



NEWS RELEASE

Oct 14, 2021

R&I Affirms Ratings: Fukuoka FG and Subsidiary Banks

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: Fukuoka Financial Group, Inc.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable

Commercial Paper: a-1, Affirmed

ISSUER: The Bank of Fukuoka, Ltd.
Issuer Rating: AA-, Affirmed
Rating Outlook: Stable

ISSUER: The Kumamoto Bank, Ltd.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable

ISSUER: The Juhachi-Shinwa Bank, Ltd.
Issuer Rating: A+, Affirmed
Rating Outlook: Stable

RATIONALE:

The Fukuoka Financial Group (FFG) is a regional banking group that principally consists of its core entity The Bank of Fukuoka, Ltd., The Kumamoto Bank, Ltd. and The Juhachi-Shinwa Bank, Ltd. With a high market position in Fukuoka and Nagasaki Prefectures, FFG's franchise is very robust.

FFG is one of the most successful groups that integrated the management of regional banks under a holding company structure. While practicing efficient management through integrated business operations that leverage a common management system and infrastructure, it has been allocating saved management resources intensively to the growth areas of solutions and digitalization, among others. FFG's strong headquarters functions and a solid human resource base seem to be contributing to a stronger ability to develop businesses, including digital banking services.

Earning capacity is slightly lower than what the rating suggests, due to a decline in yield on investment and a burden of upfront investments in the digital transformation area. FFG is less dependent on market segments for earnings, and the quality of earnings is relatively sound. R&I considers that FFG's earning capacity will likely remain solid in the medium term, benefitting from the synergy effects of the integration with Juhachi-Shinwa Bank, which is consolidating its branches, and the outcome of strategic investments.

With a well-established risk management structure, a risk appetite framework is taking hold across the group. Its risk profile mainly comprises market risk, and interest rate risk constitutes the major part thereof. Credit risk is relatively small. Given that FFG seeks merger and acquisition opportunities, its risk appetite is somewhat high in terms of management strategies.

Its risk resilience is commensurate with the AA rating category. However, when a risk mitigation effect of the core deposit internal model is looked at conservatively, interest rate risk is increasing and therefore a margin for resilience is being narrower, in R&I's view. It is becoming more important to reinforce risk control while accumulating retained earnings.

Asset quality is sound. Due in part to a substantial increase in the allowance for loan losses following the introduction of forward-looking provisioning, adequacy of the allowance is among the highest in the domestic banking industry. Credit cost will unlikely balloon substantially even if it takes

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somewhat longer before the COVID-19 pandemic is put under control. With its regional banks maintaining strong deposit bases for individual customers, the group has ample liquidity.

Fukuoka Financial Group, Inc.

Fukuoka Financial Group, Inc. is the holding company of FFG. The rating reflects the creditworthiness of the entire group. Based on the structural subordination inherent to a holding company and other factors, however, the rating is one notch below that for Bank of Fukuoka, the group's core entity.

The Bank of Fukuoka, Ltd.

The Bank of Fukuoka, Ltd. is the core entity of FFG and earns around 80-90% of the overall group profits. The rating directly reflects the creditworthiness of the entire group. The bank serves the entire Kyushu region as the leading regional bank in Fukuoka Prefecture, the center of the Kyushu economic zone. Its franchise is very strong, benefitting from extensive transactions with quality corporate and individual customers.

The Kumamoto Bank, Ltd.

The Kumamoto Bank, Ltd. is extremely important for FFG's strategies. The rating is one notch below that for Bank of Fukuoka, the group's core entity. Kumamoto Bank is responsible for operations in Kumamoto Prefecture, which has the second largest economy in the Kyushu region after Fukuoka Prefecture, and ranks second among regional banks in the prefecture. Kumamoto Bank has established a certain level of franchise, particularly for small and medium-sized enterprises and individual customers.

The Juhachi-Shinwa Bank, Ltd.

The Juhachi-Shinwa Bank, Ltd. is extremely important for FFG's strategies. The rating is one notch below that for Bank of Fukuoka, the group's core entity. Juhachi-Shinwa Bank was formed in October 2020 through a merger between The Eighteenth Bank, Ltd., with which FFG integrated its business in April 2019, and The Shinwa Bank, Ltd., which joined FFG in 2007. It is responsible for operations mainly in Nagasaki Prefecture, which is small in economic scale. The bank also serves neighboring regions including Saga Prefecture and Fukuoka Prefecture. Maintaining a very large share in Nagasaki Prefecture, it has a relatively strong franchise.

The primary rating methodologies applied to this rating are provided at "R&I's Basic Methodology for Corporate Credit Ratings", "Shared Rating Approach for Financial Institutions, etc.", "Depository Financial Institutions", "R&I's Analytical Approach to Financial Groups" and "R&I's Analytical Approach to Regulatory Capital Instruments and Financial Institutions". The methodologies are available at the web site listed below, together with other rating methodologies that are taken into consideration when assigning the rating.

https://www.r-i.co.jp/en/rating/about/rating_method.html

R&I RATINGS:

ISSUER: Fukuoka Financial Group, Inc. (Sec. Code: 8354)

Issuer Rating

RATING: A+, Affirmed

RATING OUTLOOK: Stable

Shelf Registration (Bonds)

ISSUE AMOUNT (mn): JPY 100,000

ISSUE PERIOD: From Jul 26, 2020 to Jul 25, 2022

RATING: A+, Affirmed (Preliminary)

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ISSUE LIMIT (mn):	Commercial Paper		
SUPPORT:	JPY 100,000		
RATING:	Unsecured		
	a-1, Affirmed		
ISSUER:	The Bank of Fukuoka, Ltd.		
	Issuer Rating		
RATING:	AA-, Affirmed		
RATING OUTLOOK:	Stable		
Unsec. Sub. Bonds No.6	Issue Date	Maturity Date	Issue Amount (mn)
	Dec 22, 2011	Dec 22, 2026	JPY 10,000
RATING:	A+, Affirmed		
ISSUER:	The Kumamoto Bank, Ltd.		
	Issuer Rating		
RATING:	A+, Affirmed		
RATING OUTLOOK:	Stable		
ISSUER:	The Juhachi-Shinwa Bank, Ltd.		
	Issuer Rating		
RATING:	A+, Affirmed		
RATING OUTLOOK:	Stable		

A preliminary rating is assigned when a provisional credit rating is needed for an individual obligation on which final terms have not been determined. A credit rating finally assigned may differ from the preliminary rating depending on, among others, the details of the actual contract of the individual obligation.

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