

To whom it may concern:



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**Announcement concerning Change in Estimation of Allowance for Loan Losses
and Revision of Earnings Projections**

We hereby announce that, as a result of changing the estimation of allowance for loan losses in the settlement of accounts for the fiscal year ended March 31, 2020, we will revise earnings projections (consolidated) for the fiscal year ended March 31, 2020, which were previously announced on November 11, 2019.

There are no changes to the year-end dividend forecast for the fiscal year ended March 31, 2020.

1. Change in estimation of allowance for loan losses (introduction of forward-looking provisions)

Previously, provisions for credit risks likely to occur even under normal circumstances (expected losses) were made by means of an adequate allowance, while provisions for the possibility of losses exceeding expectations (unexpected losses), such as future economic downturns, were made by enhancing our equity capital.

In this context, we believe that using a wide range of current and future information to quantify future risk, and reflecting this in the allowance for loan losses while taking account of our lending policy and loan portfolio will enable lending operations that are less affected by economic fluctuations, and will lead to the fulfillment of stable and appropriate financial intermediary functions, including financing support. Based on this belief, we examined methods for estimating allowance for loan losses.

Since it is now possible to reasonably estimate future risk, for instance estimating default rates based on business forecasts, we will change the method for estimating allowance for loan losses (introduction of forward-looking provisions), and we will record an allowance for loan losses of approximately 42 billion yen in the settlement of accounts for the fiscal year ended March 31, 2020.

2. Revision of earnings projections

Revision of full-year consolidated earnings projections for the fiscal year ended March 31, 2020 (April 1, 2019–March 31, 2020)

	Ordinary profit	Net income attributable to owners of the parent	Net income per share
Previously announced projection (A)	52,500 million yen	148,500 million yen	781.15 yen
Revised projection (B)	-5,000 million yen	111,000 million yen	583.89 yen
Change (B-A)	-57,500 million yen	-37,500 million yen	-
Percentage change	-	-25.3%	-
(Reference) Results in previous fiscal year (fiscal year ended March 31, 2019)	74,093 million yen	51,649 million yen	300.71 yen

(Reason for revision)

Ordinary profit and net income attributable to owners of the parent will be revised downward, primarily due to the expectation that credit cost in our subsidiaries will exceed the previous projection (by about -51.5 billion yen) largely as a result of preemptively taking into account: (1) the change in estimation of allowance for loan losses (see 1. Change in estimation of allowance for loan losses) (approximately -42 billion yen), and (2) the impact of the novel coronavirus infectious disease (approximately -9 billion yen).

There are no revisions to the forecast year-end dividend.

<p>Contact for further inquiries Corporate Planning Division, Fukuoka Financial Group Phone +81-92-723-2502</p>

* Instructions on the appropriate use of earnings projections and other special notes
The earnings outlook and other forward-looking statements in this document are based on currently available information and certain assumptions deemed to be reasonable. Actual results and so on may differ materially depending on a variety of factors.

FY2019 breakdown of credit cost

- Total credit cost is expected to be -¥61.4 billion, an **increase of -¥51.2 billion from the previous projection**
 - Primary factors are:
 - Impact from spread of novel coronavirus infection -¥8.7 billion
 - Change in estimate of allowance for loan losses -¥41.8 billion
 - Both are a **provision for economic downturn in the future**.
- Even if impact of coronavirus spreads to the real economy, **FFG will support regional economy** by fulfilling further financial intermediary functions

Change in estimation of allowance for loan losses

(introduction of forward-looking provisions)

- Strengthen preparedness for future uncertainties, by quantifying and rationally estimating future risks
 - Problem with previous estimation method
 - When estimating allowance for loan losses, current credit risk is calculated based on actual defaults in the past
 - After change in estimation
 - Future business forecasts are reflected in the process for estimating allowance for loan losses

[Supplement] Concept of soundness (preparedness for credit risk)

- Allowance for loan losses and equity capital are used for making provisions against credit risk
 - Previously, credit risks likely to occur even under normal circumstances (expected losses (EL)) were **covered by an adequate allowance**, and credit risks that exceed expectations (unexpected losses (UL)) were **covered by equity capital**.
 - After changing the estimation of allowance for loan losses, UL are also partly covered by **allowance for loan losses**.
 - Increasing the allowance does result in a partial decrease in equity capital, but **from the perspective of soundness (preparedness for credit risk)**, using allowance for loan losses and equity capital to cover credit risk is the **same as before**.

[4 banks' total] Breakdown of comparison with previous projection

(¥ bil.)

Breakdown of cost	Previous projection	Current projection	Change
Special factors	(5.3)	(57.0)	(51.7)
Business integration	(5.3)	(6.5)	(1.2)
Coronavirus	-	(8.7)	(8.7)
Change in estimation	-	(41.8)	(41.8)
General factors	(4.8)	(4.4)	+0.4
Total	(10.1)	(61.4)	(51.2)

Process for estimating allowance for loan losses

Before change

Balance per obligor rating × Average of past default rates

Reflect future business forecast

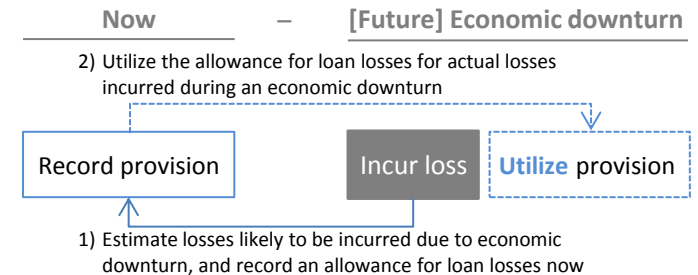
After change

Balance per obligor rating × **Future expected** default rate

Point

Record/maintain provision during prosperous times, utilize during economic downturn

= **Lending operations less likely to be affected by economic fluctuations**



* Represented as an image in order to simplify explanation

Relationship of credit risk with equity capital and allowance for loan losses

