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Revision of the Target Management Indices Contained in the “Second Mid-term Management Plan”

On October 1, 2007, the Fukuoka Financial Group (Masaaki Tani, Chairman of the Board & President) started its Second Mid-term Management Plan (two-and-a-half-year period until March 31, 2010), and has since carried out various measures aimed at achieving a first-class regional financial group in Japan.

In the Second Mid-term Management Plan, we set target values for net income and various other management indices culminating in the final fiscal year of the plan. However, there are now considerable disparities in the levels of market interest rates, stock prices and other factors underlying the assumptions, between when the plan was first developed and now. Furthermore, this situation is expected to continue. Given these environmental changes, we have resolved to review the interest rate scenario on which the plan has been premised, and to revise the target management indices contained in the Second Mid-term Management Plan taking into account the current situation.

There are no changes to the basic policy or key measures of the Second Mid-term Management Plan. We will continue to engage in the “establishment of a unified management system for the group,” the “rapid achievement and maximization of the synergy effect by integration” and the “creation of FFG corporate culture” as a wide-area-development type regional financial group based on three brands (Bank of Fukuoka, Kumamoto Family Bank, Shinwa Bank).

1. Revised target management indices

We have set the following four indices as target management indices in the Second Mid-term Management Plan: consolidated net income, consolidated nonperforming loans ratio, consolidated ROE, and total OHR of 3 banks. We have also set the following as other indices that indicate future prospects: consolidated capital adequacy ratio, and consolidated Tier I ratio. Following are the revised target values for each of the indices.

[FFG Second Mid-term Management Plan target management indices]

		Before revision		After revision		
		FY2008	FY2009	FY2008	FY2009	Before-after comparison
Target management indices	Consolidated net income	38.5 billion yen	50.0 billion yen	25.0 billion yen	33.0 billion yen	- 17.0 billion yen
	Consolidated NPL ratio	Around 3%	Mid 2% range	Around 3%	Mid 2% range	No change
	Consolidated ROE	Around 6%	Mid 7% range	High 4% range	Around 6%	Around - 1%
	Total OHR of 3 banks	Mid 50% range	Low 50% range	High 50% range	Mid 50% range	Around + 3%
Other indices	Capital adequacy ratio	High 8% range	Around 9%	High 8% range	Around 9%	No change
	Tier I ratio	Mid 5% range	Around 6%	Mid 5% range	Around 6%	No change

Notes: 1. The “before revision” figures are based on a leveled-off interest rate scenario (main scenario in the mid-term plan).
 2. The NPL ratio is after partial direct write-off.

The following have also been set as target management indices for each of the group's subsidiary banks (Bank of Fukuoka, Kumamoto Family Bank, Shinwa Bank): core business profit, net income, NPL ratio, OHR, and balance of loans to SMEs & retail. These targets have also been revised as below.

[Subsidiary bank Mid-term Management Plan target management indices]

		Before revision		After revision		
		FY2008	FY2009	FY2008	FY2009	Before-after comparison
☞ bank simple aggregate	Core business profit	91.0 billion yen	100.0 billion yen	81.5 billion yen	88.5 billion yen	- 11.5 billion yen
	Net income	46.5 billion yen	57.5 billion yen	33.5 billion yen	43.0 billion yen	- 14.5 billion yen
	NPL ratio	Around 3%	Mid 2% range	Around 3%	Mid 2% range	No change
	OHR	Mid 50% range	Low 50% range	High 50% range	Mid 50% range	Around + 3%
	Balance of loans to SMEs & retail	6.2 trillion yen	6.4 trillion yen	6.2 trillion yen	6.4 trillion yen	- 20.0 billion yen
Bank of Fukuoka	Core business profit	68.5 billion yen	75.0 billion yen	62.0 billion yen	67.5 billion yen	- 7.5 billion yen
	Net income	36.0 billion yen	40.5 billion yen	30.0 billion yen	33.5 billion yen	- 7.0 billion yen
	NPL ratio	High 1% range	Mid 1% range	High 1% range	Mid 1% range	No change
	OHR	Low 50% range	High 40% range	Mid 50% range	Low 50% range	Around + 2%
	Balance of loans to SMEs & retail	4.3 trillion yen	4.5 trillion yen	4.3 trillion yen	4.5 trillion yen	No change
Kumamoto Family Bank	Core business profit	9.5 billion yen	10.5 billion yen	9.0 billion yen	9.0 billion yen	- 1.5 billion yen
	Net income	3.0 billion yen	7.0 billion yen	0.5 billion yen	4.5 billion yen	- 2.5 billion yen
	NPL ratio	Low 3% range	High 2% range	Low 3% range	High 2% range	No change
	OHR	Mid 60% range	Low 60% range	Mid 60% range	Mid 60% range	Around + 3%
	Balance of loans to SMEs & retail	880.0 billion yen	900.0 billion yen	860.0 billion yen	880.0 billion yen	- 20.0 billion yen
Shinwa Bank	Core business profit	13.0 billion yen	14.5 billion yen	10.5 billion yen	12.0 billion yen	- 2.5 billion yen
	Net income	7.5 billion yen	10.0 billion yen	3.0 billion yen	5.0 billion yen	- 5.0 billion yen
	NPL ratio	Around 7%	High 5% range	Around 7%	High 5% range	No change
	OHR	High 60% range	Low 60% range	Low 70% range	High 60% range	Around + 4%
	Balance of loans to SMEs & retail	1 trillion yen	1 trillion yen	1 trillion yen	1.0 trillion yen	No change

* The NPL ratio is after partial direct write-off.

2. Reasons for revisions to targets

In the Second Mid-term Management Plan, on the premise that “domestic business activity will continue its moderate expansion, and interest rate levels will gradually adjust according to the degree of improvement in economic activity and commodity prices,” we had produced planned figures using two interest rate scenarios: “leveled-off interest rate” (the overnight interest rate would be raised from 0.5% to 0.75% in the first half of FY2008, and would level off after that)

and “increased interest rates” (the overnight interest rate would be raised from 0.5% to 0.75% in the second half of FY2007, and would be raised by 0.25% each half year thereafter). We had made the “leveled-off interest rate” scenario the main scenario.

However, with growing uncertainty over future economic prospects both domestically and overseas, the financial markets have changed considerably in the half year since the second half of FY2007, including: the deferral of predicted interest rate rises; the flattening interest rate; and a sharp decline in stock prices and appreciation of the yen. Consequently, current interest rate levels and stock prices have now deviated from the scenario used at the time the Second Mid-term Management Plan was developed.

Given these circumstances, we decided to change the interest rate scenario for the next two years to bring it in line with current levels, and we decided to revise the planned profits in the Second Mid-term Management Plan to take into account the actual results from FY2007. Following is an outline of the new interest rate scenario.

[Interest rate scenario for the next two years]

		“Before revision” scenario (leveled-off interest rates)	“After revision” scenario (leveled-off interest rates)	Margin	Reference Apr 2, 2008
Market interest rates	Overnight interest rate	0.75%	0.50%	- 0.25%	0.50%
	1-year Tibor	1.15%	0.95%	- 0.20%	0.94%
	10-year SWAP	1.90%	1.60%	- 0.30%	1.52%
Standard interest rates	Ordinary deposit	0.30%	0.20%	- 0.10%	0.20%
	1-year time deposit	0.46%	0.39%	- 0.07%	0.35%
	Short-term prime rate	2.625%	2.375%	- 0.25%	2.375%
Nikkei Stock Average		17,000 yen	13,000 yen	- 4,000 yen	13,189 yen
Forex	USD/JPY	120 yen	103 yen	- 17 yen	102 yen

* The “after revision” scenario only includes the leveled-off interest rates scenario

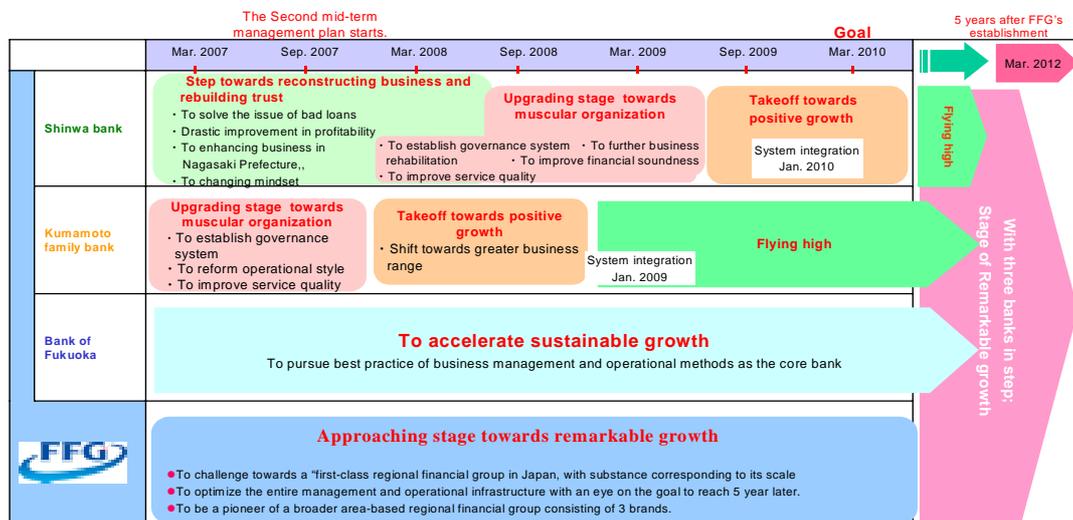
3. Progress of the Second Mid-term Management Plan

Although we have revised the estimate, no changes have been made to the basic policy or key measures of the Second Mid-term Management Plan. The period for the Second Mid-term Management Plan has been designated as the “approach stage” for the ensuing “stage for remarkable growth.” Through the construction of a management and operational infrastructure based on the “optimization of the entire group,” we will establish a muscular management base to serve as the groundwork for future growth, and we will work to quickly give shape to integration synergies.

(1) Basic policies of the Second Mid-term Management Plan

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

(2) Themes in which each of the group banks are engaged



(3) Progress made in the grand strategy, measures and tactics

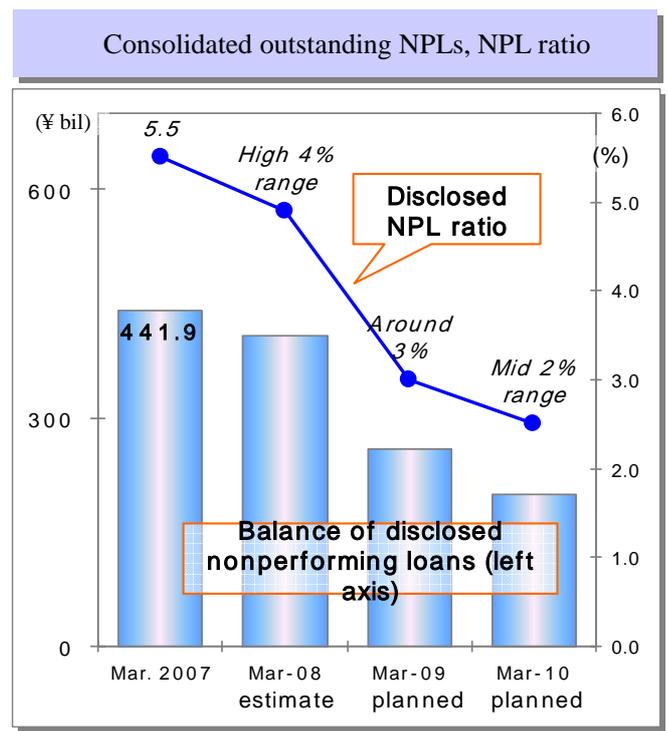
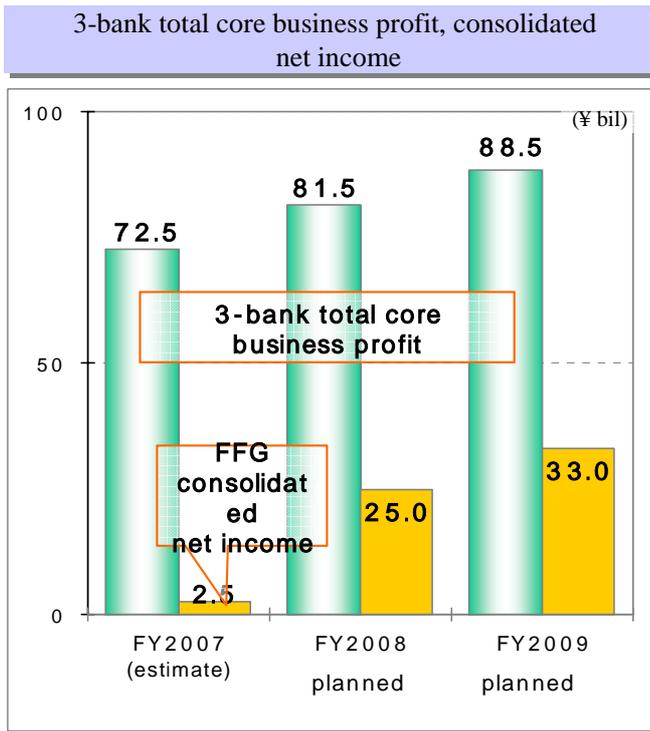
We have made steady progress in the key measures of the Second Mid-term Management Plan as outlined below. As a group, through the provision of sophisticated and high-quality financial products and services, and through contributions made to local communities, we will achieve sustainable growth of our corporate value, and we will strive to be a “first-class regional financial group in Japan” of substance commensurate to our size.

	Gist of Actions/Tactics	Main activities so far
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 	<ul style="list-style-type: none"> Reconstructed the sales structures of the Kumamoto Family Bank and the Shinwa Bank Expanded the Bank of Fukuoka's expertise in the solutions business Expanded products that are common to all 3 banks (Arekore Cards, corporate loan scoring products, housing loans, consumer loans, asset management products, time deposits) Established preferential interbank fees between the 3 banks (fee-free access to ATMs, handling of foreign exchange fees by main and branch offices) Held joint business fair Merged and closed duplicate branches (16 branches already consolidated)
Risk Management Strategy	<ul style="list-style-type: none"> To establish a group-wide risk management system To clean up non-performing loans 	<ul style="list-style-type: none"> Established and operated new Group Risk Management Committee Unified the obligor rating systems Conservatively strengthened reserves, and accelerated disposal of nonperforming loans NPL ratio: 5.4% (Sep. 30, 2007) High 4% range (Mar. 31, 2008) (forecast)
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 	<ul style="list-style-type: none"> Expanded loan BPR to the Kumamoto Family Bank Expanded the centralized storage of credit documents to the Kumamoto Family Bank Brought forward the concentration of business operations at back offices at the Shinwa Bank and Kumamoto Family Bank (Jan. 2009 and Jan 2010 (initial schedule) around May 2008) Integrated the affiliated companies handling administrative operations
IT Strategy	<ul style="list-style-type: none"> To integrate systems of the three banks To establish a competitive group-wide IT infrastructure 	<ul style="list-style-type: none"> Prepared for systems integration (Kumamoto Family Bank: Jan. 2009, Shinwa Bank: Jan. 2010) Standardized the 3 bank's ATMs Reformed the Intranet (Bank of Fukuoka)
Human Resources Strategy	<ul style="list-style-type: none"> Strategic re-allocation of group human resources Developing group human resources 	<ul style="list-style-type: none"> Invested personnel from the consolidated branches to within the local prefectures Expanded personnel exchanges and reciprocal secondments (Mar. 31, 2008: total of 164 personnel) Standardized personnel systems (from Apr. 2008) Implemented joint training (FY2008 training for new bank employees, training for different occupational levels)
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 	<ul style="list-style-type: none"> Regularly held joint meetings of the 3 banks' compliance committees Deployed projects aimed at improving the quality of services from the viewpoint of customers (services assistance, customer surveys, etc.)
Other Strategies	<ul style="list-style-type: none"> Strategic sourcing project (implement cost-cutting measures amounting to 13.0 billion yen over 3 years) 	<ul style="list-style-type: none"> Actual result of cost-cutting measures: A cost saving of 6.1 billion yen is likely to be achieved through 142 cost-cutting measures. (second half of FY2007: achieved 0.6 billion yen)

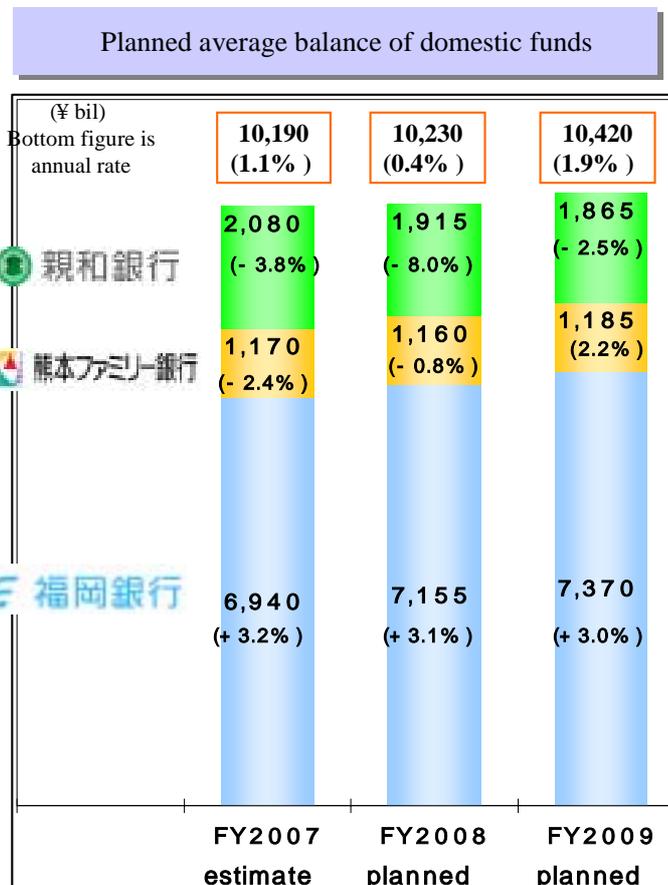
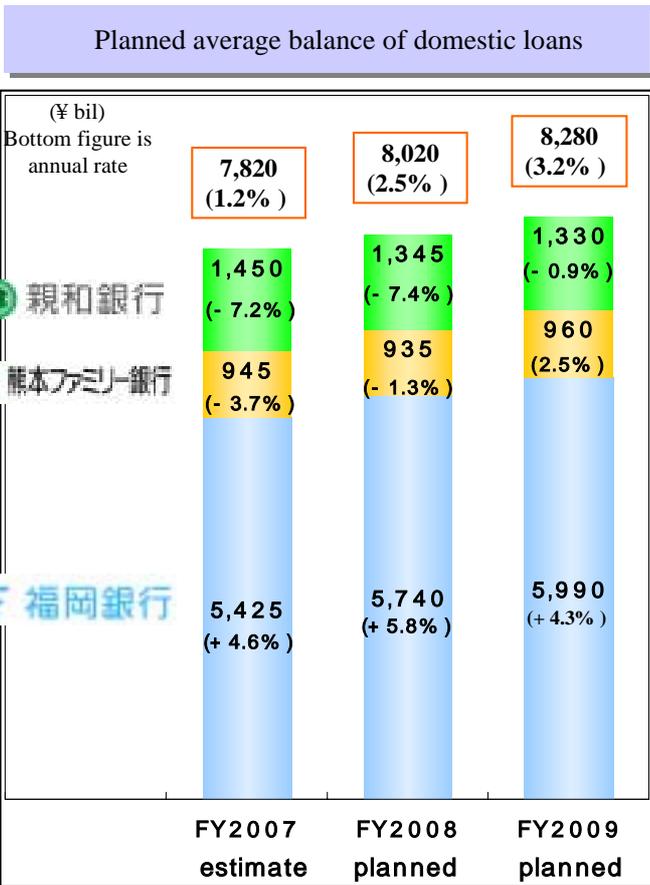
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[Reference] Changes in Key Figures of the Second Mid-term Management Plan



* FY2007 estimates only include the Shinwa Bank's second-half figures. * Figures are after partial direct write-off.



* Excluding non-consolidated loans within FFG