

September 28, 2007

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Creation of the “Second Mid-Term Management Plan” of the Fukuoka Financial Group

The Fukuoka Financial Group (Masaki Tani, Chairman & President), to pursue further business growth after the Shinwa Bank joins the group as a 100% subsidiary (October 1, 2007), renewed its mid-term management plan and compiled the “Second Mid-term Management Plan”(period: two and a half years from October 1, 2007 to March 31, 2010). The Bank of Fukuoka, the Kumamoto Family Bank and the Shinwa Bank also drew up their respective mid-term management plan in line with the group’s new plan. This newsletter is to inform the outline of these plans.

Based on the plan, the Fukuoka Financial Group (FFG), as a board area-based regional financial group, will carry out unified management strategies and offer substantial services through a broader network. By sharing a business model that makes the most of its management resources, the group will realize synergy effects after the management integration at the earliest possible date.

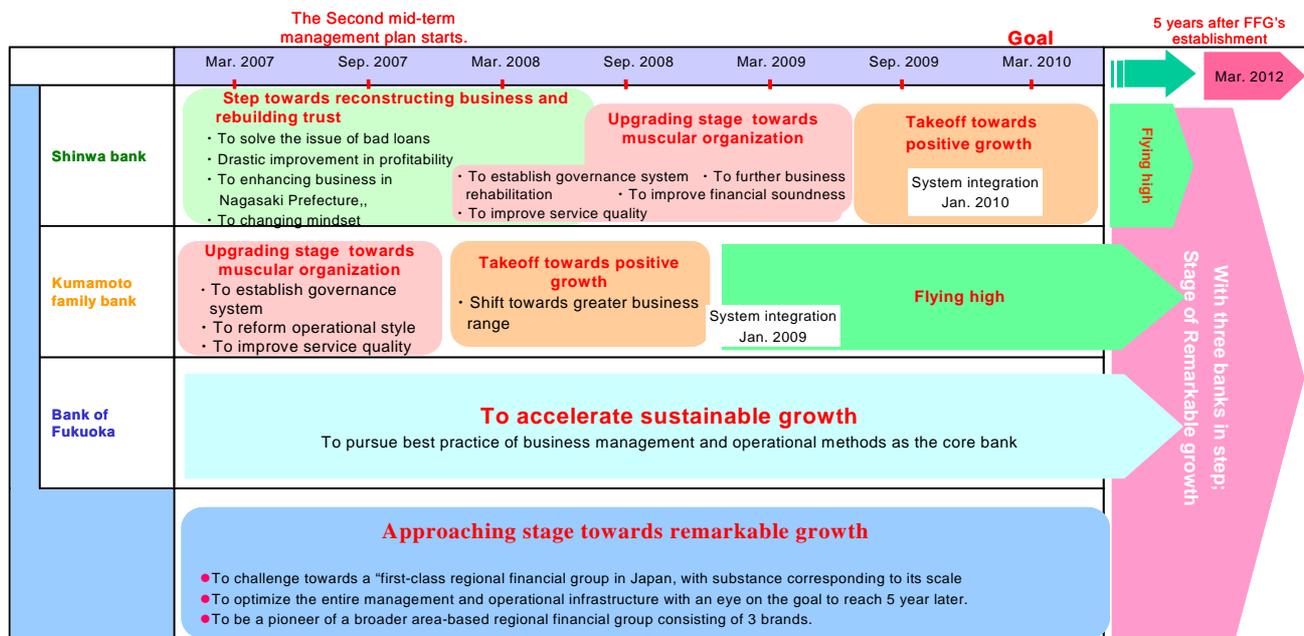
1.FFG Management Principle and Group Brand Strategy

FFG shares a uniform management principle, and create value for all our stakeholders, including shareholders, local communities, customers, and employees. Also, to clearly show its corporate vision and value it can offer, the group specifies its management principle and promotes the integration of its branding strategy through communication inside and outside of the group.

<p>FFG Management Principle</p> <p>FFG will become a financial group that creates values for all stakeholders by:</p> <p>Enhancing perception and taking actions without fear of failure</p> <p>Pursuing high quality for future progress, and</p> <p>Bolstering people’s optimum choice.</p>	<p>Core value</p> <p>Your closest bank Your reliable bank Your sophisticated bank</p> <p>Group brand slogan</p> <p>To be your favorite</p>
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2. The Plan’s position and FFG Corporate Vision

When the group was established in April 2007, FFG prepared the “First Mid-term Management Plan”. And this October,the Shinwa Bank is to join the group as a 100% subsidiary. In response to this new development, FFG designed the “Second Mid-term Management Plan” to start anew.



Having burdened by nonperforming loans after a bubble burst, the Shinwa Bank could not take aggressive steps to expand its business or stop its earning base from dwindling. Joining the FFG this October, now the bank is to work on “solving the issue of bad loans” and “drastic improvement in profitability”. Under the Second Mid-term Management Plan, the bank will make full use of the group’s know-how in the disposal of non-performing loans, “solving the issue of bad loans”, rehabilitate its business, restore trust in the bank among local communities and customers. Furthermore, the bank will improve its financial soundness and the quality of services, and thereby expand its customer base as well as establish a system to ensure positive growth.

The Kumamoto Family Bank has utilized the group’s know-how in bad loan disposal and is in the process of improving its financial conditions. The bank abolished the previous structure that prevented it from concentrating on business, is tackling with reforming its operating style, and is gradually seeing results. The Kumamoto Family Bank considers the second mid-term management plan as the one for a stage to ensure growth towards the next stage, in which the group will work together for further and remarkable growth. Considering this, the bank sets realistic and relatively attainable targets in the plan.

As seen above, the mid-term management plan is the one for an “approaching stage” towards the next “stage for remarkable growth”. Meanwhile, the Bank of Fukuoka will accelerate its sustainable growth as the core bank of the group and also the driving force to enhance the earning capacity of the group.

The group aims to be one of the “first-class regional financial groups in Japan” with substance corresponding to its scale by providing advanced and high quality services, expanding its customer base, contributing to local communities and realizing the sustainable growth of its corporate value. The “Second Mid-term Management Plan” was designed to realized such vision.

		The final year of the second Mid-Term (FY2009)	Future vision (5 years later)
Asset size	Total assets	12 trillion yen	13 trillion yen
	Total loans	8.4 trillion yen	Around 9.5 trillion yen
	Deposits and CDs	10.7 trillion yen	Around 11.5 trillion yen
profitability	Total core business profit of the three banks	100 billion yen	120 billion yen or more
	FFG's consolidated net income	50 billion yen	65 billion yen or more
Efficiency	ROE	Mid 7%	Mid 8%
	OHR	The first half of 50%	In the range of 40%
Financial status	Nonperforming loan ratio	Mid 2%	In the range of 1%
	Capital adequacy ratio	Around 9%	In the range of 10%

3. Principle of the FFG “Second Mid-term Management Plan”

Under the “Second Mid-term Management Plan”, FFG will expand its customer base by establishing a unified management system and carrying out management strategies integrated under the group. Also, the group will maximize the synergy effect after the business integration at the earliest possible date by 1) pursuing merits brought about by sharing business processes and IT systems, and 2) utilizing greater human resources. The above describes the group’s principle.

[Basic Policy]

- **Establishment of a unified management system for the group**
- **Rapid achievement and maximization of the synergy effect by integration**
- **Creation of FFG corporate culture**

4. Management Plan Period

Period : Two and a half years from October 1, 2007 to March 31, 2010

5. Grand Strategy and Gist of Actions and Tactics

The Grand Strategy of the FFG “Second Mid-term Management Plan” consists of six strategies: Marketing Strategy, Risk Management Strategy, Business Process Strategy, IT Strategy, Human Resources Strategy and Quality Strategy.

Marketing Strategy is designed to implement a “broader area strategy” and expand the customer base by building a unified system for product and marketing development as well as utilizing well-developed networks of the 3 subsidiary banks.

The Risk Management Strategy is designed to establish a group risk management system by reinforcing the level of risk management so that the group can control various risks in a coordinated manner based on a unified perspective. The Business Process Strategy is designed to make business processes more efficient throughout the group by unifying the rules and systems for the business process of the three banks. The IT Strategy is designed to establish a competitive IT infrastructure by integrating the systems of the three banks. The Human Resources Strategy is designed to implement strategic allocations of human resources and reinforce sales forces. The Quality Strategy is designed to establish a group brand and build a sense of unity under the FFG Management Principle shared by the three banks, while establishing, as one of the most important business challenge of the group, a system to strictly maintain compliance.

FFG	Grand Strategy	Gist of Actions/Tactics
Bank of Fukuoka	Marketing Strategy	<ul style="list-style-type: none"> To unify products and marketing development processes Multi-brand (3-brand) marketing targeting a broader area Strategic use of the group’s channels
	Risk Management Strategy	<ul style="list-style-type: none"> To establish a group-wide risk management system To clean up non-performing loans
Kumamoto family bank	Business Process Strategy	<ul style="list-style-type: none"> To unify business rules and processes To improve efficiency by concentrating office work at the back office.
	IT Strategy	<ul style="list-style-type: none"> To integrate systems of the three banks To establish a competitive group-wide IT infrastructure
Shinwa bank	Human Resources Strategy	<ul style="list-style-type: none"> Strategic re-allocation of the human resources Human resource development
	Quality Strategy	<ul style="list-style-type: none"> To reinforce the group’s compliance system To build a sense of unity by establishing a brand

6. Management Target

The business target of the FFG “Second Mid-term Management Plan” in the final fiscal year (FY2009) consists of the following 4 management indices: “Consolidated net income”, “Consolidated nonperforming loans ratio”, “Consolidated ROE” and the “Total OHR of the three banks”.

Besides 4 management indices, the table below include the levels of “consolidated capital adequacy ratio” and “consolidated Tier I ratio”, which are estimated based on the scenarios envisioned in the FFG “Second Mid-term Management Plan”.

		FY2007	FY2008	FY2009	<Increased interest rate> FY2009
Target	Consolidated net income	31.0 billion yen	38.5 billion yen	50.0 billion yen	60.0 billion yen
	Consolidated nonperforming loans ratio	The latter half of 4%	Around 3%	Mid 2%	Mid 2%
	Consolidated ROE	Mid 5%	Around 6%	Mid 7%	Mid 8%
	Total OHR of the three bank	The latter half of 50%	Mid 50%	The first half of 50%	The latter half of 40%
Other indexes	Consolidated capital adequacy ratio	Mid 8%	The latter half of 8%	Around 9%	Around 9%
	Consolidated Tier I ratio	Around 5%	Mid 5%	Around 6%	Around 6%

Reference: Simple tally of the three banks

		FY2007	FY2008	FY2009	FY2009
Total of 3 banks	Core business profit	77.4 billion yen	94.0 billion yen	100.0 billion yen	117.0 billion yen
	Net income	25.4 billion yen	46.5 billion yen	57.5 billion yen	68.0 billion yen
	Nonperforming loan ratio	The latter half of 4%	Around 3%	Mid 2%	Mid 2%
	OHR	The latter half of 50%	Mid 50%	The first half of 50%	The latter half of 40%
	Balance of loans to SMEs & retail	6.0 trillion yen	6.2 trillion yen	6.4 trillion yen	6.4 trillion yen
Bank of Fukuoka	Core business profit	62.5 billion yen	68.5 billion yen	75.0 billion yen	90.5 billion yen
	Net income	23.0 billion yen	36.0 billion yen	40.5 billion yen	49.5 billion yen
	Nonperforming loan ratio	Around 2%	The latter half of 1%	Mid 1%	Mid 1%
	OHR	Mid 50%	The first half of 50%	The latter half of 40%	The first half of 40%
	Balance of loans to SMEs & retail	4.1 trillion yen	4.3 trillion yen	4.5 trillion yen	4.5 trillion yen
Kumamoto family bank	Core business profit	8.1 billion yen	9.5 billion yen	10.5 billion yen	11.0 billion yen
	Net income	0.5 billion yen	3.0 billion yen	7.0 billion yen	7.5 billion yen
	Nonperforming loan ratio	Around 4%	The first half of 3%	The latter half of 2%	The latter half of 2%
	OHR	The latter half of 60%	Mid 60%	The first half of 60%	The first half of 60%
	Balance of loans to SMEs & retail	850.0 billion yen	880.0 billion yen	900.0 billion yen	900.0 billion yen
Shinwa bank	Core business profit	6.8 billion yen	13.0 billion yen	14.5 billion yen	15.5 billion yen
	Net income	3.5 billion yen	7.5 billion yen	10.0 billion yen	11.0 billion yen
	Nonperforming loan ratio	Mid 15%	Around 7%	The latter half of 5%	The latter half of 5%
	OHR	The latter half of 60%	The latter half of 60%	The first half of 60%	The first half of 60%
	Balance of loans to SMEs & retail	1.1 trillion yen	1.0 trillion yen	1.0 trillion yen	1.0 trillion yen

* As for the profit and loss of the Shinwa Bank, only the figures of the latter half of FY2007 are listed.

* Non-performing loan ratios are the figures after partial write-off.

* Prerequisites (an interest-rate scenario)

<Leveled- off interest rate>

: Latter half of FY2007 O/N interest rate:0.50%, one-year TIBOR:0.85, ten-year SWAP:1.85%

: after 2008 O/N interest rate: 0.75%, one-year TIBOR:1.15%, ten-year SWAP:1.90%

<Increased interest rate>

: O/N interest rate: 0.75%-1.75%, one-year TIBOR:1.15%-2.00%, ten-year SWAP:1.90%-2.55%

7. Dividend Policy

While aiming at becoming a financial group that can create values for all stakeholders, FFG has introduced a performance-based dividend payment in response to shareholders' expectations, and plans to pay dividends based on the level of the consolidated current net income, starting in the period ending on March 31, 2008.

Level of consolidated current net income	Per share dividend (Reference value)
Below 25 billion yen	Per year 7 yen -
25 - 30 billion yen	Per year 8 yen -
30 - 35 billion yen	Per year 9 yen -
35 - 40 billion yen	Per year 10 yen -
40 - 45 billion yen	Per year 11 yen -
45 - 50 billion yen	Per year 12 yen -
50 - 55 billion yen	Per year 13 yen -
Over 55 billion yen	Per year 14 yen -

However, these are subject to change depending on business development and risk environments, etc.

8. Mid-Term Management Plan for Subsidiary Banks

In response to the creation of the FFG “Second Mid-term Management Plan”, the Bank of Fukuoka, the Kumamoto Family Bank and the Shinwa Bank drew up their respective mid-term management plan.

Based on their mid-term management plan, the three banks aim to expand their customer base by implementing the Marketing Strategy taking advantage of their respective strengths, offering high-level financial services by drawing upon the group’s superior ability, and improving service quality.

(1) Mid-Term Management Plan for the Bank of Fukuoka

a. Gist of the Mid-Term Management Plan

(1) Naming, Plan Period	(4) Target indexes (FY2009)	Leveled-off interest rate	Increased interest rate
“Mid-Term Management Plan 2008” Period: Oct. 2007- Mar. 2010 (“2.5 years”)	Core business profit	75.0 billion yen	90.5 billion yen
(2) Bank Vision	Net income	40.5 billion yen	49.5 billion yen
“Beyond Your Expectation”	Nonperforming loans ratio	In the range of 1%	In the range of 1%
(3) Basic Policy	O H R	The latter half of 40%	The first half of 40%
“Full Fledged Development of Knowledge and Actions”	Balance of loans to SMEs & retail	4.5 trillion yen	4.5 trillion yen

b. Strategy and Actions

The Mid-term Management Plan of the Bank of Fukuoka is designed to translate “service quality improvement” into “customer quality improvement”. Also the bank will implement strategies and actions to achieve a 30% share in Fukuoka Prefecture.

The Marketing Strategy is designed to offer the whole lines of corporate services by providing competitive products and exploiting marketing forces, and develop business models for SEMs and retail businesses mainly based on cross-selling.

The Risk Management Strategy is designed to establish a system for integrated control of risks and returns. The Business Process Strategy is designed to implement business process reforms to improve user satisfaction. The IT strategy is designed to establish an IT infrastructure to support the Marketing Strategy. The Human Resources Strategy is designed to reinforce training facilities and re-establish training systems for the enhancement and strategic allocation of human capital. And the Quality Strategy is designed to reform the current corporate culture by raising awareness among the group of the group’s management principle and branding, as well as to reinforce the compliance system.

Grand Strategy	Gist of Actions/Tactics
Marketing Strategy	<ul style="list-style-type: none"> ● To promote marketing by offering the whole lines of products and services ● To implement general marketing with competitive products and services
Risk Management Strategy	<ul style="list-style-type: none"> ● To establish a system to control risks and returns ● To establish an integrated system for risk management
Business Process Strategy	<ul style="list-style-type: none"> ● To reform Business process to increase user satisfaction ● To integrate business processes in the group
IT Strategy	<ul style="list-style-type: none"> ● To establish IT infrastructure that supports the sales base ● To enhance functions of the system infrastructure
Human Resources Strategy	<ul style="list-style-type: none"> ● Enhancement and strategic allocation of human capital ● To develop human resources and enhance marketing forces by utilizing training facilities
Quality Strategy	<ul style="list-style-type: none"> ● To reform corporate culture ● To reinforce the existing compliance system

(2) Mid-Term Management Plan for the Kumamoto Family Bank

a. Gist of the Mid-Term Management Plan

(1) Naming, Plan Period	(4) Target indexes(FY2009)	Leveled-off interest rate	Increased interest rate
"Mid-Term Management Plan 2008" Period: Oct. 2007-Mar. 2010 ("2.5 years")	Core business profit	10.5 billion yen	11.0 billion yen
(2) Bank Vision	Net income	7.0 billion yen	7.5 billion yen
"Bank vital to the region"	Nonperforming loans ratio	In the range of 2%	In the range of 2%
(3) Basic Policy	O H R	The first half of 60%	The first half of 60%
"Aggressive and disciplined management"	Balance of loans to SMEs & retail	900 billion yen	900 billion yen

b. Strategy and Actions

The Mid-term Management Plan of the Kumamoto Family Bank is designed to expand its customer base based on the integrated marketing strategy and by using the group's broad networks & advanced financial products and services, pursue high efficiency through business process sharing and improve the risk management system.

The Marketing Strategy is designed to further enhance face-to-face sales, which is one of the strengths of the Kumamoto Family Bank, and implement actions focused on retail businesses in Kumamoto Prefecture.

The Risk Management Strategy is designed to upgrade risk management and to build a risk management system. The Business Process Strategy and the IT strategy are designed to unify business processes and integrate systems with the Bank of Fukuoka to improve efficiency. The Human Resources Strategy is designed to nurture human resources by the entire group for the enhancement and strategic allocation of human capital. And the Quality Strategy is designed to reform corporate culture by increasing awareness among the group of the group's management principle and branding, as well as reinforce the compliance system.

Grand Strategy	Gist of Actions/Tactics
Marketing Strategy	<ul style="list-style-type: none"> ● To reform marketing style ● To focus on face-to-face retail marketing, which is the bank's strength
Risk Management Strategy	<ul style="list-style-type: none"> ● To establish a risk management system ● To enhance credit risk management
Business Process Strategy	<ul style="list-style-type: none"> ● To integrate its business process with that of the Bank of Fukuoka ● To realize business process integration within the group and improve efficiency
IT Strategy	<ul style="list-style-type: none"> ● To realize system integration with the Bank of Fukuoka ● To enhance the existing system risk management scheme
Human Resources Strategy	<ul style="list-style-type: none"> ● Enhancement and strategic allocation of human capital ● To develop human resources by utilizing the group's strengths
Quality Strategy	<ul style="list-style-type: none"> ● To reform corporate culture ● To reinforce the compliance system

(2) Mid-Term Management Plan for the Shinwa Bank

a. Gist of the Mid-Term Management Plan

(1) Naming, Plan Period	(4) Target indexes (FY2009)	Leveled-off interest rate	Increased interest rate
"Mid-Term Management Plan 2008" Period: Oct. 2007-Mar. 2010 (2.5 years)	Core business profit	14.5 billion yen	15.5 billion yen
(2) Bank Vision	N e t i n c o m e	10.0 billion yen	11.0 billion yen
"Bank that develops and grows with local community"	Nonperforming loans ratio	In the range of 5%	In the range of 5%
(3) Basic Policy	O H R	The first half of 60%	The first half of 60%
"Reform and Evolution"	Balance of loans to S M E s & r e t a i l	1.0 trillion yen	1.0 trillion yen

b. Strategy and Actions

The Mid-term Management Plan of the Shinwa Bank is designed to "solving the issue of bad loans" and simultaneously "drastic improvement in profitability", both of which are the greatest challenges the bank is facing, by using the know-how that the Bank of Fukuoka has accumulated. The Shinwa Bank is determined to implement following measures to be the best bank in Nagasaki Prefecture that can provide high-quality financial services to local people on a stable basis.

The Marketing Strategy is designed to invest its marketing resources intensively into the prefecture, promote marketing activities by using the group's strengths, and drastically enhance the earning capacity, which will lead to higher service quality and broader customer base.

The Risk Management Strategy is designed to solve the issue of loans by using FFG's know-how and early achievement of bad loan disposal and business rehabilitation of corporate customers. The bank also strives to improve its risk management and build a risk management system. The Business Process Strategy and IT Strategy are designed to realize business process unification and system integration with the Bank of Fukuoka to improve efficiency. The Human Resource Strategy is designed to nurture human resources by the group for the enhancement and strategic allocation of human capital. And the Quality Strategy is designed to reform corporate culture by increasing awareness of the group's management principle and branding, as well as reinforce the compliance system.

Grand Strategy	Gist of Actions/Tactics
Marketing Strategy	<ul style="list-style-type: none"> ● To enhance earning capacity drastically ● To further exploit the customer base in Nagasaki Prefecture and become the best bank in the prefecture
Risk Management Strategy	<ul style="list-style-type: none"> ● To solve the issue of bad loans ● To establish an integrated risk management system
Business Process Strategy	<ul style="list-style-type: none"> ● To unify business processes with the Bank of Fukuoka ● To realize business process integration within the group and improve efficiency
IT Strategy	<ul style="list-style-type: none"> ● To realize system integration with the Bank of Fukuoka ● To enhance the existing system risk management scheme
Human Resources Strategy	<ul style="list-style-type: none"> ● Enhancement and strategic allocation of human capital ● To develop human resources by utilizing the group's strengths
Quality Strategy	<ul style="list-style-type: none"> ● To reform corporate culture ● To reinforce the compliance system

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