

FFG


ANNUAL REPORT 2017

YEAR ENDED MARCH 31, 2017



To the future,
always beside the region





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.

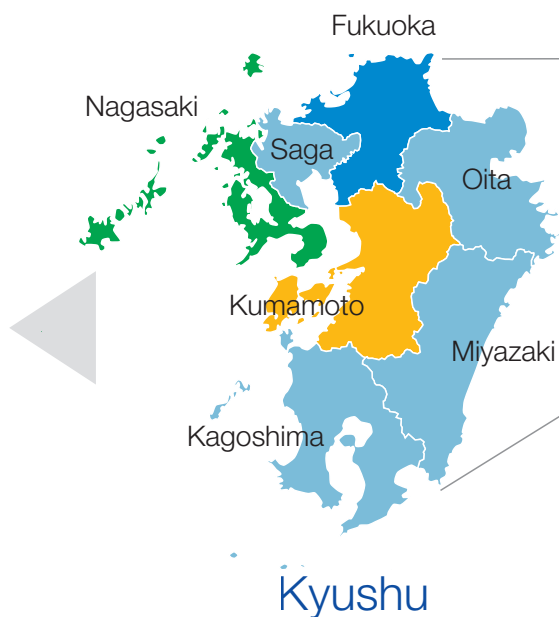
With its headquarters in Fukuoka, the largest city in Kyushu, FFG's network extends across the Kyushu region through bases in the three prefectures

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.

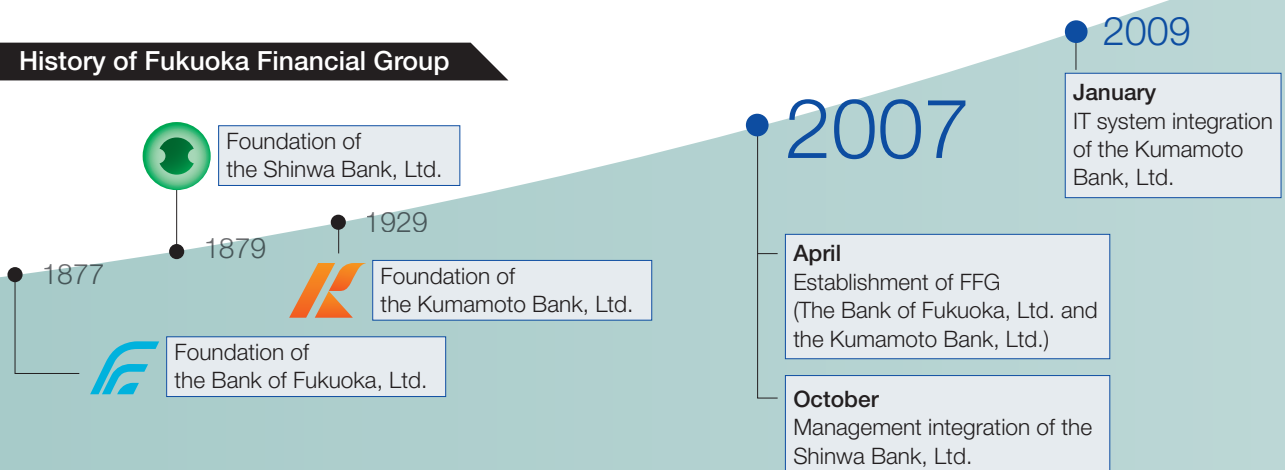
What is Kyushu?

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.

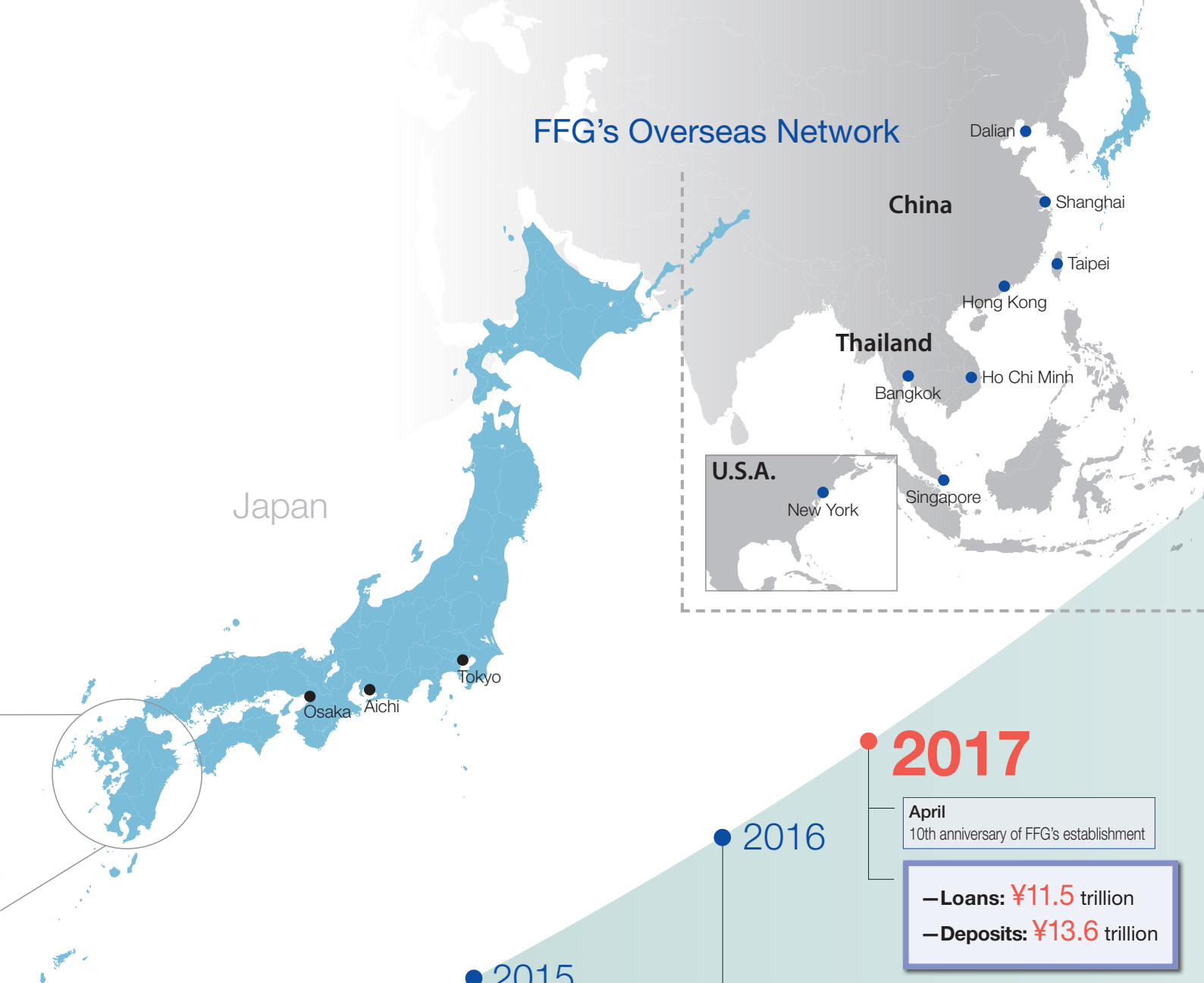


* Kyushu consists of seven prefectures.

History of Fukuoka Financial Group



FFG's Overseas Network



2017

April
10th anniversary of FFG's establishment

—Loans: ¥11.5 trillion
—Deposits: ¥13.6 trillion

2016

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

July
Opening of representative office in Ho Chi Minh City

2015

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.

2012

November
Opening of representative office in New York

December
Opening of representative office in Singapore

2011

January
IT system integration of the Shinwa Bank, Ltd.

2010

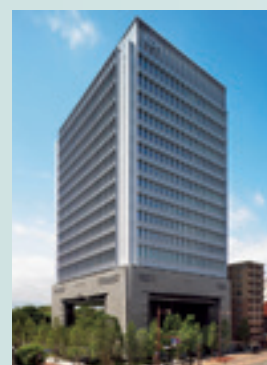


Fukuoka Financial Group, Inc.

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

10.3%

10.3% of total population of Japan lives in Kyushu.

4th

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

5 minutes

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

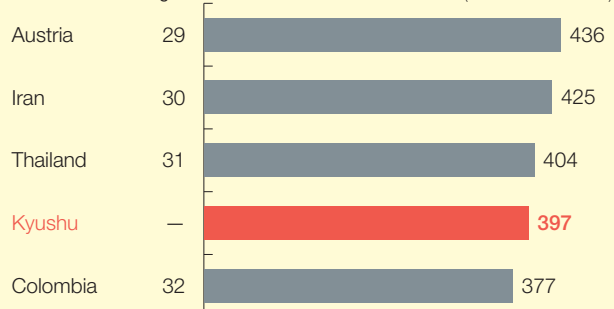
Kyushu is referred to as “the 10% of Japan's Economy” because it accounts for approximately 10% of Japan's total population, GDP, number of businesses, etc.

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 automobile, 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

Global GDP Ranking



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

Data Analysis for Kyushu

Gross Prefectural Production*¹ (2013)

Kyushu Total **43.9** trillion yen

41.4% 12.7% 10.0% 35.9%

Population*¹ (2016)

Kyushu Total **13.2** million

38.9% 13.7% 10.7% 36.7%

Fukuoka Kumamoto
Nagasaki Kyushu, other prefectures

Number of Businesses*² (2016)

Kyushu Total **587,333**

38.4% 12.7% 10.8% 38.1%

Commercial Sales*⁴ (2014)

Kyushu Total **34.4** trillion yen

53.0% 10.7% 8.1% 28.2%

Loans*³ (March 31, 2017)

Kyushu Total **34.2** trillion yen

52.8% 11.1% 8.0% 28.1%

Deposits*³ (March 31, 2017)

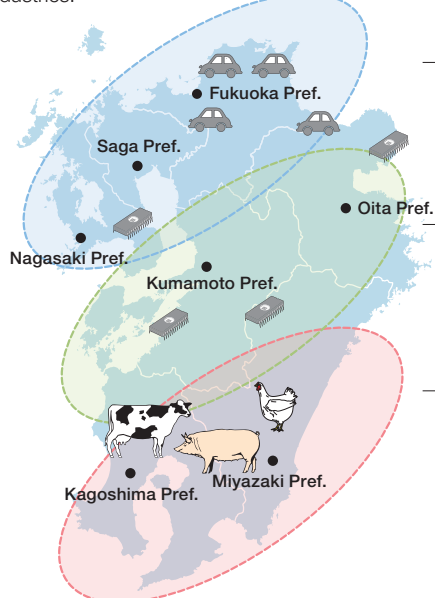
Kyushu Total **47.1** trillion yen

47.1% 13.3% 10.4% 29.2%

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 automotive, integrated circuits (IC), agriculture and food industries.



Northern Kyushu, a center of “Car Island”

Kyushu 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”

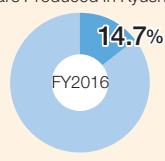
Kyushu is home to a flourishing semiconductor industry, facilitated by its high-quality water sources, abundant workforce and well-developed infrastructure of roads and ports.

Southern Kyushu, a center of “Food Island”

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

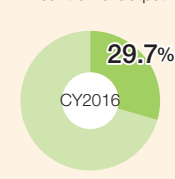
Share in Japan

Number of Passenger Cars Produced in Kyushu



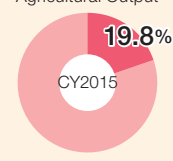
1.35 million

Amount of IC Output



675.8 billion yen

Amount of Agricultural Output



1.75 trillion

Sources: Kyushu Bureau of Economy, Trade and Industry
The Ministry of Agriculture, Forestry & Fisheries of Japan

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



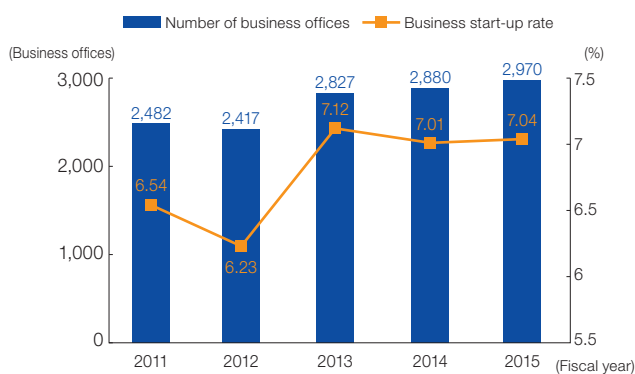
Kyushu Shinkansen

Broad network linking Fukuoka, Kumamoto and Kagoshima

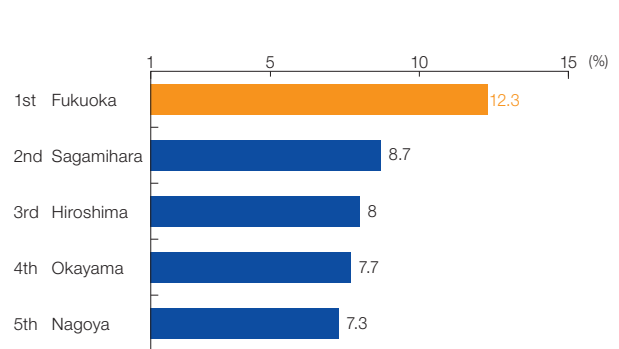
Seeds of Further Growth

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 Japan for five 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.

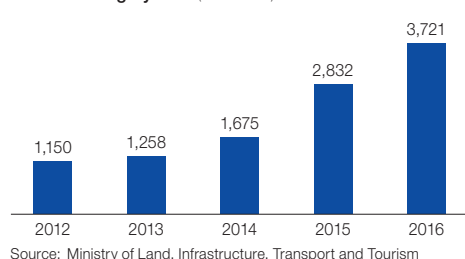
Number of newly established business offices and business start-up rate in Fukuoka City



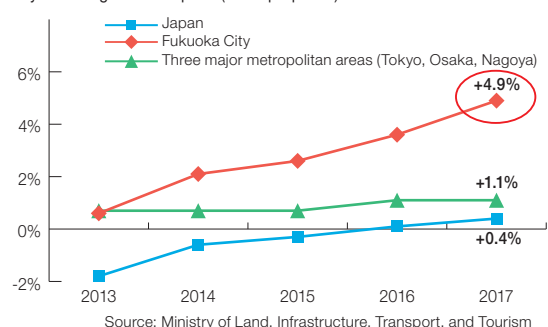
Cities with a high percentage of young people* among entrepreneurs



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

Due to building up the balance of loans and increasing corporate-related fees, etc., we secured core business profit (3 banks' total) of ¥71.3 billion, an increase versus the plan.

(54.3) billion yen
[Excluding the effect of one-time amortization of goodwill]
40.5 billion yen

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.

8.80%

Core OHR (3 banks' total)

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

58.7%

Foreign investors ratio

We continue to strive for constructive dialogue with foreign investors.

29.20%

Business foundation

We are building a firm business foundation based on high-quality financial services provided by the approximately 6,900 employees of the Group (consolidated basis).

Individual **5,685** thousand
Corporate **222** thousand

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.

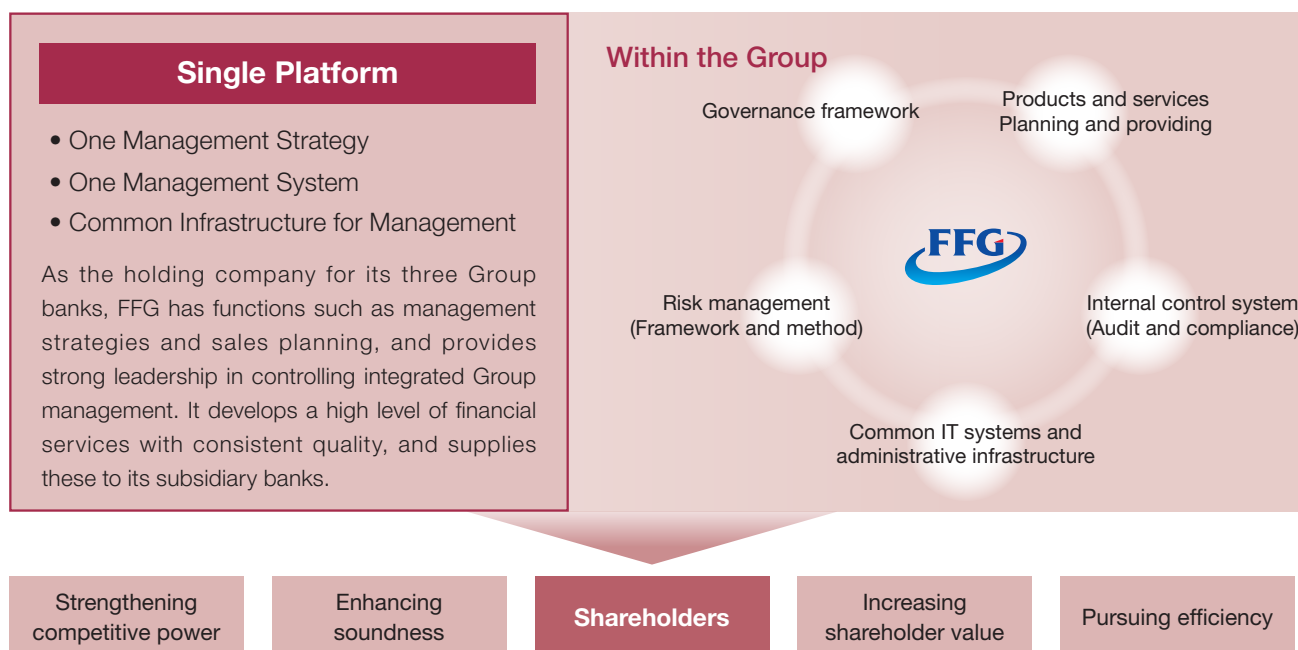
23.7%

(As of March 31, 2016)

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.



—Subsidiary banks—

● THE BANK OF FUKUOKA, LTD.

Loans	Deposits
8.9	9.9
trillion yen	trillion yen

● THE KUMAMOTO BANK, LTD.

Loans	Deposits
1.1	1.4
trillion yen	trillion yen

● THE SHINWA BANK, LTD.

Loans	Deposits
1.4	2.2
trillion yen	trillion yen

(As of March 31, 2017)

Broad Area-Based Regional Financial Group

FFG views Kyushu as a single economic zone, and has formed a broad area-based regional financial group that covers all of Kyushu. In addition, 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.



Fukuoka Financial Group, Inc.

Within Kyushu 321



THE BANK OF FUKUOKA, LTD.

Fukuoka Prefecture 152
Within Kyushu 12
Other 6



THE SHINWA BANK, LTD.

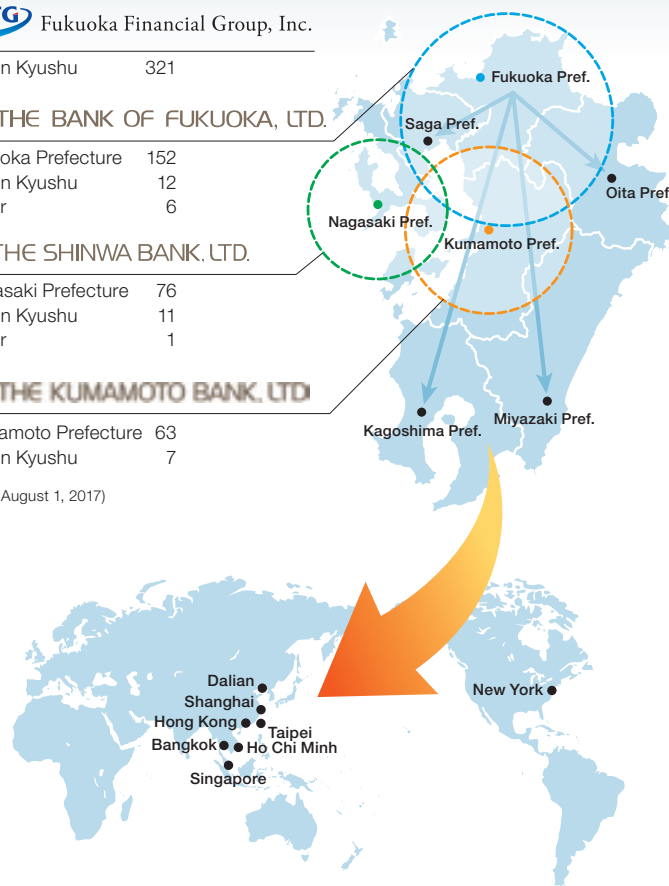
Nagasaki Prefecture 76
Within Kyushu 11
Other 1



THE KUMAMOTO BANK, LTD.

Kumamoto Prefecture 63
Within Kyushu 7

(As of August 1, 2017)



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

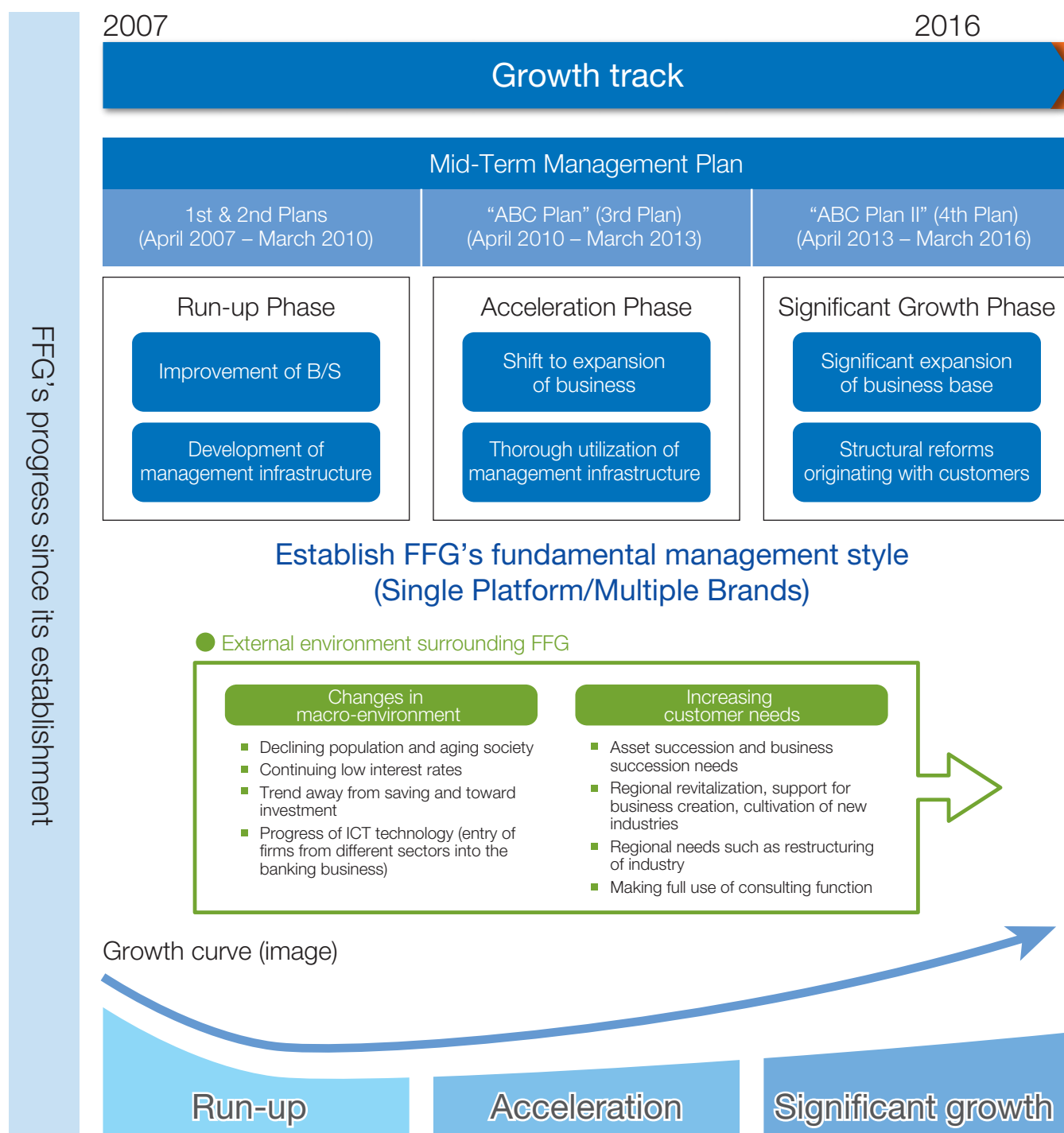
Long-term vision of FFG

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

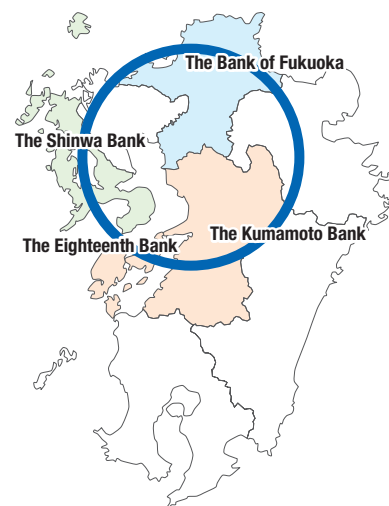
■ Background

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

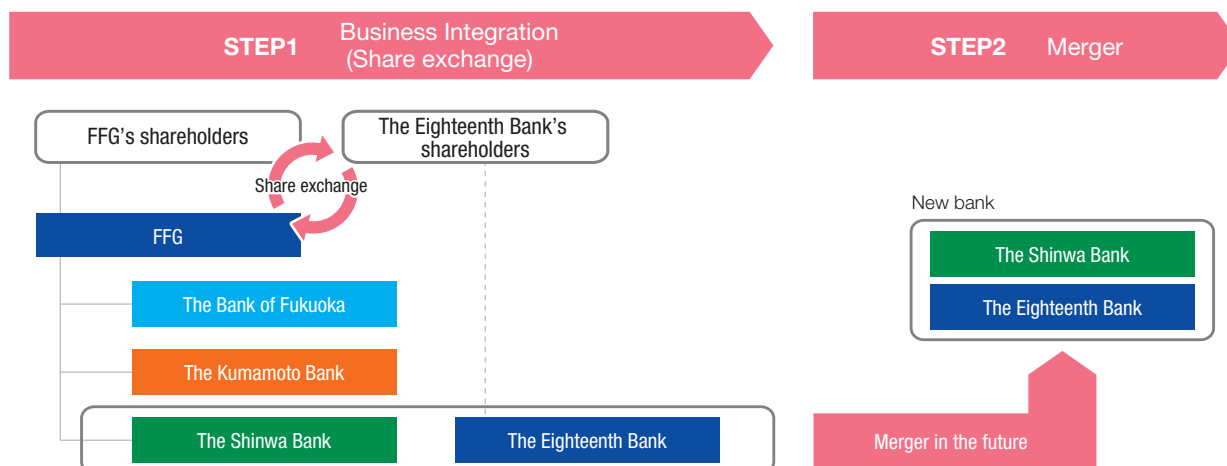
Contribution to the growth of companies in Nagasaki Prefecture

Financial group with the highest customer satisfaction

Structure and Schedule

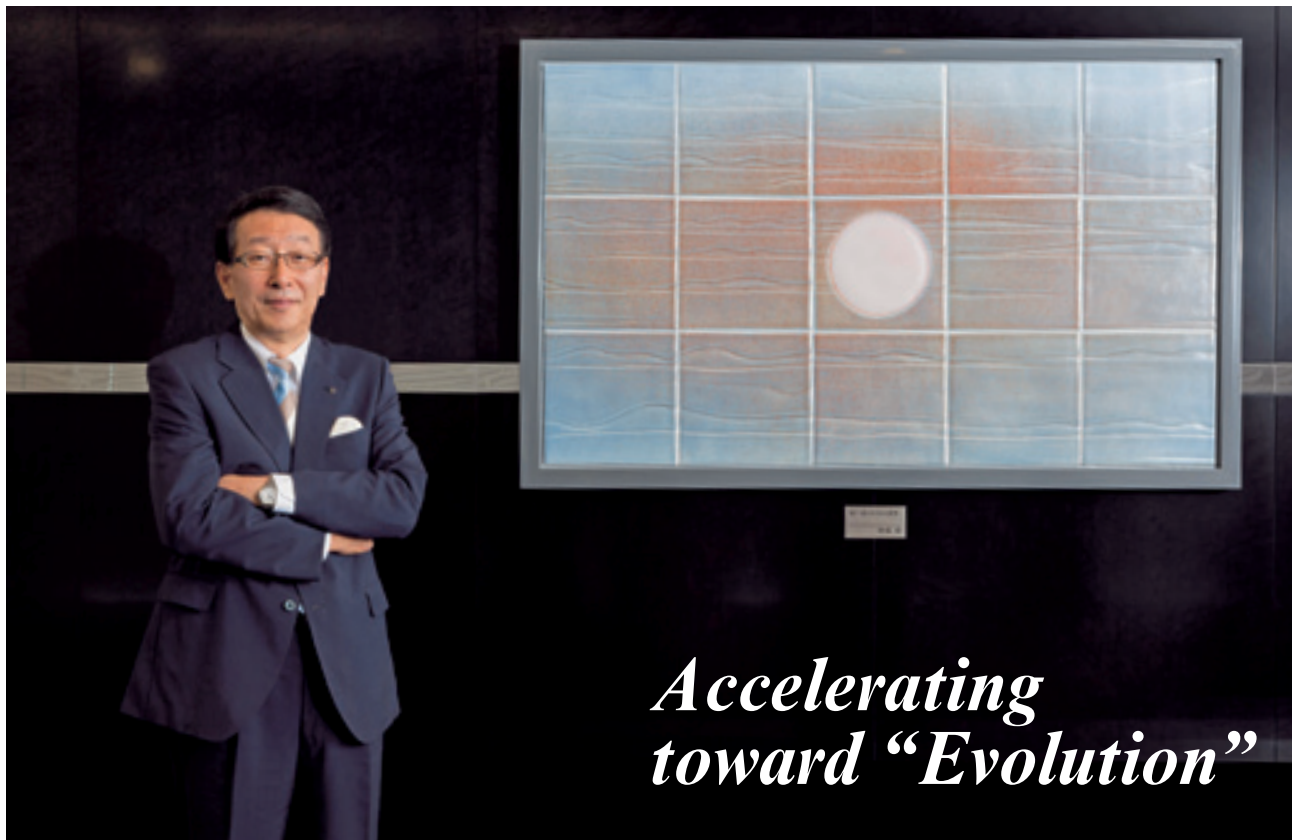
The Companies executed a Memorandum of Understanding regarding Business Integration as of February 26, 2016. While we announced on January 20, 2017 that, since the relevant review of the business combination by Japan Fair Trade Commission had not been completed, we would postpone the scheduled effective date of the share exchange, for which the consultation and consideration have been promoted as the structure of the Business Integration, and the scheduled timing of the merger between The Eighteenth Bank and the Shinwa Bank, Ltd., which is planned to take effect after the Business Integration, which had been initially scheduled for April 1, 2017 (planned) and in April 2018 (planned), to October 1, 2017 (planned) and in October 2018 (planned), respectively, as the relevant review is currently ongoing, we decided to postpone again the future schedule.

We will announce the future schedule of the Business Integration when it is determined without delay. We continuously cooperate to work on this matter, aiming to realize the Business Integration soon.



Interview with the President

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



August 2017

T. Shibato

Takashige Shibato
President
Fukuoka Financial Group, Inc.

Q.1 | How do you evaluate the first year of the Fifth Mid-Term Management Plan?

In FY2016, the first year of the Fifth Mid-Term Management Plan, the severity of the Bank's earnings structure became apparent, as evidenced by the decrease in loans and yield on securities due to the low interest rate policy, and the impact from the Kumamoto Earthquake.

In such circumstances, FFG focused on increasing "the volume of corporate loans" and "high-yield products such as consumer loans" while strengthening consulting services and asset management business. In addition, we undertook the "full-scale development of our financial services platform", the iBank business, aiming at the evolution of our business model.

As a result, core business profit (the three banks' total) surpassed our target to reach 71.3 billion yen. We posted a loss of 54.3 billion yen. However, excluding the one-time amortization of goodwill, net income was largely as planned at 40.5 billion yen, remaining on track with the growth trend.

< One-time Amortization of Goodwill >

With respect to the owned shares of our consolidated subsidiaries, the Kumamoto Bank and the Shinwa Bank (hereafter referred to as the "Banks"), as a result of the revaluation of share value in light of the material changes to the business environment not anticipated at the time of business integration, especially the effect of the low interest rate, a loss on valuation of shares of subsidiaries was posted. As a result, we implemented a one-time amortization as to the entire amount of 94.8 billion yen of unamortized goodwill concerning the Banks in the consolidated balance sheet ahead of schedule.

The goodwill was recorded as a total of 183.4 billion yen at the time of business integration and has been equally amortized each year at 9.2 billion yen, therefore the Bank's profitability and capital efficiency will improve since the annual 9.2 billion yen burden in amortization of goodwill will disappear in and after FY2017. In addition, since goodwill was originally deducted from calculations of the capital adequacy ratio, there is no effect on the ratio or soundness.

Interview with the President

Q.2 | Please tell us how FFG will develop in FY 2017.

In FY2017, we are preferentially working on “structural reform” from a medium- to long-term perspective so that we can respond to the severe business environment and rapid changes.

(1) Reform of existing business

The establishment of consulting services and asset management business are part of system improvements. It enables us to change our existing business, respond appropriately to customer needs, and also deal with changes in the competitive environment. We will accelerate the initiatives together with the development of human resources and strengthening cooperation with our Group affiliates.

(2) Taking up the challenge in new business areas

We are moving forward as part of the iBank business with “Wallet+,” the money management application, and DIAGONAL RUN TOKYO, an open innovation base, which are brand new business model developments to us. These initiatives have been recognized, as seen in the fact that we are the only regional bank selected as an “IT-focused Company 2017” chosen by the Ministry of Economy, Trade and Industry. We will further continue to challenge exploring new earnings opportunities.



■ Wallet+



- Exceeded 200,000 app downloads in the first year since the launch.

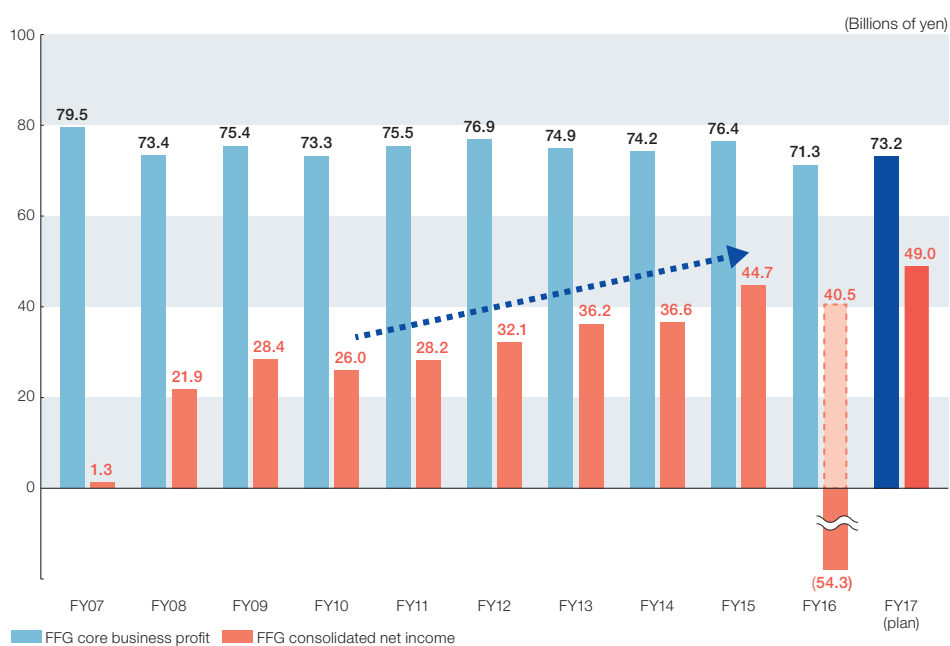
■ DIAGONAL RUN TOKYO



- Links core working spaces (6 domestic, mainly in Yaesu, Tokyo, and 1 in Singapore)

We are also aiming to improve productivity and reinforce our sales force capabilities with “Work Style Reform”. It surely pushes ahead “structural reform” of the Group as a whole.

In our business outlook, the core business profit (the three banks’ total) and consolidated net income will exceed the results for FY2016.



Interview with the President

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

FFG has set out the aim of becoming the “Best Regional Bank” as its long-term vision. This incorporates the determination to gain all our stakeholders’ support in order to achieve sustainable growth while contributing to regional economic development.

Currently, the external environment surrounding us is rapidly changing. As the result of such factors as the shrinking market due to the declining birthrate and aging population, the prolonged environment of low interest rates, the progress of ICT, and the entry of firms from different sectors into the banking business, the needs of customers and local communities are diversifying and becoming increasingly sophisticated. Today, the roles of financial institutions are being tested. It is also the time for us to resolutely take up the challenge toward “evolution.”

The 10 years since the establishment have by no means been a smooth path, however, we have been able to maintain a growth trend. What made it possible is “a sense of group unity” that overcame the integration of business administration systems and the consolidation of branches, “consulting services capabilities and know-how” that we have utilized in our business revitalization since the integration. Our unique management style such as “Single Platform/Multiple Brands” has also strengthened it.

Furthermore, we challenge ourselves to be creative and establish businesses and services that exceed the expectations of our customers over the next decade, and achieve our long-term vision.

Q.4 | What is the aim for business integration with the Eighteenth Bank?

Business integration with the Eighteenth Bank is one of the strategic options to realize our long-term vision in terms of FFG's growth strategy. Since February 2016, we have been engaged in consultation and consideration toward realization of business integration and the investigation by the Japan Fair Trade Commission remains ongoing.

The business integration will result in synergistic effects such as the reallocation of personnel, the integration of know-how, and improved efficiency utilizing the benefits of scale. And we also believe that it enables us to contribute to economic development by supporting local companies and revitalizing the region. It generates the synergistic effects for the benefit of Nagasaki Prefecture.

Specifically those areas are going through the most rapid population decline in Kyushu, with its population forecast to decrease by around 30% in 2040 compared with 2010. In view of these problems, business integration aimed at improving efficiency is essential to fill our role as a regional bank to contribute to the revitalization of the economy including that of Nagasaki prefecture.

We continue to aim for the realization of business integration.



Interview with the President

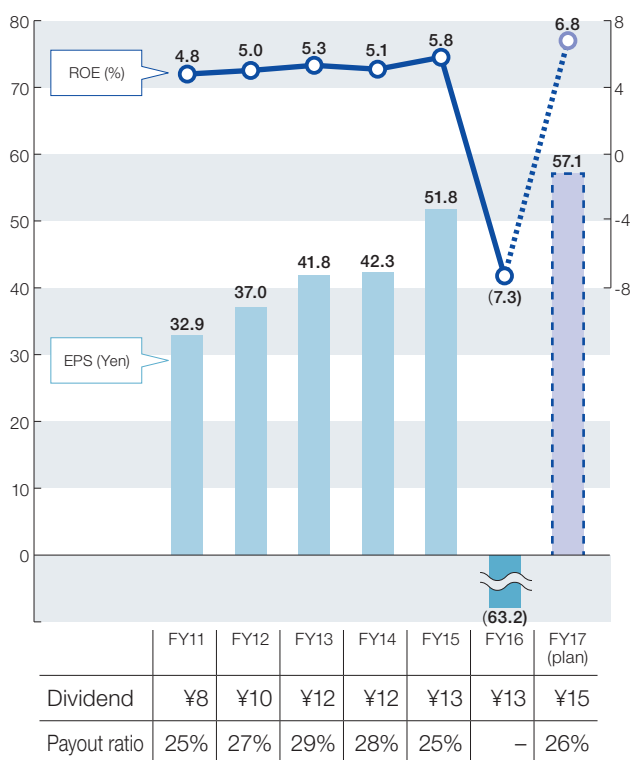
Q.5 | Please give a message to shareholders and other stakeholders.

Today, 10 years since our establishment in April 2007, our mission is to continue to grow together with our stakeholders and with the local Kyushu area over the next decade. We promise to build active communication and relationships, and to evolve.

With regard to returning profits to shareholders, we expect to pay an annual dividend of 15 yen in FY2017. And it is planned to rise to 17 yen in

FY2018, which is the final year of the Fifth Mid-Term Management Plan, in accordance with our policy of providing returns with a target dividend payout ratio at approximately 30%. We strive to provide returns to shareholders while maintaining a balance with enhancing our capital adequacy.

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

Financial Highlights

Fukuoka Financial Group, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31,	2013	2014	2015	2016	2017
Operating results (Millions of yen)					
Ordinary income	255,019	242,289	228,007	236,707	235,767
Ordinary profit (loss)	68,777	57,020	60,763	71,426	(34,441)
Net income (loss) attributable to owners of the parent	32,059	36,192	36,595	44,718	(54,300)
Comprehensive income	67,495	32,356	77,678	43,138	(54,410)
Assets (Millions of yen)					
Net assets	754,283	745,778	778,093	784,691	712,058
Total assets	13,277,578	14,125,998	15,661,794	16,406,109	18,113,049
Cash flows (Millions of yen)					
Cash flows from operating activities	(30,768)	758,784	989,644	315,044	1,152,326
Cash flows from investing activities	314,231	(104,873)	(416,303)	(139,028)	(86,273)
Cash flows from financing activities	(29,603)	(165,859)	(32,289)	(99,041)	(20,696)
Cash and cash equivalents at end of the year	723,336	1,211,513	1,752,714	1,829,586	2,874,917
Per share data (Yen)					
Net assets per share	774.42	798.16	865.66	902.50	829.07
Net income per share	37.01	41.82	42.29	51.75	(63.22)
Ratio (%)					
Capital adequacy ratio (consolidated)	12.26	10.28	9.60	8.75	8.80
Return on equity (consolidated)	4.97	5.28	5.05	5.81	(7.25)
Price earnings ratio	13.04	10.13	14.63	7.09	–
Other					
Employees	6,825	6,763	6,805	6,823	6,865

- 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,	2016	2017	Comparison
Gross business profit	178.9	175.4	(3.5)
Net interest income	150.0	149.7	(0.3)
Net fees and commissions	21.9	19.4	(2.5)
Net trading income	0.0	0.0	(0.0)
Net other operating income	6.9	6.2	(0.7)
Overhead expenses	100.0	101.5	1.6
Business profit* ¹	78.9	86.3	7.3
Core business profit* ²	76.4	71.3	(5.0)
Total credit cost* ³	(3.6)	(1.6)	2.0

Consolidated

Ordinary profit	71.4	(34.4)	(105.9)
Net income (loss) attributable to owners of the parent	44.7	(54.3)	(99.0)

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

In respect of net interest income, an increase of loan volume and a decrease of interest expenses covered a decrease in yield resulting from the Bank of Japan's implementation of a negative interest rate policy.

However, net fees and commissions decreased and overhead expenses increased. As a result, core business profit decreased ¥5.0 billion from a year earlier to ¥71.3 billion.

In respect of consolidated ordinary profit, we posted a loss of ¥34.4 billion due to a ¥94.8 billion loss on *the one-time amortization of goodwill and an increase of credit cost.

* Regarding the one-time amortization of goodwill, refer to "Implementation of One-time Goodwill Amortization and Revision of Business Results Forecast" announced on our website on March 21, 2017.

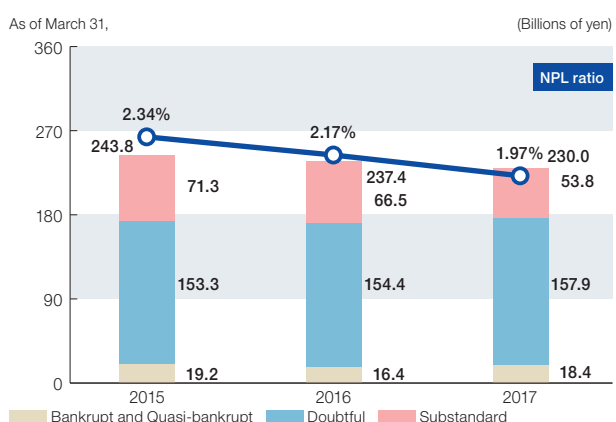
As a result, net income attributable to owners of the parent decreased and we posted a loss of ¥54.3 billion. However, excluding the one-time amortization of goodwill, it stood at ¥40.5 billion.

(Billions of yen)									
(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
For the fiscal years ended March 31,	2016	2017	Comparison	2016	2017	Comparison	2016	2017	Comparison
Gross business profit	129.5	129.5	0.0	20.8	19.1	(1.7)	28.7	26.8	(1.8)
Net interest income	107.7	107.9	0.2	18.2	17.7	(0.4)	24.1	24.0	(0.1)
Domestic	100.9	101.3	0.4	18.1	17.7	(0.5)	24.1	23.9	(0.2)
International	6.8	6.6	(0.2)	0.0	0.1	0.0	0.0	0.1	0.1
Net fees and commissions	15.7	15.1	(0.6)	2.4	1.4	(1.0)	3.9	3.0	(0.9)
Net trading income	0.0	0.0	(0.0)	—	—	—	—	—	—
Net other operating income	6.0	6.5	0.5	0.2	(0.1)	(0.3)	0.7	(0.2)	(0.9)
Overhead expenses	66.1	67.7	1.6	13.8	13.9	0.2	20.1	19.9	(0.2)
Business profit	63.4	73.2	9.8	7.0	4.3	(2.7)	8.5	6.9	(1.7)
Core business profit	61.4	58.9	(2.5)	6.9	5.2	(1.7)	8.1	7.2	(0.9)
Ordinary profit	66.8	60.1	(6.7)	7.4	2.7	(4.7)	7.7	9.4	1.7
Net income	45.6	44.2	(1.5)	5.3	1.5	(3.8)	5.2	7.4	2.2
Total credit cost	(1.8)	(0.4)	1.4	(1.0)	1.9	2.9	(0.8)	(3.1)	(2.3)

Note: "()" denotes minus.

Major Financial Indicators

Non-performing loans (3 banks' total)



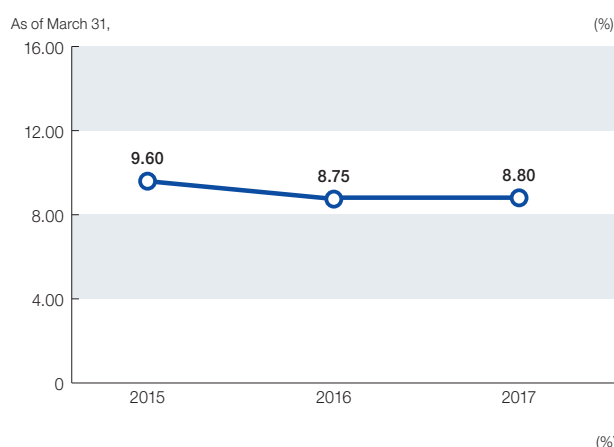
(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
As of March 31,	2016	2017	Comparison	2016	2017	Comparison	2016	2017	Comparison
NPL ratio (Direct write-off is adopted)	2.02	1.77	(0.25)	2.70	2.90	0.20	2.65	2.48	(0.17)
Capital adequacy ratio	8.76	8.87	0.11	10.00	9.80	(0.20)	8.83	8.80	(0.03)

Notes: 1 "()" denotes minus.

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

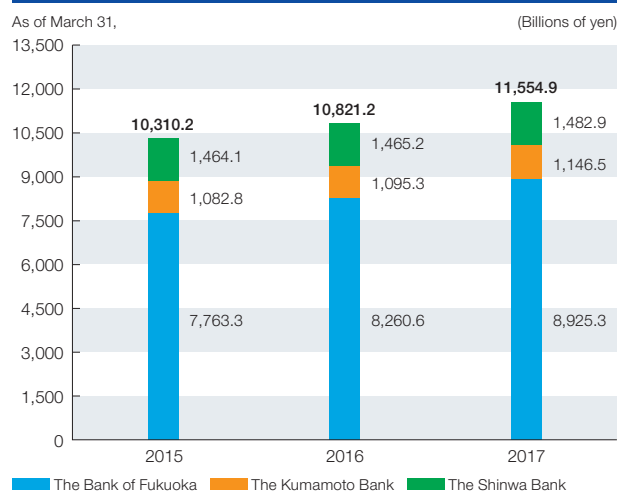
3 Capital adequacy ratio is calculated based on Pillar 3 (domestic standard).

Capital adequacy ratio (Consolidated)

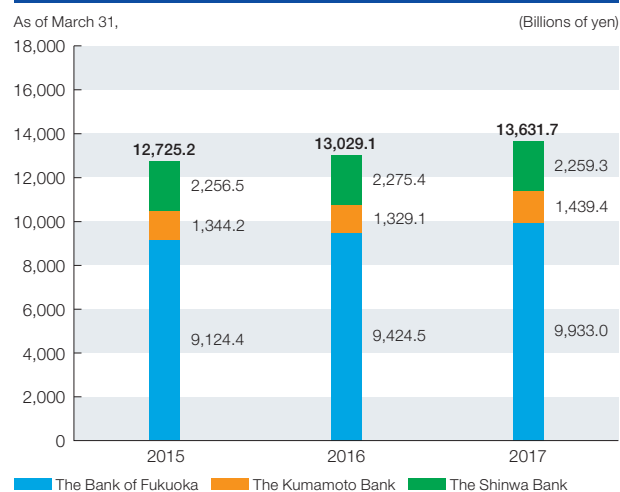


Loans and Deposits

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)

	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
As of March 31,	2016	2017	Comparison	2016	2017	Comparison	2016	2017	Comparison
Total	8,260.6	8,925.3	664.7	1,095.3	1,146.5	51.1	1,465.2	1,482.9	17.7
Personal	2,160.9	2,214.5	53.5	417.0	434.9	17.8	448.1	455.0	6.8
General corporate	5,167.5	5,426.6	259.1	581.0	604.0	22.9	812.8	804.5	(8.3)
Public sector	932.1	1,284.1	352.0	97.2	107.5	10.3	204.2	223.4	19.2
Personal loans	2,093.6	2,145.7	52.0	394.7	412.3	17.5	434.6	442.8	8.1
Housing loans	1,900.8	1,924.8	24.0	365.6	377.3	11.7	383.4	387.1	3.7
Consumer loans	132.0	165.6	33.6	23.5	27.7	4.2	35.8	41.4	5.5

Deposits (Non-consolidated)

	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
As of March 31,	2016	2017	Comparison	2016	2017	Comparison	2016	2017	Comparison
Total	9,158.1	9,641.3	483.2	1,296.2	1,426.4	130.1	2,188.8	2,168.1	(20.7)
Personal	6,394.1	6,656.3	262.2	976.9	1,064.4	87.5	1,417.7	1,447.7	30.0
Corporate (including Public)	2,764.0	2,985.0	221.0	319.2	361.9	42.6	771.0	720.3	(50.7)
Deposits and CDs	9,424.5	9,933.0	508.4	1,329.1	1,439.4	110.2	2,275.4	2,259.3	(16.1)

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

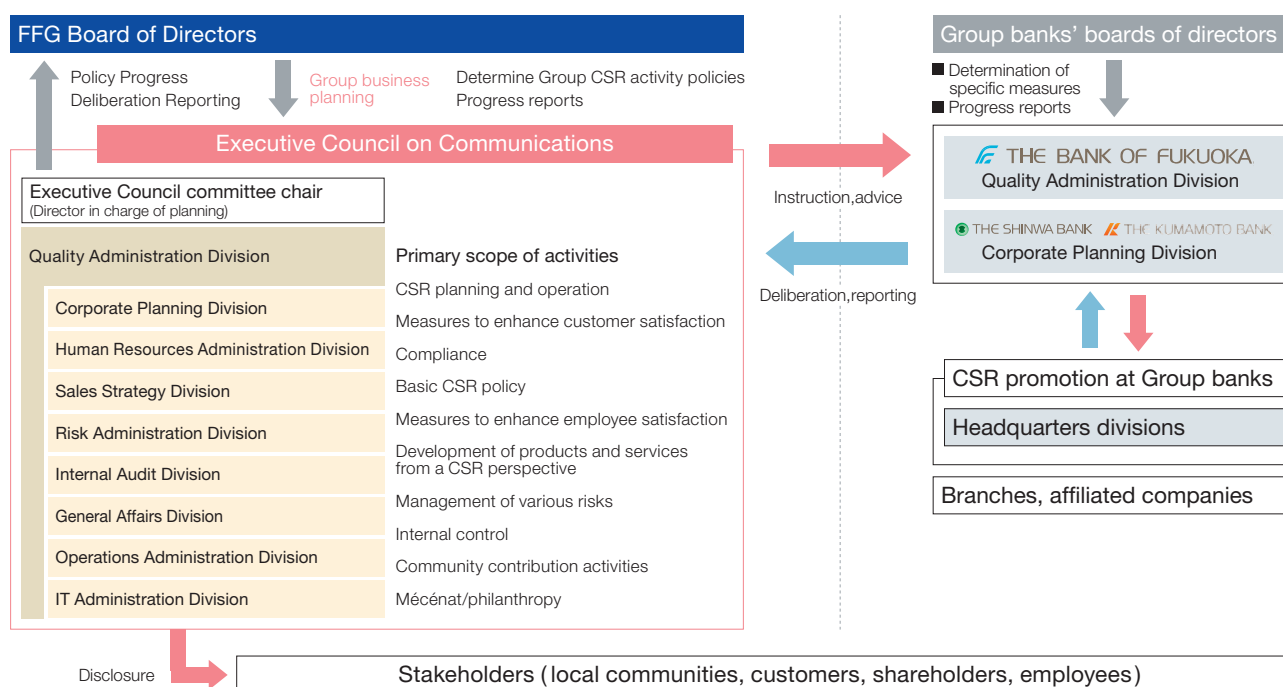
The Fukuoka Financial Group's concept of CSR lies in the belief that it can achieve sustainable growth for the Company and society by forging stronger relationships with stakeholders (customers, shareholders and employees). Accordingly, our corporate management initiatives aim to strengthen compliance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

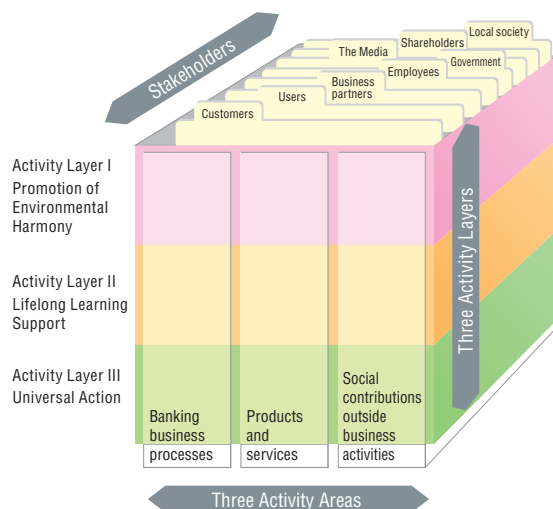
Activity Areas, "Banking business processes," "Products and services" and "Social contributions outside business activities," while conducting a host of activities.

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. Money saving seminar for students and Investment seminar for beginners are also held in FY2016.



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)



Volunteer planting

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. We organize a wide range of workplace experience programs suitable for different age groups.

In addition, 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 an annual New Year Concert, 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.



Cross-prefecture concert



1 day baseball school

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 newly introduced mainly in same sight-seeing spots for foreigners.



Multilingual ATM

“Soft” Action

We are working to enhance our service structure by improving response capabilities and mastering knowledge and skill. For instance, employees have “sign language training”, 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.

In FY2016, we also participated in the activities to help constructing the barrier free information service for smartphones which can assist diverse people to expand their action range.



Collecting barrier free information



Clean-up activity

Members of the Board



Chairman of the Board



Masaaki Tani

President



Takashige Shibato

Deputy President



Takashi Yoshikai

Directors



Yasuhiko Yoshida



Yuji Shirakawa



Eiji Araki



Koji Yokota



Ei Takeshita



Masayuki Aoyagi



Syunsuke Yoshizawa



Yasuaki Morikawa

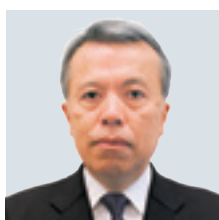


[External]
Masahiko Fukasawa

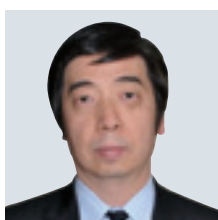


[External]
Toshiya Kosugi

Audit & Supervisory Board Members



[Full-time]
Hidemitsu Ishiuchi



[External]
Fumihide Sugimoto



[External]
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
Tetsuya Arita

Director & Managing Executive Officer
Yuji Tanoue

Director & Managing Executive Officer
Kazuhiro Tamenaga

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
Noritsugu Iwashita

Director & Senior Managing Executive Officer
Hiroshi Kawanami

Director & Managing Executive Officer
Toshimi Nomura

Director & Managing Executive Officer
Shigemi Kitahara

Director & Managing Executive Officer
Minoru Ikeda

Director [Non-Executive]
Yuji Shirakawa

Audit & Supervisory Board Member [Full-time]
Kiyokazu Kishimoto

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 & Managing Executive Officer
Kenji Yamaguchi

Director & Managing Executive Officer
Kazuki Ishino

Director & Managing Executive Officer
Mikito Tanaka

Director & Managing Executive Officer
Kousuke Yaoki

Director & Managing Executive Officer
Tomoaki Otani

Director [Non-Executive]
Koji Yokota

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

Audit & Supervisory Board Member [External]
Satoru Tateishi

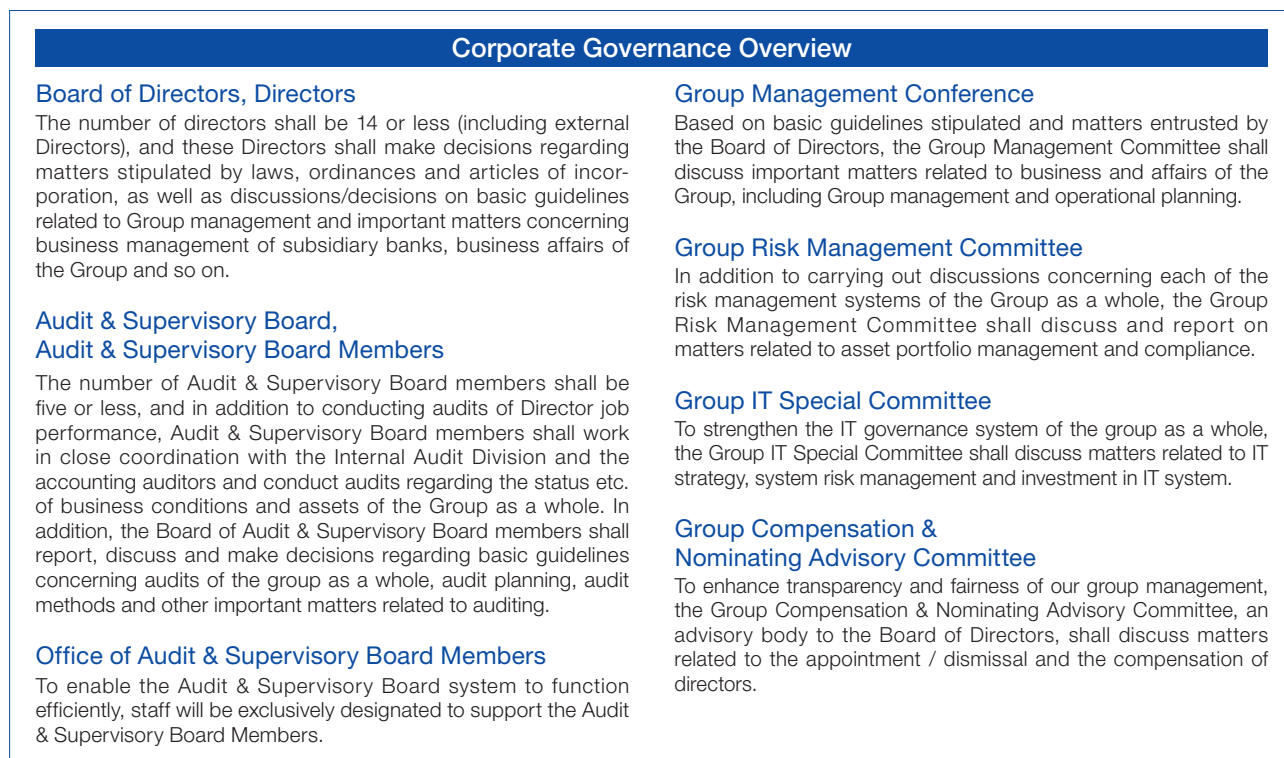
Audit & Supervisory Board Member [External]
Taro Nagamoto

Corporate Governance

FFG's Corporate Governance Framework

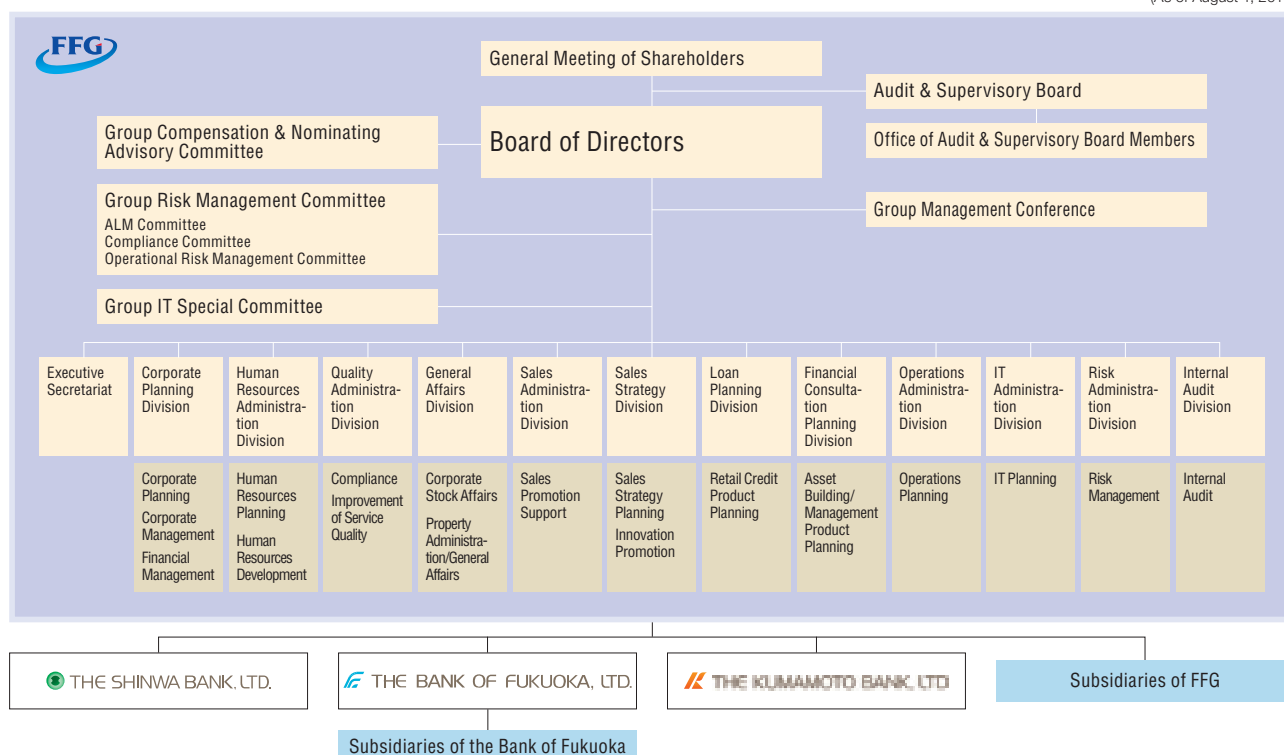
To demonstrate in a timely and appropriate manner its functions as a holding company (business management of subsidiary banks and group companies), including the strengthening of the governance system of the Group

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 Framework

(As of August 1, 2017)



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.

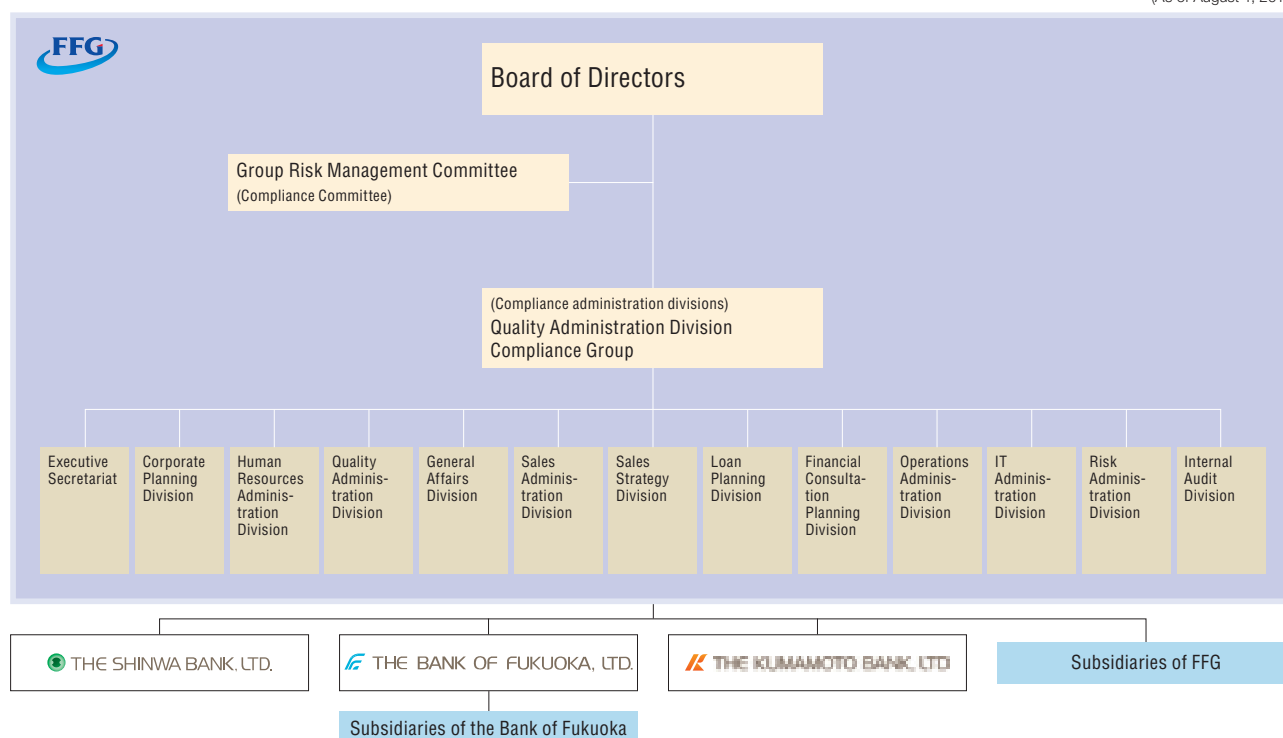
Furthermore, we have formulated a Customer Protection Management Policy to protect customers' legitimate interests and increase their convenience and are enhancing our customer protection management structure.

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, 2017)



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

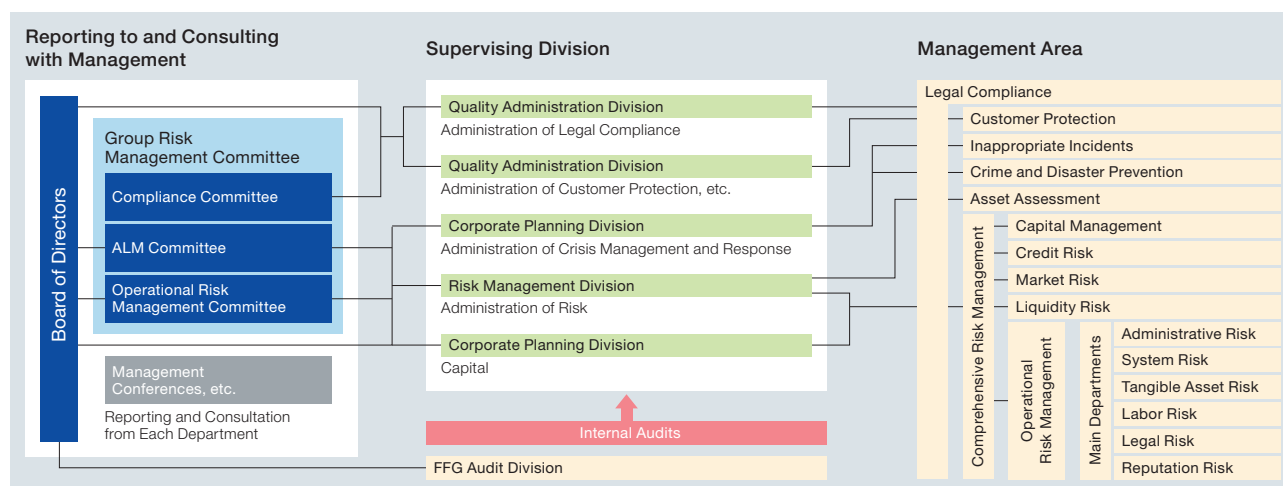
Risk categories	Definitions	Methods
Credit Risk	Risk of losses arising from asset values that have fallen or been erased (including off-balance-sheet assets) by the worsening financial position of obligors	Management by VaR Integrated risk management
Market Risk	Risk of losses arising from variation 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	
Liquidity Risk		Management by qualitative assessment
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.

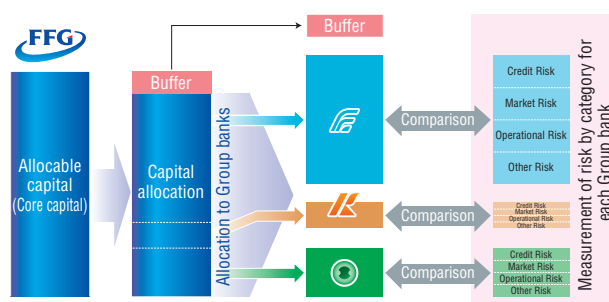
FFG operates a policy of "establishing and upgrading appropriate comprehensive risk management frameworks

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

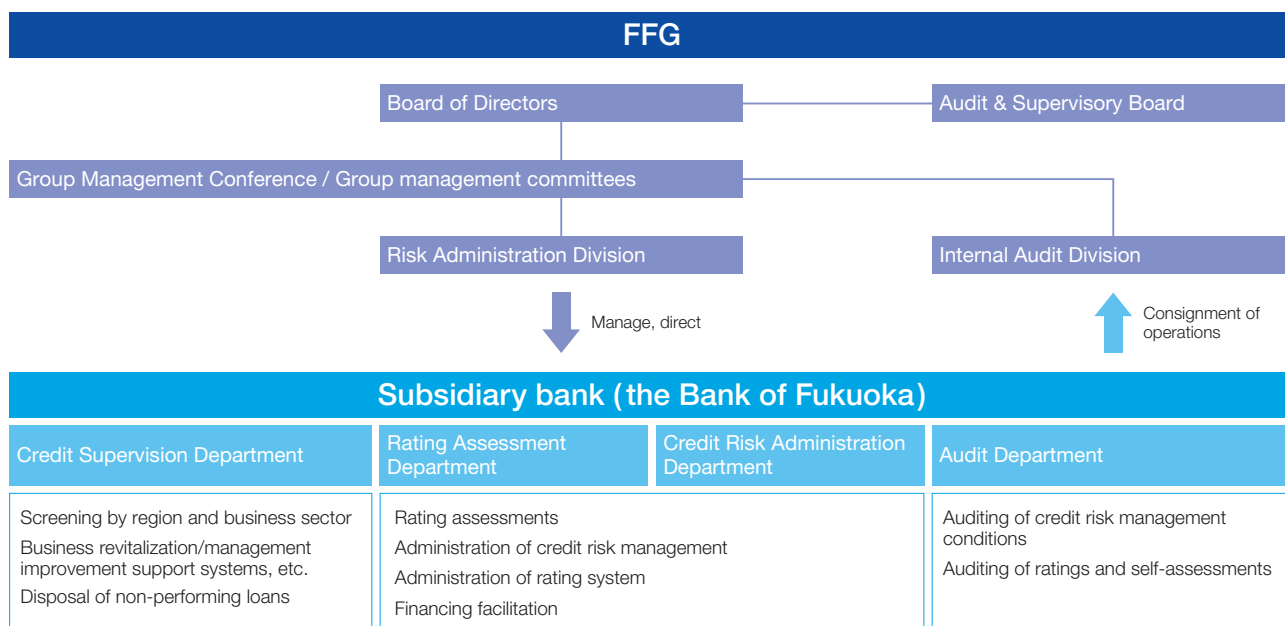
The Credit Risk Management System is centered on the Risk Management Division, which administers the formulation of credit risk management policy and manages the rating systems and credit risk for the Group.

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, obligor 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	Non-default	Non-default
9	Needs attention 2	Apparent serious problem with debt redemption, and will require detailed care in management Applies to one of the following: • Obligors with loans past due for three months or more • Obligors 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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Ernst & Young ShinNihon LLC

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, 2017, 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, 2017, 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 28, 2017
Fukuoka, Japan

Consolidated Balance Sheet

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 7 and 18)	¥ 2,880,599	¥ 1,838,148	\$ 25,676
Call loans and bills bought (Note 18)	500	9,317	4
Monetary claims bought (Notes 3 and 18)	49,459	50,995	440
Trading assets	1,701	1,824	15
Money held in trust (Note 4)	10,697	3,000	95
Securities (Notes 3, 7, 11, 12 and 18)	3,463,599	3,445,978	30,872
Loans and bills discounted (Notes 5, 7 and 18)	11,428,299	10,706,710	101,865
Foreign exchanges (Note 5)	10,352	7,979	92
Other assets (Note 7)	127,348	105,743	1,135
Tangible fixed assets (Note 6)	198,460	194,331	1,768
Intangible fixed assets	15,220	115,965	135
Net defined benefit assets (Note 10)	12,671	1,290	112
Deferred tax assets (Note 13)	8,412	11,939	74
Customers' liabilities for acceptances and guarantees (Note 11)	40,008	54,431	356
Allowance for loan losses (Note 5)	(134,282)	(141,546)	(1,196)
Total assets	¥18,113,049	¥16,406,109	\$161,449
Liabilities			
Deposits (Notes 7 and 18)	¥13,580,444	¥12,982,770	\$121,048
Call money and bills sold (Note 18)	288,609	170,000	2,572
Payables under repurchase agreements (Notes 7 and 18)	100,949	56,340	899
Payables under securities lending transactions (Notes 7 and 18)	1,612,526	796,383	14,373
Trading liabilities	0	0	0
Borrowed money (Notes 7, 8 and 18)	1,608,856	1,341,265	14,340
Foreign exchanges	1,749	1,311	15
Short-term bonds payable	5,000	5,000	44
Bonds payable (Notes 9 and 18)	30,000	40,000	267
Other liabilities	102,499	141,951	913
Net defined benefit liabilities (Note 10)	899	1,506	8
Provision for losses on interest repayments	74	1,015	0
Provision for losses from reimbursement of inactive accounts	6,219	6,127	55
Provision for contingent liabilities losses	8	68	0
Reserves under the special laws	18	19	0
Deferred tax liabilities (Note 13)	97	200	0
Deferred tax liabilities for land revaluation (Note 6)	23,028	23,028	205
Acceptances and guarantees (Note 11)	40,008	54,431	356
Total liabilities	¥17,400,991	¥15,621,418	\$155,102
Net assets			
Capital stock	¥ 124,799	¥ 124,799	\$ 1,112
Capital surplus	94,156	103,611	839
Retained earnings	344,527	407,652	3,070
Treasury stock	(343)	(325)	(3)
Total shareholders' equity	563,140	635,738	5,019
Valuation difference on available-for-sale securities (Note 12)	117,726	146,996	1,049
Deferred gains or losses on hedges	(12,660)	(34,847)	(112)
Revaluation reserve for land (Note 6)	51,649	51,649	460
Remeasurements of defined benefit plans (Note 10)	(7,805)	(14,885)	(69)
Total accumulated other comprehensive income	148,909	148,913	1,327
Non-controlling interests	8	39	0
Total net assets	¥ 712,058	¥ 784,691	\$ 6,346
Total liabilities and net assets	¥18,113,049	¥16,406,109	\$161,449

Consolidated Statement of Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Interest income:			
Interest on loans and discounts	¥132,738	¥135,327	\$1,183
Interest and dividends on securities	30,894	30,758	275
Interest on call loans and bills bought	27	68	0
Interest on receivables under resale agreements	(0)	—	(0)
Interest on receivables under securities borrowing transactions	0	—	0
Interest on due from banks	0	5	0
Other interest income	3,011	2,530	26
Trust fees	1	1	0
Fees and commissions	46,811	47,059	417
Trading income	108	127	0
Other operating income	13,657	12,029	121
Other income	8,554	8,807	76
Total income	¥235,804	¥236,714	\$2,101
Expenses			
Interest expenses:			
Interest on deposits	¥ 5,707	¥ 7,517	\$ 50
Interest on call money and bills sold	(53)	11	(0)
Interest on payables under repurchase agreements	964	454	8
Interest on payables under securities lending transactions	1,568	757	13
Interest on borrowings and rediscounts	1,014	1,700	9
Interest on short-term bonds	1	8	0
Interest on bonds	274	603	2
Other interest expenses	7,989	9,064	71
Fees and commissions payments	19,107	17,125	170
Other operating expenses	2,759	578	24
General and administrative expenses	223,904	121,142	1,995
Other expenses	8,123	8,386	72
Total expenses	¥271,361	¥167,349	\$2,418
Income (loss) before income taxes	(35,557)	69,365	(316)
Income taxes: (Note 13)			
Current	12,448	11,417	110
Deferred	6,401	12,723	57
Total income taxes	18,849	24,141	168
Net income (loss)	(54,406)	45,223	(484)
Net income (loss) attributable to non-controlling interests	(106)	505	(0)
Net income (loss) attributable to owners of the parent (Note 14)	¥(54,300)	¥ 44,718	\$ (484)

Consolidated Statement of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Net income (loss)	¥(54,406)	¥45,223	\$(484)
Other comprehensive income:			
Valuation difference on available-for-sale securities	(29,270)	44,126	(260)
Deferred gains or losses on hedges	22,186	(24,359)	197
Revaluation reserve for land	—	1,212	—
Remeasurements of defined benefit plans	7,079	(23,064)	63
Total other comprehensive income	(4)	(2,085)	(0)
Comprehensive income (Note 15)	¥(54,410)	¥43,138	\$(484)
Total comprehensive income attributable to:			
Owners of the parent	(54,304)	42,632	(484)
Non-controlling interests	(106)	505	(0)

Consolidated Statement of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2017 and 2016

	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, 2015	¥124,799	¥103,611	¥373,930	¥ (295)	¥602,045	¥102,869	¥(10,487)	¥50,439	¥ 8,179	¥151,001	¥25,046	¥778,093
Changes during the period:												
Dividends from surplus			(10,998)		(10,998)							(10,998)
Net income attributable to owners of the parent			44,718		44,718							44,718
Acquisition of treasury stock				(30)	(30)							(30)
Disposition of treasury stock		0		1	1							1
Transfer from revaluation reserve for land			2		2							2
Net changes in items other than shareholders' equity						44,126	(24,359)	1,209	(23,064)	(2,087)	(25,006)	(27,094)
Total changes during the period	—	¥ 0	¥ 33,721	¥ (29)	¥ 33,692	¥ 44,126	¥(24,359)	¥ 1,209	¥(23,064)	¥ (2,087)	¥(25,006)	¥ 6,598
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 in 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

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, 2016	\$1,112	\$923	\$3,633	\$ (2)	\$5,666	\$1,310	\$(310)	\$460	\$(132)	\$1,327	\$ 0	\$6,994
Cumulative effects of changes in accounting policies			\$22		\$ 22							\$22
Restated balance as of April 1, 2016	\$1,112	\$923	\$3,655	\$ (2)	\$5,688	\$1,310	\$(310)	\$460	\$(132)	\$1,327	\$ 0	\$7,016
Changes during the period:												
Dividends from surplus			(100)		(100)							(100)
Net loss attributable to owners of the parent			(484)		(484)							(484)
Acquisition of treasury stock				(83)	(83)							(83)
Disposition of treasury stock		0		0	0							0
Retirement of treasury stock		(83)		83	—							—
Capital increase of consolidated subsidiaries		(0)			(0)							(0)
Net changes in items other than shareholders' equity						(260)	197	—	63	(0)	(0)	(0)
Total changes during the period	—	\$ (84)	\$ (584)	\$ (0)	\$ (669)	\$ (260)	\$ 197	—	\$ 63	\$ (0)	\$(0)	\$ (669)
Balance as of March 31, 2017	\$1,112	\$839	\$3,070	\$ (3)	\$5,019	\$1,049	\$(112)	\$460	\$ (69)	\$1,327	\$ 0	\$6,346

Consolidated Statement of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (35,557)	¥ 69,365	\$ (316)
Depreciation of fixed assets	8,786	8,065	78
Impairment losses	262	1,329	2
Amortization of goodwill	104,285	9,171	929
Net change in allowance for loan losses	(7,263)	(8,504)	(64)
Net change in net defined benefit assets	(11,380)	30,849	(101)
Net change in net defined benefit liabilities	(606)	728	(5)
Net change in provision for losses on interest repayment	(940)	(24)	(8)
Net change in provision for losses from reimbursement of inactive accounts	92	1,113	0
Net change in provision for contingent liabilities losses	(60)	(204)	(0)
Interest income	(166,671)	(168,690)	(1,485)
Interest expenses	17,467	20,117	155
Net losses (gains) related to securities transactions	(5,510)	(5,159)	(49)
Net losses (gains) on money held in trust	(8)	(5)	(0)
Net exchange losses (gains)	25	103	0
Net losses (gains) on disposal of noncurrent assets	348	732	3
Net change in trading assets	122	536	1
Net change in trading liabilities	0	0	0
Net change in loans and bills discounted	(721,589)	(493,279)	(6,431)
Net change in deposits	597,674	300,452	5,327
Net change in borrowed money (excluding subordinated borrowed money)	267,591	107,721	2,385
Net change in due from banks (excluding deposits with the Bank of Japan)	2,879	(2,101)	25
Net change in call loans	10,352	8,615	92
Net change in call money	163,218	140,289	1,454
Net change in payables under securities lending transactions	816,143	221,041	7,274
Net change in foreign exchanges - Assets	(2,373)	801	(21)
Net change in foreign exchanges - Liabilities	437	215	3
Net change in issuance and redemption of bonds	(10,000)	—	(89)
Interest received	172,561	174,399	1,538
Interest paid	(17,246)	(19,344)	(153)
Other, net	(20,274)	(72,053)	(180)
Subtotal	1,162,766	326,280	10,364
Income taxes paid	(10,440)	(11,235)	(93)
Net cash provided by operating activities	1,152,326	315,044	10,271
Cash flows from investing activities:			
Payments for purchases of securities	(514,176)	(493,076)	(4,583)
Proceeds from sale of securities	350,548	207,839	3,124
Proceeds from redemption of securities	101,574	159,950	905
Payments for increase in money held in trust	(6,988)	(1,000)	(62)
Payments for purchases of tangible fixed assets	(10,089)	(8,485)	(89)
Proceeds from sale of tangible fixed assets	219	127	1
Payments for purchases of intangible fixed assets	(7,360)	(4,384)	(65)
Net cash used in investing activities	(86,273)	(139,028)	(768)
Cash flows from financing activities:			
Decrease in subordinated borrowings	—	(5,000)	—
Payments for redemption of subordinated bonds	—	(57,500)	—
Proceeds from share issuance to non-controlling interests	40	—	0
Repayments to non-controlling interests	—	(25,000)	—
Payments for purchases of treasury stock	(18)	(30)	(0)
Proceeds from sale of treasury stock	0	1	0
Payments for redemption of preferred stock	(9,371)	—	(83)
Dividends paid	(11,299)	(11,000)	(100)
Dividends paid to non-controlling interests	(48)	(512)	(0)
Net cash used in financing activities	(20,696)	(99,041)	(184)
Effect of exchange rate changes on cash and cash equivalents	(25)	(103)	(0)
Net increase in cash and cash equivalents	1,045,330	76,872	9,317
Cash and cash equivalents at beginning of the year	1,829,586	1,752,714	16,307
Cash and cash equivalents at end of the year (Note 16)	¥2,874,917	¥1,829,586	\$25,625

Notes to Consolidated Financial Statements

Fukuoka Financial Group, Inc. and its subsidiaries
Fiscal years ended March 31, 2017 and 2016

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 2 companies, namely, FFG Agricultural Corporation Support Investment Limited Partnership and FFG Agriculture, Forest and Fisheries Industries Support Investment Limited Partnership, controlled directly or indirectly by FFG. All significant intercompany balances and transactions have been eliminated in consolidation.

Fukuoka Technology Partners Co., Ltd. (presently known as FFG Venture Business Partners Co., Ltd.), iBank marketing Co., Ltd. and FFG Insurance Service Co., Ltd. were newly included in FFG's scope of consolidation from the fiscal year ended March 31, 2017 as they were newly established. On the other hand, the liquidation of Growing Business Support Investment Limited Partnership has been completed on December 13, 2016. Its statement of income has been consolidated up to the liquidation.

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.

Affiliated companies over which FFG exercises significant influence in terms of their operating and financial policies are accounted for by the equity method in the consolidated financial statements.

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 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 Obligor"), and to obligors that are effectively in similar conditions ("Effectively Bankrupt Obligor"), 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 Obligor or Effectively Bankrupt Obligor but have a substantial chance of business failure going forward ("In-Danger-of-Bankruptcy Obligor"), 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 Obligor 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, 2017 and 2016, such deducted amounts were ¥14,792 million and ¥16,782 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.

Notes to Consolidated Financial Statements

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 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

Goodwill is depreciated using the straight-line method over 20 years for two companies. FFG implemented the one-time goodwill amortization in connection with an im-

pairment 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 Changes

FFG adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 26 of March 28, 2016, hereinafter “Guidance No. 26”) from the fiscal year ended March 31, 2017. Accordingly, FFG changed a part of the accounting treatments on assessing the recoverability of deferred tax assets.

Concerning the adoption of Guidance No. 26, based on the provisional treatments set out in Paragraph 49 (4) of Guidance No 26, the differences between the amounts of deferred tax assets and liabilities in the case where the provisions corresponding to Paragraph 49 (3) ① to ③ of Guidance No 26 were adopted as of April 1, 2016 and those amounts recognized as of March 31, 2016 were recorded as adjustments to retained earnings as of April 1, 2016.

As a result, both deferred tax assets and retained earnings increased by ¥2,472 million at the beginning of the fiscal year ended March 31, 2017.

As such effects were reflected in net assets at the beginning of the fiscal year ended March 31, 2017, the balance of retained earnings as of April 1, 2016 increased by ¥2,472 million as shown in the consolidated statement of changes in net assets.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥112.19 = US\$1.00, the approximate rate of exchange on March 31, 2017, 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, 2017 and 2016 were as follows:

	(Millions of yen)	
	2017	2016
National government bonds	¥2,170,675	¥2,293,315
Local government bonds	79,388	62,345
Corporate bonds	665,088	643,432
Equity securities	156,415	141,243
Other securities	392,031	305,640
Total	¥3,463,599	¥3,445,978

Other securities included investments in unconsolidated subsidiaries of ¥364 million and ¥135 million at March 31, 2017 and 2016, respectively.

National government bonds, etc. at March 31, 2017 and 2016, included bonds of ¥20,176 million and ¥57,443 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 ¥22,071 million and ¥21,706 million at March 31, 2017 and 2016, respectively.

Notes to Consolidated Financial Statements

■ Held-to-maturity securities

The following tables summarize carrying values, fair values and differences of securities with available fair values at March 31, 2017 and 2016:

(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

(Millions of yen)

2016				
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥110,231	¥120,021	¥ 9,790
	Corporate bonds	27,180	28,943	1,762
	Other	—	—	—
	Subtotal	¥137,412	¥148,965	¥11,552
Securities with fair value not exceeding carrying value	National government bonds	¥ —	¥ —	¥ —
	Corporate bonds	—	—	—
	Other	774	768	(5)
	Subtotal	¥ 774	¥ 768	¥ (5)
Total		¥138,186	¥149,733	¥11,547

■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2017 and 2016:

(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

(Millions of yen)

2016				
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥2,068,437	¥2,183,083	¥114,645
	Local government bonds	58,921	60,601	1,679
	Corporate bonds	601,767	614,076	12,308
	Equity securities	59,364	127,308	67,943
	Other	267,107	281,364	14,257
Subtotal		¥3,055,598	¥3,266,433	¥210,835
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ —	¥ —	¥ —
	Local government bonds	1,745	1,743	(1)
	Corporate bonds	2,183	2,176	(7)
	Equity securities	6,286	5,156	(1,130)
	Other	16,126	15,859	(266)
Subtotal		¥ 26,341	¥ 24,935	¥ (1,406)
Total		¥3,081,940	¥3,291,369	¥209,429

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, 2017 and 2016, impairment losses were ¥8 million and ¥271 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, 2017 and 2016:

(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

(Millions of yen)

2016			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥ 79,392	¥1,451	¥ —
Local government bonds	19,081	311	0
Corporate bonds	93,796	1,381	5
Equity securities	3,997	2,711	2
Other	6,280	—	354
Total	¥202,549	¥5,855	¥363

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, 2017 and 2016 and for the fiscal years then ended:

(Millions of yen)

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

(Millions of yen)

2016		
	Carrying value	Gain (loss) on valuation
Money held in trust for trading purpose	¥1,000	¥—

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, 2017 and 2016:

(Millions of yen)

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

(Millions of yen)

2016			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥2,000	¥ 2,000	¥—

Notes to Consolidated Financial Statements

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2017 and 2016 included the following loans:

	(Millions of yen)	
	2017	2016
Loans to borrowers in bankruptcy	¥ 4,138	¥ 4,759
Delinquent loans	171,286	164,636
Loans past due for three months or more	1,268	486
Restructured loans	52,500	66,017
Total	¥229,193	¥235,899

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, 2017 and 2016, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥40,912 million and ¥47,537 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 relat-

ing to these overdrafts and loan agreements at March 31, 2017 and 2016 amounted to ¥4,128,362 million and ¥3,977,029 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 ¥3,872,135 million and ¥3,717,500 million at March 31, 2017 and 2016, 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, 2017 and 2016, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the law were ¥25,020 million and ¥30,313 million, respectively.

Accumulated depreciation for tangible fixed assets amounted to ¥110,426 million and ¥107,503 million at March 31, 2017 and 2016, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥15,887 million and ¥15,913 million at March 31, 2017 and 2016, respectively.

7. Pledged Assets

Assets pledged as collateral at March 31, 2017 and 2016 consisted of the following:

	(Millions of yen)	
	2017	2016
Assets pledged as collateral:		
Cash and due from banks	¥ 1	¥ 1
Securities	2,811,564	2,466,568
Loans and bills discounted	1,009,833	120,915
Other assets	165	674
Liabilities corresponding to assets pledged as collateral:		
Deposits	63,983	58,486
Payables under repurchase agreements	100,949	56,340
Payables under securities lending transactions	1,612,526	796,383
Borrowed money	1,585,942	1,318,739

In addition, 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.

Securities totaling ¥135,663 million and other assets of ¥21 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2016.

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.

Other assets included initial margins of futures markets of ¥230 million, cash collateral paid for financial instruments of ¥43,800 million, and deposits of ¥2,285 million at March 31, 2016.

8. Borrowed Money

Borrowed money at March 31, 2017 and 2016 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, 2017 and 2016.

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, 2017 and 2016 were as follows:

	(Millions of yen)	
	2017	2016
Projected benefit obligation at the beginning of the fiscal year	¥142,275	¥121,853
Service cost	4,120	3,103
Interest cost	253	1,163
Actuarial loss	954	21,436
Retirement benefits paid	(5,999)	(5,689)
Prior service cost	—	—
Contributions by participants of plans	406	407
Other	46	0
Projected benefit obligation at the end of the fiscal year	¥142,058	¥142,275

The changes in plan assets during the fiscal years ended March 31, 2017 and 2016 were as follows:

	(Millions of yen)	
	2017	2016
Plan assets at the beginning of the fiscal year	¥142,060	¥153,216
Expected return on plan assets	4,960	5,350
Actuarial gain (loss)	6,969	(11,351)
Contributions by FFG's subsidiaries	5,377	161
Retirement benefits paid	(5,944)	(5,723)
Contributions by participants of plans	406	407
Other	—	—
Plan assets at the end of the fiscal year	¥153,830	¥142,060

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, 2017 and 2016.

(Millions of yen)		
	2017	2016
Funded projected benefit obligation	¥ 141,014	¥ 141,373
Plan assets at fair value	(153,830)	(142,060)
	(12,815)	(686)
Unfunded projected benefit obligation	1,043	901
Net liability (asset) for retirement benefits in the balance sheet	¥ (11,772)	¥ 215

(Millions of yen)		
	2017	2016
Net defined benefit liabilities	¥ 899	¥ 1,506
Net defined benefit assets	(12,671)	(1,290)
Net liability (asset) for retirement benefits in the balance sheet	¥ (11,772)	¥ 215

The components of retirement benefit expenses for the fiscal years ended March 31, 2017 and 2016 were as follows:

(Millions of yen)		
	2017	2016
Service cost	¥ 4,120	¥ 3,103
Interest cost	253	1,163
Expected return on plan assets	(4,960)	(5,350)
Amortization of actuarial loss (gain)	4,391	(392)
Amortization of prior service cost	(235)	(235)
Other	—	—
Retirement benefit expenses	¥ 3,570	¥ (1,711)

The components of remeasurements of defined benefits plans included in other comprehensive income (before tax effect) for the fiscal years ended March 31, 2017 and 2016 were as follows:

(Millions of yen)		
	2017	2016
Prior service cost	¥ (235)	¥ (235)
Actuarial gain (loss)	10,407	(33,180)
Other	—	—
Total	¥ 10,171	¥ (33,415)

The components of remeasurements of defined benefits plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 were as follows:

(Millions of yen)		
	2017	2016
Unrecognized prior service cost	¥ (852)	¥ (1,087)
Unrecognized actuarial gain (loss)	12,067	22,474
Other	—	—
Total	¥ 11,215	¥ 21,387

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 was as follows:

	2017	2016
Debt securities	43%	39%
Equity securities	38%	34%
Cash and due from banks	2%	10%
Other	17%	17%
Total	100%	100%

Total plan assets included retirement benefit trusts of 35% and 32% as of March 31, 2017 and 2016, 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:

	2017	2016
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	3.4%	3.3%

(2) Defined contribution plans

The amounts to be paid to defined contribution plans by consolidated subsidiaries were ¥303 million and ¥305 million for the fiscal years ended March 31, 2017 and 2016, 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 ¥22,071 million and ¥21,706 million at March 31, 2017 and 2016, 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, 2017 and 2016 consisted of the following:

	(Millions of yen)	
	2017	2016
Gross valuation difference on available-for-sale securities	¥166,871	¥209,429
Deferred tax liabilities applicable to valuation difference	49,145	62,432
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for non-controlling interests	117,726	146,996
Amount attributable to non-controlling interests	—	—
Valuation difference on available-for-sale securities	117,726	146,996

13. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	(Millions of yen)	
	2017	2016
Deferred tax assets:		
Allowance for loan losses	¥ 41,120	¥ 44,052
Net losses carried forward	8,373	7,791
Net defined benefit liabilities	8,780	12,395
Depreciation of securities	6,045	6,386
Depreciation expenses	2,718	2,827
Deferred gains or losses on hedges	5,529	15,220
Fair value gains related to consolidated taxation	4,359	8,759
Other	6,770	7,815
Subtotal	83,698	105,248
Valuation allowance	(20,018)	(24,780)
Total	63,680	80,467
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(49,145)	(62,432)
Retirement benefit trust	(2,843)	(2,911)
Securities returned from retirement benefit trust	(2,312)	(2,312)
Reserve for special depreciation	(402)	(402)
Fair value losses related to consolidated taxation	(574)	(589)
Other	(86)	(80)
Total	(55,365)	(68,728)
Net deferred tax assets	¥ 8,314	¥ 11,738

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 32.8% for the fiscal year ended March 31, 2016.

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.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the fiscal year ended March 31, 2016.

	(%)
	2016
Statutory tax rate	32.8
Change in valuation allowance	(6.2)
Nondeductible goodwill amortization	4.3
Entertainment expenses and other items permanently excluded from expenses	0.3
Per capital residence tax	0.3
Dividend revenue and other items permanently excluded from gross revenue	(0.4)
Reversal of deferred tax assets due to changes in the corporate income tax rate	4.2
Tax rate difference with overseas consolidated subsidiaries	(0.1)
Consolidated adjustment	(0.2)
Other	(0.2)
Effective tax rate	34.8

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, 2017 and 2016 were as follows:

	(Yen)	
	2017	2016
Net income (loss) attributable to owners of the parent per share:		
Basic	¥(63.22)	¥51.75
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 year ended March 31, 2017, as basic net loss attributable to owners of the parent per share was recorded and there are 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 year ended March 31, 2016, as there are no dilutive securities, the amount of diluted net income (loss) attributable to owners of the parent per share of common stock is not stated.

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15. Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2017 and 2016 were the following:

	(Millions of yen)	
	2017	2016
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥(13,611)	¥ 66,438
Reclassification adjustments to profit or loss	(28,946)	(5,475)
Amount before income tax effect	(42,557)	60,962
Income tax effect	13,287	(16,836)
Total	(29,270)	44,126
Deferred gains or losses on hedges		
Gains (losses) arising during the year	1,820	(41,918)
Reclassification adjustments to profit or loss	30,056	7,274
Amount before income tax effect	31,877	(34,644)
Income tax effect	(9,690)	10,285
Total	22,186	(24,359)
Revaluation reserve for land		
Gains (losses) arising during the year	—	—
Reclassification adjustments to profit or loss	—	—
Amount before income tax effect	—	—
Income tax effect	—	1,212
Total	—	1,212
Remeasurements of defined benefit plans		
Gains (losses) arising during the year	6,015	(32,787)
Reclassification adjustments to profit or loss	4,156	(628)
Amount before income tax effect	10,171	(33,415)
Income tax effect	(3,092)	10,350
Total	7,079	(23,064)
Total other comprehensive income	¥ (4)	¥ (2,085)

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, 2017 and 2016 were as follows:

	(Millions of yen)	
	2017	2016
Cash and due from banks	¥2,880,599	¥1,838,148
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(5,682)	(8,562)
Cash and cash equivalents	¥2,874,917	¥1,829,586

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, 2017 and 2016 were as follows:

	(Millions of yen)	
	2017	2016
Within one year	¥ 62	¥ 64
Over one year	92	115
Total	¥155	¥180

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 appropri-

ate 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, 2017 and 2016, FFG's amount of interest rate risk (value of estimated losses) was ¥20,521 million and ¥19,339 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations and estimated gains or losses based on its portfolio for the VaR measurement period. As losses in the International Banking De-

partment exceeded the VaR several times in back-testing for the fiscal year ended March 31, 2017, FFG has been multiplying VaR by a fixed multiplier factor in the VaR measurement after January 2017 in order to ensure its conservativeness.

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.

As stated above, VaR measures interest rate risk using certain statistical probabilities based on historical market fluctuations, and 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. Therefore, FFG timely and appropriately reviews the VaR measurement model, etc. as necessary to enhance the degree of precision for capturing risk.

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 (1,250 days for the fiscal year ended March 31, 2016)) and employs quantitative analysis in its volatility risk management.

As of March 31, 2017 and 2016, FFG's amount of volatility risk was ¥30,348 million and ¥17,514 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations and 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, 2017, 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 "Li-

quidity 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 an as 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, 2017 and 2016 were as follows:

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

(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	97,771	(3,177)
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	¥17,214,424	¥ (6,962)
Derivatives			
Hedge accounting not applied	¥ 2,480	¥ 2,480	¥ —
Hedge accounting applied	(28,696)	(28,696)	—
Total	¥ (26,215)	¥ (26,215)	¥ —

(Millions of yen)

2016			
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 1,838,148	¥ 1,838,148	¥ 0
Call loans and bills bought	9,317	9,318	1
Monetary claims bought	50,882	50,915	32
Securities			
Held-to-maturity securities	137,412	148,965	11,552
Available-for-sale securities	3,291,369	3,291,369	—
Loans and bills discounted	10,566,551	10,755,356	188,804
Total	¥15,893,681	¥16,094,073	¥200,392
Liabilities			
Deposits	¥12,982,770	¥12,984,112	¥ 1,342
Call money and bills sold	170,000	169,992	(7)
Payables under repurchase agreements	56,340	56,719	379
Payables under securities lending transactions	796,383	796,316	(66)
Borrowed money	1,341,265	1,340,365	(899)
Bonds payable	40,000	40,947	947
Total	¥15,386,758	¥15,388,453	¥ 1,694
Derivatives			
Hedge accounting not applied	¥ 4,236	¥ 4,236	¥ —
Hedge accounting applied	(60,574)	(60,574)	—
Total	¥ (56,338)	¥ (56,338)	¥ —

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, 2017 and 2016 were as follows:

(Millions of yen)		
	2017	2016
	Carrying value	Carrying value
Available-for-sale securities		
Unlisted equity securities	¥ 8,854	¥ 8,779
Unlisted foreign securities	0	0
Investments in limited partnership	10,029	8,417
Total	¥18,884	¥17,196

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, 2017 and 2016 were ¥22 million and ¥57 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, 2017 and 2016 are summarized as follows:

(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.

(Millions of yen)						
2016						
	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	¥1,696,794	¥ -	¥ -	¥ -	¥ -	¥ -
Call loans and bills bought	9,317	-	-	-	-	-
Monetary claims bought	50,194	-	-	-	-	800
Securities						
Held-to-maturity bonds						
Held-to-maturity government bonds	-	61,077	31,680	3,100	14,374	-
Held-to-maturity corporate bonds	-	7,062	7,945	9,487	2,683	-
Available-for-sale securities with maturities						
Available-for-sale government bonds	39,685	610,652	581,708	323,306	177,051	450,679
Available-for-sale local government bonds	767	17,931	26,189	5,727	11,729	-
Available-for-sale corporate bonds	25,702	142,806	335,262	41,169	61,079	10,231
Available-for-sale other	24,006	37,354	91,077	40,851	71,088	20,994
Loans and bills discounted	2,322,416	1,871,176	1,474,137	1,032,194	1,141,604	2,569,894
Total	¥4,168,884	¥2,748,062	¥2,548,000	¥1,455,837	¥1,479,610	¥3,052,601

Loans do not include an estimated ¥169,395 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥125,891 million in loans that have no set term.

Notes to Consolidated Financial Statements

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2017 and 2016 are summarized as follows:

(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.

(Millions of yen)

2016						
	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	¥12,600,357	¥298,585	¥ 76,176	¥3,925	¥ 3,725	¥ -
Call money and bills sold	170,000	-	-	-	-	-
Payable under repurchase agreements	-	45,072	11,268	-	-	-
Payable under securities lending transactions	796,383	-	-	-	-	-
Borrowed money	475,450	620	845,156	38	20,000	-
Bonds payable	10,000	20,000	-	-	-	10,000
Total	¥14,052,190	¥364,277	¥932,600	¥3,964	¥23,725	¥10,000

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, 2017 and 2016 were as follows:

Hedge accounting not applied

As of March 31, 2017 and 2016, 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, 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)
Interest swaptions			
Sell	-	-	-
Buy	-	-	-
Caps			
Sell	3,274	(61)	15
Buy	3,274	61	(10)
Total	-	¥ 1,268	¥ 1,264

(Millions of yen)

As of March 31, 2016	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥ 303,952	¥12,775	¥12,478
Receive/floating and pay/fixed	303,921	(10,014)	(9,805)
Interest swaptions			
Sell	1,620	(0)	3
Buy	1,620	0	0
Caps			
Sell	3,555	(45)	64
Buy	3,555	45	(57)
Total	-	¥ 2,760	¥ 2,682

■ Currency-related transactions

(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

(Millions of yen)			
As of March 31, 2016	Notional amount	Fair value	Gain (Loss)
Currency swaps	¥784,392	¥ 200	¥ 192
Foreign exchange contract			
Sell	91,948	964	964
Buy	80,708	(125)	(125)
Currency option			
Sell	10,754	(127)	(19)
Buy	11,458	127	80
Total	—	¥1,039	¥1,092

■ Bonds-related transactions

(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	—	—	—
Total	—	¥30	¥35

(Millions of yen)			
As of March 31, 2016	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥ 100	¥ (0)	¥(0)
Buy	—	—	—
Bond futures option			
Sell	45,042	(21)	1
Buy	—	—	—
Total	—	¥(21)	¥ 1

■ Credit derivative transactions

(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

(Millions of yen)			
As of March 31, 2016	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥35,000	¥458	¥451
Buy	—	—	—
Total	—	¥458	¥451

Hedge accounting applied

As of March 31, 2017 and 2016, 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, 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)
	Securitization		2,785	—
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits		
	Receive/ floating and pay/fixed		56,540	(2,517)
	Receive/ floating and pay/floating		100,000	(7,306)
Total			—	¥(26,771)
(Millions of yen)				

(Millions of yen)				
As of March 31, 2016				
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		¥ 22,536	¥ 108
	Receive/ floating and pay/fixed		536,214	(48,846)
	Securitization		3,927	—
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits		
	Receive/ floating and pay/fixed		60,420	(3,706)
	Receive/ floating and pay/floating		100,000	(7,533)
Total			—	¥(59,977)

■ Currency-related transactions

(Millions of yen)

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)
Allocation method	Currency swaps	Loans denominated in foreign currencies	—	—
Total			—	¥(1,925)

(Millions of yen)

As of March 31, 2016				
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	¥104,494	¥(595)
Allocation method	Currency swaps	Loans denominated in foreign currencies	105	(1)
Total			—	¥(596)

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, 2017.

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, 2017.

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, 2017.

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, 2017.

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, 2017.

21. Related Party Transactions

(1) Directors and principal individual shareholders

There were no significant transactions with related parties to report for the fiscal years ended March 31, 2017 and 2016.

(2) Others

There were no relevant transactions with related parties to report for the fiscal years ended March 31, 2017 and 2016.

22. Subsequent Events

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, 2017, was approved at a shareholders meeting held on June 29, 2017 and became effective June 30, 2017:

(Millions of yen)	
Dividends on common stock (¥ 6.5 per share)	¥5,582

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Fukuoka, Ltd.

As of March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 2,342,029	¥ 1,356,264	\$ 20,875
Call loans	500	70,317	4
Monetary claims bought	30,904	31,311	275
Trading assets	1,243	1,541	11
Money held in trust	7,997	1,000	71
Securities	2,453,539	2,416,715	21,869
Loans and bills discounted	8,925,392	8,260,640	79,556
Foreign exchanges	8,057	5,306	71
Other assets	112,134	94,485	999
Tangible fixed assets	153,055	149,993	1,364
Intangible fixed assets	10,506	8,340	93
Prepaid pension expenses	14,722	14,012	131
Customers' liabilities for acceptances and guarantees	30,860	44,368	275
Allowance for loan losses	(84,501)	(90,881)	(753)
Total assets	¥14,006,440	¥12,363,414	\$124,845
Liabilities			
Deposits	¥ 9,933,010	¥ 9,424,519	\$ 88,537
Call money	297,695	181,472	2,653
Payables under repurchase agreements	100,949	56,340	899
Payables under securities lending transactions	1,612,526	796,383	14,373
Trading liabilities	0	0	0
Borrowed money	1,276,107	1,089,779	11,374
Foreign exchanges	1,546	1,279	13
Bonds payable	10,000	10,000	89
Other liabilities	84,478	126,709	752
Provision for losses on interest repayments	—	919	—
Provision for losses from reimbursement of inactive accounts	4,703	4,451	41
Provision for contingent liabilities losses	8	68	0
Deferred tax liabilities	4,737	4,764	42
Deferred tax liabilities for land revaluation	23,028	23,028	205
Acceptances and guarantees	30,860	44,368	275
Total liabilities	¥13,379,653	¥11,764,085	\$119,258
Net assets			
Capital stock	¥ 82,329	¥ 82,329	\$ 733
Capital surplus	60,480	60,480	539
Retained earnings	351,750	322,837	3,135
Total shareholders' equity	494,560	465,647	4,408
Valuation difference on available-for-sale securities	93,237	116,878	831
Deferred gains or losses on hedges	(12,660)	(34,847)	(112)
Revaluation reserve for land	51,649	51,649	460
Total valuation and translation adjustments	132,226	133,681	1,178
Total net assets	¥ 626,787	¥ 599,328	\$ 5,586
Total liabilities and net assets	¥14,006,440	¥12,363,414	\$124,845

Non-Consolidated Statement of Income (Unaudited)

The Bank of Fukuoka, Ltd.

For the years ended March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥ 97,468	¥ 98,579	\$ 868
Interest and dividends on securities	23,917	24,621	213
Interest on call loans	30	74	0
Interest on receivables under resale agreements	(0)	—	(0)
Interest on receivables under securities borrowing transactions	0	—	0
Interest on deposits with banks	0	5	0
Interest on interest swaps	193	162	1
Other interest income	2,291	1,792	20
Trust fees	1	1	0
Fees and commissions	34,207	33,216	304
Trading income	16	43	0
Other operating income	8,816	6,552	78
Other income	5,829	6,278	51
Total income	¥172,772	¥171,327	\$1,539
Expenses			
Interest expenses:			
Interest on deposits	¥ 3,910	¥ 4,958	\$ 34
Interest on call money	99	130	0
Interest on payables under repurchase agreements	964	454	8
Interest on payables under securities lending transactions	1,568	757	13
Interest on borrowing and rediscounts	924	1,397	8
Interest on bonds	194	500	1
Interest on interest swaps	7,958	9,026	70
Other interest expenses	371	281	3
Fees and commissions payments	19,120	17,521	170
Other operating expenses	2,345	568	20
General and administrative expenses	70,926	65,742	632
Other expenses	4,604	4,807	41
Total expenses	¥112,990	¥106,148	\$1,007
Income before income taxes	59,781	65,179	532
Income taxes:			
Current	12,697	12,877	113
Deferred	2,933	6,690	26
Total income taxes	15,631	19,568	139
Net income	¥ 44,150	¥ 45,611	\$ 393

Non-Consolidated Balance Sheet (Unaudited)

The Kumamoto Bank, Ltd.

As of March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 267,345	¥ 159,766	\$ 2,382
Call loans	2,044	3,694	18
Securities	270,370	282,422	2,409
Loans and bills discounted	1,146,534	1,095,370	10,219
Foreign exchanges	980	1,095	8
Other assets	3,697	2,056	32
Tangible fixed assets	17,238	17,532	153
Intangible fixed assets	1,279	978	11
Prepaid pension expenses	4,211	3,407	37
Deferred tax assets	4,453	3,885	39
Customers' liabilities for acceptances and guarantees	4,402	4,115	39
Allowance for loan losses	(16,068)	(14,635)	(143)
Total assets	¥1,706,490	¥1,559,688	\$15,210
Liabilities			
Deposits	¥1,439,400	¥1,329,172	\$12,830
Call money	—	36,000	—
Borrowed money	171,000	98,000	1,524
Foreign exchanges	35	1	0
Other liabilities	3,622	4,156	32
Provision for losses from reimbursement of inactive accounts	448	369	3
Deferred tax liabilities for land revaluation	1,378	1,392	12
Acceptances and guarantees	4,402	4,115	39
Total liabilities	¥1,620,286	¥1,473,207	\$14,442
Net assets			
Capital stock	¥ 33,847	¥ 33,847	\$ 301
Capital surplus	33,847	33,847	301
Retained earnings	11,514	10,833	102
Total shareholders' equity	79,208	78,527	706
Valuation difference on available-for-sale securities	5,900	7,042	52
Revaluation reserve for land	1,094	911	9
Total valuation and translation adjustments	6,994	7,953	62
Total net assets	¥ 86,203	¥ 86,481	\$ 768
Total liabilities and net assets	¥1,706,490	¥1,559,688	\$15,210

Non-Consolidated Statement of Income (Unaudited)

The Kumamoto Bank, Ltd.

For the years ended March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥16,473	¥17,094	\$146
Interest and dividends on securities	1,914	2,024	17
Interest on call loans	51	47	0
Interest on deposits with banks	0	0	0
Other interest income	174	201	1
Fees and commissions	4,567	5,090	40
Other operating income	57	233	0
Other income	529	1,365	4
Total income	¥23,769	¥26,056	\$211
Expenses			
Interest expenses:			
Interest on deposits	¥ 835	¥ 1,074	\$ 7
Interest on call money	0	2	0
Interest on borrowing and rediscounts	17	106	0
Other interest expenses	13	13	0
Fees and commissions payments	3,194	2,699	28
Other operating expenses	126	2	1
General and administrative expenses	14,296	13,838	127
Other expenses	3,399	950	30
Total expenses	¥21,884	¥18,687	\$195
Income before income taxes	1,884	7,369	16
Income taxes:			
Current	241	654	2
Deferred	175	1,455	1
Total income taxes	417	2,110	3
Net income	¥ 1,467	¥ 5,259	\$ 13

Non-Consolidated Balance Sheet (Unaudited)

The Shinwa Bank, Ltd.

As of March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 273,589	¥ 324,545	\$ 2,438
Call loans	7,041	7,778	62
Trading account securities	227	212	2
Securities	747,387	752,071	6,661
Loans and bills discounted	1,482,980	1,465,210	13,218
Foreign exchanges	1,314	1,578	11
Other assets	11,819	6,785	105
Tangible fixed assets	45,949	44,690	409
Intangible fixed assets	1,759	1,297	15
Prepaid pension expenses	4,969	4,610	44
Deferred tax assets	—	2,016	—
Customers' liabilities for acceptances and guarantees	4,661	5,844	41
Allowance for loan losses	(17,548)	(20,934)	(156)
Total assets	¥2,564,151	¥2,595,706	\$22,855
Liabilities			
Deposits	¥2,259,312	¥2,275,471	\$20,138
Call money	—	25,000	—
Borrowed money	160,916	152,985	1,434
Foreign exchanges	167	31	1
Other liabilities	4,610	5,233	41
Provision for losses from reimbursement of inactive accounts	1,067	1,306	9
Deferred tax liabilities	550	—	4
Deferred tax liabilities for land revaluation	4,419	4,421	39
Acceptances and guarantees	4,661	5,844	41
Total liabilities	¥2,435,705	¥2,470,294	\$21,710
Net assets			
Capital stock	¥ 36,878	¥ 36,878	\$ 328
Capital surplus	36,878	36,878	328
Retained earnings	19,957	13,507	177
Total shareholders' equity	93,714	87,263	835
Valuation difference on available-for-sale securities	20,117	23,457	179
Revaluation reserve for land	14,613	14,690	130
Total valuation and translation adjustments	34,731	38,148	309
Total net assets	¥ 128,445	¥ 125,411	\$ 1,144
Total liabilities and net assets	¥2,564,151	¥2,595,706	\$22,855

Non-Consolidated Statement of Income (Unaudited)

The Shinwa Bank, Ltd.

For the years ended March 31, 2017 and 2016

	2017	2016	2017
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥19,271	¥20,148	\$171
Interest and dividends on securities	5,316	5,198	47
Interest on call loans	101	72	0
Interest on deposits with banks	0	0	0
Other interest income	343	367	3
Fees and commissions	7,123	7,611	63
Other operating income	127	716	1
Other income	4,023	1,635	35
Total income	¥36,308	¥35,749	\$323
Expenses			
Interest expenses:			
Interest on deposits	¥ 968	¥ 1,494	\$ 8
Interest on call money	2	3	0
Interest on payables under securities lending transactions	0	0	0
Interest on borrowing and rediscounts	67	191	0
Other interest expenses	0	0	0
Fees and commissions payments	4,135	3,759	36
Other operating expenses	284	2	2
General and administrative expenses	20,924	20,470	186
Other expenses	581	2,571	5
Total expenses	¥26,965	¥28,494	\$240
Income before income taxes	9,343	7,255	83
Income taxes:			
Current	(2,510)	(2,345)	(22)
Deferred	4,412	4,394	39
Total income taxes	1,901	2,048	16
Net income	¥ 7,441	¥ 5,206	\$ 66

Company Outline (as of March 31, 2017)

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	http://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	http://www.fukuokabank.co.jp/

The Bank of Fukuoka's Overseas Network

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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

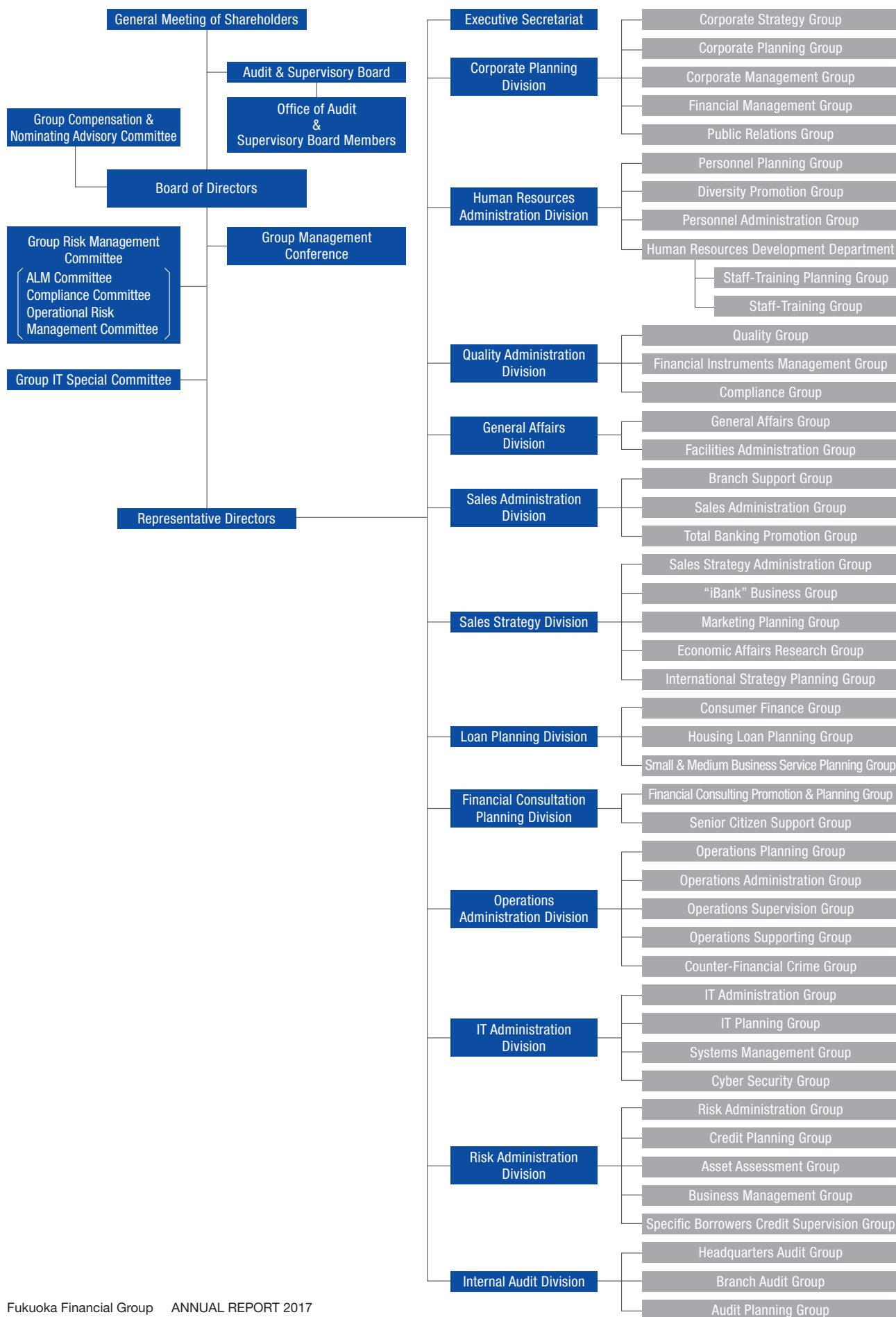
The Kumamoto Bank, Ltd.

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	http://www.kumamotobank.co.jp/

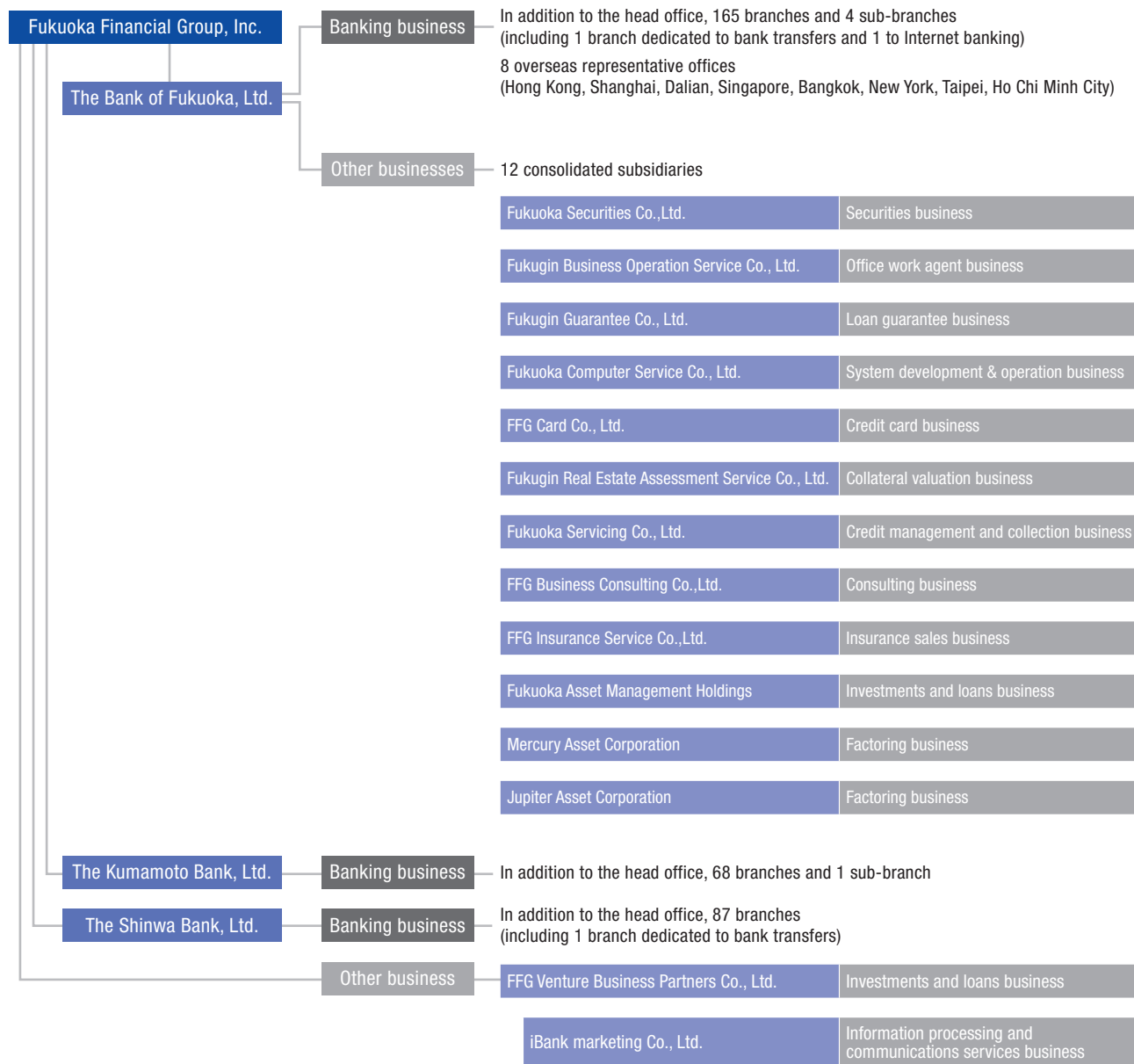
The Shinwa Bank, Ltd.

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	http://www.shinwabank.co.jp/

Organizational Chart (as of August 1, 2017)



Group Company Chart (as of August 1, 2017)



Share Information (as of March 31, 2017)

Investor Information

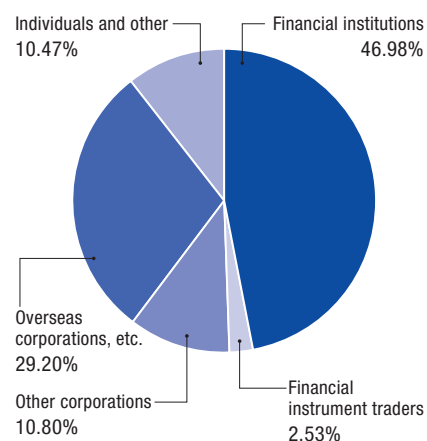
Common stock

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

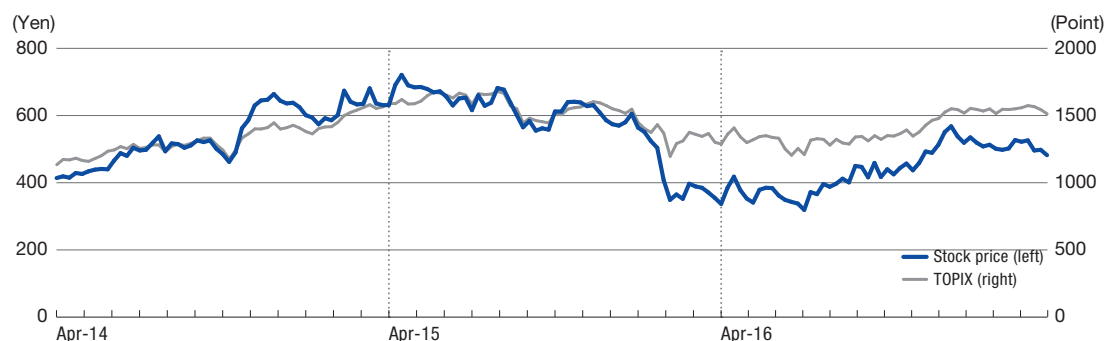
Major Shareholders

	(Thousands of shares, %)	
	Shares held	Ratio of shares held to issued number of shares
Japan Trustee Services Bank, Ltd. (Trust account)	56,534	6.57
The Master Trust Bank of Japan, Ltd. (Trust account)	52,929	6.15
Japan Trustee Services Bank, Ltd. (Trust account 9)	27,366	3.18
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)	14,709	1.71
Japan Trustee Services Bank, Ltd. (Trust account 4)	12,613	1.46
STATE STREET BANK WEST CLIENT-TREATY 505234	11,819	1.37

Common Stock Distribution by Type of Shareholder



Stock Price



	FY2014	FY2015	FY2016
High (Yen)	687	739	571
Low (Yen)	406	341	317
Closing price as of March 31 (Yen)	619	367	482

