FUNKUOKA FINANCIAL GROUP

ANNUAL REPORT 2020

Fukuoka Financial Group, Inc.

CONTENTS

FFG Overview

FFG Value Creation and Initiatives

Sustainability

Management Base

Financial Section

Disclaimer Regarding Forward-looking Statements

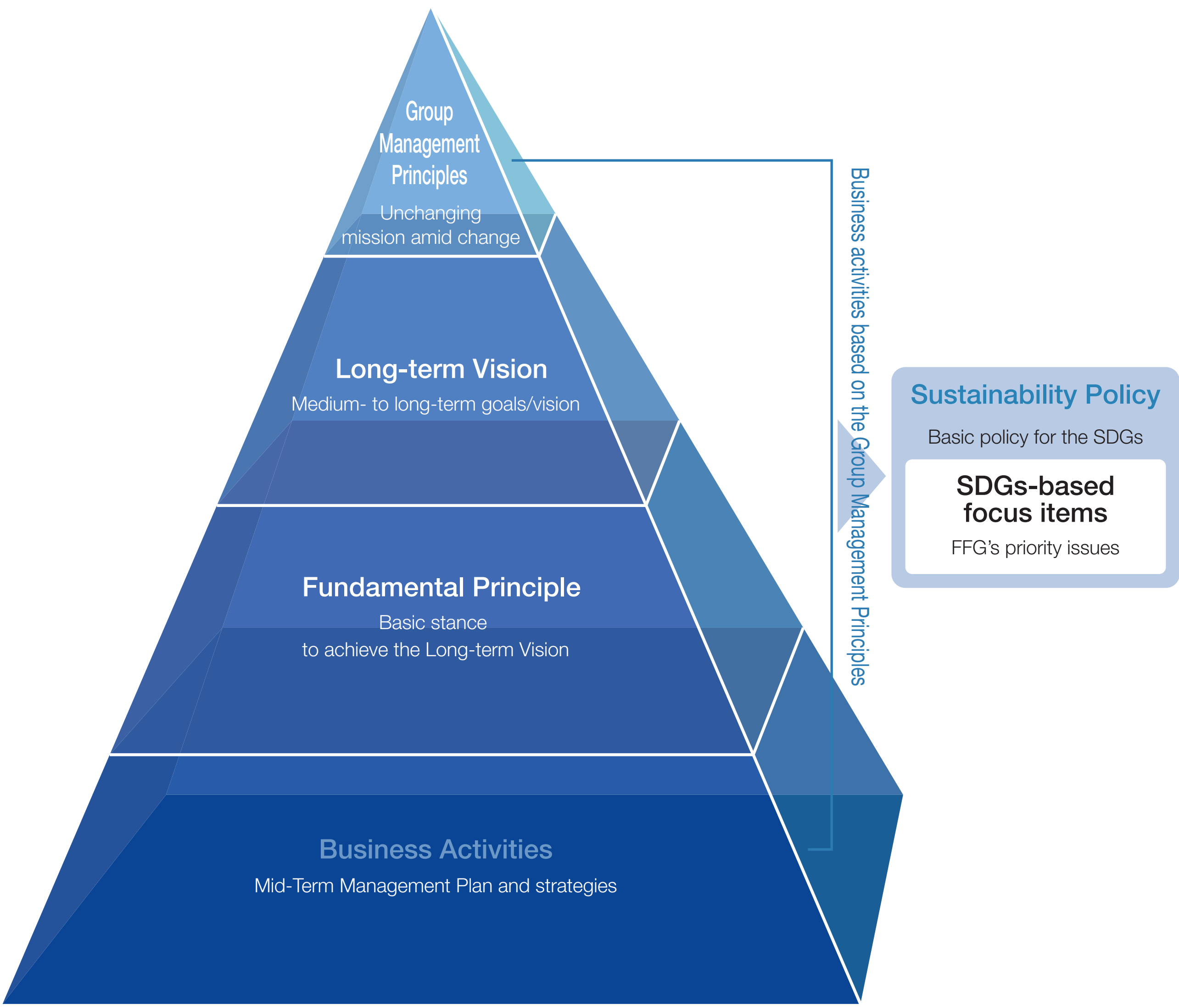
The forward-looking statements in this annual report are based on management's assumptions and beliefs in light of information available up to the date of publication, and involve both known and unknown risks and uncertainties. Actual financial results may differ materially from those presented in this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

Our Principles

When it was established in 2007, Fukuoka Financial Group, Inc. (FFG) adopted the Group Management Principles, our unchanging mission even in times of change, and the brand slogan "To be your Bank of choice" that sums up these principles.

With these management principles and brand slogan at the core of all corporate activities, we engage in business activities designed to create a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value" that contribute to sustainability.

We will contribute to the sustainable development of Kyushu, our home, through these business activities, and at the same time, we will aim to gain the support of all stakeholders and become the "Best Regional Bank" achieving a sustained strong competitive edge and potential for growth.



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.

■ Brand Slogan
(Our promise to customers that sums up the Management Principles)

To be your Bank of choice

■ Core Value
(A set of values shared by all employees embodied in the brand slogan)

Your closest bank
Your reliable bank
Your sophisticated bank

Long-term Vision

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

The best regional financial group for all stakeholders that contributes to, and grows with, local communities through the high-quality financial services

- Solve and offer support to customer issues
- Support sustainable development of Kyushu's economy
- Maximize the capabilities of employees
- Maintain a strong brand and continue to grow

Fundamental Principle

Achieve a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value"

Sustainability Policy

FFG creates a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value" through business activities based on the Group Management Principles in order to help develop a sustainable society.

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. The Shinwa Bank joined into the Group in the same year and in 2019, the Eighteenth Bank also integrated. Since those two banks merged on October 1, 2020, The Juhachi-Shinwa Bank was newly established.

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.

Fukuoka Financial Group, Inc.

Within Kyushu	419
Other	9

THE BANK OF FUKUOKA, LTD.

Fukuoka Prefecture	152
Within Kyushu	12
Other	6

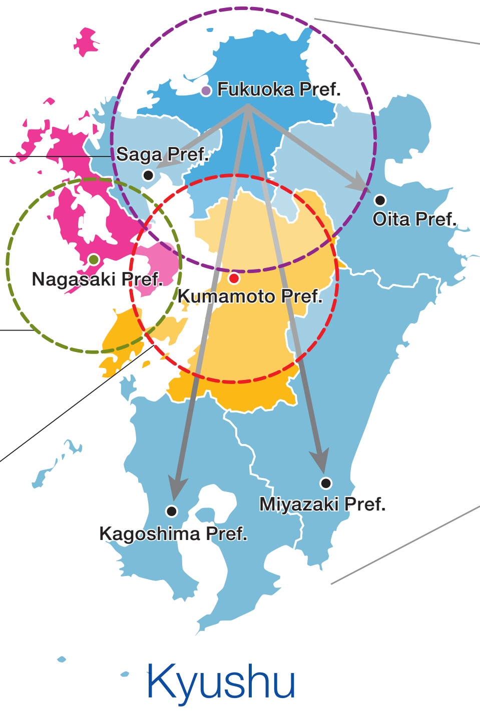
JUHACHI-SHINWA BANK

Nagasaki Prefecture	165
Within Kyushu	20
Other	3

THE KUMAMOTO BANK, LTD

Kumamoto Prefecture	63
Within Kyushu	7

(As of November 30, 2020)



History of Fukuoka Financial Group

1877
Foundation of the Bank of Fukuoka, Ltd.
Foundation of the Eighteenth Bank, Ltd.

1879
Foundation of the Shinwa Bank, Ltd.

1929
Foundation of the Kumamoto Bank, Ltd.

2007

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

October
Management integration of the Shinwa Bank, Ltd.

2009

January
IT system integration of the Kumamoto Bank, Ltd.

2010

January
IT system integration of the Shinwa Bank, Ltd.

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.

2011

November
Opening of representative office in New York

December
Opening of representative office in Singapore

2012

March
Opening of representative office in Bangkok

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

2015

December
Opening of representative office in Taipei

2016

April
Launch of iBank Business

July
Opening of representative office in Ho Chi Minh City

2019

April
Business Integration with the Eighteenth Bank, Ltd.

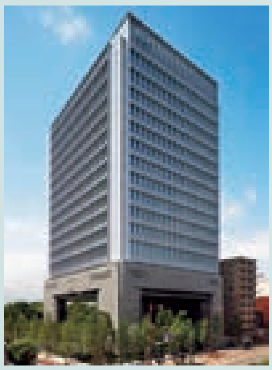
2020

October
Merger of the Shinwa Bank, Ltd. and the Eighteenth Bank, Ltd. (The Juhachi-Shinwa Bank, Ltd. was established.)

—**Loans:** ¥16.2 trillion
—**Deposits:** ¥17.5 trillion
(as of March 31)

FFG

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


FFG Head Office (Fukuoka City)

Kyushu Figures

10% of Japan's Economy

Population **10.2** %

10.2% of total population of Japan lives in Kyushu.

Scale of Production **4** th

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.

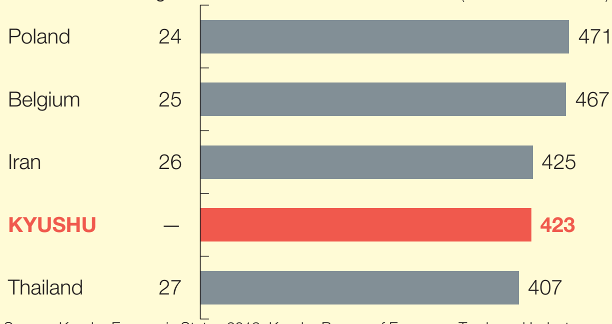
Kyushu is referred to as "the 10% of Japan's Economy" because it accounts for approximately 10% of Japan's total population, GDP, number of businesses, etc.

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

Global GDP Ranking



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

Data Analysis for Kyushu

Gross Prefectural Production*1 (2016)

Kyushu Total **45.9** trillion yen

Number of Businesses*2 (2016)

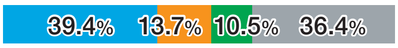
Kyushu Total **587,333**

Loans*3 (March 31, 2018)

Kyushu Total **35.2** trillion yen

Population*1 (2019)

Kyushu Total **13.0** million



Commercial Sales*4 (2014)

Kyushu Total **34.4** trillion yen

Deposits*3 (March 31, 2018)

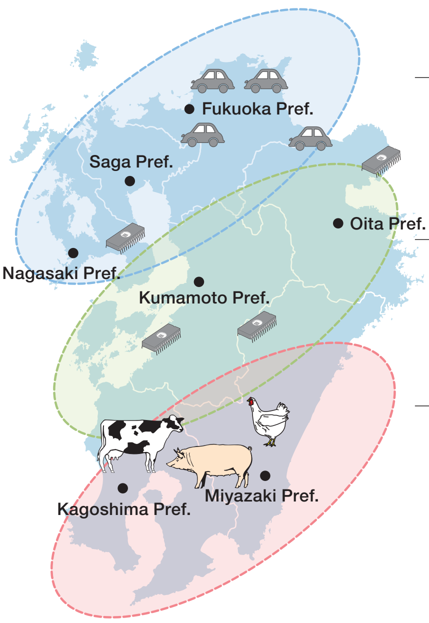
Kyushu Total **48.8** trillion yen

Fukuoka | Kumamoto | Nagasaki | Other prefectures of Kyushu

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"

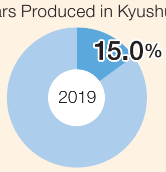
is home to a flourishing semiconductor industry, facilitated by its high-quality water sources, abundant workforce and well-developed infrastructure of roads and ports.

Southern Kyushu, a center of "Food Island"

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

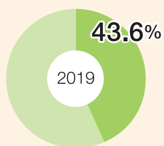
Share in Japan

Number of Passenger Cars Produced in Kyushu



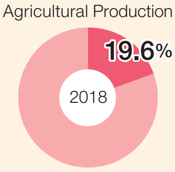
1.45 million

Amount of IC Production



736.3 billion yen

Amount of Agricultural Production

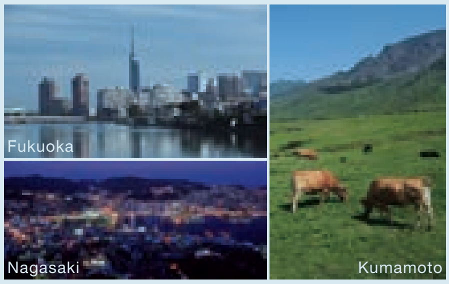


1.78 trillion

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

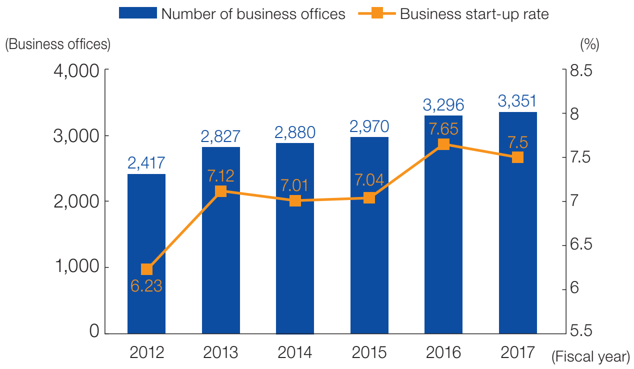
Port of Hakata
Urban development plan working together with the local community in progress

Kyushu Shinkansen
Broad network linking Fukuoka, Kumamoto and Kagoshima

Seeds of Further Growth

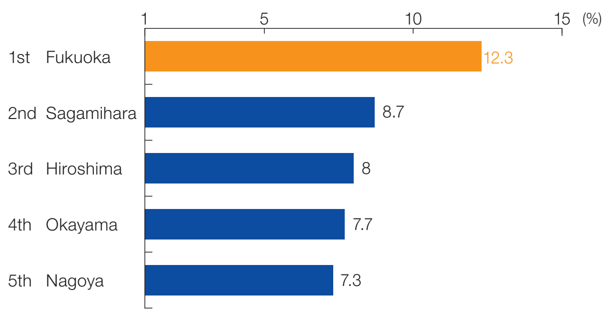
In addition to balanced industry structures and large-scale projects in progress, new seeds for further growth are nurtured in Kyushu. It is also illustrated by Fukuoka City and Kitakyushu City being designated as the National Strategic Special Zones in recent years. Economic ripple effects are expected 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



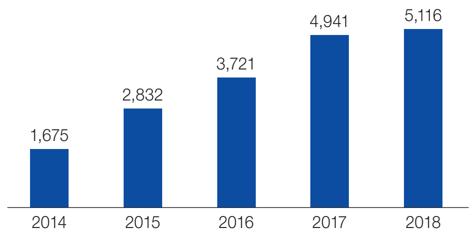
Source: Fukuoka Labour Bureau

Cities with a high percentage of young people* among entrepreneurs



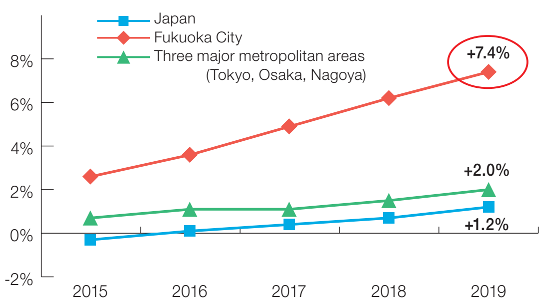
Source: "Employment Status Survey (2012)" by Statistics Bureau, Ministry of Internal Affairs and Communications
*Ages from 25 to 34

Foreign nationals entering Kyushu (In thousands)



Source: Ministry of Land, Infrastructure, Transport and Tourism

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



Source: Ministry of Land, Infrastructure, Transport, and Tourism

Takashige Shibato

Director, Chairman & President
Fukuoka Financial Group, Inc.

TOP COMMITMENT

Seeing this time of change as an opportunity for growth, we aim to make a further leap forward.

Potential of Kyushu

The Fukuoka Financial Group (hereinafter "FFG") is a broad area-based regional financial group with a network covering all of Kyushu. We have various financial functions such as a securities subsidiary, a consulting subsidiary, and an investment subsidiary for venture companies, centered on the three banks, the Bank of Fukuoka, the Kumamoto Bank, and the Juhachi-Shinwa Bank, which is based in Nagasaki.

Kyushu accounts for about 10% of the nation's economy in terms of population, area size, and regional GDP. It has a high concentration of production bases for automobiles, semiconductors, and agriculture, which are the core industries, and a thriving healthcare industry that includes medical care and long-term care, and is home to many research facilities for next-generation fuels. It is expected to further capture inbound demand and develop as an export base with its proximity to Asia and a region-wide infrastructure of transportation that consists of airports, seaports, railways, and expressways. Furthermore, in Fukuoka Prefecture, where the headquarters of FFG is located, new seeds for growth are sprouting such as large-scale redevelopment that takes advantage of the National Strategic Special Zone and active start-up support through public-private collaboration.

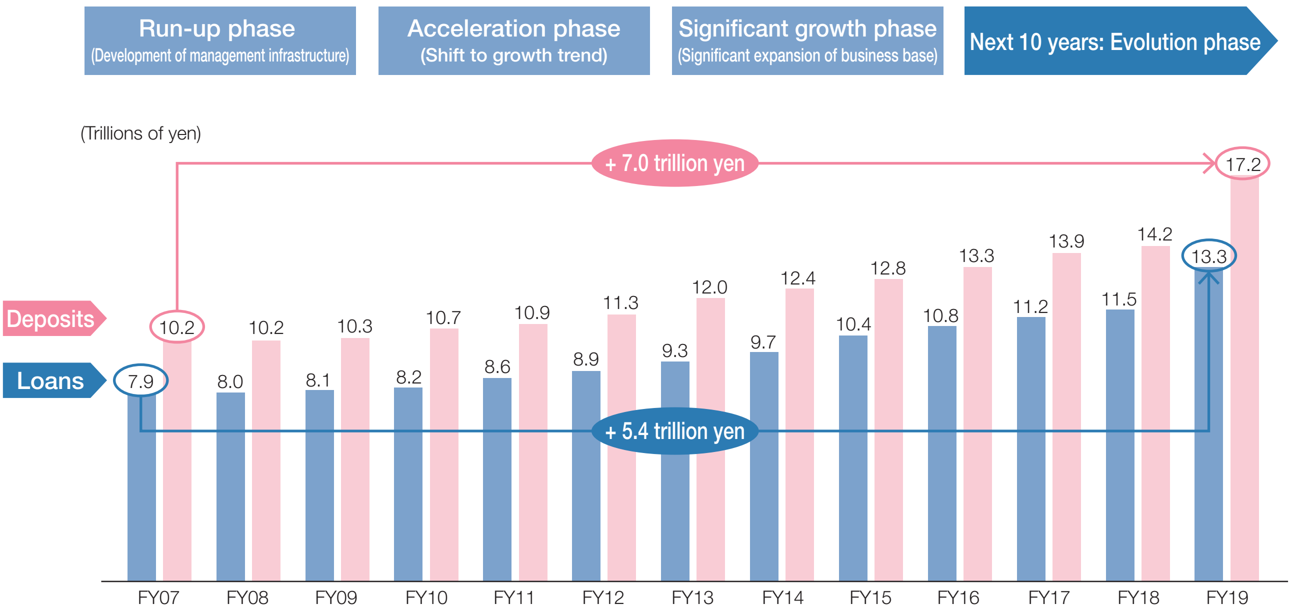
In this way, Kyushu has high potential even on the nation level and is an attractive market that promises further growth.

Strength Developed

In April 2007, the Bank of Fukuoka and the 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 (currently known as the Juhachi-Shinwa Bank) joined six months later in October 2007.

In the run-up phase covering the initial three years, we drove forward with 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." We maintained steady growth based on those principles and through the thorough utilization of our management infrastructure.

In these phases, we have established a management style unique to FFG called "Single Platform/Multiple Brands." It shares the internal aspects of business administration and IT systems as well as products and services while maintaining the brands of each subsidiary bank in Fukuoka, Kumamoto, and Nagasaki prefectures. We believe that this 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.



*The figures for FY 2007 - FY 2018 are non-consolidated total and average balance of the three banks (The Bank of Fukuoka / The Kumamoto Bank / The Shinwa Bank). The figures for FY 2019 are non-consolidated total and average balance of the four banks (The Bank of Fukuoka / The Kumamoto Bank / The Shinwa Bank / The Eighteenth Bank). Loans: excluding loans to FFG and the government. Deposits: deposits + CDs.

Since 2016, we have entered the evolution phase with our sights set on the next 10 years. In the 5th Mid-Term Management Plan (April 2016 - March 2019), we have achieved steady results in both sales and management by expanding our sales base through business assessments. We have also developed new initiatives such as the iBank business and have sophisticated risk management by initiating the “AIRB” advanced internal rating-based approach.

Our corporate culture of taking action and making decisions without fear of failure, and diverse human resources with a high level of motivation and skills are our greatest strength and unique feature that no others have been able to replicate.

Turning Changes in the Business Environment into Opportunities

Digital transformation (DX), which is now a major force across industries worldwide, will dramatically change the landscape of Japan’s financial business in the near future. To decide what approaches are effective, it is vital to take steps forward, rectify any faults, and make progress toward an organization we aim to be, rather than remaining in the same place. At FFG, instead of being afraid of change, we embrace it with a sound awareness of risk and strive to transform ourselves proactively. I always tell our employees to view this period as an “opportunity for change and growth,” and encourage them to work actively to both strengthen our existing businesses and to create new business, so as to establish our competitive advantage.

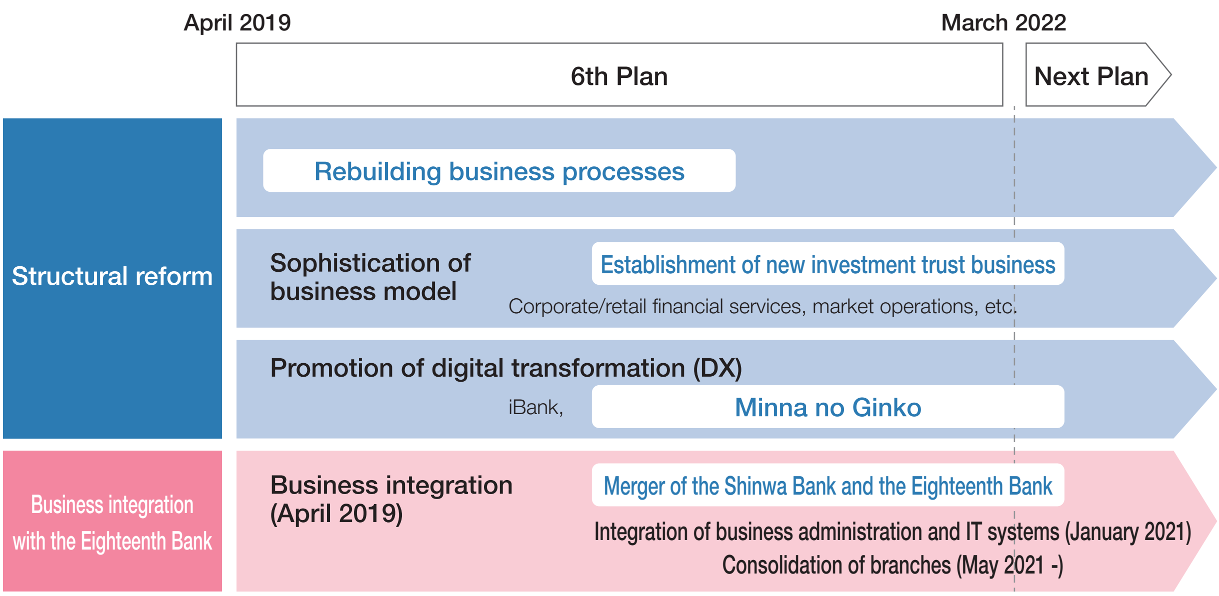
We are also actively developing and investing in human resources in line with changes in the business environment. The skills required of bank employees have changed with changes in society and customer behavior. Constantly developing human resources who can acquire new skills and knowledge while incorporating external expertise will serve as a driver for FFG’s growth.

FFG's Growth Strategies

The 6th Mid-Term Management Plan got underway in 2019 as the second phase of evolution to work on various measures aimed at future growth by setting "raising the top line through structural reforms" and "maximizing synergies through business integration with the Eighteenth Bank" as the two main pillars of our growth strategy.

Under the first pillar, "structural reform," we have been laying the foundations for our future growth by allocating personnel to growth areas through a fundamental review of business processes, facilitating a new style of sales to take root to establish a new investment trust business, and building a next-generation banking system and new business model for the launch of Minna Bank. This is expected to reduce about 20% of our current workload by streamlining operations during the next fiscal year. We will thus reallocate freed-up management resources to growth areas and attain cost reductions, while accelerating company-wide efforts toward DX and enhancement of our business model, thereby achieving a significant improvement in our earnings from the next mid-term plan onward.

As for the second pillar, "business integration with the Eighteenth Bank," we have steadily worked to consolidate the head office sections and to process integration costs in advance since the business integration in April 2019. In October 2020, the new bank "the Juhachi-Shinwa Bank" was established through the merger of the Shinwa Bank and the Eighteenth Bank. We will proceed with the integration of business administration and IT systems in January 2021 and the consolidation of branches in May, and will realize a synergy effect of 10 billion yen by the final year of the next mid-term management plan.



Toward Sustainable Improvement of Corporate Value

FFG manages its capital in consideration of the balance between growth investment and shareholder returns, based on the premise of maintaining soundness. During the last fiscal year, we strengthened soundness by introducing the first forward-looking reserves for regional banks and reinforcing our reserves in light of the effects of the COVID-19 pandemic. At the same time, we utilized our capital to prepare for uncertainties and to make growth investments aimed at significant growth, such as recording the cost of business integration with the Eighteenth Bank and making upfront investment in Minna Bank.

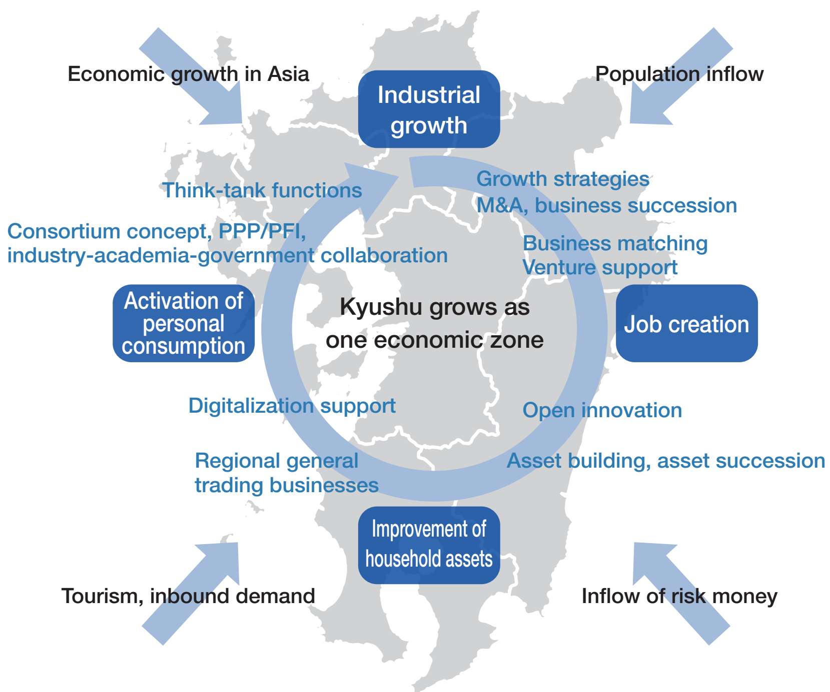
We will aim to sustainably increase FFG's corporate value, and to maintain and expand shareholder returns, by achieving stable profit growth through the strategic use of our capital.

Long-term Vision	The "Best Regional Bank" achieving a sustained strong competitive edge and potential for growth The best regional financial group for all stakeholders that contributes to, and grows with, local communities by providing high-quality financial services

Requirements for achievement		Value Delivered to Stakeholders	
Solve and offer support to customer issues	Corporate Customers	Sustainable business growth and development	✓ Suggestions and solutions to management issues ✓ Creation of new business opportunities
	Individual Customers	Affluent life according to life stage	✓ Improvement of household assets and smooth asset succession ✓ Convenient financial services
Support sustainable development of Kyushu's economy	Local Communities	Realization of a sustainable society	✓ Creation of new industries and employment ✓ Maintaining and developing traditional local brands
Maximize the capabilities of employees	Employees	Job satisfaction and good work environment	✓ Designing environments and systems open to diversity and challenges (career development)
Maintain a strong brand and continue to grow	Shareholders & Investors	Maintaining and expanding shareholder returns	✓ Continuous distribution of dividends (maintain/increase) ✓ Improvement of corporate value (appropriate evaluation)

FFG's Visions for the Future of Kyushu

(Realization of a sustainable society)



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.

To accomplish this mission, we have developed a long-term vision named "The Best Regional Bank" as a representation of our aspirations to contribute to the realization of a sustainable society. In order to provide the best value to all of our stakeholders, we will leverage our abilities as an organization and our human resource capabilities to the full to solve issues faced by our customers and local communities, while maintaining our strong brand. We will thus create a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value," which are the fundamental principles of our business activities.

Despite the impact of COVID-19, we have overcome numerous difficulties in the past, including the bursting of the bubble economy and the collapse of Lehman Brothers, and have continued to grow on the back of these events. Seeing this time of change as an opportunity for growth, we aim to make a further leap forward. We sincerely appreciate the continued support of our shareholders and other stakeholders.

October 2020
Director, Chairman & President
Fukuoka Financial Group, Inc.

T. Shibato

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 3 banks, namely the Bank of Fukuoka, the Kumamoto Bank, the Juhachi-Shinwa 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 3 banks like one bank, by creating common business systems,
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
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

the regional economy.

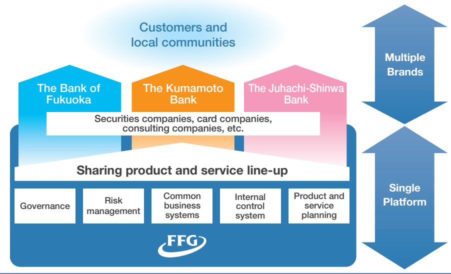
In addition, FFG has also actively taken on pioneering initiatives. It includes the establishment of the iBank business in April 2016 to enable the development of multiple banks in other regions, as a means of addressing the rapid advancement of the IoT and changing patterns of customer behavior.

FFG is committed to unceasing evolution through the selection and implementation of strategic options that anticipate the changing times, without fear of failure.

- Disposal of non-performing loans
  - March 2001 The Bank of Fukuoka recorded an allowance for loan losses of 175.0 billion yen (a loss of 76.8 billion yen); V-shaped recovery from the following year
  - February 2009 Company split Improvement in ratio of non-performing loans (5-6% level to 2-3% level)
- Business integration
  - ☑ April 2007 The Kumamoto Family Bank (now the Kumamoto Bank)
  - ☑ October 2007 The Shinwa Bank
  - ☑ April 2019 The Eighteenth Bank
  - } 2020.10 Merger (The Juhachi-Shinwa Bank)
- New initiatives
  - April 2016 iBank business (participated in by 9 regional banks across Japan)
  - January 2021 Establishment of Minna Bank

products, and services internally.

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.



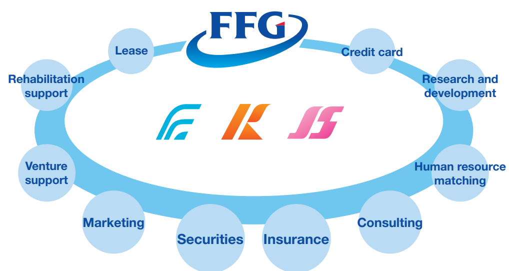
Looking ahead, we shall continue to utilize the underlying diversity we have developed thus far to appropriately manage human resources in a way that takes into consideration changes in business strategy and the external environment, by promoting the exchange of personnel with companies in different industries and designing frameworks for evaluation and treatment, etc. tailored to a diverse range of human resources and workstyles.

- Development and recruitment of specialist personnel
  - Wealth Manager (experts in asset management): approx 250
  - Number of mid-career recruitment: approx 90
  - Specialist IT personnel: over 100
- Promotion of diversity
  - Women in management positions: 343
  - Return to work systems
  - Daycare center inside the company
  - Improve working conditions of young and senior employees

"optimizing the Group as a whole," including each bank and affiliated company.

In July 2018, "R&D Business Factory" was esfablished for the research and development of more advanced financial services and in May 2019 "Zerobank Design Factory" to build next-generation banking systems.

We shall continue endeavoring to strengthen Group functions, taking into consideration future changes in the management environment,



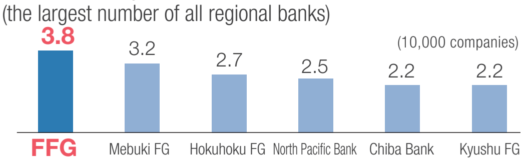
FFG considers Kyushu as a single economic zone. We have created a "broad area-based regional financial group" seamlessly covering the whole of Kyushu, by covering every inch of the heartland markets of Fukuoka, Kumamoto, and Nagasaki prefectures, which make up approximately 60% of the economy in Kyushu, with "nets" cast by each of our banks, while using "ropes" to secure the Bank of Fukuoka's network in other prefectures.

- Domestic branches: 428
  (Average for top ten regional banks in terms of total assets: 200-300 branches)
- Overseas offices: 8
- Number of ATMs: approximately 2,500 units

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.

Looking ahead, we shall achieve sustainable growth by providing optimal solutions that match our customers' needs.

- Retail banking customers: Approximately 6 million (over 40% of Kyushu's population)
- Corporate banking customers: Approximately 220,000
  (approx 40% of business offices in Kyushu)
- Companies using FFG as main bank: 38,000
  (the largest number of all regional banks)



*Source: Data provided by TOKYO SHOKO RESEARCH

Financial and Non-financial Data

Financial Highlights for FY2019

Profit and Loss

Non-consolidated total of the four banks (Billions of yen)

	FY2018	FY2019	YoY
Gross business profit	206.8	201.3	(5.6)
Net interest income	182.1	178.4	(3.6)
Fees and commissions	21.8	21.0	(0.8)
Trading income	0	0	0
Other operating income	3.0	1.8	(1.2)
Expenses (excluding those temporarily processed) (-)	121.9	123.1	1.2
Business profit	85.5	18.2	(67.3)
Core business profit	83.9	78.9	(5.0)
excluding gains (losses) on cancellation of investment trusts	83.8	78.6	(5.2)
Credit cost (-)	5.1	61.4	56.3

FFG Consolidated

	FY2018	FY2019	YoY
Ordinary profit	* 74.1	(5.3)	(79.3)
Net income attributable to owners of the parent	* 51.6	110.6	59.0

Core business profit [first decrease in 3 periods]
Core business profit dropped by 5.0 billion yen year on year to 78.9 billion yen mainly due to a decrease in domestic net interest income.

Consolidated ordinary profit [first decrease in 3 periods]
Consolidated ordinary profit dropped by 79.3 billion yen year on year to negative 5.3 billion yen mainly due to the forward-looking reserves we have introduced, reserves intended to prevent the impact of COVID-19, and an increase in credit cost owing to the Group-wide reserve standards that were established when the Eighteenth Bank was integrated.

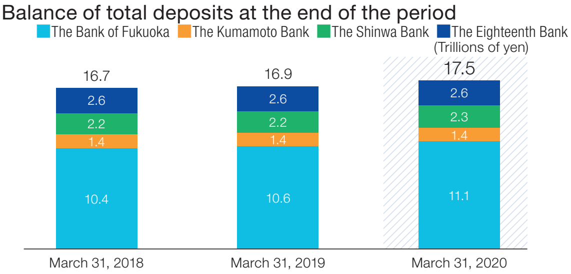
Net income attributable to owners of the parent [increase for the 3rd consecutive period]
Net income attributable to owners of the parent increased by 59 billion yen year on year to 110.6 billion yen as a result of recording a 117.4 billion yen gain on negative goodwill from the business integration with the Eighteenth Bank.

* We integrated with the Eighteenth Bank on April 1, 2019. Hence, FFG's consolidated ordinary profit and net income attributable to owners of the parent for FY2018 do not include figures from the Eighteenth Bank and its consolidated subsidiaries.

Total deposits (deposits + NCD) (Non-consolidated totals of the four banks)

Total deposits (deposits + NCD), particularly personal deposits, steadily rose and eventually increased by 606.7 billion yen compared to the end of the previous fiscal year to 17.5979 trillion yen.

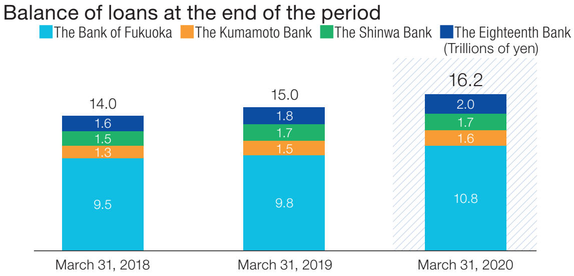
Balance of total deposits at the end of the period



Loans (Non-consolidated total of the four Banks)

Loans increased by 1,246.9 billion yen compared to the end of the previous fiscal year to 16.2845 trillion yen as a result of actively meeting the needs of local companies and individual customers for funds.

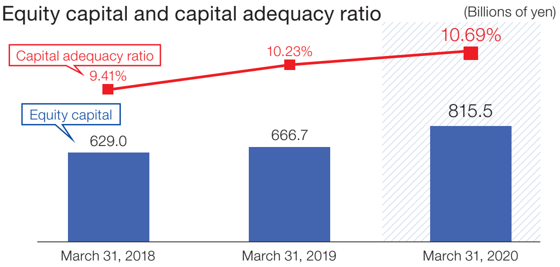
Balance of loans at the end of the period



Capital adequacy ratio (Consolidated)

Equity capital increased by 148.8 billion yen compared to the end of the previous fiscal year to 815.5 billion yen. The capital adequacy ratio (Basel III <domestic standard>) rose 0.46% to 10.69%.

Equity capital and capital adequacy ratio

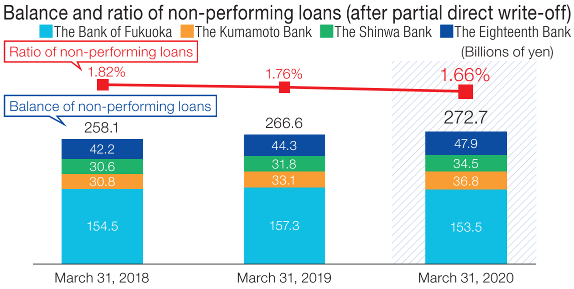


*Credit risk assets have been calculated using an advanced internal rating-based (AIRB) approach since March 31, 2019. The amount equivalent to operational risk has been calculated using the basic indicator approach since September 30, 2019.
*The Eighteenth Bank and its consolidated subsidiaries have been consolidated into our accounts since April 2019. Hence, the above figures for the ends of March 2018 and March 2019 do not include numbers from these companies.

Non-performing loans (Non-consolidated total of the four banks)

Balance of non-performing loans increased by 6.1 billion yen compared to the end of the previous fiscal year to 272.7 billion yen. The ratio of non-performing loans decreased by 0.1% to 1.66%.

Balance and ratio of non-performing loans (after partial direct write-off)



External Credit Ratings

Ratings

	R&I Issuer Rating	JCR Long-term Preferred Debt Rating	Moody's Long-term Deposit Rating
FFG	A+	A	—
The Bank of Fukuoka	AA–	A+	A3
The Kumamoto Bank	A+	A+	—
The Juhachi-Shinwa Bank	A+	A+	—

Customer-focused business operations

- ✓ Rated "S" in the Customer-Oriented Investment Trust Sales Company Evaluation by R&I (the Bank of Fukuoka)
- ✓ Included in a report by the Financial Services Agency as a good example of a company that practices customer-focused business operations (the Bank of Fukuoka)

Initiatives for innovation

- ✓ Won the Japan Financial Innovation Award (announced on March 24, 2020)
- ✓ The only regional bank selected as one of the Noteworthy DX Companies 2020 (announced on August 31, 2020)

Initiatives for regional revitalization

- ✓ Won an award for our effort as an "Example of a Characteristic Initiative by a Financial Institution Contributing to Regional Revitalization FY2019" (announced on June 3, 2020)

Market Share

Fukuoka Prefecture

Population	5.06 million
Business offices	223 thousand
Loans	¥21.5 trillion
Deposits and savings	¥35.9 trillion

Loan market share **32%** Deposit market share **28%**

Kumamoto Prefecture

Population	1.77 million
Business offices	74 thousand
Loans	¥5.2 trillion
Deposits and savings	¥11.2 trillion

Loan market share **22%** Deposit market share **12%**

Nagasaki Prefecture

Population	1.36 million
Business offices	63 thousand
Loans	¥3.7 trillion
Deposits and savings	¥8.2 trillion

Loan market share **70%** Deposit market share **54%**

Source: "Finance Map" published by Kinyu Journal; "Economic Census" published by the Ministry of Internal Affairs and Communications

Value Creation Process

Based on our fundamental principle, achieving a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value," we will contribute to the realization of a sustainable society in Kyushu by conducting business activities and solving social and environmental issues of the region leveraging our strengths (capital).

Priority Issues of Local Communities (FFG's Materiality)

- Sound growth of regional economy
- Industrial growth and financial innovation
- Response to aging population and declining birth rate
- Environmental protection
- Realization of prosperous local communities
- Promotion of new work styles
- Enhancement of governance

Fundamental Principle

Contribution to regional economic development

Achieve a virtuous cycle

Business activities

Business model transformation

- Rebuilding business processes
- Sophistication of business model
- Promotion of digital transformation (DX)

Driving forces for transformation

- Full leveraging of human resources
- Strengthening Group total power

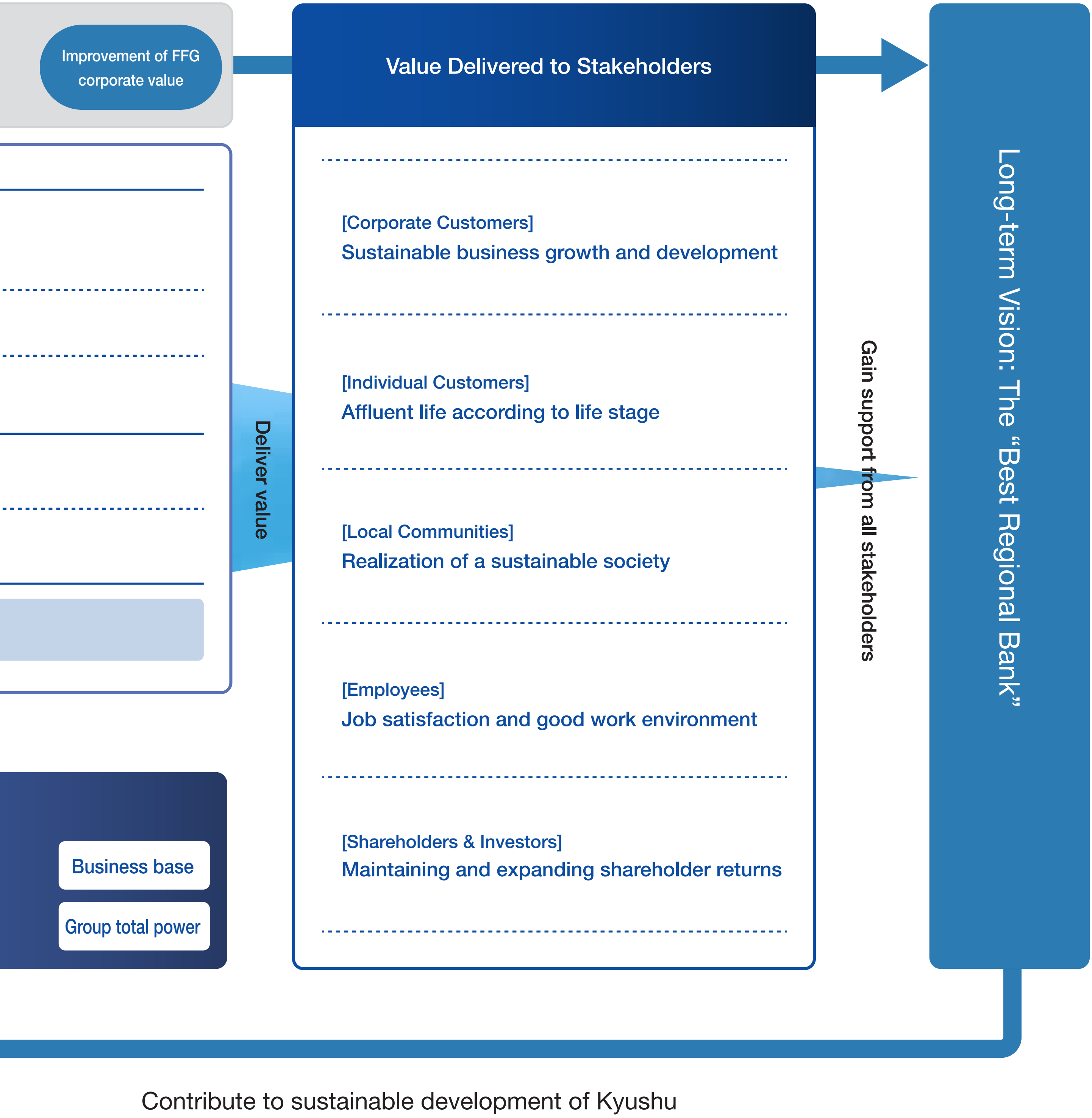
Strategic options (business integration, etc.)

Capital injection
(source of value for competition)

FFG's Strengths

- Corporate culture without fear of failure
- Human resources
- Single Platform/ Multiple Brands
- Network

We will aim to achieve FFG's Long-term Vision, the "Best Regional Bank" realizing a sustained strong competitive edge and potential for growth, by delivering the best value to all stakeholders through the provision of high-quality services in our business activities and gaining a high level of lasting support from them.



Risks to Achievement of Long-term Vision

In order to achieve FFG's Long-term Vision, "the "Best Regional Bank" realizing a sustained strong competitive edge and potential for growth," we need to maintain a strong brand, solve issues facing our customers and local communities by fully leveraging the organization and human resources, and contribute to sustainable development of Kyushu's economy.

Long-term Vision The "Best Regional Bank"

Requirements for achieving the Long-term Vision	Risks (impediments)
Solve and offer support to customer issues	**Contracting customer base** Rise of the digital native generation preferring convenience and low prices Entrants from other sectors replacing traditional banking operations
	Declining competitiveness (falling behind rival services) Intensified competition with competitors (megabanks, regional banks, etc.) Failure to identify real issues and concerns of customers
Support sustainable development of Kyushu's economy	**Shrinking Kyushu market (FFG's business base)** Decline of regional economy and industries due to a lack of countermeasures for mega trends and risks
	Weakening financial base Deteriorating customers financial conditions due to climate change, disaster, pandemic, etc. Increase in credit risk due to bankruptcies
Maximize the capabilities of employees	**Outflow of talented personnel** Increase in turnover due to a lack of employees' motivation
	Decrease in attractiveness for workers Uncertainties over the banking industry Difficulty in retaining talented personnel
Maintain a strong brand and continue to grow	**Weak brand loyalty (presence)** Diminished significance due to decline of traditional banking operations
	Loss of credibility and trust Non-compliance (fraud, data leakage, money laundering, etc.) Cyber risks

Low — Barrier to entry from other sectors — High

and Action Plans

FFG maintains a sound awareness of risk regarding future risks that may impede the achievement of its Long-term Vision, such as the declining population and new entrants from non-banking industries. At the same time, it implements various strategies and measures in anticipation of future changes in the business environment, recognizing such risks as a chance to differentiate itself from its competitors and create new business opportunities.

Opportunities (FFG's stance)

Maintain and expand customer base

Improve customers' convenience and experience by effectively combining our network of branches and non-face-to-face channels using digital technologies.

Differentiate FFG from competitors

Expand customer contact points and achieve an unrivaled level of competitiveness by securing a competitive edge leveraging our human resources and organization.

Create new growth from a long-term perspective

Create new business opportunities utilizing FFG's network and knowledge and information about the industry

Contribute to creating the future of local communities

Increase forward-looking reserves

Enhance management efficiency and create synergy

Utilize diverse and sophisticated human resources

Improve employee engagement

Foster an open organization and culture

Secure diverse human resources by promoting diversity

Enhance brand loyalty (presence)

Sophistication of risk appetite management

Ensure effectiveness of governance

Strategies and major measures/indicators

Promotion of digital transformation (DX)

Rebuilding business processes

- Business reforms
- iBank business
- Minna Bank

Sophistication of business model

- New investment trust business
- M&A, business succession
- Regional general trading businesses
- Digitalization support
- Venture support
- Open innovation
- Industry-academia-government collaboration
- Industry research

Strengthening Group total power

Business integration, alliance

- Capital accumulation, forward-looking reserves
- Merger of the Shinwa Bank and the Eighteenth Bank
- Cost saving

Full leveraging of human resources

- Fostering organizational culture seeking creation and challenge
- Development and recruitment of specialist personnel
- Promotion of active participation of women and senior employees
- Optimal placement of personnel in the Group
- Redesign of human resource system
- Interview about organizational culture

Strengthening Group total power

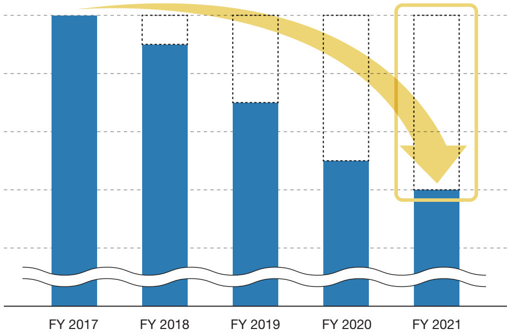
- Community contribution activities
- Corporate governance
- Sophistication of risk appetite framework
- Cyber security
- Tightening compliance and measures against money laundering
- Enhancement of communications

Priority Initiatives

Rebuilding business processes

We are fundamentally revising our business processes, particularly at our branches, to dramatically boost productivity. Specifically, we have been reducing the amount of administrative work at branches and streamlining customer visit operations by implementing initiatives including revising our storefront sales system and introducing tablets to salespersons in the field. We are striving to expand revenue by allocating the extra manpower and time generated through optimization to growth areas such as corporate financial services, retail financial services, and the digital field.

Sketch of workload reduction plan



Reduced workload equivalent to about 2,000 persons (about 20% of the total)

[Workload of bank employees] Reduction of 700 persons
[Workload of part-timers, etc.] Reduction of 1,300 persons

Reallocation to growth areas

Sales of investment trusts | Minna no Ginko | etc.

HR development and diversity management

In banking business, the power of “people” drives the growth of the organization. FFG has built a training system and a corporate culture that supports the growth of its human resources in order for them to reach their full potential. FFG is also working to secure and develop diverse human resources and improve employee engagement while adapting to the changes in employees’ values toward work.

Flexible, agile recruitment and development of diverse human resources in line with business strategies

Improve employee engagement* in light of changes in the external environment

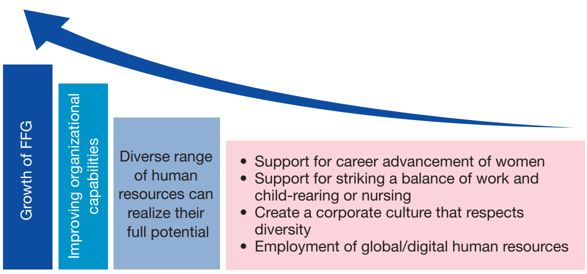
*Self-motivation to contribute to the organization and the work

Pillars of a medium/long-term HR strategy

Foster a corporate culture that takes on creativity and innovation

In recent years, FFG has been focusing particularly on the early development of autonomous and professional human resources and diversity management that draws on diversity to enhance the power of the organization. FFG has been implementing a system that allows employees to choose their own field of study and acquire knowledge and skills, and a system of self-selection that allows them to choose their career and job. In terms of diversity management, the backgrounds and cultures of our employees are diversifying with the hiring of digital and global human resources. FFG has been striving to create a comfortable workplace for each employee and having bosses learn to respect the individuality of their subordinates and guide their growth. FFG has also been supporting women in advancing their careers and balancing work and family life as part of its initiative to promote the active participation of women, which is especially important for FFG.

Model for promotion of diversity activities

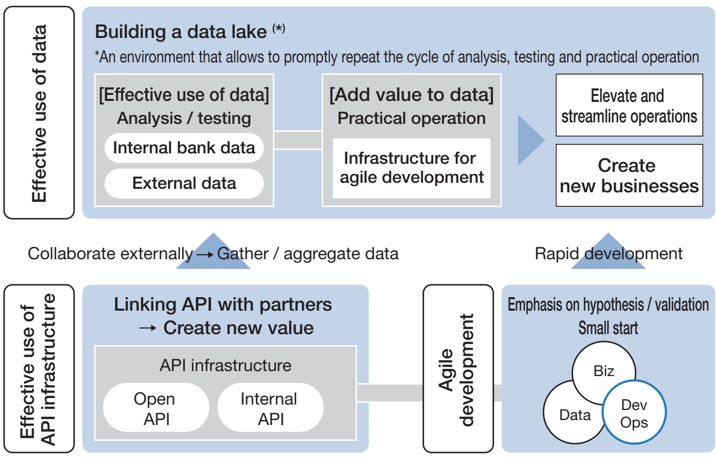


Appointment of women (3 banks total)

	As of March 31, 2020 [Actual results]	As of March 31, 2023 [Targets]
Executive positions	64 [5.2%]	90 [10.0%]
Executive positions & managers	343 [14.2%]	330 [16.0%]

Digital transformation

FFG sees rapid digitalization as a great opportunity to differentiate ourselves from the competition. We will continue to provide new values to our customers by redefining and transforming business processes and decision-making methods using digital technology. The needs and challenges of our customers are diversifying and rapidly changing. Therefore, to accurately grasp and reflect them in our products and services, FFG will effectively utilize information obtained from both real (face-to-face) and digital (non-face-to-face) sources, and use these data as a source of competitive advantage. As it is most important to come up with how to use such information, FFG has been building a system and culture of gathering ideas and exchanging opinions regardless of distinctions such as job positions, age, new graduates or mid-career recruits, internal or external associate. FFG will also promote collaboration with external parties and open innovation.



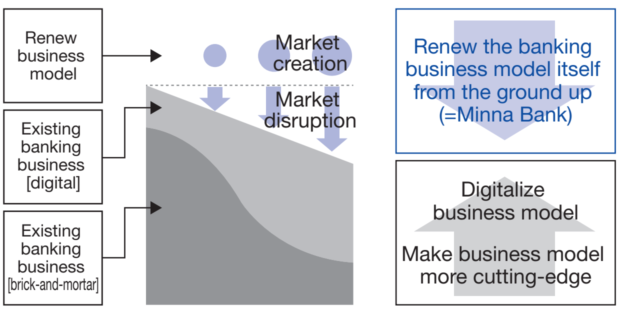
- In FY2016, FFG launched the iBank business as well as the smartphone app "Wallet+," one of its core products
- In FY2019, FFG launched the "regional general trading business" focused on regional resources to operate an online store that promotes shared regional creation

Establishment of Minna Bank

In January 2021, FFG launched its mobile-only bank, "Minna Bank." Its purpose is to acquire a new market using a different approach in response to the possible future shrinkage of the existing market due to population decline and market disruption due to players from other industries. Targeting the digital-native generation that will be the core customer base in the next 10 to 20 years, FFG will take on the challenge of casting a positive light on the stereotype we have of banks and money under three basic concepts.

Minna Bank will drastically transform the components of the existing banking business by utilizing digital technology, and will respond flexibly and swiftly to changes in customer behavior and changes in social structure. FFG has adopted public cloud computing as the basis for building an accounting system that will be core to the next-generation banking system. This system will be lightweight and flexible unlike anything before.

The "two-way approach" (ambidextrous management) that accelerates FFG's DX



Sustainability Policy and Materiality

FFG defined its basic CSR policy at the time of its founding, and has since practiced "CSR Management" that promotes sustainable growth of stakeholders through offering various values, while aiming for sustainable development of FFG. This year, FFG developed its new "Sustainability Policy" in keeping with and evolving the concepts of the CSR policy, and established a Group-wide framework designed to contribute to the achievement of SDGs.

The new policy relates to the very business activities that are based on FFG's fundamental policy of achieving a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value." We will seek to gain the lasting support of our stakeholders by solving social issues through various initiatives, and contribute to building a sustainable society.

Sustainability Policy

FFG creates a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value" through business activities based on the Group Management Principles in order to help develop a sustainable society.

Sustainability Promotion Structure

- For more information about FFG's Sustainability Policy and SDGs-based focus items, please visit our website at: https://www.fukuoka-fg.com/csr/sustainability.html

SDGs (Sustainable Development Goals)

A set of 17 goals for addressing global challenges, including those relating to poverty, hunger, energy, climate change, and peaceful societies. Global goals that all United Nations member states will work to achieve by 2030.

Materiality

FFG has identified its focus items to contribute to the achievement of SDGs, considering their impact on the achievement of the Long-term Vision and the opinions of its stakeholders.

Impact on achievement of the Long-term Vision
- Relevance to revitalization of local communities
- Mega trend (Inevitable trend)
- Degree of impact on human resources
- Degree of impact on total Group power

Stakeholder opinions
- Interests and concerns of shareholders and investors
- SDGs that customers consider important, etc.

Focus items

- **Sound growth of regional economy**
- **Industrial growth and financial innovation**
- **Response to aging population and declining birth rate**
- **Environmental protection**
- **Realization of prosperous local communities**
- **Promotion of new work styles**
- **Enhancement of governance**

Focus Item Associated with Escalating Environmental Problems: Initiatives for Environment Protection

Recognizing that initiatives to mitigate environmental impact are accelerating globally, FFG has strengthened its focus item "environment protection." Specifically, FFG has developed an environmentally friendly loan policy to reduce environmental impact and revitalize local communities at the same time. In addition, we have worked to reduce environmental impact of our business activities by reassessing the Group's climate-related risks.

Climate Change Initiatives

FFG has positioned efforts for addressing climate change as an important element of its business strategy. Aiming to share easy-to-understand and useful information with its stakeholders, the Group declared in August 2020 that it supports the recommendations of the TCFD* and has since prepared a system in line with the recommendations. In addition, FFG began responding to the CDP** Climate Change Questionnaire from FY2020 to meet the needs of investors for environmental information from the Group.

*TCFD (Task Force on Climate-related Financial Disclosures)
A task force established by the Financial Stability Board (FSB) under the direction of the G20 Finance Ministers and Central Bank Governors meeting, positioning climate change as a global issue. TCFD aims to "develop recommendations that help companies produce voluntary disclosures that are consistent, comparable, reliable, clear, and efficient" in order to facilitate appropriate investment decisions regarding climate-related risks and opportunities.

**CDP (formerly the Carbon Disclosure Project)
An international non-profit organization based in the United Kingdom that helps companies and cities disclose their environmental impact through a climate change questionnaire, which is sent to major companies around the world, and collected for analysis and assessment. The results are provided to institutional investors.

Governance

- FFG's Risk Management Policy stipulates that the Board of Directors is responsible for developing and establishing various risk management systems based on the characteristics of the climate-related risk. Action plans and other related matters are discussed by the Board of Directors or the Group Risk Management Committee, depending on the nature of the climate-related risk.
- With regard to investments and loans, our Environment and Society-Conscious Loan Policy, which takes into consideration the demands of the international community for the prevention of global warming and our expectations for the realization of sustainable local communities, is clearly stated in our Credit Policy and decided by the Board of Directors.

Sustainability Policy and Materiality

Strategies

- In recent years, extreme weather events have wreaked havoc around the world, and the Kyushu region, FFG's business base, has been hit more frequently by record-breaking heavy rains and typhoons. Addressing climate change is a major issue for corporate management. Under such circumstances, FFG has been responding flexibly to urgent fund raising needs from customers affected by disasters, and is planning to further expand its risk mitigation scheme using insurance and other means, and BCP development and assessment support services.
- We will also incorporate SDGs perspectives into our initiatives for business assessment to create new loans to help our customers seize new business opportunities emerging from the transition to a low-carbon society, etc.
- The "Environment and Society Conscious Loan Policy" is defined as a specific policy for investments and loans, and focuses on the following points:
  (1) We will contribute to solving environmental and social issues through loan services.
  (2) For coal-fired thermal power plant business, we will avoid disrupting financing to electric power companies whose mission is to provide a stable supply of electricity, but we will not, in principle, finance new construction projects.
- We endeavor to establish robust risk management systems of physical and transition risks, one for each risk, based on quantitative analysis.
  As for physical risks, with the help of external experts, we are currently calculating the increase in credit-related costs arising from damage to hypothecated assets caused by storms and floods based on multiple scenarios.
  As for transition risks, we have started identifying and assessing risks within the Group applying the scenario analysis taking into account the current state of carbon-related assets defined by TCFD recommendations.

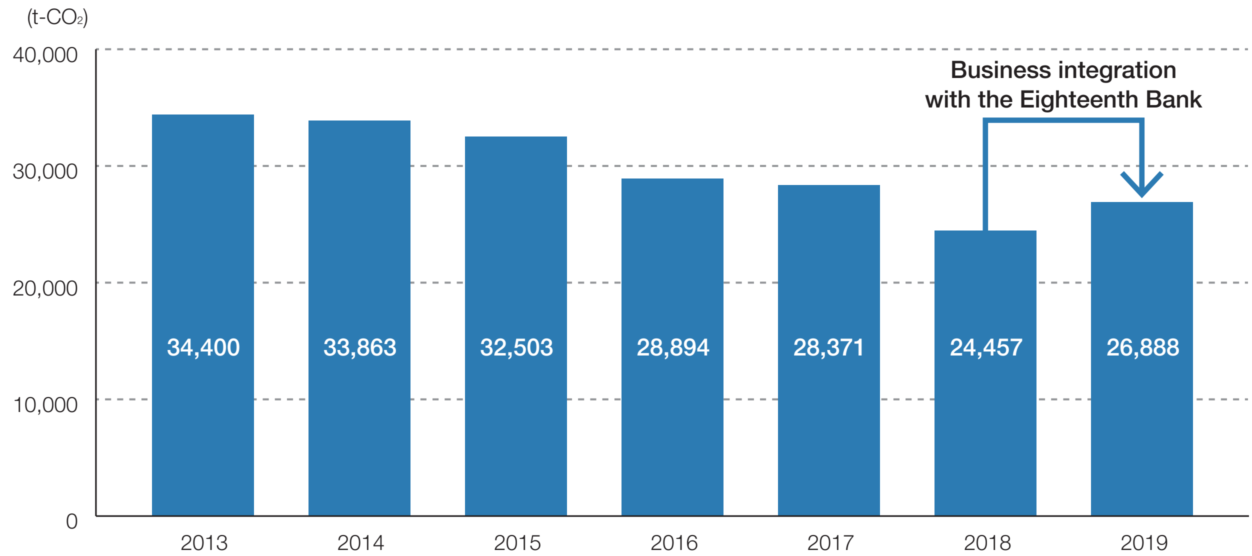
Risk Management

- We are managing and addressing material climate-related risks by risk category depending on how a risk is likely to manifest itself.
  For example, among physical risks, we conduct risk assessment of damage risks to FFG branches from storms and floods within the framework of operational risk management, and review insurance as necessary, thus appropriately controlling the risks.

Indicators and Targets

- FFG developed a Group-wide environmental policy in April 2009, and has made efforts to prevent and mitigate potential environmental impact of its own business activities.
  To achieve a low-carbon society, we are promoting "Eco Actions" including appropriate office temperature control, turning off vending machines during the night, encouraging workers to shut down computers when they leave their desk, energy consumption management at the branch level. We are also increasing eco-friendly offices by introducing solar power generation systems and LED lighting for ATM booths at branches.
- As a result of these initiatives, in FY2019, total of CO_2 emissions (Scopes 1 and 2 combined) for the four Group banks amounted to 26,888 tons, and, for the three Group banks that have comparable data, namely the Bank of Fukuoka, the Kumamoto Bank, and the Shinwa Bank, emissions decreased by 36% from FY2013.

Trends in CO_2 Emissions from FFG Business Activities (Scopes 1 and 2 combined)



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.

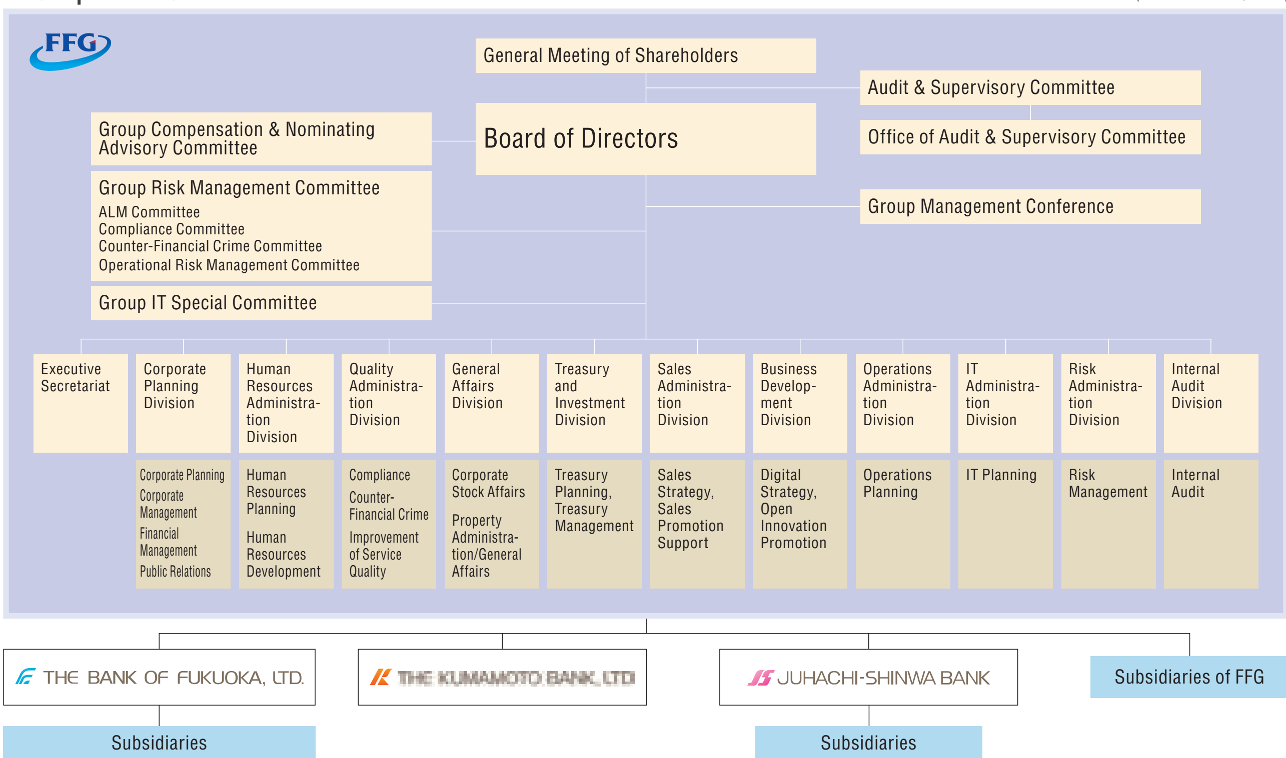
Under these Group Management Principles, the Company, as a holding company to govern the Group, mainly consisting of the core subsidiary banks, the Bank of Fukuoka, the Kumamoto Bank, the Juhachi-Shinwa Bank, is focused on realizing highly effective corporate governance for the purpose of optimizing 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, 2020)



●Board of Directors

The Board of Directors is composed of 12 Directors (including 4 external Directors), and these Directors shall make decisions regarding matters stipulated by laws, ordinances and articles of incorporation, as well as discussions/decisions on basic guidelines related to group management and important matters concerning business management of subsidiary banks, business affairs of the Group and so on, in addition to overseeing the job performance of Directors and Executive Officers.

●Audit & Supervisory Committee

The Audit & Supervisory Committee is composed of three Audit & Supervisory Committee (including two external Directors), 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.

Corporate Governance

Board of Directors

Takashige Shibato

Director, Chairman & President (Representative Director)

The Bank of Fukuoka, Ltd.; Director, Chairman & President (Representative Director)

Yasuhiko Yoshida

Director & Deputy President (Representative Director)

The Bank of Fukuoka, Ltd.; Director & Deputy President (Representative Director)

Yuji Shirakawa

Director & Deputy President (Representative Director)

The Bank of Fukuoka, Ltd.; Director & Deputy President (Representative Director)

Yasuaki Morikawa

Director & Executive Officer

The Bank of Fukuoka, Ltd.; Director & Deputy President (Representative Director)

Koji Yokota

Director & Executive Officer

Minna Bank Preparatory Co., Ltd; Director & President

Toshimi Nomura

Director & Executive Officer

The Kumamoto Bank, Ltd.; Director & President (Representative Director)

Takujiro Mori

Director & Executive Officer

The Juhachi-Shinwa Bank, Ltd.; Director & President (Representative Director)

Masahiko Fukasawa

External Director

AlixPartners Asia LLC; Co-Leader of Asia Business Unit & Co-Leader of Japan Business Unit

Toshiya Kosugi

External Director

Truth, Human Science and Management Organization Laboratory LLC; Representative

Kazunori Tanaka

Director (Audit & Supervisory Committee Member, full-time)

Hideo Yamada

External Director (Audit & Supervisory Committee Member)

Graduate School of Business and Finance, Waseda University; Professor

Nobuko Ishibashi

External Director (Audit & Supervisory Committee Member)

Kobe City Law Office; Representative partner lawyer

Office of Audit & Supervisory Committee

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

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

Chairman of the Board & President	Takashige Shibato (Advisory Committee Chairman)
Director & Deputy President	Yasuhiko Yoshida
Director & Deputy President	Yuji Shirakawa
External Director	Masahiko Fukasawa
External Director	Toshiya Kosugi
External Director	Hideo Yamada
External Director	Nobuko Ishibashi

Group Compensation Advisory Committee

Chairman of the Board & President	Takashige Shibato
Director & Deputy President	Yasuhiko Yoshida
External Director	Masahiko Fukasawa (Advisory Committee Chairman)
External Director	Toshiya Kosugi
External Director	Hideo Yamada
External Director	Nobuko Ishibashi

Group Management Conference

The Group Management Conference is composed of 7 executive Directors (with the President acting as Chairperson) (also attended by the full-time Audit & Supervisory Committee), 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 7 executive Directors and officers in charge of relevant departments (with the President acting as Committee Chairperson) (also attended by the full-time Audit & Supervisory Committee), 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 7 executive Directors and officers in charge of relevant departments (with the President acting as Committee Chairperson) (also attended by the full-time Audit & Supervisory Committee), 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 7 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.

Corporate Governance

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 FY2019 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 issues pointed out in the evaluations in the prior years, we transitioned to a company with an audit & supervisory committee in order to further enhance the effectiveness of the Board of Directors and reviewed the composition of the Board of Directors. Specifically, we raised the ratio of External Directors to one third, and invited a female Director for the first time.
- We also verified that the quality of discussions has been making steady progress, as we worked, on an ongoing basis, to narrow down points and improve the provision of information for discussions as well as promote opinion exchanges between the External Directors and executive members, all for further enhancement of discussions on strategies.
- We shared the awareness that it is important to enhance measures to promote discussions toward further improvement of corporate value in the future.
- In order to make better use of the insight of External Directors in various discussions, we confirmed that we will take measures to further enhance information sharing and to deepen discussions on themes that we will need to tackle from a long-term perspective.

Corporate Governance

Interview with External Director

In order to support the growth of FFG together, I listen to and deepen my understanding of the organization and employees, and make suggestions that will lead to awareness.

External Director
Masahiko Fukasawa
Co-Leader of Asia Business Unit &
Co-Leader of Japan Business Unit
AlixPartners Asia LLC

Q What do you think are the characteristics of FFG's corporate governance and the role of external Directors?

As one of the characteristics, I find that a very high level of preparations and discussions take place at FFG. The quality of agenda items presented to the Board of Directors is high, clearly indicative of the depth of analysis and thinking of the officers and persons in charge, as well as the various discussions that took place between related departments and management. This is highly commendable.

In this regard, there is a big difference between an organization that can stop and change directions if necessary, even after multiple discussions, and an organization that makes people feel reluctant to challenge a decision once it has been made. Therefore, as an external Director, I try to point out issues, even on agenda items that have already been settled to a certain extent, to encourage further lively discussions, so that the members do not hesitate to express different opinions.

All of the external Directors of FFG have a wealth of experience, having engaged in discussions at Board of Directors meetings of various companies. Therefore, I think we are able to make suggestions from multiple perspectives, including comparisons with other companies. We all make comments and ask questions freely in various situations, not just at the Board of Directors meetings, and we have received positive feedback from within the company, such as "We are glad you brought that point up" and "We had a fruitful discussion." Lately, I see more people at FFG truly understand the points raised by the external Directors, taking the initiative to incorporate those perspectives in their actions. I can sense that broader perspectives and ways of thinking are taking root in the organization, and I hope to continue with my efforts to respond to FFG's stance of stimulating discussions by incorporating external perspectives.

Q Is there anything you are working on to improve FFG's governance?

I am currently working on the following two points to improve FFG's governance. One is to have active exchange of views outside the Board of Directors meetings, and the other is to gain a better understanding of the field.

● Exchange of views outside the Board of Directors meeting

To make a valuable comment at the Board of Directors meetings, just reading materials thoroughly beforehand is not enough. Therefore, I regularly arrange opportunities to share information and exchange views about issues before they are presented to the Board. The themes are diverse such as long-term management direction, human resource development, and response to changes in the business environment, and the format also varies depending on the purpose, from one-on-one exchange of opinions to group discussions. Being aware of what kind of issues are being discussed internally helps us to improve our performance at the Board of Director meetings and to provide better governance.

● **Gaining a better understanding of the field**

The Board of Directors meeting is a forum for discussing "policies and measures of an organization" and "results (figures)." However, it is extremely important to understand the actions and functions of employees who exist between the policies and results, in other words, "understand the field." It is impossible to express meaningful opinions as an external Director without understanding the field, so I hold discussions with the related departments and persons in charge who know the field, and exchange views by visiting branches of the Group banks. With the support of other external Directors, I have been meeting with the management, department and section managers, and employees who have been at the bank for about five years in each Group bank, to hear their frank opinions. I am very interested in how the discussions at the management level are perceived in the field.

Q What are the FFG's strengths?

I think they are "excellent human resources," "passion for delivering high-quality work" and "continuous efforts to undertake new initiatives." We are now at a point where we must consider how to reproduce these strengths going forward. This is because the industry itself is undergoing drastic changes, and our conventional methods will no longer work in many cases. It is extremely important to create a corporate culture that can continue to produce excellent human resources, and to face this era of change, not only with the recognition of these needs, but with a sense of speed and a strong awareness of the timeline. This is a challenge facing every organization, and I will keep raising awareness of this issue as an external Director to assist FFG in its future human resource development.

Q What is the key to FFG's growth?

To put it simply, a sense of speed. I know that the staff have already learned a lot about competitors in the industry and have taken advanced actions based on what they have learned. From now on, however, I would like them to keep a closer eye on global trends beyond the boundaries of their own industry, and make a habit of asking themselves, "Can we keep pace with the speed of the most advanced initiatives?" In addition to this, the key to creating truly valuable services lies in how seriously we can listen to customers' voices and then put them into action. For most customers, a bank is a place they go to because they have to, not because they want to. To ensure FFG will continue to be the customers' bank of choice even with the flurry of new entrants from different industries, we must develop services that are more convenient, are of higher quality, and are truly sought after, before our competitors and make them viable as a business.

Another challenge to future growth I would like to work together on is "diversity and inclusion." "Inclusion" (an environment where all human resources can exercise their abilities and find their job rewarding) is especially important for FFG. The Group consists of multiple banks and businesses, each comprising employees with diverse values and experience, and such diversity is expected to increase in the future. Taking the time now to explore ways of continuing to be an organization that moves forward in one direction with unity while sharing the same culture, will make a big difference to FFG's growth 10 years and 20 years down the line.

To this end, the first thing we must do is to continue to share the direction of the organization and specific sense of purpose regarding how we intend to remain useful to people into the future, with all employees. For example, various parties are responsible for the branding of a bank among customers in the community such as bank employees and staff at branches, personnel at call centers and employees engaged in marketing, who come into contact with customers. To make each and every one of them embody FFG's values while maintaining high motivation, it is necessary for them to understand how their day-to-day work and roles are related to the organization's strategy. If they can maintain a sense of purpose on a daily basis, feeling "This can only be done by FFG," this will surely serve as a major driving force for an organization. I believe that we can overcome our current difficulties if the human resources at FFG, which has continued to grow as a leading bank, share their wisdom. I too intend to support the Group's growth, listening carefully to the voices of the organization and the field.

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 Juhachi-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.

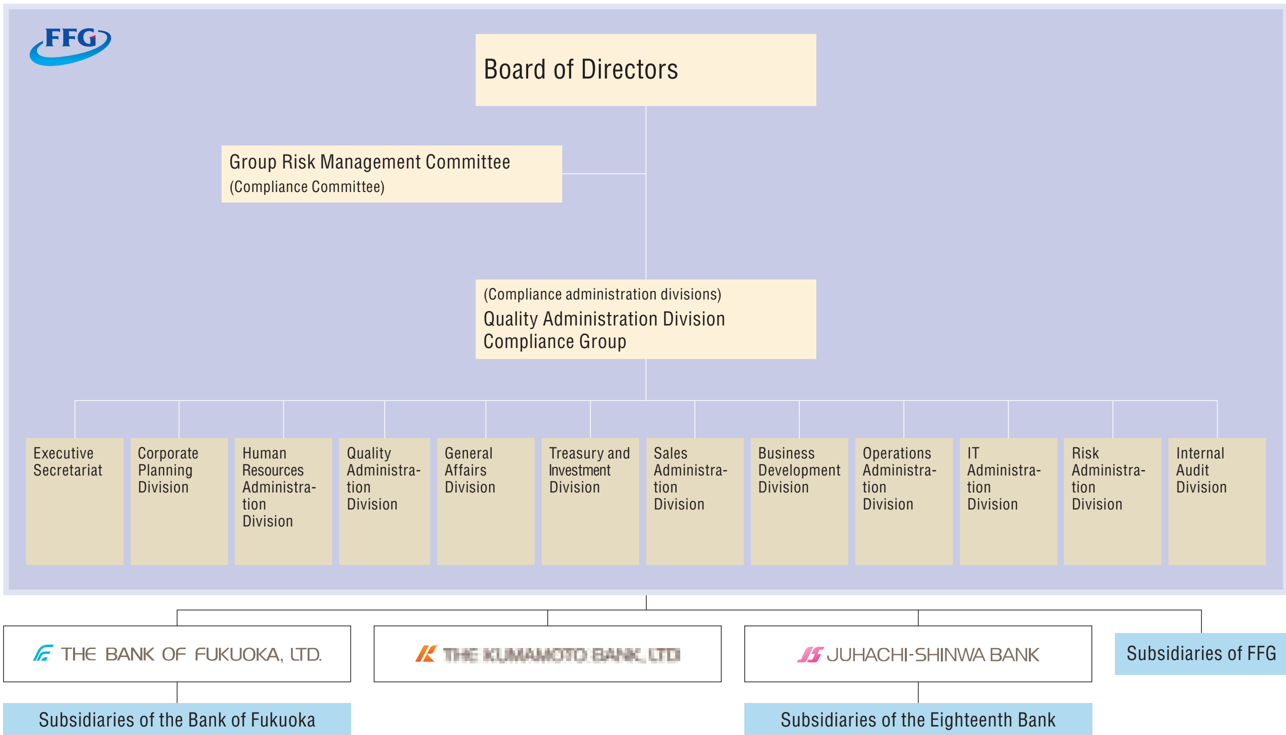
Furthermore, we have formulated a Customer Protection Management Policy to protect customers' legitimate interests and increase their convenience and are enhancing our customer protection management structure.

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, 2020)



Compliance Measures

Anti-Money Laundering and Countering the Financing of Terrorism

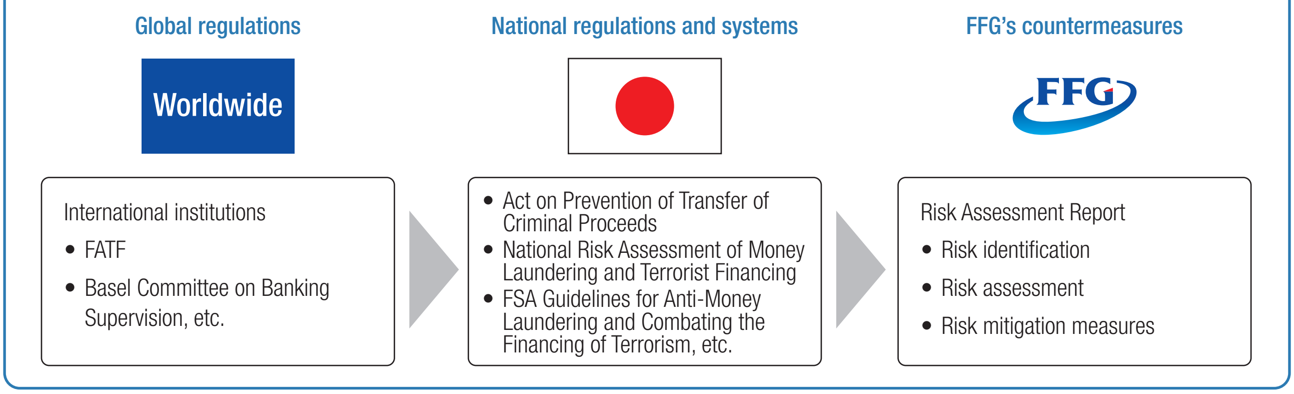
In recent years, a variety of financial crimes such as fraud, illegal cash withdrawal, money laundering and financing of terrorism have occurred, and their schemes and techniques have become more complex and sophisticated.

FFG and its Group companies have established the Policy on Anti-Money Laundering and Countering the Financing of Terrorism (see the following page) to fight such financial crimes, and are taking various measures to protect customers' assets.

Policy on Anti-Money Laundering and Countering the Financing of Terrorism

- Positioning the prevention of money laundering and other financial crimes as one of the most critical issues for business management, FFG works to ensure uncompromising verification and sophistication, and establish an effective control system to maintain public trust.
- Understanding that financial crimes such as money laundering can pose a material risk to the business, the management and heads of each department will proactively take the initiative, require all employees to fully understand the countermeasures, and thereby establish the control system.
- FFG identifies and assesses risks associated with products and services that FFG and its Group companies offer, and prepares a written Risk Assessment Report by a Specified Business Operator, etc. (Risk Assessment Report) to reduce such risks.
- The Group reviews the status of compliance with measures to prevent money laundering and other financial crimes and, based on the results, continuously improves the system.

<Outline of FFG's Measures for Anti-Money Laundering and Countering the Financing of Terrorism>



FFG's Main Initiatives

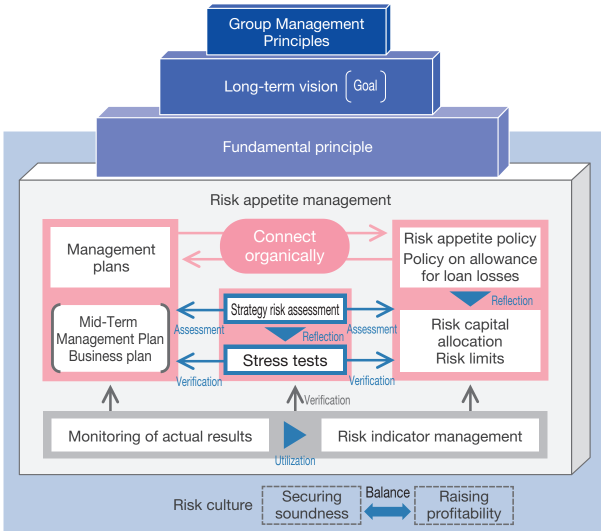
- April 2018: Established Counter-Financial Crime Group under Quality Administration Division as a specialist administration department.
- June 2018: Held Counter-Financial Crime Committee meeting attended by the management and heads of each department in order to discuss and report measures and cases (Held regularly thereafter).
- August 2018: Revised the Risk Assessment Report, identified and assessed financial crime risks facing Group companies, and developed measures to reduce the risks (The Report has been revised at least once a year thereafter).
- Provide on-the-job training for all employees, status-specific training, and business-specific training, and continuously promote certification tests and qualification acquisition related to the prevention of money laundering and other financial crimes.

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.



Risk Appetite Policy

FFG specifies strategies regarding risk-taking in the risk appetite policy and defines "risks to take and risks to avoid."

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.

There are seven risk categories in the risk appetite policy comprising "Compliance risk" and "ESG risk" added to the five[*] comprehensive risk management categories.

*Refers to: 1) Comprehensive risk, 2) Market risk, 3) Credit risk, 4) Liquidity risk, 5) Operational risk
For more information on the comprehensive risk management framework and each risk category, please refer to "Risk Management" section of this report.

Policy on Allowance for Loan Losses

FFG takes out allowances in a forward-looking manner ("forward-looking allowances") by quantifying future risks using wide range of information on the current and future circumstances and reflecting this on our allowance for loan losses while taking our loan policies and portfolio into account.

A "forward-looking allowance" strengthens our preparedness for future uncertainty by calculating allowances based on economic predictions, which allows FFG to operate loans without being too impacted by economic fluctuations, and leads to stable and appropriate financial intermediary functions including cash management support.

FFG specifically estimates "forward-looking allowances" by considering the need to group allowances based on criteria such as industry types and company size while taking the analysis of our credit portfolio into consideration. Next, FFG analyzes the possibility of risk events that might aggravate the domestic or international economic environment, and considers the future economic scenario. Under the "Policy on Allowance for Loan Losses," FFG reviews the necessity for grouping and the economic scenario every half year, in principle.

The "Policy on Allowance for Loan Losses" has been formulated within the Risk Appetite Framework, and FFG has established a structure to maintain the soundness of capital and allowance together to cover latent credit risks that may actualize in the event of future economic deterioration.

Risk Appetite Framework

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.

Strategy Risk Assessment

In the business environment surrounding financial institutions changing acceleratingly due to the declining birthrate and aging population, and new entrants from other sectors fueled by digitalization, FFG is expanding new initiatives such as digital transformation (DX) as well, therefore strategy risks are rising in importance.

FFG defines strategy risk as a “risk of business misjudgments and lack of adaptability to environmental changes affecting financial and business stability,” and assesses strategy risks under the Risk Appetite Framework. Specifically, strategy risks are classified and assessed taking a certain method, and in particular, those that are quantifiable are reflected in the capital adequacy assessment.

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.”

Addressing Material Risks

FFG is strengthening its efforts to address risks that it regards as particularly material, by appropriately managing and controlling risks, and also by viewing risks as strategic opportunities.

Material risks	FFG initiatives
Expansion of COVID-19	• Establishment and promotion of a company-wide business continuity system that also leverages the experience of past novel influenza outbreaks
Unexpected increase in credit-related costs	• Adequate reserve to combat future risks via a forward-looking allowance system
Compliance	• For details, please refer to Pages 35 through 36
Financial crime and money laundering	• For details, please refer to Page 36
Cyber security	• Establishment of an advanced cyber security management system for the digital age
Natural disasters and climate change	• Establishment of a climate-related risk management framework in line with TCFD recommendations → Details on Pages 27 through 28 • Establishment of an effective business continuity system through the use of hazard maps, etc.
Intensifying competition due to entrants from other sectors, etc.	• Securing countermeasures via digital transformation (DX), etc. → For details, please refer to Page 25

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	Management by qualitative assessment	
Liquidity Risk				
	Cash Management Risk	Risk of losses arising from difficulties in securing necessary funds as a result of mismatching the period of cash management and procurement or unforeseen cash outflows, or from fund procurement unavoidably carried out at interest rates significantly higher than usual		
	Market Liquidity Risk	Risk of losses arising from the inability to carry out transactions due to market disruptions and other factors, or from transactions unavoidably conducted at prices significantly less favorable than usual		

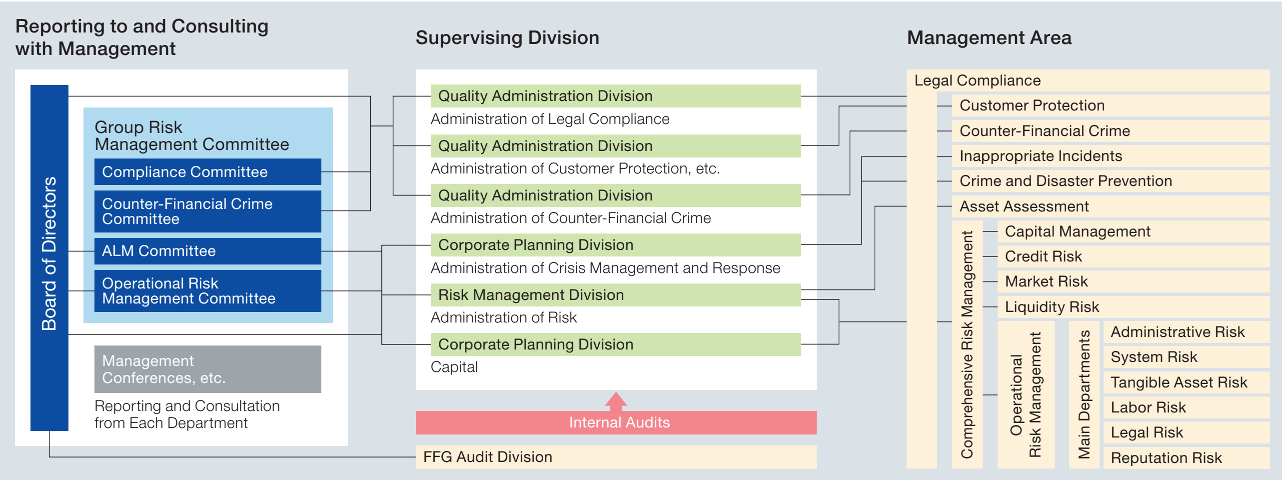
Risk Management

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

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

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

FFG's Risk Management Framework



Comprehensive Risk Management

About Comprehensive Risk Management

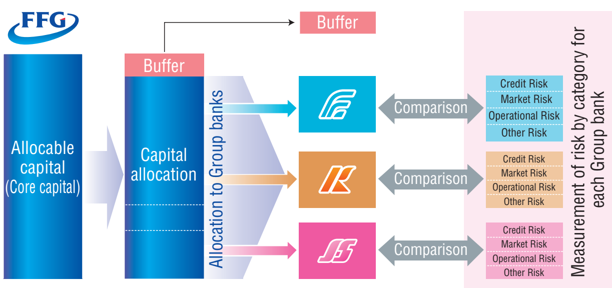
Comprehensive risk management makes an integrated assessment of risks that financial institutions face, evaluated for each risk category, by comparison with that financial institution's capital. Categories include credit risk, market risk and operational risk, as well as credit-concentration risk and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

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

Risk Capital Allocation System

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

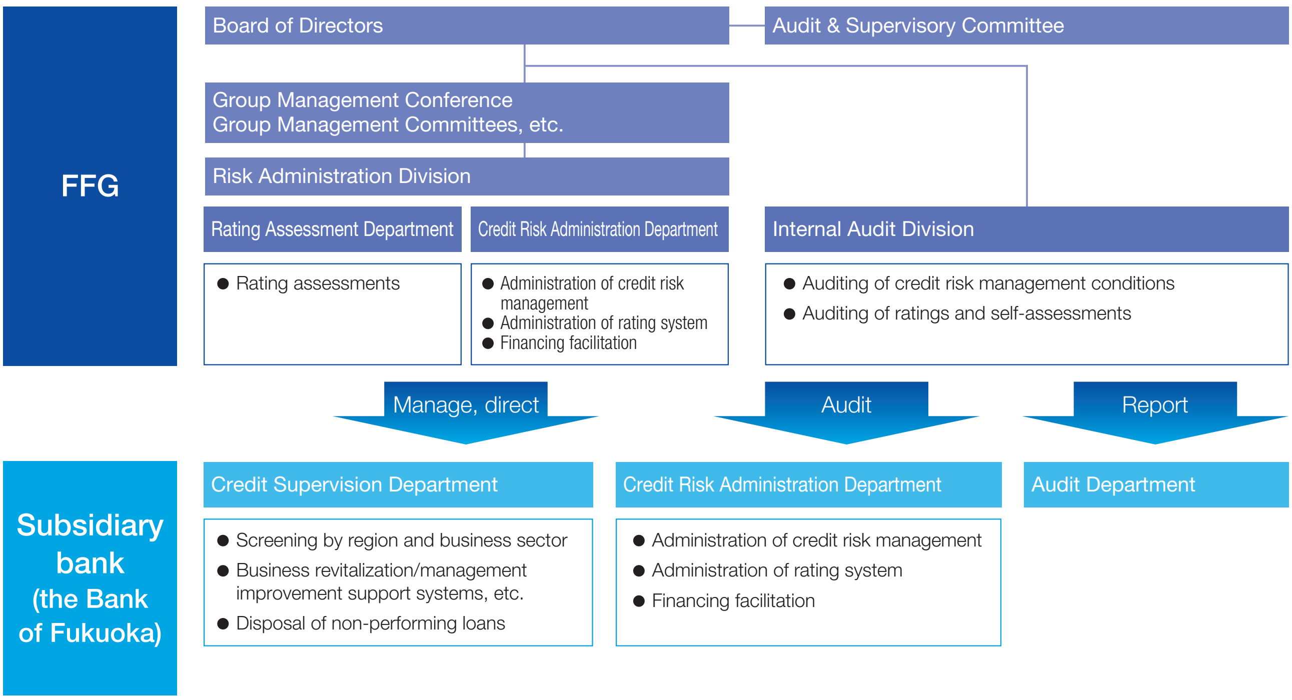
FFG has also created the Credit Risk Management Program as an action plan for enhancing the groupwide credit risk management framework and strengthening groupwide credit portfolio operations.

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.



Risk Management

Obligor Ratings

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

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

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

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

Quantification of Credit Risk

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

Framework for Individual Credit Management

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

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

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.

There are drastic changes in the operating environment surrounding FFG such as products and services diversifying due to the expansion of business domains and the progress of digitalization, rising importance of cyber security and information management, etc., and the frequent occurrence of natural disasters. Operational risk management is becoming increasingly important in responding to such changes 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.

Communication with Stakeholders

Dialogue with Shareholders and Investors

FFG has defined "become a financial group that creates value for all stakeholders" as one of its Management Principles, and is actively engaged in communication with shareholders and investors.

The Group is providing explanation on FFG's growth strategy and financial data in an easy-to-understand manner through annual shareholders meetings, briefings for investors and other opportunities. We are also focusing on the disclosure of non-financial information in Integrated Report, which we started publishing in FY2019.

Going forward, FFG will continue to enhance its communication with shareholders and investors, disseminate more information on FFG's activities, and use the opinions and requests expressed in the dialogue to improve management, thus pursuing sustainable improvement of corporate value.

FFG's Corporate Communication (IR) Calendar

	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.
Financial results announcement		● Year-end results			● Q1 results			● Interim results			● Q3 results	
Annual shareholders meeting			●									
Company information session		●						●				
Securities reports (quarterly reports)			●		●			●			●	
Disclosure publication			● To Be Your Bank of Choice	● Financial Data			● Integrated Report		● To be your Bank of choice	● Financial Data		
Annual Report										●		

Corporate briefing

Results for FY2019	
Annual shareholders meeting	Shareholders in attendance: 587
Briefings for institutional investors and analysts	Held twice
Individual meetings with institutional investors and analysts	134 sessions
Conference held by a securities firm	Participated once
Briefings for individual investors	Held 3 times

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 consideration of the balance between maintainance of soundness and growth investment, we have set the target payout ratio (consolidated) of about 35%, and our policy is to pay dividends according to the level of consolidated net income.

■Target dividend table

FFG consolidated net income level*1	Full-year dividend per share	Payout ratio
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

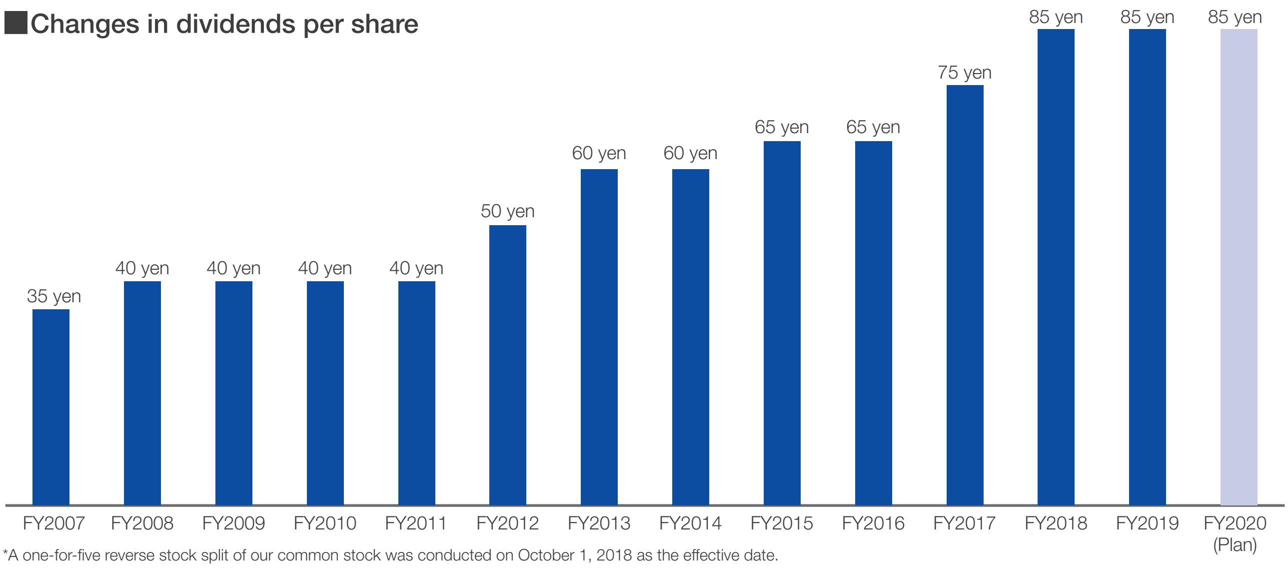
	Final year target (FY2021)
Consolidated net income*1	57.5 billion yen
ROE	About 6%
Capital adequacy ratio	About the level of 10%*2
Consolidated OHR	About 60%

<Reference>

	Final year target (FY2021)
Average balance of total loans (Excluding loans to FFG and the government)	13.9 trillion yen
Average balance of total deposits and CDs	18.3 trillion yen

*1 Indicates net income attributable to owners of the parent
*2 reviewed in May 2020

■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 FY2020]
In FY2020, 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.

Fukuoka Financial Group

The Bank of Fukuoka

The Kumamoto Bank

The Shinwa Bank

The Eighteenth Bank

Independent Auditor's Report

The Board of Directors
Fukuoka Financial Group,Inc.

Opinion

We have audited the accompanying consolidated financial statements of Fukuoka Financial Group,Inc. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 25, 2020

Noboru Miura
Designated Engagement Partner
Certified Public Accountant

Yoshihiro Fujii
Designated Engagement Partner
Certified Public Accountant

Takeshi Nagasato
Designated Engagement Partner
Certified Public Accountant

Consolidated Balance Sheet

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 7 and 17)	¥ 4,555,981	¥ 4,497,130	$ 41,863
Call loans and bills bought (Note 17)	23,236	8,769	213
Receivables under resale agreements (Note 17)	37,621	—	345
Monetary claims bought (Notes 3 and 17)	54,688	66,528	502
Trading assets	1,630	1,600	14
Money held in trust (Note 4)	14,734	4,190	135
Securities (Notes 3, 7, 10, 11 and 17)	3,797,852	2,927,128	34,897
Loans and bills discounted (Notes 5, 7 and 17)	16,126,222	12,994,296	148,178
Foreign exchanges (Note 5)	32,933	8,160	302
Lease receivables and lease investment assets (Note 7)	15,857	—	145
Other assets (Note 7)	283,821	183,074	2,607
Tangible fixed assets (Note 6)	209,629	194,101	1,926
Intangible fixed assets	19,206	16,198	176
Net defined benefit assets (Note 9)	8,459	18,533	77
Deferred tax assets (Note 12)	47,770	9,366	438
Customers' liabilities for acceptances and guarantees (Note 10)	45,662	43,363	419
Allowance for loan losses (Note 5)	(206,904)	(132,655)	(1,901)
Total assets	**¥25,068,405**	**¥20,839,786**	**$230,344**
Liabilities			
Deposits (Notes 7 and 17)	¥17,521,469	¥14,298,202	$160,998
Call money and bills sold (Note 17)	2,248,706	1,865,549	20,662
Payables under repurchase agreements (Notes 7 and 17)	1,369,069	1,241,589	12,579
Payables under securities lending transactions (Notes 7 and 17)	638,281	618,007	5,864
Trading liabilities	—	0	—
Borrowed money (Notes 7 and 17)	2,159,259	1,826,041	19,840
Foreign exchanges	1,679	1,169	15
Short-term bonds payable	29,000	16,000	266
Bonds payable (Notes 8 and 17)	10,000	10,000	91
Other liabilities	156,225	112,921	1,435
Net defined benefit liabilities (Note 9)	4,379	993	40
Provision for losses on interest repayments	26	23	0
Provision for losses from reimbursement of inactive accounts	8,592	5,543	78
Provision for contingent liabilities losses	0	3	0
Reserves under the special laws	22	22	0
Deferred tax liabilities (Note 12)	6	57	0
Deferred tax liabilities for land revaluation (Note 6)	22,961	22,989	210
Acceptances and guarantees (Note 10)	45,662	43,363	419
Total liabilities	**¥24,215,343**	**¥20,062,477**	**$222,506**
Net assets			
Capital stock	¥ 124,799	¥ 124,799	$ 1,146
Capital surplus	141,418	94,164	1,299
Retained earnings	514,682	419,871	4,729
Treasury stock	(2,446)	(391)	(22)
Total shareholders' equity	**778,454**	**638,443**	**7,152**
Valuation difference on available-for-sale securities (Note 11)	65,358	107,770	600
Deferred gains or losses on hedges	(32,547)	(20,239)	(299)
Revaluation reserve for land (Note 6)	51,495	51,560	473
Remeasurements of defined benefit plans (Note 9)	(9,721)	(245)	(89)
Total accumulated other comprehensive income	74,584	138,847	685
Non-controlling interests	23	17	0
Total net assets	**¥ 853,062**	**¥ 777,308**	**$ 7,838**
Total liabilities and net assets	**¥25,068,405**	**¥20,839,786**	**$230,344**

Consolidated Statement of Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Interest income:			
Interest on loans and discounts	¥155,206	¥136,827	$1,426
Interest and dividends on securities	37,936	33,976	348
Interest on call loans and bills bought	138	144	1
Interest on receivables under resale agreements	0	(0)	0
Interest on due from banks	0	0	0
Other interest income	6,859	6,795	63
Trust fees	0	0	0
Fees and commissions	56,283	49,884	517
Trading income	344	177	3
Other operating income	17,010	8,120	156
Other income	126,851	10,194	1,165
Total income	**¥400,630**	**¥246,122**	**$3,681**
Expenses			
Interest expenses:			
Interest on deposits	¥ 5,262	¥ 4,411	$ 48
Interest on call money and bills sold	(994)	(629)	(9)
Interest on payables under repurchase agreements	2,198	1,731	20
Interest on payables under securities lending transactions	5,946	4,854	54
Interest on borrowings and rediscounts	1,622	1,622	14
Interest on short-term bonds	5	2	0
Interest on bonds	195	209	1
Other interest expenses	11,592	9,763	106
Fees and commissions payments	25,007	20,826	229
Other operating expenses	887	45	8
General and administrative expenses	154,951	117,087	1,423
Other expenses	85,723	12,543	787
Total expenses	**¥292,398**	**¥172,470**	**$2,686**
Income before income taxes	**108,231**	**73,652**	**994**
Income taxes: (Note 12)			
Current	15,954	21,857	146
Deferred	(18,308)	189	(168)
Total income taxes	**(2,353)**	**22,046**	**(21)**
Net income	**110,585**	**51,605**	**1,016**
Net loss attributable to non-controlling interests	**(22)**	**(44)**	**(0)**
Net income attributable to owners of the parent (Note 13)	**¥110,607**	**¥ 51,649**	**$1,016**

Consolidated Statement of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Net income	¥110,585	¥ 51,605	$1,016
Other comprehensive income:			
Valuation difference on available-for-sale securities	(42,412)	(23,722)	(389)
Deferred gains or losses on hedges	(12,308)	(7,554)	(113)
Remeasurements of defined benefit plans	(9,476)	(8,274)	(87)
Total other comprehensive income	**(64,197)**	**(39,552)**	**(589)**
Comprehensive income (Note 14)	**¥ 46,387**	**¥ 12,053**	**$ 426**
Total comprehensive income attributable to:			
Owners of the parent	46,409	12,097	426
Non-controlling interests	(22)	(44)	(0)

Consolidated Statement of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2020 and 2019

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	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	Non-controlling interests	Total net assets
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
Changes during the period:												
Increase by stock swap		47,120			47,120							47,120
Dividends from surplus			(15,861)		(15,861)							(15,861)
Net income attributable to owners of the parent			110,607		110,607							110,607
Acquisition of treasury stock				(2,055)	(2,055)							(2,055)
Disposition of treasury stock		0		0	1							1
Transfer from revaluation reserve for land			65		65							65
Purchase of shares of consolidated subsidiaries		11			11							11
Capital increase of consolidated subsidiaries		122			122							122
Net changes of items other than shareholders' equity						(42,412)	(12,308)	(65)	(9,476)	(64,263)	5	(64,257)
Total changes during the period	—	¥ 47,254	¥ 94,811	¥(2,054)	¥140,010	¥ (42,412)	¥(12,308)	¥ (65)	¥(9,476)	¥ (64,263)	¥ 5	¥ 75,753
Balance as of March 31, 2020	¥124,799	¥141,418	¥514,682	¥(2,446)	¥778,454	¥ 65,358	¥(32,547)	¥51,495	¥(9,721)	¥ 74,584	¥23	¥853,062

Millions of U.S. dollars (Note 2)

	Shareholders' equity					Accumulated other comprehensive income						
	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	Non-controlling interests	Total net assets
Balance as of March 31, 2019	$1,146	$ 865	$3,858	$ (3)	$5,866	$ 990	$(185)	$473	$ (2)	$1,275	$0	$7,142
Changes during the period:												
Increase by stock swap		432			432							432
Dividends from surplus			(145)		(145)							(145)
Net income attributable to owners of the parent			1,016		1,016							1,016
Acquisition of treasury stock				(18)	(18)							(18)
Disposition of treasury stock		0		0	0							0
Transfer from revaluation reserve for land			0		0							0
Purchase of shares of consolidated subsidiaries		0			0							0
Capital increase of consolidated subsidiaries		1			1							1
Net changes of items other than shareholders' equity						(389)	(113)	(0)	(87)	(590)	0	(590)
Total changes during the period	—	$ 434	$ 871	$(18)	$1,286	$(389)	$(113)	$ (0)	$(87)	$ (590)	$0	$ 696
Balance as of March 31, 2020	$1,146	$1,299	$4,729	$(22)	$7,152	$ 600	$(299)	$473	$(89)	$ 685	$0	$7,838

Consolidated Statement of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Cash flows from operating activities:			
Income before income taxes	¥ 108,231	¥ 73,652	$ 994
Depreciation of fixed assets	12,160	10,103	111
Impairment losses	3,414	103	31
Gain on negative goodwill	(117,433)	—	(1,079)
Net change in allowance for loan losses	56,600	6,499	520
Net change in net defined benefit assets	10,074	14,770	92
Net change in net defined benefit liabilities	906	41	8
Net change in provision for losses on interest repayment	2	(25)	0
Net change in provision for losses from reimbursement of inactive accounts	2,479	(396)	22
Net change in provision for contingent liabilities losses	(160)	(3)	(1)
Interest income	(200,141)	(177,744)	(1,839)
Interest expenses	25,829	21,967	237
Net losses (gains) related to securities transactions	(1,518)	(7,005)	(13)
Net losses (gains) on money held in trust	84	12	0
Net exchange losses (gains)	57	(31)	0
Net losses (gains) on disposal of noncurrent assets	387	337	3
Net change in trading assets	123	204	1
Net change in trading liabilities	(0)	0	(0)
Net change in loans and bills discounted	(1,249,236)	(763,825)	(11,478)
Net change in deposits	600,797	219,847	5,520
Net change in borrowed money (excluding subordinated borrowed money)	316,549	324,279	2,908
Net change in due from banks (excluding deposits with the Bank of Japan)	(2,109)	(2,025)	(19)
Net change in call loans	(40,128)	(1,850)	(368)
Net change in call money	449,339	1,685,578	4,128
Net change in payables under securities lending transactions	(18,800)	(1,522,294)	(172)
Net change in foreign exchanges - Assets	(22,078)	(1,326)	(202)
Net change in foreign exchanges - Liabilities	434	(12)	3
Net change in lease receivables and lease investment assets	(1,129)	—	(10)
Net change in short-term bonds payable - Liabilities	13,000	11,000	119
Net change in issuance and redemption of bonds	—	(10,000)	—
Interest received	214,412	185,157	1,970
Interest paid	(25,626)	(21,902)	(235)
Other, net	(63,651)	(27,546)	(584)
Subtotal	72,870	17,564	669
Income taxes paid	(24,998)	(23,290)	(229)
Net cash provided by (used in) operating activities	**47,871**	**(5,725)**	**439**
Cash flows from investing activities:			
Payments for purchases of securities	(1,224,276)	(290,914)	(11,249)
Proceeds from sale of securities	218,138	136,269	2,004
Proceeds from redemption of securities	871,750	524,006	8,010
Payments for purchases of tangible fixed assets	(5,380)	(3,644)	(49)
Proceeds from sale of tangible fixed assets	409	150	3
Payments for purchases of intangible fixed assets	(8,150)	(5,432)	(74)
Net cash provided by (used in) investing activities	**(147,507)**	**360,435**	**(1,355)**
Cash flows from financing activities:			
Decrease in subordinated borrowings	—	(20,000)	—
Proceeds from share issuance to non-controlling interests	150	50	1
Payments for purchases of treasury stock	(18)	(27)	(0)
Proceeds from sale of treasury stock	1	0	0
Dividends paid	(15,855)	(13,740)	(145)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(266)	—	(2)
Net cash used in financing activities	**(15,989)**	**(33,717)**	**(146)**
Effect of exchange rate changes on cash and cash equivalents	**(57)**	**31**	**(0)**
Net increase in cash and cash equivalents	**(115,683)**	**321,023**	**(1,062)**
Cash and cash equivalents at beginning of the year	**4,489,326**	**4,168,303**	**41,250**
Increase in cash and cash equivalents by stock swap (Note 15)	**172,053**	**—**	**1,580**
Cash and cash equivalents at end of the year (Note 15)	**¥ 4,545,697**	**¥ 4,489,326**	**$ 41,768**

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 4 companies, namely, FFG Agricultural Corporation Support Investment Limited Partnership, FFG Agriculture, Forest and Fisheries Industries Support Investment Limited Partnership, FFG Venture Investment Limited Partnership No.1, and FFG Venture Investment Limited Partnership No.2, controlled directly or indirectly by FFG. All significant intercompany balances and transactions have been eliminated in consolidation.

The Eighteenth Bank, Limited. (hereinafter the "Eighteenth Bank") and its 6 consolidated subsidiaries were newly included in FFG's scope of consolidation from the fiscal year ended March 31, 2020 due to a stock swap between FFG and the Eighteenth Bank.

In addition, Zerobank Design Factory Inc. and Minna Bank Preparatory Co., Ltd. were newly included in FFG's scope of consolidation from the fiscal year ended March 31, 2020 because they were 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.

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

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

h. Allowance for Loan Losses

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

- For credits extended to obligors that are legally bankrupt under the Bankruptcy Law, Special Liquidation in the Commercial Law or other similar laws (“Bankrupt Obligors”), and to obligors that are effectively in similar conditions (“Effectively Bankrupt Obligors”), allowances are maintained at 100% of amounts of claims (after direct reductions are made as discussed below), net of expected amounts from the disposal of collateral and/or on the amounts recoverable under guarantees.
- For credits extended to obligors that are not Bankrupt Obligors or Effectively Bankrupt Obligors but have a substantial chance of business failure going forward (“In-Danger-of-Bankruptcy Obligors”), allowances are maintained at the amount deemed necessary based on overall solvency analyses, on the amount of claims less expected amounts recoverable from the disposal of collateral and/or on the amounts recoverable under guarantees.
- For credits extended to obligors that are In-Danger-of-Bankruptcy Obligors or whose credit terms are rescheduled or reconditioned, and exceed a certain threshold, the Discounted Cash Flow Method (the DCF Method) is applied if cash flows on repayment of principals and collection of interest of the loan can be reasonably estimated. The DCF Method requires that the difference between the cash flows discounted by the original interest rate and the carrying value of the loan be provided as allowance for loan losses.
- For credits extended to other obligors, allowances are maintained principally at the amounts of expected losses for the next 1 year or 3 years by estimating default rates based on an economic outlook.

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 ¥5,325 million as of March 31, 2020, and the deducted amount as of March 31, 2019 was ¥8,057 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. Revenue and Expenses for Lease Transactions

Regarding revenue for finance leases, net sales and cost of sales are recorded upon receipt of lease payments.

p. 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.

q. 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.

Concerning items that transitioned to the group tax sharing system established under the “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 8 of 2020) and items for which the non-consolidated taxation system was revised in response to the transition to the group tax sharing system, FFG and some of its domestic subsidiaries do not apply the provision of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28 of February 16, 2018) in accordance with Paragraph 3 of “Practical Solution on the

Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39 of March 31, 2020). Accordingly, the amounts of deferred tax assets and deferred tax liabilities are presented based on the provisions of tax laws before the amendment.

r. 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.

s. 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.

t. Accounting Standards Issued but Not Effective

(1) On March 31, 2020, the ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(a) 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

(b) 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.

(c) 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) On July 4, 2019, the ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31), "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19).

(a) Overview

In order to enhance comparability with provisions of international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively the "Accounting Standard for Fair Value Measurement, etc.") have been developed. Thereby, guidance, etc. on the measurement methods for fair value have been prescribed. The Accounting Standard for Fair Value Measurement, etc. will be applied to fair value of financial instruments in "Accounting Standard for Financial Instruments."

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised, and related notes such as the breakdown of fair value of financial instruments by level have been prescribed.

(b) 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.

(c) 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.

u. Changes in Accounting Estimates

Consolidated subsidiaries conducting banking businesses had been provided allowance for loan losses based on default rates, etc. calculated through the number of default cases for a certain period of time in the past, and prepared principally by enhancing their capital adequacy for the possibility of incurring losses due to future events such as an economic downturn. However, FFG considers that quantifying these future risks and reflecting it in allowance for loan losses makes it possible to conduct the lending operation without being affected by economic fluctuations and demonstrate a stable and appropriate financial intermediary function including support of cash management, and has been working on its method and system.

At the end of the fiscal year ended March 31, 2020, consolidated subsidiaries conducting banking businesses were able to forecast trends of financial position of obligors associated with future economic fluctuations, and reasonably make an estimate to properly reflect it in default rates, etc. Accordingly, FFG changed the estimates of allowance for loan losses.

As a result of this change, allowance for loan losses as of March 31, 2020 increased by ¥41,784 million and income before income taxes for the fiscal year ended March 31, 2020 decreased by ¥41,784 million.

v. Additional Information

Consolidated subsidiaries conducting banking businesses provided additional allowance for loan losses of ¥8,742 million by revising the category of obligors who are adversely affected by the spread of novel coronavirus disease (COVID-19) in terms of their business results, cash management, etc.

In addition, the estimate method of allowance for loan losses was changed to the method estimating default rates based on a business forecast. Accordingly, allowance for loan losses of ¥41,784 million was provided additionally and a certain degree of an economic downturn resulting from the spread of COVID-19 was incorporated.

FFG expects that COVID-19 will be settled roughly in the first half of the fiscal year ending March 31, 2021, and assumes that the economy will recover gradually from the second half of the fiscal year ending March 31, 2021. However, there is a high level of uncertainty in assumptions used in estimating the amount of allowance for loans losses. In case where the impact of COVID-19 is beyond FFG's assumptions, such allowance for loans losses for the fiscal year ending March 31, 2021 may fluctuate.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥108.83 = US$1.00, the approximate rate of exchange on March 31, 2020, 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, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
National government bonds	¥1,986,119	¥1,633,192
Local government bonds	162,451	78,822
Corporate bonds	601,196	563,375
Equity securities	152,071	150,126
Other securities	896,013	501,611
Total	¥3,797,852	¥2,927,128

Other securities included investments in unconsolidated subsidiaries of ¥4,759 million and ¥3,425 million at March 31, 2020 and 2019, respectively.

National government bonds, etc. at March 31, 2020, included bonds of ¥5,168 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 ¥32,797 million and ¥21,889 million at March 31, 2020 and 2019, respectively.

■ Held-to-maturity securities

The following tables summarize carrying values, fair values and differences of securities with available fair values at March 31, 2020 and 2019:

(Millions of yen)

2020		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥17,474	¥18,251	¥ 776
	Corporate bonds	6,665	6,949	283
	Other	–	–	–
	Subtotal	¥24,140	¥25,200	¥1,060
Securities with fair value not exceeding carrying value	National government bonds	¥ –	¥ –	¥ –
	Corporate bonds	5,505	5,462	(43)
	Other	208	207	(0)
	Subtotal	¥ 5,714	¥ 5,670	¥ (44)
	Total	¥29,854	¥30,870	¥1,016

(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

■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2020 and 2019:

(Millions of yen)

2020		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥1,248,656	¥1,295,174	¥ 46,518
	Local government bonds	46,236	46,732	495
	Corporate bonds	374,236	377,439	3,202
	Equity securities	50,831	108,149	57,317
	Other	516,380	540,686	24,306
	Subtotal	¥2,236,342	¥2,368,183	¥131,840
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ 683,504	¥ 673,470	¥ (10,033)
	Local government bonds	116,076	115,719	(356)
	Corporate bonds	212,663	211,584	(1,078)
	Equity securities	40,286	33,965	(6,321)
	Other	345,551	324,451	(21,100)
	Subtotal	¥1,398,081	¥1,359,191	¥ (38,890)
	Total	¥3,634,423	¥3,727,374	¥ 92,950

(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

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, 2020 and 2019, impairment losses were ¥1,506 million and ¥485 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, 2020 and 2019:

(Millions of yen)

	2020		
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥ 64,979	¥ 8	¥ 690
Local government bonds	24,916	21	11
Corporate bonds	1,108	5	0
Equity securities	8,514	3,937	278
Other	28,096	2,653	2,606
Total	¥127,616	¥6,627	¥3,586

(Millions of yen)

	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

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, 2020 and 2019 and for the fiscal years then ended:

(Millions of yen)

	2020	
	Carrying value	Gain (loss) on valuation
Money held in trust for trading purpose	¥10,834	¥(52)

(Millions of yen)

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

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, 2020 and 2019:

(Millions of yen)

	2020		
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥3,900	¥3,900	¥—

(Millions of yen)

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

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2020 and 2019 included the following loans:

(Millions of yen)

	2020	2019
Loans to borrowers in bankruptcy	¥ 10,783	¥ 6,405
Delinquent loans	175,860	159,720
Loans past due for three months or more	614	1,016
Restructured loans	85,543	54,735
Total	¥272,802	¥221,878

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, 2020 and 2019, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥44,710 million and ¥43,974 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, 2020 and 2019 amounted to ¥4,543,678 million and ¥4,048,288 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 ¥4,298,376 million and ¥3,841,490 million at March 31, 2020 and 2019, 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 the 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, 2020 and 2019, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to Article 10 of the law were ¥4,291 million and ¥11,926 million, respectively.

Accumulated depreciation for tangible fixed assets amounted to ¥159,780 million and ¥118,713 million at March 31, 2020 and 2019, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥17,040 million and ¥15,811 million at March 31, 2020 and 2019, respectively.

7. Pledged Assets

Assets pledged as collateral at March 31, 2020 and 2019 consisted of the following:

(Millions of yen)

	2020	2019
Assets pledged as collateral:		
Securities	¥2,502,333	¥2,424,731
Loans and bills discounted	2,883,459	2,217,129
Lease receivables and lease investment assets	1,724	—
Other assets	3	2
Liabilities corresponding to assets pledged as collateral:		
Deposits	68,667	62,320
Payables under repurchase agreements	1,369,069	1,241,589
Payables under securities lending transactions	638,281	618,007
Borrowed money	2,147,007	1,823,614

In addition, cash and due from banks of ¥1 million, securities totaling ¥202 million and other assets of ¥260 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2020.

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.

Other assets included initial margins of futures markets of ¥136 million, cash collateral paid for financial instruments of ¥198,910 million, and deposits of ¥2,851 million at March 31, 2020.

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.

8. Bonds Payable

Bonds payable included callable (subordinated) debenture bonds of ¥10,000 million, payable in yen, due in 2026 at March 31, 2020 and 2019.

9. 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, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
Projected benefit obligation at the beginning of the fiscal year	¥142,457	¥142,560
Increase by stock swap	24,462	—
Service cost	4,828	4,161
Interest cost	242	234
Actuarial loss	3,312	1,076
Retirement benefits paid	(8,034)	(5,980)
Prior service cost	—	—
Contributions by participants of plans	406	404
Other	—	0
Projected benefit obligation at the end of the fiscal year	¥167,674	¥142,457

The changes in plan assets during the fiscal years ended March 31, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
Plan assets at the beginning of the fiscal year	¥159,998	¥174,913
Increase by stock swap	21,982	—
Expected return on plan assets	6,189	6,109
Actuarial loss	(9,694)	(10,642)
Contributions by FFG's subsidiaries	308	5,346
Retirement benefits paid	(7,435)	(5,908)
Partial refund of retirement benefit trusts	—	(10,224)
Contributions by participants of plans	406	404
Other	—	—
Plan assets at the end of the fiscal year	¥171,754	¥159,998

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2020 and 2019.

(Millions of yen)

	2020	2019
Funded projected benefit obligation	¥166,205	¥141,217
Plan assets at fair value	(171,754)	(159,998)
	(5,549)	(18,780)
Unfunded projected benefit obligation	1,469	1,239
Net asset for retirement benefits in the balance sheet	¥ (4,080)	¥ (17,540)

(Millions of yen)

	2020	2019
Net defined benefit liabilities	¥ 4,379	¥ 993
Net defined benefit assets	(8,459)	(18,533)
Net asset for retirement benefits in the balance sheet	¥(4,080)	¥(17,540)

The components of retirement benefit expenses for the fiscal years ended March 31, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
Service cost	¥ 4,828	¥ 4,161
Interest cost	242	234
Expected return on plan assets	(6,189)	(6,109)
Amortization of actuarial loss	(444)	(5)
Amortization of prior service cost	(163)	(163)
Other	—	—
Retirement benefit expenses	¥(1,727)	¥(1,882)

The components of remeasurements of defined benefits plans included in other comprehensive income (before tax effect) for the fiscal years ended March 31, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
Prior service cost	¥ (163)	¥ (163)
Actuarial loss	(13,452)	(11,724)
Other	—	—
Total	¥(13,615)	¥(11,888)

The components of remeasurements of defined benefits plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
Unrecognized prior service cost	¥ (289)	¥(452)
Unrecognized actuarial loss	14,257	805
Other	—	—
Total	¥13,968	¥ 352

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 and 2019 was as follow:

	2020	2019
Debt securities	47%	46%
Equity securities	31%	34%
Cash and due from banks	1%	2%
Other	21%	18%
Total	100%	100%

Total plan assets included retirement benefit trusts of 29% and 32% as of March 31, 2020 and 2019, 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:

	2020	2019
Discount rate	0.3%	0.3%
Long-term expected rate of return on plan assets	3.3%	3.5%
Estimated rate of increase in salary	3.5%	3.4%

(2) Defined contribution plans

The amounts to be paid to defined contribution plans by consolidated subsidiaries were ¥329 million and ¥324 million for the fiscal years ended March 31, 2020 and 2019, respectively.

10. 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 ¥32,797 million and ¥21,889 million at March 31, 2020 and 2019, respectively, for private placement corporate bonds. Relevant acceptances and guarantees and customers' liabilities for acceptances and guarantees have been recorded in the net amount.

11. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale securities at March 31, 2020 and 2019 consisted of the following:

(Millions of yen)

	2020	2019
Gross valuation difference on available-for-sale securities	¥92,950	¥153,479
Deferred tax liabilities applicable to valuation difference	27,592	45,708
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for non-controlling interests	65,358	107,770
Amount attributable to non-controlling interests	—	—
Valuation difference on available-for-sale securities	65,358	107,770

12. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
Deferred tax assets:		
Allowance for loan losses	¥ 62,433	¥ 39,523
Net losses carried forward	4,961	5,277
Net defined benefit liabilities	12,269	7,264
Depreciation of securities	7,072	5,663
Depreciation expenses	3,731	2,549
Deferred gains or losses on hedges	14,216	8,840
Fair value gains related to consolidated taxation	4,138	4,171
Other	10,240	5,255
Subtotal	119,063	78,545
Valuation allowance for net losses carried forward	(4,921)	(5,033)
Valuation allowance for total deductible temporary differences, etc.	(17,381)	(11,875)
Subtotal	(22,302)	(16,909)
Total	96,761	61,635
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(27,592)	(45,708)
Retirement benefit trust	(3,017)	(2,394)
Securities returned from retirement benefit trust	(3,159)	(3,159)
Reserve for special depreciation	(467)	(402)
Fair value losses related to consolidated taxation	(755)	(573)
Other	(14,005)	(88)
Total	(48,998)	(52,326)
Net deferred tax assets (liabilities)	¥ 47,763	¥ 9,309

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for consolidated financial statement purposes for the fiscal year ended March 31, 2020.

(%)

	2020
Statutory tax rate	30.4
Change in valuation allowance	1.3
Gain on negative goodwill	(33.0)
Entertainment expenses and other items permanently excluded from expenses	0.3
Per capital residence tax	0.2
Dividend revenue and other items permanently excluded from gross revenue	(0.3)
Other	(1.0)
Effective tax rate	(2.1)

For the fiscal year ended March 31, 2019, 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.

13. 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, 2020 and 2019 were as follows:

(Yen)

	2020	2019
Net income attributable to owners of the parent per share:		
Basic	¥581.83	¥300.71
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, 2020 and 2019, 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, 2020 and 2019, 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.

14. Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2020 and 2019 were the following:

(Millions of yen)

	2020	2019
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥(59,530)	¥(19,213)
Reclassification adjustments to profit or loss	(998)	(14,180)
Amount before income tax effect	(60,528)	(33,394)
Income tax effect	18,115	9,671
Total	(42,412)	(23,722)
Deferred gains or losses on hedges		
Gains (losses) arising during the year	(21,015)	(23,278)
Reclassification adjustments to profit or loss	3,331	12,423
Amount before income tax effect	(17,684)	(10,854)
Income tax effect	5,376	3,299
Total	(12,308)	(7,554)
Remeasurements of defined benefit plans		
Gains (losses) arising during the year	(13,007)	(11,718)
Reclassification adjustments to profit or loss	(608)	(169)
Amount before income tax effect	(13,615)	(11,888)
Income tax effect	4,139	3,614
Total	(9,476)	(8,274)
Total other comprehensive income	¥(64,197)	¥(39,552)

15. Supplementary Cash Flow Information

(1) 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, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
Cash and due from banks	¥4,555,981	¥4,497,130
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(10,283)	(7,803)
Cash and cash equivalents	¥4,545,697	¥4,489,326

(2) Details of significant non-cash transactions

Assets acquired and liabilities assumed due to a stock swap implemented by FFG in which the Eighteenth Bank became its wholly owned subsidiary during the fiscal year ended March 31, 2020 were summarizes as follows:

(Millions of yen)

	2020
Total assets	¥2,946,217
Of which, loans and bills discounted	1,882,690
Of which, securities	809,492
Total liabilities	2,781,386
Of which, deposits	2,541,162

Total assets include cash and cash equivalents at the start of consolidation of ¥172,053 million, which were recorded in “Increase in cash and cash equivalents by stock swap.”

16. 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, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
Within one year	¥ 66	¥ 66
Over one year	92	68
Total	¥158	¥135

17. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

FFG’s operations center on the banking business with various financial services. 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

<u>Loans and bills discounted</u>

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.

<u>Securities</u>

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

<u>Deposits</u>

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.

<u>Derivative transactions</u>

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 "p. 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, 2020 and 2019, FFG's amount of interest rate risk (value of estimated losses) was ¥26,523 million and ¥26,926 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 order to ensure its conservativeness. In addition, as losses of the Domestic Banking Department exceeded the VaR several times in back-testing conducted for the fiscal year ended March 31, 2020, FFG intends to multiply VaR by a fixed multiplier factor in the VaR measurement since April 2020 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 and investment trusts 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 for listed company shares; holding period of 60 days, confidence interval of 99%, observation period of 1,250 days for investment trusts) and employs quantitative analysis in its volatility risk management.

As of March 31, 2020 and 2019, FFG's amount of volatility risk was ¥79,843 million and ¥40,112 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, 2020, FFG intends to multiply VaR by a fixed multiplier factor and review the observation period in the VaR measurement since April 2020 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, 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, 2020 and 2019 were as follows:

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

(Millions of yen)

2020	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 4,555,981	¥ 4,555,981	¥ (0)
Call loans and bills bought	23,236	23,236	0
Receivables under resale agreements	37,621	37,622	0
Monetary claims bought	54,451	54,511	60
Securities			
Held-to-maturity securities	29,645	30,662	1,016
Available-for-sale securities	3,727,374	3,727,374	–
Loans and bills discounted	15,924,978	16,150,484	225,505
Total	¥24,353,289	¥24,579,873	¥226,583
Liabilities			
Deposits	¥17,521,469	¥17,521,867	¥ 397
Call money and bills sold	2,248,706	2,248,713	7
Payables under repurchase agreements	1,369,069	1,369,120	51
Payables under securities lending transactions	638,281	638,389	108
Borrowed money	2,159,259	2,146,785	(12,474)
Bonds payable	10,000	10,199	199
Total	¥23,946,786	¥23,935,076	¥ (11,710)
Derivatives			
Hedge accounting not applied	¥ 2,407	¥ 2,407	¥ –
Hedge accounting applied	(50,209)	(50,209)	–
Total	¥ (47,802)	¥ (47,802)	¥ –

(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)
Receivables under resale agreements	–	–	–
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)	¥ –

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 primarily 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 consolidated balance sheet 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 the 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 payments were demanded on the balance sheet date. The fair value of time deposits is calculated by categorizing these deposits by term, estimating their future cash flows and discounting them to their present value at the rate applied to new deposits.

(2) Borrowed money

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

(3) Bonds payable

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, 2020 and 2019 were as follows:

(Millions of yen)

	2020	2019
	Carrying value	Carrying value
Available-for-sale securities		
Unlisted equity securities	¥ 9,956	¥ 7,903
Unlisted foreign securities	0	0
Investments in limited partnership	30,875	22,521
Total	¥40,832	¥30,424

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 equity securities for the fiscal years ended March 31, 2020 and 2019 were ¥15 million and ¥6 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, 2020 and 2019 are summarized as follows:

(Millions of yen)

2020	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	¥ 4,368,498	¥ –	¥ –	¥ –	¥ –	¥ –
Call loans and bills bought	23,236	–	–	–	–	–
Receivables under resale agreements	37,621	–	–	–	–	–
Monetary claims bought	54,480	–	–	–	–	208
Securities						
Held-to-maturity bonds						
Held-to-maturity government bonds	–	3,100	14,374	–	–	–
Held-to-maturity corporate bonds	–	9,487	2,683	–	–	–
Available-for-sale securities with maturities						
Available-for-sale government bonds	353,052	364,291	163,520	46,678	90,516	950,585
Available-for-sale local government bonds	13,557	35,644	31,332	17,669	40,361	23,886
Available-for-sale corporate bonds	143,829	123,161	89,895	9,104	4,607	203,198
Available-for-sale other	62,241	89,276	142,711	90,217	102,595	164,203
Loans and bills discounted	5,363,828	2,351,204	1,948,750	1,436,238	1,467,069	3,204,521
Total	¥10,420,346	¥2,976,166	¥2,393,268	¥1,599,908	¥1,705,149	¥4,546,602

Loans do not include an estimated ¥186,644 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥167,967 million in loans that have no set term.

(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	–	–	–	–	–
Receivables under resale agreements	–	–	–	–	–	–
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.

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2020 and 2019 are summarized as follows:

(Millions of yen)

2020	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	¥17,086,988	¥ 319,161	¥107,326	¥ 2,560	¥5,433	¥ –
Call money and bills sold	2,248,706	–	–	–	–	–
Payable under repurchase agreements	1,320,096	38,090	10,883	–	–	–
Payable under securities lending transactions	638,281	–	–	–	–	–
Borrowed money	611,193	902,534	644,829	294	244	163
Bonds payable	–	–	–	10,000	–	–
Total	¥21,905,266	¥1,259,786	¥763,038	¥12,854	¥5,677	¥163

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

(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.

18. 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, 2020 and 2019 were as follows:

Hedge accounting not applied

As of March 31, 2020 and 2019, 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, 2020	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥201,703	¥ 8,416	¥ 8,263
Receive/floating and pay/fixed	201,703	(6,749)	(6,623)
Receive/fixed and pay/fixed	2,000	(36)	30
Caps			
Sell	—	—	—
Buy	—	—	—
Total	—	¥ 1,630	¥ 1,670

(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

■ Currency-related transactions

(Millions of yen)

As of March 31, 2020	Notional amount	Fair value	Gain (Loss)
Currency swaps	¥597,694	¥ 75	¥ 81
Foreign exchange contract			
Sell	175,501	(151)	(151)
Buy	130,445	236	236
Currency option			
Sell	174	(0)	(0)
Buy	174	0	0
Total	—	¥ 160	¥ 166

(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

■ Bonds–related transactions

(Millions of yen)

As of March 31, 2020	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥100	¥ 1	¥ 1
Buy	—	—	—
Total	—	¥ 1	¥ 1

(Millions of yen)

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

■ Credit derivative transactions

(Millions of yen)

As of March 31, 2020	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥57,500	¥629	¥610
Buy	2,000	(14)	(13)
Total	—	¥614	¥596

(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

Hedge accounting applied

As of March 31, 2020 and 2019, 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, 2020				
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	¥ 23
	Receive/floating and pay/fixed		1,045,321	(47,098)
	Securitization		—	—
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		32,734	(747)
	Receive/floating and pay/floating		—	—
Total			—	¥(47,822)

(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			
	Receive/ fixed and pay/floating	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits	¥ 10,000	¥ 38
	Receive/ floating and pay/fixed		600,667	(28,447)
	Securitization		1,960	—
Interest rate swaps with exceptional accounting	Interest rate swaps			
	Receive/ floating and pay/fixed	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits	38,406	(1,397)
	Receive/ floating and pay/floating		35,000	(3,333)
Total			—	¥(33,139)

■ Currency-related transactions

(Millions of yen)

As of March 31, 2020				
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	¥985,147	¥(2,367)
Allocation method	Currency swaps	Loans denominated in foreign currencies	484	(20)
Total			—	¥(2,387)

(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)

19. Business Integration

Effective April 1, 2019, FFG implemented a stock swap in which FFG became the wholly owing parent company and the Eighteenth Bank became the wholly owned subsidiary.

(1) Overview of business integration

(a) Name and business description of the acquired company

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 stock swap	1.42%
Additional acquisition on the date of the business integration	98.58%
After the acquisition	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.

(2) Period in which the acquired company's business results are reflected in the consolidated financial statements

From April 1, 2019 to March 31, 2020

(3) 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 stock swap, 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

(4) 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 stock swap 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

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

Advisory fees, etc. of ¥537 million

(6) 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

(7) Amount of gain on negative goodwill recognized and reason thereof

(a) Amount of gain on negative goodwill: ¥117,433 million

(b) Reason: As the acquisition cost was less than the net amount allocated to the assets acquired and liabilities assumed, their difference was recognized as gain on negative goodwill.

(8) Details of assets acquired and liabilities assumed on the business integration date

(Millions of yen)

	2020
Total assets	¥2,946,217
Of which, loans and bills discounted	1,882,690
Of which, securities	809,492
Total liabilities	2,781,386
Of which, deposits	2,541,162

20. Segment Information

The FFG's reportable segment is composed of only the banking business. Segment information has been omitted because businesses other than the banking business were immaterial for the fiscal year ended March 31, 2020.

Information on income by service has been omitted because income from the banking business accounts for more than 90% of ordinary income in the consolidated statement of income for the fiscal year ended March 31, 2020.

Information on income by geographic area has been omitted because income from Japanese customers' accounts for more than 90% of ordinary income in the consolidated statement of income for the fiscal year ended March 31, 2020.

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, 2020.

Information on income by major customer has been omitted because no ordinary income derived from any external customer amounted to 10% or more of ordinary income in the consolidated statement of income for the fiscal year ended March 31, 2020.

21. Related Party Transactions

There were no significant transactions with related parties to report for the fiscal years ended March 31, 2020 and 2019.

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, 2020, was approved at a shareholders meeting held on June 26, 2020 and became effective June 29, 2020:

(Millions of yen)

Dividends on common stock (¥42.50 per share)	¥8,114

(2) Transactions under common control

The Shinwa Bank and the Eighteenth Bank, which are FFG's consolidated subsidiaries, resolved to implement an absorption-type merger at their respective meetings of Board of Directors held on May 19, 2020.

(a) Overview of business integration

(i) Name and business description of the integrated companies

•Company surviving the absorption-type merger
Company name: the Shinwa Bank
Business description: Banking business

•Company absorbed in the absorption-type merger
Company name: the Eighteenth Bank
Business description: Banking business

(ii) Purpose of the business integration

FFG intends to contribute to economic growth in Nagasaki Prefecture toward the future by maximizing synergies through enhanced management efficiency resulting from the merger and realizing the following three items stated in the philosophy and purpose of the merger:

I. Simultaneously realizing vitalization of regional economy and improvement of corporate value

II. Contributing to growth of companies in Nagasaki Prefecture

III. Financial group rated as No.1 in customer satisfaction

(iii) Date of the business integration

October 1, 2020 (scheduled)

(iv) Legal form of the business integration
Absorption-type merger where the Shinwa Bank is the surviving company and the Eighteenth Bank is the absorbed company

(v) Company name following the business integration
The Juhachi-Shinwa Bank, Ltd.

(b) Overview of Accounting Treatments to be Implemented
In accordance with “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21 of January 16, 2019) and “Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10 of January 16, 2019), the above business integration will be treated as a transaction under common control.

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Fukuoka, Ltd.
As of March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 3,305,917	¥ 3,516,485	$ 30,376
Call loans	1,084,074	838,769	9,961
Receivables under resale agreements	37,621	—	345
Monetary claims bought	24,040	32,148	220
Trading assets	745	743	6
Money held in trust	834	990	7
Securities	2,394,619	2,149,257	22,003
Loans and bills discounted	10,816,999	9,897,843	99,393
Foreign exchanges	26,430	5,267	242
Other assets	205,962	146,239	1,892
Tangible fixed assets	149,677	151,409	1,375
Intangible fixed assets	10,933	11,334	100
Prepaid pension expenses	11,650	10,016	107
Deferred tax assets	21,445	—	197
Customers' liabilities for acceptances and guarantees	27,846	33,760	255
Allowance for loan losses	(114,930)	(83,762)	(1,056)
Total assets	**¥18,003,869**	**¥16,710,503**	**$165,431**
Liabilities			
Deposits	¥11,143,073	¥10,657,564	$102,389
Call money	2,253,113	1,870,492	20,703
Payables under repurchase agreements	1,352,814	1,241,589	12,430
Payables under securities lending transactions	557,115	618,007	5,119
Trading liabilities	—	0	—
Borrowed money	1,886,123	1,483,409	17,330
Foreign exchanges	1,544	1,093	14
Bonds payable	10,000	10,000	91
Other liabilities	119,930	93,981	1,101
Provision for losses from reimbursement of inactive accounts	4,661	3,494	42
Provision for contingent liabilities losses	0	3	0
Deferred tax liabilities	—	4,095	—
Deferred tax liabilities for land revaluation	22,961	22,989	210
Acceptances and guarantees	27,846	33,760	255
Total liabilities	**¥17,379,184**	**¥16,040,483**	**$159,691**
Net assets			
Capital stock	¥ 82,329	¥ 82,329	$ 756
Capital surplus	60,480	60,480	555
Retained earnings	399,139	404,394	3,667
Total shareholders' equity	**541,950**	**547,204**	**4,979**
Valuation difference on available-for-sale securities	62,354	90,706	572
Deferred gains or losses on hedges	(31,115)	(19,451)	(285)
Revaluation reserve for land	51,495	51,560	473
Total valuation and translation adjustments	82,734	122,815	760
Total net assets	**¥ 624,684**	**¥ 670,020**	**$ 5,739**
Total liabilities and net assets	**¥18,003,869**	**¥16,710,503**	**$165,431**

Non-Consolidated Statement of Income (Unaudited)

The Bank of Fukuoka, Ltd.

For the years ended March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥105,270	¥103,207	$ 967
Interest and dividends on securities	26,580	27,483	244
Interest on call loans	(205)	(284)	(1)
Interest on receivables under resale agreements	0	(0)	0
Interest on deposits with banks	0	1	0
Interest on interest swaps	687	756	6
Other interest income	5,500	5,563	50
Trust fees	0	0	0
Fees and commissions	37,526	35,699	344
Trading income	7	6	0
Other operating income	2,412	2,939	22
Other income	7,476	7,375	68
Total income	**¥185,258**	**¥182,749**	**$1,702**
Expenses			
Interest expenses:			
Interest on deposits	¥ 4,824	¥ 4,103	$ 44
Interest on call money	(908)	(468)	(8)
Interest on payables under repurchase agreements	1,592	1,731	14
Interest on payables under securities lending transactions	5,481	4,854	50
Interest on borrowing and rediscounts	1,554	1,616	14
Interest on bonds	195	195	1
Interest on interest swaps	11,201	9,597	102
Other interest expenses	429	428	3
Fees and commissions payments	21,427	20,425	196
Other operating expenses	690	11	6
General and administrative expenses	67,053	66,608	616
Other expenses	48,129	5,147	442
Total expenses	**¥161,671**	**¥114,251**	**$1,485**
Income before income taxes	**23,586**	**68,497**	**216**
Income taxes:			
Current	12,770	16,192	117
Deferred	(8,281)	1,996	(76)
Total income taxes	**4,488**	**18,189**	**41**
Net income	**¥ 19,098**	**¥ 50,308**	**$ 175**

Non-Consolidated Balance Sheet (Unaudited)

The Kumamoto Bank, Ltd.

As of March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 638,871	¥ 486,920	$ 5,870
Call loans	2,453	2,584	22
Monetary claims bought	0	0	0
Securities	159,789	197,802	1,468
Loans and bills discounted	1,616,142	1,534,425	14,850
Foreign exchanges	1,549	865	14
Other assets	8,932	9,121	82
Tangible fixed assets	16,764	17,004	154
Intangible fixed assets	1,554	1,471	14
Prepaid pension expenses	5,137	5,117	47
Deferred tax assets	7,516	5,115	69
Customers' liabilities for acceptances and guarantees	4,012	3,790	36
Allowance for loan losses	(21,952)	(15,601)	(201)
Total assets	**¥2,440,771**	**¥2,248,617**	**$22,427**
Liabilities			
Deposits	¥1,439,047	¥1,419,502	$13,222
Call money	660,000	450,000	6,064
Borrowed money	244,900	277,800	2,250
Foreign exchanges	47	9	0
Other liabilities	3,932	4,558	36
Provision for losses from reimbursement of inactive accounts	1,577	623	14
Deferred tax liabilities for land revaluation	1,366	1,370	12
Acceptances and guarantees	4,012	3,790	36
Total liabilities	**¥2,354,884**	**¥2,157,655**	**$21,638**
Net assets			
Capital stock	¥ 33,847	¥ 33,847	$ 311
Capital surplus	33,847	33,847	311
Retained earnings	15,204	18,439	139
Total shareholders' equity	**82,899**	**86,133**	**761**
Valuation difference on available-for-sale securities	2,333	4,010	21
Deferred gains or losses on hedges	(432)	(278)	(3)
Revaluation reserve for land	1,087	1,095	9
Total valuation and translation adjustments	2,987	4,828	27
Total net assets	**¥ 85,886**	**¥ 90,961**	**$ 789**
Total liabilities and net assets	**¥2,440,771**	**¥2,248,617**	**$22,427**

Non-Consolidated Statement of Income (Unaudited)

The Kumamoto Bank, Ltd.

For the years ended March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥16,120	¥16,017	$148
Interest and dividends on securities	1,436	1,637	13
Interest on call loans	56	75	0
Interest on deposits with banks	0	0	0
Other interest income	179	163	1
Fees and commissions	4,621	5,104	42
Other operating income	65	61	0
Other income	447	707	4
Total income	**¥22,926**	**¥23,766**	**$210**
Expenses			
Interest expenses:			
Interest on deposits	¥ 93	¥ 127	$ 0
Interest on call money	(191)	(230)	(1)
Interest on borrowing and rediscounts	—	0	—
Interest on interest swaps	49	47	0
Other interest expenses	9	10	0
Fees and commissions payments	3,830	3,731	35
Other operating expenses	3	11	0
General and administrative expenses	13,858	14,125	127
Other expenses	8,388	1,446	77
Total expenses	**¥26,041**	**¥19,270**	**$239**
Income (loss) before income taxes	**(3,114)**	**4,495**	**(28)**
Income taxes:			
Current	474	1,159	4
Deferred	(1,661)	(429)	(15)
Total income taxes	**(1,187)**	**730**	**(10)**
Net income (loss)	**¥ (1,926)**	**¥ 3,765**	**$ (17)**

Non-Consolidated Balance Sheet (Unaudited)

The Shinwa Bank, Ltd.

As of March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 429,465	¥ 495,655	$ 3,946
Call loans	1,953	2,358	17
Monetary claims bought	0	0	0
Trading account securities	234	227	2
Securities	519,073	589,680	4,769
Loans and bills discounted	1,797,878	1,720,082	16,520
Foreign exchanges	2,291	2,027	21
Other assets	23,837	24,112	219
Tangible fixed assets	39,325	43,268	361
Intangible fixed assets	4,358	2,244	40
Prepaid pension expenses	4,037	3,711	37
Deferred tax assets	4,500	1,256	41
Customers' liabilities for acceptances and guarantees	4,339	5,750	39
Allowance for loan losses	(17,960)	(13,676)	(165)
Total assets	**¥2,813,336**	**¥2,876,700**	**$25,850**
Liabilities			
Deposits	¥2,316,939	¥2,281,930	$21,289
Call money	350,326	380,000	3,219
Borrowed money	10,536	64,107	96
Foreign exchanges	60	65	0
Other liabilities	5,026	6,686	46
Provision for losses from reimbursement of inactive accounts	1,640	1,424	15
Deferred tax liabilities for land revaluation	3,665	4,336	33
Acceptances and guarantees	4,339	5,750	39
Total liabilities	**¥2,692,534**	**¥2,744,301**	**$24,740**
Net assets			
Capital stock	¥ 36,878	¥ 36,878	$ 338
Capital surplus	36,878	36,878	338
Retained earnings	26,088	30,053	239
Total shareholders' equity	**99,844**	**103,809**	**917**
Valuation difference on available-for-sale securities	9,156	14,831	84
Deferred gains or losses on hedges	(863)	(563)	(7)
Revaluation reserve for land	12,665	14,321	116
Total valuation and translation adjustments	20,957	28,589	192
Total net assets	**¥ 120,801**	**¥ 132,399**	**$ 1,109**
Total liabilities and net assets	**¥2,813,336**	**¥2,876,700**	**$25,850**

Non-Consolidated Statement of Income (Unaudited)

The Shinwa Bank, Ltd.

For the years ended March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥17,221	¥18,052	$158
Interest and dividends on securities	4,594	5,192	42
Interest on call loans	47	84	0
Interest on deposits with banks	0	0	0
Interest on interest swaps	1	—	0
Other interest income	286	303	2
Fees and commissions	6,532	7,012	60
Other operating income	209	216	1
Other income	708	1,191	6
Total income	**¥29,601**	**¥32,052**	**$271**
Expenses			
Interest expenses:			
Interest on deposits	¥ 142	¥ 185	$ 1
Interest on call money	(134)	(199)	(1)
Interest on borrowing and rediscounts	1	1	0
Interest on interest swaps	98	95	0
Other interest expenses	0	0	0
Fees and commissions payments	4,385	4,331	40
Other operating expenses	6	18	0
General and administrative expenses	19,952	19,767	183
Other expenses	10,618	2,077	97
Total expenses	**¥35,072**	**¥26,279**	**$322**
Income (loss) before income taxes	**(5,471)**	**5,773**	**(50)**
Income taxes:			
Current	(145)	2,304	(1)
Deferred	(1,491)	(610)	(13)
Total income taxes	**(1,637)**	**1,693**	**(15)**
Net income (loss)	**¥ (3,834)**	**¥ 4,079**	**$ (35)**

Non-Consolidated Balance Sheet (Unaudited)

The Eighteenth Bank, Ltd.

As of March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 183,280	¥ 172,224	$ 1,684
Monetary claims bought	149	120	1
Trading assets	243	153	2
Money held in trust	10,000	10,000	91
Securities	741,222	802,669	6,810
Loans and bills discounted	2,053,513	1,885,188	18,868
Foreign exchanges	2,661	2,693	24
Other assets	28,331	28,310	260
Tangible fixed assets	25,786	33,195	236
Intangible fixed assets	1,036	1,206	9
Prepaid pension expenses	1,193	985	10
Deferred tax assets	2,986	—	27
Customers' liabilities for acceptances and guarantees	9,297	9,264	85
Allowance for loan losses	(27,645)	(16,205)	(254)
Total assets	**¥3,032,058**	**¥2,929,806**	**$27,860**
Liabilities			
Deposits	¥2,698,895	¥2,632,215	$24,799
Call money	50,511	—	464
Payables under repurchase agreements	16,254	61,297	149
Payables under securities lending transactions	81,166	39,075	745
Borrowed money	8,126	2,897	74
Foreign exchanges	26	75	0
Other liabilities	13,064	13,895	120
Provision for bonuses for directors	—	74	—
Provision for losses from reimbursement of inactive accounts	711	569	6
Provision for contingent liabilities losses	—	156	—
Deferred tax liabilities	—	2,683	—
Deferred tax liabilities for land revaluation	4,057	5,371	37
Acceptances and guarantees	9,297	9,264	85
Total liabilities	**¥2,882,112**	**¥2,767,577**	**$26,482**
Net assets			
Capital stock	¥ 24,404	¥ 24,404	$ 224
Capital surplus	19,914	19,914	182
Retained earnings	79,457	89,547	730
Total shareholders' equity	**123,776**	**133,866**	**1,137**
Valuation difference on available-for-sale securities	17,893	17,663	164
Deferred gains or losses on hedges	(189)	(8)	(1)
Revaluation reserve for land	8,464	10,707	77
Total valuation and translation adjustments	26,168	28,362	240
Total net assets	**¥ 149,945**	**¥ 162,228**	**$ 1,377**
Total liabilities and net assets	**¥3,032,058**	**¥2,929,806**	**$27,860**

Non-Consolidated Statement of Income (Unaudited)

The Eighteenth Bank, Ltd.

For the years ended March 31, 2020 and 2019

	2020	2019	2020
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥ 16,879	¥17,651	$ 155
Interest and dividends on securities	9,692	10,452	89
Interest on call loans	(1)	(11)	(0)
Interest on deposits with banks	—	88	—
Interest on interest swaps	2	—	0
Other interest income	183	67	1
Fees and commissions	5,915	6,832	54
Other operating income	10	2,569	0
Other income	1,520	2,672	13
Total income	**¥ 34,203**	**¥40,322**	**$ 314**
Expenses			
Interest expenses:			
Interest on deposits	¥ 207	¥ 377	$ 1
Interest on call money	(1)	213	(0)
Interest on payables under repurchase agreements	605	634	5
Interest on payables under securities lending transactions	465	653	4
Interest on borrowing and rediscounts	3	5	0
Interest on interest swaps	375	450	3
Other interest expenses	0	0	0
Fees and commissions payments	3,974	4,407	36
Other operating expenses	166	2,739	1
General and administrative expenses	22,348	22,045	205
Other expenses	23,648	2,218	217
Total expenses	**¥ 51,794**	**¥33,745**	**$ 475**
Income (loss) before income taxes	**(17,591)**	**6,576**	**(161)**
Income taxes:			
Current	(4)	2,375	(0)
Deferred	(6,938)	90	(63)
Total income taxes	**(6,942)**	**2,466**	**(63)**
Net income (loss)	**¥(10,648)**	**¥ 4,110**	**$ (97)**

Corporate Data

Company Outline (as of March 31, 2020)

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	8,030 (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	3,570
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
65 Chulia Street #27-03 OCBC Centre
Singapore 049513
+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

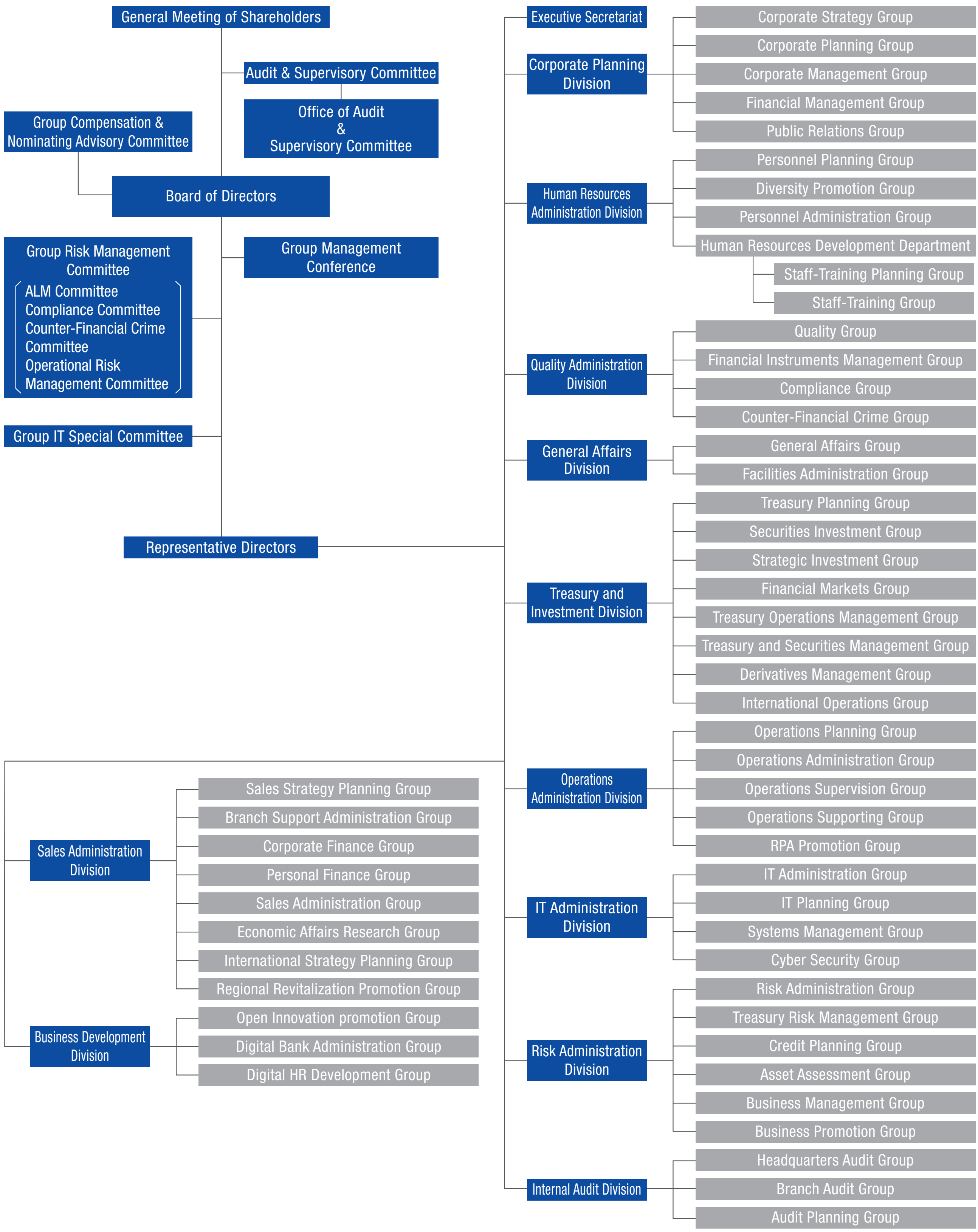
The Kumamoto Bank, Ltd.

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	858
Telephone Number	+81-96-385-1111
Website	https://www.kumamotobank.co.jp/

The Juhachi-Shinwa BANK, LTD. (Established on October 1, 2020)

Head Office	1-11, Douzacho, Nagasaki 850-0841, Japan
Date of Establishment	September 1, 1939
Paid-in Capital	¥36.8 billion
Number of Employees	2,490
Telephone Number	+81-95-824-1818
Website	https://www.18shinwabank.co.jp/

Organizational Chart (as of January 4, 2021)



Group Company Chart (as of January 4, 2021)

- Fukuoka Financial Group, Inc.
  - The Bank of Fukuoka, Ltd.
    - Banking business — In addition to the head office, 165 branches and 4 sub-branches (including 1 branch dedicated to bank transfers and 1 to Internet banking)
      8 overseas representative offices (Hong Kong, Shanghai, Dalian, Singapore, Bangkok, New York, Taipei, Ho Chi Minh City)
    - Other businesses — 13 consolidated subsidiaries

FFG Securities Co.,Ltd.	Securities business
Fukugin Business Operation Service Co., Ltd.	Office work agent business
Fukugin Guarantee Co., Ltd.	Loan guarantee business
FFG Computer Service Co., Ltd.	System development & operation business
FFG Card Co., Ltd.	Credit card business
Fukugin Real Estate Assessment Service Co., Ltd.	Collateral valuation business
Fukuoka Servicing Co., Ltd.	Credit management and collection business
FFG Business Consulting Co.,Ltd.	Consulting business
FFG Insurance Service Co.,Ltd.	Insurance sales business
R&D Business Factory Co., Ltd.	Research and development Business
Fukuoka Asset Management Holdings	Investments and loans business
Mercury Asset Corporation	Factoring business
Jupiter Asset Corporation	Factoring business

  - The Kumamoto Bank, Ltd.
    - Banking business — In addition to the head office, 68 branches and 1 sub-branch
  - The Juhachi-Shinwa Bank, Ltd.
    - Banking business — In addition to the head office, 178 branches and 9 sub-branches (including 1 virtual branch and 2 branch dedicated to bank transfers)
    - Other business — 6 consolidated subsidiaries

Juhachi General Lease Co.,Ltd.	Movable property and lease of rights
The Eighteenth Business Service Co.,Ltd.	Office work agent business
Nagasaki Guarantee Service Co.,Ltd.	Loan guarantee business
Juhachi Card Co Ltd	Credit card business
The Eighteenth Software Co.,Ltd.	System development & operation business
Nagasaki Economic Research Institute	Various research activities

  - Minna Bank, Ltd.
    - Banking business
  - Other business

FFG Venture Business Partners Co., Ltd.	Investments and loans business
iBank marketing Co., Ltd.	Information processing and communications services business
Zerobank Design Factory Co., Ltd.	Research and development of banking system construction and financial business

Share Information (as of March 31, 2020)

Investor Information

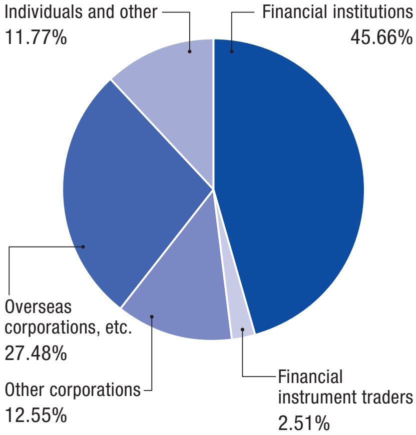
	Common stock
Number of authorized shares	360,000,000
Number of shares Issued	191,138,265

Major Shareholders

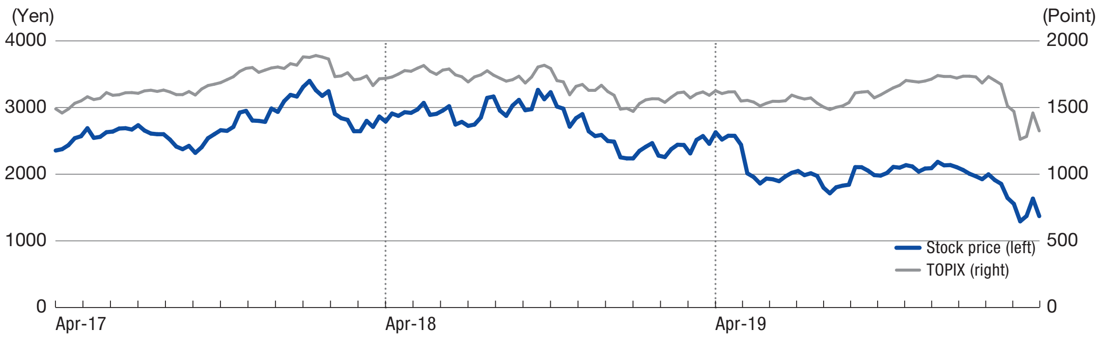
(Thousands of shares, %)

	Shares held	Ratio of shares held to issued number of shares
The Master Trust Bank of Japan, Ltd. (Trust account)	16,005	8.38
Japan Trustee Services Bank. Ltd. (Trust account)	13,565	7.10
Nippon Life Insurance Company	4,271	2.23
Meiji Yasuda Life Insurance Company	4,103	2.14
Sumitomo Life Insurance Company	3,790	1.98
The Dai-Ichi Life Insurance Company, Limited	3,523	1.84
Japan Trustee Services Bank. Ltd. (Trust account 5)	3,391	1.77
JP MORGAN CHASE BANK 385151	3,042	1.59
Japan Trustee Services Bank. Ltd. (Trust account 4)	2,821	1.47
STATE STREET BANK WEST CLIENT - TREATY 505234	2,473	1.29

Common Stock Distribution by Type of Shareholder



Stock Price



	FY2017	FY2018	FY2019
High (Yen)	3,470	3,370	2,677
Low (Yen)	2,265	2,117	1,223
Closing price as of March 31 (Yen)	2,865	2,456	1,371

* 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.

FFG Fukuoka Financial Group, Inc.