Fukuoka Financial Group, Inc.

FFG ANNUAL REPORT 2016

Year Ended March 31, 2016

next stage of

Evolution

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

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

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

"To be your Bank of choice"

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Disclaimer Regarding Forward-looking Statements

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

FFG's Brand Mission and Principles

Group Management Principles

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

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

The FFG Brand

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

Brand Slogan

To be your Bank of choice

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

Your closest bank

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

Your reliable bank

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

Your sophisticated bank

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

The Story of Fukuoka Financial Group

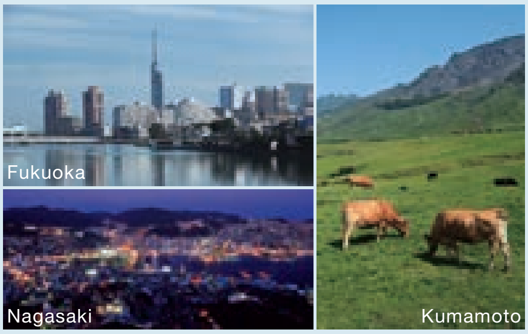
Fukuoka Financial Group, Inc. (FFG), was established as a financial holding company through the joint share transfer of the Bank of Fukuoka and the Kumamoto Bank on April 2, 2007. On October 1, 2007, FFG entered a new stage with the integration of the Shinwa Bank as a wholly owned subsidiary.

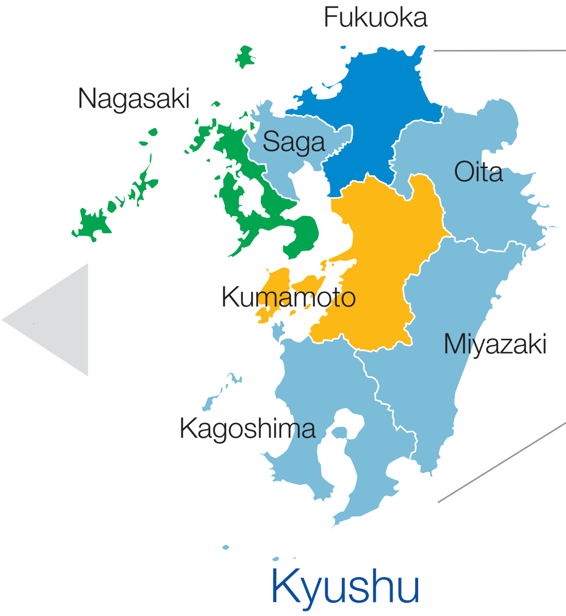
With its headquarters in Fukuoka, the largest city in Kyushu, FFG's network extends across the Kyushu region through bases in the three prefectures of Fukuoka, Kumamoto and Nagasaki.

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

What is Kyushu?

Kyushu is located in the south westernmost area of Japan. It is bordered by the East China Sea to the west and the Pacific Ocean to the east. The climate is slightly warmer and more tropical than Honshu. While the Kumamoto Earthquake that occurred in and after April 2016 was an unprecedented event that caused enormous damage to the region, we are working together with the regional community towards restoration.





* Kyushu consists of seven prefectures.

History of Fukuoka Financial Group

1877
Foundation of the Bank of Fukuoka, Ltd.

1879
Foundation of the Shinwa Bank, Ltd.

1929
Foundation of the Kumamoto Bank, Ltd.

2007

April
Establishment of FFG (The Bank of Fukuoka, Ltd. and the Kumamoto Bank, Ltd.)

October
Management integration of the Shinwa Bank, Ltd.

2009

January
IT system integration of the Kumamoto Bank, Ltd.

2010

January
IT system integration of the Shinwa Bank, Ltd.

2011

November
Opening of representative office in New York

December
Opening of representative office in Singapore

2012

March
Opening of representative office in Bangkok

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

2015

December
Opening of representative office in Taipei

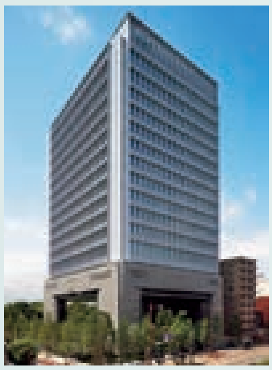
2016

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

July
Opening of representative office in Ho Chi Minh City

—**Loans:** ¥10.8 trillion
—**Deposits:** ¥13.0 trillion

Fukuoka Financial Group, Inc.
- The Bank of Fukuoka, Ltd.
- The Kumamoto Bank, Ltd.
- The Shinwa Bank, Ltd.


FFG Head Office (Fukuoka City)

Kyushu Figures

10% of Japan's Economy

10.2%

10.2% 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

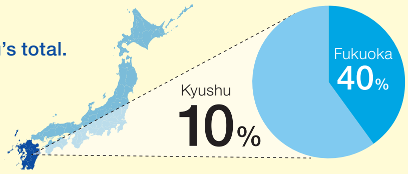
Fukuoka Airport is only 5–10 minutes by subway from central Fukuoka.

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.

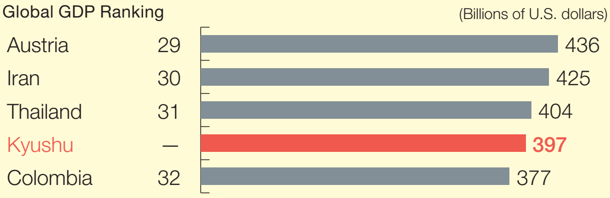
In addition, as high-speed transport networks with Fukuoka Prefecture at its center have been developed, Kyushu not only offers convenience, but as a gateway to Asia has high potential for expanded transactions with the Asian region.

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



Kyushu's Place in the World

Global GDP Ranking



Source: Kyushu Economic Status 2016, Kyushu Bureau of Economy, Trade and Industry

Data Analysis for Kyushu

Gross Prefectural Production*1 (2013)
Kyushu Total **43.9** trillion yen
41.4% 12.7% 10.0% 35.9%

Number of Businesses*2 (2014)
Kyushu Total **619,074**
37.6% 13.2% 10.8% 38.4%

Loans*3 (March 31, 2016)
Kyushu Total **33.0** trillion yen
52.8% 10.8% 8.1% 28.3%

Population*1 (2015)
Kyushu Total **13.0** million
39.2% 13.7% 10.6% 36.5%

Commercial Sales*4 (2014)
Kyushu Total **34.4** trillion yen
53.0% 10.7% 8.1% 28.2%

Deposits*3 (March 31, 2016)
Kyushu Total **45.3** trillion yen
47.3% 12.6% 10.7% 29.4%

Fukuoka / Kumamoto / Nagasaki / Kyushu, other prefectures

Sources
*1 Kyushu Economic Status 2016, Kyushu Bureau of Economy, Trade and Industry
*2 2014 Economic Census, Ministry of Internal Affairs and Communications
*3 Deposits, Vault Cash, and Loans and Bills Discounted by Prefecture, Bank of Japan
*4 Census of Commerce in 2014 (confirmed report), Ministry of Economy, Trade and Industry

Convenient Transport Hub

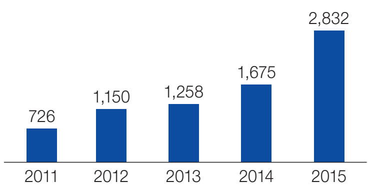
Since various means of transportation of land, sea, and air are concentrated in central Fukuoka, it has taken the role of a hub which connects the flow of people, goods, money and information with each prefecture in Kyushu. In addition, Fukuoka is located in close proximity to major cities in Asia, with 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

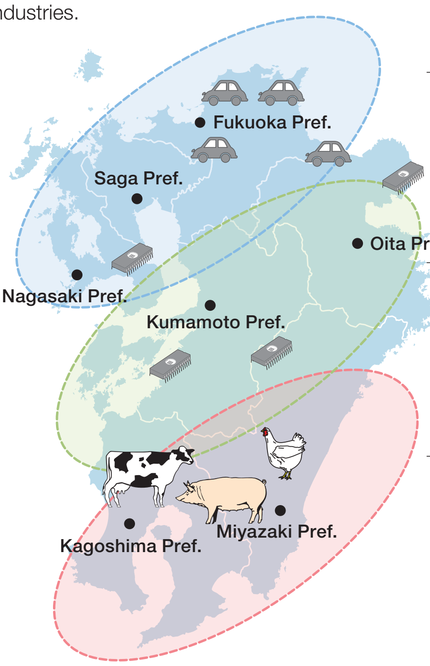
Foreign nationals entering Kyushu (In thousands)



Source: Ministry of Land, Infrastructure, Transport and Tourism

Well-Balanced Industry Grouping

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



Northern Kyushu, a center of "Car Island"

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

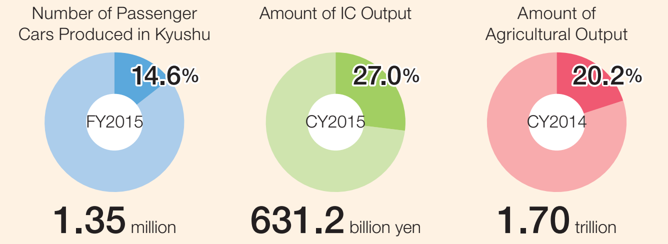
Middle Kyushu, contributes to "Silicon Island"

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

Southern Kyushu, a center of "Food Island"

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

Share in Japan



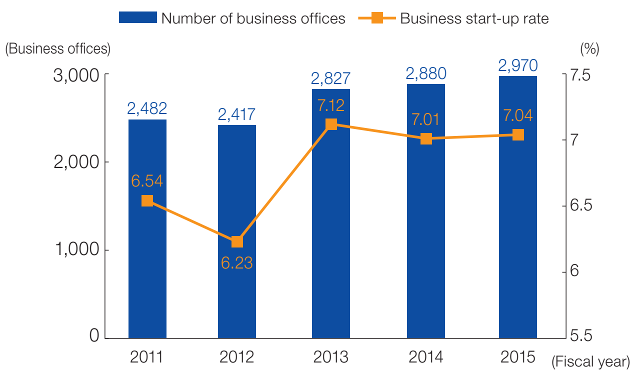
Sources: Kyushu Bureau of Economy, Trade and Industry
The Ministry of Agriculture, Forestry & Fisheries of Japan

Seeds of Further Growth

New signs of future growth have been observed in Kyushu. Examples include industry-academia-government collaboration for the research and manufacture of renewable energies such as hydrogen and solar energy, and designation as a National Strategic Special Zone. Economic ripple effects throughout the Kyushu region, such as creation of industrial innovation and promotion of new enterprises and business start-ups, are anticipated.

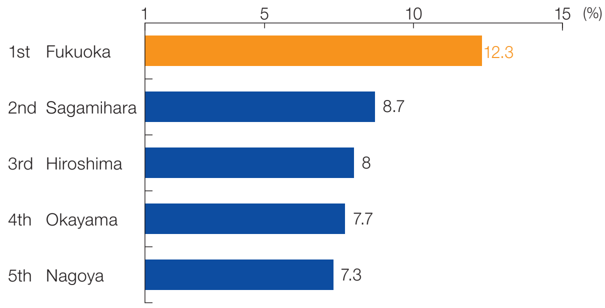
Fukuoka City was designated as the Special Zone for Global Startups and Job Creation in 2014. While the average new business start-up rate in Japan has hovered around 4% to 5% in recent years, only Fukuoka City has had a rate over 7%. This includes numerous start-ups by young people. Fukuoka has the highest* population ratio of young people among government-designated cities, which indicates the energy and dynamism of the city.
(*2010 Population Census)

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



Source: Fukuoka Labour Bureau
Figures are for all Employment Security Offices including Fukuoka City, and include some areas outside Fukuoka City.

Cities with a high percentage of young people* among entrepreneurs



Source: "Employment Status Survey (2012)" by Statistics Bureau, Ministry of Internal Affairs and Communications
*Ages from 25 to 34

Furthermore, in 2015, Kitakyushu City was designated as the Special Zone to Address the Declining Population and Aging Society through Active Participation by Senior Citizens and Enhancement of Nursing Care Services, and it is anticipated to see demonstrations and practical applications of advanced nursing care using robots and ICT.

FFG at a Glance

In order to become "The 'Best Regional Bank' achieving a sustained strong competitive edge and potential for growth," based on the management and business foundations that we have laid so far, we will actively take up the challenge in new, isolated areas, in addition to those on our current trajectory, and we will evolve our business model in all aspects.

Fukuoka Financial Group, Inc.

(As of March 31, 2016)

Net income attributable to owners of the parent

Amid a harsh business environment with a continuing decline in interest rates, we secured commensurate income and posted record high profit for the fourth consecutive fiscal year.

44.7bil.

Return on equity (Consolidated)

We will maintain a sustainable growth trend, and continue to secure an ROE of 5% or over.

5.8%

Core OHR (3 banks' total)

While making strategic investments mainly in systems, we are continuously pursuing efficiency.

56.7%

Capital adequacy ratio

We surpassed our target (mid 8% range) for the period of the Fourth Mid-Term Management Plan, and are aiming for approximately 9% under the Fifth Mid-Term Management Plan.

8.75%

Dividend payout ratio

We make efforts to increase shareholder value by simultaneously pursuing return to shareholders with a target dividend payout ratio of about 30% and accumulation of internal reserves.

25.1%

Foreign investors ratio

Although the ratio of foreign investors has dropped in response to a global risk-off trend, we will continue to strive for constructive dialogue with foreign investors.

27.65%

FFG's Management Style

The cornerstone supporting the aforementioned results is "Single Platform/Multiple Brands," which has been built up as the fundamental management style since FFG was first established.

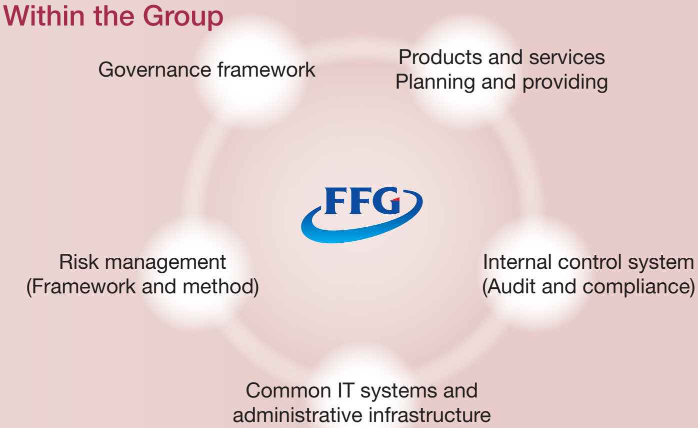
This is a management style that utilizes the integrated management system and infrastructure within the Group, while presenting three faces (brands) to the customers. This style also enables the pursuit of scale merits, while maintaining commitment to the region.

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.

Within the Group



Strengthening competitive power	Enhancing soundness	**Shareholders**	Increasing shareholder value	Pursuing efficiency

Broad Area-Based Regional Financial Group

FFG views Kyushu as a single economic zone, and has formed a broad area-based regional financial group that covers all of Kyushu. In addition, Kyushu has strong relationships with Asian countries and is a market with enormous potential. We are supporting our customers by broadly strengthening our contact points throughout Japan and overseas.

FFG Fukuoka Financial Group, Inc.

Within Kyushu	321

THE BANK OF FUKUOKA, LTD.

Fukuoka Prefecture	152
Within Kyushu	12
Other	6

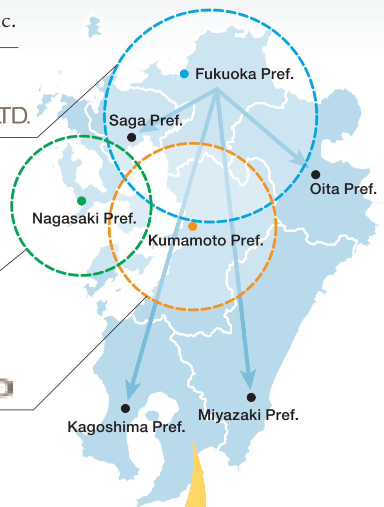
THE SHINWA BANK, LTD.

Nagasaki Prefecture	76
Within Kyushu	11
Other	1

THE KUMAMOTO BANK, LTD.

Kumamoto Prefecture	63
Within Kyushu	7

(As of August 1, 2016)



Business foundation

We are building a firm business foundation based on high-quality financial services provided by the approximately 6,800 employees of the Group (consolidated basis).

Individual	Corporate
5,630,000	**220,000**

Loan share in Kyushu

We support the needs and business challenges of customers not only in Fukuoka, Kumamoto and Nagasaki prefectures, but also across all of Kyushu.

23.5%

(As of March 31, 2015)

This management style enables the pursuit of a high degree of efficiency and effectively utilizes the single platform as well as the subsidiary banks' own brands.

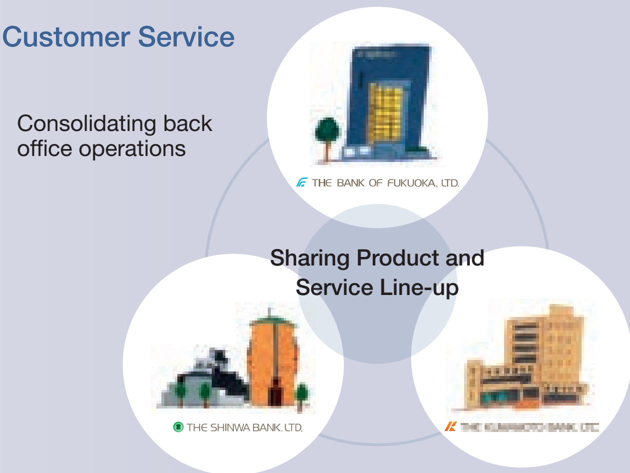
We are proud of the fact that it is the most suitable style for the management integration of regional banks in Japan, for which connections with local customers are essential.

Multiple Brands

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

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

Customer Service



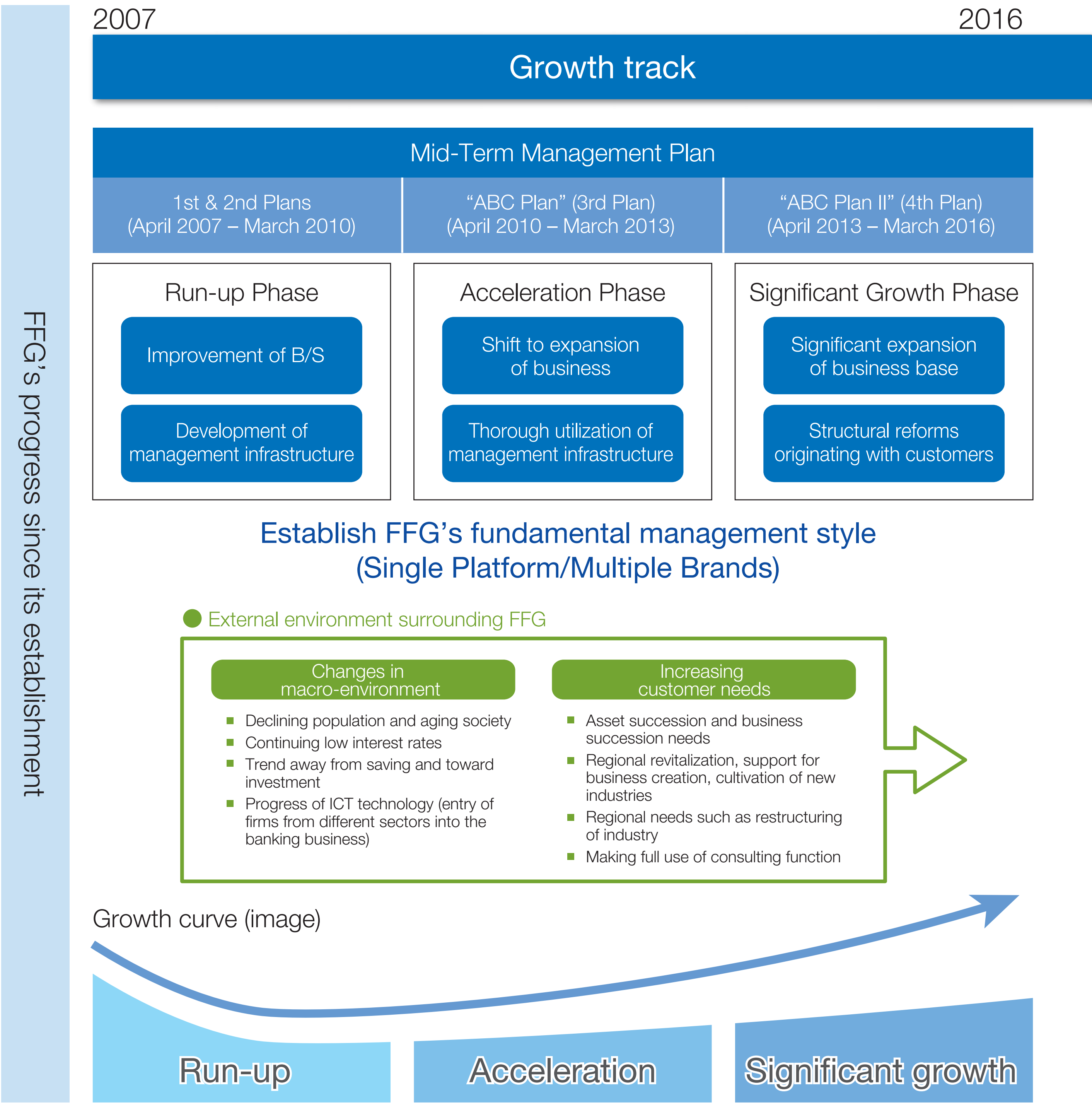
Support for business activities	Assistance with life-planning	**Customers and Local Community**	Developing local economy	Revitalizing local community

Long-term vision of FFG

Surrounding business environment

During the past nine years, FFG achieved significant growth through development and thorough utilization of our management structure. In addition, we established unique management style, including Single Platform/ Multiple Brands.

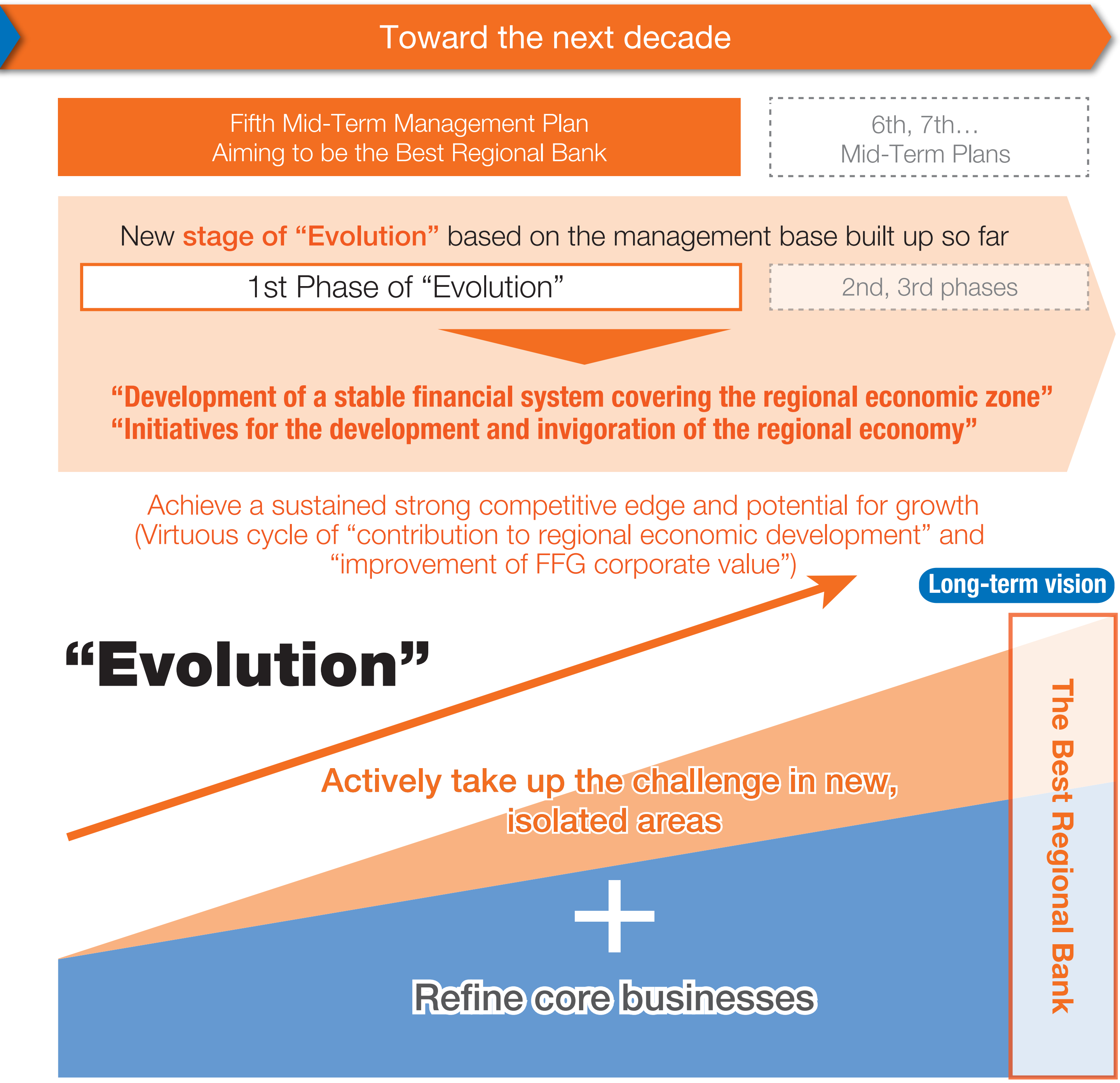
Meanwhile, the business environment surrounding regional financial institutions is expected to become even more severe, due to such factors as the declining birthrate and aging population, prolonged low interest rates, innovations in ICT, and the entry of firms from different sectors into the banking business. Against the backdrop of such changes in social structure, regional financial institutions are called upon not only to maintain stable financial systems in the region, but also to make efforts to boost the development of regional economic activity.



FFG's "Next 10 Years"

FFG therefore positions "development of a stable financial system covering the regional economic zone" and "initiatives for the development and invigoration of the regional economy" as the two key themes of its long-term strategy. Our goal in this is to achieve the ultimate mission which is to contribute to the invigoration and development of the regional economy and to provide support for that through stable regional financial systems.

Furthermore, in order to advance our long-term strategy amid a rapidly changing business environment, FFG itself must continue to evolve, anticipating and adapting to various changes in the business environment. Given this, we have positioned the next decade as a stage of "evolution," and again set a long-term vision (goal) of being the "Best Regional Bank," incorporating our desire to obtain support from all stakeholders.



Fifth Mid-Term Management Plan

Fundamental Principle and Emphasized Activities

The Fifth Mid-Term Management Plan, which began in FY2016, sets out the fundamental principles for achieving mutual growth by creating a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value" as the first phase of the stage of evolution. With our brand slogan, "To be your Bank of choice" at the core of all of our business activities, we will accelerate our efforts towards "evolution" in all aspects, in order to establish a firm management base and business model that will remain steady even under future changes in the business environment, and also realize sustainable growth.

Fifth Mid-Term Management Plan: Aiming to be the Best Regional Bank

Period	April 2016 – March 2019 (3 years)
Long-term vision (goal)	The "Best Regional Bank" achieving a sustained strong competitive edge and potential for growth The best regional financial group for all stakeholders, contributing to and developing alongside the community by providing high-quality financial services
Fundamental principle	Achieve a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value," by constantly continuing to "evolve" while anticipating changes in the business environment
4 Basic strategies	

• Evolve business model	• Provide "integrated services" for all our customers • Actively use digital technologies in operating activities • Take up challenge in new business areas (using FinTech, etc.)
• Strengthen human resources	• Strengthen development of integrated services personnel • Invest more aggressively in human resources (employment and development of specialist personnel, etc.) • Utilize the Group's human resources effectively
• Exercise group total power	• Rigorously pursue Single Platform/Multiple Brands • Improve Group productivity • Work to reform the FFG earnings structure
• Build strong brand power	• Develop business activities centered on our brand slogan, "To be your Bank of choice" • Strengthen the communicative power of the FFG brand • Strengthen communication with customers and with the community

Target Management Indices

With a view to achieving our long-term vision, we have set various management indices for the final fiscal year of the Plan (FY2018).

Maintaining our dividend payout ratio at roughly 30%, the target dividend payouts will be newly set for net income levels of 45.0 billion yen and above.

* The effects and impacts (projected profits and numerical data) of, and attributable to, the Memorandum of Understanding regarding Business Integration with The Eighteenth Bank, Limited, have not been taken into account in these management indices. The indices will be revised once business integration has been resolved and realized, at which time they will be announced.

(Note) Consolidated net income is net income attributable to owners of the parent.

	FY2015	FY2018 (target)	Notes
Net income (consolidated) (Note)	44.7 billion yen	45 billion yen	+0.3 billion yen
ROE	5.8%	5% or more	–
Average balance of total loans (3 banks total)	10.4 trillion yen	11.5 trillion yen	+about 1 trillion yen
Average balance of total deposits and CDs (3 banks total)	12.9 trillion yen	13.9 trillion yen	+about 1 trillion yen
Outstanding balance of assets under management for individual customers (3 banks + Fukuoka Securities total)	1.3 trillion yen	2 trillion yen	+about 0.7 trillion yen
Capital adequacy ratio	8.75%	About 9%	–
OHR (consolidated)	63.7%	About 60%	–

Memorandum of Understanding regarding Business Integration with The Eighteenth Bank

FFG and The Eighteenth Bank, Limited (hereinafter the "Eighteenth Bank") reached a basic agreement on February 26, 2016, under which FFG and the Eighteenth Bank (hereinafter collectively "the Companies") will promote consultation and consideration toward the realization of business integration in around April 2017.

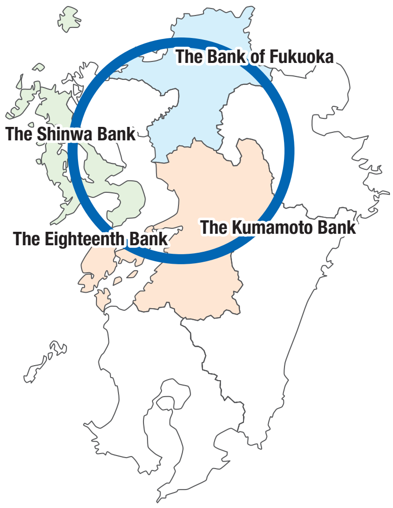
Background and Philosophy

■ Background

Kyushu is no exception to the structural issues facing the regional economy such as the declining population and aging society, and it is expected that the market size will decline in the future. On the other hand, Kyushu has a variety of industries ranging, as well as many tourism resources making Kyushu an attractive market.

The Companies have conducted a study of a possible new regional financial group which can be developed in tandem with the region, under their common understanding that: (i) in order to maximize each potential point and attraction of Kyushu and Nagasaki, it is important to further promote the integration of the Kyushu economy; and, (ii) to support such promotion, the Companies need to establish a firmer business foundation and to develop a wide, customer-friendly network while maintaining their brand in the region.

Consequently, the Companies have come to share the following understanding, and have therefore resolved to promote consultation and consideration toward realization of the afore-mentioned business integration.



(1) Mutual utilization of each other's management and business know-how contributes to the maintenance and stabilization of regional financial systems and the development of the regional economy.
(2) Forming a firm financial group based in Kyushu will result in a source of higher quality services to our customers, which will also contribute to an improvement of corporate value.

■ Philosophy

In order for Kyushu to form an attractive market as a whole, the Companies will aim for simultaneous realization of the invigoration of the regional economy and improvement of corporate value, by promoting, in the regional economic zone, operational efficiency via economies of scale and stabilization of the regional financial systems over the future.

Simultaneous realization of the invigoration of the regional economy and improvement of corporate value

- Improve business efficiency by utilizing the rich network of the Companies
- Take initiatives within the Group banks to generate regional strengths
- Call for a structure that can persistently offer financial services of higher quality

Contribution to the growth of companies in Nagasaki Prefecture

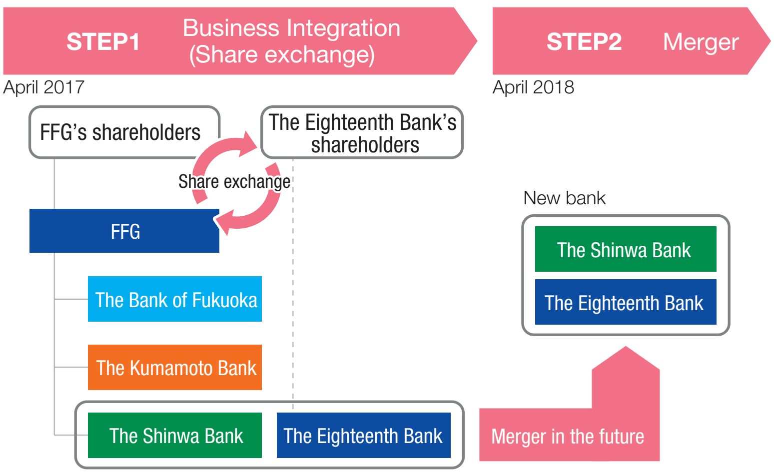
- Strengthen support across Nagasaki Prefecture through the future merger of the Eighteenth Bank and the Shinwa Bank
- Enhance partnership with Fukuoka, the largest economic zone in Kyushu
- Enhance support for entrance into Asia and creation of commercial routes

Financial group with the highest customer satisfaction

- Maintain and deepen relationships with our customers
- Utilize the broad, customer-friendly network

Structure and Schedule

The Companies will promote consultation and considerations to conduct a share exchange under which FFG will become the wholly owning parent company and the Eighteenth Bank will be the wholly owned subsidiary with an effective date around April 2017, under the condition that the required approvals at the general meetings of shareholders and approvals from the relevant authorities necessary for conducting the business integration are obtained.

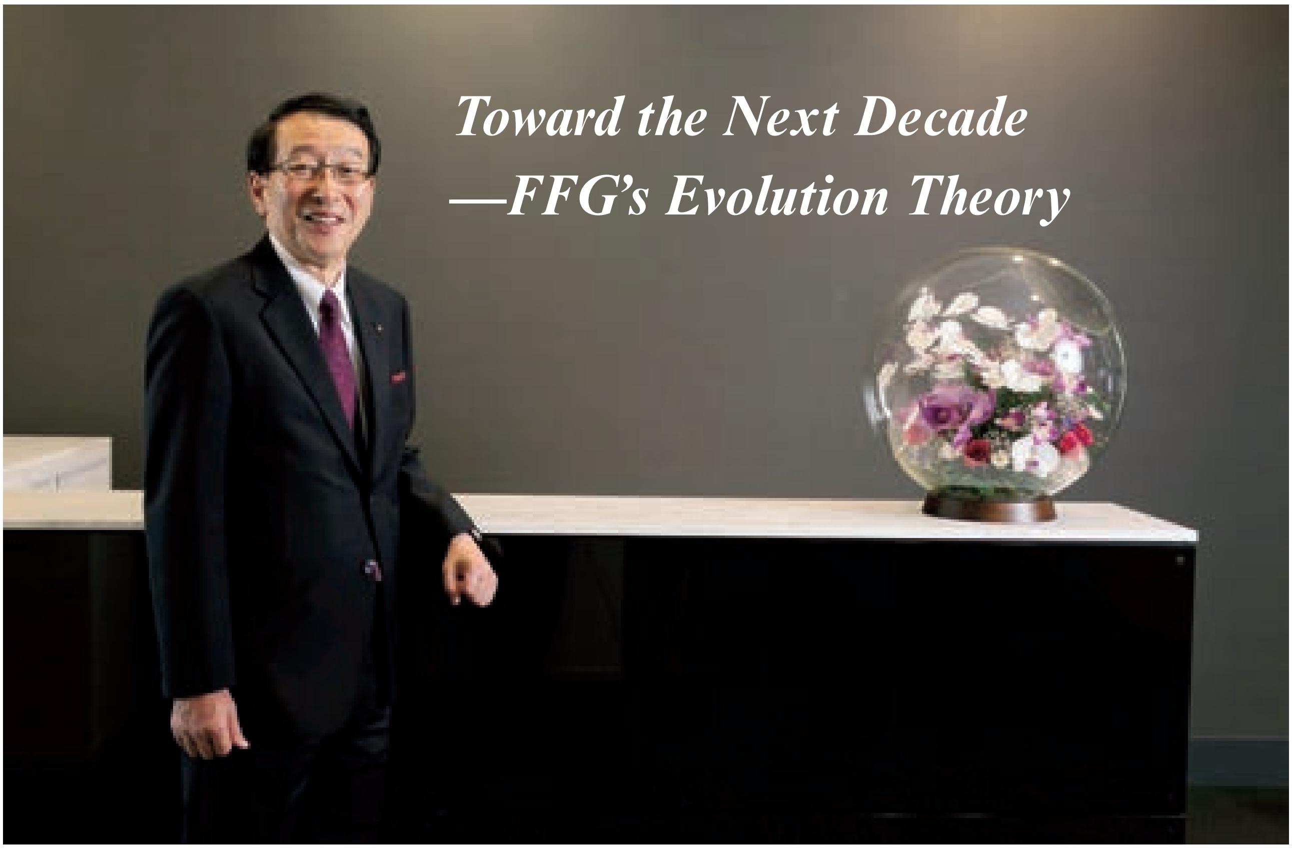


(Share exchange ratio)
The share exchange ratio will be decided by the time of the execution of the definitive agreement regarding the business integration, based on the results of the due diligence to be conducted on the Companies, and the results of the evaluation of the share value of the Companies by third party institutions.

(Reorganization after the Business Integration)
In order to realize the benefits of the business integration to the maximum extent, the Eighteenth Bank and the Shinwa Bank, which is a subsidiary of FFG, will promote consultation and consideration regarding a merger to be conducted roughly one year after the business integration.

Interview with the President

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



August 2016

T. Shibato

Takashige Shibato
President
Fukuoka Financial Group, Inc.

Q.1 How do you rate the results of ABC Plan II?

Since FY2013, FFG has worked on its Fourth Mid-Term Management Plan “ABC Plan II”. Following the “Run-up Phase” and the “Acceleration Phase,” FFG implemented structural reforms recognizing our customers as top priority in the “Significant Growth Phase” of ABC Plan II. Through integrated services covering both corporate and individual customers, we aimed to achieve significant expansion of our business base.

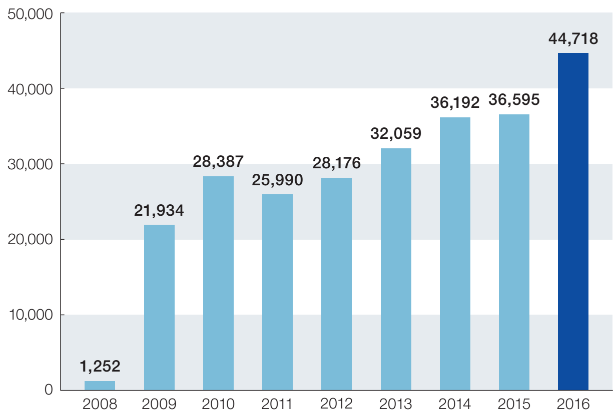
Specific initiatives include the refining of consulting services for enterprise owners, which we position as a core business, enhancement of customer contact points through the introduction of the new CRM system and slate PCs, service reforms such as strengthening of new revenue business and the inheritance business.

As a result, in terms of profitability, in the midst of a severe business environment due to prolonged low interest rates, we were able to achieve gratifying results. Notably, we recorded the highest consolidated net income for the fourth consecutive year.

In terms of growth, we were able to substantially increase transactions with small and medium-sized enterprises and individuals, which is our mainstay segment. Both loans and deposits achieved the targets set by the ABC Plan II. Remarkably, loans provided in Kyushu exceeded the target by 1 trillion yen.

Net income attributable to owners of the parent (consolidated)

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



Interview with the President

Q.2 What is FFG's long-term vision?

In the past nine years, FFG has established its fundamental management style, notably, the "Single Platform/Multiple Brands". We have also conducted various activities contributing to development of the regional economy.

Meanwhile, turning to the external environment, the business environment surrounding regional financial institutions is expected to become increasingly severe, due to such factors as prolonged low interest rates, diversifying customer needs, and the entry of firms from other sectors into the banking business. The regional economy in particular is facing such structural challenges as populations continuing to decline and age at increasing speed. It is predicted, therefore, that regional markets will contract in the future. The Kyushu region where we are based is no exception.

Against a backdrop of these changes in social structure, not only are regional financial institutions required to maintain stable regional financial systems, but they are also being asked to fulfill a role of supporting the invigoration and development of regional economies more aggressively and proactively than ever before. These roles include regional revitalization and assessment of business potential. The strength of regional banks is our ability to offer meticulous responses attuned to the needs of the regions we serve. By capitalizing on this strength, we will be able to enhance potential for growth through the provision of high-quality services to customers.

With that in mind, in addition to areas on our current trajectory, FFG needs to take up the challenges in new, isolated areas, in pursuit of continued evolution. We do not aspire simply to become a bigger group; we set a vision of being the "Best Regional Bank"— a financial group equipped especially with high-quality, in financial services, human resources and organizational power, etc. and will continue our efforts positioning the next decade as a new stage of evolution.

Q.3 What strategies is FFG implementing to achieve evolution?

We have three strategic options to pursue 1) stand-alone growth to position FFG apart from other banks, 2) sustainable growth through M&A, and 3) enhancement of competitive edge and risk sharing by forming alliances. The third option is midway between the first and the second one.

FFG does not intend to restrict its strategic options to one of these. In fact, we are in a position to pursue all options.

Please note that the business integration with The Eighteenth Bank, Limited announced in February 2016 corresponds to one of these options.

During the period covered by the Fifth Mid-term Management Plan, which is positioned as the first phase of the new stage of evolution, by exploiting these options we aim to establish a firm management base and business model that remain steady despite possible future changes in the business environment. To this end, we accelerate initiatives aimed at "evolution" of all aspects, including financial services, business style, human resources and organization.

(Examples of initiatives toward evolution)

Stand-alone: iBank business (expansion of high-quality services)

M&A: Business integration with The Eighteenth Bank (stabilization of the financial system and utilization of scale merits)

Alliance: Sharing of systems with other banks (realization of higher operational efficiency and risk taking abilities)

Interview with the President

Q.4 What strengths of FFG are conducive to the evolution you have in mind?

I believe FFG has two principal strengths.

Firstly, there is the group total power that we have been cultivating in the nine years since our establishment. The three banks, the pillars of the Group, rather than merging, have each retained and cultivated their distinctive personalities, and are rooted in their respective regions. The in-depth relationships of trust that they have cultivated with customers constitute a robust business base. The Group's subsidiaries include a securities firm, a credit card company, and a consultancy. In 2016, an investment company and an insurance company joined the Group. FFG is able to offer sophisticated, comprehensive financial services optimized for customers.

We are emphasizing human resources development that enables our employees to offer high-quality financial services. FFG is strengthening development of personnel capable of offering integrated services and also of specialists. We are implementing and enhancing initiatives for diversity centering on empowerment of women. By striving to optimize our organizational structure, we are encouraging our employees to bring their capabilities into full play.

Secondly, Kyushu where FFG is based has great potential. Kyushu is the fourth largest regional economy in Japan and a gateway to overseas markets, primarily in Asia where economic growth is remarkable. Led by Fukuoka City that has been designated a National Strategic Special Zone, Kyushu offers opportunities for business startups. Thus, it has a favorable environment for us to make collaboration and development together with enterprises and the local community.

For regional banks the path to future prosperity is not straightforward, but we are convinced that we can grow to be the Best Regional Bank.

Q.5 What are FFG's initiatives to strengthen corporate governance?

Strengthening of corporate governance is positioned as an important management task that contributes to maximization of corporate value. In view of the purpose of the Corporate Governance Code, FFG is stepping up efforts to strengthen corporate governance systems and is adhering to all the principles.

FFG's initiatives include the following:

1) Establishment of the Group Compensation & Nominating Advisory Committee, of which External Directors or External Audit & Supervisory Board Members are the majority, that deliberates on matters related to compensation and nomination, in order to enhance transparency and fairness of nomination of Directors and their compensation

The Group Compensation & Nominating Advisory Committee is a voluntary advisory body whose purview includes matters related to the appointment / dismissal and the compensation of directors of the Company and of the subsidiary banks. A majority of 7 or less Advisory Members of the Committee are External Directors or External Audit & Supervisory Board Members. The decision-making process of the Committee is based on an independent and objective perspective.

2) Establishment of the criteria for independence to judge independence of External Directors and External Audit & Supervisory Board Members

FFG's two independent External Directors are contributing to vitalization of discussion at meetings of the Board of Directors based on their extensive knowledge and insight.

Mr. Hideaki Takahashi, Independent Director: IT, risk management, etc.

Mr. Masahiko Fukasawa, Independent Director: strategic planning, various measures, etc.

3) Implementing evaluation of the Board of Directors to continuously enhance its effectiveness

We will continue our efforts to enhance and strengthen corporate governance structure so that shareholders will keep the Company's shares for a long time along with a sense of security.

Interview with the President

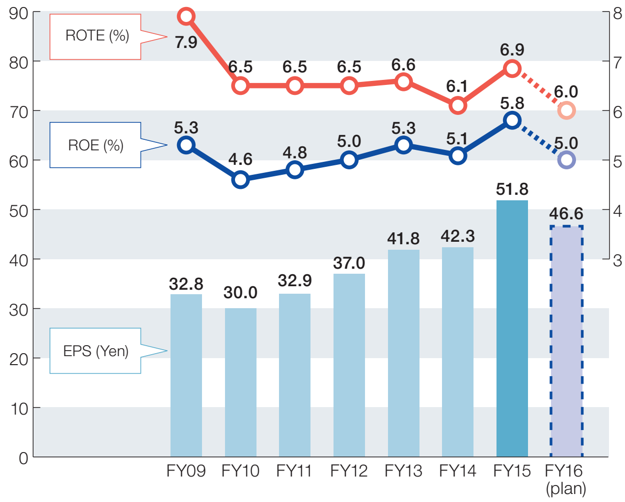
Q.6 What is FFG's policy on ROE and the return to shareholders?

We emphasize return on tangible equity (ROTE), which excludes intangible fixed assets such as goodwill, since FFG has goodwill amounting to over 100 billion yen as a result of business integration.

Currently, FFG's ROTE is approximately 6%. Although interest income had continued to decrease because of low interest rates, it turned to an increase in FY2015 for the first time since the establishment of FFG, thanks to the effects of a number of initiatives implemented so far. We will strive to improve ROE through top-line growth.

As for return of profits to shareholders, we have revised the performance-based dividend table while maintaining the target dividend payout ratio at approximately 30%. Target dividend payouts have now also been newly set for consolidated net income levels of 45 billion yen and above.

FFG will promote returning of profit to shareholders while endeavoring to strike a balance with enhancement of shareholders' equity.



*Tangible equity = Net assets – Non-controlling interests – Intangible fixed assets

Consolidated net income level	Full-year dividend per share	Payout ratio
50 billion yen or more	17 yen	Up to 29%
45 – 50 billion yen	15 yen	26 – 29%
40 – 45 billion yen	13 yen	25 – 28%
35 – 40 billion yen	12 yen	26 – 30%
30 – 35 billion yen	11 yen	27 – 32%
25 – 30 billion yen	10 yen	29 – 34%
20 – 25 billion yen	9 yen	31 – 39%
15 – 20 billion yen	8 yen	34 – 46%
Below 15 billion yen	7 yen	40% or higher

Financial Highlights

Fukuoka Financial Group, Inc. and Consolidated Subsidiaries

Fiscal years ended March 31,	2012	2013	2014	2015	2016
Operating results (Millions of yen)					
Ordinary income	254,373	255,019	242,289	228,007	236,707
Ordinary profit	37,727	68,777	57,020	60,763	71,426
Net income attributable to owners of the parent	28,176	32,059	36,192	36,595	44,718
Comprehensive income	53,224	67,495	32,356	77,678	43,138
Assets (Millions of yen)					
Net assets	692,765	754,283	745,778	778,093	784,691
Total assets	12,963,202	13,277,578	14,125,998	15,661,794	16,406,109
Cash flows (Millions of yen)					
Cash flows from operating activities	(196,113)	(30,768)	758,784	989,644	315,044
Cash flows from investing activities	17,044	314,231	(104,873)	(416,303)	(139,028)
Cash flows from financing activities	(12,263)	(29,603)	(165,859)	(32,289)	(99,041)
Cash and cash equivalents at end of the year	466,771	723,336	1,211,513	1,752,714	1,829,586
Per share data (Yen)					
Net assets per share	712.03	774.42	798.16	865.66	902.50
Net income per share	32.62	37.01	41.82	42.29	51.75
Ratio (%)					
Capital adequacy ratio (consolidated)	10.98	12.26	10.28	9.60	8.75
Return on equity (consolidated)	4.73	4.97	5.28	5.05	5.81
Price earnings ratio	11.24	13.04	10.13	14.63	7.09
Other					
Employees	6,736	6,825	6,763	6,805	6,823

Notes
1 The fiscal year is from April 1 through March 31.
2 FFG and its domestic consolidated subsidiaries conduct accounting on a before-tax basis, excluding national and local consumption taxes.
3 With regard to the calculation method of capital adequacy ratio, in accordance with the revision of the public notification of the capital adequacy ratio, Pillar 3 (domestic standard) has been applied from the end of March 2014 and thereafter (Pillar 2 had been applied up to 2013).
4 Capital adequacy ratio = (Total net assets - Noncontrolling interests)/Total assets at fiscal year-end.
5 Effective from the fiscal year ended March 31, 2016, "Net income" has been presented as "Net income attributable to owners of the parent," adopting the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013), etc.

Review of the Fiscal Year

Financial Summary

3 banks' total

(Billions of yen)

For the fiscal years ended March 31,	2015	2016	Comparison
Gross business profit	174.2	178.9	4.7
Net interest income	149.6	150.0	0.4
Net fees and commissions	20.9	21.9	1.0
Net trading income	0.1	0.0	(0.1)
Net other operating income	3.5	6.9	3.4
Overhead expenses	99.8	100.0	0.2
Business profit*1	74.4	78.9	4.5
Core business profit*2	74.2	76.4	2.2
Total credit cost*3	(2.5)	(3.6)	(1.1)

Consolidated

Ordinary profit	60.8	71.4	10.7
Net income attributable to owners of the parent*4	36.6	44.7	8.1

Note "( )" denotes minus.

Core business profit (3 banks' total) increased ¥2.2 billion from a year earlier to ¥76.4 billion, due to increases of net interest income, net fees and commissions, and net other operating income.

Moreover, net interest income, which had been on a downward trend, increased for the first time since FFG was established in 2007. (Net domestic interest income also turned around to an increase from a downward trend.)

In addition to an increase of core business profit, gains on stocks and bonds increased and credit cost decreased (i.e. an increase of reversal gain). As a result, consolidated ordinary profit increased ¥10.7 billion from a year earlier to ¥71.4 billion.

Net income attributable to owners of the parent increased ¥8.1 billion from a year earlier to ¥44.7 billion, which marked a record high for the fourth consecutive year.

*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
*4 Net income attributable to owners of the parent According to the revision of accounting standards, presentation of Net income, etc. has been changed and presentation of minority interests has been changed to noncontrolling interests.

(Billions of yen)

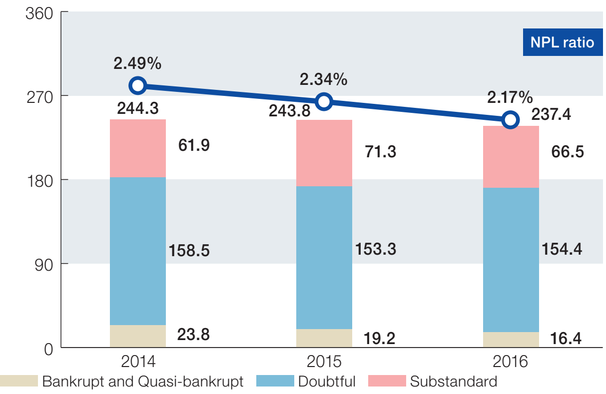
(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
For the fiscal years ended March 31,	2015	2016	Comparison	2015	2016	Comparison	2015	2016	Comparison
Gross business profit	124.5	129.5	4.9	20.3	20.8	0.5	29.4	28.7	(0.7)
Net interest income	106.8	107.7	0.9	18.2	18.2	(0.0)	24.6	24.1	(0.5)
Domestic	99.7	100.9	1.2	18.2	18.1	(0.0)	24.6	24.1	(0.5)
International	7.1	6.8	(0.3)	0.0	0.0	0.0	0.0	0.0	(0.0)
Net fees and commissions	14.8	15.7	0.9	1.8	2.4	0.6	4.3	3.9	(0.4)
Net trading income	0.1	0.0	(0.1)	–	–	–	–	–	–
Net other operating income	2.8	6.0	3.2	0.3	0.2	(0.1)	0.5	0.7	0.2
Overhead expenses	65.8	66.1	0.3	13.6	13.8	0.2	20.4	20.1	(0.3)
Business profit	58.8	63.4	4.6	6.7	7.0	0.3	7.7	8.5	0.8
Core business profit	58.6	61.4	2.8	6.7	6.9	0.2	8.9	8.1	(0.8)
Ordinary profit	59.0	66.8	7.8	6.6	7.4	0.7	8.7	7.7	(1.0)
Net income	36.3	45.6	9.3	8.0	5.3	(2.7)	3.6	5.2	1.7
Total credit cost	(1.9)	(1.8)	0.1	(0.6)	(1.0)	(0.4)	0.0	(0.8)	(0.9)

Note "( )" denotes minus.

Major Financial Indicators

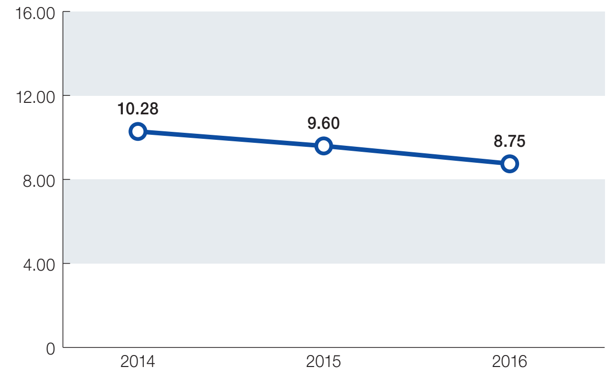
Non-performing loans (3 banks' total)

As of March 31, (Billions of yen)



Capital adequacy ratio (Consolidated)

As of March 31, (%)



(%)

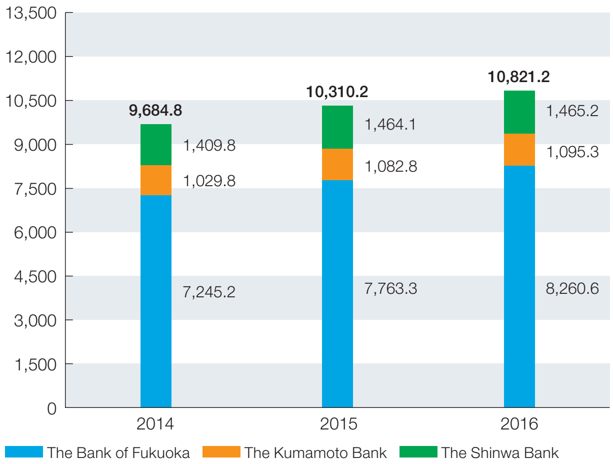
(Non-consolidated)	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
As of March 31,	2015	2016	Comparison	2015	2016	Comparison	2015	2016	Comparison
NPL ratio (Direct write-off is adopted)	2.24	2.02	(0.22)	2.69	2.70	0.01	2.61	2.65	0.04
Capital adequacy ratio	9.71	8.76	(0.95)	9.96	10.00	0.04	9.12	8.83	(0.29)

Notes: 1 "( )" denotes minus.
2 Only the capital adequacy ratios of the Bank of Fukuoka listed a consolidated basis.
3 Capital adequacy ratio is calculated based on Pillar 3 (domestic standard).

Loans and Deposits

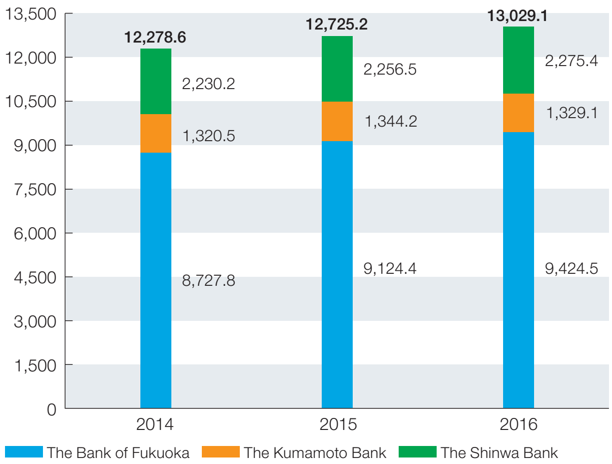
Balance of loans (3 banks' total, balance at year-end)

As of March 31, (Billions of yen)



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

As of March 31, (Billions of yen)



Loans (Non-consolidated)

(Billions of yen)

	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
As of March 31,	2015	2016	Comparison	2015	2016	Comparison	2015	2016	Comparison
Total	7,763.3	8,260.6	497.3	1,082.8	1,095.3	12.5	1,464.1	1,465.2	1.0
Personal	2,069.7	2,160.9	91.2	394.6	417.0	22.3	442.1	448.1	5.9
General corporate	4,820.5	5,167.5	347.0	595.5	581.0	(14.5)	826.2	812.8	(13.4)
Public sector	873.0	932.1	59.0	92.5	97.2	4.7	195.7	204.2	8.5
Personal loans	2,003.1	2,093.6	90.4	372.1	394.7	22.6	426.4	434.6	8.2
Housing loans	1,837.5	1,900.8	63.2	346.0	365.6	19.6	378.7	383.4	4.6
Consumer loans	99.2	132.0	32.7	18.8	23.5	4.6	29.8	35.8	5.9

Deposits (Non-consolidated)

(Billions of yen)

	The Bank of Fukuoka			The Kumamoto Bank			The Shinwa Bank		
As of March 31,	2015	2016	Comparison	2015	2016	Comparison	2015	2016	Comparison
Total	8,831.7	9,158.1	326.3	1,277.8	1,296.2	18.3	2,146.7	2,188.8	42.1
Personal	6,213.7	6,394.1	180.3	958.4	976.9	18.4	1,401.5	1,417.7	16.1
Corporate (including Public)	2,618.0	2,764.0	145.9	319.3	319.2	(0.0)	745.1	771.0	25.9
Deposits and CDs	9,124.4	9,424.5	300.1	1,344.2	1,329.1	(15.0)	2,256.5	2,275.4	18.9

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

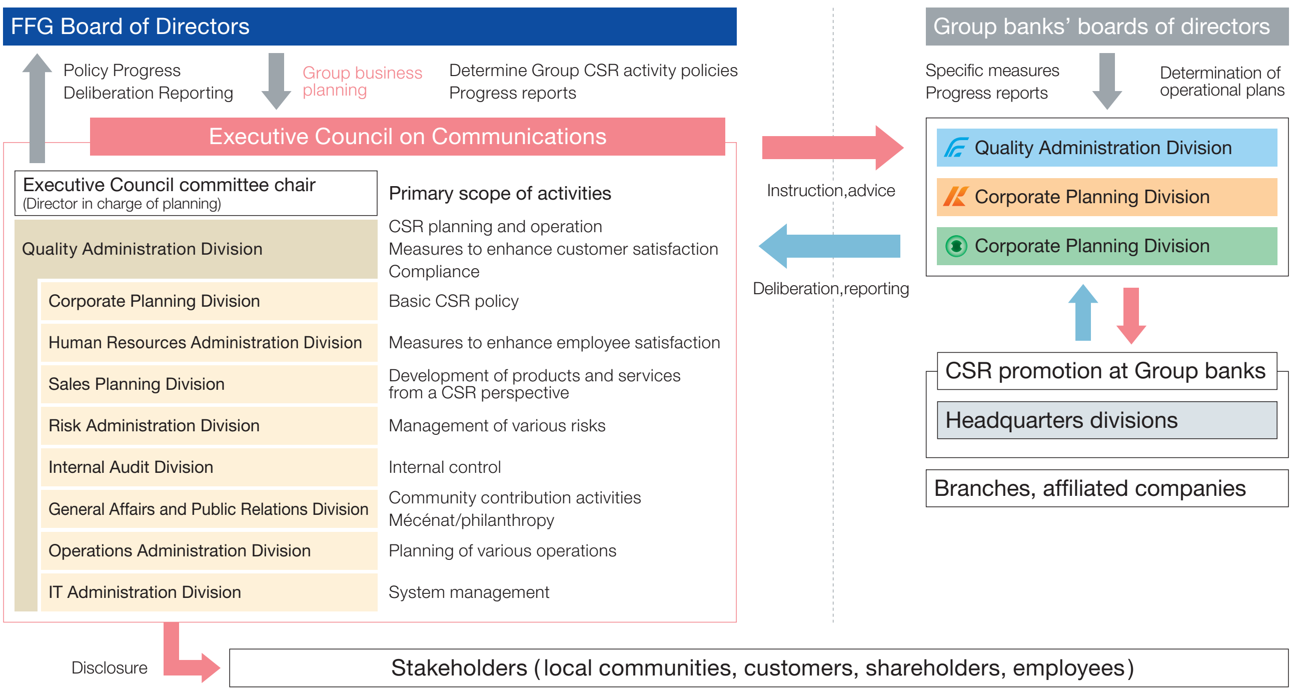
The Fukuoka Financial Group's concept of CSR lies in the belief that it can achieve sustainable growth for the Company and society by forging stronger relationships with stakeholders (customers, shareholders and employees). Accordingly, our corporate management initiatives aim to strengthen compliance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

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

FFG's CSR Management and Promotion Structure



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

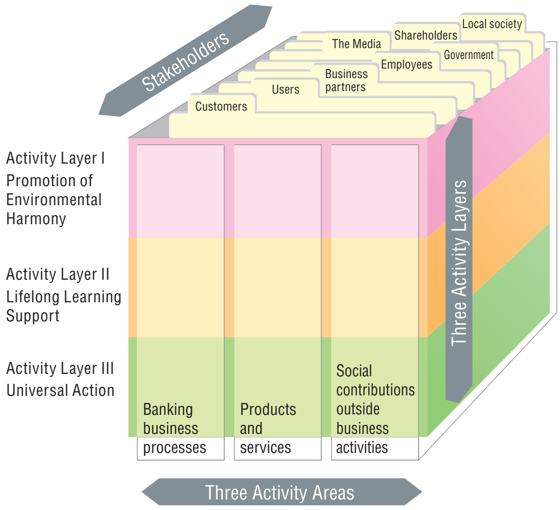
Specifically, FFG has established "Three Activity Areas" and "Three Activity Layers" as its action policies. The Three Activity Layers, which are "Promotion of environmental harmony," "Lifelong learning support" and "Universal action," describe priority categories. FFG strives to achieve a balance between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

The Four Pillars of FFG's Environmental Policy

1. Ongoing EMS implementation

To establish targets for regional environmental protection and to achieve these objectives through concrete activities

To evaluate activities and carry out requisite revisions in pursuit of ongoing EMS improvements

2. Environmental endeavors through FFG's businesses

To strive to contribute to local communities through business-based environmental activities

3. Implementation of environmentally considerate activities

To work to reduce the burden on the environment through energy-conservation and resource-saving measures and social contribution activities that consider environmental protection

4. Thorough environmental communications targeting all FFG executives and employees

To raise awareness of this policy among all the Group's executives and employees, encouraging them to think about environmental problems, act voluntarily and carry out improvement activities


Shift to eco-friendly offices (Solar power generation)


Volunteer tree planting

Lifelong Learning Support

Supporting People's Lives through Finance

FFG holds a wide range of seminars designed to help people gain accurate financial knowledge. We conduct mostly free lectures on a host of themes, including housing, pensions and insurance. Money saving seminar for students and educational expense seminar for parents are also held in FY2015.


Money seminar for students

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, 2016, we donated a total of 747 books to 9 schools.

Arts, Culture, and Sporting Events

We invite our customers to various events held by FFG, such as sporting events and an annual New Year Concert, to give people the opportunity to enjoy arts, culture, and athletic activities. As for sporting events, each of the affiliated banks supported the event operation as official sponsors, and contributed to vitalization of regional communities.


Relay marathon


1day Tennis school

Universal Action

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

Three Pillars of Universal Action

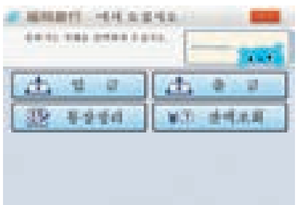
“Hard” action	Branch facilities and various functions
“Soft” action	Actions and services aiming “To be your Bank of choice”
“Human” action	Customer responsiveness and contribution to the regional community

“Hard” Action

FFG has rebuilt and refurbished its facilities in line with the idea of making the bank “easy for all people to use”. We have also allocated wheelchairs, hearing aids, communication boards, and various other types of assistance tools at all branches.

By adopting “color universal design”, the ATMs provide easy operations and clear information to a variety of people. (such as the elderly)

In addition, multilingual support (English, Chinese, Korean) is newly introduced for foreigners.


Multilingual ATM

“Soft” Action

We are working to enhance our service structure by improving response capabilities and mastering knowledge and skill. For instance, employees have “sign language training” for every morning meetings, and the customer service managers who have the qualification of second-class service care-fitters are placed in all branches.

FFG recommends acquisition of qualifications of universal manners to employees to deliver superior service quality.


Sign language training


Qualification of services

“Human” Action

Each branch of the three banks develops the activities to contribute to the regions. Specifically, we are involved in participating in regional events, clean-ups, volunteering to lead the communication activation.

In FY2015, we carried out 3,068 actions in total.


Local festival


Clean-up activity

Members of the Board

FFG Fukuoka Financial Group, Inc.

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

Syunsuke Yoshizawa

Satoru Fukuda

[External]
Hideaki Takahashi

[External]
Masahiko Fukasawa

Audit & Supervisory Board Members

[Full-time]
Hidemitsu Ishiuchi

[External]
Fumihide Sugimoto

[External]
Hideo Yamada

(As of August 1, 2016)

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 & Senior Managing Executive Officer
Yasuaki Morikawa

Director & Managing Executive Officer
Eiji Araki

Director & Managing Executive Officer
Koji Yokota

Director & Managing Executive Officer
Hiroshi Kawanami

Director & Managing Executive Officer
Shinichi Oba

Director [Non-Executive]
Hideaki Takahashi

Director [Non-Executive]
Masahiko Fukasawa

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

Audit & Supervisory Board Member [External]
Masayoshi Nuki

Audit & Supervisory Board Member [External]
Kazuyuki Takeshima

THE KUMAMOTO BANK, LTD.

Director & President
Ei Takeshita

Director & Deputy President
Fumio Sakurai

Director & Senior Managing Executive Officer
Yasuharu Nishizuma

Director & Managing Executive Officer
Noritsugu Iwashita

Director & Managing Executive Officer
Toshimi Nomura

Director & Managing Executive Officer
Shigemi Kitahara

Director [Non-Executive]
Koji Yokota

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

Audit & Supervisory Board Member [External]
Mineo Nakayama

Audit & Supervisory Board Member [External]
Makoto Fukushima

THE SHINWA BANK, LTD.

Director & President
Syunsuke Yoshizawa

Director & Deputy President
Satoru Fukuda

Director & Managing Executive Officer
Kenji Yamaguchi

Director & Managing Executive Officer
Kazuki Ishino

Director & Managing Executive Officer
Mikito Tanaka

Director & Managing Executive Officer
Kosuke Yaoki

Director & Managing Executive Officer
Tomoaki Otani

Director [Non-Executive]
Yasuhiko Yoshida

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

Audit & Supervisory Board Member [External]
Satoru Tateishi

Audit & Supervisory Board Member [External]
Taro Nagamoto

Corporate Governance

FFG's Corporate Governance Framework

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

Corporate Governance Overview

Board of Directors, Directors

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

Audit & Supervisory Board, Audit & Supervisory Board Members

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.

Office of Audit & Supervisory Board Members

To enable the Audit & Supervisory Board system to function efficiently, staff will be exclusively designated to support the Audit & Supervisory Board Members.

Group Management Conference

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

Group Risk Management Committee

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

Group IT Special Committee

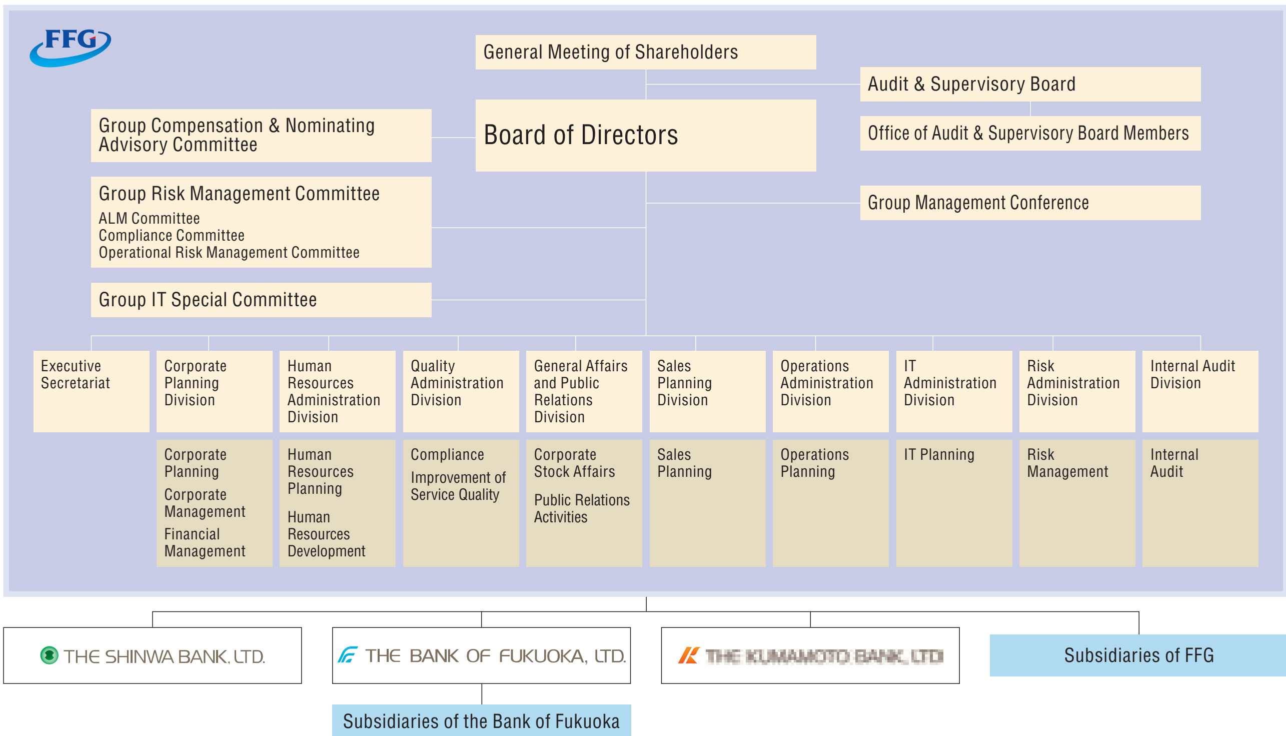
To strengthen the IT governance system of the group as a whole, the Group IT Special Committee shall discuss matters related to IT strategy, system risk management and investment in IT system.

Group Compensation & Nominating Advisory Committee

To enhance transparency and fairness of our group management, the Group Compensation & Nominating Advisory Committee, an advisory body to the Board of Directors, shall discuss matters related to the appointment / dismissal and the compensation of directors.

Corporate Governance Framework

(As of August 1, 2016)



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.

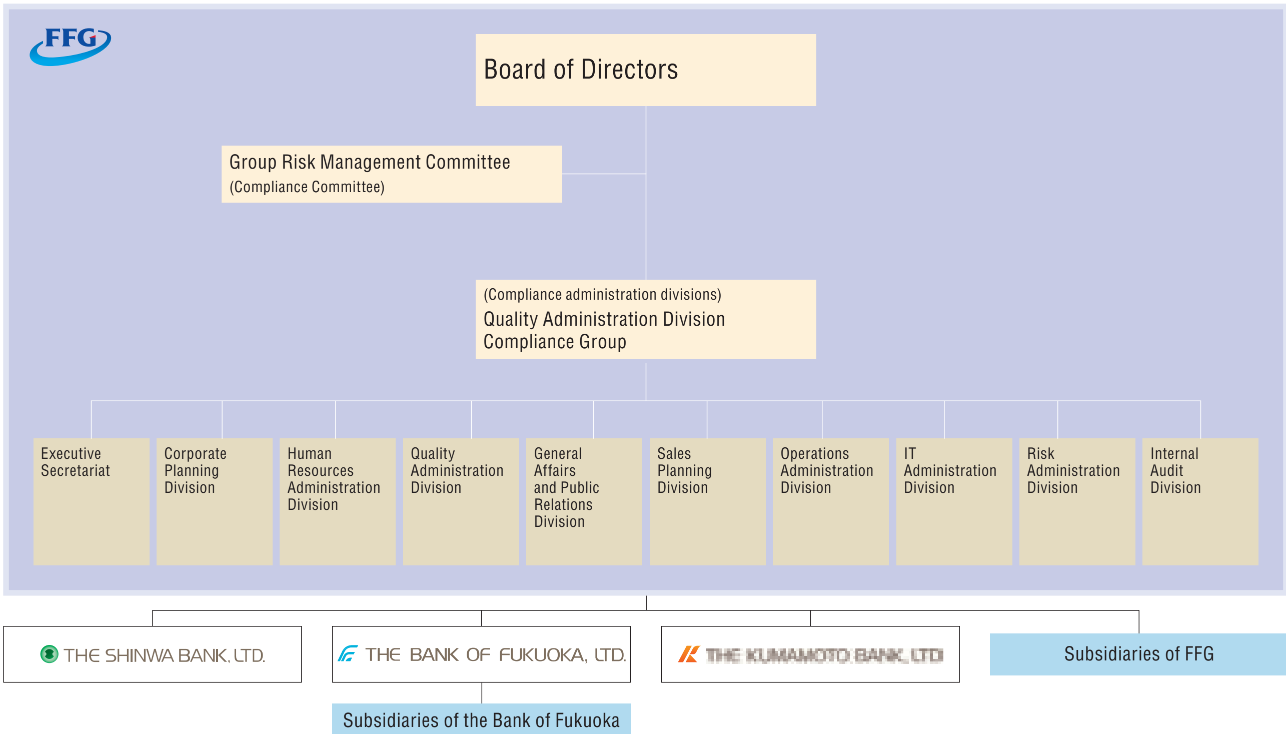
Furthermore, we have formulated a Customer Protection Management Policy to protect customers' legitimate interests and increase their convenience and are enhancing our customer protection management structure.

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, 2016)



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

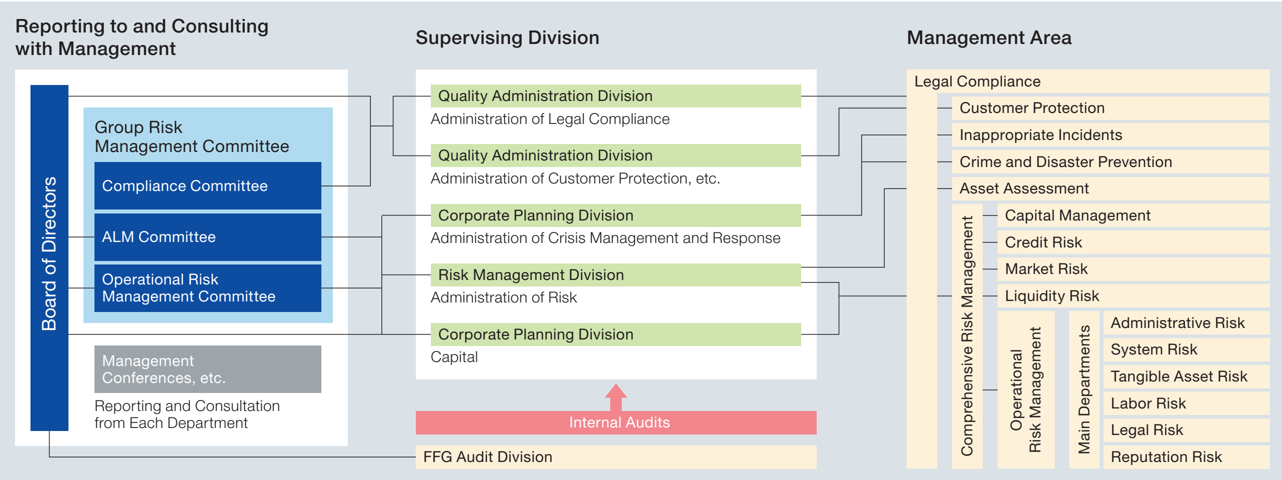
Risk categories		Definitions	Methods	
Credit Risk		Risk of losses arising from asset values that have fallen or been erased (including off-balance-sheet assets) by the worsening financial position of obligors	Management by VaR	Integrated risk management
Market Risk		Risk of losses arising from variation 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	Management by VaR	Integrated risk management
	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	Management by VaR	Integrated risk management
	Volatility Risk	Risk of losses arising from fluctuations in prices of securities and other instruments	Management by VaR	Integrated risk management
	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	Management by VaR	Integrated risk management
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	Management using a fixed quantitative scale	Comprehensive risk management
	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)	Management using a fixed quantitative scale	Comprehensive risk management
	Tangible Asset Risk	Risk of losses arising from damage to tangible assets as a result of disasters, criminal acts or asset management defects	Management using a fixed quantitative scale	Comprehensive risk management
	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	Management using a fixed quantitative scale	Comprehensive risk management
	Legal Risk	Risk of losses arising from violations of laws or contracts, forming of improper contracts, and other legal causes	Management using a fixed quantitative scale	Comprehensive risk management
	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	Comprehensive risk management
Liquidity Risk			Management by qualitative assessment	Comprehensive risk management
	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	Management by qualitative assessment	Comprehensive risk management
	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	Management by qualitative assessment	Comprehensive risk management

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

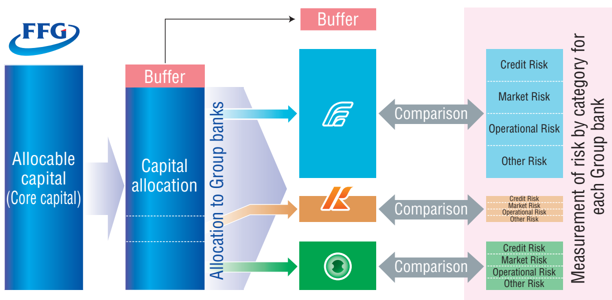
Comprehensive risk management makes an integrated assessment of risks that financial institutions face, evaluated for each risk category, by comparison with that financial institution's capital. Categories include credit risk, market risk and operational risk, as well as credit-concentration risk and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

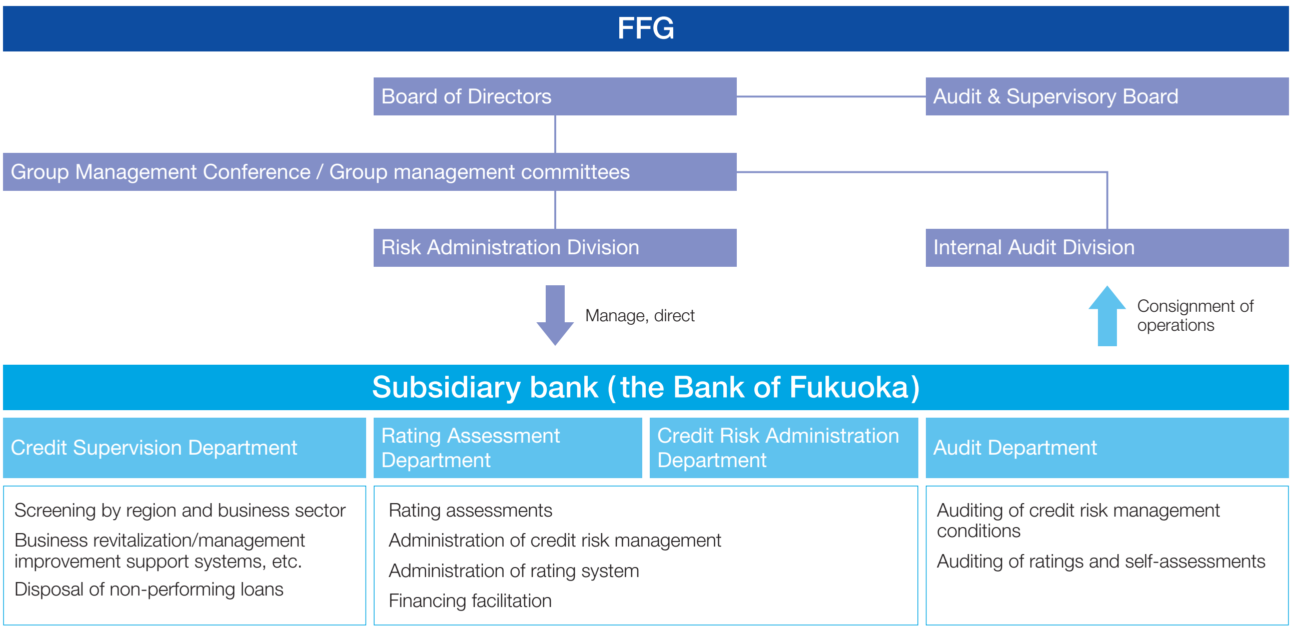
Credit Risk Management System

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

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

Quantification of Credit Risk

FFG quantifies credit risk based on an internal rating system centered on obligor ratings to rationally ascertain credit risk and ensure efficient application of the capital policy and credit criteria. We allocate risk capital and manage our credit portfolio on the basis of the results of these calculations.

Framework for Individual Credit Management

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

Even after extending credit, we engage in preventive management before loans become delinquent and work to swiftly and appropriately respond at such time, through follow-up management that includes periodically reviewing the obligor's business situation, re-assessing its collateral and strengthening management of overdue accounts.

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.

Financial Section

Fukuoka Financial Group

The Bank of Fukuoka

The Kumamoto Bank

The Shinwa Bank

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, 2016, 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, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 28, 2016
Fukuoka, Japan

A member firm of Ernst & Young Global Limited

Consolidated Balance Sheet

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 7 and 18)	¥ 1,838,148	¥ 1,759,174	$ 16,312
Call loans and bills bought (Note 18)	9,317	26,802	82
Monetary claims bought (Notes 3 and 18)	50,995	42,125	452
Trading assets (Note 18)	1,824	2,360	16
Money held in trust (Notes 4 and 18)	3,000	2,000	26
Securities (Notes 3, 7, 11, 12 and 18)	3,445,978	3,268,602	30,581
Loans and bills discounted (Notes 5, 7 and 18)	10,706,710	10,213,430	95,018
Foreign exchanges (Notes 5 and 18)	7,979	8,781	70
Other assets (Note 7)	105,743	63,472	938
Tangible fixed assets (Note 6)	194,331	192,134	1,724
Intangible fixed assets	115,965	123,525	1,029
Net defined benefit asset (Note 10)	1,290	32,140	11
Deferred tax assets (Note 13)	11,939	20,666	105
Customers' liabilities for acceptances and guarantees (Note 11)	54,431	56,628	483
Allowance for loan losses (Note 5)	(141,546)	(150,051)	(1,256)
Total assets	**¥16,406,109**	**¥15,661,794**	**$145,599**
Liabilities			
Deposits (Notes 7 and 18)	¥12,982,770	¥12,682,317	$115,218
Call money and bills sold (Note 18)	170,000	50,000	1,508
Payables under repurchase agreements (Notes 7 and 18)	56,340	36,051	500
Payables under securities lending transactions (Notes 7 and 18)	796,383	575,341	7,067
Trading liabilities	0	—	0
Borrowed money (Notes 7, 8 and 18)	1,341,265	1,238,543	11,903
Foreign exchanges (Note 18)	1,311	1,096	11
Short-term bonds payable (Note 18)	5,000	5,000	44
Bonds payable (Notes 9 and 18)	40,000	97,500	354
Other liabilities	141,951	109,854	1,259
Net defined benefit liability (Note 10)	1,506	777	13
Provision for losses on interest repayments	1,015	1,040	9
Provision for losses from reimbursement of inactive accounts	6,127	5,013	54
Provision for contingent liabilities losses	68	273	0
Reserves under the special laws	19	19	0
Deferred tax liabilities	200	—	1
Deferred tax liabilities for land revaluation (Note 6)	23,028	24,244	204
Acceptances and guarantees (Note 11)	54,431	56,628	483
Total liabilities	**¥15,621,418**	**¥14,883,701**	**$138,635**
Net assets			
Capital stock	¥ 124,799	¥ 124,799	$ 1,107
Capital surplus	103,611	103,611	919
Retained earnings	407,652	373,930	3,617
Treasury stock	(325)	(295)	(2)
Total shareholders' equity	**635,738**	**602,045**	**5,641**
Valuation difference on available-for-sale securities (Note 12)	146,996	102,869	1,304
Deferred gains or losses on hedges	(34,847)	(10,487)	(309)
Revaluation reserve for land (Note 6)	51,649	50,439	458
Remeasurements of defined benefit plans (Note 10)	(14,885)	8,179	(132)
Total accumulated other comprehensive income	148,913	151,001	1,321
Non-controlling interests	39	25,046	0
Total net assets	**¥ 784,691**	**¥ 778,093**	**$ 6,963**
Total liabilities and net assets	**¥16,406,109**	**¥15,661,794**	**$145,599**

Consolidated Statement of Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Interest income:			
Interest on loans and discounts	¥135,327	¥134,993	$1,200
Interest and dividends on securities	30,758	28,583	272
Interest on call loans and bills bought	68	127	0
Interest on due from banks	5	0	0
Other interest income	2,530	2,213	22
Trust fees	1	1	0
Fees and commissions	47,059	46,340	417
Trading income	127	232	1
Other operating income	12,029	8,670	106
Other income	8,807	10,153	78
Total income	**¥236,714**	**¥231,316**	**$2,100**
Expenses			
Interest expenses:			
Interest on deposits	¥ 7,517	¥ 7,485	$ 66
Interest on call money and bills sold	11	10	0
Interest on payables under repurchase agreements	454	242	4
Interest on payables under securities lending transactions	757	310	6
Interest on borrowings and rediscounts	1,700	1,429	15
Interest on short-term bonds	8	10	0
Interest on bonds	603	1,082	5
Other interest expenses	9,064	6,827	80
Fees and commissions payments	17,125	18,021	151
Other operating expenses	578	15	5
General and administrative expenses	121,142	121,725	1,075
Other expenses	8,386	12,755	74
Total expenses	**¥167,349**	**¥169,915**	**$1,485**
Income before income taxes	**69,365**	**61,400**	**615**
Income taxes: (Note 13)			
Current	11,417	7,255	101
Deferred	12,723	16,785	112
Total income taxes	**24,141**	**24,040**	**214**
Net income	**45,223**	**37,359**	**401**
Net income attributable to non-controlling interests	**505**	**764**	**4**
Net income attributable to owners of the parent (Note 14)	**¥ 44,718**	**¥ 36,595**	**$ 396**

Consolidated Statement of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Net income	¥ 45,223	¥37,359	$ 401
Other comprehensive income:			
Valuation difference on available-for-sale securities	44,126	34,762	391
Deferred gains or losses on hedges	(24,359)	(3,327)	(216)
Revaluation reserve for land	1,212	2,500	10
Remeasurements of defined benefit plans	(23,064)	6,382	(204)
Total other comprehensive income	**(2,085)**	**40,318**	**(18)**
Comprehensive income (Note 15)	**¥ 43,138**	**¥77,678**	**$ 382**
Total comprehensive income attributable to:			
Owners of the parent	42,632	76,945	378
Non-controlling interests	505	732	4

Consolidated Statement of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2016 and 2015

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income/loss		
Balance as of March 31, 2014	¥124,799	¥103,611	¥355,960	¥(265)	¥584,104	¥ 68,075	¥ (7,160)	¥48,295	¥ 1,797	¥111,006	¥ 50,667	¥745,778
Cumulative effects of changes in accounting policies			¥ (7,980)		¥ (7,980)							¥ (7,980)
Restated balance as of April 1, 2014	¥124,799	¥103,611	¥347,979	¥(265)	¥576,124	¥ 68,075	¥ (7,160)	¥48,295	¥ 1,797	¥111,006	50,667	737,798
Changes during the period:												
Dividends from surplus			(10,999)		(10,999)							(10,999)
Net income attributable to owners of the parent			36,595		36,595							36,595
Acquisition of treasury stock				(30)	(30)							(30)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			355		355							355
Net changes of items other than shareholders' equity						34,794	(3,327)	2,144	6,382	39,994	(25,621)	14,373
Total changes during the period	—	¥ 0	¥ 25,951	¥ (29)	¥ 25,921	¥ 34,794	¥ (3,327)	¥ 2,144	¥ 6,382	¥ 39,994	¥(25,621)	¥ 40,294
Balance as of March 31, 2015	¥124,799	¥103,611	¥373,930	¥(295)	¥602,045	¥102,869	¥(10,487)	¥50,439	¥ 8,179	¥151,001	¥ 25,046	¥778,093
Changes during the period:												
Dividends from surplus			(10,998)		(10,998)							(10,998)
Net income attributable to owners of the parent			44,718		44,718							44,718
Acquisition of treasury stock				(30)	(30)							(30)
Disposition of treasury stock		0		1	1							1
Transfer from revaluation reserve for land			2		2							2
Net changes of items other than shareholders' equity						44,126	(24,359)	1,209	(23,064)	(2,087)	(25,006)	(27,094)
Total changes during the period	—	¥ 0	¥ 33,721	¥ (29)	¥ 33,692	¥ 44,126	¥(24,359)	¥ 1,209	¥(23,064)	¥ (2,087)	¥(25,006)	¥ 6,598
Balance as of March 31, 2016	¥124,799	¥103,611	¥407,652	¥(325)	¥635,738	¥146,996	¥(34,847)	¥51,649	¥(14,885)	¥148,913	¥ 39	¥784,691

Millions of U.S. dollars (Note 2)

	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income/loss		
Balance as of March 31, 2015	$1,107	$919	$3,318	$(2)	$5,342	$ 912	$ (93)	$447	$ 72	$1,340	$ 222	$6,905
Changes during the period:												
Dividends from surplus			(97)		(97)							(97)
Net income attributable to owners of the parent			396		396							396
Acquisition of treasury stock				(0)	(0)							(0)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			0		0							0
Net changes of items other than shareholders' equity						391	(216)	10	(204)	(18)	(221)	(240)
Total changes during the period	—	$ 0	$ 299	$(0)	$ 299	$ 391	$(216)	$ 10	$(204)	$ (18)	$(221)	$ 58
Balance as of March 31, 2016	$1,107	$919	$3,617	$(2)	$5,641	$1,304	$(309)	$458	$(132)	$1,321	$ 0	$6,963

Consolidated Statement of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Cash flows from operating activities:			
Income before income taxes	¥ 69,365	¥ 61,400	$ 615
Depreciation of fixed assets	8,065	7,799	71
Impairment losses	1,329	1,445	11
Amortization of goodwill	9,171	9,171	81
Gain on negative goodwill	—	(3,294)	—
Net change in allowance for loan losses	(8,504)	(7,528)	(75)
Net change in net defined benefit asset	30,849	(14,432)	273
Net change in net defined benefit liability	728	(169)	6
Net change in provision for losses on interest repayment	(24)	7	(0)
Net change in provision for losses from reimbursement of inactive accounts	1,113	180	9
Net change in provision for contingent liabilities losses	(204)	(6)	(1)
Interest income	(168,690)	(165,919)	(1,497)
Interest expenses	20,117	17,397	178
Net losses (gains) related to securities transactions	(5,159)	(1,509)	(45)
Net losses (gains) on money held in trust	(5)	—	(0)
Net exchange losses (gains)	103	(149)	0
Net losses (gains) on disposal of noncurrent assets	732	1,211	6
Net change in trading assets	536	(58)	4
Net change in trading liabilities	0	—	0
Net change in loans and bills discounted	(493,279)	(617,682)	(4,377)
Net change in deposits	300,452	444,154	2,666
Net change in borrowed money (excluding subordinated borrowed money)	107,721	571,777	955
Net change in due from banks (excluding deposits with the Bank of Japan)	(2,101)	(1,825)	(18)
Net change in call loans	8,615	71,448	76
Net change in call money	140,289	46,941	1,245
Net change in payables under securities lending transactions	221,041	438,351	1,961
Net change in foreign exchanges - Assets	801	(630)	7
Net change in foreign exchanges - Liabilities	215	175	1
Net change in issuance and redemption of bonds	—	(20,000)	—
Interest received	174,399	170,934	1,547
Interest paid	(19,344)	(16,221)	(171)
Other, net	(72,053)	2,576	(639)
Subtotal	326,280	995,545	2,895
Income taxes paid	(11,235)	(5,901)	(99)
Net cash provided by operating activities	**315,044**	**989,644**	**2,795**
Cash flows from investing activities:			
Payments for purchases of securities	(493,076)	(677,188)	(4,375)
Proceeds from sale of securities	207,839	72,094	1,844
Proceeds from redemption of securities	159,950	201,310	1,419
Payments for increase in money held in trust	(1,000)	—	(8)
Payments for purchases of tangible fixed assets	(8,485)	(7,096)	(75)
Proceeds from sale of tangible fixed assets	127	87	1
Payments for purchases of intangible fixed assets	(4,384)	(3,714)	(38)
Payments for purchase of shares from non-controlling interests	—	(1,798)	—
Net cash used in investing activities	**(139,028)**	**(416,303)**	**(1,233)**
Cash flows from financing activities:			
Decrease in subordinated borrowings	(5,000)	—	(44)
Payments for redemption of subordinated bonds	(57,500)	—	(510)
Repayments to non-controlling interests	(25,000)	(20,000)	(221)
Payments for purchases of treasury stock	(30)	(30)	(0)
Proceeds from sale of treasury stock	1	0	0
Dividends paid	(11,000)	(10,997)	(97)
Dividends paid to non-controlling interests	(512)	(1,261)	(4)
Net cash used in financing activities	**(99,041)**	**(32,289)**	**(878)**
Effect of exchange rate changes on cash and cash equivalents	**(103)**	**149**	**(0)**
Net increase in cash and cash equivalents	**76,872**	**541,200**	**682**
Cash and cash equivalents at beginning of the year	**1,752,714**	**1,211,513**	**15,554**
Cash and cash equivalents at end of the year (Note 16)	**¥1,829,586**	**¥1,752,714**	**$16,237**

1. Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying consolidated financial statements of FFG and its consolidated subsidiaries are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the consolidated financial statements prepared by FFG as required under the Financial Instruments and Exchange Act of Japan.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

b. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of FFG and all companies, excluding 2 companies, namely, FFG Agricultural Corporation Support Investment Limited Partnership and FFG Agriculture, Forest and Fisheries Industries Support Investment Limited Partnership, controlled directly or indirectly by FFG. All significant intercompany balances and transactions have been eliminated in consolidation.

The liquidation of FFG Preferred Capital Cayman Limited has been completed on March 23, 2016. Its statement of income has been consolidated up to the liquidation.

The above-mentioned unconsolidated subsidiaries are excluded from the scope of consolidation because their assets, net income (loss) (amount corresponding to the FFG's equity position), retained earnings (amount corresponding to the FFG's equity position), accumulated other comprehensive income (amount corresponding to the FFG's equity position) and others are immaterial to the extent that their exclusion from the scope of consolidation does not preclude reasonable judgment of the FFG's financial position and results of operations.

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

The above-mentioned unconsolidated subsidiaries are excluded from the scope of the equity method because their net income (loss) (amount corresponding to the FFG's equity position), retained earnings (amount corresponding to the FFG's equity position), accumulated other comprehensive income (amount corresponding to the Group's equity position), and others are immaterial to the extent that their exclusion from the scope of companies accounted for by the equity method does not preclude reasonable judgment of the FFG's financial position and results of operations.

c. Trading Assets and Liabilities

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

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

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

d. Securities

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

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

Valuation difference on available-for-sale securities is included in net assets, net of income taxes.

Securities held as components of individually managed money trusts whose principal objective is investments in securities are stated at fair value.

e. Derivative Transactions

Derivatives for purposes other than trading are stated at market value.

f. Depreciation and Amortization of Fixed Assets

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

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

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

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

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

g. Treatment of Deferred Assets

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

h. Allowance for Loan Losses

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

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

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

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

Regarding loans with collateral or guarantees extended by consolidated subsidiaries engaged in banking business and certain major consolidated subsidiaries to obligors who are substantially or legally bankrupt, the balance of the amount of claims less expected amounts recoverable from the disposal of collateral and/ or the amounts recoverable under guarantees is directly deducted from the amount of claims as the estimated uncollectible amount. As of March 31, 2016 and 2015, such deducted amounts were ¥16,782 million and ¥23,939 million, respectively.

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

i. Retirement Benefits

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

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

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

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

j. Provision for Losses on Interest Repayments

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

k. Provision for Losses from Reimbursement of Inactive Accounts

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

l. Provision for Contingent Liabilities Losses

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

m. Reserves under the Special Laws

Reserves under the special laws corresponds to the financial instruments transaction liability reserves of Fukuoka Securities Co., Ltd., as reserves against losses resulting from a securities-related accident. These reserves are calculated in accordance with the provisions of Article 46-5, Paragraph 1, of the Financial Instruments and Exchange Act and Article 175 of the Cabinet Office Ordinance on Financial Instruments Businesses, etc.

n. Translation of Assets and Liabilities Denominated in Foreign Currencies

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

o. Hedge Accounting

(1) Hedge accounting for interest rate risks

For derivatives to hedge the interest rate risk associated with various financial assets and liabilities, FFG applies the deferred method which is stipulated in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24, February 13, 2002). FFG assesses the effectiveness of such hedge for offsetting changes in interest rate, by classifying the hedged items (such as deposits and loans) and the hedging instruments (such as interest rate swaps) by their maturity. FFG assesses the effectiveness of such hedges for fixing cash flows by verifying the correlation between the hedged items and the hedging instruments.

(2) Hedge accounting for foreign exchange risks

FFG applies the deferred method of hedge accounting for derivatives to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities as stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25, July 29, 2002). The effectiveness of the currency swap transactions, exchange swap transactions and similar transactions hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on comparison of foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

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

p. Income Taxes

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

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

q. Appropriation of Retained Earnings

Under the Companies Act, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 22.

r. Cash and Cash Equivalents

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

s. Goodwill

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

t. Accounting Changes

FFG adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21 of September 13, 2013, hereafter "Statement No. 21"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 of September 13, 2013, hereafter "Statement No. 22") and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7 of September 13, 2013, hereafter "Statement No. 7"), etc. from the fiscal year ended March 31, 2016. Accordingly, FFG changed the accounting treatments to record differences associated with changes in FFG's ownership interest in a subsidiary when FFG retains control over the subsidiary as capital surplus, and to record acquisition-related costs as expenses in the fiscal year in which the costs are incurred. In addition, for business combinations carried out on or after the beginning of the fiscal year ended March 31, 2016, FFG changed the accounting treatment for reallocation of acquisition costs upon completion of the transitional treatment to be recognized in the consolidated financial statements for the fiscal year in which the business combination occurs. FFG also changed the presentation method for net income (loss) attributable to owners of the parent and the reference to "minority interests" to "non-controlling interests." FFG has reclassified the consolidated financial statements for the fiscal year ended March 31, 2015 for these changes in presentation.

In the consolidated statement of cash flows for the year ended March 31, 2016, cash flows related to purchase or sale of shares in subsidiaries not resulting in a change in the scope of consolidation are classified into "Cash flows from financing activities," while cash flows related to expenses arising from purchase of shares in subsidiaries resulting in a change in the scope of consolidation as well as expenses arising from purchase or sale of shares in subsidiaries not resulting in a change in the scope of consolidation are classified into "Cash flows from operating activities."

FFG adopted the accounting standard for business combinations, etc. in accordance with the provisional treatments set out in Paragraph 58-2 (4) of Statement No. 21, Paragraph 44-5 (4) of Statement No. 22 and

Paragraph 57-4 (4) of Statement No. 7. Accordingly, these standards were prospectively applied from the beginning of the fiscal year ended March 31, 2016.

These changes had no impact on the consolidated financial statements for the fiscal year ended March 31, 2016.

u. Unapplied Accounting Standard

On March 28, 2016, the ASBJ issued "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).

(1) Overview

The guidance basically follows the framework for determining the recoverability of deferred tax assets mainly prescribed in JICPA Audit Committee Report No. 66 "Audit Treatment regarding Judgment of Recoverability of Deferred Tax Assets," but has made partial revisions on accounting treatments.

(2) Scheduled date of adoption

FFG expects to adopt the guidance from the beginning of the fiscal year commencing April 1, 2016.

(3) Impact of adopting the guidance

FFG is currently evaluating the impact of adopting the guidance.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥112.68 = US$1.00, the approximate rate of exchange on March 31, 2016, 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, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
National government bonds	¥2,293,315	¥2,083,692
Local government bonds	62,345	61,544
Corporate bonds	643,432	697,746
Equity securities	141,243	146,459
Other securities	305,640	279,159
Total	¥3,445,978	¥3,268,602

Other securities included investments in unconsolidated subsidiaries of ¥135 million and ¥4 million at March 31, 2016 and 2015, respectively.

National government bonds at March 31, 2016 and 2015, included bonds of ¥57,443 million and ¥73,052 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 ¥21,706 million and ¥22,058 million at March 31, 2016 and 2015, respectively.

■ Held-to-maturity securities

The following tables summarize carrying values, fair values and differences of securities with available fair values at March 31, 2016 and 2015:

(Millions of yen)

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

(Millions of yen)

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

■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2016 and 2015:

(Millions of yen)

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

(Millions of yen)

2015		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,904,308	¥1,953,490	¥ 49,181
	Local government bonds	52,934	54,673	1,738
	Corporate bonds	612,820	624,701	11,881
	Equity securities	63,161	134,584	71,422
	Other	247,544	262,464	14,919
	Subtotal	¥2,880,770	¥3,029,914	¥149,144
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ 19,970	¥ 19,970	¥ (0)
	Local government bonds	6,897	6,871	(25)
	Corporate bonds	45,959	45,863	(96)
	Equity securities	3,288	2,914	(374)
	Other	9,446	9,264	(182)
	Subtotal	¥ 85,562	¥ 84,884	¥ (677)
	Total	¥2,966,332	¥3,114,798	¥148,466

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, 2016 and 2015, impairment losses were ¥271 million and ¥3 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, 2016 and 2015:

(Millions of yen)

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

(Millions of yen)

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

4. Money Held in Trust

The following table summarizes carrying value and gain (loss) on valuation included in the consolidated statement of income regarding money held in trust for trading purpose at March 31, 2016 and for the fiscal year then ended:

(Millions of yen)

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

There was no outstanding balance or transaction of money held in trust for trading purpose at March 31, 2015 and for the fiscal year then ended.

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, 2016 and 2015:

(Millions of yen)

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

(Millions of yen)

2015	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥2,000	¥2,000	¥—

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2016 and 2015 included the following loans:

(Millions of yen)

	2016	2015
Loans to borrowers in bankruptcy	¥ 4,759	¥ 4,177
Delinquent loans	164,636	167,737
Loans past due for three months or more	486	395
Restructured loans	66,017	70,872
Total	¥235,899	¥243,182

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, 2016 and 2015, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥47,537 million and ¥49,011 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, 2016 and 2015 amounted to ¥3,977,029 million and ¥3,847,730 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 ¥3,717,500 million and ¥3,624,227 million at March 31, 2016 and 2015, 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, 2016 and 2015, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the law were ¥30,313 million and ¥32,987 million, respectively.

Accumulated depreciation for tangible fixed assets amounted to ¥107,503 million and ¥105,101 million at March 31, 2016 and 2015, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥15,913 million and ¥16,194 million at March 31, 2016 and 2015, respectively.

7. Pledged Assets

Assets pledged as collateral at March 31, 2016 and 2015 consisted of the following:

(Millions of yen)

	2016	2015
Assets pledged as collateral:		
Cash and due from banks	¥ 1	¥ 1
Securities	2,466,568	2,219,958
Loans and bills discounted	120,915	58,705
Other assets	674	169
Liabilities corresponding to assets pledged as collateral:		
Deposits	58,486	52,468
Payables under repurchase agreements	56,340	36,051
Payables under securities lending transactions	796,383	575,341
Borrowed money	1,318,739	1,210,959

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

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

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

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

8. Borrowed Money

Borrowed money at March 31, 2016 and 2015 included subordinated borrowings amounting to ¥20,000 million and ¥25,000 million, respectively.

9. Bonds Payable

Bonds payable included callable (subordinated) debenture bonds of ¥10,000 million, payable in yen, due in 2026 at March 31, 2016.

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

10. Retirement Benefit Plans

The consolidated subsidiaries engaged in banking businesses have a cash balance plan-type corporate pension plan as a defined benefit plan and a defined contribution-type corporate pension plan as a defined contribution plan.

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

FFG does not have retirement benefit plans.

Certain consolidated subsidiaries apply a simplified method in the calculation of their net defined benefit liability and retirement benefit expenses concerning lump-sum payment plans.

(1) Defined benefit plans

The changes in the projected benefit obligation during the fiscal years ended March 31, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
Projected benefit obligation at the beginning of the fiscal year	¥121,853	¥107,581
Cumulative effects of changes in accounting policies	—	12,342
Restated projected benefit obligation at the beginning of the fiscal year	121,853	119,924
Service cost	3,103	3,029
Interest cost	1,163	1,183
Actuarial loss	21,436	2,542
Retirement benefits paid	(5,689)	(5,231)
Prior service cost	—	—
Contributions by participants of plans	407	401
Other	0	1
Projected benefit obligation at the end of the fiscal year	¥142,275	¥121,853

The changes in plan assets during the fiscal years ended March 31, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
Plan assets at the beginning of the fiscal year	¥153,216	¥136,684
Expected return on plan assets	5,350	4,773
Actuarial gain (loss)	(11,351)	11,165
Contributions by FFG's subsidiaries	161	5,378
Retirement benefits paid	(5,723)	(5,187)
Contributions by participants of plans	407	401
Other	—	—
Plan assets at the end of the fiscal year	¥142,060	¥153,216

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2016 and 2015.

(Millions of yen)

	2016	2015
Funded projected benefit obligation	¥ 141,373	¥ 121,006
Plan assets at fair value	(142,060)	(153,216)
	(686)	(32,209)
Unfunded projected benefit obligation	901	846
Net liability (asset) for retirement benefits in the balance sheet	¥ 215	¥ (31,362)

(Millions of yen)

	2016	2015
Net defined benefit liability	¥ 1,506	¥ 777
Net defined benefit asset	(1,290)	(32,140)
Net liability (asset) for retirement benefits in the balance sheet	¥ 215	¥(31,362)

The components of retirement benefit expenses for the fiscal years ended March 31, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
Service cost	¥ 3,103	¥ 3,029
Interest cost	1,163	1,183
Expected return on plan assets	(5,350)	(4,773)
Amortization of actuarial loss (gain)	(392)	864
Amortization of prior service cost	(235)	(235)
Other	—	—
Retirement benefit expenses	¥(1,711)	¥ 69

The components of remeasurements of defined benefits plans included in other comprehensive income (before tax effect) for the fiscal years ended March 31, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
Prior service cost	¥ (235)	¥ (235)
Actuarial gain (loss)	(33,180)	9,486
Other	—	—
Total	¥(33,415)	¥ 9,251

The components of remeasurements of defined benefits plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
Unrecognized prior service cost	¥ (1,087)	¥ (1,323)
Unrecognized actuarial gain (loss)	22,474	(10,705)
Other	—	—
Total	¥21,387	¥(12,028)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2015 was as follow:

	2016	2015
Debt securities	39%	39%
Equity securities	34%	37%
Cash and due from banks	10%	13%
Other	17%	11%
Total	100%	100%

Total plan assets included retirement benefit trusts of 32% and 37% as of March 31, 2016 and 2015, respectively, which were set for corporate pension plans.

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

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

	2016	2015
Discount rate	0.3%	1.3%
Long-term expected rate of return on plan assets	3.5%	3.5%
Estimated rate of increase in salary	3.3%	3.3%

(2) Defined contribution plans

The amounts to be paid to defined contribution plans by consolidated subsidiaries were ¥305 million and ¥304 million for the fiscal years ended March 31, 2016 and 2015, respectively.

11. Acceptances and Guarantees

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

FFG’s guarantees total ¥21,706 million and ¥22,058 million at March 31, 2016 and 2015, respectively, for private placement corporate bonds. Relevant acceptances and guarantees and customers’ liabilities for acceptances and guarantees have been recorded in the net amount.

12. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale securities at March 31, 2016 and 2015 consisted of the following:

(Millions of yen)

	2016	2015
Gross valuation difference on available-for-sale securities	¥209,429	¥148,466
Deferred tax liabilities applicable to valuation difference	62,432	45,596
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for non-controlling interests	146,996	102,869
Amount attributable to non-controlling interests	—	—
Valuation difference on available-for-sale securities	146,996	102,869

13. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
Deferred tax assets:		
Allowance for loan losses	¥ 44,052	¥ 51,138
Net losses carried forward	7,791	14,726
Net defined benefit liability	12,395	4,153
Depreciation of securities	6,386	6,732
Depreciation expenses	2,827	3,021
Deferred gains or losses on hedges	15,220	4,935
Fair value gains related to consolidated taxation	8,759	13,877
Other	7,815	7,249
Subtotal	105,248	105,834
Valuation allowance	(24,780)	(33,336)
Total	80,467	72,498
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(62,432)	(45,596)
Retirement benefit trust	(2,911)	(2,650)
Securities returned from retirement benefit trust	(2,312)	(2,434)
Reserve for special depreciation	(402)	(423)
Fair value losses related to consolidated taxation	(589)	(651)
Other	(80)	(76)
Total	(68,728)	(51,832)
Net deferred tax assets	¥ 11,738	¥ 20,666

The aggregate statutory income tax rates used for calculation of deferred income tax assets and liabilities were 32.8% and 35.3% for the fiscal years ended March 31, 2016 and 2015, respectively.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the fiscal years ended March 31, 2016 and 2015.

(%)

	2016	2015
Statutory tax rate	32.8	35.3
Change in valuation allowance	(6.2)	(6.8)
Nondeductible goodwill amortization	4.3	5.3
Gains on bargain purchase	—	(1.9)
Entertainment expenses and other items permanently excluded from expenses	0.3	0.7
Per capital residence tax	0.3	0.3
Dividend revenue and other items permanently excluded from gross revenue	(0.4)	(1.2)
Reversal of deferred tax assets due to changes in the corporate income tax rate	4.2	8.3
Tax rate difference with overseas consolidated subsidiaries	(0.1)	(0.7)
Consolidated adjustment	(0.2)	(0.2)
Other	(0.2)	0.0
Effective tax rate	34.8	39.1

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted in the Diet session on March 29, 2016 and, as a result, income tax rate, etc. were reduced effective from the fiscal year beginning on or after April 1, 2016. Accordingly, the statutory tax rate used to measure FFG's deferred tax assets and liabilities was changed from 32.8% to 30.6% for the temporary differences expected to be realized or settled for the fiscal years beginning April 1, 2016 and 2017 and 30.4% for those for the fiscal years beginning on or after April 1, 2018. The effects of the announced reduction of the statutory tax rate were to decrease deferred tax assets by ¥485 million, deferred tax liabilities by ¥87 million, deferred gains or losses on hedges by ¥801 million and remeasurements of defined benefit plans by ¥342 million, and increase valuation difference on available-for-sale securities by ¥3,285 million and deferred income taxes by ¥2,540 million as of and for the fiscal year ended March 31, 2016. In addition, deferred tax liabilities for land revaluation decreased by ¥1,212 million and revaluation reserve for land increased by the same amount as of March 31, 2016.

With respect to tax credit carryforwards of net losses, the deductible amount was limited to 60% of taxable income for the fiscal year beginning April 1, 2016, 55% of that for the fiscal year beginning April 1, 2017 and 50% of that for the fiscal years beginning on or after April 1, 2018. The effect of this change on the consolidated financial statements for the fiscal year ended March 31, 2016 was immaterial.

14. Net Income (Loss) Attributable to Owners of the Parent per Share

Net income (loss) attributable to owners of the parent per share for the fiscal years ended March 31, 2016 and 2015 were as follows:

(Yen)

	2016	2015
Net income (loss) attributable to owners of the parent per share:		
Basic	¥51.75	¥42.29
Diluted	—	—

Basic net income (loss) attributable to owners of the parent per share is computed by dividing net income (loss) attributable to owners of the parent by the weighted average number of shares of common stock outstanding during the year.

As there are no dilutive securities, the amount of diluted net income (loss) attributable to owners of the parent per share of common stock is not stated.

As mentioned in Note 1 (t. Accounting Changes), FFG adopted the accounting standard for business combinations, etc. in accordance with the provisional treatments prescribed in Paragraph 58-2 (4) of Statement No. 21, Paragraph 44-5 (4) of Statement No. 22 and Paragraph 57-4 (4) of Statement No. 7.

These changes had no impact on net income (loss) attributable to owners of the parent per share for the fiscal year ended March 31, 2016.

15. Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2016 and 2015 were the following:

(Millions of yen)

	2016	2015
Valuation difference on available-for-sale securities:		
Gains arising during the year	¥ 66,438	¥ 47,696
Reclassification adjustments to profit or loss	(5,475)	(1,798)
Amount before income tax effect	60,962	45,898
Income tax effect	(16,836)	(11,136)
Total	44,126	34,762
Deferred losses on hedges		
Losses arising during the year	(41,918)	(8,900)
Reclassification adjustments to profit or loss	7,274	4,545
Amount before income tax effect	(34,644)	(4,355)
Income tax effect	10,285	1,028
Total	(24,359)	(3,327)
Revaluation reserve for land		
Gains (losses) arising during the year	—	—
Reclassification adjustments to profit or loss	—	—
Amount before income tax effect	—	—
Income tax effect	1,212	2,500
Total	1,212	2,500
Remeasurements of defined benefit plans		
Gains (losses) arising during the year	(32,787)	8,622
Reclassification adjustments to profit or loss	(628)	628
Amount before income tax effect	(33,415)	9,251
Income tax effect	10,350	(2,868)
Total	(23,064)	6,382
Total other comprehensive income	¥ (2,085)	¥ 40,318

16. Supplementary Cash Flow Information

Reconciliation of cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheet to cash and cash equivalents in the consolidated statement of cash flows at March 31, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
Cash and due from banks	¥1,838,148	¥1,759,174
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(8,562)	(6,460)
Cash and cash equivalents	¥1,829,586	¥1,752,714

17. Leases

As lessee

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

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

Operating leases

Total future lease payments under non-cancelable operating leases at March 31, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
Within one year	¥ 64	¥ 62
Over one year	115	120
Total	¥180	¥182

18. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

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

(b) Details of major financial instruments and their risk

Loans and bills discounted

Loans and bills discounted are mainly comprised of loans to domestic corporate and individual customers and are subject to credit risk which is a risk of decrease or loss in asset value due to deterioration of borrowers' financial condition, and interest rate risk which is a risk of decrease in profit or suffering loss due to interest rate fluctuation.

Securities

FFG holds equity and debt securities. Such securities are subject to issuer credit risk, interest rate risk, price fluctuation risk which is a risk of suffering loss from market price fluctuation and liquidity risk (market liquidity risk) owing to such factors as being unable to dispose of securities because of certain conditions in the operating environment. FFG employs interest rate swap transactions to reduce its interest rate risk to a certain extent. In addition to the above-mentioned risks, securities denominated in foreign currencies are subject to exchange rate fluctuation risk which is a risk of suffering loss from exchange rate fluctuation. Currency swap transactions, etc. are used to reduce this risk to a certain extent.

Deposits

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

Derivative transactions

Derivative transactions are used for providing customers with hedging instruments, etc., conducting asset-liability management (ALM) and other purposes. Such derivative transactions are subject to market risk (interest rate risk, price fluctuation risk and exchange rate fluctuation risk), credit risk and liquidity risk (market liquidity risk).

Hedge accounting is employed for certain derivative transactions used as part of ALM to hedge interest rate risk and exchange rate fluctuation risk, and matters related to the hedge accounting such as hedging instruments, hedged items, the hedge policy and the method for assessing the effectiveness of hedges are described in "o. Hedge Accounting" of "Notes to Consolidated Financial Statements, 1. Summary of Significant Accounting Policies."

(2) Financial risk management system

(a) Management of credit risk

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

FFG's Board of Directors has formulated the "Credit Risk Management Policy", which establishes FFG's basic policy for credit risk management, and the "Credit Policy", which clarifies basic considerations and standards for decisions and actions for 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, 2016 and 2015, FFG's amount of interest rate risk (value of estimated losses) was ¥19,339 million and ¥26,190 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, 2016 and 2015, no losses exceeded the VaR. FFG believes that the model for measurement captures interest rate risk to an adequate degree of precision.

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.

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

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, 2016 and 2015, FFG's amount of volatility risk was ¥17,514 million and ¥15,292 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations and estimated gains or losses based on its portfolio for the VaR measurement period. As losses exceeded the VaR several times in back-testing for the fiscal year ended March 31, 2016, FFG intends to extend the observation period of the VaR measurement to 2,500 days from the fiscal year ending March 31, 2017 in order to ensure its conservativeness.

As stated above, VaR measures volatility risk using certain statistical probabilities based on historical market fluctuations, and consequently, this process may not capture risk in the event that prices fluctuate in a manner that has not been observed in the past. Therefore, FFG timely and appropriately reviews the VaR measurement model, etc. as necessary to enhance the degree of precision for capturing risk.

(c) Management of liquidity risk

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

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

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

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

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

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

(3) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2016 and 2015 were as follows:

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

(Millions of yen)

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

(Millions of yen)

2015	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 1,759,174	¥ 1,759,174	¥ (0)
Call loans and bills bought	26,802	26,802	(0)
Monetary claims bought	41,952	42,046	93
Securities			
Held-to-maturity securities	137,412	148,977	11,565
Available-for-sale securities	3,114,798	3,114,798	–
Loans and bills discounted	10,065,367	10,221,611	156,244
Total	¥15,145,508	¥15,313,411	¥167,902
Liabilities			
Deposits	¥12,682,317	¥12,683,939	¥ 1,621
Call money and bills sold	50,000	49,999	(0)
Payables under repurchase agreements	36,051	36,050	(0)
Payables under securities lending transactions	575,341	575,313	(28)
Borrowed money	1,238,543	1,231,737	(6,806)
Bonds payable	97,500	98,541	1,041
Total	¥14,679,754	¥14,675,581	¥ (4,173)
Derivatives			
Hedge accounting not applied	¥ 2,237	¥ 2,237	¥ –
Hedge accounting applied	(26,153)	(26,153)	–
Total	¥ (23,916)	¥ (23,916)	¥ –

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.

Method of Calculating the Fair Value of Major Financial Instruments

Assets

(1) Cash and due from banks

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

(2) Securities

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

See Note 3 for the description of securities by classification.

(3) Loans and bills discounted

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

Liabilities

(1) Deposits

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

(2) Borrowed money

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

(3) Bonds

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

Derivatives

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

Financial instruments for which fair value is not readily determinable at March 31, 2016 and 2015 were as follows:

(Millions of yen)

	2016	2015
	Carrying value	Carrying value
Available-for-sale securities		
Unlisted equity securities	¥ 8,779	¥ 8,960
Unlisted foreign securities	0	0
Investments in limited partnership	8,417	7,430
Total	¥17,196	¥16,391

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

Impairment losses on unlisted securities, etc. for the fiscal year ended March 31, 2016 were ¥57 million.

Impairment losses on unlisted securities for the fiscal year ended March 31, 2015 were ¥42 million.

Certain investments in limited partnership that holds assets without readily determinable fair value, such as unlisted equity securities, are not subject to disclosures of fair values.

The redemption schedule for monetary assets and securities with maturity dates at March 31, 2016 and 2015 are summarized as follows:

(Millions of yen)

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

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

(Millions of yen)

2015	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Due from banks	¥1,610,490	¥ –	¥ –	¥ –	¥ –	¥ –
Call loans and bills bought	26,802	–	–	–	–	–
Monetary claims bought	40,950	–	–	–	–	1,174
Securities						
Held-to-maturity bonds						
Held-to-maturity government bonds	–	51,787	40,970	–	17,474	–
Held-to-maturity corporate bonds	–	2,047	12,961	–	12,171	–
Available-for-sale securities with maturities						
Available-for-sale government bonds	43,483	229,113	667,105	488,210	290,272	255,274
Available-for-sale local government bonds	1,599	6,037	25,241	10,907	17,758	–
Available-for-sale corporate bonds	40,259	99,840	283,997	94,764	139,829	11,874
Available-for-sale other	46,243	42,918	49,458	48,900	65,525	13,410
Loans and bills discounted	2,345,522	1,782,046	1,444,767	973,510	1,052,757	2,326,259
Total	¥4,155,352	¥2,213,792	¥2,524,500	¥1,616,293	¥1,595,789	¥2,607,993

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

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2016 and 2015 are summarized as follows:

(Millions of yen)

2016	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Deposits	¥12,600,357	¥298,585	¥ 76,176	¥3,925	¥ 3,725	¥ –
Call money and bills sold	170,000	–	–	–	–	–
Payable under repurchase agreements	–	45,072	11,268	–	–	–
Payable under securities lending transactions	796,383	–	–	–	–	–
Borrowed money	475,450	620	845,156	38	20,000	–
Bonds payable	10,000	20,000	–	–	–	10,000
Total	¥14,052,190	¥364,277	¥932,600	¥3,964	¥23,725	¥10,000

Within deposits, demand deposits are included in deposits due within one year.

(Millions of yen)

2015	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Deposits	¥12,300,266	¥298,261	¥ 76,329	¥ 4,165	¥ 3,296	¥ –
Call money and bills sold	50,000	–	–	–	–	–
Payable under repurchase agreements	36,051	–	–	–	–	–
Payable under securities lending transactions	575,341	–	–	–	–	–
Borrowed money	136,993	451,131	625,374	5,016	20,028	–
Bonds payable	10,000	20,000	–	57,500	–	10,000
Total	¥13,108,652	¥769,393	¥701,703	¥66,681	¥23,324	¥10,000

Within deposits, demand deposits are included in deposits due within one year.

19. Derivative Transactions

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

Information regarding the derivative transactions outstanding as of March 31, 2016 and 2015 were as follows:

Hedge accounting not applied

As of March 31, 2016 and 2015, 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, 2016	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥303,952	¥ 12,775	¥12,478
Receive/floating and pay/fixed	303,921	¥(10,014)	¥ (9,805)
Interest swaptions			
Sell	1,620	(0)	3
Buy	1,620	0	0
Caps			
Sell	3,555	(45)	64
Buy	3,555	45	(57)
Total	—	¥ 2,760	¥ 2,682

(Millions of yen)

As of March 31, 2015	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥210,457	¥ 6,769	¥ 6,547
Receive/floating and pay/fixed	210,876	(5,168)	(4,957)
Interest swaptions			
Sell	7,390	(19)	(0)
Buy	7,390	39	39
Caps			
Sell	4,176	(109)	42
Buy	4,176	109	(32)
Total	—	¥ 1,622	¥ 1,640

■ Currency-related transactions

(Millions of yen)

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

(Millions of yen)

As of March 31, 2015	Notional amount	Fair value	Gain (Loss)
Currency swaps	¥636,568	¥ 259	¥ 248
Foreign exchange contract			
Sell	84,837	(6,570)	(6,570)
Buy	75,536	6,604	6,604
Currency option			
Sell	31,873	(364)	(74)
Buy	32,624	365	231
Total	—	¥ 294	¥ 439

■ Bonds–related transactions

(Millions of yen)

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

(Millions of yen)

As of March 31, 2015	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥ 100	¥ 0	¥ 0
Buy	—	—	—
Bond futures option			
Sell	¥28,954	(17)	(1)
Buy	—	—	—
Total	—	¥(17)	¥(1)

■ Credit derivative transactions

(Millions of yen)

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

(Millions of yen)

As of March 31, 2015	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥30,500	¥337	¥331
Buy	—	—	—
Total	—	¥337	¥331

Hedge accounting applied

As of March 31, 2016 and 2015, 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, 2016

Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits		
	Receive/fixed and pay/floating		¥ 22,536	¥ 108
	Receive/floating and pay/fixed		536,214	(48,846)
	Securitization		3,927	—
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits		
	Receive/floating and pay/fixed		60,420	(3,706)
	Receive/floating and pay/ floating		100,000	(7,533)
	Total		—	¥(59,977)

(Millions of yen)

As of March 31, 2015

Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits		
	Receive/fixed and pay/floating		¥ —	¥ —
	Receive/floating and pay/fixed		459,410	(14,279)
	Securitization		4,989	—
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits		
	Receive/floating and pay/fixed		66,176	(3,338)
	Receive/floating and pay/ floating		100,000	(6,779)
	Total		—	¥(24,397)

■ Currency-related transactions

(Millions of yen)

As of March 31, 2016				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Currency swaps	Financial assets and liabilities of which, loans, securities and deposits denominated in foreign currencies, and foreign exchange assets and liabilities	¥104,494	¥(595)
Allocation method	Currency swaps	Loans denominated in foreign currencies	105	(1)
Total			—	¥(596)

(Millions of yen)

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

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, 2016.

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, 2016.

Information on income by geographic area has been omitted because income from Japanese customers' accounts for more than 90% of operating income in the consolidated statement of income for the fiscal year ended March 31, 2016.

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, 2016.

Information on income by major customer has been omitted because no operating income derived from any external customer amounted to 10% or more of operating income in the consolidated statement of income for the fiscal year ended March 31, 2016.

21. Related Party Transactions

(1) Directors and principal individual shareholders

2016					
Attribute	Name	Address	Common Stock	Title	Equity Ownership
Officer of a significant subsidiary	Masayoshi Nuki	—	—	Audit & Supervisory Board Member of FFG's consolidated subsidiary Chairperson of Kyushu Electric Power Co., Inc.	—
		—	—	Audit & Supervisory Board Member of FFG's consolidated subsidiary President and representative director of FUKUOKA SRP Co., Ltd.	—

2016				
Relationship	Transactions	Transaction amount	Account	Balance at end of year
—	Loan	¥4,200 million	Loan	¥97,670 million
—	Loan	¥(110) million	Loan	¥998 million

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

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

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

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

(2) Others

There were no relevant transactions with related parties to report for the fiscal years ended March 31, 2016 and 2015.

22. Subsequent Events

(1) Cash dividends

The following distribution of retained earnings of FFG, which has not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2016, was approved at a shareholders meeting held on June 29, 2016 and became effective June 30, 2016:

(Millions of yen)

Dividends on common stock (¥ 6.5 per share)	¥5,582
Dividends on type 1 preferred stock (¥ 7.0 per share)	¥131

(2) Acquisition and retirement of type 1 preferred stock

At the meeting of the Board of Directors held on March 22, 2016, FFG resolved to acquire all the outstanding shares of type 1 preferred stock issued by FFG on April 6, 2016 pursuant to Article 17 of the Articles of Incorporation of FFG and to retire such shares on the same date pursuant to Article 178 of the Companies Act subject to the acquisition, in order to increase efficiency of capital usage.

Following the resolution, FFG acquired and then retired the following type 1 preferred stock on April 6, 2016.

(a) Details of acquisition

1) Class of shares acquired
Type 1 preferred stock

2) Total number of shares acquired
18,742,000 shares

3) Acquisition cost per share
¥500 per share

4) Total amount of acquisition cost
¥9,371,000,000

5) Date of acquisition
April 6, 2016

(b) Details of retirement

1) Class of shares retired
Type 1 preferred stock

2) Total number of shares retired
18,742,000 shares

3) Date of retirement
April 6, 2016

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Fukuoka, Ltd.

As of March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 1,356,264	¥ 1,300,777	$ 12,036
Call loans	70,317	26,802	624
Monetary claims bought	31,311	31,767	277
Trading assets	1,541	2,086	13
Money held in trust	1,000	—	8
Securities	2,416,715	2,233,085	21,447
Loans and bills discounted	8,260,640	7,763,337	73,310
Foreign exchanges	5,306	6,119	47
Other assets	94,485	47,602	838
Tangible fixed assets	149,993	148,416	1,331
Intangible fixed assets	8,340	8,254	74
Prepaid pension expenses	14,012	12,390	124
Deferred tax assets	—	5,752	—
Customers' liabilities for acceptances and guarantees	44,368	45,002	393
Allowance for loan losses	(90,881)	(96,045)	(806)
Total assets	**¥12,363,414**	**¥11,535,348**	**$109,721**
Liabilities			
Deposits	¥ 9,424,519	¥ 9,124,407	$ 83,639
Call money	181,472	65,909	1,610
Payables under repurchase agreements	56,340	36,051	500
Payables under securities lending transactions	796,383	575,341	7,067
Trading liabilities	0	—	0
Borrowed money	1,089,779	942,148	9,671
Foreign exchanges	1,279	1,062	11
Bonds payable	10,000	67,500	88
Other liabilities	126,709	91,502	1,124
Provision for losses on interest repayments	919	927	8
Provision for losses from reimbursement of inactive accounts	4,451	4,288	39
Provision for contingent liabilities losses	68	205	0
Deferred tax liabilities	4,764	—	42
Deferred tax liabilities for land revaluation	23,028	24,244	204
Acceptances and guarantees	44,368	45,002	393
Total liabilities	**¥11,764,085**	**¥10,978,590**	**$104,402**
Net assets			
Capital stock	¥ 82,329	¥ 82,329	$ 730
Capital surplus	60,480	60,480	536
Retained earnings	322,837	293,724	2,865
Total shareholders' equity	**465,647**	**436,535**	**4,132**
Valuation difference on available-for-sale securities	116,878	80,270	1,037
Deferred gains or losses on hedges	(34,847)	(10,487)	(309)
Revaluation reserve for land	51,649	50,439	458
Total valuation and translation adjustments	133,681	120,222	1,186
Total net assets	**¥ 599,328**	**¥ 556,757**	**$ 5,318**
Total liabilities and net assets	**¥12,363,414**	**¥11,535,348**	**$109,721**

Non-Consolidated Statement of Income (Unaudited)

The Bank of Fukuoka, Ltd.

For the years ended March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥ 98,579	¥ 97,482	$ 874
Interest and dividends on securities	24,621	22,011	218
Interest on call loans	74	127	0
Interest on deposits with banks	5	1	0
Interest on interest swaps	162	186	1
Other interest income	1,792	1,464	15
Trust fees	1	1	0
Fees and commissions	33,216	32,320	294
Trading income	43	97	0
Other operating income	6,552	2,776	58
Other income	6,278	4,936	55
Total income	**¥171,327**	**¥161,405**	**$1,520**
Expenses			
Interest expenses:			
Interest on deposits	¥ 4,958	¥ 4,692	$ 44
Interest on call money	130	150	1
Interest on payables under repurchase agreements	454	242	4
Interest on payables under securities lending transactions	757	310	6
Interest on borrowing and rediscounts	1,397	1,225	12
Interest on bonds	500	800	4
Interest on interest swaps	9,026	6,662	80
Other interest expenses	281	390	2
Fees and commissions payments	17,521	17,475	155
Other operating expenses	568	1	5
General and administrative expenses	65,742	66,551	583
Other expenses	4,807	4,998	42
Total expenses	**¥106,148**	**¥103,502**	**$ 942**
Income before income taxes	**65,179**	**57,903**	**578**
Income taxes:			
Current	12,877	13,079	114
Deferred	6,690	8,521	59
Total income taxes	**19,568**	**21,601**	**173**
Net income	**¥ 45,611**	**¥ 36,302**	**$ 404**

Non-Consolidated Balance Sheet (Unaudited)

The Kumamoto Bank, Ltd.

As of March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 159,766	¥ 149,740	$ 1,417
Call loans	3,694	6,660	32
Securities	282,422	290,728	2,506
Loans and bills discounted	1,095,370	1,082,815	9,721
Foreign exchanges	1,095	1,248	9
Other assets	2,056	6,780	18
Tangible fixed assets	17,532	17,408	155
Intangible fixed assets	978	705	8
Prepaid pension expenses	3,407	3,182	30
Deferred tax assets	3,885	6,181	34
Customers' liabilities for acceptances and guarantees	4,115	4,319	36
Allowance for loan losses	(14,635)	(15,967)	(129)
Total assets	**¥1,559,688**	**¥1,553,804**	**$13,841**
Liabilities			
Deposits	¥1,329,172	¥1,344,264	$11,795
Call money	36,000	—	319
Borrowed money	98,000	114,712	869
Foreign exchanges	1	16	0
Other liabilities	4,156	4,063	36
Provision for losses from reimbursement of inactive accounts	369	256	3
Deferred tax liabilities for land revaluation	1,392	1,467	12
Acceptances and guarantees	4,115	4,319	36
Total liabilities	**¥1,473,207**	**¥1,469,099**	**$13,074**
Net assets			
Capital stock	¥ 33,847	¥ 33,847	$ 300
Capital surplus	33,847	33,847	300
Retained earnings	10,833	11,344	96
Total shareholders' equity	**78,527**	**79,039**	**696**
Valuation difference on available-for-sale securities	7,042	4,823	62
Revaluation reserve for land	911	842	8
Total valuation and translation adjustments	7,953	5,665	70
Total net assets	**¥ 86,481**	**¥ 84,704**	**$ 767**
Total liabilities and net assets	**¥1,559,688**	**¥1,553,804**	**$13,841**

Non-Consolidated Statement of Income (Unaudited)

The Kumamoto Bank, Ltd.

For the years ended March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥17,094	¥17,185	$151
Interest and dividends on securities	2,024	2,040	17
Interest on call loans	47	64	0
Interest on deposits with banks	0	0	0
Other interest income	201	179	1
Fees and commissions	5,090	4,754	45
Other operating income	233	295	2
Other income	1,365	1,054	12
Total income	**¥26,056**	**¥25,574**	**$231**
Expenses			
Interest expenses:			
Interest on deposits	¥ 1,074	¥ 1,150	$ 9
Interest on call money	2	—	0
Interest on borrowing and rediscounts	106	96	0
Other interest expenses	13	14	0
Fees and commissions payments	2,699	2,953	23
Other operating expenses	2	3	0
General and administrative expenses	13,838	14,088	122
Other expenses	950	710	8
Total expenses	**¥18,687**	**¥19,017**	**$165**
Income before income taxes	**7,369**	**6,557**	**65**
Income taxes:			
Current	654	(4,486)	5
Deferred	1,455	3,034	12
Total income taxes	**2,110**	**(1,451)**	**18**
Net income	**¥ 5,259**	**¥ 8,008**	**$ 46**

Non-Consolidated Balance Sheet (Unaudited)

The Shinwa Bank, Ltd.

As of March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 324,545	¥ 311,337	$ 2,880
Call loans	7,778	9,249	69
Trading account securities	212	170	1
Securities	752,071	749,282	6,674
Loans and bills discounted	1,465,210	1,464,145	13,003
Foreign exchanges	1,578	1,413	14
Other assets	6,785	8,005	60
Tangible fixed assets	44,690	44,148	396
Intangible fixed assets	1,297	882	11
Prepaid pension expenses	4,610	4,688	40
Deferred tax assets	2,016	8,558	17
Customers' liabilities for acceptances and guarantees	5,844	7,171	51
Allowance for loan losses	(20,934)	(22,233)	(185)
Total assets	**¥2,595,706**	**¥2,586,820**	**$23,036**
Liabilities			
Deposits	¥2,275,471	¥2,256,565	$20,194
Call money	25,000	—	221
Borrowed money	152,985	180,563	1,357
Foreign exchanges	31	17	0
Other liabilities	5,233	6,793	46
Provision for losses from reimbursement of inactive accounts	1,306	468	11
Provision for contingent liabilities losses	—	67	—
Deferred tax liabilities for land revaluation	4,421	4,719	39
Acceptances and guarantees	5,844	7,171	51
Total liabilities	**¥2,470,294**	**¥2,456,366**	**$21,923**
Net assets			
Capital stock	¥ 36,878	¥ 36,878	$ 327
Capital surplus	36,878	36,878	327
Retained earnings	13,507	24,271	119
Total shareholders' equity	**87,263**	**98,028**	**774**
Valuation difference on available-for-sale securities	23,457	17,719	208
Revaluation reserve for land	14,690	14,706	130
Total valuation and translation adjustments	38,148	32,425	338
Total net assets	**¥ 125,411**	**¥ 130,453**	**$ 1,112**
Total liabilities and net assets	**¥2,595,706**	**¥2,586,820**	**$23,036**

Non-Consolidated Statement of Income (Unaudited)

The Shinwa Bank, Ltd.

For the years ended March 31, 2016 and 2015

	2016	2015	2016
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥20,148	¥20,746	$178
Interest and dividends on securities	5,198	5,378	46
Interest on call loans	72	75	0
Interest on deposits with banks	0	0	0
Other interest income	367	363	3
Fees and commissions	7,611	7,848	67
Other operating income	716	503	6
Other income	1,635	1,106	14
Total income	**¥35,749**	**¥36,022**	**$317**
Expenses			
Interest expenses:			
Interest on deposits	¥ 1,494	¥ 1,651	$ 13
Interest on call money	3	—	0
Interest on payables under securities lending transactions	0	—	0
Interest on borrowing and rediscounts	191	278	1
Other interest expenses	0	0	0
Fees and commissions payments	3,759	3,561	33
Other operating expenses	2	26	0
General and administrative expenses	20,470	20,593	181
Other expenses	2,571	2,950	22
Total expenses	**¥28,494**	**¥29,062**	**$252**
Income before income taxes	**7,255**	**6,960**	**64**
Income taxes:			
Current	(2,345)	(2,440)	(20)
Deferred	4,394	5,847	38
Total income taxes	**2,048**	**3,407**	**18**
Net income	**¥ 5,206**	**¥ 3,553**	**$ 46**

Corporate Data

Company Outline (as of March 31, 2016)

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	6,823 (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	3,682
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

Taipei Representative Office
Fabulous International Commercial Building
6F-1, No.126, Songjiang Rd., Zhongshan Dist.,
Taipei City 10457, Taiwan
+886-2-2523-8887

Ho Chi Minh City Representative Office
Suite 1108, Saigon Tower, 29 Le Duan Street,
District 1, Ho Chi Minh City, Vietnam
+84-8-3822-2802

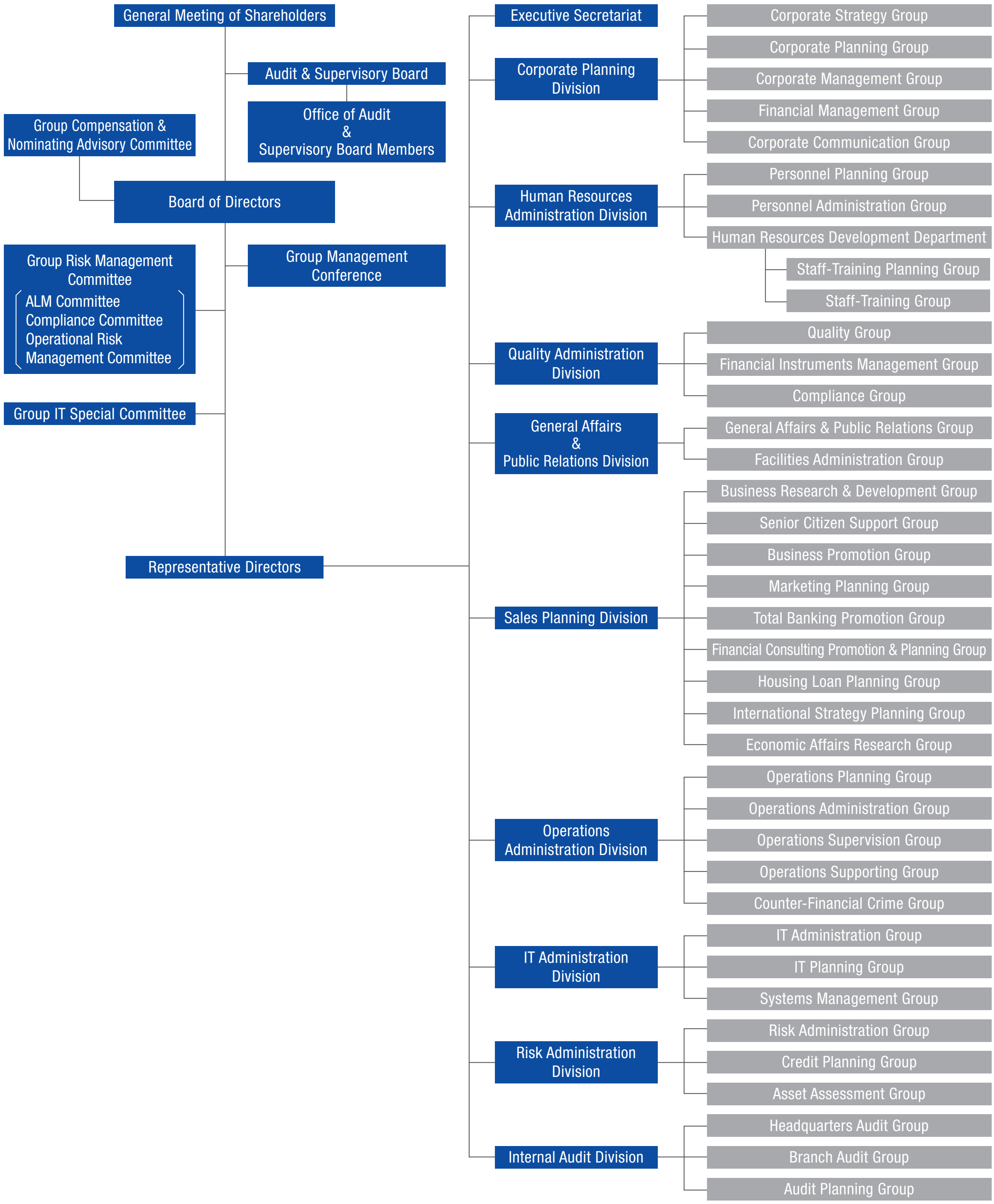
The Kumamoto Bank, Ltd.

Head Office	6-29-20, Suizenji, Chuo-ku, Kumamoto 862-8601, Japan
Date of Establishment	January 19, 1929
Paid-in Capital	¥33.8 billion
Number of Employees	933
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	1,227
Telephone Number	+81-956-24-5111
Website	http://www.shinwabank.co.jp/

Organizational Chart (as of August 1, 2016)



Group Company Chart (as of August 1, 2016)

- **Fukuoka Financial Group, Inc.**
  - **The Bank of Fukuoka, Ltd.**
    - Banking business — In addition to the head office, 163 branches and 6 sub-branches (including 1 branch dedicated to bank transfers and 1 to Internet banking)
      8 overseas representative offices (Hong Kong, Shanghai, Dalian, Singapore, Bangkok, New York, Taipei, Ho Chi Minh City)
    - Other businesses — 12 consolidated subsidiaries

Fukuoka Securities Co.,Ltd.	Securities business
Fukugin Business Operation Service Co., Ltd.	Office work agent business
Fukugin Guarantee Co., Ltd.	Loan guarantee business
Fukuoka Computer Service Co., Ltd.	System development & operation business
FFG Card Co., Ltd.	Credit card business
Fukugin Real Estate Assessment Service Co., Ltd.	Collateral valuation business
Fukuoka Servicing Co., Ltd.	Credit management and collection business
FFG Business Consulting Co.,Ltd.	Consulting business
Growing Businesses Support Investment Limited Partnership	Investments and loans
Fukuoka Asset Management Holdings	Investments and loans
Mercury Asset Corporation	Factoring
Jupiter Asset Corporation	Factoring

  - **The Kumamoto Bank, Ltd.**
    - Banking business — In addition to the head office, 68 branches and 1 sub-branch
  - **The Shinwa Bank, Ltd.**
    - Banking business — In addition to the head office, 87 branches (including 1 branch dedicated to bank transfers)
  - Other business

Fukuoka Technology Partners Co., Ltd.	Investments and loans
iBank marketing Co., Ltd.	Information processing and communications services

Share Information (as of March 31, 2016)

Investor Information

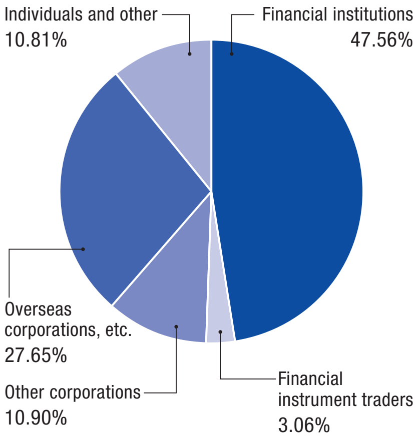
	Common stock	Type 1 preferred stock
Number of authorized shares	1,800,000,000	18,878,000
Number of shares Issued	859,761,868	18,742,000

Major Shareholders

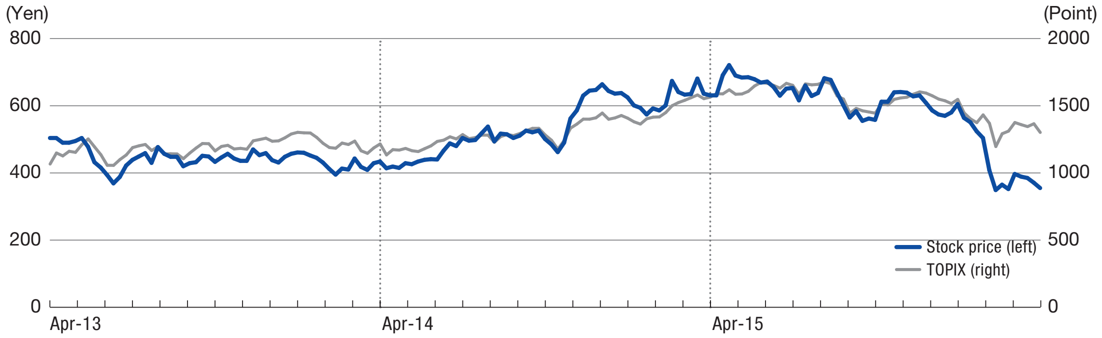
(Thousands of shares, %)

	Shares held	Ratio of shares held to issued number of shares
Japan Trustee Services Bank. Ltd. (Trust account)	60,995	6.94
The Master Trust Bank of Japan, Ltd. (Trust account)	45,760	5.20
Japan Trustee Services Bank. Ltd. (Trust account 9)	29,194	3.32
Nippon Life Insurance Company	17,722	2.01
Meiji Yasuda Life Insurance Company	17,719	2.01
Sumitomo Life Insurance Company	17,419	1.98
The Dai-Ichi Life Insurance Company, Limited	17,315	1.97
Trust & Custody Services Bank, Ltd. (Trust Collateral Account)	13,720	1.56
Japan Trustee Services Bank. Ltd. (Trust account 4)	12,155	1.38
STATE STREET BANK WEST CLIENT-TREATY 505234	11,571	1.31

Common Stock Distribution by Type of Shareholder



Stock Price



	FY2013	FY2014	FY2015
High (Yen)	535	687	739
Low (Yen)	361	406	341
Closing price as of March 31 (Yen)	424	619	367

Fukuoka Financial Group