Fukuoka Financial Group

Annual Report 2012

Year Ended March 31, 2012

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

FFG

● 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

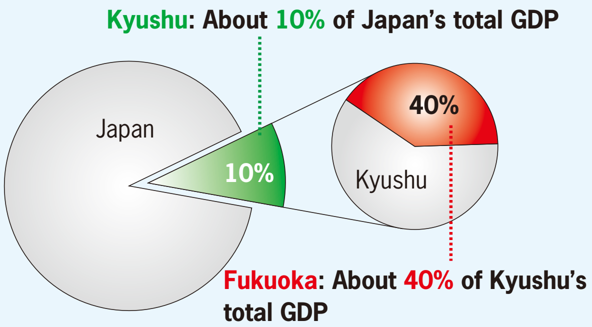
◆Gateway to Asia

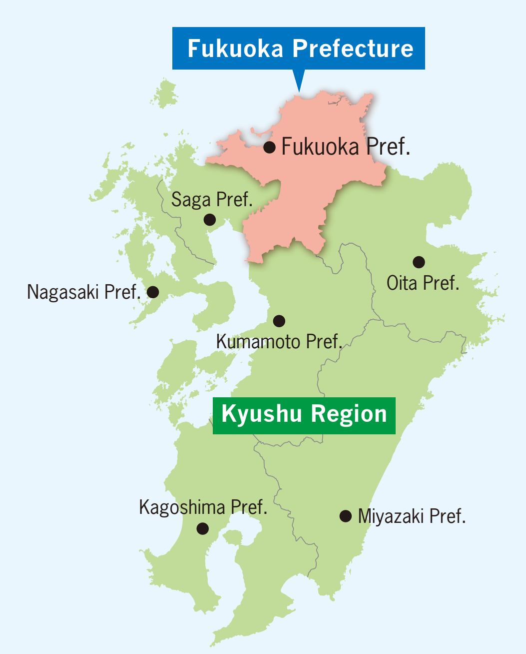
- To China (Shanghai): 870 km, 1.5 hours.
- Three million Japanese and others from around the world travel to and from Japan via Fukuoka annually.

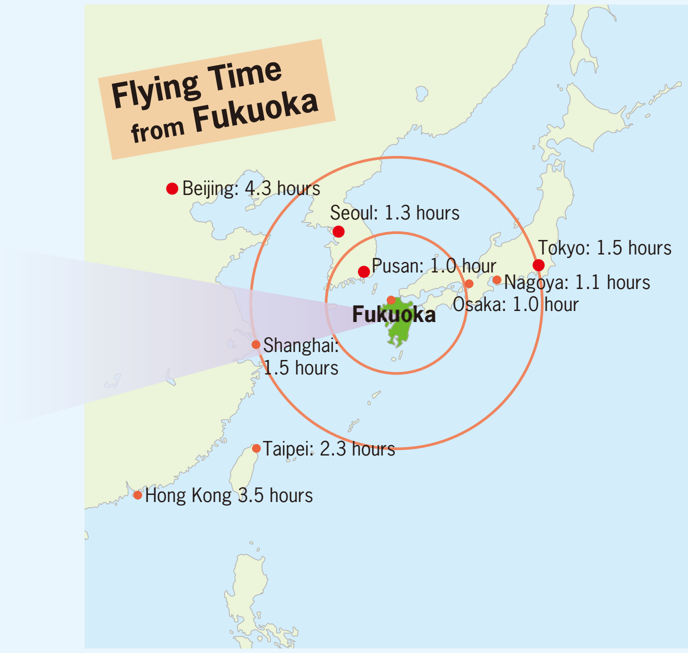
◆Hub to Greater Kyushu region

- 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

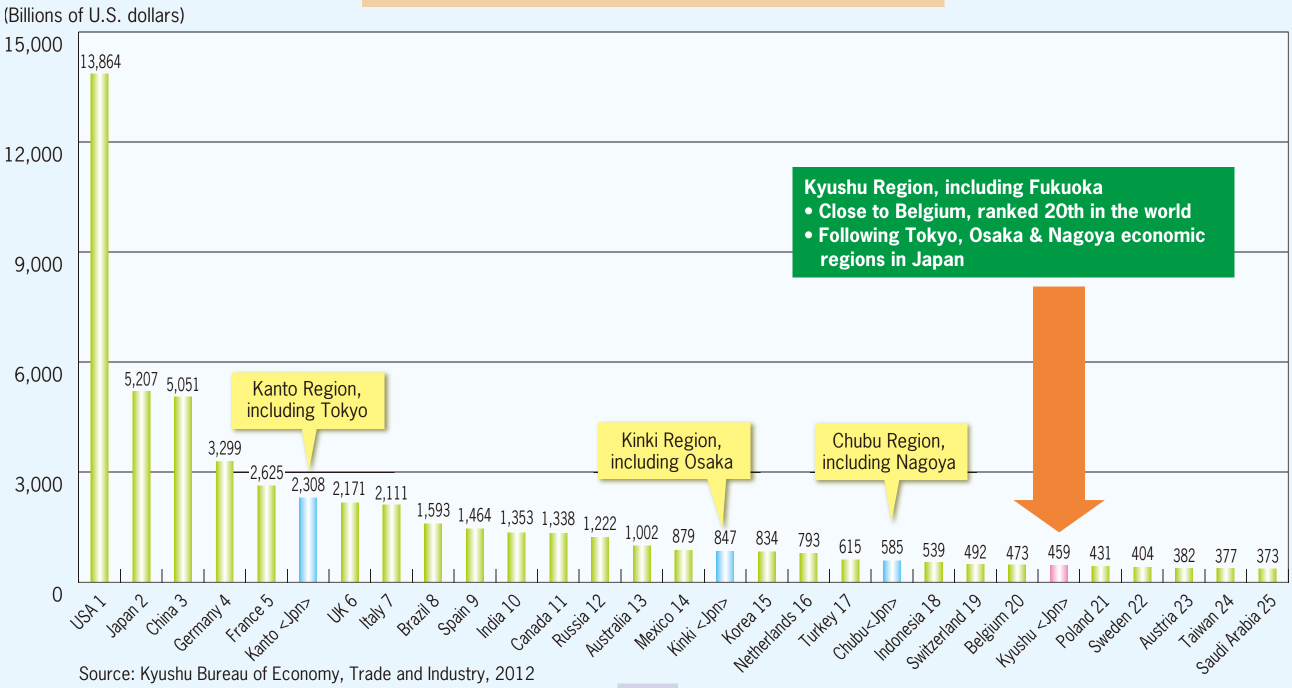






Source: Kyushu Bureau of Economy, Trade and Industry, 2012

Comparison of Economic Scale (GDP)

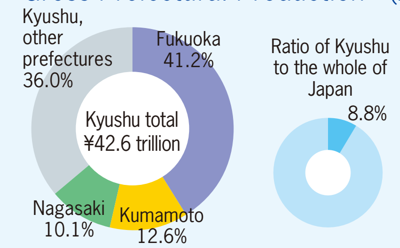


Source: Kyushu Bureau of Economy, Trade and Industry, 2012

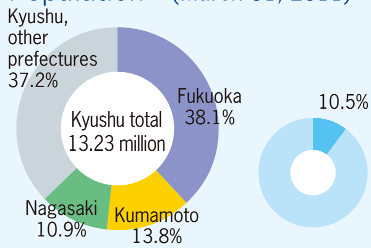
Analysis by Prefecture

- 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%.

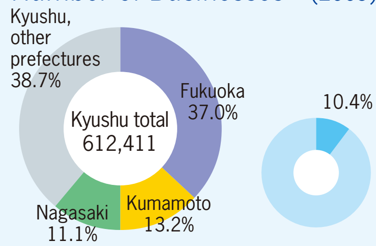
●Gross Prefectural Production*1 (2009)



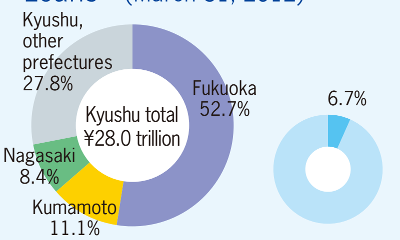
●Population*1 (March 31, 2011)



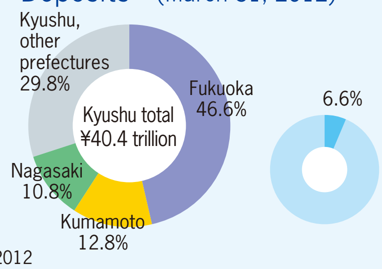
●Number of Businesses*2 (2009)



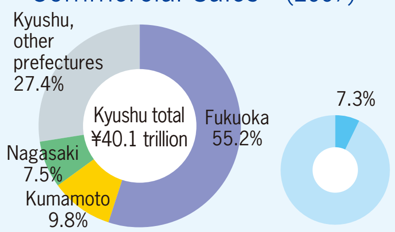
●Loans*3 (March 31, 2012)



●Deposits*3 (March 31, 2012)

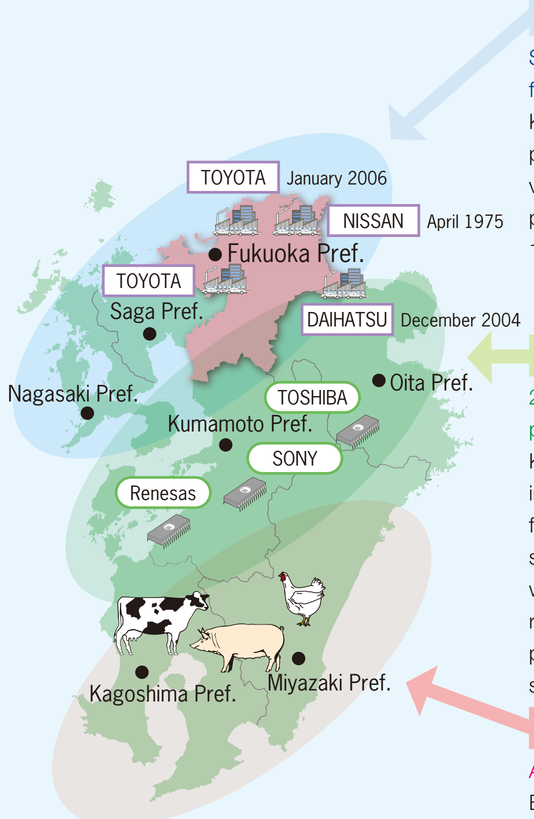


●Commercial Sales*4 (2007)



Sources: *1 Kyushu Bureau of Economy, Trade and Industry, 2012
*2 2009 Economic Census, Ministry of Internal Affairs and Communications
*3 Bank of Japan, Deposits, Vault Cash and Loans and Bills Discounted by Prefecture
*4 Census of Commerce, Ministry of Economy, Trade and Industry

Kyushu, the Island of Cars, Silicon and Food

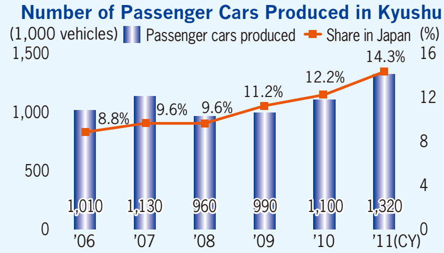


Northern Kyushu, a center of “Car Island”

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 14% of Japan’s automobile output.

Number of Passenger Cars Produced in Kyushu



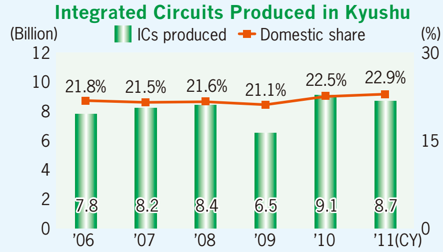
Source: Kyushu Bureau of Economy, Trade and Industry

Middle Kyushu, contributes to “Silicon Island”

23% 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



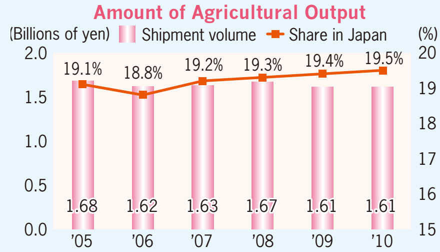
Source: Kyushu Bureau of Economy, Trade and Industry

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

Message from the President

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

The Fukuoka Financial Group, Inc. (FFG) is a “broad area-based regional financial group” with three subsidiary banks under its corporate umbrella: The Bank of Fukuoka, The Kumamoto Family Bank and The Shinwa Bank.

On April 2, 2012, FFG celebrated the fifth anniversary of its establishment. I am extremely grateful to our local customers, shareholders and business partners for the support they have given us.

Looking back at the past five years, a number of monumental events have occurred: the global financial crisis which was triggered by the collapse of Lehman Brothers in September 2008, the subsequent economic downturn, and last year’s Great East Japan Earthquake.

Despite the enduring harsh external environment, FFG has successfully resolved the initial challenges to management integration, namely, development of management infrastructure and improvement of balance sheets. Although it is expected that guiding the Group through such an environment will remain challenging, we will work to transform current growth trends into reality, capping off the “acceleration phase” of our third mid-term management plan, the “ABC Plan,” and heading toward the next “rapid growth phase.”

The catchphrase for FFG’s fifth anniversary is “continuing to be your bank of choice.” Based on this, all officers and employees are further committed to fulfilling our promise to customers of putting our brand slogan into practice and to ensuring our brand is endorsed by customers.

We look forward to your increased patronage.

September 2012

M. Tani

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

Management Strategy

FFG's Management Systems and Strategy

■ Multiple Brands/Single Platform

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

At the same time, the subsidiary banks conduct their own business, drawing on their strong, locally built brand power and the high level of services supplied by FFG.

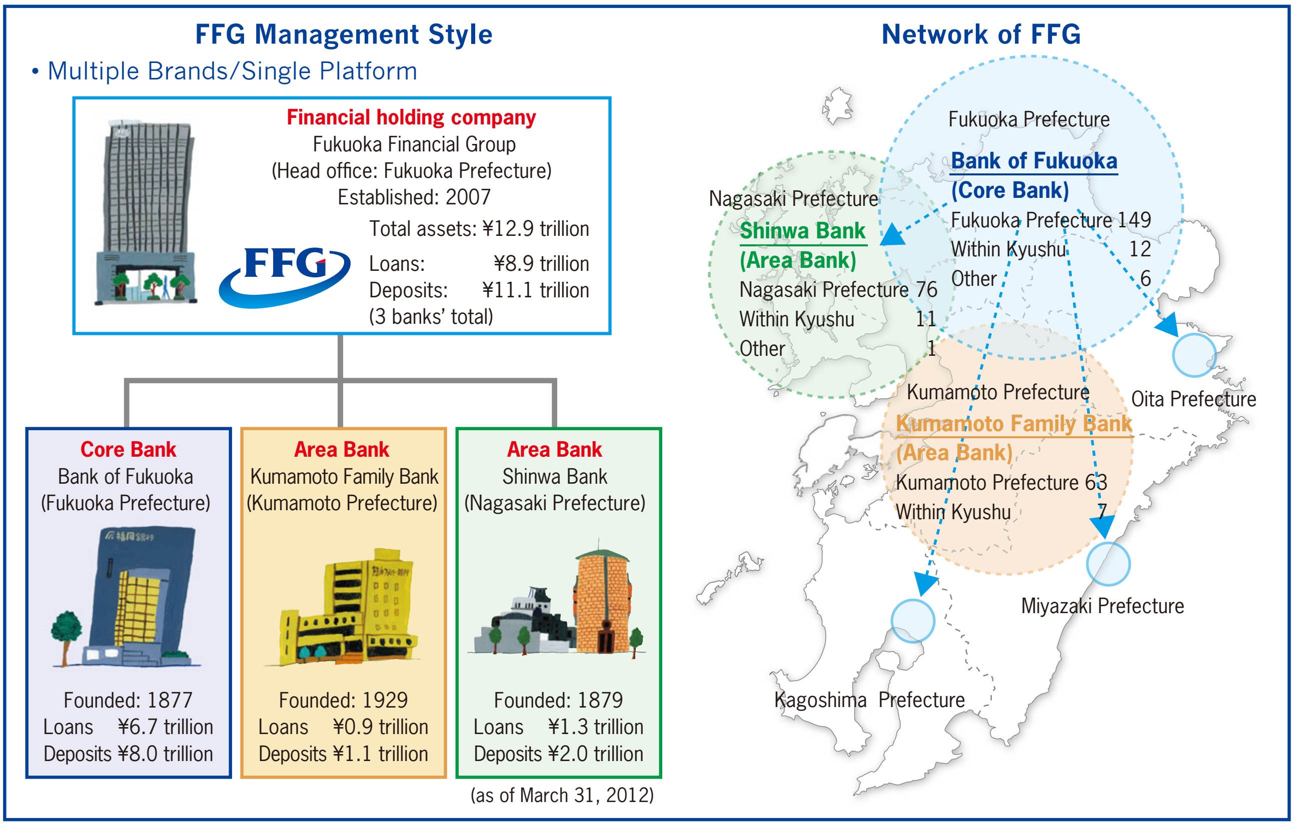
We have named this style of management "Multiple Brands/Single Platform". This management style enables the pursuit of a high degree of efficiency, effectively utilizing the single platform as well as the subsidiary banks' own brands. We are proud of the fact that it is the most suitable style for the management integration of regional banks in Japan.

■ Broad Area-Based Regional Financial Group

Kyushu has strong relationship with Asian countries and it is a market with enormous potential. FFG views Kyushu as a single economic zone, and has formed a broad area-based regional financial group that covers all of Kyushu.

The largest market within Kyushu is Fukuoka Prefecture. We command the largest market share, and hence a competitive advantage.

By drawing on the Group's collective strength and our predominance in Fukuoka Prefecture, we aim to grow even more on the back of an even greater market share.



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.

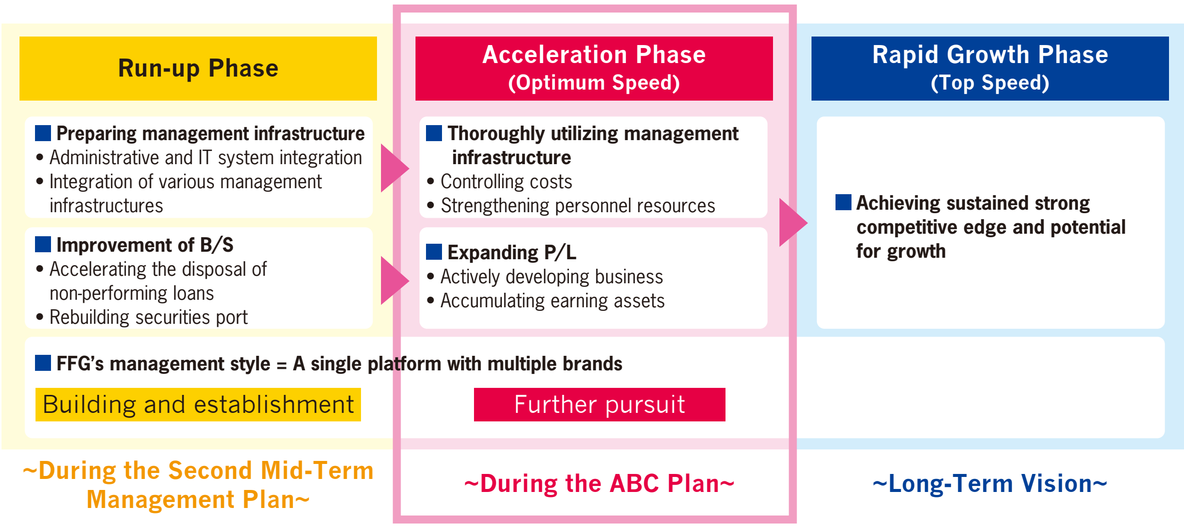
In January 2010, we completed the administrative and IT system integration with the Shinwa Bank and now we are prepared to move ahead to the next phase. Under this ABC Plan, we aim to expand our business base in each area covered by the three banks of the Group and be a "first-class regional financial 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)

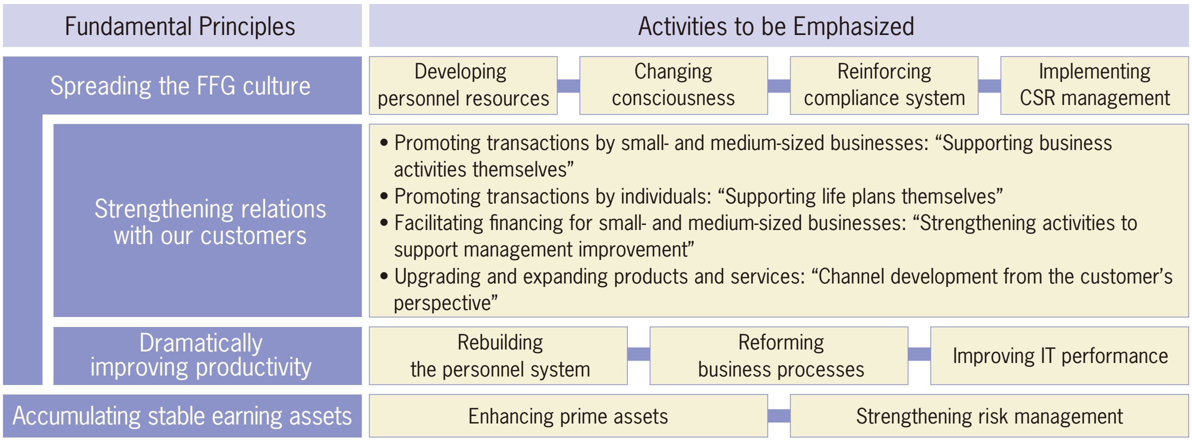
FFG's Long-Term Vision	**A Regional Financial Group that Achieves a Sustained Strong Competitive Edge and Potential for Growth –Establishment of an Unparalleled Presence in the Kyushu Community–**

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 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.

Management Indicators Targeted by the ABC Plan

Owing to changes in the economic and financial environments, we have revised our targets for the final year of the ABC Plan (the fiscal year ending March 31, 2013). The new targets are a total of ¥78.6 billion in core net business provides for the three banks, consolidated net income of ¥28.0 billion and a total OHR for the three banks of between 55% and 60%.

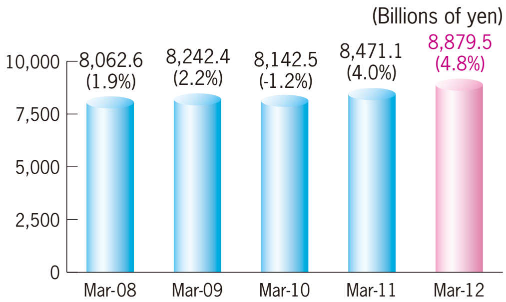
Momentum of Growth

Under the ABC Plan, one of the basic policies has been the accumulation of stable earning assets. Thanks to the concerted and active expansion of business operations by the three Group banks, the balance of loans and deposits has been on a steady upward trend.

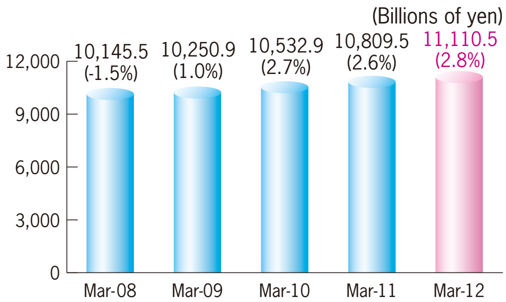
Our accumulation of loans has focused on our main targets, namely, loans for SMEs located within each prefecture and housing loans. Deposits have increased primarily through retail deposits of local residents.

In particular, our annual growth rate of loans has exceeded 4% for two consecutive years since fiscal 2010, indicating that our growth momentum is accelerating.

Loans (3 banks' total) (Balance at year-end)



Deposit (3 banks' total) (Balance at year-end)



Provision of Competitive Products and Services

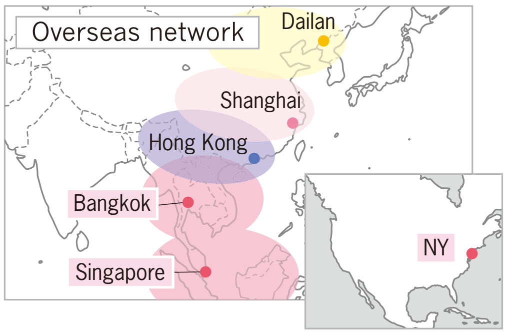
In corporate banking, we will strengthen our solutions business, such as business succession and M&A, under the initiative of our frontline units at headquarters.

Furthermore, by utilizing our overseas network, we will strengthen our support, such as for overseas expansion, for which there is a growing need among our client SMEs.

In retail banking, we will introduce a new membership service, "Grand My Bank" ,which targets member services, which target elderly customers. We will also introduce new loan products and strengthen our systems for insurance sales.

In addition, we are working to secure customers from our competitors by enhancing our services in areas of expected growth and by differentiating ourselves from other banks.

Corporate banking



Retail banking

Strengthening of Channels

We are actively investing in branches, which are our physical points of contact with customers. At the Bank of Fukuoka, we opened a new branch in Fukuoka Prefecture for the first time in 20 years. We also plan to open a number of other new branches during this fiscal year.

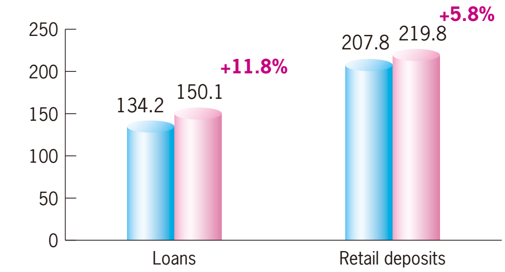
As the chart on the right shows, with loans and deposits growing considerably at our rebuilt branches, we have achieved an ample return on investment.

We have also put a great deal of effort into strengthening our online channels. Our renewed website has received high acclaim for its convenience.

We will expand both our physical and virtual points of contact with customers, and will link this to increasing the scale and activities of our business.

Effect of rebuilding branches (year-on-year)

(Billions of yen)



* Total for the 7 branches that were rebuilt in 2011.

Complete renewal of website

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%
Fiscal 2011	¥28.2 billion	¥8 per share	24.5%

■ Planned

FFG's consolidated net income		Dividend	Dividend payout ratio
Fiscal 2012	¥28.0 billion	¥8 per share	24.8%

Operating Results

Financial Summary

For the years ended March 31,

(Billions of yen)

(Consolidated)	2011	2012	YoY Change
Ordinary income	251.0	254.4	3.4
Gross business profit	201.0	202.7	1.7
Net interest income	161.3	160.7	(0.7)
Net fees and commissions	23.4	23.3	(0.0)
Net trading income	0.2	0.3	0.0
Net other operating income	16.1	18.5	2.4
Overhead expenses	123.3	121.9	(1.4)
Business profit*1	79.4	81.5	2.1
Core business profit*2	70.1	71.1	1.0
Ordinary profit	49.9	37.7	(12.2)
Net income	26.0	28.2	2.2
Total credit cost*3	18.2	25.8	7.5

Note: "( )" denotes minus.

*1 Business profit = gross business profit – overhead expenses – transfer to general reserve for possible loan losses
*2 Core business profit = business profit + transfer to general reserve for possible loan losses – gains (losses) on sales (redemptions) of bonds
*3 Total credit costs = transfer to general reserve for possible loan losses + credit cost for specific problem loans

During the fiscal year ended March 31, 2012, ordinary income grew ¥3.4 billion year on year, to ¥254.4 billion, mainly due to an increase in other operating income.

Core business profit rose ¥1.0 billion year on year, to ¥71.1 billion. Although falling market interest rates led to a drop in interest income, the Group was able to overcome the decline by curtailing overhead expenses.

Ordinary profit fell ¥12.2 billion year on year, to ¥37.7 billion. This decrease was largely due to higher credit costs and a decrease in other operating profit that was mainly caused by the one-time redemption of gains on mortgage securitization at the Shinwa Bank.

Net income rose ¥2.2 billion year on year, to ¥28.2 billion. Although we recorded a ¥6.2 billion negative impact from the cut in corporate income tax rates in addition to the drop in ordinary profit mentioned above, the introduction of the consolidated tax system reduced the total tax burden for the three banks by ¥21.4 billion.

Major Financial Indicators

As of March 31,

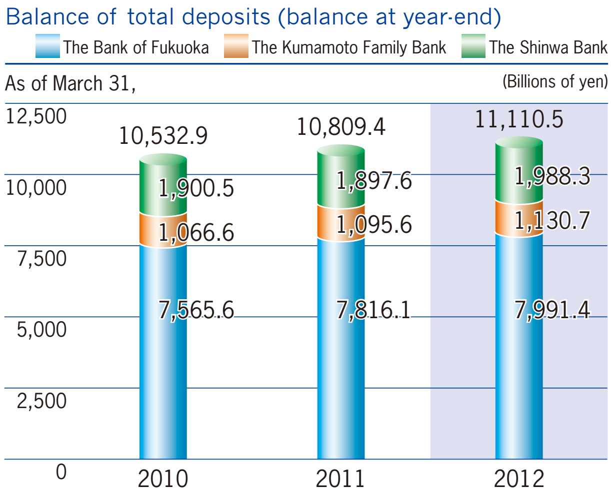
(%)

	2011	2012	Compared with 2011
Ratio of non-performing loans (Figures are 3 banks' total)	2.64	2.96	0.32
Capital adequacy ratio (consolidated)	10.84	10.98	0.14
Tier I ratio	6.70	6.92	0.22

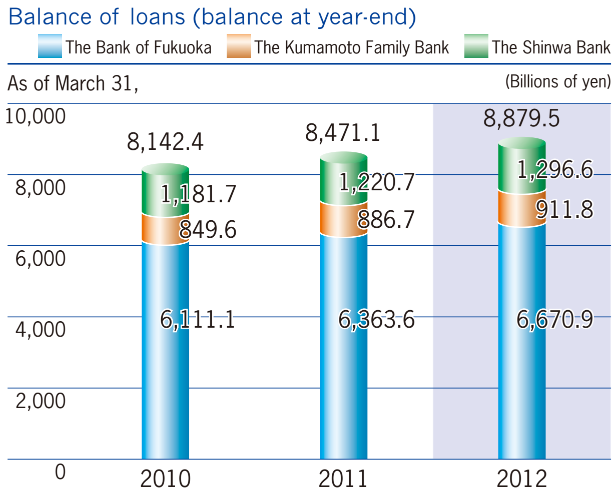
As of March 31, 2012, the ratio of non-performing loans was 2.96%, up 0.32 percentage point from a year earlier.

The capital adequacy ratio was 10.98% as of March 31, 2012, up 0.14 percentage point from a year earlier, and the Tier I ratio was 6.92%, up 0.22 percentage point.

Total Deposits (Deposits + Negotiable Certificates of Deposit) (3 banks' total)



Loans (3 banks' 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

April 2012
FFG Celebrates Fifth Anniversary of Establishment

Fukuoka Financial Group, established on April 2, 2007, celebrated the fifth anniversary of its establishment.

The executives and employees of FFG would like to express our sincere gratitude to our customers and the local communities where we operate for their warm support and patronage.

To convey our appreciation, we are offering five-year commemorative products for sale and holding special commemorative events, among other activities.

The logo mark celebrating our five years in business, the “FFG tree” shows light’s three primary colors, representing the three Group banks.

5th ANNIVERSARY

Fifth anniversary logo, poster

June 2012
Issuance of Corporate Bonds Targeting Individuals

FFG issued its first straight bonds targeting individuals, the “Fukuoka Financial Group, Inc., No. 3 Unsecured Corporate Bonds.”

FFG’s aim in issuing these bonds is to ensure stable, long-term funding and to offer individual investors a new investment opportunity.

The bonds were offered for sale by Nomura Securities Co., Ltd., Fukuoka Securities Co., Ltd., and the three FFG banks.

Efforts to Enhance Customer Convenience

We have inaugurated a mutual service that allows customers to use their cash cards at ATMs of the three FFG banks (the Bank of Fukuoka, the Kumamoto Family Bank and the Shinwa Bank)

In addition, whereas cash card issuance required around one week in the past, we have installed compact card issuance machines at all branches of the three FFG banks, so that cash cards can now be issued immediately.

Operating Results

Financial Summary

For the years ended March 31,

(Billions of yen)

(Non-consolidated)	2011	2012	YoY Change
Ordinary income	178.2	182.1	3.9
Gross business profit	132.8	135.7	2.8
Net interest income	112.6	111.9	(0.7)
Domestic	108.1	107.3	(0.8)
International	4.5	4.6	0.1
Net fees and commissions	14.5	14.6	0.1
Net trading income	0.2	0.2	(0.0)
Net other operating income	5.5	9.0	3.5
Overhead expenses	71.1	69.2	(2.0)
Business profit	60.7	64.0	3.3
Core business profit	58.1	59.9	1.8
Ordinary profit	44.1	43.6	(0.5)
Net income	26.7	20.2	(6.5)
Total credit cost	13.7	16.9	3.3

Note: "(　)" denotes minus.

During the fiscal year ended March 31, 2012, ordinary income rose ¥3.9 billion year on year, to ¥182.1 billion, owing to such factors as higher income on sales of Japanese government and other bonds.

As the bank was able to overcome the decline in interest income by lowering overhead expenses, core business profit grew ¥1.8 billion year on year, to ¥59.9 billion.

Ordinary profit decreased ¥0.5 billion year on year, to ¥43.6 billion.

Net income was down ¥6.5 billion year on year, to ¥20.2 billion, mainly due to the ¥3.2 billion negative impact of a cut in the corporate income tax rate.

Major Financial Indicators

As of March 31,

(%)

	2011	2012	Compared with 2011
Ratio of non-performing loans	2.66	2.87	0.21
Capital adequacy ratio (consolidated)	12.80	12.70	(0.10)
Tier I ratio	9.46	9.30	(0.16)

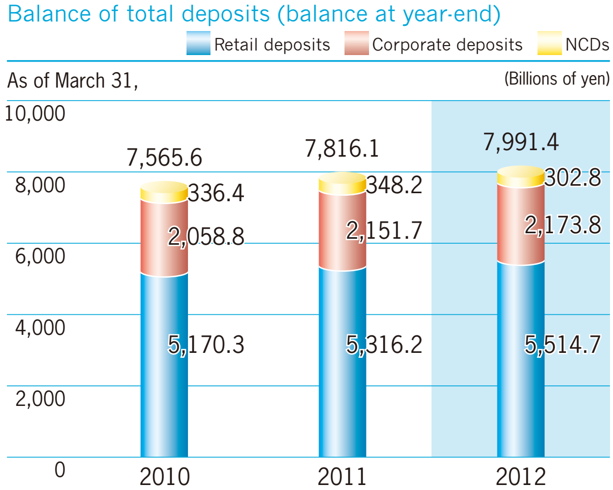
Note: "(　)" denotes minus.

As of March 31, 2012, the ratio of non-performing loans was 2.87%, up 0.21 percentage point from a year earlier.

The capital adequacy ratio (Japan domestic standard), was 12.70% as of March 31, 2012, down 0.10 percentage point from a year earlier, and the Tier I ratio was 9.30%, down 0.16 percentage point.

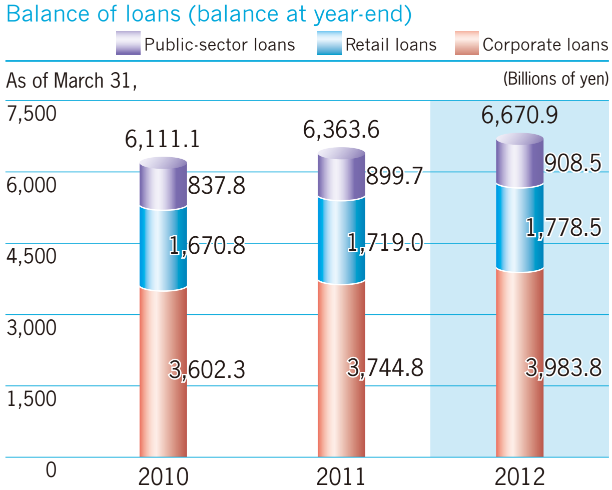
Total Deposits (Deposits + Negotiable Certificates of Deposit)

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

April 2012
Establishment of Fukuoka Securities

On April 1, 2012, Maeda Securities became a wholly owned subsidiary of the Bank of Fukuoka, and got a new start as Fukuoka Securities.

Cooperating with Fukuoka Securities, the three FFG banks will increase the number of branches that can handle financial products intermediary business. This new arrangement offers services to cover all financial assets, creating a structure for providing one-stop financial services. Accordingly, we are steadily augmenting the number of branches that can handle both banking and securities operations.

FFG ふくおか証券

June 2012
Inauguration of the Kokura Higashi Branch

In June 2012, the Bank of Fukuoka established the Kokura Higashi Branch. This branch was the bank's first new location within Fukuoka Prefecture in 20 years.

The Kokura Higashi Branch contains the bank's seventh loan plaza (specialized loan desk) within the prefecture, with the aim of providing high-quality services.

The branch also has a seminar room and a play area for children, to make its space comfortable and functional.

Kokura Higashi Branch

Establishment of Three Overseas Representative Offices

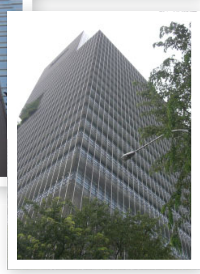
During the year ended March 31, 2012, the Bank of Fukuoka opened overseas representative offices in New York (November 2011), Singapore (December 2011) and Bangkok (March 2012).

These additions bring the Bank of Fukuoka's total number of overseas representative offices to six, including Dalian, Shanghai and Hong Kong.

We concentrate on supporting the overseas business of our customers through consulting and financing. In particular, we provide our customers with a wide range of information and maximize our ties with leading commercial banks overseas.


New York


Bangkok


Singapore

Operating Results

Financial Summary

For the years ended March 31,

(Billions of yen)

(Non-consolidated)	2011	2012	YoY Change
Ordinary income	28.2	26.5	(1.7)
Gross business profit	23.4	22.1	(1.3)
Net interest income	20.4	20.1	(0.3)
Domestic	20.3	20.0	(0.3)
International	0.1	0.1	(0.0)
Net fees and commissions	1.9	1.7	(0.2)
Net trading income	—	—	—
Net other operating income	1.1	0.3	(0.8)
Overhead expenses	16.0	15.6	(0.4)
Business profit	8.8	7.2	(1.6)
Core business profit	6.6	6.4	(0.1)
Ordinary profit (loss)	4.1	(0.6)	(4.6)
Net income	2.4	1.6	(0.9)
Total credit cost	1.2	3.3	2.1

Note: "( )" denotes minus.

During the fiscal year ended March 31, 2012, ordinary income fell ¥1.7 billion year on year, to ¥26.5 billion. This decrease was due to a decline in net interest income, stemming from lower interest rates, and a fall in income on sales of Japanese government and other bonds.

Core business profit was ¥6.4 billion, essentially unchanged from the previous year, as the drop in interest income and fees and commissions was nearly covered by reducing overhead expenses.

The bank posted an ordinary loss of ¥0.6 billion, down ¥4.6 billion from the ordinary profit posted in the preceding year. The decline was a result of higher credit costs and lower income related to securities (stocks and bonds).

Net income decreased ¥0.9 billion from a year earlier, to ¥1.6 billion. Although the introduction of the consolidated tax system reduced the bank's tax burden by ¥5.6 billion, this amount was not sufficient to offset the above-mentioned decrease in ordinary profit and the ¥2.0 billion negative impact of a cut in the corporate income tax rate.

Major Financial Indicators

As of March 31,

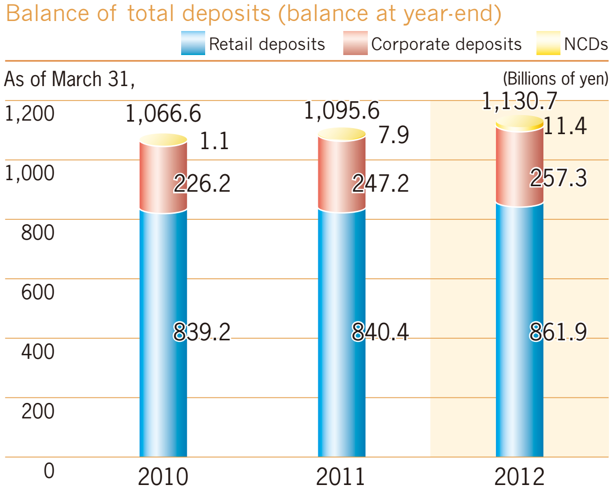
(%)

	2011	2012	Compared with 2011
Ratio of non-performing loans	2.36	3.01	0.65
Capital adequacy ratio (non-consolidated)	10.72	10.84	0.12
Tier I ratio	9.94	10.07	0.13

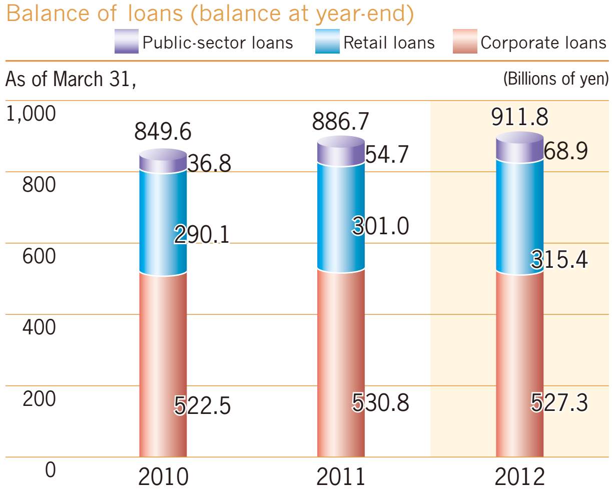
As of March 31, 2012, the ratio of non-performing loans was 3.01%, up 0.65 percentage point from a year earlier.

The capital adequacy ratio (Japan domestic standard) was 10.84% as of March 31, 2012, up 0.12 percentage point from a year earlier, and the Tier I ratio was 10.07%, up 0.13 percentage point.

Total Deposits (Deposits + Negotiable Certificates of Deposit)



Loans



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, Chuo-ku, Kumamoto City, Kumamoto Prefecture
Paid-in Capital: ¥47.8 billion
Website: http://www.kf-bank.jp/

Topics

May 2012
Announcement of Name Change

On the occasion of FFG's fifth anniversary, we announced that the Kumamoto Family Bank would change its name to "The Kumamoto Bank."

The naming is intended to convey more directly the idea that this is a bank for the city of Kumamoto, and to clarify that it will continue to contribute to regional society and customers in the region.

Using a "K" motif, the new logo comprises three graphics that represent customers, Mt. Aso, and the sounds of the mountain wind and birds flying through the air. The orange coloration is associated with Kumamoto's volcanic origins, while at the same time expressing communication, activity, creativity and joy.

熊本銀行

The Kumamoto Bank logo

November 2011
Tamana, Yamaga and Kikuchi Food Challenge Business Seminar in Fukuoka

FFG, the Bank of Fukuoka, the Kumamoto Family Bank and the Shinwa Bank cooperated to hold the FFG Food Negotiation Convention and the Tamana, Yamaga and Kikuchi Food Challenge Business Seminar in Fukuoka, for companies involved in food-related businesses.

In addition to business partners of the three FFG banks, the event targeted food-related companies Tamana, Yamaga and Kikuchi in Kumamoto Prefecture.

Leveraging the FFG network, the bank invited department stores and other buyers from Fukuoka and Tokyo to hold individual negotiations.

Food Challenge Business Seminar

Cards Bearing the Popular "Kumamon" Design

In recent years, *yuru-chara* (cutesy characters) have gained popularity in regional promotions. To draw attention to this trend, since 2010 the "*Yuru-Chara* Grand Prix" has been held to vote on the popularity of these characters.

Winner of the 2011 Grand Prix was "Kumamon," the official character for Kumamoto Prefecture. The Kumamoto Family Bank has adopted this character for its direct banking and *arecore* cards, to the delight of its customers.

Card with the Kumamon design

Operating Results

Financial Summary

For the years ended March 31,

(Billions of yen)

(Non-consolidated)	2011	2012	YoY Change
Ordinary income	41.8	41.9	0.1
Gross business profit	35.3	35.4	0.1
Net interest income	28.0	28.2	0.2
Domestic	27.6	28.0	0.4
International	0.4	0.2	(0.3)
Net fees and commissions	3.8	3.5	(0.3)
Net trading income	—	—	—
Net other operating income	3.5	3.8	0.3
Overhead expenses	23.5	23.0	(0.5)
Business profit	13.2	15.2	2.0
Core business profit	8.6	9.1	0.5
Ordinary profit	9.5	2.7	(6.8)
Net income	9.6	16.7	7.2
Total credit cost	0.6	4.0	3.4

Note: "( )" denotes minus.

During the fiscal year ended March 31, 2012, ordinary income grew ¥0.1 billion year on year, to ¥41.9 billion, due to an increase in other operating profit stemming from the sale of shares in subsidiaries.

Core business profit rose ¥0.5 billion year on year, to ¥9.1 billion, owing to reductions of overhead expenses.

Ordinary profit decreased ¥6.8 billion year on year, to ¥2.7 billion, due to an increase in credit costs and a decline in other operating profit that was largely caused by the one-time redemption of gains on mortgage securitization*.

Net income increased ¥7.2 billion from a year earlier, to ¥16.7 billion. Although the bank experienced a ¥1.8 billion negative impact from a cut in the corporate income tax rate in addition to the above-mentioned decrease in ordinary profit, the introduction of the consolidated tax system reduced the bank's tax burden by ¥15.9 billion.

* The bank recorded gains on the transfer of beneficial interests after the mortgage securitization in FY2005, and wrote down the gains every fiscal year. However, this fiscal year we carried out early redemption of mortgage securities, writing off the outstanding amount and recording it as a loss.

Major Financial Indicators

As of March 31,

(%)

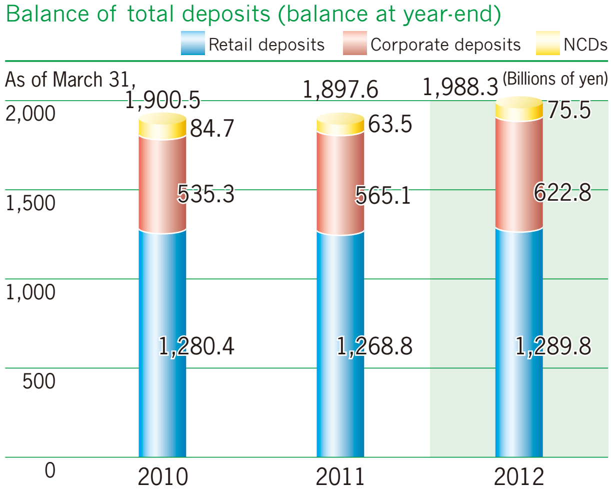
	2011	2012	Compared with 2011
Ratio of non-performing loans	2.76	3.35	0.59
Capital adequacy ratio (consolidated)	11.69	12.84	1.15
Tier I ratio	9.14	10.57	1.43

As of March 31, 2012, the ratio of non-performing loans was 3.35%, up 0.59 percentage point from a year earlier.

The capital adequacy ratio (Japan domestic standard) was 12.84% as of March 31, 2012, up 1.15 percentage points from a year earlier, and the Tier I ratio was 10.57%, up 1.43 percentage points.

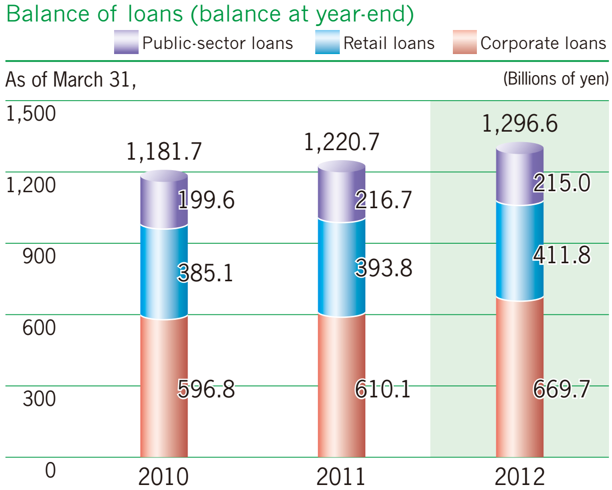
Total Deposits (Deposits + Negotiable Certificates of Deposit)

Balance of total deposits (balance at year-end)



Loans

Balance of loans (balance at year-end)



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

April 2012
Appointment of New Bank President

In April 2012, Osamu Obata, the former deputy president of the Bank of Fukuoka, became president of the Shinwa Bank.

Hailing from Nagasaki Prefecture, the incoming president noted, "I am delighted to be able to work in my home turf, and I intend to channel this energy toward the development of Nagasaki Prefecture."

Former bank president Kazuo Oniki has stepped down and been appointed as an advisor to the Shinwa Bank and FFG.

New President Obata

July 2012
Head Office Renovation

The bank has reopened its headquarters sales division following renovation.

The desks for making deposits and providing financing have been integrated onto a single floor. The consultation desk has also been expanded, ATMs have been placed in the lobby, and a new universal-access toilet has been installed. These enhancements in functionality are designed to increase convenience to customers.

The remodeling has resulted in an atmosphere that is cheery yet subdued.

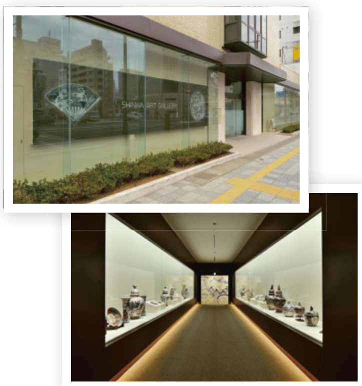
Head Office

April 2012
Opening of the Shinwa Bank Art Gallery

The Shinwa Bank Art Gallery was opened to mark FFG's fifth anniversary of establishment.

This gallery opens the Shinwa Bank's art collection to public viewing.

By giving the general public access to art objects that the bank has accumulated, the Shinwa Bank intends to contribute to regional culture and invigorate the arts.



The Shinwa Bank Art Gallery

Fukuoka Financial Group's Corporate Governance Framework

To demonstrate in a timely and appropriate manner its functions as a holding company (business management of subsidiary banks and group companies), including the strengthening of the governance system of the group as a whole, preservation of the risk control system and creation of an internal management system, Fukuoka Financial Group shall operate under the following management and business organization framework.

Corporate Governance Overview

■ **Board of Directors and Directors**

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

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

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

■ **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 Committee shall discuss important matters related to business and affairs of the Group, including group management and operational planning.

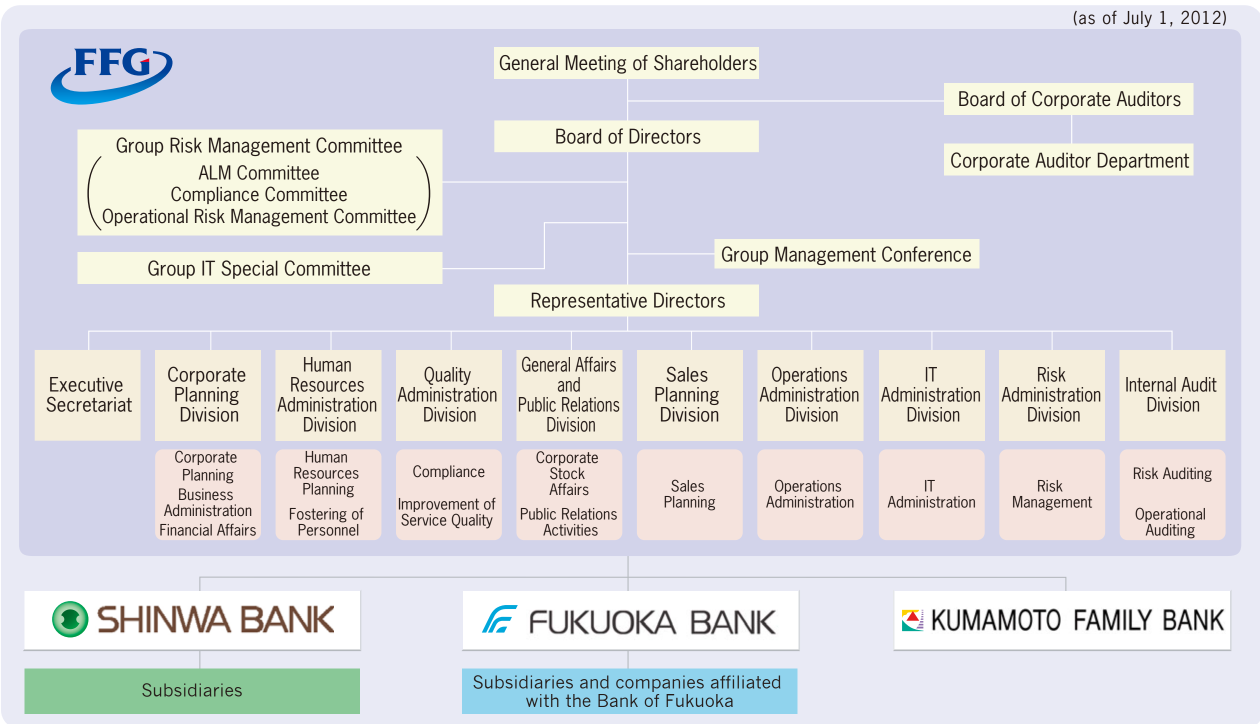
■ **Group Risk Management Committee**

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

■ **Group IT Special Committee**

To strengthen the IT governance system of the group as a whole, the Group IT Special committee shall discuss and report on matters related to IT strategy and IT human resource developing.

Corporate Governance Framework



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.

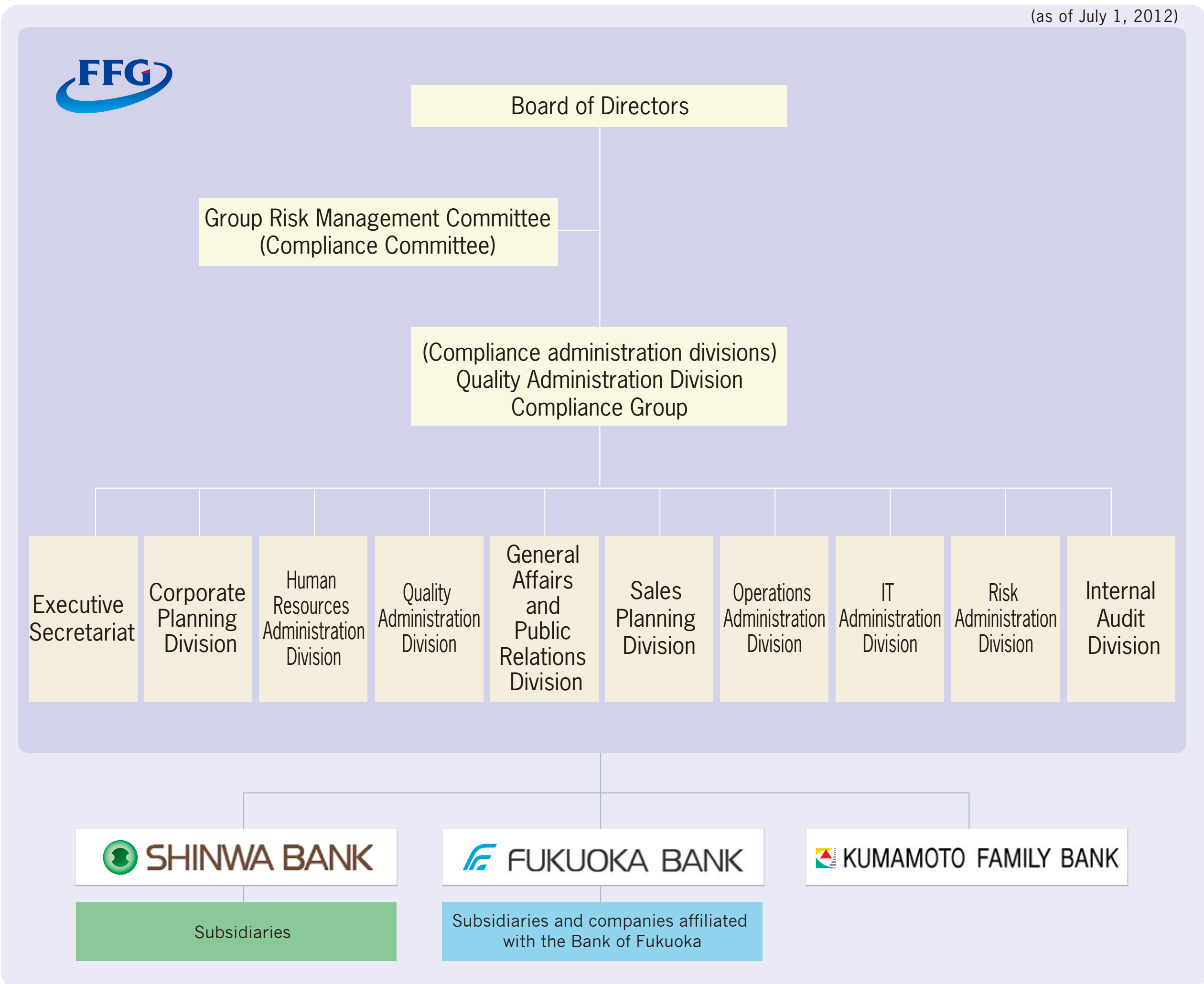
Specifically, FFG, the Bank of Fukuoka, the Kumamoto Family Bank and the Shinwa Bank have each established their own compliance administration departments, which work in cooperation with related departments to take appropriate measures to check that business is conducted in accordance with all laws,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

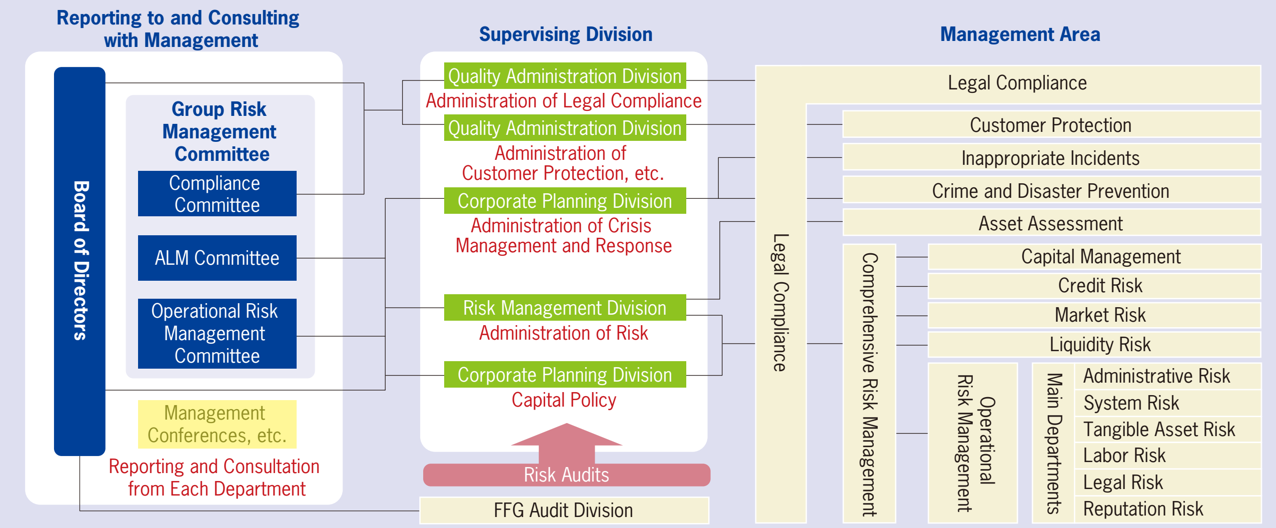
Risk categories		Definitions	Methods	
Credit Risk		Risk of losses arising from asset values that have fallen or been erased (including off-balance-sheet assets) by the worsening financial position of obligors	Management by VaR	Integrated risk management
Market Risk		Risk of losses arising from variation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

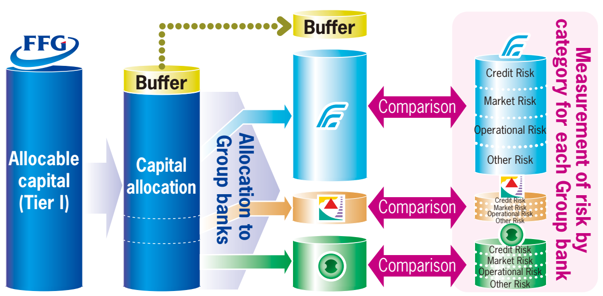
Comprehensive risk management makes an integrated assessment of risks that financial institutions face, evaluated for each risk category, by comparison with that financial institution's capital. Categories include credit risk, market risk and operational risk, as well as credit-concentration risk and 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.

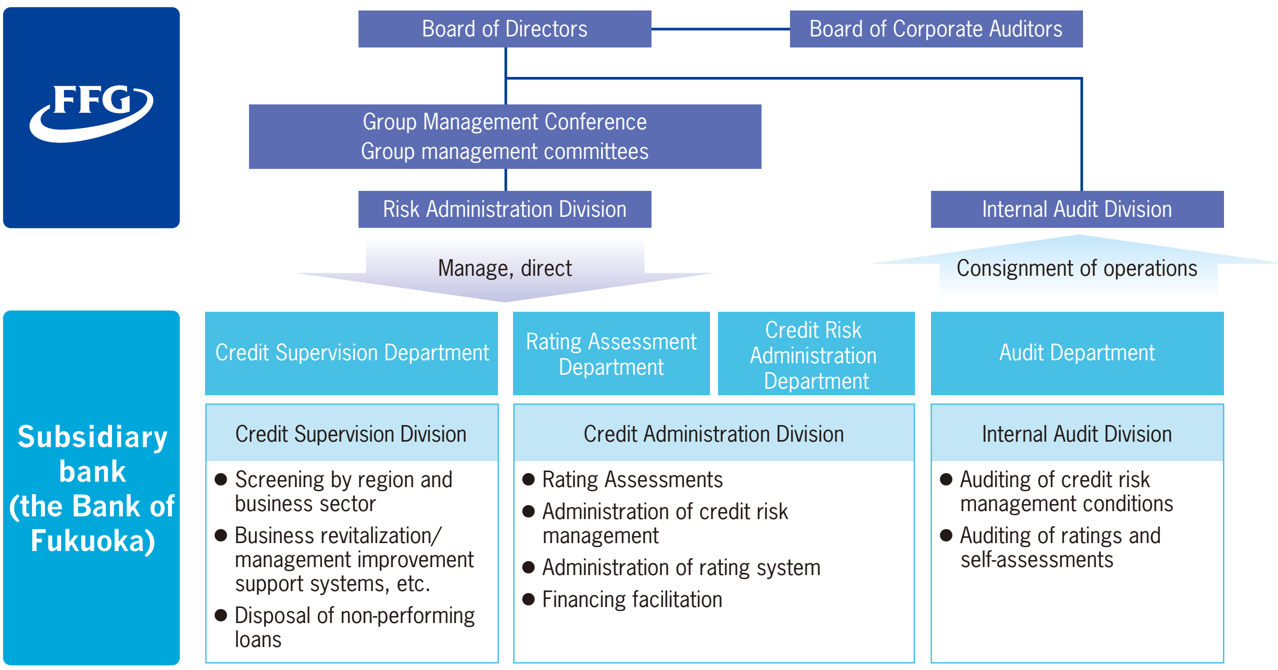
■ Credit Risk Management System

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.

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

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

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



■ Obligor Ratings

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

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

Correlation among Obligor Rating and Category, Loan Category and Default Category According to the Basel 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>Amortization/ provision</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</td><td rowspan="5">Default</td></tr>
<tr><td>Applies to one of the following:
• 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 rehabilitation, 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.

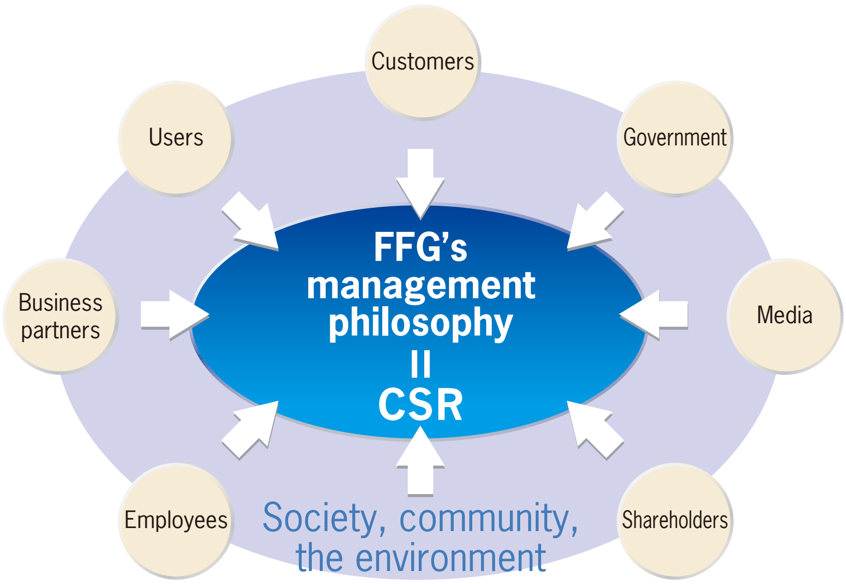
CSR Measures

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.

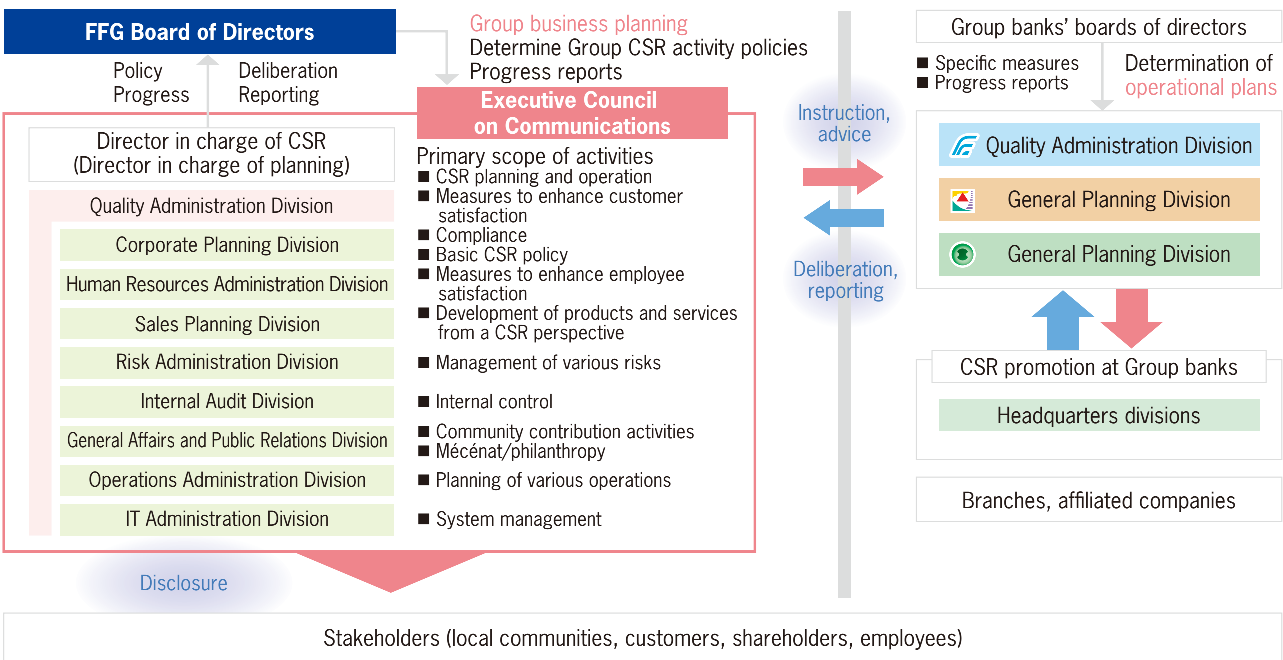
Also core to FFG's management philosophy is the belief that we pursue our CSR objectives through our business activities, as we work to maintain the trust that local society has invested in us as a regional financial institution, facilitate financing and serve the "public function" of contributing to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

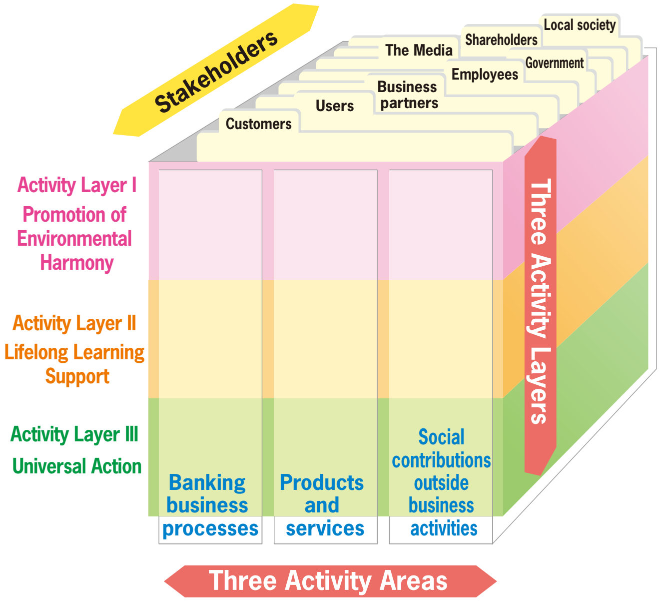
Layer II: Lifelong Learning Support

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 formulated a groupwide environmental policy. The Group is addressing environmental problems by working to constrain or reduce its environmental impact. At the same time, we proactively provide products and services that leverage financial roles and functions to promote environmental preservation.

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

■ 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.

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.

Initiatives Targeting the Children Who Will Lead the Next Generation

FFG takes part in a number of initiatives targeting the children who will lead the next generation. Through these efforts, we provide children with a host of opportunities to develop rich and varied sensibilities and play a role in character-building.

In addition to contributing books to special-needs schools, we offer the Job Shadow workplace experience program. We also conduct the Bank Workplace Exploration Program for elementary and junior high school students in areas where the three FFG banks have branches.

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, Encouraged by proactive government involvement, last year we also held numerous fairs and seminars, including the Kumamoto Food Challenge Business Seminar in Fukuoka and the Kitakyushu Business Networking Event.

■ 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 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

Financial Section

Market Conditions

During the fiscal year ended March 31, 2012, the Japanese economy was affected severely by the Great East Japan Earthquake, which struck in March 2011. Nevertheless, as reconstruction efforts progressed, the economy began showing signs of a rebound in the summer of 2011. Moving into the second half, however, economic growth was flat, owing to the deceleration of overseas economies and yen appreciation. Thereafter, personal consumption remained steady, partly due to the effects of eco-car subsidies and other measures that stimulated automobile demand, and public-sector investment increased. Consequently, by the end of the fiscal year, the economy had begun to recover slightly.

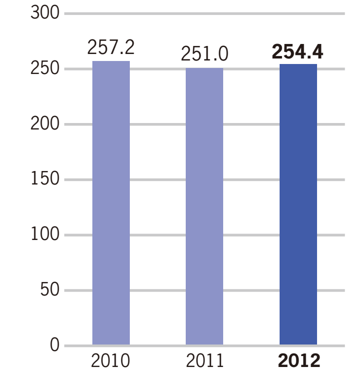
On the financial front, the Nikkei Stock Average fell below ¥10,000 as a result of the earthquake, but recovered to above ¥10,000 in July, as reconstruction activities progressed. From summer onward, however, the Nikkei dropped back to the ¥8,000 range, as the yen surged to postwar highs—at one stage reaching ¥75 to the U.S. dollar—and owing to the overseas economic downturn as the European debt crisis grew increasingly severe. After that point, yen appreciation abated somewhat, falling into the neighborhood of ¥80 to the U.S. dollar as a result of global monetary easing and calmer conditions surrounding the European debt crisis, and the Nikkei recovered to the ¥10,000 level by the end of the fiscal year.

With the Bank of Japan continuing to provide ample funding into the monetary system, yields on 10-year Japanese government bonds—a benchmark for long-term interest rates—remained around 1%. As a result, low short- and long-term interest rates persisted.

Economic conditions in the Kyushu region, FFG's primary base of operations, were characterized by a gradual recovery. A rebound in the automotive industry, a regional mainstay, triggered improvements in the overall economy, and personal consumption moved upward, evinced by automobile sales and housing investment trends. Other factors included the completion of a *shinkansen* railway line into Kyushu and the opening of large-scale commercial facilities.

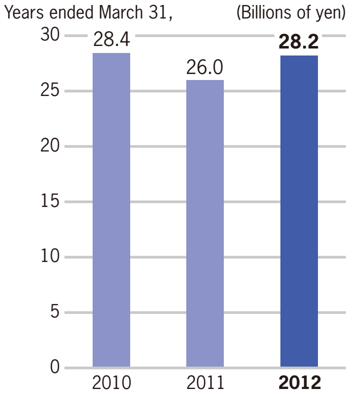
Total Income

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 continued to enact measures outlined in its Third Mid-Term Management Plan, the "ABC Plan" (April 2010 through March 2013), which was introduced in the fiscal year ended March 31, 2010. 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, ordinary income increased ¥3,384 million from the previous fiscal year, to ¥254,373 million. Ordinary profit, meanwhile, fell ¥12,163 million, to ¥37,727 million, owing to higher credit costs and other ordinary expenses. Net income rose ¥2,186 million, to ¥28,176 million, benefiting from a tax decrease in line with the introduction of the consolidated taxation system.

Financial Position

FFG's total deposits (deposits + negotiable certificates of deposit) amounted to ¥11,074.4 billion, up ¥299.7 billion from the preceding fiscal year-end, owing mainly to an increase in liquid deposits. Loans and bills discounted expanded ¥410.3 billion, centered on loans to corporate customers, to ¥8,784.3 billion at fiscal year-end. Holdings of securities at year-end totaled ¥2,982.6 billion, up ¥14.6 billion from a year earlier, as the Group worked to create a sound portfolio that provides a balance of stability and profitability.

Cash Flows

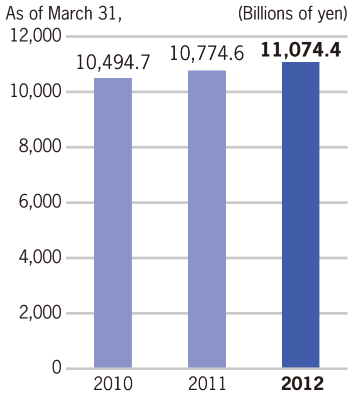
Net cash used in operating activities came to ¥196,113 million, a decrease of ¥729,477 million from the preceding fiscal year. This change was due to such factors as an increase in call loans.

Net cash provided by investing activities was ¥17,044 million, up ¥616,788 million from the preceding fiscal year. This difference was due to an increase in proceeds from sale of securities and a decrease in payments for purchase of securities.

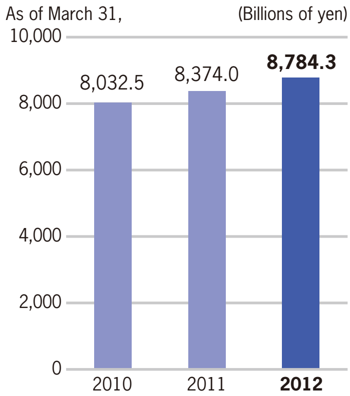
Net cash used in financing activities amounted to ¥12,263 million, down ¥13,615 million from the preceding fiscal year. Factors such as an increase in payments for redemption of subordinated bonds were the primary reason.

As a result, cash and cash equivalents at the end of the year totaled ¥466,771 million, down ¥191,346 million from the preceding year-end.

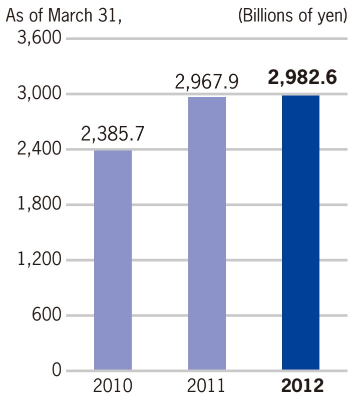
Deposits



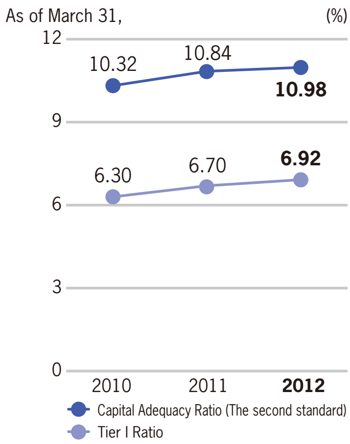
Loans and Bills Discounted



Securities



Capital Adequacy Ratio, Tier I Ratio



Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
Fukuoka Financial Group, Inc.

We have audited the accompanying consolidated financial statements of Fukuoka Financial Group, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Fukuoka Financial Group, Inc. and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 21 to the consolidated financial statements, which describes Fukuoka Securities Co., Ltd. became a wholly owned subsidiary of the Bank of Fukuoka, Ltd. a consolidated subsidiary of Fukuoka Financial Group,Inc. through the share exchange, on April 1,2012. Our opinion is not qualified in respect of this matter.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 25, 2012
Fukuoka, Japan

A member firm of Ernst & Young Global Limited

CONSOLIDATED BALANCE SHEETS

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2012 and 2011

	2012	2011	2012
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 6 and 17)	¥ 472,823	¥ 665,643	$ 5,752
Call loans and bills bought (Note 17)	220,000	—	2,676
Monetary claims bought (Notes 3 and 17)	57,768	69,605	702
Trading assets (Note 17)	2,632	6,448	32
Securities (Notes 3, 6, 10, 11 and 17)	2,982,629	2,967,970	36,289
Loans and bills discounted (Notes 4 and 17)	8,784,387	8,374,022	106,879
Foreign exchanges (Notes 4 and 17)	9,069	9,157	110
Other assets (Note 6)	119,511	138,010	1,454
Tangible fixed assets (Note 5)	185,231	189,137	2,253
Intangible fixed assets	153,662	165,240	1,869
Deferred tax assets (Note 12)	76,594	85,420	931
Customers' liabilities for acceptances and guarantees (Note 10)	51,856	55,371	630
Allowance for loan losses (Note 4)	(152,859)	(145,499)	(1,859)
Allowance for losses on investment	(106)	(127)	(1)
Total assets	**¥12,963,202**	**¥12,580,400**	**$157,722**
Liabilities			
Deposits (Notes 6 and 17)	11,074,470	10,774,696	134,742
Call money and bills sold (Note 17)	3,294	6,139	40
Payables under securities lending transactions (Notes 6 and 17)	60,099	24,148	731
Trading liabilities	—	1	—
Borrowed money (Notes 6, 7 and 17)	784,227	716,300	9,541
Foreign exchanges (Note 17)	750	421	9
Short-term bonds payable (Note 17)	10,000	10,000	121
Bonds payable (Notes 8 and 17)	159,024	208,757	1,934
Other liabilities	91,657	93,297	1,115
Provision for retirement benefits (Note 9)	623	582	7
Provision for losses on interest repayments	1,083	1,080	13
Provision for losses from reimbursement of inactive accounts	4,360	4,287	53
Provision for contingent liabilities losses	1,453	896	17
Deferred tax liabilities for land revaluation (Note 5)	27,536	32,112	335
Acceptances and guarantees (Note 10)	51,856	55,371	630
Total liabilities	**¥12,270,436**	**¥11,928,093**	**$ 149,293**
Net assets			
Capital stock	¥ 124,799	¥ 124,799	$ 1,518
Capital surplus	103,163	103,163	1,255
Retained earnings	303,894	281,928	3,697
Treasury stock	(3,336)	(227)	(40)
Total shareholders' equity	**528,520**	**509,663**	**6,430**
Valuation difference on available-for-sale securities (Note 11)	50,696	26,273	616
Deferred gains or losses on hedges	(14,300)	(7,154)	(173)
Revaluation reserve for land (Note 5)	49,348	46,251	600
Total accumulated other comprehensive income	85,744	65,370	1,043
Minority interests	78,500	77,272	955
Total net assets	**¥ 692,765**	**¥ 652,306**	**$ 8,428**
Total liabilities and net assets	**¥12,963,202**	**¥12,580,400**	**$157,722**

CONSOLIDATED STATEMENTS OF INCOME

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2012 and 2011

	2012	2011	2012
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Interest income:			
Interest on loans and discounts	¥148,206	¥153,140	$1,803
Interest and dividends on securities	33,568	31,034	408
Interest on call loans and bills bought	200	77	2
Interest on due from banks	63	34	0
Other interest income	2,408	1,834	29
Trust fees	1	1	0
Fees and commissions	41,177	40,789	500
Trading income	252	246	3
Other operating income	21,463	18,030	261
Other income	7,102	10,190	86
Total income	**¥254,443**	**¥255,379**	**$3,095**
Expenses			
Interest expenses:			
Interest on deposits	7,648	10,577	93
Interest on call money and bills sold	49	61	0
Interest on payables under securities lending transactions	238	107	2
Interest on borrowings and rediscounts	2,849	2,164	34
Interest on short-term bonds	33	76	0
Interest on bonds	3,746	3,044	45
Other interest expenses	9,216	8,759	112
Fees and commissions payments	17,852	17,420	217
Other operating expenses	2,985	1,936	36
General and administrative expenses	126,868	127,652	1,543
Other expenses	48,265	31,902	587
Total expenses	**¥219,754**	**¥203,704**	**$2,673**
Income before income taxes and minority interests	34,688	51,675	422
Income taxes: (Note 12)			
Current	1,676	1,843	20
Deferred	1,092	20,718	13
	2,768	**22,562**	**33**
Income before minority interests	**31,920**	**29,113**	**388**
Minority interests in income	**3,744**	**3,122**	**45**
Net income (Note 13)	**¥ 28,176**	**¥ 25,990**	**$ 342**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2012 and 2011

	2012	2011	2012
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income before minority interests	¥31,920	¥29,113	$388
Other comprehensive income:			
Valuation difference on available-for-sale securities	24,423	(5,974)	297
Deferred gains or losses on hedges	(7,146)	(2,099)	(86)
Revaluation reserve for land	4,022	—	48
Share of other comprehensive income (loss) of associates accounted for using equity method	5	(1)	0
Total other comprehensive income	**21,304**	**(8,074)**	**259**
Comprehensive income (Note 14)	**¥53,224**	**¥21,038**	**$647**
Total comprehensive income attributable to:			
Shareholders of Fukuoka Financial Group, Inc.	49,475	17,921	601
Minority interests	3,749	3,116	45

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2012 and 2011

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Total accumulated other comprehensive income/loss	Minority interests	Total net assets
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 revaluation reserve for land			94		94						94
Net change in items other than shareholders' 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**
Changes during the period:											
Cash dividends			(7,135)		(7,135)						(7,135)
Net income			28,176		28,176						28,176
Acquisition of treasury stock				(3,109)	(3,109)						(3,109)
Disposition of treasury stock		(0)		0	0						0
Transfer from revaluation reserve for land			924		924						924
Net change in items other than shareholders' equity						24,423	(7,146)	3,097	20,374	1,227	21,601
Total changes during the period	**—**	**¥ (0)**	**¥ 21,965**	**¥(3,108)**	**¥ 18,857**	**¥24,423**	**¥ (7,146)**	**¥ 3,097**	**¥20,374**	**¥ 1,227**	**¥ 40,458**
Balance as of March 31, 2012	**¥124,799**	**¥103,163**	**¥303,894**	**¥(3,336)**	**¥528,520**	**¥50,696**	**¥(14,300)**	**¥49,348**	**¥85,744**	**¥78,500**	**¥692,765**

	Millions of U.S. dollars (Note 2)										
	Shareholders' equity					Accumulated other comprehensive income					
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Total accumulated other comprehensive income/loss	Minority interests	Total net assets
Balance as of March 31, 2011	**$1,518**	**$1,255**	**$3,430**	**$ (2)**	**$6,201**	**$319**	**$ (87)**	**$562**	**$ 795**	**$940**	**$7,936**
Changes during the period:											
Cash dividends			(86)		(86)						(86)
Net income			342		342						342
Acquisition of treasury stock				(37)	(37)						(37)
Disposition of treasury stock		(0)		0	0						0
Transfer from revaluation reserve for land			11		11						11
Net change in items other than shareholders' equity						297	(86)	37	247	14	262
Total changes during the period	**—**	**$ (0)**	**$ 267**	**$(37)**	**$ 229**	**$297**	**$ (86)**	**$ 37**	**$ 247**	**$ 14**	**$ 492**
Balance as of March 31, 2012	**$1,518**	**$1,255**	**$3,697**	**$(40)**	**$6,430**	**$616**	**$(173)**	**$600**	**$1,043**	**$955**	**$8,428**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2012 and 2011

	2012	2011	2012
	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	¥ 34,688	¥ 51,675	$ 422
Depreciation of tangible fixed assets	11,318	11,584	137
Impairment losses	1,938	634	23
Amortization of goodwill	9,171	9,173	111
Equity in loss from investment in affiliates	76	331	0
Net change in allowance for loan losses	7,359	2,387	89
Net change in allowance for losses on investment	(20)	(3)	(0)
Net change in provision for retirement benefits	40	56	0
Net change in provision for losses on interest repayments	2	11	0
Net change in provision for losses from reimbursement of inactive accounts	72	222	0
Net change in provision for contingent liabilities losses	557	348	6
Interest income	(184,447)	(186,121)	(2,244)
Interest expenses	23,782	24,791	289
Net gains related to securities transactions	(6,244)	(6,272)	(75)
Net exchange (gains) losses	(218)	98	(2)
Net losses on disposition of fixed assets	678	810	8
Net change in trading assets	3,815	(4,157)	46
Net change in trading liabilities	(1)	1	(0)
Net change in loans and bills discounted	(410,365)	(341,508)	(4,992)
Net change in deposits	299,773	279,952	3,647
Net change in borrowed money (excluding subordinated borrowed money)	17,926	453,088	218
Net change in due from banks (excluding deposits with the Bank of Japan)	1,473	2,083	17
Net change in call loans	(208,163)	40,045	(2,532)
Net change in call money	(2,845)	2,882	(34)
Net change in payables under securities lending transactions	35,950	(14,895)	437
Net change in foreign exchanges - Assets	87	(1,394)	1
Net change in foreign exchanges - Liabilities	328	(454)	3
Net change in short-term bonds payable	—	(15,000)	—
Net change in issuance and redemption of bonds	—	31,757	—
Interest received	185,218	188,954	2,253
Interest paid	(24,252)	(27,765)	(295)
Other, net	7,775	23,800	94
Subtotal	(194,521)	527,120	(2,366)
Refunded income taxes	42	7,385	0
Income taxes paid	(1,635)	(1,141)	(19)
Net cash provided by (used in) operating activities	**(196,113)**	**533,364**	**(2,386)**
Cash flows from investing activities:			
Payments for purchases of securities	(894,540)	(1,464,871)	(10,883)
Proceeds from sale of securities	633,965	345,244	7,713
Proceeds from redemption of securities	288,068	529,856	3,504
Payments for purchases of tangible fixed assets	(8,623)	(9,034)	(104)
Proceeds from sale of tangible fixed assets	844	1,104	10
Payments for purchases of intangible fixed assets	(2,669)	(2,043)	(32)
Net cash provided by (used in) investing activities	**17,044**	**(599,744)**	**207**
Cash flows from financing activities:			
Increase in subordinated borrowings	50,000	—	608
Decrease in subordinated borrowings	—	(4,000)	—
Proceeds from issuance of subordinated bonds	10,000	57,500	121
Payments for redemption of subordinated bonds	(59,500)	(42,500)	(723)
Dividends paid	(7,133)	(7,138)	(86)
Dividends paid to minority interests	(2,522)	(2,488)	(30)
Payments for purchases of treasury stock	(3,108)	(23)	(37)
Proceeds from sale of treasury stock	0	2	0
Net cash provided by (used in) financing activities	**(12,263)**	**1,352**	**(149)**
Effect of exchange rate changes on cash and cash equivalents	**(13)**	**(98)**	**(0)**
Net decrease in cash and cash equivalents	**(191,346)**	**(65,126)**	**(2,328)**
Cash and cash equivalents at beginning of the year	**658,117**	**723,244**	**8,007**
Cash and cash equivalents at end of the year (Note 15)	**¥ 466,771**	**¥ 658,117**	**$ 5,679**

Fukuoka Financial Group, Inc. and its subsidiaries
Years ended March 31, 2012 and 2011

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.

Shinwa Venture Capital Enterprises Support Fund Nagasaki No.1, L.P. was liquidated on December 20, 2011. Accordingly, the fund was excluded from the scope of consolidation for the year ended March 31, 2012. However, the result of the fund is included in the consolidated statements of income until the date of the liquidation.

Kyushu Technological Development No.1, L.P. was excluded from the scope of equity method owing to its liquidation on September 9, 2011.

c. Trading Assets and Liabilities

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

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

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

d. Securities

Held-to-maturity debt securities are stated at cost or amortized cost (straight-line method).

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

Valuation difference on available-for-sale securities 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 are treated at full cost at time of expenditure.

h. Allowance for Loan Losses

The allowance for 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"), allowances are maintained at 100% of amounts of claims (after direct reductions are made as discussed below), net of expected amounts from the disposal of collateral and/or on the amounts recoverable under guarantees.

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

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

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

Regarding loans with collateral or guarantees extended by consolidated subsidiaries engaged in banking business and certain major consolidated subsidiaries to obligors who are substantially or legally bankrupt, the balance of the amount of claims less expected amounts recoverable from the disposal of collateral and/ or the amounts recoverable under guarantees is directly deducted from the amount of claims as the estimated uncollectible amount. As of March 31, 2012 and 2011, such deducted amounts were ¥39,760 million and ¥65,651 million, respectively.

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

i. Allowance for Losses on Investment

The allowance for losses on investment 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. Provision for Retirement Benefits

The provision for 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 (9–12 years).

k. Provision for Losses on Interest Repayments

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

l. Provision for Losses from Reimbursement of Inactive Accounts

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

m. Provision for Contingent Liabilities Losses

The provision for contingent liabilities losses is provided at 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 shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 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. New Accounting Pronouncements

Accounting Standards for Accounting Changes and Error Corrections

FFG and its consolidated subsidiaries adopted the "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24, issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

Based on "Practical Guidelines on Accounting Standards for Financial Instruments" (JICPA Accounting Practice Committee Statement No.14), "Recoveries of written-off claims" have been recorded in "Other income" for the year ended March 31, 2012. However, retrospective application was not made for the year ended March31, 2011.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥82.19 = US$1.00, the approximate rate of exchange on March 31, 2012, 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, 2012 and 2011 are as follows:

(Millions of yen)

	2012	2011
National government bonds	**¥1,853,615**	¥1,579,434
Local government bonds	**34,368**	36,653
Corporate bonds	**768,585**	949,279
Equity securities	**86,118**	86,208
Other securities	**239,941**	316,394
Total	**¥2,982,629**	¥2,967,970

Equity securities included stocks of affiliates of ¥2,044million and ¥2,448million at March 31, 2012 and 2011, respectively.

National government bonds at March 31, 2012 and 2011, included bonds of ¥146,886 million and ¥217,752 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 ¥31,846 million and ¥34,010 million at March 31, 2012 and 2011, respectively.

■ Held-to-maturity securities

The following tables summarize carrying values, fair value and differences of securities with available fair values at March 31, 2012 and 2011:

(Millions of yen)

		2012		
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	**¥110,231**	**¥118,390**	**¥ 8,159**
	Local government bonds	**—**	**—**	**—**
	Corporate bonds	**27,180**	**28,749**	**1,568**
	Other	**5,239**	**5,282**	**42**
	Subtotal	**¥142,651**	**¥152,422**	**¥ 9,770**
Securities with fair value not exceeding carrying value	National government bonds	**¥ —**	**¥ —**	**¥ —**
	Local government bonds	**—**	**—**	**—**
	Corporate bonds	**—**	**—**	**—**
	Other	**14,771**	**13,401**	**(1,370)**
	Subtotal	**¥ 14,771**	**¥ 13,401**	**¥(1,370)**
	Total	**¥157,423**	**¥165,824**	**¥ 8,400**

(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

■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2012 and 2011:

(Millions of yen)

		2012		
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	**¥1,664,582**	**¥1,693,372**	**¥28,789**
	Local government bonds	**29,634**	**30,624**	**989**
	Corporate bonds	**688,539**	**702,321**	**13,781**
	Equity securities	**29,321**	**56,628**	**27,306**
	Other	**174,154**	**186,090**	**11,935**
	Subtotal	**¥2,586,232**	**¥2,669,036**	**¥82,804**
Securities with carrying value not exceeding acquisition cost	National government bonds	**¥50,046**	**¥50,012**	**¥(34)**
	Local government bonds	**3,751**	**3,743**	**(7)**
	Corporate bonds	**39,726**	**39,083**	**(643)**
	Equity securities	**21,495**	**17,564**	**(3,930)**
	Other	**49,154**	**48,177**	**(977)**
	Subtotal	**¥ 164,173**	**¥ 158,580**	**¥ (5,592)**
	Total	**¥2,750,406**	**¥2,827,617**	**¥77,211**

(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

Securities with fair values (excluding securities held for trading purpose) that have fallen substantially below the acquisition cost and are not expected to recover to the acquisition cost are carried at their fair values. The unrealized losses have been recognized for such securities during the period (hereinafter, "recording impairment losses"). For the years ended March 31, 2012 and 2011, impairment losses were ¥2,952 million and ¥2,087 million, respectively. The determination of whether the fair value has fallen significantly is based on independent asset classification, with issuers of securities divided into the following classifications.

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

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

The following table summarizes total sales amounts of Available-for-sale securities sold, and amounts of the related gains and losses for the years ended March 31, 2012 and 2011:

(Millions of yen)

	2012		
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥383,035	¥ 5,756	¥2,455
Local government bonds	34,899	546	7
Corporate bonds	164,962	5,563	3
Equity securities	4,218	745	1,302
Other	38,508	686	83
Total	¥625,623	¥13,298	¥3,852

(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

4. Loans and Bills Discounted

Loans and bills discounted at March 31, 2012 and 2011 included the following loans:

(Millions of yen)

	2012	2011
Loans to borrowers in bankruptcy	¥ 6,152	¥ 5,557
Delinquent loans	196,826	179,149
Loans past due for three months or more	33	352
Restructured loans	61,939	40,699
Total	¥264,951	¥225,759

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, 2012 and 2011, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥66,413 million and ¥58,811 million, respectively.

Line-of-credit agreements relating to overdrafts and loans are agreements which oblige FFG to lend funds up to a certain limit agreed in advance. FFG makes the loan upon the request of an obligor to draw down funds under such a loan agreement as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused line-of-credit balance relating to these overdrafts and loan agreements at March 31, 2012 and 2011 amounted to ¥3,362,922 million and ¥3,238,148 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 ¥3,208,758 million and ¥3,082,456 million at March 31, 2012 and 2011, 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 for 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, 2012 and 2011, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the law were ¥35,759 million and ¥34,457 million, respectively.

Accumulated depreciation for tangible fixed assets amounted to ¥98,052 million and ¥97,440 million at March 31, 2012 and 2011, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥17,187 million and ¥17,284 million at March 31, 2012 and 2011, respectively.

6. Pledged Assets

Assets pledged as collateral at March 31, 2012 and 2011 consisted of the following:

(Millions of yen)

	2012	2011
Assets pledged as collateral:		
Cash and due from banks	**¥ 1**	¥ 1
Securities	**1,201,953**	1,019,916
Other assets	**658**	133
Liabilities corresponding to assets pledged as collateral:		
Deposits	**40,119**	27,802
Payables under securities lending transactions	**60,099**	24,148
Borrowed money	**636,750**	621,150

In addition, securities totaling ¥221,993 million and other assets of ¥18 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2012.

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.

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

Other assets included deposits of ¥1,826 million and ¥1,760 million and initial margins of futures markets of ¥8 million and ¥9 million at March 31, 2012 and 2011, respectively.

7. Borrowed Money

Borrowed money at March 31, 2012 and 2011, included subordinated borrowings amounting to ¥137,500 million and ¥87,500 million, respectively.

8. Bonds Payable

Bonds payable included callable (subordinated) debenture bonds of ¥67,500 million, payable in yen, due 2012 to 2026 at March 31, 2012.

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

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, 2012 and 2011, for the defined benefit plans of FFG and its subsidiaries:

(Millions of yen)

	2012	2011
Project benefit obligation	¥(107,703)	¥(108,261)
Fair value of plan assets	132,443	136,659
Projected benefit obligation in excess of plan assets	24,739	28,398
Unrecognized net actuarial differences	37,089	31,585
Unrecognized prior service cost	(1,302)	(1,470)
Net liability recognized	60,526	58,513
Prepaid pension cost	61,149	59,096
Provision for retirement benefits	(623)	(582)

The components of retirement benefit expenses for the years ended March 31, 2012 and 2011 are outlined as follows:

(Millions of yen)

	2012	2011
Service cost	¥ 3,197	¥ 3,202
Interest cost	2,152	2,155
Expected return on plan assets	(4,783)	(4,859)
Amortization of prior service cost	(168)	(168)
Amortization of net actuarial gain	3,862	3,568
Retirement benefit expenses	¥ 4,260	¥ 3,898

The assumptions used in the accounting for the above plans at March 31, 2012 and 2011 are as follows:

	2012	2011
(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)	9–12 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 ¥31,846 million and ¥34,010 million at March 31, 2012 and 2011, 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. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale securities at March 31, 2012 and 2011 consisted of the following:

(Millions of yen)

	2012	2011
Gross valuation difference on available-for-sale securities	¥77,211	¥42,653
Deferred tax liabilities applicable to valuation difference	26,509	16,376
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for Minority Interests	50,701	26,277
Amount attributable to minority interests	(7)	(13)
FFG's interest in valuation difference on available-for-sale securities held by affiliates accounted for by the equity method	(12)	(17)
Valuation difference on available-for-sale securities	50,696	26,273

12. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2012 and 2011 are as follows:

(Millions of yen)

	2012	2011
Deferred tax assets:		
Allowance for loan losses	**¥ 63,418**	¥ 76,855
Net losses carried forward	**56,231**	105,135
Provision for retirement benefits	**7,332**	9,224
Depreciation of securities	**9,436**	11,998
Depreciation expenses	**4,405**	3,201
Deferred gains or losses on hedges	**7,802**	4,849
Fair value gains related to consolidated taxation	**31,268**	—
Other	**5,244**	1,633
Subtotal	**185,139**	212,898
Valuation allowance	**(70,690)**	(98,864)
Total	**114,449**	114,034
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	**(26,509)**	(16,376)
Retirement benefit trust	**(10,050)**	(11,695)
Reserve for special depreciation	**(467)**	(534)
Fair value losses related to consolidated taxation	**(796)**	—
Other	**(31)**	(7)
Total	**(37,854)**	(28,613)
Net deferred tax assets	**¥ 76,594**	¥ 85,420

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, 2012 and 2011.

(%)

	2012	2011
Statutory tax rate	**40.4**	40.4
Change in valuation allowance	**21.8**	(3.8)
Nondeductible goodwill amortization	**10.6**	7.2
Entertainment expenses and other items permanently excluded from expenses	**1.0**	0.6
Per capital residence tax	**0.5**	0.3
Dividend revenue and other items permanently excluded from gross revenue	**(1.5)**	(0.9)
Reversal of deferred tax assets due to changes in the corporate income tax rate	**17.9**	—
Tax rate difference with overseas consolidated subsidiaries	**(2.9)**	(2.0)
Effect of consolidated taxation	**(80.9)**	—
Consolidated adjustment	**1.3**	1.4
Other	**(0.3)**	0.4
Effective tax rate	**7.9**	43.6

Adjustment of deferred tax assets and deferred tax liabilities due to changes in the corporate income tax rate

Following the promulgation of the "Act for Partial Amendment of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114, 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117, 2011) on December 2, 2011, the corporate income tax rate will be lowered and a special restoration surtax will be imposed from fiscal years beginning on or after April 1, 2012.

Accordingly, the statutory tax rate of 40.4% previously used for the calculation of deferred tax assets and deferred tax liabilities has been changed to 37.7% for temporary differences expected to be reversed from April 1, 2012 to March 31, 2015 and 35.3% for temporary differences expected to be reversed after March 31, 2015.

As a result of this change, for the year ended March 31, 2012, Valuation difference on available-for-sale securities, Deferred income tax and Revaluation reserve for land increased by ¥3,838 million, ¥3,529 million and ¥4,022 million, respectively. In addition, Deferred gains or losses on hedges, Deferred tax assets and Deferred tax liabilities for land revaluation decreased by ¥1,127 million, ¥818 million and ¥4,022 million, respectively.

In addition, the system for the carry-over of losses has been revised, and for consolidated fiscal years beginning on or after April 1, 2012, the deductible carryover will be equivalent to 80% of the amount of income before deduction. This change resulted in a ¥2,704 million decrease in Deferred tax assets, with an equivalent rise in Deferred income taxes.

Adoption of the Consolidated Taxation System

FFG and certain of its consolidated subsidiaries applied to adopt the consolidated taxation system from the fiscal year ending March 31, 2013. In line with this move, in the fiscal year ended March 31, 2012, FFG adopted accounting methods assuming the application of a consolidated taxation system, based on the "Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 1)" (ASBJ Practical Issues Task Force No. 5) and the "Tentative Treatment of Tax Effect Accounting Under Consolidated Taxation System (Part 2)" (ASBJ Practical Issues Task Force No. 7).

As a result of this change, Deferred tax assets and Valuation difference on available-for-sale securities increased by ¥28,287 million and ¥57 million, respectively, and Deferred income tax decreased by ¥28,229 million for the year ended March 31, 2012.

13. Net Income per Share

Net income per share for the years ended March 31, 2012 and 2011 are as follows:

(Yen)

	2012	2011
Net income per share:		
Basic	**¥32.62**	¥29.94
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. 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.

Each component of other comprehensive income for the year ended March 31, 2012 was the following:

(Millions of yen)

	2012
Valuation difference on available-for-sale securities:	
Gains arising during the year	**¥40,447**
Reclassification adjustments to profit or loss	**(5,889)**
Amount before income tax effect	**34,557**
Income tax effect	**(10,133)**
Total	**24,423**
Deferred gains or losses on hedges	
Losses arising during the year	**(15,981)**
Reclassification adjustments to profit or loss	**5,881**
Amount before income tax effect	**(10,099)**
Income tax effect	**2,952**
Total	**(7,146)**
Revaluation reserve for land:	
Income tax effect	**4,022**
Share of other comprehensive income(loss) of associates accounted for using equity method:	
Gains arising during the year	**5**
Total other comprehensive income	**¥21,304**

15. 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, 2012 and 2011 are as follows:

(Millions of yen)

	2012	2011
Cash and due from banks	**¥472,823**	¥665,643
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	**(6,052)**	(7,525)
Cash and cash equivalents	**¥466,771**	¥658,117

16. 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, 2012 and 2011, 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)

	2012	2011
Acquisition costs:		
Tangible fixed assets	**¥428**	¥6,396
Intangible fixed assets	**—**	7
Total acquisition costs	**428**	6,404
Accumulated depreciation	**273**	4,335
Net book value	**¥155**	¥2,069

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥818 million and ¥1,308 million for the years ended March 31, 2012 and 2011, 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 ¥752 million and ¥1,203 million for the years ended March 31, 2012 and 2011, respectively. The interest expense portion included in the lease payments amounted to ¥36 million and ¥76 million for the years ended March 31, 2012 and 2011, respectively.

Future minimum lease payments subsequent to March 31, 2012 and 2011 for finance lease transactions accounted for as operating leases are summarized as follows:

(Millions of yen)

	2012	2011
Within one year	**¥ 82**	¥1,012
Over one year	**77**	1,154
Total	**¥159**	¥2,166

Operating leases

Total future lease payments under non-cancelable operating leases at March 31, 2012 and 2011 are as follows:

(Millions of yen)

	2012	2011
Within one year	**¥ 39**	¥ 43
Over one year	**74**	57
Total	**¥113**	¥101

17. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

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

(b) Primary details of financial instruments and their risk

Loans and bills discounted

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

Securities

FFG holds equity and debt securities for trading purposes, for holding to maturity, for purely investment purposes and for policy investment purposes. Such securities are subject to issuer credit risk, interest rate risk, market price fluctuation risk and liquidity risk (market liquidity risk) owing to such factors as being unable to dispose of securities because of certain conditions in the operating environment. FFG employs interest rate swap transactions to reduce its interest rate risk to a certain extent. In addition to the abovementioned 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 loan losses, conducts comparisons with capital adequacy and employs credit risk management procedures to determine the rationality and quantity of credit risk.

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

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

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

(b) Management of market risk

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

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

FFG's ALM Committee deliberates expeditious and specific measures to respond to changes in the market environment and determines response policies. The management committees of consolidated subsidiaries set FFG's risk capital and the ceilings necessary for managing other market risks, reviewing these settings every six months.

FFG's organization for managing market risks comprises the Market Transaction Department (front office), the Market Risk Management Department (middle office), the Market Operations Management 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, 2012 and 2011, FFG's amount of interest rate risk (value of estimated losses) was ¥53,724 million and ¥55,614 million, respectively.

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

Volatility risk

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

FFG calculates VaR for these financial assets using the historical simulation method (holding period of 120 days, confidence interval of 99%, observation period of 1,250 days) and employs quantitative analysis in its volatility risk management.

As of March 31, 2012 and 2011, FFG's amount of volatility risk was ¥26,625 million and ¥26,020 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations and estimated gains or losses based on its portfolio for the VaR measurement period. As a result of such back-testing for the fiscal years ended March 31, 2012 and 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, 2012 and 2011 are as follows:

(Millions of yen)

	2012		
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 472,823	¥ 472,823	¥ (0)
Call loans and bills bought	220,000	219,999	(0)
Monetary claims bought	57,494	56,316	(1,177)
Trading assets			
Marketable securities	2,631	2,631	—
Securities			
Held-to-maturity securities	137,412	147,140	9,727
Available-for-sale securities	2,827,617	2,827,617	—
Loans and bills discounted	8,633,327	8,802,185	168,858
Foreign exchanges	9,069	9,073	3
Total	¥12,360,376	¥12,537,788	¥177,412
Liabilities			
Deposits	¥11,074,470	¥11,077,121	¥2,650
Call money and bills sold	3,294	3,294	0
Payables under securities lending transactions	60,099	60,086	(13)
Borrowed money	784,227	785,461	1,234
Foreign exchanges	750	750	—
Short-term bonds payable	10,000	10,000	0
Bonds payable	159,024	161,040	2,016
Total	¥12,091,866	¥12,097,755	¥ 5,889
Derivatives			
Hedge accounting not applied	¥3,143	¥3,143	¥ —
Hedge accounting applied	(29,017)	(29,017)	—
Total	¥ (25,874)	¥ (25,874)	¥ —

(Millions of yen)

	2011		
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 665,643	¥665,643	¥ (0)
Call loans and bills bought	—	—	—
Monetary claims 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
Available-for-sale securities	2,811,034	2,811,034	—
Loans and bills discounted	8,231,202	8,381,272	150,069
Foreign exchanges	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 exchanges	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)	¥ —

Allowance for loan losses and allowance for losses on investment on “Monetary claims bought”, “Loans and bills discounted” 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.

Primary method of Calculating the Fair Value of Financial Instruments

Assets

(1) Cash and due from banks

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

(2) 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.

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, 2012 and 2011, and this figure was posted in the consolidated financial statements.

Considering current conditions in the market environment, the fair value of some floating-rate government bonds of which market prices could not be deemed accurate prices are determined using a rational method.

Accordingly, in the consolidated financial statements for the years ended March 31, 2012 and 2011, “Securities” was ¥868 million and ¥10,367 million higher, “Deferred tax assets” was ¥306 million and ¥4,188 million lower, and “Valuation difference on available-for-sale securities” was ¥562 million and ¥6,178 million higher than the amounts determined using the market prices. 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 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, 2012 and 2011 are as follows

(Millions of yen)

	2012	2011
	Carrying value	Carrying value
Stocks of subsidiaries and affiliates	¥ 2,044	¥ 2,448
Available-for-sale securities		
Unlisted equity securities	9,950	10,331
Unlisted foreign securities	0	29
Investments in limited partnership	5,604	6,711
Total	¥17,599	¥19,521

The fair value of stocks of subsidiaries and affiliates, unlisted equity securities and unlisted foreign securities of "Available-for-sale securities" are not readily determinable, and thus these are not subject to disclosures of fair values.
Impairment losses on unlisted securities for the years ended March 31, 2012 and 2011 are ¥357 million and ¥130 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, 2012 and 2011 are summarized as follows:

(Millions of yen)

	2012					
	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	¥331,428	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	220,000	—	—	—	—	—
Monetary claims bought	37,707	14,120	1,733	—	—	4,207
Securities						
Held-to-maturity bonds						
Held-to-maturity government bonds	—	—	—	61,077	31,680	17,474
Held-to-maturity corporate bonds	—	—	—	7,062	7,945	12,171
Available-for-sale securities with maturities						
Held-to-maturity government bonds	66,567	100,054	211,072	247,402	1,118,287	—
Held-to-maturity local government bonds	2,235	2,383	3,230	8,966	17,551	—
Held-to-maturity corporate bonds	101,565	265,224	83,877	70,576	220,160	—
Held-to-maturity other	14,565	57,058	53,669	16,022	57,463	31,471
Loans and bills discounted	2,115,521	1,641,520	1,214,943	897,500	810,788	1,766,951
Foreign exchanges	9,069	—	—	—	—	—
Total	¥2,898,662	¥2,080,361	¥1,568,527	¥1,308,608	¥2,263,877	¥1,832,276

Loans do not include an estimated ¥202,978 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In Danger of Bankruptcy Obligors, and ¥134,183 million in loans that have no set term.

(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 claims 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
Available-for-sale 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	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 exchanges	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.

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2012 and 2011 are summarized as follows:

(Millions of yen)

	2012					
	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	¥10,527,345	¥430,181	¥111,135	¥ 2,763	¥ 3,044	¥ —
Call money and bills sold	3,294	—	—	—	—	—
Payable under securities lending transactions	60,099	—	—	—	—	—
Borrowed money	635,286	8,035	1,569	40,757	48,575	50,003
Short-term bonds payable	10,000	—	—	—	—	—
Bonds payable	—	91,524	—	—	57,500	10,000
Total	¥11,236,025	¥529,741	¥112,704	¥43,520	¥109,120	¥60,003

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

(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.

18. 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, 2012 and 2011 are as follows:

Hedge accounting not applied

As of March 31, 2012 and 2011, 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, 2012	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥185,003	¥ 4,861	¥ 4,625
Receive/floating and pay/fixed	185,824	(3,399)	(3,167)
Interest swaptions			
Sell	4,000	(35)	4
Buy	4,000	35	35
Caps			
Sell	3,730	(0)	17
Buy	3,430	0	(6)
Floor			
Sell	700	(4)	(4)
Buy	700	4	4
Total	¥ —	¥ 1,462	¥ 1,510

(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

■ Currency-related transactions

(Millions of yen)

As of March 31, 2012	Notional amount	Fair value	Gain (Loss)
Currency swaps	**¥865,668**	**¥1,136**	**¥ 920**
Foreign exchange contract			
Sell	**29,653**	**267**	**267**
Buy	**47,564**	**(109)**	**(109)**
Currency option			
Sell	**36,227**	**(842)**	**(303)**
Buy	**36,227**	**842**	**457**
Total	**¥ —**	**¥1,294**	**¥1,232**

(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

■ Bond–related transactions

(Millions of yen)

As of March 31, 2012	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	**¥200**	**¥ 0**	**¥ 0**
Buy	**—**	**—**	**—**
Total	**¥ —**	**¥ 0**	**¥ 0**

(Millions of yen)

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

■ Credit derivative transactions

(Millions of yen)

As of March 31, 2012	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	**¥20,000**	**¥(92)**	**¥(94)**
Buy	**—**	**—**	**—**
Total	**¥ —**	**¥(92)**	**¥(94)**

(Millions of yen)

As of March 31, 2011	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥8,000	¥(8)	¥(8)
Buy	—	—	—
Total	¥ —	¥(8)	¥(8)

■ Hybrid financial instrument transactions

(Millions of yen)

As of March 31, 2012	Notional amount	Fair value	Gain (Loss)
Compound instruments	**¥31**	**¥479**	**¥479**
Total	**¥—**	**¥479**	**¥479**

(Millions of yen)

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

Hedge accounting applied

As of March 31, 2012 and 2011, 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, 2012				
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, available-for-sale securities, and deposits	**¥522,776** **9,517**	**¥(17,163)** **—**
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** **190,446** **100,000**	**¥ 39** **(4,028)** **(8,259)**
	Total	—	**¥ —**	**¥(29,410)**

(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, available-for-sale 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)

■ Currency-related transactions

(Millions of yen)

As of March 31, 2012				
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	**¥24,937**	**¥(245)**
Allocation method	Currency swaps	Foreign bonds	**31,129**	**637**
	Total	—	**¥ —**	**¥ 392**

(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)

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, 2012.

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, 2012.

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, 2012.

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, 2012.

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, 2012.

20. Related-Party Transactions

(1) Directors and principal individual shareholders

2012

Attribute	Name	Address	Common Stock	Title	Equity Ownership	Relationship	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	¥29,400 million	Loan	¥71,532 million
		—	—	FFG's corporate auditor President and Representative Director of Fukuoka Energy Service Co., Inc.	—	—	Loan	¥(176) million	Loan	¥1,638 million

2011

Attribute	Name	Address	Common Stock	Title	Equity Ownership	Relationship	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 Representative Director of Fukuoka Energy Service Co., Inc.	—	—	Loan	¥(196) million	Loan	¥1,815 million

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

(2) Others

There were no relevant transactions with related parties to report for the years ended March 31, 2012 and 2011.

21. Subsequent Events

(1) Cash dividends

The following distribution of retained earnings of FFG, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2012, was approved at a shareholders meeting held on June 28, 2012 and became effective June 29, 2012:

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

(2) Business combination

On April 1, 2012, as an effective date, a share exchange was conducted between the Bank of Fukuoka, a consolidated subsidiary of FFG, and Maeda Securities Co., Ltd. ("Maeda Securities"), an affiliate accounted for by the equity method. As a result of the share exchange, Maeda Securities became a wholly owned subsidiary company and the Bank of Fukuoka became the wholly owning parent company. On the same day, Maeda Securities' name was changed to Fukuoka Securities Co., Ltd. ("Fukuoka Securities").

Corporate combination through acquisition

(a) Overview of transaction

(i) Name of acquired company – Fukuoka Securities Co., Ltd.
Content of business – Securities business

(ii) Principal reasons for business combination
The objective of the combination was to enhance market competitiveness and deploy management resources more effectively by forming a new business model that integrates banking and securities operations.

(iii) Date of the business combination
April 1, 2012

(iv) Method of corporate merger

Through the share exchange, Fukuoka Securities became a wholly owned subsidiary of the Bank of Fukuoka. The share exchange was executed by assigning the common shares of FFG, rather than the shares of the Bank of Fukuoka, to the shareholders of Fukuoka Securities.

(v) Name of post-merger entity

Fukuoka Securities Co., Ltd.

(vi) Share of voting rights acquired

Ownership and percentage of voting rights immediately before the acquisition	29.2%
Percentage of additional voting rights acquired on the day of the corporate combination	70.8%
Percentage of voting rights following the acquisition	100.0%

(vii) Primary basis for the decision by the acquiring company

Fukuoka Securities was converted to a wholly owned subsidiary company of the Bank of Fukuoka through a share exchange, with the Bank of Fukuoka holding 100% of voting rights.

(b) Acquisition price and details

Market value of common shares of FFG issued on the date of the corporate combination	¥5,024 million
Expenses directly required for the acquisition, advisory expenses, etc.	¥48 million
Cost of acquisition	¥5,073 million

(c) Exchange ratio, method of calculation and number of shares delivered, by type of stock

(i) Allocations of common shares related to this share exchange

FFG: 1

Fukuoka Securities Co., Ltd.: 1

(ii) Calculation basis of share exchange ratio

The Bank of Fukuoka selected Nomura Securities Co., Ltd., and Fukuoka Securities selected Frontier Management Inc. as their respective independent calculation agents for calculating the share exchange ratio. Based on the reports submitted by these agents, the transaction parties engaged in prudent negotiation and deliberation. As a result, the share exchange ratio stated in (i) above was judged to be appropriate, and the parties agreed to and decided on this ratio.

(iii) Number of shares newly issued

9,706,895

No allotment of shares was conducted for the 3,984,925 shares of Fukuoka Securities held by the Bank of Fukuoka immediately before the corporate combination.

(d) Difference of acquisition cost of the acquired company and total acquisition cost by transaction leading up to the acquisition

Acquisition cost of the acquired company	¥5,073 million
Total acquisition cost by transaction leading up to the acquisition	¥5,580 million
Balance (amount of difference stemming from phased acquisition)	¥507 million

(e) Amount of goodwill generated and Sources of goodwill

(i) Amount of negative goodwill generated

¥2,969 million

(ii) Sources of goodwill

Goodwill was recorded as a difference between the equity interest acquired by the Bank of Fukuoka and the acquisition cost.

(f) A breakdown of the amounts of principal assets received and liabilities assumed on the date of the business combination is provided below

(Millions of yen)

Assets:	
Current assets	¥ 8,744
Non-current assets	2,714
Total assets	¥11,458
Liabilities:	
Current liabilities	¥ 2,676
Non-current liabilities	719
Reserves under the special laws	19
Total liabilities	¥ 3,415

NON-CONSOLIDATED BALANCE SHEETS (Unaudited)

The Bank of Fukuoka, Ltd.
As of March 31, 2012 and 2011

	2012	2011	2012
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 369,750	¥ 577,581	$ 4,498
Call loans	220,000	63,000	2,676
Receivables under securities borrowing transactions	84,675	48,639	1,030
Monetary claims bought	48,368	61,399	588
Trading assets	2,527	6,329	30
Securities	1,977,009	1,958,573	24,054
Loans and bills discounted	6,670,975	6,363,660	81,165
Foreign exchanges	7,350	7,339	89
Other assets	84,617	98,184	1,029
Tangible fixed assets	140,951	141,166	1,714
Intangible fixed assets	5,298	5,324	64
Deferred tax assets	29,837	56,392	363
Customers' liabilities for acceptances and guarantees	35,582	37,066	432
Allowance for loan losses	(107,636)	(103,192)	(1,309)
Total assets	**¥9,569,308**	**¥9,321,464**	**$116,429**
Liabilities			
Deposits	¥7,991,413	¥7,816,166	$ 97,230
Call money	42,065	32,443	511
Payables under securities lending transactions	60,099	24,148	731
Trading liabilities	—	1	—
Borrowed money	789,528	738,297	9,606
Foreign exchanges	727	371	8
Bonds payable	99,024	149,257	1,204
Other liabilities	64,633	59,713	786
Provision for losses on interest repayments	967	992	11
Provision for losses from reimbursement of inactive accounts	3,701	3,398	45
Provision for contingent liabilities losses	1,233	803	15
Deferred tax liabilities for land revaluation	27,536	32,112	335
Acceptances and guarantees	35,582	37,066	432
Total liabilities	**¥9,116,512**	**¥8,894,771**	**$110,919**
Net assets			
Capital stock	¥ 82,329	¥ 82,329	$1,001
Capital surplus	60,480	60,480	735
Retained earnings	233,341	222,773	2,839
Total shareholders' equity	**376,152**	**365,584**	**4,576**
Valuation difference on available-for-sale securities	41,595	22,011	506
Deferred gains or losses on hedges	(14,300)	(7,154)	(173)
Revaluation reserve for land	49,348	46,251	600
Total valuation and translation adjustments	76,642	61,108	932
Total net assets	**¥ 452,795**	**¥ 426,692**	**$ 5,509**
Total liabilities and net assets	**¥9,569,308**	**¥9,321,464**	**$116,429**

NON-CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

The Bank of Fukuoka, Ltd.
For the years ended March 31, 2012 and 2011

	2012	2011	2012
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥107,241	¥110,804	$1,304
Interest and dividends on securities	24,306	21,976	295
Interest on call loans	209	96	2
Interest on receivables under securities borrowing transactions	58	9	0
Interest on deposits with banks	64	36	0
Interest on interest swaps	1,643	302	19
Other interest income	636	1,228	7
Trust fees	1	1	0
Fees and commissions	30,661	29,971	373
Trading income	221	226	2
Other operating income	11,904	7,271	144
Other income	5,175	9,473	62
Total income	**¥182,123**	**¥181,400**	**$2,215**
Expenses			
Interest expenses:			
Interest on deposits	¥ 5,061	¥ 7,122	$ 61
Interest on call money	418	467	5
Interest on payables under securities lending transactions	238	107	2
Interest on borrowing and rediscounts	4,179	3,454	50
Interest on bonds	2,944	1,616	35
Interest on interest swaps	9,102	8,630	110
Other interest expenses	330	431	4
Fees and commissions payments	16,081	15,506	195
Other operating expenses	2,915	1,752	35
General and administrative expenses	72,497	74,110	882
Other expenses	26,757	22,052	325
Total expenses	**¥140,527**	**¥135,251**	**$1,709**
Income before income taxes	**41,596**	**46,149**	**506**
Provision for income taxes:			
Current	206	119	2
Deferred	21,239	19,340	258
	21,445	**19,460**	**260**
Net income	**¥ 20,150**	**¥ 26,689**	**$ 245**

NON-CONSOLIDATED BALANCE SHEETS (Unaudited)

The Kumamoto Family Bank, Ltd.
As of March 31, 2012 and 2011

	2012	2011	2012
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 30,289	¥ 31,151	$ 368
Call loans	17,236	12,952	209
Monetary claims bought	3	16	0
Trading account securities	—	8	—
Securities	246,799	226,396	3,002
Loans and bills discounted	911,870	886,721	11,094
Foreign exchanges	642	600	7
Other assets	15,367	15,581	186
Tangible fixed assets	17,477	18,763	212
Intangible fixed assets	2,635	3,845	32
Deferred tax assets	17,832	16,413	216
Customers' liabilities for acceptances and guarantees	6,565	7,696	79
Allowance for loan losses	(12,738)	(11,052)	(154)
Total assets	**¥1,253,981**	**¥1,209,094**	**$15,257**
Liabilities			
Deposits	¥1,130,752	¥1,095,663	$13,757
Call money	—	15,000	—
Payables under securities lending transactions	15,512	—	188
Borrowed money	18,380	9,950	223
Foreign exchanges	7	5	0
Other liabilities	4,753	6,439	57
Provision for losses from reimbursement of inactive accounts	297	498	3
Provision for contingent liabilities losses	106	25	1
Deferred tax liabilities for land revaluation	1,673	1,962	20
Acceptances and guarantees	6,565	7,696	79
Total liabilities	**¥1,178,047**	**¥1,137,242**	**$14,333**
Net assets			
Capital stock	¥ 33,847	¥ 33,847	$ 411
Capital surplus	33,847	33,847	411
Retained earnings	4,536	2,908	55
Total shareholders' equity	**72,231**	**70,603**	**878**
Valuation difference on available-for-sale securities	2,919	638	35
Revaluation reserve for land	782	611	9
Total valuation and translation adjustments	3,702	1,249	45
Total net assets	**¥ 75,933**	**¥ 71,852**	**$ 923**
Total liabilities and net assets	**¥1,253,981**	**¥1,209,094**	**$15,257**

NON-CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

The Kumamoto Family Bank, Ltd.
For the years ended March 31, 2012 and 2011

	2012	2011	2012
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥18,795	¥19,913	$228
Interest and dividends on securities	2,375	2,216	28
Interest on call loans	192	231	2
Interest on deposits with banks	0	0	0
Interest on interest swaps	—	86	—
Other interest income	46	77	0
Fees and commissions	4,219	4,265	51
Other operating income	261	1,142	3
Other income	588	539	7
Total income	**¥26,479**	**¥28,472**	**$322**
Expenses			
Interest expenses:			
Interest on deposits	¥ 1,277	¥ 1,776	$ 15
Interest on call money	0	0	0
Interest on payables under securities lending transactions	6	—	0
Interest on borrowing and rediscounts	14	2	0
Interest on bonds	—	300	—
Other interest expenses	34	44	0
Fees and commissions payments	2,487	2,368	30
Other operating expenses	1	78	0
General and administrative expenses	16,747	17,117	203
Other expenses	6,956	2,742	84
Total expenses	**¥27,529**	**¥24,431**	**$334**
Income (loss) before income taxes	**(1,050)**	**4,041**	**(12)**
Provision for income taxes:			
Current	18	18	0
Deferred	(2,620)	1,615	(31)
	(2,601)	**1,633**	**(31)**
Net income	**¥ 1,551**	**¥ 2,407**	**$ 18**

NON-CONSOLIDATED BALANCE SHEETS (Unaudited)

The Shinwa Bank, Ltd.
As of March 31, 2012 and 2011

	2012	2011	2012
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 75,087	¥ 59,316	$ 913
Call loans	21,535	13,352	262
Trading account securities	104	109	1
Securities	761,231	782,304	9,261
Loans and bills discounted	1,296,688	1,220,767	15,776
Foreign exchanges	1,077	1,217	13
Other assets	16,073	15,273	195
Tangible fixed assets	45,054	47,534	548
Intangible fixed assets	4,443	5,764	54
Deferred tax assets	25,082	15,178	305
Customers' liabilities for acceptances and guarantees	9,408	10,230	114
Allowance for loan losses	(20,626)	(18,659)	(250)
Total assets	**¥2,235,160**	**¥2,152,388**	**$27,195**
Liabilities			
Deposits	¥1,988,335	¥1,897,623	$24,191
Call money	—	48,000	—
Payables under securities lending transactions	69,163	48,639	841
Borrowed money	27,518	19,253	334
Foreign exchanges	14	44	0
Other liabilities	4,810	7,609	58
Provision for losses from reimbursement of inactive accounts	361	390	4
Provision for contingent liabilities losses	114	67	1
Deferred tax liabilities for land revaluation	5,399	10,478	65
Acceptances and guarantees	9,408	10,230	114
Total liabilities	**¥2,105,127**	**¥2,042,337**	**$25,612**
Net assets			
Capital stock	¥ 36,878	¥ 36,878	$ 448
Capital surplus	36,878	36,878	448
Retained earnings	34,186	17,044	415
Total shareholders' equity	**107,942**	**90,800**	**1,313**
Valuation difference on available-for-sale securities	7,091	5,134	86
Revaluation reserve for land	14,997	14,115	182
Total valuation and translation adjustments	22,089	19,250	268
Total net assets	**¥ 130,032**	**¥ 110,051**	**$ 1,582**
Total liabilities and net assets	**¥2,235,160**	**¥2,152,388**	**$27,195**

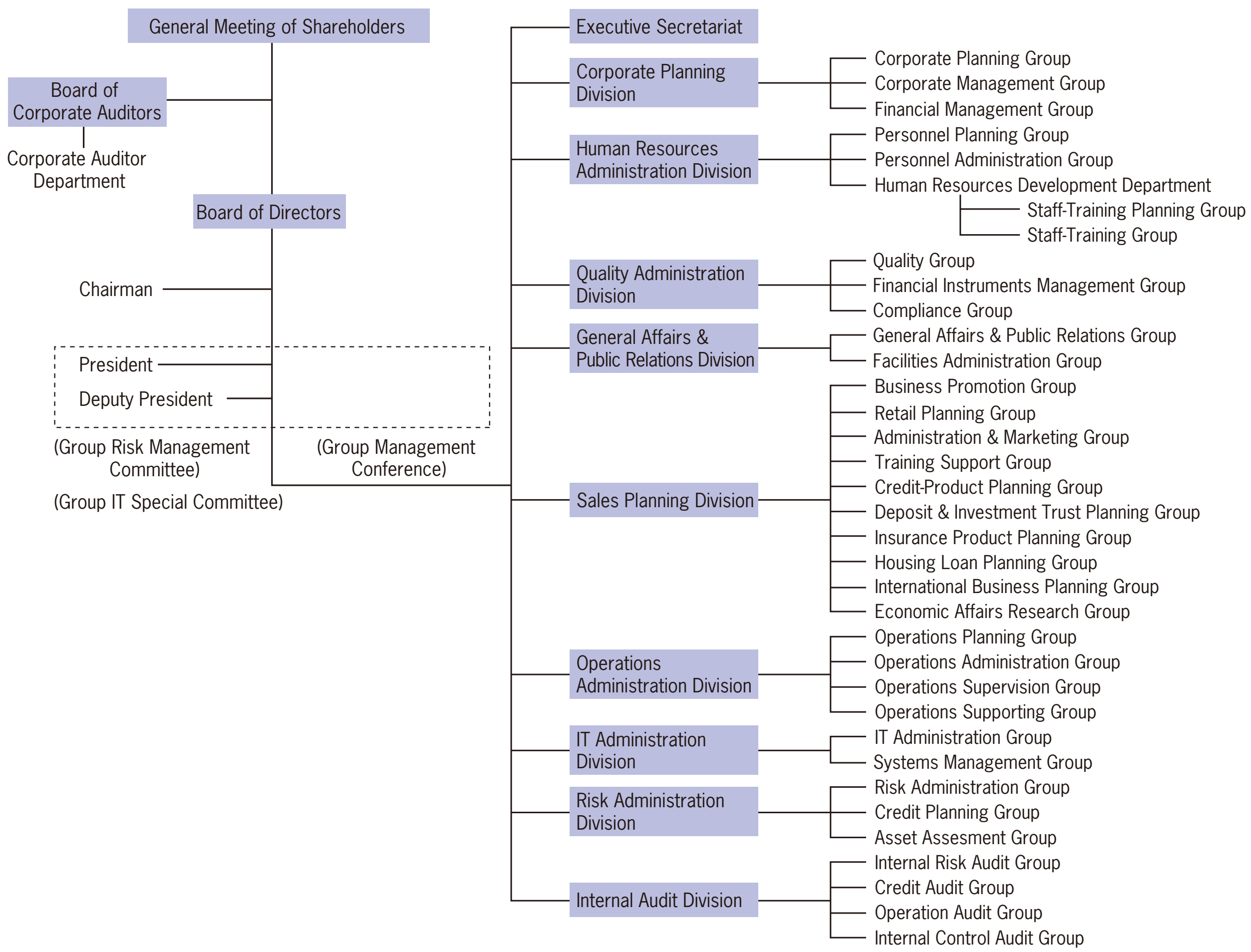
NON-CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

The Shinwa Bank, Ltd.
For the years ended March 31, 2012 and 2011

	2012	2011	2012
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥ 22,704	¥23,038	$ 276
Interest and dividends on securities	6,777	6,958	82
Interest on call loans	176	173	2
Interest on deposits with banks	0	0	0
Interest on interest swaps	—	16	—
Other interest income	59	108	0
Fees and commissions	7,013	7,199	85
Other operating income	3,853	3,647	46
Other income	1,860	1,634	22
Total income	**¥ 42,445**	**¥42,778**	**$ 516**
Expenses			
Interest expenses:			
Interest on deposits	¥ 1,322	¥ 1,710	$ 16
Interest on call money	8	18	0
Interest on payables under securities lending transactions	51	9	0
Interest on borrowing and rediscounts	171	223	2
Interest on bonds	—	332	—
Other interest expenses	13	0	0
Fees and commissions payments	3,541	3,428	43
Other operating expenses	71	162	0
General and administrative expenses	23,471	24,063	285
Other expenses	11,455	3,647	139
Total expenses	**¥ 40,106**	**¥33,597**	**$ 487**
Income before income taxes	**2,339**	**9,180**	**28**
Provision for income taxes:			
Current	30	30	0
Deferred	(14,406)	(412)	(175)
	(14,375)	**(381)**	**(174)**
Net income	**¥ 16,714**	**¥ 9,562**	**$ 203**

Corporate Data

Organizational Chart (as of July 1, 2012)



Board of Directors and Auditors (as of July 1, 2012)

Chairman of the Board and President
Masaaki Tani

Deputy Presidents
Takashige Shibato
Takashi Yoshikai

Directors
Fumio Sakurai
Jiro Furumura
Masayuki Aoyagi
Yasuhiko Yoshida
Kenji Hayashi
Noritaka Murayama
Osamu Obata
Hisaharu Isobe
Shunsuke Yoshizawa

External Directors
Ryuji Yasuda
Hideaki Takahashi

Corporate Auditors
Masahiko Tsuchiya

External Corporate Auditors
Tsuguo Nagao
Masayoshi Nuki
Humihide Sugimoto

The Bank of Fukuoka's 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

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

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

New York
New York Representative Office
One Rockefeller Plaza, Suite 1201, New York, NY 10020-2003
01-212-247-2966

Company Outline (as of March 31, 2012)

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	6,736

Share Information (as of March 31, 2012)

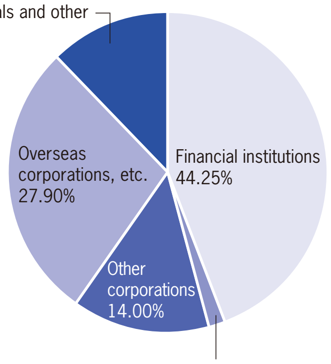
	Common stock	Type 1 preferred stock
Number of authorized shares	1,800,000,000	18,878,000
Number of shares Issued	859,761,868	18,742,000
Number of shareholders	29,889	574

Major Shareholders (as of March 31, 2012)

(Thousands of shares, %)

	Shares held	Ratio of shares held to issued number of shares
Japan Trustee Services Bank. Ltd. (Trust account)	62,295	7.09
The Master Trust Bank of Japan, Ltd. (Trust account)	43,795	4.98
Kyushu Electric Power Co., Inc.	19,496	2.21
Japan Trustee Services Bank. Ltd. (Trust account 9)	19,048	2.16
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
Japan Trustee Services Bank. Ltd. (Trust account 4)	12,117	1.37
NORTHERN TRUST CO.AVFC RE U.S.TAX EXEMPTED PENSION FUNDS	11,781	1.34

Common Stock Distribution by Type of Shareholder (as of March 31, 2012)



Ratings (as of September 1, 2012)

	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