

# FFG

## ANNUAL REPORT 2015

Year Ended March 31, 2015


—To be your Bank of choice—

Your closest bank

Your reliable bank

Your sophisticated bank





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.

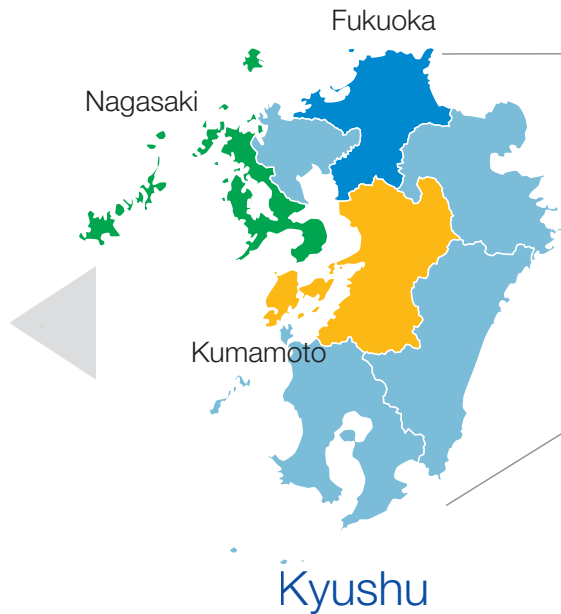
With its headquarters in Fukuoka, the largest city in Kyushu, FFG's network extends across the Kyushu region through bases in the three prefectures

of Fukuoka, Kumamoto and Nagasaki.

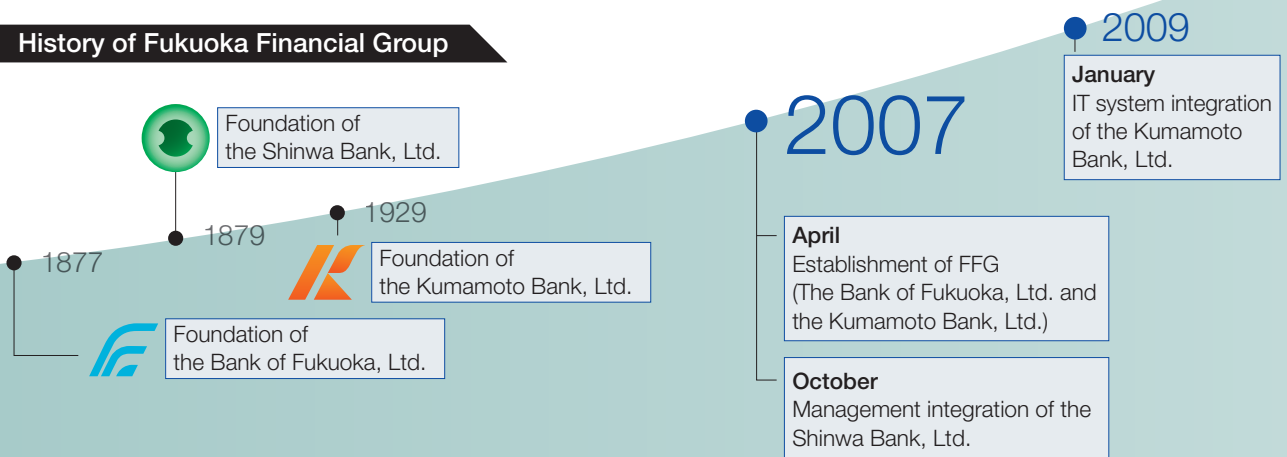
All officers and employees of the Fukuoka Financial Group are united in their efforts to fulfill the promise to stakeholders to make FFG "your Bank of choice." We look forward to your continued support in our drive to upgrade our services as a broad area-based regional financial group that spans local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

## What is Kyushu?

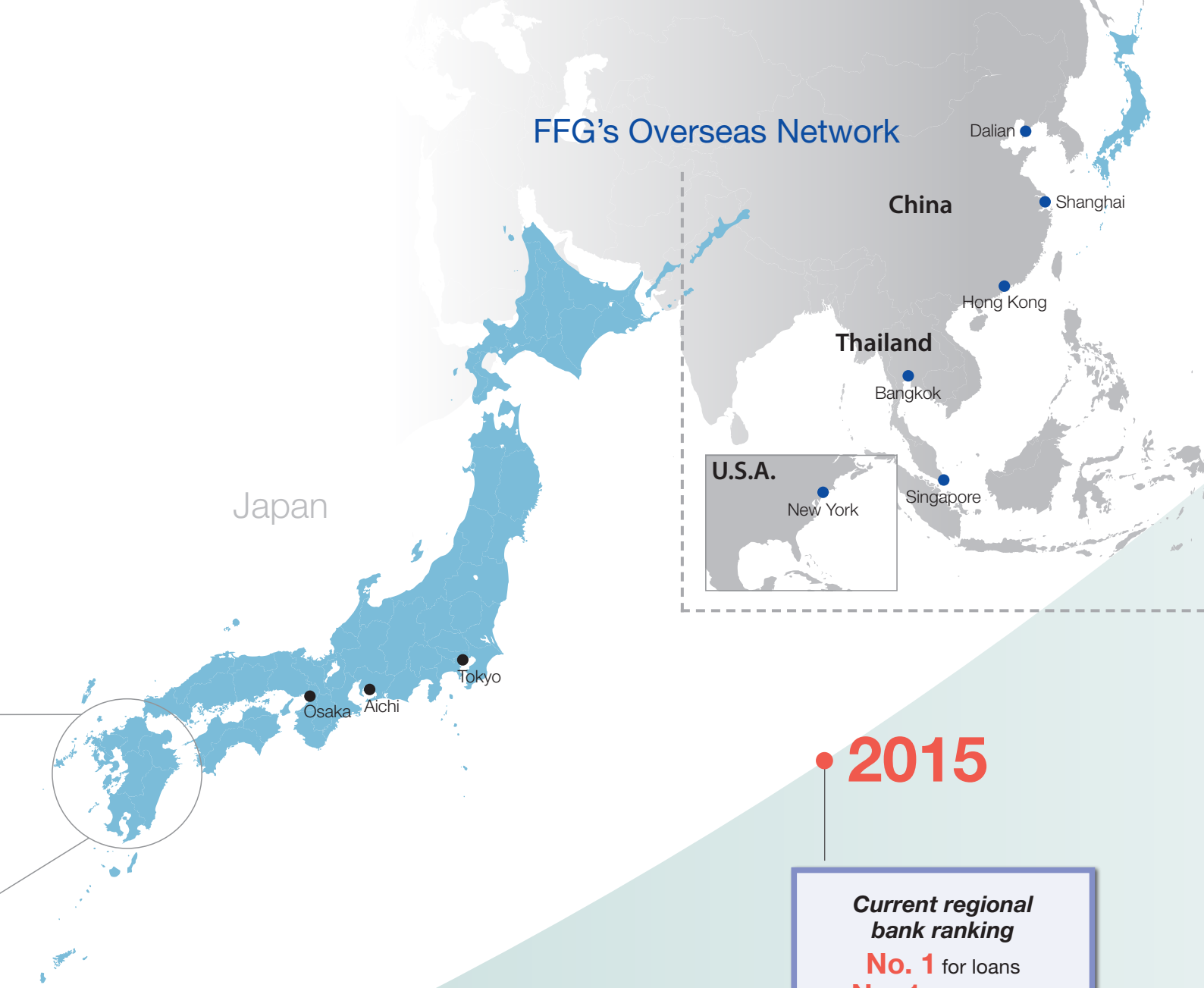
Kyushu is located in the south westernmost area of Japan. It is bordered by the East China Sea to the west and the Pacific Ocean to the east. The climate is slightly warmer and more tropical than Honshu. Kyushu consists of seven prefectures, namely Fukuoka, Oita, Saga, Nagasaki, Kumamoto, Miyazaki and Kagoshima. An ancient center of Japanese civilization, Kyushu offers many historic treasures, modern cities and natural beauty.



### History of Fukuoka Financial Group



# FFG's Overseas Network



## 2015

**Current regional bank ranking**  
**No. 1** for loans  
**No. 1** for deposits

—Loans: **¥10.3** trillion  
 Crossed the threshold for the first time

—Deposits: **¥12.7** trillion

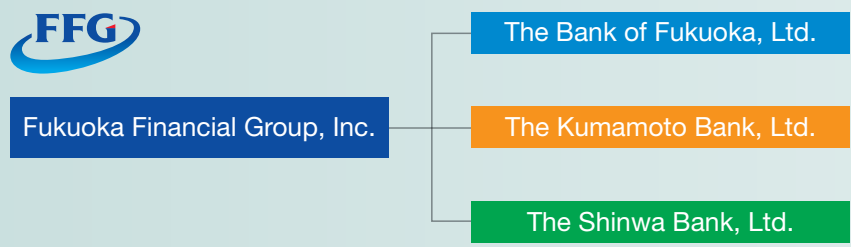
**2010**  
**January**  
 IT system integration of the Shinwa Bank, Ltd.

**2011**  
**November**  
 Opening of representative office in New York

**December**  
 Opening of representative office in Singapore

**2012**  
**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.



FFG Head Office (Fukuoka City)

# Kyushu Figures

## 10% of Japan's Economy

**10.3%**

10.3% of total population of Japan lives in Kyushu.

**4<sup>th</sup>**

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

**5 minutes**

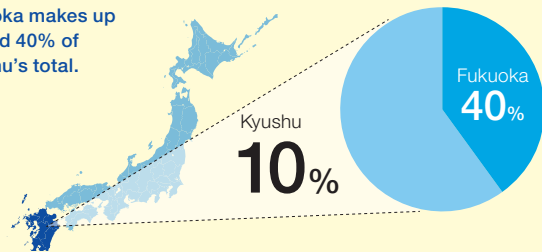
Fukuoka Airport is only 5–10 minutes by subway from central Fukuoka.

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.

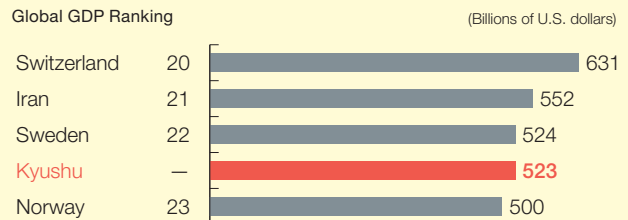
In terms of GDP, Kyushu is the fourth largest economy following the three major metropolitan areas of Kanto, Kinki, and Chubu, and is an important domestic production base for key industries including the automobile, IC-related, agricultural, and food product industries.

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.

Fukuoka makes up around 40% of Kyushu’s total.



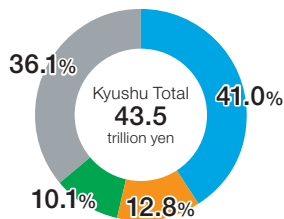
### Kyushu's Place in the World



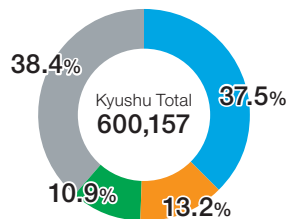
Source: Kyushu Economic Status 2015, Kyushu Bureau of Economy, Trade and Industry

## Data Analysis for Kyushu

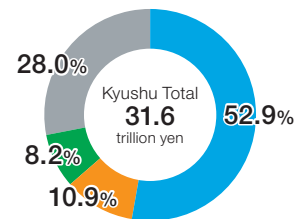
Gross Prefectural Production\*<sup>1</sup> (2011)



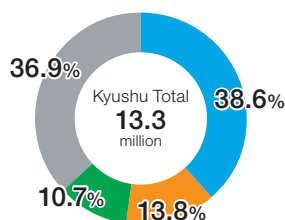
Number of Businesses\*<sup>2</sup> (2012)



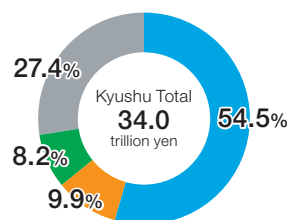
Loans\*<sup>3</sup> (March 31, 2015)



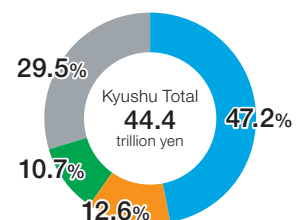
Population\*<sup>1</sup> (2014)



Commercial Sales\*<sup>2</sup> (2012)



Deposits\*<sup>3</sup> (March 31, 2015)



■ Fukuoka    ■ Kumamoto  
■ Nagasaki    ■ Kyushu, other prefectures

Sources \*1 Kyushu Economic Status 2015, Kyushu Bureau of Economy, Trade and Industry  
 \*2 2012 Economic Census, Ministry of Internal Affairs and Communications  
 \*3 Deposits, Vault Cash, and Loans and Bills Discounted by Prefecture, Bank 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. In addition, Fukuoka is located in close proximity to major cities in Asia, with the rapidly growing cities of China and South Korea less than two hours away by air. As the gateway to Asia, Fukuoka has strong economic and cultural ties with Asia, and is a market with extraordinary future potential.



### Fukuoka Airport

Only 5–10 minutes by subway from central Fukuoka  
Japan's highest amount of traffic per runway



### Kyushu Shinkansen

Broad network linking Fukuoka, Kumamoto and Kagoshima



### Port of Hakata

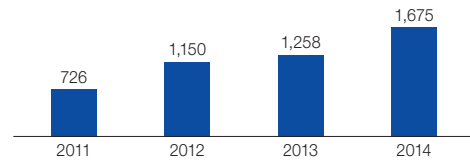
Japan's largest in number of international passengers

## Travel Time from Fukuoka Airport



Source: Compiled by FFG using information from Kyushu Economic Status 2015, Kyushu Bureau of Economy, Trade and Industry

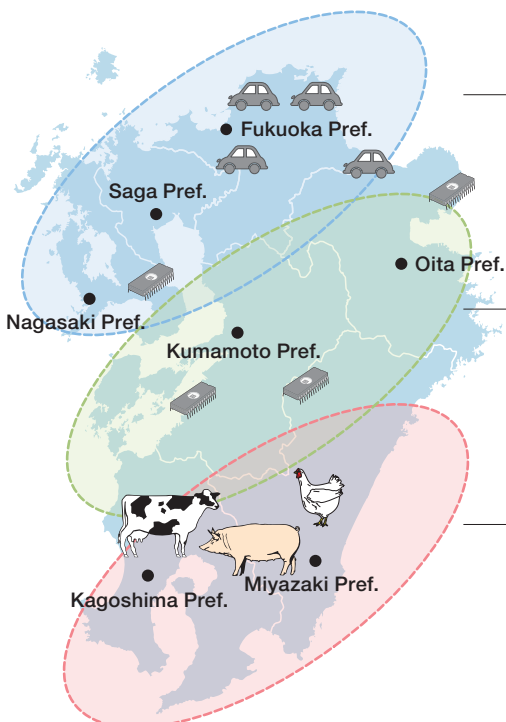
## Foreign nationals entering Kyushu (In thousands)



Source: Ministry of Land, Infrastructure, Transport and Tourism

## 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.

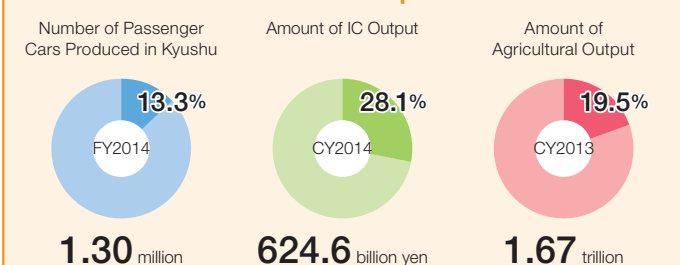
### Middle Kyushu, contributes to “Silicon Island”

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



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

# FFG at a Glance

Becoming a total financial group with unwavering support from all over the Kyushu region, FFG aims to evolve as a financial services provider that meets the various needs of our customers, with predicting and taking advantages of changes of the time and with utilizing the collective strengths of financial group.



(As of March 31, 2015)

## 1<sup>st</sup>

Fukuoka Financial Group, Inc. is the highest total assets, loans and deposits among Japanese regional banks.

Total assets of regional banks		
Rank	Regional Bank	Amounts (Trillions of yen)
1	<b>FFG</b>	15.6
2	Bank of Yokohama	15.2
3	Chiba Bank	12.8
4	Hokuhoku FG	11.6
5	Shizuoka Bank	11.1
6	Yamaguchi FG	10.2

Loans	
10.3	trillion yen

Deposits	
12.7	trillion yen

Note: Banking results are on a non-consolidated basis. (Group results are totals of banks' non-consolidated results.)

Source: Individual banks' financial statements

### THE BANK OF FUKUOKA, LTD.

Share of loans and deposits in Fukuoka prefecture **1<sup>st</sup>**



(As of March 31, 2015)

### THE KUMAMOTO BANK, LTD.

Share of loans and deposits in Kumamoto prefecture **2<sup>nd</sup>**



(As of March 31, 2015)

### THE SHINWA BANK, LTD.

Share of loans and deposits in Nagasaki prefecture **2<sup>nd</sup>**



(As of March 31, 2015)

## 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.

The largest market within Kyushu is Fukuoka Prefecture. We command the largest market share, and hence a competitive advantage. By drawing on the Group's collective strength and our predominance in Fukuoka Prefecture, we aim to grow even more on the back of an even greater market share.

### FFG Fukuoka Financial Group, Inc.

Within Kyushu 321

### THE BANK OF FUKUOKA, LTD.

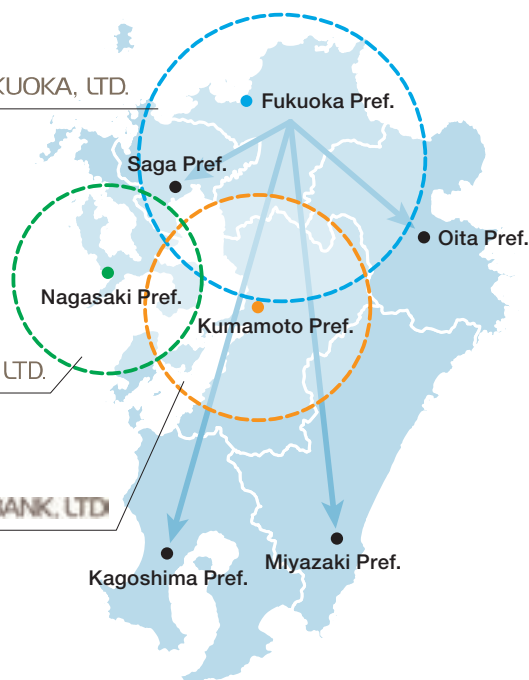
Fukuoka Prefecture	152
Within Kyushu	12
Other	6

### THE SHINWA BANK, LTD.

Nagasaki Prefecture	76
Within Kyushu	11
Other	1

### THE KUMAMOTO BANK, LTD.

Kumamoto Prefecture	63
Within Kyushu	7



(As of August 1, 2015)

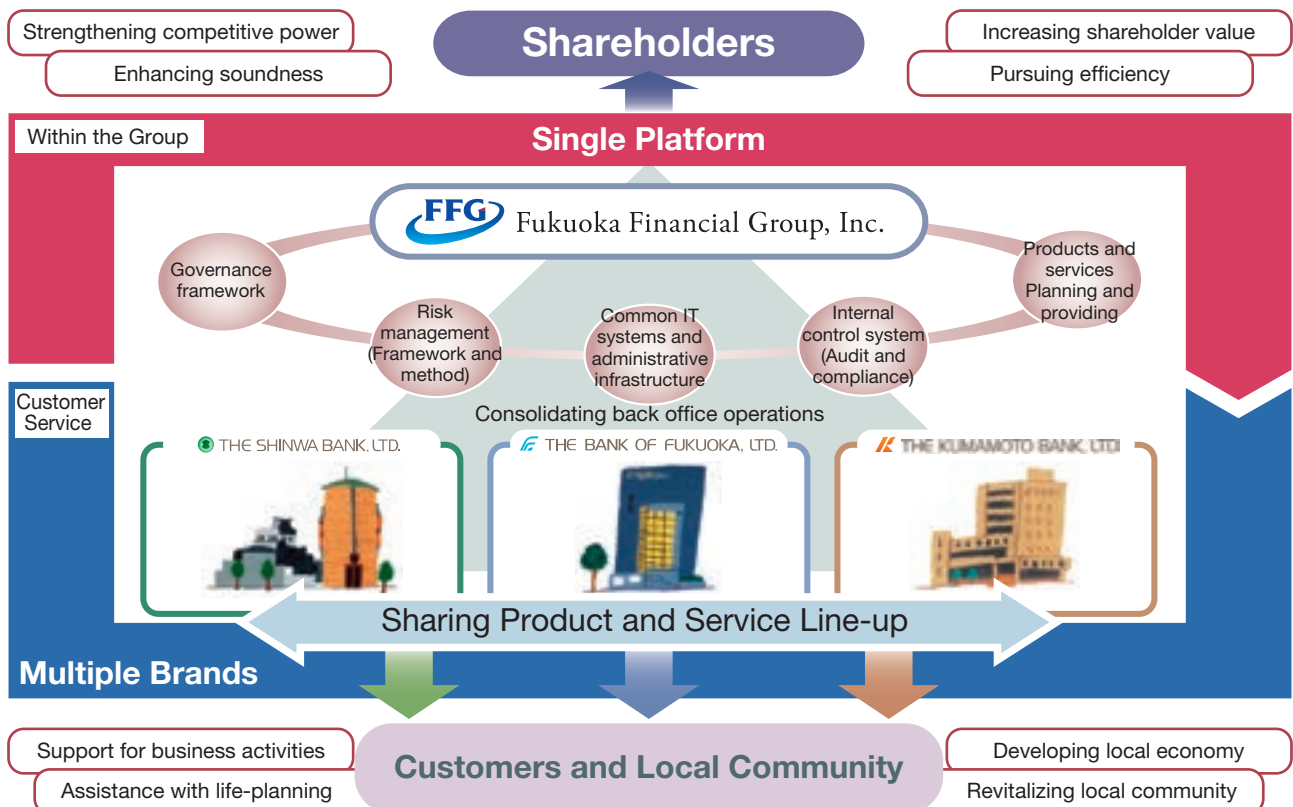


## FFG's Management Style

FFG has adopted the “Multiple Brands/Single Platform” management style.

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.



### Single Platform

- One Management Strategy
- One Management System
- Common Infrastructure for Management

As the holding company for its three Group banks, FFG has functions such as management strategies and sales planning, and provides strong leadership in controlling integrated Group management. It develops a high level of financial services with consistent quality, and supplies these to its subsidiary banks.

### 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.

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.

# Fukuoka Financial Group's “Fourth Mid-Term Management Plan”

## Outline of the Fourth Mid-Term Management Plan

FFG is implementing its “Fourth Mid-Term Management Plan” covering the period from April 1, 2013 to March 31, 2016.

In this plan, we are aiming to gain the unwavering support from all our customers, leading to a significant expansion in our business base, through continuing the fundamental principles of the Third Mid-Term Management Plan, “Always Best for the Customer,” named with the goal

of putting into practice our brand slogan, “To be your Bank of choice.” Because of a further deepening of the ABC Plan’s principles, we named this plan “ABC Plan II,” in consideration of opening the 2nd chapter of the ABC Plan.

Over the next three years, we aim to raise our group total power and become a “total financial group with unwavering support from all over the Kyushu region” by establishing an unparalleled presence in the Kyushu region.

Fukuoka Financial Group's Fourth Mid-Term Management Plan, “ABC Plan II”	
Period	3 years (FY2013 – FY2015)
Name	<b>ABC Plan II —Always Best for the Customer II—</b>
Fundamental Principles	I Deepening relations with our customers II Improving business productivity III Strengthening group total power IV Polishing the FFG brand

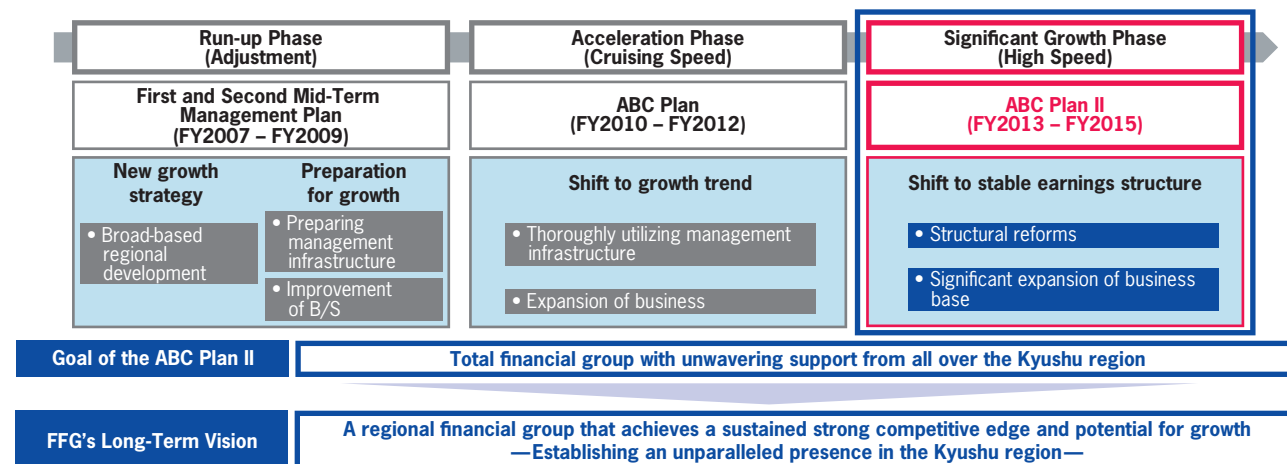
## Positioning of the Fourth Mid-Term Management Plan, and FFG's Goal

In the first and second mid-term management plans, which were the “Run-up Phase,” we have put great effort into building the group’s integrated management system and developing a management infrastructure, such as through administrative and IT system integration, and improving our balance sheets chiefly by cleaning up non-performing loans.

In the third mid-term management plan, which we have moved from the “Run-up Phase” to the “Acceleration Phase,” we secured an expansion of our business and our current growth trend through dramatically improving

productivity by fully utilizing our management infrastructure we have built, and also actively developing the business.

In this mid-term management plan, which we position as the “Significant Growth Phase,” we actively seek to implement various structural reforms from the standpoint of all customers, both individual and corporate. By providing superior products that fit the needs of our customers, together with excellent service, we believe our customers will choose FFG as the best and this will lead to a leap in our business base which we have built up thus far.

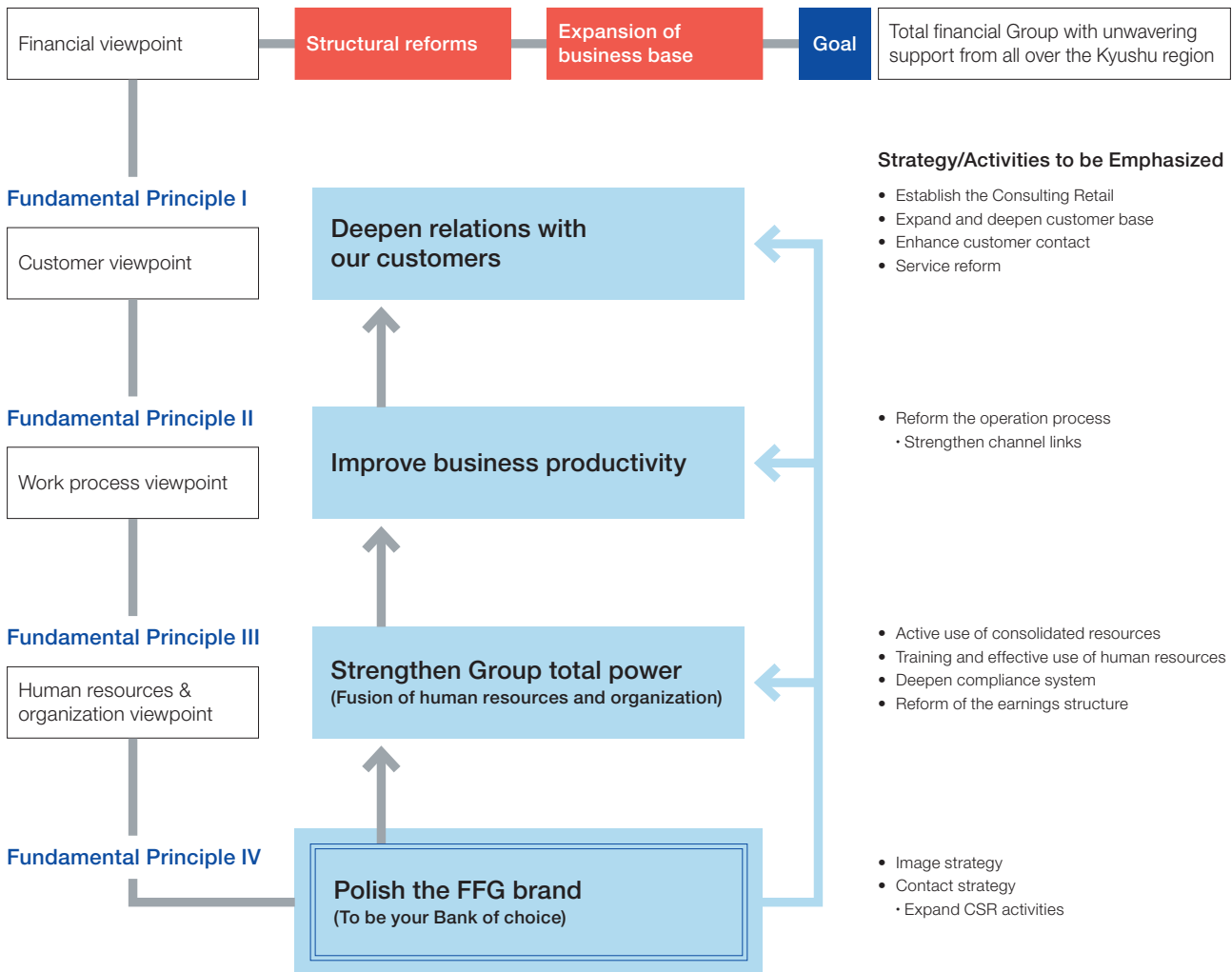


# Fundamental Principles and Emphasized Activities of the Fourth Mid-Term Management Plan

In this mid-term management plan, we have established four fundamental principles aiming for a significant expansion of the business base through structural reforms originating with customers: (1) Deepening relations with our customers,

(2) Improving business productivity, (3) Strengthening group total power, and (4) Polishing the FFG brand. We are implementing various strategies and measures based on these four fundamental principles.

## Four Fundamental Principles and Emphasized Activities



### ■ Fundamental Principle I:

#### “Deepening relations with our customers”

As a new development of the retail business for all our customers, we provide long-lasting services and products suitable for each customers’ life stage, with optimal timing, through optimal channels.

### ■ Fundamental Principle II:

#### “Improving productivity”

We reduce the time required for various procedures through a fundamental reassessment of the operation process for administrative works, and establish business hours that lead to deeper relationships and improve communications with our customers.

### ■ Fundamental Principle III:

#### “Strengthening group total power”

We aim to further improve profitability and management efficiency as well as strengthen group total power using the attractiveness and competitive power of FFG, by melding human resources and organization with each type of management resources and infrastructure within the group.

### ■ Fundamental Principle IV:

#### “Polishing the FFG brand (To be your Bank of choice)”

We develop an action plan that will provide our customers with the actual feeling expressed in our slogan “To be your Bank of choice” at various contact points.

# Interview with the President

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



August 2015

*T. Shibato*

Takashige Shibato

President

Fukuoka Financial Group, Inc.

## Q.1 | Please explain to us about the current position of FFG.

FFG marks its 9th year of establishment in 2007. Subsequent to the management integration, we advanced through the “Run-up Phase” and the “Acceleration Phase,” and we are currently under the Fourth Mid-Term Management Plan “ABC Plan II,” positioned as the “Significant Growth Phase.” At this stage, we are working on a number of initiatives for structural reforms originating with our customers and a significant expansion in our business base.

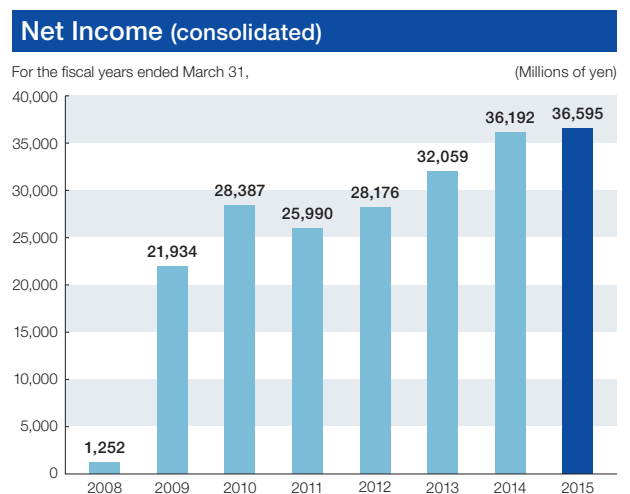
Under the ABC Plan II, we are striving to differentiate ourselves from other banks and outrun the

competition on the interest rates by thoroughly changing our employee awareness and business methods with a view to originating with our customers.

Through our efforts in the past two years, awareness for and actions on the basis of “originating with our customers” has progressed smoothly. Moreover, expansion in our business base is also steady, as could be seen from the balance of loans at the end of March 2015, which exceeded ¥10 trillion for the first time.

## Q.2 | How is the result of the profit performance?

Consolidated net income reached a record high for the past three consecutive years. As for the top line, core business profit (3 banks’ total) for FY2014 amounted to ¥74.2 billion, as we covered the decrease in interest income mainly led by the lower interest rates with accumulation of non-interest income and cost reductions. We can currently forecast a turnaround of net interest income for FY2015, and we believe that the profit structure reforms in the ABC Plan II are steadily in progress.



## Interview with the President

### Q.3 | Please elaborate on the initiatives for the ABC Plan II.

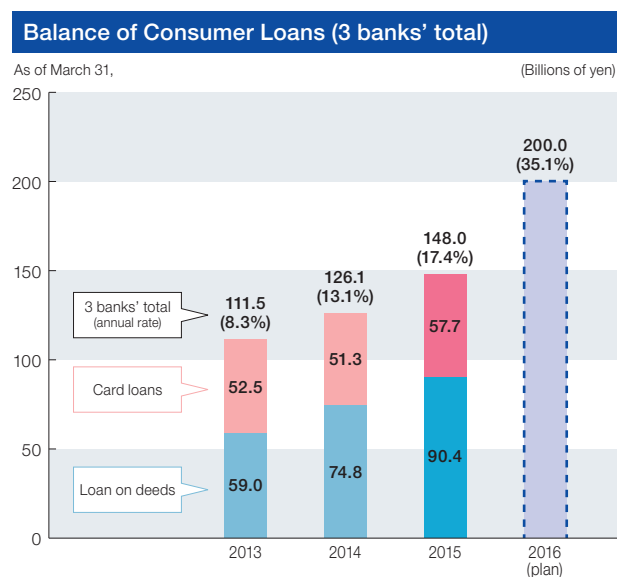
The ABC Plan II primarily focuses on initiatives such as “practice consulting retail” and “strengthen consumer loans.”

“Consulting retail” is a mechanism whereby we respond to issues and needs of all corporate and individual customers with cross-selling rather than selling single items to achieve sustainable transactions. We especially position business successions and inheritance businesses for small-to-medium enterprise owners, the affluent class, and seniors as our core business, while making efforts to strengthen sales capabilities and remodel services as well as

collaborate with our group companies and external partners.

The balance of “consumer loans” has increased at a high annual rate as a result of our proactive efforts to enhance promotional events and introduce new products. We see this situation as the driving force to turn around net interest income in FY2015.

As a result, the average balance of total loans for FY2014 continued to grow at a superior rate among regional banks with an annual growth rate of 4.7% for 3 banks’ total.



## Q.4 | Please explain to us about your outlook for FY2015.

Our outlook for FY2015 calls for core business profit (3 banks' total) of ¥74.0 billion and consolidated net income of ¥37.0 billion.

In FY2015, the final year of the ABC Plan II, we will continue to enhance our sales activities centering on expansion of range of customer base as well as

accelerate the speed of profit structure reforms. In addition, we aim to achieve a turnaround of net interest income to further improve our corporate value in the next mid-term management plan starting in FY2016.

Target management indices	FY2015 (Final year) targets [Initial Figure]	FY2014	FY2015 (Final year) targets [Current]
1 Net income (consolidated)	<b>33</b> billion yen	<b>36.6</b> billion yen [Achieved]	<b>37</b> billion yen
2 Average balance of total loans (3 banks' total)	<b>10.1</b> trillion yen	<b>9.7</b> trillion yen	<b>10.2</b> trillion yen
3 Average balance of total deposits (3 banks' total)	<b>12.4</b> trillion yen	<b>12.4</b> trillion yen [Achieved]	<b>12.8</b> trillion yen
4 Dividend payout ratio (consolidated)	<b>30%</b> level	<b>28%</b> [Achieved]	<b>30%</b> level

## Interview with the President

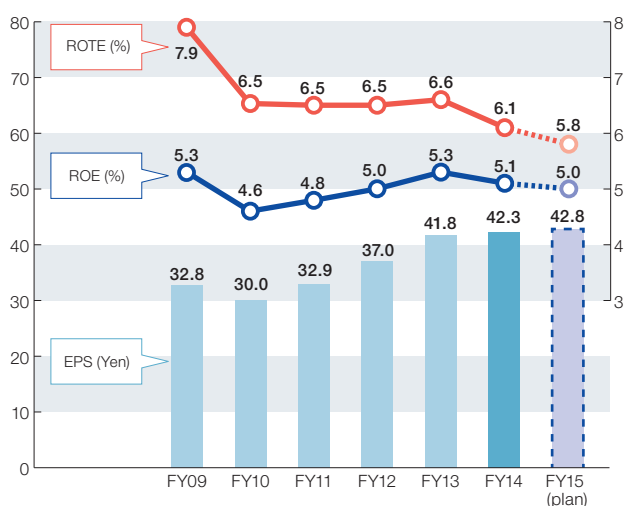
### Q.5 | Please tell us about ROE and return on shareholders.

We put more importance on return on tangible equity (ROTE), which excludes intangible fixed assets, and have over ¥100.0 billion of goodwill generated by the management integration.

Currently, FFG's ROTE is approximately 6%. Although interest income continued to decrease due to low interest rates, it is expected to turn around due to the effects of a number of initiatives taken in

the current Mid-Term Management Plan. We will strive to improve ROE through expansion of the top line.

As for return to shareholders, FFG adopts a performance-based dividend policy (dividend table) with the dividend payout ratio of approximately 30%. In FY2015, we plan for the annual dividend of ¥12 based on the dividend table.



\*Tangible equity = Net assets - Minority interests - Intangible fixed assets

Consolidated net income level	Per share dividend (reference value)
Over 40 billion yen	Per year yen 13 -
35 - 40 billion yen	Per year yen 12 -
30 - 35 billion yen	Per year yen 11 -
25 - 30 billion yen	Per year yen 10 -
20 - 25 billion yen	Per year yen 9 -
15 - 20 billion yen	Per year yen 8 -
Below 15 billion yen	Per year yen 7 -



## Q.6

Please let us know about FFG's long-term outlook.

Our long-term vision calls for becoming “a regional financial group that achieves a sustained strong competitive edge and potential for growth.”

Although the environment surrounding Japanese financial institutions continues to show signs of moderate economic recovery, the fundamental structural problem faced by the nation, such as population decline and aging society, needs to be solved toward the future.

For regional financial institutions, regional (economic) revitalization and improvements of corporate value have close relationship to each other. We consider it necessary for us to have strong business base and management strength to meet our customers' various needs and to take risks, which is to “improve profitability.” Furthermore, it is important to revitalize regional communities by connecting people, goods, and information.

Kyushu market has enormous potential, illustrated by factors including Fukuoka City, the regional center, being designated as the National Strategic Special Zone; recent growth of digital industry in addition to the major industries of automobile, IC, and agriculture; and its geographic proximity to the rapidly growing Asian region.

FFG is now aiming to achieve our long-term vision by expanding business base in the entire Kyushu region through implementation of “consulting retail” to meet all of our corporate and individual customers' various issues and needs.



***We will further challenge ourselves with creativity as a financial service provider capable of meeting various customer needs by anticipating changes of times.***

# Financial Highlights

Fukuoka Financial Group, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31,	2011	2012	2013	2014	2015
<b>Operating results (Millions of yen)</b>					
Ordinary income	250,989	254,373	255,019	242,289	228,007
Ordinary profit	49,890	37,727	68,777	57,020	60,763
Net income	25,990	28,176	32,059	36,192	36,595
Comprehensive income	21,038	53,224	67,495	32,356	77,678
<b>Assets (Millions of yen)</b>					
Net assets	652,306	692,765	754,283	745,778	778,093
Total assets	12,580,400	12,963,202	13,277,578	14,125,998	15,661,794
<b>Cash flows (Millions of yen)</b>					
Cash flows from operating activities	533,364	(196,113)	(30,768)	758,784	989,644
Cash flows from investing activities	(599,744)	17,044	314,231	(104,873)	(416,303)
Cash flows from financing activities	1,352	(12,263)	(29,603)	(165,859)	(32,289)
Cash and cash equivalents at end of the year	658,117	466,771	723,336	1,211,513	1,752,714
<b>Per share data (Yen)</b>					
Net assets per share	658.29	712.03	774.42	798.16	865.66
Net income per share	29.94	32.62	37.01	41.82	42.29
<b>Ratio (%)</b>					
Capital adequacy ratio (consolidated)	10.84	10.98	12.26	10.28	9.60
Return on equity (consolidated)	4.56	4.73	4.97	5.28	5.05
Price earnings ratio	11.55	11.24	13.04	10.13	14.63
<b>Other</b>					
Employees	6,896	6,736	6,825	6,763	6,805

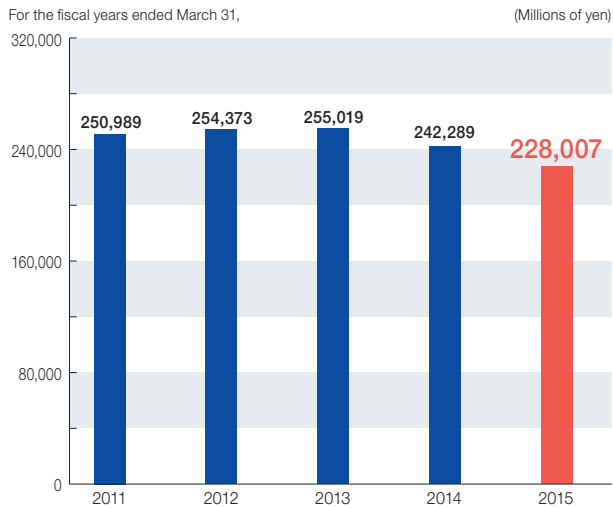
Notes 1 The fiscal year is from April 1 through March 31.

2 FFG and its domestic consolidated subsidiaries conduct accounting on a before-tax basis, excluding national and local consumption taxes.

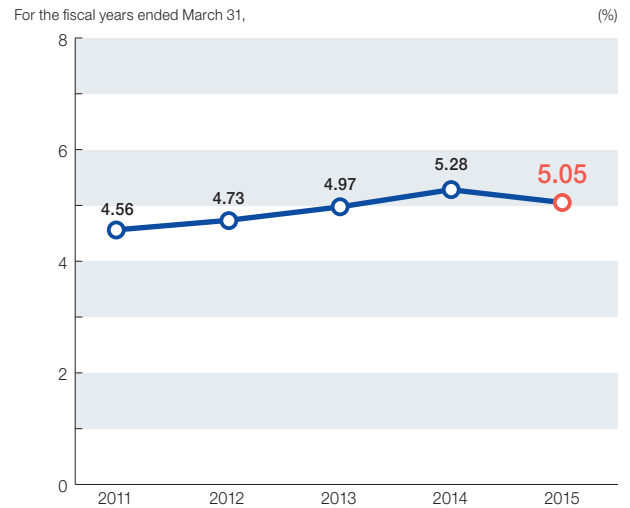
3 With regard to the calculation method of capital adequacy ratio, in accordance with the revision of the public notification of the capital adequacy ratio, Basel III (domestic standard) has been applied from the end of March 2014 and 2015 (Basel II had been applied up to 2013).

4 Capital adequacy ratio = (Total net assets - Minority interests)/Total assets at fiscal year-end.

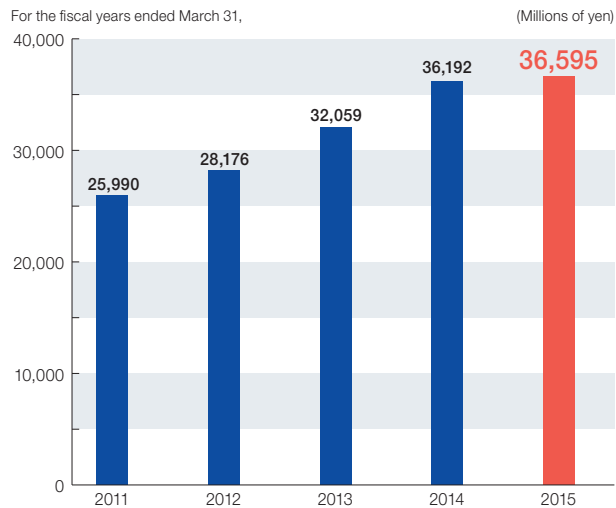
## Ordinary income (Consolidated)



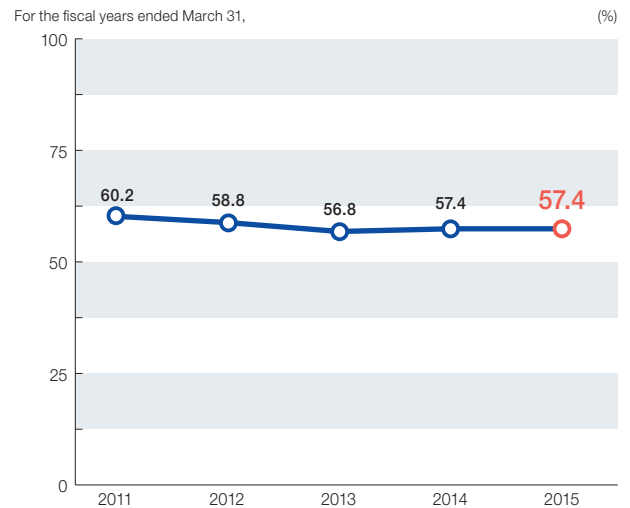
## Return on equity (Consolidated)



## Net income (Consolidated)



## Core OHR (3 banks' total)



# Review of the Fiscal Year

## Financial Summary

3 banks' total			
(Billions of yen)			
For the fiscal years ended March 31,	2014	2015	Comparison
Gross business profit	181.1	174.2	(6.9)
Net interest income	152.9	149.6	(3.3)
Net fees and commissions	18.5	20.9	2.4
Net trading income	0.1	0.1	(0.0)
Net other operating income	9.6	3.5	(6.0)
Overhead expenses	100.8	99.8	(1.0)
Business profit*1	66.8	74.4	7.6
Core business profit*2	74.9	74.2	(0.8)
Total credit cost*3	8.2	(2.5)	(10.7)

Consolidated			
Ordinary profit	57.0	60.8	3.7
Net income	36.2	36.6	0.4

Note "( )" denotes minus.

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

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

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

Core business profit decreased ¥0.8 billion from a year earlier to ¥74.2 billion although a decrease of net interest income due to lower interest rates was covered by an increase of fees and commissions from investment trusts and insurances and a decrease of overhead expenses.

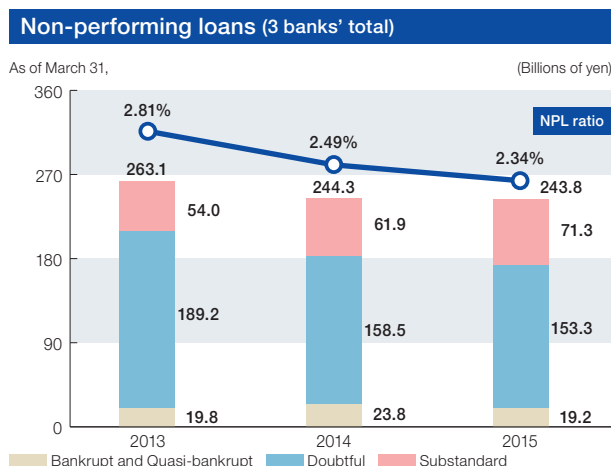
Consolidated ordinary profit increased ¥3.7 billion from a year earlier to ¥60.8 billion, due to a decrease in credit cost and an increase in other profit, which together offset a decrease in gains on securities (stocks and bonds).

Consolidated net income increased ¥0.4 billion from a year earlier to ¥36.6 billion, which is a record high for three consecutive years. (Four straight years of earnings growth).

(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2014	2015	Comparison	2014	2015	Comparison	2014	2015	Comparison
Gross business profit	130.2	124.5	(5.7)	20.4	20.3	(0.1)	30.5	29.4	(1.1)
Net interest income	108.2	106.8	(1.4)	18.6	18.2	(0.3)	26.2	24.6	(1.5)
Domestic	102.4	99.7	(2.7)	18.6	18.2	(0.4)	26.2	24.6	(1.6)
International	5.8	7.1	1.3	(0.1)	0.0	0.1	(0.0)	0.0	0.1
Net fees and commissions	13.7	14.8	1.1	1.4	1.8	0.4	3.4	4.3	0.8
Net trading income	0.1	0.1	(0.0)	–	–	–	–	–	–
Net other operating income	8.2	2.8	(5.4)	0.4	0.3	(0.1)	0.9	0.5	(0.5)
Overhead expenses	65.4	65.8	0.4	14.3	13.6	(0.7)	21.1	20.4	(0.7)
Business profit	58.4	58.8	0.3	3.0	6.7	3.7	5.4	7.7	2.4
Core business profit	59.8	58.6	(1.2)	6.0	6.7	0.7	9.1	8.9	(0.2)
Ordinary profit	59.9	59.0	(0.9)	1.2	6.6	5.4	5.5	8.7	3.2
Net income	40.4	36.3	(4.1)	5.0	8.0	3.0	4.6	3.6	(1.1)
Total credit cost	1.2	(1.9)	(3.1)	3.0	(0.6)	(3.6)	4.0	0.0	(4.0)

Note "( )" denotes minus.

## Major Financial Indicators

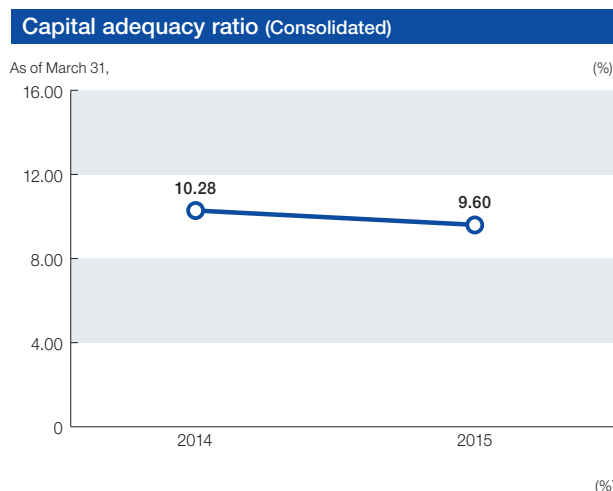


(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2014	2015	Comparison	2014	2015	Comparison	2014	2015	Comparison
NPL ratio (Direct write-off is adopted)	2.32	2.24	(0.08)	2.97	2.69	(0.28)	3.06	2.61	(0.45)
Capital adequacy ratio	10.72	9.71	(1.01)	10.60	9.96	(0.64)	10.74	9.12	(1.62)

Notes: 1 "( )" denotes minus.

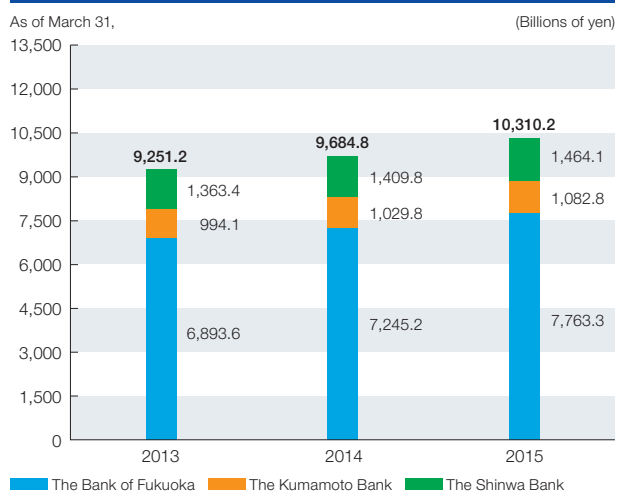
2 Only the capital adequacy ratios of the Bank of Fukuoka listed a consolidated basis.

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

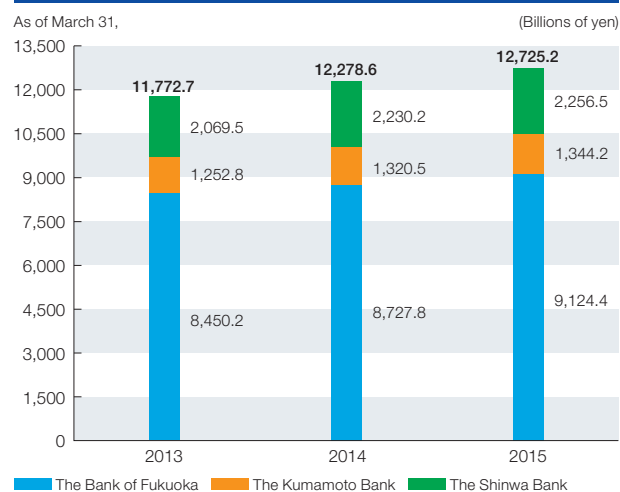


## Loans and Deposits

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



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



### Loans (Non-consolidated)

(Billions of yen)

As of March 31,	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2014	2015	Comparison	2014	2015	Comparison	2014	2015	Comparison
<b>Total</b>	7,245.2	7,763.3	518.0	1,029.8	1,082.8	53.0	1,409.8	1,464.1	54.3
Personal	1,979.0	2,069.7	90.6	366.9	394.6	27.7	430.3	442.1	11.8
General corporate	4,406.9	4,820.5	413.5	578.3	595.5	17.2	790.2	826.2	36.0
Public sector	859.2	873.0	13.8	84.4	92.5	8.0	189.2	195.7	6.4
<b>Personal loans</b>	1,912.9	2,003.1	90.2	346.7	372.1	25.3	413.7	426.4	12.6
Housing loans	1,760.3	1,837.5	77.1	323.0	346.0	22.9	366.3	378.7	12.3
Consumer loans	82.0	99.2	17.1	16.5	18.8	2.3	27.4	29.8	2.3

### Deposits (Non-consolidated)

(Billions of yen)

As of March 31,	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2014	2015	Comparison	2014	2015	Comparison	2014	2015	Comparison
<b>Total</b>	8,424.4	8,831.7	407.3	1,223.5	1,277.8	54.3	2,140.9	2,146.7	5.7
Personal	5,963.4	6,213.7	250.3	925.6	958.4	32.8	1,360.8	1,401.5	40.6
Corporate (including Public)	2,461.0	2,618.0	156.9	297.9	319.3	21.4	780.0	745.1	(34.9)
<b>Deposits and CDs</b>	8,727.8	9,124.4	396.5	1,320.5	1,344.2	23.7	2,230.2	2,256.5	26.3

## Credit Ratings

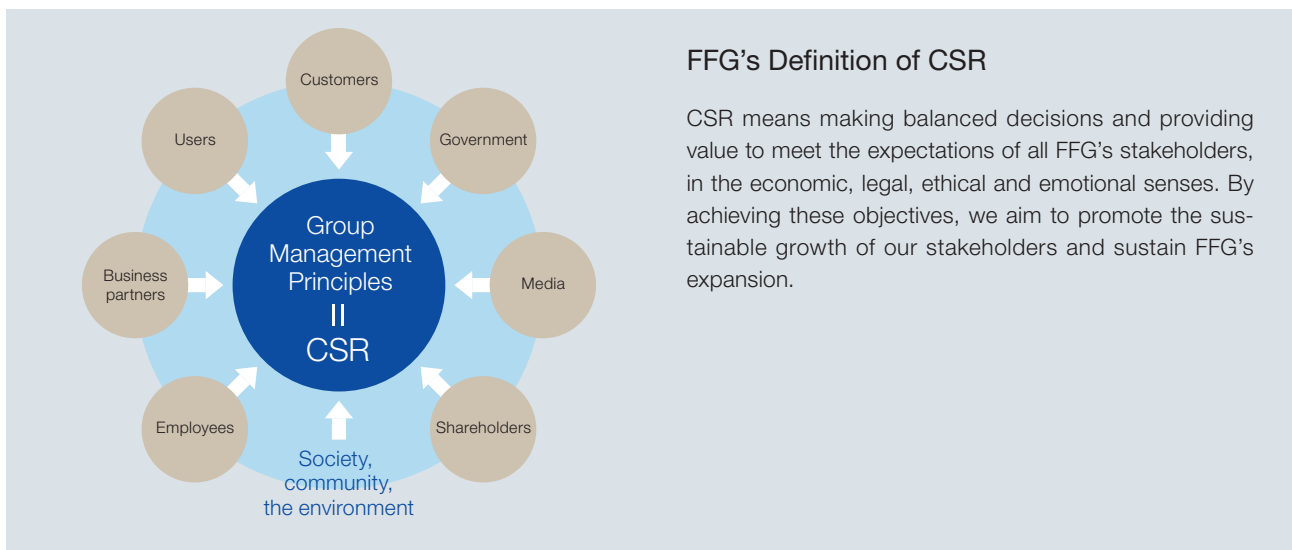
		Fukuoka Financial Group	The Bank of Fukuoka	The Kumamoto Bank	The Shinwa Bank
Moody's Investors Service	Long-term	—	<b>Baa1</b>	—	—
	Short-term	—	<b>P-2</b>	—	—
Rating and Investment Information, Inc. (R&I)	Long-term	<b>A+</b>	<b>AA-</b>	<b>A+</b>	<b>A+</b>
	Short-term	<b>a-1</b>	—	—	—
Japan Credit Rating Agency, Ltd. (JCR)	Long-term	<b>A</b>	<b>A+</b>	<b>A</b>	<b>A</b>
	Short-term	<b>J-1</b>	—	—	—

# CSR Measures

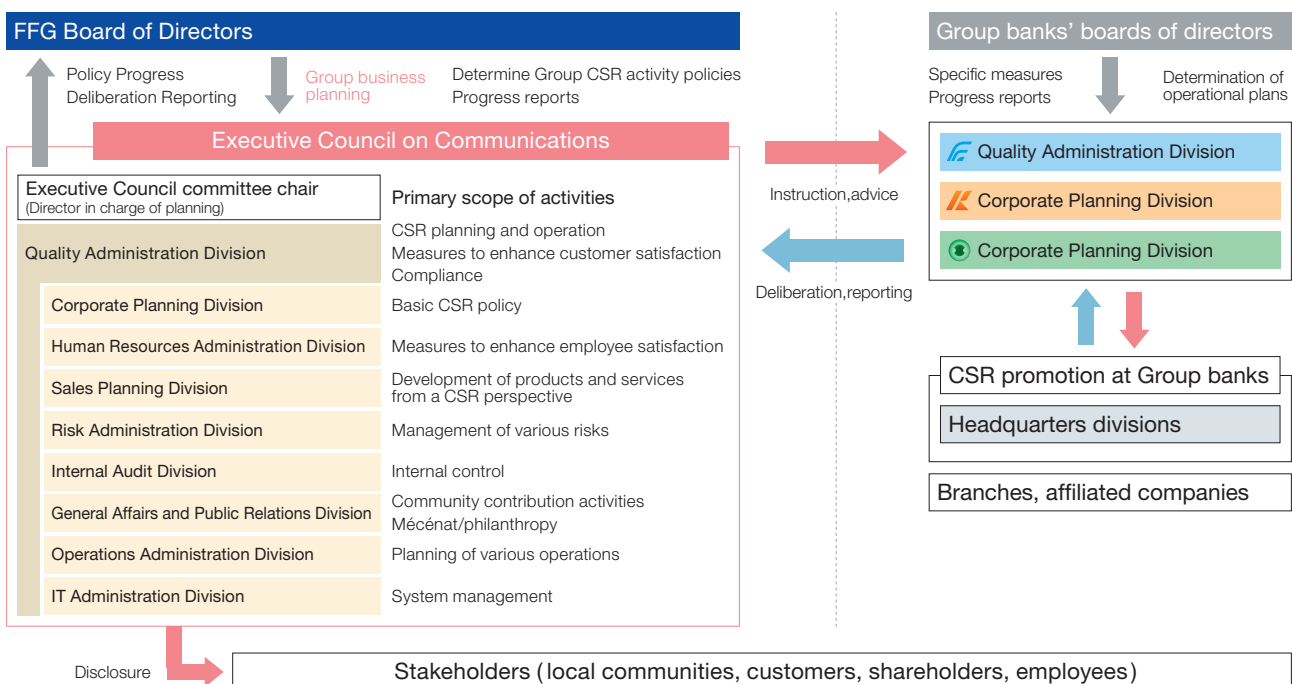
The Fukuoka Financial Group's concept of CSR lies in the belief that it can achieve sustainable growth for the Company and society by forging stronger relationships with stakeholders (customers, shareholders and employees). Accordingly, our corporate management initiatives aim to strengthen compliance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

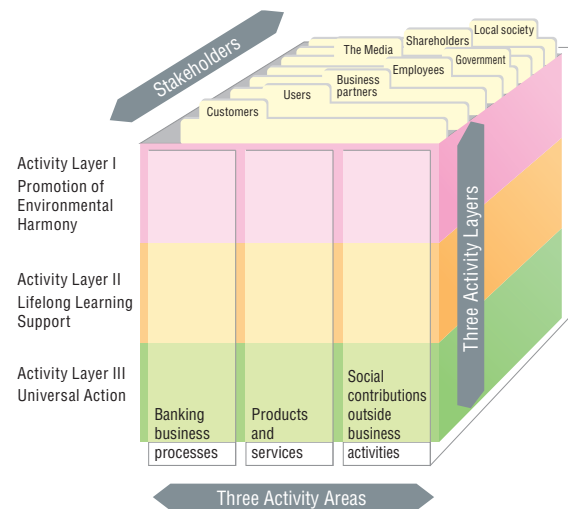
Activity Areas, "Banking business processes," "Products and services" and "Social contributions outside business activities," while conducting a host of activities.

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 so they can make rational financial decisions. We hold investment trust reporting presentations and conduct mostly free lectures featuring external instructors on a host of themes, including housing, pensions and insurance.



Money planning seminars for university 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 tree 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 that help children cultivate a rich sensitivity, we donate books to special-needs schools in Fukuoka, Kumamoto and Nagasaki. In the fiscal year ended March 31, 2015, we donated a total of 834 books to 12 schools.



## 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.



2,000 employees in total volunteered for Nagasaki National Sports Festival



New Year Concert

## 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.

We have also installed ATMs with universal features. By adopting “color universal design” to consider factors such as color, shape, font size, and layout, the ATMs provide easy operations and clear information to a variety of people including the elderly. They are equipped with “handheld phones with voice guidance” for visually impaired customers.



ATM model

### “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” for every morning meetings, and the customer service managers who have the qualification

of second-class service care-fitters are placed in all branches.



Sign language training



Service assistance

### “Human” Action

The three banks engaged in a “one person, one action” movement under which each branch comes up with ways to contribute to the regional communities and puts them into action. Specifically, we are involved in participating in regional events, clean-ups, volunteer activities, and more. In FY2014, the three banks carried out 1,144 actions in total.



Local festival



Clean-up activity

# Members of the Board



## Chairman of the Board



Masaaki Tani

## President



Takashige Shibato

## Deputy President



Takashi Yoshikai

## Directors



Masayuki Aoyagi



Yasuhiko Yoshida



Yuji Shirakawa



Yasuaki Morikawa



Ei Takeshita



Fumio Sakurai



Noritaka Murayama



Syunsuke Yoshizawa



Satoru Fukuda



[External]  
Ryuji Yasuda



[External]  
Hideaki Takahashi

## 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  
**Masayuki Aoyagi**

Director & Senior Managing Executive Officer  
**Yasuhiko Yoshida**

Director & Senior Managing Executive Officer  
**Yuji Shirakawa**

Director & Managing Executive Officer  
**Yasuaki Morikawa**

Director & Managing Executive Officer  
**Yasuharu Nishizuma**

Director & Managing Executive Officer  
**Eiji Araki**

Director & Managing Executive Officer  
**Koji Yokota**

Director [Non-Executive]  
**Ryuji Yasuda**

Director [Non-Executive]  
**Hideaki Takahashi**

Audit & Supervisory Board Member [Full-time]  
**Masahiko Tsuchiya**

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  
**Fumio Sakurai**

Director & Managing Executive Officer  
**Noritaka Murayama**

Director & Managing Executive Officer  
**Yoshihiro Otsuka**

Director & Managing Executive Officer  
**Noritsugu Iwashita**

Director & Managing Executive Officer  
**Toshimi Nomura**

Director & Managing Executive Officer  
**Shigemi Kitahara**

Director [Non-Executive]  
**Koji Yokota**

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

Audit & Supervisory Board Member [External]  
**Mineo Nakayama**

Audit & Supervisory Board Member [External]  
**Masato Akashi**

## THE SHINWA BANK, LTD.

Director & President  
**Syunsuke Yoshizawa**

Director & Deputy President  
**Satoru Fukuda**

Director & Managing Executive Officer  
**Ryoji Maeda**

Director & Managing Executive Officer  
**Kenji Yamaguchi**

Director & Managing Executive Officer  
**Kazuki Ishino**

Director & Managing Executive Officer  
**Michiaki Nishimura**

Director & Managing Executive Officer  
**Mikito Tanaka**

Director [Non-Executive]  
**Yasuhiko Yoshida**

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

Audit & Supervisory Board Member [External]  
**Kanji Fukahori**

Audit & Supervisory Board Member [External]  
**Masao Ito**

# Corporate Governance

## FFG's Corporate Governance Framework

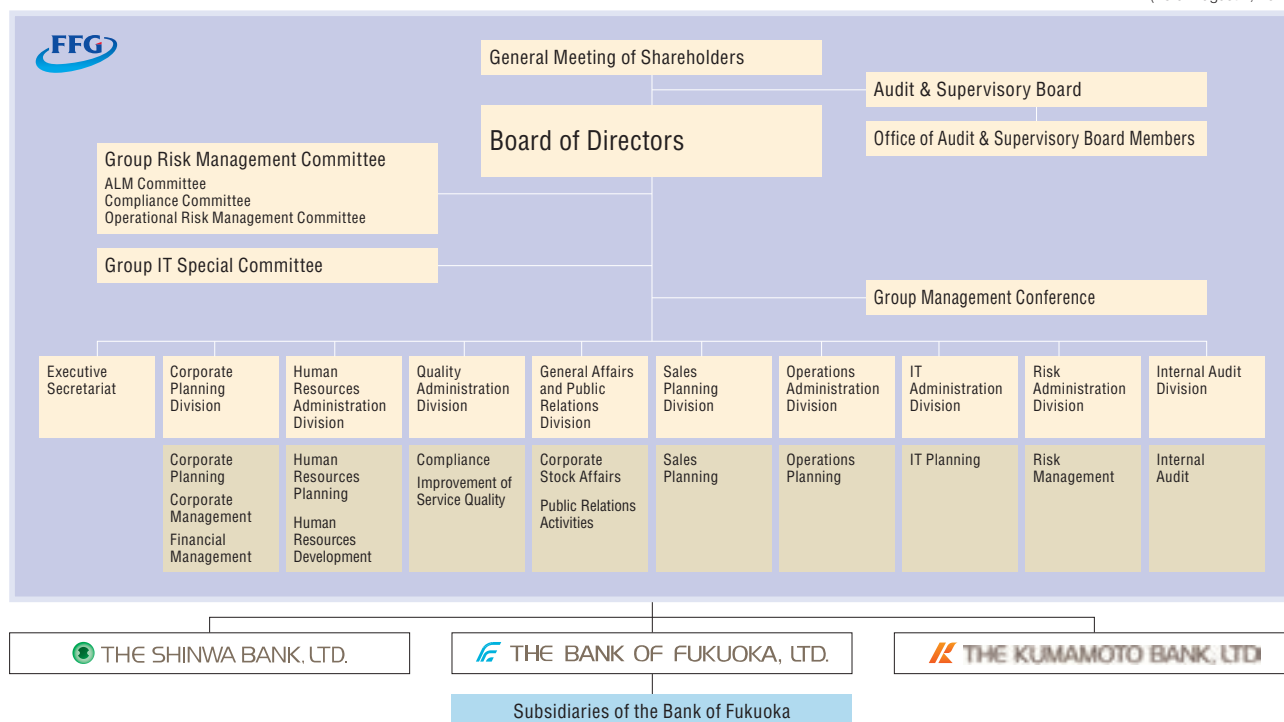
To demonstrate in a timely and appropriate manner its functions as a holding company (business management of subsidiary banks and group companies), including the strengthening of the governance system of the Group

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

Corporate Governance Overview	
<p><b>Board of Directors, Directors</b></p> <p>The number of directors shall be 14 or less (including external Directors), and these Directors shall make decisions regarding matters stipulated by laws, ordinances and articles of incorporation, as well as discussions/decisions on basic guidelines related to Group management and important matters concerning business management of subsidiary banks, business affairs of the Group and so on.</p> <p><b>Audit &amp; Supervisory Board, Audit &amp; Supervisory Board Members</b></p> <p>The number of Audit &amp; Supervisory Board members shall be five or less, and in addition to conducting audits of Director job performance, Audit &amp; Supervisory Board members shall work in close coordination with the Internal Audit Division and the accounting auditors and conduct audits regarding the status etc. of business conditions and assets of the Group as a whole. In addition, the Board of Audit &amp; Supervisory Board members shall report, discuss and make decisions regarding basic guidelines concerning audits of the group as a whole, audit planning, audit methods and other important matters related to auditing.</p>	<p><b>Office of Audit &amp; Supervisory Board Members</b></p> <p>To enable the Audit &amp; Supervisory Board system to function efficiently, staff will be exclusively designated to support the Audit &amp; Supervisory Board Members.</p> <p><b>Group Management Conference</b></p> <p>Based on basic guidelines stipulated and matters entrusted by the Board of Directors, the Group Management Committee shall discuss important matters related to business and affairs of the Group, including Group management and operational planning.</p> <p><b>Group Risk Management Committee</b></p> <p>In addition to carrying out discussions concerning each of the risk management systems of the Group as a whole, the Group Risk Management Committee shall discuss and report on matters related to asset portfolio management and compliance.</p> <p><b>Group IT Special Committee</b></p> <p>To strengthen the IT governance system of the group as a whole, the Group IT Special Committee shall discuss matters related to IT strategy, system risk management and investment in IT system.</p>

## Corporate Governance Framework

(As of August 1, 2015)



# 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.

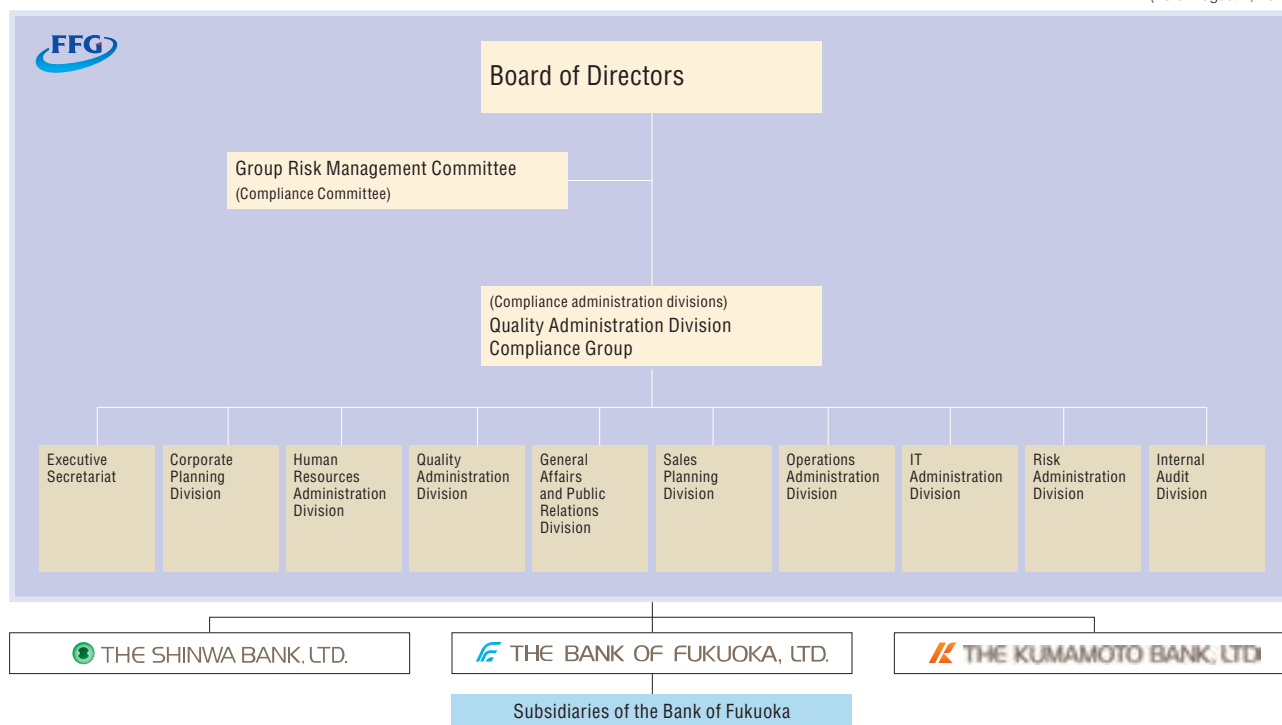
Furthermore, we have formulated a Customer Protection Management Policy to protect customers' legitimate interests and increase their convenience and are enhancing our customer protection management structure.

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, 2015)



# 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

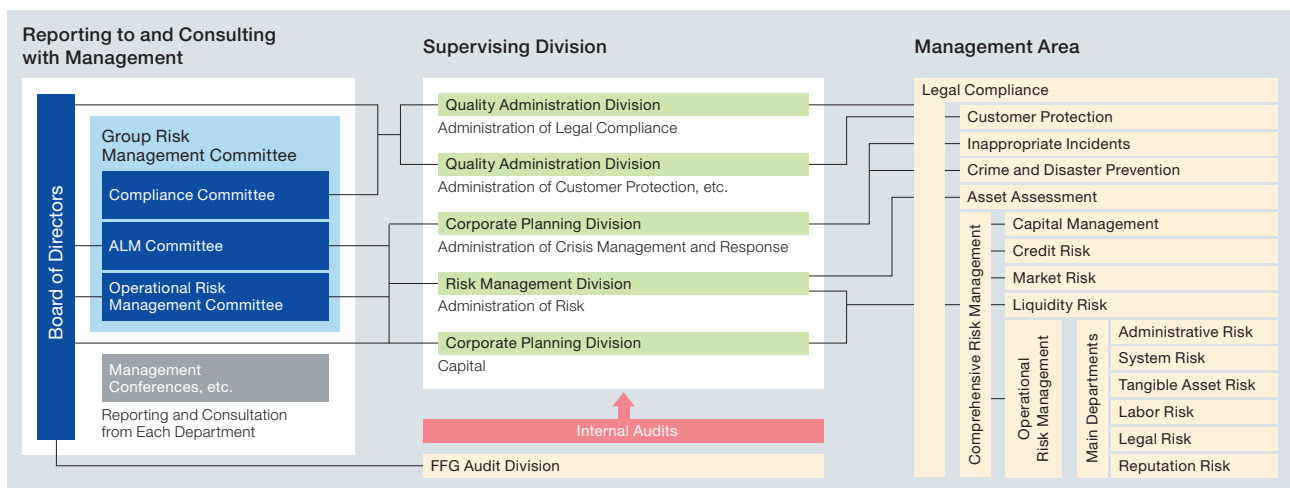
Risk categories	Definitions	Methods
Credit Risk	Risk of losses arising from asset values that have fallen or been erased (including off-balance-sheet assets) by the worsening financial position of obligors	Management by VaR Integrated risk management
Market Risk	Risk of losses arising from variation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

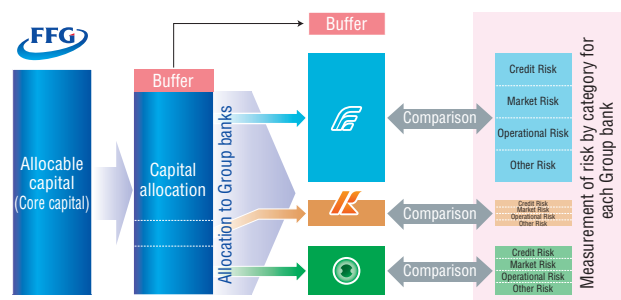
FFG operates a policy of "establishing and upgrading appropriate comprehensive risk management frameworks

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

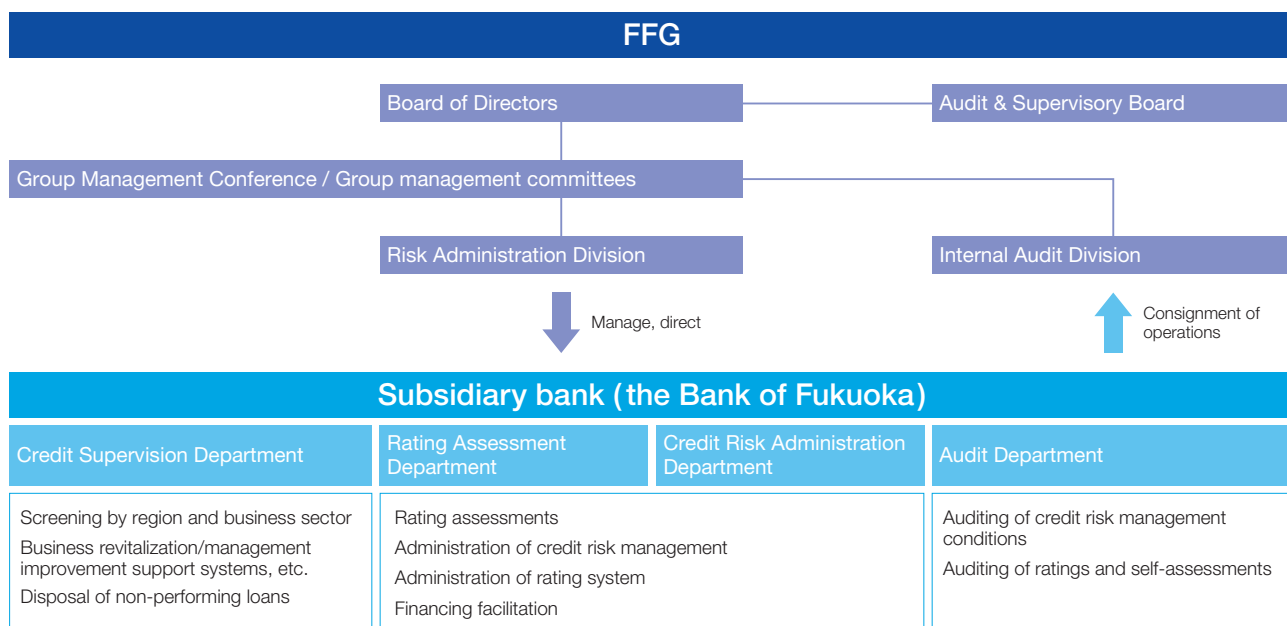
The Credit Risk Management System is centered on the Risk Management Division, which administers the formulation of credit risk management policy and manages the rating systems and credit risk for the Group.

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, obligator ratings are ranked as the core of credit risk management.

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

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

## Quantification of Credit Risk

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

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

## Framework for Individual Credit Management

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

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

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

# Risk Management

## Market Risk Management

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

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

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

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

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

## Liquidity Risk Management

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

Furthermore, the Group's Risk Administration Division

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

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

## Operational Risk Management

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

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

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

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

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

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## Market Conditions

During the fiscal year ended March 31, 2015, the Japanese economy generally maintained at a moderate recovery trend. The overall economy was also on a recovery trend in the latter half of the fiscal year, due to steady improvement in corporate profits and employment and income environment along with a gradual pickup in production and exports amid economic recovery of the United States and progressive depreciation of the yen, despite the backlash of the last-minute demand before the consumption tax hike and weak personal consumption due to the effect of bad weather in summer during the first half of the fiscal year.

Economic conditions in the Kyushu region, FFG's primary business base, remained on a moderate recovery trend backed by a recovery in production and exports amid employment environment continued to improve, despite weaker economy similar to that seen nationwide in the first half of the fiscal year.

On the financial front, the Nikkei Stock Average rose, supported by rising stock prices in the United States and additional monetary easing by the Bank of Japan, which reached the ¥19,000 range at the end of the fiscal year. The Japanese yen continued to depreciate against the U.S. dollar to the ¥120 range at the end of the fiscal year due to additional monetary easing by the Bank of Japan, while the U.S. government curbed quantitative easing.

With regard to interest rates, the yields on 10-year Japanese government bonds—a benchmark for long-term interest rates—fluctuated wildly for a time, but both short- and long-term interest rates settled at low levels as a result of tracking gently downward overall.

### "ABC Plan II" Four Fundamental Principles

Deepen relations with our customers

Improve business productivity

Strengthen group total power  
(Fusion of human resources and organization)

Polish the FFG brand  
(To be your Bank of choice)

## Initiatives during the Year

In these economic circumstances, FFG commenced its Fourth Mid-Term Management Plan "ABC Plan II," (April 1, 2013–March 31, 2016) starting in the fiscal year ended March 31, 2014. Under this plan, we aim to achieve a significant expansion in our business base through structural reforms originating with customers, and to become a total financial group with unwavering support from all over the Kyushu region.

In the fiscal year ended March 31, 2015, the second year of our Fourth Mid-Term Management Plan, we worked on a number of initiatives originating with our customers, based on the four fundamental principles set out under ABC Plan II: deepening relations with our customers, improving business productivity, strengthening group total power, and polishing the FFG brand ("To be your Bank of choice").

# Business Performance of the Group

## Operating Results

During the fiscal year, ordinary income declined ¥14,282 million from the previous fiscal year to ¥228,007 million, owing mainly to a decrease in gains on sales of bonds including national government bonds. Ordinary profit increased ¥3,743 million to ¥60,763 million. Net income increased ¥403 million to ¥36,595 million.

## Financial Position

FFG's total deposits (deposits + negotiable certificates of deposit) increased ¥444.1 billion from the preceding fiscal year-end to ¥12,682.3 billion, resulting from steady growth of both individual and corporate segments.

Loans and bills discounted expanded ¥617.6 billion to ¥10,213.4 billion mainly due to stable increase in loans to small-to-medium enterprises and home mortgages.

Holdings of securities at year-end totaled ¥3,268.6 billion, up ¥456.3 billion from a year earlier, as FFG worked to create a sound portfolio that provides a balance of stability and profitability. Of the above, national government bonds increased ¥391.6 billion to ¥2,083.6 billion.

## Cash Flows

Cash and cash equivalents at the end of the year were ¥1,752.7 billion, up ¥541.2 billion from the preceding fiscal year-end.

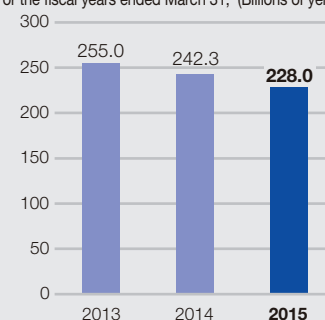
Net cash provided by operating activities was ¥989.6 billion, ¥230.8 billion more than in the preceding fiscal year. The change was mainly due to an increase in net change in payables under securities lending transactions.

Net cash used in investing activities was ¥416.3 billion, ¥311.4 billion less than in the preceding fiscal year, mainly due to a decrease in proceeds from sale of securities.

Net cash used in financing activities amounted to ¥32.2 billion, ¥133.5 billion less than in the preceding fiscal year, mainly due to a decrease in subordinated borrowings.

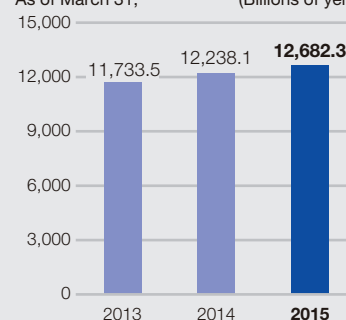
### Ordinary Income

For the fiscal years ended March 31, (Billions of yen)



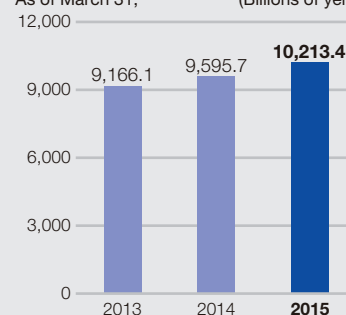
### Deposits

As of March 31, (Billions of yen)



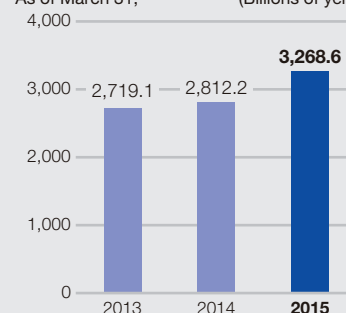
### Loans and Bills Discounted

As of March 31, (Billions of yen)



### Securities

As of March 31, (Billions of yen)





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, 2015, 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, 2015, 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 25, 2015  
Fukuoka, Japan

# Consolidated Balance Sheets

Fukuoka Financial Group, Inc. and its subsidiaries  
As of March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Assets</b>			
Cash and due from banks (Notes 7 and 18)	¥ 1,759,174	¥ 1,216,149	\$ 14,639
Call loans and bills bought (Note 18)	26,802	100,000	223
Monetary claims bought (Notes 3 and 18)	42,125	40,376	350
Trading assets (Note 18)	2,360	2,301	19
Money held in trust (Notes 4 and 18)	2,000	1,500	16
Securities (Notes 3, 7, 11, 12 and 18)	3,268,602	2,812,281	27,199
Loans and bills discounted (Notes 5, 7 and 18)	10,213,430	9,595,748	84,991
Foreign exchanges (Notes 5 and 18)	8,781	8,150	73
Other assets (Note 7)	63,472	48,323	528
Tangible fixed assets (Notes 6)	192,134	191,403	1,598
Intangible fixed assets	123,525	133,058	1,027
Net defined benefit asset (Note 10)	32,140	30,102	267
Deferred tax assets (Note 13)	20,666	46,283	171
Customers' liabilities for acceptances and guarantees (Note 11)	56,628	57,899	471
Allowance for loan losses (Note 5)	(150,051)	(157,579)	(1,248)
<b>Total assets</b>	<b>¥15,661,794</b>	<b>¥14,125,998</b>	<b>\$130,330</b>
<b>Liabilities</b>			
Deposits (Notes 7 and 18)	¥12,682,317	¥12,238,163	\$105,536
Call money and bills sold (Note 18)	50,000	8,233	416
Payables under repurchase agreements (Notes 7 and 18)	36,051	30,876	300
Payables under securities lending transactions (Notes 7 and 18)	575,341	136,990	4,787
Borrowed money (Notes 7, 8 and 18)	1,238,543	666,765	10,306
Foreign exchanges (Note 18)	1,096	920	9
Short-term bonds payable (Note 18)	5,000	5,000	41
Bonds payable (Notes 9 and 18)	97,500	117,500	811
Other liabilities	109,854	83,744	914
Net defined benefit liability (Note 10)	777	999	6
Provision for losses on interest repayments	1,040	1,032	8
Provision for losses from reimbursement of inactive accounts	5,013	4,833	41
Provision for contingent liabilities losses	273	279	2
Reserves under the special laws	19	19	0
Deferred tax liabilities for land revaluation (Note 6)	24,244	26,961	201
Acceptances and guarantees (Note 11)	56,628	57,899	471
<b>Total liabilities</b>	<b>¥14,883,701</b>	<b>¥13,380,219</b>	<b>\$123,855</b>
<b>Net assets</b>			
Capital stock	¥ 124,799	¥ 124,799	\$ 1,038
Capital surplus	103,611	103,611	862
Retained earnings	373,930	355,960	3,111
Treasury stock	(295)	(265)	(2)
<b>Total shareholders' equity</b>	<b>602,045</b>	<b>584,104</b>	<b>5,009</b>
Valuation difference on available-for-sale securities (Note 12)	102,869	68,075	856
Deferred gains or losses on hedges	(10,487)	(7,160)	(87)
Revaluation reserve for land (Note 6)	50,439	48,295	419
Remeasurements of defined benefit plans (Note 10)	8,179	1,797	68
Total accumulated other comprehensive income	151,001	111,006	1,256
Minority interests	25,046	50,667	208
<b>Total net assets</b>	<b>¥ 778,093</b>	<b>¥ 745,778</b>	<b>\$ 6,474</b>
<b>Total liabilities and net assets</b>	<b>¥15,661,794</b>	<b>¥14,125,998</b>	<b>\$130,330</b>

# Consolidated Statements of Income

Fukuoka Financial Group, Inc. and its subsidiaries  
For the fiscal years ended March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥134,993	¥138,753	\$1,123
Interest and dividends on securities	28,583	30,195	237
Interest on call loans and bills bought	127	307	1
Interest on due from banks	0	0	0
Other interest income	2,213	3,713	18
Trust fees	1	1	0
Fees and commissions	46,340	42,577	385
Trading income	232	332	1
Other operating income	8,670	15,956	72
Other income	10,153	10,596	84
<b>Total income</b>	<b>¥231,316</b>	<b>¥242,434</b>	<b>\$1,924</b>
<b>Expenses</b>			
Interest expenses:			
Interest on deposits	¥ 7,485	¥ 7,446	\$ 62
Interest on call money and bills sold	10	7	0
Interest on payables under repurchase agreements	242	49	2
Interest on payables under securities lending transactions	310	164	2
Interest on borrowings and rediscounts	1,429	1,875	11
Interest on short-term bonds	10	11	0
Interest on bonds	1,082	3,611	9
Other interest expenses	6,827	7,136	56
Fees and commissions payments	18,021	17,538	149
Other operating expenses	15	889	0
General and administrative expenses	121,725	124,847	1,012
Other expenses	12,755	22,409	106
<b>Total expenses</b>	<b>¥169,915</b>	<b>¥185,988</b>	<b>\$1,413</b>
<b>Income before income taxes and minority interests</b>	<b>61,400</b>	<b>56,445</b>	<b>510</b>
Income taxes: (Note 13)			
Current	7,255	7,029	60
Deferred	16,785	9,612	139
	<b>24,040</b>	<b>16,641</b>	<b>200</b>
<b>Income before minority interests</b>	<b>37,359</b>	<b>39,804</b>	<b>310</b>
<b>Minority interests in income</b>	<b>764</b>	<b>3,612</b>	<b>6</b>
<b>Net income (Note 14)</b>	<b>¥ 36,595</b>	<b>¥ 36,192</b>	<b>\$ 304</b>



# Consolidated Statements of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries  
For the fiscal years ended March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income before minority interests	¥37,359	¥ 39,804	\$310
Other comprehensive income:			
Valuation difference on available-for-sale securities	34,762	(18,294)	289
Deferred gains or losses on hedges	(3,327)	10,846	(27)
Revaluation reserve for land	2,500	—	20
Remeasurements of defined benefit plans	6,382	—	53
<b>Total other comprehensive income</b>	<b>40,318</b>	<b>(7,447)</b>	<b>335</b>
<b>Comprehensive income (Note 15)</b>	<b>¥77,678</b>	<b>¥ 32,356</b>	<b>\$646</b>
<b>Total comprehensive income attributable to:</b>			
Shareholders of Fukuoka Financial Group, Inc.	76,945	28,715	640
Minority interests	732	3,640	6

# Consolidated Statements of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries  
For the fiscal years ended March 31, 2015 and 2014

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income					Minority 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		
<b>Balance as of March 31, 2013</b>	¥124,799	¥103,611	¥329,707	¥(245)	¥557,872	¥ 86,398	¥(18,006)	¥48,496	—	¥116,887	¥ 79,522	¥754,283
Changes during the period:												
Cash dividends			(10,141)		(10,141)							(10,141)
Net income			36,192		36,192							36,192
Acquisition of treasury stock				(21)	(21)							(21)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			201		201							201
Net changes in items other than shareholders' equity						(18,322)	10,846	(201)	1,797	(5,881)	(28,855)	(34,736)
<b>Total changes during the period</b>	—	¥ 0	¥ 26,252	¥ (20)	¥ 26,232	¥ (18,322)	¥10,846	¥ (201)	¥1,797	¥ (5,881)	¥(28,855)	¥ (8,504)
<b>Balance as of March 31, 2014</b>	¥124,799	¥103,611	¥355,960	¥(265)	¥584,104	¥ 68,075	¥ (7,160)	¥48,295	¥1,797	¥111,006	¥ 50,667	¥745,778
Cumulative effects of changes in accounting policies			¥ (7,980)		¥ (7,980)							¥ (7,980)
Restated balance as of April 1, 2014	¥124,799	¥103,611	¥347,979	¥(265)	¥576,124	¥ 68,075	¥ (7,160)	¥48,295	¥1,797	¥111,006	50,667	737,798
Changes during the period:												
Cash dividends			(10,999)		(10,999)							(10,999)
Net income			36,595		36,595							36,595
Acquisition of treasury stock				(30)	(30)							(30)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			355		355							355
Net changes in items other than shareholders' equity						34,794	(3,327)	2,144	6,382	39,994	(25,621)	14,373
<b>Total changes during the period</b>	—	¥ 0	¥ 25,951	¥ (29)	¥ 25,921	¥ 34,794	¥ (3,327)	¥ 2,144	¥6,382	¥ 39,994	¥(25,621)	¥ 40,294
<b>Balance as of March 31, 2015</b>	¥124,799	¥103,611	¥373,930	¥(295)	¥602,045	¥102,869	¥(10,487)	¥50,439	¥8,179	¥151,001	¥ 25,046	¥778,093

	Millions of U.S. dollars (Note 2)											
	Shareholders' equity					Accumulated other comprehensive income					Minority 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		
<b>Balance as of March 31, 2014</b>	\$1,038	\$862	\$2,962	\$(2)	\$4,860	\$566	\$(59)	\$401	\$14	\$923	\$ 421	\$6,206
Cumulative effects of changes in accounting policies			\$ (66)		\$ (66)							\$ (66)
Restated balance as of April 1, 2014	\$1,038	\$862	\$2,895	\$(2)	\$4,794	\$566	\$(59)	\$401	\$14	\$923	\$ 421	\$6,139
Changes during the period:												
Cash dividends			(91)		(91)							(91)
Net income			304		304							304
Acquisition of treasury stock				(0)	(0)							(0)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			2		2							2
Net changes in items other than shareholders' equity						289	(27)	17	53	332	(213)	119
<b>Total changes during the period</b>	—	\$ 0	\$ 215	\$(0)	\$ 215	\$289	\$(27)	\$ 17	\$53	\$ 332	\$(213)	\$ 335
<b>Balance as of March 31, 2015</b>	\$1,038	\$862	\$3,111	\$(2)	\$5,009	\$856	\$(87)	\$419	\$68	\$1,256	\$ 208	\$6,474

# Consolidated Statements of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries  
For the fiscal years ended March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 61,400	¥ 56,445	\$ 510
Depreciation of tangible fixed assets	7,799	9,507	64
Impairment losses	1,445	251	12
Amortization of goodwill	9,171	9,171	76
Gains on bargain purchase	(3,294)	—	(27)
Net change in allowance for loan losses	(7,528)	653	(62)
Net change in allowance for losses on investment	—	(98)	—
Net change in net defined benefit asset	(14,432)	3,988	(120)
Net change in net defined benefit liability	(169)	16	(1)
Net change in provision for losses on interest repayment	7	(36)	0
Net change in provision for losses from reimbursement of inactive accounts	180	185	1
Net change in provision for contingent liabilities losses	(6)	(446)	(0)
Interest income	(165,919)	(172,969)	(1,380)
Interest expenses	17,397	20,304	144
Net losses (gains) related to securities transactions	(1,509)	(9,559)	(12)
Net exchange losses (gains)	(149)	(125)	(1)
Net losses (gains) on disposition of fixed assets	1,211	320	10
Net change in trading assets	(58)	91	(0)
Net change in trading liabilities	—	(0)	—
Net change in loans and bills discounted	(617,682)	(429,580)	(5,140)
Net change in deposits	444,154	504,573	3,696
Net change in borrowed money (excluding subordinated borrowed money)	571,777	440,222	4,758
Net change in due from banks (excluding deposits with the Bank of Japan)	(1,825)	(564)	(15)
Net change in call loans	71,448	141,794	594
Net change in call money	46,941	35,149	390
Net change in payables under securities lending transactions	438,351	61,485	3,647
Net change in foreign exchanges - Assets	(630)	(633)	(5)
Net change in foreign exchanges - Liabilities	175	338	1
Net change in issuance and redemption of bonds	(20,000)	(56,128)	(166)
Interest received	170,934	177,030	1,422
Interest paid	(16,221)	(21,803)	(134)
Other, net	2,576	2,657	21
Subtotal	995,545	772,239	8,284
Income taxes paid	(5,901)	(13,454)	(49)
<b>Net cash provided by operating activities</b>	<b>989,644</b>	<b>758,784</b>	<b>8,235</b>
<b>Cash flows from investing activities:</b>			
Payments for purchases of securities	(677,188)	(919,718)	(5,635)
Proceeds from sale of securities	72,094	595,080	599
Proceeds from redemption of securities	201,310	229,383	1,675
Payments for purchases of tangible fixed assets	(7,096)	(6,340)	(59)
Proceeds from sale of tangible fixed assets	87	951	0
Payments for purchases of intangible fixed assets	(3,714)	(4,230)	(30)
Payments for purchase of shares from minority shareholders	(1,798)	—	(14)
<b>Net cash used in investing activities</b>	<b>(416,303)</b>	<b>(104,873)</b>	<b>(3,464)</b>
<b>Cash flows from financing activities:</b>			
Decrease in subordinated borrowings	—	(123,200)	—
Repayments to minority shareholders	(20,000)	(30,000)	(166)
Dividends paid	(10,997)	(10,143)	(91)
Dividends paid to minority interests	(1,261)	(2,496)	(10)
Payments for purchases of treasury stock	(30)	(21)	(0)
Proceeds from sale of treasury stock	0	0	0
<b>Net cash used in financing activities</b>	<b>(32,289)</b>	<b>(165,859)</b>	<b>(268)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>149</b>	<b>125</b>	<b>1</b>
<b>Net increase in cash and cash equivalents</b>	<b>541,200</b>	<b>488,177</b>	<b>4,503</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>1,211,513</b>	<b>723,336</b>	<b>10,081</b>
<b>Cash and cash equivalents at end of the year (Note 16)</b>	<b>¥1,752,714</b>	<b>¥1,211,513</b>	<b>\$14,585</b>

# Notes to Consolidated Financial Statements

Fukuoka Financial Group, Inc. and its subsidiaries  
Fiscal years ended March 31, 2015 and 2014

## 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.

The liquidation of Fukuoka Preferred Capital Cayman Limited, Fukuoka Preferred Capital 2 Cayman Limited, and Fukugin Office Service Co., Ltd. has been completed on July 28, 2014, February 2, 2015, and March 31, 2015, respectively. Their statements of income have 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.

### 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 busi-

ness 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, 2015 and 2014, such deducted amounts were ¥23,939 million and ¥33,568 million, respectively.

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

#### **i. Retirement Benefits**

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

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

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

Certain consolidated subsidiaries apply a simplified method where the amount to be required for voluntary termination at the fiscal year-end is recorded as projected benefit obligations in the calculation of their net defined benefit liability 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

# Notes to Consolidated Financial Statements

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). 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). 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 23.

## **r. Cash and Cash Equivalents**

For purposes of the consolidated statements 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.

## **t. Accounting Changes**

FFG adopted “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 26 of May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 of March 26, 2015) in accordance with provisions prescribed in the main clause of Paragraph 35 of the standard and in the main clause of Paragraph 67 of the guidance from the fiscal year ended March 31, 2015. Accordingly, the method for calculating projected benefit obligations and service cost has been revised, and the method for attributing excepted benefit payments to each period has been changed from the straight-line method to the benefit formula method. Additionally, the method for determining the discount rate has been changed from one where it is determined by reference to the yield of bonds whose remaining maturities approximate the average years up to the estimated payment timing of retirement benefits to one where the respective discount rates are set for each estimated payment period.

Concerning the application of Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Paragraph 37 of the standard, the cumulative effect of this change in the calculation method for projected benefit obligations and service cost was recognized by adjusting retained earnings at the beginning of the fiscal year ended March 31, 2015.

As a result of this change, net defined benefit asset and liability, and retained earnings decreased by ¥12,394 million, ¥51 million, and ¥7,980 million, respectively, at the beginning of the fiscal year ended March 31, 2015. In addition, income before income taxes and minority interests increased by ¥719 million for the fiscal year ended March 31, 2015.

The impact on net income per share is described in Note 14.

## **u. Unapplied Accounting Standard**

On September 13, 2013, the ASBJ issued “Accounting Standard for Business Combinations” (ASBJ Statement No. 21), etc.

### (1) Overview

The standard provides guidance for (a) the accounting for changes in a parent's ownership interest in a subsidiary when control is retained over the subsidiary in such cases including additional purchase of ownership interests in a subsidiary, (b) the corresponding accounting for acquisition-related costs, (c) transitional treatment for these accounting standards, and (d) the presentation method of net income and the change of minority interests to non-controlling interests.

### (2) Scheduled date of adoption

FFG expects to adopt the revised accounting standard etc. from the beginning of the fiscal year commencing April 1, 2015.

### (3) Impact of adopting the revised accounting standard etc.

FFG is currently evaluating the impact of this adoption.

## 2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.17 = US\$1.00, the approximate rate of exchange on March 31, 2015, 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, 2015 and 2014 were as follows:

	(Millions of yen)	
	2015	2014
National government bonds	¥2,083,692	¥1,692,068
Local government bonds	61,544	48,956
Corporate bonds	697,746	688,491
Equity securities	146,459	126,273
Other securities	279,159	256,491
Total	¥3,268,602	¥2,812,281

Other securities included investments in unconsolidated subsidiaries of ¥4 million at March 31, 2015.

National government bonds at March 31, 2015 and 2014, included bonds of ¥73,052 million and ¥132,612 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 ¥22,058 million and ¥23,809 million at March 31, 2015 and 2014, respectively.

### ■ Held-to-maturity securities

The following tables summarize carrying values, fair values and differences of securities with available fair values at March 31, 2015 and 2014:

(Millions of yen)				
2015				
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥110,231	¥119,896	¥ 9,664
	Corporate bonds	27,180	29,080	1,900
	Other	—	—	—
	Subtotal	¥137,412	¥148,977	¥11,565
Securities with fair value not exceeding carrying value	National government bonds	¥ —	¥ —	¥ —
	Corporate bonds	—	—	—
	Other	1,144	1,135	(8)
	Subtotal	¥ 1,144	¥ 1,135	¥ (8)
Total	¥138,556	¥150,112	¥11,556	

(Millions of yen)				
2014				
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥110,231	¥119,858	¥ 9,626
	Corporate bonds	27,180	29,109	1,928
	Other	519	521	1
	Subtotal	¥137,932	¥149,489	¥11,557
Securities with fair value not exceeding carrying value	National government bonds	¥ —	¥ —	¥ —
	Corporate bonds	—	—	—
	Other	1,697	1,685	(12)
	Subtotal	¥ 1,697	¥ 1,685	¥ (12)
Total	¥139,630	¥151,174	¥11,544	

### ■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2015 and 2014:

(Millions of yen)				
2015				
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,904,308	¥1,953,490	¥ 49,181
	Local government bonds	52,934	54,673	1,738
	Corporate bonds	612,820	624,701	11,881
	Equity securities	63,161	134,584	71,422
	Other	247,544	262,464	14,919
Subtotal	¥2,880,770	¥3,029,914	¥149,144	
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ 19,970	¥ 19,970	¥ (0)
	Local government bonds	6,897	6,871	(26)
	Corporate bonds	45,959	45,863	(96)
	Equity securities	3,288	2,914	(374)
	Other	9,446	9,264	(182)
Subtotal	¥ 85,562	¥ 84,884	¥ (677)	
Total	¥2,966,332	¥3,114,798	¥148,466	

# Notes to Consolidated Financial Statements

(Millions of yen)				
2014				
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,227,807	¥1,261,932	¥ 34,124
	Local government bonds	40,153	41,603	1,449
	Corporate bonds	358,663	367,247	8,583
	Equity securities	56,045	107,050	51,005
	Other	222,628	232,617	9,988
	Subtotal	¥1,905,300	¥2,010,452	¥105,152
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ 320,154	¥ 319,904	¥ (250)
	Local government bonds	7,375	7,352	(22)
	Corporate bonds	294,762	294,063	(698)
	Equity securities	10,946	9,798	(1,147)
	Other	18,805	18,340	(465)
	Subtotal	¥ 652,043	¥ 649,460	¥ (2,583)
	Total	¥2,557,344	¥2,659,912	¥102,568

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, 2015 and 2014, impairment losses were ¥3 million and ¥190 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, 2015 and 2014:

(Millions of yen)			
2015			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥46,130	¥ 568	¥ 0
Local government bonds	20,872	37	8
Corporate bonds	8,811	15	0
Equity securities	2,236	1,046	125
Other	31	—	—
Total	¥78,081	¥1,667	¥134

(Millions of yen)			
2014			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥465,000	¥ 5,002	¥289
Local government bonds	34,293	155	47
Corporate bonds	100,983	1,315	15
Equity securities	5,342	3,826	—
Other	7,678	—	488
Total	¥613,298	¥10,300	¥840

## 4. Money Held in Trust

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, 2015 and 2014:

(Millions of yen)			
2015			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥2,000	¥2,000	¥—

(Millions of yen)			
2014			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥1,500	¥1,500	¥—



## 5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2015 and 2014 included the following loans:

	(Millions of yen)	
	2015	2014
Loans to borrowers in bankruptcy	¥ 4,177	¥ 4,086
Delinquent loans	167,737	177,464
Loans past due for three months or more	395	1,560
Restructured loans	70,872	60,353
Total	¥243,182	¥243,465

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, 2015 and 2014, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥49,011 million and ¥53,627 million, respectively.

Line-of-credit agreements relating to overdrafts and loans are agreements which oblige FFG to lend funds up to a certain limit agreed in advance. FFG makes the loan upon the request of an obligor to draw down funds under such a loan agreement as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused line-of-credit balance relating to these overdrafts and loan agreements at March 31, 2015 and 2014 amounted to ¥3,847,730 million and ¥3,659,308 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 ¥3,624,227 million and ¥3,488,845 million at March 31, 2015 and 2014, 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, 2015 and 2014, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the law were ¥32,987 million and ¥35,579 million, respectively.

Accumulated depreciation for tangible fixed assets amounted to ¥105,101 million and ¥103,947 million at March 31, 2015 and 2014, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥16,194 million and ¥16,249 million at March 31, 2015 and 2014, respectively.

# Notes to Consolidated Financial Statements

## 7. Pledged Assets

Assets pledged as collateral at March 31, 2015 and 2014 consisted of the following:

	(Millions of yen)	
	2015	2014
Assets pledged as collateral:		
Cash and due from banks	¥ 1	¥ 1
Securities	2,219,958	1,461,999
Loans and bills discounted	58,705	79,075
Other assets	169	655
Liabilities corresponding to assets pledged as collateral:		
Deposits	52,468	56,611
Payables under repurchase agreements	36,051	30,876
Payables under securities lending transactions	575,341	136,990
Borrowed money	1,210,959	627,206

In addition, securities totaling ¥133,453 million and other assets of ¥21 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2015.

Securities totaling ¥116,756 million and other assets of ¥21 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2014.

Other assets included initial margins of futures markets of ¥211 million, cash collateral paid for financial instruments of ¥7,500 million, and deposits of ¥2,313 million at March 31, 2015.

Other assets included deposits of ¥2,326 million at March 31, 2014.

## 8. Borrowed Money

Borrowed money at March 31, 2015 and 2014 included subordinated borrowings amounting to ¥25,000 million.

## 9. Bonds Payable

Bonds payable included callable (subordinated) debenture bonds of ¥67,500 million, payable in yen, due 2015 to 2026 at March 31, 2015.

Bonds payable included callable (subordinated) debenture bonds of ¥67,500 million, payable in yen at March 31, 2014.

## 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 liability 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, 2015 and 2014 were as follows:

	(Millions of yen)	
	2015	2014
Projected benefit obligation at the beginning of the fiscal year	¥107,581	¥107,550
Cumulative effects of changes in accounting policies	12,342	—
Restated projected benefit obligation at the beginning of the fiscal year	119,924	107,550
Service cost	3,029	2,939
Interest cost	1,183	2,116
Actuarial loss (gain)	2,542	(402)
Retirement benefits paid	(5,231)	(5,024)
Prior service cost	—	—
Contributions by participants of plans	401	400
Other	1	1
Projected benefit obligation at the end of the fiscal year	¥121,853	¥107,581

The changes in plan assets during the fiscal years ended March 31, 2015 and 2014 were as follows:

	(Millions of yen)	
	2015	2014
Plan assets at the beginning of the fiscal year	¥136,684	¥146,496
Expected return on plan assets	4,773	4,754
Actuarial gain	11,165	9,563
Contributions by FFG's subsidiaries	5,378	5,002
Retirement benefits paid	(5,187)	(4,989)
Return of a portion of retirement benefit trusts	—	(24,025)
Contributions by participants of plans	401	400
Other	—	(516)
Plan assets at the end of the fiscal year	¥153,216	¥136,684

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2015 and 2014.

	(Millions of yen)	
	2015	2014
Funded projected benefit obligation	¥ 121,006	¥ 106,787
Plan assets at fair value	(153,216)	(136,684)
	(32,209)	(29,896)
Unfunded projected benefit obligation	846	794
Net liability (asset) for retirement benefits in the balance sheet	¥ (31,362)	¥ (29,102)

	(Millions of yen)	
	2015	2014
Net defined benefit liability	¥ 777	¥ 999
Net defined benefit asset	(32,140)	(30,102)
Net liability (asset) for retirement benefits in the balance sheet	¥(31,362)	¥(29,102)

The components of retirement benefit expenses for the fiscal years ended March 31, 2015 and 2014 were as follows:

	(Millions of yen)	
	2015	2014
Service cost	¥ 3,029	¥ 2,939
Interest cost	1,183	2,116
Expected return on plan assets	(4,773)	(4,754)
Amortization of actuarial loss	864	2,958
Amortization of prior service cost	(235)	(235)
Other	—	—
Retirement benefit expenses	¥ 69	¥ 3,024

As the plans had been in an overfunded status (i.e. pension assets exceed projected benefit obligation) during the fiscal year ended March 31, 2014, and as this situation was expected to continue, FFG cancelled a portion of its retirement benefit trusts. The above amortization of actuarial loss included lump-sum amortization owing to this cancellation of ¥1,574 million for the fiscal year ended March 31, 2014.

The components of remeasurements of defined benefits plans included in other comprehensive income (before tax effect) for the fiscal years ended March 31, 2015 and 2014 were as follows:

	(Millions of yen)	
	2015	2014
Prior service cost	¥ (235)	¥—
Actuarial gain	9,486	—
Other	—	—
Total	¥9,251	¥—

The components of remeasurements of defined benefits plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2014 were as follows:

	(Millions of yen)	
	2015	2014
Unrecognized prior service cost	¥ (1,323)	¥(1,559)
Unrecognized actuarial loss	(10,705)	(1,218)
Other	—	—
Total	¥(12,028)	¥(2,777)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2014 was as follows:

	2015	2014
Debt securities	39%	42%
Equity securities	37%	36%
Cash and due from banks	13%	14%
Other	11%	8%
Total	100%	100%

Total plan assets included retirement benefit trusts of 37% as of March 31, 2015 and 2014, 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:

	2015	2014
Discount rate	1.3%	2.0%
Long-term expected rate of return on plan assets	3.5%	3.5%
Estimated rate of increase in salary	3.3%	3.3%

## (2) Defined contribution plans

The amounts to be paid to defined contribution plans by consolidated subsidiaries were ¥304 million and ¥306 million for the fiscal years ended March 31, 2015 and 2014, 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 ¥22,058 million and ¥23,809 million at March 31, 2015 and 2014, 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, 2015 and 2014 consisted of the following:

	(Millions of yen)	
	2015	2014
Gross valuation difference on available-for-sale securities	¥148,466	¥102,568
Deferred tax liabilities applicable to valuation difference	45,596	34,460
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for minority interests	102,869	68,107
Amount attributable to minority interests	—	31
Valuation difference on available-for-sale securities	102,869	68,075

# Notes to Consolidated Financial Statements

## 13. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2015 and 2014 were as follows:

	(Millions of yen)	
	2015	2014
Deferred tax assets:		
Allowance for loan losses	¥ 51,138	¥ 60,721
Net losses carried forward	14,726	22,978
Net defined benefit liability	4,153	4,850
Depreciation of securities	6,732	7,334
Depreciation expenses	3,021	3,502
Deferred gains or losses on hedges	4,935	3,906
Fair value gains related to consolidated taxation	13,877	20,155
Other	7,249	7,570
Subtotal	105,834	131,021
Valuation allowance	(33,336)	(43,456)
Total	72,498	87,564
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(45,596)	(34,460)
Retirement benefit trust	(2,650)	(2,877)
Securities returned from retirement benefit trust	(2,434)	(2,685)
Reserve for special depreciation	(423)	(467)
Fair value losses related to consolidated taxation	(651)	(756)
Other	(76)	(34)
Total	(51,832)	(41,281)
Net deferred tax assets	¥ 20,666	¥ 46,283

The aggregate statutory income tax rates used for calculation of deferred income tax assets and liabilities were 35.3% and 37.7% for the fiscal years ended March 31, 2015 and 2014, respectively.

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 years ended March 31, 2015 and 2014.

	(%)	
	2015	2014
Statutory tax rate	35.3	37.7
Change in valuation allowance	(6.8)	(18.4)
Nondeductible goodwill amortization	5.3	6.1
Gains on bargain purchase	(1.9)	—
Entertainment expenses and other items permanently excluded from expenses	0.7	0.7
Per capital residence tax	0.3	0.3
Dividend revenue and other items permanently excluded from gross revenue	(1.2)	(0.8)
Reversal of deferred tax assets due to changes in the corporate income tax rate	8.3	5.9
Tax rate difference with overseas consolidated subsidiaries	(0.7)	(1.6)
Consolidated adjustment	(0.2)	(0.2)
Other	0.0	(0.3)
Effective tax rate	39.1	29.4

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 9 of 2015) and the “Act for Partial Amendment of the Local Tax Act, etc.” (Act No. 2 of 2015) were promulgated on March 31, 2015 and, as a result, income tax rate, etc. were reduced effective from the fiscal year beginning on or after April 1, 2015. As a result, the statutory tax rate used to measure FFG's deferred tax assets and liabilities was changed from 35.3% to 32.8% for the temporary differences expected to be realized or settled for the fiscal year beginning April 1, 2015 and 32.0% for those for the fiscal years beginning on or after April 1, 2016. The effect of the announced reduction of the statutory tax rate was to decrease deferred tax assets by ¥836 million and deferred gains or losses on hedges by ¥508 million, and increase valuation difference on available-for-sale securities by ¥4,702 million, remeasurements of defined benefit plans by ¥396 million, and deferred income taxes by ¥5,426 million as of and for the fiscal year ended March 31, 2015. In addition, deferred tax liabilities for land revaluation decreased by ¥2,500 million and revaluation reserve for land increased by the same amount as of March 31, 2015.

With respect to tax credit carryforwards of net losses, the deductible amount was limited to 65% of taxable income for the fiscal years beginning on or after April 1, 2015, and 50% of that for the fiscal years beginning on or after April 1, 2017. As a result, deferred tax assets decreased by ¥272 million and income taxes-deferred increased by the same amount as of and for the fiscal year ended March 31, 2015.

## 14. Net Income per Share

Net income per share for the fiscal years ended March 31, 2015 and 2014 were as follows:

	(Yen)	
	2015	2014
Net income per share:		
Basic	¥42.29	¥41.82
Diluted	—	—

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during the year.

As there are no dilutive securities, the amount of diluted net income per share of common stock is not stated.

As mentioned in Note 1., FFG adopted Accounting Standard for Retirement Benefits and Guidance on Accounting Standard for Retirement Benefits in accordance with provisions prescribed in the main clause of Paragraph 35 of the standard and in the main clause of Paragraph 67 of the guidance from the fiscal year ended March 31, 2015. Accounting Standard for Retirement Benefits was applied based on the provisional treatment set out in Paragraph 37 of the standard.

As a result of this change, net income per share increased by ¥0.57 for the fiscal year ended March 31, 2015.

## 15. Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2015 and 2014 were the following:

	(Millions of yen)	
	2015	2014
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥ 47,696	¥ (7,303)
Reclassification adjustments to profit or loss	(1,798)	(21,204)
Amount before income tax effect	45,898	(28,508)
Income tax effect	(11,136)	10,213
Total	34,762	(18,294)
Deferred gains or losses on hedges		
Gains (losses) arising during the year	(8,900)	1,201
Reclassification adjustments to profit or loss	4,545	15,562
Amount before income tax effect	(4,355)	16,763
Income tax effect	1,028	(5,917)
Total	(3,327)	10,846
Revaluation reserve for land		
Gains (losses) arising during the year	—	—
Reclassification adjustments to profit or loss	—	—
Amount before income tax effect	—	—
Income tax effect	2,500	—
Total	2,500	—
Remeasurements of defined benefit plans		
Gains (losses) arising during the year	8,622	—
Reclassification adjustments to profit or loss	628	—
Amount before income tax effect	9,251	—
Income tax effect	(2,868)	—
Total	6,382	—
Total other comprehensive income	¥ 40,318	¥ (7,447)

## 16. Supplementary Cash Flow Information

Reconciliation of cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheets to cash and cash equivalents in the consolidated statements of cash flows at March 31, 2015 and 2014 were as follows:

	(Millions of yen)	
	2015	2014
Cash and due from banks	¥1,759,174	¥1,216,149
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(6,460)	(4,635)
Cash and cash equivalents	¥1,752,714	¥1,211,513

## 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, 2015 and 2014 were as follows:

	(Millions of yen)	
	2015	2014
Within one year	¥ 62	¥ 49
Over one year	120	100
Total	¥182	¥149

## 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) Primary details of financial instruments and their risk

##### Loans and bills discounted

FFG's loans to corporate and individual customers (bills discounted, loans on notes, loans on deeds, overdrafts etc.) are subject to borrower credit risk and interest rate risk. Factors that could increase the credit cost (credit-related expenses) include an increase in nonperforming loans and worsening of the operating environment in specific business sectors.

##### Securities

FFG holds equity and debt securities for trading purposes, for holding to maturity, for purely investment purposes and for policy investment purposes. Such securities are subject to issuer credit risk, interest rate risk, market price fluctuation risk 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

# Notes to Consolidated Financial Statements

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. Currency swap transactions and other methods are used to reduce this risk to a certain extent.

## Deposits

FFG accepts from corporate and private 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.

## Borrowed money

Borrowed money is mainly borrowed from other financial institutions. This borrowed money is subject to liquidity risk, which is the risk of FFG being unable to meet its payment obligations on the payment date because it has become unable to use the market owing to certain conditions in the operating environment. In addition, fixed-rate borrowed money is subject to interest rate risk.

## Bonds payable

FFG principally issues unsecured yen-denominated corporate bonds and yen-denominated corporate bonds with subordination clauses, which, as with borrowed money, are subject to liquidity risk and interest rate risk.

## Derivative transactions

Derivative transactions are subject to market risk and credit risk. Market risk includes interest rate risk, which concerns interest-related derivative transactions; exchange rate fluctuation risk, which concerns currency-related derivative transactions; price fluctuation risk, which concerns bond-related derivative transactions; and credit risk, which concerns credit-related derivative transactions.

Hedge accounting is employed for certain derivative transactions used to hedge interest rate risk and exchange rate fluctuation risk.

## **(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 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 De-

partment (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, 2015 and 2014, FFG's amount of interest rate risk (value of estimated losses) was ¥26,190 million and ¥29,808 million, respectively.

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.

###### 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 1,250 days) and employs quantitative analysis in its volatility risk management.

As of March 31, 2015 and 2014, FFG's amount of volatility risk was ¥15,292 million and ¥25,552 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 years ended March 31, 2015 and 2014, no losses exceeded the VaR. FFG believes that the model for measurement captures interest rate risk and volatility risk to an adequate degree of precision.

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

##### (c) Management of liquidity risk

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

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

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

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

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

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

# Notes to Consolidated Financial Statements

## (3) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheets at March 31, 2015 and 2014 were as follows:

(Millions of yen)			
2015			
	Carrying value	Fair value	Difference
<b>Assets</b>			
Cash and due from banks	¥ 1,759,174	¥ 1,759,174	¥ (0)
Call loans and bills bought	26,802	26,802	(0)
Monetary claims bought	41,952	42,046	93
<b>Trading assets</b>			
Marketable securities	2,360	2,360	-
Money held in trust	2,000	2,000	-
<b>Securities</b>			
Held-to-maturity securities	137,412	148,977	11,565
Available-for-sale securities	3,114,798	3,114,798	-
Loans and bills discounted	10,065,367	10,221,611	156,244
Foreign exchanges	8,781	8,784	2
Total	¥15,158,650	¥15,326,555	¥167,905
<b>Liabilities</b>			
Deposits	¥12,682,317	¥12,683,939	¥ 1,621
Call money and bills sold	50,000	49,999	(0)
Payables under repurchase agreements	36,051	36,050	(0)
Payables under securities lending transactions	575,341	575,313	(28)
Borrowed money	1,238,543	1,231,737	(6,806)
Foreign exchanges	1,096	1,096	-
Short-term bonds payable	5,000	4,999	(0)
Bonds payable	97,500	98,541	1,041
Total	¥14,685,850	¥14,681,676	¥ (4,173)
<b>Derivatives</b>			
Hedge accounting not applied	¥ 2,237	¥ 2,237	¥ -
Hedge accounting applied	(26,153)	(26,153)	-
Total	¥ (23,916)	¥ (23,916)	¥ -

(Millions of yen)

2014			
	Carrying value	Fair value	Difference
<b>Assets</b>			
Cash and due from banks	¥ 1,216,149	¥ 1,216,149	¥ (0)
Call loans and bills bought	100,000	99,999	(0)
Monetary claims bought	40,177	40,285	107
<b>Trading assets</b>			
Marketable securities	2,300	2,300	-
Money held in trust	1,500	1,500	-
<b>Securities</b>			
Held-to-maturity securities	137,412	148,967	11,555
Available-for-sale securities	2,659,912	2,659,912	-
Loans and bills discounted	9,440,139	9,603,768	163,629
Foreign exchanges	8,150	8,153	3
Total	¥13,605,742	¥13,781,036	¥175,294
<b>Liabilities</b>			
Deposits	¥12,238,163	¥12,239,981	¥ 1,818
Call money and bills sold	8,233	8,233	(0)
Payables under repurchase agreements	30,876	30,881	5
Payables under securities lending transactions	136,990	136,963	(26)
Borrowed money	666,765	663,508	(3,257)
Foreign exchanges	920	920	-
Short-term bonds payable	5,000	4,999	(0)
Bonds payable	117,500	118,927	1,427
Total	¥13,204,449	¥13,204,415	¥ (33)
<b>Derivatives</b>			
Hedge accounting not applied	¥ 3,583	¥ 3,583	¥ -
Hedge accounting applied	(21,520)	(21,520)	-
Total	¥ (17,937)	¥ (17,937)	¥ -

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

Primary method of Calculating the Fair Value of 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) Money held in trust

Money held in trust is composed of short-term or per-



petual trust property, and the fair values approximate their book values.

### (3) 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.

### (4) 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.

# Notes to Consolidated Financial Statements

Financial instruments for which fair value is not readily determinable at March 31, 2015 and 2014 were as follows:

(Millions of yen)		
	2015	2014
	Carrying value	Carrying value
Available-for-sale securities		
Unlisted equity securities	¥ 8,960	¥ 9,423
Unlisted foreign securities	0	0
Investments in limited partnership	7,430	5,532
<b>Total</b>	<b>¥16,391</b>	<b>¥14,957</b>

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 for the fiscal years ended March 31, 2015 and 2014 were ¥42 million and ¥84 million, respectively.

Certain investments 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, 2015 and 2014 are summarized as follows:

(Millions of yen)							
2015							
	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	¥1,610,490	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	26,802	-	-	-	-	-	-
Monetary claims bought	40,950	-	-	-	-	-	1,174
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	43,483	229,113	667,105	488,210	290,272	255,274	-
Available-for-sale local government bonds	1,599	6,037	25,241	10,907	17,758	-	-
Available-for-sale corporate bonds	40,259	99,840	283,997	94,764	139,829	11,874	-
Available-for-sale other	46,243	42,918	49,458	48,900	65,525	13,410	-
Loans and bills discounted	2,345,522	1,782,046	1,444,767	973,510	1,052,757	2,326,259	-
Foreign exchanges	8,781	-	-	-	-	-	-
<b>Total</b>	<b>¥4,164,134</b>	<b>¥2,213,792</b>	<b>¥2,524,500</b>	<b>¥1,616,293</b>	<b>¥1,595,789</b>	<b>¥2,607,993</b>	

Loans do not include an estimated ¥171,915 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥116,652 million in loans that have no set term.

(Millions of yen)

2014							
	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	¥1,062,683	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	100,000	-	-	-	-	-	-
Monetary claims bought	38,625	-	-	-	-	-	1,751
Securities							
Held-to-maturity bonds							
Held-to-maturity government bonds	-	-	61,077	31,680	17,474	-	-
Held-to-maturity corporate bonds	-	-	7,062	7,945	12,171	-	-
Available-for-sale securities with maturities							
Available-for-sale government bonds	56,884	105,227	552,900	414,217	452,606	-	-
Available-for-sale local government bonds	707	2,376	18,058	11,810	16,002	-	-
Available-for-sale corporate bonds	109,512	72,670	124,683	210,480	136,393	7,570	-
Available-for-sale other	41,916	65,159	25,368	53,202	39,320	17,238	-
Loans and bills discounted	2,255,361	1,698,538	1,393,607	856,651	994,465	2,108,591	-
Foreign exchanges	8,150	-	-	-	-	-	-
<b>Total</b>	<b>¥3,673,842</b>	<b>¥1,943,972</b>	<b>¥2,182,760</b>	<b>¥1,585,988</b>	<b>¥1,668,434</b>	<b>¥2,135,151</b>	

Loans do not include an estimated ¥181,551 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥106,981 million in loans that have no set term.

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2015 and 2014 are summarized as follows:

(Millions of yen)							
2015							
	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	¥12,300,266	¥298,261	¥ 76,329	¥ 4,165	¥ 3,296	¥ -	-
Call money and bills sold	50,000	-	-	-	-	-	-
Payable under repurchase agreements	36,051	-	-	-	-	-	-
Payable under securities lending transactions	575,341	-	-	-	-	-	-
Borrowed money	136,993	451,131	625,374	5,016	20,028	-	-
Short-term bonds payable	5,000	-	-	-	-	-	-
Bonds payable	10,000	20,000	-	57,500	-	10,000	-
<b>Total</b>	<b>¥13,113,652</b>	<b>¥769,393</b>	<b>¥701,703</b>	<b>¥66,681</b>	<b>¥23,324</b>	<b>¥10,000</b>	

Within deposits, demand deposits include deposits due within one year.

(Millions of yen)							
2014							
	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	¥11,765,928	¥374,375	¥89,161	¥ 4,905	¥ 3,791	¥ -	-
Call money and bills sold	8,233	-	-	-	-	-	-
Payable under repurchase agreements	30,876	-	-	-	-	-	-
Payable under securities lending transactions	136,990	-	-	-	-	-	-
Borrowed money	182,263	457,797	1,075	5,579	20,050	-	-
Short-term bonds payable	5,000	-	-	-	-	-	-
Bonds payable	30,000	20,000	-	57,500	-	10,000	-
<b>Total</b>	<b>¥12,159,291</b>	<b>¥852,173</b>	<b>¥90,237</b>	<b>¥67,984</b>	<b>¥23,841</b>	<b>¥10,000</b>	

Within deposits, demand deposits include 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, 2015 and 2014 were as follows:

Hedge accounting not applied

As of March 31, 2015 and 2014, 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, 2015	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥210,457	¥ 6,769	¥ 6,547
Receive/floating and pay/fixed	210,876	(5,168)	(4,957)
Interest swaptions			
Sell	7,390	(19)	(0)
Buy	7,390	39	39
Caps			
Sell	4,176	(109)	42
Buy	4,176	109	(32)
<b>Total</b>	<b>—</b>	<b>¥ 1,622</b>	<b>¥ 1,640</b>
(Millions of yen)			
As of March 31, 2014	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥221,485	¥ 4,611	¥ 4,380
Receive/floating and pay/fixed	222,106	(2,973)	(2,753)
Interest swaptions			
Sell	6,190	(5)	15
Buy	6,190	26	26
Caps			
Sell	5,654	(189)	(36)
Buy	5,354	189	48
<b>Total</b>	<b>—</b>	<b>¥ 1,659</b>	<b>¥ 1,681</b>

### ■ Currency-related transactions

(Millions of yen)			
As of March 31, 2015	Notional amount	Fair value	Gain (Loss)
Currency swaps			
	¥636,568	¥ 259	¥ 248
Foreign exchange contract			
Sell	84,837	(6,570)	(6,570)
Buy	75,536	6,604	6,604
Currency option			
Sell	31,873	(364)	(74)
Buy	32,624	365	231
<b>Total</b>	<b>—</b>	<b>¥ 294</b>	<b>¥ 439</b>
(Millions of yen)			
As of March 31, 2014	Notional amount	Fair value	Gain (Loss)
Currency swaps			
	¥603,487	¥ 381	¥ 363
Foreign exchange contract			
Sell	55,258	(628)	(628)
Buy	58,300	1,071	1,071
Currency option			
Sell	81,694	(1,031)	(349)
Buy	82,338	1,032	662
<b>Total</b>	<b>—</b>	<b>¥ 825</b>	<b>¥ 1,119</b>

### ■ Bonds-related transactions

(Millions of yen)			
As of March 31, 2015	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥ 100	¥ 0	¥ 0
Buy	—	—	—
Bond futures option			
Sell	28,954	(17)	(1)
Buy	—	—	—
<b>Total</b>	<b>—</b>	<b>¥(17)</b>	<b>¥(1)</b>
(Millions of yen)			
As of March 31, 2014	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥300	¥0	¥0
Buy	—	—	—
Bond futures option			
Sell	—	—	—
Buy	—	—	—
<b>Total</b>	<b>—</b>	<b>¥0</b>	<b>¥0</b>

### ■ Credit derivative transactions

(Millions of yen)			
As of March 31, 2015	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥30,500	¥337	¥331
Buy	—	—	—
<b>Total</b>	<b>—</b>	<b>¥337</b>	<b>¥331</b>
(Millions of yen)			
As of March 31, 2014	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥29,500	¥228	¥223
Buy	—	—	—
<b>Total</b>	<b>—</b>	<b>¥228</b>	<b>¥223</b>

# Notes to Consolidated Financial Statements

## ■ Hybrid financial instrument transactions

There were no hybrid financial instrument transactions as of March 31, 2015.

(Millions of yen)			
As of March 31, 2014	Notional amount	Fair value	Gain (Loss)
Compound instruments	¥31	¥869	¥869
Total	—	¥869	¥869

## Hedge accounting applied

As of March 31, 2015 and 2014, 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, 2015				
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/floating and pay/fixed		¥459,410	¥(14,279)
	Securitization		4,989	—
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/fixed and pay/floating		—	—
	Receive/floating and pay/fixed		66,176	(3,338)
	Receive/floating and pay/floating		100,000	(6,779)
Total			—	¥(24,397)

(Millions of yen)

As of March 31, 2014				
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/floating and pay/fixed		¥233,111	¥ (9,213)
	Securitization		6,232	—
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/fixed and pay/floating		200	2
	Receive/floating and pay/fixed		94,375	(3,486)
	Receive/floating and pay/floating		100,000	(6,938)
Total			—	¥(19,636)

## ■ Currency-related transactions

(Millions of yen)

As of March 31, 2015				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Currency swaps	Interest bearing financial assets and liabilities of which, foreign loans, securities, deposits and foreign exchange assets and liabilities	¥116,034	¥(1,754)
Allocation method	Currency swaps	Foreign bonds	107	(1)
Total			—	¥(1,756)

(Millions of yen)

As of March 31, 2014				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Currency swaps	Interest bearing financial assets and liabilities of which, foreign loans, securities, deposits and foreign exchange assets and liabilities	¥120,328	¥(1,884)
Allocation method	Currency swaps	Foreign bonds	—	—
Total			—	¥(1,884)

## 20. Business combinations

### Transactions under Common Control

The Bank of Fukuoka Ltd., a consolidated subsidiary of FFG, acquired the additional shares of Fukugin Guarantee Co., Ltd., a consolidated subsidiary, from minority shareholders. In addition, Fukuoka Computer Service Co., Ltd., a consolidated subsidiary of the Bank of Fukuoka Ltd., acquired its own shares from minority shareholders and then retired them.

### (1) Overview of the transaction

(a) Company names and business descriptions subject to the transactions, and the respective effective date

Company name	Business description	Effective date
Fukuoka Computer Service Co., Ltd.	System development & operation business, etc.	March 18, 2015
Fukugin Guarantee Co., Ltd.	Loan guarantee business, etc.	March 25, 2015

(b) Legal form of the transaction

The transactions were both classified as a share acquisition from minority shareholders.

(c) Company name following the transaction

The company names have not been changed following the transactions.

(d) Other matters

The purpose of the transactions were to achieve more flexible, speedy, and effective group management in order to strengthen governance under the fundamental principle of the Fourth Mid-Term Management Plan, that is the strengthening group total power.

## (2) Overview of accounting treatment

The transactions with minority shareholders, which is classified as a transaction under common control, were accounted for based on "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of December 26, 2008) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of December 26, 2008).

## (3) Matters concerning additional acquisition of shares in subsidiaries

### (a) Breakdown of acquisition cost

Consideration paid for acquisition:	
Cash	¥ 1,798 million
Total acquisition cost	¥ 1,798 million

### (b) Amount of gains on bargain purchase recognized and the reason thereof

- (i) Amount of gains on bargain purchase: ¥3,294 million
- (ii) Reason: As there was a difference between the FFG's interests in the companies subject to the transactions and the acquisition cost.

## 21. 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, 2015.

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, 2015.

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 statements of income for the fiscal year ended March 31, 2015.

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, 2015.

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 statements of income for the fiscal year ended March 31, 2015.

## 22. Related Party Transactions

### (1) Directors and principal individual shareholders

2015					
Attribute	Name	Address	Common Stock	Title	Equity Ownership
				FFG's Audit & Supervisory Board Member	
				Chairperson of Kyushu Electric Power Co., Inc.	
Director	Masayoshi Nuki			FFG's Audit & Supervisory Board Member	
				President and representative director of FUKUOKA SRP Co., Ltd.	

2015				
Relation-ship	Transactions	Transaction amount	Account	Balance at end of year
—	Loan	¥(8,800) million	Loan	¥93,470 million
—	Loan	¥(110) million	Loan	¥1,109 million

Terms and conditions of the transactions are similar to those of others.

2014					
Attribute	Name	Address	Common Stock	Title	Equity Ownership
				FFG's Audit & Supervisory Board Member	
				Chairperson of Kyushu Electric Power Co., Inc.	
Director	Masayoshi Nuki			FFG's Audit & Supervisory Board Member	
				President and representative director of FUKUOKA SRP Co., Ltd.	

2014				
Relation-ship	Transactions	Transaction amount	Account	Balance at end of year
—	Loan	¥13,100 million	Loan	¥102,270 million
—	Loan	¥(110) million	Loan	¥1,220 million

Terms and conditions of the transactions are similar to those of others.

### (2) Others

There were no relevant transactions with related parties to report for the fiscal years ended March 31, 2015 and 2014.

## 23. Subsequent Events

### (1) Cash dividends

The following distribution of retained earnings of FFG, which has not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2015, was approved at a shareholders meeting held on June 26, 2015 and became effective June 29, 2015:

(Millions of yen)	
Dividends on common stock (¥ 6.0 per share)	¥5,153
Dividends on type 1 preferred stock (¥ 7.0 per share)	¥131

### (2) Redemption of preferred securities

FFG resolved to redeem preferred securities owned by FFG, which were issued by a foreign special purpose subsidiary, at the meeting of the Board of Directors held on May 19, 2015. The summary of the preferred securities to be redeemed are as follows:

- 1) Issuer  
FFG Preferred Capital Cayman Limited
- 2) Class of securities issued  
Japanese yen denominated non-cumulative perpetual preferred securities
- 3) Total amount of redemption  
¥25.0 billion
- 4) Scheduled date of redemption  
July 27, 2015
- 5) Reason for redemption  
Due to the arrival of the optional redemption date

# Non-Consolidated Balance Sheets (Unaudited)

The Bank of Fukuoka, Ltd.

As of March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars
<b>Assets</b>			
Cash and due from banks	¥ 1,300,777	¥ 823,582	\$10,824
Call loans	26,802	100,000	223
Monetary claims bought	31,767	33,424	264
Trading assets	2,086	1,983	17
Securities	2,233,085	1,773,494	18,582
Loans and bills discounted	7,763,337	7,245,273	64,602
Foreign exchanges	6,119	5,509	50
Other assets	47,602	32,467	396
Tangible fixed assets	148,416	146,919	1,235
Intangible fixed assets	8,254	7,880	68
Prepaid pension expenses	12,390	17,778	103
Deferred tax assets	5,752	19,823	47
Customers' liabilities for acceptances and guarantees	45,002	45,382	374
Allowance for loan losses	(96,045)	(104,183)	(799)
<b>Total assets</b>	<b>¥11,535,348</b>	<b>¥10,149,334</b>	<b>\$95,991</b>
<b>Liabilities</b>			
Deposits	¥ 9,124,407	¥ 8,727,822	\$75,929
Call money	65,909	40,827	548
Payables under repurchase agreements	36,051	30,876	300
Payables under securities lending transactions	575,341	136,990	4,787
Borrowed money	942,148	486,741	7,840
Foreign exchanges	1,062	812	8
Bonds payable	67,500	67,500	561
Other liabilities	91,502	65,359	761
Provision for losses on interest repayments	927	939	7
Provision for losses from reimbursement of inactive accounts	4,288	4,204	35
Provision for contingent liabilities losses	205	221	1
Deferred tax liabilities for land revaluation	24,244	26,961	201
Acceptances and guarantees	45,002	45,382	374
<b>Total liabilities</b>	<b>¥10,978,590</b>	<b>¥ 9,634,640</b>	<b>\$91,358</b>
<b>Net assets</b>			
Capital stock	¥ 82,329	¥ 82,329	\$ 685
Capital surplus	60,480	60,480	503
Retained earnings	293,724	279,367	2,444
<b>Total shareholders' equity</b>	<b>436,535</b>	<b>422,177</b>	<b>3,632</b>
Valuation difference on available-for-sale securities	80,270	51,382	667
Deferred gains or losses on hedges	(10,487)	(7,160)	(87)
Revaluation reserve for land	50,439	48,295	419
Total valuation and translation adjustments	120,222	92,516	1,000
<b>Total net assets</b>	<b>¥ 556,757</b>	<b>¥ 514,694</b>	<b>\$ 4,633</b>
<b>Total liabilities and net assets</b>	<b>¥11,535,348</b>	<b>¥10,149,334</b>	<b>\$95,991</b>

# Non-Consolidated Statements of Income (Unaudited)

The Bank of Fukuoka, Ltd.

For the fiscal years ended March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥ 97,482	¥ 99,402	\$ 811
Interest and dividends on securities	22,011	23,582	183
Interest on call loans	127	307	1
Interest on deposits with banks	1	1	0
Interest on interest swaps	186	2,208	1
Other interest income	1,464	1,076	12
Trust fees	1	1	0
Fees and commissions	32,320	30,575	268
Trading income	97	123	0
Other operating income	2,776	8,952	23
Other income	4,936	8,413	41
<b>Total income</b>	<b>¥161,405</b>	<b>¥174,646</b>	<b>\$1,343</b>
<b>Expenses</b>			
Interest expenses:			
Interest on deposits	¥ 4,692	¥ 4,660	\$ 39
Interest on call money	150	168	1
Interest on payables under repurchase agreements	242	49	2
Interest on payables under securities lending transactions	310	164	2
Interest on borrowing and rediscounts	1,225	3,013	10
Interest on bonds	800	2,974	6
Interest on interest swaps	6,662	6,975	55
Other interest expenses	390	369	3
Fees and commissions payments	17,475	16,875	145
Other operating expenses	1	752	0
General and administrative expenses	66,551	67,898	553
Other expenses	4,998	11,206	41
<b>Total expenses</b>	<b>¥103,502</b>	<b>¥115,109</b>	<b>\$ 861</b>
<b>Income before income taxes</b>	<b>57,903</b>	<b>59,536</b>	<b>481</b>
Provision for income taxes:			
Current	13,079	13,566	108
Deferred	8,521	5,582	70
	<b>21,601</b>	<b>19,148</b>	<b>179</b>
<b>Net income</b>	<b>¥ 36,302</b>	<b>¥ 40,387</b>	<b>\$ 302</b>



# Non-Consolidated Balance Sheets (Unaudited)

The Kumamoto Bank, Ltd.

As of March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars
<b>Assets</b>			
Cash and due from banks	¥ 149,740	¥ 136,534	\$ 1,246
Call loans	6,660	12,502	55
Securities	290,728	269,561	2,419
Loans and bills discounted	1,082,815	1,029,805	9,010
Foreign exchanges	1,248	1,148	10
Other assets	6,780	7,994	56
Tangible fixed assets	17,408	17,465	144
Intangible fixed assets	705	603	5
Prepaid pension expenses	3,182	4,357	26
Deferred tax assets	6,181	8,735	51
Customers' liabilities for acceptances and guarantees	4,319	4,959	35
Allowance for loan losses	(15,967)	(16,872)	(132)
<b>Total assets</b>	<b>¥1,553,804</b>	<b>¥1,476,795</b>	<b>\$12,930</b>
<b>Liabilities</b>			
Deposits	¥1,344,264	¥1,320,531	\$11,186
Borrowed money	114,712	62,934	954
Foreign exchanges	16	14	0
Other liabilities	4,063	4,074	33
Provision for losses from reimbursement of inactive accounts	256	214	2
Deferred tax liabilities for land revaluation	1,467	1,622	12
Acceptances and guarantees	4,319	4,959	35
<b>Total liabilities</b>	<b>¥1,469,099</b>	<b>¥1,394,349</b>	<b>\$12,225</b>
<b>Net assets</b>			
Capital stock	¥ 33,847	¥ 33,847	\$ 281
Capital surplus	33,847	33,847	281
Retained earnings	11,344	10,091	94
<b>Total shareholders' equity</b>	<b>79,039</b>	<b>77,785</b>	<b>657</b>
Valuation difference on available-for-sale securities	4,823	3,962	40
Revaluation reserve for land	842	696	7
Total valuation and translation adjustments	5,665	4,659	47
<b>Total net assets</b>	<b>¥ 84,704</b>	<b>¥ 82,445</b>	<b>\$ 704</b>
<b>Total liabilities and net assets</b>	<b>¥1,553,804</b>	<b>¥1,476,795</b>	<b>\$12,930</b>

# Non-Consolidated Statements of Income (Unaudited)

The Kumamoto Bank, Ltd.

For the fiscal years ended March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥17,185	¥17,570	\$143
Interest and dividends on securities	2,040	1,978	16
Interest on call loans	64	80	0
Interest on deposits with banks	0	0	0
Other interest income	179	149	1
Fees and commissions	4,754	4,205	39
Other operating income	295	432	2
Other income	1,054	570	8
<b>Total income</b>	<b>¥25,574</b>	<b>¥24,988</b>	<b>\$212</b>
<b>Expenses</b>			
Interest expenses:			
Interest on deposits	¥1,150	¥1,201	\$ 9
Interest on borrowing and rediscounts	96	21	0
Other interest expenses	14	5	0
Fees and commissions payments	2,953	2,829	24
Other operating expenses	3	0	0
General and administrative expenses	14,088	15,458	117
Other expenses	710	4,336	5
<b>Total expenses</b>	<b>¥19,017</b>	<b>¥23,852</b>	<b>\$158</b>
<b>Income before income taxes</b>	<b>6,557</b>	<b>1,135</b>	<b>54</b>
Provision for income taxes:			
Current	(4,486)	(5,494)	(37)
Deferred	3,034	1,609	25
	<b>(1,451)</b>	<b>(3,884)</b>	<b>(12)</b>
<b>Net income</b>	<b>¥ 8,008</b>	<b>¥ 5,020</b>	<b>\$ 66</b>

# Non-Consolidated Balance Sheets (Unaudited)

The Shinwa Bank, Ltd.

As of March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars
<b>Assets</b>			
Cash and due from banks	¥ 311,337	¥ 258,127	\$ 2,590
Call loans	9,249	20,091	76
Trading account securities	170	209	1
Securities	749,282	772,293	6,235
Loans and bills discounted	1,464,145	1,409,821	12,183
Foreign exchanges	1,413	1,492	11
Other assets	8,005	7,081	66
Tangible fixed assets	44,148	44,877	367
Intangible fixed assets	882	1,851	7
Prepaid pension expenses	4,688	5,348	39
Deferred tax assets	8,558	15,339	71
Customers' liabilities for acceptances and guarantees	7,171	7,373	59
Allowance for loan losses	(22,233)	(24,072)	(185)
<b>Total assets</b>	<b>¥2,586,820</b>	<b>¥2,519,836</b>	<b>\$21,526</b>
<b>Liabilities</b>			
Deposits	¥2,256,565	¥2,230,259	\$18,778
Borrowed money	180,563	136,851	1,502
Foreign exchanges	17	93	0
Other liabilities	6,793	5,717	56
Provision for losses from reimbursement of inactive accounts	468	414	3
Provision for contingent liabilities losses	67	58	0
Deferred tax liabilities for land revaluation	4,719	5,315	39
Acceptances and guarantees	7,171	7,373	59
<b>Total liabilities</b>	<b>¥2,456,366</b>	<b>¥2,386,083</b>	<b>\$20,440</b>
<b>Net assets</b>			
Capital stock	¥ 36,878	¥ 36,878	\$ 306
Capital surplus	36,878	36,878	306
Retained earnings	24,271	32,647	201
<b>Total shareholders' equity</b>	<b>98,028</b>	<b>106,403</b>	<b>815</b>
Valuation difference on available-for-sale securities	17,719	12,828	147
Revaluation reserve for land	14,706	14,521	122
Total valuation and translation adjustments	32,425	27,349	269
<b>Total net assets</b>	<b>¥ 130,453</b>	<b>¥ 133,752</b>	<b>\$ 1,085</b>
<b>Total liabilities and net assets</b>	<b>¥2,586,820</b>	<b>¥2,519,836</b>	<b>\$21,526</b>

# Non-Consolidated Statements of Income (Unaudited)

The Shinwa Bank, Ltd.

For the fiscal years ended March 31, 2015 and 2014

	2015	2014	2015
	Millions of yen	Millions of yen	Millions of U.S. dollars
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥20,746	¥22,140	\$172
Interest and dividends on securities	5,378	5,456	44
Interest on call loans	75	80	0
Interest on deposits with banks	0	0	0
Other interest income	363	267	3
Fees and commissions	7,848	6,794	65
Other operating income	503	1,074	4
Other income	1,106	1,559	9
<b>Total income</b>	<b>¥36,022</b>	<b>¥37,373</b>	<b>\$299</b>
<b>Expenses</b>			
Interest expenses:			
Interest on deposits	¥ 1,651	¥ 1,594	\$ 13
Interest on call money	—	0	—
Interest on borrowing and rediscounts	278	178	2
Other interest expenses	0	0	0
Fees and commissions payments	3,561	3,348	29
Other operating expenses	26	146	0
General and administrative expenses	20,593	21,271	171
Other expenses	2,950	5,509	24
<b>Total expenses</b>	<b>¥29,062</b>	<b>¥32,048</b>	<b>\$241</b>
<b>Income before income taxes</b>	<b>6,960</b>	<b>5,325</b>	<b>57</b>
Provision for income taxes:			
Current	(2,440)	(2,040)	(20)
Deferred	5,847	2,718	48
	<b>3,407</b>	<b>677</b>	<b>28</b>
<b>Net income</b>	<b>¥ 3,553</b>	<b>¥ 4,647</b>	<b>\$ 29</b>

## Company Outline (as of March 31, 2015)

### Fukuoka Financial Group, Inc.

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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	6,805 (Consolidated)
Telephone Number	+81-92-723-2500
Website	<a href="http://www.fukuoka-fg.com/">http://www.fukuoka-fg.com/</a>

### The Bank of Fukuoka, Ltd.

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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	3,622
Telephone Number	+81-92-723-2131
Website	<a href="http://www.fukuokabank.co.jp/">http://www.fukuokabank.co.jp/</a>

#### The Bank of Fukuoka's Overseas Network

##### Hong Kong Representative Office

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

##### Shanghai Representative Office

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

##### Dalian Representative Office

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

##### Singapore Representative Office

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

##### Bangkok Representative Office

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

##### New York Representative Office

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

### The Kumamoto Bank, Ltd.

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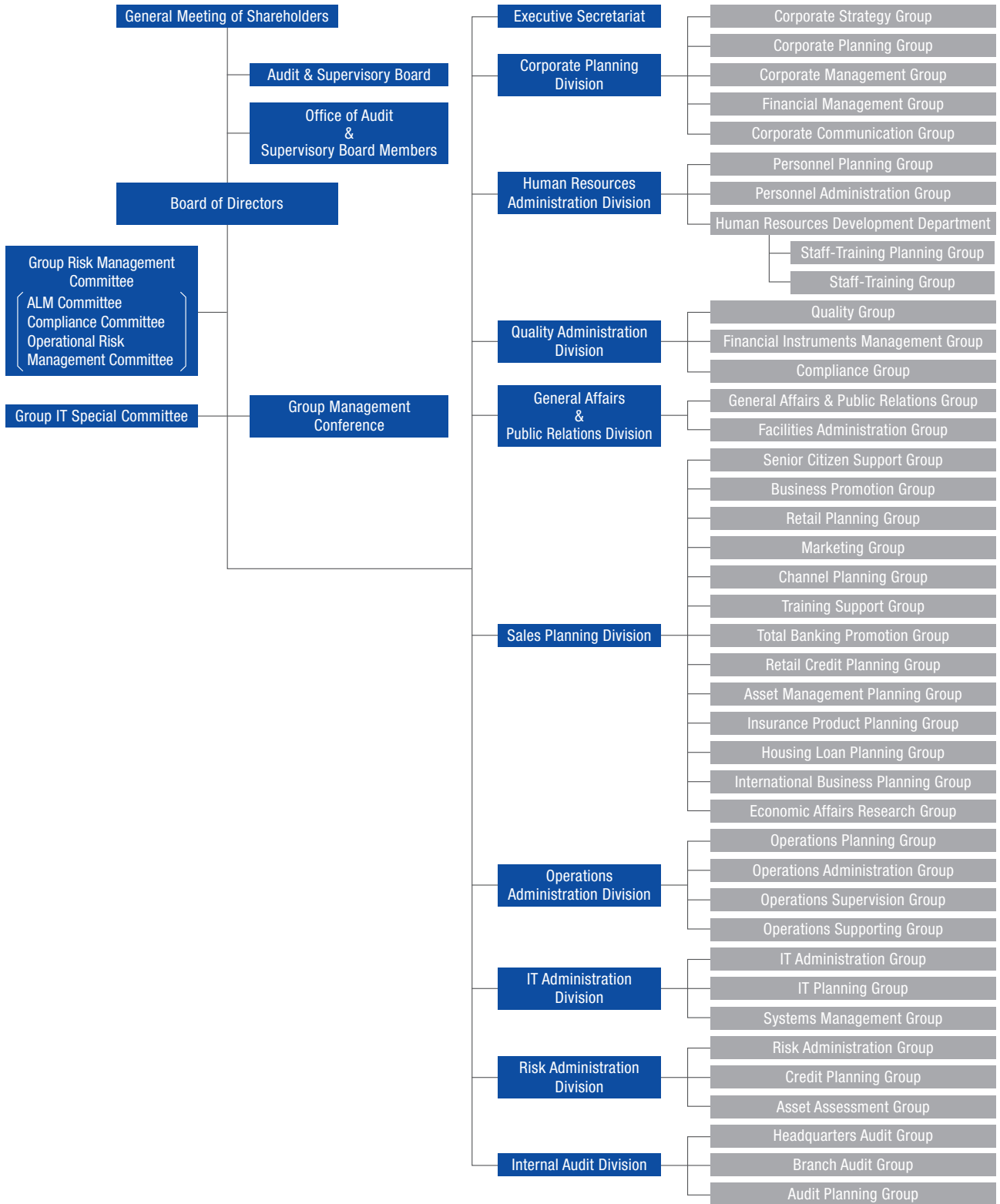
Head Office	6-29-20, Suizenji, Chuo-ku, Kumamoto 862-8601, Japan
Date of Establishment	January 19, 1929
Paid-in Capital	¥33.8 billion
Number of Employees	937
Telephone Number	+81-96-385-1111
Website	<a href="http://www.kumamotobank.co.jp/">http://www.kumamotobank.co.jp/</a>

### The Shinwa Bank, Ltd.

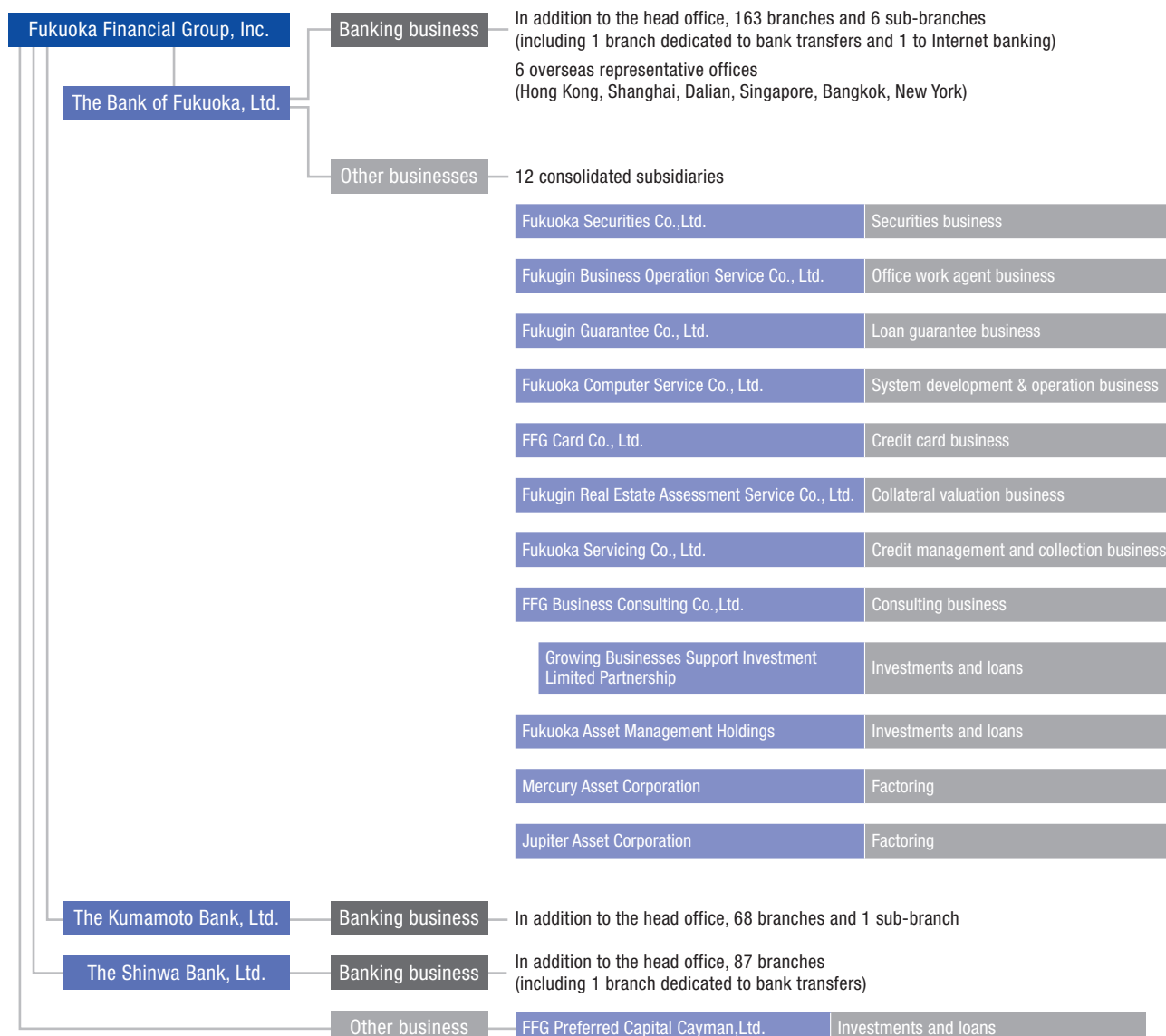
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Head Office	10-12, Shimanosecho, Sasebo, Nagasaki 857-0806, Japan
Date of Establishment	September 1, 1939
Paid-in Capital	¥36.8 billion
Number of Employees	1,248
Telephone Number	+81-956-24-5111
Website	<a href="http://www.shinwabank.co.jp/">http://www.shinwabank.co.jp/</a>

# Organizational Chart (as of August 1, 2015)



## Group Company Chart (as of August 1, 2015)



## Share Information (as of March 31, 2015)

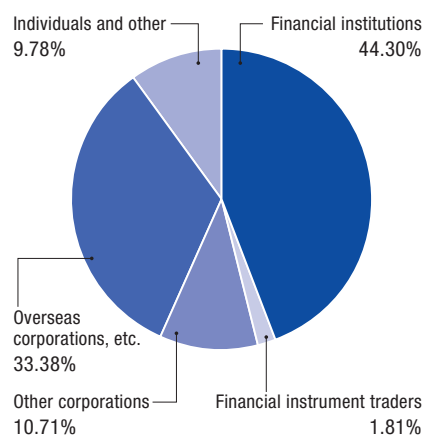
### Investor Information

	Common stock	Type 1 preferred stock
Number of authorized shares	1,800,000,000	18,878,000
Number of shares Issued	859,761,868	18,742,000

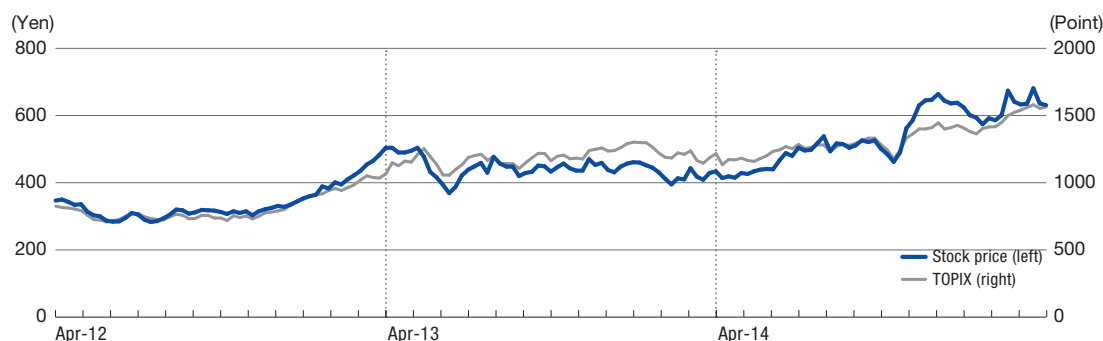
### Major Shareholders

	(Thousands of shares, %)	
	Shares held	Ratio of shares held to issued number of shares
Japan Trustee Services Bank, Ltd. (Trust account)	57,319	6.52
The Master Trust Bank of Japan, Ltd. (Trust account)	48,113	5.47
Nippon Life Insurance Company	17,722	2.01
Meiji Yasuda Life Insurance Company	17,719	2.01
Sumitomo Life Insurance Company	17,419	1.98
The Dai-ichi Life Insurance Company, Limited	17,315	1.97
Japan Trustee Services Bank, Ltd. (Trust account 9)	16,979	1.93
Japan Trustee Services Bank, Ltd. (Trust account 4)	15,887	1.80
STATE STREET BANK WEST CLIENT-TREATY 505234	10,583	1.20
CBNY-GOVERNMENT OF NORWAY	10,333	1.17

### Common Stock Distribution by Type of Shareholder



### Stock Price



	FY2012	FY2013	FY2014
High (Yen)	483	535	687
Low (Yen)	273	361	406
Closing price as of March 31 (Yen)	483	424	619



Fukuoka Financial Group