

A N N U A L
R E P O R T
2015

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Profile

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, 2015, the Bank of Saga's balance of deposits (including negotiable certificates of deposit) amounted to ¥2,089,382 million (US\$17,386 million) on a non-consolidated basis and its total assets amounted to ¥2,303,267 million (US\$19,166 million). A total of 1,457 employees were serving customers in the Bank's network of 103 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.

We are pleased to present you our "Annual Report 2015" that summarizes the Bank's management policies, as well as its business performance for fiscal 2014.

With the aim of establishing 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, the Bank's directors and general employees will join forces in concerted efforts to further enhance our business performance and improve our services.

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

July 2015

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	¥2.8 trillion
Average balance of total loans and bills discounted	¥1.35 trillion

Business Environment and Results of Operations

Financial and economic environment

During fiscal year 2014, despite the lingering effects of the consumption tax hike, the Japanese economy continued to recover at a moderate pace owing to improvements in the employment and income conditions, as well as in corporate business results against the backdrop of a weakening yen and a low price of crude oil. With the recovery in business performance, there have been increasing moves to raise salaries, which might lead to a boost in personal consumption.

Also the economy in the northern Kyushu area, around which the Bank of Saga's operations revolve primarily, continued to recover, although signs of a sluggish personal consumption were seen in some sectors. Further, companies continued to show signs of recovery in production activities and capital investment. As long as the employment and income conditions keep improving, we can expect the economic recovery to continue in the future.

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 deposits and loans is trending higher than the previous year.

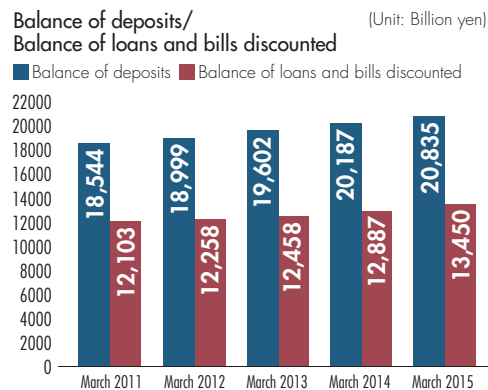
Results of operations for fiscal 2014

Operating under these challenging conditions, the Bank's directors and general employees have joined 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, 2015 had grown by ¥64,800 million from the previous fiscal-end to ¥2,083,500 million, thanks to a continued steady increase in both personal and corporate deposits. On a regional basis, deposits increased to



¥46,400 million in Saga Prefecture and to ¥22,800 million in Fukuoka Prefecture.

Meanwhile, the total balance of loans and bills discounted recorded an increase by ¥56,300 million from the previous fiscal year to ¥1,345,000 million. This is attributable to an increase in feasibility loans in line with the implementation of a loan increasing policy mainly in small and medium-sized enterprises, as well as to an increase in personal loans, particularly the housing loans, as we have been actively addressing the needs for home loans. On a regional basis, deposits increased to ¥21,800 million in Saga Prefecture and to ¥43,800 million in Fukuoka Prefecture.

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 ¥44,800 million from the previous fiscal year, to ¥679,000 million.

The capital adequacy ratio (domestic standard) was 9.63%, down 0.92% from the previous fiscal year, while nonperforming loans (ratio of loan assets for which disclosure is mandatory under the Financial Reconstruction Law) stood at 2.81% on March 31, 2015, down from 3.22% as of March 31, 2014.

+ Profit conditions

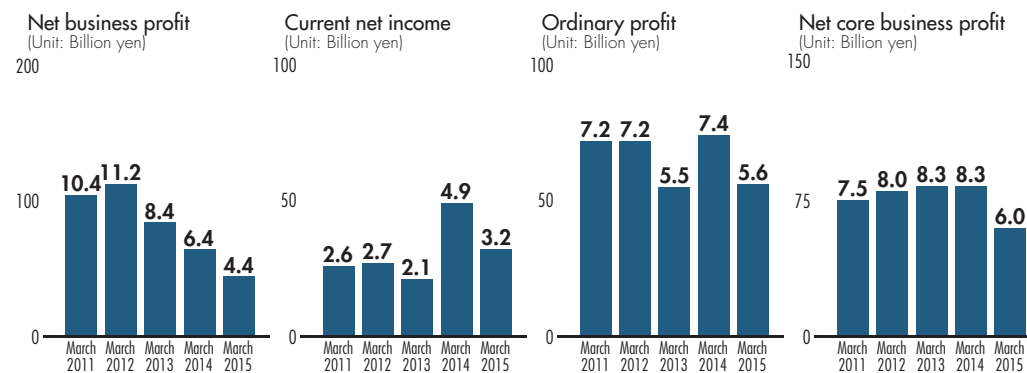
The Bank recorded a downturn of the consolidated

results of operations in the fiscal year under review, as ordinary income by ¥1,129 million from the previous fiscal year, to ¥40,871 million. This downturn is attributable to factors such as a decrease of ¥224 million in interests on loans and discounts received due to a fall in the yield on loans, and a decrease of ¥1,194 million in the reversal of allowance for loan losses, all these despite the steady increase in loans and bills discounted.

Besides this decrease in ordinary income, the Bank

recorded an increase of ¥664 million in ordinary expenses due to factors such as an increase in general and administrative expenses caused by the consumption tax hike. As a result, the ordinary profit fell by ¥1,792 million from the previous fiscal year, to ¥5,657 million.

In addition to these factors, there has been also an increase in deferred income taxes due to a lowered effective corporate tax rate. Accordingly, the current net income decreased by ¥1,688 million from the previous fiscal year, to ¥3,266 million.



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, etc." 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 ¥64,300 million in the total balance of deposits, to ¥2,077,600 million, and a rise of ¥56,300 million in the total balance of loans and bills discounted, to ¥1,345,000 million.

Compared to the previous accounting period, the Bank recorded decreases on a consolidated basis as follows: ordinary income down ¥711 million to

¥41,910 million, ordinary profit down ¥1,307 million to ¥6,701 million, and net income also down ¥1,667 million to ¥3,316 million.

The consolidated capital adequacy ratio (domestic standard) was 10.22%, down 0.93% from the previous year-end, owing to an increase in risk assets mainly attributable to adjustments in capital equity and a rise in loans and bills discounted, as we switched to a Basel III basis.

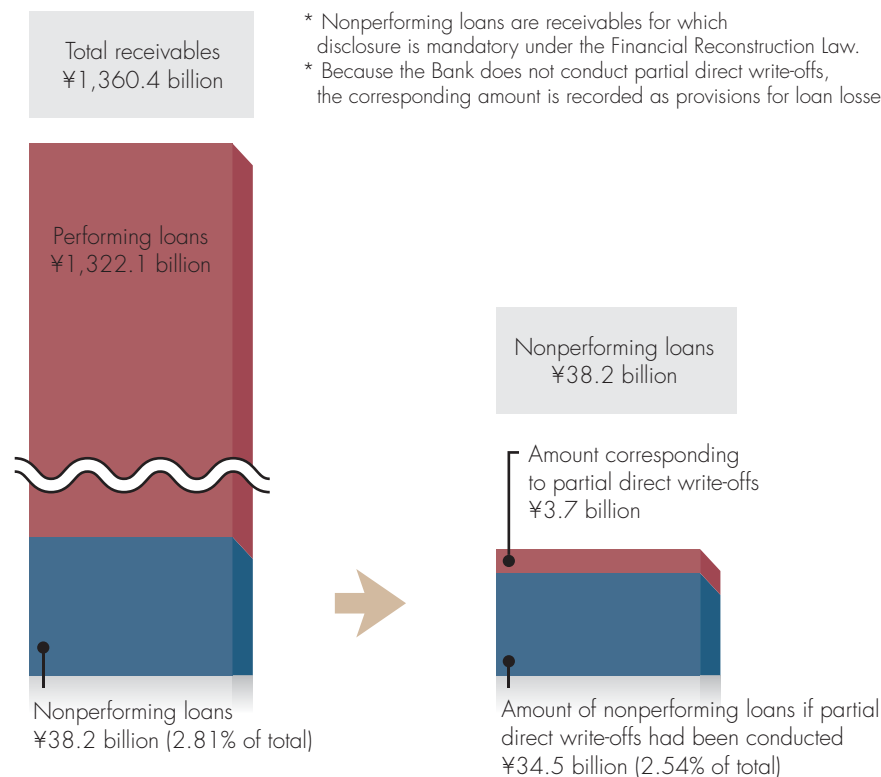
Business Environment and Results of Operations

Status of Nonperforming Loans

The Bank's ratio of loan assets for which disclosure is mandatory under the Financial Reconstruction Law (nonperforming loans) to total receivables stood at 2.81% on March 31, 2015, down from 3.22% as of March 31, 2014.

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, 2015 would have been 2.54% (as compared with 2.88% as of March 31, 2014).

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 2014	End March 2014	Change from previous year
Receivables for which disclosure is mandatory under the Financial Reconstruction Law (A)	41.9	38.2	-3.7
Amount equivalent to partial direct write-offs (B) (Note)	4.5	3.7	-0.8
Difference (C) = (A) - (B)	37.4	34.5	-2.9
Total loan amount (including ordinary loans) (D)	1,303.2	1,360.4	57.2
(A) / (D) × 100	3.22%	2.81%	-0.41% point
(C) / ((D) - (B)) × 100	2.88%	2.54%	-0.34% point

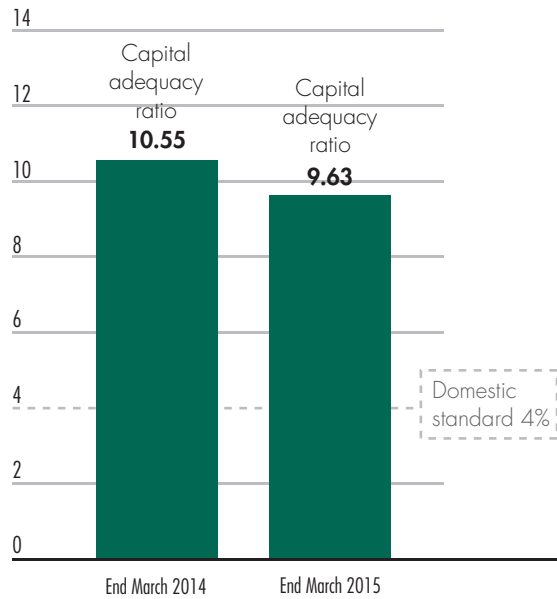
Note: Because the Bank does not conduct partial direct write-offs, it records an equivalent amount as a provision for loan losses.

Capital adequacy ratio

Although profit amassing led to an increase in equity, this was offset by transitional measures as we switched to a Basel III basis. As a result, equity (domestic standard) as of March 31, 2015, was down ¥500 million from the previous fiscal year. On the other hand, risk assets rose by ¥87,900 million due to an increase in loans and bills discounted, and causing capital adequacy ratio to fall 0.92% from the previous year, to 9.63%.

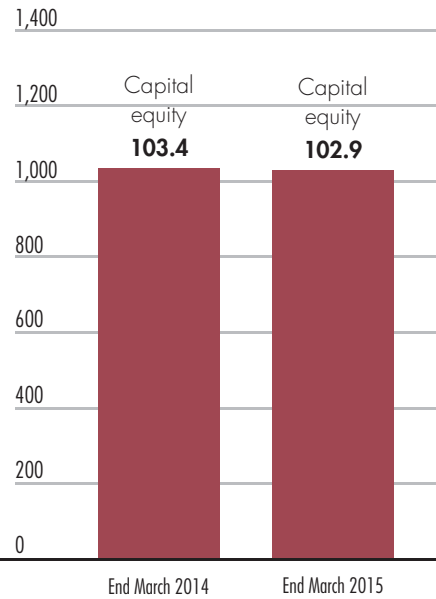
Capital adequacy ratio (domestic standard)

(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 13 members, determines the Bank’s business execution and supervises the performance of the Directors. The Bank elected two external members 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 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, managing directors and external directors concerned in attendance. The Bank’s auditors also attend important management meetings, including Executive Committee, Board of Directors’ and Compliance Committee meetings, thus reinforcing the Bank’s “dynamic auditing function.”

Pursuant to the provisions of Article 427, Paragraph 1 of the Company Law, the Bank has entered into agreements with external directors and external auditors, which provide that, in the event that an external director or external auditor causes damage to the Bank due to negligence of his/her duties, the liability of such external director or external auditor shall be limited to the total amount specified in each item of Article 425, Paragraph 1 of the Company Law, only in case he/she has performed his/her duties in good faith and without gross negligence.

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 Profit Management Office 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.

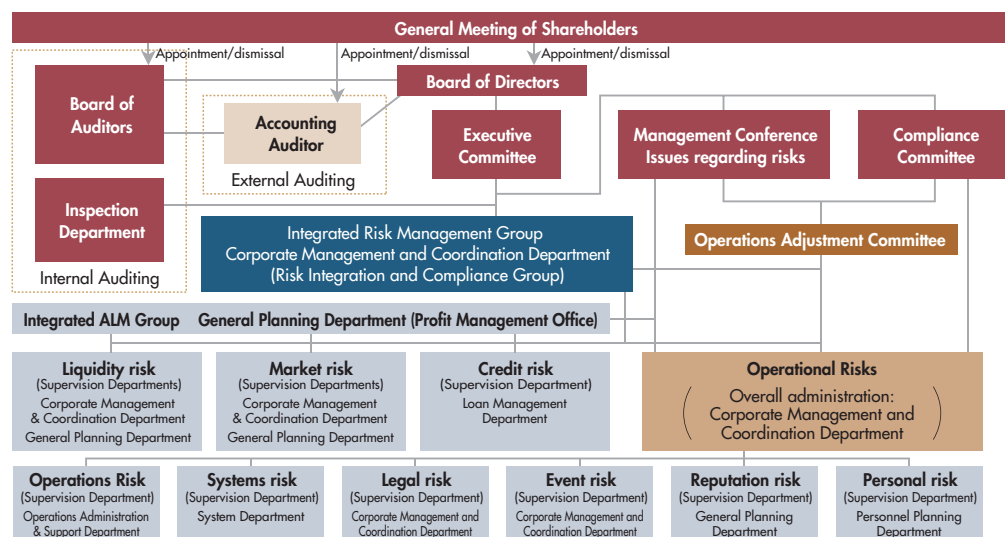
Steps to reinforce internal auditing

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.

Consolidated Balance Sheets

The Bank of Saga Ltd. and its consolidated subsidiaries
March 31, 2015 and 2014

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Assets			
Cash and Due from Banks	¥ 236,762	¥ 255,644	\$ 1,970,230
Call Loans	—	5,000	—
Commercial Paper and Other Debt Purchased	4,011	5,666	33,384
Trading Assets	7	4	58
Money Held in Trust	421	454	3,508
Securities	680,800	635,929	5,665,307
Loans and Bills Discounted (Note 4)	1,345,089	1,288,715	11,193,225
Foreign Exchanges	3,793	2,785	31,571
Other Assets	7,899	5,960	65,736
Tangible Fixed Assets	24,859	24,241	206,871
Intangible Fixed Assets	2,000	2,065	16,648
Deferred Tax Assets	932	1,537	7,758
Customers' Liabilities for Acceptances and Guarantees	12,711	12,206	105,778
Reserve for Possible Loan Losses	(15,025)	(16,850)	(125,038)
Total Assets	¥ 2,304,264	¥ 2,223,361	\$ 19,175,043
Liabilities			
Deposits	¥ 2,083,432	¥ 2,019,807	\$ 17,337,372
Call Money	19,227	15,438	160,000
Payables under Securities Lending Transactions	4,309	13,762	35,865
Borrowed Money	15,492	15,640	128,920
Foreign Exchanges	124	59	1,035
Other Liabilities	29,140	21,779	242,495
Accrued Employees' Bonuses	708	704	5,894
Accrued Retirement Benefits	11,219	12,979	93,367
Reserve for Directors' Retirement Benefits	9	5	78
Reserve for Reimbursement of Deposits	169	191	1,412
Deferred Tax Liabilities	4,358	—	36,265
Deferred Tax Liabilities for Land Revaluation (Note 7)	4,262	4,722	35,470
Acceptances and Guarantees	12,711	12,206	105,778
Total Liabilities	2,185,166	2,117,297	18,183,957
Net Assets			
Common Stock (Note 8)	16,062	16,062	133,662
Capital Surplus	11,375	11,375	94,658
Retained Earnings	58,399	55,593	485,971
Less: Treasury Stock, at Cost	(1,229)	(1,226)	(10,228)
Total Shareholders' Equity	84,607	81,803	704,063
Valuation difference on available-for-sale securities	21,202	12,480	176,438
Deferred gains on hedges	—	—	—
Land Revaluation Reserve, Net of Tax (Note 7)	8,084	7,604	67,277
Remeasurements of Defined Benefit Plans	1,184	816	9,859
Total Accumulated Other Comprehensive Income	30,472	20,901	253,575
Subscription Rights to Share	127	73	1,061
Minority Interests	3,891	3,285	32,384
Total Net Assets	119,098	106,064	991,085
Total Liabilities and Net Assets	¥ 2,304,264	¥ 2,223,361	\$ 19,175,043

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, 2015 and 2014

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Income			
Interest Income:			
Loans and Discounts	¥ 18,944	¥ 19,291	\$ 157,645
Securities	6,698	6,590	55,738
Others	263	245	2,189
Fees and Commissions	6,897	6,750	57,398
Other Operating Income	6,964	6,898	57,956
Other Income	2,295	2,937	19,106
Total Income	42,063	42,714	350,034
Expenses			
Interest Expenses:			
Deposits	1,087	973	9,045
Borrowings and Call Money	282	255	2,349
Others	46	28	389
Fees and Commissions	2,841	2,700	23,643
Other Operating Expenses	5,836	4,834	48,570
General and Administrative Expenses	24,831	24,187	206,636
Other Expenses	467	1,890	3,891
Total Expenses	35,393	34,869	294,526
Income (Loss) before Income Taxes	6,670	7,844	55,508
Income Taxes:			
Current	1,278	2,382	10,635
Deferred	1,464	221	12,186
Minority Interests	611	257	5,089
Net Income (Loss)	¥ 3,316	¥ 4,983	\$ 27,595
Per Share of Common Stock:		Yen	U.S. dollars
Net Income (Loss)	¥ 19.80	¥ 29.80	\$ 0.164

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
March 31, 2015 and 2014

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Net Income before minority interests	¥ 3,927	¥ 5,241	\$ 32,685
Other comprehensive income	9,530	(1,194)	79,307
Valuation difference on available-for-sale securities	8,722	(1,194)	72,582
Deferred gains on hedges	—	—	—
Land Revaluation Reserve	439	—	3,657
Defined benefit plans	368	—	3,065
Share of Other Comprehensive Income of			
Associates accounted for using Equity Method	0	0	1
Comprehensive Income	13,458	4,047	111,992
(Breakdown)			
Comprehensive Income Attributable to Owners of the Parent	12,846	3,789	
Comprehensive Income Attributable to Minority Interests	611	257	

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, 2015

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balances at March 31, 2014	¥ 16,062	¥ 11,375	¥ 55,593	(¥1,226)	¥ 81,803
Cumulative effect of changes in accounting policies			698		698
Balance at the beginning of current period after reflecting changes in accounting policies	16,062	11,375	56,292	(1,226)	82,502
Changes during the fiscal year					
Dividends from surplus			(1,168)		(1,168)
Net income			3,316		3,316
Repurchase of treasury stock				(2)	(2)
Disposition of treasury stock			(0)	0	0
Cancellation of Treasury share					
Transfer from revaluation reserve for land, net of taxes			(40)		(40)
Change other than stockholders' equity(net)					
Total changes during the fiscal year	—	—	2,107	(2)	2,104
Balance as of March 31, 2015	16,062	11,375	58,399	(1,229)	84,607

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balances at March 31, 2014	\$ 133,662	\$ 94,658	\$ 462,621	(\$10,208)	\$ 680,733
Cumulative effect of changes in accounting policies			5,816		5,816
Balance at the beginning of current period after reflecting changes in accounting policies	133,662	94,658	468,437	(10,208)	686,549
Changes during the fiscal year					
Dividends from surplus			(9,721)		(9,721)
Net income			27,595		27,595
Repurchase of treasury stock				(23)	(23)
Disposition of treasury stock			(0)	3	2
Cancellation of Treasury share					
Transfer from revaluation reserve for land, net of taxes			(339)		(339)
Change other than stockholders' equity(net)					
Total changes during the fiscal year	—	—	17,534	(20)	17,513
Balance as of March 31, 2015	133,662	94,658	485,971	(10,228)	704,063

	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, 2014	¥ 12,480	¥ —	¥ 7,604	¥ 816	¥ 20,901	¥ 73	¥ 3,285	¥ 106,064
Cumulative effect of changes in accounting policies								698
Balance at the beginning of current period after reflecting changes in accounting policies	12,480	—	7,604	816	20,901	73	3,285	106,763
Changes during the fiscal year								
Dividends from surplus								(1,168)
Net income								3,316
Repurchase of treasury stock								(2)
Disposition of treasury stock								0
Cancellation of Treasury share								
Transfer from revaluation reserve for land, net of taxes								(40)
Change other than stockholders' equity(net)	8,722		480	368	9,571	53	605	10,230
Total changes during the fiscal year	8,722	—	480	368	9,571	53	605	12,335
Balance as of March 31, 2015	21,202	—	8,084	1,184	30,472	127	3,891	119,098

	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, 2014	\$ 103,855	—	\$ 63,280	¥ 6,794	\$ 173,929	\$ 614	\$ 27,342	\$ 882,619
Cumulative effect of changes in accounting policies								5,816
Balance at the beginning of current period after reflecting changes in accounting policies	103,855	—	63,280	6,794	173,929	614	27,342	888,435
Changes during the fiscal year								
Dividends from surplus								(9,721)
Net income								27,595
Repurchase of treasury stock								(23)
Disposition of treasury stock								2
Cancellation of Treasury share								
Transfer from revaluation reserve for land, net of taxes								(339)
Change other than stockholders' equity(net)	72,583		3,996	3,065	79,646	447	5,042	85,135
Total changes during the fiscal year	72,583	—	3,996	3,065	79,646	447	5,042	102,650
Balance as of March 31, 2015	176,438	—	67,277	9,859	253,575	1,061	32,384	991,085

Consolidated Statements of Cash Flows

The Bank of Saga Ltd. and its consolidated subsidiaries
Years ended March 31, 2015 and 2014

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Cash Flows from Operating Activities:			
Income (Loss) before Income Taxes and Minority Interests	¥ 6,670	¥ 7,844	\$ 55,508
Depreciation	1,937	1,872	16,123
Impairment Losses	131	218	1,097
Income on Equity Method	(15)	(16)	(127)
(Decrease) Increase in Reserve for Possible Loan Losses	(1,824)	(3,160)	(15,181)
(Decrease) Increase in Accrued Bonuses	3	2	30
(Decrease) Increase in Accrued Retirement Benefits	—	—	—
(Decrease) Increase in Net Defined Benefit Liability	(198)	257	(1,652)
(Increase) Decrease in Net Defined Benefit Asset	—	—	—
(Decrease) Reserve for directors retirement benefits	3	(6)	30
(Decrease) Increase in Reserve for Reimbursement of Deposits	(21)	(60)	(177)
Interest and Dividend Income	(25,905)	(26,127)	(215,573)
Interest Expenses	1,416	1,256	11,784
(Income) Loss on Securities Transaction	1,428	2,791	11,888
(Income) Loss on Money Trust	32	24	266
Net exchange (gain) loss	0	0	0
(Income) Loss on Disposal of Properties	(138)	(64)	(1,152)
Net (Increase) Decrease in Trading Assets	(2)	19,998	(24)
Net (Increase) Decrease in Loans and Bills Discounted	(56,374)	(42,869)	(469,120)
Net Increase (Decrease) in Deposits	64,363	59,420	535,599
Net Increase (Decrease) in Negotiable Certificates of Deposits	(737)	2,045	(6,141)
Net Increase (Decrease) in Borrowed Money	(148)	(200)	(1,233)
Net (Increase) Decrease in Due from Banks (other than The Bank of Japan)	(60)	(57)	(500)
Net (Increase) Decrease in Call Loans	6,659	59,263	55,414
Net Increase (Decrease) in Call Money	3,789	14,027	31,531
Net Increase (Decrease) in Payables under Securities Lending Transactions	(9,453)	11,234	(78,663)
Net (Increase) Decrease in Foreign Exchange Assets	(1,008)	145	(8,389)
Net Increase (Decrease) in Foreign Exchange Liabilities	64	(4)	540
Revenues from Fund Operations	27,114	27,383	225,634
Expenditures on Fund Procurement	(1,232)	(1,177)	(10,254)
Others	(6,101)	7,891	(50,777)
Sub-total	10,392	141,933	86,479
Payment of Income Taxes	(3,276)	(1,130)	(27,263)
Net Cash Provided by (Used in) Operating Activities	7,116	140,803	59,216

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2015	2014	2015
Cash Flows from Investing Activities:			
Purchase of Securities	(573,563)	(547,683)	(4,772,935)
Sales of Securities	488,883	460,707	4,068,269
Redemption of Securities	62,283	52,059	518,291
Increase in Money Held in Trust	—	—	—
Decrease in Money Held in Trust	—	—	—
Purchases of Tangible fixed Assets	(1,533)	(746)	(12,758)
Purchases of Intangible Fixed Assets	(1,111)	(483)	(9,245)
Proceeds from Sales of Tangible Fixed Assets	160	92	1,331
Proceeds from Sales of Intangible Fixed Assets	—	—	—
Net Cash Provided by (Used in) Investing Activities	(24,880)	(36,053)	(207,047)
Cash Flows from Financing Activities:			
Increase in Subordinated Loans	—	—	—
Repayment of Subordinated Loans	—	(1,500)	—
Payment of Cash Dividends	(1,168)	(1,000)	(9,726)
Payment of Cash Dividends to Minority Interests	(5)	(5)	(47)
Purchases of Treasury Stock	(2)	(2)	(20)
Proceeds from exercise of stock option	—	0	—
Net Cash Used in Financing Activities	(1,176)	(2,508)	(9,794)
Translation Adjustment of Cash and Cash Equivalents	(0)	(0)	(0)
Net Increase (Decrease) in Cash and Cash Equivalents	(18,941)	102,240	(157,625)
Cash and Cash Equivalents at Beginning of the Year	¥ 255,176	¥ 152,935	\$ 2,123,464
Cash and Cash Equivalents at End of the Year	236,234	255,176	1,965,839

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 ¥120.17=US\$1, the prevailing rate on the Tokyo foreign exchange market on March 31, 2015.

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, 2015 and 2014 were reconciled with cash and cash equivalents at

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

	Millions of yen	
	2015	2014
Cash and Due from Banks	¥236,762	¥255,644
Deposits with Banks (other than The Bank of Japan)	(527)	(467)
Cash and Cash Equivalents at End of Year	¥236,234	¥255,176

4. Loans and Bills Discounted

	Millions of yen	
	2015	2014
Bills Discounted	¥ 9,280	¥ 9,396
Loans on Notes	59,289	58,818
Loans on Deeds	1,127,710	1,074,358
Overdrafts	148,809	146,142
Total	¥ 1,345,089	¥ 1,288,715

5. Non-Performing Loans

	Millions of yen	
	2015	2014
Loans in Bankruptcy	¥ 2,060	¥ 2,230
Past due Loans	30,017	32,920
Restructured Loans	5,578	6,382
Total	¥ 37,656	¥ 41,533

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 ¥8,891 million as of March 31, 2015.

7. Common Stock

As of March 31, 2015, 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	
	2015	2014
Government Bonds	¥ 73,321	¥ 120,921
Municipal Bonds	282,338	273,124
Short-term Corporate Bonds	1,999	1,999
Corporate Bonds and Debentures	137,638	119,926
Stocks	42,604	37,337
Other Securities	142,897	82,620
Total	¥ 680,800	¥ 635,929

9. Foreign Exchange (Assets and Liabilities)

	Millions of yen	
	2015	2014
(Assets)		
Due from Foreign Correspondents	¥ 3,333	¥ 2,382
Foreign Bills of Exchange Bought	152	0
Foreign Bills of Exchange Receivable	307	402
Total	¥ 3,793	¥ 2,785

	Millions of yen	
	2015	2014
(Liabilities)		
Foreign Exchange Bills Sold	¥ 52	¥ 32
Foreign Bills Payable	71	26
Total	¥ 124	¥ 59

10. Other Assets

	Millions of yen	
	2015	2014
Prepaid Expenses	¥ 23	¥ 26
Accrued Income	2,124	2,054
Derivative Assets	1,640	787
Others	4,110	3,092
Total	¥ 7,899	¥ 5,960

11. Deposits

	Millions of yen	
	2015	2014
Current Deposits	¥ 118,181	¥ 111,399
Ordinary Deposits	1,101,652	1,047,939
Savings Deposits	4,564	4,742
Deposits at Notice	6,777	7,112
Time Deposits	829,379	823,317
Other Deposits	17,090	18,771
Negotiable Certificates of Deposit	5,785	6,523
Total	¥ 2,083,432	¥ 2,019,807

12. Borrowed Money

Borrowed money consisted of loans from other banks, including a subordinated loan in the amount of ¥15,492 million as of March 31, 2015.

13. Other Liabilities

	Millions of yen	
	2015	2014
Income Taxes Payable	¥ 145	¥ 1,952
Accrued Expenses	1,165	1,044
Unearned Income	2,516	2,678
Derivative Liabilities	2,033	728
Others	23,279	15,375
Total	¥ 29,140	¥ 21,779

14. Other Operating Income

	Millions of yen	
	2015	2014
Gain on Foreign Exchange Transactions	¥ 91	¥ 157
Gain on Trading Purpose Transactions	98	128
Gain on Sales of Bonds	4,253	2,895
Gain on Derivative Instruments	2,487	3,675
Others	33	41
Total	¥ 6,964	¥ 6,898

15. Other Income

	Millions of yen	
	2015	2014
Gain on Sales of Stocks and Other Securities	¥ 129	¥ 63
Gain on Money Held in Trust	—	—
Reversal of Reserve for Possible Loan Losses	892	1,764
Others	1,274	1,109
Total	¥ 2,295	¥ 2,937

16. Other Operating Expenses

	Millions of yen	
	2015	2014
Losses on Sales of Bonds	¥ 5,800	¥ 4,631
Losses on Redemption of Bonds	—	151
Losses on write-down of Bonds	36	51
Total	¥ 5,836	¥ 4,834

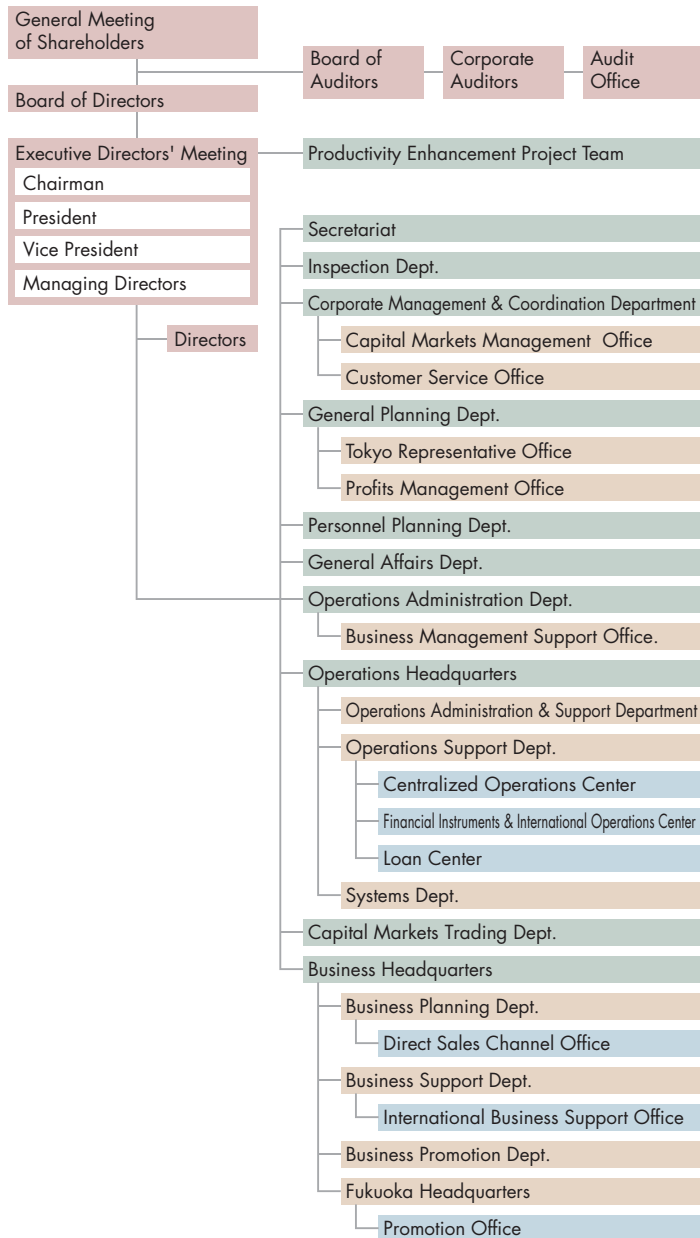
17. Other Expenses

	Millions of yen	
	2015	2014
Provision for Reserve for Possible Loan Losses	¥ —	¥ —
Written-off Loans	—	—
Losses on Sales of Stocks and Other Securities	3	0
Losses on Devaluation of Stocks and Other Securities	—	928
Loss from Management of Money Trust	32	24
Others	431	936
Total	¥ 467	¥ 1,890

18. Subsequent Event

The following distribution of retained earnings for the year ended March 31, 2015 was resolved at the General Meeting of the Shareholders held on June 26, 2015.

Organization



Directors and Corporate Auditors

Chairman	Managing Directors	Directors	Corporate Auditors
Toshio Muraki	Mitsunori Furukawa	Akira Tashiro	Minoru Kusaba
	Kunihiko Akiba	Shinji Tsutsumi	(Standing Auditor)
President	Akihisa Ueno	Masatoshi Tanaka	Toshio Usui
Yoshihiro Jinnouchi	Hideaki Sakai	Tomio Nihei	Akinobu Onizaki
	Sunao Imaizumi	Tsutomu Kimura	Kotaro Ikeda
		Naoto Furutachi	

Corporate Data

Bank Data

Head Office	7-20, Tojin 2-chome, Saga City, Saga 840-0813, Japan Telephone: (0952) 24-5111
Operations Support Dept.	3-35, Ohtakarakita-machi, Saga City, Saga 840-0802, Japan Telephone: (0952) 25-4571
Date of Incorporation	July 1955
Capital	¥16 billion
Number of Offices	103
Number of Employees	1,457

Network

