

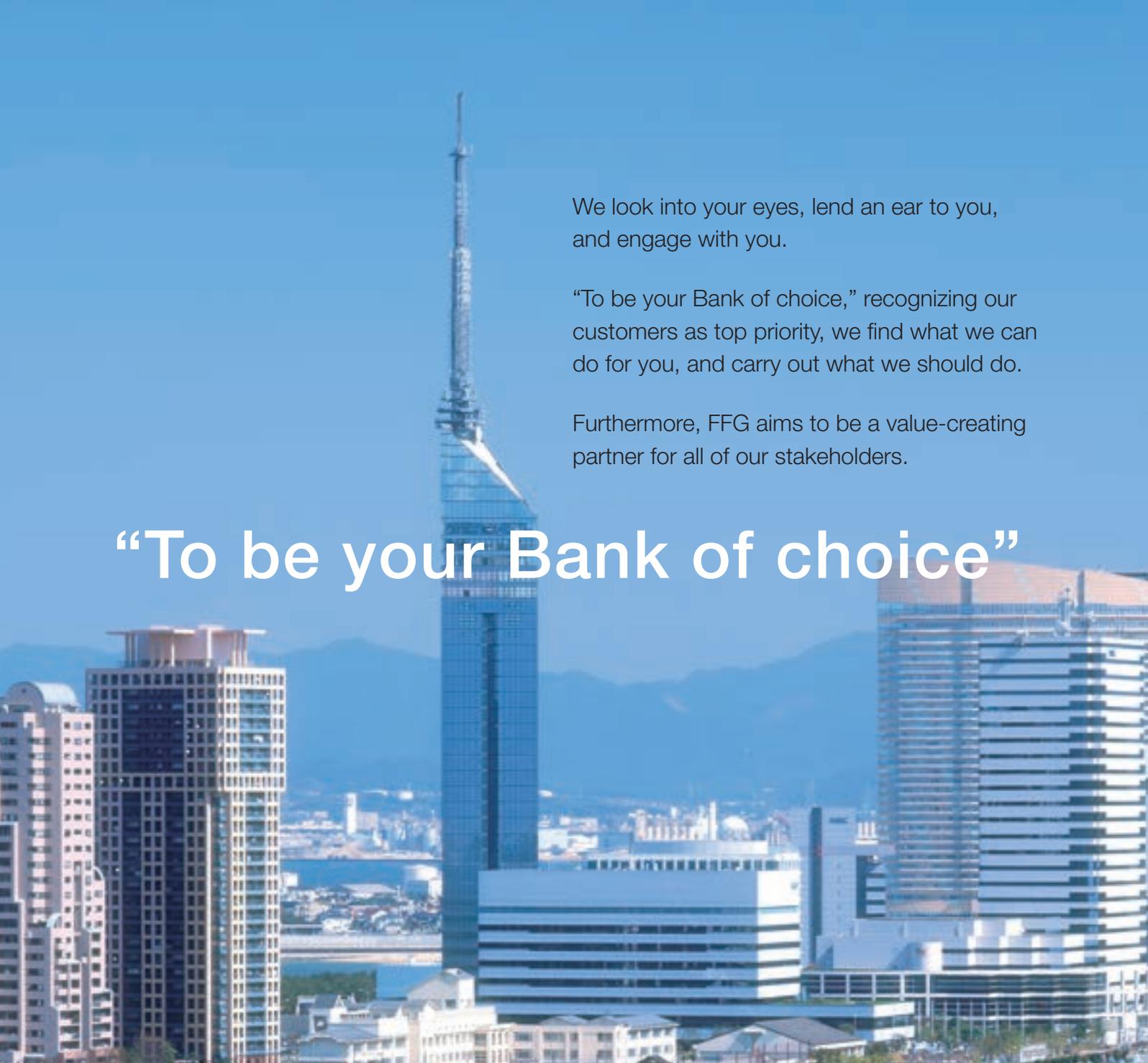
FFG

ANNUAL REPORT 2019

YEAR ENDED MARCH 31, 2019



To be your Bank of choice



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”

CONTENTS

FFG Overview

- ▶ 01 FFG’s Brand Mission and Principles
- ▶ 02 The Story of Fukuoka Financial Group
- ▶ 06 Kyushu Figures
- ▶ 08 TOP COMMITMENT
- ▶ 14 FFG’s Path to Growth
- ▶ 16 Strengths of FFG

FFG Value Creation

- ▶ 18 Management Direction to Achieve our Long-Term Vision
- ▶ 20 Utilizing FFG’s Strengths to Create Value
- ▶ 22 Basic Strategies for Business Activities Aimed at Value Creation

Value Creation Initiatives

- ▶ 24 Priority Initiatives -Digital Transformation-
- ▶ 27 Enhancing the Power of Our Organization and Improving Job Satisfaction through Human Resource Development
- ▶ 30 Enhancing Shareholder Returns

Management base

- ▶ 31 FFG’s CSR
- ▶ 33 Melding of CSR and Business Strategy
- ▶ 35 Members of the Board
- ▶ 37 Corporate Governance
- ▶ 40 Compliance Measures
- ▶ 41 Risk Appetite Framework
- ▶ 43 Risk Management

Financial Section

- ▶ 50 Fukuoka Financial Group
- ▶ 75 The Bank of Fukuoka
- ▶ 77 The Kumamoto Bank
- ▶ 79 The Shinwa Bank
- ▶ 81 The Eighteenth Bank
- ▶ 83 Corporate Data

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, the Shinwa Bank joined into the Group and on April 1, 2019, the Eighteenth Bank also integrated 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.

FFG Fukuoka Financial Group, Inc.

Within Kyushu 418

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

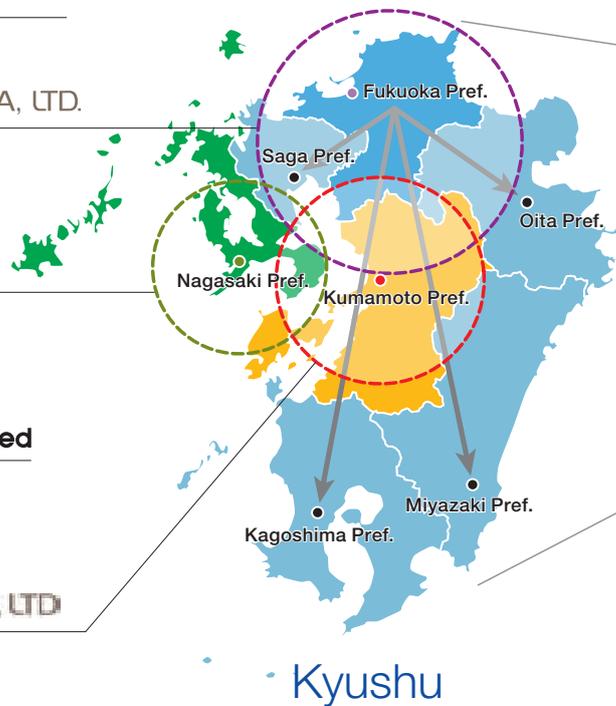
18Bank The Eighteenth Bank, Limited

Nagasaki Prefecture 80
 Within Kyushu 8
 Other 3

THE KUMAMOTO BANK, LTD.

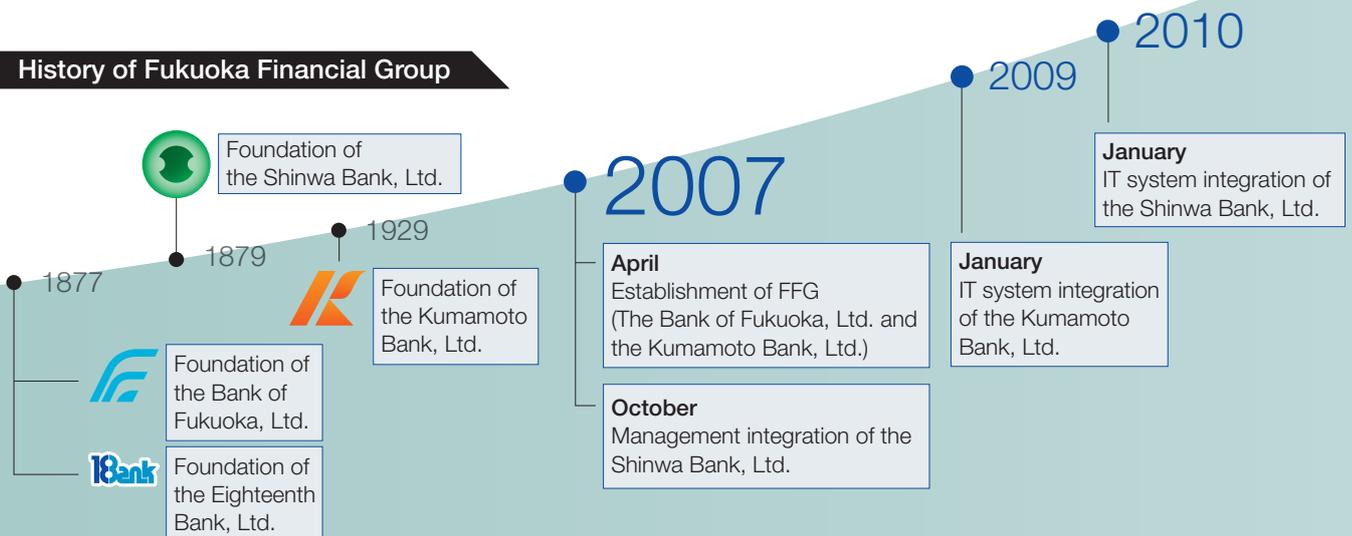
Kumamoto Prefecture 62
 Within Kyushu 7

(As of November 30, 2019)



* Kyushu consists of seven prefectures.

History of Fukuoka Financial Group



FFG's Overseas Network

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.

Japan



2019

April
Business Integration with the Eighteenth Bank, Ltd.

2017

—Loans: ¥13.1 trillion
—Deposits: ¥14.3 trillion
(as of March 31)

2016

April
10th anniversary of FFG's establishment

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

July
Opening of representative office in Ho Chi Minh City

2015

December
Opening of representative office in Taipei

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.

2011

November
Opening of representative office in New York

December
Opening of representative office in Singapore



Fukuoka Financial Group, Inc.

- The Bank of Fukuoka, Ltd.
- The Kumamoto Bank, Ltd.
- The Shinwa Bank, Ltd.
- The Eighteenth Bank, Ltd.



FFG Head Office (Fukuoka City)

FFG Overview

THE BANK OF FUKUOKA, LTD.

Head Office: 2-13-1, Tenjin, Chuo-ku, Fukuoka
810-8727, Japan

Date of Establishment	March 1945
Paid-in Capital	¥82.3 billion
Number of Employees	3,718
Number of Business Offices	170
Consolidated Capital Adequacy Ratio	9.71%
Total Deposits (Deposits + NCD)	¥10.6 trillion
Loans	¥9.8 trillion

As of March 31, 2019



Director, Chairman & President Takashi Shibato

The Bank of Fukuoka, Ltd. is the successor of the 17th National Bank. It was founded in 1877 as the first bank in Kyushu, and was created through a merger of four prefectural banks (The 17th National Bank, Ltd., The Chikuho Bank, Ltd., The Kaho Bank, Ltd., The Fukuoka Savings Bank, Ltd.) in 1945. With over 140 years since our founding, we are recognized as being one of the oldest banks in Japan.

Fukuoka is a bustling city which serves as both a major economic and transportation center for Kyushu and as a gateway to Asia. At the same time, one of its greatest attractions is how it expresses a harmonious balance between business environments and living environments in a location where you can enjoy history, culture and a rich natural environment. In the streets people can feel a powerful force that courses through the ages in attractions such as the traditional performance arts of Hakata and the Hakata Gion Yamakasa.

Our officers and employees will continue to work to grow sustainably together with our customers as "Your closest bank" under our brand slogan, "To be your Bank of choice."

THE KUMAMOTO BANK, LTD.

Head Office: 6-29-20, Suizenji, Chuo-ku,
Kumamoto 862-8601, Japan

Date of Establishment	January 1929
Paid-in Capital	¥33.8 billion
Number of Employees	879
Number of Business Offices	70
Consolidated Capital Adequacy Ratio	9.62%
Total Deposits (Deposits + NCD)	¥1.4 trillion
Loans	¥1.5 trillion

As of March 31, 2019



Director & President Toshimi Nomura

The Kumamoto Bank, Ltd. originated from two mutual loan companies established in Kumamoto in the 1920s (Kumamoto Mutual Loan Company, Higo Mutual Loan Company), and has accumulated over 90 years of service since its establishment. In 2013, it changed its name from Kumamoto Family Bank, Ltd. to "The Kumamoto Bank, Ltd."

Kumamoto Prefecture is known as both the "Land of Fire" with the volcanic Mt. Aso and the "Land of Water" for its rich and beautiful water source. In April 2016, it was struck by two major earthquakes. Since then, the citizens of the prefecture have been working in earnest toward restoration and reconstruction with the aid of many supporters. A wide variety of projects are underway and there have been many positive developments. However, the process of reconstruction still continues in efforts to rebuild the homes of those affected by these disasters and to restore Kumamoto's national tourist attractions like "Kumamoto Castle" and the "Aso Region" to their former glory.

Our officers and employees will continue to work to contribute to the creative reconstruction and further development of Kumamoto by responding with affability and precision in our approach under our brand slogan, "To be your Bank of choice."


THE SHINWA BANK, LTD.

Head Office: 10-12, Shimanosecho, Sasebo,
Nagasaki 857-0806, Japan

Date of Establishment	September 1939
Paid-in Capital	¥36.8 billion
Number of Employees	1,160
Number of Business Offices	88
Consolidated Capital Adequacy Ratio	9.96%
Total Deposits (Deposits + NCD)	¥2.2 trillion
Loans	¥1.7 trillion

As of March 31, 2019



Director & President Syunsuke Yoshizawa

The Shinwa Bank, Ltd. originated from “The 99th National Bank, Ltd.” founded in 1879 in Hirado City, Nagasaki Prefecture, and raised its flag as “The Shinwa Bank, Ltd.” in 1939.

Nagasaki Prefecture is an expanse of land surrounded by the sea that is rich in nature. It features destinations such as Nagasaki City, a sightseeing city that has preserved the influences of its history as the only gateway to the West during the Edo period of Japan. Sasebo City, a port town known for the beautiful scenery of the Kujuku Islands. Since its founding in Sasebo, the Bank has been moving forward with local customers, witnessing the changes in the city throughout the years.

Going forward, our officers and employees will continue to work to address the diverse needs of our customers, aiming to grow sustainably together with our customers under our brand slogan, “To be your Bank of choice.”


The Eighteenth Bank, Limited

Head Office: 1-11, Doza-machi, Nagasaki
850-0841, Japan

Date of Establishment	July 1897
Paid-in Capital	¥24.4 billion
Number of Employees	1,289
Number of Business Offices	100
Consolidated Capital Adequacy Ratio	11.43%
Total Deposits (Deposits + NCD)	¥2.6 trillion
Loans	¥1.8 trillion

As of March 31, 2019



Director & President Takujiro Mori

The Eighteenth Bank, Ltd. was first established as “The 18th National Bank, Ltd.” in 1877. We have worked to move forward with the local community with a firm commitment to sound management.

Nagasaki is located in close proximity to East Asia, and has a long history of active interaction with both Asian and Western countries which has helped nurture a culture that is completely unique to Nagasaki. In recent years, it has been brought back into the spotlight since the “Sites of Japan’s Meiji Industrial Revolution” and the “Hidden Christian Sites in the Nagasaki Region” were designated as World Cultural Heritage sites. Awaiting the opening of the West Kyushu Route of the Kyushu Shinkansen, we are on the brink of the area being reborn anew.

Going forward, our officers and employees will work to the utmost of our abilities under our brand slogan, “To be your Bank of choice,” so that we may contribute to the development of the regional economy.

In October 2020, we intended to merge The Shinwa Bank, Ltd. and The Eighteenth Bank, Ltd. to establish “The Juhachi-Shinwa Bank, Ltd.”

Please refer to the Financial Data Book or access FFG’s website (<https://www.fukuoka-fg.com>) for the detailed financial information of each bank.

Kyushu Figures

10% of Japan's Economy

Population **10.2%**

10.2% of total population of Japan lives in Kyushu.

Scale of Production **4th**

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

Time to Airport **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 cars, 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.

Kyushu's Place in the World



Source: Kyushu Economic Status 2019, Kyushu Bureau of Economy, Trade and Industry

Data Analysis for Kyushu

Gross Prefectural Production*¹ (2015)

Kyushu Total **45.0** trillion yen



Population*¹ (2019)

Kyushu Total **13.0** million



Legend: Fukuoka (blue), Kumamoto (orange), Nagasaki (green), Other prefectures of Kyushu (grey)

Number of Businesses*² (2016)

Kyushu Total **587,333**



Commercial Sales*⁴ (2014)

Kyushu Total **34.4** trillion yen



Loans*³ (March 31, 2018)

Kyushu Total **35.2** trillion yen



Deposits*³ (March 31, 2018)

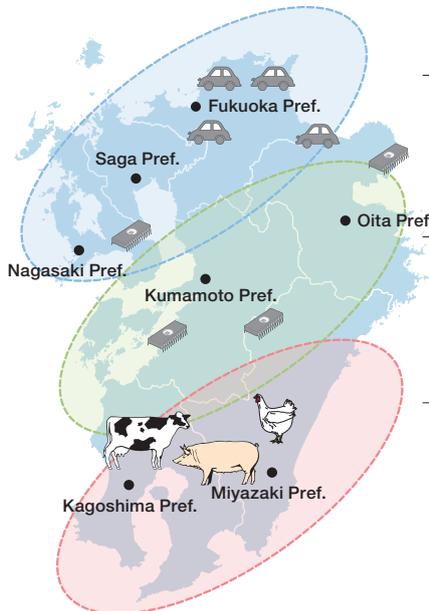
Kyushu Total **48.8** trillion yen



Sources: *¹ Kyushu Economic Status 2019, Kyushu Bureau of Economy, Trade and Industry; *² 2016 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

Well-Balanced Industry Grouping

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



Northern Kyushu, a center of “Car Island”

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”

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

Southern Kyushu, a center of “Food Island”

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

Share in Japan

Number of Passenger Cars Produced in Kyushu



1.39 million

Amount of IC Production



673.3 billion yen

Amount of Agricultural Production



1.82 trillion

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

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 natural disasters that occurred in and after 2016 were unprecedented events that caused enormous damage to the region, we are working together with the regional community towards restoration.



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.



Fukuoka Airport
Maintenance of terminal building and expansion of landing field in progress



Port of Hakata
Urban development plan working together with the local community in progress

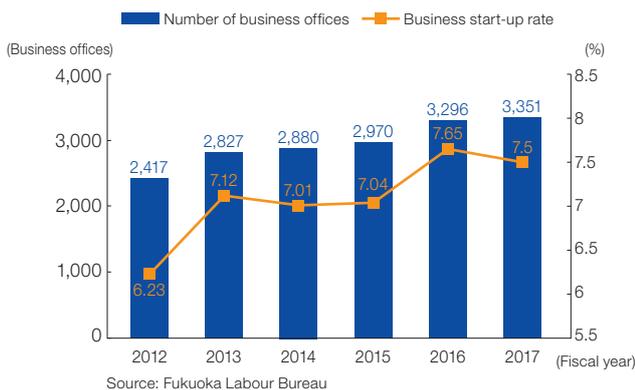


Kyushu Shinkansen
Broad network linking Fukuoka, Kumamoto and Kagoshima

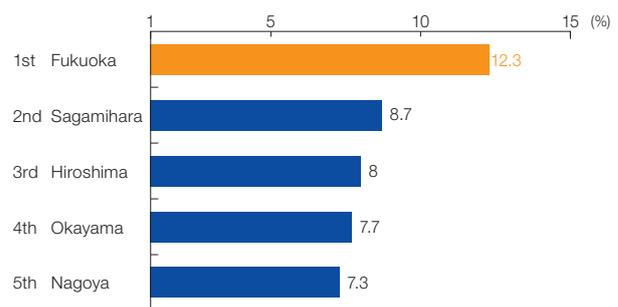
Seeds of Further Growth

In addition to balanced industry structures and large-scale projects in progress, new seeds for further growth are nurtured in Kyushu. It is also illustrated by Fukuoka City and Kitakyushu City being designated as the National Strategic Special Zones in recent years. Economic ripple effects are expected throughout the region, such as creation of industrial innovation and promotion of new enterprises and business start-ups. It has also achieved record highs for the Number of Foreign Nationals Entering Kyushu for six consecutive years leveraging its proximity to Asia, while inbound tourism is also booming. Moreover, transportation convenience backs it up to draw attention from inside and outside Japan, resulting in an increase in land price growth rate more rapidly than that of the whole country. Kyushu has become an attractive area which gather both people and companies.

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

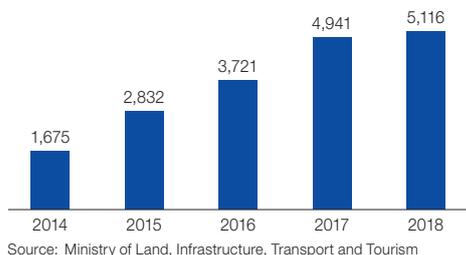


Cities with a high percentage of young people* among entrepreneurs

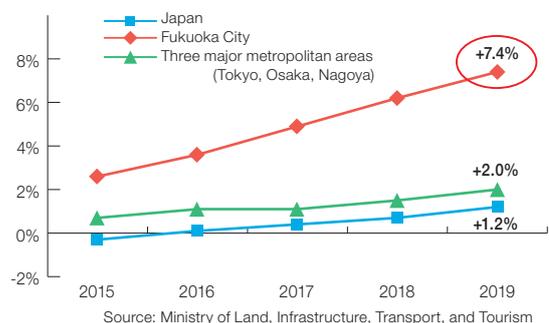


Source: "Employment Status Survey (2012)" by Statistics Bureau, Ministry of Internal Affairs and Communications
*Ages from 25 to 34

Foreign nationals entering Kyushu (in thousands)



Year-on-year changes of land price (for all purposes)





TOP COMMITMENT

Contributing through

Kyushu, an attractive market

The Fukuoka Financial Group (hereinafter “FFG”) is a broad area-based regional financial group with a network covering all of Kyushu, centering on Fukuoka, Kumamoto and Nagasaki prefectures.

Kyushu is said to make up 10% of Japan’s economy, accounting for about 10% of the nation’s economy in terms of population, area size, and regional GDP. In addition, it is located in close proximity to the Asian region where significant growth is anticipated in the future. As the number of foreign visitors entering the country has nearly quadrupled over the past five years, further increases of inbound tourism demand are expected to result from its position as a gateway to Asia.

Kyushu as a whole offers a well-balanced market with a diverse selection of industries, including cars in the north, semiconductors in the middle, and food in the south. Furthermore, the flow of people between Fukuoka and Kagoshima has increased by around 20% on account of the opening of all Kyushu Shinkansen lines. The Kyushu economy is projected to become increasingly unified as the development of the Kyushu Expressway and various railways steadily advances.

to the community creation of trust



Passenger Cars
Share in Japan of number of
passenger cars produced
Approx. 15%

IC Production
Share in Japan of amount of
IC production
Approx. 30%

Food
Share in Japan of amount of
agricultural production
Approx. 20%

Airport / highway / railway
maintenance



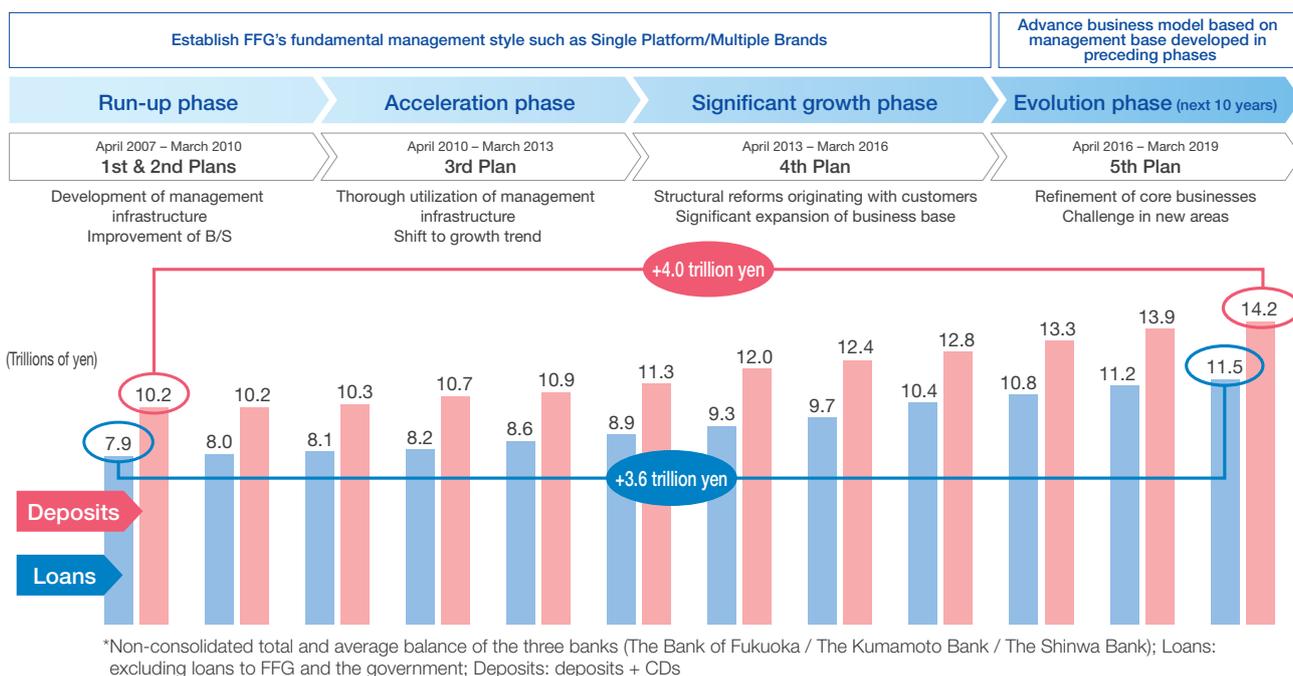
Opening of all Kyushu
Shinkansen lines



In Fukuoka Prefecture, where the headquarters of FFG and the Bank of Fukuoka are located, progress is being made on large-scale development projects such as “Tenjin Big Bang” and “Hakata Connected.” They take advantage of the benefits provided by factors including regulatory easing in National Strategy Special Zones, and new seeds for growth

are predicted to sprout through support for start-ups that unite the public and private sectors.

In this way, we believe that Kyushu, where FFG is based, has high potential even on the national scale, and offers an attractive market that promises future growth. (Please refer to pages 6 to 7, “FFG’s Regional Economy” for more details)



Take action and make decisions without fear of failure

Twelve years ago, on April 2, 2007, the Bank of Fukuoka and Kumamoto Family Bank (currently known as the Kumamoto Bank) decided to embark on the grand endeavor of business integration. They shared the goals of creating a more stable local financial system for Kyushu and generating future sustainable growth for both banks. FFG was established through this business integration, and the Shinwa Bank joined six months later in October 2007. Undertaking these two big projects of business integration of a scale we had never experienced before required considerable effort and time, but all officers and employees worked together to overcome the various difficulties that were presented.

In the run-up phase covering the initial three years, we focused on the drastic reduction of non-performing loans and development of management infrastructure through the integration of business administration and IT systems and branches. In the following acceleration and significant growth phases, we pushed to the forefront a shared set of values for all employees in our “Group Management Principles” and our brand slogan, “To be your Bank of choice.” Based on those principles, and through the thorough utilization of our management infrastructure, we maintained steady growth and ensured a continuing trend of growth.

Since the 5th Mid-Term Management Plan (April 2016 to March 2019), we have entered a “stage of evolution” with our sights set on the next 10 years. As a means of addressing the advancement of the IoT and behavior changes of customers, we have actively challenged pioneering initiatives such as the establishment of the smartphone service, “iBank business.”

This April, we achieved a business integration with the Eighteenth Bank which is based in Nagasaki Prefecture, after more than three years since the basic agreement was first announced in February 2016. We believe that this accomplishment is the result of gaining the understanding of the local people in regard to our strong commitment to contributing to the future development of the local economy by enhancing our business strength through the business integration.

In retrospect, the past 12 years were by no means a smooth road. But we were able to develop various strategic options by always anticipating the changing times and relentlessly pursuing our ideals. We have personally experienced the fact that our corporate culture of taking action and making decisions without fear of failure developed throughout this period. It is our greatest strength and a unique feature that no other financial groups have been able to replicate. (Please refer to pages 14 to 15, “FFG’s Path to Growth” and pages 16 to 17, “Strengths of FFG” for more details.)

Maintain a sound awareness of risk while turning changes into opportunities

One generalization that can be made when looking at worldwide trends is that the rapid evolution of digital technology is causing a disruption, in other words, a creative destruction, in various industries. For example, under the concept of “sharing economy,” newly established companies have broken the traditional competition rules when it comes to accommodations and taxi services. The evolution of digital technology has eliminated the competitive disparity that was traditionally dictated according to the size of a corporation and has steadily reduced the marginal costs required for business expansion. Now various players, for example, start-up companies, can easily enter the market and expand into new industries.

The average period for a company to remain listed on the Fortune Global 500 as selected by the rating company S&P was 33 years in 1964, about 50 years ago, but this has shrunk to 24 years in 2016 and is expected to fall to 12 years by 2027. It means that the period of time that a company can maintain a position of superiority is shrinking, even for large companies that have clearly established a dominant position.

Moving forward, we need to respond quickly to these changes in the external environment and seize opportunities for growth. Instead of thinking defensively about being unable to see the future or being afraid of costs, we will develop products and services and move toward active investment in order to improve convenience for customers. With an approach of “trial & error,” we will take on new challenges and adapt our methods when faced with difficulties.

We always tell our employees to engage in their daily duties with “a sound awareness of risk.” This means that we should clearly ascertain the current status, take appropriate measures, and have strong intentions to adapt ourselves without fear of change.

Recently, some media report a negative image about the future of financial institutions. However, there are 64 regional financial institutions nationwide, and the final net income for the previous fiscal year amounted to a total of approximately 630.0 billion

yen. Even when looking at other industries, it is considered there are not many with an average of 10.0 billion yen per firm.

Change presents threats, but it also presents opportunities at the same time. In the extremely important question of how to surmount these rough waters, we believe the amount that we can invest in human resources and goods in shifting our focus from the present to the future is the most important aspect in enhancing our competitive edge and winning out to face the next round.

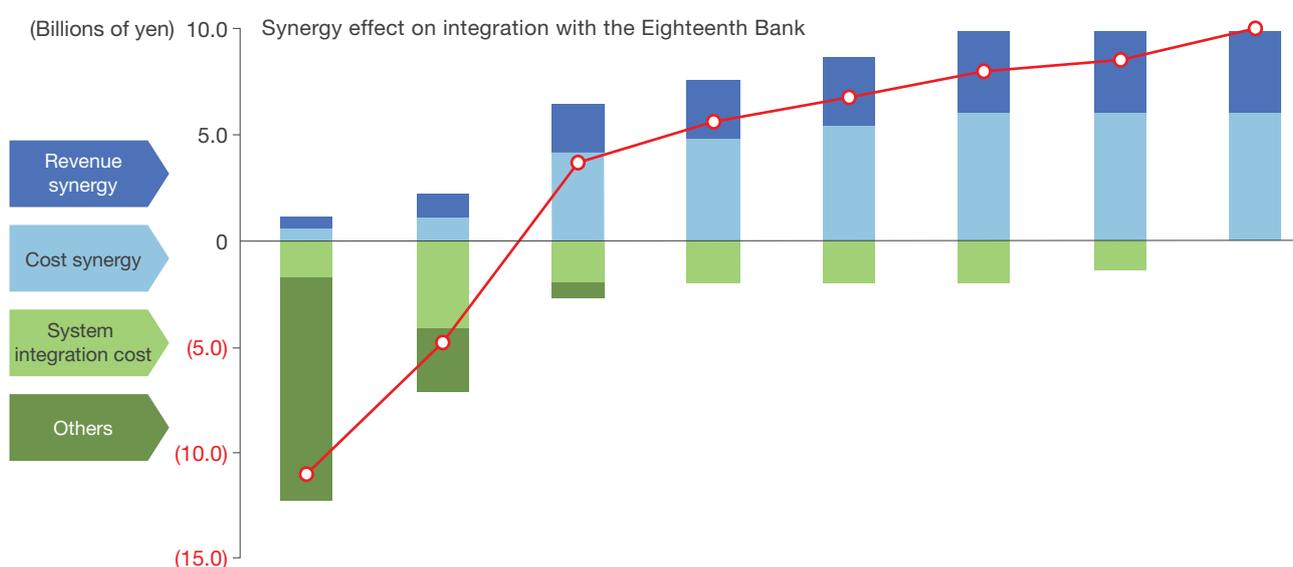
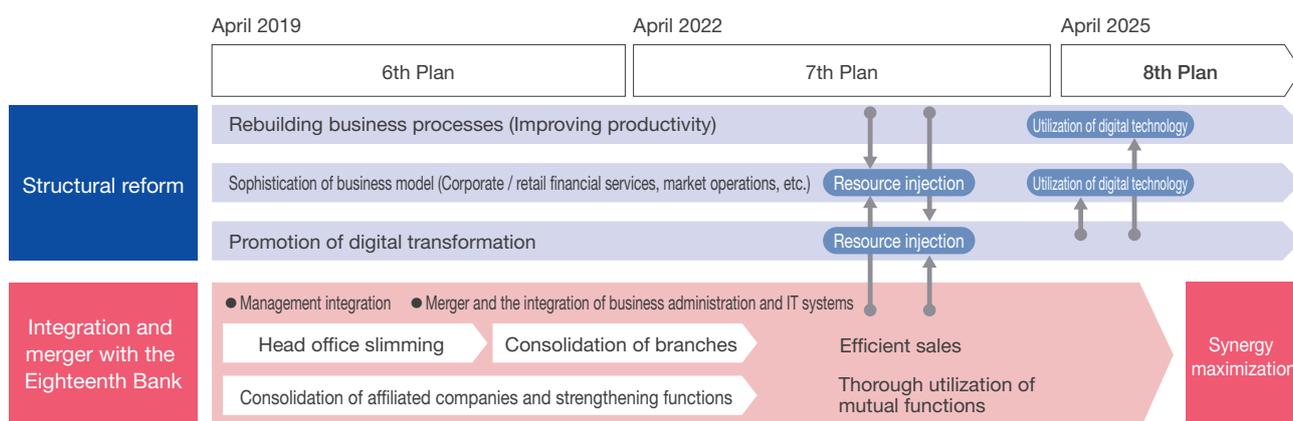
Importance of inner communication

The “Digital Strategy” and “Development of Human Resources” which we have been focusing on in recent years are true examples of investment in the future of our company. In order to cultivate human resources who lead our transformation, those who provide sophisticated solutions, and those who are specialized in digital technology, it is also important to incorporate knowledge and expertise not just from within our own company, but from external companies as well.

The earnings we generate are from traditional banking business such as loans and asset management centered on our business offices. Therefore, we aim to achieve further growth in the existing businesses by incorporating digital technology. In addition, we are investing capital and human resources in new fields to seize opportunities to change the banking system as well to align with the structures of industries.

With regard to these initiatives, what is essential is sharing the background and significance of policies among employees by figuring out “why we have to do this now,” and fostering a common understanding and awareness, to improve the job satisfaction and motivation of our employees and demonstrate our strengths as an organization.

Furthermore, our goal is to incorporate a challenging spirit and corporate culture without fear of failure as a foundation for all strategies. These will serve as drivers for invigorating our organization and stimulating corporate growth.



Aiming for sustainable growth

In the past three years of the 5th Mid-Term Management Plan, we focused on the “first phase” of evolution in implementing a wide variety of initiatives in sales and management.

In sales, we achieved satisfactory results by accumulating loans for SMEs through business assessments and expanding our sales base by stimulating demand for asset building and asset management in retail banking.

Also, we have been actively developing new initiatives. The challenge for the iBank business and open innovation has expanded contact points and business opportunities with external companies that offer advanced digital technology, leading to making our services more sophisticated.

In management, we made progress on sophisticating the risk management by establishing the Risk Appetite Framework and initiating the first “AIRB” advanced internal rating-based approach for regional banks.

From this April, the 6th Mid-Term Management Plan started as the second phase of evolution. The two main pillars of FFG’s growth trajectory are “raising the top line through structural reforms” and “maximizing synergies through business integration with the Eighteen Bank.”

Under the first pillar, “structural reform,” we are pushing forward with “rebuilding business processes” continuously from the previous mid-term plan, and seeking to improve the efficiency of operations by approximately 2–3%, thus allocating management resources in freed-up personnel and time into areas of growth. At the same time, the companywide

promotion of digital transformation will raise our top line by fully utilizing state-of-the-art digital technologies while making the business model more sophisticated in corporate and retail financial services and the market sector.

The second pillar is “business integration with the Eighteenth Bank.” While costs will be prevalent in the first two years of the current mid-term plan, we will transition over to seeing positive gains from the final fiscal year of the plan. This will create significant synergistic effects amounting to 10.0 billion yen as a result of factors including sales synergies and reductions of system expenses.

Our future trajectory will be ensured by integrating the results of these two strategic options into the management base that has been built so far. As the business environment proceeds to rapidly change, growth investments are essential in order to improve corporate value moving forward in the mid- to long-term through profit growth. We believe that active investment in growing areas after ensuring the necessary funds for our capital adequacy to remain sound will lead to stable profit growth even while a great deal of uncertainty exists.

As specific examples of prospective uses of capital, we would like to consider how to take on new challenges in not only existing businesses, such as investment and new business development in the digital field and strengthening alliances, including alliances with different industries, but also in exploring new business areas on different trajectories to previous initiatives.

Our basic stance on shareholder returns is to make considerations for achieving a balance with these growth investments and provide continuous dividend payments and increases through stable profit growth.

During the current mid-term plan, the costs involved in business integration and investment in growing fields will be prevalent. In other words, this will be a preparation period aimed at future growth. From the next mid-term plan, we will reliably carry out the measures outlined in the mid-term plan to harvest the fruits of this period and to create sustainable growth.

Message to stakeholders

Our mission as regional financial institutions is “creation of trust” with an extremely important role in providing a stable financial system for local communities and supporting regional development and business growth for corporate customers. “Credibility” and “trust” are terms often used within our company walls. They are the greatest assets inherited from our predecessors, moreover, the trust we have cultivated so far is connected to FFG’s current top-class customer base among regional banks.

The idea of “creating a virtuous cycle of ‘contribution to regional economic development’ and ‘improvement of FFG corporate value’” is a fundamental principle of our business activities. Regional financial institutions grow with regional development. In accordance with this fundamental principle, we contribute to creating a sustainable society by making efforts to resolve various social and environmental issues faced by local communities.

All the employees of FFG work together to push forward business operations and meet the expectations of our shareholders, customers, and stakeholders. We sincerely appreciate your continued support.

July 2019

Fukuoka Financial Group, Inc.
Chairman of the Board & President



FFG's Path to Growth

Business environment

Low interest rate environment

- Basel II regulations
- Privatization of the postal service
- End of ban on OTC insurance sales
- Global financial crisis
- European debt crisis
- Kyushu Shinkansen opening
- Great East Japan Earthquake

Establish FFG's fundamental management style, including Single Platform/Multiple Brands

Run-up phase

Development of management infrastructure and improvement of B/S

April 2007 – March 2010

1st & 2nd Plans

Acceleration phase

Thorough utilization of management infrastructure and shift to growth trend

April 2010 – March 2013

3rd Plan

Sales

- Reallocation of personnel and increased efficiency
- Establishment of consulting subsidiary
- Full-fledged development of transactions with SMEs and individuals
- Former Maeda Securities becomes a wholly owned subsidiary

Infrastructure

- Consolidation of branches (56 branches)
- Consolidation of administration and IT systems at the Kumamoto Bank and the Shinwa Bank
- Renewal of all branches (corporate branding)

Financial

- Company split (approximately 1,300 customers)
- Improvement in ratio of non-performing loans (5-6% level to 2-3% level)
- Introduction of consolidated taxation

Corporate culture

- PMI investigation (internal and external) and regular inspections based on third-party evaluations
- "To be your Bank of choice" project
- Volunteer activities for Great East Japan earthquake

The story of FFG

		FY 2007	FY 2009	FY 2012
Size	Total assets	11.3 trillion yen	11.8 trillion yen	13.3 trillion yen
	Average balance of total loans ^{*1}	7.9 trillion yen	8.1 trillion yen	8.9 trillion yen
	Average balance of total deposits and CDs	10.2 trillion yen	10.3 trillion yen	11.3 trillion yen
Profitability	Net income	1.3 billion yen	28.4 billion yen	32.1 billion yen
	ROE	0.26%	5.26%	4.97%
Efficiency	OHR ^{*2}	62.5%	58.9%	53.4%
	Overhead expenses	118.1 billion yen	113.8 billion yen	100.9 billion yen
	Personnel	7,920 people	7,519 people	6,640 people
Soundness	Ratio of non-performing loans	4.98%	2.60%	2.81%
	Capital adequacy ratio	8.76%	10.32%	12.26%

*1 Excluding loans to FFG and the government *2 Overhead expenses ÷ gross business profit × 100

- Introduction of "different-dimension" monetary easing (qualitative and quantitative easing) ● Introduction of negative interest rates **Prolonged ultra-low interest rate environment**
- Introduction of NISA system ● iDeCo **Trend away from saving toward investment**
- Basel III regulations **Full-fledged entry into banking from other industries**
- Japan Revitalization Strategy ● SDGs **Expectation of contribution to sustainability**
- Consumption tax increase (8%) ● Kumamoto earthquakes ● Brexit

Advance business model based on the management base developed in preceding phases

Significant growth phase

Structural reforms originating with customers and significant expansion of business base

April 2013 – March 2016
4th Plan

Evolution phase (next 10 years)

Refine core businesses and actively take up the challenge in new areas

April 2016 – March 2019
5th Plan

- Regional revitalization and invigoration network ● Launch of iBank business ● Establishment of R&D subsidiary
- Introduction of new CRM system and tablets ● Establishment of venture support subsidiary ● Establishment of insurance subsidiary
- Full overhaul of ATMs (approximately 2,000 units) ● Revision of business processes through business reforms ● Opening of unmanned branches
- Reform of earnings structure (high-margin products, etc.) ● One-time goodwill amortization (94.8 billion yen) ● Introduction of AIRB
- "To be your Bank of choice" project 2nd phase ● Recovery support and volunteer activities after Kumamoto earthquakes

Strengths developed

Corporate culture without fear of failure

A culture that maintains a sound awareness of risk, while enhancing perception and acting and making decisions without fear of failure

Single Platform/ Multiple Brands

A management style optimally suited to business integration between regional banks to facilitate the pursuit of economies of scale and efficiency

Sophisticated and diverse human resources

Human resources that possess a high-level of expertise and a diverse range of skills to offer the optimal solutions

Group total power

Total financial power including affiliated companies capable of meeting all the needs of retail and corporate customers

Broad yet close-knit network

A broad area-based regional financial group covering the whole of Kyushu

Solid business base

A top-class customer base among regional banks built through customer-focused sales

FY 2015	FY 2018	Comparison to the FY 2007
16.4 trillion yen	20.8 trillion yen	+9.5 trillion yen
10.4 trillion yen	11.5 trillion yen	+3.6 trillion yen
12.8 trillion yen	14.2 trillion yen	+4.0 trillion yen
44.7 billion yen	51.6 billion yen	+50.3 billion yen
5.81%	6.63%	+6.37%
55.9%	56.2%	(6.3%)
100.0 billion yen	100.4 billion yen	(17.7 billion yen)
6,570 people	6,570 people	(1,350 people)
2.17%	1.68%	(3.30%)
8.75%	10.23%	+1.47%

Strengths of FFG

Strengths Developed

Details

Corporate culture without fear of failure

A culture that maintains a sound awareness of risk, while enhancing perception and acting and making decisions without fear of failure

When FFG was established by the Bank of Fukuoka and the Kumamoto Family Bank (now the Kumamoto Bank) in April 2007, we set forth our Group Management Principles, which are a unified set of values for all Group employees, and our brand slogan, "To be your Bank of choice," based on the Group Management Principles. Six months later, in October 2007, the Shinwa Bank joined FFG, thus creating an unprecedented type of broad-area based financial group with three banks among our group companies.

In April 2019, FFG entered into a business integration with the Eighteenth Bank, aiming to create a more stable financial system for the whole of Kyushu and invigorate

Single Platform/ Multiple Brands

A management style optimally suited to business integration between regional banks to facilitate the pursuit of economies of scale and efficiency

FFG consists of four banks, namely the Bank of Fukuoka, the Kumamoto Bank, the Shinwa Bank, and the Eighteenth Bank. Its unique management style called "Single Platform/Multiple Brands" maintains the history and brand of each bank, which have long been popular with regional communities in the prefectures of Fukuoka, Kumamoto, and Nagasaki. It also operates the four banks like one bank, by creating common business

Sophisticated and diverse human resources

Human resources that possess a high-level of expertise and a diverse range of skills to offer the optimal solutions

FFG has concentrated the business bases, information, expertise, etc. of each bank, with their differing histories and culture, and has utilized their mutual strengths to integrate the human resources and culture of each bank. We use a Japanese term for "human capital" to convey the sense that "employees are an asset (capital) of the company." As this term implies, corporate growth requires human resources with a high level of expertise and a diverse range of skills, who are capable of addressing the needs of customers. Therefore we have actively invested in our personnel.

Group total power

Total financial power including affiliated companies capable of meeting all the needs of retail and corporate customers

FFG is a comprehensive financial service group with 22 affiliated companies in total. It is capable of addressing all the needs of our retail and corporate customers, from securities, insurance, and consulting, to marketing and venture support. Few financial groups are capable of performing this many functions, and the power of our organization, which includes banks and affiliated companies, is one of FFG's unique strengths. A system for integrated Group management has been built based on the idea of "optimizing the Group

Broad yet close-knit network

A broad area-based regional financial group covering the whole of Kyushu

The size of the economy in Kyushu is approximately 44 trillion yen, and is said to make up 10% of Japan's economy. There are many production sites belonging to companies in core auto, semiconductor, and agricultural industries, while new industries in renewable energy and healthcare have also started to be developed in recent years. As the regional economy becomes increasingly integrated, the area also has active economic interaction with nearby markets in Asia. Kyushu is an attractive market where future growth can be expected, including inbound tourism demand.

Solid business base

A top-class customer base among regional banks built through customer-focused sales

In the run-up phase, lasting for three years from our establishment, FFG developed management infrastructure and improved the balance sheet. Entering the acceleration phase (2010), it focused on customer-centered sales under our brand slogan, "To be your Bank of choice."

In corporate banking, we utilized our human resource capabilities with their high level of expertise and our capabilities as an organization with a diverse range of functions to

Results

<p>the regional economy.</p> <p>In addition, FFG has also actively taken on pioneering initiatives. It includes the establishment of the iBank business in April 2016 to enable the development of multiple banks in other regions, as a means of addressing the rapid advancement of the IoT and changing patterns of customer behavior.</p> <p>FFG is committed to unceasing evolution through the selection and implementation of strategic options that anticipate the changing times, without fear of failure.</p>	<ul style="list-style-type: none"> ● Business integration <ul style="list-style-type: none"> ☑ April 2007 The Kumamoto Family Bank (now the Kumamoto Bank) ☑ October 2007 The Shinwa Bank ☑ April 2019 The Eighteenth Bank ● Removal of non-performing loans through company split <ul style="list-style-type: none"> ☑ Improvement in ratio of non-performing loans (5-6% level to 2-3% level) ● iBank business (participated in by 8 regional banks across Japan)
<p>systems, products, and services internally.</p> <p>This management style is optimally suited to business integration between regional banks to facilitate the pursuit of economies of scale and efficiency, while maintaining our commitment to our customers and local communities.</p>	<ul style="list-style-type: none"> ● Economies of scale (fiscal year ended March 31, 2008 to the fiscal year ended March 31, 2019) <ul style="list-style-type: none"> ☑ Consolidated net income +50.3 billion yen ● Pursuit of efficiency (fiscal year ended March 31, 2008 to the fiscal year ended March 31, 2019) <ul style="list-style-type: none"> ☑ Overhead expenses: (17.7 billion) yen ☑ Personnel: (1,350) people ☑ OHR: (6.3%)
<p>Looking ahead, we shall continue to utilize the underlying diversity we have developed thus far to appropriately manage human resources in a way that takes into consideration changes in business strategy and the external environment, by promoting the exchange of personnel with companies in different industries and designing frameworks for evaluation and treatment, etc. tailored to a diverse range of human resources and workstyles.</p>	<ul style="list-style-type: none"> ● Wealth management trainee system <ul style="list-style-type: none"> ☑ Number of persons with the FP1 qualification: approximately 400 ● Women in management positions <ul style="list-style-type: none"> ☑ 5.0% of all management positions (57 persons) ● Number of mid-career hires <ul style="list-style-type: none"> ☑ 145 persons (including 42 specialist digital and IT personnel)
<p>as a whole," including each bank and affiliated company.</p> <p>In July 2018, "R&D Business Factory" was established for the research and development of more advanced financial services and in May 2019 "Zerobank Design Factory" to build next-generation banking systems.</p> <p>We shall continue endeavoring to strengthen Group functions, taking into consideration future changes in the management environment,</p>	<ul style="list-style-type: none"> ● Strengthening Group functions <ul style="list-style-type: none"> ☑ July 2018 Established R&D Business Factory ☑ April 2019 Entered recruitment consultancy business ☑ April 2019 Added lease functions (Eighteenth Bank) ☑ May 2019 Established Zerobank Design Factory
<p>FFG considers Kyushu as a single economic zone. We have created a "broad area-based regional financial group" seamlessly covering the whole of Kyushu, by covering every inch of the heartland markets of Fukuoka, Kumamoto, and Nagasaki prefectures, which make up approximately 60% of the economy in Kyushu, with "nets" cast by each of our banks, while using "ropes" to secure the Bank of Fukuoka's network in other prefectures.</p>	<ul style="list-style-type: none"> ● Domestic branches: 428 (Average for top ten regional banks in terms of total assets: 255 branches) ● Overseas offices: 8 ● Number of ATMs: over 2,500 units
<p>focus on resolving the issues of SMEs (owners). Retail customer sales base was significantly expanded by ensuring customers' loyalty with a strong line-up of products and highly convenient services.</p> <p>Looking ahead, we shall achieve sustainable growth by providing optimal solutions that match our customers' needs.</p>	<ul style="list-style-type: none"> ● Average balance of total loans: +3.6 trillion yen (fiscal year ended March 31, 2008 to the fiscal year ended March 31, 2019) ● Average balance of total deposits and CDs: +4.0 trillion yen (fiscal year ended March 31, 2008 to the fiscal year ended March 31, 2019) ● Number of corporate banking customers <ul style="list-style-type: none"> ☑ Approximately 220,000 customers ● Number of retail banking customers <ul style="list-style-type: none"> ☑ Approximately 5.76 million customers

Management Direction to Achieve our Long-term Vision

Long-Term Vision

The “Best Regional Bank”
 achieving a sustained strong competitive edge and potential for growth

Phases of Evolution (April 2016~)

First Phase
 Fifth Mid-Term Management Plan
 (April 2016 – March 2019)

Accelerate initiatives aimed at evolution

Materialize evolution

Take on the challenge in new areas

● iBank business



● Cashless settlement (YOKA! Pay)



● Online lending (Fast Pass)

● Promote digital transformation (redefine the banking business)

● Build a digitalization engine (effectively use data/API infrastructure/ agile development)

Refine core businesses

● Actively focusing on business assessments (Average balance of total loans to SMEs +0.7 trillion yen)

● Stimulate demand for asset building and asset management (Number of installment investment trusts +30,000)

● Training of asset management specialists (Wealth managers +approximately 200)



● Rebuild business processes --> Improvement in efficiency of operations of approximately 20% (elimination of paper documents / personal seals / back-office work / expansion of self-services)



(Image of earnings curve)

Business integration with the Eighteenth Bank

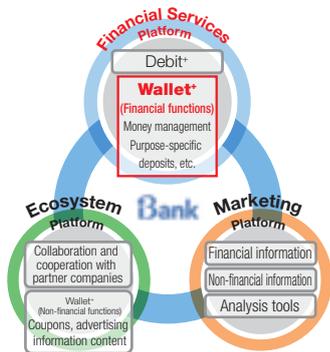
● Business integration

A financial group contributing to the growth of our customers and the development of the regional economy. An organization that can respond flexibly to all changes, utilizing capabilities in terms of human resources and digital technology to go beyond the bounds of finance to act on behalf of our customers

Second Phase Sixth Mid-Term Management Plan (April 2019 – March 2022)

Build the foundations for further expansion of our business areas

- Move toward active open innovation (enhance deployment of iBank across multiple banks/digitalization support/venture support)



Third Phase~ Seventh Mid-Term Management Plan (April 2022~)

Raise the top line in core businesses and create new growth on a different trajectory to previous growth

- Provide services and develop our businesses in a way that goes beyond the bounds of finance (revolutionary services tailored to changing patterns of customer behavior)

New business growth areas

Core business growth areas

- Allocation of management resources
- Sophisticate business model
 - ☑ Corporate/retail financial services (Average balance of total loans +1.0 trillion yen, balance of investment trusts +0.5 trillion yen)
 - ☑ Market operations

- Merger of the Shinwa Bank and the Eighteenth Bank (establishment of new bank)

- Initiatives aimed at maximizing synergies from integration

Utilizing FFG's Strengths to Create Value

As the business environment undergoes significant change, FFG shall utilize the strengths built up thus far to develop our businesses, and create value by offering a comprehensive range of financial services.

Changes in the Business Environment

Declining population and aging society

Declining labor force, shrinking market, risks from long life expectancy

Prolonged low interest rate

Headwind to business centered on deposits and loans

Advancement of digital technology

Promotion of the IoT, changing consumer behavior, rise of digital natives, appearance of new competitors

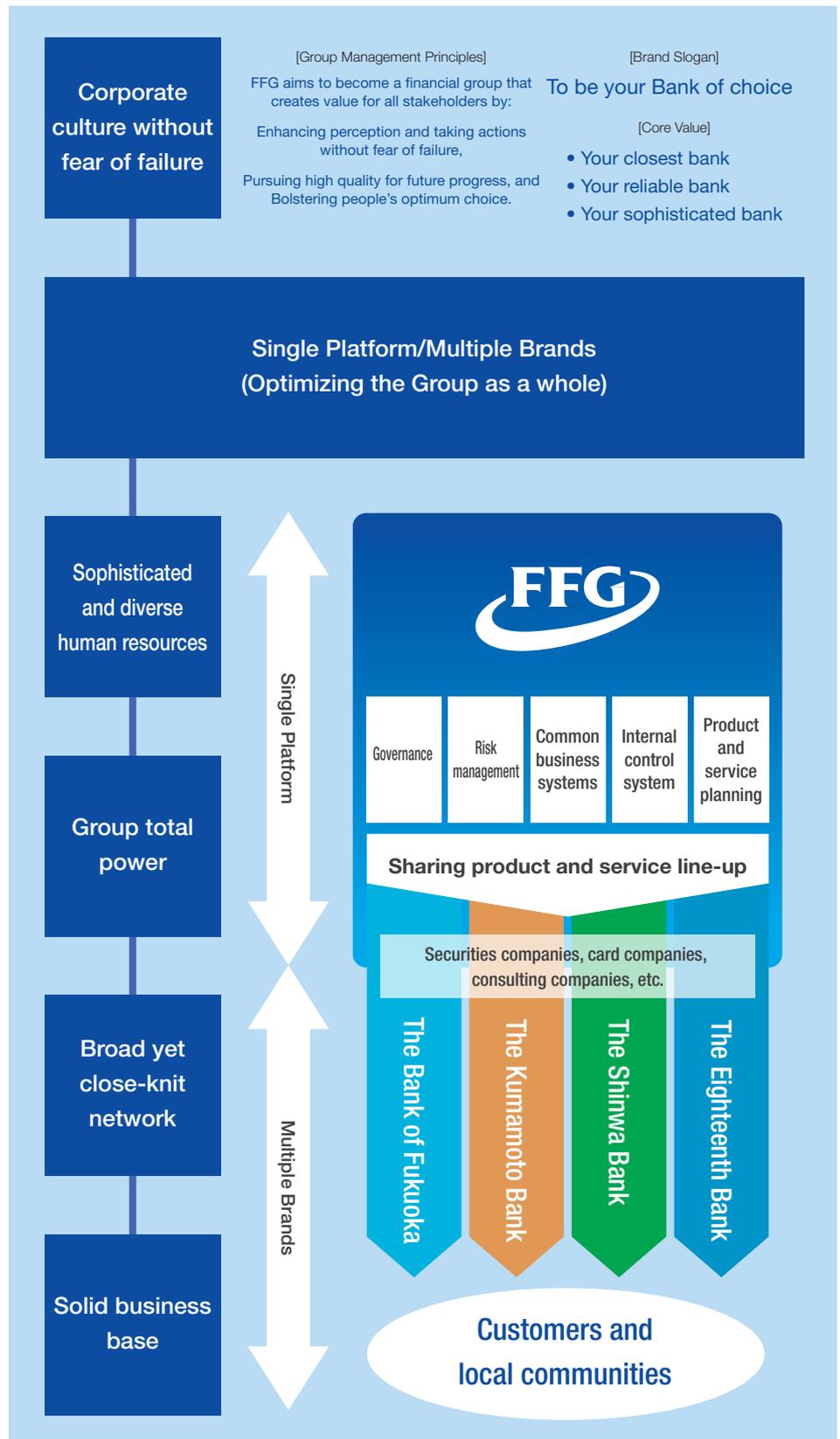
Revisions to laws and easing of regulations

Greater competition, possibility of expansion of business areas

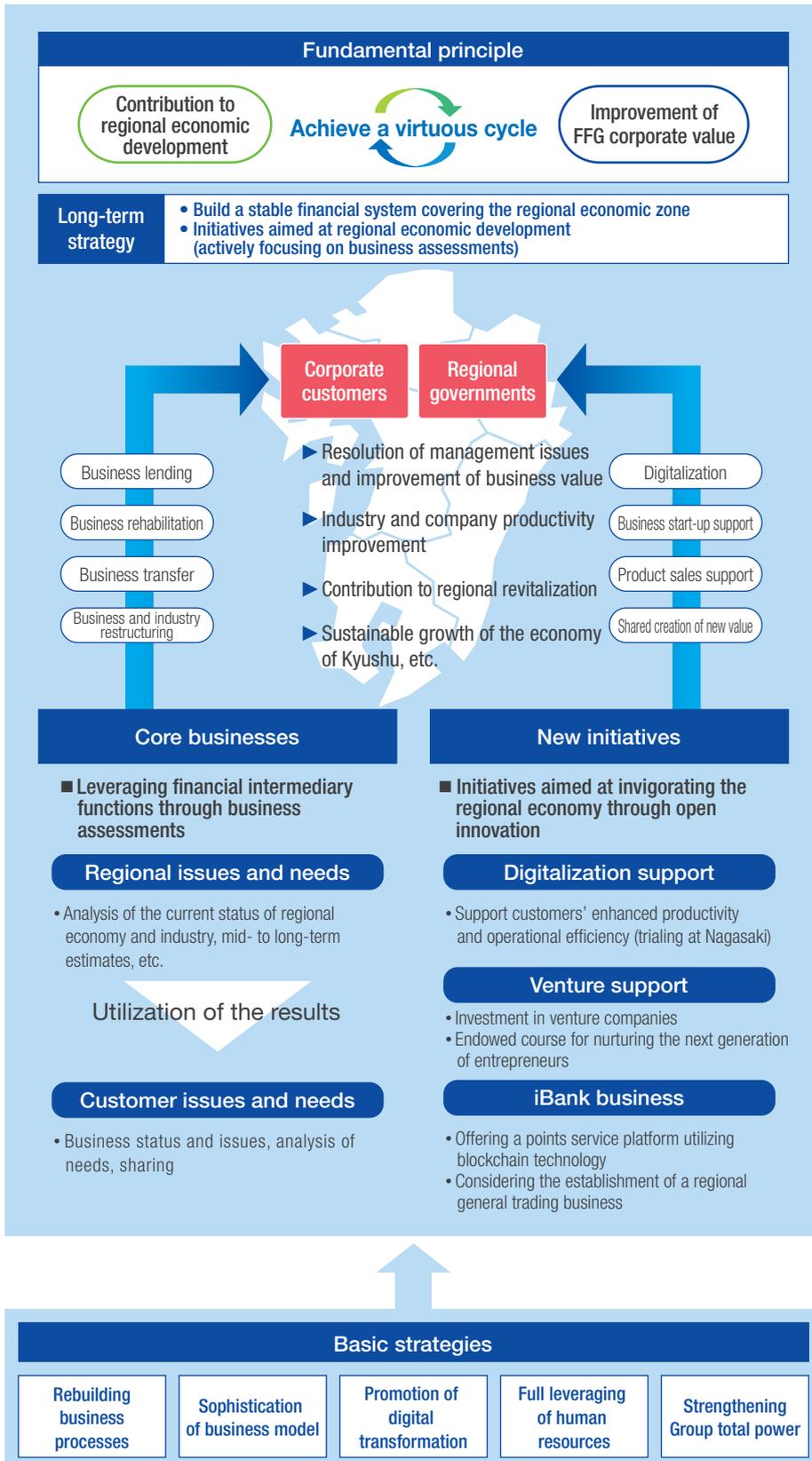
Expected contribution to sustainability

Addressing SDGs

Strengths Developed (INPUT)



BUSINESS ACTIVITIES



Value Creation

Resolving customers' issues through financial services

Invigorating and developing the regional economy

9 INDUSTRY, TRADE AND INFRASTRUCTURE 11 SUSTAINABLE CITIES AND COMMUNITIES

Highly specialized and diverse human resources and enhanced job satisfaction

5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH

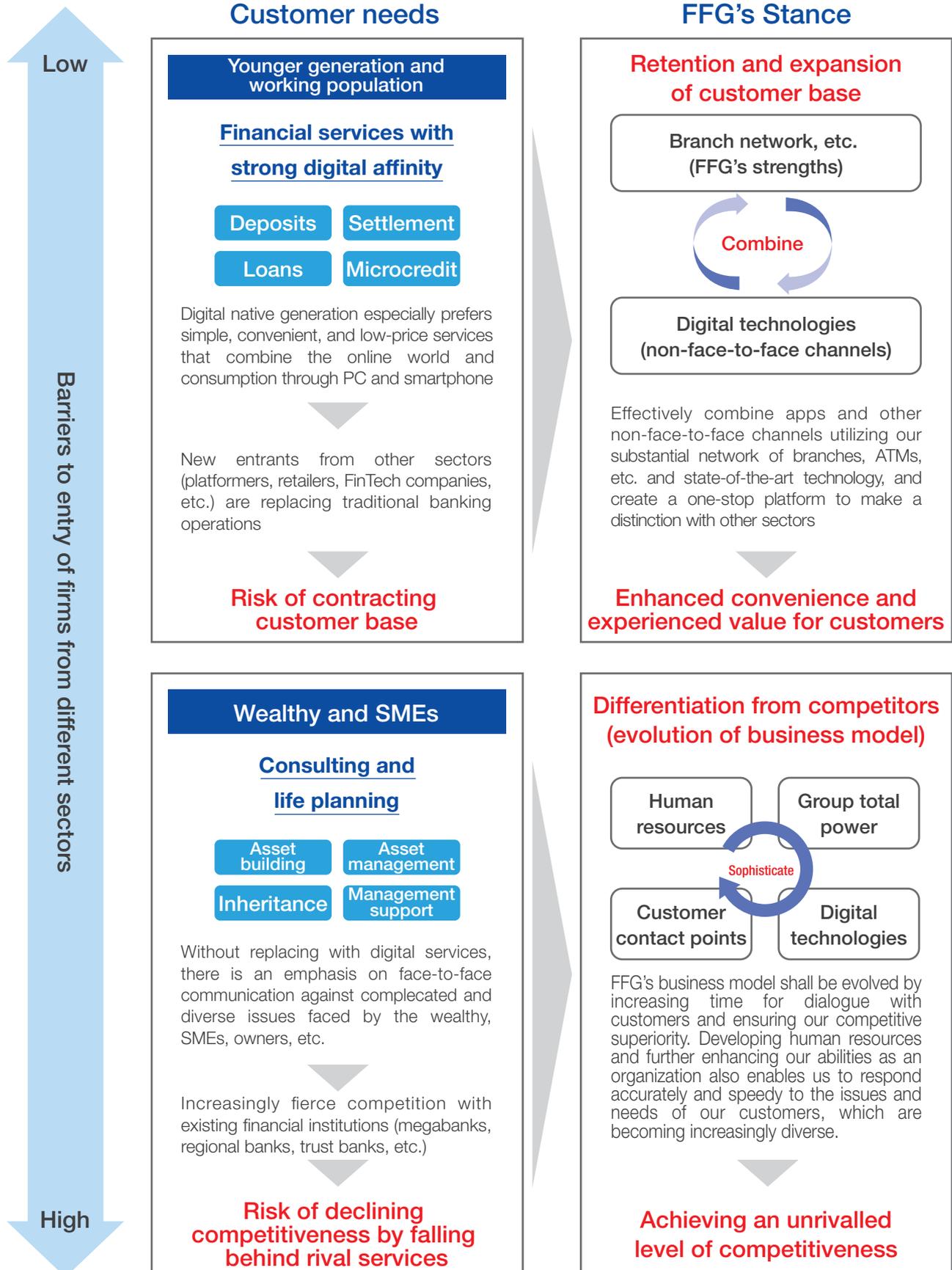
Enhancement of shareholder returns

Contribution to resolution of social and environmental issues

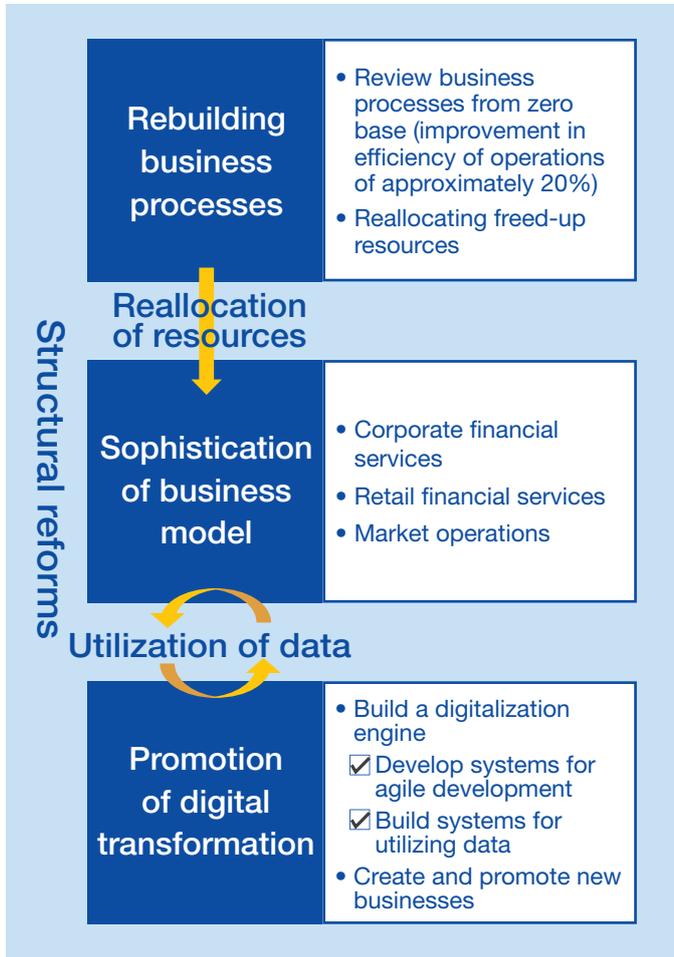
4 QUALITY EDUCATION 7 AFFORDABLE AND CLEAN ENERGY 11 SUSTAINABLE CITIES AND COMMUNITIES 13 CLIMATE ACTION

Basic Strategies for Business Activities Aimed at Value Creation

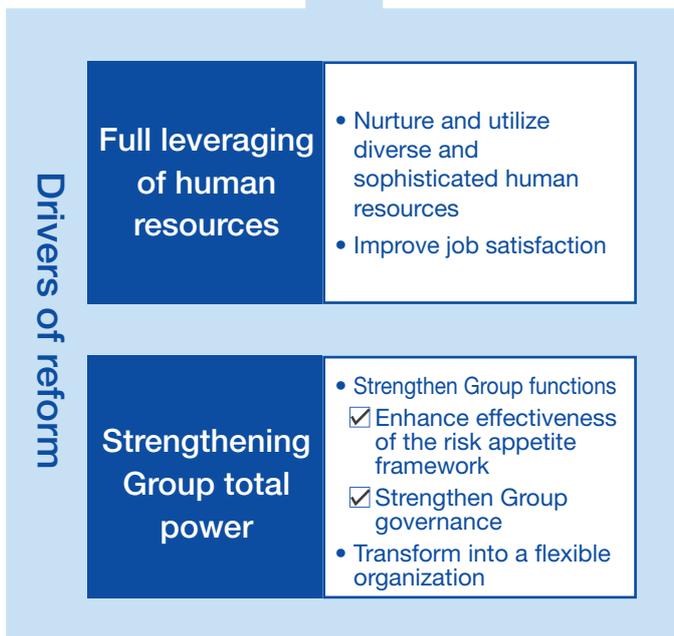
FFG aims to achieve a virtuous cycle of contribution to regional economic development and improvement of our corporate value, by steadily implementing basic strategies tailored to the changing behavior and diversified needs of our customers.



Basic Strategies



Support structural reforms



Improvement of Corporate Value

Target indices (fiscal year ending March 31, 2022)

Profitability	Consolidated net income	57.5 billion yen
	ROE	6% level
Soundness	Capital adequacy ratio (AIRB standard)	12% level
Efficiency	Consolidated OHR	60% level

[Reference]

Growth	Average balance of total loans*	13.9 trillion yen
	Average balance of total deposits and CDs	18.3 trillion yen

* Excluding loans to FFG and the government

Optimal use of capital

Active growth investments aimed at improving corporate value on the premise of ensuring the necessary capital to remain sound

Enhancement of shareholder returns

Continuous dividend payments (maintain and increase) through stable profit growth



Contribution to regional economic development



Priority Initiatives ~ Digital Transformation ~

Promotion of Digital Transformation



FFG has actively developed initiatives that utilize digital technology. However, our world is changing at an unprecedented speed. This trend has greatly transformed the rules of a business in all industries, and competition with new entrants in the financial industry is becoming increasingly fierce as well.

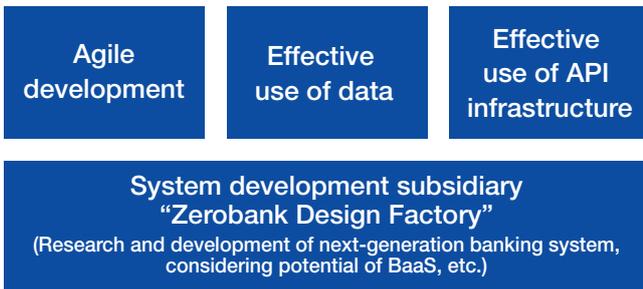
The Group views this situation as a great opportunity to differentiate ourselves from other companies. As a companywide initiative, we redefine the banking business itself, including the business processes, decision-making methods, and value provided to customers, by promoting “digital transformation” to drastically transform ourselves, and aim to achieve new growth on a different trajectory than previously seen.

To these ends, first we build a “digitalization engine” that will be a source for our competitive superiority. The system for “effective use of data” is also expected to be built in order to collect and analyze internal and external bank data and add value to information, and “agile development” for the rapid yet flexible allocation and improvement of products and services originating with customers.

In May 2019, “Zerobank Design Factory Co., Ltd.,” was established as a system development subsidiary that centrally provides service design and planning to system development and data utilization. In addition to researching and developing a next-generation banking system that eliminates conventional constraints and provides designs from a zero base, we aim to create and promote new business through initiatives including considering the development of “BaaS*” to provide financial functions as services to various business operators.

*BaaS (Banking as a Service): The process of providing financial functions, products, etc. as services to various business operators.

Building a digitalization engine
(source for competitive superiority)



〈Initiatives for Open Innovation〉

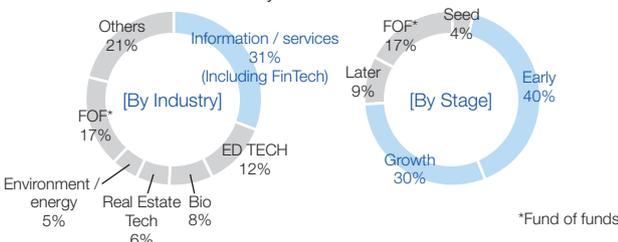
Digitalization support

Within the Group we have established a system for resolving management issues faced by customers regarding digitalization, for which trials have been started in Nagasaki Prefecture. Based on the progress of these trials, we will consider development in both Fukuoka and Kumamoto prefectures.



Investment at FFG Venture Business Partners Co., Ltd.

Investing in venture companies of all industries and stages
Corporate investments: 43 Fund investments: 7
Total investments: 2.8 billion yen



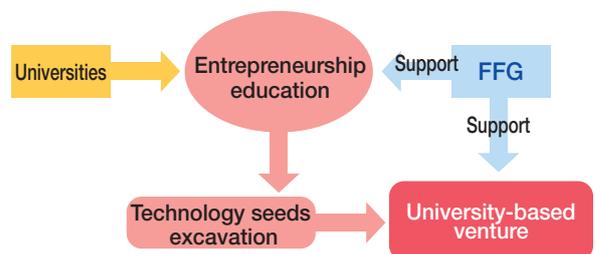
Collaboration with the local universities



Developed an educational program for founding venture companies based on the results of academic research in collaboration with Kyushu University



An endowed course primarily for students of Nagasaki University for nurturing the next generation of entrepreneurs



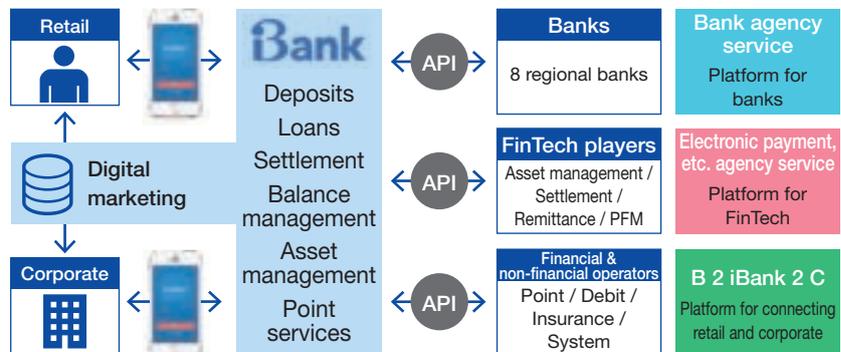
iBank business

\ Interview! /



iBank Marketing Co., Ltd.
CEO
Mr. Kenichi Nagayoshi

Unprecedented platform services that “connect” financial and non-financial realms



iBank Marketing website



Creating new experiences by giving money some character

About 5 years ago, several employees gathered in response to a request from President Shibato to “think about what the bank is and should be after 10 years.” This is how the iBank project subsequently started with the idea of “let’s create a financial service that’s as innovative as the iPhone.” The organization now involves over 60 employees, with 20% of professionals such as system developers, data scientists, advertising agents, and designers, and the remaining 80% being seconded from banks. Together, they work daily on new service development, advertising sales, and data analysis.

The smartphone app “Wallet+,” one of our core products reached over 800 thousand downloads in the three years since its release. Customers are primarily aged 10-49 who say they “don’t usually visit banks in person.” It started with fundamental services such as “purpose-specific deposits” and money management, which were derived from the idea that one housewife used to manage household finances by dividing monthly living expenses into envelopes. As a platform for financial services, now it can provide all the functions necessary for effective daily spending, such as loans, asset management, and point services, in a single app. In order to evolve as a new financial service that is convenient, smart, and always fresh, functions are continually improved by thinking and taking action on ideas that thoroughly “originate with customers” by conducting regular questionnaires and group interviews. The service we envisioned when iBank was first established has developed to a point where it has generally taken shape and is considered a completed project.

Wallet+ differs greatly from conventional financial services in that it realizes the concept of “giving money some character” in terms of additional functionality. While banks keep large amounts of deposits, information such as the amounts of those assets can be seen immediately, but factors such as “why is this customer saving this money?” or “what will they use it for?” in as far as the purpose and intended use of those funds remains unknown. In the aforementioned “purpose-specific deposits” function, users of the app can select and set the goal of saving money from nine categories. In addition to visualizing these factors, it enables us to

understand and support the various types of dreams and goals of the younger generation who has not been easy for us to contact directly. For example, when they are saving money in the “automobile” category to purchase a car, we send special campaign announcements and discount coupons from car dealers and used car dealerships. In this way it is possible for us to assist in matching (giving introductions) that is beneficial to both retail and corporate customers. Currently, the balance of purpose-specific deposits exceeds 12.0 billion yen, with 26,000 users saving money in the “travel” category and 13,000 in the “automobile” category. Moving forward, we would like to use this data to provide new services in a way that goes beyond the conventional bounds of finance.

Creating an unprecedented platform that presents two faces as both a “bank” and as a “FinTech company”

We tend to be perceived as being far removed from the culture and system of a traditional bank. However, one of our major missions is to contribute to improving earnings for the overall banking structure by sharing beneficial information and providing financial services in a simpler manner based on our license as a bank agency service. iBank, which offers a wide variety of financial functions, is called a “Neo Bank” in the FinTech industry. It is the only financial service platformer in Japan that has two licenses as both a bank agency service and an electronic payment service. Our present target moving forward is to grow “Wallet+” to the point where all money-related matters can be settled in one single app by incorporating both of financial services and non-financial services that can not be performed by banks. It would be interesting if you could reserve or pay for something like a trip or even a wedding hall within the app when you achieved the goal of purpose-specific deposits. To grasp the timing of these kinds of life events naturally brings us opportunities to provide the financial services.

No matter how far digital technology progresses, we believe that members who possess a strong passion to resolve the issues faced by customers are necessary in order to create something new. Our challenge will continue to provide convenient and enjoyable services moving forward through teamwork between members

skilled in specialized areas previously unknown by traditional banking systems and bank employees who experienced a pleasant sweat from working for the customer at branch offices.

Development and recruitment of digital human resources

The Group seconded employees to external companies and performs mid-career hires from different sectors for the purpose of developing human resources to promote digital transformation.

Turning services produced from customers' voices into FFG's strengths

For one year, I was seconded to "Blue Lab," an incubator company established as an investment company of Mizuho Bank, Ltd. I focused on creating new businesses that use technology, while being stimulated by the "decision-making speed" and "internal and external communication ability" of the FinTech industry and the stance of "before thinking, first act and listen."

Currently, I am responsible for settlement strategies for corporations in FFG's Business Strategy Division. We are taking a broad perspective in considering the factors that are necessary for regional customers to select our services. During my period of secondment, the first thing I felt while collaborating with companies that used state-of-the-art technology was that if we have a good command of the available technologies, then there is an abundant selection of solutions to any problem. As such, it is important to first "establish the issue." From there, we can explore the possibilities of the suffix "FinTech" in order to resolve issues faced by the society.

In order to draw out the "customers' voices (Issues)," the seeds of good service, the bank has to value the



"human." So it is necessary to develop a system that enables employees to create time to settlement interact with our customers. In addition, the settlement made through FinTech are one element of customer behavior. By looking at other industries and businesses, we try to produce a service that can provide a more valuable experience for customers, and make this one of the solutions that can be provided by FFG.

Leveraging individuality to bolster FFG's efforts to take on new challenges

Previously, I was developing new games as an engineer at a game company in Tokyo. While looking for a career change, I found myself fascinated by the potential of regional banks and FFG's commitment to continuing to take on new challenges. "I would like to make an impact on the world!" It was the reason I decided to join the company. Since then, I have primarily focused on developing new services for corporations. We are proceeding with insourcing (agile development) of web services for our customers, and while running into various difficulties, just the other day we finally reached the stage where we can begin trial demonstrations.

Agile development uses a method called the "scrum". All members share information on progress and obstacles without completely delegating individual tasks, and thereby produce results as a team. In order to make this system work effectively, I acquired the "Certified ScrumMaster" qualification last year. The idea of "working together as a team" will help any workplace, so I would like to spread this method throughout the company while hearing more about the issues faced by our branches and other departments. In addition, I have an interest in developing activities that go beyond the boundaries



of companies, industries, and occupations to liven up Fukuoka. As an initial measure, I have established a community called the "Fukuoka Scrum," and have started to hold events. Being recruited from a different industry, naturally I would like to be able to utilize my existing skills, but I would also like to be able to offer a breath of fresh air for FFG and encourage other people in their efforts to take on new challenges.

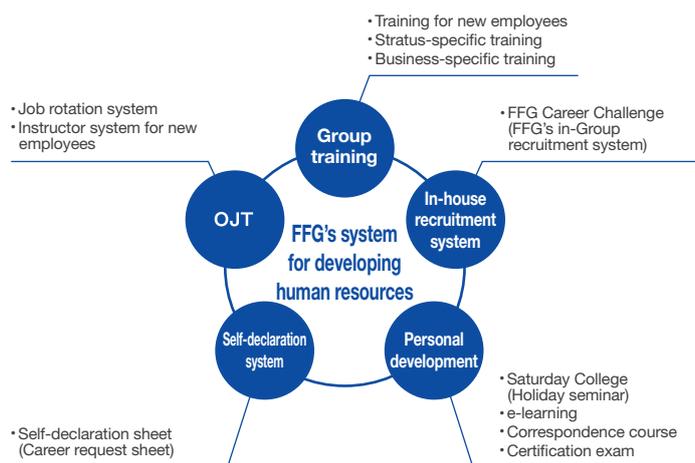
Enhancing the Power of Our Organization and Improving Job Satisfaction through Human Resource Development

The Group regards the effort to “strengthen human resources” to be a cornerstone of our growth strategy, and we are working to create an environment where employees can optimally demonstrate their abilities by establishing a mechanism that develops diverse human resources and enhances job satisfaction. The Group has traditionally considered “people” to be the drivers for creating added value as a financial institution, and uses a Japanese term for “human capital” when referring to “human resources” to convey the sense that “people are valuable (assets).”

Policy on developing human resources

In order to realize “full leveraging of human resources,” a basic strategy of the 6th Mid-Term Management Plan, we are developing a human resource strategy that focuses around transforming our organizational culture. We are changing our policy that previously promoted “organization”-centric career development, and proceeding with the establishment of a system in which the organization supports “individual”-centric career development. Employees are encouraged to take initiative in designing their own careers, engage in personal development by attending training and acquiring the certifications necessary to realize their goals, and applying for departments and position that fulfill their career vision, and, with the support of their supervisors, we will increase job satisfaction and sentiments of personal growth.

System for developing human resources



OJT	Job rotation system: Placement based on willingness and suitability Instructor system for new employees: Mentorship system in which senior employees, who are around their third year of employment, provide new employees with instruction on business and advice on life as a working adult.
Group training	Training for new employees: Training camp for adjusting employees' mentalities toward that of a working adult and enhancing resourcefulness. Stratus-specific training: Training aimed at raising awareness and recognition of the roles expected by each business stratus Business-specific training: Training based on the skills required for the business for which the participant is responsible (beginner → intermediate → advanced).
Personal development	Saturday College: Holiday seminar to improve business knowledge and resourcefulness. e-learning: Function enabling the ability to watch seminars and view reference materials on personal computers or smartphones. Certification exam: Employees are recommended to acquire certifications to obtain knowledge that will be useful for business. Incentives are provided if high-level official qualifications are acquired.
In-house recruitment system	FFG Career Challenge: Recruitment system that allows employees working at FFG to apply for their desired post (business).
Self-declaration system	System for employees to declare their desired department, business responsibilities, and strengths as a way to find opportunities for career advancement.

Without limiting ourselves to “wide knowledge” and “specialized skills” in all of our employees, we are committed to the true implementation of our promise to customers, “To be your Bank of choice,” and are developing human resources that possess both “excellent character” and “advanced sensibilities.”

FFG Human Resources Development Center



The “Human Resources Development Center” located near the Group’s Head Office building is a central site for supporting our “human resources,” the strength of FFG, with a total of 15 employees and staff managing and operating the facility and conducting training and development programs on various scales.

Initiatives aimed at improving job satisfaction of employees
In addition to providing training during business hours, we are developing a wide range of initiatives such as joint training sessions for new employees from all four banks, study sessions after work on weekdays for personal development, Evening Seminars that incorporate personal interests, and the Saturday College every Saturday. We aim to improve the FFG brand and enhance employee growth by providing as many diverse opportunities as possible to draw out our employees’ ambition to study and desire for improvement.

● Results of efforts to develop human resources (FY2018)
Number of eligible employees: 9,477 (Persons)

Training event	Days performed	Number of participants (total)
Training (business-specific, stratus-specific)	476	8,607
In-house recruitment (FFG Career Challenge)	—	86
Evening Seminar (study sessions after work on weekdays)	183	4,230
In-house recruitment (external trainees)	—	140
Saturday College	202	15,337
In-house trainees	319	346

Diversity Management

For FFG to continue growing as a company, various initiatives are conducted to ensure that each and every employee can make the most of their individuality to realize their full potential (=diversity).

In the promotion of diversity management, we have identified “promotion of active participation of women” as an important issue, and began activities of the “Support for Women Project: Fuwari” in 2013. Furthermore, currently, FFG is developing original measures to realize the provision of support for striking a balance between work and family from the perspectives of both systems and awareness. Also, we will create a conducive working environment for employees who face nursing responsibilities and promote the employment of global human resources, striving to be an organization that respects the diversity of employees, where each and every employee can realize their full potential.



Promoting employment in view of global development centering on Asia

Model for promotion of diversity activities



Appointment of women (3 banks total)

	As of March 31, 2019	As of March 31, 2023
	[Actual results]	[Targets]
Executive positions	53 [4.8%]	90 [10.0%]
Executive positions & managers	287 [13.3%]	330 [16.0%]

About the “Support for Women Project: Fuwari”

This project was launched in October 2013 with the aim of improving organizational capabilities of FFG by ensuring that female employees are able to fully display their potential. Members of the project are made up of women in various positions conducting various operations, who considered and implemented reforms from the perspectives of systems and awareness. Through these activities, various measures were created, such as a work-life balance support handbook, and a daycare center inside the company.

Currently, beyond working with women, other projects are also conducted, including sessions with male employees in managerial positions, and seminars to help bosses understand the importance of work-life balance and the synergy effect on job performance (“Ikuboss seminars”). Going forward, we will provide support so that the autonomous activities revolving around Fuwari members in each region will spread and become companywide initiatives.



A Fuwari meeting



Reporting of results to FFG's officers

Main initiatives for work-life balance

Systems (• FFG's original measures)		Awareness
Child-rearing	<ul style="list-style-type: none"> Establishment of daycare center inside the company(*1) Subsidies for daycare services usage Support program for returning to work(*2) Childcare leave Vacation for partner's childbirth 	<ul style="list-style-type: none"> Career advancement and career planning courses for female employees (young employees, managerial positions) Seminar on balancing work and child-rearing or nursing Ikuboss seminars(*4) Diversity training for new employees Cross-sector exchange sessions(*5)
Common	<ul style="list-style-type: none"> Enquiries counter for work-life balance Partner co-location system(*3) Partner relocation leave Caretaking leave Short working hours system (raising and nursing children) Maiden name system Reinstatement system Half-day leave 	<p>Fuwari members provide support at various seminars and events. They created opportunities for opinion exchange such as by visiting the workplace in each region and listening to opinions in person, and expanded their network.</p>
Nursing	<ul style="list-style-type: none"> Nursing leave Nursing vacation 	

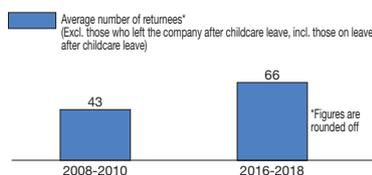
■ Establishment of daycare center inside the company(*1)

To support employees who are unable to return to work due to the problem of long daycare waiting lists, in April 2018, FFG opened “Fukugin Kids’ Land (petit petit),” its first daycare center inside the company in Fukuoka City. Cooperating with authorized daycare centers and daycare centers in other companies, we are striving to expand the possible area of usage.



■ Support program for returning to work(*2)

This is a system to support the smooth return to work of female employees after childbirth or childcare leave. The interviews and training corresponding to all stages, from pregnancy discovery to returning to work, will be consistently conducted by the Human Resources Administration Division.



■ Partner co-location system(*3)

We introduced a system that allows employees to work in an area where they can live together with their spouses. This helps to relieve the insecurities of employees in double-income families.

■ Ikuboss seminars(*4)

Seminars and discussions are held regularly to ensure bosses respect the individuality of each and every one of their subordinates, and facilitate the management of a diverse range of human resources. The importance of human resources management and work-life balance are conveyed, such as through exchanges of opinions between external lecturers and officers of the three banks regarding “future-oriented work styles.”



■ Cross-sector exchange sessions(*5)

With the aim of raising female employees’ work motivation and of constructing an information exchange network with other companies, exchange sessions between different business sectors are held regularly with companies in the region.



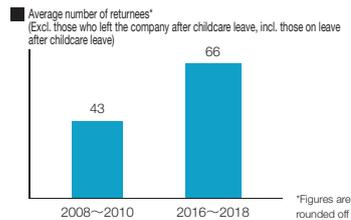
● Establishment of daycare center inside the company(*1)

To support employees who are unable to return to work due to the problem of long daycare waiting lists, in April 2018, FFG opened "Fukugin Kids' Land (petit petit)," its first daycare center inside the company in Fukuoka City. Cooperating with authorized daycare centers and daycare centers in other companies, we are striving to expand the possible area of usage.



● Support program for returning to work(*2)

This is a system to support the smooth return to work of female employees after childbirth or childcare leave. The interviews and training corresponding to all stages, from pregnancy discovery to returning to work, will be consistently conducted by the Human Resources Administration Division.



● Partner co-location system(*3)

We introduced a system that allows employees to work in an area where they can live together with their spouses. This helps to relieve the insecurities of employees in double-income families.

● Ikuboss seminars(*4)

Seminars and discussions are held regularly to ensure bosses respect the individuality of each and every one of their subordinates, and facilitate the management of a diverse range of human resources. The importance of human resources management and work-life balance are conveyed, such as through exchanges of opinions between external lecturers and officers of the three banks regarding "future-oriented work styles."



● Cross-sector exchange sessions(*5)

With the aim of raising female employees' work motivation and of constructing an information exchange network with other companies, exchange sessions between different business sectors are held regularly with companies in the region.



Our global human resources are flourishing!

We interviewed Ms. Do Thi Ngoc Khanh, known as Kate, from Hanoi, Vietnam, who joined FFG as a new graduate in April 2016!

Q. How did you come to find a position at a Japanese company?

I had studied abroad at a university in Japan, and it occurred to me that it would be a valuable experience to be able to work at a company in the developed country that is Japan, so I set off on the job hunting process as a new graduate. When I was asked to join the company, I was extremely proud of the fact that I would be able to work at Kyushu's No. 1 regional financial institution. While I was anxious about not knowing exactly what kind of work I would be able to accomplish while communicating in Japanese, not my native language, with no senior staff around me who were facing similar circumstances, I still wanted to challenge myself in all sorts of ways to find a position at which I could excel.

Q. Tell us about the business in which you are currently involved.

I am a member of the "International Strategy Group," the planning department of the Global Solution Division, which is in charge of FFG's international business. I am currently responsible for supporting our prescribed procedures related to our eight overseas representative offices, headquarters, and external organizations, planning seminars and business meetings related to affairs overseas, data collection for international business, and English/Vietnamese-related correspondence. I am able to make use of my personal strengths in terms of having an international way of thinking and relevant language abilities, and I feel a great deal of job satisfaction, often being given the opportunity to study more about FFG, companies in Kyushu, and products and services related to foreign exchange.



Global Solution Division
International Strategy Group

Ms. Do Thi Ngoc Khanh (Kate)

Q. After actually working here, what kind of organization is FFG?

There are many friendly and brilliant people at FFG. I think this is a company that has a really excellent system for educating human resources and a comfortable workplace environment, and truly thinks of people as its top priority. Above all, I have great respect for my superiors and senior staff members around me in the Global Solution Division who have an abundance of expertise and experience overseas, with a great attitude toward work.

Q. What kinds of challenges would you like to take on in the future?

In the future, I would like to conduct sales activities overseas as an international representative, taking advantage of my foreign language skills, which are my natural strengths as a foreigner, and my business experience in Japan. To achieve this goal, I am dedicated to staying clearly focused on daily business efforts and doing my best to stay positive and keep learning.

Enhancing Shareholder Returns

- With regard to returning profits to shareholders, the Group adopts a performance-based dividend policy (dividend table) based on its aim of increasing shareholder value by enhancing corporate value.
- In the 6th Mid-Term Management Plan, we have raised the target payout ratio (consolidated) from the former value of about 30% to about 35%, and our policy is to pay dividends according to the level of consolidated net income. (However, this is subject to change depending on factors such as business development and risk environments, etc.)
- FFG has set new target dividends for consolidated net income levels of 55.0 billion yen and above, which is provided in the following dividend table.

■ Target dividend table

	FFG consolidated net income level ¹	Full-year dividend per share	Payout ratio
Newly set	60 billion yen or more	115 yen	Up to 37%
	55-60 billion yen	105 yen	33 to 36%
	50-55 billion yen	95 yen	33 to 36%
	45-50 billion yen	85 yen	32 to 36%
	40-45 billion yen	75 yen	32 to 36%
	35-40 billion yen	65 yen	31 to 36%
	30-35 billion yen	55 yen	30 to 35%
	25-30 billion yen	50 yen	32 to 38%
	20-25 billion yen	45 yen	34 to 43%
	15-20 billion yen	40 yen	38 to 51%
	Below 15 billion yen	35 yen	45% or higher

■ Target management indices of the 6th Mid-Term Management Plan

	Final year target (FY2021)	Comparison with FY2018 ²
Consolidated net income ¹	57.5 billion yen	+ about 1.5 billion yen
ROE	About 6%	Level
Capital adequacy ratio	About 12%	+ about 1%
Consolidated OHR	About 60%	- about 4%

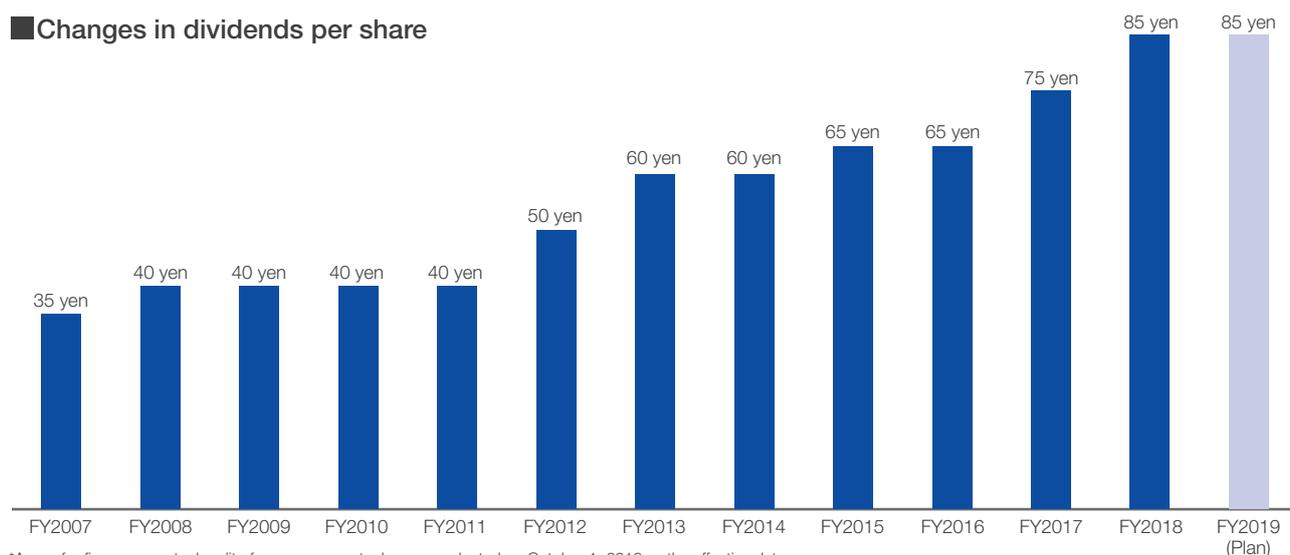
<Reference>

	Final year target (FY2021)	Comparison with FY2018 ²
Average balance of total loans (Excluding loans to FFG and the government)	13.9 trillion yen	+ 1.0 trillion yen
Average balance of total deposits and CDs	18.3 trillion yen	+ 1.4 trillion yen

¹ Indicates net income attributable to owners of the parent

² Figures for the comparison reference year FY2018 include the contribution of The Eighteenth Bank, Ltd.

■ Changes in dividends per share



*A one-for-five reverse stock split of our common stock was conducted on October 1, 2018 as the effective date.

The above figures are calculated by recalculating dividends before September 2018 on a post reverse stock split basis.

[Reference: Dividend policy in FY2019]

In FY2019, given the temporary nature of factors associated with business integration with The Eighteenth Bank, Ltd., FFG plans to pay 85 yen as a minimum dividend irrespective of the table above, this being on par with the dividend amount for the previous fiscal year. In the event that earnings are revised upward, FFG will reconsider the amount of the dividend.

FFG's CSR

FFG'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 (local communities, 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

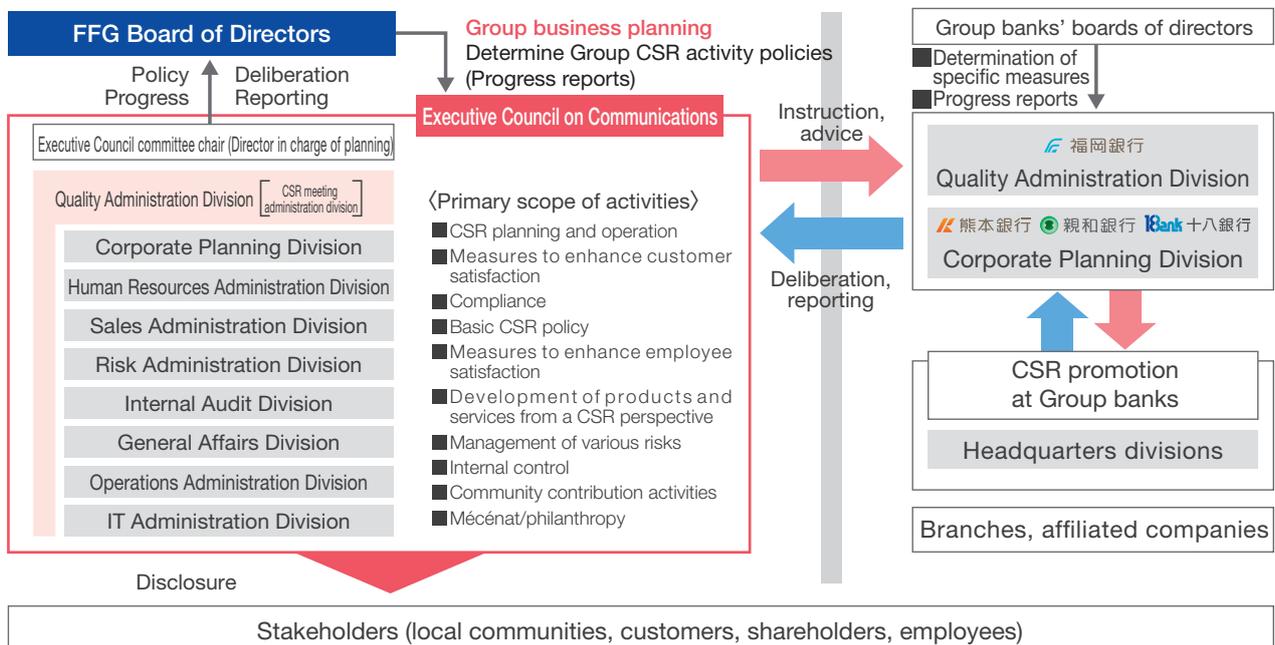
invested in us as a regional financial institution, facilitate financing and serve the "public function" of contributing to the development of a sound regional economy. In this manner, we aim to fulfill our role and leverage our characteristics as a regional financial group as we strive toward the realization 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.

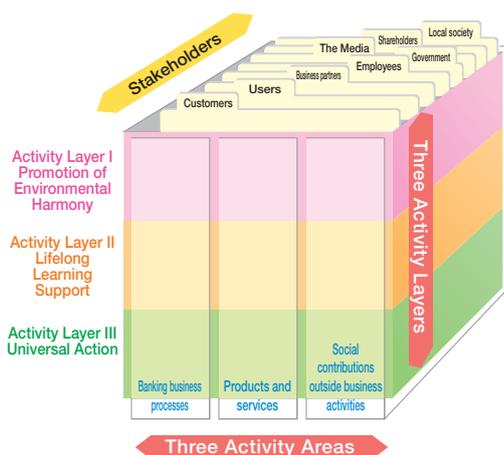
Three Activity Areas

- 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.

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.

In addition, in light of society's growing interest in CSR activities, we will collect and organize various information related to the provision of value to our stakeholders through business activities from a CSR perspective, and will proactively disclose this in an accurate and easy-to-understand manner (via our website, disclosure report and other means).

Melding of CSR and Business Strategy

FFG's CSR activities are precisely business activities based on the Group Management Principles, and they are inseparably related to the "Mid-Term Management Plan," which provides a medium- and long-term perspective to business activities, and the "Business Plan," which is formulated each fiscal year to achieve the management objectives in the Mid-Term Management Plan. Therefore, the CSR activities meld the various

strategies in each Group company's plans and are reflected in concrete activities and measures. Furthermore, management motivates all employees and appropriately monitors the activities of the overall Group in a timely fashion by demonstrating leadership and setting the example in taking the initiatives with vision and responsibility.



Promotion of Environmental Harmony

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



Lifelong Learning Support

In order to support the growth of the children who will lead the next generation, we provide lifelong learning support by spreading financial knowledge and providing opportunities for them to participate in cultural arts and sports.

Financial Class for Elementary School Students



The Shinwa Bank held a class at the “NIU Kids Campus” series of public lectures held at Nagasaki International University. Through talking about banks and offering hands-on experiences with mock banknotes, we provided education on money to about 100 participants, including guardians.

Women’s Chorus Festival



The 33rd “Woman Chorus Festival,” sponsored by the Kumamoto Bank, was held with the participation of 31 groups and about 600 people total. In the finale, all of the participants sang the classic Japanese song “Furusato” (hometown) while offering their prayers for restoration in the areas affected by the Kumamoto earthquakes, and their powerful singing voices resounded throughout the hall.

High School Economics Quiz Tournament



The Eighteenth Bank hosted the Nagasaki prefectural contest of the 13th All Japan High School Economics Quiz Tournament with the administrative support of 24 bank employees. 11 teams in the prefecture provided 22 participants with the opportunity to cultivate their “financial intelligence” in order to realize their dreams and secure their lives by enjoying themselves while learning about the mechanisms behind finance and the economy.

Rugby Festival



The Bank of Fukuoka Rugby Club held its 11th “FFG Rugby Festival.” 90 participants, mostly members of rugby teams in higher grades of elementary schools, were invited from the three prefectures of Fukuoka, Kumamoto, and Nagasaki, and they were able to experience the excitement of playing live together with the cheering voices of the crowd through coaching activities and interleague matches.

Universal Action

Aiming to be a bank focused on being “kind to all”

We are renovating our facilities with barrier-free functions 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. In addition to having allocated wheelchairs, hearing aids, communication boards, and various other types of assistance tools at all branches, we have staffed employees with service care qualifications and use business cards that feature braille writing, and introduced qualifications of universal manners to make progress on barrier-free accommodations. We aim to realize our brand slogan of “To be your Bank of choice” by creating branches where every one of our customers can feel comfortable and welcome.

Support for the Promotion of Regional Development

The FFG Cultural Arts Foundation subsidizes funds for individuals and associations that conduct activities that lead to the promotion of regional development in the three prefectures of Fukuoka, Kumamoto, and Nagasaki through the public service “Furusato Promotion Fund.” In the second half of FY2018, we provided a total of 3.35 million yen to 12 locations in 3 prefectures. “The Eighteenth Bank Social Development Promotion Fund” subsidized a total of 2.84 million yen to 10 locations in the second half of FY2018 in order to support activities for regional education, science, culture, sports, social life environment development and internationalization in local regions within Nagasaki Prefecture.

TABLE FOR TWO

Since June 2009, we have participated in “TABLE FOR TWO,” which simultaneously engages in employee health maintenance and social contribution. If someone orders a healthy meal choice at an employee cafeteria at one of the four locations within the Group, 20 yen per meal will be donated toward the cost of a school meal in a developing country. The total amount donated as of the end of March 2019 was 2,600,130 yen.

Winning the BELCA Award

The building of The Bank of Fukuoka, Ltd. Head Office Sales Division received the “28th BELCA Award (Long-life Class)” organized by the Building and Equipment Long-life Cycle Association under the jurisdiction of the Ministry of Land, Infrastructure, Transport and Tourism. This bold structure designed by Kisho Kurokawa features an expansive plaza under a large overhang which is accessible to the public, and considering that in recent years it has formed a deep connection to the surrounding neighborhood through drastic renovations that have established open cafes and slopes, it was determined that the facility has received appropriate maintenance and outstanding improvements over the long term as a building that is well-known by the local citizens.



Branch design that is “kind to all”

- Creating branches that are barrier-free
- Taking responsibility for customers
- All branches staffed by customer service managers and employees with service care qualifications
- Staffing with employees who have experience in standard first aid training classes
- Staffing with employees trained in supporting customers who are facing dementia
- All branches are equipped with the following universal tools:

(AEDs, wheelchairs, reading glasses, ATMs for the visually impaired, communication boards for the hearing impaired and foreigners), information boards marked with the ear symbol (guidance in writing), hearing aids, umbrellas to borrow, service dog stickers)



Wheelchair donations



Communication board

Members of the Board



Directors

Chairman of the Board & President



Takashige Shibato

Deputy President



Yasuhiko Yoshida



Yuji Shirakawa

Executive officers



Yasuaki Morikawa



Koji Yokota



Toshimi Nomura



Masayuki Aoyagi



Syunsuke Yoshizawa



Shinichi Oba



Takujiro Mori



Takashi Fukutomi

External Directors



Masahiko Fukasawa



Toshiya Kosugi

Audit & Supervisory Board Member



[Full-time]
Kazunori Tanaka

Audit & Supervisory Board Members (External)



Fumihide Sugimoto



Hideo Yamada

(As of October 1, 2019)

 THE BANK OF FUKUOKA, LTD.

Chairman of the Board & President

Takashige Shibato

Directors

Deputy President

Yasuhiko Yoshida

Yuji Shirakawa

Yasuaki Morikawa

Koji Yokota

Managing Executive Officer

Yuji Tanoue

Hisashi Goto

Hideki Tachibana

Hideyuki Hayashi

Hiroshi Miyoshi

Director(Non-Executive)

Masahiko Fukasawa

Toshiya Kosugi

Audit & Supervisory Board Member(Full-time)

Naohiko Gondo

Audit & Supervisory Board Members(External)

Masayoshi Nuki

Kazuyuki Takeshima

 THE SHINWA BANK, LTD.

President

Syunsuke Yoshizawa

Directors

Senior Managing Executive Officer

Shinichi Oba

Kazuki Ishino

Managing Executive Officer

Mikito Tanaka

Kosuke Yaoki

Kazuhiro Tamenaga

Satoru Fukushima

Director(Non-Executive)

Yasuaki Morikawa

Audit & Supervisory Board Member(Full-time)

Junichi Saikusa

Audit & Supervisory Board Members(External)

Satoru Tateishi

Taro Nagamoto

 THE KUMAMOTO BANK, LTD.

President

Toshimi Nomura

Directors

Deputy President

Masayuki Aoyagi

Managing Executive Officer

Minoru Ikeda

Yasuhiro Yonemura

Shoji Arioka

Shoichi Masuda

Director(Non-Executive)

Yuji Shirakawa

Audit & Supervisory Board Member(Full-time)

Noritsugu Iwashita

Audit & Supervisory Board Members(External)

Mineo Nakayama

Makoto Fukushima

 The Eighteenth Bank, Limited

Chairman of the Board

Masatoshi Miyawaki

President

Takujiro Mori

Directors

Deputy President

Eiji Araki

Senior Managing Executive Officer

Takashi Fukutomi

Managing Executive Officer

Hiroaki Nakashima

Takayuki Matsumoto

Audit & Supervisory Board Member(Full-time)

Yoshiaki Matsumoto

Audit & Supervisory Board Members(External)

Satoru Tateishi

Taro Nagamoto

Corporate Governance

Basic Views on Corporate Governance

The Group Management Principles state the Group's goal to become a financial group that creates value for all stakeholders, including shareholders, customers, local communities and our employees, and the Group's basic management policy is based on the same view.

Under these Group Management Principles, the Company, as a holding company to govern the Group,

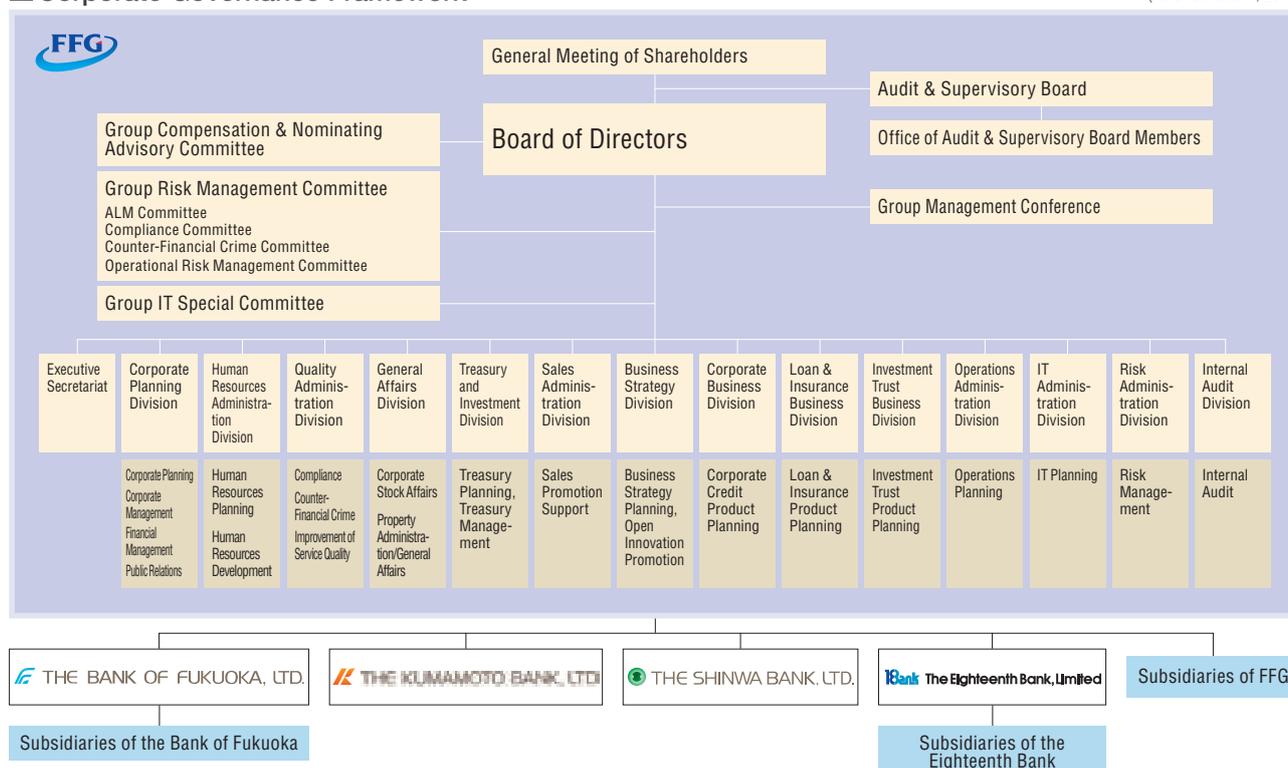
mainly consisting of the core subsidiary banks, the Bank of Fukuoka, the Kumamoto Bank, the Shinwa Bank, and the Eighteenth Bank, is focused on realizing highly effective corporate governance for the purpose of optimizing the management resources of the Group and administering the Group as a whole in a sound and appropriate manner.

Corporate Governance Framework

The following is an overview of the Company's management and business organization framework.

Corporate Governance Framework

(As of October 1, 2019)



● Board of Directors

The Board of Directors is composed of 13 Directors (including two external Directors; also attended by three Audit & Supervisory Board Members), 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, in addition to overseeing the job performance of Directors and Executive Officers.

● Audit & Supervisory Board

The Audit & Supervisory Board is composed of three Audit & Supervisory Board Members (including two external Audit & Supervisory Board Members), and these Audit & Supervisory Board Members shall audit Directors' job performance and examine the status, etc. of business conditions and assets of the Group as a whole based on the basic policies and audit plan for auditing the Group as a whole.

■ Composition of the Board of Directors

Title	Name	Position
Chairman of the Board & President (Representative Director)	Takashige Shibato	The Bank of Fukuoka, Ltd.; Chairman of the Board & President (Representative Director)
Director & Deputy President (Representative Director)	Yasuhiko Yoshida	The Bank of Fukuoka, Ltd.; Director & Deputy President (Representative Director)
Director & Deputy President (Representative Director)	Yuji Shirakawa	The Bank of Fukuoka, Ltd.; Director & Deputy President (Representative Director)
Director & Executive Officer	Yasuaki Morikawa	The Bank of Fukuoka, Ltd.; Director & Deputy President (Representative Director)
Director & Executive Officer	Koji Yokota	The Bank of Fukuoka, Ltd.; Director & Deputy President (Representative Director)
Director & Executive Officer	Toshimi Nomura	The Kumamoto Bank, Ltd.; Director & President (Representative Director)
Director & Executive Officer	Masayuki Aoyagi	The Kumamoto Bank, Ltd.; Director & Deputy President (Representative Director)
Director & Executive Officer	Syunsuke Yoshizawa	The Shinwa Bank, Ltd.; Director & President (Representative Director)
Director & Executive Officer	Shinichi Oba	The Shinwa Bank, Ltd.; Director & Senior Managing Executive Officer (Representative Director)
Director & Executive Officer	Takujiro Mori	The Eighteenth Bank, Ltd.; Director & President (Representative Director)
Director & Executive Officer	Takashi Fukutomi	The Eighteenth Bank, Ltd.; Director & Senior Managing Executive (Representative Director)
External Director	Masahiko Fukasawa	AlixPartners Asia LLC; Co-Leader of Asia Business Unit & Co-Leader of Japan Business Unit
External Director	Toshiya Kosugi	Truth, Human Science and Management Organization Laboratory LLC; Representative

■ Composition of the Audit & Supervisory Board

Title	Name	Position
Audit & Supervisory Board Member (Full-time)	Kazunori Tanaka	
External Audit & Supervisory Board Member	Fumihide Sugimoto	Nagashima Ohno & Tsunematsu; Managing Partner
External Audit & Supervisory Board Member	Hideo Yamada	Graduate School of Business and Finance, Waseda University; Professor

Pick up! Evaluation of Effectiveness of the Board of Directors (Summary)

The Board of Directors analyzes and evaluates the effectiveness of the Board of Directors as a whole on an annual basis. By continuing this initiative, we will further improve the effectiveness of our Corporate Governance and link this to the improvement of corporate value in the mid- to long-term.

The method and results of evaluation of the effectiveness of the Board of Directors as a whole for FY2018 are as follows.

[Evaluation method]

The evaluation was implemented by following the method described below.

- (1) Conducted a questionnaire for Directors, Audit & Supervisory Board Members and Executive Officers;
- (2) Conducted interviews with external Members of the Board to collect a wider range of opinions; and
- (3) Based on the results of (1) and (2), analyzed and evaluated the effectiveness of the Board of Directors as a whole, and implemented sharing of awareness on issues, discussions on improvement measures, etc.

The evaluation method in general and the details of the questionnaire were decided based on a review from the objective perspective of external experts.

[Results of the evaluation (summary)]

·We verified that the Board of Directors was properly operated and that the effectiveness of the Board of Directors as a whole is ensured.

·Based on the results of the evaluation from the previous year, we have implemented efforts that include the early provision of agenda materials for meetings such as the Board of Directors and the Management Conference, and organized reports to facilitate the sharing of principal themes and issues of each executing department among the Directors and other officers.

·In addition, the external Members of the Board have continued to freely exchange opinions with the executing departments on various themes every month, deepening their understanding of the Company and enabling the executing departments to obtain advice based on expert knowledge regarding the formulation of the Mid-Term Management Plan. In this way, we are building a system in which the external Members of the Board can fulfill the roles expected of them by our Company and be appropriately involved in internal discussions.

·We shared the awareness that it is important to enhance discussions on strategies now more than ever in moving toward the further improvement of corporate value.

·In addition to the meetings of the Board of Directors, we have established a system that allows us to properly discuss important themes related to strategies in multiple settings, and we have verified that efforts are being made to further strengthen cooperation with the executing departments in order to enable external Members of the Board to further demonstrate their insight.

● Office of Audit & Supervisory Board Members

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

● Group Nominating Advisory Committee, Group Compensation Advisory Committee

The Group Nominating Advisory Committee and the Group Compensation Advisory Committee, as advisory bodies to the Board of Directors, discuss matters related to the appointment/dismissal and the compensation of Directors, etc. to enhance transparency and fairness of our Group management. The composition of each Committee is as follows.

Group Nominating Advisory Committee		Group Compensation Advisory Committee	
Chairman of the Board & President	Takashige Shibato (Advisory Committee Chairman)	Chairman of the Board & President	Takashige Shibato
Director & Deputy President	Yasuhiko Yoshida	Director & Deputy President	Yasuhiko Yoshida
Director & Deputy President	Yuji Shirakawa	External Director	Masahiko Fukasawa (Advisory Committee Chairman)
External Director	Masahiko Fukasawa	External Director	Toshiya Kosugi
External Director	Toshiya Kosugi	External Audit & Supervisory Board Member	Fumihide Sugimoto
External Audit & Supervisory Board Member	Fumihide Sugimoto	External Audit & Supervisory Board Member	Hideo Yamada
External Audit & Supervisory Board Member	Hideo Yamada		

● Group Management Conference

The Group Management Conference is composed of 11 executive Directors (with the President acting as Chairperson) (also attended by the full-time Audit & Supervisory Board Member), and shall discuss important matters related to business and affairs of the Group including group management and operational planning based on basic guidelines stipulated and matters entrusted by the Board of Directors.

● Group Risk Management Committee

The Group Risk Management Committee is composed of 11 executive Directors and officers in charge of relevant departments (with the President acting as Committee Chairperson) (also attended by the full-time Audit & Supervisory Board Member), and shall discuss and report on matters related to asset portfolio management, compliance and counter-financial crime management in addition to carrying out discussions concerning each of the risk management systems of the Group as a whole.

● Group IT Special Committee

The Group IT Special Committee is composed of 11 executive Directors and officers in charge of relevant departments (with the President acting as Committee Chairperson) (also attended by the full-time Audit & Supervisory Board Member), and shall discuss matters related to IT strategy, system risk management and investment in IT systems to strengthen the IT governance system of the Group as a whole.

● Executive Officers

Twenty Executive Officers (including 11 members serving concurrently as Directors) are elected by a resolution of the Board of Directors and entrusted with the duty of facilitating quick decision-making and strengthening business execution functions of the Board of Directors.

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.

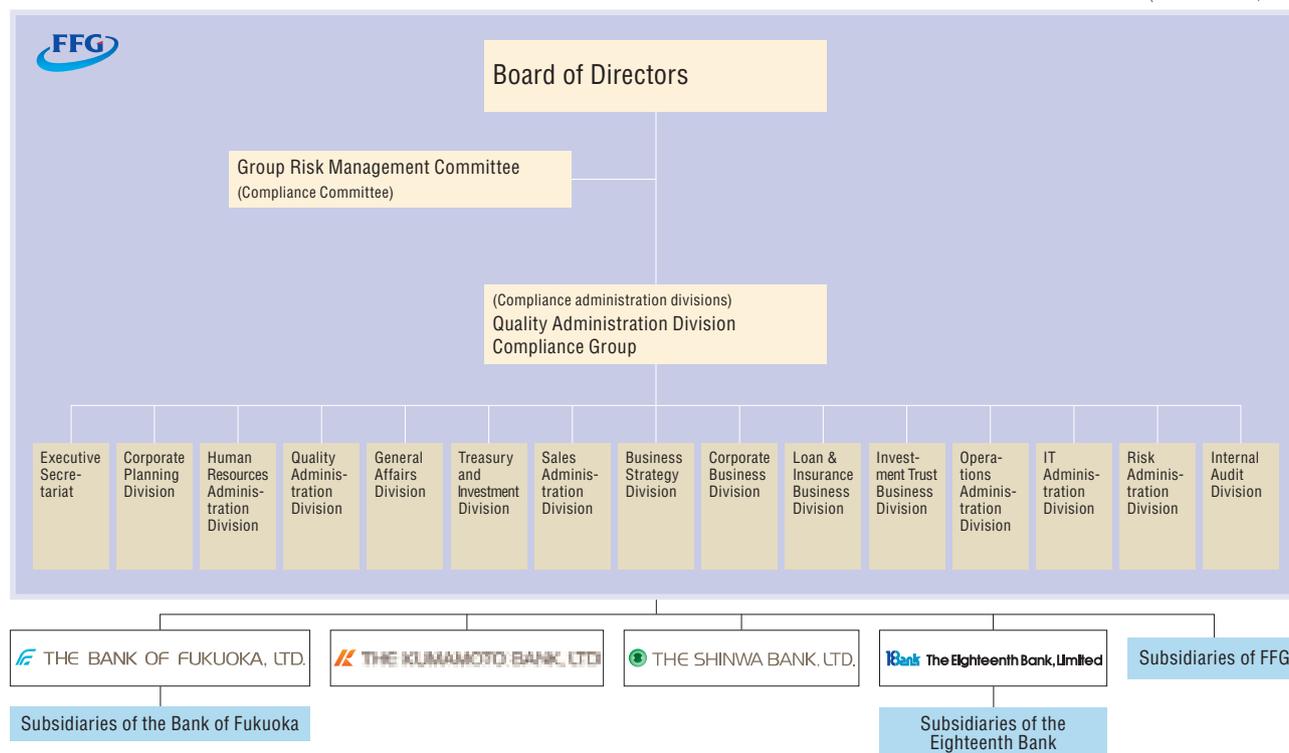
Furthermore, we have formulated a Customer Protection Management Policy to protect customers' legitimate interests and increase their convenience and are enhancing our customer protection management structure.

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 October 1, 2019)



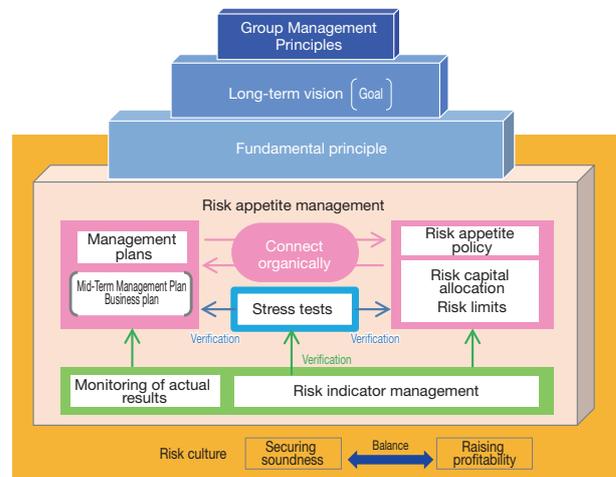
Risk Appetite Framework

Overview of Risk Appetite Framework

Financial institutions receive profits in exchange for taking on various risks that arise from businesses, etc., including credit risk on loans and market risk on securities investment.

FFG defines the types and amount of risk taken on voluntarily with the aim of achieving management goals as “Risk appetite.” With this risk appetite as the starting point, we introduced the “Risk Appetite Framework” to conduct business management and risk management.

Through establishing the Risk Appetite Framework, our stance towards risk-taking is clarified, which enables FFG to pursue more opportunities for profit, and to conduct more appropriate risk control.

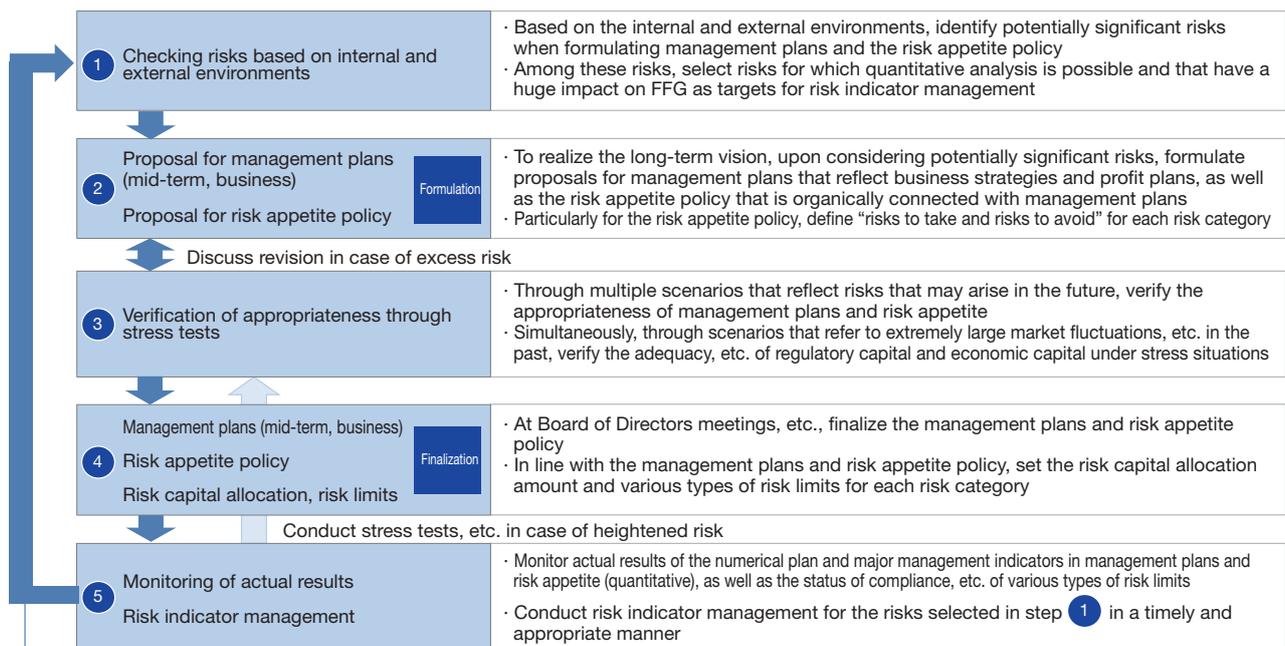


Process of Risk Appetite Management

When formulating management plans and the risk appetite policy, FFG identifies potentially significant risks beforehand, and conducts the selection of material risks.

Management plans and the risk appetite policy are formulated and finalized in consideration of potentially significant risks that have been identified. They are formulated with organic connection and finalized after their appropriateness has been verified by stress tests.

During the fiscal year, besides checking the management status in line with the risk appetite through the monitoring of actual results, FFG conducts risk indicator management for material risks.



Based on issues that arise in risk appetite management, discuss and formulate management plans and the risk appetite policy for the next fiscal year

Risk Appetite Policy

The risk appetite policy specifies strategies regarding risk-taking and defines “risks to take and risks to avoid” in each of the six risk categories.^(*)

The risk appetite policy consists of “Fundamental principle,” which specifies the fundamental principle for risk-taking in each risk category, and “Risk appetite (qualitative and quantitative),” which specifies specific risk-taking methods and the quantitative levels thereof.

^{*}Refers to: 1) Comprehensive risk, 2) Market risk, 3) Credit risk, 4) Liquidity risk, 5) Operational risk, 6) Compliance risk

Risk Capital Allocation and Risk Limits

FFG operates a risk capital allocation system within the framework of its comprehensive risk management, and controls the total amount of risk within the scope of its capital.

Please refer to page 44 for more details on comprehensive risk management.

The risk limit (maximum amount of risk, maximum amount of loss, etc.) for each risk is set to be consistent with the risk capital allocation system. Furthermore, some of the risk limits are incorporated as indicators of risk appetite (quantitative).

Stress Tests

Amid drastic changes in the external environment surrounding financial institutions, FFG positions stress tests as an effective method of evaluating the sustainability of its business model.

FFG conducts multiple types of stress tests, striving to strengthen its responsiveness to each type of risk. Specifically, through multiple stress scenarios that reflect deteriorating risks including credit risk and market risk that may arise in the future, FFG verifies the appropriateness of its management plans and risk appetite. Through scenarios that refer to extremely large market fluctuations, etc. in the past, FFG verifies the adequacy of regulatory capital and economic capital under stress situations.

Monitoring of Actual Results

FFG monitors actual results of the numerical plan and major management indicators in management plans and risk appetite (quantitative), as well as the status of compliance, etc. of various types of risk limits. If there is a large divergence from the limit, countermeasures are discussed and implemented as necessary based on an investigation of the causes.

Risk Indicator Management

Among potentially significant risks identified, FFG conducts risk indicator management on risks for which quantitative analysis is possible and that have a material impact on FFG. Specifically, utilizing risk heat maps, etc. which comprise various quantitative indicators such as production and employment-related indices and expected inflation rate, FFG conducts initiatives to capture indicators of risk actualization in the future.

The aims of risk indicator management are: “to swiftly recognize a heightened level of a potentially significant risk for FFG” and “to discuss and implement specific countermeasures at an early stage for risks where the possibility of actualization is high and the impact is large, so as to keep the impact on FFG to a minimum.”

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 the brands of each Group bank, with an efficient single-platform business administration system in the implementation of its groupwide management.

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

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

Risk Classifications and Definitions

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

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

Risk Classifications Targeted for Management

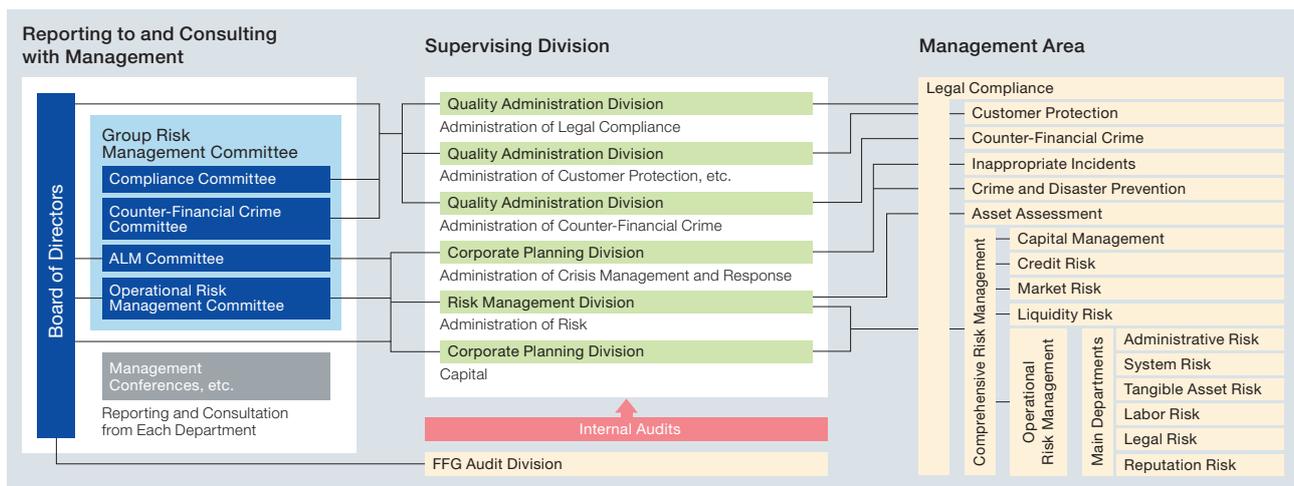
Risk categories	Definitions	Methods
Credit Risk	Risk of losses arising from asset values that have fallen or been erased (including off-balance-sheet assets) by the worsening financial position of obligors	Management by VaR Integrated risk management
Market Risk	Risk of losses arising from variation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

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

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

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

FFG's Risk Management Framework



Comprehensive Risk Management

About Comprehensive Risk Management

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

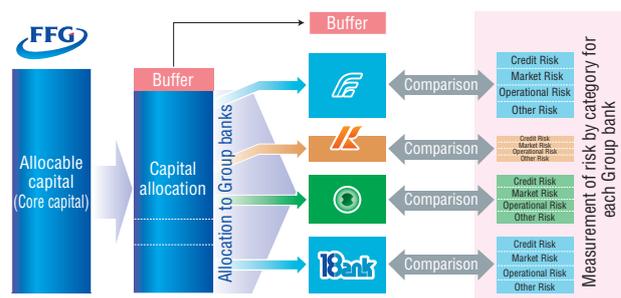
FFG operates a policy of "establishing and upgrading appropriate comprehensive risk management frameworks

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

Risk Capital Allocation System

FFG has introduced a risk capital allocation system within the framework of its comprehensive risk management. Specifically, FFG assesses its capital allocation on the basis of FFG consolidated capital (Core capital), maintaining the remainder as a buffer against risks that are difficult to measure. Capital allocation is applied to each Group bank and the usage is monitored and managed on a monthly basis.

Framework of the Group Risk Capital Allocation System



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, FFG is developing its management along the lines of a multi-brand single platform while employing the same common rating systems,

screening procedures and credit portfolio management procedures across FFG.

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 Group bank. This policy indicates a basic approach covering the judgment and behavior for the appropriate operation of credit businesses.

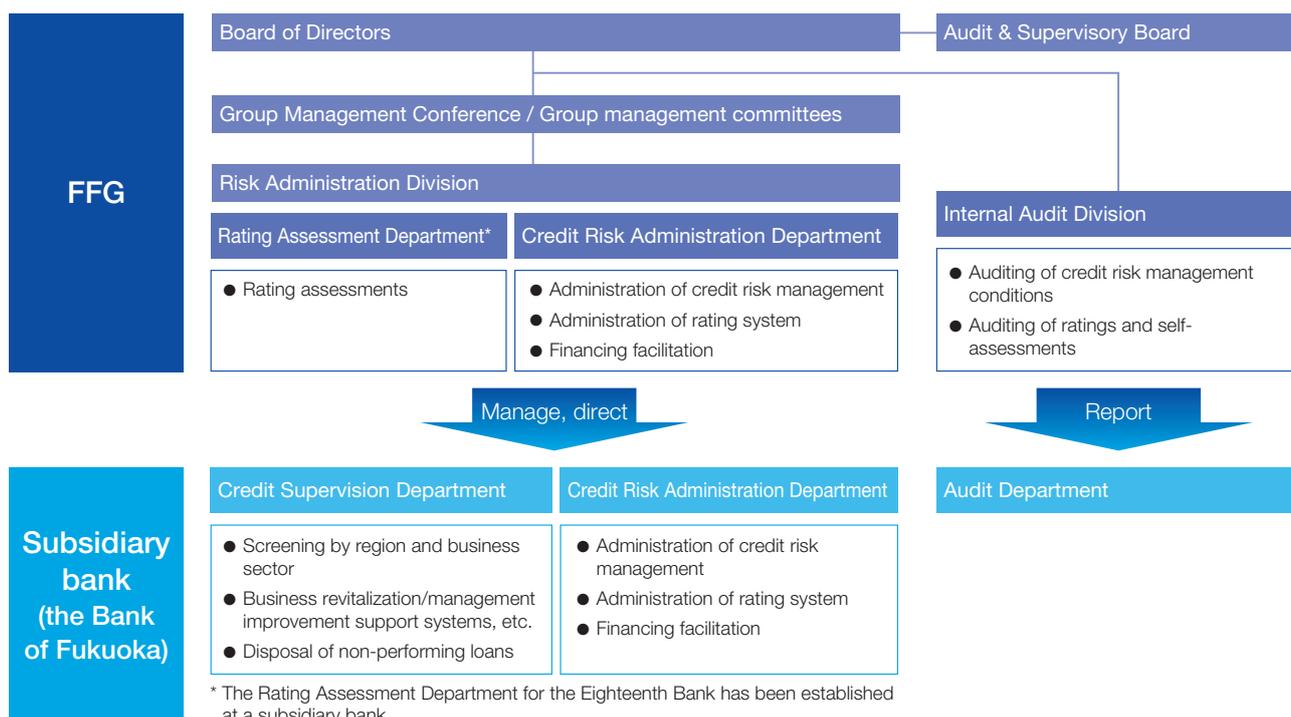
FFG has also created the Credit Risk Management Program as an action plan for enhancing the groupwide credit risk management framework and strengthening groupwide credit portfolio operations.

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 each Group bank and rating assessments based on the credit ratings system are chiefly conducted by FFG's rating assessment department, 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 a standpoint independent from each Group bank. The division reports its findings to FFG's Board of Directors. The audit departments of each Group bank receive audit reports from the FFG's Internal Audit Division and report the audit results to the respective boards of directors.



Obligor Ratings

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

obligors and portfolios.

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

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

Obligor Rating			Obligor Category	Loan Category	Default category	
Rating Rank	Risk Level	Definition			Amortization/provision	Basel Internal Rating-Based Approach
1	No risk	Highest level of certainty of debt redemption, and stable	Normal	Normal	Non-default	Non-default
2	Slight risk	Extremely high level of certainty of debt redemption, and stable				
3	Small risk	High level of certainty of debt redemption, and stable				
4	Above average	Adequate level of certainty of debt redemption, but might decline going forward				
5	Average	No problem with certainty of debt redemption in the immediate future, but may decline going forward				
6	Permissible	No problem with certainty of debt redemption in the immediate future, but likely to decline going forward				
7	Below average	No current problem with certainty of debt redemption, but substantial concerns about future declines				
8	Needs attention 1	Apparent problem with debt redemption, and will require care in management	Needs attention	Substandard	Default	Default
9	Needs attention 2	Apparent serious problem with debt redemption, and will require detailed care in management Applies to one of the following: <ul style="list-style-type: none"> • Obligor with loans past due for three months or more • Obligor with restructured loans 				
10	In danger of bankruptcy	Experiencing financial difficulties, with a substantial chance of business failure going forward	In danger of bankruptcy	Doubtful	Default	Default
11	Effectively bankrupt	Not yet in legal or formal bankruptcy, but experiencing business failure in substance	Effectively bankrupt	In bankruptcy or rehabilitation, or in quasi-bankruptcy or rehabilitation		
12	Bankrupt	In legal and/or formal bankruptcy	Bankrupt			

Quantification of Credit Risk

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

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

Framework for Individual Credit Management

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

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

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

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.

Fukuoka Financial Group

- 49 Independent Auditors' Report
- 50 Consolidated Balance Sheet
- 51 Consolidated Statement of Income
- 52 Consolidated Statement of Comprehensive Income
- 53 Consolidated Statement of Changes in Net Assets
- 54 Consolidated Statement of Cash Flows
- 55 Notes to Consolidated Financial Statements

The Bank of Fukuoka

- 75 Non-Consolidated Balance Sheet (Unaudited)
- 76 Non-Consolidated Statement of Income (Unaudited)

The Kumamoto Bank

- 77 Non-Consolidated Balance Sheet (Unaudited)
- 78 Non-Consolidated Statement of Income (Unaudited)

The Shinwa Bank

- 79 Non-Consolidated Balance Sheet (Unaudited)
- 80 Non-Consolidated Statement of Income (Unaudited)

The Eighteenth Bank

- 81 Non-Consolidated Balance Sheet (Unaudited)
- 82 Non-Consolidated Statement of Income (Unaudited)



Tenjin Bldg.
2-12-1 Tenjin, Chuo-ku, Fukuoka-shi,
Fukuoka, 810-0001, Japan

Tel: +81 92 781 7231
Fax: +81 92 752 0164
ey.com

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, 2019, 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, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 26, 2019

Fukuoka, Japan

Consolidated Balance Sheet

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 7 and 18)	¥ 4,497,130	¥ 4,174,081	\$ 40,518
Call loans and bills bought (Note 18)	8,769	9,661	79
Monetary claims bought (Notes 3 and 18)	66,528	63,784	599
Trading assets	1,600	1,804	14
Money held in trust (Note 4)	4,190	4,113	37
Securities (Notes 3, 7, 11, 12 and 18)	2,927,128	3,331,309	26,372
Loans and bills discounted (Notes 5, 7 and 18)	12,994,296	12,230,470	117,076
Foreign exchanges (Note 5)	8,160	6,834	73
Other assets (Note 7)	183,074	178,828	1,649
Tangible fixed assets (Note 6)	194,101	196,289	1,748
Intangible fixed assets	16,198	15,564	145
Net defined benefit assets (Note 10)	18,533	33,304	166
Deferred tax assets (Note 13)	9,366	3,572	84
Customers' liabilities for acceptances and guarantees (Note 11)	43,363	40,215	390
Allowance for loan losses (Note 5)	(132,655)	(126,155)	(1,195)
Total assets	¥20,839,786	¥20,163,679	\$187,762
Liabilities			
Deposits (Notes 7 and 18)	¥14,298,202	¥14,078,354	\$128,824
Call money and bills sold (Note 18)	1,865,549	1,315,936	16,808
Payables under repurchase agreements (Notes 7 and 18)	1,241,589	105,625	11,186
Payables under securities lending transactions (Notes 7 and 18)	618,007	2,140,301	5,568
Trading liabilities	0	0	0
Borrowed money (Notes 7, 8 and 18)	1,826,041	1,521,762	16,452
Foreign exchanges	1,169	1,181	10
Short-term bonds payable	16,000	5,000	144
Bonds payable (Notes 9 and 18)	10,000	20,000	90
Other liabilities	112,921	115,711	1,017
Net defined benefit liabilities (Note 10)	993	951	8
Provision for losses on interest repayments	23	48	0
Provision for losses from reimbursement of inactive accounts	5,543	5,939	49
Provision for contingent liabilities losses	3	7	0
Reserves under the special laws	22	22	0
Deferred tax liabilities (Note 13)	57	10,627	0
Deferred tax liabilities for land revaluation (Note 6)	22,989	23,020	207
Acceptances and guarantees (Note 11)	43,363	40,215	390
Total liabilities	¥20,062,477	¥19,384,706	\$180,759
Net assets			
Capital stock	¥ 124,799	¥ 124,799	\$ 1,124
Capital surplus	94,164	94,158	848
Retained earnings	419,871	381,891	3,782
Treasury stock	(391)	(364)	(3)
Total shareholders' equity	638,443	600,485	5,752
Valuation difference on available-for-sale securities (Note 12)	107,770	131,493	970
Deferred gains or losses on hedges	(20,239)	(12,684)	(182)
Revaluation reserve for land (Note 6)	51,560	51,631	464
Remeasurements of defined benefit plans (Note 10)	(245)	8,029	(2)
Total accumulated other comprehensive income	138,847	178,470	1,250
Non-controlling interests	17	17	0
Total net assets	¥ 777,308	¥ 778,973	\$ 7,003
Total liabilities and net assets	¥20,839,786	¥20,163,679	\$187,762

Consolidated Statement of Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Interest income:			
Interest on loans and discounts	¥136,827	¥134,520	\$1,232
Interest and dividends on securities	33,976	32,512	306
Interest on call loans and bills bought	144	88	1
Interest on receivables under resale agreements	(0)	(0)	(0)
Interest on receivables under securities borrowing transactions	—	0	—
Interest on due from banks	0	1	0
Other interest income	6,795	3,900	61
Trust fees	0	0	0
Fees and commissions	49,884	52,345	449
Trading income	177	84	1
Other operating income	8,120	6,366	73
Other income	10,194	7,773	91
Total income	¥246,122	¥237,594	\$2,217
Expenses			
Interest expenses:			
Interest on deposits	¥ 4,411	¥ 5,372	\$ 39
Interest on call money and bills sold	(629)	(94)	(5)
Interest on payables under repurchase agreements	1,731	1,904	15
Interest on payables under securities lending transactions	4,854	3,055	43
Interest on borrowings and rediscounts	1,622	898	14
Interest on short-term bonds	2	1	0
Interest on bonds	209	238	1
Other interest expenses	9,763	7,568	87
Fees and commissions payments	20,826	20,302	187
Other operating expenses	45	1,693	0
General and administrative expenses	117,087	120,179	1,054
Other expenses	12,543	5,700	113
Total expenses	¥172,470	¥166,820	\$1,553
Income before income taxes	73,652	70,774	663
Income taxes: (Note 13)			
Current	21,857	19,221	196
Deferred	189	2,222	1
Total income taxes	22,046	21,443	198
Net income	51,605	49,330	464
Net loss attributable to non-controlling interests	(44)	(39)	(0)
Net income attributable to owners of the parent (Note 14)	¥ 51,649	¥ 49,369	\$ 465

Consolidated Statement of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Net income	¥ 51,605	¥49,330	\$ 464
Other comprehensive income:			
Valuation difference on available-for-sale securities	(23,722)	13,767	(213)
Deferred gains or losses on hedges	(7,554)	(23)	(68)
Remeasurements of defined benefit plans	(8,274)	15,834	(74)
Total other comprehensive income	(39,552)	29,579	(356)
Comprehensive income (Note 15)	¥ 12,053	¥78,909	\$ 108
Total comprehensive income attributable to:			
Owners of the parent	12,097	78,949	108
Non-controlling interests	(44)	(39)	(0)

Consolidated Statement of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2019 and 2018

	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, 2017	¥124,799	¥94,156	¥344,527	¥(343)	¥563,140	¥117,726	¥(12,660)	¥51,649	¥(7,805)	¥148,909	¥8	¥712,058
Changes during the period:												
Dividends from surplus			(12,023)		(12,023)							(12,023)
Net income attributable to owners of the parent			49,369		49,369							49,369
Acquisition of treasury stock				(21)	(21)							(21)
Transfer from revaluation reserve for land			17		17							17
Capital increase of consolidated subsidiaries		1			1							1
Net changes of items other than shareholders' equity						13,767	(23)	(17)	15,834	29,561	8	29,570
Total changes during the period	—	¥1	¥37,363	¥(21)	¥37,344	¥13,767	¥(23)	¥(17)	¥15,834	¥29,561	¥8	¥66,914
Balance as of March 31, 2018	¥124,799	¥94,158	¥381,891	¥(364)	¥600,485	¥131,493	¥(12,684)	¥51,631	¥8,029	¥178,470	¥17	¥778,973
Changes during the period:												
Dividends from surplus			(13,740)		(13,740)							(13,740)
Net income attributable to owners of the parent			51,649		51,649							51,649
Acquisition of treasury stock				(27)	(27)							(27)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			70		70							70
Capital increase of consolidated subsidiaries		6			6							6
Net changes of items other than shareholders' equity						(23,722)	(7,554)	(70)	(8,274)	(39,623)	(0)	(39,623)
Total changes during the period	—	¥6	¥37,979	¥(27)	¥37,958	¥(23,722)	¥(7,554)	¥(70)	¥(8,274)	¥(39,623)	¥(0)	¥(1,664)
Balance as of March 31, 2019	¥124,799	¥94,164	¥419,871	¥(391)	¥638,443	¥107,770	¥(20,239)	¥51,560	¥(245)	¥138,847	¥17	¥777,308

	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, 2018	\$1,124	\$848	\$3,440	\$(3)	\$5,410	\$1,184	\$(114)	\$465	\$72	\$1,607	\$0	\$7,018
Changes during the period:												
Dividends from surplus			(123)		(123)							(123)
Net income attributable to owners of the parent			465		465							465
Acquisition of treasury stock				(0)	(0)							(0)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			0		0							0
Capital increase of consolidated subsidiaries		0			0							0
Net changes of items other than shareholders' equity						(213)	(68)	(0)	(74)	(356)	(0)	(356)
Total changes during the period	—	\$0	\$342	\$(0)	\$341	\$(213)	\$(68)	\$(0)	\$(74)	\$(356)	\$(0)	\$(14)
Balance as of March 31, 2019	\$1,124	\$848	\$3,782	\$(3)	\$5,752	\$970	\$(182)	\$464	\$(2)	\$1,250	\$0	\$7,003

Consolidated Statement of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Cash flows from operating activities:			
Income before income taxes	¥ 73,652	¥ 70,774	\$ 663
Depreciation of fixed assets	10,103	9,680	91
Impairment losses	103	160	0
Net change in allowance for loan losses	6,499	(8,126)	58
Net change in net defined benefit assets	14,770	(20,632)	133
Net change in net defined benefit liabilities	41	51	0
Net change in provision for losses on interest repayment	(25)	(25)	(0)
Net change in provision for losses from reimbursement of inactive accounts	(396)	(279)	(3)
Net change in provision for contingent liabilities losses	(3)	(0)	(0)
Interest income	(177,744)	(171,022)	(1,601)
Interest expenses	21,967	18,943	197
Net losses (gains) related to securities transactions	(7,005)	(163)	(63)
Net losses (gains) on money held in trust	12	(50)	0
Net exchange losses (gains)	(31)	37	(0)
Net losses (gains) on disposal of noncurrent assets	337	698	3
Net change in trading assets	204	(102)	1
Net change in trading liabilities	0	(0)	0
Net change in loans and bills discounted	(763,825)	(802,170)	(6,881)
Net change in deposits	219,847	497,910	1,980
Net change in borrowed money (excluding subordinated borrowed money)	324,279	(87,094)	2,921
Net change in due from banks (excluding deposits with the Bank of Japan)	(2,025)	(95)	(18)
Net change in call loans	(1,850)	(23,486)	(16)
Net change in call money	1,685,578	1,032,002	15,186
Net change in payables under securities lending transactions	(1,522,294)	527,774	(13,715)
Net change in foreign exchanges - Assets	(1,326)	3,518	(11)
Net change in foreign exchanges - Liabilities	(12)	(567)	(0)
Net change in short-term bonds payable - Liabilities	11,000	—	99
Net change in issuance and redemption of bonds	(10,000)	(10,000)	(90)
Interest received	185,157	174,265	1,668
Interest paid	(21,902)	(18,805)	(197)
Other, net	(27,546)	(19,484)	(248)
Subtotal	17,564	1,173,708	158
Income taxes paid	(23,290)	(13,931)	(209)
Net cash provided by (used in) operating activities	(5,725)	1,159,776	(51)
Cash flows from investing activities:			
Payments for purchases of securities	(290,914)	(321,492)	(2,621)
Proceeds from sale of securities	136,269	122,185	1,227
Proceeds from redemption of securities	524,006	347,428	4,721
Proceeds from decrease in money held in trust	—	7,034	—
Payments for purchases of tangible fixed assets	(3,644)	(4,846)	(32)
Proceeds from sale of tangible fixed assets	150	234	1
Payments for purchases of intangible fixed assets	(5,432)	(4,903)	(48)
Net cash provided by investing activities	360,435	145,640	3,247
Cash flows from financing activities:			
Decrease in subordinated borrowings	(20,000)	—	(180)
Proceeds from share issuance to non-controlling interests	50	50	0
Payments for purchases of treasury stock	(27)	(21)	(0)
Proceeds from sale of treasury stock	0	—	0
Dividends paid	(13,740)	(12,022)	(123)
Net cash used in financing activities	(33,717)	(11,993)	(303)
Effect of exchange rate changes on cash and cash equivalents	31	(37)	0
Net increase in cash and cash equivalents	321,023	1,293,386	2,892
Cash and cash equivalents at beginning of the year	4,168,303	2,874,917	37,555
Cash and cash equivalents at end of the year (Note 16)	¥4,489,326	¥4,168,303	\$40,448

Notes to Consolidated Financial Statements

Fukuoka Financial Group, Inc. and its subsidiaries
Fiscal years ended March 31, 2019 and 2018

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 3 companies, namely, FFG Agricultural Corporation Support Investment Limited Partnership, FFG Agriculture, Forest and Fisheries Industries Support Investment Limited Partnership, and FFG Venture Investment Limited Partnership No.1, controlled directly or indirectly by FFG. All significant intercompany balances and transactions have been eliminated in consolidation.

R&D Business Factory Co., Ltd. was newly included in FFG's scope of consolidation from the fiscal year ended March 31, 2019 because it was newly established.

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.

There are no affiliated companies over which FFG exercises significant influence in terms of their operating and financial policies. 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 computed by the moving average method 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.

Notes to Consolidated Financial Statements

f. Depreciation and Amortization of Fixed Assets

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

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

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

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

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

g. Treatment of Deferred Assets

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

h. Allowance for Loan Losses

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

- For credits extended to obligors that are legally bankrupt under the Bankruptcy Law, Special Liquidation in the Commercial Law or other similar laws (“Bankrupt Obligor”), and to obligors that are effectively in similar conditions (“Effectively Bankrupt Obligor”), allowances are maintained at 100% of amounts of claims (after direct reductions are made as discussed below), net of expected amounts from the disposal of collateral and/or on the amounts recoverable under guarantees.
- For credits extended to obligors that are not Bankrupt Obligor or Effectively Bankrupt Obligor but have a substantial chance of business failure going forward (“In-Danger-of-Bankruptcy Obligor”), allowances are maintained at the amount deemed necessary based on overall solvency analyses, on the amount of claims less expected amounts recoverable from the disposal of collateral and/or on the amounts recoverable under guarantees.

- For credits extended to obligors that are In-Danger-of-Bankruptcy Obligor or whose credit terms are re-scheduled or reconditioned, and exceed a certain threshold, the Discounted Cash Flow Method (the DCF Method) is applied if cash flows on repayment of principals and collection of interest of the loan can be reasonably estimated. The DCF Method requires that the difference between the cash flows discounted by the original interest rate and the carrying value of the loan be provided as allowance for loan losses.
- For credits extended to other obligors, allowances are maintained at the amounts calculated using historical default rates and other factors.

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

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

Regarding loans with collateral or guarantees extended by consolidated subsidiaries engaged in banking 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 had been directly deducted from the amount of claims as the estimated uncollectible amount. Such direct deduction has not been made from the fiscal year ended March 31, 2019. The balance of the amount directly deducted up to the end of the fiscal year ended March 31, 2018 was ¥8,057 million as of March 31, 2019, and the deducted amount as of March 31, 2018 was ¥14,287 million.

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 liabilities 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 FFG 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.

Notes to Consolidated Financial Statements

s. Accounting Standard Issued but Not Effective

On March 30, 2018, the Accounting Standards Board of Japan (“ASBJ”) issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption

FFG expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of adopting the accounting standard and implementation guidance

FFG is currently evaluating the effect of adopting the accounting standard and implementation guidance on its consolidated financial statements.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥110.99 = US\$1.00, the approximate rate of exchange on March 31, 2019, 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, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
National government bonds	¥1,633,192	¥2,055,217
Local government bonds	78,822	88,945
Corporate bonds	563,375	622,433
Equity securities	150,126	184,956
Other securities	501,611	379,755
Total	¥2,927,128	¥3,331,309

Other securities included investments in unconsolidated subsidiaries of ¥3,425 million and ¥2,006 million at March 31, 2019 and 2018, respectively.

National government bonds, etc. at March 31, 2018, included bonds of ¥33,692 million, 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 ¥21,889 million and ¥22,626 million at March 31, 2019 and 2018, respectively.

■ Held-to-maturity securities

The following tables summarize carrying values, fair values and differences of securities with available fair values at March 31, 2019 and 2018:

(Millions of yen)

		2019		
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥49,154	¥53,773	¥4,619
	Corporate bonds	20,117	20,703	586
	Other	—	—	—
	Subtotal	¥69,271	¥74,477	¥5,205
Securities with fair value not exceeding carrying value	National government bonds	¥ —	¥ —	¥ —
	Corporate bonds	—	—	—
	Other	388	386	(2)
	Subtotal	¥ 388	¥ 386	¥ (2)
Total		¥69,660	¥74,863	¥5,203

(Millions of yen)

		2018		
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥58,444	¥64,060	¥5,616
	Corporate bonds	23,096	24,055	959
	Other	—	—	—
	Subtotal	¥81,540	¥88,116	¥6,575
Securities with fair value not exceeding carrying value	National government bonds	¥ —	¥ —	¥ —
	Corporate bonds	2,036	2,013	(23)
	Other	463	461	(2)
	Subtotal	¥ 2,500	¥ 2,474	¥ (25)
Total		¥84,040	¥90,591	¥6,550

■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2019 and 2018:

(Millions of yen)

		2019		
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,483,117	¥1,545,266	¥ 62,148
	Local government bonds	72,950	73,772	822
	Corporate bonds	533,381	539,032	5,651
	Equity securities	62,404	138,458	76,053
	Other	359,420	371,213	11,793
Subtotal		¥2,511,273	¥2,667,743	¥156,470
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ 38,927	¥ 38,771	¥ (155)
	Local government bonds	5,049	5,049	(0)
	Corporate bonds	4,228	4,225	(3)
	Equity securities	4,891	3,764	(1,127)
	Other	109,581	107,876	(1,704)
Subtotal		¥ 162,679	¥ 159,688	¥ (2,991)
Total		¥2,673,952	¥2,827,432	¥153,479

(Millions of yen)

		2018		
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,931,773	¥1,996,773	¥ 64,999
	Local government bonds	56,728	57,612	884
	Corporate bonds	531,826	538,720	6,894
	Equity securities	59,799	172,175	112,376
	Other	202,663	207,946	5,283
Subtotal		¥2,782,791	¥2,973,229	¥190,437
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ —	¥ —	¥ —
	Local government bonds	31,359	31,332	(26)
	Corporate bonds	58,628	58,580	(47)
	Equity securities	5,701	4,696	(1,004)
	Other	158,155	155,670	(2,485)
Subtotal		¥ 253,844	¥ 250,280	¥ (3,564)
Total		¥3,036,635	¥3,223,509	¥186,873

Notes to Consolidated Financial Statements

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, 2019 and 2018, impairment losses were ¥485 million and ¥45 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, 2019 and 2018:

2019			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥ 65,453	¥ 905	¥—
Local government bonds	35,329	43	9
Corporate bonds	31,975	5	1
Equity securities	9,964	6,450	0
Other	5,224	133	6
Total	¥147,948	¥7,538	¥17

(Millions of yen)

2018			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥ —	¥ —	¥ —
Local government bonds	19,213	0	6
Corporate bonds	33,429	7	5
Equity securities	2,726	1,949	0
Other	28,696	—	965
Total	¥84,066	¥1,957	¥976

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, 2019 and 2018 and for the fiscal years then ended:

(Millions of yen)

2019		
	Carrying value	Gain (loss) on valuation
Money held in trust for trading purpose	¥990	¥(23)

(Millions of yen)

2018		
	Carrying value	Gain (loss) on valuation
Money held in trust for trading purpose	¥1,013	¥13

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, 2019 and 2018:

(Millions of yen)

2019			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥3,200	¥3,200	¥—

(Millions of yen)

2018			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥3,100	¥3,100	¥—

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2019 and 2018 included the following loans:

	(Millions of yen)	
	2019	2018
Loans to borrowers in bankruptcy	¥ 6,405	¥ 4,215
Delinquent loans	159,720	158,946
Loans past due for three months or more	1,016	246
Restructured loans	54,735	51,992
Total	¥221,878	¥215,400

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, 2019 and 2018, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥43,974 million and ¥45,747 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, 2019 and 2018 amounted to ¥4,048,288 million and ¥4,046,862 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 ¥3,841,490 million and ¥3,880,409 million at March 31, 2019 and 2018, 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 of 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, 2019 and 2018, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to the Article 10 of the law were ¥11,926 million and ¥19,562 million, respectively.

Notes to Consolidated Financial Statements

Accumulated depreciation for tangible fixed assets amounted to ¥118,713 million and ¥114,671 million at March 31, 2019 and 2018, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥15,811 million and ¥15,872 million at March 31, 2019 and 2018, respectively.

7. Pledged Assets

Assets pledged as collateral at March 31, 2019 and 2018 consisted of the following:

	(Millions of yen)	
	2019	2018
Assets pledged as collateral:		
Cash and due from banks	¥ —	¥ 1
Securities	2,424,731	2,814,499
Loans and bills discounted	2,217,129	1,495,212
Other assets	2	165
Liabilities corresponding to assets pledged as collateral:		
Deposits	62,320	51,963
Payables under repurchase agreements	1,241,589	105,625
Payables under securities lending transactions	618,007	2,140,301
Borrowed money	1,823,614	1,499,054

In addition, cash and due from banks of ¥1 million, securities totaling ¥205 million and other assets of ¥283 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2019.

Securities totaling ¥37,865 million and other assets of ¥21 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2018.

Other assets included initial margins of futures markets of ¥132 million, cash collateral paid for financial instruments of ¥134,744 million, and deposits of ¥2,224 million at March 31, 2019.

Other assets included initial margins of futures markets of ¥156 million, cash collateral paid for financial instruments of ¥125,972 million, and deposits of ¥2,226 million at March 31, 2018.

8. Borrowed Money

Borrowed money at March 31, 2018 included subordinated borrowings amounting to ¥20,000 million.

9. Bonds Payable

Bonds payable included callable (subordinated) debenture bonds of ¥10,000 million, payable in yen, due in 2026 at March 31, 2019 and 2018.

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 liabilities 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, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
Projected benefit obligation at the beginning of the fiscal year	¥142,560	¥142,058
Service cost	4,161	4,152
Interest cost	234	233
Actuarial loss	1,076	1,635
Retirement benefits paid	(5,980)	(5,924)
Prior service cost	—	—
Contributions by participants of plans	404	404
Other	0	0
Projected benefit obligation at the end of the fiscal year	¥142,457	¥142,560

The changes in plan assets during the fiscal years ended March 31, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
Plan assets at the beginning of the fiscal year	¥174,913	¥153,830
Expected return on plan assets	6,109	5,372
Actuarial gain (loss)	(10,642)	21,100
Contributions by FFG's subsidiaries	5,346	78
Retirement benefits paid	(5,908)	(5,872)
Partial refund of retirement benefit trusts	(10,224)	—
Contributions by participants of plans	404	404
Other	—	—
Plan assets at the end of the fiscal year	¥159,998	¥174,913

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2019 and 2018.

	(Millions of yen)	
	2019	2018
Funded projected benefit obligation	¥141,217	¥141,409
Plan assets at fair value	(159,998)	(174,913)
	(18,780)	(33,504)
Unfunded projected benefit obligation	1,239	1,151
Net asset for retirement benefits in the balance sheet	¥ (17,540)	¥ (32,353)

	(Millions of yen)	
	2019	2018
Net defined benefit liabilities	¥ 993	¥ 951
Net defined benefit assets	(18,533)	(33,304)
Net asset for retirement benefits in the balance sheet	¥(17,540)	¥(32,353)

The components of retirement benefit expenses for the fiscal years ended March 31, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
Service cost	¥ 4,161	¥ 4,152
Interest cost	234	233
Expected return on plan assets	(6,109)	(5,372)
Amortization of actuarial loss (gain)	(5)	3,521
Amortization of prior service cost	(163)	(235)
Other	—	—
Retirement benefit expenses	¥(1,882)	¥ 2,299

The components of remeasurements of defined benefits plans included in other comprehensive income (before tax effect) for the fiscal years ended March 31, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
Prior service cost	¥ (163)	¥ (235)
Actuarial gain (loss)	(11,724)	22,987
Other	—	—
Total	¥(11,888)	¥22,751

The components of remeasurements of defined benefits plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
Unrecognized prior service cost	¥(452)	¥ (616)
Unrecognized actuarial loss (gain)	805	(10,919)
Other	—	—
Total	¥ 352	¥(11,536)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2019 and 2018 was as follow:

	2019	2018
Debt securities	46%	39%
Equity securities	34%	44%
Cash and due from banks	2%	1%
Other	18%	16%
Total	100%	100%

Total plan assets included retirement benefit trusts of 32% and 40% as of March 31, 2019 and 2018, 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:

	2019	2018
Discount rate	0.3%	0.3%
Long-term expected rate of return on plan assets	3.5%	3.5%
Estimated rate of increase in salary	3.4%	3.5%

(2) Defined contribution plans

The amounts to be paid to defined contribution plans by consolidated subsidiaries were ¥324 million and ¥312 million for the fiscal years ended March 31, 2019 and 2018, 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 ¥21,889 million and ¥22,626 million at March 31, 2019 and 2018, respectively, for private placement corporate bonds. Relevant acceptances and guarantees and customers' liabilities for acceptances and guarantees have been recorded in the net amount.

Notes to Consolidated Financial Statements

12. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale securities at March 31, 2019 and 2018 consisted of the following:

	(Millions of yen)	
	2019	2018
Gross valuation difference on available-for-sale securities	¥153,479	¥186,873
Deferred tax liabilities applicable to valuation difference	45,708	55,379
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for non-controlling interests	107,770	131,493
Amount attributable to non-controlling interests	—	—
Valuation difference on available-for-sale securities	107,770	131,493

13. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
Deferred tax assets:		
Allowance for loan losses	¥ 39,523	¥ 39,240
Net losses carried forward	5,277	5,945
Net defined benefit liabilities	7,264	1,040
Depreciation of securities	5,663	6,003
Depreciation expenses	2,549	2,629
Deferred gains or losses on hedges	8,840	5,540
Fair value gains related to consolidated taxation	4,171	4,209
Other	5,255	7,131
Subtotal	78,545	71,741
Valuation allowance for net losses carried forward	(5,033)	—
Valuation allowance for total deductible temporary differences, etc.	(11,875)	—
Subtotal	(16,909)	(17,221)
Total	61,635	54,519
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(45,708)	(55,379)
Retirement benefit trust	(2,394)	(2,817)
Securities returned from retirement benefit trust	(3,159)	(2,312)
Reserve for special depreciation	(402)	(402)
Fair value losses related to consolidated taxation	(573)	(574)
Other	(88)	(88)
Total	(52,326)	(61,575)
Net deferred tax assets (liabilities)	¥ 9,309	¥ (7,055)

For the fiscal years ended March 31, 2019 and 2018, as the difference between the statutory tax rate and the effective tax rate for consolidated financial statement purposes was less than 5% of the statutory tax rate, the significant differences between them are not disclosed.

FFG adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 of February 16, 2018) from the fiscal year ended March 31, 2019 and changed the above note.

In the above note, FFG added the contents described in explanatory note 8 (excluding the total amount of valuation allowance) of “Accounting Standard for Tax Effect Accounting” prescribed in Paragraph 3 to 5 of the Partial Amendments to Accounting Standard for Tax Effect Accounting. However, the contents of the fiscal year ended March 31, 2018 were not presented in accordance with the provisional treatment prescribed in Paragraph 7 of the Partial Amendments to Accounting Standard for Tax Effect Accounting.

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

Net income attributable to owners of the parent per share for the fiscal years ended March 31, 2019 and 2018 were as follows:

	(Yen)	
	2019	2018
Net income attributable to owners of the parent per share:		
Basic	¥300.71	¥287.42
Diluted	—	—

Effective October 1, 2018, FFG consolidated its five common shares into one share. Net income attributable to owners of the parent per share for the fiscal years ended March 31, 2019 and 2018, is computed assuming that the consolidation of shares was conducted at the beginning of the previous fiscal year.

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

For the fiscal years ended March 31, 2019 and 2018, as there were no dilutive securities, the amount of diluted net income attributable to owners of the parent per share of common stock is not stated.

15. Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2019 and 2018 were the following:

	(Millions of yen)	
	2019	2018
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥(19,213)	¥18,097
Reclassification adjustments to profit or loss	(14,180)	1,904
Amount before income tax effect	(33,394)	20,002
Income tax effect	9,671	(6,234)
Total	(23,722)	13,767
Deferred gains or losses on hedges		
Gains (losses) arising during the year	(23,278)	(4,863)
Reclassification adjustments to profit or loss	12,423	4,829
Amount before income tax effect	(10,854)	(33)
Income tax effect	3,299	10
Total	(7,554)	(23)
Remeasurements of defined benefit plans		
Gains (losses) arising during the year	(11,718)	19,465
Reclassification adjustments to profit or loss	(169)	3,286
Amount before income tax effect	(11,888)	22,751
Income tax effect	3,614	(6,916)
Total	(8,274)	15,834
Total other comprehensive income	¥(39,552)	¥29,579

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, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
Cash and due from banks	¥4,497,130	¥4,174,081
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(7,803)	(5,778)
Cash and cash equivalents	¥4,489,326	¥4,168,303

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, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
Within one year	¥ 66	¥ 56
Over one year	68	70
Total	¥135	¥127

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

Notes to Consolidated Financial Statements

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, 2019 and 2018, FFG's amount of interest rate risk (value of estimated losses) was ¥26,926 million and ¥25,956 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations with estimated gains or losses based on its portfolio for the VaR measurement period. As losses of the International Banking Department exceeded the VaR several times in

back-testing conducted for the fiscal year ended March 31, 2019, FFG has been multiplying VaR by a fixed multiplier factor in the VaR measurement since March 2019 in order to ensure its conservativeness.

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.

As stated above, VaR measures interest rate risk using certain statistical probabilities based on historical market fluctuations, and 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. Therefore, FFG timely and appropriately reviews the measurement model to use, etc. as necessary to enhance the degree of precision for capturing risk.

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 2,500 days) and employs quantitative analysis in its volatility risk management.

As of March 31, 2019 and 2018, FFG's amount of volatility risk was ¥31,631 million and ¥29,699 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations with estimated gains or losses based on its portfolio for the VaR measurement period. As losses exceeded the VaR several times in back-testing conducted for the fiscal year ended March 31, 2019, FFG has been multiplying VaR by a fixed multiplier factor in the VaR measurement since June 2018 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 measurement model to use, 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,

Notes to Consolidated Financial Statements

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 on an 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, 2019 and 2018 were as follows:

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

(Millions of yen)

2019			
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 4,497,130	¥ 4,497,130	¥ (0)
Call loans and bills bought	8,769	8,768	(0)
Monetary claims bought	66,262	66,316	53
Securities			
Held-to-maturity securities	69,271	74,477	5,205
Available-for-sale securities	2,827,432	2,827,432	-
Loans and bills discounted	12,864,840	13,020,638	155,798
Total	¥20,333,706	¥20,494,763	¥161,056
Liabilities			
Deposits	¥14,298,202	¥14,298,559	¥ 357
Call money and bills sold	1,865,549	1,865,537	(12)
Payables under repurchase agreements	1,241,589	1,241,543	(46)
Payables under securities lending transactions	618,007	617,860	(146)
Borrowed money	1,826,041	1,814,593	(11,447)
Bonds payable	10,000	10,388	388
Total	¥19,859,390	¥19,848,483	¥ (10,906)
Derivatives			
Hedge accounting not applied	¥ 2,429	¥ 2,429	¥ -
Hedge accounting applied	(34,661)	(34,661)	-
Total	¥ (32,231)	¥ (32,231)	¥ -

(Millions of yen)

2018			
	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 4,174,081	¥ 4,174,081	¥ (0)
Call loans and bills bought	9,661	9,662	0
Monetary claims bought	63,661	63,707	45
Securities			
Held-to-maturity securities	83,577	90,129	6,552
Available-for-sale securities	3,223,509	3,223,509	-
Loans and bills discounted	12,105,162	12,233,839	128,676
Total	¥19,659,653	¥19,794,929	¥135,275
Liabilities			
Deposits	¥14,078,354	¥14,078,936	¥ 581
Call money and bills sold	1,315,936	1,315,926	(9)
Payables under repurchase agreements	105,625	105,655	30
Payables under securities lending transactions	2,140,301	2,139,960	(341)
Borrowed money	1,521,762	1,513,372	(8,390)
Bonds payable	20,000	20,544	544
Total	¥19,181,979	¥19,174,394	¥ (7,584)
Derivatives			
Hedge accounting not applied	¥ 1,901	¥ 1,901	¥ -
Hedge accounting applied	(24,592)	(24,592)	-
Total	¥ (22,691)	¥ (22,691)	¥ -

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.

Notes to Consolidated Financial Statements

(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, 2019 and 2018 were as follows:

	(Millions of yen)	
	2019	2018
	Carrying value	Carrying value
Available-for-sale securities		
Unlisted equity securities	¥ 7,903	¥ 8,084
Unlisted foreign securities	0	0
Investments in limited partnership	22,521	16,138
Total	¥30,424	¥24,222

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 years ended March 31, 2019 and 2018 were ¥6 million and ¥38 million, respectively.

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, 2019 and 2018 are summarized as follows:

	(Millions of yen)						
	2019						
	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	¥4,346,784	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	8,769	-	-	-	-	-	-
Monetary claims bought	66,124	-	-	-	-	-	404
Securities							
Held-to-maturity bonds							
Held-to-maturity government bonds	31,680	-	17,474	-	-	-	-
Held-to-maturity corporate bonds	7,945	-	12,171	-	-	-	-
Available-for-sale securities with maturities							
Available-for-sale government bonds	290,865	489,967	191,721	97,149	30,201	484,132	
Available-for-sale local government bonds	16,215	27,655	13,188	8,878	3,546	9,338	
Available-for-sale corporate bonds	181,235	163,710	116,065	6,832	-	75,413	
Available-for-sale other	37,428	77,615	97,406	59,009	75,049	64,215	
Loans and bills discounted	3,769,271	1,959,797	1,749,767	1,154,582	1,271,766	2,794,467	
Total	¥8,756,319	¥2,718,746	¥2,197,796	¥1,326,453	¥1,380,563	¥3,427,970	

Loans do not include an estimated ¥166,125 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥128,518 million in loans that have no set term.

	(Millions of yen)						
	2018						
	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	¥4,024,990	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	9,661	-	-	-	-	-	-
Monetary claims bought	63,303	-	-	-	-	-	480
Securities							
Held-to-maturity bonds							
Held-to-maturity government bonds	9,290	31,680	3,100	14,374	-	-	-
Held-to-maturity corporate bonds	5,015	7,945	9,487	2,683	-	-	-
Available-for-sale securities with maturities							
Available-for-sale government bonds	415,161	570,505	315,232	145,252	60,954	489,668	
Available-for-sale local government bonds	12,508	26,869	29,523	8,475	1,909	9,658	
Available-for-sale corporate bonds	52,985	328,270	99,604	61,468	928	54,043	
Available-for-sale other	17,631	85,181	63,079	66,950	67,673	34,638	
Loans and bills discounted	3,234,588	1,964,211	1,616,090	1,111,973	1,279,887	2,728,882	
Total	¥7,845,137	¥3,014,663	¥2,136,118	¥1,411,178	¥1,411,352	¥3,317,372	

Loans do not include an estimated ¥163,161 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥131,675 million in loans that have no set term.

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2019 and 2018 are summarized as follows:

(Millions of yen)

2019						
	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	¥13,966,522	¥ 256,590	¥ 67,537	¥3,065	¥ 4,485	¥ -
Call money and bills sold	1,865,549	-	-	-	-	-
Payable under repurchase agreements	1,208,292	33,297	-	-	-	-
Payable under securities lending transactions	618,007	-	-	-	-	-
Borrowed money	397,657	932,191	495,516	-	502	173
Bonds payable	-	-	-	-	10,000	-
Total	¥18,056,029	¥1,222,079	¥563,054	¥3,065	¥14,987	¥173

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

(Millions of yen)

2018						
	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	¥13,743,926	¥ 269,132	¥ 58,656	¥ 2,526	¥ 4,112	¥ -
Call money and bills sold	1,315,936	-	-	-	-	-
Payable under repurchase agreements	52,505	21,248	31,872	-	-	-
Payable under securities lending transactions	2,140,301	-	-	-	-	-
Borrowed money	60,827	840,588	599,615	20,000	545	184
Bonds payable	10,000	-	-	-	10,000	-
Total	¥17,323,496	¥1,130,968	¥690,144	¥22,526	¥14,658	¥184

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, 2019 and 2018 were as follows:

Hedge accounting not applied

As of March 31, 2019 and 2018, 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, 2019	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥141,003	¥ 6,693	¥ 6,586
Receive/floating and pay/fixed	141,003	(5,642)	(5,547)
Receive/fixed and pay/fixed	2,000	(64)	3
Caps			
Sell	2,713	(20)	(7)
Buy	2,713	20	8
Total	-	¥ 986	¥ 1,043

(Millions of yen)

As of March 31, 2018	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥148,214	¥ 6,070	¥ 5,935
Receive/floating and pay/fixed	148,714	(4,981)	(4,861)
Caps			
Sell	2,849	(67)	(24)
Buy	2,849	67	27
Total	-	¥ 1,088	¥ 1,076

Notes to Consolidated Financial Statements

■ Currency-related transactions

(Millions of yen)			
As of March 31, 2019	Notional amount	Fair value	Gain (Loss)
Currency swaps	¥656,483	¥ 81	¥ 79
Foreign exchange contract			
Sell	46,114	314	314
Buy	38,727	(57)	(57)
Currency option			
Sell	447	(3)	(1)
Buy	447	3	1
Total	—	¥338	¥336

(Millions of yen)			
As of March 31, 2018	Notional amount	Fair value	Gain (Loss)
Currency swaps	¥762,162	¥ 88	¥ 86
Foreign exchange contract			
Sell	57,156	2,437	2,437
Buy	47,960	(2,671)	(2,671)
Currency option			
Sell	1,322	(13)	(5)
Buy	1,322	13	7
Total	—	¥ (145)	¥ (146)

■ Bonds-related transactions

(Millions of yen)			
As of March 31, 2019	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥100	¥(0)	¥(0)
Buy	—	—	—
Bond forward contracts			
Sell	—	—	—
Buy	—	—	—
Total	—	¥(0)	¥(0)

(Millions of yen)			
As of March 31, 2018	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥10,837	¥(40)	¥(40)
Buy	—	—	—
Bond forward contracts			
Sell	—	—	—
Buy	6,374	19	19
Total	—	¥(20)	¥(20)

■ Credit derivative transactions

(Millions of yen)			
As of March 31, 2019	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥53,500	¥1,127	¥1,105
Buy	2,000	(21)	(21)
Total	—	¥1,105	¥1,084

(Millions of yen)			
As of March 31, 2018	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥40,500	¥979	¥965
Buy	—	—	—
Total	—	¥979	¥965

Hedge accounting applied

As of March 31, 2019 and 2018, 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, 2019				
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		¥ 10,000	¥ 38
	Receive/ floating and pay/fixed		600,667	(28,447)
	Securitization		1,960	—
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		38,406	(1,397)
	Receive/ floating and pay/floating		35,000	(3,333)
Total			—	¥(33,139)

(Millions of yen)				
As of March 31, 2018				
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		620,989	(18,093)
	Securitization		2,300	—
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		48,989	(1,812)
	Receive/ floating and pay/floating		45,000	(4,029)
Total			—	¥(23,934)

■ Currency-related transactions

(Millions of yen)

As of March 31, 2019				
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	¥397,328	¥(1,521)
Total			—	¥(1,521)

As of March 31, 2018				
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	¥340,874	¥(658)
Total			—	¥(658)

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, 2019.

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, 2019.

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, 2019.

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, 2019.

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, 2019.

21. Related Party Transactions

There were no significant transactions with related parties to report for the fiscal years ended March 31, 2019 and 2018.

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, 2019, was approved at a shareholders meeting held on June 27, 2019 and became effective June 28, 2019:

(Millions of yen)	
Dividends on common stock (¥42.50 per share)	¥7,299

2) Overview of business integration

Effective April 1, 2019, FFG implemented a share exchange in which FFG became the wholly owing parent company and The Eighteenth Bank, Limited. (the "Eighteenth Bank") became the wholly owned subsidiary.

(1) Name and business description of the acquired company

(a) Company name: the Eighteenth Bank.

Business description: Banking business

(b) Reason for the business integration

In order to formulate an attractive market, whereby the Kyushu region works together, this aims at simultaneously realizing the vitalization of regional economy and improvement of corporate value by promoting operational efficiency utilizing the benefits of its scale in wide economic region and stabilizing the regional financial system toward the future.

(c) Date of the business integration

April 1, 2019

(d) Legal form of the business integration

Share exchange

(e) Company name following the business integration

The company name has not been changed following the business integration.

(f) Percentage of voting rights acquired

Before the share exchange	1.42%
Additional acquisition on the date of the business integration	98.58%
After the share exchange	100.00%

(g) Principal basis for determining the acquirer

This was determined based on the fact that FFG acquired the acquired company's entire voting rights.

Notes to Consolidated Financial Statements

(2) Acquisition cost of the acquired company and its breakdown by type of consideration

(Millions of yen)

Fair value of the Eighteenth Bank's common stock, which FFG owned immediately before the share exchange, on the date of the business integration	¥ 666
Fair value of FFG's common stock deemed as being delivered by FFG on the date of the business integration	46,453
Acquisition cost	¥47,120

(3) Share exchange ratio by type of shares, and its calculation method and the number of shares delivered

(a) Share exchange ratio by type of shares

FFG's common stock of 1.12 shares were allotted and delivered for each share of the Eighteenth Bank's common stock.

(b) Calculation method of the share exchange ratio

The exchange ratio was calculated upon consultation among the related parties based on the reports submitted by several financial advisors.

(c) Number of shares delivered

18,914,352 shares of common stock

(4) Difference between the acquisition cost of the acquired company and the total

acquisition cost by transaction for reaching the acquisition

Loss on step acquisitions of ¥148 million

(5) Description and amount of expenses related to the acquisition

Advisory fees, etc. of ¥537 million

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Fukuoka, Ltd.

As of March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 3,516,485	¥ 3,468,626	\$ 31,682
Call loans	838,769	409,661	7,557
Monetary claims bought	32,148	34,811	289
Trading assets	743	943	6
Money held in trust	990	1,013	8
Securities	2,149,257	2,394,706	19,364
Loans and bills discounted	9,897,843	9,512,046	89,177
Foreign exchanges	5,267	5,094	47
Other assets	146,239	144,485	1,317
Tangible fixed assets	151,409	152,572	1,364
Intangible fixed assets	11,334	10,806	102
Prepaid pension expenses	10,016	12,821	90
Customers' liabilities for acceptances and guarantees	33,760	31,143	304
Allowance for loan losses	(83,762)	(82,550)	(754)
Total assets	¥16,710,503	¥16,096,182	\$150,558
Liabilities			
Deposits	¥10,657,564	¥10,408,585	\$ 96,022
Call money	1,870,492	1,321,797	16,852
Payables under repurchase agreements	1,241,589	105,625	11,186
Payables under securities lending transactions	618,007	2,140,301	5,568
Trading liabilities	0	0	0
Borrowed money	1,483,409	1,278,824	13,365
Foreign exchanges	1,093	1,059	9
Bonds payable	10,000	10,000	90
Other liabilities	93,981	95,019	846
Provision for losses from reimbursement of inactive accounts	3,494	4,023	31
Provision for contingent liabilities losses	3	7	0
Deferred tax liabilities	4,095	12,178	36
Deferred tax liabilities for land revaluation	22,989	23,020	207
Acceptances and guarantees	33,760	31,143	304
Total liabilities	¥16,040,483	¥15,431,587	\$144,521
Net assets			
Capital stock	¥ 82,329	¥ 82,329	\$ 741
Capital surplus	60,480	60,480	544
Retained earnings	404,394	374,363	3,643
Total shareholders' equity	547,204	517,174	4,930
Valuation difference on available-for-sale securities	90,706	108,315	817
Deferred gains or losses on hedges	(19,451)	(12,527)	(175)
Revaluation reserve for land	51,560	51,631	464
Total valuation and translation adjustments	122,815	147,419	1,106
Total net assets	¥ 670,020	¥ 664,594	\$ 6,036
Total liabilities and net assets	¥16,710,503	¥16,096,182	\$150,558

Non-Consolidated Statement of Income (Unaudited)

The Bank of Fukuoka, Ltd.

For the years ended March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥103,207	¥ 99,897	\$ 929
Interest and dividends on securities	27,483	25,584	247
Interest on call loans	(284)	20	(2)
Interest on receivables under resale agreements	(0)	(0)	(0)
Interest on receivables under securities borrowing transactions	—	0	—
Interest on deposits with banks	1	2	0
Interest on interest swaps	756	207	6
Other interest income	5,563	3,209	50
Trust fees	0	0	0
Fees and commissions	35,699	36,612	321
Trading income	6	6	0
Other operating income	2,939	1,398	26
Other income	7,375	5,104	66
Total income	¥182,749	¥172,045	\$1,646
Expenses			
Interest expenses:			
Interest on deposits	¥ 4,103	¥ 4,035	\$ 36
Interest on call money	(468)	59	(4)
Interest on payables under repurchase agreements	1,731	1,904	15
Interest on payables under securities lending transactions	4,854	3,055	43
Interest on borrowing and rediscounts	1,616	857	14
Interest on bonds	195	195	1
Interest on interest swaps	9,597	7,515	86
Other interest expenses	428	408	3
Fees and commissions payments	20,425	20,013	184
Other operating expenses	11	1,625	0
General and administrative expenses	66,608	70,502	600
Other expenses	5,147	5,393	46
Total expenses	¥114,251	¥115,565	\$1,029
Income before income taxes	68,497	56,480	617
Income taxes:			
Current	16,192	15,514	145
Deferred	1,996	536	17
Total income taxes	18,189	16,051	163
Net income	¥ 50,308	¥ 40,428	\$ 453

Non-Consolidated Balance Sheet (Unaudited)

The Kumamoto Bank, Ltd.

As of March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 486,920	¥ 329,983	\$ 4,387
Call loans	2,584	2,261	23
Monetary claims bought	0	0	0
Securities	197,802	249,978	1,782
Loans and bills discounted	1,534,425	1,314,603	13,824
Foreign exchanges	865	1,043	7
Other assets	9,121	9,063	82
Tangible fixed assets	17,004	17,054	153
Intangible fixed assets	1,471	1,388	13
Prepaid pension expenses	5,117	4,219	46
Deferred tax assets	5,115	4,240	46
Customers' liabilities for acceptances and guarantees	3,790	4,073	34
Allowance for loan losses	(15,601)	(14,987)	(140)
Total assets	¥2,248,617	¥1,922,922	\$20,259
Liabilities			
Deposits	¥1,419,502	¥1,445,890	\$12,789
Call money	450,000	200,000	4,054
Borrowed money	277,800	178,000	2,502
Foreign exchanges	9	32	0
Other liabilities	4,558	3,689	41
Provision for losses from reimbursement of inactive accounts	623	571	5
Deferred tax liabilities for land revaluation	1,370	1,377	12
Acceptances and guarantees	3,790	4,073	34
Total liabilities	¥2,157,655	¥1,833,634	\$19,440
Net assets			
Capital stock	¥ 33,847	¥ 33,847	\$ 304
Capital surplus	33,847	33,847	304
Retained earnings	18,439	15,682	166
Total shareholders' equity	86,133	83,376	776
Valuation difference on available-for-sale securities	4,010	4,867	36
Deferred gains or losses on hedges	(278)	(66)	(2)
Revaluation reserve for land	1,095	1,111	9
Total valuation and translation adjustments	4,828	5,912	43
Total net assets	¥ 90,961	¥ 89,288	\$ 819
Total liabilities and net assets	¥2,248,617	¥1,922,922	\$20,259

Non-Consolidated Statement of Income (Unaudited)

The Kumamoto Bank, Ltd.

For the years ended March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥16,017	¥16,247	\$144
Interest and dividends on securities	1,637	1,818	14
Interest on call loans	75	43	0
Interest on deposits with banks	0	0	0
Other interest income	163	161	1
Fees and commissions	5,104	5,495	45
Other operating income	61	56	0
Other income	707	1,782	6
Total income	¥23,766	¥25,604	\$214
Expenses			
Interest expenses:			
Interest on deposits	¥ 127	¥ 610	\$ 1
Interest on call money	(230)	(33)	(2)
Interest on borrowing and rediscounts	0	0	0
Interest on interest swaps	47	6	0
Other interest expenses	10	11	0
Fees and commissions payments	3,731	3,702	33
Other operating expenses	11	9	0
General and administrative expenses	14,125	14,164	127
Other expenses	1,446	711	13
Total expenses	¥19,270	¥19,182	\$173
Income before income taxes	4,495	6,421	40
Income taxes:			
Current	1,159	710	10
Deferred	(429)	722	(3)
Total income taxes	730	1,432	6
Net income	¥ 3,765	¥ 4,989	\$ 33

Non-Consolidated Balance Sheet (Unaudited)

The Shinwa Bank, Ltd.

As of March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 495,655	¥ 378,051	\$ 4,465
Call loans	2,358	3,599	21
Monetary claims bought	0	0	0
Trading account securities	227	125	2
Securities	589,680	693,875	5,312
Loans and bills discounted	1,720,082	1,550,739	15,497
Foreign exchanges	2,027	697	18
Other assets	24,112	23,622	217
Tangible fixed assets	43,268	44,441	389
Intangible fixed assets	2,244	1,956	20
Prepaid pension expenses	3,711	4,740	33
Deferred tax assets	1,256	—	11
Customers' liabilities for acceptances and guarantees	5,750	4,929	51
Allowance for loan losses	(13,676)	(12,796)	(123)
Total assets	¥2,876,700	¥2,693,982	\$25,918
Liabilities			
Deposits	¥2,281,930	¥2,275,857	\$20,559
Call money	380,000	200,000	3,423
Borrowed money	64,107	64,279	577
Foreign exchanges	65	90	0
Other liabilities	6,686	6,814	60
Provision for losses from reimbursement of inactive accounts	1,424	1,343	12
Deferred tax liabilities	—	1,476	—
Deferred tax liabilities for land revaluation	4,336	4,378	39
Acceptances and guarantees	5,750	4,929	51
Total liabilities	¥2,744,301	¥2,559,169	\$24,725
Net assets			
Capital stock	¥ 36,878	¥ 36,878	\$ 332
Capital surplus	36,878	36,878	332
Retained earnings	30,053	27,259	270
Total shareholders' equity	103,809	101,016	935
Valuation difference on available-for-sale securities	14,831	19,533	133
Deferred gains or losses on hedges	(563)	(146)	(5)
Revaluation reserve for land	14,321	14,409	129
Total valuation and translation adjustments	28,589	33,796	257
Total net assets	¥ 132,399	¥ 134,812	\$ 1,192
Total liabilities and net assets	¥2,876,700	¥2,693,982	\$25,918

Non-Consolidated Statement of Income (Unaudited)

The Shinwa Bank, Ltd.

For the years ended March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥18,052	¥18,778	\$162
Interest and dividends on securities	5,192	5,447	46
Interest on call loans	84	110	0
Interest on deposits with banks	0	0	0
Other interest income	303	310	2
Fees and commissions	7,012	7,755	63
Other operating income	216	166	1
Other income	1,191	5,230	10
Total income	¥32,052	¥37,800	\$288
Expenses			
Interest expenses:			
Interest on deposits	¥ 185	¥ 731	\$ 1
Interest on call money	(199)	(33)	(1)
Interest on payables under securities lending transactions	—	0	—
Interest on borrowing and rediscounts	1	33	0
Interest on interest swaps	95	13	0
Other interest expenses	0	0	0
Fees and commissions payments	4,331	4,245	39
Other operating expenses	18	58	0
General and administrative expenses	19,767	20,486	178
Other expenses	2,077	1,444	18
Total expenses	¥26,279	¥26,980	\$236
Income before income taxes	5,773	10,819	52
Income taxes:			
Current	2,304	1,140	20
Deferred	(610)	1,206	(5)
Total income taxes	1,693	2,346	15
Net income	¥ 4,079	¥ 8,472	\$ 36

Non-Consolidated Balance Sheet (Unaudited)

The Eighteenth Bank, Ltd.

As of March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 172,224	¥ 281,830	\$ 1,551
Monetary claims bought	120	142	1
Trading assets	153	133	1
Money held in trust	10,000	12,156	90
Securities	802,669	931,002	7,231
Loans and bills discounted	1,885,188	1,670,384	16,985
Foreign exchanges	2,693	3,265	24
Other assets	28,310	25,327	255
Tangible fixed assets	33,195	33,524	299
Intangible fixed assets	1,206	1,146	10
Prepaid pension expenses	985	942	8
Customers' liabilities for acceptances and guarantees	9,264	4,720	83
Allowance for loan losses	(16,205)	(16,839)	(146)
Total assets	¥2,929,806	¥2,947,737	\$26,397
Liabilities			
Deposits	¥2,632,215	¥2,631,039	\$23,715
Call money	—	11,261	—
Payables under repurchase agreements	61,297	—	552
Payables under securities lending transactions	39,075	118,048	352
Borrowed money	2,897	4,466	26
Foreign exchanges	75	182	0
Other liabilities	13,895	11,203	125
Provision for bonuses for directors	74	74	0
Provision for contingent liabilities losses	156	126	1
Provision for losses from reimbursement of inactive accounts	569	471	5
Deferred tax liabilities	2,683	2,035	24
Deferred tax liabilities for land revaluation	5,371	5,382	48
Acceptances and guarantees	9,264	4,720	83
Total liabilities	¥2,767,577	¥2,789,015	\$24,935
Net assets			
Capital stock	¥ 24,404	¥ 24,404	\$ 219
Capital surplus	19,914	19,914	179
Retained earnings	89,547	87,467	806
Treasury stock	—	(698)	—
Total shareholders' equity	133,866	131,088	1,206
Valuation difference on available-for-sale securities	17,663	17,887	159
Deferred gains or losses on hedges	(8)	(925)	(0)
Revaluation reserve for land	10,707	10,670	96
Total valuation and translation adjustments	28,362	27,633	255
Total net assets	¥ 162,228	¥ 158,721	\$ 1,461
Total liabilities and net assets	¥2,929,806	¥2,947,737	\$26,397

Non-Consolidated Statement of Income (Unaudited)

The Eighteenth Bank, Ltd.

For the years ended March 31, 2019 and 2018

	2019	2018	2019
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥17,651	¥18,264	\$159
Interest and dividends on securities	10,452	10,302	94
Interest on call loans	(11)	(18)	(0)
Interest on deposits with banks	88	89	0
Other interest income	67	126	0
Fees and commissions	6,832	6,756	61
Other operating income	2,569	1,561	23
Other income	2,672	1,638	24
Total income	¥40,322	¥38,720	\$363
Expenses			
Interest expenses:			
Interest on deposits	¥ 377	¥ 683	\$ 3
Interest on call money	213	322	1
Interest on payables under repurchase agreements	634	—	5
Interest on payables under securities lending transactions	653	790	5
Interest on borrowing and rediscounts	5	8	0
Interest on interest swaps	450	526	4
Other interest expenses	0	4	0
Fees and commissions payments	4,407	4,222	39
Other operating expenses	2,739	832	24
General and administrative expenses	22,045	22,965	198
Other expenses	2,218	1,441	19
Total expenses	¥33,745	¥31,796	\$304
Income before income taxes	6,576	6,923	59
Income taxes:			
Current	2,375	1,499	21
Deferred	90	303	0
Total income taxes	2,466	1,802	22
Net income	¥ 4,110	¥ 5,120	\$ 37

Corporate Data

Company Outline (as of March 31, 2019)

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	6,717 (Consolidated)
Telephone Number	+81-92-723-2500
Website	https://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	3,718
Telephone Number	+81-92-723-2131
Website	https://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

Representative Office Registered in Singapore

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 U.S.A.
+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
+84-28-3822-2802

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	879
Telephone Number	+81-96-385-1111
Website	https://www.kumamotobank.co.jp/

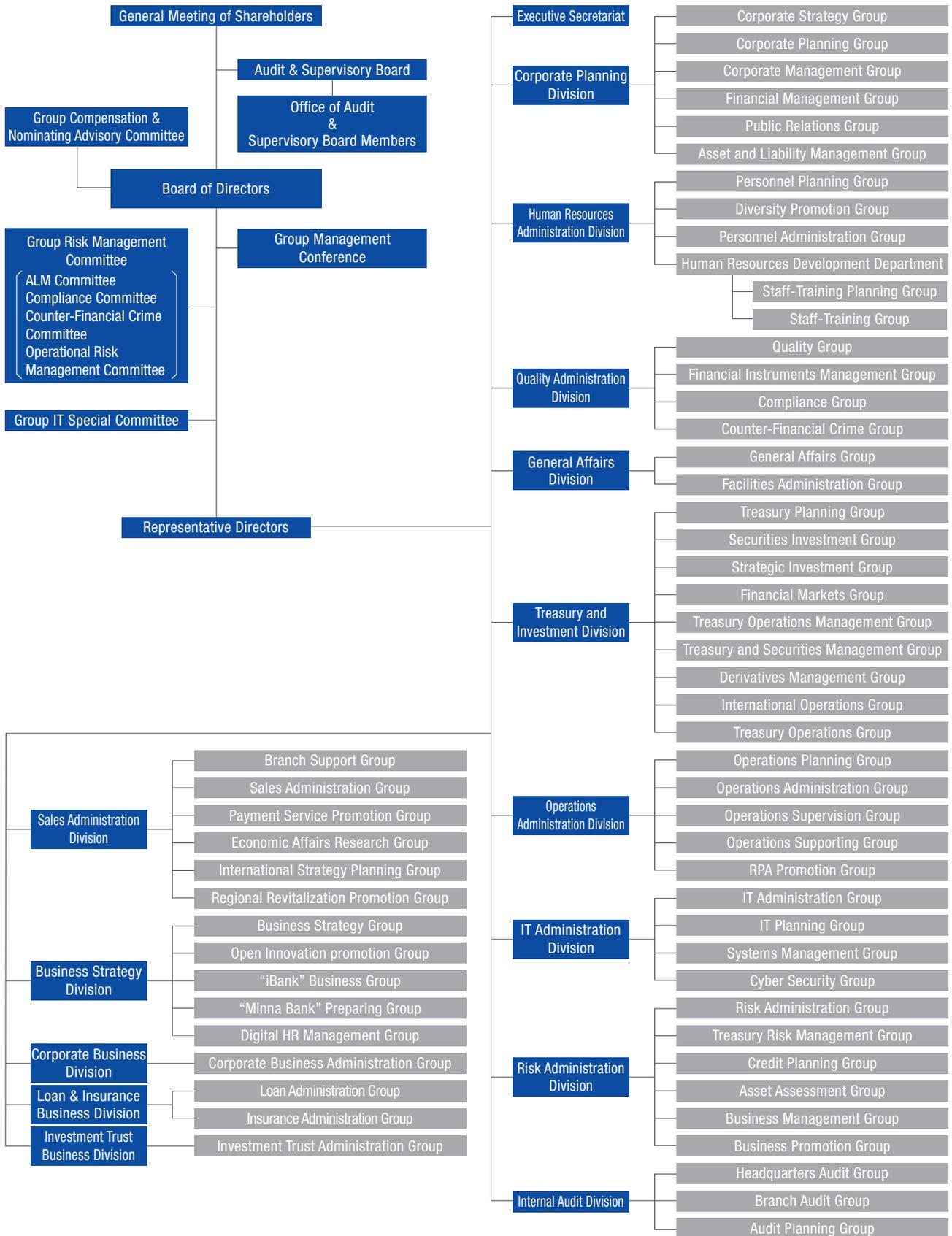
The Shinwa Bank, Ltd.

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	1,160
Telephone Number	+81-956-24-5111
Website	https://www.shinwabank.co.jp/

THE EIGHTEENTH BANK, LTD.

Head Office	1-11, Douzacho, Nagasaki 850-0841, Japan
Date of Establishment	September, 1945
Paid-in Capital	¥24.4 billion
Number of Employees	1,289
Telephone Number	+81-95-824-1818
Website	https://www.18bank.co.jp/

Organizational Chart (as of October 1, 2019)



Group Company Chart (as of November 1, 2019)



Share Information (as of March 31, 2019)

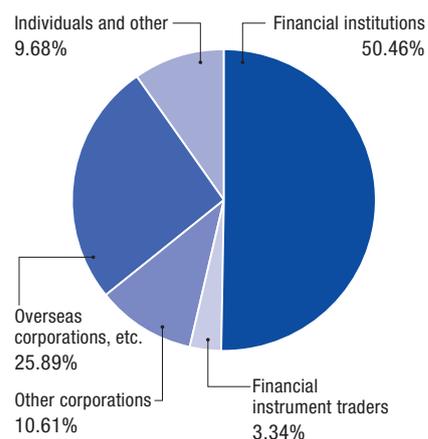
Investor Information

	Common stock
Number of authorized shares	360,000,000
Number of shares Issued	171,952,373

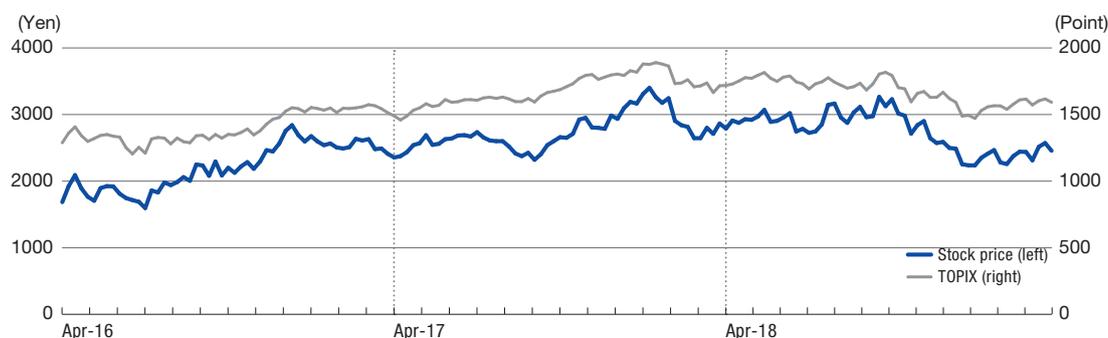
Major Shareholders

	(Thousands of shares, %)	
	Shares held	Ratio of shares held to issued number of shares
The Master Trust Bank of Japan, Ltd. (Trust account)	15,636	9.10
Japan Trustee Services Bank, Ltd. (Trust account)	13,097	7.62
Japan Trustee Services Bank, Ltd. (Trust account 9)	6,546	3.81
Japan Trustee Services Bank, Ltd. (Trust account 4)	3,624	2.11
Nippon Life Insurance Company	3,544	2.06
Meiji Yasuda Life Insurance Company	3,543	2.06
Sumitomo Life Insurance Company	3,483	2.02
The Dai-ichi Life Insurance Company, Limited	3,463	2.01
Japan Trustee Services Bank, Ltd. (Trust account 5)	3,139	1.82
STATE STREET BANK WEST CLIENT - TREATY 505234	2,318	1.35

Common Stock Distribution by Type of Shareholder



Stock Price



	FY2016	FY2017	FY2018
High (Yen)	2,855	3,470	3,370
Low (Yen)	1,585	2,265	2,117
Closing price as of March 31 (Yen)	2,410	2,865	2,456

* A one-for-five reverse stock split of our common stock was conducted on October 1, 2018 as the effective date. The above stock prices are calculated by multiplying prices before October 2018 by five.



Fukuoka Financial Group, Inc.