

ANNUAL REPORT 2014

 **THE BANK OF SAGA**

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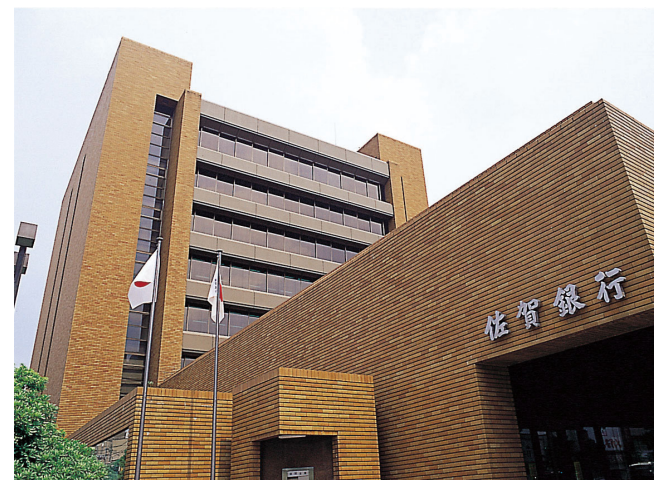
The Bank of Saga is a regional bank with its base of operations in Saga and Fukuoka prefectures in northern Kyushu, the westernmost of Japan's four main islands. The region's advantageous location at Japan's western edge and its proximity to other Asian countries, as well as Fukuoka Prefecture's leadership in the Kyushu economy made it one of Japan's most vital regions.

The Bank of Saga's history dates back over 130 years to the establishment in 1882 of its earliest forerunner, the Imari Bank. The following decades saw a series of mergers with other banks based mainly in Saga Prefecture, a process that eventually led to the establishment of the Bank of Saga in 1955. Today, the Bank handles a significant share of the banking business in Saga Prefecture.

The Bank of Saga's management policy centers on a commitment to "maintaining close relationships with regional customers and ensuring sound management." This policy underlies all the Bank's efforts to promote industrial development and growth throughout the region and to secure affluent lives for its residents by providing high-quality services that assure full customer satisfaction.

We are determined, moreover, to work toward constructing relationships of enduring trust with our regional customers in accordance with the theme adopted this year of "Aiming to be an 'energetic, warmhearted bank with a certain difference.'"

As of March 31, 2014, the Bank of Saga's balance of deposits (including negotiable certificates of deposit) amounted to ¥2,025,307 million (US\$19,678 million) on a non-consolidated basis and its total assets amounted to ¥2,222,830 million (US\$21,597 million). A total of 1,441 employees were serving customers in the Bank's network of 100 branch offices.



A Message from the Management

I would like to take this opportunity to express our heartfelt gratitude for your continuous patronage and support for the Bank of Saga.

During fiscal year 2013, Japanese economy maintained a gradual recovery supported by a mild improvement in consumer sentiment in the context of public-work investments, depreciation of yen and rising stock prices due to government deployment of emergency economic countermeasures. Although the Consumer Price Index rose as import costs increased due to the depreciation of yen, there were signs of improvement in the income conditions with a rise in winter bonus payments and a large frontloaded increase in demand for durable goods such as cars, prior to the consumption tax hike.

Under such conditions, the Bank recorded an upturn of the consolidated results of operations in the fiscal year 2013, as current net income rose by ¥2,772 million, up to ¥4,954 million compared to the previous fiscal year. This upturn was possible thanks to the reversal of allowance for loan losses, although the yield on total investments and interest income decreased mainly due to a lower market interest rate, despite an increase in the balance of loans.

In fiscal year 2013 we have initiated our 14th Medium-Term Management Plan which portrays the targeted shape for the Bank of Saga as an “energetic, warmhearted bank with a certain difference.” In it, we have adopted four basic principles: “Engaging customers and strengthening mutual ties;” “Realizing outstanding levels of CS and ES;” “Meeting customers’ expectations fully in Saga Prefecture, while steadily increasing operating assets in Fukuoka and Nagasaki prefectures;” and “Working to expand our retail banking operations in Saga and Fukuoka prefectures.” Guided by these principles, we will strive to establish the “Bank of Saga brand” in order to remain an indispensable bank for our customers and shareholders as well as for the region as a whole.

We hope that we can count on your never-ending patronage and kind support as we pursue these endeavors going forward.

July 2014

Yoshihiro Jinnouchi, President

The Bank's Fundamental Thinking

A Clear Perspective on the Future with a View to Regional Development

Management Policy

In its commitment to maintaining "close relationships with the citizens of its region and sound, stable management," the Bank of Saga provides high-quality financial services and contributes to local community development through its operations as a regional financial institution.

Basic Management Principles

Contributing to local community development

As a regional bank with its roots deeply embedded in the community, the Bank promotes the development of local industries and dedicates itself to assuring a high standard of living for regional residents and enriching the regional culture.

Responding to the trust of customers and shareholders

The Bank seeks to enhance its services to assure continued customer satisfaction. It satisfies the expectations of its shareholders as well by pursuing management that responds quickly and accurately to changes in the times.

Improving employee welfare

The Bank seeks to ensure that every employee enjoys an affluent life by providing an optimal working environment and cultivating a corporate climate that emphasizes respect for others.

Medium-Term Management Plan

With the environment surrounding financial institutions facing changes of unprecedented scale and intensity, the Bank has formulated a three-year medium-term management plan to reinforce its management base and strengthen its management culture.

14th Medium-Term Management Plan (April 2013 ~ March 2016)

OBJECTIVE

To become an "energetic, warmhearted bank with a certain difference"

BASIC PRINCIPLES

Steadily expanding operating assets

Realizing outstanding CS and ES

Engaging customers and strengthening mutual ties

Reinforcing the retail banking business

SPECIFIC INITIATIVES

Proactive activities toward sustained local community development

Strengthening consulting capabilities, such as business matching, and enhancing overseas business support activities

Reinforcing regional customer contact points, while engaging in growth fields (medical care, environment, etc.)

Facilitating linkage of Saga and Fukuoka prefectures with customers' economic and business activities

Engaging in areas such as business succession, M&A, business turnaround and business enhancement support

Enhanced communication with customers and shareholders

Upgrading (further advancing) the Heartful Plus+ program

Maintaining a basic attitude of devotion and sincerity
Meeting or visiting customers more frequently
Creating partnerships with individual customers

Creating channels / structures to allow easy customer access with flexible timing (Direct Center Scheme)

Providing products / services from the customer's perspective
Implementing financial analysis services
Posting floor advisers (tentative title)

Employee growth promotion and pleasant working environment creation

Creating an open bank culture (encouraging free expression)

Creating a bank culture with a stress on continual learning
Supporting employees' personal growth

Reducing employee workloads by enhancing procedural efficiency

Nurturing personnel to be individual customers' partners in business and life

Compliance structure establishment & Comprehensive risk control

Management index targets	Fiscal 2015 (target)
Net core business profit	¥8 billion
Net income for term	¥3.5 billion
Capital adequacy ratio (domestic standard) (Note 1)	11% range
Tier 1 ratio (Note 1)	8.3%
Ratio of nonperforming loans (Note 2)	3% range

(Note 1) Basel II basis

(Note 2) The ratio of nonperforming loans represents the ratio disclosed in accordance with the Financial Reconstruction Law.

Deposit and loan targets	Fiscal 2015 (target)
Average balance of total deposits	¥2 trillion
Average balance of total loans and bills discounted	¥1.3 trillion

Business Environment and Results of Operations

Financial and economic environment

During fiscal year 2013, Japanese economy maintained a gradual recovery supported by a mild improvement in consumer sentiment in the context of public-work investments, depreciation of yen and rising stock prices due to government deployment of emergency economic countermeasures. Although the Consumer Price Index rose as import costs increased due to the depreciation of yen, there were signs of improvement in the income conditions with a rise in winter bonus payments and a large front-loaded increase in demand for durable goods such as cars, prior to the consumption tax hike. Income conditions are expected to further improve, by expanding major companies-oriented practice of base pay increase, and further raising of overtime pays and special pays (bonuses) through an overtime hours increase as companies are further expanding their production activities.

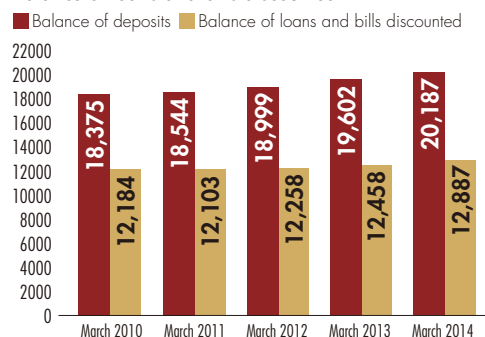
Also the economy in the northern Kyushu area, around which the Bank of Saga's operations revolve primarily, is trending substantially higher than the previous year in public and housing investments. Further, the Bank spurred a pickup in personal consumption, particularly in durable goods such as cars and consumer electronics. Despite a firm demand for automobiles, the production eventually leveled off due to a review of the production system as new model vehicles were launched. Nevertheless, the overall performance was good, leading to a gentle increase in production. Moreover, there were improvements in the employment situation, such as the raising of jobs-to-applicants ratio.

In the financial industry, while market interest rates continued to hover around extremely low levels, the fund operating environment, although yet adverse, is expected to stage a future rebound as the balance of loans is trending higher than the previous year.

Results of operations for fiscal 2013

Operating under these challenging conditions, the Bank's directors and general employees have joined

Balance of deposits/
Balance of loans and bills discounted (Unit: Billion yen)



forces in concerted efforts to improve the Bank's business results and optimize its operating efficiency.

These and other efforts produced the following results of operations for the fiscal year under review:

+ Deposits and loans

The total balance of deposits as of March 31, 2014 had grown by ¥58,500 million from the previous fiscal-end to ¥2,018,700 million, thanks to a steady increase in both personal and corporate deposits.

Meanwhile, the total balance of loans and bills discounted increased by ¥42,900 million from the previous fiscal-end to ¥1,288,700 million due to increased feasibility loan due to the implementation of a loan increasing policy primarily to small and medium-sized enterprises, and also due to increased personal loans, particularly housing loans through actively incorporating needs for home loans along with a rush of demand in advance of the consumption tax hike. Moreover, the balance of feasibility loan of Saga and Nagasaki turned upward, reversing the decreasing trends since March 2009.

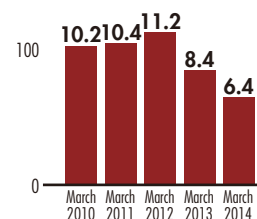
In the area of securities, the Bank implemented efficient fund management in response to a perceived risk of future interest-rate fluctuations. As a result, securities rose by ¥35,400 million from the previous fiscal year to ¥634,200 million.

+ Profit conditions

The Bank recorded an upturn of the consolidated results of operations in the fiscal year under review, as ordinary income rose by ¥167 million from the previous fiscal year, up to ¥42,000 million. This upturn was possible thanks to a ¥1,865 million reversal of allowance for loan losses, although the yield on total investments and interest income decreased mainly due to a lower market interest rate, despite an increase in the balance of loans and bills discounted. Interest income recorded a decrease of ¥1,360 million compared to the previous fiscal year.

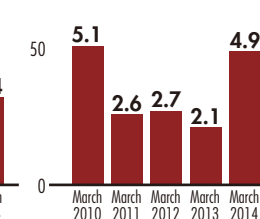
Net business profit (Unit: Billion yen)

200



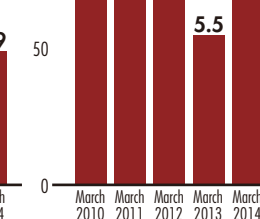
Current net income (Unit: Billion yen)

100



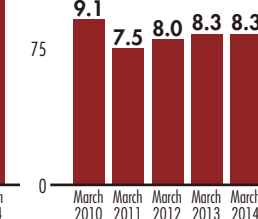
Ordinary profit (Unit: Billion yen)

100



Net core business profit (Unit: Billion yen)

150



Net business profit

Net business profit is an indicator of profit particular to banks that shows the results for their basic banking services. It is calculated by subtracting "expenses" and "transferred general provisions for loan losses" from the total of four items: "profit from funds" generated through management and procurement of deposits, loans and bills accounted for and marketable securities; "profit from service transactions," denoting income and expenditures associated with various service charges; "profit from particular transactions" indicating income and expenditures associated with short-term trading of government bonds, etc.; and "other operating profit" showing profits and losses from bond trading, foreign currency exchange and other such operations.

Net core business profit

Net core business profit comprises net business profit before general provisions for loan losses are transferred after adjusting the results of the final calculation of five bond accounts. It is associated with the Bank's fundamental ability to achieve profitability.

+ Results of Group Operations

Compared to the previous consolidated fiscal year, the results of the Bank's Group operations showed a growth of ¥59,400 million in the total balance of deposits, up to ¥2,013,200 million, and a rise of ¥42,900 million to ¥1,288,700 million in the total balance of loans and bills discounted.

Compared to the previous accounting period, in the

Moreover, the net interest income - which accounts for the largest portion of profit for the Bank - decreased by ¥1,424 million from the previous fiscal year to ¥24,861 million.

Despite this decrease, ordinary profit recorded an increase of ¥1,873 million from the previous fiscal year, up to ¥7,449 million, due to a ¥3,306 million decline in cost of credit.

These factors led to a rise in current net profit of ¥2,772 million from the previous fiscal year, up to ¥4,954 million.

consolidated fiscal year under review, ordinary income improved by ¥4,800 million to ¥42,621 million, ordinary profit rose by ¥2,024 million to ¥8,008 million, and current net profit increased by ¥2,765 million to ¥4,983 million.

The consolidated capital adequacy ratio (domestic standard) was 11.15%, as it changed to a Basel III basis from March 31, 2014.

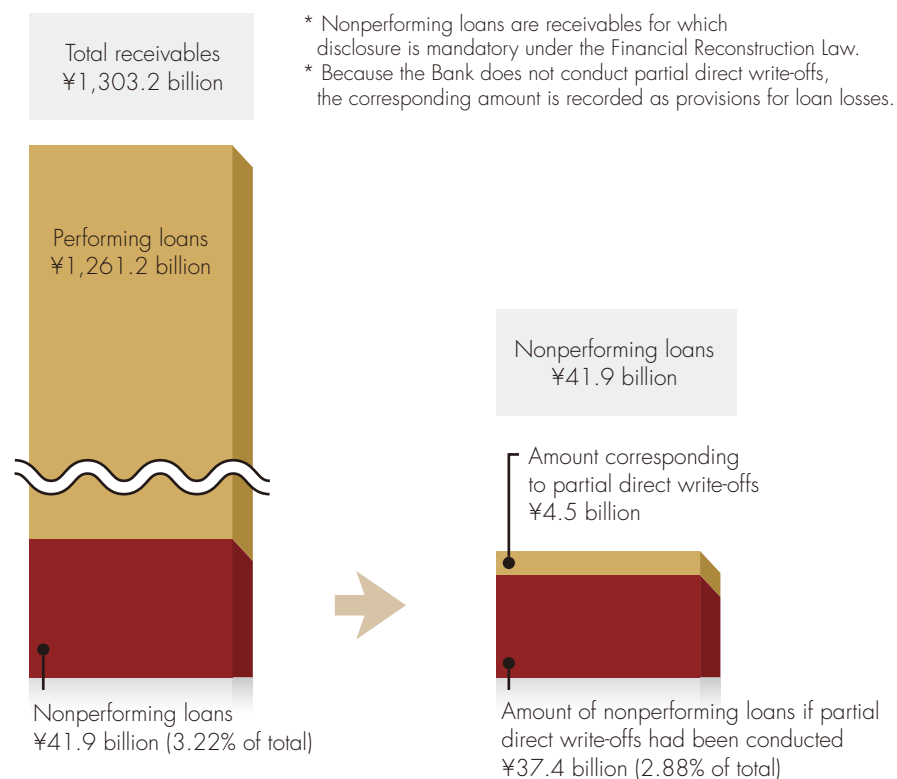
Business Environment and Results of Operations

Status of Nonperforming Loans

The Bank of Saga's ratio of loan assets for which disclosure is mandatory under the Financial Reconstruction Law (nonperforming loans) to total receivables stood at 3.22% on March 31, 2014, down from 3.72% on March 31, 2013.

The Bank of Saga does not conduct partial direct write-offs. Had it conducted partial direct write-offs, however, the ratio as of March 31, 2014 would have been 2.88% (as compared with 3.23% as of March 31, 2013).

Status of nonperforming loans as of end March 2014



(Status of receivables for which disclosure is mandatory under the Financial Reconstruction Law)

(Units: Billion yen, percentage)

	End March 2013	End March 2014	Change from previous year
Receivables for which disclosure is mandatory under the Financial Reconstruction Law (A)	46.9	41.9	5.0
Amount equivalent to partial direct write-offs (B) (Note)	6.2	4.5	1.7
Difference (C) = (A) - (B)	40.6	37.4	3.2
Total loan amount (including ordinary loans) (D)	1,260.1	1,303.2	43.1
(A) / (D) × 100	3.72%	3.22%	0.50% point
(C) / ((D) - (B)) × 100	3.23%	2.88%	0.35% point

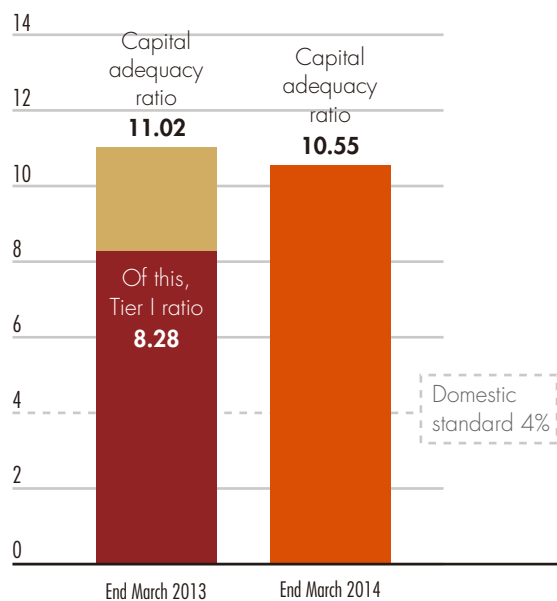
Note: Because the Bank does not conduct partial direct write-offs, it records an equivalent amount as a provision for loan losses.

Capital adequacy ratio

The capital adequacy ratio (domestic standard) was 10.55%, as it changed to a Basel III basis from March 31, 2014.

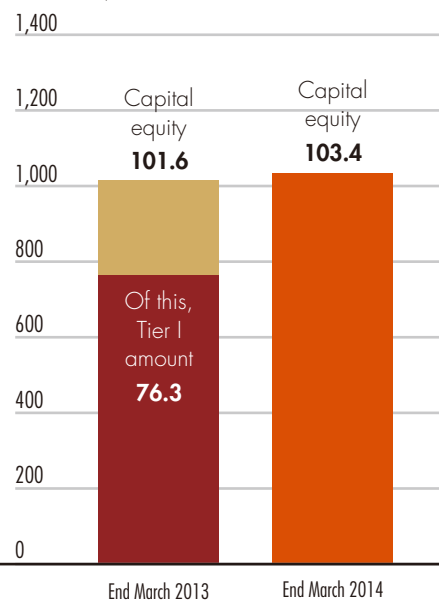
Capital adequacy ratio (domestic standard)

(Unit: %)



Capital equity (domestic standard)

(Unit: billion yen)



Explanation of terms

(Note 1) Tier 1 (core capital): The basic portion of equity capital, such as capital, capital reserves and earned reserves

Corporate Governance

Fundamental policy

As a regional financial institution, the Bank of Saga is striving to establish the “Bank of Saga brand” in order to remain an indispensable bank for our customers and shareholders.

With this concept as a basis, it is implementing measures to achieve good corporate governance and appropriate management systems to sustain it.

Current corporate governance systems

The Bank’s Board of Directors, which comprises 12 members, determines the Bank’s business execution and supervises the performance of the Directors. The Bank elected one external member to the Board of Directors as part of its efforts to strengthen the Board’s supervisory function, ensure the fairness of its decision-making and enhance its objectivity.

The Bank has adopted an auditor system, under which a Board of Auditors comprising four members, three of them external auditors, is responsible for auditing the execution of duties by Directors and providing appropriate advice.

In an effort to ensure the effectiveness and soundness of its corporate governance, moreover, the Bank has instituted a system under which its execution of business is audited and supervised from an independent perspective by external directors and external auditors who have no experience of employment by the Bank or any member of its Group.

The Bank’s Articles of Incorporation stipulate that the Board of Directors shall comprise up to 14 members and the Board of Auditors up to 4 members.

The Bank of Saga is working to achieve greater depth and breadth in the deliberations of its Board of Directors and other governing bodies and to accelerate the decision-making process to facilitate quick, appropriate responses to the rapid changes occurring in its operating environment as well as to ensure proper execution of operations reflecting these changes.

The Board of Directors meets once a month, in principle, to consider matters prescribed by laws and regulations as well as to make decisions concerning important management issues. The Bank has also taken steps to reinforce the Board’s functions by clarifying the responsibilities of the Bank’s executive officers and determining the sphere of content of their reports to the Board of Directors.

The Executive Committee comprising the President, Chairman, Executive Managing Director and managing directors meets once a week, in principle, to deliberate matters regarding the Bank’s regular operations at the request of the Board of Directors as a means of facilitating prompt decision-making. The Management Meeting and the Compliance Committee, moreover, a pair of bodies organized to augment corporate governance through discussions and examinations concerning the implementation status of operations and Bank-wide risk management, hold monthly and bimonthly meetings, respectively, with the President, Chairman, Executive Managing Director, managing directors, outside directors and managers of the departments concerned in attendance. The Bank’s auditors also attend important management meetings, including Executive Committee and Board of Directors’ meetings, thus reinforcing the Bank’s “dynamic auditing function.”

Structures for Compliance with Laws and Regulations and for Risk Management

Today's ongoing diversification and advancement of financial operations are generating increasingly varied and complex risks for the banking business. It is an important issue for bank management to understand and manage these risks properly. The Bank has established the Risk Integration and Compliance Group in its Corporate Management and Coordination Department and the ALM (Asset and Liability Management) Group in its General Planning Department as part of efforts to develop structures for compliance with laws and regulations and an integrated risk management structure for each category of risks.

Structure for compliance with laws and regulations

The Corporate Management and Coordination Department acts as a supervisory body with responsibility for overseeing the Bank's systems for compliance with laws and regulations, and the Board of Directors has formulated a set of Basic Compliance Objectives and Compliance Standards. We have also instituted the Compliance Committee with the President as chairman, moreover, as part of efforts to establish a structure that assures compliance with laws and regulations.

Our efforts to reinforce the law-abiding spirit of our directors and regular employees include such measures as ensuring that they all keep the Compliance Guide covering the Bank's standards for compliance in daily operations on hand as a means of strengthening their commitment to compliance with laws and regulations. In addition, we conducted a reexamination of our evaluation system and, as a specific measure targeting our directors and key employees, introduced a "360-degree evaluation" system in fiscal 2004 under which subordinates evaluate their bosses. We have also introduced evaluation procedures that place greater emphasis on matters concerning compliance with laws and regulations into our personnel and branch performance evaluation systems.

In these and other ways, we are making the most of every opportunity to create a climate of compliance.

Personal information management

Since the full enforcement of the Personal Information Protection Law in April 2005, and in accordance with our Personal Information Protection Declaration (Privacy Policy), we have placed the highest priority on earning the trust of customers (business partners, shareholders and regional residents), complying with the Personal Information Protection Law and related legislation and protecting customers' personal information.

In addition to making every effort to ensure proper handling of personal information by all our employees, we are introducing a variety of organizational, human and technological security measures to attain these goals. These include clarification of management responsibilities, enforcement of rules, introduction of IC card-based building entry/exit control systems, promotion of paperless documentation and limiting use of recording media.

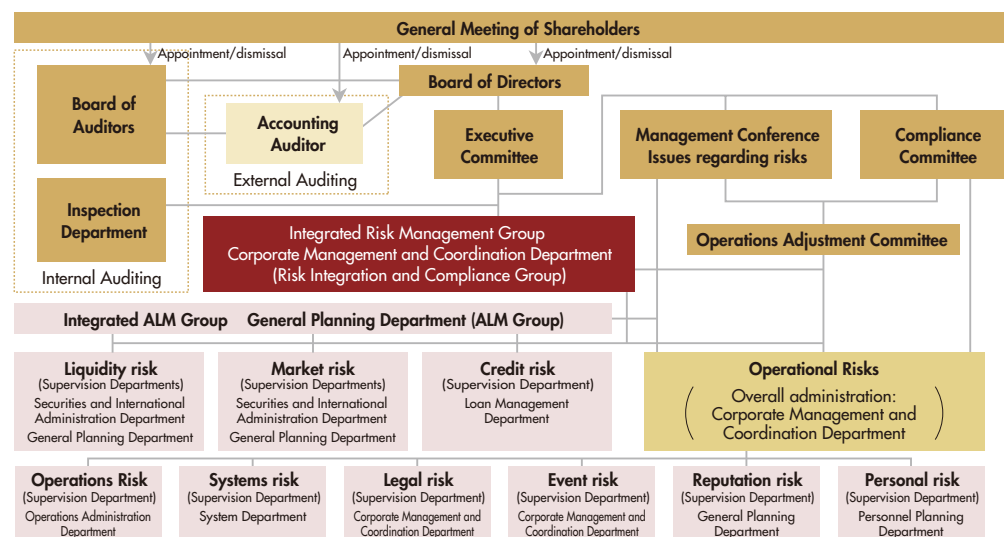
Steps to reinforce internal auditing

With respect to internal auditing, the Bank has prepared auditing systems in response to revisions of the financial inspections manual and changes in laws and regulations, including the Financial Instruments and Exchange Law. We are reinforcing the auditing of our management systems, including those concerned with customer protection, our compliance systems and our risk management systems. We are placing a greater stress on process checking in our auditing operations, moreover, to acquire a deeper understanding of actual conditions. We are also upgrading our internal auditing mechanisms as part of efforts to establish a more transparent corporate culture.

Risk Management

The Bank has established a Risk Management Policy in accordance with strategic objectives determined by the Board of Directors to ensure appropriate risk management in an environment of increasingly varied and complex risks stemming from the ongoing diversification and advancement of financial operations.

Based on our Risk Management Policy and Risk Management Regulations, moreover, we have not only attained a grasp of currently existing risks with respect to those indicated in the accompanying risk management structure diagram, but we have also identified risks that may potentially occur. We are introducing measures to protect against these risks, and to respond appropriately in the event of their emergence.



Notes:

"Legal risk" is the risk of suffering losses due to unspecified legal implications of transactions or insufficient compliance with laws and regulations and rules.
 "Event risk" is the risk of suffering losses due to random incidents or accidents, such as crimes or natural disasters.
 "Personal risk" is risk arising from inequality and inequity (issues regarding rewards, allowances, suspensions, etc.) or discriminatory conduct (sexual harassment, power harassment, etc.) in personnel management.

Integrated risk management

The Bank has classified risks into the four categories of liquidity risk, market risk, credit risk and operational risk and designated one or more risk supervision departments for each with responsibility for conducting appropriate risk management according to the respective risk characteristics. The Corporate Management and Coordination Department conducts integrated management of all

these risks. This means that the Department controls risks within managerially permissible parameters by such means as measuring the level of risk through statistical methods and allocating risk capital with regard to market risk, credit risk and operational risk. The status of the integrated risks is reported at the monthly Management Conference, ALM meetings and other forums to realize prompt implementation of any requisite measures.

Financial Highlights

Consolidated	Millions of yen				Thousands of U.S. dollars
	2014	2013	2012	2011	2014
Total Assets	¥ 2,223,361	¥ 2,124,420	¥ 2,060,852	¥ 2,047,081	\$ 21,062,817
Deposits (including NCDs)	2,019,807	1,958,340	1,899,978	1,874,054	19,625,019
Loans and Bills Discounted	1,288,715	1,245,846	1,225,844	1,210,349	12,521,528
Securities	635,929	599,488	625,455	582,172	6,178,872
Total Income	¥ 42,714	¥ 42,573	¥ 40,482	¥ 40,968	\$ 415,022
Total Expenses	34,869	36,991	32,996	33,405	338,800
Income (Loss) before Income Taxes	7,845	5,581	7,485	5,449	76,221
Net Income (Loss)	4,983	2,218	2,731	2,696	48,422
Cash Dividends	1,001	1,002	1,008	1,020	9,726

U.S. dollar amounts are converted, solely for convenience, at ¥102.92=US\$1, the prevailing rate on March 31, 2014

Non-Consolidated	Millions of yen				Thousands of U.S. dollars	
	2014	2013	2012	2011	2010	2014
Total Assets	¥ 2,222,830	¥ 2,124,515	¥ 2,060,812	¥ 2,046,769	¥ 2,017,728	\$ 21,597,656
Deposits (including NCDs)	2,025,307	1,964,751	1,906,179	1,879,955	1,861,272	19,678,464
Loans and Bills Discounted	1,288,715	1,245,846	1,225,844	1,210,349	1,218,416	12,521,528
Securities	634,219	598,821	624,808	581,540	569,989	6,162,253
Total Income	¥ 42,092	¥ 41,833	¥ 39,735	¥ 40,228	¥ 41,751	\$ 408,984
Total Expenses	34,804	36,658	32,480	35,109	33,260	338,169
Income (Loss) before Income Taxes	7,288	5,174	6,991	5,119	8,568	70,815
Net Income (Loss)	4,954	2,182	2,704	2,660	5,152	48,138
Cash Dividends	1,001	1,002	1,008	1,020	1,021	9,726
			Yen			U.S. dollars
Net Income (Loss) per Share	¥ 29.68	¥ 13.07	¥ 16.11	¥ 15.65	¥ 30.35	\$ 0.288
Cash Dividends per Share	7	6	6	6	6	0.068

U.S. dollar amounts are converted, solely for convenience, at ¥102.92=US\$1, the prevailing rate on March 31, 2014

Consolidated Balance Sheets

The Bank of Saga Ltd. and its consolidated subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Assets			
Cash and Due from Banks	¥ 255,644	¥ 153,345	\$ 2,483,912
Call Loans	5,000	40,000	48,581
Commercial Paper and Other Debt Purchased	5,666	29,910	55,055
Trading Assets	4	20,002	39
Money Held in Trust	454	479	4,415
Securities	635,929	599,488	6,178,872
Loans and Bills Discounted (Note 4)	1,288,715	1,245,846	12,521,528
Foreign Exchanges	2,785	2,931	27,067
Other Assets	5,960	12,040	57,914
Tangible Fixed Assets	24,241	24,504	235,536
Intangible Fixed Assets	2,065	2,692	20,071
Deferred Tax Assets	1,537	1,292	14,940
Customers' Liabilities for Acceptances and Guarantees	12,206	11,895	118,603
Reserve for Possible Loan Losses	(16,850)	(20,010)	(163,721)
Total Assets	¥ 2,223,361	¥ 2,124,420	\$ 21,602,817
Liabilities			
Deposits	¥ 2,019,807	¥ 1,958,340	\$ 19,625,019
Call Money	15,438	1,410	150,000
Payables under Securities Lending Transactions	13,762	2,528	133,725
Borrowed Money	15,640	17,340	151,968
Foreign Exchanges	59	63	577
Other Liabilities	21,779	10,931	211,618
Accrued Employees' Bonuses	704	702	6,847
Accrued Retirement Benefits	12,979	13,984	126,111
Reserve for Directors' Retirement Benefits	5	12	55
Reserve for Reimbursement of Deposits	191	251	1,857
Deferred Tax Liabilities for Land Revaluation (Note 7)	4,722	4,793	45,880
Acceptances and Guarantees	12,206	11,895	118,603
Total Liabilities	2,117,297	2,022,255	20,572,265
Net Assets			
Common Stock (Note 8)	16,062	16,062	156,064
Capital Surplus	11,375	11,375	110,524
Retained Earnings	55,593	51,484	540,159
Less: Treasury Stock, at Cost	(1,226)	(1,237)	(11,919)
Total Shareholders' Equity	81,803	77,684	794,828
Valuation difference on available-for-sale securities	12,480	13,674	121,261
Deferred gains on hedges	0	0	0
Land Revaluation Reserve, Net of Tax (Note 7)	7,604	7,735	73,886
Remeasurements of Defined Benefit Plans	816	0	7,932
Total Accumulated Other Comprehensive Income	20,901	21,409	203,080
Subscription Rights to Share	73	36	717
Minority Interests	3,285	3,033	31,924
Total Net Assets	106,064	102,164	1,030,551
Total Liabilities and Net Assets	¥ 2,223,361	¥ 2,124,420	\$ 21,602,817

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Operations and Retained Earnings

The Bank of Saga Ltd. and its consolidated subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Income			
Interest Income:			
Loans and Discounts	¥ 19,291	¥ 20,567	\$ 187,445
Securities	6,590	6,683	64,038
Others	245	233	2,381
Fees and Commissions	6,750	6,568	65,588
Other Operating Income	6,898	5,816	67,025
Other Income	2,845	2,701	27,643
Total Income	42,621	42,573	414,123
Expenses			
Interest Expenses:			
Deposits	973	946	9,455
Borrowings and Call Money	255	244	2,481
Others	28	0	272
Fees and Commissions	2,700	2,596	26,235
Other Operating Expenses	4,834	3,425	46,975
General and Administrative Expenses	24,187	24,394	235,009
Other Expenses	1,634	4,980	15,877
Total Expenses	34,612	36,589	336,308
Income (Loss) before Income Taxes	7,844	5,581	76,221
Income Taxes:			
Current	2,382	776	23,145
Deferred	221	2,361	2,147
Minority Interests	257	224	2,505
Net Income (Loss)	¥ 4,983	¥ 2,218	\$ 48,422
Per Share of Common Stock:		Yen	U.S. dollars
Net Income (Loss)	¥ 29.80	¥ 13.28	\$ 0.289

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

The Bank of Saga Ltd. and its consolidated subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Net Income before minority interests	¥ 5,241	¥ 2,443	\$ 50,908
Other comprehensive income	(1,194)	4,733	(11,597)
Valuation difference on available-for-sale securities	(1,194)	4,733	(11,599)
Deferred gains on hedges	0	0	0
Land Revaluation Reserve	0	0	0
Share of Other Comprehensive Income of Associates accounted for using Equity Method	0	0	2
Comprehensive Income	4,047	7,177	39,310
(Breakdown)			
Comprehensive Income Attributable to Owners of the Parent	3,789	6,952	
Comprehensive Income Attributable to Minority Interests	257	224	

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Net Assets

The Bank of Saga Ltd. and its consolidated subsidiaries

Years ended March 31, 2014

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balances at March 31, 2013	¥ 16,062	¥ 11,375	¥ 51,484	(¥1,237)	¥ 77,684
Changes during the fiscal year					
Dividends from surplus			(1,001)		(1,001)
Net income			4,983		4,983
Repurchase of treasury stock				(2)	(2)
Disposition of treasury stock			(4)	12	8
Cancellation of Treasury share					0
Transfer from revaluation reserve for land, net of taxes			130		130
Change other than stockholders' equity(net)					0
Total changes during the fiscal year	0	0	4,108	10	4,118
Balance as of March 31, 2014	16,062	11,375	55,593	(1,226)	81,803

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balances at March 31, 2013	\$ 156,064	\$ 110,524	\$ 500,239	(\$12,019)	\$ 754,808
Changes during the fiscal year					
Dividends from surplus			(9,729)		(9,729)
Net income			48,422		48,422
Repurchase of treasury stock				(25)	(25)
Disposition of treasury stock			(44)	124	79
Cancellation of Treasury share					0
Transfer from revaluation reserve for land, net of taxes			1,271		1,271
Change other than stockholders' equity(net)					0
Total changes during the fiscal year	0	0	39,920	99	40,019
Balance as of March 31, 2014	156,064	110,524	540,159	(11,919)	794,828

	Millions of yen							
	Valuation and translation adjustments							
	Net unrealized gains (losses) on securities	Net deferred gains (losses) on derivatives under hedge accounting	Land revaluation excess	Remeasurements of Defined Benefit Plans	Total	Subscription rights to share	Minority interests	Total net assets
Balances at March 31, 2013	¥ 13,674	¥ 0	¥ 7,735	¥ 0	¥ 21,409	¥ 36	¥ 3,033	¥ 102,164
Changes during the fiscal year								
Dividends from surplus								(1,001)
Net income								4,983
Repurchase of treasury stock								(2)
Disposition of treasury stock								8
Cancellation of Treasury share								0
Transfer from revaluation reserve for land, net of taxes								130
Change other than stockholders' equity(net)	(1,194)	0	(130)	816	(508)	37	252	(219)
Total changes during the fiscal year	(1,194)	0	(130)	816	(508)	37	252	3,899
Balance as of March 31, 2014	12,480	0	7,604	816	20,901	73	3,285	106,064

	Thousands of U.S. dollars							
	Valuation and translation adjustments							
	Net unrealized gains (losses) on securities	Net deferred gains (losses) on derivatives under hedge accounting	Land revaluation excess	Remeasurements of Defined Benefit Plans	Total	Subscription rights to share	Minority interests	Total net assets
Balances at March 31, 2013	\$ 132,864		\$ 75,157	¥ 0	\$ 208,021	\$ 357	\$ 29,474	\$ 992,661
Changes during the fiscal year								
Dividends from surplus								(9,729)
Net income								48,422
Repurchase of treasury stock								(25)
Disposition of treasury stock								79
Cancellation of Treasury share								0
Transfer from revaluation reserve for land, net of taxes								1,271
Change other than stockholders' equity(net)	(11,602)		(1,271)	7,932	(4,940)	360	2,450	(2,129)
Total changes during the fiscal year	(11,602)		(1,271)	7,932	(4,940)	360	2,450	37,889
Balance as of March 31, 2014	121,261		73,886	7,932	203,080	717	31,924	1,030,551

Consolidated Statements of Cash Flows

The Bank of Saga Ltd. and its consolidated subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Cash Flows from Operating Activities:			
Income (Loss) before Income Taxes and Minority Interests	¥ 7,844	¥ 5,581	\$ 76,221
Depreciation	1,872	1,915	18,192
Impairment Losses	218	359	2,127
Income on Equity Method	(16)	(19)	(159)
(Decrease) Increase in Reserve for Possible Loan Losses	(3,160)	598	(30,706)
(Decrease) Increase in Accrued Bonuses	2	(1)	22
(Decrease) Increase in Accrued Retirement Benefits	0	1,019	0
(Decrease) Increase in Net Defined Benefit Liability	257	—	2,497
(Increase) Decrease in Net Defined Benefit Asset	0	—	0
(Decrease) Reserve for directors retirement benefits	(6)	(472)	(63)
(Decrease) Increase in Reserve for Reimbursement of Deposits	(60)	59	(585)
Interest and Dividend Income	(26,127)	(27,485)	(253,865)
Interest Expenses	1,256	1,192	12,209
(Income) Loss on Securities Transaction	2,791	960	27,125
(Income) Loss on Money Trust	24	(11)	238
Net exchange (gain) loss	0	0	0
(Income) Loss on Disposal of Properties	(64)	14	(623)
Net (Increase) Decrease in Trading Assets	19,998	(19,985)	194,315
Net (Increase) Decrease in Loans and Bills Discounted	(42,869)	(20,002)	(416,530)
Net Increase (Decrease) in Deposits	59,420	60,152	577,344
Net Increase (Decrease) in Negotiable Certificates of Deposits	2,045	(1,789)	19,874
Net Increase (Decrease) in Borrowed Money	(200)	(5,300)	(1,945)
Net (Increase) Decrease in Due from Banks (other than The Bank of Japan)	(57)	103	(560)
Net (Increase) Decrease in Call Loans	59,263	22,804	575,816
Net Increase (Decrease) in Call Money	14,027	1,410	136,292
Net Increase (Decrease) in Payables under Securities Lending Transactions	11,234	2,528	109,153
Net (Increase) Decrease in Foreign Exchange Assets	145	(726)	1,412
Net Increase (Decrease) in Foreign Exchange Liabilities	(4)	(228)	(39)
Revenues from Fund Operations	27,383	28,172	266,066
Expenditures on Fund Procurement	(1,177)	(1,363)	(11,437)
Others	7,891	2,477	76,675
Sub-total	141,933	51,964	1,379,067
Payment of Income Taxes	(1,130)	(227)	(10,981)
Net Cash Provided by (Used in) Operating Activities	140,803	51,736	1,368,085

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Cash Flows from Investing Activities:			
Purchase of Securities	(547,683)	(513,719)	(5,321,448)
Sales of Securities	460,707	500,631	4,476,364
Redemption of Securities	52,059	44,608	505,821
Increase in Money Held in Trust	0	0	0
Decrease in Money Held in Trust	0	72	0
Purchases of Tangible fixed Assets	(746)	(916)	(7,250)
Purchases of Intangible Fixed Assets	(483)	(219)	(4,696)
Proceeds from Sales of Tangible Fixed Assets	92	16	899
Proceeds from Sales of Intangible Fixed Assets	0	0	0
Net Cash Provided by (Used in) Investing Activities	(36,053)	30,536	(350,309)
Cash Flows from Financing Activities:			
Increase in Subordinated Loans	0	0	0
Repayment of Subordinated Loans	(1,500)	0	(14,574)
Payment of Cash Dividends	(1,001)	(1,002)	(9,722)
Payment of Cash Dividends to Minority Interests	(5)	(5)	(55)
Purchases of Treasury Stock	(2)	(63)	(22)
Net Cash Used in Financing Activities	(2,508)	(1,071)	(24,374)
Translation Adjustment of Cash and Cash Equivalents	0	0	0
Net Increase (Decrease) in Cash and Cash Equivalents	102,240	81,201	993,401
Cash and Cash Equivalents at Beginning of the Year	152,935	71,733	1,485,968
Cash and Cash Equivalents at End of the Year	¥ 255,176	¥ 152,935	\$ 2,479,370

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

The Bank of Saga Ltd. (the "Bank") and its consolidated subsidiaries

1. The Scope of Consolidated Financial Reporting and Application of The Equity Method

(a) The Scope of Consolidated Financial Reporting

- SAGIN BUSINESS SERVICE CO.,LTD.
- SAGIN COMPUTER SERVICE CO.,LTD.
- SAGIN CREDIT GUARANTEE CO.,LTD.

(b) Application of the Equity Method

- SAGIN CAPITAL AND CONSUL CO.,LTD.
- SAGIN LEASE CO.,LTD.

2. Japanese Yen and U.S. Dollar Amounts

Yen amounts of less than ¥1 million have been disregarded. Accordingly, the sum of each account may in fact not be equal to the combined sum of the individual items. All U.S. dollar amounts included herein are presented solely for the convenience of readers, and are nothing more than arithmetical computations.

They are converted at the rate of ¥102.92=US\$1, the prevailing rate on the Tokyo foreign exchange market on March 31, 2014.

3. Significant Accounting Policies

(a) Financial Instruments

The Bank and its consolidated subsidiaries apply the Accounting Standards for Financial Instruments to valuation of trading account securities, securities and derivative transactions, and hedge accounting.

(b) Transactions for Trading Purposes

Transactions for "Trading Purposes" (purposes of seeking to capture gains arising from short-term changes in interest rates, currency exchange rates or

market prices of securities and other market-related indices or from arbitrage between markets) are valued at market or fair value as of the balance sheet dates, and included in "Trading Assets" on a trade-date basis. Profits and losses on trading transactions are included in other operating income or expenses.

(c) Securities

- i. In conformity with the Accounting Standards for Financial Instruments, securities are stated as follows:
Held-to-maturity debt securities are stated at amortized cost using the straight-line method, cost being determined by the moving-average method.

"Securities Available for Sale" defined by the standards are stated at fair market value when having market price and are stated at moving-average cost or amortized cost when having no market price. Unrealized valuation gains or losses on securities available for sale, net of applicable income taxes, are stated as a separate item in the consolidated balance sheets. Cost of the securities sold, in principle, is computed by the moving-average method.

- ii. In accordance with the Uniform Rules for Bank Accounting, securities included in "Money Held in Trust," which are designated for investments in securities and separately managed from other beneficiaries are valued by the same method as in (i.) above.

(d) Derivatives

Under the Accounting Standards for Financial Instruments, derivative transactions except for trading purposes transactions are stated at fair value.

Derivative transactions are executed and managed under the internal check system of the Bank in accordance with the established policies.

(e) Depreciation

Depreciation of premises and equipment of the Bank is calculated using the declining-balance method except for the buildings acquired after April 1, 1998 which are depreciated using the straight-line method. Main useful lives of premises and equipment are as follows:

Buildings 3 to 60 years

Equipment 2 to 20 years

Premises and equipment held by the consolidated subsidiaries are depreciated over the useful lives of the respective assets principally using the declining-balance method.

Software for internal use held by the Bank is amortized over the useful lives of 5 years using the straight-line method. Software for internal use held by the consolidated subsidiaries is amortized over the useful lives of 5 years.

(f) Foreign Currency Translation

The financial statements of the Bank and its consolidated subsidiaries are maintained in or translated into Japanese yen. Foreign currency assets and liabilities are translated into yen at the prevailing rates on the Tokyo foreign exchange market as of the

balance sheet date of each fiscal year.

(g) Reserve for Possible Loan Losses

The Bank makes provision for possible loan losses in accordance with predetermined standards for write-offs and reserves. In line with the Guidelines for Governance on Asset Self-Assessment of Financial Institutions and Audits on Write-Offs and Reserves for Possible Loan Losses (JICPA Bank Auditing Special Committee Report No.4), the Bank has implemented a self-assessment rule for the credit quality of assets subject to disclosure under the Financial Reconstruction Law, and has classified them into four risk categories: bankrupted, doubtful, substandard and normal.

The Bank provides a non-specific reserve for assets classified under "substandard" or "normal," based on historical default rates. For assets classified under "doubtful," the Bank provides a specific reserve in an amount deemed necessary after deduction of the estimated recoverable portion through disposition of collateral or implementation of guarantees. For assets classified under "bankrupted," the Bank provides a specific reserve in an amount equivalent to the remaining portion of the assets after deduction of the estimated recoverable amounts through disposition of collateral or implementation of guarantees.

The consolidated subsidiaries provide a non-specific reserve in an amount deemed necessary based on historical default rates and a specific reserve for loans to potentially bankrupt borrowers and other specific loans in the amount deemed

uncollectible based on individual fair value assessment of collateral.

(h) Reserve for Employees' Bonuses

The reserve for bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses, which are attributable to the current fiscal year.

(i) Reserve for Directors' Retirement Benefits

The reserve for directors' retirement benefits is provided for payment of retirement benefits to directors, corporate auditors and other executive officers, in the amount deemed accrued at the fiscal year-end.

(j) Reserve for withdrawals of dormant deposits

The Bank provides a reserve for withdrawals of dormant deposits on which it has previously recognized a profit. The Bank recognizes an amount that it estimates will be withdrawn in the future based on its past experience with such withdrawals.

(k) Methods for Accounting Treatment of Retirement Benefits Payments

A method of attributing projected retirement benefits from a fixed amount standard due by the current fiscal year-end is applied for calculating the retirement benefit obligations. In addition, the amortization methods for prior service costs and actuarial gain (loss) are as follows:

Prior service costs is amortized using the straight-line method over a specified period (5 years)

within the employees' average remaining service period at incurrence.

Actuarial gain (loss) is amortized using the straight-line method over a specified period (5 years) within the employee's average remaining service period commencing from the next fiscal year of incurrence.

Our consolidated subsidiaries adopted a simplified method in calculating liabilities for retirement benefits and retirement benefit expenses by assuming the pension benefit obligation of the subsidiaries to be equal to the amount payable for voluntary retirement of all employees at fiscal year-end.

(l) Lease Transactions

As for finance lease transactions that do not transfer rights of ownership, whose effective date preceded the start of the first fiscal year (on April 1, 2008) of application of the accounting standard for lease transactions, the Bank of Saga continues to apply the same method that uses to account for ordinary lease transactions.

(m) Methods of Significant Hedge Accounting

i. Hedging Against Interest Rate Risk

The Bank of Saga applies deferred hedge accounting pursuant to the "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (issued by JICPA Industry Audit Committee Report No. 24) to manage interest rate risk arising from interest-earning assets and

interest-bearing liabilities. As for the hedges to offset market fluctuation, the Bank of Saga assesses the effectiveness of such hedges by classifying the hedged items (such as loans) and the hedging instruments (such as interest rate swaps) by their respective maturity.

ii. Hedging Against Exchange Fluctuation Risk

The Bank of Saga applies deferred hedge accounting pursuant to the "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (issued by JICPA Industry Audit Committee Report No. 25) to manage exchange fluctuation risk arising from lending or borrowing funds in different currencies. The Bank of Saga assesses the effectiveness of currency swap and foreign exchange swap transactions (the hedging instruments) executed for the purpose of offsetting the risk of changes in currency exchange rates by verifying that there are foreign-currency monetary claims and debts (the hedged items) corresponding to the foreign-currency positions.

(n) Accounting Treatment of Consumption Tax

National and local consumption taxes of the Bank of Saga and its consolidated subsidiaries are accounted for using the tax-excluded method.

(o) Statement of Cash Flows

The balances of cash and due from banks on the balance sheet as of March 31, 2014 and 2013 were reconciled with cash and cash equivalents at

end of year on the statements of cash flows as follows:

	Millions of yen	
	2014	2013
Cash and Due from Banks	¥255,644	¥153,345
Deposits with Banks (other than The Bank of Japan)	(467)	(409)
Cash and Cash Equivalents at End of Year	¥255,176	¥152,935

4. Loans and Bills Discounted

	Millions of yen	
	2014	2013
Bills Discounted	¥ 9,396	¥ 11,839
Loans on Notes	58,818	66,190
Loans on Deeds	1,074,358	1,022,669
Overdrafts	146,142	145,147
Total	¥ 1,288,715	¥ 1,245,846

5. Non-Performing Loans

	Millions of yen	
	2014	2013
Loans in Bankruptcy	¥ 2,230	¥ 2,648
Past due Loans	32,920	36,963
Restructured Loans	6,382	6,676
Total	¥ 41,533	¥ 46,289

6. Land Revaluation Reserve

In accordance with the Law concerning the Revaluation of Land, the Bank revalued land held for its operations on March 31, 1998. Net unrealized gain was stated in net assets, net of applicable income taxes, as "Land Revaluation Reserve, Net of

Tax," amounting to ¥8,870 million as of March 31, 2014.

7. Common Stock

As of March 31, 2014, Common Stock of the Bank consisted of 171,359 thousand shares issued. The authorized number of shares was 499,142 thousand.

8. Securities

	Millions of yen	
	2014	2013
Government Bonds	¥ 120,921	¥ 128,268
Municipal Bonds	273,124	271,914
Corporate Bonds and Debentures	119,926	107,785
Stocks	37,337	36,866
Other Securities	82,620	54,654
Total	¥ 635,929	¥ 599,488

9. Foreign Exchange (Assets and Liabilities)

	Millions of yen	
	2014	2013
(Assets)		
Due from Foreign Correspondents	¥ 2,382	¥ 2,492
Foreign Bills of Exchange Bought	1	19
Foreign Bills of Exchange Receivable	402	418
Total	¥ 2,785	¥ 2,204

	Millions of yen	
	2014	2013
(Liabilities)		
Foreign Exchange Bills Sold	¥ 32	¥ 11
Foreign Bills Payable	26	52
Total	¥ 59	¥ 291

10. Other Assets

	Millions of yen	
	2014	2013
Prepaid Expenses	¥ 26	¥ 22
Accrued Income	2,054	1,991
Derivative Assets	787	589
Others	3,092	9,435
Total	¥ 5,960	¥ 13,413

11. Deposits

	Millions of yen	
	2014	2013
Current Deposits	¥ 111,399	¥ 111,250
Ordinary Deposits	1,047,939	997,821
Savings Deposits	4,742	5,082
Deposits at Notice	7,112	5,518
Time Deposits	823,317	812,933
Other Deposits	18,771	21,257
Negotiable Certificates of Deposit	6,523	4,477
Total	¥ 2,019,807	¥ 1,953,863

12. Borrowed Money

Borrowed money consisted of loans from other banks, including a subordinated loan in the amount of ¥15,640 million as of March 31, 2014.

13. Other Liabilities

	Millions of yen	
	2014	2013
Income Taxes Payable	¥ 1,952	¥ 712
Accrued Expenses	1,044	941
Unearned Income	2,678	2,573
Derivative Liabilities	728	492
Others	15,375	6,211
Total	¥ 21,779	¥ 10,931

14. Other Operating Income

	Millions of yen	
	2014	2013
Gain on Foreign Exchange Transactions	¥ 157	¥ 140
Gain on Trading Purpose Transactions	128	210
Gain on Sales of Bonds	2,895	2,939
Gain on Derivative Instruments	3,675	2,475
Others	41	51
Total	¥ 6,898	¥ 5,816

15. Other Income

	Millions of yen	
	2014	2013
Gain on Sales of Stocks and Other Securities	¥ 63	¥ 1,677
Gain on Money Held in Trust	0	11
Reversal of Reserve for Possible Loan Losses	1,764	0
Others	1,016	1,012
Total	¥ 2,845	¥ 2,701

16. Other Operating Expenses

	Millions of yen	
	2014	2013
Losses on Sales of Bonds	¥ 4,631	¥ 3,241
Losses on Redemption of Bonds	151	152
Losses on write-down of Bonds	51	31
Total	¥ 4,834	¥ 3,425

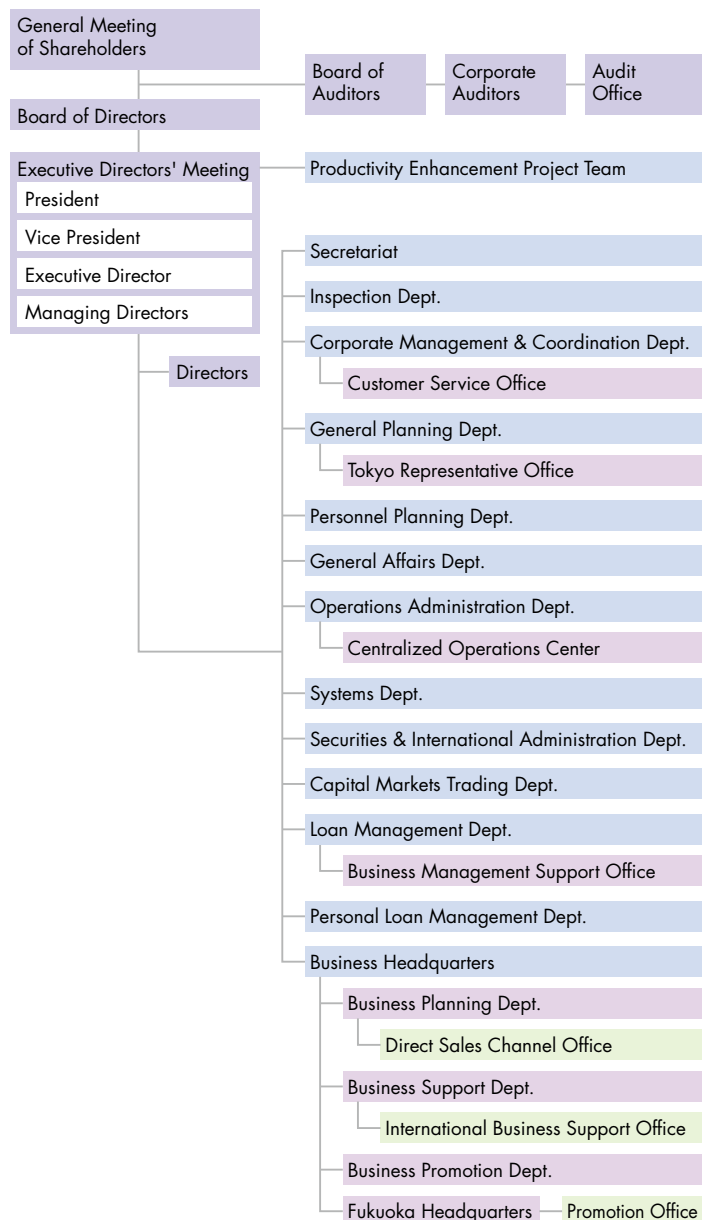
17. Other Expenses

	Millions of yen	
	2014	2013
Provision for Reserve for Possible Loan Losses	¥ 0	¥ 1,402
Written-off Loans	0	205
Losses on Sales of Stocks and Other Securities	1	39
Losses on Devaluation of Stocks and Other Securities	928	2,118
Loss from Management of Money Trust	24	—
Others	680	1,215
Total	¥ 1,634	¥ 4,980

18. Subsequent Event

The following distribution of retained earnings for the year ended March 31, 2014 was resolved at the General Meeting of the Shareholders held on June 27, 2014.

Organization



Directors and Corporate Auditors

Chairman

Toshio Muraki

President

Yoshihiro Jinnouchi

Executive Director

Hirohisa Furuzono

Managing Directors

Mitsunori Furukawa

Kunihiko Akiba

Akihisa Ueno

Hideaki Sakai

Sunao Imaizumi

Directors

Akira Tashiro

Shinji Tsutsumi

Masatoshi Tanaka

Tsutomu Kimura

Corporate Auditors

Minoru Kusaba

(Standing Auditor)

Toshio Usui

Akinobu Onizaki

Kotaro Ikeda

Corporate Data

Bank Data

Head Office

7-20, Tojin 2-chome, Saga City, Saga 840-0813, Japan

Telephone: (0952) 24-5111

Securities & International Administration Department

7-20, Tojin 2-chome, Saga City, Saga 840-0813, Japan

Telephone: (0952) 25-4571

Date of Incorporation

July 1955

Capital

¥16 billion

Number of Offices

100

Number of Employees

1,441

Network

Saga Prefecture

58 branches

Nagasaki Prefecture

4 branches

Fukuoka Prefecture

37 branches

Fukuoka Headquarters

Tokyo Branch

Head Office Business Department

Securities & International Administration Department