Fukuoka Financial Group

Annual Report 2011

Year Ended March 31, 2011

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 Family 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.

Contents

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.

About the Fukuoka Financial Group

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 choices.**

Enhancing perception and taking actions without fear of failure

With our inquisitive "antenna" raised at all times for a wide variety of information and current world trends as well as sensitivity that allows us to be responsive, we are constantly refining our determination to take actions in various situations without fear of failure.

Pursuing high quality for future progress

We will evolve steadily by placing some of our focus on the future. FFG's mission is to offer, with the best manners possible, products and services that are genuinely valuable to people.

Bolstering people's optimum choices

FFG's objectives are working with customers and partners to come up with ideas, handling problems and making choices.

Through these management principles, we aim to be recognized as a value-creating partner by our customers, the regional community, shareholders, and our colleagues.

The FFG Brand

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

● Brand Slogan

"To be your Bank of choice"

● Symbol

● Core Values (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.

- Fukuoka, a town referred to as the face of Kyushu, is therefore at the beginning of the name Fukuoka Financial Group. The visual image and sound of the word "Fukuoka" expresses our Group's growth, rapid progress and stability.
- The message embodied in our symbol is "Link = Ring." Our desire to become a link between regions, people and companies is represented by a dynamic ring.
- The color blue represents the "brilliant sea and sky" of Kyushu, as well as our affection for the region beyond prefectural borders and organizational frameworks.

Kyushu, FFG's Home Market

Profile of Fukuoka

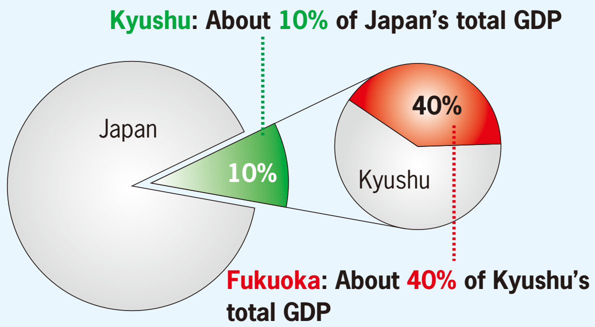
◆Gateway to Asia

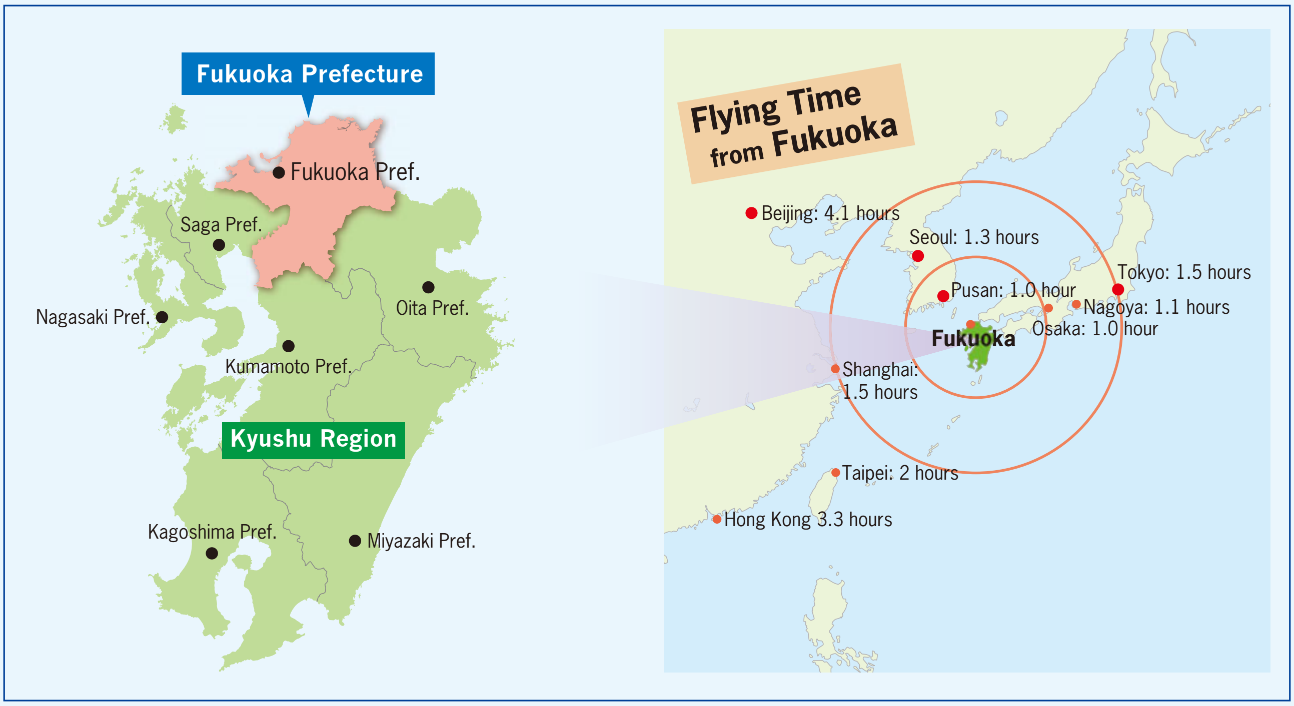
- To China (Shanghai): 870 km, 1.5 hours.
- Three million Japanese and others from around the world travel to and from Japan via Fukuoka annually.

◆Hub to Greater Kyushu region

- Accounts for 40% of Kyushu's population and gross production
- Continuous population growth
- Regional hub for economic activity, information, leisure and logistics, with professional human resources

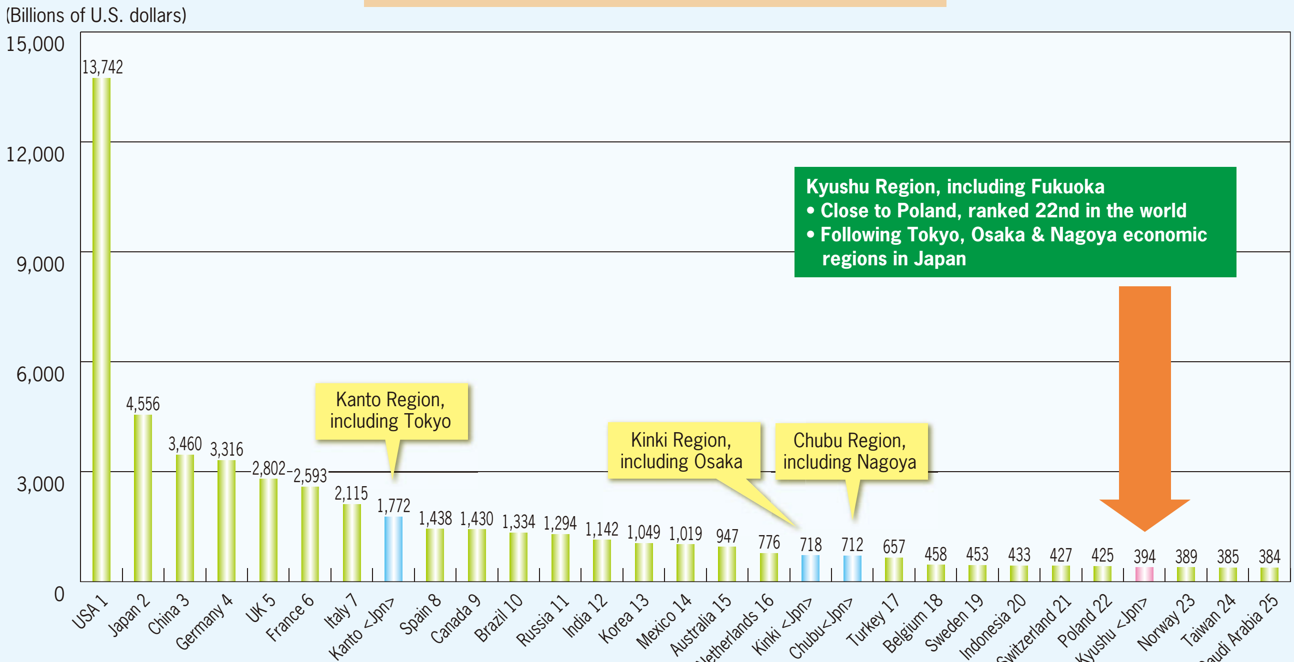
Kyushu's GDP as a Percentage of Japan's Total





Source: Kyushu Bureau of Economy, Trade and Industry, 2011

Comparison of Economic Scale (GDP)

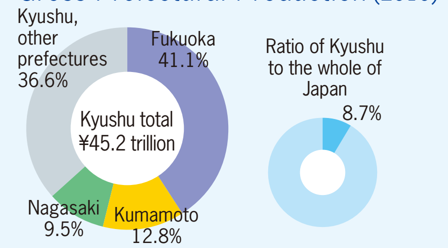


Source: Kyushu Bureau of Economy, Trade and Industry, 2011

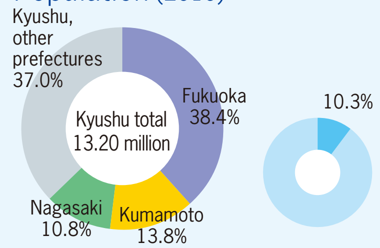
Analysis by Prefecture

- In terms of gross prefectural production, population and number of businesses in Kyushu, the 3 prefectures of Fukuoka, Kumamoto and Nagasaki account for more than 60% of the total. Fukuoka Prefecture alone accounts for about 40%.
- In terms of loans, deposits and commercial sales, the 3 prefectures of Fukuoka, Kumamoto and Nagasaki account for more than 70% of the total. Fukuoka Prefecture alone accounts for about 50%.

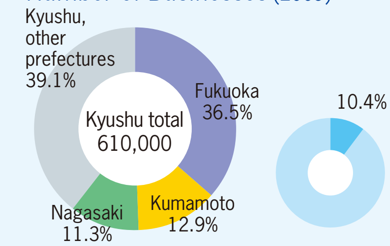
●Gross Prefectural Production (2010)



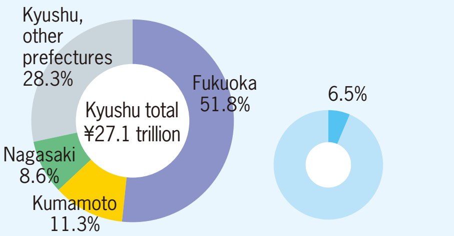
●Population (2010)



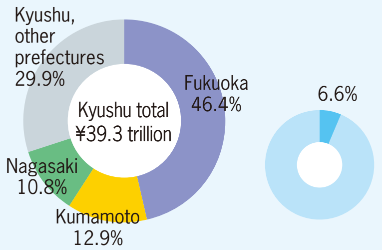
●Number of Businesses (2009)



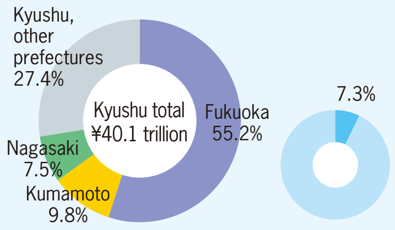
●Loans (March 31, 2011)



●Deposits (March 31, 2011)

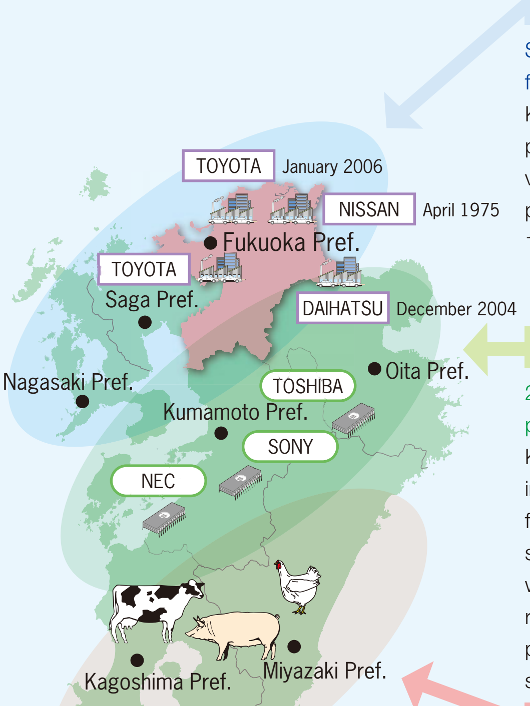


●Commercial Sales (2007)



Sources: Kyushu Bureau of Economy, Trade and Industry, 2011

Kyushu, the Island of Cars, Silicon and Food

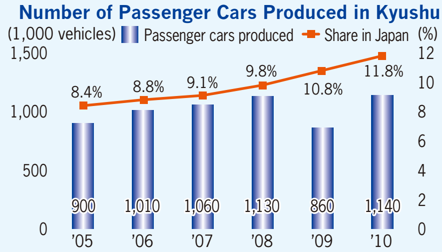


Northern Kyushu, a center of “Car Island”

Share of domestic production up for fifth consecutive year

Kyushu, with planned annual production of more than 1 million vehicles, is an important car-producing region, accounting for 12% of Japan’s automobile output.

Number of Passenger Cars Produced in Kyushu



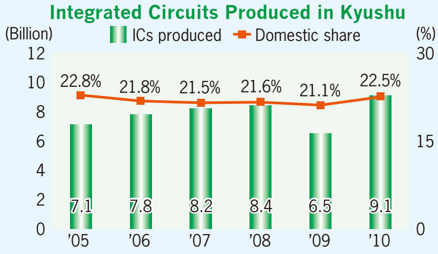
Source: Kyushu Bureau of Economy, Trade and Industry

Middle Kyushu, contributes to “Silicon Island”

22% of Japan’s semiconductor production

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. It represents approximately 23% of Japan’s total semiconductor production.

Integrated Circuits Produced in Kyushu



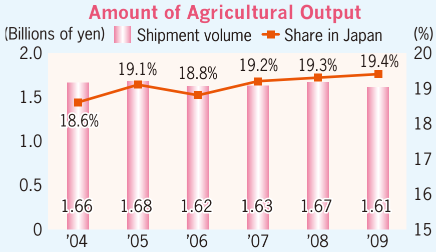
Source: Kyushu Bureau of Economy, Trade and Industry

Southern Kyushu, a center of “Food Island”

A ¥1.6 trillion industry

Blessed with abundant natural land and sea resources, Southern Kyushu accounts for approximately 20% of Japan’s total agricultural output.

Amount of Agricultural Output



Source: The Ministry of Agriculture, Forestry & Fisheries of Japan

I would first like to express my sincere appreciation for your continued patronage.

Fukuoka Financial Group, Inc. (FFG), was established in April 2007 through a joint stock transfer by the Bank of Fukuoka and Kumamoto Family Bank, and Shinwa Bank was added in October 2007. FFG is a “broad area-based regional financial group” and it has as subsidiaries three banks based in Kyushu.

After formulating the First Mid-Term Management Plan to coincide with the establishment of FFG, the Group used the opportunity of Shinwa Bank becoming a wholly owned subsidiary of the Group to make a new start with our Second Mid-Term Management Plan. That period was a “run-up phase” to a future “rapid growth phase,” and during it we built a management system called three-brands/single-platform, and also proceeded with management infrastructure preparations, such as consolidating the business and systems of the three banks.

Following this, we launched our Third Mid-Term Management Plan in April 2010. We called it the “ABC Plan: Always Best for the Customer.” The aim of this plan is to dramatically improve productivity by thoroughly utilizing the common management infrastructure built under the previous mid-term management plan, and to promote active development in business. We have moved this plan from the “run-up phase” of the previous plan into an “acceleration phase.”

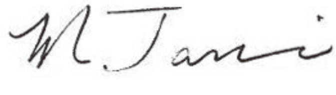
In our rigorous pursuit of the FFG brand slogan, “To be your Bank of choice,” we have highlighted “strengthening relations with our customers” as a fundamental principle under the ABC Plan. In particular, we have prioritized our efforts into retail banking and corporate banking with a core target of small and medium-sized enterprises.

On a different note, the recent earthquake has had a considerable impact on regional economies. We believe that particularly amid these severe conditions, FFG can prove its true worth as a regional financial group that contributes to local communities.

The slogan “To be your bank of choice” condenses how we feel toward our customers into a single phrase. By putting this into practice, all officers and employees of FFG are committed in the pursuit of being “the closest,” “the most reliable” and “the most sophisticated” regional financial group.

We look forward to your continued support and patronage.

September 2011



Masaaki Tani
Chairman of the Board and President
Fukuoka Financial Group, Inc.

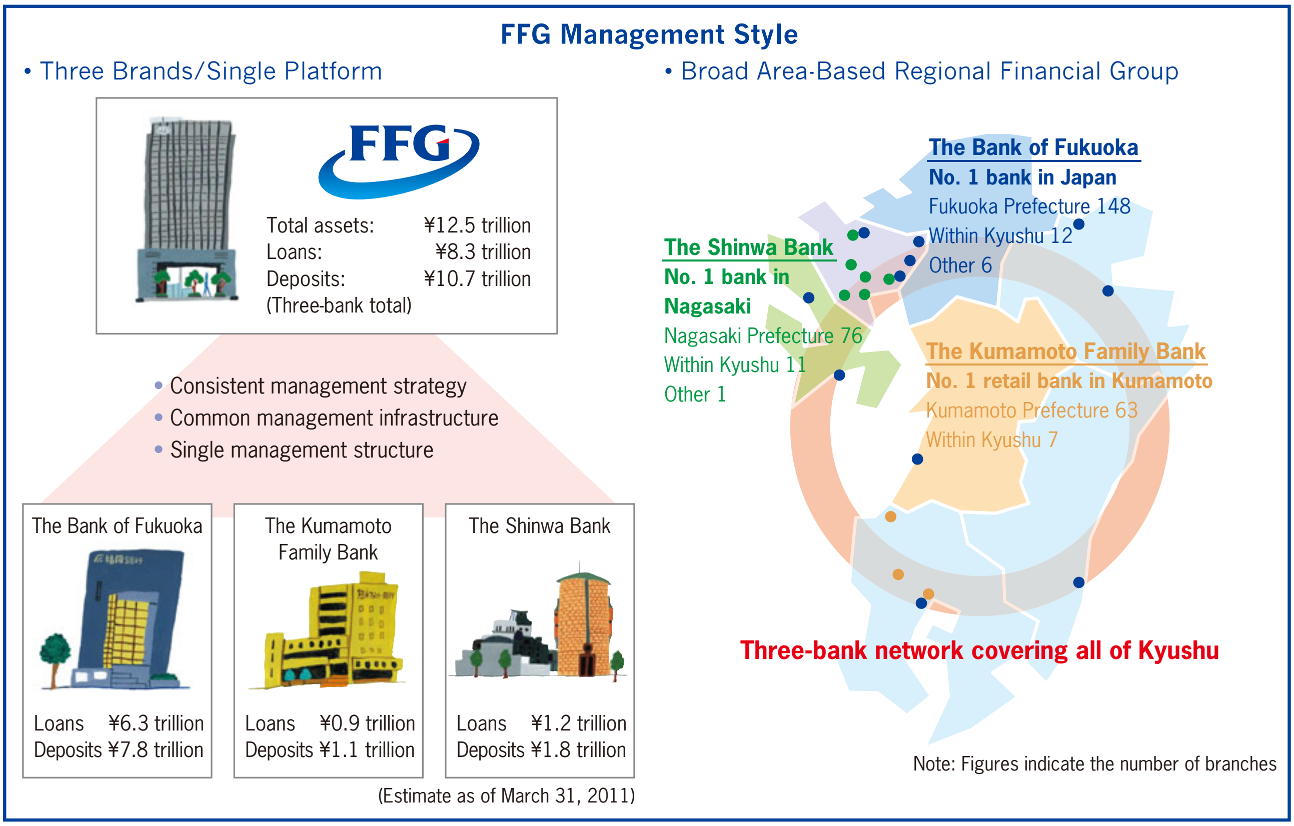
FFG's Management Systems and Strategy

■ Three Brands/Single Platform

As a holding company, FFG provides its three Group banks with a common platform for business management, internal auditing, administration and IT, keeping a firm grip on the Group's unified management. The three banks of the Group expand community-based sales in three prefectures as their principal markets, leveraging brand strength and taking advantage of regional characteristics. We believe that FFG's management style, which we call a "single platform with multiple brands," is an optimal way for Japan's regional banks to integrate their management.

■ Broad Area-Based Regional Financial Group

The Group's three banks extend their "horizontal coverage" by developing their respective networks in Fukuoka, Kumamoto and Nagasaki prefectures. On the other hand, the Bank of Fukuoka, the Group's core bank, provides "vertical coverage" through sales bases in other Kyushu prefectures. FFG therefore constitutes a "broad area-based regional financial group" covering all of Kyushu. Kyushu has a population of 13 million and some 600,000 enterprises. As well as its strength in the automobile and integrated circuit, food and agriculture industries, Kyushu has great potential as a gateway to Asia.



Fukuoka Financial Group's "Third Mid-Term Management Plan"

■ General Outline of the "Third Mid-Term Management Plan"

The Fukuoka Financial Group has formulated a management plan for the next three years (April 1, 2010–March 31, 2013), the "Third Mid-Term Management Plan."

Because the foundation of the plan is rigorous pursuit of our brand slogan "To be your Bank of choice," we named this mid-term plan the "**ABC Plan —Always Best for the Customer—**."

Based on this plan, we will develop a management strategy for the Group as a whole, and continue to provide excellent services through our extensive network.

Fukuoka Financial Group's Third Mid-Term Management Plan "ABC Plan"

Period	3-year period: April 1, 2010 - March 31, 2013
Name	**"ABC Plan —Always Best for the Customer—"**
Fundamental Principles	(1) Strengthening relations with our customers (2) Dramatically improving productivity (3) Spreading the FFG culture (4) Accumulating stable earning assets

■ Positioning of the ABC Plan, and FFG Corporate Vision

After formulating the "First Mid-Term Management Plan" to coincide with our establishment in April 2007, the Fukuoka Financial Group made a new start with the "Second Mid-Term Management Plan" at the opportunity of making the Shinwa Bank a wholly-owned subsidiary of the Group in October 2007.

The Second Mid-Term Management Plan, which was made during the period of FFG's creation, was positioned as a "run-up phase" to a future "rapid growth phase." Under that plan, we devoted our efforts to improve the balance sheets, by focusing on preparation and creation of various types of management infrastructure and business infrastructure, and disposal of nonperforming loans.

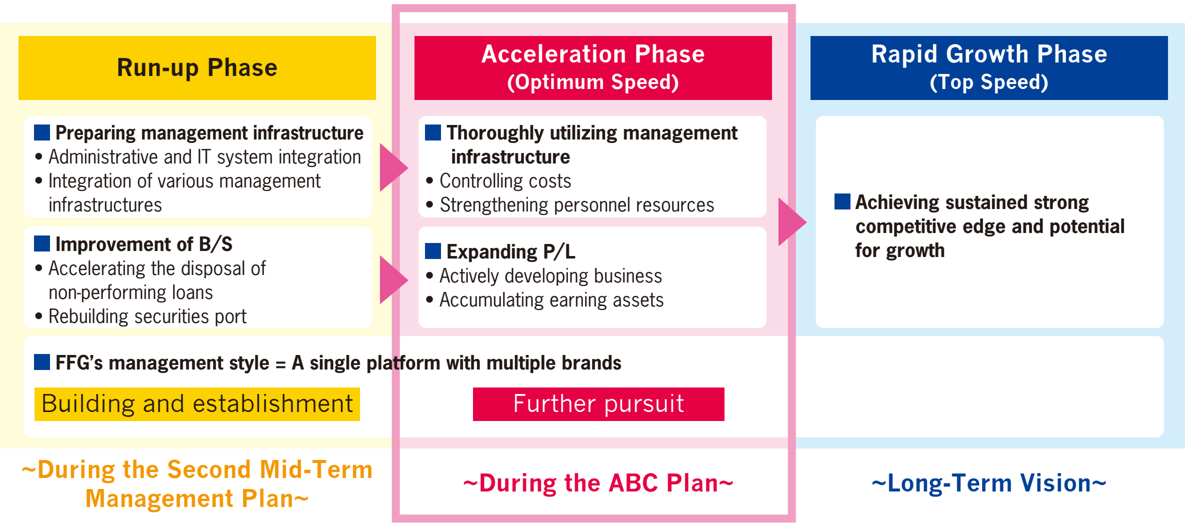
In January 2010, we completed the administrative and IT system integration with the Shinwa Bank and now we are prepared to move ahead to the next phase.
Under this ABC Plan, we aim to expand our business base in each area covered by the three banks of the Group and be a "first-class regional financial group with due substance and volume" to achieve sustainable growth in corporate value. To meet this objective, we thoroughly utilize our management infrastructure to dramatically improve productivity, shift to an "acceleration phase" to develop business actively at optimum speed, and provide advanced and high-quality financial products and services.

■ Formation Aimed for by the ABC Plan

FFG Corporate Vision	**First-class Regional Financial Group with due substance and volume**	
The Bank of Fukuoka	No. 1 Bank in Japan	■ Ability to meet customers' needs ■ Trust from customers ■ Quality of service ■ Potential for growth
The Kumamoto Family Bank	No. 1 Retail Bank in Kumamoto	■ Bank that is unequivocally favored for retail transactions in Kumamoto
The Shinwa Bank	No. 1 Bank in Nagasaki	■ Level of service ■ Scale/profits (financial base) ■ Number of clients/bases (business base)

FFG's Long-Term Vision	**A Regional Financial Group that Achieves a Sustained Strong Competitive Edge and Potential for Growth –Establishment of an Unparalleled Presence in the Kyushu Community–**

■ Positioning of the ABC Plan



■ Fundamental Principles and Emphasized Activities under the ABC Plan

FFG's "ABC Plan" comprises of four fundamental principles and the activities to be emphasized under each of those fundamental principles. The four fundamental principles are "strengthening relations with our customers," "dramatically improving productivity," "spreading the FFG culture," and "accumulating stable earning assets."

Fundamental Principles	Activities to be Emphasized
Spreading the FFG culture	Developing personnel resources / Changing consciousness / Reinforcing compliance system / Implementing CSR management
Strengthening relations with our customers	• Promoting transactions by small- and medium-sized businesses: "Supporting business activities themselves" • Promoting transactions by individuals: "Supporting life plans themselves" • Facilitating financing for small- and medium-sized businesses: "Strengthening activities to support management improvement" • Upgrading and expanding products and services: "Channel development from the customer's perspective"
Dramatically improving productivity	Rebuilding the personnel system / Reforming business processes / Improving IT performance
Accumulating stable earning assets	Enhancing prime assets / Strengthening risk management

Fundamental Principle (1): "Strengthening relations with our customers"

In order to listen to our customers and continue to make proposals from their points of view, we will expand the ways in which we come in contact with, converse with, and have business relationships with our customers.

Fundamental Principle (2): "Dramatically improving productivity"

We will dramatically improve productivity by thoroughly utilizing the management infrastructure built under the Second Mid-Term Management Plan and striving to optimize our business, IT, and personnel infrastructures.

Fundamental Principle (3): "Spreading the FFG culture"

In order to meet our customers' expectations, we will maintain an attitude of evolution and transformation without fear of failure, and share an organizational environment where we work and study in depth every day in order to achieve growth.

Fundamental Principle (4): "Accumulating stable earning assets"

We will build a resilient earnings base by accumulating stable earning assets that will not be affected by environmental changes.

■ "ABC Plan" Objectives and Management Indicators

Our targets for the final year of the ABC Plan, which concludes in the fiscal year ending March 31, 2013, are a total of ¥100 billion in core net business profits for the three banks, consolidated net income of ¥40 billion and a total OHR for the three banks of 50%.

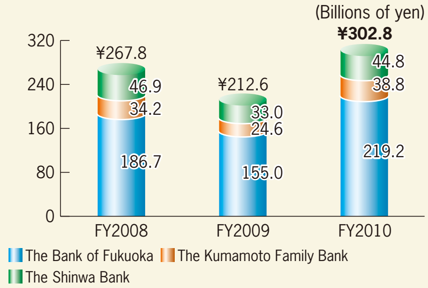
Expansion of Business Strategy

Corporate banking

Development of consulting business tailored to needs

- Loans based on expertise
- Hosting of business meetings, helping businesses turn around
- Provision of diverse financing schemes, such as ABLs

New corporate loans

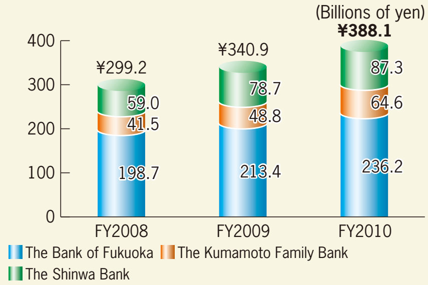


Retail banking

Provision of products and services suited to customer life cycle

- Expansion of insurance products
- Enhancement of consulting services using life plan simulations

Sales of asset management products

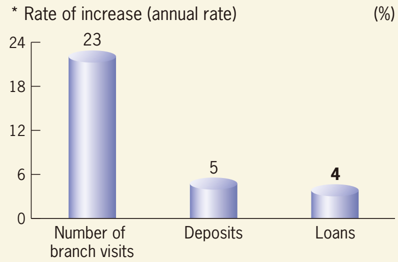


Branch offices/ channels

Enhancement of branch office networks

- Strategic branch office relocations in view of market characteristics and efficiency
- Strengthening of ability to attract customers through new branch offices with better customer convenience

Effect of rebuilding branch offices

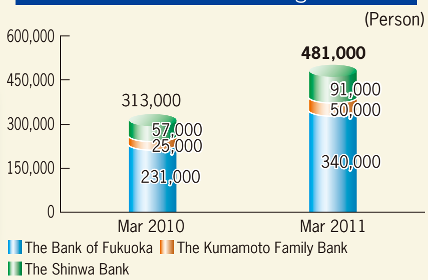


Improved convenience for on-line banking

- Strengthening of on-line banking functions with a view to the future age of the Internet

Internet booths

Number of internet banking members



The core targets of our active sales approach under the ABC Plan are small and medium-sized enterprises (SMEs) and individuals.

In corporate banking, we are utilizing our superior expertise in consulting for SMEs. We are winning customers by hosting business meetings, helping businesses turn around, and offering diversified financing schemes.

In retail banking, we are strengthening our proposal-based business tailored to individual customer life stages. Since last year, we have expanded our insurance products, and we began selling health insurance and cancer insurance. We have also been strengthening our sales of asset management products, introducing life plan simulations.

Branches are our key point of contact with customers, so we have also been strengthening our branch offices and channels.

The positive effects of the renewals have been ample. The number of customers visiting our newly rebuilt branch offices has increased by more than 20%, and in line with this, loans and deposits have shown annual growth of 4% to 5%.

By utilizing our integrated IT systems, we have enhanced our on-line banking system. The number of Internet banking members has increased steadily, and our business base has grown.

FFG's Dividend Policy

In addition to aiming to be a financial group that creates value for all stakeholders, FFG has set up a performance-based dividend payment formula to meet the expectations of its shareholders. Since the fiscal year ended March 31, 2008, we have paid dividends according to levels of consolidated net income.

FFG aims to maintain its dividend payout ratio at more than 20% of consolidated net income.

Dividends per share are linked to consolidated operating performance according to the dividend table we have set. In addition to sustaining stable dividends, we aim to satisfy shareholder expectations by paying dividends linked to net income.

Dividend Policy

■ Estimated Group dividend payout ratio: over 20%

$$\text{Group dividend payout ratio} = \frac{\text{Total amount of FFG dividends}}{\text{FFG consolidated net income (after depreciation of goodwill)}}$$

■ Maintenance of performance-based dividends
- Incremental dividends per share have been set according to levels of FFG consolidated net income

[Dividend table]

FFG's consolidated net income level	Dividend target	Dividend payout ratio
Up to ¥25 billion	From ¥7	Up to 24%
¥25 billion up to ¥30 billion	From ¥8	23% up to 28%
¥30 billion up to ¥35 billion	From ¥9	22% up to 26%
¥35 billion up to ¥40 billion	From ¥10	22% up to 25%
¥40 billion up to ¥45 billion	From ¥11	21% up to 24%
¥45 billion up to ¥50 billion	From ¥12	21% up to 23%
¥50 billion up to ¥55 billion	From ¥13	20% up to 22%
¥55 billion or more	From ¥14	22% or more

Note: Number of FFG shares issued and outstanding: about 860 million

[Dividend per share & Payout ratio]

■ Actual

FFG's consolidated net income		Dividend	Dividend payout ratio
Fiscal 2007	¥1.2 billion	¥7 per share	573.8%
Fiscal 2008	¥21.9 billion	¥8 per share	31.6%
Fiscal 2009	¥28.3 billion	¥8 per share	24.4%
Fiscal 2010	¥26.0 billion	¥8 per share	26.7%

■ Planned

FFG's consolidated net income		Dividend	Dividend payout ratio
Fiscal 2011	¥27.0 billion	¥8 per share	26%
Fiscal 2012	¥40.0 billion	¥11 per share	23%

Operating Results

Financial Summary

For the years ended March 31,

(Billions of yen)

(Consolidated)	2010	2011	YoY Change
Ordinary income	257.2	251.0	(6.2)
Gross business profit	201.5	201.0	(0.5)
Net interest income	163.0	161.3	(1.7)
Net fees and commissions	24.6	23.4	(1.2)
Net trading income	0.3	0.2	(0.0)
Net other operating income	13.7	16.1	2.4
Expenses (excluding extraordinary disposition)	125.9	123.3	(2.6)
Business profit*1	65.9	79.4	13.5
Core business profit*2	71.5	70.1	(1.4)
Ordinary profit	33.1	49.9	16.8
Net income	28.4	18.2	(8.6)
Total credit cost*3	26.8	26.0	(2.4)

● “(　)” denotes minus

*1 Business profit = gross business profit – expenses (excluding extraordinary disposition) – transfer to the general reserve for possible loan losses

*2 Core business profit = business profit + transfer to the general reserve for possible loan losses – gains (losses) on bonds

*3 Credit costs = transfer to the general reserve for possible loan losses + disposal of non-performing loans – recoveries of written-off claims

During the fiscal year ended March 31, 2011, net interest income declined, owing to a drop in interest rates. As a result, ordinary income fell ¥6.2 billion year on year, to ¥251.0 billion.

Although the Group was able to cover the drop in net interest income to some degree by curtailing expenses, core business profit decreased ¥1.4 billion year on year, to ¥70.1 billion.

Ordinary profit expanded ¥16.8 billion year on year, to ¥49.9 billion, owing to lower credit costs (excluding recoveries of written-off claims) and an increase in income related to securities (stocks and bonds).

As the Group posted deferred tax assets of ¥16.0 billion during the preceding fiscal year in relation to the liquidation of a consolidated subsidiary, net income was down ¥2.4 billion, to ¥26.0 billion.

Major Financial Indicators

As of March 31,

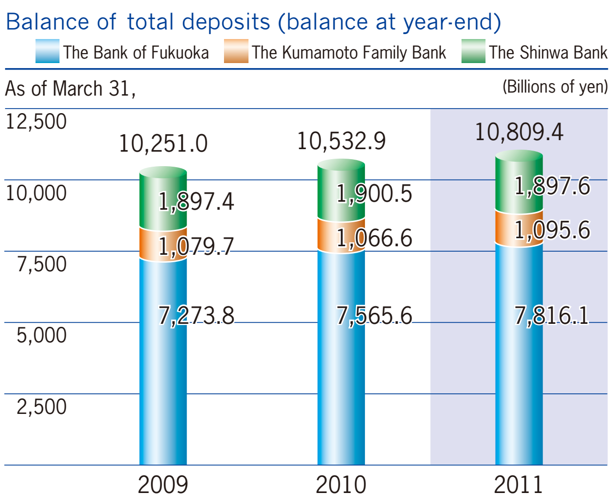
(%)

	2010	2011	Compared with 2010
Ratio of non-performing loans (Figures are three-bank totals)	2.60	2.64	0.04
Capital adequacy ratio (consolidated)	10.32	10.84	0.52
Tier I ratio	6.30	6.70	0.40

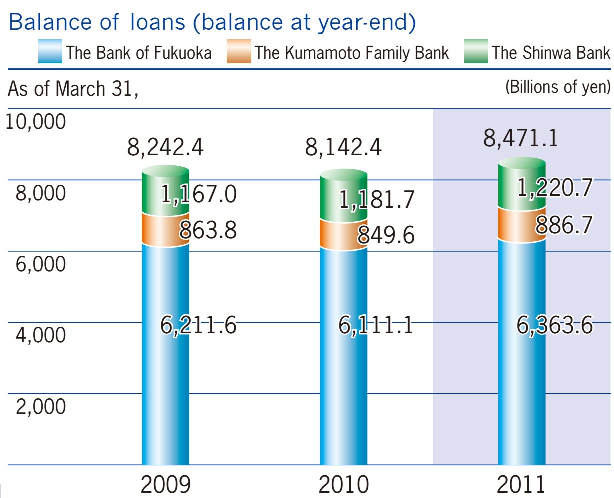
As of March 31, 2011, the ratio of non-performing loans was 2.64%, up 0.04 percentage point from one year earlier.

The capital adequacy ratio as of March 31, 2011, was 10.84%, up 0.52 percentage point from March 31, 2010, and the Tier I ratio increased 0.40 percentage point, to 6.70%.

Total Deposits (Deposits + Negotiable Certificates of Deposit) (Three-Bank Total)



Loans (Three-Bank Total)



Fukuoka Financial Group

Established: April 2007
Head Office: 1-8-3, Otemon, Chuo-ku, Fukuoka
Paid-in Capital: ¥1,247 billion
Website: http://www.fukuoka-fg.com/english/index.htm

Topics

July 2010

Shinwa Bank Call Center Begins Centralized Call Reception for Bank of Fukuoka

Shinwa Bank's new call center, located in the city of Sasebo, Nagasaki Prefecture, has begun providing centralized telephone call reception for the Bank of Fukuoka. Under this service, specialized operators handle customer calls to bank branches. In fiscal 2011, we plan to steadily extend this service to include Kumamoto Family Bank and Shinwa Bank, as well.

By ensuring quality telephone response, this move is designed to enhance customer satisfaction and heighten marketing capabilities by boosting branch productivity.

September 2010

Commencement of Mutual ATM Cash Deposit Service among the Three FFG Group Banks

Since November 2007, FFG has been reducing or eliminating among its Group banks the outside bank fees that are typically charged when transferring funds or withdrawing deposits.

The new mutual cash deposit service that FFG has inaugurated allows customers to use their cash cards to deposit money from any of the three banks' ATMs.

FFG will continue such efforts to further increase convenience to customers.

Autumn 2011

Bank of Fukuoka New York Representative Office to Be Established

FFG plans to open the Bank of Fukuoka New York Representative Office in autumn of 2011. FFG's three representative offices in China—in Shanghai, Dalian and Hong Kong—enhance its ability to provide various types of support to its customers who have business connections in Asia and strengthen its information-gathering capabilities. In the same way that these offices help FFG to meet demands from customers in Asia, the New York office will augment FFG's structure for responding to the needs of our customers who have business in the United States.

One Rockfeller Plaza

Operating Results

Financial Summary

For the years ended March 31,

(Billions of yen)

(Non-consolidated)	2010	2011	YoY Change
Ordinary income	181.9	178.2	(3.7)
Gross business profit	135.7	132.8	(2.9)
Net interest income	113.3	112.6	(0.7)
Domestic	107.5	108.1	0.6
International	5.9	4.5	(1.4)
Net fees and commissions	15.0	14.5	(0.5)
Net trading income	0.2	0.2	0
Net other operating income	7.2	5.5	(1.6)
Expenses (excluding extraordinary disposition)	73.1	71.1	(1.9)
Business profit	48.2	60.7	12.4
Core business profit	59.9	58.1	(1.8)
Ordinary profit	30.5	44.1	13.7
Net income	34.0	26.7	(7.3)
Total credit cost	20.6	13.7	(6.9)

● "( )" denotes minus

During the fiscal year ended March 31, 2011, ordinary income declined ¥3.7 billion year on year, to ¥178.2 billion, due to lower net interest income stemming from a drop in interest rates.

The bank worked to overcome the decrease in other operating income (excluding gains on bonds). However, core business profit fell ¥1.8 billion year on year, to ¥58.1 billion.

Ordinary profit expanded ¥13.7 billion year on year, to ¥44.1 billion, resulting from lower credit costs (excluding recoveries of written-off claims) and higher income related to securities (stocks and bonds).

As the bank posted deferred tax assets of ¥16.0 billion during the preceding fiscal year in relation to the liquidation of a consolidated subsidiary, net income was down ¥7.3 billion, to ¥26.7 billion.

Major Financial Indicators

As of March 31,

(%)

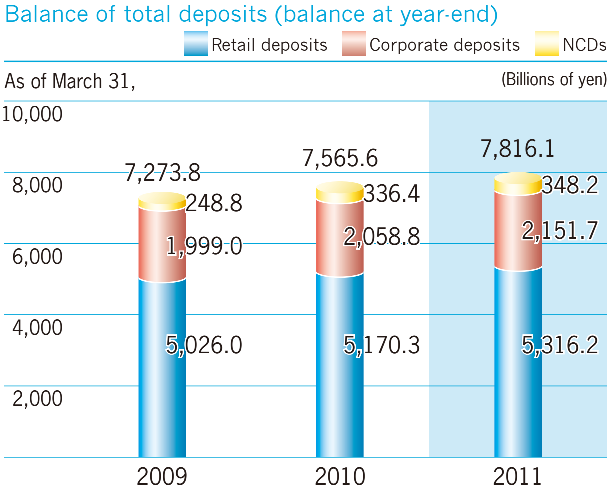
	2010	2011	Compared with 2010
Ratio of non-performing loans	2.72	2.66	(0.06)
Capital adequacy ratio (consolidated)	11.80	12.80	1.00
Tier I ratio	9.64	9.46	(0.18)

The ratio of non-performing loans fell 0.06 percentage point from March 31, 2010, to 2.66%.

The capital adequacy ratio (Japan domestic standard) was up 1.00 percentage point from March 31, 2010, while the Tier I ratio edged down 0.18 percentage point, to 9.46%.

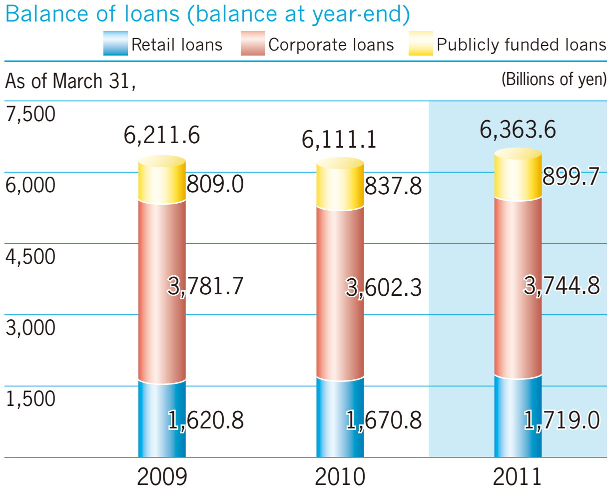
Total Deposits (Deposits + Negotiable Certificates of Deposit)

Balance of total deposits (balance at year-end)



Loans

Balance of loans (balance at year-end)



FUKUOKA BANK

Created as the Seventeenth National Bank in 1877, the Bank of Fukuoka celebrated its 130th anniversary in 2007. With its head office in Fukuoka, the bank operates primarily within the Kyushu area. The head office was designed by architect Kisho Kurokawa. The building's most distinctive feature, a large rectangular section supported by pilotis, is an attempt to indicate that the space is for public use, and since its completion in 1975 the open space of the building is a popular place to relax.

Establishment: March 31, 1945
Head Office: 2-13-1 Tenjin, Chuo-ku, Fukuoka City, Fukuoka Prefecture
Paid-in Capital: ¥82.3 billion
Website: http://www.fukuokabank.co.jp/

Topics

December 2010
Ube Branch Opens

In December 2010, the Bank of Fukuoka opened the Ube Branch, its second in Yamaguchi Prefecture following the Shimoseki Branch.

Yamaguchi Prefecture borders the Kanmon Straits, with Kyushu on the other coast, and is an area of vigorous interaction with the people and economies of Kyushu.

By building up its branch network within Yamaguchi Prefecture, the bank expects to provide more advanced and sophisticated financial services, as well as to help invigorate Kyushu and Yamaguchi prefectures.

Ube Branch

December 2010
arecore nimoca Card Issued

In 2010, the Bank of Fukuoka began issuing the new *arecore nimoca* card through a business alliance with Nishi-Nippon Railroad Co., Ltd.

arecore nimoca combines the credit card functionality of the bank's *arecore* credit card with *nimoca*—an IC card used for transportation on Nishi-Nippon Railroad lines. This convenient card combines cashing, credit, loan, IC transport, e-money and point functions into a single card.

arecore nimoca Card

April 2011
New Fukuoka Regional Headquarters Established

In April 2011, the Bank of Fukuoka established the Fukuoka Regional Headquarters as its leading sales outpost for the Fukuoka region.

The new regional headquarters works with customers in the Fukuoka region, which constitutes the largest market in Fukuoka Prefecture. Through daily sales visits by directors and other headquarters personnel, the regional headquarters aims to strengthen the bank's relationships with its customers and allow the provision of services that are even more closely tailored to their needs.

Operating Results

Financial Summary

For the years ended March 31,

(Billions of yen)

(Non-consolidated)	2010	2011	YoY Change
Ordinary income	30.2	28.2	(2.0)
Gross business profit	24.1	23.4	(0.7)
Net interest income	21.3	20.4	(0.9)
Domestic	21.2	20.3	(0.9)
International	0.1	0.1	0
Net fees and commissions	1.7	1.9	0.2
Net trading income	—	—	—
Net other operating income	1.1	1.1	(0.0)
Expenses (excluding extraordinary disposition)	16.9	16.0	(0.8)
Business profit	4.9	8.8	3.9
Core business profit	6.4	6.6	0.2
Ordinary profit	1.0	4.1	3.1
Net income	0.4	2.4	2.1
Total credit cost	2.8	1.2	(1.6)

● "( )" denotes minus

During the fiscal year ended March 31, 2011, ordinary income fell ¥2.0 billion year on year, to ¥28.2 billion, as net interest income declined because of lower interest rates.

Core business profit rose ¥0.2 billion year on year, to ¥6.6 billion. The drop in interest income was covered by an increase in fees and commissions and by lowering expenses.

Ordinary profit grew ¥3.1 billion year on year, to ¥4.1 billion, owing to a decrease in credit costs (excluding recoveries of written-off claims) and higher securities-related income.

Net income increased ¥2.1 billion year on year, to ¥2.4 billion.

Major Financial Indicators

As of March 31,

(%)

	2010	2011	Compared with 2010
Ratio of non-performing loans	1.64	2.36	0.72
Capital adequacy ratio (non-consolidated)	9.37	10.72	1.35
Tier I ratio	7.22	9.94	2.72

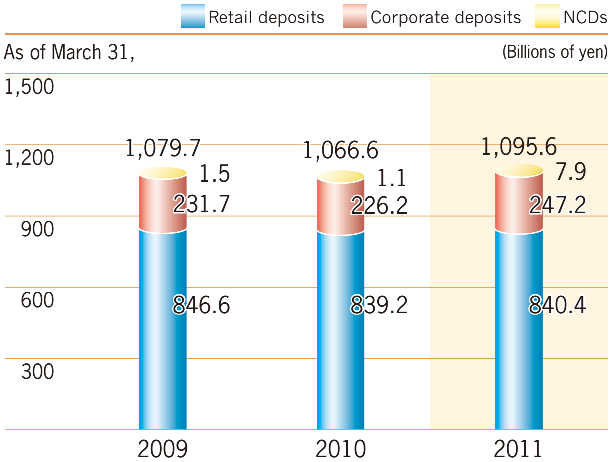
● "( )" denotes minus

The ratio of non-performing loans was up 0.72 percentage point from March 31, 2010, to 2.36%.

The capital adequacy ratio (Japan domestic standard) was 10.72%, up 1.35 percentage points from March 31, 2010, and the Tier I ratio was up 2.72 percentage points, to 9.94%.

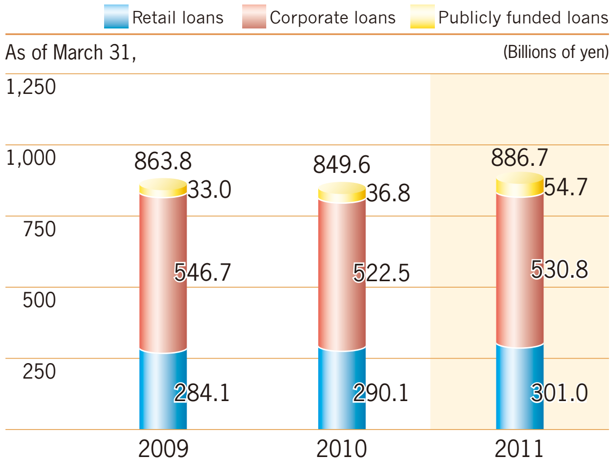
Total Deposits (Deposits + Negotiable Certificates of Deposit)

Balance of total deposits (balance at year-end)



Loans

Balance of loans (balance at year-end)



KUMAMOTO FAMILY BANK

With its head office located in the city of Kumamoto, the Kumamoto Family Bank operates primarily within Kumamoto Prefecture. Established in 1929 as Kumamoto Mutual Loan, the bank became the Kumamoto Sogo Bank in 1951, and then the Kumamoto Bank in 1989. At the same time, Higo Mutual Loan, which was established in 1933, became Higo Sogo Bank in 1951 and then the Higo Family Bank in 1989, merged with the Kumamoto Bank in 1992 to form the Kumamoto Family Bank.

Establishment: January 19, 1929
Head Office: 6-29-20, Suizenji, Kumamoto City, Kumamoto Prefecture
Paid-in Capital: ¥47.8 billion
Website: http://www.kf-bank.jp/

Topics

September 2010
Symposium on Solar Power Generation and Business Networking Event in Kumamoto

The Kumamoto Family Bank held its Second Solar Power Generation Symposium and Business Networking Event in Kumamoto, aiming to facilitate the expansion of the solar power generation industry in Kyushu. This joint event was held in conjunction with the Kyushu Industrial Advancement Center. The event comprised a symposium themed on the possibilities for the solar power generation industry in Kyushu, introductions of recent industry trends, and business meetings to expand the business of solar power generation as a regional industry.

Expanding Branch Renovations

In June 2010, Kumamoto Family Bank embarked on a campaign to reinforce its branding through branch renovations, mainly in the city of Kumamoto. The bank then extended these operations to branches located outside the city of Kumamoto, and by the end of fiscal 2011 expects construction to be essentially complete at all its branches.

Through these renovations, the Kumamoto Family Bank is working to build branches that are comfortable, as well as highly functional.

Assisting in Community Activities

The Kumamoto Family Bank assists in a host of regional activities.

In addition to clean-ups around Kumamoto Station and Kumamoto Castle, the bank participates in regional festivals and seeks to strengthen its community relationships in a number of other ways. The bank sponsors a mothers' volleyball tournament and a women's choral festival as part of its proactive initiatives involving sporting and cultural events.

Kumamoto Station clean-up

Operating Results

Financial Summary

For the years ended March 31,

(Billions of yen)

(Non-consolidated)	2010	2011	YoY Change
Ordinary income	43.2	41.8	(1.3)
Gross business profit	33.3	35.3	2.0
Net interest income	28.2	28.0	(0.2)
Domestic	27.8	27.6	(0.2)
International	0.4	0.4	(0.0)
Net fees and commissions	4.6	3.8	(0.8)
Net trading income	—	—	—
Net other operating income	0.5	3.5	3.0
Expenses (excluding extraordinary disposition)	23.8	23.5	(0.3)
Business profit	9.5	13.2	3.8
Core business profit	9.1	8.6	(0.5)
Ordinary profit	7.4	9.5	2.1
Net income	6.1	9.6	3.4
Total credit cost	(2.5)	0.6	3.1

● "( )" denotes minus

During the fiscal year ended March 31, 2011, ordinary income amounted to ¥41.8 billion, down ¥1.3 billion year on year, owing to lower net income resulting from a fall in interest rates.

Core business profit declined ¥0.5 billion year on year, to ¥8.6 billion, as interest income and fees and commissions decreased.

Ordinary profit increased ¥2.1 billion year on year, to ¥9.5 billion, despite higher credit costs (excluding recoveries of written-off claims), as income related to securities (stocks and bonds) rose.

Thanks to the absence of factors that were present during the preceding fiscal year (such as business and system integration expenses of ¥2.9 billion), net income increased ¥3.4 billion year on year, to ¥9.6 billion.

Major Financial Indicators

As of March 31,

(%)

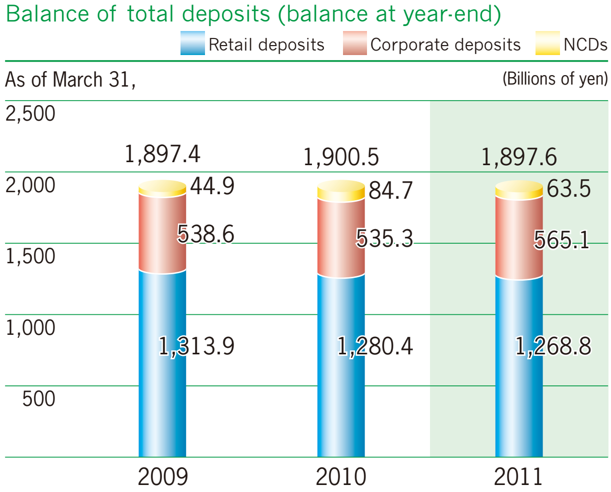
	2010	2011	Compared with 2010
Ratio of non-performing loans	2.66	2.76	0.10
Capital adequacy ratio (consolidated)	11.39	11.69	0.30
Tier I ratio	7.26	9.14	1.88

● "( )" denotes minus

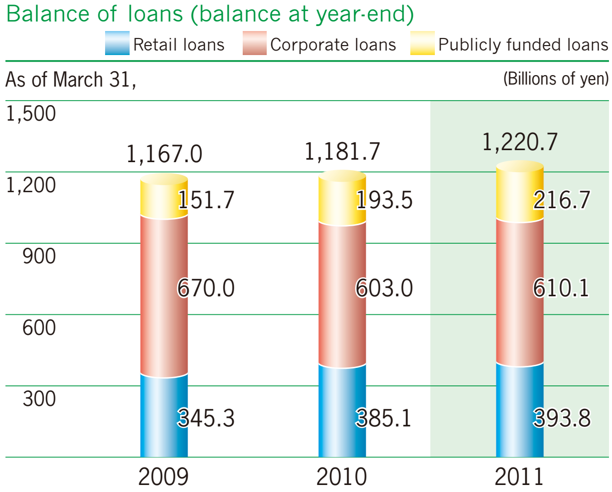
The ratio of non-performing loans rose 0.10 percentage point from March 31, 2010, to 2.76%.

The capital adequacy ratio (Japan domestic standard) was up 0.30 percentage point, to 11.69%, and the Tier I ratio was up 1.88 percentage points, to 9.14%.

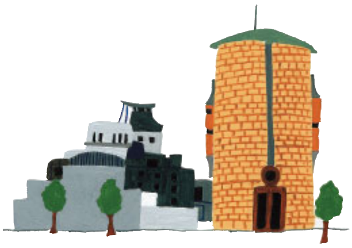
Total Deposits (Deposits + Negotiable Certificates of Deposit)



Loans



SHINWA BANK



With its head office in Sasebo, the Shinwa Bank, formerly established in 1879 as the 99th National Bank, operates primarily within Nagasaki Prefecture, in what is today the city of Hirado. In 1939 the Sasebo Bank of Commerce and the Sasebo Bank merged to form the Shinwa Bank. In 2003, the Shinwa Bank merged with the Kyushu Bank. The Shinwa Bank was named by Tokutaro Kitamura, who was the vice-president at the time the bank was established. The bank's second president, he later became Japan's Minister of Finance. The philosophical and unique head office design was created by architect Seiichi Shirai. In 2009, the bank celebrated its 130th anniversary.

Establishment: September 1, 1939
Head Office: 10-12 Shimanosecho, Sasebo City, Nagasaki Prefecture
Paid-in Capital: ¥25.8 billion
Website: http://www.shinwabank.co.jp/

Topics

October 2010
FFG Sasebo Building Opens

The FFG Sasebo building, the FFG flagship office in the Sasebo area of Nagasaki Prefecture, opened its doors on October 18, 2010.

The building includes Shinwa Bank and Bank of Fukuoka branches, and features a functional floor construction to facilitate the provision of sophisticated services in line with customers' requests.

FFG Sasebo Building

December 2010
Opening of Multifunctional ATM Corners

As a renovation of the former Kyomachi Branch building, the new Kyomachi Satellite Office opened on December 13, 2010, featuring an ATM corner with a host of facilities, including ATMs, money changing machines and Internet booths.

Featuring barrier-free design to ensure that it can be used comfortably by all people, the ATM corner is equipped with environmentally conscious LED lighting. The building also houses a gallery that is operated by the Yonkacho Trade Association and serves as a point of community interaction.

Progress on Branch Renovations

In an effort to entrench its brand, in fiscal 2010 the Shinwa Bank began the process of renovating 20 branches, including upgrades to lobbies and ATM corners. In addition to providing more space to enhance customers' comfort, renovations include conversions to barrier-free access to make branches convenient to all.

The bank will continue this process in fiscal 2011, and it plans to renovate a total of around 70 branches.

The refurbished Higashi Nagasaki Branch

Corporate Governance

Group Outline

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, preservation of the risk control system and creation of an internal management system, the Fukuoka Financial Group will operate under the following management and business framework.

Corporate Governance Overview

■ **Board of Directors and Directors**

The number of directors will be 14 or less (including external directors), and these directors will 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 the three Group banks and their business affairs.

■ **Board of Corporate Auditors and Corporate Auditors**

The number of corporate auditors is five or less. In accordance with the basic guidelines concerning audits of the Group, as well as audit plans, the corporate auditors audit the execution of business by directors and conduct audits regarding the Group's business operations and condition of assets.

■ **Corporate Auditor Department**

To enable the corporate auditor system to function efficiently, staff will be exclusively designated to support the corporate auditors.

■ **Group Management Conference**

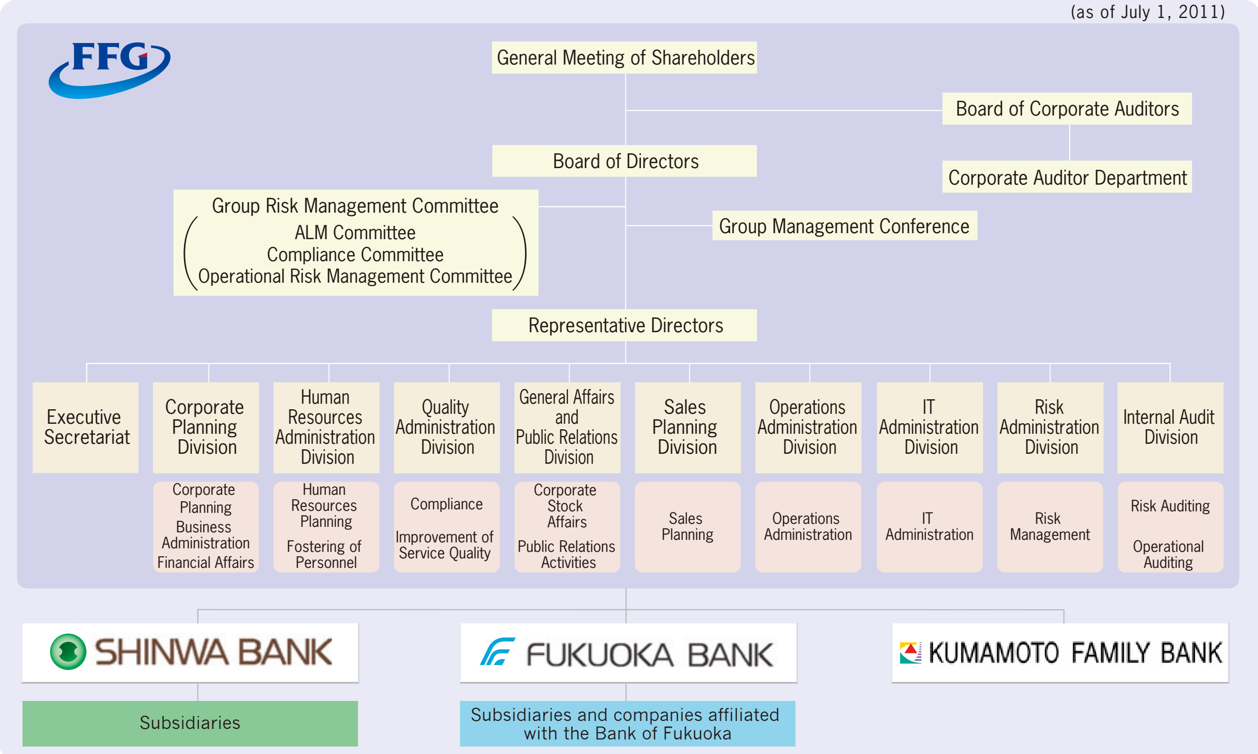
Based on basic guidelines stipulated and matters entrusted by the Board of Directors, the Group Management Conference will discuss important matters related to business and affairs of the Group, including Group management and operational planning.

■ **Group Risk Management Committee**

In addition to carrying out discussions concerning each of the risk management systems of the Group, the Group Risk Management Committee will discuss and report on matters related to asset portfolio management and compliance.

Corporate Governance Framework

(as of July 1, 2011)



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.

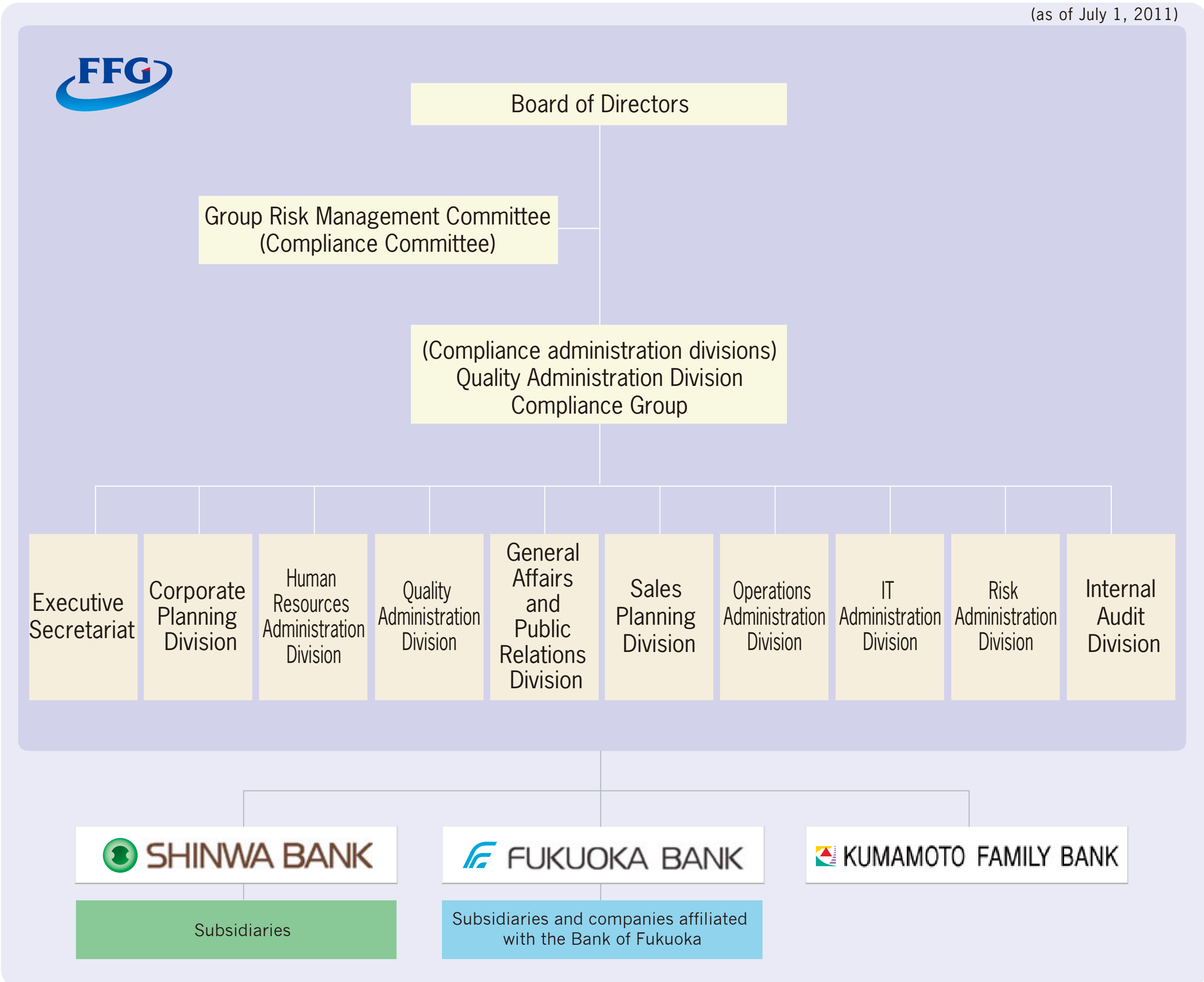
Specifically, FFG, the Bank of Fukuoka, the Kumamoto Family Bank and the Shinwa Bank have each established their own compliance administration departments, which work in cooperation with related departments to take appropriate measures to check that business is conducted in accordance with all laws, 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



Risk Management Activities

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 Family 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 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

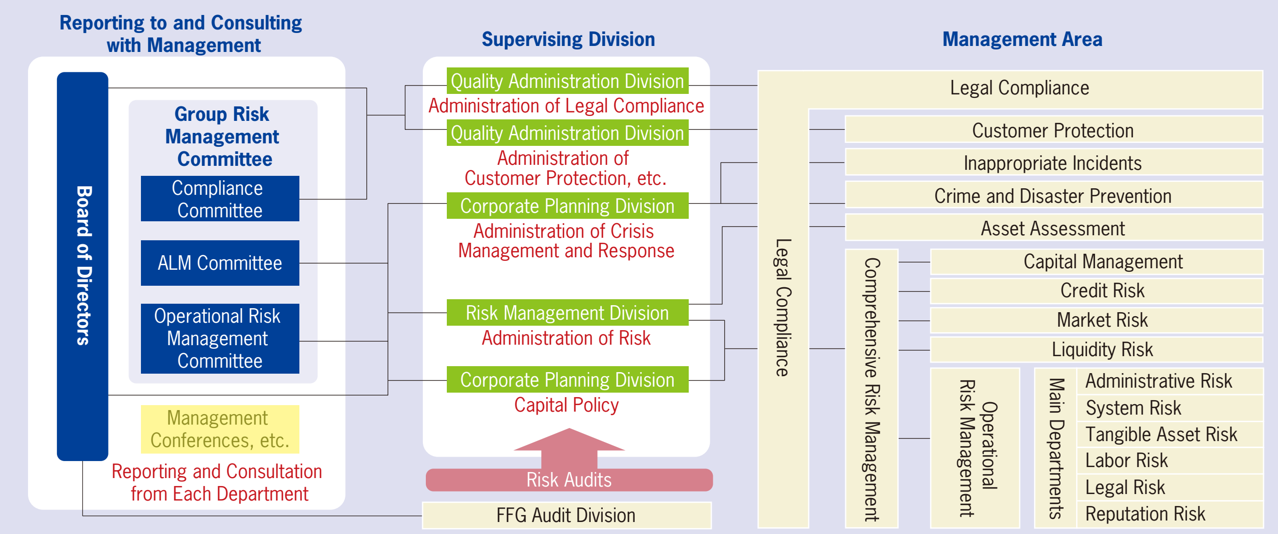
Risk categories	Definitions	Methods	
Credit Risk	Risk of losses arising from asset values that have fallen or been erased (including off-balance-sheet assets) by the worsening financial position of obligors	Management by VaR	Integrated risk management
Market Risk	Risk of losses arising from variation 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	Management by qualitative assessment	
Liquidity Risk			
— Cash Management Risk	Risk of losses arising from difficulties in securing necessary funds as a result of mismatching the period of cash management and procurement or unforeseen cash outflows, or from fund procurement unavoidably carried out at interest rates significantly higher than usual		
— Market Liquidity Risk	Risk of losses arising from the inability to carry out transactions due to market disruptions and other factors, or from transactions unavoidably conducted at prices significantly less favorable than usual		

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

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

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

FFG's Risk Management Framework



Comprehensive Risk Management

■ About Comprehensive Risk Management

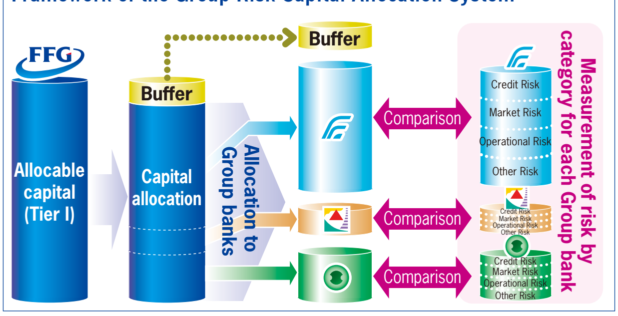
Comprehensive risk management makes an integrated assessment of risks that financial institutions face, evaluated for each risk category, by comparison with that financial institution's capital. Categories include credit risk, market risk and operational risk, as well as credit-concentration risk and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

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

Framework of the Group Risk Capital Allocation System



Credit Risk Management

Credit risk is the risk of losses arising from asset values 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 Family 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

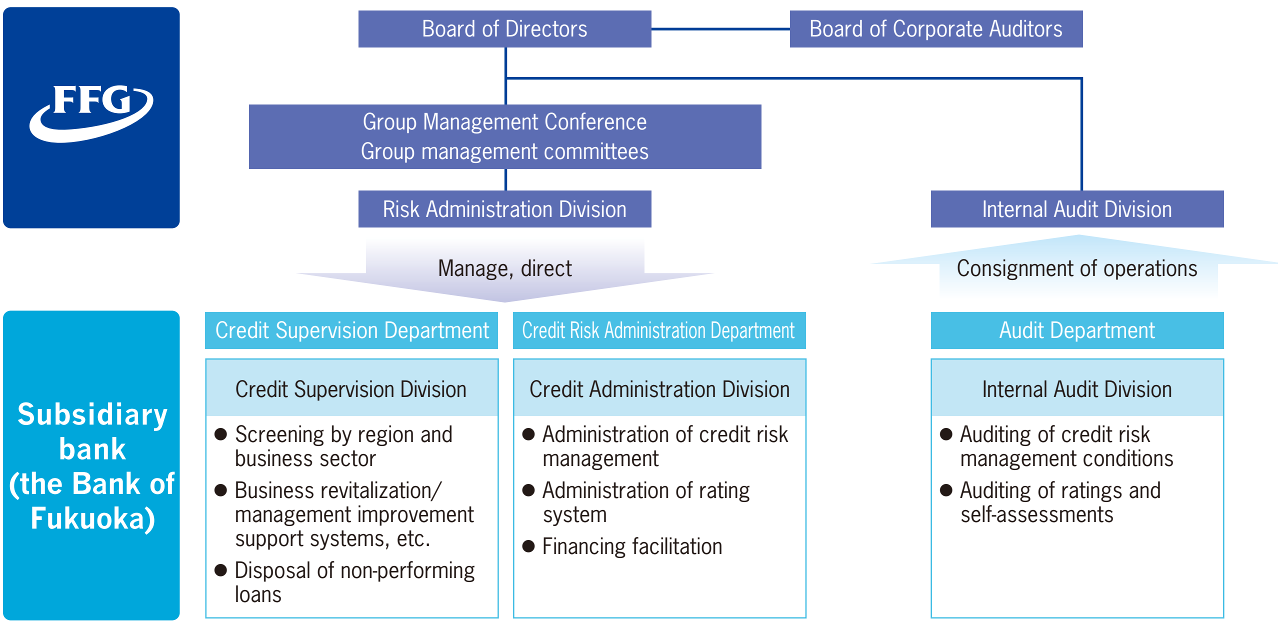
The Credit Risk Management System is centered on the Risk Management Division, which administers the formulation of credit risk management policy and manages the rating systems and credit risk for the Group.

The credit assessment departments within each of the Group's banks conduct rating reviews based on the credit ratings system, and FFG's Risk Administration Division handles Group-level management of obligors' dealings with banks within the Group.

Individual loan applications are screened primarily by the review departments of Group banks, in conjunction with business offices.

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 II Internal Rating-Based Approach

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

■ 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.

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.

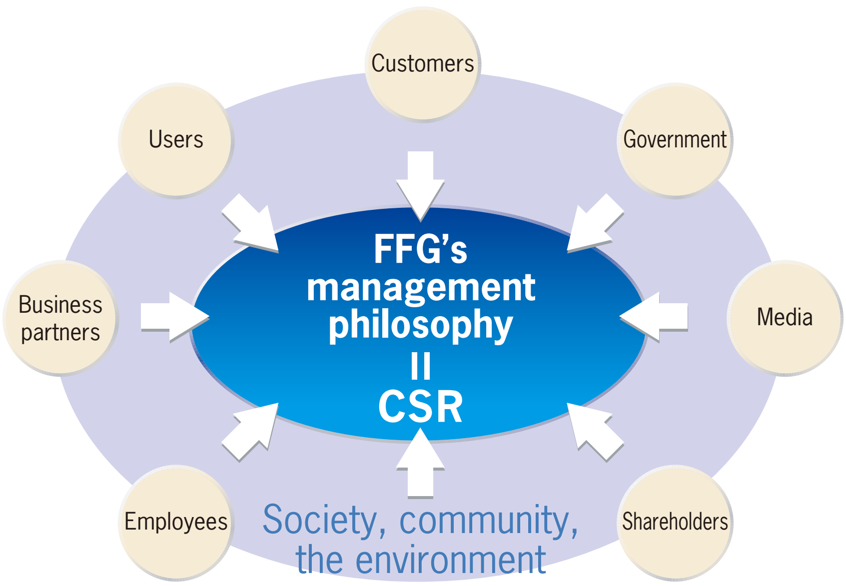
CSR Measures

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.

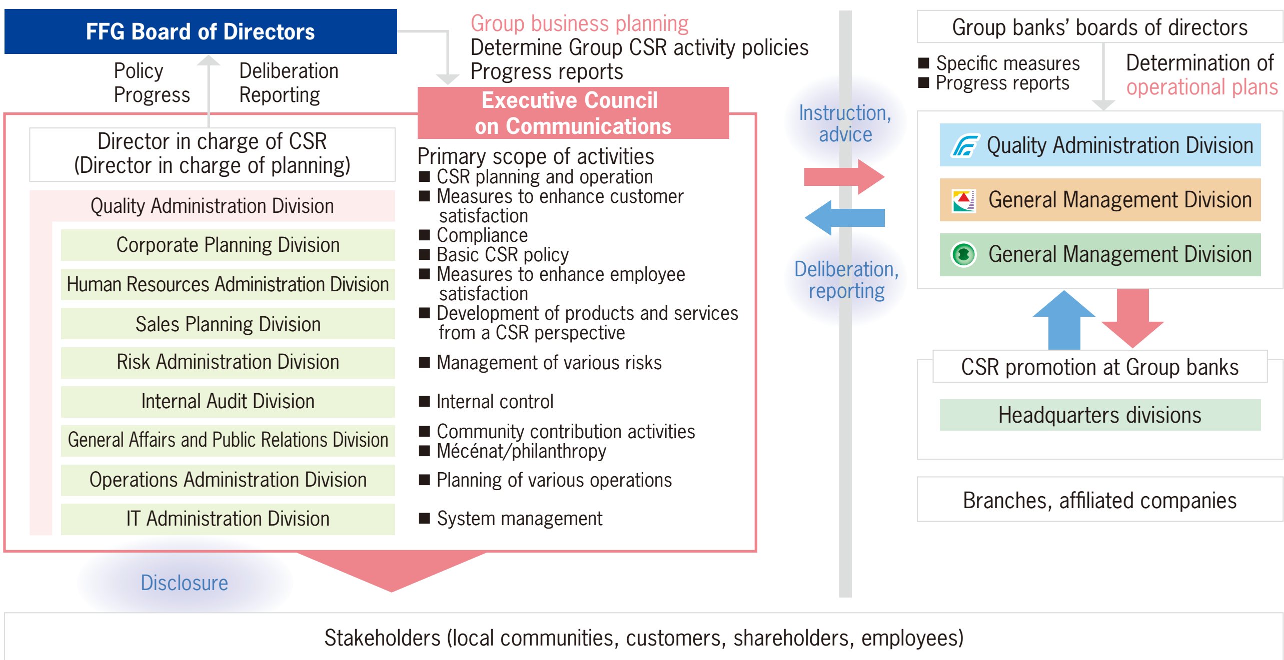
Also core to FFG's management philosophy is the belief that we pursue our CSR objectives through our business activities, as we work to maintain the trust that local society has invested in us as a regional financial institution, facilitate financing and serve the "public function" of contributing to 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 Definition of CSR

CSR means making balanced decisions and providing value to meet the expectations of all FFG's stakeholders, in the economic, legal, ethical and emotional senses. By achieving these objectives, we aim to promote the ongoing growth of our stakeholders and sustain FFG's expansion.



■ 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.

FFG has established "Three Activity Layers" to underpin these activities. This concept involves FFG focusing on areas where maximum contributions can be made utilizing its functions and properties as a broad area-based regional financial group, thus enabling individual employees who actually carry out activities to implement specific solid measures with clearer vision and initiative.

By optimizing a combination of the Three Activity Areas and the Three Activity Layers, FFG and its employees effectively utilize the Group's management resources and fulfill their respective roles—FFG as a good corporate citizen and its employees as good corporate members—at the same time developing various business activities with the aim of contributing to social innovation and new value creation.

■ 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.

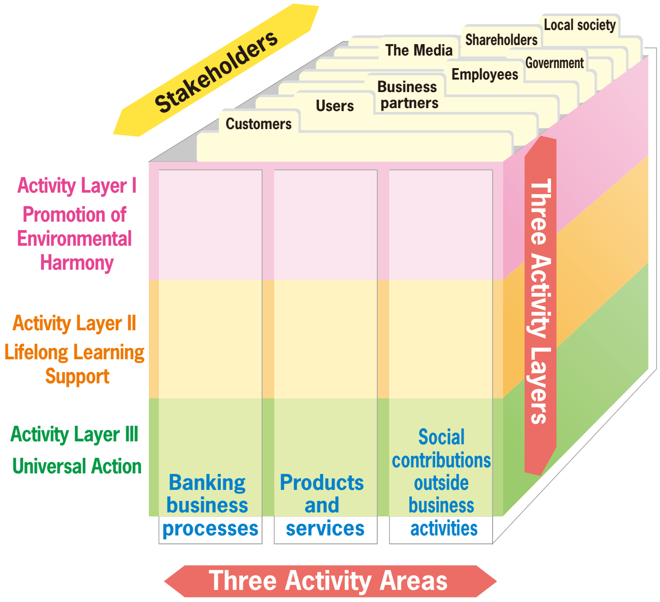
Layer II: Lifelong Learning Support

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.

Layer III: Universal Action

Adhering to the slogan "amenity for all," we conduct activities to develop nondiscriminatory 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.

■ The CSR Cube—Combining Three Activity Areas and Three Activity Layers



The optimal combination of Three Activity Areas and Three Activity Layers = Rising to the challenges of social innovation and new value creation through the development of balanced CSR management.

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

■ Promotion of Environmental Harmony

FFG's Environmental Initiatives

In April 2009, FFG created an environmental management system (EMS) based on a groupwide environmental policy.

Under this policy, we conduct eco-action initiatives involving all executives and employees. These include neighborhood clean-up activities, the introduction of Cool Biz/Warm Biz, and "lights-down" events when we turn off office lights on certain days, such as Tanabata and summer and winter solstices, and the collection of PET bottle caps for recycling.

Introducing Eco-Cars into the Company Fleet and Installing LED Lighting at Branches

To reduce CO_2 emissions, FFG has replaced most of the passenger vehicles it uses as company cars with hybrids. We are gradually switching general illumination over to LED lighting at some branch areas, mainly in ATM areas.

FFG Eco-Loan Financing Based on Environmental Rating

FFG conducts its own environmental ratings to determine the environmental friendliness of corporate management. 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.

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.

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

Collecting PET bottle caps for recycling

Clean-up activities in area around headquarters

■ Lifelong Learning Support

Supporting People's Lives through Finance

In its aim to foster a lifelong understanding of finance, FFG provides a variety of ways to help people at different stages in their lives gain financial knowledge.

FFG holds a wide range of seminars designed to help people gain accurate financial knowledge so they can make rational financial decisions. The Bank of Fukuoka holds investment trust reporting presentations at its facilities in Fukuoka and Kita-Kyushu, and conducts mostly free lectures featuring external instructors on a host of themes, including housing, pensions and insurance. We have also set up a series of courses, called the Suteki Mama no Manabi College ("College for the Wonderful Learning Mother") targeting mothers who might find it difficult to take time off from child-rearing and housework to study or refresh their understanding of such topics. This course is consistently oversubscribed, evincing its popularity.

Inviting Customers to Culture and Art Events

To show its appreciation for the customers with whom it conducts business on a daily basis, FFG invites them to various events that it supports, such as the annual New Year Concert, as well as various other culture, art and sporting events. FFG has also begun hosting a picture and photo exhibition that tours the headquarters and two major branches of the Group's three banks. The tour, *Five Pairs of Shoes*, is named for a series of essays of travel literature written by Yosano Tekkan and four other poets, taking place in the Fukuoka, Kumamoto and Nagasaki areas.

Five Pairs of Shoes Picture/Photo Exhibition

Support for Corporate Customers

FFG Business Consulting Co., Ltd., provides multifaceted support that is tailored to various customer needs, such as expanding their areas of business and scope of operations and improving management. The company holds different types of seminars and business meetings aimed at providing management information to FFG's commercial customers.

Taking a proactive approach toward cultivating relationships with the public sector, in October 2010 we held a joint event with the city of Kita-Kyushu, the Kita-Kyushu Food Challenge Business Seminar 2010. In November 2010, at the Bank of Fukuoka headquarters we also sponsored the Seminar on Specialty Foods from Nagasaki, Sasebo and Unzen, in cooperation with those respective cities. We also sponsored Food/Agriculture Island Kyushu 2010 at the same venue. On the same day, we held the Nagasaki, Sasebo, Unzen Dream Market Kitorasu Fair, which attracted a large number of participants.

Seminar on Specialty Foods from Nagasaki, Sasebo and Unzen

Kitorasu Fair

■ Universal Action

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
Hospitality instilled in all employees

Hard Action

To entrench our brand slogan, "To be your Bank of choice," we are putting forth our best efforts to rebuild, repair or renovate our branch buildings, which serve as a direct point of contact with customers. We are adding barrier-free functionality to counters, elevators and ATM areas, making them more easily accessible for people in wheelchairs.

Soft Action

Universal Action Program

In November 2010, FFG began this "one person, one action" program, through which it seeks to encourage each employee at each of its branches to select one outstanding skill as a "kind to all" benefit to the regional community. As a "one person, one skill" program, we plan to begin providing additional support to customers by encouraging employees to acquire skills in supporting people with dementia, as service assistants, in sign language and in business Braille.

Situating Service Assistants at All Branches

Customer service personnel are in place at all branches of FFG's three banks. Certified as service assistants, these people aim to raise the level of service that branches offer to branch customers.

Human Action

Rebuilding from Disasters, such as Foot-and-Mouth Disease in Miyazaki Prefecture and the Great East Japan Earthquake

FFG contributed money and other donations accumulated at the three Group banks and affiliated companies to help disaster-stricken regions recover as quickly as possible. In the aftermath of the Great East Japan Earthquake, we contributed clothing and blankets gathered throughout the Group. In response to growing employee interest in participating in volunteer activities, we underwrote the cost of volunteers' transportation and lodging and supplied equipment, as well as ourselves playing an active role in volunteer activities targeting the disaster-affected region.

Low counters designed for people in wheelchairs

Easy-to-use elevator

Volunteer activities in the region stricken by the Great East Japan Earthquake (accumulation point for relief goods)

Financial Section

Market Conditions

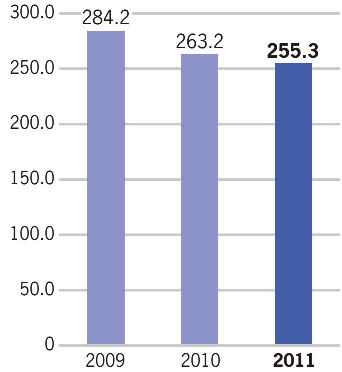
During the fiscal year ended March 31, 2011, the Japanese economy showed signs of a gradual recovery during the early part of the year, buoyed by firm exports centered on emerging markets and Asian countries. Thereafter, however, European economic uncertainty prompted further appreciation of the yen against other currencies, causing economic vigor to subside. Furthermore, in the second half the discontinuation of eco-car subsidies and other measures that had provided economic support caused personal consumption to stagnate. Accordingly, the overall economic climate remained difficult, including business conditions for small and medium-sized companies, personal income and the employment environment. In addition, near the end of the fiscal year a massive earthquake struck Japan, causing production activity to plummet in some sectors and putting strong downward pressure on the economy, centered on manufacturing.

Amid a worldwide increase in share prices, the Nikkei Stock Average was characterized by back-and-forth movement through the year. The average recovered to above ¥10,000 in February 2011, rising from the ¥8,000 range at the end of August 2010, but plunged in the aftermath of the disaster. Owing to a massive influx of funds by the Bank of Japan, yields on 10-year Japanese government bonds—a benchmark for long-term interest rates—fell below 1% for the first time in seven years, and short- and long-term interest rates accordingly remained low. In the currency markets, the uncertainty of overseas economies caused yen appreciation to continue, and from the middle of 2010 the yen was trading in a range between ¥80 and ¥85 to the U.S. dollar.

Economic conditions in the Kyushu region, FFG's primary base of operations, tracked the Japanese economy as a whole. Personal consumption trended downward in comparison to the previous year's rise in demand for passenger vehicles and other consumer items resulting from government stimulus measures, and the employment situation and personal income remained problematic. Furthermore, the economic outlook remains uncertain, owing to concerns of falling production activity and restrained household spending in the wake of the disaster.

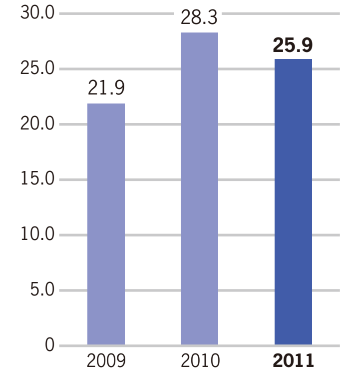
Total Income

(Years ended March 31,) (Billions of yen)



Net Income

(Years ended March 31,) (Billions of yen)



Initiatives during the Year

Operating under these economic circumstances, FFG embarked on its Third Mid-Term Management Plan, the "ABC Plan" (April 2010 through March 2013). During the year, we moved forward with a number of initiatives based on the plan's four fundamental principles of "strengthening relations with our customers," dramatically improving productivity," "spreading the FFG culture" and "accumulating stable earning assets."

Operating Results

During the fiscal year, consolidated total income dropped ¥7,834 million from the previous fiscal year, to ¥255,379 million, owing to declines in net interest income. However, falling credit costs and improved securities-related income contributed to a ¥16,831 million rise in ordinary profit, to ¥49,890 million. Net income fell ¥2,397 million, to ¥25,990 million.

Financial Position

FFG's total deposits (deposits + negotiable certificates of deposit) amounted to ¥10,774.6 billion, up ¥279.9 billion from the preceding fiscal year-end, owing mainly to an increase in liquid deposits. Loans and bills discounted, centered on loans to corporate customers, expanded ¥341.5 billion, to ¥8,374.0 billion at fiscal year-end. Holdings of securities at year-end totaled ¥2,967.9 billion, up ¥582.2 billion from a year earlier, as the Group worked to create a sound portfolio that provides a balance of stability and profitability.

Cash Flows

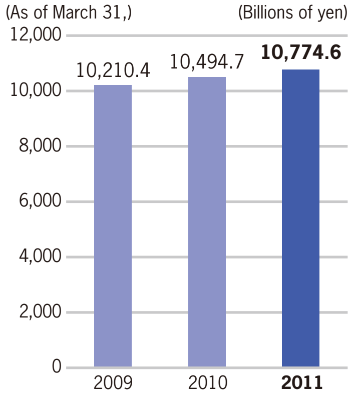
Net cash provided by operating activities came to ¥533,364 million, ¥253,059 million more than in the preceding fiscal year. This rise was due mainly to an increase in borrowed money.

Net cash used in investing activities was ¥599,744 million, ¥536,859 million more than in the previous fiscal year. Higher payments for purchases of securities was the primary reason.

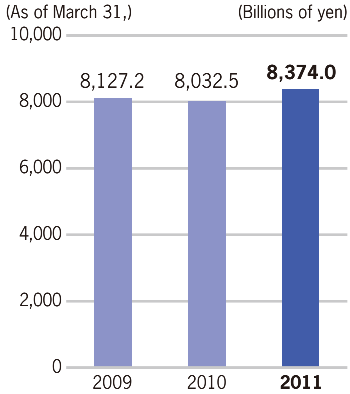
Net cash provided by financing activities amounted to ¥1,352 million, ¥2,490 million less than in the preceding fiscal year. An increase in repayments of subordinated borrowings was the main factor.

As a result, cash and cash equivalents at the end of the year totaled ¥658,117 million, down ¥65,126 million from the preceding year-end.

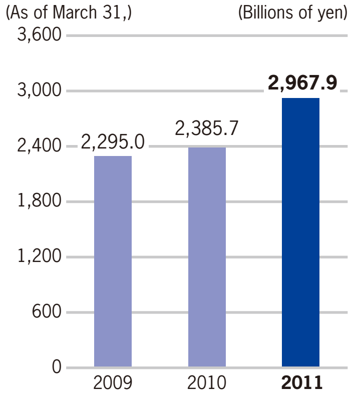
Deposits



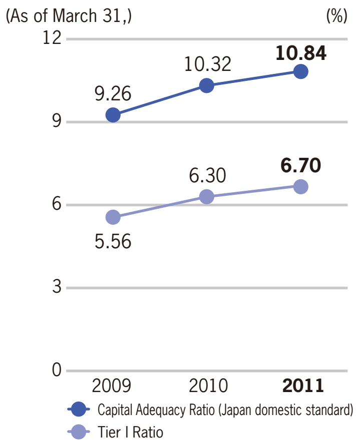
Loans and Bills Discounted



Securities



Capital Adequacy Ratio, Tier I Ratio



Ernst & Young ShinNihon LLC

Report of Independent Auditors

The Board of Directors
Fukuoka Financial Group, Inc.

We have audited the accompanying consolidated balance sheets of Fukuoka Financial Group, Inc. and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31,2011, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fukuoka Financial Group, Inc. and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

June 24, 2011

Ernst & Young ShinNihon LLC

CONSOLIDATED BALANCE SHEETS

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 6 and 16)	¥ 665,643	¥ 732,854	$ 8,005
Call loans and bills bought (Note 16)	—	930	—
Monetary receivables bought (Note 16)	69,605	108,720	837
Trading assets (Note 16)	6,448	2,290	77
Securities (Notes 3, 6, 10, 11 and 16)	2,967,970	2,385,761	35,694
Loans and bills discounted (Notes 4 and 16)	8,374,022	8,032,514	100,709
Foreign exchange assets (Notes 4 and 16)	9,157	7,763	110
Other assets (Note 6)	138,010	170,983	1,659
Tangible fixed assets (Note 5)	189,137	188,483	2,274
Intangible fixed assets	165,240	177,713	1,987
Deferred tax assets (Note 12)	85,420	100,363	1,027
Customers' liabilities for acceptances and guarantees (Note 10)	55,371	71,138	665
Reserve for possible loan losses (Note 4)	(145,499)	(143,112)	(1,749)
Reserve for possible investment losses	(127)	(131)	(1)
Total assets	**¥12,580,400**	**¥11,836,273**	**$151,297**
Liabilities			
Deposits (Notes 6 and 16)	10,774,696	10,494,744	129,581
Call money and bills sold (Note 16)	6,139	3,256	73
Payables under securities lending transactions (Notes 6 and 16)	24,148	39,044	290
Trading liabilities	1	—	0
Borrowed money (Notes 6, 7 and 16)	716,300	267,212	8,614
Foreign exchange liabilities (Note 16)	421	876	5
Short-term bonds payable (Note 16)	10,000	25,000	120
Bonds payable (Notes 8 and 16)	208,757	162,000	2,510
Other liabilities	93,297	93,703	1,122
Reserve for employees' retirement benefits (Note 9)	582	526	6
Reserve for loss on interest repayments	1,080	1,068	12
Reserve for reimbursement of deposits	4,287	4,065	51
Reserve for contingent loss	896	548	10
Deferred tax liabilities on land revaluation (Note 5)	32,112	32,176	386
Acceptances and guarantees (Note 10)	55,371	71,138	665
Total liabilities	**¥11,928,093**	**¥11,195,360**	**$143,452**
Net assets			
Common stock	¥124,799	¥124,799	$1,500
Capital surplus	103,163	103,163	1,240
Retained earnings	281,928	262,979	3,390
Treasury stock	(227)	(207)	(2)
Total stockholders' equity	**¥ 509,663**	**¥ 490,735**	**$ 6,129**
Net unrealized gains on other securities (Note 11)	26,273	32,242	315
Net deferred hedge losses	(7,154)	(5,054)	(86)
Land revaluation account (Note 5)	46,251	46,345	556
Total accumulated other comprehensive income	65,370	73,532	786
Minority interests	77,272	76,644	929
Total net assets	**¥ 652,306**	**¥ 640,912**	**$ 7,844**
Total liabilities and net assets	**¥12,580,400**	**¥11,836,273**	**$151,297**

CONSOLIDATED STATEMENTS OF INCOME

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Income from funds under management:			
Interest on loans and bills discounted	¥153,140	¥162,100	$1,841
Interest and dividends on securities	31,034	29,126	373
Interest on call loans and bills bought	77	94	0
Interest on receivables under securities lending transactions	—	1	—
Interest on due from banks	34	352	0
Interest on others	1,834	3,265	22
Trust fees	1	1	0
Fees and commissions	40,789	41,997	490
Trading income	246	264	2
Other operating income	18,030	14,910	216
Other income	10,190	11,099	122
Total income	**¥255,379**	**¥263,213**	**$3,071**
Expenses			
Cost of fund-raising:			
Interest on deposits	10,577	17,102	127
Interest on call money and bills sold	61	56	0
Interest on payables under securities lending transactions	107	142	1
Interest on borrowed money	2,164	2,064	26
Interest on short-term bonds payable	76	399	0
Interest on bonds payable	3,044	4,347	36
Interest on others	8,759	7,833	105
Fees and commissions	17,420	17,393	209
Other operating expenses	1,936	1,240	23
General and administrative expenses	127,652	131,051	1,535
Other expenses	31,902	50,623	383
Total expenses	**¥203,704**	**¥232,255**	**$2,449**
Income before income taxes and minority interests	51,675	30,958	621
Income taxes: (Note 12)			
Current	1,843	1,313	22
Prior period adjustment	—	(268)	—
Deferred	20,718	(1,205)	249
	22,562	**(159)**	**271**
Income before minority interests	**29,113**	**—**	**350**
Minority interests	**3,122**	**2,731**	**37**
Net income (Note 13)	**¥ 25,990**	**¥ 28,387**	**$ 312**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income before minority interests	¥29,113	—	$350
Other comprehensive income:		—	
Net unrealized gains/losses on other securities	(5,974)	—	(71)
Net deferred hedge	(2,099)	—	(25)
Share of other comprehensive income of associates accounted for using equity method	(1)	—	(0)
Total other comprehensive income	**(8,074)**	**—**	**(97)**
Comprehensive income (Note 18)	**¥21,038**	**—**	**$253**
Total comprehensive income attributable to:			
Shareholders of Fukuoka Financial Group, Inc.	17,921	—	215
Minority interests	3,116	—	37

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen										
	Stockholders' equity				Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains on other securities	Net deferred hedge losses	Land revaluation account	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of March 31, 2009	¥124,799	¥104,263	¥241,430	¥(2,503)	¥467,989	¥ 5,090	¥(6,269)	¥46,717	¥45,537	¥76,413	¥589,941
Changes during the period:											
Cash dividends			(7,115)		(7,115)						(7,115)
Net income			28,387		28,387						28,387
Acquisition of treasury stock				(20)	(20)						(20)
Disposition of treasury stock		(1,100)		2,316	1,216						1,216
Transfer from land revaluation account			278		278						278
Net change in items other than stockholders' equity						27,152	1,215	(371)	27,995	230	28,226
Total changes during the period	—	¥ (1,100)	¥ 21,549	¥ 2,296	¥ 22,745	¥27,152	¥ 1,215	¥ (371)	¥27,995	¥ 230	¥ 50,971
Balance as of March 31, 2010	**¥124,799**	**¥103,163**	**¥262,979**	**¥ (207)**	**¥490,735**	**¥32,242**	**¥(5,054)**	**¥46,345**	**¥73,532**	**¥76,644**	**¥640,912**
Changes during the period:											
Cash dividends			**(7,135)**		**(7,135)**						**(7,135)**
Net income			**25,990**		**25,990**						**25,990**
Acquisition of treasury stock				**(23)**	**(23)**						**(23)**
Disposition of treasury stock		**0**		**2**	**3**						**3**
Transfer from land revaluation account			**94**		**94**						**94**
Net change in items other than stockholders' equity						**(5,969)**	**(2,099)**	**(94)**	**(8,162)**	**628**	**(7,534)**
Total changes during the period	**—**	**¥ 0**	**¥ 18,949**	**¥ (20)**	**¥ 18,928**	**¥ (5,969)**	**¥(2,099)**	**¥ (94)**	**¥ (8,162)**	**¥ 628**	**¥ 11,394**
Balance as of March 31, 2011	**¥124,799**	**¥103,163**	**¥281,928**	**¥ (227)**	**¥509,663**	**¥26,273**	**¥(7,154)**	**¥46,251**	**¥65,370**	**¥77,272**	**¥652,306**

	Millions of U.S. dollars (Note 2)										
	Stockholders' equity				Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total stockholders' equity	Net unrealized gains on other securities	Net deferred hedge losses	Land revaluation account	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of March 31, 2010	$1,500	$1,240	$3,162	$(2)	$5,901	$387	$(60)	$ 557	$884	$921	$7,707
Changes during the period:											
Cash dividends			**(85)**		**(85)**						**(85)**
Net income			**312**		**312**						**312**
Acquisition of treasury stock				**(0)**	**(0)**						**(0)**
Disposition of treasury stock		**0**		**0**	**0**						**0**
Transfer from land revaluation account			**1**		**1**						**1**
Net change in items other than stockholders' equity						**(71)**	**(25)**	**(1)**	**(98)**	**7**	**(90)**
Total changes during the period	**—**	**$ 0**	**$ 227**	**$(0)**	**$ 227**	**$ (71)**	**$(25)**	**$ (1)**	**$ (98)**	**$ 7**	**$ 137**
Balance as of March 31, 2011	**$1,500**	**$1,240**	**$3,390**	**$(2)**	**$6,129**	**$315**	**$(86)**	**$556**	**$786**	**$929**	**$7,844**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 51,675	¥ 30,958	$ 621
Depreciation of tangible fixed assets	11,584	10,362	139
Impairment losses	634	1,005	7
Amortization of goodwill	9,173	8,862	110
Equity in loss from investment in affiliates	331	100	3
Net change in reserve for possible loan losses	2,387	(27,397)	28
Net change in reserve for possible investment losses	(3)	8	(0)
Net change in reserve for employee retirement benefits	56	37	0
Net change in reserve for loss on interest repayments	11	(60)	0
Net change in reserve for reimbursement of deposits	222	298	2
Net change in reserve for contingent losses	348	173	4
Interest income	(186,121)	(194,940)	(2,238)
Interest expenses	24,791	31,946	298
Net (gains) losses related to securities transactions	(6,272)	1,258	(75)
Net exchange losses	98	10	1
Net losses on disposition of fixed assets	810	1,434	9
Net change in trading assets	(4,157)	(520)	(49)
Net change in trading liabilities	1	—	0
Net change in loans and bills discounted	(341,508)	95,175	(4,107)
Net change in deposits	279,952	284,239	3,366
Net change in borrowed money (excluding subordinated borrowed money)	453,088	(231,614)	5,449
Net change in due from banks (excluding deposits with the Bank of Japan)	2,083	20,638	25
Net change in call loans	40,045	188,091	481
Net change in call money	2,882	(66,743)	34
Net change in payables under securities lending transactions	(14,895)	32,480	(179)
Net change in foreign exchange assets	(1,394)	(1,191)	(16)
Net change in foreign exchange liabilities	(454)	75	(5)
Net change in short-term bonds payable	(15,000)	(10,000)	(180)
Net change in issuance and redemption of bonds	31,757	9,583	381
Interest received	188,954	197,546	2,272
Interest paid	(27,765)	(40,580)	(333)
Other, net	23,800	(43,338)	286
Subtotal	527,120	297,903	6,339
Refunded income taxes	7,385	268	88
Income taxes paid	(1,141)	(17,866)	(13)
Net cash provided by operating activities	**533,364**	**280,305**	**6,414**
Cash flows from investing activities:			
Payments for purchases of securities	(1,464,871)	(692,602)	(17,617)
Proceeds from sale of securities	345,244	324,679	4,152
Proceeds from redemption of securities	529,856	318,478	6,372
Payments for purchases of tangible fixed assets	(9,034)	(7,618)	(108)
Proceeds from sale of tangible fixed assets	1,104	990	13
Payments for purchases of intangible fixed assets	(2,043)	(6,873)	(24)
Payments for acquisition of subsidiaries' stock	—	(9)	—
Proceeds from sale of subsidiaries' stock resulting in change in scope of consolidation	—	70	—
Net cash used in investing activities	**(599,744)**	**(62,885)**	**(7,212)**
Cash flows from financing activities:			
Increase in subordinated borrowings	—	17,500	—
Decrease in subordinated borrowings	(4,000)	(2,500)	(48)
Proceeds from issuance of subordinated bonds	57,500	—	691
Payments for redemption of subordinated bonds	(42,500)	(2,396)	(511)
Dividends paid	(7,138)	(7,105)	(85)
Dividends paid to minority stockholders	(2,488)	(2,484)	(29)
Payments for purchases of treasury stock	(23)	(20)	(0)
Proceeds from sale of treasury stock	2	850	0
Net cash provided by financing activities	**1,352**	**3,842**	**16**
Effect of exchange rate changes on cash and cash equivalents	**(98)**	**(10)**	**(1)**
Net (decrease) increase in cash and cash equivalents	**(65,126)**	**221,251**	**(783)**
Cash and cash equivalents at beginning of the year	**723,244**	**501,992**	**8,698**
Cash and cash equivalents at end of the year (Note 14)	**¥ 658,117**	**¥ 723,244**	**$ 7,914**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fukuoka Financial Group, Inc. and its subsidiaries
Years ended March 31, 2011 and 2010

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 controlled directly or indirectly by FFG. All significant intercompany balances and transactions have been eliminated in consolidation.

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.

From the year ended March 31, 2011, Family Card Co., Ltd. and Shinwa DC Card Co., Ltd. were excluded from the scope of consolidation due to the merger with FFG Card Co., Ltd. , and Shinwa Corporate Partners Co., Ltd. was excluded owing to the liquidation. However, the results of these companies are included in the consolidated statements of income until their respective dates of merger or liquidation.

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).

Other 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 other securities for which fair value is not readily determinable are stated at cost computed by the moving-average method.

Unrealized gains and losses on Other Securities are 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

Depreciation of the tangible fixed assets of consolidated subsidiaries conducting banking business is computed using the declining-balance method. However, certain banks employ the straight-line method for buildings, excluding equipment and furniture, acquired on or after April 1, 1998.

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

Depreciation of the tangible fixed assets of other consolidated subsidiaries is principally computed using the declining-balance method, based on the estimated useful life of the assets.

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 equipments, 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 and stock issuance costs are treated at full cost at time of expenditure.

h. Reserve for Possible Loan Losses

The Reserve for Possible Loan Losses is maintained in accordance with internally established standards for write-offs and provisions:

- For credits extended to obligors that are legally bankrupt under the Bankruptcy Law, Special Liquidation in the Commercial Law or other similar laws ("Bankrupt Obligors"), and to obligors that are effectively in similar conditions ("Effectively Bankrupt Obligors"), reserves are maintained at 100% of amounts of claims (after direct reductions are made as discussed below), net of expected amounts from the disposal of collateral and/or on the amounts recoverable under guarantees.

- For credits extended to obligors that are not Bankrupt Obligors or Effectively Bankrupt Obligors but have a substantial chance of business failure going forward ("In-Danger-of-Bankruptcy Obligors"), reserves are maintained at the amount deemed necessary based on overall solvency analyses, on the amount of claims less expected amounts recoverable from the disposal of collateral and/or on the amounts recoverable under guarantees.
- For credits extended to obligors that are In-Danger-of-Bankruptcy Obligors or whose credit terms are rescheduled 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 a reserve for possible loan losses.
- For credits extended to other obligors, reserves 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.

Reserves for Possible Losses on Loans are provided for on the basis of such verified assessments.

Regarding loans with collateral or guarantees extended by consolidated subsidiaries engaged in banking business and certain major consolidated subsidiaries to obligors who are substantially or legally bankrupt, the balance of the amount of claims less expected amounts recoverable from the disposal of collateral and/ or the amounts recoverable under guarantees is directly deducted from the amount of claims as the estimated uncollectible amount. As of March 31, 2011 and 2010, such deducted amounts were ¥65,651 million and ¥97,417 million, respectively.

Reserve for loan losses in the consolidated subsidiaries are provided by the actual write-off ratio, etc.

i. Reserve for Possible Investment Losses

The reserve for possible investment losses is provided for the estimated losses on certain investments based on an assessment of the issuers' financial condition and uncertainty about future recoverability of the decline in fair values of the investments.

j. Reserve for Employee Retirement Benefits

Reserve for employee retirement benefits, which is provided for the future pension payment to employees, is recorded at the amount accrued at the end of the fiscal year, based on the projected benefit obligation and the estimated pension plan asset amounts at the end of the current fiscal year. The consolidated subsidiaries engaged in banking businesses recorded prepaid pension costs within Other Assets on the consolidated balance sheets due to the overfunded status of their respective plan.

Prior service costs and actuarial gains or losses are amortized mainly in the following manner:

- Prior service costs are amortized by the straight-line method over a period (9–12 years) within the average remaining years of service of the eligible employees.
- Actuarial gains or losses are recognized as income or losses from the following fiscal year under the straight-line method over the average remaining service period of the current employees (9–13 years).

k. Reserve for Loss on Interest Repayments

The reserve 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.

l. Reserve for Reimbursement of Deposits

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

m. Reserve for Contingent Loss

The reserve for contingent loss is provided as the amount considered necessary to cover possible contingent losses.

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 dates.

o. Leases

Finance leases of FFG's domestic subsidiaries, commenced prior to April 1, 2008 which do not transfer ownership of leased assets to lessees, are accounted for as operating leases.

p. 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 hedge 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.

q. 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.

r. 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 stockholders 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 21.

s. 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.

t. Goodwill
Goodwill is depreciated using the straight-line method over 20 years for two companies.

u. Accounting Change

Equity method of accounting for investments
Effective April 1, 2010, FFG and its consolidated subsidiaries adopted the "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No.16, issued on March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ Practical Issues Task Force No. 24, issued on March 10, 2008). This accounting change has no impact on the consolidated financial statements.

Accounting standard for asset retirement obligations
Effective April 1, 2010, FFG and its consolidated subsidiaries adopted the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

Accordingly, income before income taxes and minority interests decreased by ¥108 million compared with the previous accounting method.

v. Change in Presentation
FFG and its consolidated subsidiaries present "Income before minority interests" on the consolidated statements of income from the year ended March 31, 2011 because the "Cabinet Office Ordinance of Partial Amendment to Regulation for Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No. 5, March 24, 2009), based on the "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on December 26, 2008), became effective for fiscal years beginning on or after April 1, 2010.

2. U.S. Dollar Amounts
Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥83.15 = US$1.00, the approximate rate of exchange on March 31, 2011, 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, 2011 and 2010 are as follows:

(Millions of yen)

	2011	2010
National government bonds	¥1,579,434	¥ 966,270
Local government bonds	36,653	38,108
Corporate bonds	949,279	891,544
Equity securities	86,208	100,222
Other	316,394	389,615
Total	¥2,967,970	¥2,385,761

Equity securities included stocks of affiliates of ¥2,448 million and ¥2,788 million at March 31, 2011 and 2010, respectively.

National government bonds at March 31, 2011 and 2010, included bonds of ¥217,752 million and ¥101,378 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 ¥34,010 million and ¥38,333 million at March 31, 2011 and 2010, respectively.

■ Held-to-maturity securities

The following tables summarize carrying values, fair value and differences of securities with available fair values at March 31, 2011 and 2010:

(Millions of yen)

		2011		
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥110,231	¥120,260	¥10,029
	Local government bonds	—	—	—
	Corporate bonds	27,180	27,996	815
	Other	33,098	33,181	82
	Subtotal	¥170,511	¥181,438	¥10,927
Securities with fair value not exceeding carrying value	National government bonds	¥ —	¥ —	¥ —
	Local government bonds	—	—	—
	Corporate bonds	—	—	—
	Other	1,895	1,892	(2)
	Subtotal	¥ 1,895	¥ 1,892	¥ (2)
Total		¥172,406	¥183,331	¥10,925

(Millions of yen)

		2010		
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥101,996	¥112,029	¥10,032
	Local government bonds	—	—	—
	Corporate bonds	17,692	17,984	292
	Other	70,597	70,812	215
	Subtotal	¥190,286	¥200,826	¥10,540
Securities with fair value not exceeding carrying value	National government bonds	¥ 8,234	¥ 8,174	¥ (60)
	Local government bonds	—	—	—
	Corporate bonds	9,487	9,469	(18)
	Other	8,681	8,673	(7)
	Subtotal	¥ 26,404	¥ 26,317	¥ (86)
Total		¥216,690	¥227,144	¥10,453

■ Other Securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2011 and 2010:

(Millions of yen)

		2011		
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,000,368	¥1,016,997	¥ 16,629
	Local government bonds	25,522	26,235	712
	Corporate bonds	668,425	680,745	12,320
	Equity securities	22,598	47,121	24,522
	Other	162,459	169,771	7,312
	Subtotal	¥1,879,374	¥1,940,870	¥ 61,496
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ 457,153	¥ 452,205	¥ (4,948)
	Local government bonds	10,543	10,418	(125)
	Corporate bonds	243,405	241,353	(2,051)
	Equity securities	34,076	26,726	(7,349)
	Other	143,829	139,462	(4,367)
	Subtotal	889,009	870,166	(18,842)
Total		¥2,768,383	¥2,811,037	¥ 42,653

(Millions of yen)

		2010		
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥695,735	¥711,532	¥ 15,796
	Local government bonds	29,387	30,058	671
	Corporate bonds	772,961	786,330	13,368
	Equity securities	34,786	62,841	28,054
	Other	210,554	217,641	7,087
	Subtotal	¥1,743,425	¥1,808,404	¥ 64,978
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ 144,969	¥ 144,506	¥ (462)
	Local government bonds	8,121	8,049	(71)
	Corporate bonds	78,469	78,033	(436)
	Equity securities	31,245	24,444	(6,800)
	Other	168,606	164,443	(4,163)
	Subtotal	¥ 431,412	¥ 419,477	¥(11,934)
Total		¥2,174,837	¥2,227,882	¥ 53,044

Securities with fair values (excluding securities hold 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"). During the fiscal year, impairment losses of ¥2,087 million were recorded. 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 Other Securities sold, and amounts of the related gains and losses for the years ended March 31, 2011 and 2010:

(Millions of yen)

	2011		
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	**¥172,055**	**¥3,477**	**¥ 735**
Local government bonds	**34,905**	**468**	**62**
Corporate bonds	**104,008**	**3,512**	**22**
Equity securities	**10,181**	**1,902**	**1,629**
Other	**15,521**	**398**	**169**
Total	**¥336,673**	**¥9,760**	**¥2,619**

(Millions of yen)

	2010		
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥ 85,236	¥ 891	¥ 108
Local government bonds	72,226	661	92
Corporate bonds	133,108	2,488	38
Equity securities	14,183	839	3,856
Other	5,297	1,177	56
Total	¥310,052	¥6,057	¥4,152

4. Loans and Bills Discounted

Loans and bills discounted at March 31, 2011 and 2010 included the following loans:

(Millions of yen)

	2011	2010
Loans to borrowers in bankruptcy	**¥ 5,557**	¥ 8,240
Delinquent loans	**179,149**	159,512
Loans past due for three months or more	**352**	1,641
Restructured loans	**40,699**	44,037
Total	**¥225,759**	¥213,432

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, 2011 and 2010, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥58,811 million and ¥60,612 million, respectively.

At March 31, 2011 and 2010, the balance of the loan principal accounted for as sale were ¥13,741 million and ¥30,771 million, respectively. Furthermore, at March 31, 2011 and 2010, consolidated subsidiaries conducting banking business continued to hold ¥39,176 million and ¥41,138 million, respectively, in subordinated beneficiary rights of transferred loans that were accounted for under loans, so reserves for possible loan losses accounted for ¥52,918 million and ¥71,910 million, respectively, aggregate principal amount, including previously disposed priority beneficiary rights.

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, 2011 and 2010 amounted to ¥3,238,148 million and ¥2,955,576 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 ¥3,082,456 million and ¥2,816,941 million at March 31, 2011 and March 2010, 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.

5. 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 on land revaluation account," and the revaluation difference, net of this deferred tax liability, is included in net assets as "Land revaluation 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, 2011 and 2010, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the law were ¥34,457 million and ¥25,603 million, respectively.

Accumulated depreciation for tangible fixed assets amounted to ¥97,440 million and ¥93,996 million at March 31, 2011 and 2010, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥17,284 million and ¥17,703 million at March 31, 2011 and 2010, respectively.

6. Pledged Assets

Assets pledged as collateral at March 31, 2011 and 2010 consisted of the following:

(Millions of yen)

	2011	2010
Assets pledged as collateral:		
Cash and due from banks	¥ 1	¥ 1
Securities	1,019,916	747,429
Other assets	133	650
Liabilities corresponding to assets pledged as collateral:		
Deposits	27,802	69,343
Payables under securities lending transactions	24,148	39,044
Borrowed money	621,150	167,400

In addition, securities totaling ¥546,309 million and other assets of ¥18 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2011.

Securities totaling ¥572,669 million and other assets of ¥18 million were pledged as Bank of Japan common collateral, collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2010.

None of the assets pledged as collateral was collateral pledged in connection with borrowings by affiliate companies.

Other assets included deposits of ¥1,760 million and ¥1,767 million and initial margins of futures markets of ¥9 million and ¥9 million at March 31, 2011 and 2010, respectively.

7. Borrowed Money

Borrowed money at March 31, 2011 and 2010, included subordinated borrowings amounting to ¥87,500 million and ¥91,500 million, respectively.

8. Bonds Payable

Bonds payable included callable (subordinated) debenture bonds of ¥117,000 million, payable in yen, due 2011 to 2020 at March 31, 2011.

Bonds payable included callable (subordinated) debenture bonds of ¥102,000 million, payable in yen at March 31, 2010.

9. Retirement Benefit Plans

FFG and its subsidiaries have defined benefit plans, i.e., corporate pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

On April 1, 2008, the Bank of Fukuoka's corporate pension fund, the Kumamoto Family Bank's corporate pension fund and the Shinwa Bank's corporate pension fund were merged, and authorization was received for the establishment of the Fukuoka Financial Group Corporate Pension Fund as the continuation of the Bank of Fukuoka's corporate pension fund.

FFG's consolidated subsidiaries, the Kumamoto Family Bank and the Shinwa Bank, revised their retirement benefit plans on April 1, 2009, making a partial shift from lump-sum payment plans to advance payment plans and revising defined-benefit plans to cash balance plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2011 and 2010, for the defined benefit plans of FFG and its subsidiaries:

(Millions of yen)

	2011	2010
Project benefit obligation	¥(108,261)	¥(108,372)
Fair value of plan assets	136,659	138,844
Projected benefit obligation in excess of plan assets	28,398	30,472
Unrecognized net actuarial differences	31,585	25,173
Unrecognized prior service cost	(1,470)	(1,639)
Net liability recognized	58,513	54,006
Prepaid pension cost	59,096	54,532
Reserve for employees' retirement benefits	(582)	(526)

The components of retirement benefit expenses for the years ended March 31, 2011 and 2010 are outlined as follows:

(Millions of yen)

	2011	2010
Service cost	¥ 3,202	¥ 3,292
Interest cost	2,155	2,140
Expected return on plan assets	(4,859)	(4,223)
Amortization of prior service cost	(168)	(168)
Amortization of net actuarial gain	3,568	4,380
Retirement benefit expenses	¥ 3,898	¥ 5,421

The assumptions used in the accounting for the above plans at March 31, 2011 and 2010 are as follows:

	2011	2010
(a) Discount rate	2.0%	2.0%
(b) Expected return on plan assets	3.5%	3.5%
(c) Allocation basis of expect retirement benefits	Fixed	Fixed
(d) Amortization term of unrecognized prior service cost	9–12 years	9–12 years
(e) Amortization term of unrecognized net actuarial gain (loss)	9–13 years	9–13 years

10. 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 ¥34,010 million and ¥38,333 million at March 31, 2011 and 2010, respectively, for private placement corporate bonds. Relevant acceptances and guarantees and customers' liabilities for acceptances and guarantees have been recorded in the net amount.

11. Net Unrealized Gains on Other Securities

Net unrealized gains on other securities at March 31, 2011 and 2010 consisted of the following:

(Millions of yen)

	2011	2010
Gross unrealized gains on other securities	¥42,653	¥53,044
Deferred tax liabilities applicable to unrealized gains	16,376	20,792
Unrealized gains on other securities, net of the applicable income taxes before adjustment for Minority Interests	26,277	32,251
Amount attributable to minority interests	(13)	(6)
FFG's interest in net unrealized gains on valuations of other securities held by affiliates accounted for by the equity method	(17)	(16)
Net unrealized gains on other securities	26,273	32,242

12. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2011 and 2010 are as follows:

(Millions of yen)

	2011	2010
Deferred tax assets:		
Reserve for possible loan losses	¥ 76,855	¥ 82,262
Net losses carried forward	105,135	123,114
Reserve for employees' retirement benefits	9,224	8,835
Depreciation of securities	11,998	9,036
Depreciation expenses	3,201	3,136
Other	6,482	6,246
Subtotal	212,898	232,631
Valuation allowance	(98,864)	(98,853)
Total	114,034	133,778
Deferred tax liabilities:		
Unrealized gain on other securities	(16,376)	(20,792)
Retirement benefit trust	(11,695)	(11,435)
Reserve for special depreciation	(534)	(534)
Other	(7)	(651)
Total	(28,613)	(33,414)
Net deferred tax assets	¥ 85,420	¥100,363

The aggregate statutory income tax rate used for calculation of deferred income tax assets and liabilities was 40.4%.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the years ended March 31, 2011 and 2010.

(%)

	2011	2010
Statutory tax rate	40.4	40.4
Change in valuation allowance	(3.8)	(52.3)
Nondeductible goodwill amortization	7.2	11.6
Entertainment expenses and other items permanently excluded from expenses	0.6	2.3
Per capital residence tax	0.3	0.8
Dividend revenue and other items permanently excluded from gross revenue	(0.9)	2.1
Tax rate difference with overseas consolidated subsidiaries	(2.0)	(3.3)
Income tax refund	—	(0.9)
Differences arising from revaluation of land	—	(1.0)
Consolidated adjustment	1.4	1.2
Other	0.4	(1.4)
Effective tax rate	43.6	(0.5)

13. Net Income per Share

Net income per share for the years ended March 31, 2011 and 2010 are as follows:

(Yen)

	2011	2010
Net income per share:		
Basic	¥29.94	¥32.82
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.

14. 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, 2011 and 2010 are as follows:

(Millions of yen)

	2011	2010
Cash and due from banks	¥665,643	¥732,854
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(7,525)	(9,609)
Cash and cash equivalents	¥658,117	¥723,244

15. Leases

As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2011 and 2010, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

(Millions of yen)

	2011	2010
Acquisition costs:		
Tangible fixed assets	¥6,396	¥8,982
Intangible fixed assets	7	7
Total acquisition costs	6,404	8,990
Accumulated depreciation	4,335	5,196
Net book value	¥2,069	¥3,793

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,308 million and ¥1,896 million for the years ended March 31, 2011 and 2010, respectively. The accumulated impairment of lease assets for the year ended March 31, 2010 came to ¥0 million. The depreciation expense of the leased assets computed by the straight-line method over the respective lease terms amounted to ¥1,203 million and ¥1,746 million for the years ended March 31, 2011 and 2010, respectively. The interest expense portion included in the lease payments amounted to ¥76 million and ¥125 million for the years ended March 31, 2011 and 2010, respectively.

Future minimum lease payments subsequent to March 31, 2011 and 2010 for finance lease transactions accounted for as operating leases are summarized as follows:

(Millions of yen)

	2011	2010
Within one year	¥1,012	¥1,483
Over one year	1,154	2,458
Total	¥2,166	¥3,941

Operating leases

Total future lease payments under non-cancelable operating leases at March 31, 2011 and 2010 are as follows:

(Millions of yen)

	2011	2010
Within one year	¥ 43	¥168
Over one year	57	179
Total	¥101	¥348

16. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

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

(b) Details of 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 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 appropriate conduct of the credit business based on this basic policy, to manage credit risk appropriately. FFG also seeks to determine obligor status and supports initiatives targeting obligors, including management consultation, management guidance and management improvement. Furthermore, FFG calculates the amount of credit risk for individual obligors and portfolios, verifies the general allowance for possible 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 have 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 Department (back office) and the Risk Audit Department. This organizational structure ensures a mutual checking function. The Market Risk Management Department has established the "Risk Management Program", which establishes action plans related to market risk, and works to prepare for and confirm market risk management. The Risk Audit Department audits the appropriateness of market risk management.

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

Quantitative information related to market risk

(i) Financial instruments held for trading purposes

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

(ii) Financial instruments held for purposes other than trading

Interest rate risk

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

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

As of March 31, 2011, FFG's amount of interest rate risk (value of estimated losses) was ¥55,614 million.

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, 2011, FFG's amount of volatility risk was ¥26,020 million.

FFG conducts back-testing by comparing its VaR model calculations and estimated gains or losses based on its portfolio for the VaR measurement period. As a result of such back-testing for the fiscal year ended March 31, 2011, no losses exceeded the VaR. FFG believes that this indicates that the model it uses 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.

(3) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheets at March 31, 2011 and 2010 are as follows:

(Millions of yen)

	2011		
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 665,643	¥ 665,643	¥ (0)
Monetary receivables bought	69,271	69,525	254
Trading assets			
Marketable securities	6,448	6,448	—
Securities			
Held-to-maturity securities	137,412	148,257	10,845
Other securities	2,811,034	2,811,034	—
Loans and bills discounted	8,231,202	8,381,272	150,069
Foreign exchange assets	9,157	9,161	3
Total	¥11,930,170	¥12,091,342	¥161,172
Liabilities			
Deposits	¥10,774,696	¥10,778,573	¥ 3,876
Call money and bills sold	6,139	6,139	(0)
Payables under securities lending transactions	24,148	24,139	(9)
Borrowed money	716,300	717,935	1,634
Foreign exchange liabilities	421	421	—
Short-term bonds payable	10,000	9,999	(0)
Bonds payable	208,757	210,144	1,387
Total	¥11,740,463	¥11,747,352	¥ 6,888
Derivatives			
Hedge accounting not applied	¥ 4,024	¥ 4,024	¥ —
Hedge accounting applied	(20,801)	(20,801)	—
Total	¥ (16,777)	¥ (16,777)	¥ —

(Millions of yen)

	2010		
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 732,854	¥ 732,868	¥ 14
Call loans and bills bought	930	930	(0)
Monetary receivables bought	108,359	108,718	358
Trading assets			
Marketable securities	2,287	2,287	—
Securities			
Held-to-maturity securities	137,412	147,658	10,245
Other securities	2,227,750	2,227,750	—
Loans and bills discounted	7,892,351	8,046,573	154,222
Foreign exchange assets	7,763	7,765	2
Total	¥11,109,709	¥11,274,552	¥164,843
Liabilities			
Deposits	¥10,494,744	¥10,501,090	¥6,345
Call money and bills sold	3,256	3,255	(0)
Payables under securities lending transactions	39,044	39,027	(16)
Borrowed money	267,212	269,478	2,266
Foreign exchange liabilities	876	876	—
Short-term bonds payable	25,000	25,004	4
Bonds payable	162,000	163,810	1,810
Total	¥10,992,133	¥11,002,543	¥10,410
Derivatives			
Hedge accounting not applied	¥ 4,701	¥ 4,701	¥ —
Hedge accounting applied	(22,316)	(22,316)	—
Total	¥ (17,615)	¥ (17,615)	¥ —

Reserve for possible loan losses and reserve for possible inventment losses on "Monetary receivables bought", "Loans and bills discounted", "Foreign exchange assets" and "Securities" 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.

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) 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. 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 floating-rate government bonds, considering current conditions in the market environment, market prices were still deemed an inaccurate indicator of the true value of these bonds. Consequently, a rational method has been used to calculate the value of these bonds as of March 31, 2011 and 2010, and this figure was posted in the consolidated financial statements. Owing to this change, in the consolidated financial statements for the years ended March 31, 2011 and 2010, "Securities" was ¥10,367 million and ¥15,636 million higher, "Deferred tax assets" was ¥4,188 million and ¥6,294 million lower, and "Net unrealized gains on other securities" was ¥6,178 million and ¥9,341 million higher than it would have been under the previous method, respectively. The rational method used to calculate the value of floating-rate government bonds utilizes future cash flow based on the expected yield, using a discount rate determined from the yield curve on government bonds, and the yield on government bonds is used as the principal determinant of price. See Note 3 for the description of securities by classification.

(3) Loans and bills discounted

The present value of loans is calculated by estimating the future cash flows deriving from each transaction, and then discounting these amounts to present value at the risk-free market interest rate for each period plus discount premium that accounts for credit risk. This discount rate is calculated in accordance with internal ratings, based on the forecasted loss rate for each obligor. As floating interest rates reflect market interest rates in the short term, when estimating future cash flows on floating-rate instruments, the maturity date is considered to be the next interest rate settlement date. With regard to loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In Danger of Bankruptcy Obligors, the estimated collectible amount is based on either the present value of estimated future cash flows or the expected amounts recoverable from the disposal of collateral and/or under guarantees. The fair value is essentially equivalent to the amount consolidated balance amount on the balance sheet date, after deducting the allowance for possible 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 are 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 future options, etc.). The fair values of these derivative instruments is calculated by using values on listed exchanges, discounting them to their present value or through the use of option pricing models.

Financial instruments for which fair value is not readily determinable at March 31, 2011 and 2010 are as follows:

(Millions of yen)

	2011	2010
	Carrying value	Carrying value
Stocks of subsidiaries and affiliates	**¥ 2,448**	¥ 2,788
Other securities		
Unlisted equity securities	**10,331**	10,570
Unlisted foreign securities	**29**	33
Investments in limited partnership	**6,711**	7,074
Total	**¥19,521**	¥20,467

The fair value of stocks of subsidiaries and affiliates, unlisted equity securities and unlisted foreign securities of "Other securities" are not readily determinable, and thus these are not subject to disclosures of fair values.

Impairment losses on unlisted securities for the years ended March 31, 2011 and 2010 are ¥130 million and ¥385 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, 2011 and 2010 are summarized as follows:

(Millions of yen)

	2011					
	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
Cash and due from banks	¥ 512,982	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	—	—	—	—	—	—
Monetary receivables bought	34,565	4,271	24,453	919	—	5,394
Securities						
Held-to-maturity bonds						
Held-to-maturity government bonds	—	—	—	51,787	40,970	17,474
Held-to-maturity corporate bonds	—	—	—	2,047	7,009	18,123
Other securities with maturities						
Held-to-maturity government bonds	38,692	99,973	189,452	229,068	884,300	27,714
Held-to-maturity local government bonds	1,223	4,086	4,151	8,733	18,458	—
Held-to-maturity corporate bonds	123,928	237,364	208,529	77,956	274,320	—
Held-to-maturity other securities	40,094	42,186	82,825	34,738	65,199	38,450
Loans and bills discounted	2,030,139	1,569,098	1,216,558	735,215	832,022	1,648,320
Foreign exchange assets	9,157	—	—	—	—	—
Total	¥2,790,783	¥1,956,981	¥1,725,971	¥1,140,467	¥2,122,281	¥1,755,478

Loans do not include an estimated ¥184,707 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In Danger of Bankruptcy Obligors, and ¥157,960 million in loans that have no set term.

(Millions of yen)

	2010					
	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
Cash and due from banks	¥ 582,305	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	930	—	—	—	—	—
Monetary receivables bought	29,350	3,089	54,445	12,059	2,505	7,269
Securities						
Held-to-maturity bonds						
Held-to-maturity government bonds	—	—	—	—	92,757	17,474
Held-to-maturity corporate bonds	—	—	—	—	15,008	12,171
Other securities with maturities						
Held-to-maturity government bonds	80,425	112,008	110,643	163,747	332,070	57,143
Held-to-maturity local government bonds	3,425	4,659	4,361	2,273	23,388	—
Held-to-maturity corporate bonds	107,106	219,523	239,457	106,486	189,396	2,392
Held-to-maturity other securities	42,647	84,914	50,570	90,832	57,707	50,820
Loans and bills discounted	1,983,550	1,446,787	1,195,212	630,419	837,176	1,565,718
Foreign exchange assets	7,763	—	—	—	—	—
Total	¥2,837,505	¥1,870,983	¥1,654,691	¥1,005,818	¥1,550,012	¥1,712,990

Loans do not include an estimated ¥167,752 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In Danger of Bankruptcy Obligors, and ¥205,896 million in loans that have no set term.

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2011 and 2010 are summarized as follows:

(Millions of yen)

	2011					
	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	¥10,129,336	¥504,655	¥135,019	¥ 2,613	¥ 3,073	¥—
Call money and bills sold	6,139	—	—	—	—	—
Payable under securities lending transactions	24,148	—	—	—	—	—
Borrowed money	622,980	2,877	1,567	20,716	68,116	43
Short-term bonds payable	10,000	—	—	—	—	—
Bonds payable	—	61,757	30,000	59,500	57,500	—
Total	¥10,792,603	¥569,289	¥166,586	¥82,829	¥128,689	¥43

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

(Millions of yen)

	2010					
	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	¥ 9,791,379	¥543,003	¥150,157	¥ 7,128	¥ 3,075	¥ —
Call money and bills sold	3,256	—	—	—	—	—
Payable under securities lending transactions	39,044	—	—	—	—	—
Borrowed money	169,357	6,258	1,710	1,698	80,674	7,514
Short-term bonds payable	25,000	—	—	—	—	—
Bonds payable	—	—	60,000	102,000	—	—
Total	¥10,028,037	¥549,261	¥211,867	¥110,826	¥83,749	¥7,514

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

17. 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, 2011 and 2010 are as follows:

Hedge accounting not applied

As of March 31, 2011 and 2010, 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, 2011	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	**¥194,534**	**¥ 4,918**	**¥ 4,553**
Receive/floating and pay/fixed	**192,994**	**(3,568)**	**(3,208)**
Interest swaptions			
Sell	**8,820**	**(95)**	**4**
Buy	**10,050**	**107**	**107**
Caps			
Sell	**4,971**	**(1)**	**36**
Buy	**5,171**	**0**	**(17)**
Floor			
Sell	**2,070**	**(17)**	**(17)**
Buy	**2,070**	**17**	**17**
Total	**¥ —**	**¥ 1,362**	**¥ 1,476**

(Millions of yen)

As of March 31, 2010	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥215,524	¥ 5,091	¥ 4,706
Receive/floating and pay/fixed	212,339	(3,622)	(3,237)
Interest swaptions			
Sell	9,620	(123)	5
Buy	11,940	138	138
Caps			
Sell	8,405	(3)	68
Buy	8,805	2	(42)
Floor			
Sell	3,602	(40)	(40)
Buy	3,602	40	40
Total	¥ —	¥ 1,482	¥ 1,638

■ Currency-related transactions

(Millions of yen)

As of March 31, 2011	Notional amount	Fair value	Gain (Loss)
Currency swaps	**¥979,997**	**¥1,420**	**¥1,286**
Foreign exchange contract			
Sell	**21,859**	**734**	**714**
Buy	**31,287**	**8**	**28**
Currency option			
Sell	**3,382**	**(51)**	**2**
Buy	**3,382**	**51**	**11**
Total	**¥ —**	**¥2,162**	**¥2,043**

(Millions of yen)

As of March 31, 2010	Notional amount	Fair value	Gain (Loss)
Currency swaps	¥1,087,944	¥1,696	¥1,632
Foreign exchange contract			
Sell	19,913	67	67
Buy	24,672	384	384
Currency option			
Sell	10,519	(213)	(31)
Buy	10,519	213	87
Total	¥ —	¥2,148	¥2,140

■ Bond–related transactions

(Millions of yen)

As of March 31, 2011	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	**¥200**	**¥(1)**	**¥(1)**
Buy	**—**	**—**	**—**
Total	**—**	**¥(1)**	**¥(1)**

(Millions of yen)

As of March 31, 2010	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥200	¥2	¥2
Buy	—	—	—
Total	—	¥2	¥2

■ Credit derivative transactions

(Millions of yen)

As of March 31, 2010	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	**¥8,000**	**¥(8)**	**¥(8)**
Buy	**—**	**—**	**—**
Total	**¥ —**	**¥(8)**	**¥(8)**

(Millions of yen)

As of March 31, 2010	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥11,500	¥(15)	¥(15)
Buy	—	—	—
Total	—	¥(15)	¥(15)

■ Hybrid financial instrument transactions

(Millions of yen)

As of March 31, 2011	Notional amount	Fair value	Gain (Loss)
Compound instruments	**¥31**	**¥509**	**¥509**
Total	**¥ —**	**¥509**	**¥509**

(Millions of yen)

As of March 31, 2010	Notional amount	Fair value	Gain (Loss)
Compound instruments	¥2,550	¥1,082	¥1,082
Total	—	¥1,082	¥1,082

Hedge accounting applied

As of March 31, 2011 and 2010, 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, 2011				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps Receive/floating and pay/fixed Securitization	Interest bearing financial assets and liabilities of which, loans, other securities, and deposits	 **¥525,643** **11,283**	 **¥ (8,271)** **—**
Interest rate swaps with exceptional accounting	Interest rate swaps Receive/fixed and pay/floating Receive/floating and pay/fixed Receive/floating and pay/ floating	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits	 **¥ 2,400** **200,608** **100,000**	 **¥ 52** **(3,342)** **(8,450)**
	Total	—	**¥ —**	**¥(20,011)**

(Millions of yen)

As of March 31, 2010				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps Receive/floating and pay/fixed Securitization	Interest bearing financial assets and liabilities of which, loans and deposits	 ¥239,016 12,945	 ¥ (9,922) —
Interest rate swaps with exceptional accounting	Interest rate swaps Receive/fixed and pay/floating Receive/floating and pay/fixed Receive/floating and pay/ floating	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits	 ¥ 26,031 337,013 100,000	 ¥ 178 (4,302) (8,331)
	Total	—	—	¥(22,377)

■ Currency-related transactions

(Millions of yen)

As of March 31, 2011				
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	**¥66,002**	**¥(603)**
Allocation method	Currency swaps	Foreign bonds	**31,493**	**(187)**
Total		—	**¥ —**	**¥(790)**

(Millions of yen)

As of March 31, 2010				
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	¥96,265	¥61
Total		—	—	¥61

18. Comprehensive Income

"Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, issued June 30, 2010) became effective for consolidated financial statements for the fiscal years ending on or after March 31, 2011. Accordingly, FFG and its consolidated subsidiaries have applied this standard and present "Valuation and transaction adjustments" and "Total valuation and transaction adjustments" as of and for the fiscal year ended March 31, 2010 as "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" as of and for the fiscal year ended March 31, 2011, respectively.

Other comprehensive income for the year ended March 31, 2010 is as follows:

(Millions of yen)

	2010
Net unrealized gains/losses on other securities	¥27,161
Net deferred hedge	1,215
Land revaluation account	(93)
Share of other comprehensive income of associates accounted for using equity method	(0)
Total	¥28,282

Comprehensive income for the year ended March 31, 2010 is as follows:

(Millions of yen)

	2010
Shareholders of Fukuoka Financial Group, Inc.	¥56,660
Minority interests	2,740
Total	¥59,400

19. Segment Information

Segment information has been omitted because FFG and its consolidated subsidiaries operated in one segment, the banking business, for the year ended March 31, 2011.

FFG and its consolidated subsidiaries have applied the "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, issued on March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008) from the fiscal year ended March 31, 2011.

The information on income by service has been omitted because FFG and its consolidated subsidiaries offer a single banking service for the year ended March 31, 2011.

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 year ended March 31, 2011.

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 year ended March 31, 2011.

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 year ended March 31, 2011.

Segment information for the year ended March 31, 2010 is as follows:

(a) Business Segment Information

FFG's operation includes guarantee and other businesses in addition to banking business. As such operations are immaterial, separate segment information is not disclosed for the year ended March 31, 2010.

(b) Geographic Segment Information

The disclosure of geographical segment information has been omitted as operating income and total assets of the foreign operations constituted less than 10% of the consolidated totals for the year ended March 31, 2010.

(c) Income from International Operations

The disclosure of income from international operation information has been omitted as operating income constituted less than 10% of the consolidated totals for the year ended March 31, 2010.

20. Related-Party Transactions

(1) Directors and principal individual shareholders

2011

Attribute	Name	Address	Com-mon Stock	Title	Equity Ownership	Rela-tionship	Transactions	Transaction amount	Account	Balance at end of year
Director	Masayoshi Nuki	—	—	FFG's corporate auditor Executive President and Representative Director of Kyushu Electric Power Co., Inc.	—	—	Loan	¥9,843 million	Loan	¥42,132 million
		—	—	FFG's corporate auditor President and Rep-resentative Director of Fukuoka Energy Service Co., Inc.	—	—	Loan	¥(196) million	Loan	¥1,815 million

2010

Attribute	Name	Address	Com-mon Stock	Title	Equity Ownership	Rela-tionship	Transactions	Transaction amount	Account	Balance at end of year
Director	Hidemi Ashizuka	—	—	FFG's corporate auditor Executive President and Representative Director of Kyushu Telecommunication Network Co.,Inc.	—	—	Loan	¥195 million	Loan	¥1,320 million
		—	—	FFG's corporate auditor President and Rep-resentative Director of Fukuoka SRP Co., Ltd.	—	—	Loan	¥1,223 million	Loan	¥1,664 million
Director	Tsuguo Nagao	—	—	FFG's corporate auditor President and Representative Director of Nishi-Nippon Railroad Co., Ltd.	—	—	Loan Debt guarantees	¥393 million ¥52 million	Loan Acceptances and guarantees	¥19,254 million ¥378 million

Terms and conditions of the transactions are similar to those of others. Financing provided to Fukuoka SRP Co., Ltd., is secured with real estate.

(2) Others

There were no relevant transactions with related parties to report for the years ended March 31, 2011 and 2010.

21. Subsequent Events

The following distribution of retained earnings of FFG, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2011, was approved at a shareholders meeting held on June 29, 2011 and became effective June 30, 2011:

	(Millions of yen)
Dividends on common stock (¥4.0 per share)	**¥3,436**
Dividends on type 1 preferred stock (¥7.0 per share)	**¥ 131**

NON-CONSOLIDATED BALANCE SHEETS (Unaudited)

The Bank of Fukuoka, Ltd.
As of March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 577,581	¥ 595,387	$ 6,946
Call loans	63,000	7,730	757
Receivables under securities lending transactions	48,639	—	584
Monetary receivables bought	61,399	101,691	738
Trading assets	6,329	2,159	76
Securities	1,958,573	1,499,052	23,554
Loans and bills discounted	6,363,660	6,111,128	76,532
Foreign exchange assets	7,339	5,762	88
Other assets	98,184	104,448	1,180
Tangible fixed assets	141,166	141,183	1,697
Intangible fixed assets	5,324	6,010	64
Deferred tax assets	56,392	71,434	678
Customers' liabilities for acceptances and guarantees	37,066	49,934	445
Reserve for possible loan losses	(103,192)	(100,255)	(1,241)
Total assets	**¥9,321,464**	**¥8,595,667**	**$ 112,104**
Liabilities			
Deposits	7,816,166	7,565,679	$94,000
Call money	32,443	25,635	390
Payables under securities lending transactions	24,148	39,044	290
Trading liabilities	1	—	0
Borrowed money	738,297	302,695	8,879
Foreign exchange liabilities	371	740	4
Bonds payable	149,257	80,000	1,795
Other liabilities	59,713	55,783	718
Reserve for loss on interest repayments	992	1,016	11
Reserve for reimbursement of deposits	3,398	3,112	40
Reserve for contingent loss	803	548	9
Deferred tax liabilities on land revaluation	32,112	32,176	386
Acceptances and guarantees	37,066	49,934	445
Total liabilities	**¥8,894,771**	**¥8,156,366**	**$106,972**
Net assets			
Common stock	¥82,329	¥82,329	990
Capital surplus	60,480	60,480	727
Retained earnings	222,773	229,065	2,679
Total stockholders' equity	**¥ 365,584**	**¥ 371,876**	**4,396**
Net unrealized gains on other securities	22,011	26,133	264
Net deferred hedge losses	(7,154)	(5,054)	(86)
Land revaluation account	46,251	46,345	556
Total valuation and transaction adjustments	61,108	67,424	734
Total net assets	**¥ 426,692**	**¥ 439,300**	**$ 5,131**
Total liabilities and net assets	**¥9,321,464**	**¥8,595,667**	**$112,104**

NON-CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

The Bank of Fukuoka, Ltd.
For the years ended March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Income from funds under management:			
Interest on loans and bills discounted	¥110,804	¥116,275	$1,332
Interest and dividends on securities	21,976	20,073	264
Interest on call loans	96	102	1
Interest on receivables under securities lending transactions	9	6	0
Interest on due from banks	36	358	0
Interest on swaps	302	1,753	3
Interest on others	1,228	1,146	14
Trust fees	1	1	0
Fees and commissions	29,971	30,297	360
Trading income	226	222	2
Other operating income	7,271	8,028	87
Other income	9,473	8,550	113
Total income	**¥181,400**	**¥186,816**	**$2,181**
Expenses			
Cost of fund-raising:			
Interest on deposits	7,122	11,292	85
Interest on call money	467	454	5
Interest on payables under securities lending transactions	107	142	1
Interest on borrowed money	3,454	3,253	41
Interest on bonds payable	1,616	2,976	19
Interest on swaps	8,630	7,595	103
Interest on others	431	654	5
Fees and commissions	15,506	15,315	186
Other operating expenses	1,752	867	21
General and administrative expenses	74,110	76,760	891
Other expenses	22,052	34,649	265
Total expenses	**¥135,251**	**¥153,962**	**$1,626**
Income before income taxes	**46,149**	**32,854**	**555**
Provision for income taxes:			
Current	119	134	1
Prior period adjustment	—	(268)	—
Deferred	19,340	(972)	232
	19,460	**(1,106)**	**234**
Net income	**¥ 26,689**	**¥ 33,960**	**$ 320**

NON-CONSOLIDATED BALANCE SHEETS (Unaudited)

Kumamoto Family Bank, Ltd.
As of March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 31,151	¥ 21,512	$ 374
Call loans	12,952	12,794	155
Monetary receivables bought	16	24	0
Trading assets	8	—	0
Securities	226,396	217,753	2,722
Loans and bills discounted	886,721	849,630	10,664
Foreign exchange assets	600	492	7
Other assets	15,581	14,680	187
Tangible fixed assets	18,763	19,499	225
Intangible fixed assets	3,845	5,118	46
Deferred tax assets	16,413	17,988	197
Customers' liabilities for acceptances and guarantees	7,696	8,511	92
Reserve for possible loan losses	(11,052)	(10,791)	(132)
Total assets	**¥1,209,094**	**¥1,157,217**	**$14,541**
Liabilities			
Deposits	¥1,095,663	¥1,066,686	$13,176
Call money	15,000	6,800	180
Borrowed money	9,950	—	119
Foreign exchange liabilities	5	24	0
Bonds payable	—	10,000	—
Other liabilities	6,439	8,057	77
Reserve for reimbursement of deposits	498	498	5
Reserve for contingent loss	25	—	0
Deferred tax liabilities on land revaluation	1,962	2,031	23
Acceptances and guarantees	7,696	8,511	92
Total liabilities	**¥1,137,242**	**¥1,102,610**	**$13,676**
Net assets			
Common stock	33,847	26,347	407
Capital surplus	33,847	26,347	407
Retained earnings	2,908	400	34
Total stockholders' equity	**¥ 70,603**	**¥ 53,094**	**$ 849**
Net unrealized gains on other securities	638	799	7
Land revaluation account	611	712	7
Total valuation and transaction adjustments	1,249	1,511	15
Total net assets	**¥ 71,852**	**¥ 54,606**	**$ 864**
Total liabilities and net assets	**¥1,209,094**	**¥1,157,217**	**$14,541**

NON-CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

Kumamoto Family Bank, Ltd.
For the years ended March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Income from funds under management:			
Interest on loans and bills discounted	¥19,913	¥21,390	$239
Interest and dividends on securities	2,216	2,462	26
Interest on call loans	231	210	2
Interest on due from banks	0	0	0
Interest on swaps	86	125	1
Interest on others	77	25	0
Fees and commissions	4,265	4,014	51
Other operating income	1,142	1,114	13
Other income	539	1,089	6
Total income	**¥28,472**	**¥30,432**	**$342**
Expenses			
Cost of fund-raising:			
Interest on deposits	1,776	2,491	21
Interest on call money	0	5	0
Interest on payables under securities lending transactions	—	4	—
Interest on borrowed money	2	0	0
Interest on bonds payable	300	324	3
Interest on others	44	50	0
Fees and commissions	2,368	2,364	28
Other operating expenses	78	19	0
General and administrative expenses	17,117	17,984	205
Other expenses	2,742	6,841	32
Total expenses	**¥24,431**	**¥30,087**	**$293**
Income before income taxes	**4,041**	**345**	**48**
Provision for income taxes:			
Current	18	19	0
Deferred	1,615	(30)	19
	1,633	**(11)**	**19**
Net income	**¥ 2,407**	**¥ 356**	**$ 28**

NON-CONSOLIDATED BALANCE SHEETS (Unaudited)

The Shinwa Bank, Ltd.
As of March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 59,316	¥ 118,396	$ 713
Call loans	13,352	9,584	160
Trading assets	109	130	1
Securities	782,304	673,105	9,408
Loans and bills discounted	1,220,767	1,181,707	14,681
Foreign exchange assets	1,217	1,508	14
Other assets	15,273	12,994	183
Tangible fixed assets	47,534	46,333	571
Intangible fixed assets	5,764	7,177	69
Deferred tax assets	15,178	13,227	182
Customers' liabilities for acceptances and guarantees	10,230	12,547	123
Reserve for possible loan losses	(18,659)	(19,475)	(224)
Total assets	**¥2,152,388**	**¥2,057,237**	**$25,885**
Liabilities			
Deposits	1,897,623	1,900,548	22,821
Call money	48,000	—	577
Payables under securities lending transactions	48,639	—	584
Borrowed money	19,253	15,716	231
Foreign exchange liabilities	44	111	0
Bonds payable	—	12,500	—
Other liabilities	7,609	8,919	91
Reserve for reimbursement of deposits	390	454	4
Reserve for contingent loss	67	—	0
Deferred tax liabilities on land revaluation	10,478	10,893	126
Acceptances and guarantees	10,230	12,547	123
Total liabilities	**¥2,042,337**	**¥1,961,692**	**$24,562**
Net assets			
Common stock	36,878	33,128	443
Capital surplus	36,878	33,128	443
Retained earnings	17,044	6,873	204
Total stockholders' equity	**¥ 90,800**	**¥ 73,130**	**$ 1,092**
Net unrealized gains on other securities	5,134	7,690	61
Land revaluation account	14,115	14,724	169
Total valuation and transaction adjustments	19,250	22,414	231
Total net assets	**¥ 110,051**	**¥ 95,544**	**$ 1,323**
Total liabilities and net assets	**¥2,152,388**	**¥2,057,237**	**$25,885**

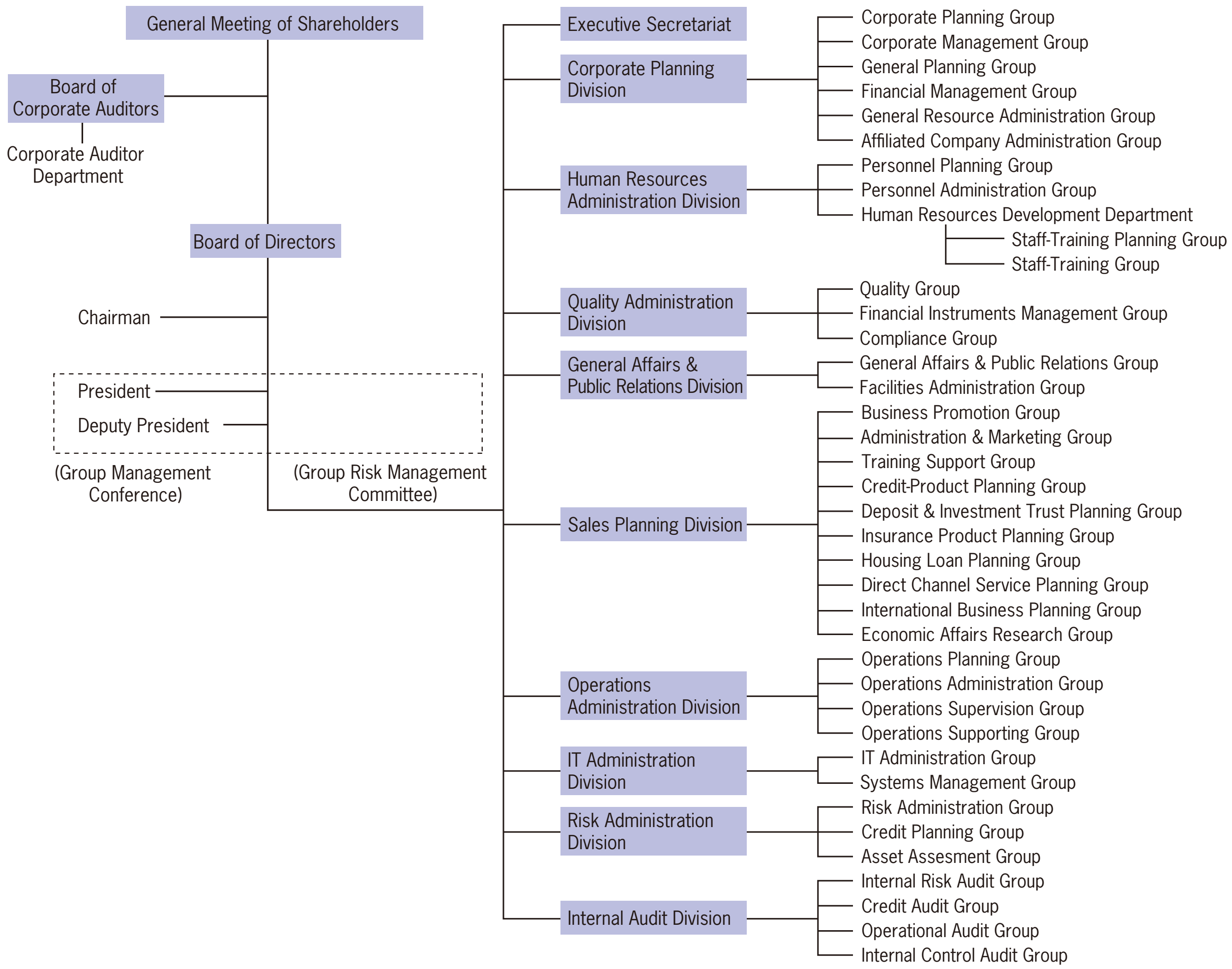
NON-CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

The Shinwa Bank, Ltd.
For the years ended March 31, 2011 and 2010

	2011	2010	2011
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Income from funds under management:			
Interest on loans and bills discounted	¥23,038	¥25,226	$277
Interest and dividends on securities	6,958	6,768	83
Interest on call loans	173	187	2
Interest on due from banks	0	1	0
Interest on swaps	16	195	0
Interest on others	108	7	1
Fees and commissions	7,199	7,787	86
Other operating income	3,647	880	43
Other income	1,634	5,667	19
Total income	**¥42,778**	**¥46,722**	**$514**
Expenses			
Cost of fund-raising:			
Interest on deposits	1,710	3,385	20
Interest on call money	18	2	0
Interest on payables under securities lending transactions	9	—	0
Interest on borrowed money	223	211	2
Interest on bonds payable	332	469	3
Interest on swaps	—	114	—
Interest on others	0	0	0
Fees and commissions	3,428	3,225	41
Other operating expenses	162	375	1
General and administrative expenses	24,063	24,591	289
Other expenses	3,647	8,632	43
Total expenses	**¥33,597**	**¥41,011**	**$404**
Income before income taxes	**9,180**	**5,710**	**110**
Provision for income taxes:			
Current	30	33	0
Deferred	(412)	(455)	(4)
	(381)	**(422)**	**(4)**
Net income	**¥ 9,562**	**¥ 6,133**	**$114**

Corporate Data

Organizational Chart (as of July 1, 2011)



Board of Directors and Auditors (as of July 1, 2011)

Chairman of the Board and President
Masaaki Tani

Directors
Osamu Obata
Takashige Shibato
Takashi Yoshikai
Fumio Sakurai
Jiro Furumura
Masayuki Aoyagi
Kenji Hayashi
Noritaka Murayama
Kazuo Oniki
Hisaharu Isobe
Shunsuke Yoshizawa

External Directors
Ryuji Yasuda
Hideaki Takahashi

Corporate Auditors
Masahiko Tsuchiya

External Corporate Auditors
Tsuguo Nagao
Masayoshi Nuki

International Network

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

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

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

Company Outline (as of March 31, 2011)

Corporate Name	Fukuoka Financial Group, Inc.	Securities Code	8354
Head Office	1-8-3, Otemon, Chuo-ku, Fukuoka 810-8693 Japan	Stock Listings	Tokyo Stock Exchange, First Section; Osaka Securities Exchange; Fukuoka Stock Exchange
Date of Establishment	April 2, 2007		
Paid-in Capital	¥124.7 billion	Number of Employees	6,896

Share Information (as of March 31, 2011)

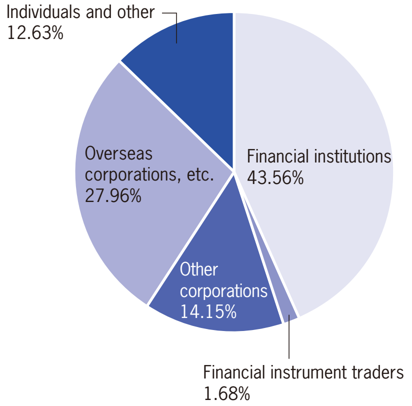
	Common stock	Type 1 preferred stock
Number of authorized shares	1,800,000,000	18,878,000
Number of shares Issued	859,761,868	18,742,000
Number of shareholders	30,984	570

Major Shareholders (as of March 31, 2011)

(Thousands of shares, %)

	Shares held	Ratio of shares held to issued number of shares
Japan Trustee Services Bank. Ltd. (Trust account)	62,862	7.15
The Master Trust Bank of Japan, Ltd. (Trust account)	41,759	4.75
Kyushu Electric Power Co., Inc.	19,496	2.21
Japan Trustee Services Bank. Ltd. (Trust account 9)	19,246	2.19
Nippon Life Insurance Company	18,072	2.05
Meiji Yasuda Life Insurance Company	17,719	2.01
The Dai-Ichi Life Insurance Company, Limited	17,315	1.97
Sumitomo Life Insurance Company	17,297	1.96
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION (Standing proxy: Custody &Proxy Department, Mizuho Corporate Bank, Ltd.)	12,013	1.36
Japan Trustee Services Bank. Ltd. (Trust account 4)	11,710	1.33

Common Stock Distribution by Type of Shareholder (as of March 31, 2011)



Ratings (as of September 1, 2011)

	Type	Rating	Rating Definition
Fukuoka Financial Group			
Rating and Investment Information, Inc. (R&I)	Issuer rating	A	The credit quality is high. It is also accompanied by some excellent factors.
	Short-term debt rating	a-1	A superior degree of certainty regarding the repayment of short-term financial obligation.
Japan Credit Rating Agency, Ltd. (JCR)	Senior long-term credit rating	A	A high level of capacity to honor the financial commitment on the obligation.
	Short-term debt rating	J-1	The highest level of capacity of the obligor to honor its short-term financial commitment on the obligation.
The Bank of Fukuoka			
Moody's Investors Service	Long-term deposit rating	Baa1	Obligations rated Baa are subject to moderate credit risk. They are considered medium grade and may possess certain speculative characteristics.
	Short-term deposit rating	P-2	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.
Rating and Investment Information, Inc. (R&I)	Issuer rating	A+	The credit quality is high. It is also accompanied by some excellent factors.
Japan Credit Rating Agency, Ltd. (JCR)	Senior long-term credit rating	A+	A high level of capacity to honor the financial commitment on the obligation.
The Kumamoto Family Bank			
Rating and Investment Information, Inc. (R&I)	Issuer rating	A	The credit quality is high. It is also accompanied by some excellent factors.
Japan Credit Rating Agency, Ltd. (JCR)	Senior long-term credit rating	A	A high level of capacity to honor the financial commitment on the obligation.
The Shinwa Bank			
Rating and Investment Information, Inc. (R&I)	Issuer rating	A	The credit quality is high. It is also accompanied by some excellent factors.
Japan Credit Rating Agency, Ltd. (JCR)	Senior long-term credit rating	A	A high level of capacity to honor the financial commitment on the obligation.

Fukuoka Financial Group