

FFG

ANNUAL REPORT 2014

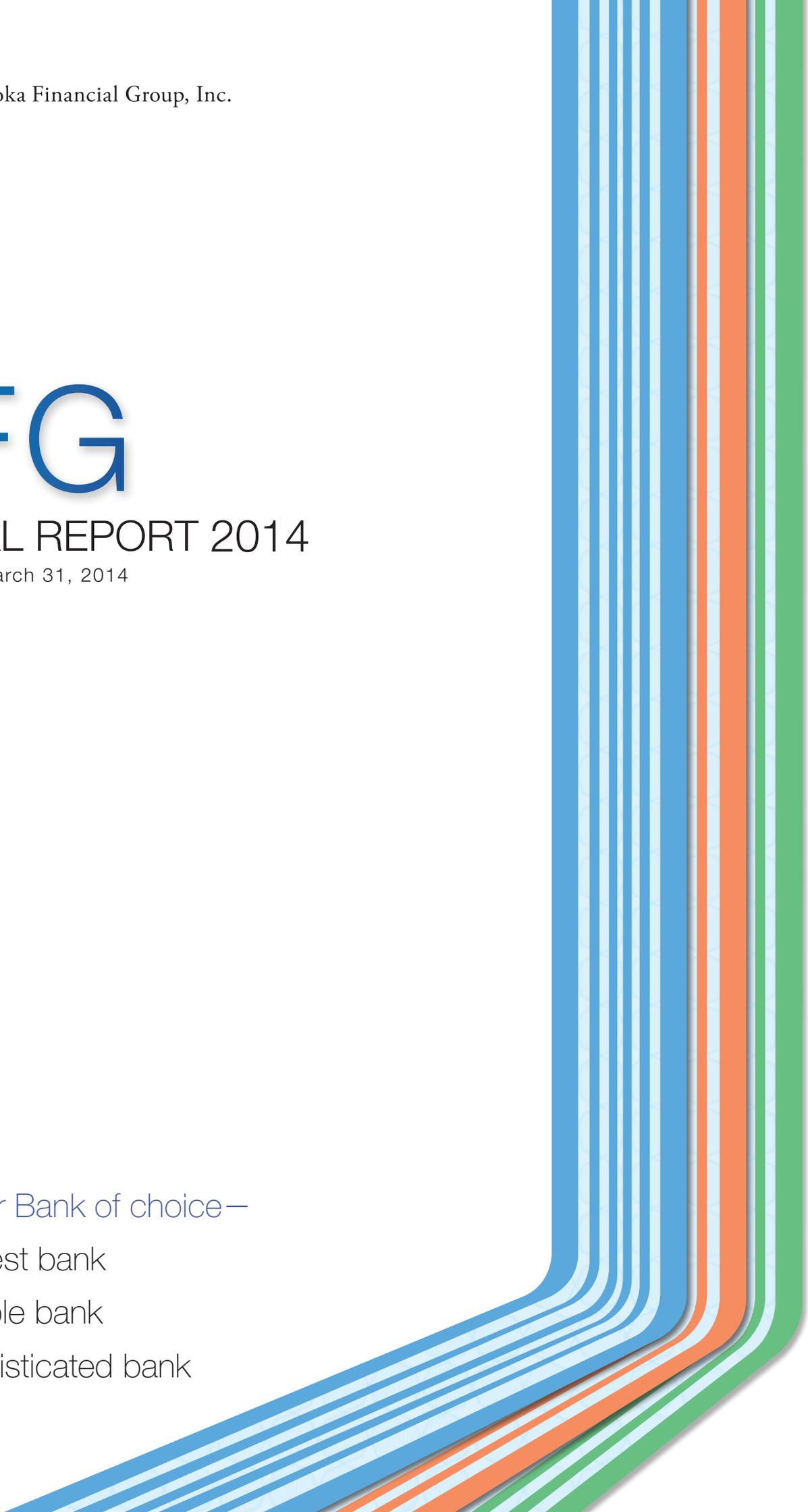
Year Ended March 31, 2014

—To be your Bank of choice—

Your closest bank

Your reliable bank

Your sophisticated bank





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

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

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

“To be your Bank of choice”

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“Cover design”

The cover is designed by illustrating the pattern of *Hakata Ori*, a traditional silk fabric of Fukuoka prefecture, which is also used in the building design of FFG head office. (The corporate colors of the three banks within FFG are applied in the pattern.)

Disclaimer Regarding Forward-looking Statements

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



FFG's Brand Mission and Principles



Group Management Principles

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

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

The FFG Brand

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

Brand Slogan

To be your Bank of choice

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

Your closest bank

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

Your reliable bank

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

Your sophisticated bank

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

The Story of Fukuoka Financial Group

Fukuoka Financial Group, Inc. (FFG), was established as a financial holding company through the joint share transfer of the Bank of Fukuoka and the Kumamoto Bank (trade name was changed from 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.

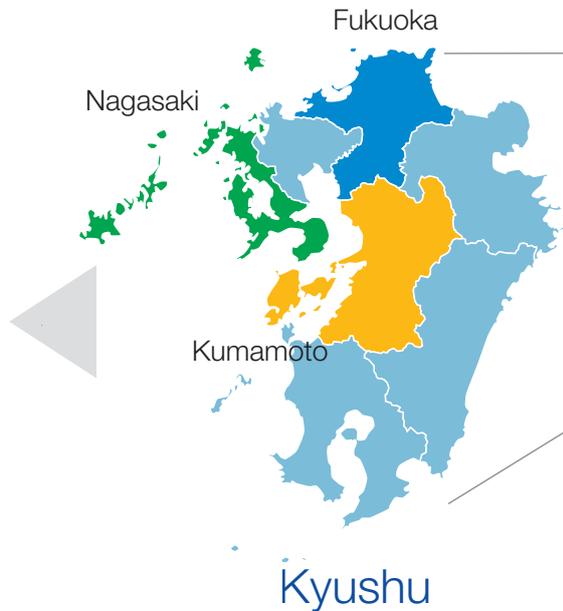
With its headquarters in Fukuoka, the largest

city in Kyushu, FFG's network extends across the Kyushu region through bases in the three prefectures of Fukuoka, Kumamoto and Nagasaki.

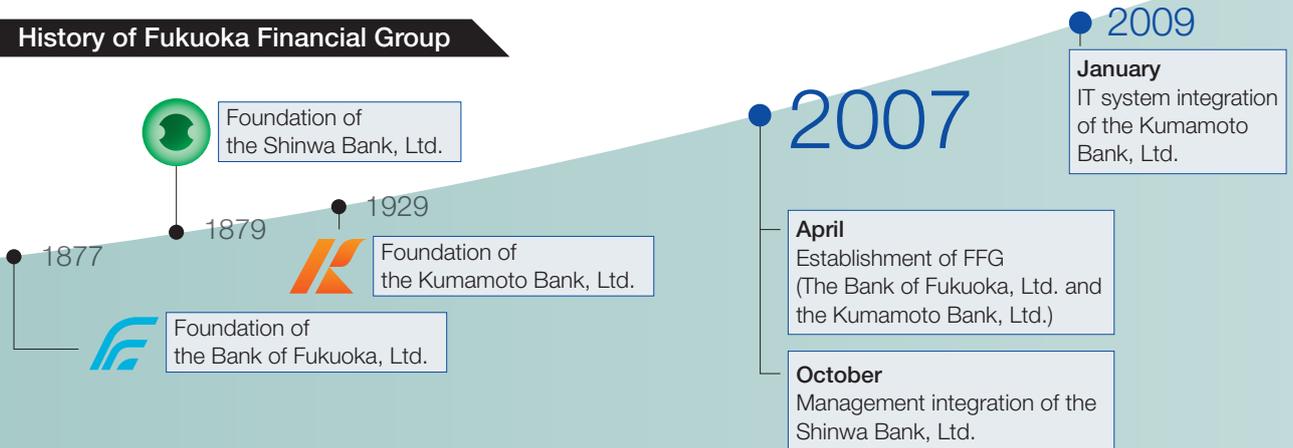
All officers and employees of the Fukuoka Financial Group are united in their efforts to fulfill the promise to stakeholders to make FFG "your Bank of choice." We look forward to your continued support in our drive to upgrade our services as a broad area-based regional financial group that spans local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

What is Kyushu?

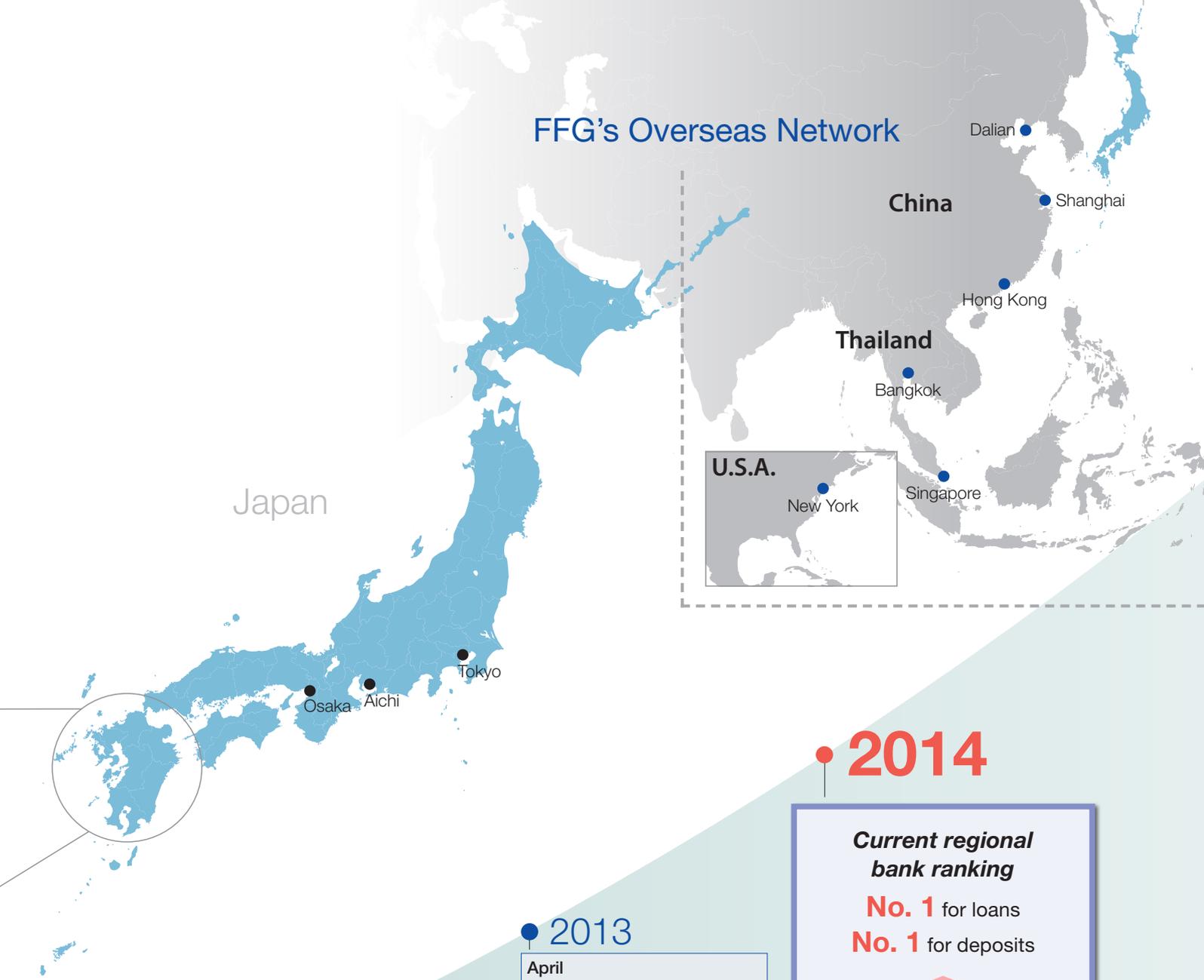
Kyushu is located in the south westernmost area of Japan. It is bordered by the East China Sea to the west and the Pacific Ocean to the east. The climate is slightly warmer and more tropical than Honshu. Kyushu consists of seven prefectures, namely Fukuoka, Oita, Saga, Nagasaki, Kumamoto, Miyazaki and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



History of Fukuoka Financial Group



FFG's Overseas Network



2014

Current regional bank ranking

No. 1 for loans
No. 1 for deposits

— Group-wide balance of deposits exceeds **¥12 trillion**.
— Record high profit for second consecutive terms.

2013

April
Trade name of the Kumamoto Family Bank, Ltd. changes to the Kumamoto Bank, Ltd.
— Group-wide balance of loans exceeds ¥9 trillion.

March
Opening of representative office in Bangkok

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

2012

November
Opening of representative office in New York

December
Opening of representative office in Singapore

2011

2010

January
IT system integration of the Shinwa Bank, Ltd.



Fukuoka Financial Group, Inc.

The Bank of Fukuoka, Ltd.

The Kumamoto Bank, Ltd.

The Shinwa Bank, Ltd.



Kyushu Figures

10% of Japan's Economy

10.3%

10.3% of total population of Japan lives in Kyushu.

4th

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

5 minutes

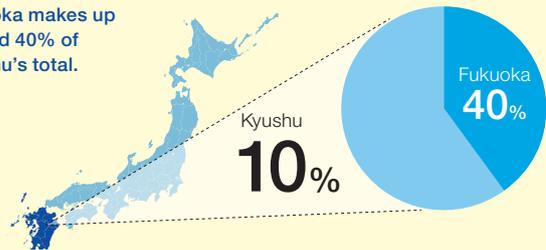
Fukuoka Airport is only 5–10 minutes by subway from central Fukuoka.

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

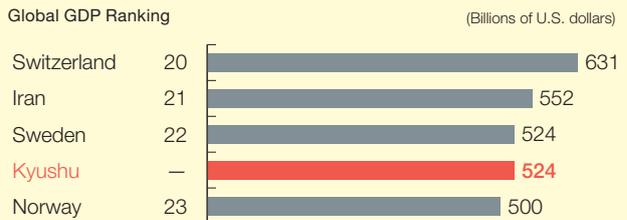
In terms of GDP, Kyushu is the fourth largest economy following the three major metropolitan areas of Kanto, Kinki, and Chubu, and is an important domestic production base for key industries including the automobile, IC-related, agricultural, and food product industries.

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

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



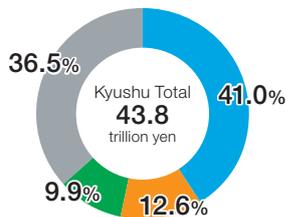
Kyushu's Place in the World



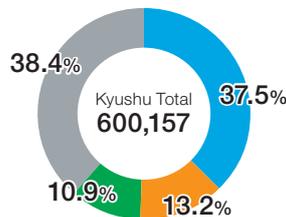
Source: Kyushu Economic Status 2014, Kyushu Bureau of Economy, Trade and Industry

Data Analysis for Kyushu

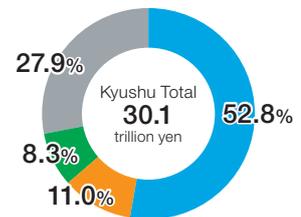
Gross Prefectural Production*¹ (2010)



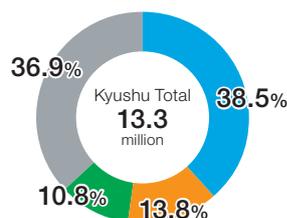
Number of Businesses*² (2012)



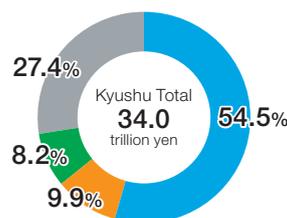
Loans*³ (March 31, 2014)



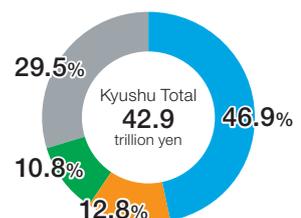
Population*¹ (March 31, 2013)



Commercial Sales*² (2012)



Deposits*³ (March 31, 2014)



■ Fukuoka ■ Kumamoto
■ Nagasaki ■ Kyushu, other prefectures

Sources *¹ Kyushu Economic Status 2014, Kyushu Bureau of Economy, Trade and Industry
 *² 2012 Economic Census, Ministry of Internal Affairs and Communications
 *³ Deposits, Vault Cash, and Loans and Bills Discounted by Prefecture, Bank of Japan

Convenient Transport Hub

Since various means of transportation of land, sea, and air are concentrated in central Fukuoka, it has taken the role of a hub which connects the flow of people, goods, money and information with each prefecture in Kyushu. In addition, Fukuoka is located in close proximity to major cities in Asia, with the rapidly growing cities of China and South Korea less than two hours away by air. As the gateway to Asia, Fukuoka has strong economic and cultural ties with Asia, and is a market with extraordinary future potential.



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



Kyushu Shinkansen
Broad network linking Fukuoka, Kumamoto and Kagoshima



Port of Hakata
Japan's largest in number of international passengers

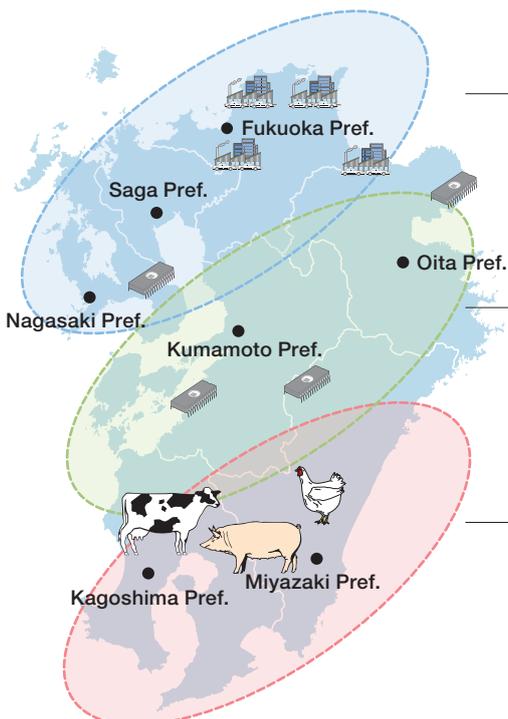
Travel Time from Fukuoka Airport



Source: Compiled by FFG using information from Kyushu Economic Status 2014, Kyushu Bureau of Economy, Trade and Industry

Well-Balanced Industry Grouping

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



Northern Kyushu, a center of “Car Island”

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

Middle Kyushu, contributes to “Silicon Island”

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

Southern Kyushu, a center of “Food Island”

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

Share in Japan

Number of Passenger Cars Produced in Kyushu



1.34 million

Amount of IC Output



606.1 billion yen

Amount of Agricultural Output



1.66 trillion

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

FFG at a Glance

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



(As of March 31, 2014)

1st

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

Total assets of regional banks		
Rank	Regional Bank	Amounts (Trillions of yen)
1	FFG	14.1
2	Bank of Yokohama	13.6
3	Chiba Bank	12.0
4	Hokuhoku FG	11.1
5	Shizuoka Bank	10.6
6	Yamaguchi FG	9.7

Loans

9.7

trillion yen

Deposits

12.3

trillion yen

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

Source: Individual banks' financial statements

THE BANK OF FUKUOKA, LTD.

Share of loans and deposits in Fukuoka prefecture **1st**



(As of March 31, 2014)

THE KUMAMOTO BANK, LTD.

Share of loans and deposits in Kumamoto prefecture **2nd**



(As of March 31, 2014)

THE SHINWA BANK, LTD.

Share of loans and deposits in Nagasaki prefecture **2nd**



(As of March 31, 2014)

Broad Area-Based Regional Financial Group

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

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

Fukuoka Financial Group, Inc.

Within Kyushu 321

THE BANK OF FUKUOKA, LTD.

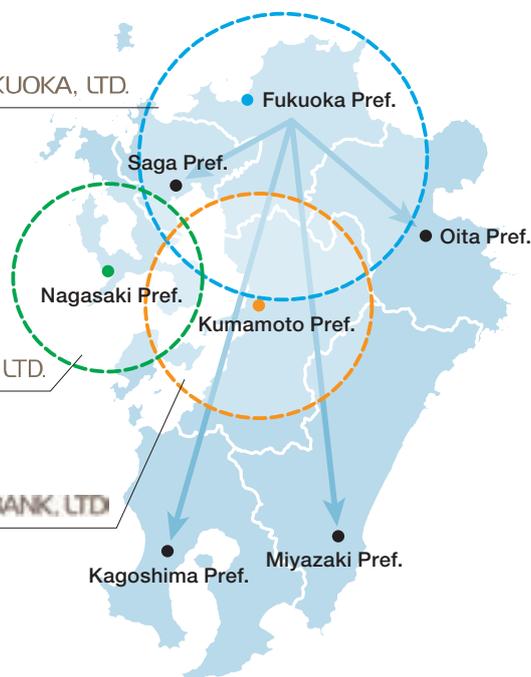
Fukuoka Prefecture	152
Within Kyushu	12
Other	6

THE SHINWA BANK, LTD.

Nagasaki Prefecture	76
Within Kyushu	11
Other	1

THE KUMAMOTO BANK, LTD.

Kumamoto Prefecture	63
Within Kyushu	7



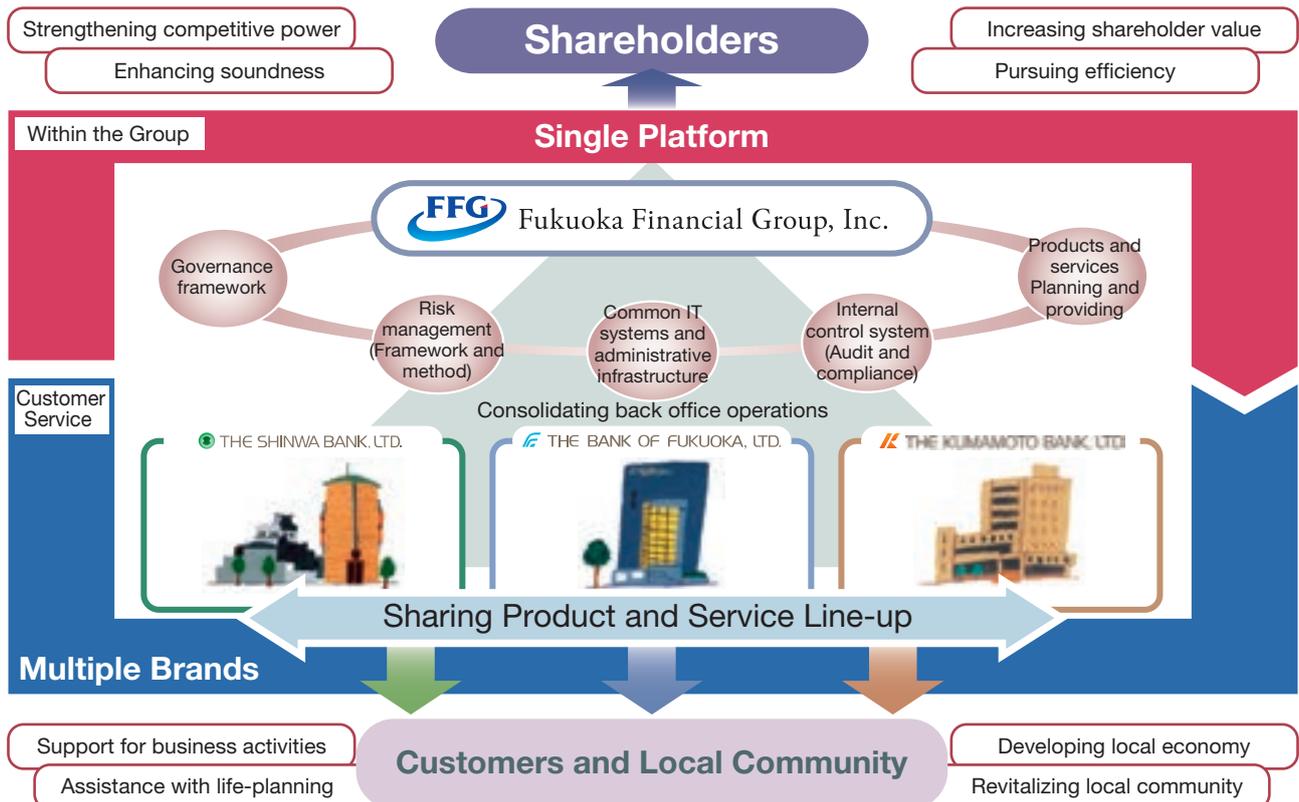
(As of August 1, 2014)

FFG's Management Style

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

This is a management style that utilizes the integrated management system and infrastructure

within the Group, while presenting three faces (brands) to the customers. This style also enables the pursuit of scale merits, while maintaining commitment to the region.



Single Platform

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

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

Multiple Brands

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

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

This management style enables the pursuit of a high degree of efficiency and effectively utilizes the single platform as well as the subsidiary banks' own brands. We are proud of the fact that it is the most suitable

style for the management integration of regional banks in Japan, for which connections with local customers are essential.

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

Outline of the Fourth Mid-Term Management Plan

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

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

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

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

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

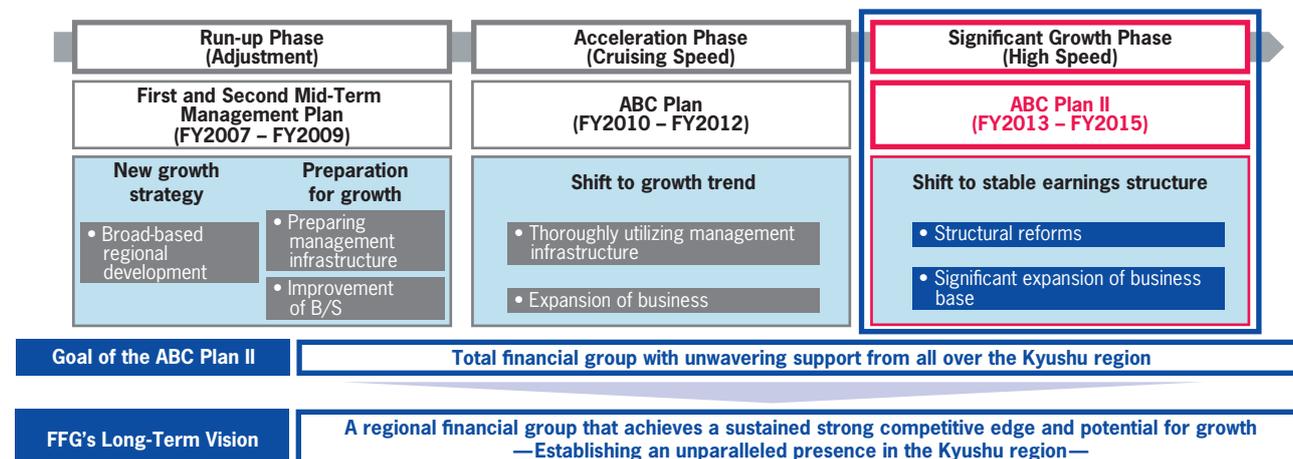
Positioning of the Fourth Mid-Term Management Plan, and FFG's Goal

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

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

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

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

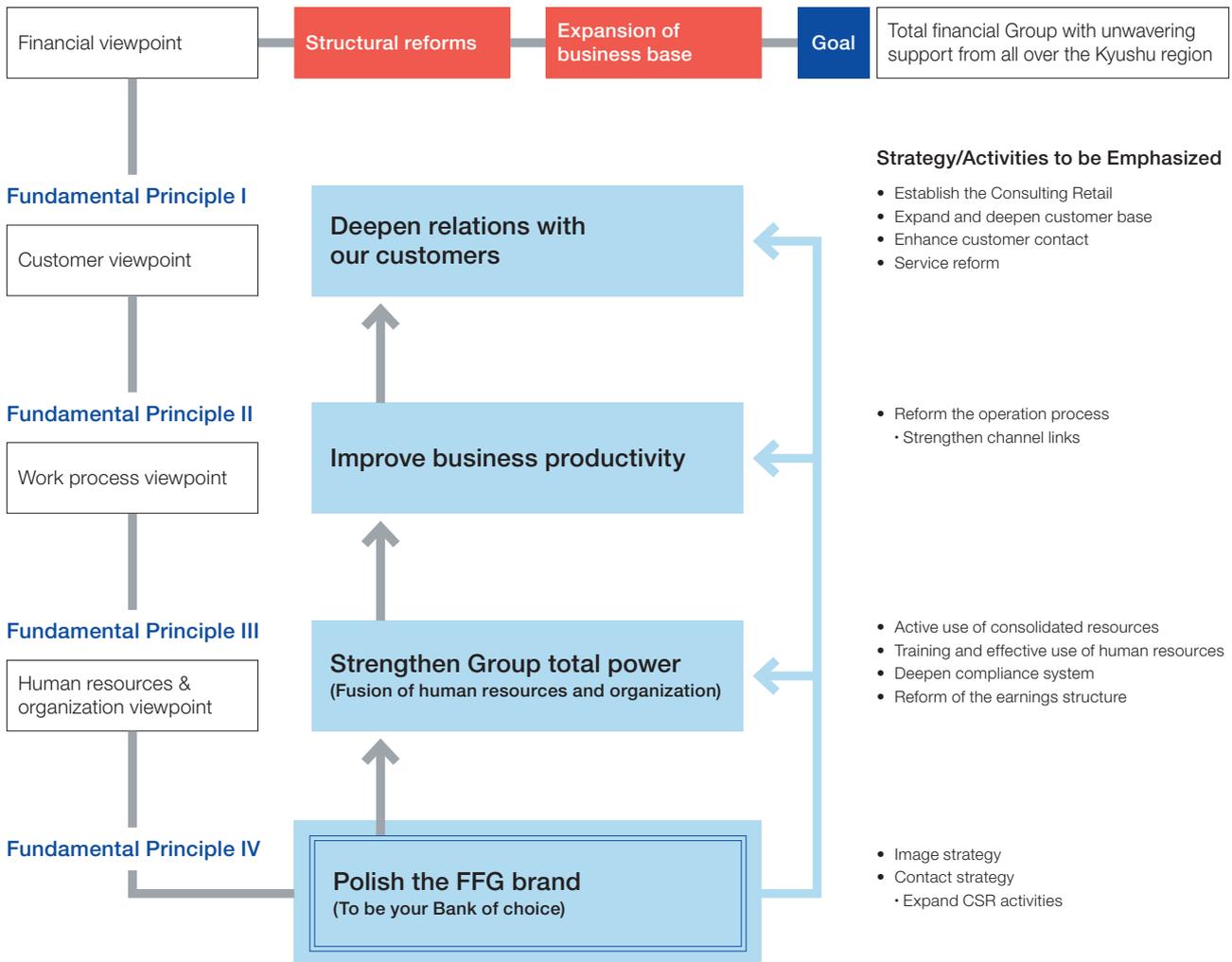


Fundamental Principles and Emphasized Activities of the Fourth Mid-Term Management Plan

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

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

Four Fundamental Principles and Emphasized Activities



■ Fundamental Principle I:

“Deepening relations with our customers”

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

■ Fundamental Principle II:

“Improving productivity”

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

■ Fundamental Principle III:

“Strengthening group total power”

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

■ Fundamental Principle IV:

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

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

Interview with the President

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



*We continue
evolving by
anticipating
changes of times*

August 2014

T. Shibato

Takashige Shibato

President

Fukuoka Financial Group, Inc.

Profile

Born in 1954 in Fukuoka, 60 years old.
Graduated from Faculty of Economics, Keio University, and joined The Bank of Fukuoka, Ltd. in 1976.
After serving as Deputy President of The Bank of Fukuoka, Ltd. from April 2010 and as Deputy President of FFG from April 2012, assumed present position.

Q.1 | Please reflect on the years from management integration up to now and tell us about the current position of FFG.

Seven years ago, we established FFG based on a new growth strategy of broad area-based business expansion and made a move toward management integration of the Bank of Fukuoka, the Kumamoto Bank and the Shinwa Bank.

The first three years following the management integration were positioned as the “Run-up Phase.” We worked on developing management infrastructure, such as the integration of systems, and on

improving our balance sheets.

The next three years were positioned as the “Acceleration Phase.” We focused on increasing the scale and activities of our business by fully utilizing our management infrastructure. As a result, we successfully turned our growth around to a positive trend.

And at present, we moved to the “Significant Growth Phase” and are aiming to significantly expand our business base by pursuing structural reforms.

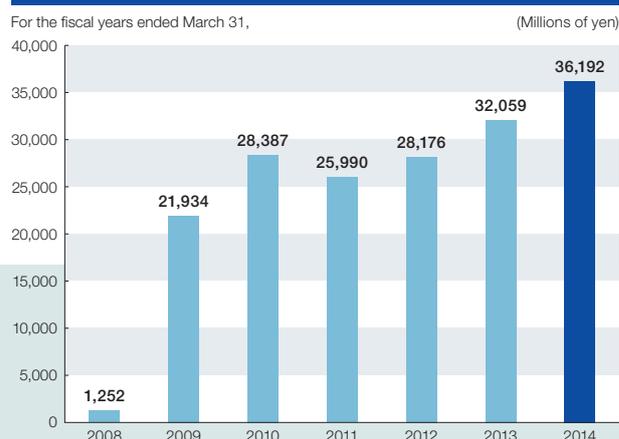
Q.2 | What is the current achievement status of the Mid-Term Management Plan?

We commenced our Fourth Mid-Term Management Plan called “ABC Plan II” in April 2013. The basic concept of this plan is to significantly expand our business base through structural reforms originating with our customers. Also, at the heart of our sale strategy is “Consulting retail.” This is a mechanism whereby we offer the optimal products and services to all corporate and individual customers via the most appropriate sales channels. Rather than selling single items, we will provide customers with a consultative service.

In FY2013, the first year of our Fourth Mid-Term Management Plan, as a result of efforts to carry out measures, such as building a structure that provides one-stop responses to all demands of corporate and individual customers and expanding new products and services such as inheritance-related service, the balance of deposits and the balance of loans at the

end of March 2014 amounted to ¥12.2 trillion and ¥9.6 trillion, respectively, which are the highest among regional banks. Also in terms of income, consolidated net income amounted to ¥36.2 billion, a record high for second consecutive terms.

Net Income (consolidated)



Interview with the President

Q.3 | Please tell us about your outlook for FY2014 and thereafter.

In FY2014, we will continue to work on accelerating structural reforms originating with our customers. To be specific, we will introduce a new Customer Relationship Management (CRM) system and tablet terminals with an eye to improving business productivity. Also, we will steadily proceed with polishing up products and services and strengthening coordination among the group companies in order to further expand the business base. Our outlook for FY2014 calls for core business profit (3 banks' total) of ¥72.0

billion and consolidated net income of ¥33.0 billion. And the targets for the final year (FY2015) of this Mid-Term Management Plan are as follows.

Target management indices	FY 2015 (Final year) Target	FY2013	Fundamental principles response
1 Net income (consolidated)	33 billion yen	36.2 billion yen	Strengthening group total power (strengthen earning power)
2 Average balance of total loans (3 banks' total)	10 trillion yen	9.3 trillion yen	Deepening relations with our customers (expansion of business scale)
3 Average balance of total deposits (3 banks' total)	12 trillion yen	11.9 trillion yen	
4 Dividend payout ratio (consolidated)	30% level	28.7%	Polishing the FFG brand (increase shareholder value)



Q.4 | Please tell us about dividends.

FFG adopts a performance-based dividend policy (dividend table) based on our aim of increasing shareholder value by enhancing corporate value. In the ABC Plan II, we set the dividend payout ratio from the previous 20% or more to about 30% level (consolidated) and therefore have raised our dividend table by ¥2.

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

Interview with the President

Q.5 | Please tell us about the feasibility of the long-term outlook.

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

Although the Japanese economy shows signs of moderate recovery, the environment surrounding financial institutions is expected to remain challenging in the future due to changes in the social structure, such as a declining birthrate and an aging population, as well as declining interest rates and intensifying competition among lenders.

However, Kyushu is home to key industries with future growth potential, such as automotive, IC, agriculture and tourism. Also, Kyushu is a market with enormous potential as a gateway to Asia.

In the seven years from management integration up to now, FFG has built a customer base consisting of about 210,000 corporations and about 5.4 million individuals, all over the Kyushu region. We believe that FFG will have a great deal of potential for further growth if we leverage this solid customer base. First, we are now aiming to become a “total financial group with unwavering support from all over the Kyushu region” in the ABC Plan II. Also, as the same as before, we will anticipate changes of times and grow as a financial services provider that meets various customer needs. Through these activities, we will realize the long-term vision.



Kumamoto castle and streetcar which runs in the Kumamoto city



Kujukushima Islands (a group of islands of a rias coastline located in Sasebo City, Nagasaki)



Statue of Peace at Nagasaki Peace Park

Close-up of Activities

Appointment of New President

In June 2014, FFG embarked on a new structure with Takashige Shibato, who had been Deputy President of FFG, becoming President of FFG.

Former FFG President Masaaki Tani became Chairman of the Board of FFG.

In addition, from April 2014, Ei Takeshita assumed the position of President of the Kumamoto Bank, and Syunsuke Yoshizawa assumed the position of President of the Shinwa Bank.



right: Masaaki Tani, Chairman of the Board of FFG

FFG's Business Support

In response to the strong business matching needs of customers, FFG introduces business partners and clients to customers through FFG Business Consulting Co., Ltd., a group company, in an effort to meet various needs and help resolve issues.

Also, we actively hold business meetings and seminars to support customers develop sales channels and suppliers.

As Asian economies expand, Japan and other Asian countries are doing an increasing amount of business with each other, and our customer demand for overseas transactions is growing.

By leveraging 5 overseas representative offices and local networks in Asia, we are strengthening our support structure to help customer's overseas business.

Pick up!

Nagasaki Business Conference 2013

The Shinwa Bank and FFG Group organized "Nagasaki Business Conference 2013," cosponsored by all the municipalities of Nagasaki Prefecture. In addition to exhibitions by about 180 companies mainly comprising clients in the Nagasaki area, Nagasaki Prefecture and all 21 municipalities in the prefecture set up booths and many Japanese and foreign buyers participated in the conference.

Focusing on food, business negotiations regarding manufacturing and town planning were held, and lectures of public figures and "ALL Nagasaki Job Briefing Session" organized by Nagasaki Prefecture (sponsored by FFG) were also held on the same day.



Theme of Conference

**"Let's Promote ALL Nagasaki
to the world!"**

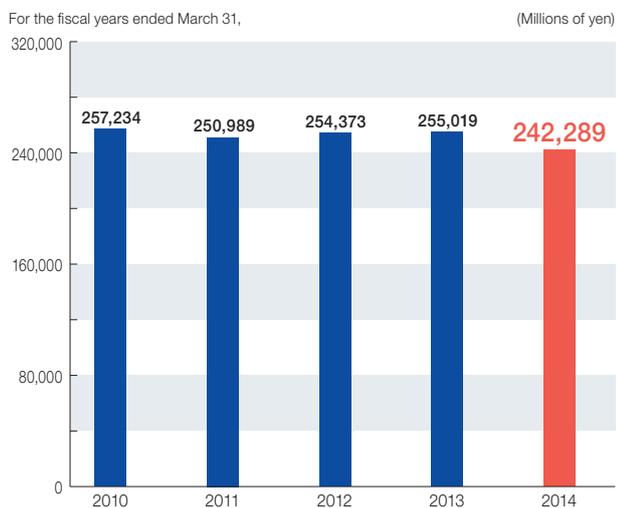
Financial Highlights

Fukuoka Financial Group, Inc. and Consolidated Subsidiaries

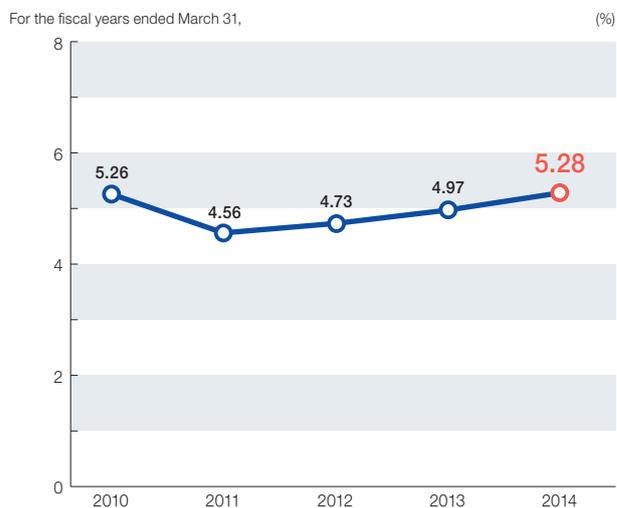
Fiscal years ended March 31,	2010	2011	2012	2013	2014
Operating results (Millions of yen)					
Ordinary income	257,234	250,989	254,373	255,019	242,289
Ordinary profit	33,059	49,890	37,727	68,777	57,020
Net income	28,387	25,990	28,176	32,059	36,192
Comprehensive income	—	21,038	53,224	67,495	32,356
Assets (Millions of yen)					
Net assets	640,912	652,306	692,765	754,283	745,778
Total assets	11,836,273	12,580,400	12,963,202	13,277,578	14,125,998
Cash flows (Millions of yen)					
Cash flows from operating activities	280,305	533,364	(196,113)	(30,768)	758,784
Cash flows from investing activities	(62,885)	(599,744)	17,044	314,231	(104,873)
Cash flows from financing activities	3,842	1,352	(12,263)	(29,603)	(165,859)
Cash and cash equivalents at end of the year	723,244	658,117	466,771	723,336	1,211,513
Per share data (Yen)					
Net assets per share	645.71	658.29	712.03	774.42	798.16
Net income per share	32.82	29.94	32.62	37.01	41.82
Ratio (%)					
Capital adequacy ratio (consolidated)	10.32	10.84	10.98	12.26	10.28
Return on equity (consolidated)	5.26	4.56	4.73	4.97	5.28
Price earnings ratio	12.09	11.55	11.24	13.04	10.13
Other					
Employees	7,083	6,896	6,736	6,825	6,763

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

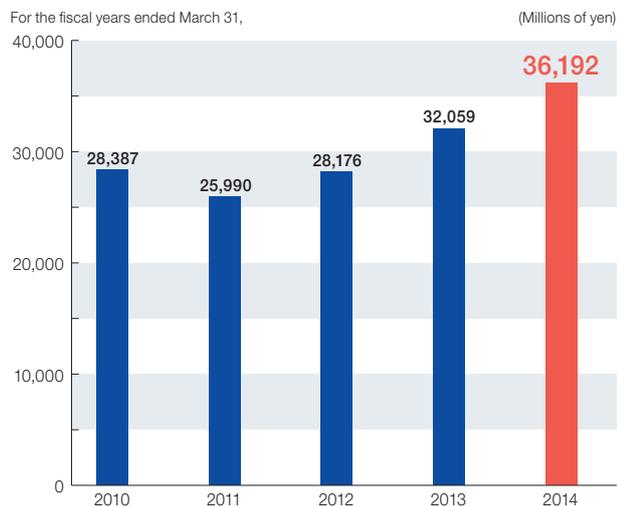
Ordinary income (Consolidated)



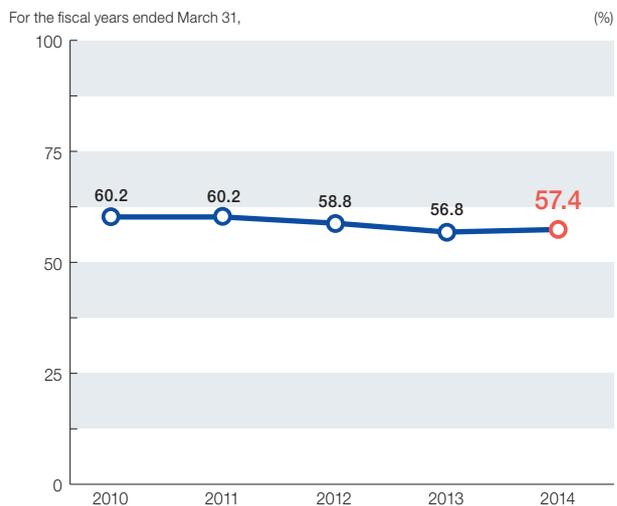
Return on equity (Consolidated)



Net income (Consolidated)



Core OHR (3 banks' total)



Review of the Fiscal Year

Financial Summary

3 banks' total			
(Billions of yen)			
For the fiscal years ended March 31,	2013	2014	Comparison
Gross business profit	189.0	181.1	(7.8)
Net interest income	155.5	152.9	(2.5)
Net fees and commissions	19.0	18.5	(0.5)
Net trading income	0.1	0.1	0.0
Net other operating income	14.4	9.6	(4.9)
Overhead expenses	100.9	100.8	(0.2)
Business profit*1	95.4	66.8	(28.5)
Core business profit*2	76.9	74.9	(1.9)
Total credit cost*3	7.1	8.2	1.1

Consolidated			
Ordinary profit	68.8	57.0	(11.8)
Net income	32.1	36.2	4.1

Note "()" denotes minus.

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

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

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

Core business profit decreased ¥1.9 billion from a year earlier to ¥74.9 billion mainly due to a decrease in net interest income.

Consolidated ordinary profit decreased ¥11.8 billion from a year earlier to ¥57.0 billion mainly due to a decrease in core business profit as well as a decrease in gains on bonds.

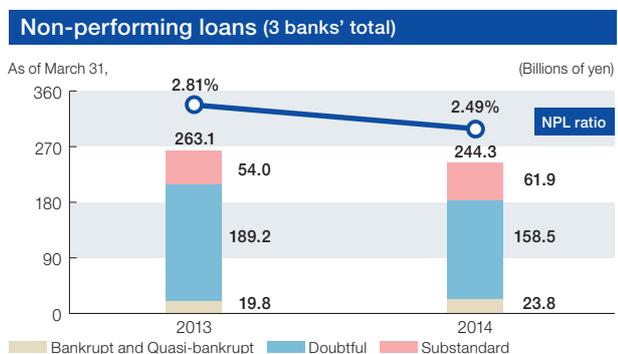
Consolidated net income increased ¥4.1 billion from a year earlier to ¥36.2 billion, as extraordinary loss was recovered due to elimination of ¥13.9 billion loss from the cancellation of the retirement benefit trusts. We posted record high income in two consecutive years.

(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2013	2014	Comparison	2013	2014	Comparison	2013	2014	Comparison
Gross business profit	134.4	130.2	(4.2)	21.5	20.4	(1.1)	33.1	30.5	(2.5)
Net interest income	108.2	108.2	(0.0)	19.2	18.6	(0.7)	28.0	26.2	(1.8)
Domestic	103.4	102.4	(1.0)	19.2	18.6	(0.6)	27.9	26.2	(1.7)
International	4.8	5.8	1.0	0.1	(0.1)	(0.1)	0.1	(0.0)	(0.1)
Net fees and commissions	14.2	13.7	(0.5)	1.3	1.4	0.1	3.5	3.4	(0.0)
Net trading income	0.1	0.1	0.0	–	–	–	–	–	–
Net other operating income	11.9	8.2	(3.7)	0.9	0.4	(0.5)	1.6	0.9	(0.7)
Overhead expenses	65.1	65.4	0.2	14.8	14.3	(0.5)	21.0	21.1	0.1
Business profit	77.3	58.4	(18.8)	5.5	3.0	(2.5)	12.6	5.4	(7.2)
Core business profit	59.9	59.8	(0.1)	6.0	6.0	0.0	11.0	9.1	(1.8)
Ordinary profit	65.8	59.9	(5.9)	3.1	1.2	(1.8)	11.0	5.5	(5.5)
Net income	33.1	40.4	7.3	6.6	5.0	(1.6)	5.0	4.6	(0.4)
Total credit cost	4.1	1.2	(2.9)	2.4	3.0	0.6	0.6	4.0	3.5

Note "()" denotes minus.

Major Financial Indicators

According to the revision of the public notification of the capital adequacy ratio, capital adequacy ratio was calculated based on the new standards, Basel III, from the end of March 2014.

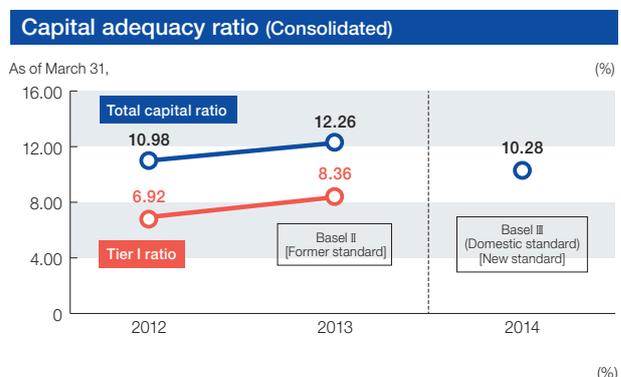


(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2013	2014	Comparison	2013	2014	Comparison	2013	2014	Comparison
NPL ratio (Direct write-off is adopted)	2.70	2.32	(0.38)	3.07	2.97	(0.10)	3.19	3.06	(0.13)
Capital adequacy ratio	12.93	10.72		10.38	10.60		11.89	10.74	

Notes: 1 "()" denotes minus.

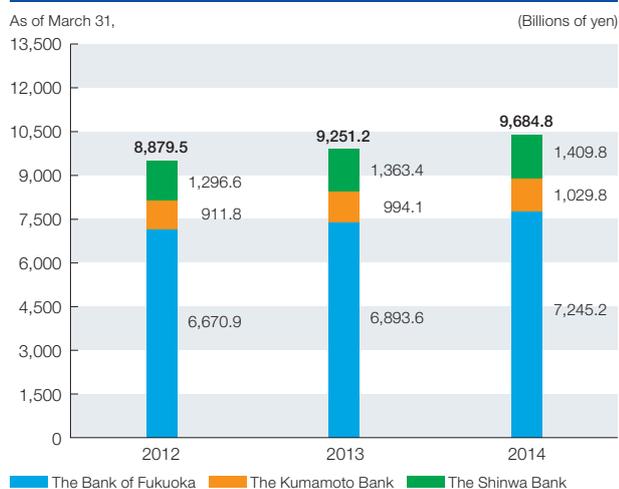
2 Only the capital adequacy ratios of the Bank of Fukuoka listed a consolidated basis.

3 Capital adequacy ratio is calculated based on Basel II up to 2013, and Basel III (domestic standard) for 2014.

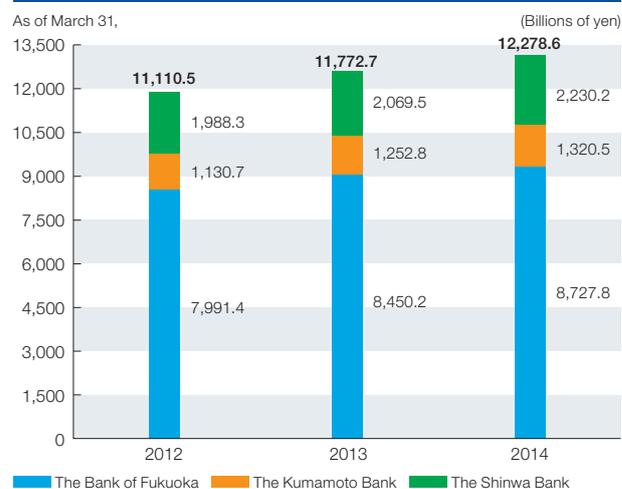


Loans and Deposits

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



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



Loans (Non-consolidated)

(Billions of yen)

As of March 31,	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2013	2014	Comparison	2013	2014	Comparison	2013	2014	Comparison
Total	6,893.6	7,245.2	351.6	994.1	1,029.8	35.6	1,363.4	1,409.8	46.3
Personal	1,857.2	1,979.0	121.8	338.6	366.9	28.3	419.7	430.3	10.5
General corporate	4,157.0	4,406.9	249.8	579.6	578.3	(1.2)	723.5	790.2	66.6
Public sector	879.3	859.2	(20.0)	75.9	84.4	8.5	220.0	189.2	(30.8)
Personal loans	1,791.1	1,912.9	121.7	317.5	346.7	29.1	401.1	413.7	12.5
Housing loans	1,648.5	1,760.3	111.8	296.0	323.0	27.0	352.8	366.3	13.5
Consumer loans	70.7	82.0	11.3	14.9	16.5	1.5	25.8	27.4	1.6

Deposits (Non-consolidated)

(Billions of yen)

As of March 31,	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
	2013	2014	Comparison	2013	2014	Comparison	2013	2014	Comparison
Total	8,063.7	8,424.4	360.7	1,185.3	1,223.5	38.1	1,991.0	2,140.9	149.8
Personal	5,721.6	5,963.4	241.7	892.3	925.6	33.2	1,324.6	1,360.8	36.2
Corporate (including Public)	2,342.1	2,461.0	118.9	293.0	297.9	4.9	666.4	780.0	113.6
Deposits and CDs	8,450.2	8,727.8	277.5	1,252.8	1,320.5	67.6	2,069.5	2,230.2	160.7

Credit Ratings

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

CSR Measures

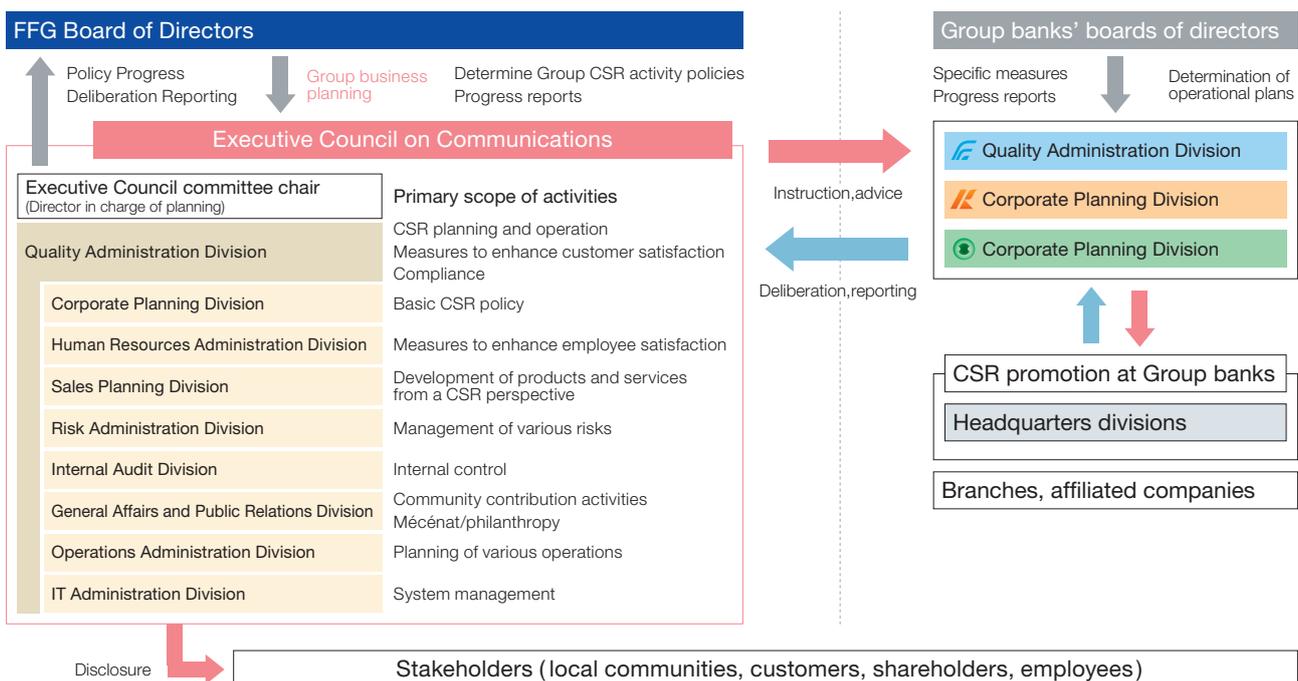
The Fukuoka Financial Group's concept of CSR lies in the belief that it can achieve sustainable growth for the Company and society by forging stronger relationships with stakeholders (customers, shareholders and employees). Accordingly, our corporate management initiatives aim to strengthen compliance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

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

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



FFG's CSR Management and Promotion Structure



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

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

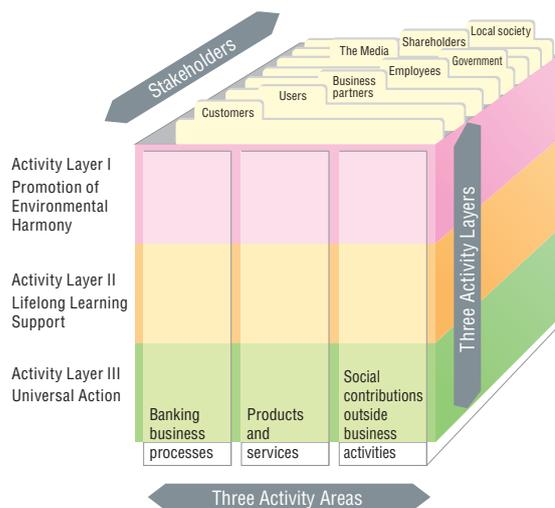
Activity Areas, "Banking business processes," "Products and services" and "Social contributions outside business activities," while conducting a host of activities.

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

The CSR Cube

Combining Three Activity Areas and Three Activity Layers

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



Three Activity Areas

1. CSR in banking business processes

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

2. CSR in products and services

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

3. CSR through social contributions outside business activities

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

Three Activity Layers

Activity Layer I: Promotion of Environmental Harmony

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

Activity Layer II: Lifelong Learning Support

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

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

Activity Layer III: Universal Action

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

CSR Measures

Promotion of Environmental Harmony

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

Environmental Initiatives

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

FFG Eco-Loan Financing Based on Environmental Rating

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

Ecological Movement

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

Lifelong Learning Support

Supporting People's Lives through Finance

FFG holds a wide range of seminars designed to help people gain accurate financial knowledge so they can make rational financial decisions. We hold investment trust reporting presentations and conduct mostly free lectures featuring external instructors on a host of themes, including housing, pensions and insurance.



One of many seminars

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



PET bottle cap recycling campaign



The greening of rooftops

Initiatives Targeting the Children Who Will Lead the Next Generation

FFG provides learning opportunities that aim to enhance an abundance of sensitivity and aid development among next-generation children. We organize a wide range of workplace experience programs suitable for different age groups.

In addition, in order to provide learning opportunities that help children cultivate a rich sensitivity, we donate books to special-needs schools in Fukuoka, Kumamoto and Nagasaki. In the fiscal year ended March 31, 2014, we donated a total of 669 books to 10 schools.

Arts, Culture, and Sporting Events

We invite our customers to various events held by FFG, such as a tennis tournament for elementary students living in the area, and an annual New Year Concert, to give people the opportunity to enjoy arts, culture, and sports.



Donating books to one of special-needs schools



Boys and Girls Tennis Tournament

Universal Action

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

Three Pillars of Universal Action

“Hard” action

Branch facilities and various functions

“Soft” action

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

“Human” action

Hospitality instilled in all employees

“Hard” Action

FFG has rebuilt and refurbished its facilities in line with the idea of making the bank “easy for all people to use.” We have also allocated wheelchairs, hearing aids, communication boards, and various other types of assistance tools at all branches. Furthermore, FFG has operated a new ATM model equipped with features such as phones offering audio guidance for visually impaired customers at all in-branch ATMs since March 2014.



New ATM model

Universal Action Program

FFG’s three banks are engaged in a “one person, one action” program, in which each branch thinks of ways to benefit their regional communities and puts them into action. In addition, we are promoting a “one person, one skill” movement, through which we encourage each employee to select one outstanding skill from a “kind to all” perspective, and to acquire certifications or skills that contribute to the environment, welfare, or communications.

“Human” Action

Volunteer Activities in Disaster-Stricken Regions

From June 2011 to May 2014, FFG carried out employee volunteer initiatives in the areas affected by the Great East Japan Earthquake. A total of 867 employees participated in these activities, which took place 36 times in total. All participants worked exhaustively to do everything they could at that point, and at the same time found that their own lifestyles and attitude toward volunteer activities also changed over the three years.

Although the dispatch of volunteer groups to the region has concluded, we will not let our concern for those in the disaster area fade, but will continue to show our support for Tohoku in various ways.



Volunteering for reconstruction of the areas affected by the Great East Japan Earthquake

Members of the Board



Chairman of the Board



Masaaki Tani

President



Takashige Shibato

Deputy President



Takashi Yoshikai

Directors



Masayuki Aoyagi



Yasuhiko Yoshida



Yuji Shirakawa



Yasuaki Morikawa



Ei Takeshita



Fumio Sakurai



Noritaka Murayama



Syunsuke Yoshizawa



Satoru Fukuda



[External]
Ryuji Yasuda



[External]
Hideaki Takahashi

Audit & Supervisory Board Members



[Full-time]
Masahiko Tsuchiya



[External]
Tsuguo Nagao



[External]
Masayoshi Nuki



[External]
Fumihide Sugimoto

THE BANK OF FUKUOKA, LTD.

Director & Chairman of the Board
Masaaki Tani

Director & President
Takashige Shibato

Director & Deputy President
Takashi Yoshikai

Director & Deputy President
Masayuki Aoyagi

Director & Senior Managing Executive Officer
Yasuhiko Yoshida

Director & Senior Managing Executive Officer
Yuji Shirakawa

Director & Managing Executive Officer
Yasuaki Morikawa

Director & Managing Executive Officer
Yasuharu Nishizuma

Director & Managing Executive Officer
Eiji Araki

Director & Managing Executive Officer
Koji Yokota

Director [External]
Ryuji Yasuda

Director [External]
Hideaki Takahashi

Audit & Supervisory Board Member [Full-time]
Kiyofumi Habu

Audit & Supervisory Board Member [External]
Tsuguo Nagao

Audit & Supervisory Board Member [External]
Masayoshi Nuki

Audit & Supervisory Board Member [External]
Fumihide Sugimoto

THE KUMAMOTO BANK, LTD.

Director & President
Ei Takeshita

Director & Deputy President
Fumio Sakurai

Director & Managing Executive Officer
Noritaka Murayama

Director & Managing Executive Officer
Yoshihiro Otsuka

Director & Managing Executive Officer
Noritsugu Iwashita

Director & Managing Executive Officer
Toshimi Nomura

Director & Managing Executive Officer
Shigemi Kitahara

Director [External]
Koji Yokota

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

Audit & Supervisory Board Member [External]
Mineo Nakayama

Audit & Supervisory Board Member [External]
Nobuhisa Eto

THE SHINWA BANK, LTD.

Director & President
Syunsuke Yoshizawa

Director & Deputy President
Satoru Fukuda

Director & Managing Executive Officer
Keiji Ogawa

Director & Managing Executive Officer
Ryoji Maeda

Director & Managing Executive Officer
Kenji Yamaguchi

Director & Managing Executive Officer
Kazuki Ishino

Director [External]
Yasuhiko Yoshida

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

Audit & Supervisory Board Member [External]
Kanji Fukahori

Audit & Supervisory Board Member [External]
Masao Ito

Corporate Governance

FFG's Corporate Governance Framework

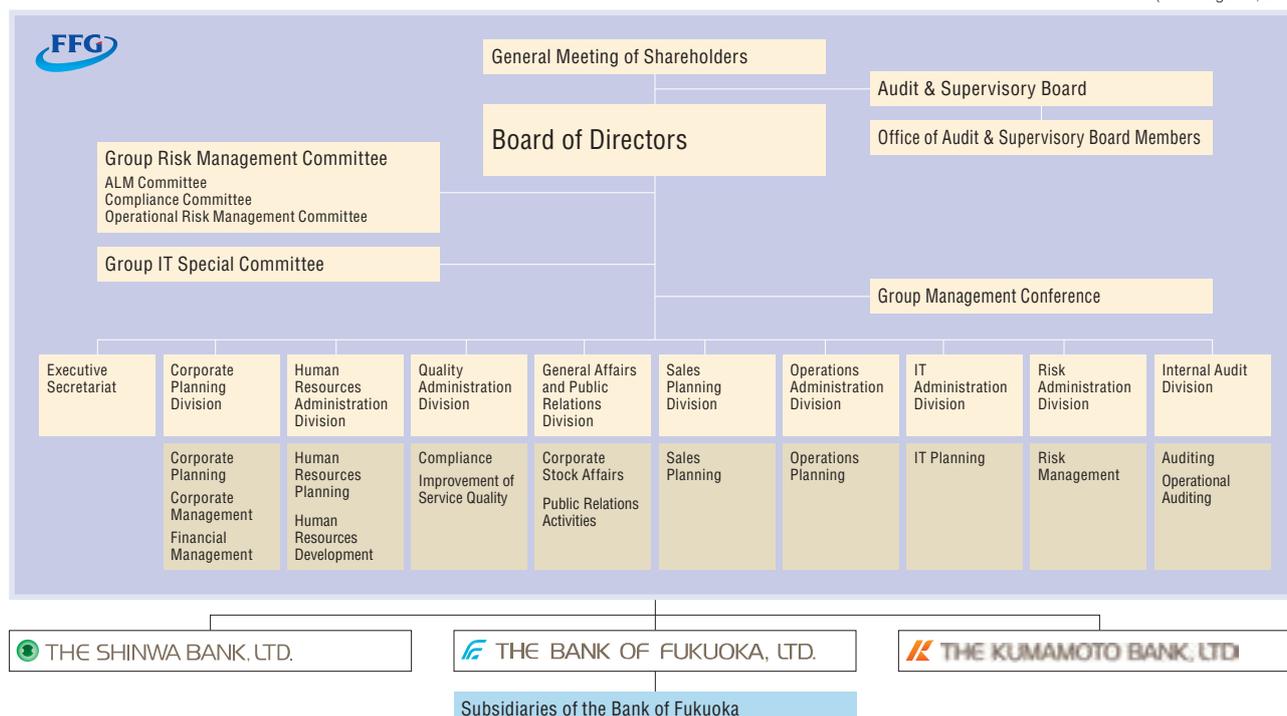
To demonstrate in a timely and appropriate manner its functions as a holding company (business management of subsidiary banks and group companies), including the strengthening of the governance system of the Group

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

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

Corporate Governance Framework

(As of August 1, 2014)



Compliance Measures

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

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

through training, instruction and other activities.

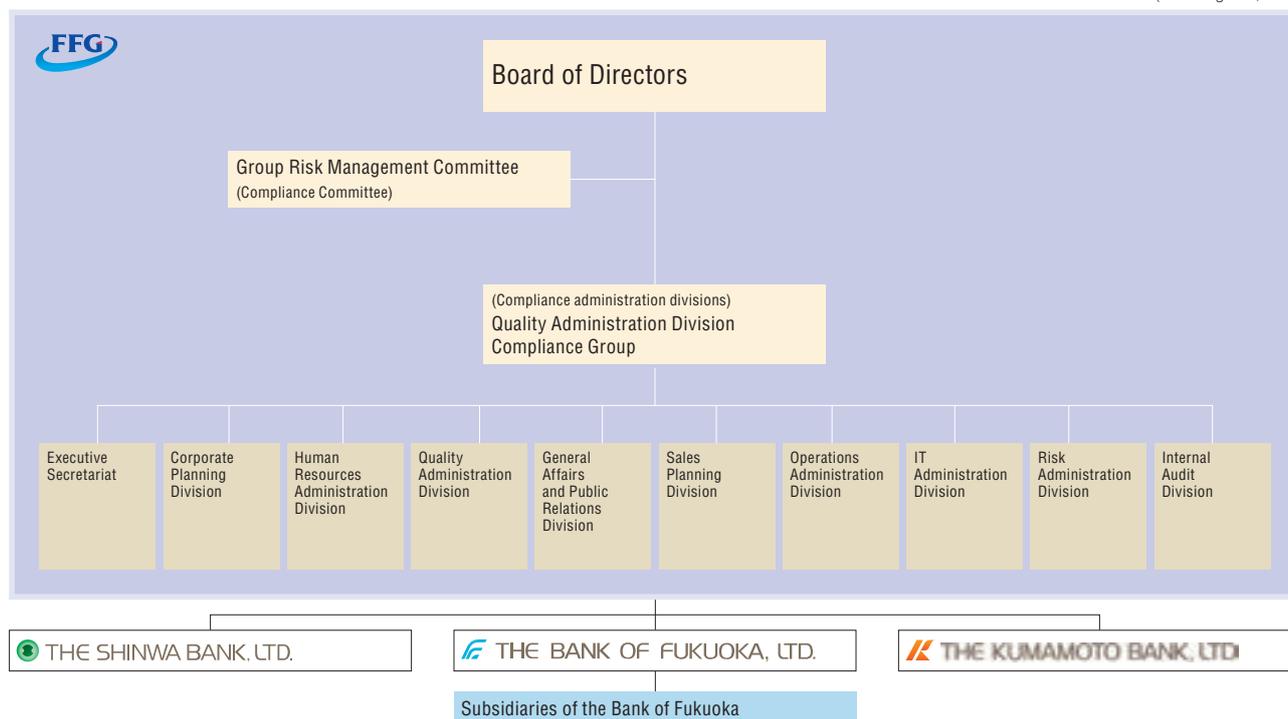
Furthermore, we have formulated a Customer Protection Management Policy to protect customers' legitimate interests and increase their convenience and are enhancing our customer protection management structure.

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

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

FFG's Compliance Framework

(As of August 1, 2014)



Risk Management

Approach to Risk Management

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

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

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

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

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

Risk Classifications and Definitions

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

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

Risk Classifications Targeted for Management

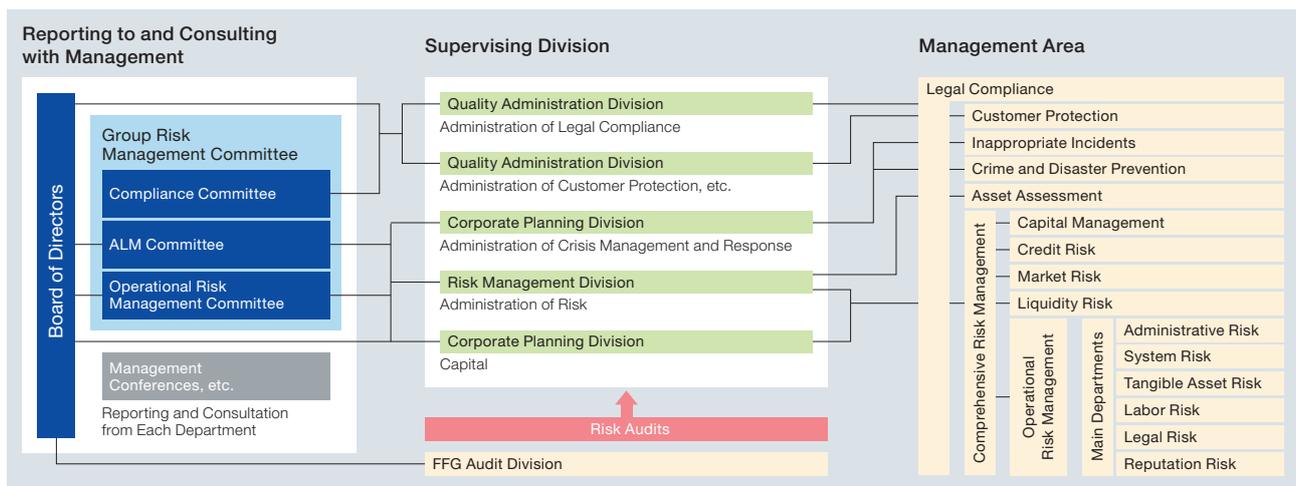
Risk categories	Definitions	Methods
Credit Risk	Risk of losses arising from asset values that have fallen or been erased (including off-balance-sheet assets) by the worsening financial position of obligors	Management by VaR Integrated risk management
Market Risk	Risk of losses arising from variation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

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

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

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

FFG's Risk Management Framework



Comprehensive Risk Management

About Comprehensive Risk Management

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

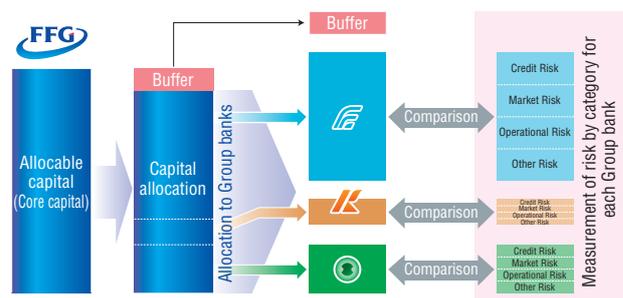
FFG operates a policy of "establishing and upgrading appropriate comprehensive risk management frameworks

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

Risk Capital Allocation System

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

Framework of the Group Risk Capital Allocation System



Risk Management

Credit Risk Management

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

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

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

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

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

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

Credit Risk Management System

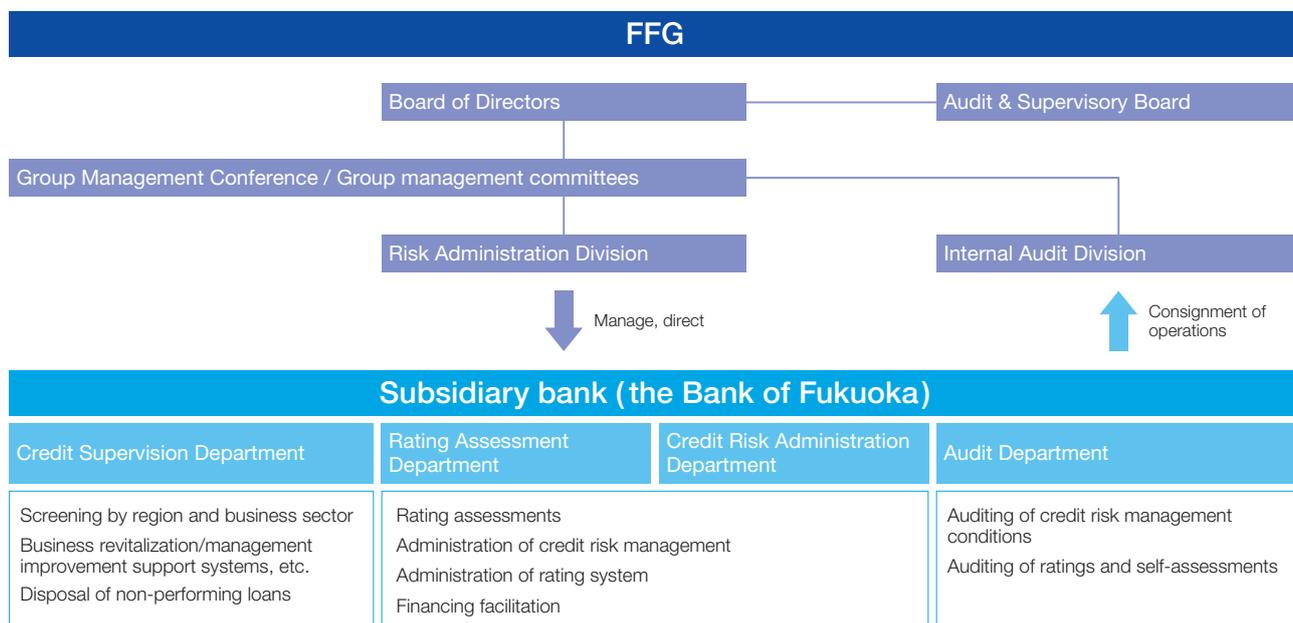
The Credit Risk Management System is centered on the Risk Management Division, which administers the formulation of credit risk management policy and manages the rating systems and credit risk for the Group.

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

within the Group.

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

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



Obligor Ratings

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

obligors and portfolios.

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

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

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

Quantification of Credit Risk

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

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

Framework for Individual Credit Management

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

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

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

Risk Management

Market Risk Management

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

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

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

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

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

Liquidity Risk Management

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

Furthermore, the Group's Risk Administration Division

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

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

Operational Risk Management

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

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

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

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

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

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Market Conditions

During the fiscal year ended March 31, 2014, there was a broadening recovery trend in the Japanese economy, mainly in domestic demand including personal consumption, backed by improved business and consumer sentiment as a result of the effects of the government's economic policies, in addition to signs of a pickup in the United States and other overseas economies. Moreover, corporate profits increased mainly among large companies, and capital investment also showed signs of recovering. Although uncertainty intensified regarding the outlook for emerging economies including China going into 2014, a moderate recovery continued in the economy overall, as personal consumption remained firm due to factors such as the last-minute demand before the consumption tax hike, amid an improving employment and income environment.

Developments on the financial front continued to lack direction, as the Nikkei Stock Average soared in reaction to monetary easing by the Bank of Japan, and then fell due to speculation about a reduction in monetary easing by the United States and other factors. Later, the average reached the ¥16,000 range at year-end for the first time in six years, backed by the decision to hold the Olympics in Tokyo and progressive depreciation of the yen. Although there was another drop at the beginning of the year due to factors including the mounting tensions in the Ukraine, and concerns about a slowdown in the Chinese economy, the Nikkei gradually returned to calm, and performed solidly.

With regard to interest rates, the yields on 10-year Japanese government bonds—a benchmark for long-term interest rates—fluctuated wildly for a time, but both short- and long-term interest rates settled at low levels after tracking gently downward amid continued monetary easing by the Bank of Japan.

Economic conditions in the Kyushu region, FFG's primary business base, showed a recovery trend similar to that seen nationwide, driven by factors including an increase in public works related to reconstruction after the heavy rains in northern Kyushu as well as improvement in consumer sentiment. A moderate recovery trend continued in the latter half of the fiscal year, as improvement also began to appear in the employment and income environment, and housing investment and public-sector investment increased steadily, among other factors.

"ABC Plan II" Four Fundamentals Principles

Deepen relations with our customers

Improve business productivity

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

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

Initiatives during the Year

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

In the fiscal year ended March 31, 2014, we worked on a number of initiatives originating with customers, based on the four fundamental principles set out under ABC Plan II: deepening relations with our customers, improving business productivity, strengthening group total power, and polishing the FFG brand ("To be your Bank of choice").

Operating Results

During the fiscal year, ordinary income declined ¥12,730 million from the previous fiscal year to ¥242,289 million, owing mainly to a decrease in other income. Ordinary profit was down ¥11,757 million to ¥57,020 million. Net income increased ¥4,133 million to ¥36,192 million.

Financial Position

FFG's total deposits (deposits + negotiable certificates of deposit) amounted to ¥12,238.1 billion, up ¥504.5 billion from the preceding fiscal year-end, owing mainly to an increase in liquid deposits. Loans and bills discounted expanded ¥429.5 billion to ¥9,595.7 billion, centered on loans to corporate customers. Holdings of securities at year-end totaled ¥2,812.2 billion, up ¥93.1 billion from a year earlier, as FFG worked to create a sound portfolio that provides a balance of stability and profitability.

Cash Flows

Cash and cash equivalents at the end of the year were ¥1,211.5 billion, up ¥488.1 billion from the preceding fiscal year-end.

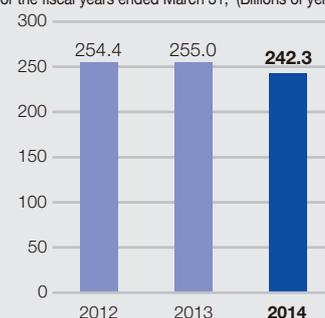
Net cash provided by operating activities was ¥758.7 billion, ¥789.5 billion more than in the preceding fiscal year. The change was mainly due to an increase in borrowed money (excluding subordinated bonds).

Net cash used in investing activities was ¥104.8 billion, ¥419.1 billion less than in the preceding fiscal year, mainly due to an increase in payments for the purchase of securities.

Net cash used in financing activities amounted to ¥165.8 billion, ¥136.2 billion more than in the preceding fiscal year, mainly due to an increase in payments for the redemption of subordinated bonds.

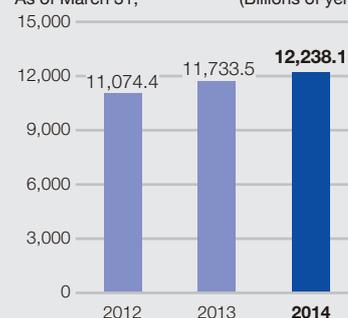
Ordinary Income

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



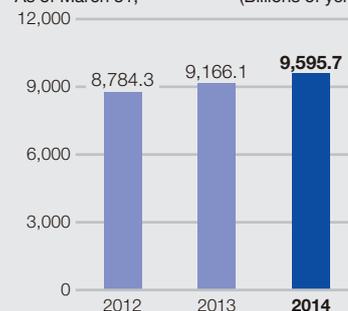
Deposits

As of March 31, (Billions of yen)



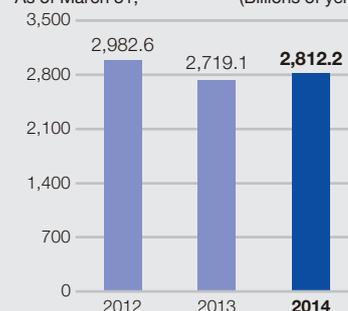
Loans and Bills Discounted

As of March 31, (Billions of yen)



Securities

As of March 31, (Billions of yen)





Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
Fukuoka Financial Group, Inc.

We have audited the accompanying consolidated financial statements of Fukuoka Financial Group, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 26, 2014
Fukuoka, Japan

Consolidated Balance Sheets

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2014 and 2013

	2014	2013	2014
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 7 and 18)	¥ 1,216,149	¥ 727,407	\$ 11,816
Call loans and bills bought (Note 18)	100,000	240,000	971
Monetary claims bought (Notes 3 and 18)	40,376	42,171	392
Trading assets (Note 18)	2,301	2,392	22
Money held in trust (Note 4 and 18)	1,500	1,400	14
Securities (Notes 3, 7, 11, 12 and 18)	2,812,281	2,719,110	27,324
Loans and bills discounted (Notes 5, 7 and 18)	9,595,748	9,166,167	93,235
Foreign exchanges (Notes 5 and 18)	8,150	7,517	79
Other assets (Note 7)	48,323	99,664	469
Tangible fixed assets (Notes 6 and 17)	191,403	186,075	1,859
Intangible fixed assets	133,058	142,479	1,292
Net defined benefit asset (Note 10)	30,102	—	292
Deferred tax assets (Note 13)	46,283	52,689	449
Customers' liabilities for acceptances and guarantees (Note 11)	57,899	47,527	562
Allowance for loan losses (Note 5)	(157,579)	(156,926)	(1,531)
Allowance for losses on investment	—	(98)	—
Total assets	¥14,125,998	¥13,277,578	\$137,252
Liabilities			
Deposits (Notes 7 and 18)	¥12,238,163	¥11,733,589	\$118,909
Call money and bills sold (Note 18)	8,233	3,960	79
Payables under repurchase agreements (Notes 7 and 18)	30,876	—	300
Payables under securities lending transactions (Notes 7 and 18)	136,990	75,504	1,331
Trading liabilities	—	0	—
Borrowed money (Notes 7, 8 and 18)	666,765	349,743	6,478
Foreign exchanges (Note 18)	920	581	8
Short-term bonds payable (Note 18)	5,000	5,000	48
Bonds payable (Notes 9 and 18)	117,500	173,628	1,141
Other liabilities	83,744	99,220	813
Provision for retirement benefits (Note 10)	—	1,006	—
Net defined benefit liability (Note 10)	999	—	9
Provision for losses on interest repayments	1,032	1,069	10
Provision for losses from reimbursement of inactive accounts	4,833	4,647	46
Provision for contingent liabilities losses	279	726	2
Reserves under the special laws	19	17	0
Deferred tax liabilities for land revaluation (Note 6)	26,961	27,071	261
Acceptances and guarantees (Note 11)	57,899	47,527	562
Total liabilities	¥13,380,219	¥12,523,295	\$130,006
Net assets			
Capital stock	¥ 124,799	¥ 124,799	\$ 1,212
Capital surplus	103,611	103,611	1,006
Retained earnings	355,960	329,707	3,458
Treasury stock	(265)	(245)	(2)
Total shareholders' equity	584,104	557,872	5,675
Valuation difference on available-for-sale securities (Note 12)	68,075	86,398	661
Deferred gains or losses on hedges	(7,160)	(18,006)	(69)
Revaluation reserve for land (Note 6)	48,295	48,496	469
Remeasurements of defined benefit plans (Note 10)	1,797	—	17
Total accumulated other comprehensive income	111,006	116,887	1,078
Minority interests	50,667	79,522	492
Total net assets	¥ 745,778	¥ 754,283	\$ 7,246
Total liabilities and net assets	¥14,125,998	¥13,277,578	\$137,252

Consolidated Statements of Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the fiscal years ended March 31, 2014 and 2013

	2014	2013	2014
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Interest income:			
Interest on loans and discounts	¥138,753	¥144,127	\$1,348
Interest and dividends on securities	30,195	30,076	293
Interest on call loans and bills bought	307	316	2
Interest on due from banks	0	0	0
Other interest income	3,713	2,596	36
Trust fees	1	1	0
Fees and commissions	42,577	42,878	413
Trading income	332	426	3
Other operating income	15,956	19,361	155
Other income	10,596	18,295	102
Total income	¥242,434	¥258,080	\$2,355
Expenses			
Interest expenses:			
Interest on deposits	¥ 7,446	¥ 6,989	\$ 72
Interest on call money and bills sold	7	8	0
Interest on payables under repurchase agreements	49	—	0
Interest on payables under securities lending transactions	164	163	1
Interest on borrowings and rediscounts	1,875	2,734	18
Interest on short-term bonds	11	23	0
Interest on bonds	3,611	3,442	35
Other interest expenses	7,136	8,455	69
Fees and commissions payments	17,538	18,190	170
Other operating expenses	889	86	8
General and administrative expenses	124,847	125,191	1,213
Other expenses	22,409	38,731	217
Total expenses	¥185,988	¥204,017	\$1,807
Income before income taxes and minority interests	56,445	54,063	548
Income taxes: (Note 13)			
Current	7,029	11,585	68
Deferred	9,612	6,988	93
	16,641	18,574	161
Income before minority interests	39,804	35,488	386
Minority interests in income	3,612	3,429	35
Net income (Note 14)	¥ 36,192	¥ 32,059	\$ 351

Consolidated Statements of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the fiscal years ended March 31, 2014 and 2013

	2014	2013	2014
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income before minority interests	¥ 39,804	¥35,488	\$ 386
Other comprehensive income:			
Valuation difference on available-for-sale securities	(18,294)	35,700	(177)
Deferred gains or losses on hedges	10,846	(3,706)	105
Share of other comprehensive income (loss) of associates accounted for using equity method	—	12	—
Total other comprehensive income	(7,447)	32,006	(72)
Comprehensive income (Note 15)	¥ 32,356	¥67,495	\$ 314
Total comprehensive income attributable to:			
Shareholders of Fukuoka Financial Group, Inc.	28,715	64,054	279
Minority interests	3,640	3,440	35

Consolidated Statements of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries
For the fiscal years ended March 31, 2014 and 2013

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income					Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income/loss		
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
Changes during the period:												
Cash dividends			(7,098)		(7,098)							(7,098)
Net income			32,059		32,059							32,059
Acquisition of treasury stock				(13)	(13)							(13)
Disposition of treasury stock		447		3,104	3,552							3,552
Transfer from revaluation reserve for land			851		851							851
Net change in items other than shareholders' equity						35,701	(3,706)	(851)	—	31,143	1,022	32,165
Total changes during the period	—	¥ 447	¥ 25,812	¥ 3,091	¥ 29,351	¥ 35,701	¥ (3,706)	¥ (851)	—	¥ 31,143	¥ 1,022	¥ 61,517
Balance as of March 31, 2013	¥124,799	¥103,611	¥329,707	¥ (245)	¥557,872	¥ 86,398	¥(18,006)	¥48,496	—	¥116,887	¥ 79,522	¥754,283
Changes during the period:												
Cash dividends			(10,141)		(10,141)							(10,141)
Net income			36,192		36,192							36,192
Acquisition of treasury stock				(21)	(21)							(21)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			201		201							201
Net change in items other than shareholders' equity						(18,322)	10,846	(201)	1,797	(5,881)	(28,855)	(34,736)
Total changes during the period	—	¥ 0	¥ 26,252	¥ (20)	¥ 26,232	¥(18,322)	¥ 10,846	¥ (201)	¥1,797	¥ (5,881)	¥(28,855)	¥ (8,504)
Balance as of March 31, 2014	¥124,799	¥103,611	¥355,960	¥ (265)	¥584,104	¥ 68,075	¥ (7,160)	¥48,295	¥1,797	¥111,006	¥ 50,667	¥745,778

	Millions of U.S. dollars (Note 2)											
	Shareholders' equity					Accumulated other comprehensive income					Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income/loss		
Balance as of March 31, 2013	\$1,212	\$1,006	\$3,203	\$(2)	\$5,420	\$ 839	\$(174)	\$471	—	\$1,135	\$ 772	\$7,328
Changes during the period:												
Cash dividends			(98)		(98)							(98)
Net income			351		351							351
Acquisition of treasury stock				(0)	(0)							(0)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			1		1							1
Net change in items other than shareholders' equity						(178)	105	(1)	17	(57)	(280)	(337)
Total changes during the period	—	\$ 0	\$ 255	\$(0)	\$ 254	\$(178)	\$ 105	\$ (1)	\$17	\$ (57)	\$(280)	\$ (82)
Balance as of March 31, 2014	\$1,212	\$1,006	\$3,458	\$(2)	\$5,675	\$ 661	\$(69)	\$469	\$17	\$1,078	\$ 492	\$7,246

Consolidated Statements of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries
For the fiscal years ended March 31, 2014 and 2013

	2014	2013	2014
	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	¥ 56,445	¥ 54,063	\$ 548
Depreciation of tangible fixed assets	9,507	10,486	92
Impairment losses	251	1,982	2
Amortization of goodwill	9,171	9,171	89
Gains on bargain purchase	—	(2,969)	—
Equity in losses (gains) from investment in affiliates	—	(0)	—
Net change in allowance for loan losses	653	3,034	6
Net change in allowance for losses on investment	(98)	(8)	(0)
Net change in provision for retirement benefits	—	32	—
Net change in net defined benefit asset	3,988	—	38
Net change in net defined benefit liability	16	—	0
Net change in provision for losses on interest repayment	(36)	(13)	(0)
Net change in provision for losses from reimbursement of inactive accounts	185	287	1
Net change in provision for contingent liabilities losses	(446)	(727)	(4)
Interest income	(172,969)	(177,117)	(1,680)
Interest expenses	20,304	21,816	197
Net losses (gains) related to securities transactions	(9,559)	(14,233)	(92)
Net exchange losses (gains)	(125)	4,472	(1)
Net losses (gains) on disposition of fixed assets	320	758	3
Net change in trading assets	91	594	0
Net change in trading liabilities	(0)	0	(0)
Net change in loans and bills discounted	(429,580)	(378,419)	(4,173)
Net change in deposits	504,573	659,118	4,902
Net change in borrowed money (excluding subordinated borrowed money)	440,222	(415,170)	4,277
Net change in due from banks (excluding deposits with the Bank of Japan)	(564)	2,096	(5)
Net change in call loans	141,794	(4,402)	1,377
Net change in call money	35,149	666	341
Net change in payables under securities lending transactions	61,485	15,404	597
Net change in foreign exchanges - Assets	(633)	1,552	(6)
Net change in foreign exchanges - Liabilities	338	(168)	3
Net change in short-term bonds payable	—	(5,000)	—
Net change in issuance and redemption of bonds	(56,128)	10,000	(545)
Interest received	177,030	181,092	1,720
Interest paid	(21,803)	(22,548)	(211)
Other, net	2,657	15,449	25
Subtotal	772,239	(28,697)	7,503
Income taxes paid	(13,454)	(2,070)	(130)
Net cash provided by (used in) operating activities	758,784	(30,768)	7,372
Cash flows from investing activities:			
Payments for purchases of securities	(919,718)	(349,856)	(8,936)
Proceeds from sale of securities	595,080	466,155	5,781
Proceeds from redemption of securities	229,383	208,731	2,228
Payments for purchases of tangible fixed assets	(6,340)	(8,246)	(61)
Proceeds from sale of tangible fixed assets	951	492	9
Payments for purchases of intangible fixed assets	(4,230)	(3,044)	(41)
Net cash provided by (used in) investing activities	(104,873)	314,231	(1,018)
Cash flows from financing activities:			
Decrease in subordinated borrowings	(123,200)	(20,000)	(1,197)
Repayments to minority shareholders	(30,000)	—	(291)
Dividends paid	(10,143)	(7,102)	(98)
Dividends paid to minority interests	(2,496)	(2,488)	(24)
Payments for purchases of treasury stock	(21)	(13)	(0)
Proceeds from sale of treasury stock	0	0	0
Net cash used in financing activities	(165,859)	(29,603)	(1,611)
Effect of exchange rate changes on cash and cash equivalents	125	131	1
Net increase in cash and cash equivalents	488,177	253,991	4,743
Cash and cash equivalents at beginning of the year	723,336	466,771	7,028
Increase in cash and cash equivalents due to a share exchange	—	2,574	—
Cash and cash equivalents at end of the year (Note 16)	¥1,211,513	¥723,336	\$11,771

Notes to Consolidated Financial Statements

Fukuoka Financial Group, Inc. and its subsidiaries
Fiscal years ended March 31, 2014 and 2013

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.

Nishikyushu Guarantee Service Co., Ltd. was merged into Fukugin Guarantee, Co., Ltd., a consolidated subsidiary of FFG, on April 1, 2013. In addition, Shinwa Venture Capital Co., Ltd. was merged into FFG Business Consulting Co., Ltd., a consolidated subsidiary of FFG, on February 1, 2014.

On the other hand, the liquidation of the Kyushu Shinwa Enterprises Support Fund No.2, L.P. has been completed on December 13, 2013. Its statement of income has been consolidated up to the liquidation.

c. Trading Assets and Liabilities

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

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

Gains and losses on specific transactions are recorded by adding or deducting differences between valuation gains or losses at the previous balance sheet date and

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

d. Securities

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

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 of fixed assets

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

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

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

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

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

Consolidated subsidiaries conducting banking business have changed the depreciation method for buildings from the declining-balance method to the straight-line method from the fiscal year ended March 31, 2014. Under the fourth Mid-Term Management Plan starting from this fiscal year, FFG plans to renovate and open branch offices actively in order to strengthen the business activities and improve the convenience of customers. With such plan, FFG reconsidered the depreciation method for buildings and concluded the buildings are to be used stably over a

long term. As a result, FFG decided to change the depreciation method to the straight-line method, as such method will more appropriately reflect the usage of the buildings through allocating depreciation expenses equally over the estimated useful lives.

As a result of this change, income before income taxes and minority interests for the fiscal year ended March 31, 2014 increased by 584 million.

g. Treatment of Deferred Assets

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

h. Allowance for Loan Losses

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

- For credits extended to obligors that are legally bankrupt under the Bankruptcy Law, Special Liquidation in the Commercial Law or other similar laws (“Bankrupt Obligor”), and to obligors that are effectively in similar conditions (“Effectively Bankrupt Obligor”), allowances are maintained at 100% of amounts of claims (after direct reductions are made as discussed below), net of expected amounts from the disposal of collateral and/or on the amounts recoverable under guarantees.
- For credits extended to obligors that are not Bankrupt Obligor or Effectively Bankrupt Obligor but have a substantial chance of business failure going forward (“In-Danger-of-Bankruptcy Obligor”), allowances are maintained at the amount deemed necessary based on overall solvency analyses, on the amount of claims less expected amounts recoverable from the disposal of collateral and/or on the amounts recoverable under guarantees.
- For credits extended to obligors that are In-Danger-of-Bankruptcy Obligor or whose credit terms are re-scheduled or reconditioned, and exceed a certain threshold, the Discounted Cash Flow Method (the DCF Method) is applied if cash flows on repayment of principals and collection of interest of the loan can be reasonably estimated. The DCF Method requires that the difference between the cash flows discounted by the original interest rate and the carrying value of the loan be provided as allowance for loan losses.
- For credits extended to other obligors, allowances are maintained at the amounts calculated using historical default rates and other factors.

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

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

Regarding loans with collateral or guarantees extended by consolidated subsidiaries engaged in banking busi-

ness and certain major consolidated subsidiaries to obligors who are substantially or legally bankrupt, the balance of the amount of claims less expected amounts recoverable from the disposal of collateral and/or the amounts recoverable under guarantees is directly deducted from the amount of claims as the estimated uncollectible amount. As of March 31, 2014 and 2013, such deducted amounts were ¥33,568 million and ¥36,419 million, respectively.

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

i. Retirement Benefits

The expected benefit payments are attributed to the period until the end of the fiscal year ended March 31, 2014 by the straight-line method upon calculating retirement benefit obligations.

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

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

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

j. Provision for Losses on Interest Repayments

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

k. Provision for Losses from Reimbursement of Inactive Accounts

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

l. Provision for Contingent Liabilities Losses

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

m. Reserves under the special laws

Reserves under the special laws corresponds to the financial instruments transaction liability reserves of Fukuoka Securities Co., Ltd., as reserves against losses resulting

Notes to Consolidated Financial Statements

from a securities-related accident. These reserves are calculated in accordance with the provisions of Article 46-5, Paragraph 1, of the Financial Instruments and Exchange Act and Article 175 of the Cabinet Office Ordinance on Financial Instruments Businesses, etc.

n. Translation of Assets and Liabilities Denominated in Foreign Currencies

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

o. Hedge Accounting

(1) Hedge accounting for interest rate risks

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

(2) Hedge accounting for foreign exchange risks

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

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

p. Income Taxes

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

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

q. Appropriation of Retained Earnings

Under the Companies Act, the appropriation of retained earnings with respect to a given financial period is made

by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 22.

r. Cash and Cash Equivalents

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

s. Goodwill

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

t. Accounting Changes

FFG adopted “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 26 of May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 of May 17, 2012) (except for provisions prescribed in the main clause of Paragraph 35 of the standard and in the main clause of Paragraph 67 of the guidance) as of the end of the fiscal year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the difference between the projected benefit obligation and plan assets, as net defined benefit asset or net defined benefit liability.

Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Paragraph 37 of the standard, unrecognized actuarial gain or loss and unrecognized prior service cost (after tax effect) have been recorded in remeasurements of defined benefit plans under accumulated other comprehensive income at the end of the current fiscal year.

As a result of this change, net defined benefit asset and liability were recognized in the amount of ¥30,102 million and ¥999 million, respectively, and accumulated other comprehensive income increased by ¥1,797 million as of March 31, 2014.

u. Unapplied Accounting Standard

Accounting Standards for Retirement Benefits

On May 17, 2012, the ASBJ issued “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25).

(1) Overview

The standard provides guidance for the accounting for unrecognized actuarial gain or loss and unrecognized prior service cost, the calculation methods for projected benefit obligation and service cost, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

(2) Schedule date of adoption

Consolidated subsidiaries conducting banking business are scheduled to adopt revisions to the calculation methods for the projected benefit obligation and service cost from the beginning of the year ending March 31, 2015.

(3) Impact of adopting revised accounting standard and guidance

As a result of this adoption, retained earnings at the beginning of the year ending March 31, 2015 will decrease by ¥7,980 million.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥102.92 = US\$1.00, the approximate rate of exchange on March 31, 2014, 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, 2014 and 2013 were as follows:

	(Millions of yen)	
	2014	2013
National government bonds	¥1,692,068	¥1,701,905
Local government bonds	48,956	40,671
Corporate bonds	688,491	627,214
Equity securities	126,273	99,162
Other securities	256,491	250,157
Total	¥2,812,281	¥2,719,110

National government bonds at March 31, 2014 and 2013, included bonds of ¥132,612 million and ¥159,987 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 ¥23,809 million and ¥27,214 million at March 31, 2014 and 2013, respectively.

■ Held-to-maturity securities

The following tables summarize carrying values, fair values and differences of securities with available fair values at March 31, 2014 and 2013:

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

(Millions of yen)				
2013				
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥110,231	¥119,360	¥ 9,128
	Local government bonds	—	—	—
	Corporate bonds	27,180	29,502	2,322
	Other	1,427	1,440	12
	Subtotal	¥138,839	¥150,302	¥11,463
Securities with fair value not exceeding carrying value	National government bonds	¥ —	¥ —	¥ —
	Local government bonds	—	—	—
	Corporate bonds	—	—	—
	Other	4,189	3,988	(200)
	Subtotal	¥ 4,189	¥ 3,988	¥ (200)
Total	¥143,029	¥154,291	¥11,262	

■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2014 and 2013:

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

Notes to Consolidated Financial Statements

		(Millions of yen)		
		2013		
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,535,315	¥1,591,673	¥ 56,357
	Local government bonds	38,881	40,671	1,789
	Corporate bonds	571,018	586,233	15,214
	Equity securities	36,536	78,586	42,049
	Other	205,139	223,234	18,094
	Subtotal	¥2,386,892	¥2,520,399	¥133,506
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ —	¥ —	¥ —
	Local government bonds	—	—	—
	Corporate bonds	14,004	13,800	(204)
	Equity securities	12,757	10,971	(1,786)
	Other	21,970	21,531	(439)
	Subtotal	¥ 48,732	¥ 46,302	¥ (2,430)
	Total	¥2,435,625	¥2,566,701	¥131,076

Securities with fair values (excluding securities held for trading purpose) that have fallen substantially below the acquisition cost and are not expected to recover to the acquisition cost are carried at their fair values. The unrealized losses have been recognized for such securities during the period (hereinafter, "recording impairment losses"). For the fiscal years ended March 31, 2014 and 2013, impairment losses were ¥190 million and ¥3,488 million, respectively. The determination of whether the fair value has fallen significantly is based on independent asset classification, with issuers of securities divided into the following classifications.

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

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

The following table summarizes total sales amounts of Available-for-sale securities sold, and amounts of the related gains and losses for the fiscal years ended March 31, 2014 and 2013:

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

(Millions of yen)			
2013			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥343,615	¥ 7,046	¥31
Local government bonds	21,524	176	3
Corporate bonds	100,821	4,325	27
Equity securities	6,656	6,348	29
Other	8,446	24	—
Total	¥481,065	¥17,920	¥91

4. Money Held in Trust

The following tables summarize acquisition costs, carrying values and differences of money held in trust for other purpose (i.e. not for trading or held-to-maturity) at March 31, 2014 and 2013:

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

(Millions of yen)			
2013			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥1,400	¥1,400	¥—

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2014 and 2013 included the following loans:

	(Millions of yen)	
	2014	2013
Loans to borrowers in bankruptcy	¥ 4,086	¥ 5,528
Delinquent loans	177,464	202,308
Loans past due for three months or more	1,560	1,122
Restructured loans	60,353	52,880
Total	¥243,465	¥261,840

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, 2014 and 2013, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥53,627 million and ¥60,564 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, 2014 and 2013 amounted to ¥3,659,308 million and ¥3,518,970 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 ¥3,488,845 million and ¥3,400,590 million at March 31, 2014 and 2013, respectively.

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

6. Tangible Fixed Assets

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

Date of revaluation: March 31, 1998

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

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

At March 31, 2014 and 2013, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the law were ¥35,579 million and ¥35,628 million, respectively.

Accumulated depreciation for tangible fixed assets amounted to ¥103,947 million and ¥101,928 million at March 31, 2014 and 2013, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥16,249 million and ¥16,739 million at March 31, 2014 and 2013, respectively.

Notes to Consolidated Financial Statements

7. Pledged Assets

Assets pledged as collateral at March 31, 2014 and 2013 consisted of the following:

	(Millions of yen)	
	2014	2013
Assets pledged as collateral:		
Cash and due from banks	¥ 1	¥ 1
Securities	1,461,999	1,000,796
Loans and bills discounted	79,075	109,445
Other assets	655	150
Liabilities corresponding to assets pledged as collateral:		
Deposits	56,611	36,477
Payables under repurchase agreements	30,876	—
Payables under securities lending transactions	136,990	75,504
Borrowed money	627,206	226,744

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

Securities totaling ¥136,649 million and other assets of ¥18 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2013.

Other assets included deposits of ¥2,326 million and ¥1,899 million at March 31, 2014 and 2013, respectively.

8. Borrowed Money

Borrowed money at March 31, 2014 and 2013, included subordinated borrowings amounting to ¥25,000 million and ¥117,500 million, respectively.

9. Bonds Payable

Bonds payable included callable (subordinated) debenture bonds of ¥67,500 million, payable in yen, due 2014 to 2026 at March 31, 2014.

Bonds payable included callable (subordinated) debenture bonds of ¥67,500 million, payable in yen at March 31, 2013.

10. Retirement Benefit Plans

Fiscal year ended March 31, 2014

The consolidated subsidiaries engaged in banking businesses have defined benefit plans and defined contribution plans.

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

FFG does not have retirement benefit plans.

Certain consolidated subsidiaries adopted a simplified method in the calculation of their liability for retirement benefits and retirement benefit expenses concerning lump-sum payment plans.

(1) Defined benefit plans

The changes in the projected benefit obligation during the fiscal year ended March 31, 2014 were as follows:

	(Millions of yen)
	2014
Projected benefit obligation as of April 1, 2013	¥107,550
Service cost	2,939
Interest cost	2,116
Actuarial gain	(402)
Retirement benefits paid	(5,024)
Prior service cost	—
Contributions by participants of plans	400
Other	1
Projected benefit obligation as of March 31, 2014	¥107,581

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

	(Millions of yen)
	2014
Plan assets as of April 1, 2013	¥146,496
Expected return on plan assets	4,754
Actuarial gain	9,563
Contributions by FFG's subsidiaries	5,002
Retirement benefits paid	(4,989)
Return of a portion of retirement benefit trusts	(24,025)
Contributions by participants of plans	400
Other	(516)
Plan assets as of March 31, 2014	¥136,684

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

	(Millions of yen)
	2014
Funded projected benefit obligation	¥ 106,787
Plan assets at fair value	(136,684)
	(29,896)
Unfunded projected benefit obligation	794
Net liability (asset) for retirement benefits in the balance sheet	¥ (29,102)

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

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

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

As the plans had been in an overfunded status (i.e. pension assets exceed projected benefit obligation) during the fiscal year ended March 31, 2014, and as this situation is expected to continue, FFG cancelled a portion of

its retirement benefit trusts. The above amortization of actuarial loss included lump-sum amortization owing to its cancellation of ¥1,574 million.

Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 were as follows:

	(Millions of yen)
	2014
Unrecognized prior service cost	¥(1,559)
Unrecognized actuarial loss	(1,218)
Other	—
Total	¥(2,777)

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

	2014
Debt securities	42%
Equity securities	36%
Cash and due from banks	14%
Other	8%
Total	100%

Total plan assets included retirement benefit trusts of 37%, which were set for corporate pension plans.

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

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

	2014
Discount rate	2.0%
Long-term expected rate of return on plan assets	3.5%

(2) Defined contribution plans

The amount to be paid to defined contribution plans by consolidated subsidiaries was ¥306 million.

Fiscal year ended March 31, 2013

The consolidated subsidiaries engaged in banking businesses have defined benefit plans and defined contribution plans.

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

Also, these consolidated subsidiaries revised their retirement benefit plans on April 1, 2013, making a shift from lump-sum payment plans to defined benefit plans. FFG does not have retirement benefit plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2013 for the defined benefit plans of FFG and its subsidiaries:

	(Millions of yen)
	2013
Projected benefit obligation	¥(107,550)
Fair value of plan assets	146,496
Projected benefit obligation in excess of plan assets	38,945
Unrecognized net actuarial differences	11,705
Unrecognized prior service cost	(1,794)
Net liability recognized	48,856
Prepaid pension cost	49,862
Provision for retirement benefits	(1,006)

The components of retirement benefit expenses for the fiscal year ended March 31, 2013 are outlined as follows:

	(Millions of yen)
	2013
Service cost	¥ 3,162
Interest cost	2,163
Expected return on plan assets	(4,655)
Amortization of prior service cost	(1,401)
Amortization of net actuarial gain	4,176
Retirement benefit expenses	¥ 3,445

As the plans had been in an overfunded status (i.e. pension assets exceed projected benefit obligation) during the fiscal year ended March 31, 2014, and as this situation is expected to continue, FFG cancelled a portion of its retirement benefit trusts and recorded unrecognized net actuarial differences of ¥13,959 million which were included in other expenses.

The assumptions used in the accounting for the above plans at March 31, 2013 were as follows:

	2013
(a) Discount rate	2.0%
(b) Expected return on plan assets	3.5%
(c) Allocation basis of expect retirement benefits	Fixed
(d) Amortization term of unrecognized prior service cost	9–12 years
(e) Amortization term of unrecognized net actuarial gain (loss)	9–12 years

11. Acceptances and Guarantees

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

FFG’s guarantees total ¥23,809 million and ¥27,214 million at March 31, 2014 and 2013, respectively, for private placement corporate bonds. Relevant acceptances and guarantees and customers’ liabilities for acceptances and guarantees have been recorded in the net amount.

Notes to Consolidated Financial Statements

12. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale securities at March 31, 2014 and 2013 consisted of the following:

	(Millions of yen)	
	2014	2013
Gross valuation difference on available-for-sale securities	¥102,568	¥131,076
Deferred tax liabilities applicable to valuation difference	34,460	44,674
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for minority interests	68,107	86,401
Amount attributable to minority interests	31	3
Valuation difference on available-for-sale securities	68,075	86,398

13. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	(Millions of yen)	
	2014	2013
Deferred tax assets:		
Allowance for loan losses	¥ 60,721	¥ 65,465
Net losses carried forward	22,978	33,123
Provision for retirement benefits	—	7,695
Net defined benefit liability	4,850	—
Depreciation of securities	7,334	9,341
Depreciation expenses	3,502	3,883
Deferred gains or losses on hedges	3,906	9,824
Fair value gains related to consolidated taxation	20,155	25,992
Other	7,570	6,792
Subtotal	131,021	162,119
Valuation allowance	(43,456)	(57,365)
Total	87,564	104,754
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(34,460)	(44,674)
Retirement benefit trust	(2,877)	(6,059)
Securities returned from retirement benefit trust	(2,685)	—
Reserve for special depreciation	(467)	(467)
Fair value losses related to consolidated taxation	(756)	(756)
Other	(34)	(107)
Total	(41,281)	(52,064)
Net deferred tax assets	¥ 46,283	¥ 52,689

The aggregate statutory income tax rates used for calculation of deferred income tax assets and liabilities were 37.7% for the fiscal years ended March 31, 2014 and 2013.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the fiscal years ended March 31, 2014 and 2013.

	2014		2013	
			(%)	
Statutory tax rate	37.7		37.7	
Change in valuation allowance	(18.4)		(6.3)	
Nondeductible goodwill amortization	6.1		6.4	
Gains on negative goodwill	—		(2.1)	
Entertainment expenses and other items permanently excluded from expenses	0.7		0.6	
Per capital residence tax	0.3		0.4	
Dividend revenue and other items permanently excluded from gross revenue	(0.8)		(0.8)	
Reversal of deferred tax assets due to changes in the corporate income tax rate	5.9		0.4	
Tax rate difference with overseas consolidated subsidiaries	(1.6)		(1.8)	
Consolidated adjustment	(0.2)		(0.2)	
Other	(0.3)		0.0	
Effective tax rate	29.4		34.3	

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Special Reconstruction Corporation Tax is abolished from the fiscal years beginning on or after April 1, 2014. As a result, the effective statutory tax rate used to measure FFG’s deferred tax assets and liabilities was changed from 37.7% to 35.3% for the temporary differences expected to be realized or settled for the year beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets by ¥2,832 million and increase income taxes-deferred by such amount as of and for the fiscal year ended March 31, 2014.

14. Net Income per Share

Net income per share for the fiscal years ended March 31, 2014 and 2013 were as follows:

	(Yen)	
	2014	2013
Net income per share:		
Basic	¥41.82	¥37.01
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.

FFG adopted Accounting Standard for Retirement Benefits and Guidance on Accounting Standard for Retirement Benefits (except for provisions prescribed in the main clause of Paragraph 35 of the standard and in the

main clause of Paragraph 67 of the guidance) as of the end of the fiscal year ended March 31, 2014. The Accounting Standard for Retirement Benefits was applied in accordance with the provisional treatment set out in Paragraph 37 of the standard.

As a result, net assets per share increased by ¥ 2.10 for the fiscal year ended March 31, 2014.

15. Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2014 and 2013 were the following:

	(Millions of yen)	
	2014	2013
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥ (7,303)	¥ 61,910
Reclassification adjustments to profit or loss	(21,204)	(8,045)
Amount before income tax effect	(28,508)	53,864
Income tax effect	10,213	(18,164)
Total	(18,294)	35,700
Deferred gains or losses on hedges		
Gains (losses) arising during the year	1,201	(13,202)
Reclassification adjustments to profit or loss	15,562	7,474
Amount before income tax effect	16,763	(5,728)
Income tax effect	(5,917)	2,022
Total	10,846	(3,706)
Share of other comprehensive income (loss) of associates accounted for using equity method:		
Gains arising during the year	—	12
Total other comprehensive income	¥ (7,447)	¥ 32,006

16. Supplementary Cash Flow Information

Reconciliation of cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheets to cash and cash equivalents in the consolidated statements of cash flows at March 31, 2014 and 2013 were as follows:

	(Millions of yen)	
	2014	2013
Cash and due from banks	¥1,216,149	¥727,407
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(4,635)	(4,070)
Cash and cash equivalents	¥1,211,513	¥723,336

The following table summarizes a breakdown of principal assets received and liabilities assumed through the share exchange between Fukuoka Securities and the Bank of Fukuoka, a consolidated subsidiary of FFG, for the fiscal year ended March 31, 2013. As a result of the share exchange, Fukuoka Securities became a wholly owned subsidiary and the Bank of Fukuoka became a wholly owning parent company.

	(Millions of yen)
Assets:	
Money held in trust	¥ 2,000
Loans and bills discounted	3,360
Other assets	6,098
Total assets	¥11,458
Liabilities:	
Borrowed money	¥ 686
Other liabilities	2,728
Total liabilities	¥ 3,415

17. Leases

As lessee

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

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

Operating leases

Total future lease payments under non-cancelable operating leases at March 31, 2014 and 2013 were as follows:

	(Millions of yen)	
	2014	2013
Within one year	¥ 49	¥ 43
Over one year	100	87
Total	¥149	¥131

18. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

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

Notes to Consolidated Financial Statements

(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 above-mentioned risks, securities denominated in foreign currencies are subject to exchange rate fluctuation risk. Currency swap transactions and other methods are used to reduce this risk to a certain extent.

Deposits

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

Borrowed money

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

Bonds payable

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

Derivative transactions

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

exchange rate fluctuation risk, which concerns currency-related derivative transactions; price fluctuation risk, which concerns bond-related derivative transactions; and credit risk, which concerns credit-related derivative transactions.

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

(2) Financial risk management system

(a) Management of credit risk

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

FFG's Board of Directors has formulated the "Credit Risk Management Policy", which establishes FFG's basic policy for credit risk management, and the "Credit Policy", which clarifies basic considerations and standards for decisions and actions for appropriate conduct of the credit business based on this basic policy, to manage credit risk appropriately. FFG also seeks to determine obligor status and supports initiatives targeting obligors, including management consultation, management guidance and management improvement. Furthermore, FFG calculates the amount of credit risk for individual obligors and portfolios, verifies the general allowance for 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, 2014 and 2013, FFG's amount of interest rate risk (value of estimated losses) was ¥29,808 million and ¥44,560 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, 2014 and 2013, FFG's amount of volatility risk was ¥25,552 million and ¥24,959 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, 2014 and 2013, no losses exceeded the VaR. FFG believes that the model for measurement captures interest rate risk and volatility risk to an adequate degree of precision.

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

(c) Management of liquidity risk

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

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

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

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

Notes to Consolidated Financial Statements

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, 2014 and 2013 were as follows:

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

(Millions of yen)

2013			
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 727,407	¥ 727,407	¥ (0)
Call loans and bills bought	240,000	239,999	(0)
Monetary claims bought	41,969	41,889	(80)
Trading assets			
Marketable securities	2,392	2,392	—
Money held in trust	1,400	1,400	—
Securities			
Held-to-maturity securities	137,412	148,862	11,450
Available-for-sale securities	2,566,701	2,566,701	—
Loans and bills discounted	9,011,505	9,187,127	175,621
Foreign exchanges	7,517	7,519	2
Total	¥12,736,306	¥12,923,299	¥186,993
Liabilities			
Deposits	¥11,733,589	¥11,735,757	¥ 2,168
Call money and bills sold	3,960	3,959	(0)
Payables under securities lending transactions	75,504	75,498	(6)
Borrowed money	349,743	353,406	3,662
Foreign exchanges	581	581	—
Short-term bonds payable	5,000	4,999	(0)
Bonds payable	173,628	176,783	3,154
Total	¥12,342,008	¥12,350,987	¥ 8,979
Derivatives			
Hedge accounting not applied	¥ 3,029	¥ 3,029	¥ —
Hedge accounting applied	(37,030)	(37,030)	—
Total	¥ (34,001)	¥ (34,001)	¥ —

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

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

Primary method of Calculating the Fair Value of Financial Instruments

Assets

(1) Cash and due from banks

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

(2) Securities

The fair values of equity securities are determined by their prices on stock exchanges. The fair values of

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

See Note 3 for the description of securities by classification.

(3) Money held in trust

Money held in trust is composed of short-term or perpetual trust property, and the fair values approximate their book values.

(4) Loans and bills discounted

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

Liabilities

(1) Deposits

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

(2) Borrowed money

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

(3) Bonds

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

Derivatives

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

Notes to Consolidated Financial Statements

Financial instruments for which fair value is not readily determinable at March 31, 2014 and 2013 were as follows:

	(Millions of yen)	
	2014	2013
	Carrying value	Carrying value
Available-for-sale securities		
Unlisted equity securities	¥ 9,423	¥ 9,605
Unlisted foreign securities	0	0
Investments in limited partnership	5,532	5,391
Total	¥14,957	¥14,997

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

Impairment losses on unlisted securities for the fiscal years ended March 31, 2014 and 2013 were ¥84 million and ¥138 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, 2014 and 2013 are summarized as follows:

	(Millions of yen)						
	2014						
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years	
Due from banks	¥1,062,683	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	100,000	-	-	-	-	-	-
Monetary claims bought	38,625	-	-	-	-	-	1,751
Securities							
Held-to-maturity bonds							
Held-to-maturity government bonds	-	-	61,077	31,680	17,474	-	-
Held-to-maturity corporate bonds	-	-	7,062	7,945	12,171	-	-
Available-for-sale securities with maturities							
Available-for-sale government bonds	56,884	105,227	552,900	414,217	452,606	-	-
Available-for-sale local government bonds	707	2,376	18,058	11,810	16,002	-	-
Available-for-sale corporate bonds	109,512	72,670	124,683	210,480	136,393	7,570	-
Available-for-sale other	41,916	65,159	25,368	53,202	39,320	17,238	-
Loans and bills discounted	2,255,361	1,698,538	1,393,607	856,651	994,465	2,108,591	-
Foreign exchanges	8,150	-	-	-	-	-	-
Total	¥3,673,842	¥1,943,972	¥2,182,760	¥1,585,988	¥1,668,434	¥2,135,151	

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

	(Millions of yen)						
	2013						
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years	
Due from banks	¥ 584,690	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	240,000	-	-	-	-	-	-
Monetary claims bought	36,512	2,755	-	-	-	-	2,903
Securities							
Held-to-maturity bonds							
Held-to-maturity government bonds	-	-	51,787	40,970	3,100	14,374	-
Held-to-maturity corporate bonds	-	-	2,047	12,961	9,487	2,683	-
Available-for-sale securities with maturities							
Available-for-sale government bonds	42,454	104,463	150,878	415,839	878,037	-	-
Available-for-sale local government bonds	651	4,190	6,121	11,399	18,307	-	-
Available-for-sale corporate bonds	145,262	185,067	41,225	74,867	149,869	3,741	-
Available-for-sale other	19,019	82,394	31,982	26,751	51,008	22,054	-
Loans and bills discounted	2,216,338	1,672,039	1,292,077	847,612	912,734	1,909,349	-
Foreign exchanges	7,517	-	-	-	-	-	-
Total	¥3,292,447	¥2,050,911	¥1,576,121	¥1,430,401	¥2,022,545	¥1,955,106	

Loans do not include an estimated ¥207,837 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥108,177 million in loans that have no set term.

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2014 and 2013 are summarized as follows:

	(Millions of yen)						
	2014						
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years	
Deposits	¥11,765,928	¥374,375	¥89,161	¥ 4,905	¥ 3,791	¥ -	-
Call money and bills sold	8,233	-	-	-	-	-	-
Payable under repurchase agreements	30,876	-	-	-	-	-	-
Payable under securities lending transactions	136,990	-	-	-	-	-	-
Borrowed money	182,263	457,797	1,075	5,579	20,050	-	-
Short-term bonds payable	5,000	-	-	-	-	-	-
Bonds payable	30,000	20,000	-	57,500	-	10,000	-
Total	¥12,159,291	¥852,173	¥90,237	¥67,984	¥23,841	¥10,000	

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

	(Millions of yen)						
	2013						
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years	
Deposits	¥11,217,175	¥420,613	¥90,608	¥ 2,753	¥ 2,887	¥ -	-
Call money and bills sold	3,960	-	-	-	-	-	-
Payable under securities lending transactions	75,504	-	-	-	-	-	-
Borrowed money	227,812	1,892	1,411	61,071	7,556	50,000	-
Short-term bonds payable	5,000	-	-	-	-	-	-
Bonds payable	66,128	40,000	-	-	57,500	10,000	-
Total	¥11,595,580	¥462,056	¥92,020	¥63,824	¥67,944	¥60,000	

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

19. Derivative Transactions

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

Information regarding the derivative transactions outstanding as of March 31, 2014 and 2013 were as follows:

Hedge accounting not applied

As of March 31, 2014 and 2013, 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, 2014	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥221,485	¥ 4,611	¥ 4,380
Receive/floating and pay/fixed	222,106	(2,973)	(2,753)
Interest swaptions			
Sell	6,190	(5)	15
Buy	6,190	26	26
Caps			
Sell	5,654	(189)	(36)
Buy	5,354	189	48
Floor			
Sell	—	—	—
Buy	—	—	—
Total	—	¥ 1,659	¥ 1,681

(Millions of yen)

As of March 31, 2013	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥198,838	¥ 6,268	¥ 6,089
Receive/floating and pay/fixed	228,045	(4,587)	(4,413)
Interest swaptions			
Sell	120	(0)	0
Buy	120	0	0
Caps			
Sell	6,291	(126)	19
Buy	5,991	126	(3)
Floor			
Sell	100	(0)	(0)
Buy	100	0	0
Total	—	¥ 1,680	¥ 1,692

Currency-related transactions

(Millions of yen)

As of March 31, 2014	Notional amount	Fair value	Gain (Loss)
Currency swaps			
	¥603,487	¥ 381	¥ 363
Foreign exchange contract			
Sell	55,258	(628)	(628)
Buy	58,300	1,071	1,071
Currency option			
Sell	81,694	(1,031)	(349)
Buy	82,338	1,032	662
Total	—	¥ 825	¥1,119

(Millions of yen)

As of March 31, 2013	Notional amount	Fair value	Gain (Loss)
Currency swaps			
	¥720,194	¥ 631	¥ 571
Foreign exchange contract			
Sell	20,299	(390)	(390)
Buy	20,605	334	334
Currency option			
Sell	34,957	(620)	(224)
Buy	35,545	621	403
Total	—	¥ 576	¥ 694

Bonds-related transactions

(Millions of yen)

As of March 31, 2014	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥300	¥ 0	¥ 0
Buy	—	—	—
Bond futures option			
Sell	—	—	—
Buy	—	—	—
Total	—	¥ 0	¥ 0

(Millions of yen)

As of March 31, 2013	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥ 100	¥ (0)	¥ (0)
Buy	—	—	—
Bond futures option			
Sell	4,000	(2)	(0)
Buy	—	—	—
Total	—	¥ (3)	¥ (1)

Credit derivative transactions

(Millions of yen)

As of March 31, 2014	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥29,500	¥228	¥223
Buy	—	—	—
Total	—	¥228	¥223

(Millions of yen)

As of March 31, 2013	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥20,000	¥ (3)	¥ (5)
Buy	—	—	—
Total	—	¥ (3)	¥ (5)

Notes to Consolidated Financial Statements

■ Hybrid financial instrument transactions

(Millions of yen)			
As of March 31, 2014	Notional amount	Fair value	Gain (Loss)
Compound instruments	¥31	¥869	¥869
Total	—	¥869	¥869
(Millions of yen)			
As of March 31, 2013	Notional amount	Fair value	Gain (Loss)
Compound instruments	¥31	¥779	¥779
Total	—	¥779	¥779

Hedge accounting applied

As of March 31, 2014 and 2013, 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, 2014				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits		
	Receive/floating and pay/fixed		¥233,111	¥ (9,213)
	Securitization		6,232	—
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits		
	Receive/fixed and pay/floating		200	2
	Receive/floating and pay/fixed		94,375	(3,486)
	Receive/floating and pay/floating		100,000	(6,938)
Total			—	¥(19,636)
(Millions of yen)				
As of March 31, 2013				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits		
	Receive/floating and pay/fixed		¥534,395	¥(25,782)
	Securitization		7,565	—
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits		
	Receive/fixed and pay/floating		2,400	23
	Receive/floating and pay/fixed		110,614	(4,578)
	Receive/floating and pay/floating		100,000	(7,108)
Total			—	¥(37,445)

■ Currency-related transactions

(Millions of yen)				
As of March 31, 2014				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Currency swaps	Interest bearing financial assets and liabilities of which, foreign loans, securities, deposits and foreign exchange assets and liabilities	¥120,328	¥(1,884)
Allocation method	Currency swaps	Foreign bonds	—	—
Total			—	¥(1,884)
(Millions of yen)				
As of March 31, 2013				
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	¥53,002	¥(254)
Allocation method	Currency swaps	Foreign bonds	35,621	668
Total			—	¥ 414

20. Segment Information

Segment information has been omitted because FFG and its consolidated subsidiaries operated in one segment, the banking business, for the fiscal year ended March 31, 2014.

Information on income by service has been omitted because FFG and its consolidated subsidiaries offer a single banking service for the fiscal year ended March 31, 2014.

Information on income by geographic area has been omitted because income from Japanese customers' accounts for more than 90% of operating income in the consolidated statements of income for the fiscal year ended March 31, 2014.

Information on tangible fixed assets by geographic area has been omitted because total tangible fixed assets of the domestic operations constituted more than 90% of the consolidated total tangible fixed assets for the fiscal year ended March 31, 2014.

Information on income by major customer has been omitted because no operating income derived from any external customer amounted to 10% or more of operating income in the consolidated statements of income for the fiscal year ended March 31, 2014.

21. Related Party Transactions

(1) Directors and principal individual shareholders

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

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

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

2013					
Attribute	Name	Address	Common Stock	Title	Equity Ownership
Director	Masayoshi Nuki			FFG's Audit & Supervisory Board Member	
				Chairperson of Kyushu Electric Power Co., Inc.	

2013				
Relation-ship	Transactions	Transaction amount	Account	Balance at end of year
—	Loan	¥17,638 million	Loan	¥89,170 million

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

(2) Others

There were no relevant transactions with related parties to report for the fiscal years ended March 31, 2014 and 2013.

22. Subsequent Events

Cash dividends

The following distribution of retained earnings of FFG, which has not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2014, was approved at a shareholders meeting held on June 27, 2014 and became effective June 30, 2014:

(Millions of yen)	
Dividends on common stock (¥6.5 per share)	¥5,583
Dividends on type 1 preferred stock (¥7.0 per share)	¥131

Non-Consolidated Balance Sheets (Unaudited)

The Bank of Fukuoka, Ltd.

As of March 31, 2014 and 2013

	2014	2013	2014
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 823,582	¥ 547,954	\$ 8,002
Call loans	100,000	240,517	971
Monetary claims bought	33,424	33,863	324
Trading assets	1,983	2,050	19
Securities	1,773,494	1,771,477	17,231
Loans and bills discounted	7,245,273	6,893,671	70,397
Foreign exchanges	5,509	3,938	53
Other assets	32,467	37,018	315
Tangible fixed assets	146,919	142,822	1,427
Intangible fixed assets	7,880	6,038	76
Prepaid pension expenses	17,778	30,309	172
Deferred tax assets	19,823	22,133	192
Customers' liabilities for acceptances and guarantees	45,382	33,189	440
Allowance for loan losses	(104,183)	(109,044)	(1,012)
Total assets	¥10,149,334	¥9,655,940	\$98,613
Liabilities			
Deposits	¥ 8,727,822	¥8,450,283	\$84,802
Call money	40,827	31,819	396
Payables under repurchase agreements	30,876	—	300
Payables under securities lending transactions	136,990	75,504	1,331
Trading liabilities	—	0	—
Borrowed money	486,741	343,362	4,729
Foreign exchanges	812	510	7
Bonds payable	67,500	103,628	655
Other liabilities	65,359	88,583	635
Provision for losses on interest repayments	939	953	9
Provision for losses from reimbursement of inactive accounts	4,204	3,955	40
Provision for contingent liabilities losses	221	629	2
Deferred tax liabilities for land revaluation	26,961	27,071	261
Acceptances and guarantees	45,382	33,189	440
Total liabilities	¥ 9,634,640	¥9,159,492	\$93,612
Net assets			
Capital stock	¥ 82,329	¥ 82,329	\$ 799
Capital surplus	60,480	60,480	587
Retained earnings	279,367	254,612	2,714
Total shareholders' equity	422,177	397,423	\$ 4,101
Valuation difference on available-for-sale securities	51,382	68,534	499
Deferred gains or losses on hedges	(7,160)	(18,006)	(69)
Revaluation reserve for land	48,295	48,496	469
Total valuation and translation adjustments	92,516	99,024	898
Total net assets	¥ 514,694	¥ 496,447	\$ 5,000
Total liabilities and net assets	¥10,149,334	¥9,655,940	\$98,613

Non-Consolidated Statements of Income (Unaudited)

The Bank of Fukuoka, Ltd.

For the fiscal years ended March 31, 2014 and 2013

	2014	2013	2014
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥ 99,402	¥103,686	\$ 965
Interest and dividends on securities	23,582	22,078	229
Interest on call loans	307	325	2
Interest on receivables under securities borrowing transactions	—	10	—
Interest on deposits with banks	1	1	0
Interest on interest swaps	2,208	1,882	21
Other interest income	1,076	551	10
Trust fees	1	1	0
Fees and commissions	30,575	30,947	297
Trading income	123	79	1
Other operating income	8,952	11,928	86
Other income	8,413	13,594	81
Total income	¥174,646	¥185,086	\$1,696
Expenses			
Interest expenses:			
Interest on deposits	¥ 4,660	¥ 4,466	\$ 45
Interest on call money	168	333	1
Interest on payables under repurchase agreements	49	—	0
Interest on payables under securities lending transactions	164	163	1
Interest on borrowing and rediscounts	3,013	4,045	29
Interest on bonds	2,974	2,599	28
Interest on interest swaps	6,975	8,415	67
Other interest expenses	369	287	3
Fees and commissions payments	16,875	16,747	163
Other operating expenses	752	55	7
General and administrative expenses	67,898	68,256	659
Other expenses	11,206	26,999	108
Total expenses	¥115,109	¥132,370	\$1,118
Income before income taxes	59,536	52,716	578
Provision for income taxes:			
Current	13,566	23,821	131
Deferred	5,582	(4,177)	54
	19,148	19,644	186
Net income	¥ 40,387	¥ 33,072	\$ 392

Non-Consolidated Balance Sheets (Unaudited)

The Kumamoto Bank, Ltd.

As of March 31, 2014 and 2013

	2014	2013	2014
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 136,534	¥ 95,644	\$ 1,326
Call loans	12,502	12,321	121
Trading account securities	—	5	—
Securities	269,561	221,325	2,619
Loans and bills discounted	1,029,805	994,190	10,005
Foreign exchanges	1,148	761	11
Other assets	7,994	14,474	77
Tangible fixed assets	17,465	16,916	169
Intangible fixed assets	603	1,372	5
Prepaid pension expenses	4,357	10,880	42
Deferred tax assets	8,735	9,990	84
Customers' liabilities for acceptances and guarantees	4,959	5,174	48
Allowance for loan losses	(16,872)	(14,530)	(163)
Total assets	¥1,476,795	¥1,368,527	\$14,348
Liabilities			
Deposits	¥1,320,531	¥1,252,897	\$12,830
Borrowed money	62,934	20,911	611
Foreign exchanges	14	5	0
Other liabilities	4,074	4,027	39
Provision for losses from reimbursement of inactive accounts	214	264	2
Provision for contingent liabilities losses	—	7	—
Deferred tax liabilities for land revaluation	1,622	1,650	15
Acceptances and guarantees	4,959	5,174	48
Total liabilities	¥1,394,349	¥1,284,938	\$13,547
Net assets			
Capital stock	¥ 33,847	¥ 33,847	\$ 328
Capital surplus	33,847	33,847	328
Retained earnings	10,091	10,649	98
Total shareholders' equity	77,785	78,343	755
Valuation difference on available-for-sale securities	3,962	4,497	38
Revaluation reserve for land	696	747	6
Total valuation and translation adjustments	4,659	5,245	45
Total net assets	¥ 82,445	¥ 83,588	\$ 801
Total liabilities and net assets	¥1,476,795	¥1,368,527	\$14,348

Non-Consolidated Statements of Income (Unaudited)

The Kumamoto Bank, Ltd.

For the fiscal years ended March 31, 2014 and 2013

	2014	2013	2014
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥17,570	¥17,921	\$170
Interest and dividends on securities	1,978	2,191	19
Interest on call loans	80	163	0
Interest on deposits with banks	0	0	0
Other interest income	149	57	1
Fees and commissions	4,205	4,055	40
Other operating income	432	973	4
Other income	570	862	5
Total income	¥24,988	¥26,226	\$242
Expenses			
Interest expenses:			
Interest on deposits	¥ 1,201	¥ 1,076	\$ 11
Interest on payables under securities lending transactions	—	0	—
Interest on borrowing and rediscounts	21	19	0
Other interest expenses	5	2	0
Fees and commissions payments	2,829	2,731	27
Other operating expenses	0	24	0
General and administrative expenses	15,458	15,952	150
Other expenses	4,336	4,652	42
Total expenses	¥23,852	¥24,459	\$231
Income before income taxes	1,135	1,767	11
Provision for income taxes:			
Current	(5,494)	(11,818)	(53)
Deferred	1,609	6,959	15
	(3,884)	(4,858)	(37)
Net income	¥ 5,020	¥ 6,625	\$ 48

Non-Consolidated Balance Sheets (Unaudited)

The Shinwa Bank, Ltd.

As of March 31, 2014 and 2013

	2014	2013	2014
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 258,127	¥ 85,815	\$ 2,508
Call loans	20,091	15,537	195
Trading account securities	209	145	2
Securities	772,293	729,315	7,503
Loans and bills discounted	1,409,821	1,363,434	13,698
Foreign exchanges	1,492	2,816	14
Other assets	7,081	6,111	68
Tangible fixed assets	44,877	44,228	436
Intangible fixed assets	1,851	3,056	17
Prepaid pension expenses	5,348	8,460	51
Deferred tax assets	15,339	17,418	149
Customers' liabilities for acceptances and guarantees	7,373	8,920	71
Allowance for loan losses	(24,072)	(20,308)	(233)
Total assets	¥2,519,836	¥2,264,953	\$24,483
Liabilities			
Deposits	¥2,230,259	¥2,069,528	\$21,669
Call money	—	517	—
Borrowed money	136,851	35,030	1,329
Foreign exchanges	93	65	0
Other liabilities	5,717	4,252	55
Provision for losses from reimbursement of inactive accounts	414	427	4
Provision for contingent liabilities losses	58	89	0
Deferred tax liabilities for land revaluation	5,315	5,329	51
Acceptances and guarantees	7,373	8,920	71
Total liabilities	¥2,386,083	¥2,124,160	\$23,183
Net assets			
Capital stock	¥ 36,878	¥ 36,878	\$ 358
Capital surplus	36,878	36,878	358
Retained earnings	32,647	38,630	317
Total shareholders' equity	106,403	112,386	1,033
Valuation difference on available-for-sale securities	12,828	13,657	124
Revaluation reserve for land	14,521	14,749	141
Total valuation and translation adjustments	27,349	28,406	265
Total net assets	¥ 133,752	¥ 140,793	\$ 1,299
Total liabilities and net assets	¥2,519,836	¥2,264,953	\$24,483

Non-Consolidated Statements of Income (Unaudited)

The Shinwa Bank, Ltd.

For the fiscal years ended March 31, 2014 and 2013

	2014	2013	2014
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥22,140	¥22,976	\$215
Interest and dividends on securities	5,456	6,425	53
Interest on call loans	80	162	0
Interest on deposits with banks	0	0	0
Other interest income	267	77	2
Fees and commissions	6,794	6,888	66
Other operating income	1,074	1,646	10
Other income	1,559	1,587	15
Total income	¥37,373	¥39,764	\$363
Expenses			
Interest expenses:			
Interest on deposits	¥ 1,594	¥ 1,456	\$ 15
Interest on call money	0	9	0
Interest on payables under securities lending transactions	—	9	—
Interest on borrowing and rediscounts	178	176	1
Other interest expenses	0	0	0
Fees and commissions payments	3,348	3,411	32
Other operating expenses	146	41	1
General and administrative expenses	21,271	21,383	206
Other expenses	5,509	5,070	53
Total expenses	¥32,048	¥31,560	\$311
Income before income taxes	5,325	8,204	51
Provision for income taxes:			
Current	(2,040)	(880)	(19)
Deferred	2,718	4,065	26
	677	3,184	6
Net income	¥ 4,647	¥ 5,019	\$ 45

Company Outline (as of March 31, 2014)

Fukuoka Financial Group, Inc.

Head Office	1-8-3, Otemon, Chuo-ku, Fukuoka 810-8693, Japan
Date of Establishment	April 2, 2007
Paid-in Capital	¥124.7 billion
Security Code	8354
Stock Listings	Tokyo Stock Exchange, Fukuoka Stock Exchange
Number of Employees	6,763 (Consolidated)
Telephone Number	+81-92-723-2500
Website	http://www.fukuoka-fg.com/

The Bank of Fukuoka, Ltd.

Head Office	2-13-1, Tenjin, Chuo-ku, Fukuoka 810-8727, Japan
Date of Establishment	March 31, 1945
Paid-in Capital	¥82.3 billion
Number of Employees	3,525
Telephone Number	+81-92-723-2131
Website	http://www.fukuokabank.co.jp/

The Bank of Fukuoka's Overseas Network

Hong Kong Representative Office

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

Shanghai Representative Office

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

Dalian Representative Office

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

Singapore Representative Office

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

Bangkok Representative Office

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

New York Representative Office

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

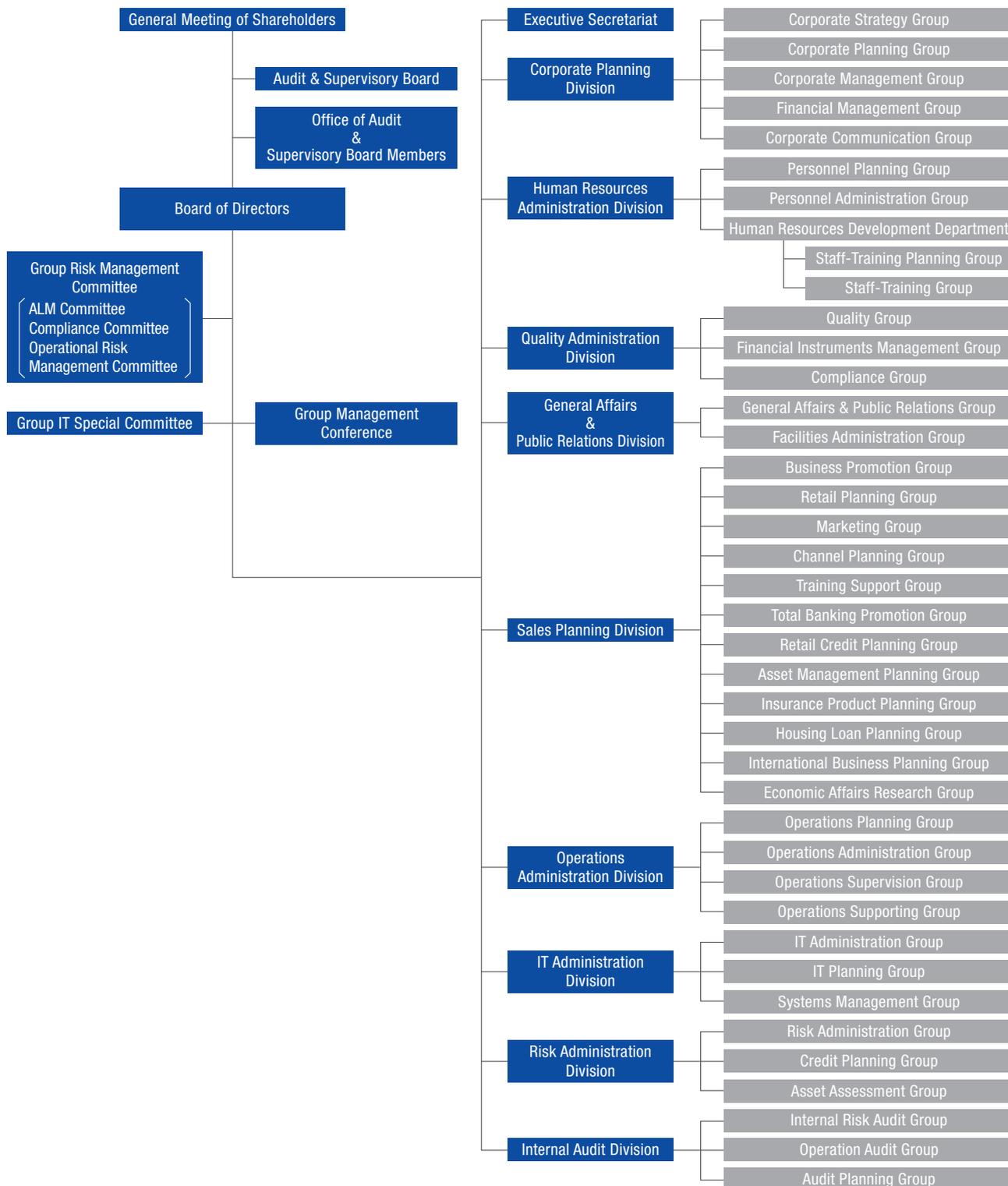
The Kumamoto Bank, Ltd.

Head Office	6-29-20, Suizenji, Chuo-ku, Kumamoto 862-8601, Japan
Date of Establishment	January 19, 1929
Paid-in Capital	¥33.8 billion
Number of Employees	924
Telephone Number	+81-96-385-1111
Website	http://www.kumamotobank.co.jp/

The Shinwa Bank, Ltd.

Head Office	10-12, Shimanosecho, Sasebo, Nagasaki 857-0806, Japan
Date of Establishment	September 1, 1939
Paid-in Capital	¥36.8 billion
Number of Employees	1,210
Telephone Number	+81-956-24-5111
Website	http://www.shinwabank.co.jp/

Organizational Chart (as of August 1, 2014)



Group Company Chart (as of August 1, 2014)



The Bank of Fukuoka held a meeting of the Board of Directors on June 27, 2014 and resolved to redeem in full preferred securities issued by Fukuoka Preferred Capital 2 Cayman, Limited (a specified subsidiary of the Bank) and decided to dissolve the specified subsidiary.

Share Information (as of March 31, 2014)

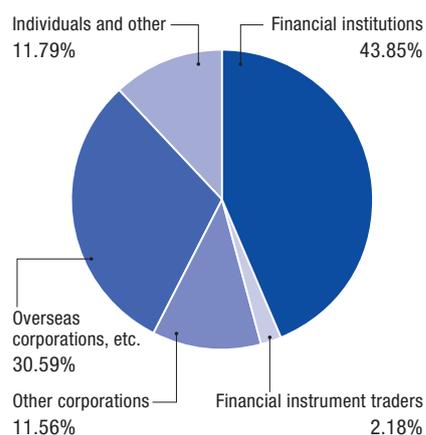
Investor Information

	Common stock	Type 1 preferred stock
Number of authorized shares	1,800,000,000	18,878,000
Number of shares Issued	859,761,868	18,742,000
Number of shareholders	27,801	540

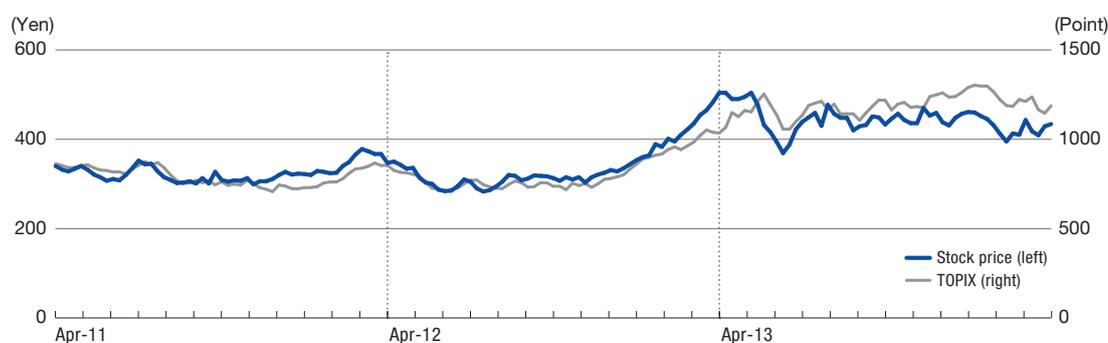
Major Shareholders

	(Thousands of shares, %)	
	Shares held	Ratio of shares held to issued number of shares
Japan Trustee Services Bank, Ltd. (Trust account)	56,145	6.39
The Master Trust Bank of Japan, Ltd. (Trust account)	51,865	5.90
Nippon Life Insurance Company	17,897	2.03
Meiji Yasuda Life Insurance Company	17,719	2.01
Sumitomo Life Insurance Company	17,419	1.98
The Dai-ichi Life Insurance Company, Limited	17,315	1.97
NORTHERN TRUST CO. (AVFC) RE 15PCT TREATY ACCOUNT	13,675	1.55
Japan Trustee Services Bank, Ltd. (Trust account 4)	12,456	1.41
Japan Trustee Services Bank, Ltd. (Trust account 9)	11,629	1.32
The Kagoshima Bank, Ltd.	9,664	1.10

Common Stock Distribution by Type of Shareholder



Stock Price



	FY2011	FY2012	FY2013
High (Yen)	384	483	535
Low (Yen)	294	273	361
Closing price as of March 31 (Yen)	367	483	424

Fukuoka Financial Group