	(95,768)	(884,043)
Interest expenses	7,760	7,367	69,916
(Gains) losses on securities	(4,300)	(1,152)	(38,742)
(Gains) losses on money held in trust	164	(268)	1,477
Net (increase) decrease in trading assets	2,243	(1,421)	20,209
Net (increase) decrease in loans and bills discounted	(406,939)	(375,736)	(3,666,447)
Net increase (decrease) in deposits	(5,437)	290,527	(48,986)
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	103,242	20,273	930,191
Net (increase) decrease in due from banks (excluding deposits paid to the Bank of Japan)	183	(792)	1,648
Net (increase) decrease in call loans and others	40,816	(40,868)	367,744
Net increase (decrease) in call money and others		(90,000)	
Net increase (decrease) in payables under repurchase agreements	46,172	143,932	416,001
Net increase (decrease) in borrowing under securities lending transactions	173,384	72,071	1,562,158
Net (increase) decrease in lease receivables and investment assets	(1,268)	(2,126)	(11,424)
Interest received	100,368	100,303	904,297
Interest paid	(7,718)	(7,426)	(69,537)
Other	(16,061)	(102,996)	(144,706)
Total adjustments	(65,774)	(94,818)	(592,611)
Net cash used in operating activities	(32,408)	(65,602)	(291,990)
<b>Investing activities:</b>			
Payments for purchase of securities	(1,744,197)	(824,230)	(15,714,902)
Proceeds from sales of securities	482,494	472,857	4,347,184
Proceeds from redemption of securities	1,600,974	614,197	14,424,488
Increase in money held in trust	(14,239)	(2,296)	(128,290)
Decrease in money held in trust	13,303	3,083	119,857
Payments for purchase of fixed assets	(10,196)	(6,563)	(91,864)
Proceeds from sales of fixed assets	566	35	5,099
Payments for purchase of intangible assets	(2,814)	(3,370)	(25,353)
Net cash provided by investing activities	325,890	253,711	2,936,210
<b>Financing activities:</b>			
Cash dividends paid	(5,436)	(5,454)	(48,977)
Cash dividends paid to noncontrolling interests	(4)	(4)	(36)
Payments for purchases of treasury stock	(1,668)	(0)	(15,028)
Proceeds from sales of treasury stock	0	0	0
Payments for purchases of shares of subsidiaries that do not result in change in scope of consolidation	(1,134)		(10,217)
Net cash used in financing activities	(8,243)	(5,458)	(74,267)
Foreign currency translation adjustments on cash and cash equivalents	10	1	90
Net increase (decrease) in cash and cash equivalents	285,249	182,651	2,570,042
Cash and cash equivalents at beginning of year	923,705	741,053	8,322,416
Cash and cash equivalents at end of year (Note 3)	¥ 1,208,955	¥ 923,705	\$ 10,892,467

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, 2019

## 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 ¥110.99 to \$1.00, the approximate rate of exchange at March 31, 2019. 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 consolidated subsidiaries as of March 31, 2019 and 2018.

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.

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### **c. Cash and cash equivalents**

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

### **d. Foreign currency translation**

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

### **e. Trading assets/liabilities and trading income/expenses**

Trading transactions of consolidated subsidiaries, which are engaged in banking business and financial instruments business intended to take advantage of short-term fluctuations and arbitrage opportunities in interest rates, currency exchange rates, market prices of securities, and related indices, are recognized on a trade-date basis and recorded in trading assets or trading liabilities in the consolidated balance sheet. Income or expenses generated on the relevant trading transactions are recorded in trading income or trading expenses in the consolidated statement of income.

Securities and other monetary claims held for trading purposes are stated at fair value at the consolidated balance sheet date. Derivative financial products, such as swaps, forward contracts, and option transactions, are stated at fair value, assuming that such transactions were terminated and settled at the consolidated balance sheet date.

Trading income and trading expenses include the interest received and interest paid during the fiscal year; the gains or losses resulting from any change in the value of securities and other monetary claims between the beginning and the end of the fiscal year and the gains or losses resulting from any change in the value of financial derivatives between the beginning and the end of the fiscal year, assuming they were settled at the end of the fiscal year.

### **f. Financial instruments**

#### **i) Securities**

Held-to-maturity debt securities are stated at amortized cost as determined using the moving-average method. Available-for-sale securities, with market quotations, are stated at the market prices prevailing on the consolidated balance sheet date. Cost of sales of such securities is determined using the moving-average method. Net unrealized gains or losses on these securities, net of taxes, are reported in a separate component of equity. Available-for-sale securities, the market quotations of which are extremely difficult to obtain, are stated at cost as determined using the moving-average method. For other-than-temporary declines in fair value, securities are reduced to net realizable value by a charge to income. Securities included in money held in trusts managed separately, the primary objective of which is to invest, are stated at market prices. In addition, investments in unconsolidated subsidiaries and affiliated companies that are not accounted for by the equity method are stated at cost as determined using the moving-average method.

#### **ii) Derivatives**

Derivatives other than those designated as "Trading assets and trading liabilities" (see (e) Trading assets/liabilities and trading income/expenses) are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see iii) Hedge accounting below).

#### **iii) Hedge accounting**

##### **a) Hedge of interest rate risks**

The banking consolidated subsidiaries apply deferral hedge accounting to hedges of interest rate risk associated with financial assets and liabilities in accordance with the Industry Audit Committee Report No. 24, "Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry," issued on February 13, 2002, by the Japanese Institute of Certified Public Accountants (JICPA). Under this rule, the effectiveness of cash flow hedges and hedges for the purpose of reducing interest rate fluctuation risk of loans and debt securities is assessed based on the correlation between a base interest rate index of the hedged items and that of the hedging instruments. Specific matching criteria are not measured at fair value, but the net payments or receipts under the swap agreements are recognized and included in interest expenses or income.



## Notes to Consolidated Financial Statements

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### b) Hedge of foreign currency exchange risks

The banking consolidated subsidiaries apply the deferral method of hedge accounting for hedges of the risks arising from financial assets and liabilities due to the fluctuation of foreign exchange rates, which is described in "Treatment for Accounting and Auditing of Application of Accounting Standard for Foreign Currency Transactions in Banking Industry," issued on July 29, 2002 (the JICPA Industry Audit Committee Report No. 25). The banking consolidated subsidiaries assess the effectiveness of hedging instruments executed for reducing the risk of changes in currency exchange rates with currency swaps or foreign exchange swaps by verifying that there exist foreign currency positions of the hedging instruments corresponding to the foreign currency monetary assets and liabilities to be hedged.

### g. Fixed assets and intangible assets

#### i) Fixed assets and intangible assets are stated at cost, less accumulated depreciation

Depreciation of fixed assets owned by the Company and the banking consolidated subsidiaries is computed using the declining-balance method, while the straight-line method is applied to buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016. The range of useful lives is principally from 19 to 50 years for buildings and from 2 to 20 years for other fixed assets. Tangible fixed assets of other consolidated subsidiaries are principally depreciated using the declining-balance method over the estimated useful lives of the assets.

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

#### ii) Land revaluation

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

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

The carrying amount of the land after the above one-time revaluation exceeded the fair value by ¥9,610 million (\$86,584 thousand) and ¥11,015 million as of March 31, 2019 and 2018, respectively.

### h. Long-lived assets

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

### i. Reserve for possible loan losses

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

Reserve for possible loan losses is provided based on historical loan-loss ratio computed for a certain period in the past for claims to normal borrowers and claims to borrowers who need attention as stipulated by the "Practical Guidelines for Audits of the Self-Assessment of Assets of Financial Institutions Including Banks, Write-Down and Allowance for Doubtful Accounts," issued on July 4, 2012 (the JICPA Ad Hoc Committee for Audit of Banks, etc., Report No. 4).

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

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

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

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

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

## **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 451,924 thousand shares and 454,514 thousand shares for the years ended March 31, 2019 and 2018, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2019 and 2018, 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.

## Notes to Consolidated Financial Statements

### 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
	2019	2018	2019
Cash and due from banks	¥ 1,211,471	¥ 926,404	\$ 10,915,136
Other due from banks	(2,515)	(2,699)	(22,659)
Cash and cash equivalents	¥ 1,208,955	¥ 923,705	\$ 10,892,467

## 4. Securities

The costs and aggregate fair values of securities at March 31, 2019 and 2018, 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		
	2019		
	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	¥ 1,183		
Available-for-sale:			
Equity securities	136,393	¥ 107,436	¥ 28,957
Debt securities	1,246,106	1,222,564	23,543
Other	600,695	569,954	30,740
Held-to-maturity:			
Debt securities	14,830	14,716	114
	Millions of yen		
	2018		
	Fair value	Cost	Net unrealized gains (losses)
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

	Thousands of U.S. dollars		
	2019		
	Fair value	Cost	Net unrealized gains (losses)
Securities classified as:			
Trading	\$ 10,658		
Available-for-sale:			
Equity securities	1,228,876	\$ 967,979	\$ 260,897
Debt securities	11,227,191	11,015,082	212,118
Other	5,412,154	5,135,183	276,961
Held-to-maturity:			
Debt securities	133,615	132,588	1,027

Securities included equity investments in unconsolidated subsidiaries and affiliated companies that amounted to ¥3,641 million (\$32,804 thousand) and ¥3,458 million as of March 31, 2019 and 2018, respectively.

Securities lending based on noncollateralized special contracts were included in debt securities and amounted to ¥65,289 million (\$588,242 thousand) and ¥58,005 million as of March 31, 2019 and 2018, respectively.

Guarantee obligations for private placement bonds, out of bonds included in securities, amounted to ¥20,825 million (\$187,629 thousand) and ¥20,135 million as of March 31, 2019 and 2018, respectively.

Unlisted equity securities and other securities without readily available fair values, amounting to ¥14,941 million (\$134,615 thousand) and ¥11,971 million as of March 31, 2019 and 2018, respectively, were not included in the table above.

The information of held-to-maturity securities that were sold for the years ended March 31, 2019 and 2018, was as follows:

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

	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		
	2019		
	Cost of sales	Proceeds	Realized gains (losses)
Held-to-maturity securities:			
Japanese government bonds			
Municipal government bonds			
Corporate bonds	\$ 1,351	\$ 1,360	\$ 9
Other			
Total	\$ 1,351	\$ 1,360	\$ 9

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

## Notes to Consolidated Financial Statements

The information of available-for-sale securities that were sold for the years ended March 31, 2019 and 2018, was as follows:

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

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

Thousands of U.S. dollars			
2019			
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	\$ 330,074	\$ 52,923	\$ 10,676
Debt securities	1,295,576	48,022	25,047
Other	2,301,801	30,570	50,346
Total	\$ 3,927,461	\$ 131,525	\$ 86,079

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, 2019 and 2018, was ¥747 million (\$6,730 thousand) and nil, 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, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Valuation differences:			
Available-for-sale securities	¥ 83,242	¥ 67,824	\$ 749,995
Deferred tax liabilities	(24,071)	(19,361)	(216,875)
Noncontrolling interests	(183)	(207)	(1,648)
Unrealized gains on available-for-sale securities	¥ 58,987	¥ 48,255	\$ 531,462



## 5. Money Held in Trust

The carrying amounts and unrealized gains (losses) of money held in trust as of March 31, 2019 and 2018, were as follows:

Money held in trust held for trading

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Carrying amounts	¥ 15,851	¥ 17,815	\$ 142,814
Unrealized gains (losses) credited to income	(6)	(193)	(54)

Money held in trust other than those held for trading purposes or held to maturity as of March 31, 2019 and 2018 were as follows:

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

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

	Thousands of U.S. dollars		
	2019		
	Carrying amount	Cost	Net unrealized gains (losses)
Other money held in trust	\$ 24,957	\$ 24,957	

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, 2019 and 2018, included the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bankruptcy loans	¥ 3,098	¥ 2,473	\$ 27,912
Past-due loans	81,465	83,980	733,985
Loans past due for three months or more	179	198	1,612
Restructured loans	46,756	53,742	421,263
Total	¥ 131,500	¥ 140,394	\$ 1,184,791

## Notes to Consolidated Financial Statements

Bankruptcy loans represent nonaccrual loans to borrowers who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation (Article 97 of 1965 Cabinet Order).

Past-due loans represent nonaccrual loans other than bankruptcy loans and loans for which payments of interest are deferred in order to assist or facilitate the restructuring of borrowers in financial difficulties.

Loans past due for three months or more include loans for which payments of principal or interest are delinquent by three months or more, as calculated from the day following the contracted payment date, but do not include bankruptcy loans or past-due loans.

Restructured loans represent loans on which contracts were amended in favor of borrowers (e.g., reduction of, or exemption from, stated interest, deferral of interest payments, extension of maturity dates, and renunciation of claims) in order to assist or facilitate the restructuring of borrowers in financial difficulties, but do not include bankruptcy loans, past-due loans, or loans past due for three months.

Loans include discounted bills amounting to ¥21,877 million (\$197,107 thousand) and ¥23,040 million as of March 31, 2019 and 2018, respectively. The Group is entitled, without limitation, to sell or pledge these discounted bills.

The carrying amounts of loan participations, which were accounted for as loans to original debtors in accordance with "Accounting and Presentation of Loan Participation" issued on November 28, 2014 (the JICPA Accounting System Committee Report No. 3), were ¥2,985 million (\$26,894 thousand) and ¥1,811 million as of March 31, 2019 and 2018, respectively.

## 7. Fixed Assets and Intangible Assets

Fixed assets as of March 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings	¥ 27,728	¥ 28,780	\$ 249,824
Land	50,494	50,225	454,941
Construction in progress	9,268	2,475	83,503
Other	10,815	11,166	97,441
<b>Total</b>	<b>¥ 98,306</b>	<b>¥ 92,647</b>	<b>\$ 885,719</b>

Accumulated depreciation as of March 31, 2019 and 2018, amounted to ¥72,947 million (\$657,239 thousand) and ¥72,044 million, respectively.

Deferred gains for tax purposes as of March 31, 2019 and 2018, amounted to ¥3,517 million (\$31,687 thousand) and ¥3,424 million, respectively.

Intangible assets as of March 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Software	¥ 9,002	¥ 9,430	\$ 81,106
Other	315	315	2,838
<b>Total</b>	<b>¥ 9,317</b>	<b>¥ 9,746</b>	<b>\$ 83,944</b>

## 8. Assets Pledged

Assets pledged as collateral as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Securities	¥ 1,226,049	¥ 1,001,423	\$ 11,046,481
Lease receivables and investment assets	1,815	1,708	16,352
Other		4	
Total	¥ 1,227,864	¥ 1,003,137	\$ 11,062,834

Liabilities related to the above assets pledged as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deposits	¥ 46,433	¥ 32,908	\$ 418,353
Payables under repurchase agreements	207,630	158,393	1,870,709
Borrowing under securities-lending transactions	479,347	301,903	4,318,830
Borrowed money	387,693	284,658	3,493,044

In addition, securities amounting to nil and ¥13,854 million and other assets amounting to ¥115,696 million (\$1,042,400 thousand) and ¥108,096 million were pledged as collateral for settlement of exchange and other transactions with designated financial institutions, etc., as of March 31, 2019 and 2018, respectively.

Guarantee deposits amounting to ¥715 million (\$6,442 thousand) and ¥703 million, cash collateral for financial instruments amounting to ¥9,679 million (\$87,206 thousand) and ¥4,646 million, and deposits to a central counterparty of ¥12,635 million (\$113,839 thousand) and ¥13,201 million were included in other assets as of March 31, 2019 and 2018, 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, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Original maturity is within one year or the Group can cancel at any time without any penalty	¥ 1,480,118	¥ 1,500,599	\$ 13,335,597
Other	42,943	47,326	386,908
Total	¥ 1,523,061	¥ 1,547,925	\$ 13,722,506

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.

## Notes to Consolidated Financial Statements

### 10. Retirement and Pension Plans

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

(a) The changes in defined benefit obligation for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥ 63,320	¥ 63,209	\$ 570,501
Current service cost	1,862	1,869	16,776
Interest cost	248	297	2,234
Actuarial (gains) losses	687	1,528	6,189
Benefits paid	(3,410)	(3,585)	(30,723)
Balance at end of year	¥ 62,709	¥ 63,320	\$ 564,996

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

(b) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at beginning of year	¥ 66,661	¥ 59,687	\$ 600,603
Expected return on plan assets	1,956	1,953	17,623
Actuarial gains (losses)	(983)	291	(8,856)
Contributions from the employer	1,247	1,264	11,235
Benefits paid	(2,806)	(2,811)	(25,281)
Amount of contribution to retirement benefit trust		7,000	
Partial return of retirement benefit trusts	(294)	(724)	(2,648)
Balance at end of year	¥ 65,781	¥ 66,661	\$ 592,675

(c) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2019 and 2018, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Funded defined benefit obligation	¥ 60,542	¥ 61,246	\$ 545,472
Plan assets	(65,781)	(66,661)	(592,675)
Total	(5,238)	(5,414)	(47,193)
Unfunded defined benefit obligation	2,166	2,073	19,515
Net (asset) liability arising from defined benefit obligation	¥ (3,071)	¥ (3,340)	\$ (27,669)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Liability for retirement benefits	¥ 2,785	¥ 2,811	\$ 25,092
Asset for retirement benefits	(5,857)	(6,152)	(52,770)
Net (asset) liability arising from defined benefit obligation	¥ (3,071)	¥ (3,340)	\$ (27,669)

(d) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current service cost	¥ 1,862	¥ 1,869	\$ 16,776
Interest cost	248	297	2,234
Expected return on plan assets	(1,956)	(1,953)	(17,623)
Recognized actuarial (gains) losses	1,209	1,350	10,892
Amortization of prior service cost			
Extra retirement payments		0	
Net periodic benefit costs	¥ 1,363	¥ 1,564	\$ 12,280

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

(e) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service cost			
Actuarial (losses) gains	¥ (461)	¥ 112	\$ (4,153)
Total	¥ (461)	¥ 112	\$ (4,153)

(f) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service cost			
Unrecognized actuarial (gains) losses	¥ 5,137	¥ 4,675	\$ 46,283
Total	¥ 5,137	¥ 4,675	\$ 46,283

(g) Plan assets

a) Components of plan assets

Plan assets as of March 31, 2019 and 2018, consisted of the following:

	2019	2018
Debt investments	26%	26%
Equity investments	24	24
General account of life insurance companies	35	34
Others	15	16
Total	100%	100%

(Note) Retirement benefit trusts set against the corporate pension plans and lump-sum retirement benefit plans accounted for 16% of the total plan assets for the years ended March 31, 2019 and 2018.



## Notes to Consolidated Financial Statements

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

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

(h) Assumptions used for the years ended March 31, 2019 and 2018, were set forth as follows:

	2019	2018
Discount rate	0.2% or 0.3%	0.3% or 0.4%
Expected rate of return on plan assets:		
Plan assets (excluding the retirement benefit trust)	3.0% or 3.5%	2.5% or 4.5%
Retirement benefit trust	0.5% or 2.0%	0.5% or 4.0%
Expected rate of salary increase	3.6% or 5.8%	3.7% or 6.4%

## 11. Equity

Japanese banks are subject to the Companies Act of Japan (the "Companies Act") and the Banking Law. The significant provisions in the Companies Act and the Banking Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having the Board of Directors, (2) having independent auditors, (3) having the Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all of the above criteria.

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

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act and the Banking Law provide certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve, and surplus

The Banking Law requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 100% of common stock. Under the Companies Act, the total amount of additional paid-in common stock and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts under certain conditions upon resolution by the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock upon resolution by the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined using a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 12. Other Income

Other income included gains on sales of stocks and other securities in the amount of ¥6,249 million (\$56,302 thousand) and ¥5,747 million for the years ended March 31, 2019 and 2018, respectively.

## 13. Income Taxes

The Group is subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.4% and 30.6% for the years ended March 31, 2019 and 2018, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Reserve for possible loan losses	¥ 20,497	¥ 19,947	\$ 184,674
Liability for retirement benefits	2,981	2,988	26,858
Depreciation	1,303	1,311	11,739
Loss on impairment of securities	1,578	1,639	14,217
Losses on impairment of fixed assets	1,839	1,785	16,569
Deferred gains (losses) on derivatives under hedge accounting	3,457	819	31,146
Other	3,715	3,543	33,471
Subtotal	35,373	32,036	318,704
Valuation allowance	(4,827)	(4,670)	(43,490)
Deferred tax assets	30,545	27,366	275,204
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(34,580)	(30,832)	(311,559)
Deferred income on fixed assets sold	(252)	(396)	(2,270)
Asset for retirement benefits	(1,033)	(1,227)	(9,307)
Valuation of assets	(3,793)	(3,478)	(34,174)
Other	(27)	(27)	(243)
Deferred tax liabilities	(39,687)	(35,962)	(357,572)
Net deferred tax liabilities	¥ (9,141)	¥ (8,596)	\$ (82,358)

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, 2019 and 2018, was as follows:

	2019	2018
Normal effective statutory tax rate	30.4%	30.6%
Expenses not deductible for income tax purposes	0.5	0.5
Income not taxable for income tax purposes	(1.3)	(1.4)
Valuation allowance	0.1	(0.1)
Inhabitant taxes per capita	0.3	0.4
Change in effective statutory tax rate		0.0
Other-net	2.0	2.2
Actual effective tax rate	32.0%	32.2%

## Notes to Consolidated Financial Statements

### 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.

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a) Credit risk

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

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

b) Market risk

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

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

Higo Bank calculates VaR based primarily on the historical simulation method (a holding period from 10 days to 6 months, a confidence interval of 99%, and observation period of 5 years). As of March 31, 2019 and 2018, VaR related to interest rate risks was ¥6,800 million (\$61,266 thousand) and ¥16,200 million and VaR related to price volatility risks was ¥17,200 million (\$154,968 thousand) and ¥17,300 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). As of March 31, 2019 and 2018, VaR related to interest rate risks was ¥8,500 million (\$76,583 thousand) and ¥12,700 million and VaR related to price volatility risks was ¥18,100 million (\$163,077 thousand) and ¥17,600 million, respectively.

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

c) Liquidity risk

Management department of liquidity risk grasps and analyzes the uses of funds on a daily, weekly, and monthly basis, and conducts appropriate procurement of funds from the market, as necessary. In addition, to provide for contingencies, the Group has established action plans and a reporting system, depending on the relative tightness of its cash position, so that it can swiftly respond to any situation.

(d) Supplemental explanation for fair value of financial instruments

Fair values of financial instruments include market prices as well as reasonably calculated prices in cases where there are no market prices available. As the calculations of the reasonably calculated prices are implemented under certain conditions and assumptions, the result of calculations would differ if such calculations are made under different conditions and assumptions.

## Notes to Consolidated Financial Statements

### (e) Fair value of financial instruments

Fair values and carrying amounts of financial instruments as of March 31, 2019 and 2018, 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			
2019			
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	¥ 1,211,471	¥ 1,211,471	
(2) Call loans and bills bought	314	314	
(3) Trading assets			
Trading securities	1,183	1,183	
(4) Securities			
Held-to-maturity debt securities	14,716	14,830	¥ 114
Available-for-sale securities	1,983,197	1,983,197	
(5) Loans and bills discounted	6,853,138		
Reserve for possible loan losses (*1)	(63,218)		
	6,789,919	6,847,057	57,137
Total assets	10,000,803	10,058,054	57,251
(1) Deposits	8,567,557	8,568,115	558
(2) Call money and bills sold			
(3) Payables under repurchase agreements	207,630	207,630	
(4) Borrowing under securities lending transactions	479,347	479,347	
(5) Borrowed money	402,402	402,406	4
Total liabilities	9,656,937	9,657,500	563
Derivatives (*2)			
For which hedge accounting is not applied	458	458	
For which hedge accounting is applied	(11,423)	(11,423)	
Total	¥ (10,965)	¥ (10,965)	
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)	



	Thousands of U.S. dollars		
	2019		
	Carrying amount	Fair value	Net unrealized gains (losses)
(1) Cash and due from banks	\$ 10,915,136	\$ 10,915,136	
(2) Call loans and bills bought	2,829	2,829	
(3) Trading assets			
Trading securities	10,658	10,658	
(4) Securities			
Held-to-maturity debt securities	132,588	133,615	\$ 1,027
Available-for-sale securities	17,868,249	17,868,249	
(5) Loans and bills discounted	61,745,544		
Reserve for possible loan losses (*1)	(569,582)		
	61,175,952	61,690,755	514,794
<b>Total assets</b>	<b>90,105,441</b>	<b>90,621,263</b>	<b>515,821</b>
(1) Deposits	77,192,152	77,197,179	5,027
(2) Call money and bills sold			
(3) Payables under repurchase agreements	1,870,709	1,870,709	
(4) Borrowing under securities lending transactions	4,318,830	4,318,830	
(5) Borrowed money	3,625,569	3,625,605	36
<b>Total liabilities</b>	<b>87,007,270</b>	<b>87,012,343</b>	<b>5,072</b>
<b>Derivatives (*2)</b>			
For which hedge accounting is not applied	4,126	4,126	
For which hedge accounting is applied	(102,919)	(102,919)	
<b>Total</b>	<b>\$ (98,792)</b>	<b>\$ (98,792)</b>	

(\*1) General reserve for possible loan losses and specific reserve for possible loan losses provided to loans and bills discounted are separately presented in the table above.

(\*2) Derivatives recorded in trading assets, trading liabilities, other assets, and other liabilities are aggregated and shown herein. Assets and liabilities attributable to the derivative contracts are totally offset and the net liability position as a consequence of offsetting would be represented within brackets.

#### (Note 1) Valuation method of financial instruments

##### Assets

##### (1) Cash and due from banks

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

##### (2) Call loans and bills bought

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

##### (3) Trading assets

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

##### (4) Securities

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

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

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

## Notes to Consolidated Financial Statements

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### (5) Loans and bills discounted

As loans bearing floating rates of interest reflect market rates of interest in the short term, unless credit conditions of the lending entity have changed significantly after lending the loans, their fair value and carrying amounts are nearly identical, so their carrying amounts are assumed as their fair value. Fixed-rate loans are segmented by loan type, internal rating, and period, and their fair value is determined by discounting the total amount of principal and interest by the interest rate that consists of the swap rate and the credit spread or the assumed interest rate on a new lending of the same type.

The fair value of loans lent to entities that are legally bankrupt, virtually bankrupt, or possibly bankrupt is determined according to the current value of expected future cash flows or the amount of collateral that is expected to be recoverable and guarantee amounts that are determined to be recoverable. As these amounts are nearly identical to the carrying amounts after deducting the allowance for doubtful accounts, these amounts are assumed as their fair value.

For loans that are fully secured by collateral and that have no specified repayment term, as in terms of their expected repayment periods and interest conditions, their fair value and carrying amounts are nearly identical, their carrying amounts are assumed as their fair value.

### Liabilities

#### (1) Deposits

For demand deposits, fair value is assumed as the amount to be paid when demanded on the consolidated balance sheet date (i.e., the carrying amounts). The fair value of time deposits and negotiable certificates of deposit is determined by segmenting such deposits by term and discounting future cash flows to their current value. The discount rate used is the rate of interest on new deposits of the same type. For foreign currency time deposits, as the term is short (within one year) and their fair value and carrying amounts are nearly identical, so their carrying amounts are assumed as their fair value.

#### (2) Call money and bills sold

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

#### (3) Payables under repurchase agreements

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

#### (4) Borrowing under securities lending transactions

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

#### (5) Borrowed money

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

### Derivatives

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

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

The following instruments are not included in "Assets (4) Securities" in the table above showing the fair value of financial instruments as of March 31, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unlisted stocks (*1 and *2)	¥ 4,529	¥ 4,015	\$ 40,805
Investments in partnerships and others (*3)	10,411	7,955	93,801
Total	¥ 14,941	¥ 11,971	\$ 134,615

(\*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 ¥2 million for the years ended March 31, 2019 and 2018, 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, 2019 and 2018

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

	Millions of yen					
	2018					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Due from banks	¥ 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

## Notes to Consolidated Financial Statements

	Thousands of U.S. dollars					
	2019					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Due from banks	\$ 9,980,700					
Call loans and bills bought	2,829					
Securities						
Held-to-maturity debt securities	26,723	\$ 58,581	\$ 42,301	\$ 4,964		
Corporate bonds	26,723	58,581	42,301	4,964		
Available-for-sale securities with maturity	2,852,707	2,978,619	1,493,720	1,254,356	\$ 1,427,633	\$ 5,763,185
Japanese government bonds	1,431,309	1,224,065	270,970	210,127		1,201,765
Municipal government bonds	247,346	315,451	187,106	209,027	409,955	764,852
Short-term corporate bonds						
Corporate bonds	833,300	1,155,914	584,169	200,738	231,453	1,749,572
Loans and bills discounted (*1)	15,049,337	10,102,874	8,176,448	5,629,894	7,046,733	14,978,331
Total	\$ 27,912,316	\$ 13,140,075	\$ 9,712,478	\$ 6,889,224	\$ 8,474,367	\$ 20,741,526

(\*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 ¥84,564 million (\$761,906 thousand) (¥86,453 million in 2018), is not included in the table above.

(Note 4) Maturity analysis for interest-bearing liabilities as of March 31, 2019 and 2018

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

	Millions of yen					
	2018					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Deposits (*1)	¥ 8,343,335	¥ 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	

	Thousands of U.S. dollars					
	2019					
	Within 1 year	1 year to 3 years	3 years to 5 years	5 years to 7 years	7 years to 10 years	More than 10 years
Deposits (*1)	\$ 75,130,777	\$ 1,776,114	\$ 232,948	\$ 20,479	\$ 31,804	
Call money and bills sold						
Payables under repurchase agreements	1,870,709					
Borrowing under securities lending transactions	4,318,830					
Borrowed money	2,830,678	770,348	24,443	90		
Total	\$ 84,151,004	\$ 2,546,463	\$ 257,401	\$ 20,569	\$ 31,804	

(\*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, 2019 and 2018.

#### i) Interest rate-related transactions

There were no interest rate-related transactions as of March 31, 2019 and 2018.

#### ii) Foreign exchange-related transactions

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



## Notes to Consolidated Financial Statements

Millions of yen				
2018				
	Contractual value or notional principal amount	Including more than 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)

Thousands of U.S. dollars				
2019				
	Contractual value or notional principal amount	Including more than one year	Fair value	Unrealized gains (losses)
Currency swaps	\$ 416,172	\$ 214,253	\$ 2,018	\$ 621
Foreign exchange forward contracts:				
Selling	253,545	225	2,234	2,234
Buying	97,774	207	(126)	(126)

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, 2019 and 2018

### i) Interest rate-related transactions

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

Millions of yen				
2018				
Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value	
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted Available-for-sale securities (debt securities)	¥ 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	

Thousands of U.S. dollars				
2019				
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Interest rate swaps:				
Receive floating and pay fixed	Loans and bills discounted Available-for-sale securities (debt securities)	\$ 2,736,949	\$ 2,337,697	\$ (102,063)
Specific matching criteria				
Interest rate swaps:				
Receive fixed and pay floating	Loans and bills discounted	65,951	65,951	(Note 3)
Receive floating and pay fixed		796,342	753,067	

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				
2019				
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Currency swaps	Loans and bills discounted	¥ 11,421	¥ 11,421	¥ (94)
Millions of yen				
2018				
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Currency swaps	Loans and bills discounted	¥ 1,589	¥ 1,589	¥ (8)
Thousands of U.S. dollars				
2019				
	Hedged item	Contractual value or notional principal amount	Including more than one year	Fair value
Deferred method				
Currency swaps	Loans and bills discounted	\$ 102,901	\$ 102,901	\$ (846)

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.

## Notes to Consolidated Financial Statements

### 16. Other Comprehensive Income

The components of other comprehensive income for the years ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrealized gains (losses) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 18,668	¥ 2,198	\$ 168,195
Reclassification adjustments to profit or loss	(3,250)	1,385	(29,281)
Amount before income tax effect	15,418	3,584	138,913
Income tax effect	(4,710)	(1,202)	(42,436)
Total	10,708	2,381	96,477
Deferred gains (losses) on derivatives under hedge accounting:			
Gains (losses) arising during the year	(10,235)	466	(92,215)
Reclassification adjustments to profit or loss	1,558	1,981	14,037
Amount before income tax effect	(8,676)	2,447	(78,169)
Income tax effect	2,637	(744)	23,758
Total	(6,039)	1,703	(54,410)
Defined retirement benefit plans:			
Gains (losses) arising during the year	(1,670)	(1,237)	(15,046)
Reclassification adjustments to profit or loss	1,209	1,350	10,892
Amount before income tax effect	(461)	112	(4,153)
Income tax effect	140	(34)	1,261
Total	(321)	78	(2,892)
Total other comprehensive income	¥ 4,347	¥ 4,163	\$ 39,165

### 17. Business Combinations

Transactions under common control

Additional acquisition of shares of consolidated subsidiaries

(a) Outline of the business combination

a) Name of parties to the business combination and their business outline

The Kagoshima Lease Co., Ltd. (leasing business and lending business)

Kagoshima Card Co., Ltd. (credit card business and credit guarantee business)

b) Date of the business combination

March 25, 2019

March 26, 2019

March 27, 2019

c) Legal form of the business combination

Share acquisition from noncontrolling interests

d) Name of the company after the business combination

Unchanged

e) Other matters concerning the transaction

The Company acquired part of common stock of the above consolidated subsidiaries from noncontrolling interests for the purpose of strengthening integrated Group management.

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(b) Overview of accounting treatments applied

These transactions are accounted for as transactions under common control in accordance with "Accounting Standard for Business Combinations" issued on September 13, 2013 (Accounting Standards Board of Japan (ASBJ) Statement No. 21) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" issued on September 13, 2013 (ASBJ Guidance No. 10).

(c) Matters concerning additional acquisition of shares of consolidated subsidiaries

Acquisition cost and its details:

Consideration for acquisition: Cash and due from banks ¥1,134 million (\$10,217 thousand)

Acquisition cost: ¥1,134 million (\$10,217 thousand)

(d) Matters concerning changes in equity interest of the company associated with the transactions with noncontrolling interests

a) Fluctuation factor of capital surplus

Additional acquisition of shares of consolidated subsidiaries

b) Amount of capital surplus increased resulting from the transactions with noncontrolling interests

¥4,249 million (\$38,282 thousand)

## 18. Segment Information

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

(a) Description of reportable segments

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

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

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

## Notes to Consolidated Financial Statements

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

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

Notes:1. Ordinary income means total income, less certain special income included in other income in the accompanying consolidated statement of income.

2. "Other" consists of other banking-related activities, such as credit card operations.

3. Reconciliations include items below:

a. The reconciliations of ordinary income by external customers of ¥(2,974) million (\$26,795) thousand include reconciliations of ordinary income in accordance with purchase method application of ¥(2,979) million (\$26,840) thousand).

b. The segment profit reconciliations of ¥(4,592) million (\$41,373) thousand include reconciliations of profit in accordance with purchase method application of ¥(3,766) million (\$33,930) thousand).

c. The interest income reconciliations in "Other" of ¥(2,994) million (\$26,975) thousand include reconciliations of interest income in accordance with purchase method application of ¥(2,161) million (\$19,470) thousand).

d. Reconciliations of segment assets and interest expenses were eliminations of intersegment transactions. Reconciliations of depreciation and increase in fixed assets and intangible assets were reconciliations in lease investments assets.

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

Millions of yen									
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 include reconciliations of ordinary income in accordance with purchase method application of ¥(5,089) million.

b. The segment profit reconciliations of ¥(6,373) million include reconciliations of profit in accordance with purchase method application of ¥(5,556) million thousand).

c. The interest income reconciliations in "Other" of ¥(3,708) million include reconciliations of interest income in accordance with purchase method application of ¥(2,906) million 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.

Thousands of U.S. dollars									
2019									
Reportable segment									
Banking									
Higo Bank	Kagoshima Bank	Subtotal	Leasing	Total	Other	Total	Reconciliations	Consolidated	
Ordinary income:									
Ordinary income by external customers	\$ 677,295	\$ 579,223	\$ 1,256,518	\$ 259,744	\$ 1,516,262	\$ 45,103	\$ 1,561,374	\$ (26,795)	\$ 1,534,570
Intersegment ordinary income	4,369	8,388	12,757	15,145	27,912	38,535	66,447	(66,447)	
Total	\$ 681,665	\$ 587,611	\$ 1,269,285	\$ 274,889	\$ 1,544,175	\$ 83,647	\$ 1,627,822	\$ (93,251)	\$ 1,534,570
Segment profit	\$ 163,708	\$ 156,933	\$ 320,641	\$ 14,379	\$ 335,030	\$ 10,136	\$ 345,166	\$ (41,373)	\$ 303,784
Segment assets	52,529,516	41,230,570	93,760,095	772,456	94,532,552	303,576	94,836,138	(732,255)	94,103,874
Other:									
Depreciation	34,579	24,740	59,329	837	60,167	3,342	63,519	1,450	64,978
Interest income	472,222	436,381	908,604	531	909,144	1,874	911,019	(26,975)	884,043
Interest expenses	52,662	17,668	70,339	2,126	72,465	351	72,826	(2,901)	69,916
Increase in fixed assets and intangible assets	25,047	69,429	94,485	1,054	95,540	955	96,504	21,776	118,280

## Related information

### (a) Segment information by service

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

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

Thousands of U.S. dollars					
2019					
	Lending	Securities investment	Leasing	Others	Total
Ordinary income by external customers	\$ 632,975	\$ 388,206	\$ 258,437	\$ 254,941	\$ 1,534,570

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

### (b) Segment information by geographic area

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

### (c) Segment information by major customer

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



## Notes to Consolidated Financial Statements

### 19. Subsequent Events

#### (a) Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2019, was approved at the meeting of the Board of Directors held on May 14, 2019:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥6.00 (\$0.05) per share	¥ 2,709	\$ 24,407

#### (b) Corporate acquisition via stock acquisition

The Higo Bank, Ltd., a subsidiary of the Company, resolved at its Board of Directors' meeting held on July 9, 2019, to acquire 90% of stock in JR Kyushu Financial Management Company from Kyushu Railway Company and concluded a stock transfer agreement on August 5, 2019.

The Group conducted the stock acquisition to realize its management philosophy and vision to "become Kyushu's top comprehensive financial group for customers." To this end, the Group rolled out its second Medium-Term Management Plan in April 2018.

Through this stock acquisition, the Group will work to further enhance its regional comprehensive financial functions and regional industry development function, which are the strategic pillars of its Medium-Term Management Plan, to provide enriched solutions to customers, which will in turn strengthen the Group's management foundation and further improve corporate value.

The name of counterparty to the stock acquisition is Kyushu Railway Company, and the name, business, and scale of the acquiree are as follows:

Name*:	JR Kyushu Financial Management Company
Location:	1-5-1 Hakata-ekimae, Hakata-ku, Fukuoka
Position and name of representative:	President: Ryota Nakano
Business:	Comprehensive leasing business
Capital stock:	¥400 million (\$3,603 thousand)
Date of establishment:	July 12, 1988

\*The entity was renamed JR Kyushu FG Lease, Inc. on October 2, 2019.

The date of the stock acquisition was October 2, 2019, and the number of shares acquired and shareholding ratio after the acquisition were as follows:

Number of shares acquired:	7,200 shares
Shareholding ratio after acquisition:	90%

# Independent Auditors' Report

## Deloitte.

Deloitte Touche Tohmatsu LLC  
Kagoshima Daiichi Kaijo Building  
2-30 Yamanokuchi-cho  
Kagoshima-shi, Kagoshima 892-0844  
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Tel: +81 (99) 239 2283  
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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, 2019, 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, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

#### Convenience Translation

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

*Deloitte Touche Tohmatsu LLC*

June 21, 2019  
(October 21, 2019 as to Note 19(b))

Member of  
Deloitte Touche Tohmatsu Limited

# Non-Consolidated Financial Statements (Unaudited)

The Higo Bank, Ltd.

## Non-Consolidated Balance Sheet

March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
<b>ASSETS:</b>			
Cash and due from banks	¥ 945,255	¥ 665,651	\$ 8,516,578
Call loans	314	40,326	2,829
Monetary claims purchased	1,062	870	9,568
Trading assets	273	452	2,459
Money held in trust	4,841	4,848	43,616
Securities	1,208,958	1,445,164	10,892,494
Loans and bills discounted	3,488,486	3,246,496	31,430,633
Foreign exchange assets	7,609	8,064	68,555
Other assets	130,829	129,255	1,178,745
Fixed assets	49,620	50,687	477,067
Intangible assets	4,803	5,235	43,274
Prepaid pension cost	2,610	2,637	23,515
Customers' liabilities for acceptances and guarantees	9,402	10,055	84,710
Reserve for possible loan losses	(22,299)	(22,189)	(200,909)
Total assets	¥ 5,831,767	¥ 5,587,556	\$ 52,543,175
<b>LIABILITIES AND EQUITY:</b>			
<b>Liabilities:</b>			
Deposits	¥ 4,623,028	¥ 4,694,149	\$ 41,652,653
Payables under repurchase agreements	148,888	148,880	1,341,454
Borrowing under securities lending transactions	406,595	222,512	3,663,348
Trading liabilities		5	
Borrowed money	275,937	173,386	2,486,142
Foreign exchange liabilities	74	40	666
Other liabilities	47,033	25,992	423,758
Reserve for retirement benefits	256	539	2,306
Reserve for repayments for dormant deposits	1,206	1,156	10,865
Reserve for contingent losses	260	243	2,342
Deferred tax liabilities	3,207	3,337	28,894
Deferred tax liabilities related to land revaluation	4,443	4,540	40,030
Acceptances and guarantees	9,402	10,055	84,710
Total liabilities	5,520,335	5,284,840	49,737,228
<b>Equity</b>			
Common stock	18,128	18,128	163,330
Capital surplus	8,133	8,133	73,276
Retained earnings	248,025	238,030	2,234,660
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	39,171	34,217	352,923
Deferred gains (losses) on derivatives under hedge accounting	(7,882)	(1,866)	(71,015)
Excess of land revaluation	5,855	6,072	52,752
Total valuation and translation adjustments	37,143	38,423	334,651
Total equity	311,432	302,716	2,805,946
Total liabilities and equity	¥ 5,831,767	¥ 5,587,556	\$ 52,543,175

The Higo Bank, Ltd.

## Non-Consolidated Statement of Income

Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 33,927	¥ 33,341	\$ 305,676
Interest and dividends on securities	18,165	17,820	163,663
Other interest income	320	274	2,883
Fees and commissions income	11,040	11,019	99,468
Trading income	32	5	288
Other operating income	7,261	2,666	65,420
Gain on disposal of fixed assets	5	1	45
Other income	4,910	5,299	44,238
Total income	75,663	70,429	681,710
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	377	657	3,396
Other interest expenses	5,468	4,606	49,265
Fees and commissions expenses	4,134	4,656	37,246
Other operating expenses	8,596	3,008	77,448
General and administrative expenses	36,810	38,178	331,651
Provision for possible loan losses	624	157	5,622
Losses on disposal of fixed assets	112	12	1,009
Losses on impairment of long-lived assets	43	63	387
Other expenses	1,477	1,193	13,307
Total expenses	57,644	52,532	519,362
<b>Income before income taxes</b>	18,019	17,897	162,347
<b>Income taxes:</b>			
Current	5,447	5,851	49,076
Deferred	77	(266)	693
Total income taxes	5,524	5,585	49,770
<b>Net income</b>	¥ 12,495	¥ 12,311	\$ 112,577

## Non-Consolidated Financial Statements (Unaudited)

The Higo Bank, Ltd.

### Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2019 and 2018

	Millions of yen		
	Common stock	Capital surplus	Retained earnings
<b>Balance at April 1, 2017</b>	¥ 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			
<b>Balance at April 1, 2018</b>	¥ 18,128	¥ 8,133	¥ 238,030
Cash dividends			(2,718)
Net income			12,495
Reversal of excess of land revaluation			217
Net change in the year			
<b>Balance at March 31, 2019</b>	¥ 18,128	¥ 8,133	¥ 248,025

	Millions of yen				
	Valuation and translation adjustments				
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
<b>Balance at April 1, 2017</b>	¥ 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
<b>Balance at April 1, 2018</b>	¥ 34,217	¥ (1,866)	¥ 6,072	¥ 38,423	¥ 302,716
Cash dividends					(2,718)
Net income					12,495
Reversal of excess of land revaluation					217
Net change in the year	4,954	(6,016)	(217)	(1,279)	(1,279)
<b>Balance at March 31, 2019</b>	¥ 39,171	¥ (7,882)	¥ 5,855	¥ 37,143	¥ 311,432

The Higo Bank, Ltd.

## Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2019 and 2018

	Thousands of U.S. dollars		
	Common stock	Capital surplus	Retained earnings
<b>Balance at April 1, 2018</b>	\$ 163,330	\$ 73,276	\$ 2,144,607
Cash dividends			(24,488)
Net income			112,577
Reversal of excess of land revaluation			1,955
Net change in the year			
<b>Balance at March 31, 2019</b>	<u>\$ 163,330</u>	<u>\$ 73,276</u>	<u>\$ 2,234,660</u>

	Thousands of U.S. dollars				
	Valuation and translation adjustments				
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
<b>Balance at April 1, 2018</b>	\$ 308,289	\$ (16,812)	\$ 54,707	\$ 346,184	\$ 2,727,416
Cash dividends					(24,488)
Net income					112,577
Reversal of excess of land revaluation					1,955
Net change in the year	44,634	(54,203)	(1,955)	(11,523)	(11,523)
<b>Balance at March 31, 2019</b>	<u>\$ 352,923</u>	<u>\$ (71,015)</u>	<u>\$ 52,752</u>	<u>\$ 334,651</u>	<u>\$ 2,805,946</u>



## Non-Consolidated Financial Statements (Unaudited)

THE KAGOSHIMA BANK, LTD.

### Non-Consolidated Balance Sheet

March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
<b>ASSETS:</b>			
Cash and due from banks	¥ 265,358	¥ 260,314	\$ 2,390,828
Call loans		857	
Monetary claims purchased	9,495	8,968	85,548
Trading securities	910	2,974	8,198
Money held in trust	11,010	12,967	99,198
Securities	806,476	862,067	7,266,204
Loans and bills discounted	3,407,595	3,239,867	30,701,819
Foreign exchange assets	4,809	6,323	43,328
Other assets	20,429	23,211	184,061
Fixed assets	60,368	56,007	543,904
Intangible assets	3,733	3,618	33,633
Prepaid pension cost	8,600	8,788	77,484
Customers' liabilities for acceptances and guarantees	24,002	23,741	216,253
Reserve for possible loan losses	(42,775)	(40,832)	(385,395)
Total assets	¥ 4,580,015	¥ 4,468,875	\$ 41,265,113
<b>LIABILITIES AND EQUITY:</b>			
<b>Liabilities:</b>			
Deposits	¥ 3,958,284	¥ 3,896,639	\$ 35,663,429
Payables under repurchase agreements	58,742	12,577	529,254
Borrowing under securities lending transactions	72,751	83,450	655,473
Borrowed money	110,453	110,037	995,161
Foreign exchange liabilities	97	81	873
Other liabilities	16,182	15,932	145,796
Reserve for retirement benefits	1,749	1,745	15,758
Reserve for repayments for dormant deposits	1,060	1,058	9,550
Reserve for contingent losses	223	245	2,009
Deferred tax liabilities	5,054	4,146	45,535
Deferred tax liabilities related to land revaluation	6,904	6,949	62,203
Acceptances and guarantees	24,002	23,741	216,253
Total liabilities	4,255,508	4,156,605	38,341,364
<b>Equity</b>			
Common stock	18,130	18,130	163,348
Capital surplus	11,204	11,204	100,946
Retained earnings	238,713	229,313	2,150,761
Valuation and translation adjustments:			
Unrealized gains (losses) on available-for-sale securities	41,525	38,572	374,132
Deferred gains (losses) on derivatives under hedge accounting	(33)	(10)	(297)
Excess of land revaluation	14,964	15,058	134,822
Total valuation and translation adjustments	56,457	53,620	508,667
Total equity	324,506	312,269	2,923,740
Total liabilities and equity	¥ 4,580,015	¥ 4,468,875	\$ 41,265,113

THE KAGOSHIMA BANK, LTD.

## Non-Consolidated Statement of Income

Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 36,319	¥ 36,119	\$ 327,227
Interest and dividends on securities	12,017	11,543	108,271
Other interest income	95	95	855
Fees and commissions income	10,333	10,213	93,098
Other operating income	1,693	977	15,253
Gain on disposal of fixed assets	106		955
Other income	4,866	7,793	43,841
Total income	65,433	66,742	589,539
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	528	702	4,757
Other interest expenses	1,433	1,449	12,911
Fees and commissions expenses	5,091	5,477	45,868
Other operating expenses	1,762	4,403	15,875
General and administrative expenses	34,291	34,416	308,955
Provision for possible loan losses	2,690	3,539	24,236
Losses on disposal of fixed assets	274	94	2,468
Losses on impairment of long-lived assets	182		1,639
Other expenses	2,111	1,044	19,019
Total expenses	48,365	51,125	435,759
<b>Income before income taxes</b>	17,067	15,616	153,770
<b>Income taxes:</b>			
Current	5,670	4,272	51,085
Deferred	(627)	352	(5,649)
Total income taxes	5,042	4,624	45,427
<b>Net income</b>	¥ 12,024	¥ 10,991	\$ 108,334

## Non-Consolidated Financial Statements (Unaudited)

THE KAGOSHIMA BANK, LTD.

### Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2019 and 2018

	Millions of yen		
	Common stock	Capital surplus	Retained earnings
<b>Balance at April 1, 2017</b>	¥ 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			
<b>Balance at April 1, 2018</b>	¥ 18,130	¥ 11,204	¥ 229,313
Cash dividends			(2,718)
Net income			12,024
Reversal of excess of land revaluation			93
Net change in the year			
<b>Balance at March 31, 2019</b>	¥ 18,130	¥ 11,204	¥ 238,713

	Millions of yen				
	Valuation and translation adjustments				
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
<b>Balance at April 1, 2017</b>	¥ 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)
<b>Balance at April 1, 2018</b>	¥ 38,572	¥ (10)	¥ 15,058	¥ 53,620	¥ 312,269
Cash dividends					(2,718)
Net income					12,024
Reversal of excess of land revaluation					93
Net change in the year	2,952	(23)	(93)	2,836	2,836
<b>Balance at March 31, 2019</b>	¥ 41,525	¥ (33)	¥ 14,964	¥ 56,457	¥ 324,506

THE KAGOSHIMA BANK, LTD.

## Non-Consolidated Statement of Changes in Equity

Years ended March 31, 2019 and 2018

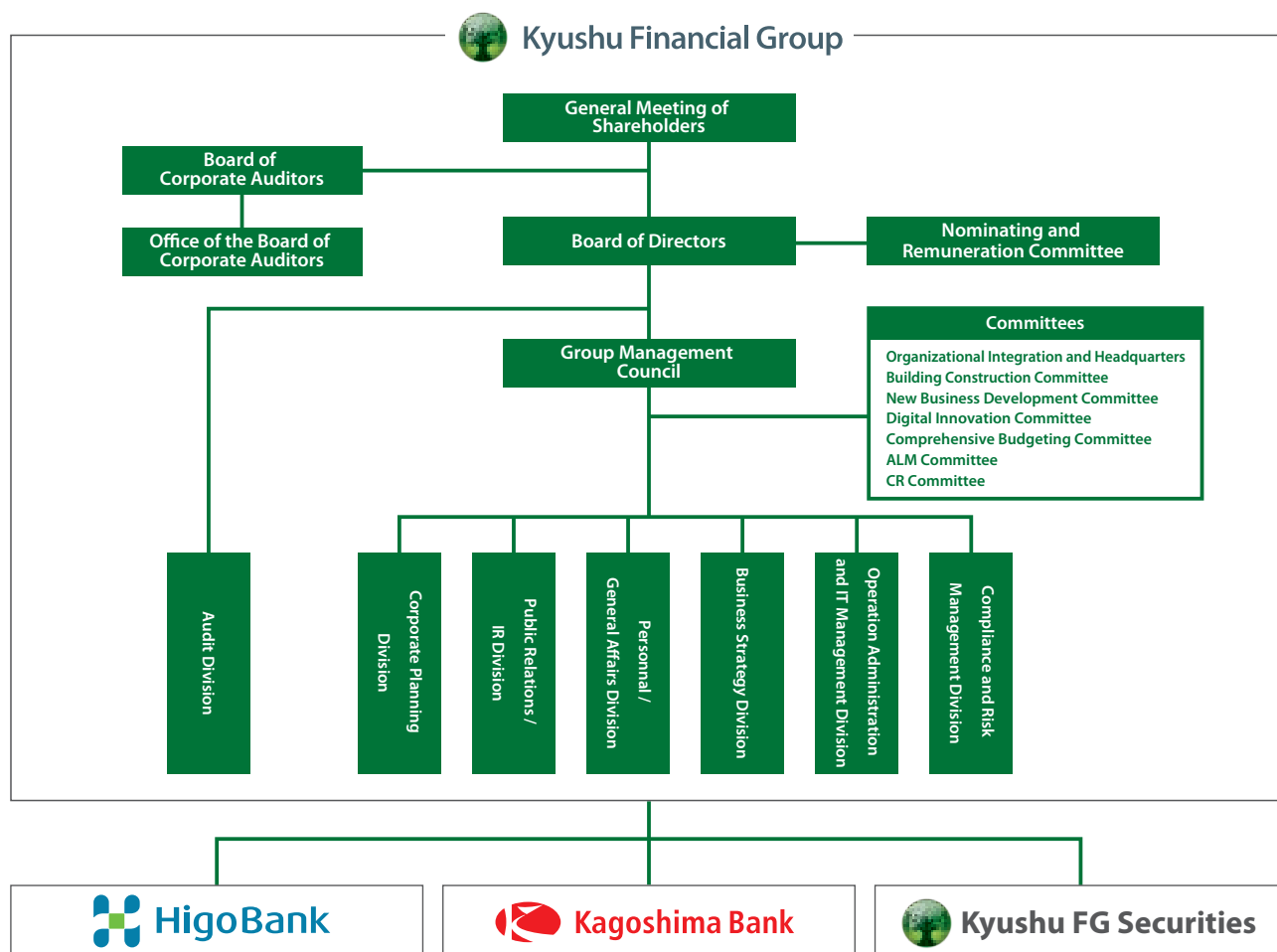
	Thousands of U.S. dollars		
	Common stock	Capital surplus	Retained earnings
<b>Balance at April 1, 2018</b>	\$ 163,348	\$ 100,946	\$ 2,066,069
Cash dividends			(24,488)
Net income			108,334
Reversal of excess of land revaluation			837
Net change in the year			
<b>Balance at March 31, 2019</b>	<u>\$ 163,348</u>	<u>\$ 100,946</u>	<u>\$ 2,150,761</u>

	Thousands of U.S. dollars				
	Valuation and translation adjustments				
	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Excess of land revaluation	Total valuation and translation adjustments	Total equity
<b>Balance at April 1, 2018</b>	\$ 347,526	\$ (90)	\$ 135,669	\$ 483,106	\$ 2,813,487
Cash dividends					(24,488)
Net income					108,334
Reversal of excess of land revaluation					837
Net change in the year	26,596	(207)	(837)	25,551	25,551
<b>Balance at March 31, 2019</b>	<u>\$ 374,132</u>	<u>\$ (297)</u>	<u>\$ 134,822</u>	<u>\$ 508,667</u>	<u>\$ 2,923,740</u>

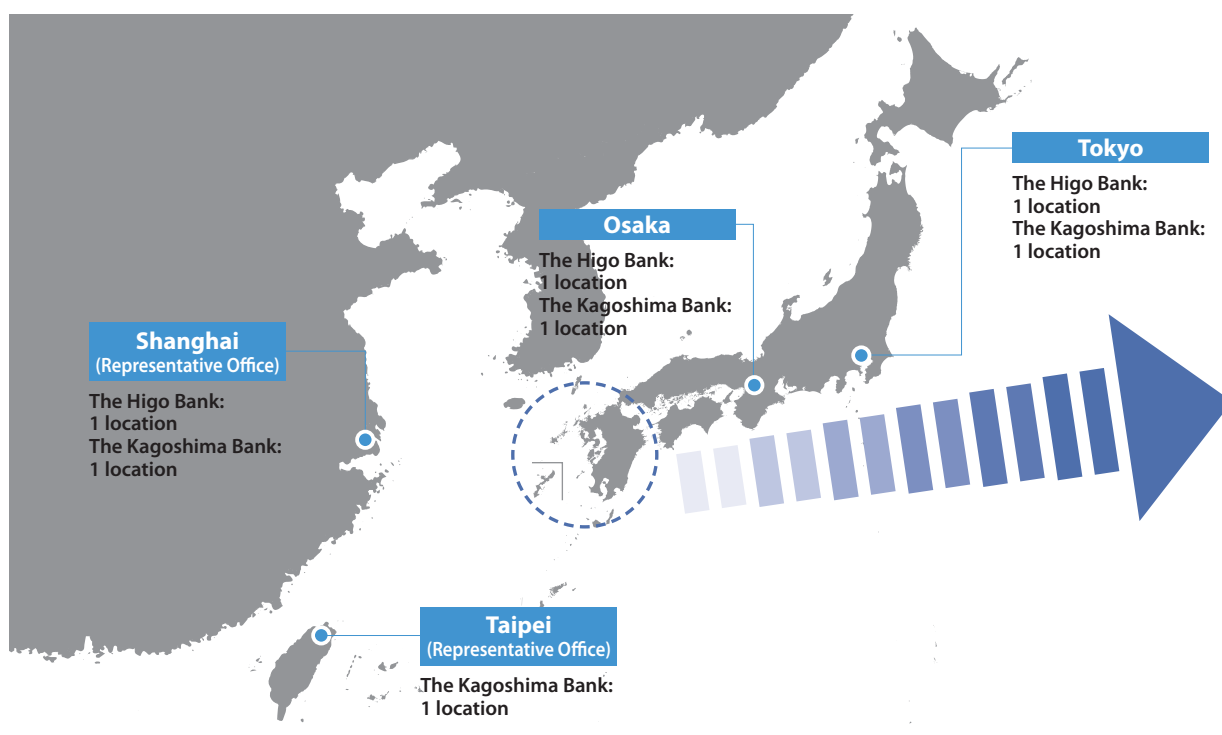
# Corporate Data

## Organizational Chart

(As of October 1, 2019)



## Network of the Kyushu Financial Group



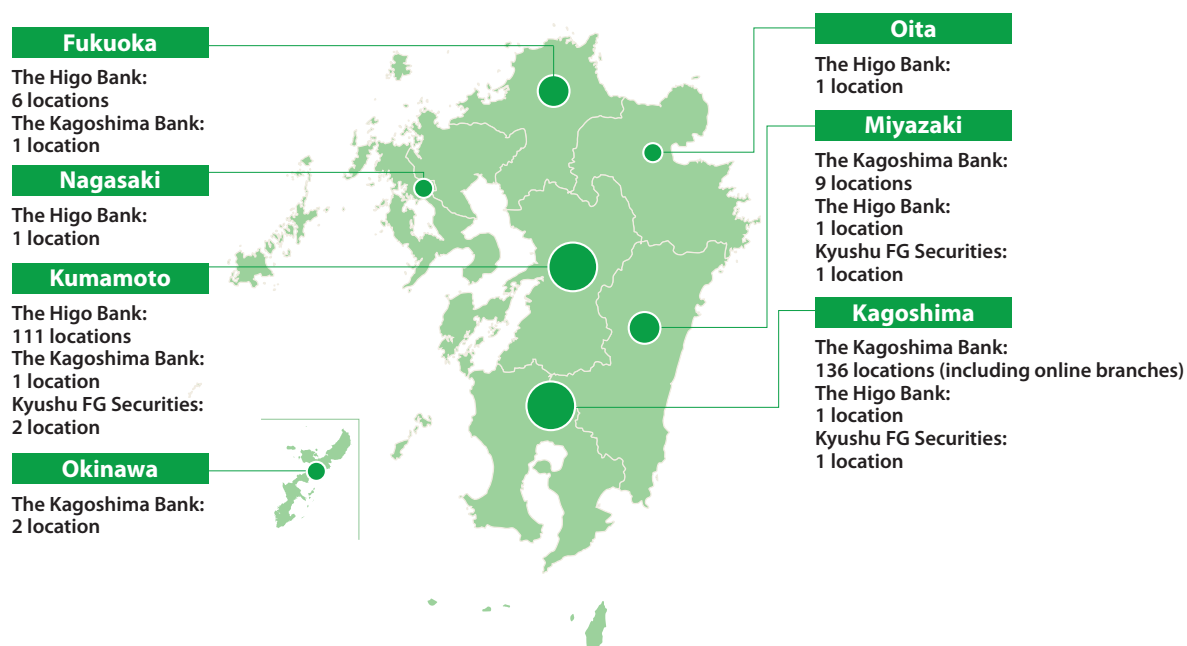
## Total Number of Shares

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	4.63
Meiji Yasuda Life Insurance Co.	18,568	4.11
Japan Trustee & Services Bank, Ltd. (Trust account)	15,689	3.47
The Master Trust Bank of Japan, Ltd. (Trust account)	15,163	3.35
The Bank of Fukuoka, Ltd.	12,620	2.79
Japan Trustee & Services Bank, Ltd. (Trust account 9)	9,707	2.15
Takara Kogyo Co., Ltd.	8,258	1.82
Kagoshima Bank Employees' Shareholding Association	7,679	1.70
Iwasaki Sangyo Co., Ltd.	7,616	1.68
Nippon Life Insurance Company	7,361	1.63

(As of October 1, 2019)







## Kyushu Financial Group

### Address of Main Branch

6-6, Kinseicho, Kagoshima-shi,  
Kagoshima-ken, Japan 892-0828

### Address of Headquarters

1, Renpeicho, Chuo-ku, Kumamoto-shi,  
Kumamoto-ken, Japan 860-0017

Phone:(096)326-5588