

FFG

ANNUAL REPORT 2018

YEAR ENDED MARCH 31, 2018



We look into your eyes, lend an ear to you,
and engage with you.

“To be your Bank of choice,” recognizing our
customers as top priority, we find what we can
do for you, and carry out what we should do.

Furthermore, FFG aims to be a value-creating
partner for all of our stakeholders.

“To be your Bank of choice”

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Disclaimer Regarding Forward-looking Statements

The forward-looking statements in this annual report are based on management’s assumptions and beliefs in light of information available up to the date of publication, and involve both known and unknown risks and uncertainties. Actual financial results may differ materially from those presented in this document, being dependent on a number of factors.



FFG's Brand Mission and Principles



Group Management Principles

FFG aims to become a financial group that creates values for all stakeholders by:

- Enhancing perception and taking actions without fear of failure,
- Pursuing high quality for future progress, and
- Bolstering people's optimum choice.

The FFG Brand

Putting into practice the Group's management principles, FFG aims to express its "Core Value" as its commitment to delivering real value to customers, shareholders and the regional community. We will also continue to develop its brand slogan, "To be your Bank of choice."

Brand Slogan

To be your Bank of choice

Core Value (the pledge to our customers embodied in our slogan)

Your closest bank

We will lend a sympathetic ear to, converse with and collaborate with customers.

Your reliable bank

Using our vast knowledge and information, we will offer optimal solutions to each and every one of our customers.

Your sophisticated bank

As a professional financial service group, we will continue to make proposals that exceed the expectations of our customers.

The Story of Fukuoka Financial Group

Fukuoka Financial Group, Inc. (FFG), was established as a financial holding company through the joint share transfer of the Bank of Fukuoka and the Kumamoto Bank on April 2, 2007. On October 1, 2007, FFG entered a new stage with the integration of the Shinwa Bank as a wholly owned subsidiary.

With its headquarters in Fukuoka, the largest city in Kyushu, FFG's network extends across the Kyushu region through bases in the three prefectures

of Fukuoka, Kumamoto and Nagasaki.

All officers and employees of the Fukuoka Financial Group are united in their efforts to fulfill the promise to stakeholders to make FFG "your Bank of choice." We look forward to your continued support in our drive to upgrade our services as a broad area-based regional financial group that spans local and global levels.

FFG Fukuoka Financial Group, Inc.

Within Kyushu 321

THE BANK OF FUKUOKA, LTD.

Fukuoka Prefecture 152
 Within Kyushu 12
 Other 6

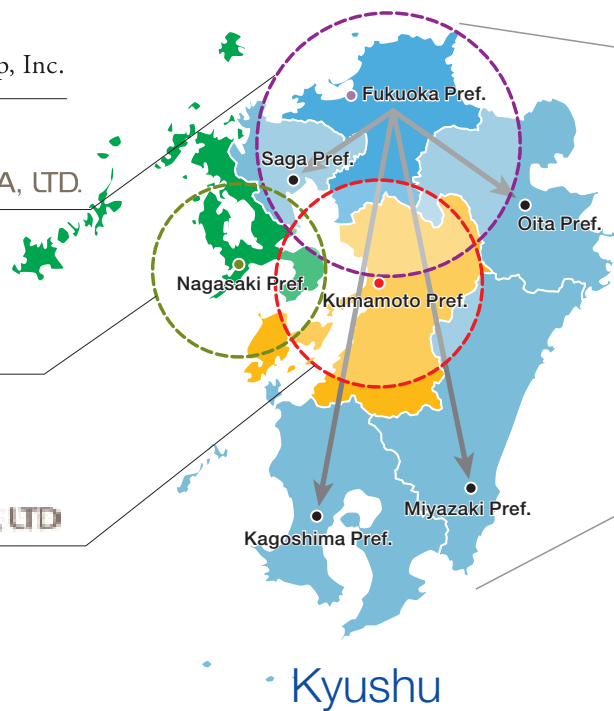
THE SHINWA BANK, LTD.

Nagasaki Prefecture 76
 Within Kyushu 11
 Other 1

THE KUMAMOTO BANK, LTD.

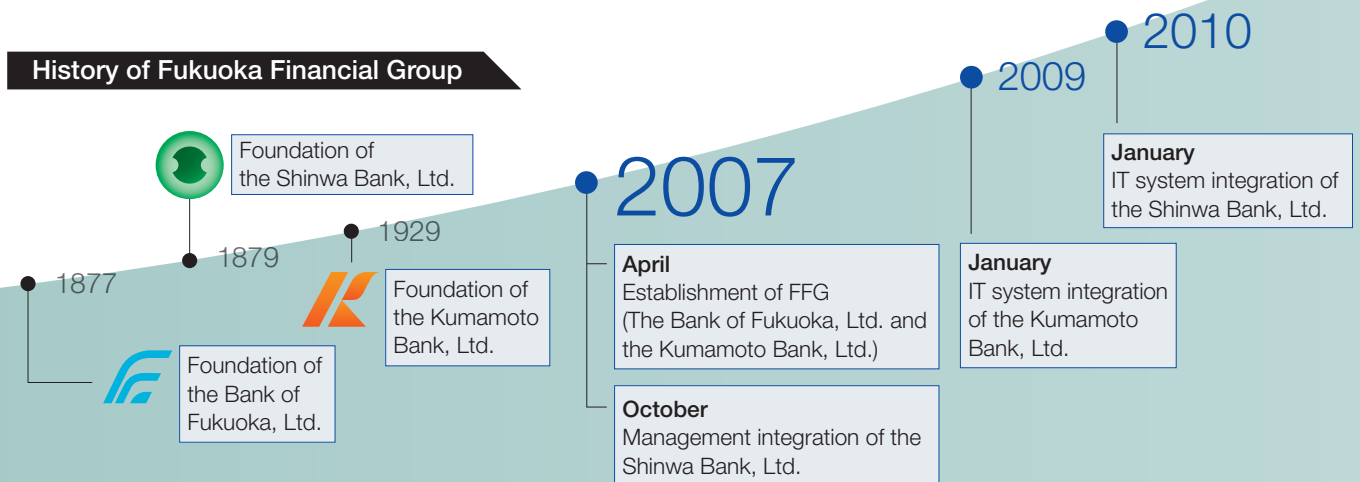
Kumamoto Prefecture 63
 Within Kyushu 7

(As of August 1, 2018)



* Kyushu consists of seven prefectures.

History of Fukuoka Financial Group



FFG's Overseas Network

Kyushu has strong relationships with Asian countries and is a market with enormous potential. We are supporting our customers by broadly strengthening our contact points throughout Japan and overseas.

Japan



2018

2017

2016

2015

2012

2011

—Loans: **¥12.3** trillion
—Deposits: **¥14.1** trillion

April
10th anniversary of FFG's establishment

February
Memorandum of Understanding regarding Business Integration with The Eighteenth Bank, Limited

July
Opening of representative office in Ho Chi Minh City

December
Opening of representative office in Taipei

March
Opening of representative office in Bangkok

April
Maeda Securities Co., Ltd. becomes a wholly owned subsidiary, and begins operations as Fukuoka Securities Co., Ltd.
—Group-wide balance of deposits exceeds ¥11 trillion.

November
Opening of representative office in New York

December
Opening of representative office in Singapore

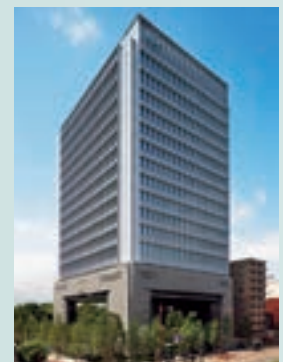


Fukuoka Financial Group, Inc.

The Bank of Fukuoka, Ltd.

The Kumamoto Bank, Ltd.

The Shinwa Bank, Ltd.



FFG Head Office (Fukuoka City)

Kyushu Figures

10% of Japan's Economy

Population **10.3%**

10.3% of total population of Japan lives in Kyushu.

Scale of Production **4th**

The Kyushu region represents the fourth-largest economy in Japan, following Tokyo (Kanto), Osaka (Kinki) and Nagoya (Chubu) regions.

Time to Airport **5 minutes**

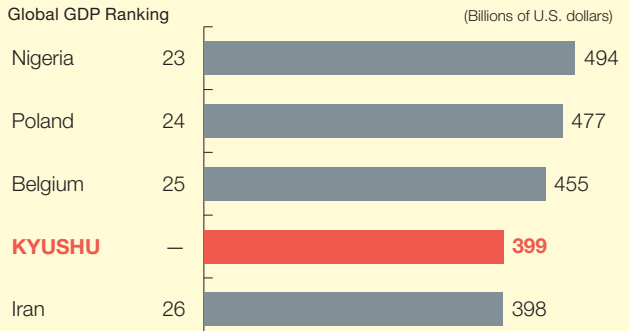
Fukuoka Airport is only 5–10 minutes by subway from central Fukuoka.

Kyushu is referred to as “the 10% of Japan’s Economy” because it accounts for approximately 10% of Japan’s total population, GDP, number of businesses, etc.

In terms of GDP, Kyushu is the fourth largest economy following the three major metropolitan areas of Kanto, Kinki, and Chubu, and is an important domestic production base for key industries including the cars, IC-related, agricultural, and food product industries.

In addition, as high-speed transport networks with Fukuoka Prefecture at its center have been developed, Kyushu not only offers convenience, but as a gateway to Asia has high potential for expanded transactions with the Asian region.

Kyushu's Place in the World



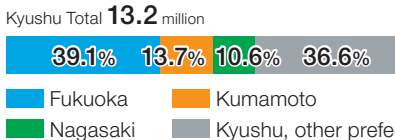
Source: Kyushu Economic Status 2017, Kyushu Bureau of Economy, Trade and Industry

Data Analysis for Kyushu

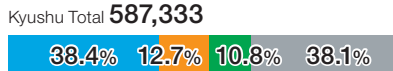
Gross Prefectural Production*¹ (2014)



Population*¹ (2018)



Number of Businesses*² (2016)



Commercial Sales*⁴ (2014)



Loans*³ (March 31, 2018)



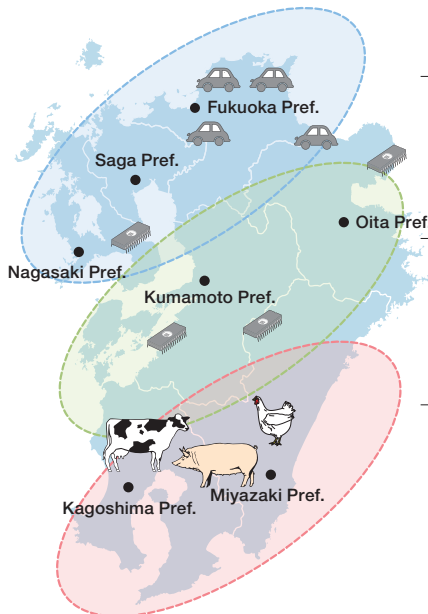
Deposits*³ (March 31, 2018)



Sources *¹ Kyushu Economic Status 2017, Kyushu Bureau of Economy, Trade and Industry
*² 2016 Economic Census, Ministry of Internal Affairs and Communications
*³ Deposits, Vault Cash, and Loans and Bills Discounted by Prefecture, Bank of Japan
*⁴ Census of Commerce in 2014 (confirmed report), Ministry of Economy, Trade and Industry

Well-Balanced Industry Grouping

Kyushu is an important base of production in Japan for the cars, integrated circuits (IC), agriculture and food industries.



Northern Kyushu, a center of “Car Island”

is an important car-producing region with accumulated factory base of domestic manufacturers such as Toyota, Nissan and Daihatsu.

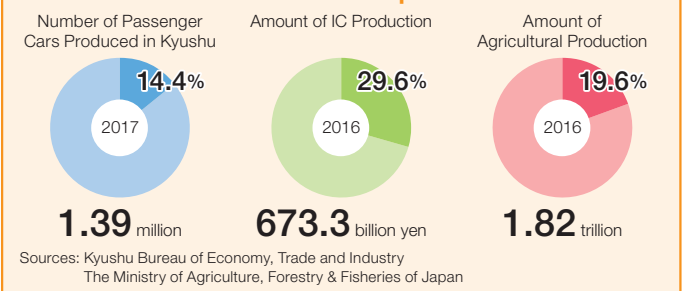
Middle Kyushu, contributes to “Silicon Island”

is home to a flourishing semiconductor industry, facilitated by its high-quality water sources, abundant workforce and well-developed infrastructure of roads and ports.

Southern Kyushu, a center of “Food Island”

produces foods with brand power such as Miyazaki beef and Kagoshima black pork.

Share in Japan



What is Kyushu?

Kyushu is located in the south westernmost area of Japan. It is bordered by the East China Sea to the west and the Pacific Ocean to the east. The climate is slightly warmer and more tropical than Honshu. While natural disasters that occurred in and after 2016 were unprecedented events that caused enormous damage to the region, we are working together with the regional community towards restoration.



Convenient Transport Hub

Since various means of transportation of land, sea, and air are concentrated in central Fukuoka, it has taken the role of a hub which connects the flow of people, goods, money and information with each prefecture in Kyushu.



Fukuoka Airport
Maintenance of terminal building and expansion of landing field in progress



Port of Hakata
Urban development plan working together with the local community in progress

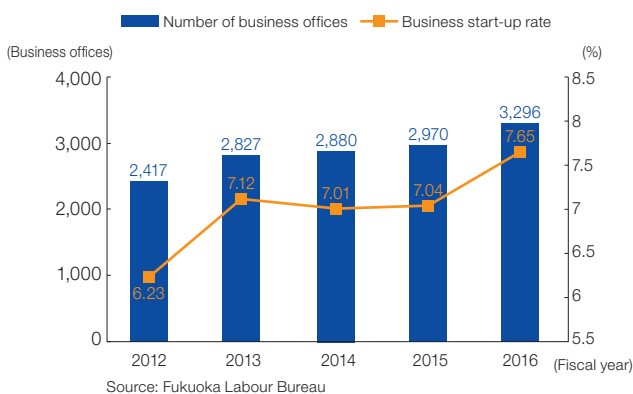


Kyushu Shinkansen
Broad network linking Fukuoka, Kumamoto and Kagoshima

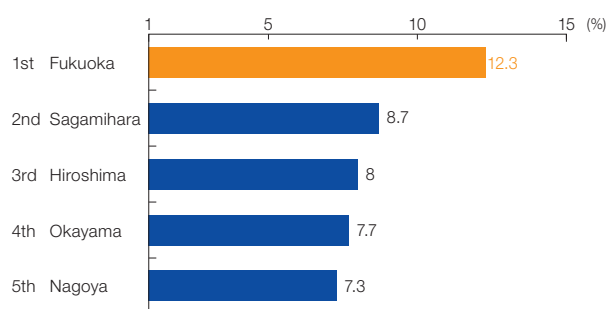
Seeds of Further Growth

In addition to balanced industry structures and large-scale projects in progress, new seeds for further growth are nurtured in Kyushu. It is also illustrated by Fukuoka City and Kitakyushu City being designated as the National Strategic Special Zones in recent years. Economic ripple effects are expected throughout the region, such as creation of industrial innovation and promotion of new enterprises and business start-ups. It has also achieved record highs for the Number of Foreign Nationals Entering Kyushu for six consecutive years leveraging its proximity to Asia, while inbound tourism is also booming. Moreover, transportation convenience backs it up to draw attention from inside and outside Japan, resulting in an increase in land price growth rate more rapidly than that of the whole country. Kyushu has become an attractive area which gather both people and companies.

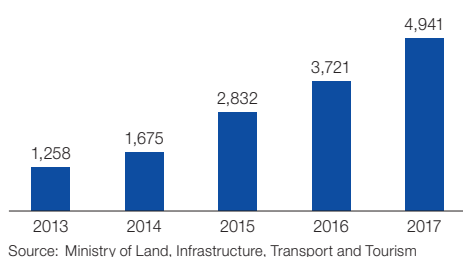
Number of newly established business offices and business start-up rate in Fukuoka City



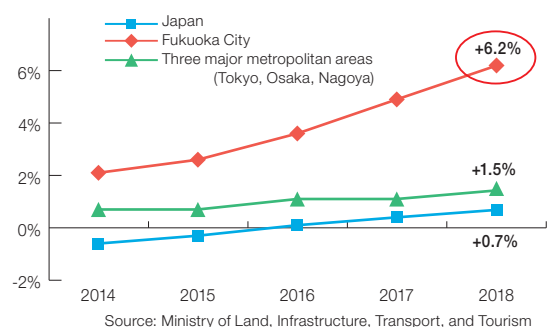
Cities with a high percentage of young people* among entrepreneurs



Foreign nationals entering Kyushu (in thousands)



Year-on-year changes of land price (for all purposes)



FFG at a Glance

In order to become “The ‘Best Regional Bank’ achieving a sustained strong competitive edge and potential for growth,” based on the management and business foundations that we have laid so far, we will actively take up the challenge in new, isolated areas, in addition to those on our current trajectory, and we will evolve our business model in all aspects.



Net income (loss) attributable to owners of the parent

In addition to the increase in core business profit compared with the plan, amortization of goodwill became unnecessary, renewing record highs for the first time in two fiscal years.

49.4 billion yen

Core OHR (3 banks' total)

While making strategic investments mainly in the iBank business, we are continuously pursuing efficiency.

57.7%

Business foundation

We are building a firm business foundation based on high-quality financial services provided by the approximately 6,800 employees of the Group (consolidated basis).

Individual **5,710** thousand
<43% of Kyushu's population>
Corporate **221** thousand
<38% of Kyushu's businesses>

Capital adequacy ratio

We aim to achieve the target (about 9%) for the period of the Fifth Mid-Term Management Plan. Both quality and level of capital adequacy are steadily improving via internal reserves.

9.41%

Foreign investors ratio

We continue to strive for constructive dialogue with foreign investors.

31.0%

Loan share in Kyushu

We support the needs and business challenges of customers not only in Fukuoka, Kumamoto and Nagasaki prefectures, but also across all of Kyushu.

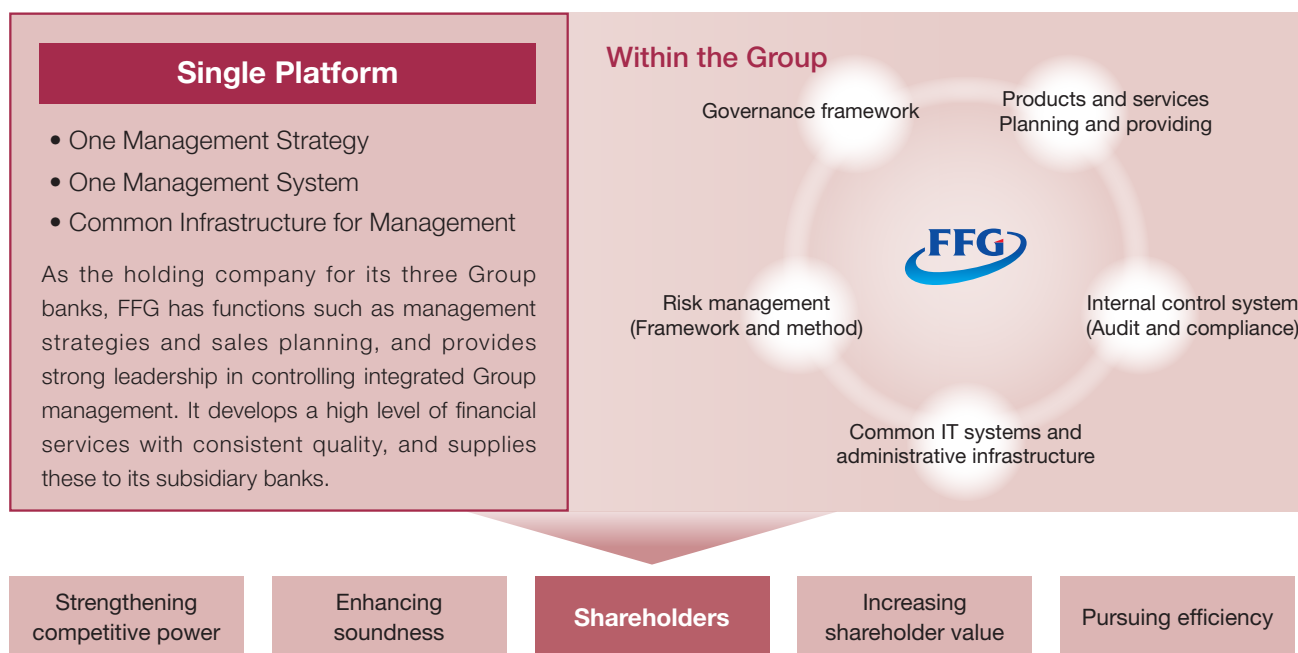
23.8%

(As of March 31, 2018)

FFG's Management Style

The cornerstone supporting the aforementioned results is “Single Platform/Multiple Brands,” which has been built up as the fundamental management style since FFG was first established.

This is a management style that utilizes the integrated management system and infrastructure within the Group, while presenting three faces (brands) to the customers. This style also enables the pursuit of scale merits, while maintaining commitment to the region.



(As of March 31, 2018)

—Subsidiary banks—

● THE BANK OF FUKUOKA, LTD.

Loans 9.5 trillion yen	Deposits 10.4 trillion yen
-------------------------------------	---

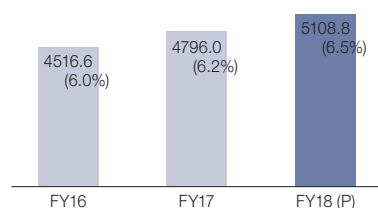
● THE KUMAMOTO BANK, LTD.

Loans 1.3 trillion yen	Deposits 1.4 trillion yen
-------------------------------------	--

● THE SHINWA BANK, LTD.

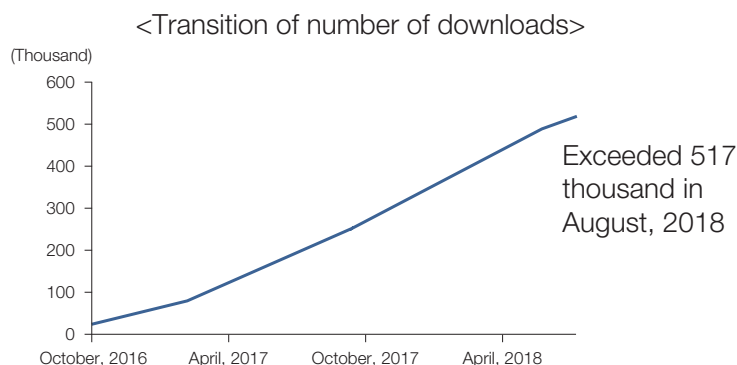
Loans 1.5 trillion yen	Deposits 2.2 trillion yen
-------------------------------------	--

<Average balance of loans to SMEs (annual rate)> (¥ bil)



—iBank Business—

FFG is aiming to construct the new financial services platform in the iBank business. Wallet+ is the core smartphone application product to enable easier money management. It has launched open API collaboration with other banks.



Monthly usage rate of Wallet+

MAU rate of Wallet+ is comparable to mega apps such as Facebook and Twitter. (MAU=Monthly Active users)

59%

* Actual performance from April 2018 to May 2018, calculated from the data of App ApeLaboratory by original method.

This management style enables the pursuit of a high degree of efficiency and effectively utilizes the single platform as well as the subsidiary banks' own brands.

We are proud of the fact that it is the most suitable style for the management integration of regional banks in Japan, for which connections with local customers are essential.

Multiple Brands

- Brand Power Succession
- Diversity in Customer Contact
- Commitment to the Region

The subsidiary banks conduct their own business drawing on their strong, locally built brand power and offer their customers high leveled financial services supplied by FFG with consistent quality.

Customer Service

Consolidating back office operations



Sharing Product and Service Line-up



Support for business activities

Assistance with life-planning

Customers and Local Community

Developing local economy

Revitalizing local community

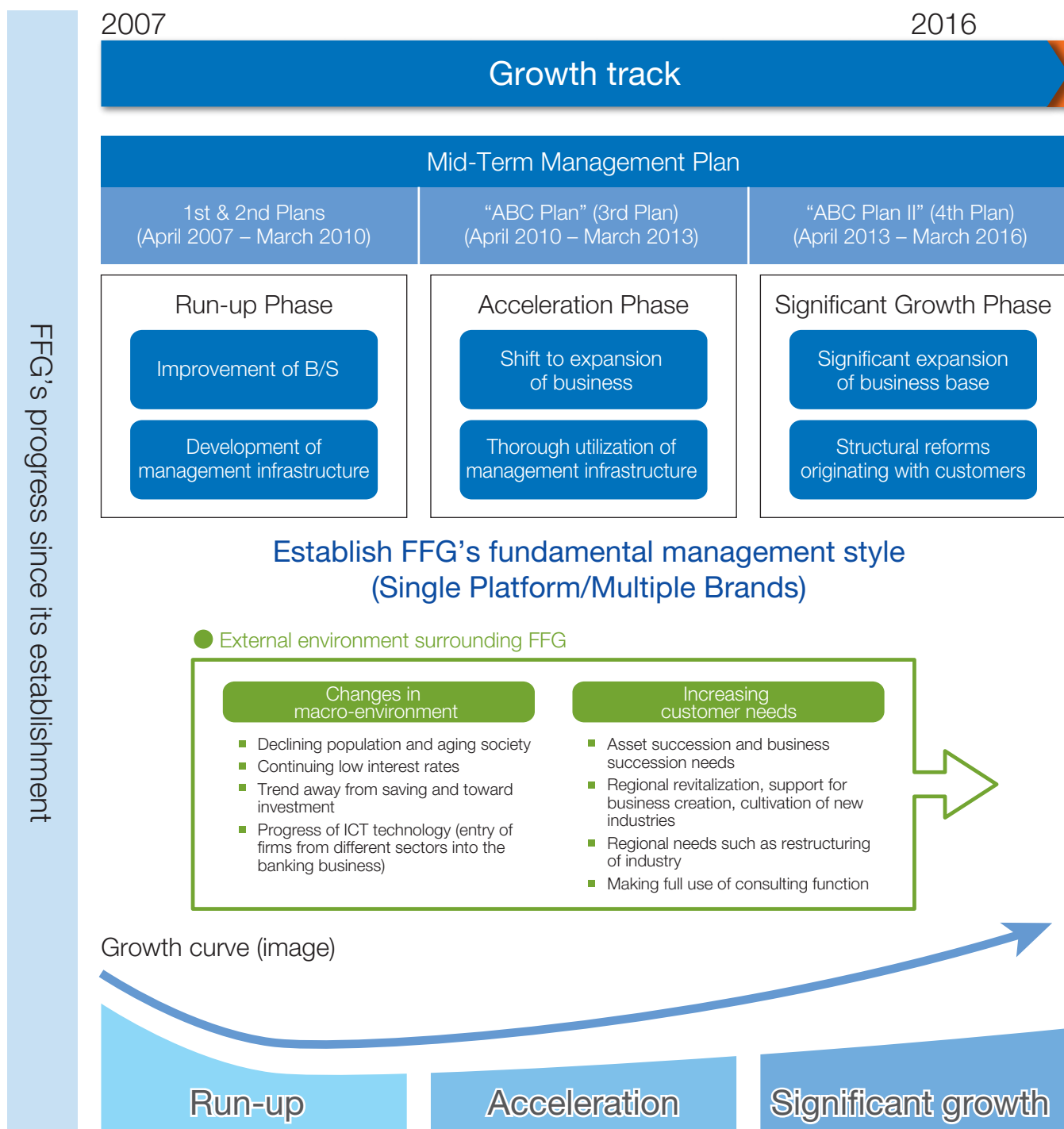
Long-term vision of FFG

Surrounding business environment

In the past nine years since its establishment, FFG achieved significant growth through development and thorough utilization of our management structure. In addition, we established unique management style, including Single Platform/Multiple Brands.

Meanwhile, the business environment surrounding regional financial institutions is expected to become even more severe, due to such factors as the declining birthrate

and aging population, prolonged low interest rates, innovations in ICT, and the entry of firms from different sectors into the banking business. Against the backdrop of such changes in social structure, regional financial institutions are called upon not only to maintain stable financial systems in the region, but also to make efforts to boost the development of regional economic activity.



FFG's "Next decade"

FFG therefore positions "development of a stable financial system covering the regional economic zone" and "initiatives for the development and invigoration of the regional economy" as the two key themes of its long-term strategy. Our goal in this is to achieve the ultimate mission which is to contribute to the invigoration and development of the regional economy and to provide support for that through stable regional financial systems.

Furthermore, in order to advance our long-term strategy amid a rapidly changing business environment, FFG itself must continue to evolve, anticipating and adapting to various changes in the business environment. Given this, we have positioned the next decade as a stage of "evolution," and again set a long-term vision (goal) of being the "Best Regional Bank," incorporating our desire to obtain support from all stakeholders.

Toward the next decade

Fifth Mid-Term Management Plan
Aiming to be the Best Regional Bank

6th, 7th...
Mid-Term Plans

New **stage of "Evolution"** based on the management base built up so far

1st Phase of "Evolution"

2nd, 3rd phases

"Development of a stable financial system covering the regional economic zone"
"Initiatives for the development and invigoration of the regional economy"

Achieve a sustained strong competitive edge and potential for growth
(Virtuous cycle of "contribution to regional economic development" and
"improvement of FFG corporate value")

Long-term vision

"Evolution"

Actively take up the challenge in new,
isolated areas

+

Refine core businesses

The Best Regional Bank

Fifth Mid-Term Management Plan

Fundamental Principle and Emphasized Activities

The Fifth Mid-Term Management Plan, which began in FY2016, sets out the fundamental principles for achieving mutual growth by creating a virtuous cycle of “contribution to regional economic development” and “improvement of FFG corporate value” as the first phase of the stage of evolution. With our brand slogan, “To be your Bank of

choice” at the core of all of our business activities, we will accelerate our efforts towards “evolution” in all aspects, in order to establish a firm management base and business model that will remain steady even under future changes in the business environment, and also realize sustainable growth.

Fifth Mid-Term Management Plan: Aiming to be the Best Regional Bank

Period	April 2016 – March 2019 (3 years)	
Long-term vision (goal)	The “Best Regional Bank” achieving a sustained strong competitive edge and potential for growth The best regional financial group for all stakeholders, contributing to and developing alongside the community by providing high-quality financial services	
Fundamental principle	Achieve a virtuous cycle of “contribution to regional economic development” and “improvement of FFG corporate value,” by constantly continuing to “evolve” while anticipating changes in the business environment	
4 Basic strategies	<ul style="list-style-type: none"> Evolve business model 	<ul style="list-style-type: none"> Provide “integrated services” for all our customers Actively use digital technologies in operating activities Take up challenge in new business areas (using FinTech, etc.)
	<ul style="list-style-type: none"> Strengthen human resources 	<ul style="list-style-type: none"> Strengthen development of integrated services personnel Invest more aggressively in human resources (employment and development of specialist personnel, etc.) Utilize the Group’s human resources effectively
	<ul style="list-style-type: none"> Exercise group total power 	<ul style="list-style-type: none"> Rigorously pursue Single Platform/Multiple Brands Improve Group productivity Work to reform the FFG structure
	<ul style="list-style-type: none"> Build strong brand power 	<ul style="list-style-type: none"> Develop business activities centered on our brand slogan, “To be your Bank of choice” Strengthen the communicative power of the FFG brand Strengthen communication with customers and with the community

Target Management Indices

With a view to achieving our long-term vision, we have set various management indices for the final fiscal year of the Plan (FY2018).

In addition, we have set a target dividend payout ratio at about 30%.

* The effects and impacts (projected profits and numerical data) of, and attributable to, the Memorandum of Understanding regarding Business Integration with The Eighteenth Bank, Limited, have not been taken into account in these management indices. The indices will be revised once business integration has been resolved and realized, at which time they will be announced.

* Target figures for consolidated net income and ROE factor in the effect of the “Implementation of One-time Goodwill Amortization and Revision of Business Results Forecast” announced on March 21, 2017.

(Note) Consolidated net income is net income attributable to owners of the parent.

	FY2015	FY2018 (target)	Notes
Net income (consolidated) (Note)	44.7 billion yen	54 billion yen	+9.3 billion yen
ROE	5.8%	7% or more	–
Average balance of total loans (3 banks total)	10.4 trillion yen	11.5 trillion yen	+about 1 trillion yen
Average balance of total deposits and CDs (3 banks total)	12.9 trillion yen	13.9 trillion yen	+about 1 trillion yen
Outstanding balance of assets under management for individual customers (3 banks + Fukuoka Securities total)	1.3 trillion yen	2 trillion yen	+about 0.7 trillion yen
Capital adequacy ratio	8.75%	About 9%	–
OHR (consolidated)	63.7%	About 60%	–

Business Integration with The Eighteenth Bank

FFG and The Eighteenth Bank, Limited (hereinafter the “Eighteenth Bank”) have promoted consultation and consideration toward the realization of Business Integration.

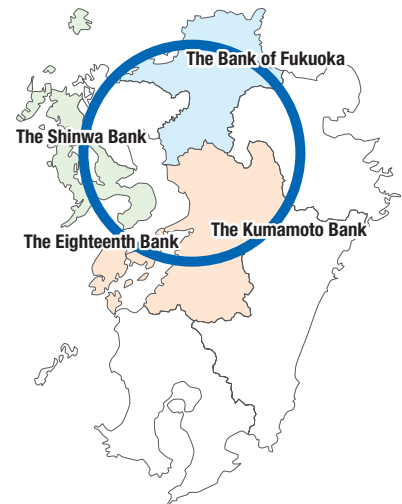
Background and Philosophy

Background

Kyushu is no exception to the structural issues facing the regional economy such as the declining population and aging society, and it is expected that the market size will decline in the future. On the other hand, Kyushu has a variety of industries ranging, as well as many tourism resources making Kyushu an attractive market.

FFG and the Eighteenth Bank (hereinafter collectively “the Companies”) have conducted a study of a possible new regional financial group which can be developed in tandem with the region, under their common understanding that: (i) in order to maximize each potential point and attraction of Kyushu and Nagasaki, it is important to further promote the integration of the Kyushu economy; and, (ii) to support such promotion, the Companies need to establish a firmer business foundation and to develop a wide, customer-friendly network while maintaining their brand in the region.

Consequently, the Companies have come to share the following understanding, and have therefore promoted consultation and consideration toward realization of the afore-mentioned business integration.



- (1) Mutual utilization of each other’s management and business know-how contributes to the maintenance and stabilization of regional financial systems and the development of the regional economy.
- (2) Forming a firm financial group based in Kyushu will result in a source of higher quality services to our customers, which will also contribute to an improvement of corporate value.

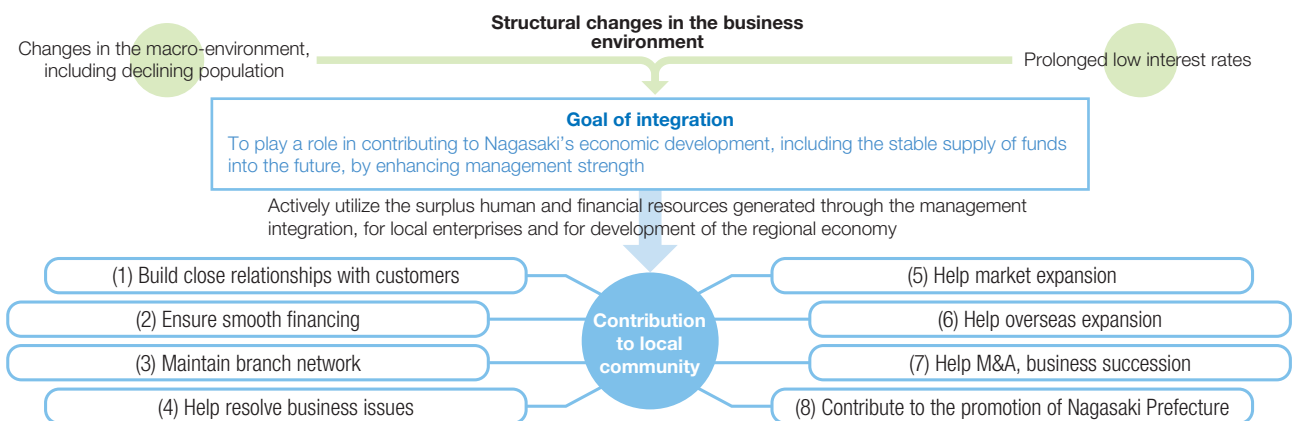
Philosophy

In order for Kyushu to form an attractive market as a whole, the Companies will aim for simultaneous realization of the invigoration of the regional economy and improvement of corporate value, by promoting, in the regional economic zone, operational efficiency via economies of scale and stabilization of the regional financial systems over the future.

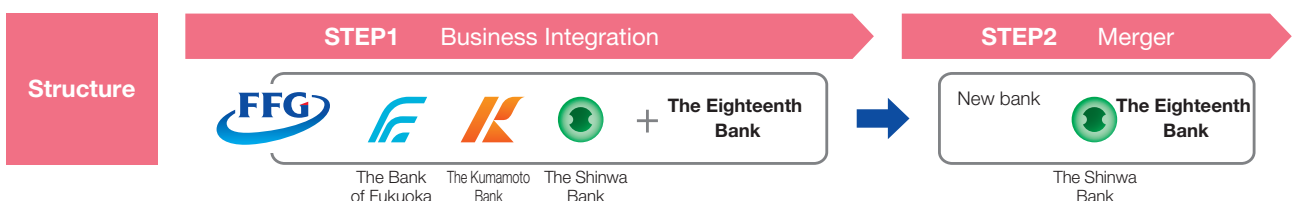
Simultaneous realization of the invigoration of the regional economy and improvement of corporate value

Contribution to the growth of companies in Nagasaki Prefecture

Financial group with the highest customer satisfaction



The Companies executed a Memorandum of Understanding regarding Business Integration as of February 26, 2016. At this moment, the relevant review of the business combination by Japan Fair Trade Commission is still ongoing. We will announce the future schedule of the Business Integration without delay when it is determined. We continuously cooperate to work on this matter, aiming to realize the Business Integration as soon as possible.



Key Initiatives

Digital Strategy

FFG is working to strengthen its structure by way of a digital transformation, keeping in mind changes in the management environment and customer needs resulting from the rapid progress of ICT.

In October 2017, we established the Digital Strategy Division to pursue innovation both from the perspective of “Services,” an area where we are working to launch new services utilizing AI, and “Processes,” an area where we are seeking drastic reforms in business processes by eliminating paper and utilizing RPA. Additionally, in the iBank business, launched in 2016 prior to the said division, we are seeking to expand both our user base and partner companies by successively introducing new functions and roll-out at other banks.

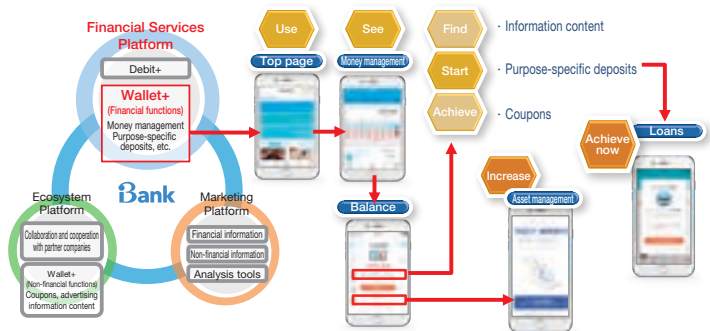
Initiatives in these types of innovations will lead to the sophistication of FFG’s services and allow us to respond rapidly to ever-changing customer needs and behavior by actively investing in “people” and “goods” with a focus on the future, while deepening our collaboration with external companies that possess cutting-edge technologies and services.

FFG’s digital strategy	
Services	<ul style="list-style-type: none"> ■ Creation of new businesses and services <ul style="list-style-type: none"> · Use of AI for credit instruments, etc., and smartphone payment · Use of block chain · Cross-industry collaboration, etc.
Processes	<ul style="list-style-type: none"> ■ Drastic reform of banking processes <ul style="list-style-type: none"> · Elimination of paper, use of RPA · Digitalization of sales activities, etc.
iBank business	<ul style="list-style-type: none"> ■ Monetization of business <ul style="list-style-type: none"> · Expansion of user base and finding new partner companies · Promotion of API links with other banks, etc.
<div style="display: flex; justify-content: space-between;"> <div style="width: 45%; background-color: #008000; color: white; padding: 5px;">Building of strategic systems environment</div> <div style="width: 45%; background-color: #008000; color: white; padding: 5px;">Development of innovative human resources (external assignments, etc.)</div> </div>	

iBank Business

The iBank business consists of three platforms: Financial Services, Ecosystem and Marketing. Wallet+, which is the core product in this business, seamlessly links the day-to-day consumer behavior and needs of users with FFG’s financial services (saving, investment, loans).

We have created a user structure that is not found in traditional banking channels, as evidenced by the number of downloads reaching 400,000 in April 2018, 70% of which were by the younger generation aged 10-39. In March 2018, we launched the first open API collaboration with another bank; Bank of Okinawa.



Products

■ “Fast Pass” Online Lending

By linking automatic screenings using the bank account information of business operators with cloud-based accounting information, we are able to provide interview-free, rapid financing. We aim to further expand our target market, including customers who do not currently have any dealings with us.

■ “YOKA! Pay” Smartphone Payment Service

Since March 2018, we have been successively rolling out a new smartphone payment service that reads QR codes. The system links affiliated stores with individual users in a win-win situation, providing affiliated stores with payments in quick time at a low cost, and individual users with the convenience of a direct connection to their bank account. Our aim is to create a new payment infrastructure closely linked to the community by promoting multi-bank compatibility.



Open Innovation Initiatives

■ OPEN AI LAB

We operate the OPEN AI LAB in collaboration with IT companies providing machine learning tools in order to support the use of AI by local companies and revitalize local economies. Many local companies, regardless of business sector or format, participate in the hands-on program where they learn about the latest technology, which has become an important management issue for all companies.



■ DIAGONAL RUN TOKYO/DIAGONAL RUN FUKUOKA

At the open innovation hubs that have been established in Tokyo and Fukuoka, we aim to resolve business issues and create new value by bringing together various people including startups, ideas and information.



■ X-Tech Innovation

For the past three years we have held business contests attracting new services and business ideas using ICT from among a range of startups. We are building a network that goes beyond existing frameworks with a view to supporting commercialization and connections with local companies. We hold these contests in each region with financial institutions of other prefectures, including The Hokkaido Bank and Bank of Okinawa, and are expanding the scale to include regional collaborative events held the length and breadth of Japan.



Diversity Management

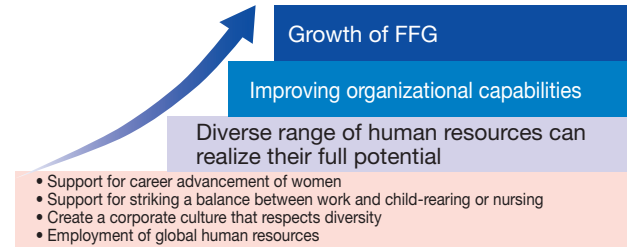
For FFG to continue growing as a company, various initiatives are conducted to ensure that each and every employee can make the most of their individuality to realize their full potential (=diversity).

In the promotion of diversity management, we have identified “promotion of active participation of women” as an important issue, and began activities of the “Support for Women Project: Fuwari” in 2013. Furthermore, currently, FFG is developing original measures to realize the provision of support for striking a balance between work and family from the perspectives of both systems and awareness. Also, we will create a conducive working environment for employees who face nursing responsibilities and promote the employment of global human resources, striving to be an organization that respects the diversity of employees, where each and every employee can realize their full potential.



Promoting employment in view of global development centering on Asia

Model for promotion of diversity activities



Appointment of women (3 banks total)

	As of March 31, 2018		As of March 31, 2023
	[Targets]	[Actual results]	[Targets]
Executive positions	50 [5.0%]	52 [4.8%]	90 [10.0%]
Executive positions & managers	230 [12.0%]	262 [12.2%]	330 [16.0%]

About the “Support for Women Project: Fuwari”

This project was launched in October 2013 with the aim of improving organizational capabilities of FFG by ensuring that female employees are able to fully display their potential. Members of the project are made up of women in various positions conducting various operations, who considered and implemented reforms from the perspectives of systems and awareness. Through these activities, various measures were created, such as a work-life balance support handbook, and a daycare center inside the company.

Currently, beyond working with women, other projects are also conducted, including sessions with male employees in managerial positions, and seminars to help bosses understand the importance of work-life balance and the synergy effect on job performance (“Ikuboss seminars”). Going forward, we will provide support so that the autonomous activities revolving around Fuwari members in each region will spread and become companywide initiatives.



A Fuwari meeting



Reporting of results to FFG's officers

Main initiatives for work-life balance

Systems (• FFG's original measures)		Awareness
Child-rearing	<ul style="list-style-type: none"> Establishment of daycare center inside the company(*1) Subsidies for daycare services usage Support program for returning to work(*2) Childcare leave Vacation for partner's childbirth 	<ul style="list-style-type: none"> Career advancement and career planning courses for female employees (young employees, managerial positions) Seminar on balancing work and child-rearing or nursing Ikuboss seminars(*4) Diversity training for new employees Cross-sector exchange sessions(*5)
Common	<ul style="list-style-type: none"> Enquiries counter for work-life balance Partner co-location system(*3) Partner relocation leave Caretaking leave Short working hours system (raising and nursing children) Maiden name system Reinstatement system Half-day leave 	<p>Fuwari members provide support at various seminars and events. They created opportunities for opinion exchange such as by visiting the workplace in each region and listening to opinions in person, and expanded their network.</p>
Nursing	<ul style="list-style-type: none"> Nursing leave Nursing vacation 	

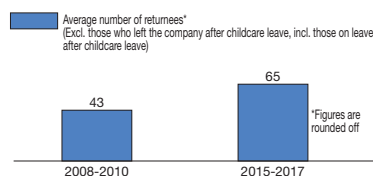
■ Establishment of daycare center inside the company(*1)

To support employees who are unable to return to work due to the problem of long daycare waiting lists, in April 2018, FFG opened “Fukugin Kids’ Land (petit petit),” its first daycare center inside the company in Fukuoka City. Cooperating with authorized daycare centers and daycare centers in other companies, we are striving to expand the possible area of usage.



■ Support program for returning to work(*2)

This is a system to support the smooth return to work of female employees after childbirth or childcare leave. The interviews and training corresponding to all stages, from pregnancy discovery to returning to work, will be consistently conducted by the Human Resources Administration Division.



■ Partner co-location system(*3)

We introduced a system that allows employees to work in an area where they can live together with their spouses. This helps to relieve the insecurities of employees in double-income families.

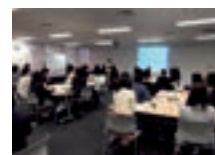
■ Ikuboss seminars(*4)

Seminars and discussions are held regularly to ensure bosses respect the individuality of each and every one of their subordinates, and facilitate the management of a diverse range of human resources. The importance of human resources management and work-life balance are conveyed, such as through exchanges of opinions between external lecturers and officers of the three banks regarding “future-oriented work styles.”



■ Cross-sector exchange sessions(*5)

With the aim of raising female employees’ work motivation and of constructing an information exchange network with other companies, exchange sessions between different business sectors are held regularly with companies in the region.



Interview with the President

President Shibato talks about matters such as FFG’s track record and growth strategy for the future.



Aiming for sustainable growth by strengthening the business structure

August 2018

T. Shibato

Takashige Shibato
President
Fukuoka Financial Group, Inc.

Q.1 | Please elaborate on the environment surrounding regional financial institutions and FFG’s countermeasures.

Regional financial institutions are facing increasingly difficult circumstances including the accelerated decline in population as a result of the graying of society and the declining birthrate, a prolonged low interest rate environment as well as the entry of firms from different sectors into the banking business. In addition, the advance in information and communications technology (ICT) has triggered changes in customer behavior and other elements, bringing overwhelming global changes at a speed never seen before. Relying only on conventional measures to tackle these environmental challenges may lead to

contracted equilibrium and hinder our sustainable growth.

To break through such severe circumstances, FFG is working on “structural reform” to improve productivity and enhance marketing capabilities as well as “acceleration of innovation” to create new services, as urgent measures to strengthen the business structure with a view to the future. As a long-term growth strategy, we will strive to be a provider of high-quality financial services and added value unique to FFG, aiming for sustainable growth not susceptible to future environmental changes.

Q.2 | How is the progress of the Fifth Mid-Term Management Plan, entering its final year?

FFG entered the stage of evolution toward the next decade in FY2016, and has set out its long-term vision of becoming the “Best Regional Bank.” The Fifth Mid-Term Management Plan is the first phase, with four basic strategies: “Evolve business model,” “Strengthen human resources,” “Exercise group total power” and “Build strong brand power.” Our focus has been to increase the volume of corporate loans and high-yield products, while aiming to provide optimum solutions through the integrated management of branches, headquarters and affiliates. As a result, core business profit (the three banks’ total) in FY2017 increased 3.1 billion yen from a year earlier to 74.4 billion yen, with a record-high net income of 49.4 billion yen due in part to the elimination of amortization of goodwill.

Business performance indicators as of March 31, 2018 marked 14.1 trillion yen (an increase of 0.4 trillion yen year on year) in balance of deposits, 12.3 trillion yen (an increase of 0.8 trillion yen year on year) in balance of loans (the three banks’ total), evidencing the steady expansion of our operational base.

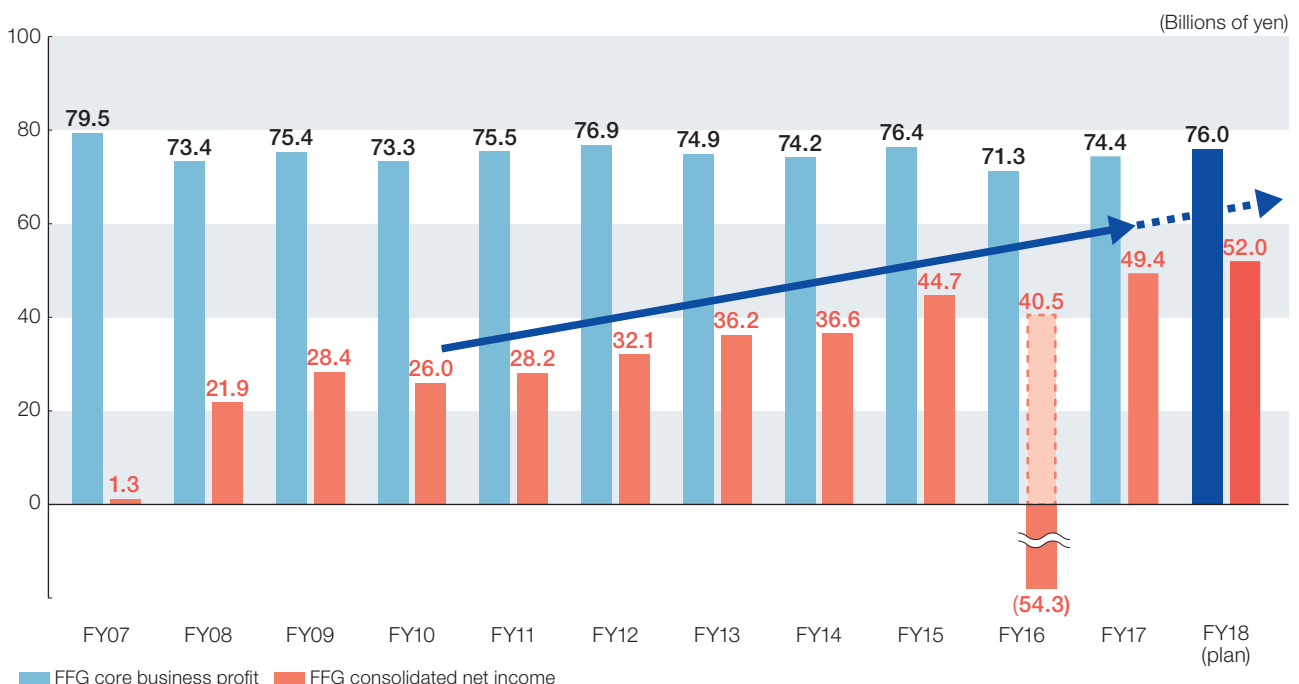
In FY2018, the final year of the Fifth Mid-Term Management Plan, we will steadily carry out the varied measures under the Plan with focus on the priority themes of “structural reform” and “acceleration of innovation.”

(1) Structural reform

In FY2018, we will conduct an out-of-the-box review of our business process and framework Group-wide covering our branches, headquarters and affiliates. We will promote paperless operations and concentrate branch administration work to headquarters in order to drastically reduce the administrative burden, enabling our branches to transform into a locale to provide consulting services. We will streamline our infrastructure and appropriate the excess management resources thus generated to areas of growth such as the digital segment in an effort to enhance our marketing capabilities and sophisticate our services.

(2) Acceleration of innovation

We will strive to create new services that deploy smartphones and artificial intelligence (AI), providing functions pertaining to financing, settlement and channels. We will also accelerate initiatives for open innovation to enhance our quality of service through cooperation with outside companies with cutting-edge ICT. The iBank business has commenced operations and our next step will be to roll out a stream of new functions for improved convenience.



Interview with the President

Q.3 | Let us know the strength of FFG.

Kyushu, which is FFG’s mother market, accounts for about 20% of the domestic share in fields where future growth is expected, such as production of automobiles and semiconductors as well as agriculture. In addition, the number of foreign nationals entering Japan has increased about seven-fold in these six years, centering on Chinese and South Koreans, benefited from geographical proximity to Asian countries. All of which show the growing potential of Kyushu.

Since FFG’s establishment in 2007, Kyushu has been the setting of our enhancement of productivity and financial functions Group-wide under the banner of “Single Platform/Multiple Brands,” our unique management style. It conceptualizes our dual approach of integrating administrative work, IT systems, products and services internally, while presenting ourselves to our customers under the three brands: The Bank of Fukuoka, The Kumamoto Bank and The Shinwa Bank. As a result, we have established a firm customer base of approximately 5.71 million individual customers and approximately 220,000 corporate customers, centered on Kyushu.

Currently, we are leveraging management resources generated by our ongoing “structural reform” efforts to fuel initiatives in areas of growth including the digital, financial market and investment banking sectors. Another of our priorities is the optimum development of human resources that can detect unidentified issues and provide appropriate solutions to customers. Strengthened human resources and Group total power including affiliates will be the driving force for us to realize sustainable growth together with Kyushu, the region of endless potential.



Q.4 | What are your investment initiatives for the future?

In a phase of rapid technological innovation such as today, it is not an easy feat to grasp the trends of the times or locate the potential of profit-generating businesses. Therefore, the life spans of existing business models are becoming increasingly short, soon rendering them obsolete. It will be all the more vital to identify human resources and targets that will generate value from a forward-looking perspective and proactively invest in them, instead of pursuing immediate profit.

This is the thinking behind FFG’s proactive moves in strategic investments, namely, to raise administrative efficiency by introducing robotic process automation (RPA); create new services deploying smartphones and AI, introduce cashless settlement applications; roll out new functions for “Wallet+,” the money management application in the iBank business; and develop an open application programming interface (API) platform; as well as investing in human resources by sending employees to external entities or adopting external experts.

Q.5 | Please give us an update on the business integration with The Eighteenth Bank.

FFG reached a basic agreement to promote consultation and consideration toward the realization of business integration with The Eighteenth Bank, Limited in February 2016, as one of the strategic options to realize our long-term vision. As the review by the Japan Fair Trade Commission remains ongoing, we have postponed the future schedule indefinitely.

FFG believes that this business integration is the best option for the purpose to maintain a stable regional financial system in the future and contribute to regional economic development.

If the business integration takes shape, it will bring synergistic effects through the streamlining of branches, personnel, systems, and other sharing. By steadily returning the fruits of the synergy to local communities, we will strive to extend the range and quality of support to local companies and services to customers than ever before.

We continue to aim for the realization of business integration.



Q.6 | Please give a message to shareholders and other stakeholders.

As a financial institution rooted in the local community, FFG will strive to detect changes in the internal and external business environment while ceaselessly evolving itself, creating a virtuous cycle of “contributing to regional economic development” and “improving FFG’s corporate value.” We are committed to becoming the best regional financial group for all stakeholders that share development with the local community.

FFG’s shareholder return policy stipulates a performance-linked dividend table with a target dividend payout ratio at approximately 30%. We expect to pay an annual dividend of 17 yen per share in FY2018, an increase of 2 yen. A one-for-five reverse stock split of

our common stock is planned for October 1, 2018, but will not affect the dividend payout ratio, as the dividend table will be adjusted at the same time. The external environment and our fundamental profitability, as well as capital levels adequate for taking calculated risks will be considered in the course of determining our future shareholder returns.

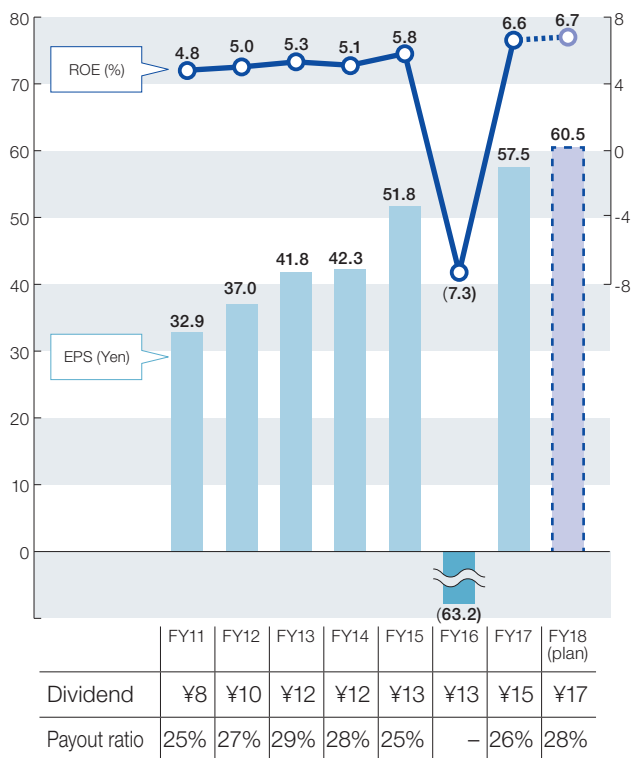
FFG’s concept of CSR lies in the belief that it can achieve sustainable growth for the Company and society by forging stronger relationships with stakeholders. It is the backbone not only of our corporate management efforts such as strengthening compliance and risk management systems, but also our

Interview with the President

diverse initiatives for stakeholders. Our future aim will be to link them to environmental, social and governance (ESG) investments and Sustainable

Development Goals (SDGs), which are increasingly adopted in Japan as well.

We would appreciate your continued support.



FFG consolidated net income level *	Full-year dividend per share	Payout ratio
50 billion yen or more	17 yen	Up to 29%
45-50 billion yen	15 yen	26 – 29%
40-45 billion yen	13 yen	25 – 28%
35-40 billion yen	12 yen	26 – 30%
30-35 billion yen	11 yen	27 – 32%
25-30 billion yen	10 yen	29 – 34%
20-25 billion yen	9 yen	31 – 39%
15-20 billion yen	8 yen	34 – 46%
Below 15 billion yen	7 yen	40% or higher

* Indicates net income attributable to owners of the parent

**“Table for the Full-year Dividend per Share,” “Changes in Dividends (Forecast for FY2018)” and “Earnings per Share (EPS) Forecast for FY2018,” mentioned above, are as of the time when this annual report was prepared (August 1, 2018).

As publicly announced on May 14, 2018, a one-for-five reverse stock split of our common stock is planned, on October 1, 2018 as the effective date. Aforementioned figures have not taken into account the said reverse stock split. With regard to the Table for the Full-year Dividend per Share in the case where the reverse stock split is conducted, please access our Japanese website :

<http://contents.xj-storage.jp/xcontents/AS07869/c15d28ca/65e2/4e99/8bff/07db6a576fb6/140120180514437180.pdf>

Financial Highlights

Fukuoka Financial Group, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31,	2014	2015	2016	2017	2018
Operating results (Millions of yen)					
Ordinary income	242,289	228,007	236,707	235,767	237,572
Ordinary profit (loss)	57,020	60,763	71,426	(34,441)	71,636
Net income (loss) attributable to owners of the parent	36,192	36,595	44,718	(54,300)	49,369
Comprehensive income	32,356	77,678	43,138	(54,410)	78,909
Assets (Millions of yen)					
Net assets	745,778	778,093	784,691	712,058	778,973
Total assets	14,125,998	15,661,794	16,406,109	18,113,049	20,163,679
Cash flows (Millions of yen)					
Cash flows from operating activities	758,784	989,644	315,044	1,152,326	1,159,776
Cash flows from investing activities	(104,873)	(416,303)	(139,028)	(86,273)	145,640
Cash flows from financing activities	(165,859)	(32,289)	(99,041)	(20,696)	(11,993)
Cash and cash equivalents at end of the year	1,211,513	1,752,714	1,829,586	2,874,917	4,168,303
Per share data (Yen)					
Net assets per share	798.16	865.66	902.50	829.07	907.02
Net income per share	41.82	42.29	51.75	(63.22)	57.48
Ratio (%)					
Capital adequacy ratio (consolidated)	10.28	9.60	8.75	8.80	9.41
Return on equity (consolidated)	5.28	5.05	5.81	(7.25)	6.62
Price earnings ratio	10.13	14.63	7.09	–	9.96
Other					
Employees	6,763	6,805	6,823	6,865	6,811

- Notes
- 1 The fiscal year is from April 1 through March 31.
 - 2 FFG and its domestic consolidated subsidiaries conduct accounting on a before-tax basis, excluding national and local consumption taxes.
 - 3 With regard to the calculation method of capital adequacy ratio, in accordance with the revision of the public notification of the capital adequacy ratio, Pillar 3 (domestic standard) has been applied from the end of March 2014 and thereafter (Pillar 2 had been applied up to 2013).
 - 4 Capital adequacy ratio = (Total net assets - Noncontrolling interests)/Total assets at fiscal year-end.

Review of the Fiscal Year

Financial Summary

3 banks' total			
(Billions of yen)			
For the fiscal years ended March 31,	2017	2018	Comparison
Gross business profit	175.4	174.3	(1.1)
Net interest income	149.7	152.5	2.8
Net fees and commissions	19.4	21.9	2.5
Net trading income	0.0	0.0	(0.0)
Net other operating income	6.2	(0.1)	(6.3)
Overhead expenses	101.5	101.6	0.0
Business profit*1	86.3	72.7	(13.5)
Core business profit*2	71.3	74.4	3.1
Total credit cost*3	(1.6)	(3.0)	(1.4)

Consolidated			
Ordinary profit	(34.4)	71.6	106.1
Net income (loss) attributable to owners of the parent	(54.3)	49.4	103.7

Note "()" denotes minus.

*1 Business profit Gross business profit – Overhead expenses – Transfer to general reserve for possible loan losses

*2 Core business profit Business profit + Transfer to general reserve for possible loan losses – Gains (losses) on sales (redemptions) of bonds

*3 Total credit cost Transfer to general reserve for possible loan losses + Credit cost for specific problem loans

Core business profit (3 banks' total) increased ¥3.1 billion from a year earlier to ¥74.4 billion mainly due to increases of net interest income and net fees and commissions.

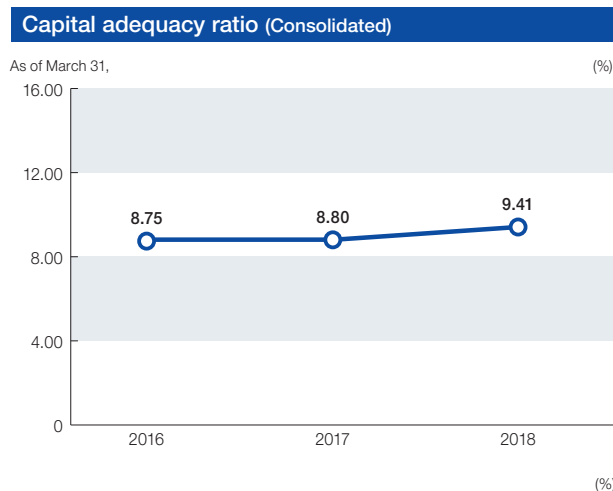
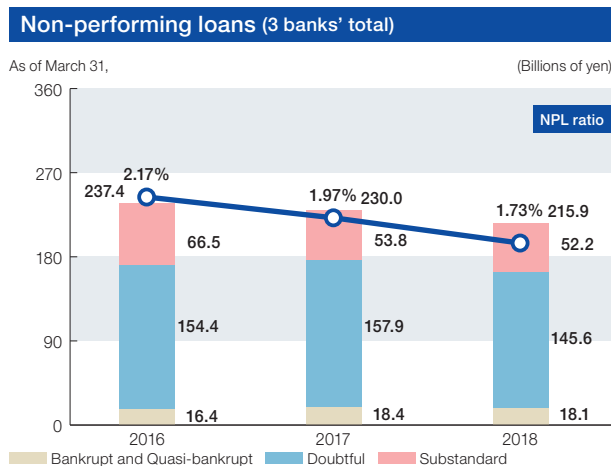
Consolidated ordinary profit increased ¥106.1 billion from a year earlier to ¥71.6 billion mainly due to a decrease of credit cost and the removal of ¥94.8 billion one-time goodwill amortization burden.

As a result, net income attributable to owners of the parent increased ¥103.7 billion from a year earlier to ¥49.4 billion. (It increased ¥8.9 billion from a year earlier, excluding ¥94.8 billion one-time goodwill amortization.)

(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2017	2018	Comparison	2017	2018	Comparison	2017	2018	Comparison
For the fiscal years ended March 31,									
Gross business profit	129.5	127.3	(2.2)	19.1	19.5	0.5	26.8	27.5	0.7
Net interest income	107.9	110.9	3.0	17.7	17.7	(0.1)	24.0	23.9	(0.1)
Domestic	101.3	103.5	2.2	17.7	17.6	(0.1)	23.9	23.8	(0.1)
International	6.6	7.4	0.8	0.1	0.1	(0.0)	0.1	0.1	(0.0)
Net fees and commissions	15.1	16.6	1.5	1.4	1.8	0.4	3.0	3.5	0.5
Net trading income	0.0	0.0	(0.0)	–	–	–	–	–	–
Net other operating income	6.5	(0.2)	(6.7)	(0.1)	0.0	0.1	(0.2)	0.1	0.3
Overhead expenses	67.7	67.6	(0.1)	13.9	13.9	(0.0)	19.9	20.0	0.1
Business profit	73.2	60.4	(12.8)	4.3	5.6	1.3	6.9	7.5	0.6
Core business profit	58.9	61.3	2.4	5.2	5.6	0.4	7.2	7.5	0.4
Ordinary profit	60.1	57.0	(3.1)	2.7	6.5	3.8	9.4	11.2	1.8
Net income	44.2	40.4	(3.7)	1.5	5.0	3.5	7.4	8.5	1.0
Total credit cost	(0.4)	1.2	1.7	1.9	(0.8)	(2.8)	(3.1)	(3.4)	(0.2)

Note "()" denotes minus.

Major Financial Indicators



(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2017	2018	Comparison	2017	2018	Comparison	2017	2018	Comparison
As of March 31,									
NPL ratio (Direct write-off is adopted)	1.77	1.61	(0.16)	2.90	2.32	(0.58)	2.48	1.96	(0.52)
Capital adequacy ratio	8.87	9.03	0.16	9.80	9.70	(0.10)	8.80	9.26	0.46

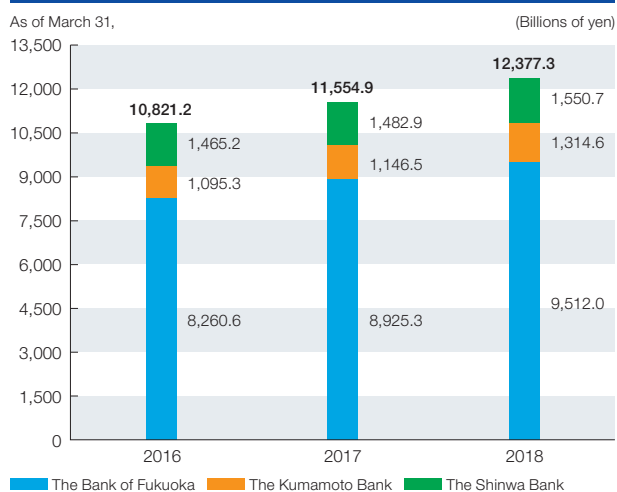
Notes: 1 "()" denotes minus.

2 Only the capital adequacy ratios of the Bank of Fukuoka listed a consolidated basis.

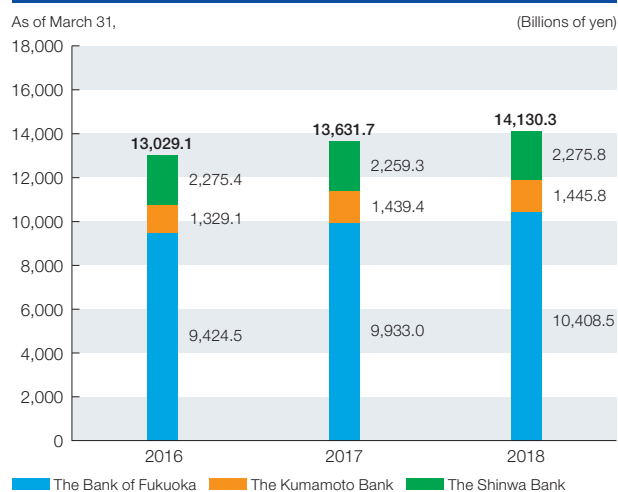
3 Capital adequacy ratio is calculated based on Pillar 3 (domestic standard).

Loans and Deposits

Balance of loans (3 banks' total, balance at year-end)



Balance of deposits and CDs (3 banks' total, balance at year-end)



Loans (Non-consolidated)

(Billions of yen)

As of March 31,	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2017	2018	Comparison	2017	2018	Comparison	2017	2018	Comparison
Total	8,925.3	9,512.0	586.6	1,146.5	1,314.6	168.0	1,482.9	1,550.7	67.7
Personal	2,214.5	2,227.7	13.2	434.9	455.6	20.6	455.0	457.6	2.6
General corporate	5,426.6	5,651.4	224.7	604.0	605.1	1.1	804.5	794.2	(10.2)
Public sector	1,284.1	1,632.8	348.6	107.5	253.8	146.2	223.4	298.8	75.3
Personal loans	2,145.7	2,156.4	10.6	412.3	431.1	18.8	442.8	445.8	3.0
Housing loans	1,924.8	1,921.4	(3.3)	377.3	392.8	15.4	387.1	389.4	2.2
Consumer loans	165.6	184.3	18.6	27.7	30.4	2.7	41.4	43.0	1.6

Deposits (Non-consolidated)

(Billions of yen)

As of March 31,	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2017	2018	Comparison	2017	2018	Comparison	2017	2018	Comparison
Total	9,641.3	10,183.1	541.7	1,426.4	1,424.0	(2.3)	2,168.1	2,212.6	44.5
Personal	6,656.3	6,921.0	264.6	1,064.4	1,066.8	2.3	1,447.7	1,475.2	27.4
Corporate (including Public)	2,985.0	3,262.0	277.0	361.9	357.2	(4.7)	720.3	737.4	17.0
Deposits and CDs	9,933.0	10,408.5	475.5	1,439.4	1,445.8	6.4	2,259.3	2,275.8	16.5

Credit Ratings

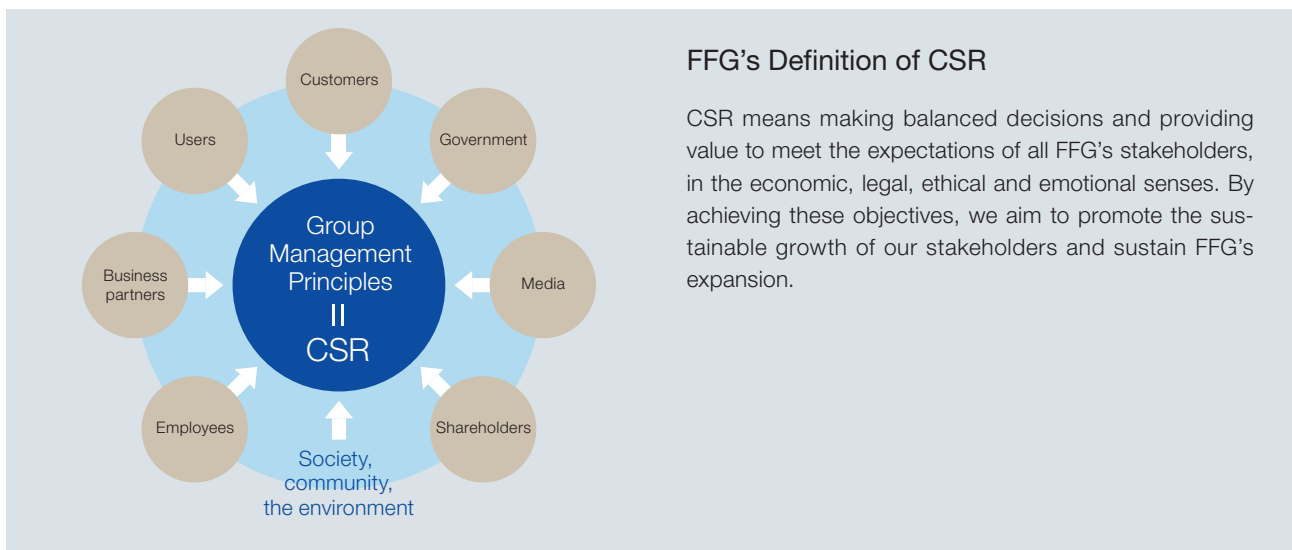
		Fukuoka Financial Group	The Bank of Fukuoka	The Kumamoto Bank	The Shinwa Bank
Moody's Investors Service	Long-term	—	A3	—	—
	Short-term	—	P-2	—	—
Rating and Investment Information, Inc. (R&I)	Long-term	A+	AA-	A+	A+
	Short-term	a-1	—	—	—
Japan Credit Rating Agency, Ltd. (JCR)	Long-term	A	A+	A	A
	Short-term	J-1	—	—	—

CSR Measures

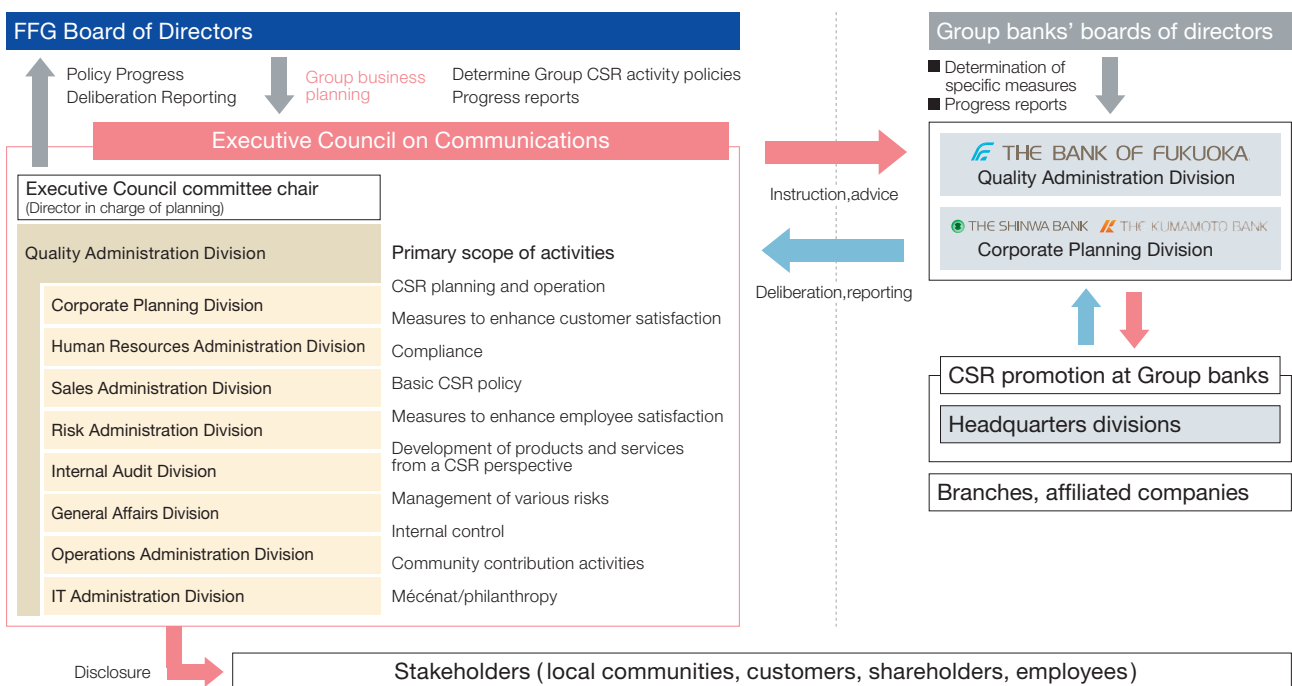
The Fukuoka Financial Group's concept of CSR lies in the belief that it can achieve sustainable growth for the Company and society by forging stronger relationships with stakeholders (customers, shareholders and employees). Accordingly, our corporate management initiatives aim to strengthen compliance and risk management, thereby pursuing a host of shareholder-oriented initiatives.

Also implementing FFG's Group Management Principles is the same as business activities, and this is our CSR, as we work to maintain the trust that

local society has invested in us as a regional financial institution, facilitate financing and serve the "public function" of contributing to the development of a sound regional economy. In this manner, we aim to fulfill our role and leverage our characteristics as a regional financial group as we strive toward the realization of a sustainable society. We work toward this end by operating in fields in which we can contribute the most to society and introduce various reforms and pursue activities designed to help create value.



FFG's CSR Management and Promotion Structure



The basis of FFG's CSR activities is to instigate proactive, sustained action on social issues and demands.

Specifically, FFG has established "Three Activity Areas" and "Three Activity Layers" as its action policies. The Three Activity Layers, which are "Promotion of environmental harmony," "Lifelong learning support" and "Universal action," describe priority categories. FFG strives to achieve a balance between these and its Three

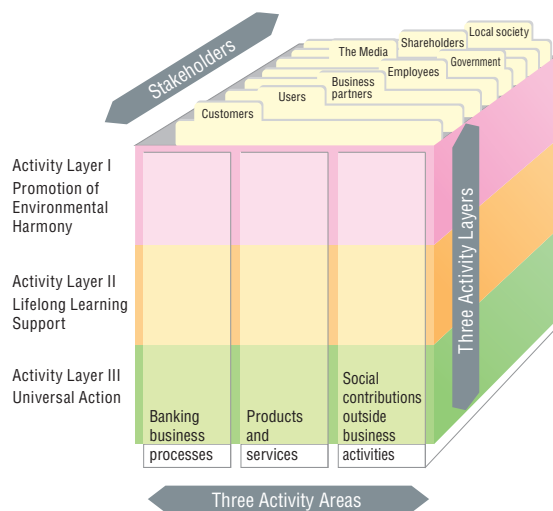
Activity Areas, "Banking business processes," "Products and services" and "Social contributions outside business activities," while conducting a host of activities.

Through its CSR activities, FFG seeks to leverage its role and characteristics as a "broad area-based financial group," working to be a good corporate citizen and a good corporate member, as it takes on the challenges of transforming society and creating new value.

The CSR Cube

Combining Three Activity Areas and Three Activity Layers

We are rising to the challenges of social innovation and new value creation through the development of balanced CSR management, which means the optimal combination of Three Activity Areas and Three Activity Layers.



Three Activity Areas

1. CSR in banking business processes

Measures that extend through all banking business, such as corporate governance, compliance and various forms of risk management and information disclosure, to establish and improve frameworks that form the basis of corporate management, and recruitment of staff and activities to reduce the Group's environmental impact

2. CSR in products and services

Activities and financial business for the development and provision of socially aware products and services utilizing the financial functions of the bank

3. CSR through social contributions outside business activities

Measures that contribute to resolving social issues by employing management resources, such as voluntary and cultural activities, with little direct relationship to the Group's banking businesses

Three Activity Layers

Activity Layer I: Promotion of Environmental Harmony

Environmental issues with global impacts are also important for the regions with which FFG coexists. The Group is striving to restrict and reduce its environmental impact and is actively providing stakeholders with products and services that contribute to environmental preservation.

Activity Layer II: Lifelong Learning Support

We support lifelong learning by spreading financial knowledge appropriate for all people throughout their lives, which includes shaping the sensibilities and qualities of the children who will lead the next generation.

Furthermore, as a corporate citizen we conduct various corporate educational activities.

Activity Layer III: Universal Action

Adhering to the slogan "kind to all," we conduct activities to develop universal design, functionality and services that are user friendly for the elderly, the physically challenged, children and women. We take this action in our branches and other facilities, in our products and services, and in the responses of all our employees.

CSR Measures

Promotion of Environmental Harmony

We plan to continue addressing environmental issues both by reducing our own environmental impact and by making an aggressive effort to offer products and services that leverage the roles and functions of financing to contribute to environmental preservation.

Environmental Initiatives

In April 2009, FFG formulated a groupwide environmental policy. We are addressing environmental problems by working to restrict or reduce its environmental impact. At the same time, we proactively provide products and services that leverage financial roles and functions to promote environmental preservation.

FFG Eco-Loan Financing Based on Environmental Rating

FFG conducts its own environmental ratings to determine the environmental consideration of the management of its corporate customers. Based on these ratings, at the three Group banks we are promoting FFG Eco-Loans—financing products wherein preferential interest rates are according to rating.

Ecological Movement

To reduce electricity consumption, FFG has introduced a voluntary electricity-saving program and holds reduced-lighting events.

Lifelong Learning Support

Supporting People’s Lives through Finance

FFG holds a wide range of seminars designed to help people gain accurate financial knowledge. We conduct mostly free lectures on a host of themes, including housing, pensions and insurance. In FY2017, FFG held events where elementary school and high school students learned about money and the importance of asset management.



Money seminar for students

The Four Pillars of FFG’s Environmental Policy

1. Ongoing EMS implementation

To establish targets for regional environmental protection and to achieve these objectives through concrete activities
To evaluate activities and carry out requisite revisions in pursuit of ongoing EMS improvements

2. Environmental endeavors through FFG’s businesses

To strive to contribute to local communities through business-based environmental activities

3. Implementation of environmentally considerate activities

To work to reduce the burden on the environment through energy-conservation and resource-saving measures and social contribution activities that consider environmental protection

4. Thorough environmental communications targeting all FFG executives and employees

To raise awareness of this policy among all the Group’s executives and employees, encouraging them to think about environmental problems, act voluntarily and carry out improvement activities



Shift to eco-friendly offices (Solar power generation)



Agricultural Support

Initiatives Targeting the Children Who Will Lead the Next Generation

FFG provides learning opportunities that aim to enhance an abundance of sensitivity and aid development among next-generation children. In FY2017, with the cooperation of U.S. Consulate Fukuoka, FFG offered an endowed course for students of local universities under the theme of “Global Leadership,” as part of its efforts to develop human resources.

And we also organize a wide range of workplace experience programs suitable for different age groups. In order to provide learning opportunities and invaluable experiences through the job, we invite students to our internship for university students and job showing program for high school students.

Arts, Culture, and Sporting Events

We invite our customers to various events held by FFG, such as sporting events and annual Music festivals, to give people the opportunity to enjoy arts, culture, and athletic activities. As for sporting events, each of the affiliated banks supported the event operation as official sponsors, and contributed to vitalization of regional communities.



Volleyball match for mothers



Kendo tournament

Universal Action

Under the concept of “being kind to all”, we are engaged in initiatives to increase our responsiveness and to enhance our service system with the aim of being a bank that is easy for all people to use, including but not limited to people with disabilities and senior customers.

Three Pillars of Universal Action

“Hard” action

Branch facilities and various functions

“Soft” action

Actions and services aiming “To be your Bank of choice”

“Human” action

Customer responsiveness and contribution to the regional community

“Hard” Action

FFG has rebuilt and refurbished its facilities in line with the idea of making the bank “easy for all people to use”. We have also allocated wheelchairs, hearing aids, communication boards, and various other types of assistance tools at all branches.

In addition to multilingual support (English, Chinese, Korean), International ATM Service (withdrawal for cards issued abroad) is introduced mainly in same sightseeing spots for foreigners.



Hearing assistance “Comuoon”

“Soft” Action

We are working to enhance our service structure by improving response capabilities and mastering knowledge and skill. For instance, employees have training of foreign language and sign language, and the customer service managers who have the qualification of second-class service care-fitters are placed in all branches.

FFG recommends acquisition of qualifications of universal manners to employees to deliver superior service quality.



Sign language training



Qualification of services

“Human” Action

Each branch of the three banks develops the activities to contribute to the regions. Specifically, we are involved in participating in regional events, clean-ups, volunteering to lead the communication activation.

Approximately 1,300 employees of FFG engaged in volunteer activities, including removal of sediment and clearing of rubble, in the areas affected by the July 2017 Northern Kyushu Heavy Rainfall. We are working on activities to aid natural disaster recovery.



Volunteering in disaster area



Clean-up activity

Members of the Board



Chairman of the Board



Masaaki Tani

President & Executive Officer



Takashige Shibato

Deputy President & Executive Officer



Takashi Yoshikai

Directors & Executive Officers



Yasuhiko Yoshida



Yuji Shirakawa



Eiji Araki



Koji Yokota



Ei Takeshita



Masayuki Aoyagi



Syunsuke Yoshizawa



Yasuaki Morikawa

Directors (External)



Masahiko Fukasawa



Toshiya Kosugi

Audit & Supervisory Board Members



[Full-time]
Hidemitsu Ishiuchi

Audit & Supervisory Board Members (External)



Fumihide Sugimoto



Hideo Yamada

THE BANK OF FUKUOKA, LTD.

Director & Chairman of the Board
Masaaki Tani

Director & President
Takashige Shibato

Director & Deputy President
Takashi Yoshikai

Director & Deputy President
Yasuhiko Yoshida

Director & Deputy President
Yuji Shirakawa

Director & Senior Managing Executive Officer
Eiji Araki

Director & Senior Managing Executive Officer
Koji Yokota

Director & Managing Executive Officer
Shinichi Oba

Director & Managing Executive Officer
Yuji Tanoue

Director [Non-Executive]
Masahiko Fukasawa

Director [Non-Executive]
Toshiya Kosugi

Audit & Supervisory Board Member [Full-time]
Naohiko Gondo

Audit & Supervisory Board Member [External]
Masayoshi Nuki

Audit & Supervisory Board Member [External]
Kazuyuki Takeshima

THE KUMAMOTO BANK, LTD.

Director & President
Ei Takeshita

Director & Deputy President
Masayuki Aoyagi

Director & Senior Managing Executive Officer
Hiroshi Kawanami

Director & Managing Executive Officer
Toshimi Nomura

Director & Managing Executive Officer
Minoru Ikeda

Director & Managing Executive Officer
Yasuhiro Yonemura

Director [Non-Executive]
Yuji Shirakawa

Audit & Supervisory Board Member [Full-time]
Noritsugu Iwashita

Audit & Supervisory Board Member [External]
Mineo Nakayama

Audit & Supervisory Board Member [External]
Makoto Fukushima

THE SHINWA BANK, LTD.

Director & President
Syunsuke Yoshizawa

Director & Deputy President
Yasuaki Morikawa

Director & Senior Managing Executive Officer
Kazuki Ishino

Director & Managing Executive Officer
Mikito Tanaka

Director & Managing Executive Officer
Kousuke Yaoki

Director & Managing Executive Officer
Kazuhiro Tamenaga

Director & Managing Executive Officer
Satoru Fukushima

Director [Non-Executive]
Yasuhiko Yoshida

Audit & Supervisory Board Member [Full-time]
Yusuke Miyazaki

Audit & Supervisory Board Member [External]
Satoru Tateishi

Audit & Supervisory Board Member [External]
Taro Nagamoto

Corporate Governance

FFG's Corporate Governance Framework

To demonstrate in a timely and appropriate manner its functions as a holding company (business management of subsidiary banks and group companies), including the strengthening of the governance system of the Group

as a whole, preservation of the risk control system and creation of an internal management system, FFG shall operate under the following management and business organization framework.

Corporate Governance Overview

Board of Directors, Directors
The number of directors shall be 14 or less (including external Directors), and these Directors shall make decisions regarding matters stipulated by laws, ordinances and articles of incorporation, as well as discussions/decisions on basic guidelines related to group management and important matters concerning business management of subsidiary banks, business affairs of the Group and so on.

Audit & Supervisory Board, Audit & Supervisory Board Members
The number of Audit & Supervisory Board Members shall be five or less, and in addition to conducting audits of Director job performance, Audit & Supervisory Board Members shall work in close coordination with the Internal Audit Division and the accounting auditors and conduct audits regarding the status etc. of business conditions and assets of the Group as a whole. In addition, the Board of Audit & Supervisory Board Members shall report, discuss and make decisions regarding basic guidelines concerning audits of the Group as a whole, audit planning, audit methods and other important matters related to auditing.

Office of Audit & Supervisory Board Members
To enable the Audit & Supervisory Board system to function efficiently, staff will be exclusively designated to support the Audit & Supervisory Board Members.

Group Management Conference
Based on basic guidelines stipulated and matters entrusted by the Board of Directors, the Group Management Committee shall discuss important matters related to business and affairs of the Group, including group management and operational planning.

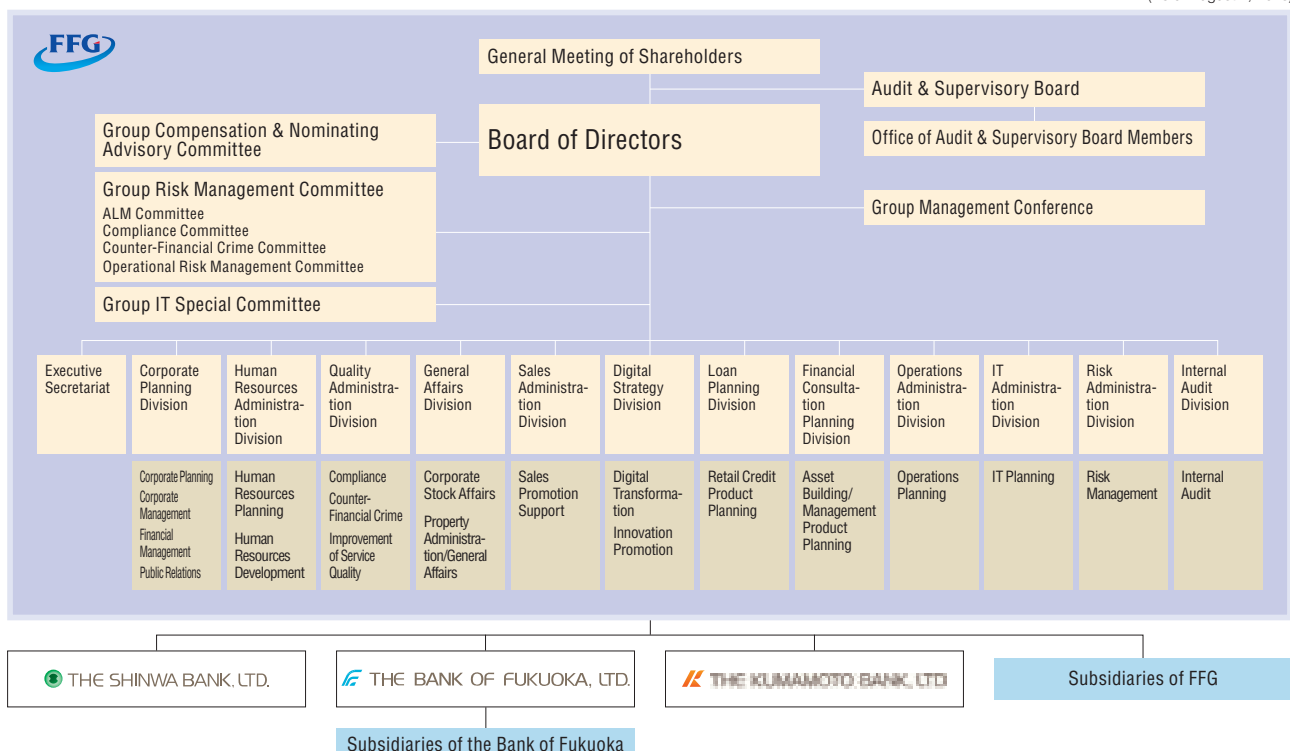
Group Risk Management Committee
In addition to carrying out discussions concerning each of the risk management systems of the Group as a whole, the Group Risk Management Committee shall discuss and report on matters related to asset portfolio management, compliance and counter-financial crime management.

Group IT Special Committee
To strengthen the IT governance system of the Group as a whole, the Group IT Special Committee shall discuss matters related to IT strategy, system risk management and investment in IT system.

Group Compensation & Nominating Advisory Committee
To enhance transparency and fairness of our group management, the Group Compensation & Nominating Advisory Committee, an advisory body to the Board of Directors, shall discuss matters related to the appointment / dismissal and the compensation of directors.

Corporate Governance Framework

(As of August 1, 2018)



Major Initiatives for Enhancement of Corporate Governance

- 2007 Two external Directors were elected
- 2014 The Chairman, who chairs the Board of Directors, was separated from business execution and became a non-executive Director
- 2015 The Compensation & Nominating Advisory Committee was established
Our Corporate Governance Guidelines were formulated and announced
(please access FFG's website: https://www.fukuoka-fg.com/en/company/data/20160606_governance.pdf)

Status of Operation of the Board of Directors

The Board of Directors meeting was held 13 times in FY2017, attended by multiple independent external Directors and Audit & Supervisory Board Members. In addition to matters specified in laws and regulations and the articles of incorporation, basic policies pertaining to

Group management were discussed and determined. Decisions were made on important matters mainly concerning business administration and execution at Group companies, and execution of duties by Directors and Executive Officers were supervised.

Attendance Record of the external Directors at the Board of Directors

Name	Tenure	Attendance	Expressed Opinions
Masahiko Fukasawa (Director)	Since June 2016	100%	He makes remarks based on a wealth of business experience and expertise in consultation on corporate management strategies, business revitalization, etc.
Toshiya Kosugi (Director)	Since June 2017	100%	He makes remarks based on a wealth of business experience and expertise in organizational reform and development and management of human resources.
Fumihide Sugimoto (Audit & Supervisory Board Member)	Since June 2012	100%	He expresses opinions based on extensive experience as an attorney-at-law and advanced capabilities, insight, etc. concerning legal affairs in general.
Hideo Yamada (Audit & Supervisory Board Member)	Since June 2015	100%	He expresses opinions based on advanced capabilities and insight concerning corporate management strategies, finance and accounting.

Evaluation of Effectiveness of the Board of Directors as a Whole

The Fukuoka Financial Group Corporate Governance Guidelines(Article11) stipulates that the Board of Directors of the Company shall analyze and evaluate the effectiveness of the Board as a whole on an annual basis and regularly disclose the results of the evaluation.

The method and results of evaluation of the effectiveness of the Board of Directors as a whole for FY2017 are as follows.

[Evaluation method]

The evaluation was implemented by following the method (procedures) described below.

- 1) Conducted a questionnaire to evaluate the effectiveness of the Board of Directors with each Director, Audit & Supervisory Board Member and some Executive Officers;
- 2) Additionally conducted interviews with external Members of the Board to collect a wider range of opinions; and
- 3) Based on the results of 1) and 2), analyzed and evaluated the effectiveness of the Board of Directors as a whole, and implemented sharing of awareness on issues, discussions on improvement measures, etc.

The evaluation method in general and the details of the questionnaire were decided based on a review from the objective perspective of external experts.

[Results of the evaluation (summary)]

1. Overall evaluation
 - We verified that the Board of Directors was properly operated pursuant to the Corporate Governance Guidelines and that the effectiveness of the Board of Directors as a whole is ensured.

2. Update on improvement measures on issues in the prior year evaluation

- Based on the issues pointed out in the prior year evaluation, measures were taken including the revision of the agenda for meetings such as the Management Conference and the Board of Directors. As a result, we verified that discussions among Directors were further revitalized.
- To enable external Members of the Board to further demonstrate their insight, we provide opportunities for them to have free discussions under various themes with each executing department and the President every month. It enables executing departments to obtain expert advice, and external Members of the Board are able to share diverse in-house issues. As a result, discussions at the Board of Directors and others become productive.

3. Sharing of awareness on issues and improvement measures

- We shared the awareness that it is important to enhance discussions on medium- to long-term strategies more than ever toward the Group's further sustainable growth and improvement of corporate value in the future.
- We also confirmed that we will focus on organizing matters to be reported to further facilitate the sharing of principal themes and issues of each executing department among Directors and others as well as on efforts including early provision of agenda materials through tablets that have been introduced following the shift to paperless meetings.
- Through these initiatives, we will further deepen discussions at the Board of Directors and thereby improve the effectiveness of the Board of Directors.

Roles and Functions of the Group Compensation & Nominating Advisory Committee

Establishment of Group Compensation & Nominating Advisory Committee

1. The Board of Directors shall set up the Group Compensation & Nominating Advisory Committee (hereinafter referred to as "Advisory Committee") as an optional advisory body to deliberate on the compensation and election/dismissal of Directors of the Company and of the subsidiary banks.
2. The Advisory Committee shall be an advisory body of the Company's Board of Directors.

Composition of Advisory Committee, etc.

1. The number of members of the Advisory Committee (hereinafter referred to as "Advisory Member") shall be 7 or less, and the Advisory Members shall be elected from among Directors or Audit & Supervisory Board Members of the Company by a resolution of the Board of Directors. The majority of Advisory Members shall be External Directors or External Audit & Supervisory Board Members.
2. A Chairperson of the Advisory Committee shall be appointed from among Advisory 9 Members by a resolution of the Board of Directors.

Roles of Advisory Committee

1. For the following matters, the Board of Directors may seek advice from the Advisory Committee and the Advisory Committee shall respond to the Board of Directors:
 - ① Matters related to the election and dismissal of Directors, Audit & Supervisory Board Members, and Executive Officers of the Company and of the subsidiary banks.

- ② Matters related to the appointment and removal of Representative Directors, Managing Directors and Managing Executive Officers of the Company and of the subsidiary banks.
 - ③ Matters related to the compensation of Directors and Executive Officers of the Company and of the subsidiary banks.
 - ④ Matters related to the compensation of Audit & Supervisory Board Members of the Company and of the subsidiary banks.
 - ⑤ Other matters deemed necessary by the Board of Directors. For matters related to the subsidiary banks and those related to Audit & Supervisory Board Members, responses from the Advisory Committee shall be forwarded to the Board of Directors and Audit & Supervisory Board of the subsidiary banks.
2. Final responses to advisory matters set forth in the preceding item shall be valid with the majority vote of the Advisory Committee attended by the majority of Advisory Members.
 3. Notwithstanding the provision of the preceding item, if Advisory Members propose a draft on a response to the advisory matters set forth under Item 1, and all Advisory Members show agreement to the proposal either in writing or by electromagnetic record, that would suffice for the resolution by the Advisory Committee and that proposal should be deemed final.

Number of Members	7	Internal		External	
		Directors		Directors	Audit & Supervisory Board Members
		3		2	2

* The Chairman is an internal Director.

Policies on Determining Compensation and Outcome

Policies on Determining Compensation for Directors, etc.

1. A system of compensation for Directors and Executive Officers of the Company and of the subsidiary banks (hereinafter referred to as "Compensation for Directors") shall be set appropriately so that it serves as a healthy incentive for Directors and Executive Officers, which would eventually lead to the sustainable growth of the Group.
2. Compensation for Directors shall be determined in overall consideration of the roles and responsibilities

of each Director and Executive Officer, in addition to considering the Company's mid to long-term business performance and economic and social conditions.

3. The Group Compensation & Nominating Advisory Committee shall, in response to the consultation from the Board of Directors, deliberate on Compensation for Directors based on the policies above, and the Board of Directors shall make final decisions with full respect for the Committee's deliberation.

	Total amount of compensation (millions of yen)	Total amount of compensation		Number of persons
		Base	Others	
Directors	643	540	103	11
Audit & Supervisory Board Member	20	20	—	1
External	39	36	2	5

Compliance Measures

Trust is the most important asset of a financial institution. Accordingly, compliance is a crucial theme for a financial institution. FFG considers compliance to be one of its most vital management issues, and strives to reinforce its compliance framework.

Specifically, FFG, the Bank of Fukuoka, the Kumamoto Bank and the Shinwa Bank have each established their own compliance administration departments, which work in cooperation with related departments to take appropriate measures to check that business is conducted in accordance with all laws, ordinances and social norms. We have formulated a Compliance Charter, which expresses the basic values, mindset and behavior standards adopted throughout the Group toward compliance, and a Compliance Manual compiling ethical provisions, in-house regulations, laws and other pertinent legislature. These are publicized groupwide

through training, instruction and other activities.

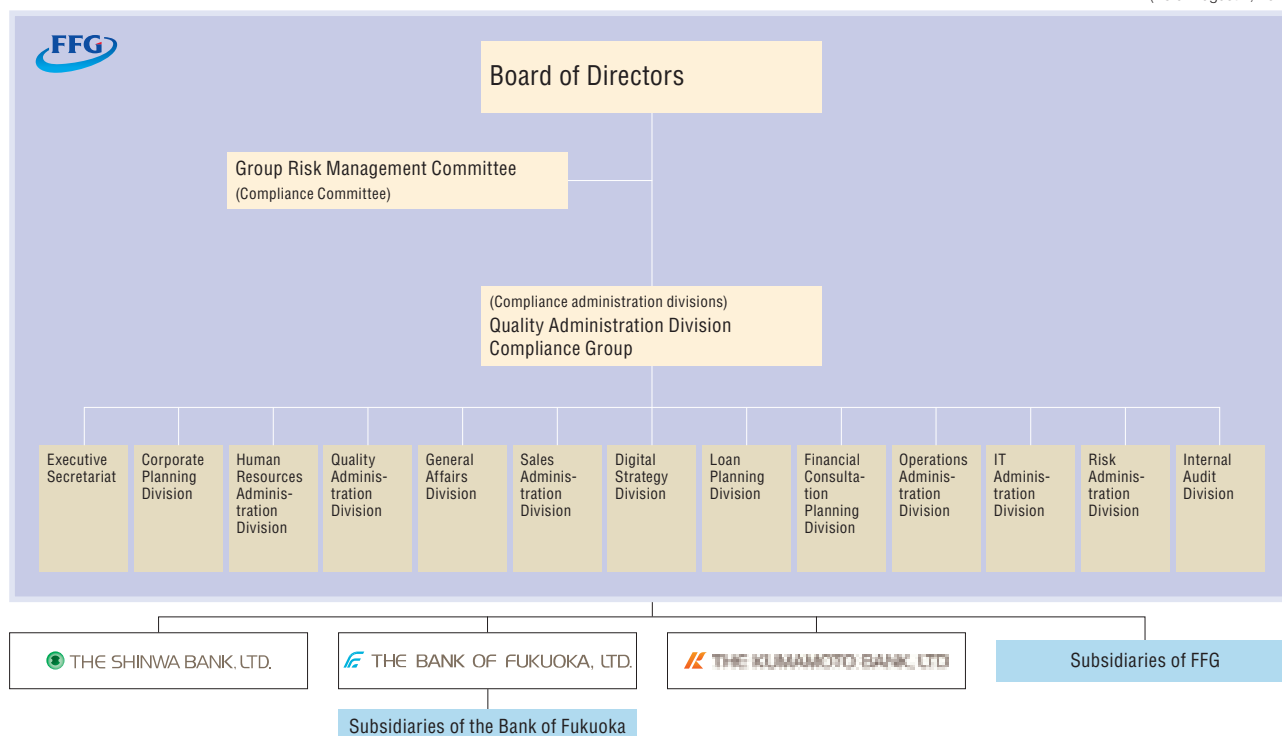
Furthermore, we have formulated a Customer Protection Management Policy to protect customers' legitimate interests and increase their convenience and are enhancing our customer protection management structure.

FFG has established a Compliance Committee as a subcommittee of the Board of Directors to periodically assess and monitor the compliance framework. We also formulate a Compliance Program for each fiscal year as a practical plan for sustained implementation of compliance measures. FFG is endeavoring to fortify its organization and regulations with regard to compliance.

FFG will continue to improve its compliance to gain the further trust and support of its customers and shareholders.

FFG's Compliance Framework

(As of August 1, 2018)



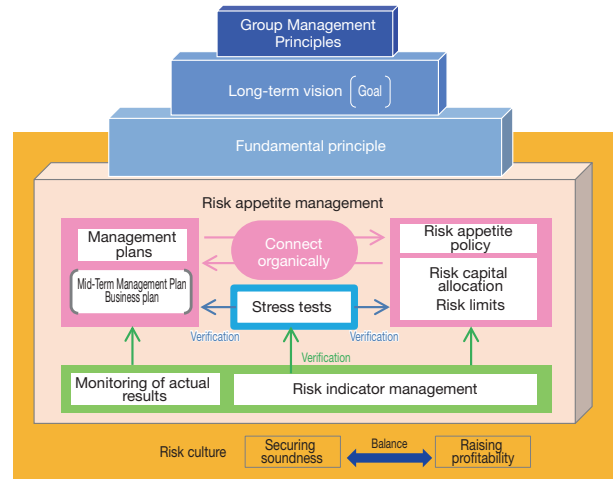
Risk Appetite Framework

Overview of Risk Appetite Framework

Financial institutions receive profits in exchange for taking on various risks that arise from businesses, etc., including credit risk on loans and market risk on securities investment.

FFG defines the types and amount of risk taken on voluntarily with the aim of achieving management goals as “Risk appetite.” With this risk appetite as the starting point, we introduced the “Risk Appetite Framework” to conduct business management and risk management.

Through establishing the Risk Appetite Framework, our stance towards risk-taking is clarified, which enables FFG to pursue more opportunities for profit, and to conduct more appropriate risk control.

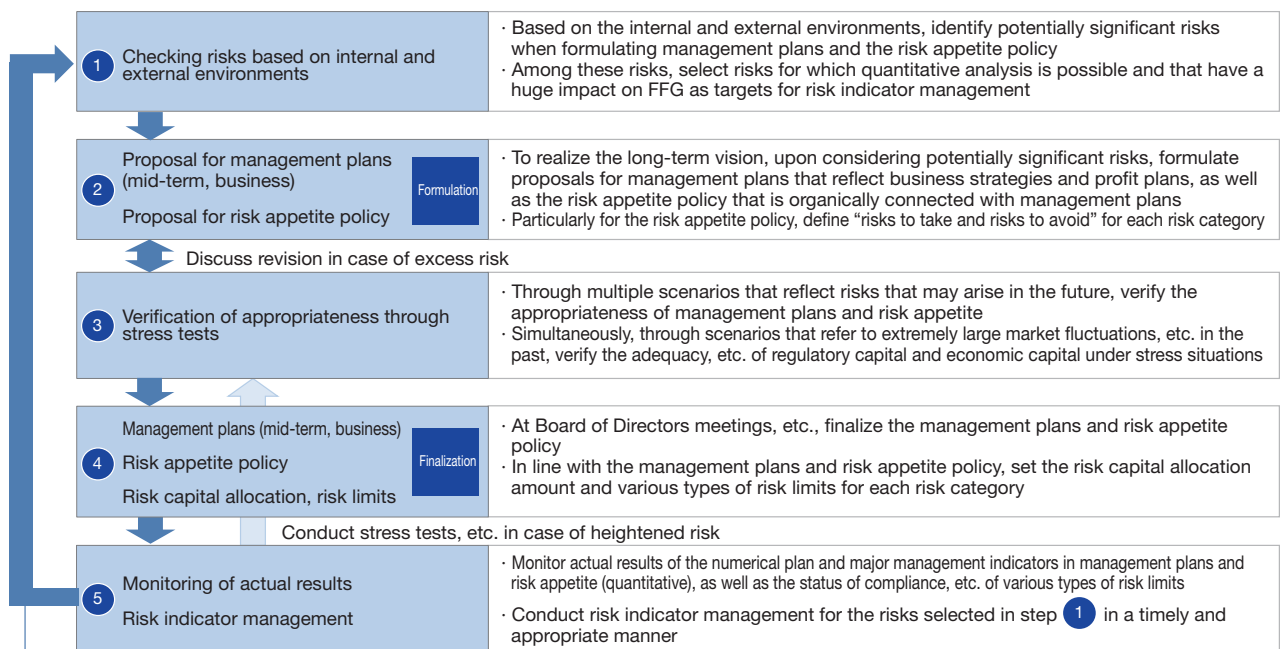


Process of Risk Appetite Management

When formulating management plans and the risk appetite policy, FFG identifies potentially significant risks beforehand, and conducts the selection of material risks.

Management plans and the risk appetite policy are formulated and finalized in consideration of potentially significant risks that have been identified. They are formulated with organic connection and finalized after their appropriateness has been verified by stress tests.

During the fiscal year, besides checking the management status in line with the risk appetite through the monitoring of actual results, FFG conducts risk indicator management for material risks.



Based on issues that arise in risk appetite management, discuss and formulate management plans and the risk appetite policy for the next fiscal year

Risk Appetite Policy

The risk appetite policy specifies strategies regarding risk-taking and defines “risks to take and risks to avoid” in each of the five risk categories.^(*)

The risk appetite policy consists of “Fundamental principle,” which specifies the fundamental principle for risk-taking in each risk category, and “Risk appetite (qualitative and quantitative),” which specifies specific risk-taking methods and the quantitative levels thereof.

*Refers to: 1) Comprehensive risk, 2) Market risk, 3) Credit risk, 4) Liquidity risk, 5) Operational risk

Risk Capital Allocation and Risk Limits

FFG operates a risk capital allocation system within the framework of its comprehensive risk management, and controls the total amount of risk within the scope of its capital.

Please refer to page 35 for more details on comprehensive risk management.

The risk limit (maximum amount of risk, maximum amount of loss, etc.) for each risk is set to be consistent with the risk capital allocation system. Furthermore, some of the risk limits are incorporated as indicators of risk appetite (quantitative).

Stress Tests

Amid drastic changes in the external environment surrounding financial institutions, FFG positions stress tests as an effective method of evaluating the sustainability of its business model.

FFG conducts multiple types of stress tests, striving to strengthen its responsiveness to each type of risk. Specifically, through multiple stress scenarios that reflect deteriorating risks including credit risk and market risk that may arise in the future, FFG verifies the appropriateness of its management plans and risk appetite. Through scenarios that refer to extremely large market fluctuations, etc. in the past, FFG verifies the adequacy of regulatory capital and economic capital under stress situations.

Monitoring of Actual Results

FFG monitors actual results of the numerical plan and major management indicators in management plans and risk appetite (quantitative), as well as the status of compliance, etc. of various types of risk limits. If there is a large divergence from the limit, countermeasures are discussed and implemented as necessary based on an investigation of the causes.

Risk Indicator Management

Among potentially significant risks identified, FFG conducts risk indicator management on risks for which quantitative analysis is possible and that have a material impact on FFG. Specifically, utilizing risk heat maps, etc. which comprise various quantitative indicators such as production and employment-related indices and expected inflation rate, FFG conducts initiatives to capture indicators of risk actualization in the future.

The aims of risk indicator management are: “to swiftly recognize a heightened level of a potentially significant risk for FFG” and “to discuss and implement specific countermeasures at an early stage for risks where the possibility of actualization is high and the impact is large, so as to keep the impact on FFG to a minimum.”

Risk Management

Approach to Risk Management

Although financial deregulation, globalization and the development of IT technologies have expanded business opportunities for banks, they have caused the risks that these institutions face to become more diverse and complex. In this environment, risk management has become increasingly important, embracing recognition, comprehension and analysis of risks and the implementation of appropriate control measures.

FFG, in so far as is possible, applies a uniform yardstick to quantify the diverse risks that arise in the pursuit of its business and, based on comprehensive understanding, aims for management that strikes a balance between maintaining soundness and raising profitability. This is implemented groupwide through the FFG's risk management measures.

Furthermore, FFG aims for horizontal coverage, leveraging its multi-brand triad of the Bank of Fukuoka, the Kumamoto Bank and the Shinwa Bank, with an efficient single-platform business administration system in the implementation of its groupwide management.

With regard to risk management, we employ a variety of advanced risk management procedures and infrastructure, which we deploy groupwide through a common risk management platform.

FFG institutes a Risk Management Policy as a common standard applied within the Group and formulates an annual Risk Management Program, which serves as an action plan. Through this stance, we are reinforcing and upgrading risk management groupwide.

Risk Classifications and Definitions

In so far as is possible, FFG exhaustively deals with risks arising in the execution of its business activities. We differentiate these risks into the following classifications, which we manage in accordance with their respective risk characteristics.

Furthermore, for more effective implementation we carry out ongoing revisions to each risk management method in tune with advances in risk quantification technologies and other developments.

Risk Classifications Targeted for Management

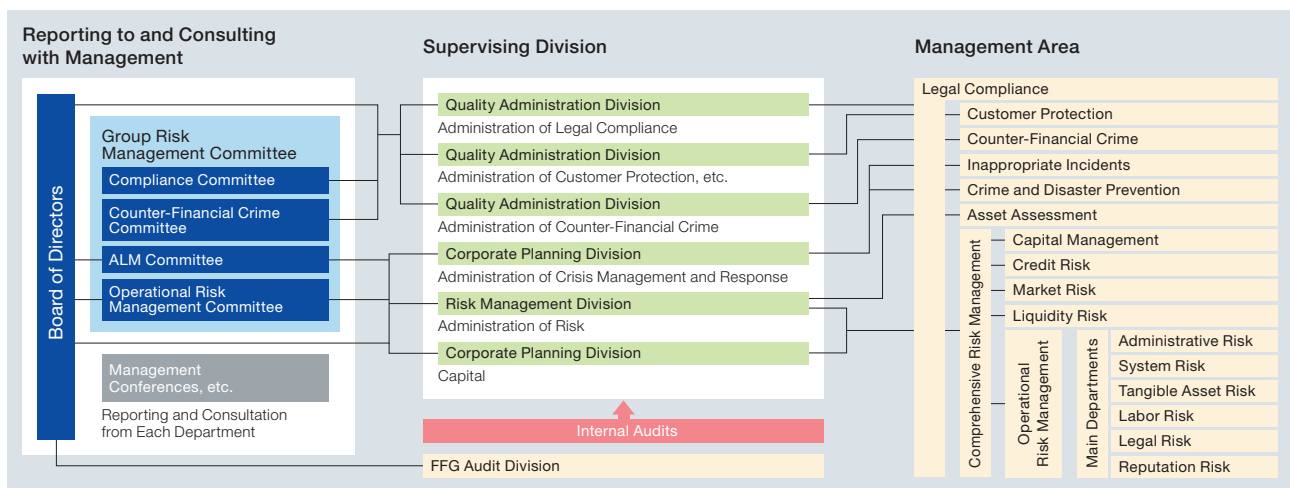
Risk categories	Definitions	Methods
Credit Risk	Risk of losses arising from asset values that have fallen or been erased (including off-balance-sheet assets) by the worsening financial position of obligors	Management by VaR Integrated risk management
Market Risk	Risk of losses arising from variation in the value of held assets and liabilities (including off-balance-sheet assets and liabilities) as a result of fluctuations in market risk factors, such as interest rates, exchange rates and stock prices, or from variation in profits generated by assets and liabilities	
Interest-Rate Risk	Risk of losses arising from declining profits caused by interest-rate fluctuations in the event of mismatched periods for interest rates applicable to assets and liabilities	
Volatility Risk	Risk of losses arising from fluctuations in prices of securities and other instruments	
Exchange-Rate Risk	Risk of losses arising from currency rate fluctuations in the event of a position of excessive assets or liabilities on a net basis for foreign-currency-denominated assets and liabilities	
Operational Risk	Risk of losses arising from inappropriate business mechanisms, activities by executives and employees or systems, or from the impact of external events The following are risk management subcategories.	Management using a fixed quantitative scale Comprehensive risk management
Administrative Risk	Risk of losses arising from failure by executives and employees or other organizational staff (such as part-time and dispatched workers) to perform their duties, from accidents or fraud, or from other similar risks	
System Risk	Risk of losses arising from computer system down time or system deficiencies, from illegal use of computers, or from other similar risks (including risks arising from disasters, social infrastructure accidents and other such mishaps)	
Tangible Asset Risk	Risk of losses arising from damage to tangible assets as a result of accidents, disasters, criminal acts or asset management defects	
Labor Risk	Risk of losses arising from problems with labor practices (problems with treatment of personnel, management of employee duties and union activities), from workplace health and safety environment issues, or risk from employer liabilities caused by claims arising from illegal conduct of executives and employees	
Legal Risk	Risk of losses arising from violations of laws or contracts, forming of improper contracts, and other legal causes	
Reputation Risk	Risk of losses arising from unsubstantiated or untrue rumors among customers or in the market that detract from the Group's reputation, or from risks arising from loss of confidence or obstruction to business operations as a result of public disclosure of improper business administration	Management by qualitative assessment
Liquidity Risk		
Cash Management Risk	Risk of losses arising from difficulties in securing necessary funds as a result of mismatching the period of cash management and procurement or unforeseen cash outflows, or from fund procurement unavoidably carried out at interest rates significantly higher than usual	
Market Liquidity Risk	Risk of losses arising from the inability to carry out transactions due to market disruptions and other factors, or from transactions unavoidably conducted at prices significantly less favorable than usual	

The Risk Management System for FFG and the Group's Banks

FFG has established the Group Risk Management Committee, comprising the holding company and Group banks, to monitor the various risks that the Group faces and to deliberate on risk management measures and policies attuned to changes in the internal and external environments.

In addition, Group banks have founded similar risk management systems that carry out comprehensive risk management for the Group in close cooperation with FFG.

FFG's Risk Management Framework



Comprehensive Risk Management

About Comprehensive Risk Management

Comprehensive risk management makes an integrated assessment of risks that financial institutions face, evaluated for each risk category, by comparison with that financial institution's capital. Categories include credit risk, market risk and operational risk, as well as credit-concentration risk and interest rate risk on bank accounts, which are not considered in the calculation of the regulatory capital adequacy ratio.

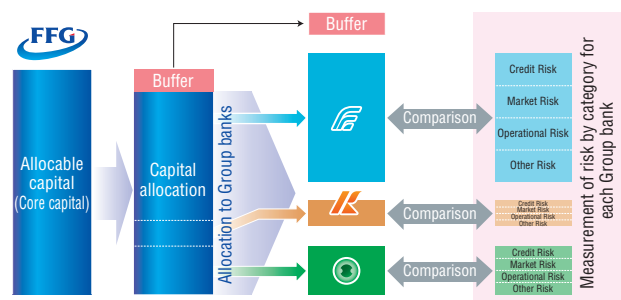
FFG operates a policy of "establishing and upgrading appropriate comprehensive risk management frameworks

that grasp the risk profiles of banks, as the business of financial institutions becomes more diverse and complex, in order to raise efficiency and profitability through the effective use of capital, while maintaining the soundness and appropriateness of banks." Based on this policy, FFG is deploying such universal yardsticks as VaR to measure various risks and, after calculating a total value, carries out comprehensive risk management by comparison with FFG's consolidated capital.

Risk Capital Allocation System

FFG has introduced a risk capital allocation system within the framework of its comprehensive risk management. Specifically, FFG assesses its capital allocation on the basis of FFG consolidated capital (Core capital), maintaining the remainder as a buffer against risks that are difficult to measure. Allocable capital is allocated to the Bank of Fukuoka, the Kumamoto Bank and the Shinwa Bank, respectively.

Framework of the Group Risk Capital Allocation System



Risk Management

Credit Risk Management

Credit risk is the risk of losses arising from asset values (including off-balance-sheet assets) that have fallen or been erased by the worsening financial position of obligors.

This is the main risk category incurred by the Group. In order to post appropriate profits and maintain soundness of assets, credit risk management is one of the most important issues in bank management.

With regard to credit risk management, we apply the Bank of Fukuoka's accumulated credit risk management procedures and expertise via a common platform across the FFG Group. By employing the same rating systems, screening procedures and credit portfolio management

procedures at the Kumamoto Bank and the Shinwa Bank, FFG is developing its management along the lines of a single platform with three brands.

FFG's basic policy on groupwide credit risk management is set out in its Risk Management Policy, which forms the basis for a Credit Policy for each of the Group's three banks. This policy indicates a basic approach covering the judgment and behavior for the appropriate operation of credit businesses.

FFG has also created the Credit Risk Management Program as an action plan for enhancing the groupwide credit risk management framework and strengthening groupwide credit portfolio operations.

Credit Risk Management System

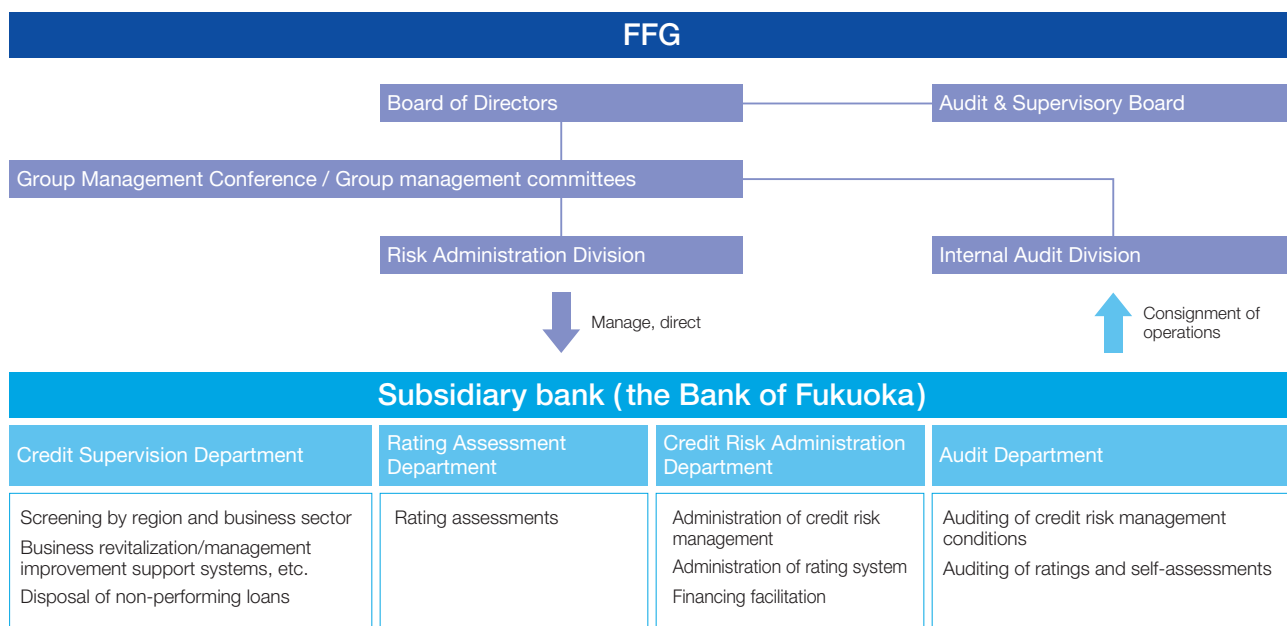
The Credit Risk Management System is centered on the Risk Management Division, which administers the formulation of credit risk management policy and manages the rating systems and credit risk for the Group.

Screening for individual loan applications is conducted by the credit supervision departments of the Group's three banks and rating assessments based on the credit ratings system are chiefly conducted by the rating assessment departments of the Group's three banks, in conjunction with business offices. FFG's Risk Administration Division handles Group-level management of obligors' dealings with banks

within the Group.

FFG's Internal Audit Division audits the soundness of asset content, the accuracy of ratings and self-assessments, and the appropriateness of credit risk management conditions from an independent standpoint based on business trust agreements from the Group's banks.

The division reports its findings to FFG's Board of Directors. The audit departments of the Group's three banks receive audit reports from the FFG's Internal Audit Division and report the audit results to the respective boards of directors.



Obligor Ratings

Obligor ratings express the certainty that an obligor will fulfill its obligations, so are assigned to business corporations based on the scoring of their financial condition and qualitative assessments by bankers who have undergone specialized training. The ratings are reviewed periodically—at least once a year and whenever an obligor’s credit status changes—to enable the timely ascertainment of the conditions of individual

obligors and portfolios.

In addition, obligor ratings are linked to obligor and loan categories based on laws and regulations and are also used in self-assessments, write-offs and loan loss provisions. Accordingly, obligator ratings are ranked as the core of credit risk management.

Correlation among Obligor Rating and Category, Loan Category and Default Category According to the Basel Internal Rating-Based Approach

Obligor Rating			Obligor Category	Loan Category	Default category	
Rating Rank	Risk Level	Definition			Amortization/provision	Basel Internal Rating-Based Approach
1	No risk	Highest level of certainty of debt redemption, and stable	Normal	Normal	Non-default	Non-default
2	Slight risk	Extremely high level of certainty of debt redemption, and stable				
3	Small risk	High level of certainty of debt redemption, and stable				
4	Above average	Adequate level of certainty of debt redemption, but might decline going forward				
5	Average	No problem with certainty of debt redemption in the immediate future, but may decline going forward				
6	Permissible	No problem with certainty of debt redemption in the immediate future, but likely to decline going forward				
7	Below average	No current problem with certainty of debt redemption, but substantial concerns about future declines				
8	Needs attention 1	Apparent problem with debt redemption, and will require care in management	Needs attention	Substandard	Default	Default
9	Needs attention 2	Apparent serious problem with debt redemption, and will require detailed care in management Applies to one of the following: • Obligor with loans past due for three months or more • Obligor with restructured loans				
10	In danger of bankruptcy	Experiencing financial difficulties, with a substantial chance of business failure going forward	In danger of bankruptcy	Doubtful	Default	Default
11	Effectively bankrupt	Not yet in legal or formal bankruptcy, but experiencing business failure in substance	Effectively bankrupt	In bankruptcy or rehabilitation, or in quasi-bankruptcy or rehabilitation		
12	Bankrupt	In legal and/or formal bankruptcy	Bankrupt			

Quantification of Credit Risk

FFG quantifies credit risk based on an internal rating system centered on obligor ratings to rationally ascertain credit risk and ensure efficient application of the capital policy and

credit criteria. We allocate risk capital and manage our credit portfolio on the basis of the results of these calculations.

Framework for Individual Credit Management

In adopting individual loan applications, FFG conducts analysis and assessment from a broad perspective and strives to make precise, rigorous credit judgments by verifying the reasonableness of credit preservation through collateral.

Even after extending credit, we engage in preventive management before loans become delinquent and

work to swiftly and appropriately respond at such time, through follow-up management that includes periodically reviewing the obligor’s business situation, re-assessing its collateral and strengthening management of overdue accounts.

Risk Management

Market Risk Management

FFG's Board of Directors has established a basic policy on market risk management. In light of this basic policy, the Group Risk Management Committee has determined a management policy for market risk, including ALM, as a system for controlling risk groupwide by monitoring the status of policy implementation and risk.

Moreover, FFG's Risk Management Division ascertains and analyzes the market risk conditions and status of market risk management of the Group, based on reporting from the market risk administration divisions of the Group banks. The Group's Risk Management Division provides a framework for

advising the market risk administration divisions of the Group banks on risk management arrangements and periodically reporting to the Board of Directors.

Specifically, the division manages market risk by considering the risk profiles of the Group banks and monitoring the implementation status of various risk limits set by aligning them with risk capital apportioned to the banks. The trading and banking divisions use the common yardstick of VaR for setting such limits on risk.

Note: VaR is the largest loss likely to be suffered on a portfolio position with a given probability.

Liquidity Risk Management

The Board of Directors of the Group has instituted a basic policy on liquidity risk management in the recognition that downplaying liquidity risk could lead to serious problems of business failure and, in turn, the systemic risk of a chain reaction of defaults by financial institutions. In light of this basic policy, the Group's Risk Management Committee has determined a liquidity risk management policy following consultations with the ALM committees of the Group banks, which forms a framework for controlling risk across the Group by monitoring the status of policy implementation and risk conditions.

Furthermore, the Group's Risk Administration Division

ascertains and analyzes the Group's liquidity risk situation and the status of liquidity risk management, based on reporting from the liquidity risk administration divisions of the Group banks. The Group's Risk Administration Division forms a framework for advising the liquidity risk administration divisions of the Group banks on risk management arrangements and periodically reports to the Board of Directors.

Specifically, the division manages liquidity risk by determining management categories according to the status of cash flow at the Group banks, actions to be taken for each category and limits for each type of risk associated with cash flow in consideration of the banks' risk profiles.

Operational Risk Management

Operational risk refers to risks associated with inadequacies in the Group's internal business processes, mistakes by officers or regular employees, and system failures, as well as losses attributable to such external factors as disasters. Operational risk is managed by classification into administrative risk, system risk, tangible assets risk, labor risk, legal risk and reputational risk.

In addition to the expansion of IT networks, diversification of financial products and handling services owing to advancement of financial technology and regulatory easing has increased the possibility of large-scale losses due to clerical errors, misconduct and disasters. Operational risk management is becoming increasingly important in responding to such changes in the operating environment and building a framework for preventive risk management.

The Board of Directors of the Group maintains organizational frameworks and mechanisms for appropriate

management of operational risk. By establishing Operational Risk Management Rules, which stipulate basic regulations for forestalling the manifestation of risks and minimizing the impact in the event of occurrence, and the Operational Risk Management Program, which specifies priority action items for each fiscal year, the Group comprehensively manages operational risk.

In addition, to appropriately designate, assess, understand, manage, and reduce operational risk, we collect and analyze related loss information for realized risks, and for potential risks we use risk and control self-assessments (RCSA: self-assessment on risk and the effectiveness of risk control) to implement appropriate countermeasures. The Group also monitors and controls operational risk in an appropriate and timely manner through the Board of Directors and the Operational Risk Management Committee.

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Independent Auditor's Report

The Board of Directors
Fukuoka Financial Group, Inc

We have audited the accompanying consolidated financial statements of Fukuoka Financial Group, Inc and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fukuoka Financial Group, Inc and its consolidated subsidiaries as at March 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 27, 2018

Fukuoka, Japan

Consolidated Balance Sheet

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 7 and 18)	¥ 4,174,081	¥ 2,880,599	\$ 39,289
Call loans and bills bought (Note 18)	9,661	500	90
Monetary claims bought (Notes 3 and 18)	63,784	49,459	600
Trading assets	1,804	1,701	16
Money held in trust (Note 4)	4,113	10,697	38
Securities (Notes 3, 7, 11, 12 and 18)	3,331,309	3,463,599	31,356
Loans and bills discounted (Notes 5, 7 and 18)	12,230,470	11,428,299	115,121
Foreign exchanges (Note 5)	6,834	10,352	64
Other assets (Note 7)	178,828	127,348	1,683
Tangible fixed assets (Note 6)	196,289	198,460	1,847
Intangible fixed assets	15,564	15,220	146
Net defined benefit assets (Note 10)	33,304	12,671	313
Deferred tax assets (Note 13)	3,572	8,412	33
Customers' liabilities for acceptances and guarantees (Note 11)	40,215	40,008	378
Allowance for loan losses (Note 5)	(126,155)	(134,282)	(1,187)
Total assets	¥20,163,679	¥18,113,049	\$189,793
Liabilities			
Deposits (Notes 7 and 18)	¥14,078,354	¥13,580,444	\$132,514
Call money and bills sold (Note 18)	1,315,936	288,609	12,386
Payables under repurchase agreements (Notes 7 and 18)	105,625	100,949	994
Payables under securities lending transactions (Notes 7 and 18)	2,140,301	1,612,526	20,145
Trading liabilities	0	0	0
Borrowed money (Notes 7, 8 and 18)	1,521,762	1,608,856	14,323
Foreign exchanges	1,181	1,749	11
Short-term bonds payable	5,000	5,000	47
Bonds payable (Notes 9 and 18)	20,000	30,000	188
Other liabilities	115,711	102,499	1,089
Net defined benefit liabilities (Note 10)	951	899	8
Provision for losses on interest repayments	48	74	0
Provision for losses from reimbursement of inactive accounts	5,939	6,219	55
Provision for contingent liabilities losses	7	8	0
Reserves under the special laws	22	18	0
Deferred tax liabilities (Note 13)	10,627	97	100
Deferred tax liabilities for land revaluation (Note 6)	23,020	23,028	216
Acceptances and guarantees (Note 11)	40,215	40,008	378
Total liabilities	¥19,384,706	¥17,400,991	\$182,461
Net assets			
Capital stock	¥ 124,799	¥ 124,799	\$ 1,174
Capital surplus	94,158	94,156	886
Retained earnings	381,891	344,527	3,594
Treasury stock	(364)	(343)	(3)
Total shareholders' equity	600,485	563,140	5,652
Valuation difference on available-for-sale securities (Note 12)	131,493	117,726	1,237
Deferred gains or losses on hedges	(12,684)	(12,660)	(119)
Revaluation reserve for land (Note 6)	51,631	51,649	485
Remeasurements of defined benefit plans (Note 10)	8,029	(7,805)	75
Total accumulated other comprehensive income	178,470	148,909	1,679
Non-controlling interests	17	8	0
Total net assets	¥ 778,973	¥ 712,058	\$ 7,332
Total liabilities and net assets	¥20,163,679	¥18,113,049	\$189,793

Consolidated Statement of Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Interest income:			
Interest on loans and discounts	¥134,520	¥132,738	\$1,266
Interest and dividends on securities	32,512	30,894	306
Interest on call loans and bills bought	88	27	0
Interest on receivables under resale agreements	(0)	(0)	(0)
Interest on receivables under securities borrowing transactions	0	0	0
Interest on due from banks	1	0	0
Other interest income	3,900	3,011	36
Trust fees	0	1	0
Fees and commissions	52,345	46,811	492
Trading income	84	108	0
Other operating income	6,366	13,657	59
Other income	7,773	8,554	73
Total income	¥237,594	¥235,804	\$2,236
Expenses			
Interest expenses:			
Interest on deposits	¥ 5,372	¥ 5,707	\$ 50
Interest on call money and bills sold	(94)	(53)	(0)
Interest on payables under repurchase agreements	1,904	964	17
Interest on payables under securities lending transactions	3,055	1,568	28
Interest on borrowings and rediscounts	898	1,014	8
Interest on short-term bonds	1	1	0
Interest on bonds	238	274	2
Other interest expenses	7,568	7,989	71
Fees and commissions payments	20,302	19,107	191
Other operating expenses	1,693	2,759	15
General and administrative expenses	120,179	223,904	1,131
Other expenses	5,700	8,123	53
Total expenses	¥166,820	¥271,361	\$1,570
Income (loss) before income taxes	70,774	(35,557)	666
Income taxes: (Note 13)			
Current	19,221	12,448	180
Deferred	2,222	6,401	20
Total income taxes	21,443	18,849	201
Net income (loss)	49,330	(54,406)	464
Net loss attributable to non-controlling interests	(39)	(106)	(0)
Net income (loss) attributable to owners of the parent (Note 14)	¥ 49,369	¥ (54,300)	\$ 464

Consolidated Statement of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Net income (loss)	¥49,330	¥(54,406)	\$464
Other comprehensive income:			
Valuation difference on available-for-sale securities	13,767	(29,270)	129
Deferred gains or losses on hedges	(23)	22,186	(0)
Remeasurements of defined benefit plans	15,834	7,079	149
Total other comprehensive income	29,579	(4)	278
Comprehensive income (Note 15)	¥78,909	¥(54,410)	\$742
Total comprehensive income attributable to:			
Owners of the parent	78,949	(54,304)	743
Non-controlling interests	(39)	(106)	(0)

Consolidated Statement of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2018 and 2017

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income/loss		
Balance as of March 31, 2016	¥124,799	¥103,611	¥407,652	¥ (325)	¥635,738	¥146,996	¥(34,847)	¥51,649	¥(14,885)	¥148,913	¥ 39	¥784,691
Cumulative effects of changes in accounting policies			¥ 2,472		¥ 2,472							¥ 2,472
Restated balance as of April 1, 2016	¥124,799	¥103,611	¥410,125	¥ (325)	¥638,210	¥146,996	¥(34,847)	¥51,649	¥(14,885)	¥148,913	¥ 39	¥787,163
Changes during the period:												
Dividends from surplus			(11,296)		(11,296)							(11,296)
Net loss attributable to owners of the parent			(54,300)		(54,300)							(54,300)
Acquisition of treasury stock				(9,389)	(9,389)							(9,389)
Disposition of treasury stock		0		0	0							0
Retirement of treasury stock		(9,371)		9,371	—							—
Capital increase of consolidated subsidiaries		(84)			(84)							(84)
Net changes of items other than shareholders' equity						(29,270)	22,186	—	7,079	(4)	(30)	(34)
Total changes during the period	—	¥ (9,455)	¥ (65,597)	¥ (18)	¥ (75,070)	¥ (29,270)	¥ 22,186	—	¥ 7,079	¥ (4)	¥(30)	¥ (75,104)
Balance as of March 31, 2017	¥124,799	¥ 94,156	¥344,527	¥ (343)	¥563,140	¥117,726	¥(12,660)	¥51,649	¥ (7,805)	¥148,909	¥ 8	¥712,058
Changes during the period:												
Dividends from surplus			(12,023)		(12,023)							(12,023)
Net income attributable to owners of the parent			49,369		49,369							49,369
Acquisition of treasury stock				(21)	(21)							(21)
Transfer from revaluation reserve for land			17		17							17
Capital increase of consolidated subsidiaries		1			1							1
Net changes of items other than shareholders' equity						13,767	(23)	(17)	15,834	29,561	8	29,570
Total changes during the period	—	¥ 1	¥ 37,363	¥ (21)	¥ 37,344	¥ 13,767	¥ (23)	¥ (17)	¥ 15,834	¥ 29,561	¥ 8	¥ 66,914
Balance as of March 31, 2018	¥124,799	¥ 94,158	¥381,891	¥ (364)	¥600,485	¥131,493	¥(12,684)	¥51,631	¥ 8,029	¥178,470	¥ 17	¥778,973

	Millions of U.S. dollars (Note 2)											
	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income/loss		
Balance as of March 31, 2017	\$1,174	\$886	\$3,242	\$(3)	\$5,300	\$1,108	\$(119)	\$486	\$(73)	\$1,401	\$0	\$6,702
Changes during the period:												
Dividends from surplus			(113)		(113)							(113)
Net income attributable to owners of the parent			464		464							464
Acquisition of treasury stock				(0)	(0)							(0)
Transfer from revaluation reserve for land			0		0							0
Capital increase of consolidated subsidiaries		0			0							0
Net changes of items other than shareholders' equity						129	(0)	(0)	149	278	0	278
Total changes during the period	—	\$ 0	\$ 351	\$(0)	\$ 351	\$ 129	\$ (0)	\$ (0)	\$ 149	\$ 278	\$0	\$ 629
Balance as of March 31, 2018	\$1,174	\$886	\$3,594	\$(3)	\$5,652	\$1,237	\$(119)	\$485	\$ 75	\$1,679	\$0	\$7,332

Consolidated Statement of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Cash flows from operating activities:			
Income (loss) before income taxes	¥ 70,774	¥ (35,557)	\$ 666
Depreciation of fixed assets	9,680	8,786	91
Impairment losses	160	262	1
Amortization of goodwill	—	104,285	—
Net change in allowance for loan losses	(8,126)	(7,263)	(76)
Net change in net defined benefit assets	(20,632)	(11,380)	(194)
Net change in net defined benefit liabilities	51	(606)	0
Net change in provision for losses on interest repayment	(25)	(940)	(0)
Net change in provision for losses from reimbursement of inactive accounts	(279)	92	(2)
Net change in provision for contingent liabilities losses	(0)	(60)	(0)
Interest income	(171,022)	(166,671)	(1,609)
Interest expenses	18,943	17,467	178
Net losses (gains) related to securities transactions	(163)	(5,510)	(1)
Net losses (gains) on money held in trust	(50)	(8)	(0)
Net exchange losses (gains)	37	25	0
Net losses (gains) on disposal of noncurrent assets	698	348	6
Net change in trading assets	(102)	122	(0)
Net change in trading liabilities	(0)	0	(0)
Net change in loans and bills discounted	(802,170)	(721,589)	(7,550)
Net change in deposits	497,910	597,674	4,686
Net change in borrowed money (excluding subordinated borrowed money)	(87,094)	267,591	(819)
Net change in due from banks (excluding deposits with the Bank of Japan)	(95)	2,879	(0)
Net change in call loans	(23,486)	10,352	(221)
Net change in call money	1,032,002	163,218	9,713
Net change in payables under securities lending transactions	527,774	816,143	4,967
Net change in foreign exchanges - Assets	3,518	(2,373)	33
Net change in foreign exchanges - Liabilities	(567)	437	(5)
Net change in issuance and redemption of bonds	(10,000)	(10,000)	(94)
Interest received	174,265	172,561	1,640
Interest paid	(18,805)	(17,246)	(177)
Other, net	(19,484)	(20,274)	(183)
Subtotal	1,173,708	1,162,766	11,047
Income taxes paid	(13,931)	(10,440)	(131)
Net cash provided by operating activities	1,159,776	1,152,326	10,916
Cash flows from investing activities:			
Payments for purchases of securities	(321,492)	(514,176)	(3,026)
Proceeds from sale of securities	122,185	350,548	1,150
Proceeds from redemption of securities	347,428	101,574	3,270
Payments for increase in money held in trust	—	(6,988)	—
Proceeds from decrease in money held in trust	7,034	—	66
Payments for purchases of tangible fixed assets	(4,846)	(10,089)	(45)
Proceeds from sale of tangible fixed assets	234	219	2
Payments for purchases of intangible fixed assets	(4,903)	(7,360)	(46)
Net cash provided by (used in) investing activities	145,640	(86,273)	1,370
Cash flows from financing activities:			
Proceeds from share issuance to non-controlling interests	50	40	0
Payments for purchases of treasury stock	(21)	(18)	(0)
Proceeds from sale of treasury stock	—	0	—
Payments for redemption of preferred stock	—	(9,371)	—
Dividends paid	(12,022)	(11,299)	(113)
Dividends paid to non-controlling interests	—	(48)	—
Net cash used in financing activities	(11,993)	(20,696)	(112)
Effect of exchange rate changes on cash and cash equivalents	(37)	(25)	(0)
Net increase in cash and cash equivalents	1,293,386	1,045,330	12,174
Cash and cash equivalents at beginning of the year	2,874,917	1,829,586	27,060
Cash and cash equivalents at end of the year (Note 16)	¥4,168,303	¥2,874,917	\$39,234

Notes to Consolidated Financial Statements

Fukuoka Financial Group, Inc. and its subsidiaries
Fiscal years ended March 31, 2018 and 2017

1. Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying consolidated financial statements of FFG and its consolidated subsidiaries are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the consolidated financial statements prepared by FFG as required under the Financial Instruments and Exchange Act of Japan.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

b. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of FFG and all companies, excluding 3 companies, namely, FFG Agricultural Corporation Support Investment Limited Partnership, FFG Agriculture, Forest and Fisheries Industries Support Investment Limited Partnership, and FFG Venture Investment Limited Partnership No. 1, controlled directly or indirectly by FFG. All significant intercompany balances and transactions have been eliminated in consolidation.

The above-mentioned unconsolidated subsidiaries are excluded from the scope of consolidation because their assets, net income (loss) (amount corresponding to the FFG's equity position), retained earnings (amount corresponding to the FFG's equity position), accumulated other comprehensive income (amount corresponding to the FFG's equity position) and others are immaterial to the extent that their exclusion from the scope of consolidation does not preclude reasonable judgment of the FFG's financial position and results of operations.

There are no affiliated companies over which FFG exercises significant influence in terms of their operating and financial policies. The above-mentioned unconsolidated subsidiaries are excluded from the scope of the equity method because their net income (loss) (amount corresponding to the FFG's equity position), retained earnings (amount corresponding to the FFG's equity position), accumulated other comprehensive income (amount corresponding to the Group's equity position), and others are immaterial to the extent that their exclusion from the scope of companies accounted for by the equity method does not preclude reasonable judgment of the FFG's financial position and results of operations.

c. Trading Assets and Liabilities

Trading account transactions are the transactions in which profit opportunities arise from the differences between different markets and short-term movements in rates and other indices, including interest rates, currency exchange rates, and dealing in marketable securities. These transactions are included in the consolidated financial statements as of the respective trading dates.

"Trading assets" and "Trading liabilities" are valued as follows: Securities and monetary assets are valued at market price at the balance sheet date; swaps, futures, options and other derivative transactions are valued on the assumption that they were settled at the balance sheet date.

Gains and losses on specific transactions are recorded by adding or deducting differences between valuation gains or losses at the previous balance sheet date and those at the current balance sheet date to the interest earned or paid in the current year for securities, monetary assets, etc. With respect to derivatives, the differences between the gains and losses from assumed settlement at the previous balance sheet date and those at the current balance sheet date are added to or deducted from the interest earned or paid in the current year.

d. Securities

Held-to-maturity debt securities are stated at cost computed by the moving average method or amortized cost (straight-line method).

Available-for-sale securities whose market value is available are stated at the market value at the fiscal year-end (cost of securities sold is calculated using the moving-average method), and available-for-sale securities for which fair value is not readily determinable are stated at cost computed by the moving-average method.

Valuation difference on available-for-sale securities is included in net assets, net of income taxes.

Securities held as components of individually managed money trusts whose principal objective is investments in securities are stated at fair value.

e. Derivative Transactions

Derivatives for purposes other than trading are stated at market value.

f. Depreciation and Amortization of Fixed Assets

Depreciation of buildings is principally computed using the straight-line method. Other tangible fixed assets are principally depreciated using the declining-balance method.

The estimated useful lives of the tangible fixed assets are as follows:

Buildings	3 years to 50 years
Other	2 years to 20 years

Intangible fixed assets are amortized using the straight-line method. Costs of computer software developed or obtained for internal use are amortized using the straight-line method for the estimated useful life of 5 years.

Lease assets under finance leases which do not transfer ownership of leased assets to lessees, consisting primarily of office equipment, are depreciated by the straight-line method over the lease terms of the respective assets. Residual value of the tangible fixed assets under finance leases which do not transfer ownership of leased assets to lessees is guaranteed residual value on lease agreements or zero value.

g. Treatment of Deferred Assets

Bond issue expenses are treated at full cost at time of expenditure.

h. Allowance for Loan Losses

The allowance for loan losses in consolidated subsidiaries conducting banking businesses is maintained in accordance with internally established standards for write-offs and provisions:

- For credits extended to obligors that are legally bankrupt under the Bankruptcy Law, Special Liquidation in the Commercial Law or other similar laws (“Bankrupt Obligors”), and to obligors that are effectively in similar conditions (“Effectively Bankrupt Obligors”), allowances are maintained at 100% of amounts of claims (after direct reductions are made as discussed below), net of expected amounts from the disposal of collateral and/or on the amounts recoverable under guarantees.
- For credits extended to obligors that are not Bankrupt Obligors or Effectively Bankrupt Obligors but have a substantial chance of business failure going forward (“In-Danger-of-Bankruptcy Obligors”), allowances are maintained at the amount deemed necessary based on overall solvency analyses, on the amount of claims less expected amounts recoverable from the disposal of collateral and/or on the amounts recoverable under guarantees.

- For credits extended to obligors that are In-Danger-of-Bankruptcy Obligors or whose credit terms are re-scheduled or reconditioned, and exceed a certain threshold, the Discounted Cash Flow Method (the DCF Method) is applied if cash flows on repayment of principals and collection of interest of the loan can be reasonably estimated. The DCF Method requires that the difference between the cash flows discounted by the original interest rate and the carrying value of the loan be provided as allowance for loan losses.
- For credits extended to other obligors, allowances are maintained at the amounts calculated using historical default rates and other factors.

All credits are assessed by each credit origination department, and the results of the assessments are verified and examined by the independent examination department.

Allowances for loan losses are provided for on the basis of such verified assessments.

Regarding loans with collateral or guarantees extended by consolidated subsidiaries engaged in banking business and certain major consolidated subsidiaries to obligors who are substantially or legally bankrupt, the balance of the amount of claims less expected amounts recoverable from the disposal of collateral and/or the amounts recoverable under guarantees is directly deducted from the amount of claims as the estimated uncollectible amount. As of March 31, 2018 and 2017, such deducted amounts were ¥14,287 million and ¥14,792 million, respectively.

Allowance for loan losses in consolidated subsidiaries not conducting banking businesses is provided by the actual write-off ratio method, etc.

i. Retirement Benefits

The expected benefit payments are attributed to each period by the benefit formula method upon calculating projected benefit obligations.

Prior service cost and actuarial gain or loss is amortized mainly in the following manner:

- Prior service cost is amortized by the straight-line method over certain periods (9–12 years), which are shorter than the average remaining years of service of the employees.
- Actuarial gain or loss is amortized by the straight-line method from the following year over certain periods (9–12 years), which are shorter than the average remaining years of service of the employees.

Certain consolidated subsidiaries apply a simplified method where the amount to be required for voluntary termination at the fiscal year-end is recorded as projected

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benefit obligations in the calculation of their net defined benefit liabilities and retirement benefit expenses.

j. Provision for Losses on Interest Repayments

The provision accounts for the necessary amount to prepare for possible losses on claims for repayments of interests on loans that exceed the maximum interest rate set by the Interest Limitation Law.

k. Provision for Losses from Reimbursement of Inactive Accounts

The provision for losses from reimbursement of inactive accounts for the necessary amount for deposits discontinued from liabilities in consideration of past payment performance, owing to depositor requests for reimbursement.

l. Provision for Contingent Liabilities Losses

The provision for contingent liabilities losses is provided at the amount considered necessary to cover possible contingent losses.

m. Reserves under the Special Laws

Reserves under the special laws corresponds to the financial instruments transaction liability reserves of Fukuoka Securities Co., Ltd., as reserves against losses resulting from a securities-related accident. These reserves are calculated in accordance with the provisions of Article 46-5, Paragraph 1, of the Financial Instruments and Exchange Act and Article 175 of the Cabinet Office Ordinance on Financial Instruments Businesses, etc.

n. Translation of Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

o. Hedge Accounting

(1) Hedge accounting for interest rate risks

For derivatives to hedge the interest rate risk associated with various financial assets and liabilities, FFG applies the deferred method which is stipulated in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24, February 13, 2002). FFG assesses the effectiveness of such hedge for offsetting changes in interest rate, by classifying the hedged items (such as deposits and loans) and the hedging instruments (such as interest rate swaps) by their maturity. FFG assesses the effectiveness of such hedges for fixing cash flows by verifying the correlation between the hedged items and the hedging instruments.

(2) Hedge accounting for foreign exchange risks

FFG applies the deferred method of hedge accounting for derivatives to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities as stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25, July 29, 2002). The effectiveness of the currency swap transactions, exchange swap transactions and similar transactions hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on comparison of foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

Deferred hedges based on one-to-one hedges are applied to certain assets and liabilities of FFG.

p. Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

FFG and certain of its domestic subsidiaries adopted a consolidated taxation system, with FFG as the parent for consolidated taxation.

q. Appropriation of Retained Earnings

Under the Companies Act, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 22.

r. Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents include cash and deposits with the Bank of Japan, etc. which are included in "Cash and due from banks" in the consolidated balance sheet.

s. Goodwill

FFG implemented the one-time goodwill amortization as of March 31, 2017 in connection with an impairment of its shares of the consolidated subsidiaries in accordance with Paragraph 32 of "Practical Guideline on Capital Consolidation Procedures for Consolidated Financial Statements" (JICPA Accounting System Committee No. 7, last amended on November 28, 2014).

t. Accounting Standard Issued but Not Effective

On March 30, 2018, the Accounting Standards Board of Japan (“ASBJ”) issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption

FFG expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of adopting the accounting standard and implementation guidance

FFG is currently evaluating the effect of adopting the accounting standard and implementation guidance on its consolidated financial statements.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥106.24 = US\$1.00, the approximate rate of exchange on March 31, 2018, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

3. Securities

Securities at March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
National government bonds	¥2,055,217	¥2,170,675
Local government bonds	88,945	79,388
Corporate bonds	622,433	665,088
Equity securities	184,956	156,415
Other securities	379,755	392,031
Total	¥3,331,309	¥3,463,599

Other securities included investments in unconsolidated subsidiaries of ¥2,006 million and ¥364 million at March 31, 2018 and 2017, respectively.

National government bonds, etc. at March 31, 2018 and 2017, included bonds of ¥33,692 million and ¥20,176 million, respectively, which were being rented to third parties without collateral under lending contracts (securities lending transactions).

Corporate bonds included bonds offered through private placement. FFG’s guarantee obligation for such private-placement bonds was ¥22,626 million and ¥22,071 million at March 31, 2018 and 2017, respectively.

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■ Held-to-maturity securities

The following tables summarize carrying values, fair values and differences of securities with available fair values at March 31, 2018 and 2017:

(Millions of yen)

		2018		
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥58,444	¥64,060	¥5,616
	Corporate bonds	23,096	24,055	959
	Other	—	—	—
	Subtotal	¥81,540	¥88,116	¥6,575
Securities with fair value not exceeding carrying value	National government bonds	¥ —	¥ —	¥ —
	Corporate bonds	2,036	2,013	(23)
	Other	463	461	(2)
	Subtotal	¥ 2,500	¥ 2,474	¥ (25)
Total		¥84,040	¥90,591	¥6,550

(Millions of yen)

		2017		
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥110,231	¥119,542	¥ 9,311
	Corporate bonds	25,132	26,487	1,354
	Other	—	—	—
	Subtotal	¥135,364	¥146,030	¥10,666
Securities with fair value not exceeding carrying value	National government bonds	¥ —	¥ —	¥ —
	Corporate bonds	2,047	2,017	(30)
	Other	557	554	(3)
	Subtotal	¥ 2,605	¥ 2,571	¥ (33)
Total		¥137,969	¥148,602	¥10,632

■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2018 and 2017:

(Millions of yen)

		2018		
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,931,773	¥1,996,773	¥ 64,999
	Local government bonds	56,728	57,612	884
	Corporate bonds	531,826	538,720	6,894
	Equity securities	59,799	172,175	112,376
	Other	202,663	207,946	5,283
Subtotal		¥2,782,791	¥2,973,229	¥190,437
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ —	¥ —	¥ —
	Local government bonds	31,359	31,332	(26)
	Corporate bonds	58,628	58,580	(47)
	Equity securities	5,701	4,696	(1,004)
	Other	158,155	155,670	(2,485)
Subtotal		¥ 253,844	¥ 250,280	¥ (3,564)
Total		¥3,036,635	¥3,223,509	¥186,873

(Millions of yen)

		2017		
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,986,034	¥2,053,896	¥ 67,861
	Local government bonds	58,623	59,876	1,252
	Corporate bonds	577,645	587,158	9,512
	Equity securities	61,327	144,567	83,239
	Other	218,368	226,710	8,342
Subtotal		¥2,902,000	¥3,072,210	¥170,209
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ 6,556	¥ 6,547	¥ (9)
	Local government bonds	19,526	19,512	(14)
	Corporate bonds	50,826	50,749	(76)
	Equity securities	3,665	2,992	(672)
	Other	157,855	155,290	(2,565)
Subtotal		¥ 238,430	¥ 235,091	¥ (3,338)
Total		¥3,140,430	¥3,307,302	¥166,871

Securities with fair values (excluding securities held for trading purpose) that have fallen substantially below the acquisition cost and are not expected to recover to the acquisition cost are carried at their fair values. The unrealized losses have been recognized for such securities during the period (hereinafter, "recording impairment losses"). For the fiscal years ended March 31, 2018 and 2017, impairment losses were ¥45 million and ¥8 million, respectively. The determination of whether the fair value has fallen significantly is based on independent asset classification, with issuers of securities divided into the following classifications.

Bankrupt, effectively bankrupt, in danger of bankruptcy	Fair value below acquisition cost
Needs attention	Fair value 30% or more below acquisition cost
Normal	Fair value 50% or more below acquisition cost, or fair value 30% or more but less than 50% below acquisition cost and market price below a certain level

A bankrupt issuer is one that is currently bankrupt, under special liquidation, in disposition by suspension of business by a clearinghouse, or legally or formally bankrupt from the standpoint of effective management. Effectively bankrupt indicates that an issuer is experiencing business failure in substance. An issuer in danger of bankruptcy is one that is highly likely to be classified as bankrupt in the future. Needs attention indicates an issuer that will require care in management. A normal issuer is one that falls outside the above-stated categories of bankrupt issuer, effectively bankrupt issuer, issuer in danger of bankruptcy and issuer requiring caution.

The following table summarizes total sales amounts of Available-for-sale securities sold, and amounts of the related gains and losses for the fiscal years ended March 31, 2018 and 2017:

2018			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥ —	¥ —	¥ —
Local government bonds	19,213	0	6
Corporate bonds	33,429	7	5
Equity securities	2,726	1,949	0
Other	28,696	—	965
Total	¥84,066	¥1,957	¥976

(Millions of yen)

2017			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥344,793	¥5,223	¥2,694
Local government bonds	6,139	4	4
Corporate bonds	6,191	4	0
Equity securities	4,166	2,956	29
Other	2,610	119	—
Total	¥363,901	¥8,309	¥2,728

4. Money Held in Trust

The following table summarizes carrying value and gain (loss) on valuation included in the consolidated statement of income regarding money held in trust for trading purpose at March 31, 2018 and 2017 and for the fiscal years then ended:

2018		
	Carrying value	Gain (loss) on valuation
Money held in trust for trading purpose	¥1,013	¥13

2017		
	Carrying value	Gain (loss) on valuation
Money held in trust for trading purpose	¥7,997	¥—

The following tables summarize acquisition costs, carrying values and differences of money held in trust for other purpose (i.e. not for trading or held-to-maturity) at March 31, 2018 and 2017:

2018			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥3,100	¥3,100	¥—

2017			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥2,700	¥2,700	¥—

Notes to Consolidated Financial Statements

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2018 and 2017 included the following loans:

	(Millions of yen)	
	2018	2017
Loans to borrowers in bankruptcy	¥ 4,215	¥ 4,138
Delinquent loans	158,946	171,286
Loans past due for three months or more	246	1,268
Restructured loans	51,992	52,500
Total	¥215,400	¥229,193

Loans are generally placed on non-accrual status when the ultimate collectibility of either the principal or interest becomes doubtful because payments have been in arrears for a certain period of time or due to other reasons. Loans to borrowers in bankruptcy represent non-accrual loans to borrowers in legal bankruptcy as defined in the Corporation Tax Law. Delinquent loans represent non-accrual loans other than loans to borrowers in bankruptcy and restructured loans.

Loans past due for three months or more represent loans on which payments of principal or interest have been in arrears for three months or more, but do not meet the criteria for loans to borrowers in bankruptcy and delinquent loans.

Restructured loans are loans that have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.), and are not classified in any of the above categories.

Notes discounted are recorded as cash lending/borrowing transactions in accordance with "Accounting and Auditing Treatments of the Application of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee, Report No. 24). FFG has a right to sell or collateralize such bills at the discretion of FFG. At March 31, 2018 and 2017, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥45,747 million and ¥40,912 million, respectively.

Line-of-credit agreements relating to overdrafts and loans are agreements which oblige FFG to lend funds up to a certain limit agreed in advance. FFG makes the loan upon the request of an obligor to draw down funds under such a loan agreement as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused line-of-credit balance relating

to these overdrafts and loan agreements at March 31, 2018 and 2017 amounted to ¥4,046,862 million and ¥4,128,362 million, respectively. The amount related to overdrafts and loans with a term of one year or less or overdrafts and loans which permit unconditional cancellation at any time were ¥3,880,409 million and ¥3,872,135 million at March 31, 2018 and 2017, respectively.

As many of these contracts expire undrawn, the aggregate total of the undrawn amount does not necessarily affect the future cash flows of FFG and its consolidated subsidiaries. Many of these contracts have clauses that allow FFG's consolidated subsidiaries to turn down a loan request or reduce the amounts of the credit line if there is a change in financial conditions, a need to establish increased securities, or other similar reasons. In addition to obtaining necessary collateral (real estates, securities, etc.) at the time the commitment contract is entered into, FFG's consolidated subsidiaries assess the condition of the customer's business operations, and analyze other information, based on internal procedures and standards. If necessary, the contract is reviewed and revised, or additional steps are taken to secure the credit extended to the customer.

6. Tangible Fixed Assets

Land used for the Bank of Fukuoka's business activities has been revalued on the basis prescribed by the Law Concerning Land Revaluation (Proclamation No. 34 dated March 31, 1998). As for the revaluation difference, the income tax account corresponding to the revaluation difference amount is included in liabilities as "Deferred tax liabilities for land revaluation account," and the revaluation difference, net of this deferred tax liability, is included in net assets as "Revaluation reserve for land account."

Date of revaluation: March 31, 1998

Revaluation method as stated in Article 3-3 Law Concerning Land Revaluation:

The value of land is based on the official notice prices calculated as directed by public notification of the Commissioner of the National Tax Administration and as provided in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No. 119 dated March 31, 1998), after making reasonable adjustments.

At March 31, 2018 and 2017, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the law were ¥19,562 million and ¥25,020 million, respectively.

Accumulated depreciation for tangible fixed assets amounted to ¥114,671 million and ¥110,426 million at March 31, 2018 and 2017, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥15,872 million and ¥15,887 million at March 31, 2018 and 2017, respectively.

7. Pledged Assets

Assets pledged as collateral at March 31, 2018 and 2017 consisted of the following:

	(Millions of yen)	
	2018	2017
Assets pledged as collateral:		
Cash and due from banks	¥ 1	¥ 1
Securities	2,814,499	2,811,564
Loans and bills discounted	1,495,212	1,009,833
Other assets	165	165
Liabilities corresponding to assets pledged as collateral:		
Deposits	51,963	63,983
Payables under repurchase agreements	105,625	100,949
Payables under securities lending transactions	2,140,301	1,612,526
Borrowed money	1,499,054	1,585,942

In addition, securities totaling ¥37,865 million and other assets of ¥21 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2018.

Securities totaling ¥68,888 million and other assets of ¥21 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2017.

Other assets included initial margins of futures markets of ¥156 million, cash collateral paid for financial instruments of ¥125,972 million, and deposits of ¥2,226 million at March 31, 2018.

Other assets included initial margins of futures markets of ¥258 million, cash collateral paid for financial instruments of ¥77,456 million, and deposits of ¥2,226 million at March 31, 2017.

8. Borrowed Money

Borrowed money at March 31, 2018 and 2017 included subordinated borrowings amounting to ¥20,000 million.

9. Bonds Payable

Bonds payable included callable (subordinated) debenture bonds of ¥10,000 million, payable in yen, due in 2026 at March 31, 2018 and 2017.

10. Retirement Benefit Plans

The consolidated subsidiaries engaged in banking businesses have a cash balance plan-type corporate pension plan as a defined benefit plan and a defined contribution-type corporate pension plan as a defined contribution plan.

The above-mentioned consolidated subsidiaries have established retirement benefit trusts.

FFG does not have retirement benefit plans.

Certain consolidated subsidiaries apply a simplified method in the calculation of their net defined benefit liabilities and retirement benefit expenses concerning lump-sum payment plans.

(1) Defined benefit plans

The changes in the projected benefit obligation during the fiscal years ended March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
Projected benefit obligation at the beginning of the fiscal year	¥142,058	¥142,275
Service cost	4,152	4,120
Interest cost	233	253
Actuarial loss	1,635	954
Retirement benefits paid	(5,924)	(5,999)
Prior service cost	—	—
Contributions by participants of plans	404	406
Other	0	46
Projected benefit obligation at the end of the fiscal year	¥142,560	¥142,058

The changes in plan assets during the fiscal years ended March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
Plan assets at the beginning of the fiscal year	¥153,830	¥142,060
Expected return on plan assets	5,372	4,960
Actuarial gain	21,100	6,969
Contributions by FFG's subsidiaries	78	5,377
Retirement benefits paid	(5,872)	(5,944)
Contributions by participants of plans	404	406
Other	—	—
Plan assets at the end of the fiscal year	¥174,913	¥153,830

Notes to Consolidated Financial Statements

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2018 and 2017.

	(Millions of yen)	
	2018	2017
Funded projected benefit obligation	¥ 141,409	¥ 141,014
Plan assets at fair value	(174,913)	(153,830)
	(33,504)	(12,815)
Unfunded projected benefit obligation	1,151	1,043
Net asset for retirement benefits in the balance sheet	¥ (32,353)	¥ (11,772)

	(Millions of yen)	
	2018	2017
Net defined benefit liabilities	¥ 951	¥ 899
Net defined benefit assets	(33,304)	(12,671)
Net asset for retirement benefits in the balance sheet	¥(32,353)	¥(11,772)

The components of retirement benefit expenses for the fiscal years ended March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
Service cost	¥ 4,152	¥ 4,120
Interest cost	233	253
Expected return on plan assets	(5,372)	(4,960)
Amortization of actuarial loss	3,521	4,391
Amortization of prior service cost	(235)	(235)
Other	—	—
Retirement benefit expenses	¥ 2,299	¥ 3,570

The components of remeasurements of defined benefits plans included in other comprehensive income (before tax effect) for the fiscal years ended March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
Prior service cost	¥ (235)	¥ (235)
Actuarial gain	22,987	10,407
Other	—	—
Total	¥22,751	¥10,171

The components of remeasurements of defined benefits plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
Unrecognized prior service cost	¥ (616)	¥ (852)
Unrecognized actuarial loss (gain)	(10,919)	12,067
Other	—	—
Total	¥(11,536)	¥11,215

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2018 and 2017 was as follow:

	2018	2017
Debt securities	39%	43%
Equity securities	44%	38%
Cash and due from banks	1%	2%
Other	16%	17%
Total	100%	100%

Total plan assets included retirement benefit trusts of 40% and 35% as of March 31, 2018 and 2017, respectively, which were set for corporate pension plans.

The long-term expected rate of return on plan assets has been estimated based on the current and anticipated allocation of plan assets and the current and long-term expected return on plan assets composed of various assets.

The main assumptions used in accounting for the above plans were as follows:

	2018	2017
Discount rate	0.3%	0.3%
Long-term expected rate of return on plan assets	3.5%	3.5%
Estimated rate of increase in salary	3.5%	3.4%

(2) Defined contribution plans

The amounts to be paid to defined contribution plans by consolidated subsidiaries were ¥312 million and ¥303 million for the fiscal years ended March 31, 2018 and 2017, respectively.

11. Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are included in this account. As a contra account, "Customers' liabilities for acceptances and guarantees" is shown on the assets side, which represents FFG's right of indemnity from the applicants.

FFG's guarantees total ¥22,626 million and ¥22,071 million at March 31, 2018 and 2017, respectively, for private placement corporate bonds. Relevant acceptances and guarantees and customers' liabilities for acceptances and guarantees have been recorded in the net amount.

12. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale securities at March 31, 2018 and 2017 consisted of the following:

	(Millions of yen)	
	2018	2017
Gross valuation difference on available-for-sale securities	¥186,873	¥166,871
Deferred tax liabilities applicable to valuation difference	55,379	49,145
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for non-controlling interests	131,493	117,726
Amount attributable to non-controlling interests	—	—
Valuation difference on available-for-sale securities	131,493	117,726

13. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
Deferred tax assets:		
Allowance for loan losses	¥ 39,240	¥ 41,120
Net losses carried forward	5,945	8,373
Net defined benefit liabilities	1,040	8,780
Depreciation of securities	6,003	6,045
Depreciation expenses	2,629	2,718
Deferred gains or losses on hedges	5,540	5,529
Fair value gains related to consolidated taxation	4,209	4,359
Other	7,131	6,770
Subtotal	71,741	83,698
Valuation allowance	(17,221)	(20,018)
Total	54,519	63,680
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(55,379)	(49,145)
Retirement benefit trust	(2,817)	(2,843)
Securities returned from retirement benefit trust	(2,312)	(2,312)
Reserve for special depreciation	(402)	(402)
Fair value losses related to consolidated taxation	(574)	(574)
Other	(88)	(86)
Total	(61,575)	(55,365)
Net deferred tax assets (liabilities)	¥ (7,055)	¥ 8,314

For the fiscal year ended March 31, 2018, as the difference between the statutory tax rate and the effective tax rate for consolidated financial statement purposes was less than 5% of the statutory tax rate, the significant differences between them are not disclosed.

For the fiscal year ended March 31, 2017, as loss before income taxes was recorded, the significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes are not disclosed.

14. Net Income (Loss) Attributable to Owners of the Parent per Share

Net income (loss) attributable to owners of the parent per share for the fiscal years ended March 31, 2018 and 2017 were as follows:

	(Yen)	
	2018	2017
Net income (loss) attributable to owners of the parent per share:		
Basic	¥ 57.48	¥(63.22)
Diluted	—	—

Basic net income (loss) attributable to owners of the parent per share is computed by dividing net income (loss) attributable to owners of the parent by the weighted average number of shares of common stock outstanding during the year.

For the fiscal year ended March 31, 2018, as there were no dilutive securities, the amount of diluted net income (loss) attributable to owners of the parent per share of common stock is not stated. For the fiscal year ended March 31, 2017, as basic net loss attributable to owners of the parent per share was recorded and there were no dilutive securities, the amount of diluted net income (loss) attributable to owners of the parent per share of common stock is not stated.

Notes to Consolidated Financial Statements

15. Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2018 and 2017 were the following:

	(Millions of yen)	
	2018	2017
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥18,097	¥(13,611)
Reclassification adjustments to profit or loss	1,904	(28,946)
Amount before income tax effect	20,002	(42,557)
Income tax effect	(6,234)	13,287
Total	13,767	(29,270)
Deferred gains or losses on hedges		
Gains (losses) arising during the year	(4,863)	1,820
Reclassification adjustments to profit or loss	4,829	30,056
Amount before income tax effect	(33)	31,877
Income tax effect	10	(9,690)
Total	(23)	22,186
Remeasurements of defined benefit plans		
Gains (losses) arising during the year	19,465	6,015
Reclassification adjustments to profit or loss	3,286	4,156
Amount before income tax effect	22,751	10,171
Income tax effect	(6,916)	(3,092)
Total	15,834	7,079
Total other comprehensive income	¥29,579	¥ (4)

16. Supplementary Cash Flow Information

Reconciliation of cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheet to cash and cash equivalents in the consolidated statement of cash flows at March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
Cash and due from banks	¥4,174,081	¥2,880,599
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(5,778)	(5,682)
Cash and cash equivalents	¥4,168,303	¥2,874,917

17. Leases

As lessee

Finance leases which do not transfer ownership of leased assets to lessees

The leased assets primarily consist of office machinery and equipment. See Note 1 for the depreciation method of the leased assets.

Operating leases

Total future lease payments under non-cancelable operating leases at March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
Within one year	¥ 56	¥ 62
Over one year	70	92
Total	¥127	¥155

18. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

FFG's operations center on the banking business, with financial services including guarantee operations, business regeneration support/credit management and collection, banking agency operations and securities operations. Through these operations, FFG generates income primarily from interest on loans to customers, as well as through marketable securities—mainly bonds—and call loans. FFG raises funds mainly through customer deposits, as well from call money, borrowed money and bonds. In this way, FFG principally holds financial assets and financial liabilities that are subject to interest rate fluctuations. FFG conducts asset-liability management (ALM) to minimize the negative impact of interest rate fluctuations. ALM includes the use of derivative transactions.

(b) Details of major financial instruments and their risk

Loans and bills discounted

Loans and bills discounted are mainly comprised of loans to domestic corporate and individual customers and are subject to credit risk which is a risk of decrease or loss in asset value due to deterioration of borrowers' financial condition, and interest rate risk which is a risk of decrease in profit or suffering loss due to interest rate fluctuation.

Securities

FFG holds equity and debt securities. Such securities are subject to issuer credit risk, interest rate risk, price fluctuation risk which is a risk of suffering loss from

market price fluctuation and liquidity risk (market liquidity risk) owing to such factors as being unable to dispose of securities because of certain conditions in the operating environment. FFG employs interest rate swap transactions to reduce its interest rate risk to a certain extent. In addition to the above-mentioned risks, securities denominated in foreign currencies are subject to exchange rate fluctuation risk which is a risk of suffering loss from exchange rate fluctuation. Currency swap transactions, etc. are used to reduce this risk to a certain extent.

Deposits

FFG accepts from corporate and individual customers' current deposits, ordinary and other demand deposits, time deposits with unregulated interest rates, and negotiable certificates of deposit. Such deposits are subject to liquidity risk (cash flow risk), which is the risk that FFG is unable to secure the funds required to honor these deposits because of unforeseen cash outflows.

Derivative transactions

Derivative transactions are used for providing customers with hedging instruments, etc., conducting asset-liability management (ALM) and other purposes. Such derivative transactions are subject to market risk (interest rate risk, price fluctuation risk and exchange rate fluctuation risk), credit risk and liquidity risk (market liquidity risk).

Hedge accounting is employed for certain derivative transactions used as part of ALM to hedge interest rate risk and exchange rate fluctuation risk, and matters related to the hedge accounting such as hedging instruments, hedged items, the hedge policy and the method for assessing the effectiveness of hedges are described in "o. Hedge Accounting" of "Notes to Consolidated Financial Statements, 1. Summary of Significant Accounting Policies."

(2) Financial risk management system

(a) Management of credit risk

The principal risk that FFG encounters is credit risk, and managing credit risk appropriately to maintain asset soundness while generating appropriate returns is a topmost priority for bank management.

FFG's Board of Directors has formulated the "Credit Risk Management Policy", which establishes FFG's basic policy for credit risk management, and the "Credit Policy", which clarifies basic considerations and standards for decisions and actions for appropriate

conduct of the credit business based on this basic policy, to manage credit risk appropriately. FFG also seeks to determine obligor status and supports initiatives targeting obligors, including management consultation, management guidance and management improvement. Furthermore, FFG calculates the amount of credit risk for individual obligors and portfolios, verifies the general allowance for loan losses, conducts comparisons with capital adequacy and employs credit risk management procedures to determine the rationality and quantity of credit risk.

FFG's organization for handling credit risk management is separated clearly into the Credit Risk Management Department and the Risk Audit Department. To ensure the effectiveness of credit risk management, within the Credit Risk Management Department, FFG has established the Screening Department, Credit Management Department, Ratings Department and Problem Obligor Management Department. The Credit Management Department formulates plans and works to ensure risk management preparedness in line with the credit risk action plans determined in our Risk Management Program. The Risk Audit Department audits the appropriateness of credit risk management.

The Credit Management Department reports appropriately and in a timely manner to the Board of Directors and the ALM Committee to communicate the status of credit risk and credit risk management regularly and on an as-needed basis.

The Credit Risk Management Department regularly determines credit information and market prices to manage credit risk on issuers of securities and counterparty risk on derivative transactions.

(b) Management of market risk

Along with credit risk, the returns on interest rate risk and other market risks constitute one of FFG's largest sources of earnings. However, returns are highly susceptible to the risks taken, and fluctuations in market risk factors can have a major impact on profitability and financial soundness.

FFG's Board of Directors has formulated the "Market Risk Management Policy" as its basic policy on managing market risk. The board has also created management regulations, which prescribe specific risk management methods, to manage market risk appropriately.

FFG's ALM Committee deliberates expeditious and specific measures to respond to changes in the market environment and determines response policies. The management committees of consolidated subsidiaries set FFG's risk capital and the ceilings necessary

Notes to Consolidated Financial Statements

for managing other market risks, reviewing these settings every six months.

FFG's organization for managing market risks comprises the Market Transaction Department (front office), the Market Risk Management Department (middle office), the Market Operations Management Department (back office) and the Risk Audit Department. This organizational structure ensures a mutual checking function. The Market Risk Management Department has established the "Risk Management Program", which establishes action plans related to market risk, and works to prepare for and confirm market risk management. The Risk Audit Department audits the appropriateness of market risk management.

Furthermore, the Market Risk Management Department reports appropriately and in a timely manner to the Board of Directors and the ALM Committee to communicate the status of market risk and market risk management regularly and on an as-needed basis.

Quantitative information related to market risk

(i) Financial instruments held for trading purposes

FFG holds securities for trading purposes, classified as "Trading assets," and conducts certain derivative transactions for trading purposes, including interest rate-related transactions, currency-related transactions and bond-related transactions. These financial products are traded with customers or as their counter transactions, and risk is minimal.

(ii) Financial instruments held for purposes other than trading

Interest rate risk

FFG's main financial instruments affected by interest rate fluctuations—the primary risk variable—are "Loans and bills discounted," bonds within "Securities," "Deposits," "Borrowed money," "Bonds payable" and interest-related transactions within "Derivative transactions."

FFG calculates VaR on these financial assets and financial liabilities using the historical simulation method (holding period of 60 days, confidence interval of 99%, observation period of 1,250 days) and employs quantitative analysis in its interest rate fluctuation risk management.

As of March 31, 2018 and 2017, FFG's amount of interest rate risk (value of estimated losses) was ¥25,956 million and ¥20,521 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations with estimated gains or losses based on its portfolio for the VaR measurement period. As a result of such back-testing for the

fiscal year ended March 31, 2018, no losses exceeded the VaR. FFG believes that the model for measurement captures interest rate risk to an adequate degree of precision.

Among financial liabilities, VaR for "liquid deposits" that are included in "deposits" and have no maturity is calculated using an internal model with an appropriate term that assumes long-term holding.

However, VaR measures interest rate risk using certain statistical probabilities based on historical market fluctuations. Consequently, this process may not capture risk in the event that interest rates fluctuate in a manner that has not been observed in the past.

Volatility risk

FFG's principal financial instruments affected by share price fluctuations—the main risk variable—are listed company shares contained in "Securities."

FFG calculates VaR for these financial assets using the historical simulation method (holding period of 120 days, confidence interval of 99%, observation period of 2,500 days) and employs quantitative analysis in its volatility risk management.

As of March 31, 2018 and 2017, FFG's amount of volatility risk was ¥29,699 million and ¥30,348 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations with estimated gains or losses based on its portfolio for the VaR measurement period. As a result of such back-testing for the fiscal year ended March 31, 2018, no losses exceeded the VaR. FFG believes that the model for measurement captures volatility risk to an adequate degree of precision.

However, VaR measures volatility risk using certain statistical probabilities based on historical market fluctuations. Consequently, this process may not capture risk in the event that prices fluctuate in a manner that has not been observed in the past.

(c) Management of liquidity risk

FFG recognizes the need to manage liquidity risk thoroughly, as it believes that downplaying liquidity risk could lead to serious problems of business failure and, in turn, the systemic risk of a chain reaction of defaults by financial institutions.

FFG's Board of Directors has formulated the "Liquidity Risk Management Policy" as its basic policy on managing liquidity risk, management regulations defining specific management methods, and regulations defining the method of responding to liquidity crises to manage liquidity risk appropriately.

FFG's ALM Committee deliberates expeditious and specific measures to respond to changes in the market environment and determines response policies. Management committees set cash flow limits and pledged collateral limits, reviewing these limits every six months.

FFG determines response policies corresponding to cash flow conditions (normal, concern, crisis). The Cash Flow Management Department assesses cash flow condition each month, and the ALM Committee deliberates response policies.

FFG's organization for managing liquidity risk comprises the Cash Flow Management Department, which is in charge of daily cash flow management and operations; the Liquidity Risk Management Department, which appropriately monitors daily cash flow management and operations; and the Risk Audit Department. This organizational structure ensures a mutual checking function. The Liquidity Risk Management Department has established the "Risk Management Program", which establishes action plans related to liquidity risk, and work to prepare for and confirm liquidity risk management. The Risk Audit Department audits the appropriateness of liquidity risk management.

Furthermore, the Liquidity Risk Management Department reports appropriately and in a timely manner to the Board of Directors and the ALM Committee to communicate the status of liquidity risk and liquidity risk management regularly and on an as-needed basis.

(3) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2018 and 2017 were as follows:

Certain accounts have not been disclosed due to immateriality in terms of carrying value.

(Millions of yen)

2018			
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 4,174,081	¥ 4,174,081	¥ (0)
Call loans and bills bought	9,661	9,662	0
Monetary claims bought	63,661	63,707	45
Securities			
Held-to-maturity securities	83,577	90,129	6,552
Available-for-sale securities	3,223,509	3,223,509	—
Loans and bills discounted	12,105,162	12,233,839	128,676
Total	¥19,659,653	¥19,794,929	¥135,275
Liabilities			
Deposits	¥14,078,354	¥14,078,936	¥ 581
Call money and bills sold	1,315,936	1,315,926	(9)
Payables under repurchase agreements	105,625	105,655	30
Payables under securities lending transactions	2,140,301	2,139,960	(341)
Borrowed money	1,521,762	1,513,372	(8,390)
Bonds payable	20,000	20,544	544
Total	¥19,181,979	¥19,174,394	¥ (7,584)
Derivatives			
Hedge accounting not applied	¥ 1,901	¥ 1,901	¥ —
Hedge accounting applied	(24,592)	(24,592)	—
Total	¥ (22,691)	¥ (22,691)	¥ —

(Millions of yen)

2017			
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 2,880,599	¥ 2,880,599	¥ (0)
Call loans and bills bought	500	500	0
Monetary claims bought	49,345	49,381	35
Securities			
Held-to-maturity securities	137,412	148,047	10,635
Available-for-sale securities	3,307,302	3,307,302	—
Loans and bills discounted	11,295,247	11,429,680	134,432
Total	¥17,670,407	¥17,815,511	¥145,103
Liabilities			
Deposits	¥13,580,444	¥13,581,542	¥ 1,098
Call money and bills sold	288,609	288,606	(3)
Payables under repurchase agreements	100,949	101,015	66
Payables under securities lending transactions	1,612,526	1,612,413	(112)
Borrowed money	1,608,856	1,603,387	(5,468)
Bonds payable	30,000	30,701	701
Total	¥17,221,386	¥17,217,668	¥ (3,717)
Derivatives			
Hedge accounting not applied	¥ 2,480	¥ 2,480	¥ —
Hedge accounting applied	(28,696)	(28,696)	—
Total	¥ (26,215)	¥ (26,215)	¥ —

Allowance for loan losses on "Monetary claims bought" and "Loans and bills discounted" are directly deducted from the amounts on consolidated financial statements.

Notes to Consolidated Financial Statements

Derivatives are included within the amounts indicated for “Trading assets and liabilities” and “Other assets and liabilities.” Net amounts of receivables and payables arising from derivative transactions are indicated. Parentheses indicate totals that are net payable amounts.

Method of Calculating the Fair Value of Major Financial Instruments

Assets

(1) Cash and due from banks

With regard to cash and due from banks without maturities, as its fair values and book values are similar, the book values are assumed as the fair values. For due from banks with maturities, the present value is calculated by estimating the future cash flows deriving from each transaction, and then discounting these amounts to their present value at the risk-free market interest rate for each period plus discount premium that accounts for credit risk. This discount rate is calculated in accordance with internal ratings, based on the forecasted loss rate for each obligor.

(2) Securities

The fair values of equity securities are determined by their prices on stock exchanges. The fair values of bonds are determined by the prices on exchanges or the prices indicated by the financial institutions handling these transactions for FFG. Publicly listed base prices are used as the fair value of investment trusts. However, for debt securities without listed exchange prices and for which prices are not provided by the financial institutions with which these transactions are conducted, the present value is calculated by estimating the future cash flows deriving from each transaction, and then discounting these amounts to their present value at the risk-free market interest rate for each period plus discount premium that accounts for credit risk. This discount rate is calculated in accordance with internal ratings, based on the forecasted loss rate for each obligor. The present value of private-placement secured bonds is calculated by estimating the future cash flows deriving from each transaction, and then discounting these amounts to their present value at the risk-free market interest rate for each period plus discount premium that accounts for credit risk. This discount rate is calculated in accordance with internal ratings, based on the forecasted loss rate for each obligor.

See Note 3 for the description of securities by classification.

(3) Loans and bills discounted

The present value of loans is calculated by estimating the future cash flows deriving from each transaction, and then discounting these amounts to present value at the risk-free market interest rate for each period plus discount premium that accounts for credit risk. This discount rate is calculated in accordance with internal ratings, based on the forecasted loss rate for each obligor. As floating interest rates reflect market interest rates in the short term, when estimating future cash flows on floating-rate instruments, the maturity date is considered to be the next interest rate settlement date. With regard to loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, the estimated collectible amount is based on either the present value of estimated future cash flows or the expected amounts recoverable from the disposal of collateral and/or under guarantees. The fair value is essentially equivalent to the amount consolidated balance amount on the balance sheet date, after deducting the allowance for loan losses, the balance sheet amount is taken as the fair value. For loans that have no specific repayment period because loan amounts are less than the value of the assets securing them, the fair value using expected payment dates and interest rates is essentially equivalent to the book value, so book value is taken as the fair value.

Liabilities

(1) Deposits

The fair value of demand deposits is determined as the payment amount (book value) if payment were demanded on the balance sheet date. The fair value of time deposits is calculated by categorizing these deposits by term, estimating their future cash flows and discounting them to their present value at the rate applied to new deposits.

(2) Borrowed money

The present value of borrowed money is determined by estimating the future cash flows deriving from each transaction and discounting these amounts by the risk-free market interest rate for each period plus a discount premium that corresponds to FFG's credit risk, as determined by the market price of its bonds. As floating interest rates reflect market interest rates in the short term, when estimating future cash flows on floating-rate instruments, the maturity date is considered to be the next interest rate settlement date.

(3) Bonds

Market value is used as the fair value of corporate bonds issued by FFG and its consolidated subsidiaries. With regard to corporate bonds without market value, the present value is determined by estimating the future cash flows for deriving from each transaction and discounting these amounts by the risk-free market interest rate for each period plus discount premium that corresponds to FFG's credit risk, as determined by the market price of its bonds. As floating interest rates reflect market interest rates in the short term, when estimating future cash flows on floating-rate instruments, the maturity date is considered to be the next interest rate settlement date.

Derivatives

Derivative transactions include interest-related transactions (interest rate futures, interest rate options, interest rate swaps, etc.), currency-related transactions (currency futures, currency options, currency swaps, etc.) and bond-related transactions (bond futures, bond futures options, etc.). The fair values of these derivative instruments are calculated by using values on listed exchanges, discounting them to their present value or through the use of option pricing models.

Financial instruments for which fair value is not readily determinable at March 31, 2018 and 2017 were as follows:

	(Millions of yen)	
	2018	2017
	Carrying value	Carrying value
Available-for-sale securities		
Unlisted equity securities	¥ 8,084	¥ 8,854
Unlisted foreign securities	0	0
Investments in limited partnership	16,138	10,029
Total	¥24,222	¥18,884

The fair value of unlisted equity securities and unlisted foreign securities of "Available-for-sale securities" are not readily determinable, and thus these are not subject to disclosures of fair values.

Impairment losses on unlisted securities, etc. for the fiscal years ended March 31, 2018 and 2017 were ¥38 million and ¥22 million, respectively.

Certain investments in limited partnership that holds assets without readily determinable fair value, such as unlisted equity securities, are not subject to disclosures of fair values.

The redemption schedule for monetary assets and securities with maturity dates at March 31, 2018 and 2017 are summarized as follows:

	(Millions of yen)						
	2018						
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years	
Due from banks	¥4,024,990	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	9,661	-	-	-	-	-	-
Monetary claims bought	63,303	-	-	-	-	-	480
Securities							
Held-to-maturity bonds							
Held-to-maturity government bonds	9,290	31,680	3,100	14,374	-	-	-
Held-to-maturity corporate bonds	5,015	7,945	9,487	2,683	-	-	-
Available-for-sale securities with maturities							
Available-for-sale government bonds	415,161	570,505	315,232	145,252	60,954	489,668	
Available-for-sale local government bonds	12,508	26,869	29,523	8,475	1,909	9,658	
Available-for-sale corporate bonds	52,985	328,270	99,604	61,468	928	54,043	
Available-for-sale other	17,631	85,181	63,079	66,950	67,673	34,638	
Loans and bills discounted	3,234,588	1,964,211	1,616,090	1,111,973	1,279,887	2,728,882	
Total	¥7,845,137	¥3,014,663	¥2,136,118	¥1,411,178	¥1,411,352	¥3,317,372	

Loans do not include an estimated ¥163,161 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥131,675 million in loans that have no set term.

	(Millions of yen)						
	2017						
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years	
Due from banks	¥2,732,672	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	500	-	-	-	-	-	-
Monetary claims bought	48,883	-	-	-	-	-	576
Securities							
Held-to-maturity bonds							
Held-to-maturity government bonds	51,787	40,970	-	17,474	-	-	-
Held-to-maturity corporate bonds	2,047	12,961	-	12,171	-	-	-
Available-for-sale securities with maturities							
Available-for-sale government bonds	187,766	714,474	499,440	190,956	83,026	384,779	
Available-for-sale local government bonds	5,180	29,014	27,885	7,389	9,919	-	
Available-for-sale corporate bonds	67,677	281,914	168,505	107,431	5,401	6,977	
Available-for-sale other	17,531	55,639	93,464	67,606	109,242	29,124	
Loans and bills discounted	2,660,428	1,934,319	1,515,169	1,105,631	1,222,774	2,678,322	
Total	¥5,774,476	¥3,069,293	¥2,304,465	¥1,508,660	¥1,430,363	¥3,099,780	

Loans do not include an estimated ¥175,424 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥136,228 million in loans that have no set term.

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The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2018 and 2017 are summarized as follows:

(Millions of yen)

2018						
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Deposits	¥13,743,926	¥ 269,132	¥ 58,656	¥ 2,526	¥ 4,112	¥ -
Call money and bills sold	1,315,936	-	-	-	-	-
Payable under repurchase agreements	52,505	21,248	31,872	-	-	-
Payable under securities lending transactions	2,140,301	-	-	-	-	-
Borrowed money	60,827	840,588	599,615	20,000	545	184
Bonds payable	10,000	-	-	-	10,000	-
Total	¥17,323,496	¥1,130,968	¥690,144	¥22,526	¥14,658	¥184

Within deposits, demand deposits are included in deposits due within one year.

(Millions of yen)

2017						
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Deposits	¥13,202,004	¥ 300,123	¥ 71,129	¥ 3,228	¥ 3,958	¥ -
Call money and bills sold	288,609	-	-	-	-	-
Payable under repurchase agreements	44,854	22,438	33,657	-	-	-
Payable under securities lending transactions	1,612,526	-	-	-	-	-
Borrowed money	332,843	672,886	582,645	20,021	270	190
Bonds payable	10,000	10,000	-	-	10,000	-
Total	¥15,490,839	¥1,005,447	¥687,431	¥23,250	¥14,228	¥190

Within deposits, demand deposits are included in deposits due within one year.

19. Derivative Transactions

FFG has entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates, interest rates and debt security prices.

Information regarding the derivative transactions outstanding as of March 31, 2018 and 2017 were as follows:

Hedge accounting not applied

As of March 31, 2018 and 2017, on derivative transactions to which hedge accounting is not applied, notional amounts as of the balance sheet date, fair values and gain (loss) are described below.

The notional amounts of derivative transactions are not a direct measure of the FFG's risk exposure in connection with its derivative transactions.

■ Interest-related transactions

(Millions of yen)

As of March 31, 2018	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥148,214	¥ 6,070	¥ 5,935
Receive/floating and pay/fixed	148,714	(4,981)	(4,861)
Caps			
Sell	2,849	(67)	(24)
Buy	2,849	67	27
Total	-	¥ 1,088	¥ 1,076

(Millions of yen)

As of March 31, 2017	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥161,860	¥ 7,293	¥ 7,148
Receive/floating and pay/fixed	162,338	(6,024)	(5,889)
Caps			
Sell	3,274	(61)	15
Buy	3,274	61	(10)
Total	-	¥ 1,268	¥ 1,264

■ Currency-related transactions

(Millions of yen)			
As of March 31, 2018	Notional amount	Fair value	Gain (Loss)
Currency swaps	¥762,162	¥ 88	¥ 86
Foreign exchange contract			
Sell	57,156	2,437	2,437
Buy	47,960	(2,671)	(2,671)
Currency option			
Sell	1,322	(13)	(5)
Buy	1,322	13	7
Total	—	¥ (145)	¥ (146)

(Millions of yen)			
As of March 31, 2017	Notional amount	Fair value	Gain (Loss)
Currency swaps	¥823,712	¥ 118	¥ 112
Foreign exchange contract			
Sell	88,497	850	850
Buy	82,653	(490)	(490)
Currency option			
Sell	1,506	(21)	(6)
Buy	2,207	21	9
Total	—	¥ 478	¥ 474

■ Bonds-related transactions

(Millions of yen)			
As of March 31, 2018	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥10,837	¥(40)	¥(40)
Buy	—	—	—
Bond futures option			
Sell	—	—	—
Buy	—	—	—
Bond forward contracts			
Sell	—	—	—
Buy	6,374	19	19
Total	—	¥(20)	¥(20)

(Millions of yen)			
As of March 31, 2017	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥35,171	¥31	¥31
Buy	—	—	—
Bond futures option			
Sell	11,398	(1)	4
Buy	—	—	—
Bond forward contracts			
Sell	—	—	—
Buy	—	—	—
Total	—	¥30	¥35

■ Credit derivative transactions

(Millions of yen)			
As of March 31, 2018	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥40,500	¥979	¥965
Buy	—	—	—
Total	—	¥979	¥965

(Millions of yen)

As of March 31, 2017	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥31,500	¥703	¥695
Buy	—	—	—
Total	—	¥703	¥695

Hedge accounting applied

As of March 31, 2018 and 2017, on derivative transactions to which hedge accounting is applied, hedge accounting method, hedged items, notional amounts as of the balance sheet date and fair values are described below.

The notional amounts of derivative transactions are not a direct measure of the FFG's risk exposure in connection with its derivative transactions.

■ Interest-related transactions

(Millions of yen)

As of March 31, 2018				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits	—	—
	Receive/ fixed and pay/floating		¥ —	¥ —
	Receive/ floating and pay/fixed		620,989	(18,093)
Interest rate swaps with exceptional accounting	Securitization	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits	2,300	—
	Interest rate swaps		48,989	(1,812)
	Receive/ floating and pay/floating		45,000	(4,029)
Total			—	¥(23,934)

(Millions of yen)

As of March 31, 2017				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits	—	—
	Receive/ fixed and pay/floating		¥ 22,438	¥ (95)
	Receive/ floating and pay/fixed		664,116	(16,852)
Interest rate swaps with exceptional accounting	Securitization	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits	2,785	—
	Interest rate swaps		56,540	(2,517)
	Receive/ floating and pay/floating		100,000	(7,306)
Total			—	¥(26,771)

■ Currency-related transactions

(Millions of yen)

As of March 31, 2018				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Currency swaps	Financial assets and liabilities of which, loans, securities and deposits denominated in foreign currencies, and foreign exchange assets and liabilities	¥340,874	¥(658)
Total			—	¥(658)
As of March 31, 2017				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Currency swaps	Financial assets and liabilities of which, loans, securities and deposits denominated in foreign currencies, and foreign exchange assets and liabilities	¥152,481	¥(1,925)
Total			—	¥(1,925)

20. Segment Information

Segment information has been omitted because FFG and its consolidated subsidiaries operated in one segment, the banking business, for the fiscal year ended March 31, 2018.

Information on income by service has been omitted because FFG and its consolidated subsidiaries offer a single banking service for the fiscal year ended March 31, 2018.

Information on income by geographic area has been omitted because income from Japanese customers' accounts for more than 90% of operating income in the consolidated statement of income for the fiscal year ended March 31, 2018.

Information on tangible fixed assets by geographic area has been omitted because total tangible fixed assets of the domestic operations constituted more than 90% of the consolidated total tangible fixed assets for the fiscal year ended March 31, 2018.

Information on income by major customer has been omitted because no operating income derived from any external customer amounted to 10% or more of operating income in the consolidated statement of income for the fiscal year ended March 31, 2018.

21. Related Party Transactions

There were no significant transactions with related parties to report for the fiscal years ended March 31, 2018 and 2017.

22. Subsequent Events

1) Cash dividends

The following distribution of retained earnings of FFG, which has not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2018, was approved at a shareholders meeting held on June 28, 2018 and became effective June 29, 2018:

(Millions of yen)	
Dividends on common stock (¥7.50 per share)	¥6,441

2) Change in number of shares constituting one unit, consolidation of shares, and partial amendment to the articles of incorporation

FFG resolved to change the number of shares constituting one unit and partially amend the articles of incorporation at the meeting of the Board of Directors held on May 14, 2018. In addition, the said meeting of the Board of Directors resolved to propose a consolidation of shares to the annual shareholders meeting to be held on June 28, 2018, and the proposal was subsequently approved at the said shareholders meeting.

The outline is as follows:

(1) Change in number of shares constituting one unit

(a) Reason for the change

Japanese stock exchanges have announced the "Action Plan for Consolidating Trading Units" aiming to unify the trading unit (the number of shares constituting one unit) of common stock of domestic companies listed on Japanese stock exchanges to 100 shares by October 1, 2018.

As a company listed on Tokyo Stock Exchange and Fukuoka Stock Exchange, FFG, respecting the intention of this announcement, has decided to change the number of shares constituting one unit of its common stock from 1,000 shares to 100 shares.

(b) Details of the change

FFG will change the number of shares constituting one unit of its common stock from 1,000 shares to 100 shares.

(c) Scheduled date of the change

October 1, 2018

(2) Consolidation of shares (in other words, reverse stock split)

(a) Purpose of the consolidation of shares

Upon changing the number of shares constituting one unit from 1,000 shares to 100 shares as per “(1) Change in number of shares constituting one unit” above, FFG shall conduct a consolidation of shares with an aim to adjust the investment unit to an appropriate level, taking into account medium- to long-term stock price fluctuations and other factors.

(b) Details of the consolidation of shares

(i) Type of shares subject to the consolidation of shares Common stock

(ii) Consolidation ratio

Effective October 1, 2018, the common shares of FFG which are owned by shareholders recorded on the shareholders' register as of September 30, 2018 (effectively, September 28, 2018) will be consolidated at a ratio of one share for each five shares.

(iii) Decrease in number of shares due to the consolidation of shares

Total number of issued shares before the consolidation of shares (as of March 31, 2018)	859,761,868 shares
Decrease in number of shares due to the consolidation of shares	687,809,495 shares
Total number of issued shares after the consolidation of shares	171,952,373 shares

“Decrease in number of shares due to the consolidation of shares” and “Total number of issued shares after the consolidation of shares” are theoretical figures computed based on the total number of issued shares before the consolidation of shares and the consolidation ratio.

(c) Treatment of fractional shares

Fractional shares that arise as a result of the consolidation of shares will be aggregated and disposed of by FFG pursuant to the provisions of the Companies Act, and the proceeds from such disposal will be distributed to the shareholders in proportion to their fractional shares.

(d) Total number of authorized shares as of the effective date

In order to adjust the total number of authorized shares after a decrease in the total number of issued shares resulting from the consolidation of shares, FFG will decrease the total number of authorized shares at the same ratio as the consolidation ratio (one-fifth) as of the effective date (October 1, 2018).

Total number of authorized shares before the change	1,800,000,000 shares
Total number of authorized shares after the change (as of October 1, 2018)	360,000,000 shares

(3) Partial amendment to the articles of incorporation

(a) Reason for the amendment

The partial amendment to the articles of incorporation is due to “(1) Change in number of shares constituting one unit” and “(2) Consolidation of shares” stated above.

(b) Details of the amendment

Effective October 1, 2018, FFG will change the total number of authorized shares of its common stock from 1,800,000,000 shares to 360,000,000 shares and the number of shares constituting one unit of its common stock from 1,000 shares to 100 shares.

(4) Impact on net income (loss) attributable to owners of the parent per share

Net income (loss) attributable to owners of the parent per share for the fiscal years ended March 31, 2018 and 2017, assuming that the consolidation of shares was conducted on April 1, 2016, were as follows:

	2018	2017
Net income (loss) attributable to owners of the parent per share:		
Basic	¥287.42	¥(316.11)
Diluted	—	—

For the fiscal year ended March 31, 2018, as there were no dilutive securities, the amount of diluted net income (loss) attributable to owners of the parent per share of common stock is not stated. For the fiscal year ended March 31, 2017, as basic net loss attributable to owners of the parent per share was recorded and there were no dilutive securities, the amount of diluted net income (loss) attributable to owners of the parent per share of common stock is not stated.

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Fukuoka, Ltd.

As of March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 3,468,626	¥ 2,342,029	\$ 32,648
Call loans	409,661	500	3,855
Monetary claims bought	34,811	30,904	327
Trading assets	943	1,243	8
Money held in trust	1,013	7,997	9
Securities	2,394,706	2,453,539	22,540
Loans and bills discounted	9,512,046	8,925,392	89,533
Foreign exchanges	5,094	8,057	47
Other assets	144,485	112,134	1,359
Tangible fixed assets	152,572	153,055	1,436
Intangible fixed assets	10,806	10,506	101
Prepaid pension expenses	12,821	14,722	120
Customers' liabilities for acceptances and guarantees	31,143	30,860	293
Allowance for loan losses	(82,550)	(84,501)	(777)
Total assets	¥16,096,182	¥14,006,440	\$151,507
Liabilities			
Deposits	¥10,408,585	¥ 9,933,010	\$ 97,972
Call money	1,321,797	297,695	12,441
Payables under repurchase agreements	105,625	100,949	994
Payables under securities lending transactions	2,140,301	1,612,526	20,145
Trading liabilities	0	0	0
Borrowed money	1,278,824	1,276,107	12,037
Foreign exchanges	1,059	1,546	9
Bonds payable	10,000	10,000	94
Other liabilities	95,019	84,478	894
Provision for losses from reimbursement of inactive accounts	4,023	4,703	37
Provision for contingent liabilities losses	7	8	0
Deferred tax liabilities	12,178	4,737	114
Deferred tax liabilities for land revaluation	23,020	23,028	216
Acceptances and guarantees	31,143	30,860	293
Total liabilities	¥15,431,587	¥13,379,653	\$145,252
Net assets			
Capital stock	¥ 82,329	¥ 82,329	\$ 774
Capital surplus	60,480	60,480	569
Retained earnings	374,363	351,750	3,523
Total shareholders' equity	517,174	494,560	\$ 4,867
Valuation difference on available-for-sale securities	108,315	93,237	1,019
Deferred gains or losses on hedges	(12,527)	(12,660)	(117)
Revaluation reserve for land	51,631	51,649	485
Total valuation and translation adjustments	147,419	132,226	1,387
Total net assets	¥ 664,594	¥ 626,787	\$ 6,255
Total liabilities and net assets	¥16,096,182	¥14,006,440	\$151,507

Non-Consolidated Statement of Income (Unaudited)

The Bank of Fukuoka, Ltd.

For the years ended March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥ 99,897	¥ 97,468	\$ 940
Interest and dividends on securities	25,584	23,917	240
Interest on call loans	20	30	0
Interest on receivables under resale agreements	(0)	(0)	(0)
Interest on receivables under securities borrowing transactions	0	0	0
Interest on deposits with banks	2	0	0
Interest on interest swaps	207	193	1
Other interest income	3,209	2,291	30
Trust fees	0	1	0
Fees and commissions	36,612	34,207	344
Trading income	6	16	0
Other operating income	1,398	8,816	13
Other income	5,104	5,829	48
Total income	¥172,045	¥172,772	\$1,619
Expenses			
Interest expenses:			
Interest on deposits	¥ 4,035	¥ 3,910	\$ 37
Interest on call money	59	99	0
Interest on payables under repurchase agreements	1,904	964	17
Interest on payables under securities lending transactions	3,055	1,568	28
Interest on borrowing and rediscounts	857	924	8
Interest on bonds	195	194	1
Interest on interest swaps	7,515	7,958	70
Other interest expenses	408	371	3
Fees and commissions payments	20,013	19,120	188
Other operating expenses	1,625	2,345	15
General and administrative expenses	70,502	70,926	663
Other expenses	5,393	4,604	50
Total expenses	¥115,565	¥112,990	\$1,087
Income before income taxes	56,480	59,781	531
Income taxes:			
Current	15,514	12,697	146
Deferred	536	2,933	5
Total income taxes	16,051	15,631	151
Net income	¥ 40,428	¥ 44,150	\$ 380

Non-Consolidated Balance Sheet (Unaudited)

The Kumamoto Bank, Ltd.

As of March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 329,983	¥ 267,345	\$ 3,106
Call loans	2,261	2,044	21
Monetary claims bought	0	—	0
Securities	249,978	270,370	2,352
Loans and bills discounted	1,314,603	1,146,534	12,373
Foreign exchanges	1,043	980	9
Other assets	9,063	3,697	85
Tangible fixed assets	17,054	17,238	160
Intangible fixed assets	1,388	1,279	13
Prepaid pension expenses	4,219	4,211	39
Deferred tax assets	4,240	4,453	39
Customers' liabilities for acceptances and guarantees	4,073	4,402	38
Allowance for loan losses	(14,987)	(16,068)	(141)
Total assets	¥1,922,922	¥1,706,490	\$18,099
Liabilities			
Deposits	¥1,445,890	¥1,439,400	\$13,609
Call money	200,000	—	1,882
Borrowed money	178,000	171,000	1,675
Foreign exchanges	32	35	0
Other liabilities	3,689	3,622	34
Provision for losses from reimbursement of inactive accounts	571	448	5
Deferred tax liabilities for land revaluation	1,377	1,378	12
Acceptances and guarantees	4,073	4,402	38
Total liabilities	¥1,833,634	¥1,620,286	\$17,259
Net assets			
Capital stock	¥ 33,847	¥ 33,847	\$ 318
Capital surplus	33,847	33,847	318
Retained earnings	15,682	11,514	147
Total shareholders' equity	83,376	79,208	784
Valuation difference on available-for-sale securities	4,867	5,900	45
Deferred gains or losses on hedges	(66)	—	(0)
Revaluation reserve for land	1,111	1,094	10
Total valuation and translation adjustments	5,912	6,994	55
Total net assets	¥ 89,288	¥ 86,203	\$ 840
Total liabilities and net assets	¥1,922,922	¥1,706,490	\$18,099

Non-Consolidated Statement of Income (Unaudited)

The Kumamoto Bank, Ltd.

For the years ended March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥16,247	¥16,473	\$152
Interest and dividends on securities	1,818	1,914	17
Interest on call loans	43	51	0
Interest on deposits with banks	0	0	0
Other interest income	161	174	1
Fees and commissions	5,495	4,567	51
Other operating income	56	57	0
Other income	1,782	529	16
Total income	¥25,604	¥23,769	\$241
Expenses			
Interest expenses:			
Interest on deposits	¥ 610	¥ 835	\$ 5
Interest on call money	(33)	0	(0)
Interest on borrowing and rediscounts	0	17	0
Interest on interest swaps	6	—	0
Other interest expenses	11	13	0
Fees and commissions payments	3,702	3,194	34
Other operating expenses	9	126	0
General and administrative expenses	14,164	14,296	133
Other expenses	711	3,399	6
Total expenses	¥19,182	¥21,884	\$180
Income before income taxes	6,421	1,884	60
Income taxes:			
Current	710	241	6
Deferred	722	175	6
Total income taxes	1,432	417	13
Net income	¥ 4,989	¥ 1,467	\$ 46

Non-Consolidated Balance Sheet (Unaudited)

The Shinwa Bank, Ltd.

As of March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 378,051	¥ 273,589	\$ 3,558
Call loans	3,599	7,041	33
Monetary claims bought	0	—	0
Trading account securities	125	227	1
Securities	693,875	747,387	6,531
Loans and bills discounted	1,550,739	1,482,980	14,596
Foreign exchanges	697	1,314	6
Other assets	23,622	11,819	222
Tangible fixed assets	44,441	45,949	418
Intangible fixed assets	1,956	1,759	18
Prepaid pension expenses	4,740	4,969	44
Customers' liabilities for acceptances and guarantees	4,929	4,661	46
Allowance for loan losses	(12,796)	(17,548)	(120)
Total assets	¥2,693,982	¥2,564,151	\$25,357
Liabilities			
Deposits	¥2,275,857	¥2,259,312	\$21,421
Call money	200,000	—	1,882
Borrowed money	64,279	160,916	605
Foreign exchanges	90	167	0
Other liabilities	6,814	4,610	64
Provision for losses from reimbursement of inactive accounts	1,343	1,067	12
Deferred tax liabilities	1,476	550	13
Deferred tax liabilities for land revaluation	4,378	4,419	41
Acceptances and guarantees	4,929	4,661	46
Total liabilities	¥2,559,169	¥2,435,705	\$24,088
Net assets			
Capital stock	¥ 36,878	¥ 36,878	\$ 347
Capital surplus	36,878	36,878	347
Retained earnings	27,259	19,957	256
Total shareholders' equity	101,016	93,714	950
Valuation difference on available-for-sale securities	19,533	20,117	183
Deferred gains or losses on hedges	(146)	—	(1)
Revaluation reserve for land	14,409	14,613	135
Total valuation and translation adjustments	33,796	34,731	318
Total net assets	¥ 134,812	¥ 128,445	\$ 1,268
Total liabilities and net assets	¥2,693,982	¥2,564,151	\$25,357

Non-Consolidated Statement of Income (Unaudited)

The Shinwa Bank, Ltd.

For the years ended March 31, 2018 and 2017

	2018	2017	2018
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥18,778	¥19,271	\$176
Interest and dividends on securities	5,447	5,316	51
Interest on call loans	110	101	1
Interest on deposits with banks	0	0	0
Other interest income	310	343	2
Fees and commissions	7,755	7,123	72
Other operating income	166	127	1
Other income	5,230	4,023	49
Total income	¥37,800	¥36,308	\$355
Expenses			
Interest expenses:			
Interest on deposits	¥ 731	¥ 968	\$ 6
Interest on call money	(33)	2	(0)
Interest on payables under securities lending transactions	0	0	0
Interest on borrowing and rediscounts	33	67	0
Interest on interest swaps	13	—	0
Other interest expenses	0	0	0
Fees and commissions payments	4,245	4,135	39
Other operating expenses	58	284	0
General and administrative expenses	20,486	20,924	192
Other expenses	1,444	581	13
Total expenses	¥26,980	¥26,965	\$253
Income before income taxes	10,819	9,343	101
Income taxes:			
Current	1,140	(2,510)	10
Deferred	1,206	4,412	11
Total income taxes	2,346	1,901	22
Net income	¥ 8,472	¥ 7,441	\$ 79

Company Outline (as of March 31, 2018)

Fukuoka Financial Group, Inc.

Head Office	1-8-3, Otemon, Chuo-ku, Fukuoka 810-8693, Japan
Date of Establishment	April 2, 2007
Paid-in Capital	¥124.7 billion
Security Code	8354
Stock Listings	Tokyo Stock Exchange, Fukuoka Stock Exchange
Number of Employees	6,865 (Consolidated)
Telephone Number	+81-92-723-2500
Website	https://www.fukuoka-fg.com/

The Bank of Fukuoka, Ltd.

Head Office	2-13-1, Tenjin, Chuo-ku, Fukuoka 810-8727, Japan
Date of Establishment	March 31, 1945
Paid-in Capital	¥82.3 billion
Number of Employees	3,724
Telephone Number	+81-92-723-2131
Website	https://www.fukuokabank.co.jp/

The Bank of Fukuoka's Overseas Network

Hong Kong Representative Office

Room 404, 4/F, Far East Finance Centre,
16 Harcourt Road, Hong Kong
+852-2524-2169

Shanghai Representative Office

Room 2010, Shanghai International Trade
Centre, 2201 Yan An Xi Road, Shanghai,
China
+86-21-6219-4570

Dalian Representative Office

Room 622, Furama Hotel, No. 60 Ren Min
Road, Dalian, China
+86-411-8282-3643

Singapore Representative Office

1 George Street #17-05 Singapore 049145
+65-6438-4913

Bangkok Representative Office

16th Floor Unit 1606, Park Ventures Ecoplex,
57 Wireless Road, Lumpini, Pathumwan,
Bangkok 10330, Thailand
+66-2-256-0695

New York Representative Office

One Rockefeller Plaza, Suite 1201,
New York, NY 10020-2003 U.S.A.
+1-212-247-2966

Taipei Representative Office

Fabulous International Commercial Building
6F-1, No.126, Songjiang Rd., Zhongshan Dist.,
Taipei City 10457, Taiwan
+886-2-2523-8887

Ho Chi Minh City Representative Office

Suite 1108, Saigon Tower, 29 Le Duan Street,
District 1, Ho Chi Minh City, Vietnam
+84-28-3822-2802

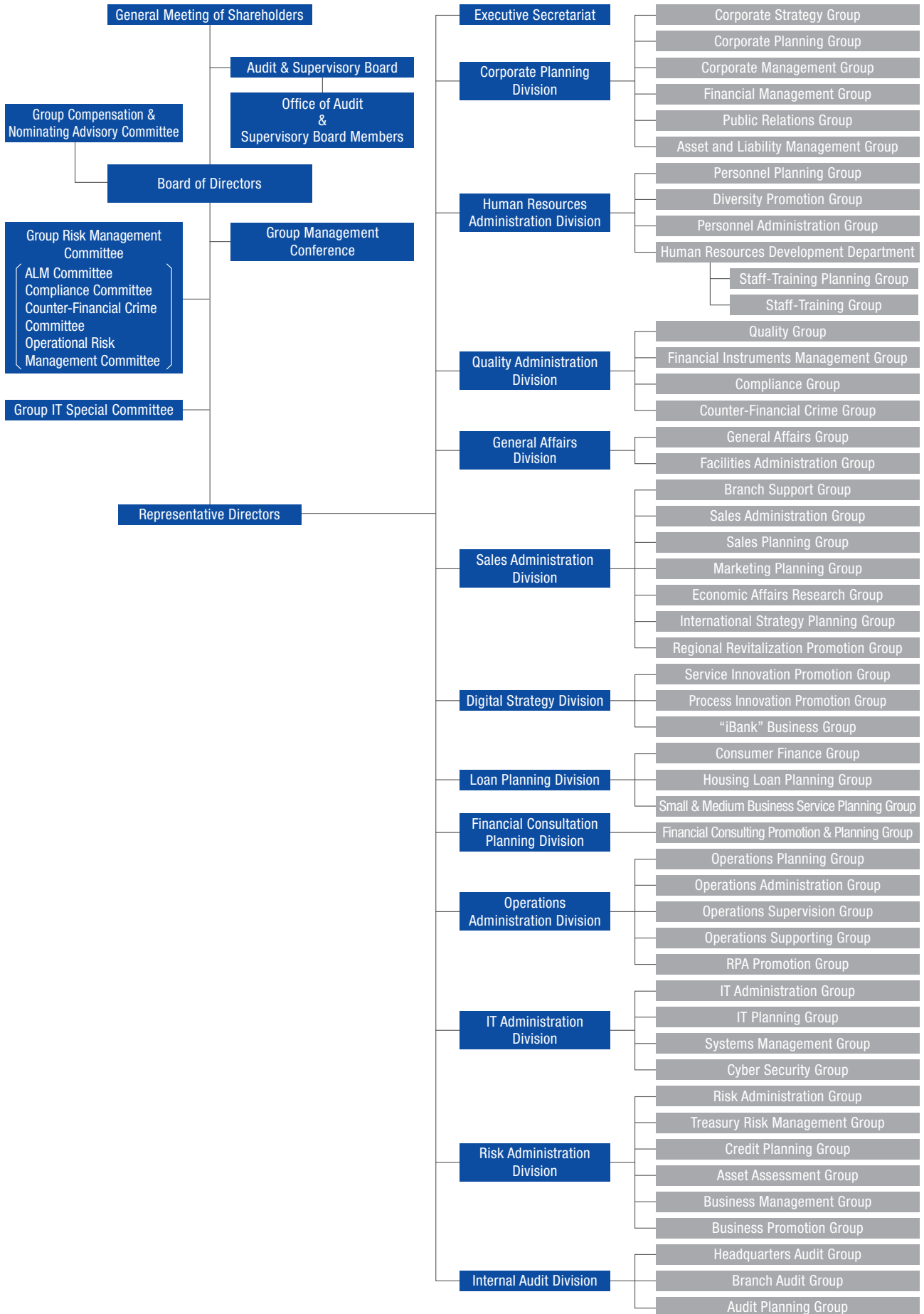
The Kumamoto Bank, Ltd.

Head Office	6-29-20, Suizenji, Chuo-ku, Kumamoto 862-8601, Japan
Date of Establishment	January 19, 1929
Paid-in Capital	¥33.8 billion
Number of Employees	932
Telephone Number	+81-96-385-1111
Website	https://www.kumamotobank.co.jp/

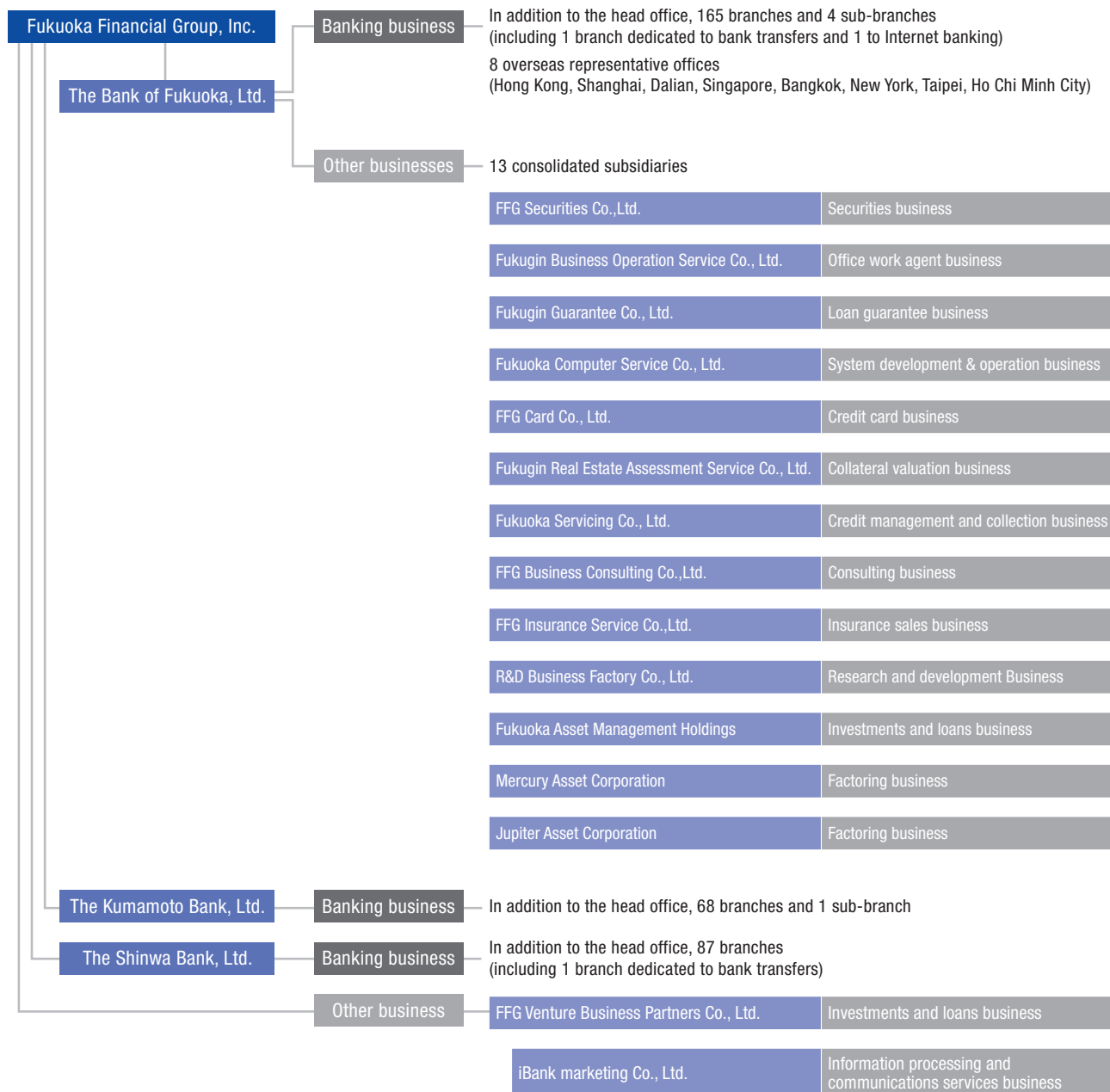
The Shinwa Bank, Ltd.

Head Office	10-12, Shimanosecho, Sasebo, Nagasaki 857-0806, Japan
Date of Establishment	September 1, 1939
Paid-in Capital	¥36.8 billion
Number of Employees	1,211
Telephone Number	+81-956-24-5111
Website	https://www.shinwabank.co.jp/

Organizational Chart (as of August 1, 2018)



Group Company Chart (as of August 1, 2018)



Share Information (as of March 31, 2018)

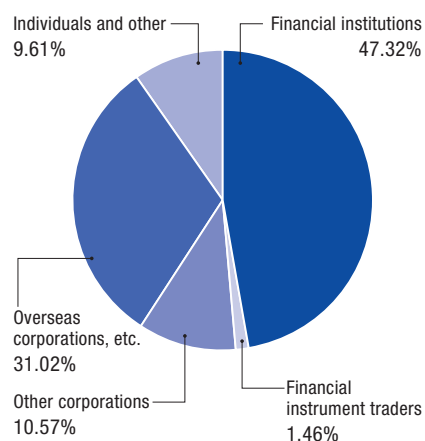
Investor Information

	Common stock
Number of authorized shares	1,800,000,000
Number of shares Issued	859,761,868

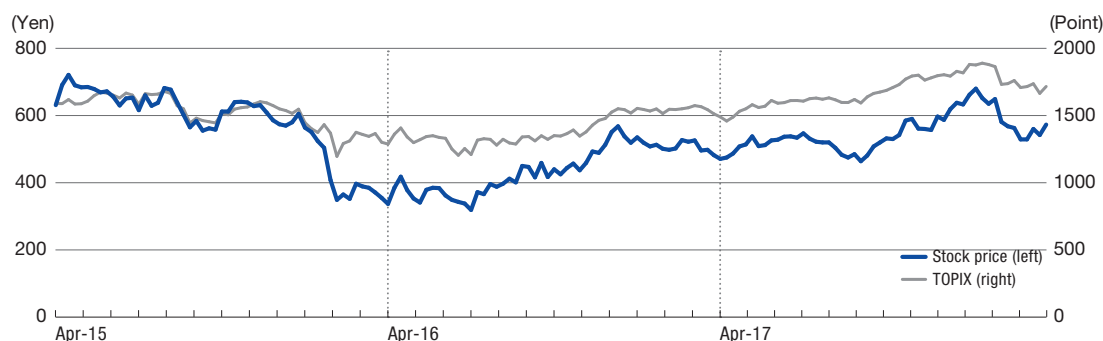
Major Shareholders

	(Thousands of shares, %)	
	Shares held	Ratio of shares held to issued number of shares
The Master Trust Bank of Japan, Ltd. (Trust account)	64,092	7.46
Japan Trustee Services Bank, Ltd. (Trust account)	60,285	7.01
Japan Trustee Services Bank, Ltd. (Trust account 9)	25,716	2.99
Nippon Life Insurance Company	17,722	2.06
Meiji Yasuda Life Insurance Company	17,719	2.06
Sumitomo Life Insurance Company	17,419	2.02
The Dai-ichi Life Insurance Company, Limited	17,315	2.01
Japan Trustee Services Bank, Ltd. (Trust account 5)	15,300	1.78
STATE STREET BANK WEST CLIENT-TREATY 505234	14,100	1.64
Japan Trustee Services Bank, Ltd. (Trust account 4)	13,518	1.57

Common Stock Distribution by Type of Shareholder



Stock Price



	FY2015	FY2016	FY2017
High (Yen)	739	571	694
Low (Yen)	341	317	453
Closing price as of March 31 (Yen)	367	482	573



Fukuoka Financial Group, Inc.