

ANNUAL REPORT 2016



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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.

As of March 31, 2016, the Bank of Saga's balance of deposits (including negotiable certificates of deposit) amounted to ¥2,106,380 million (US\$18,693 million) on a non-consolidated basis and its total assets amounted to ¥2,291,624 million (US\$20,337 million). A total of 1,459 employees were serving customers in the Bank's network of 103 branch offices.

A Message from the Management

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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 2016" that summarizes the Bank's management policies, as well as its business performance for fiscal 2015.

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 2016

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.

15th Medium-Term Management Plan

Shaping the region's future together

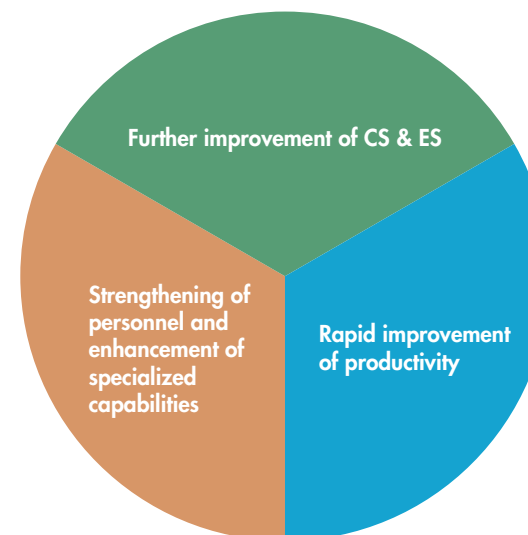
This fiscal year, the Bank launched its 15th Medium-Term Management Plan (April 1, 2016 to March 31, 2019). The management will continue to exert their maximum concerted efforts to make the Bank of Saga an entity that "shapes the region's future together with customers," by constantly coming up with flexible and new ideas, and by building up a Bank-wide readiness to cope with the diverse needs and expectations of customers.

BASIC PRINCIPLES

We are committed to contributing to regional revitalization by helping customers grow their business through services such as assessment of business feasibility, and thus expanding the circle of growth in the whole region.

We are committed to spending more time with customers and providing them high-quality services tailored to their needs both as a lifestyle and business partner.

SPECIFIC INITIATIVES



Business Environment and Results of Operations

Financial and economic environment

Despite signs of a slow decline in business confidence as well as weakened consumer sentiment due to factors such as the strong yen and low stock prices from the beginning of 2016, throughout fiscal 2015, corporate business results in Japan continued to perform favorably and consumer spending showed signs of a comeback, both thanks to the effects of the yen's depreciation. Looking forward, although we expect a gradual pick-up in production activity and continued improvement in employment and income conditions, we are faced with concerns about the possible impact that the economic slowdown in emerging countries such as China will have on the Japanese economy.

Furthermore, the economy in the northern Kyushu area, around which the Bank of Saga's operations revolve primarily, showed signs of gradual recovery supported by better employment and income conditions, and a soaring inbound demand. In the second half of the fiscal year, however, the economy lacked vigor owing to concerns about the slowdown in the overseas economy centering on emerging countries.

In the financial industry, although market interest rates continued to hover around extremely low levels (partly due to the negative interest rate policy), and fund operating environment remained adverse, the balance of deposits and loans keeps trending higher, which raises the prospect of further business expansion.

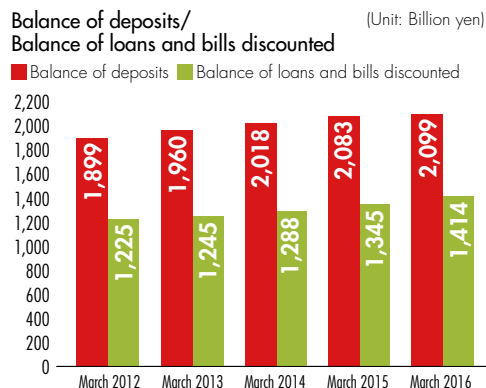
Results of operations for fiscal 2015

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, 2016 grew by ¥16,300 million from the previous fiscal end, to ¥2,099,900 million, thanks to robust growth with both personal and corporate deposits higher than those of the previous fiscal year. On a regional basis, deposits increased by ¥4,800 million in Saga Prefecture, and by ¥12,400 million in Fukuoka



Prefecture.

Meanwhile, the total balance of loans and bills discounted recorded an increase by ¥69,200 million from the previous fiscal year to ¥1,414,300 million. This is attributable to an increase in feasibility loans mainly for small and medium-sized enterprises, as well as to an increase in personal loans, including housing loans. On a regional basis, deposits increased by ¥22,900 million in Saga Prefecture, and by ¥39,600 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 fell by ¥42,500 million from the previous fiscal end, to ¥636,500 million.

Moreover, despite profit amassing against the previous fiscal end, the increase in equity adjustments following the Basel III implementation led to a decrease in the Bank's core capital. On the other hand, risk assets rose reflecting an increase in loans and bills discounted, and causing capital adequacy ratio to fall 0.73% from the previous fiscal end, to 8.90%.

The Bank of Saga's nonperforming loans (for which disclosure is mandatory under the Financial Reconstruction Law) stood at 2.54% on March 31, 2016, down from 2.81% on March 31, 2015.

+ Profit conditions

The Bank recorded an increase of ¥7,449 million in

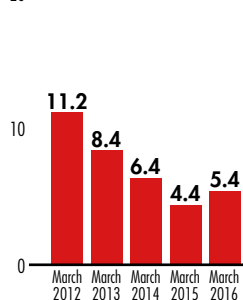
ordinary income from the previous fiscal year, up to ¥48,320 million. This upturn is attributable to factors such as a rise of ¥6,944 million in other operating income, which reflected increases in gains on sales of bonds and earnings related to securities transactions.

Besides this increase in ordinary income, the Bank recorded a rise of ¥7,653 million in ordinary expenses due to factors such as increases in gains on sales of bonds in line with securities portfolio revisions, and in write-offs of stocks resulted from the stock market slowdown. As a result, the ordinary profit fell by ¥204 million from the previous fiscal year, to ¥5,453 million.

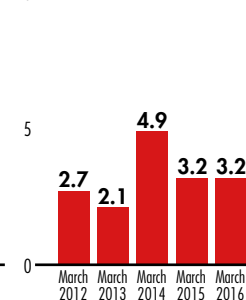
These factors led to a fall in current net profit of ¥48 million from the previous fiscal year, to ¥3,218 million.

In addition, although market interest rates continued to hover around extremely low levels, there has been also a deceleration of declining revenues from interests on loans and discounts as the balance of loans and bills discounted remained at higher levels year-on-year, while the interest and dividends on securities increased. Accordingly, the interest on loans and discount received, which represents the backbone of the Bank's income, increased by ¥710 million to ¥26,605 million.

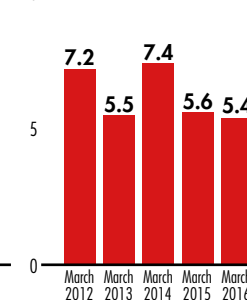
Net business profit (Unit: Billion yen)



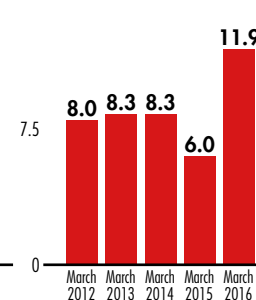
Current net income (Unit: Billion yen)



Ordinary profit (Unit: Billion yen)



Net core business profit (Unit: Billion yen)



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 end of the previous accounting period, the results of the Bank's Group operations showed a growth of ¥16,100 million in the total balance of deposits, to ¥2,093,800 million, and a rise of ¥69,200 million in the total balance of loans and bills discounted, to ¥1,414,300 million, but also a drop of ¥42,600 million in securities, to ¥638,100 million.

Compared to the end of the previous accounting

period, the Bank recorded an increase of ¥7,107 million in consolidated ordinary income, to ¥49,017 million. However, the consolidated ordinary profit was down ¥535 million to ¥6,166 million, partly because of higher ordinary expenses, and current net income attributable to owners of the parent also decreased by ¥74 million to ¥3,242 million, all on a consolidated basis.

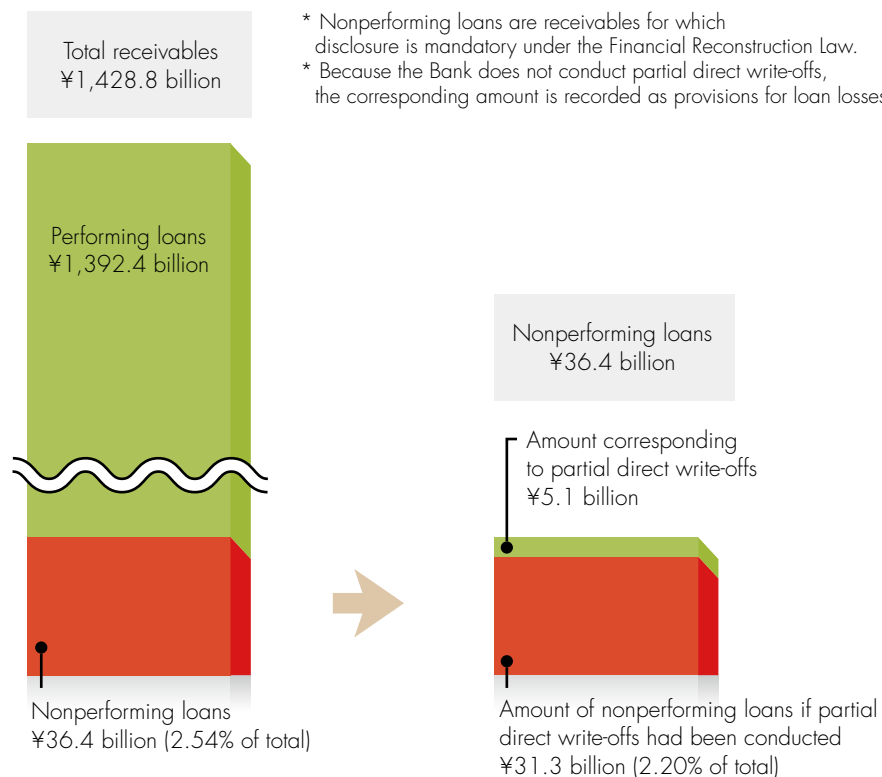
Business Environment and Results of Operations

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 2.54% on March 31, 2016, down from 2.81% as of March 31, 2015.

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, 2016 would have been 2.20% (as compared with 2.54% as of March 31, 2015).

Status of nonperforming loans as of end March 2016



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

(Units: Billion yen, percentage)

	End March 2015	End March 2016	Change from previous year
Receivables for which disclosure is mandatory under the Financial Reconstruction Law (A)	38.2	36.4	-1.8
Amount equivalent to partial direct write-offs (B) (Note)	3.7	5.1	1.4
Difference (C) = (A) - (B)	34.5	31.3	-3.2
Total loan amount (including ordinary loans) (D)	1,360.4	1,428.8	68.4
(A) / (D) × 100	2.81%	2.54%	-0.27% point
(C) / ((D) - (B)) × 100	2.54%	2.20%	-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.

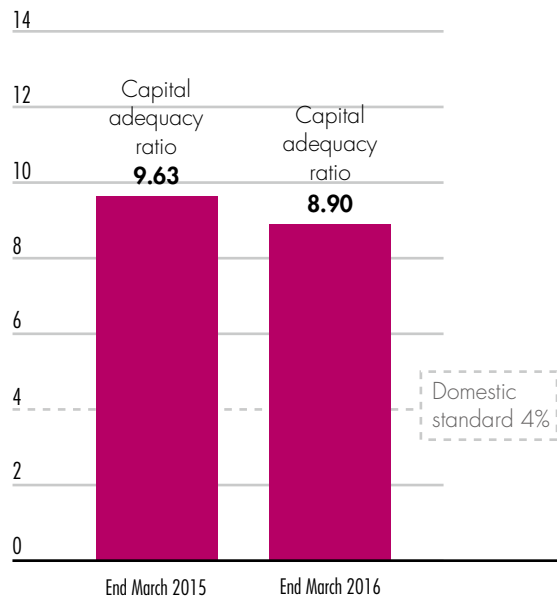
Capital adequacy ratio

Despite profit amassing against the previous fiscal end, the increase in equity adjustments following the Basel III implementation led to a decrease in the Bank's core capital. On the other hand, risk assets rose reflecting an increase in loans and bills discounted, and causing capital adequacy ratio to fall 0.73% from the previous fiscal end, to 8.90%.

In addition, the consolidated capital adequacy ratio (domestic standard) was 9.32%, down 0.90% from the previous year-end.

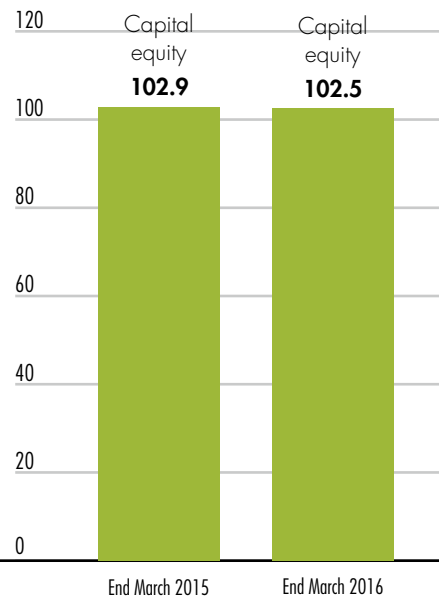
Capital adequacy ratio (domestic standard)

(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 thinking

The Bank of Saga is striving to achieve sustainable growth, enhance medium- to long-term corporate value, and realize the best possible corporate governance in order to remain an indispensable bank for our customers and shareholders. Based on the following basic concepts, it is implementing measures to achieve good corporate governance and appropriate management systems to sustain it.

- (I) Respect the rights of shareholders, and secure impartiality.
- (II) Consider the interests of stakeholders (including local communities, customers, shareholders and employees), and collaborate with them appropriately.
- (III) Disclose properly and secure transparency of corporate information.
- (IV) Endeavor to strengthen the supervisory functions over the Board of Directors through Independent Outside Directors, Independent Outside Auditors, and the Audit & Supervisory Board.
- (V) Hold constructive dialogue with shareholders who possess investment views that correspond with their medium- to long-term benefits.

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 enforcement of the Act on the Protection of Personal Information in April 2005, and of the Act on the Use of Numbers to Identify a Specific Individual in the Administrative Procedure (My Number Act), in October 2015, and in accordance with our Personal Information Protection Declaration (Privacy Policy) and the Basic Policy Regarding the Handling of Specific Personal Information, we have placed the highest priority on earning the trust of customers (business partners, shareholders and regional residents), complying with the two aforementioned acts 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 limitation of the use of recording media.

The Bank is particularly committed to strict management of the collection, use, provision and control of specific personal information, as prescribed separately.

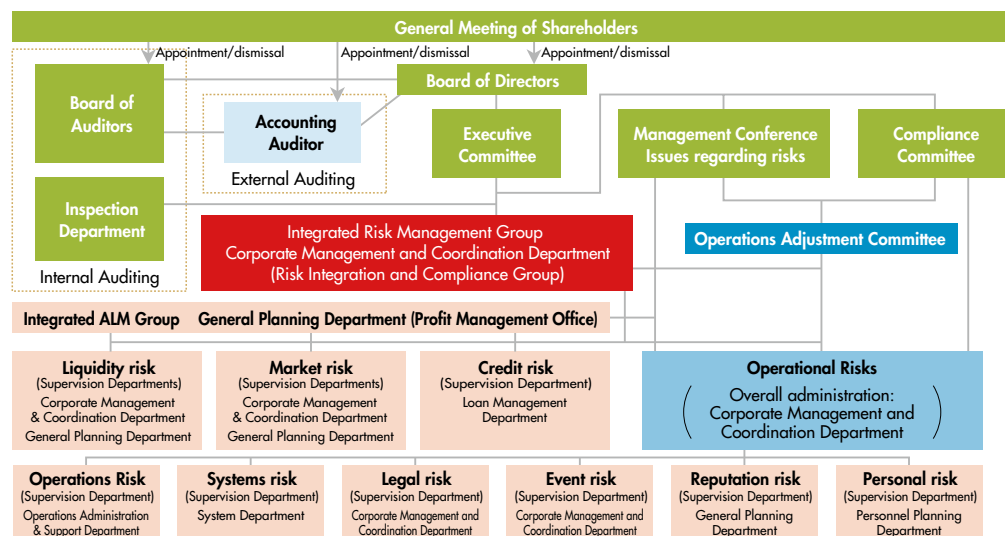
Steps to reinforce internal auditing

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.



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
	2016	2015	2014	2013	2016
Total Assets	¥ 2,292,796	¥ 2,304,264	¥ 2,223,361	¥ 2,124,420	\$ 20,347,856
Deposits (including NCDs)	2,100,229	2,083,432	2,019,807	1,958,340	18,638,880
Loans and Bills Discounted	1,414,305	1,345,089	1,288,715	1,245,846	12,551,518
Securities	638,161	680,800	635,929	599,488	5,663,489
Total Income	¥ 49,017	¥ 42,063	¥ 42,714	¥ 42,573	\$ 435,016
Total Expenses	42,907	35,393	34,869	36,991	380,794
Income (Loss) before Income Taxes	6,109	6,670	7,845	5,581	54,221
Net Income (Loss)	3,242	3,316	4,983	2,218	28,776
Cash Dividends	1,251	1,168	1,001	1,002	11,110

U.S. dollar amounts are converted, solely for convenience, at ¥112.68=US\$1, the prevailing rate on March 31, 2016

Non-Consolidated	Millions of yen				Thousands of U.S. dollars	
	2016	2015	2014	2013	2012	2016
Total Assets	¥ 2,291,624	¥ 2,303,267	¥ 2,222,830	¥ 2,124,515	¥ 2,060,812	\$ 20,337,451
Deposits (including NCDs)	2,106,381	2,089,382	2,025,307	1,964,751	1,906,179	18,693,479
Loans and Bills Discounted	1,414,305	1,345,089	1,288,715	1,245,846	1,225,844	12,551,518
Securities	636,537	679,080	634,219	598,821	624,808	5,649,070
Total Income	¥ 48,320	¥ 41,023	¥ 42,092	¥ 41,833	¥ 39,735	\$ 428,832
Total Expenses	42,924	35,390	34,804	36,658	32,480	380,937
Income (Loss) before Income Taxes	5,396	5,632	7,288	5,174	6,991	47,894
Net Income (Loss)	3,218	3,266	4,954	2,182	2,704	28,564
Cash Dividends	1,251	1,168	1,001	1,002	1,008	11,110
			Yen			U.S. dollars
Net Income (Loss) per Share	¥ ¥19.28	¥ 19.57	¥ 29.68	¥ 13.07	¥ 16.11	\$ 0.171
Cash Dividends per Share	7	7	7	6	6	0.062

U.S. dollar amounts are converted, solely for convenience, at ¥112.68=US\$1, the prevailing rate on March 31, 2016

Consolidated Balance Sheets

The Bank of Saga Ltd. and its consolidated subsidiaries
March 31, 2016 and 2015

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Assets			
Cash and Due from Banks	¥ 180,446	¥ 236,762	\$ 1,601,408
Call Loans	—	—	—
Commercial Paper and Other Debt Purchased	3,421	4,011	30,361
Trading Assets	—	7	—
Money Held in Trust	400	421	3,554
Securities	638,161	680,800	5,663,489
Loans and Bills Discounted (Note 4)	1,414,305	1,345,089	12,551,518
Foreign Exchanges	3,198	3,793	28,384
Other Assets	27,255	7,899	241,881
Tangible Fixed Assets	24,859	24,859	220,620
Intangible Fixed Assets	2,530	2,000	22,457
Deferred Tax Assets	860	932	7,636
Customers' Liabilities for Acceptances and Guarantees	12,253	12,711	108,743
Reserve for Possible Loan Losses	(14,896)	(15,025)	(132,199)
Total Assets	¥ 2,292,796	¥ 2,304,264	\$ 20,347,856
Liabilities			
Deposits	¥ 2,100,229	¥ 2,083,432	\$ 18,638,881
Call Money	6,760	19,227	60,000
Payables under Securities Lending Transactions	—	4,309	—
Borrowed Money	15,370	15,492	136,411
Foreign Exchanges	144	124	1,283
Other Liabilities	21,717	29,140	192,734
Accrued Employees' Bonuses	681	708	6,052
Accrued Retirement Benefits	8,622	11,219	76,518
Reserve for Directors' Retirement Benefits	11	9	102
Reserve for Reimbursement of Deposits	281	169	2,501
Deferred Tax Liabilities	3,354	4,358	29,769
Deferred Tax Liabilities for Land Revaluation (Note 7)	4,049	4,262	35,937
Acceptances and Guarantees	12,253	12,711	108,743
Total Liabilities	2,173,477	2,185,166	19,288,934
Net Assets			
Common Stock (Note 8)	16,062	16,062	142,546
Capital Surplus	11,375	11,375	100,950
Retained Earnings	60,838	58,399	535,887
Less: Treasury Stock, at Cost	(1,211)	(1,229)	(10,750)
Total Shareholders' Equity	86,609	84,607	768,634
Valuation difference on available-for-sale securities	21,879	21,202	194,170
Deferred gains on hedges	—	—	—
Land Revaluation Reserve, Net of Tax (Note 7)	8,297	8,084	73,640
Remeasurements of Defined Benefit Plans	(1,932)	1,184	(17,151)
Total Accumulated Other Comprehensive Income	28,244	30,472	250,659
Subscription Rights to Share	161	127	1,433
Minority Interests	4,303	3,891	38,194
Total Net Assets	119,319	119,098	1,058,921
Total Liabilities and Net Assets	¥ 2,292,796	¥ 2,304,264	\$ 20,347,856

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, 2016 and 2015

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Income			
Interest Income:			
Loans and Discounts	¥ 18,748	¥ 18,944	\$ 166,383
Securities	7,653	6,698	67,924
Others	214	263	1,907
Fees and Commissions	6,730	6,897	59,728
Other Operating Income	13,887	6,964	123,246
Other Income	1,783	2,295	15,826
Total Income	49,017	42,063	435,016
Expenses			
Interest Expenses:			
Deposits	1,010	1,087	8,971
Borrowings and Call Money	287	282	2,555
Others	19	46	171
Fees and Commissions	3,047	2,841	27,044
Other Operating Expenses	13,014	5,836	115,500
General and Administrative Expenses	24,029	24,831	213,250
Other Expenses	1,498	467	13,300
Total Expenses	42,907	35,390	380,794
Income (Loss) before Income Taxes	6,109	6,670	54,221
Income Taxes:			
Current	1,952	1,278	17,324
Deferred	497	1,464	4,413
Minority Interests	417	611	3,107
Net Income (Loss)	¥ 3,242	¥ 3,316	\$ 28,776
Per Share of Common Stock:		Yen	U.S. dollars
Net Income (Loss)	¥ 19.34	¥ 19.80	\$ 0.171

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, 2016 and 2015

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Net Income before minority interests	¥ 3,660	¥ 3,927	\$ 32,483
Other comprehensive income	(2,227)	9,530	(19,771)
Valuation difference on available-for-sale securities	676	8,722	6,004
Deferred gains on hedges	0	0	0
Land Revaluation Reserve	213	439	1,891
Defined benefit plans	(3,117)	368	(27,666)
Share of Other Comprehensive Income of			
Associates accounted for using Equity Method	(0)	0	(0)
Comprehensive Income	1,432	13,458	12,712
(Breakdown)			
Comprehensive Income Attributable to Owners of the Parent	1,014	12,846	
Comprehensive Income Attributable to Minority Interests	417	611	

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, 2016

	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balances at March 31, 2014	¥ 16,062	¥ 11,375	¥ 58,399	(¥1,229)	¥ 84,607
Changes during the fiscal year					
Dividends from surplus			(1,251)		(1,251)
Net income			3,242		3,242
Repurchase of treasury stock				(3)	(3)
Disposition of treasury stock			(6)	21	15
Cancellation of Treasury share					
Transfer from revaluation reserve for land, net of taxes					
Change other than stockholders' equity(net)					
Total changes during the fiscal year	0	0	1,984	17	2,002
Balance as of March 31, 2016	16,062	11,375	60,383	(1,211)	86,609

	Thousands of U.S. dollars				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
Balances at March 31, 2015	\$ 142,546	\$ 100,950	\$ 518,275	(\$10,908)	\$ 750,863
Changes during the fiscal year					
Dividends from surplus			(11,110)		(11,110)
Net income			28,776		28,776
Repurchase of treasury stock				(32)	(32)
Disposition of treasury stock			(53)	190	137
Cancellation of Treasury share					
Transfer from revaluation reserve for land, net of taxes					
Change other than stockholders' equity(net)					
Total changes during the fiscal year	0	0	17,612	158	17,770
Balance as of March 31, 2016	142,546	100,950	583,887	(10,750)	768,634

	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, 2015	¥ 21,202	¥ 0	¥ 8,084	¥ 1,184	¥ 30,472	¥ 127	¥ 3,891	¥ 119,098
Changes during the fiscal year								
Dividends from surplus								(1,251)
Net income								3,242
Repurchase of treasury stock								(3)
Disposition of treasury stock								15
Cancellation of Treasury share								
Transfer from revaluation reserve for land, net of taxes								
Change other than stockholders' equity(net)	676		213	(3,117)	(2,227)	33	412	(1,781)
Total changes during the fiscal year	676		213	(3,117)	(2,227)	33	412	220
Balance as of March 31, 2016	21,879	0	8,297	(1,932)	28,244	161	4,303	119,319

	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, 2015	\$ 188,166		\$ 71,749	¥ 10,515	\$ 270,431	\$ 1,132	\$ 34,537	\$ 1,056,964
Changes during the fiscal year								
Dividends from surplus								(11,110)
Net income								28,776
Repurchase of treasury stock								(32)
Disposition of treasury stock								137
Cancellation of Treasury share								
Transfer from revaluation reserve for land, net of taxes								
Change other than stockholders' equity(net)	6,003		1,891	(27,666)	(19,771)	300	3,656	(15,814)
Total changes during the fiscal year	6,003		1,891	(27,666)	(19,771)	300	3,656	1,956
Balance as of March 31, 2016	194,170		73,640	(17,151)	250,659	1,433	38,194	1,058,921

Consolidated Statements of Cash Flows

The Bank of Saga Ltd. and its consolidated subsidiaries
Years ended March 31, 2016 and 2015

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Cash Flows from Operating Activities:			
Income (Loss) before Income Taxes and Minority Interests	¥ 6,109	¥ 6,670	\$ 54,221
Depreciation	1,585	1,937	14,073
Impairment Losses	2	131	21
Income on Equity Method	(12)	(15)	(108)
(Decrease) Increase in Reserve for Possible Loan Losses	(129)	(1,824)	(1,150)
(Decrease) Increase in Accrued Bonuses	(26)	3	(234)
(Decrease) Increase in Accrued Retirement Benefits	—	—	—
(Decrease) Increase in Net Defined Benefit Liability	(7,116)	(198)	(63,161)
(Increase) Decrease in Net Defined Benefit Asset	—	—	—
(Decrease) Reserve for directors retirement benefits	2	3	18
(Decrease) Increase in Reserve for Reimbursement of Deposits	112	(21)	995
Interest and Dividend Income	(26,616)	(25,905)	(236)
Interest Expenses	1,318	1,416	11,699
(Income) Loss on Securities Transaction	6,793	1,428	60,290
(Income) Loss on Money Trust	20	32	184
Net exchange (gain) loss	0	0	2
(Income) Loss on Disposal of Properties	36	(138)	326
Net (Increase) Decrease in Trading Assets	7	(2)	62
Net (Increase) Decrease in Loans and Bills Discounted	(69,216)	(56,374)	(614,263)
Net Increase (Decrease) in Deposits	16,190	64,363	143,684
Net Increase (Decrease) in Negotiable Certificates of Deposits	606	(737)	5,384
Net Increase (Decrease) in Borrowed Money	(121)	(148)	(1,079)
Net (Increase) Decrease in Due from Banks (other than The Bank of Japan)	(281)	(60)	(2,493)
Net (Increase) Decrease in Call Loans	593	6,659	5,265
Net Increase (Decrease) in Call Money	(12,466)	3,789	(110,635)
Net Increase (Decrease) in Payables under Securities Lending Transactions	(4,309)	(9,453)	(38,249)
Net (Increase) Decrease in Foreign Exchange Assets	595	(1,008)	5,285
Net Increase (Decrease) in Foreign Exchange Liabilities	20	64	179
Revenues from Fund Operations	27,798	27,114	246,702
Expenditures on Fund Procurement	(1,464)	(1,232)	(12,997)
Others	(830)	(6,101)	(7,368)
Sub-total	(60,797)	10,392	(539,558)
Payment of Income Taxes	(1,211)	(3,276)	(10,754)
Refund of Income Taxes	199	—	1,773
Net Cash Provided by (Used in) Operating Activities	(61,809)	7,116	(548,539)

	Millions of yen (Note 2)		Thousands of U.S. dollars (Note 2)
	2016	2015	2016
Cash Flows from Investing Activities:			
Purchase of Securities	(594,370)	(573,563)	(5,274,854)
Sales of Securities	540,721	488,883	4,798,734
Redemption of Securities	62,276	62,283	552,681
Increase in Money Held in Trust	—	—	—
Decrease in Money Held in Trust	—	—	—
Purchases of Tangible fixed Assets	(1,004)	(1,533)	(8,915)
Purchases of Intangible Fixed Assets	(1,150)	(1,111)	(10,207)
Proceeds from Sales of Tangible Fixed Assets	0	160	1
Proceeds from Sales of Intangible Fixed Assets	—	—	—
Net Cash Provided by (Used in) Investing Activities	6,472	(24,880)	57,440
Cash Flows from Financing Activities:			
Increase in Subordinated Loans	—	—	—
Repayment of Subordinated Loans	—	—	—
Payment of Cash Dividends	(1,250)	(1,168)	(11,095)
Payment of Cash Dividends to Minority Interests	(5)	(5)	(50)
Purchases of Treasury Stock	(3)	(2)	(32)
Proceeds from execution of stock options	0	—	0
Net Cash Used in Financing Activities	(1,259)	(1,176)	(11,177)
Translation Adjustment of Cash and Cash Equivalents	(0)	0	(0)
Net Increase (Decrease) in Cash and Cash Equivalents	(56,597)	(18,941)	(502,279)
Cash and Cash Equivalents at Beginning of the Year	236,234	255,176	2,096,511
Cash and Cash Equivalents at End of the Year	¥ 179,638	¥ 236,234	\$ 1,594,232

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 ¥112.68=US\$1, the prevailing rate on the Tokyo foreign exchange market on March 31, 2016.

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 tradedate 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

uncollectible based on individual fair value assessment of collateral.

(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, 2016 and 2015

were reconciled with cash and cash equivalents at end of year on the statements of cash flows as follows:

	Millions of yen	
	2016	2015
Cash and Due from Banks	¥ 180,446	¥ 236,762
Deposits with Banks (other than The Bank of Japan)	(808)	(527)
Cash and Cash Equivalents at End of Year	¥ 179,638	¥ 236,234

4. Loans and Bills Discounted

	Millions of yen	
	2016	2015
Bills Discounted	¥ 9,295	¥ 9,280
Loans on Notes	58,846	59,289
Loans on Deeds	1,186,814	1,127,710
Overdrafts	159,348	148,809
Total	¥ 1,414,305	¥ 1,345,089

5. Non-Performing Loans

	Millions of yen	
	2016	2015
Loans in Bankruptcy	¥ 2,113	¥ 2,060
Past due Loans	28,696	30,017
Restructured Loans	4,676	5,578
Total	¥ 35,486	¥ 37,656

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 ¥8,959 million as of March 31, 2016.

7. Common Stock

As of March 31, 2016, 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	
	2016	2015
Government Bonds	¥ 70,475	¥ 73,321
Municipal Bonds	275,778	282,338
Short-term Corporate Bonds	—	1,999
Corporate Bonds and Debentures	128,494	137,638
Stocks	38,122	42,604
Other Securities	125,2910	142,897
Total	¥ 638,161	¥ 680,800

9. Foreign Exchange (Assets and Liabilities)

	Millions of yen	
	2016	2015
(Assets)		
Due from Foreign Correspondents	¥ 2,886	¥ 3,333
Foreign Bills of Exchange Bought	83	152
Foreign Bills of Exchange Receivable	227	307
Total	¥ 3,198	¥ 3,793

	Millions of yen	
	2016	2015
(Liabilities)		
Foreign Exchange Bills Sold	¥ 21	¥ 52
Foreign Bills Payable	123	71
Total	¥ 144	¥ 124

10. Other Assets

	Millions of yen	
	2016	2015
Prepaid Expenses	¥ 72	¥ 23
Accrued Income	1,831	2,124
Derivative Assets	2,905	1,640
Others	22,444	4,110
Total	¥ 27,255	¥ 7,899

11. Deposits

	Millions of yen	
	2016	2015
Current Deposits	¥ 109,070	¥ 118,181
Ordinary Deposits	1,136,931	1,101,652
Savings Deposits	4,374	4,564
Deposits at Notice	4,877	6,777
Time Deposits	819,033	829,379
Other Deposits	19,549	17,090
Negotiable Certificates of Deposit	6,391	5,785
Total	¥ 2,100,229	¥ 2,083,432

12. Borrowed Money

Borrowed money consisted of loans from other banks, including a subordinated loan in the amount of ¥15,370 million as of March 31, 2016.

13. Other Liabilities

	Millions of yen	
	2016	2015
Income Taxes Payable	¥ 951	¥ 145
Accrued Expenses	1,023	1,165
Unearned Income	2,468	2,516
Derivative Liabilities	1,434	2,033
Others	15,839	23,279
Total	¥ 21,717	¥ 29,140

14. Other Operating Income

	Millions of yen	
	2016	2015
Gain on Foreign Exchange Transactions	¥ —	¥ 91
Gain on Trading Purpose Transactions	87	98
Gain on Sales of Bonds	6,366	4,253
Gain on Derivative Instruments	7,411	2,487
Other	22	33
Total	¥ 13,887	¥ 6,964

15. Other Income

	Millions of yen	
	2016	2015
Gain on Sales of Stocks and Other Securities	¥ 451	¥ 129
Gain on Money Held in Trust	—	—
Reversal of Reserve for Possible Loan Losses	—	892
Others	1,332	1,274
Total	¥ 1,783	¥ 2,295

16. Other Operating Expenses

	Millions of yen	
	2016	2015
Losses on Foreign Exchange Transactions	¥ 58	¥ —
Losses on Sales of Bonds	12,918	5,800
Losses on Redemption of Bonds	—	—
Losses on write-down of Bonds	38	36
Total	¥ 13,014	¥ 5,836

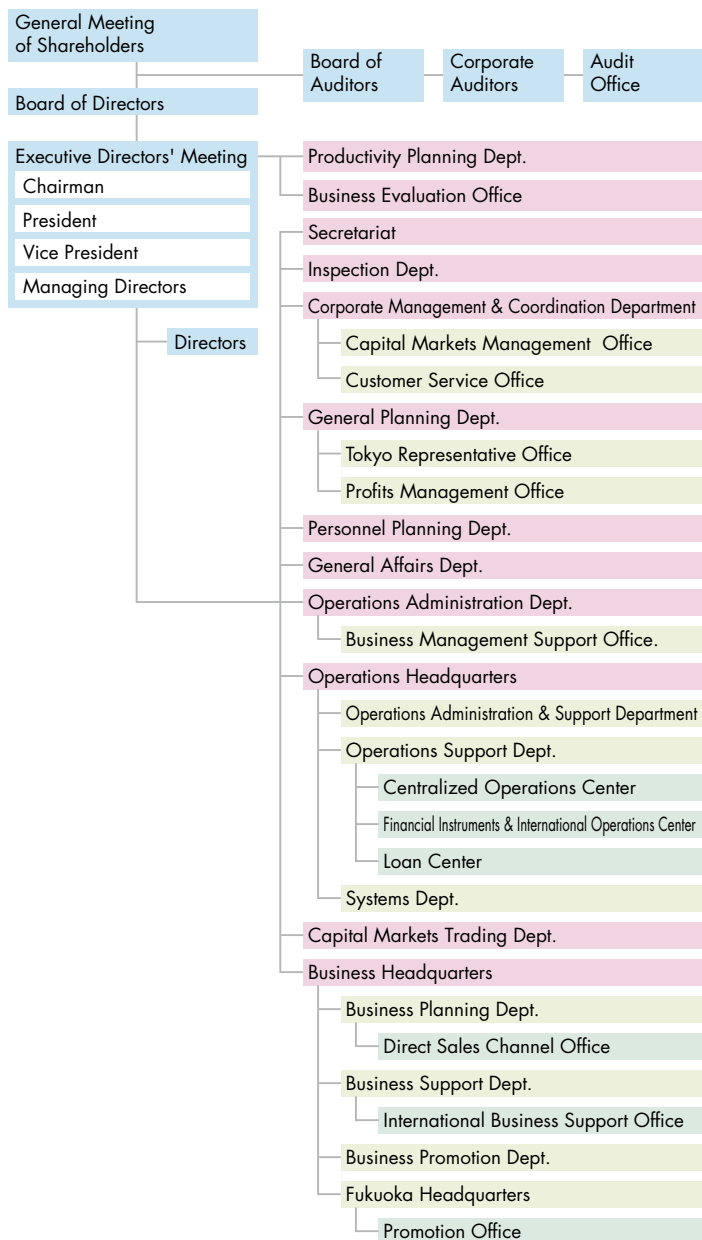
17. Other Expenses

	Millions of yen	
	2016	2015
Provision for Reserve for Possible Loan Losses	¥ 301	¥ —
Written-off Loans	—	—
Losses on Sales of Stocks and Other Securities	24	3
Losses on Devaluation of Stocks and Other Securities	646	—
Loss from Management of Money Trust	20	32
Others	506	431
Total	¥ 1,498	¥ 467

18. Subsequent Event

The following distribution of retained earnings for the year ended March 31, 2016 was resolved at the General Meeting of the Shareholders held on June 29, 2016.

Organization



Directors and Corporate Auditors

Chairman

Toshio Muraki

President

Yoshihiro Jinnouchi

Executive Director

Mitsunori Furukawa

Managing Directors

Akihisa Ueno

Hideaki Sakai

Sunao Imaizumi

Akira Tashiro

Directors

Masatoshi Tanaka

Tomio Nihei

Kingo Tominaga

Kazuyuki Tsutsumi

Tsutomu Kimura

Naoto Furutachi

Corporate Auditors

Minoru Kusaba

(Standing Auditor)

Toshio Usui

Akinobu Onizaki

Syuichi Idera

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

1,459

Network

Saga Prefecture

61 branches

Nagasaki Prefecture

3 branches

Fukuoka Prefecture

38 branches

Fukuoka Headquarters

Tokyo Branch

Head Office Business Department

Operations Support Department