

## Fukuoka Financial Group

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## Independent Auditor's Report

The Board of Directors  
Fukuoka Financial Group, Inc.

### *The Audit of the Consolidated Financial Statements*

#### **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, 2024, 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, 2024, 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.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

The determination of obligor classification and estimation of default rates used as the measurement basis of allowance for loan losses for loans and bills discounted	
Description of Key Audit Matter	Auditor's Response
<p>Fukuoka Financial Group, Inc. and its consolidated subsidiaries (collectively, the "Group") are mainly engaged in the banking business, and its lending business is the core of its business.</p> <p>The Group recorded Loans and bills discounted of ¥18,543,180 million and a corresponding Allowance for loan losses of ¥200,929 million on the consolidated balance sheet as at the end of the fiscal year ended March 31, 2024. Loans and bills discounted accounted for approximately 56% of total assets, which is a material amount on the consolidated balance sheet. There is a possibility that loan losses may be incurred due to unforeseeable and uncertain events such as trends in the global and Japanese economies, fluctuations in real estate prices and stock prices, and business conditions of obligors.</p> <p>For this reason, the Group estimated the amount of expected losses due to future credit deterioration and recorded it as an Allowance for loan losses. Details of the calculation method are described in "h. Allowance for Loan Losses" of (1. Summary of Significant Accounting Policies) under Notes to Consolidated Financial Statements. In addition, details for the estimates of Allowance for loan losses are described in "u. Significant Accounting Estimates" of (1. Summary of Significant Accounting Policies) under Notes to Consolidated Financial Statements.</p>	<p>(1) Determination of the classification of obligors whose repayment status, financial position, or business performance has deteriorated</p> <p>For the determination of the classification of obligors whose repayment status, financial position, or business performance has deteriorated, we mainly performed the following audit procedures.</p> <ul style="list-style-type: none"> <li>• We evaluated the effectiveness of the Group's internal controls to ensure the reliability of determining obligor classification and the credit ratings that serve as the premises for such classification, as well as information related to obligors that forms the basis for such determination.</li> <li>• In addition to the monetary impact of the transition of the obligor classifications on the amount recorded in the Allowance for loan losses, obligors deemed necessary for assessment were selected by taking into account factors such as the obligor's industry, repayment status, financial position, and extent of deterioration in business performance as well as the results of analysis performed using a self-assessment anomaly detection tool (a tool used in self-assessment audits to provide support for the selection of testing targets by identifying the location of credit risk through visualization from the standpoint of industries, branches, and regions based on the credit information and financial information of obligors and by identifying inconsistencies between obligor classifications that are based on an obligor classification predictive model using machine learning for each obligor and obligor classifications that are determined by the Group).</li> </ul>



The Allowance for loan losses is determined in accordance with the self-assessment standards and the amortization and provision standards prescribed by the Group. The calculation process includes the obligor classification, which is determined by evaluating the obligor's ability to earn profits based on factors such as the obligor's repayment status, financial position, business performance and their future prospects thereof. In addition, for loans other than those for which the Allowance for loan losses is recorded using the cash flow estimation method, an Allowance for loan losses is recorded by estimating default rates based on the economic outlook and estimating expected loss rates.

In determining the classification of obligors whose repayment status, financial position, or business performance has deteriorated, the reasonableness and feasibility of business improvement plans and so forth that embody the prospects for improvement of these financial conditions of the obligors in the future are more important factors. The reasonableness and feasibility of business improvement plans and so forth are affected by changes in the business environment surrounding the obligor and the success or failure of the obligor's business strategy, and therefore there is a high degree of uncertainty in estimates and reliance on management's judgment.

Furthermore, default rate estimates are statistically determined based on the economic outlook and past economic trends and actual bankruptcies. In economic forecasting, the expected one-year GDP growth rate is calculated using two scenarios (base scenario and downside scenario) based on the future economic outlook. Therefore, there is a high degree of uncertainty in estimates and reliance on management's judgment.

- In addition to the above, in order to identify risk scenarios where credit risk is assumed to be high and to select obligors for which there are concerns about deterioration in future business performance prospects, we performed an analysis on each obligor by using a self-assessment data analysis tool (a tool that visualizes obligor and loan data from the standpoint of regions, industries, and financial conditions of obligors in self-assessment audits, and provides support for the selection of audit targets focusing on the location of credit risk), and additionally selected obligors corresponding to such risk scenarios as obligors deemed subject to assessment.
- In order to obtain an understanding of the obligor's actual recent repayment status, financial position, and business performance, we performed the following procedures.
  - We inspected materials related to the Group's self-assessment, such as explanatory materials including a description of the business, materials related to borrowing and repayment status, research materials that provide the details of actual financial position, and financial statements.
  - In order to obtain an understanding of the obligor's actual recent repayment status, financial position, and business performance, we made inquiries of responsible personnel in the department in charge of loans.
- We performed the following procedures to evaluate the reasonableness and feasibility of business improvement plans and so forth for Obligor Who Need Attention (excluding obligors whose credit terms are re-scheduled or reconditioned) whose business improvement plans and so forth are the main determining factors.

<p>Accordingly, we have determined the classification of obligors whose repayment status, financial position, or business performance has deteriorated, and the estimation of default rates, as key audit matters.</p>	<ul style="list-style-type: none"> <li>- For key items of reported income such as the obligor’s revenue and so forth, we analyzed the trends based on past performance and the degree of achievement of business improvement plans and so forth established in prior years.</li> <li>- We discussed with personnel in charge and those responsible in the department in charge of loans as necessary regarding the reasonableness and feasibility of business improvement plans and so forth.</li> </ul> <p>(2) Estimation of default rates</p> <p>For the estimation of default rates, we involved specialists from our network firm and mainly performed the following audit procedures.</p> <ul style="list-style-type: none"> <li>• We evaluated the effectiveness of the following internal controls to ensure that estimations of default rates are performed appropriately. <ul style="list-style-type: none"> <li>- Review and approval of statistical methods used in default rate estimations</li> <li>- Review and approval of significant source data used in default rate estimations</li> <li>- Review and approval of the future economic outlook and two scenarios (base scenario and downside scenario) based on it</li> </ul> </li> <li>• We evaluated the appropriateness of statistical methods used in default rate estimations.</li> <li>• We evaluated the reasonableness of the future economic forecasts which forms the basis of the two scenarios (base scenario and downside scenario). This included a comparison of the future economic forecasts with available external information.</li> <li>• We evaluated the appropriateness of the calculation of estimates by performing assessments and recalculations of significant source data.</li> </ul>
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## **Other Information**

The other information comprises the information included in the Financial Report that contains audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Audit and Supervisory Committee is responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Responsibilities of Management, the Audit and Supervisory Committee 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 Audit and Supervisory Committee is 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 Audit and Supervisory Committee 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 Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated 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, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2024 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.



## ***Fee-related Information***

The fees for the audits of the financial statements of Fukuoka Financial Group, Inc. and its subsidiaries and other services provided by us and other EY member firms for the year ended March 31, 2024 are 276 million yen and 6 million yen, respectively.

## **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.

Ernst & Young ShinNihon LLC  
Tokyo, Japan

August 9, 2024

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Hirokazu Tanaka  
Designated Engagement Partner  
Certified Public Accountant

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Yuji Yoshimura  
Designated Engagement Partner  
Certified Public Accountant

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Hiroshi Miyagawa  
Designated Engagement Partner  
Certified Public Accountant



# Consolidated Balance Sheet

Fukuoka Financial Group, Inc. and its subsidiaries  
As of March 31, 2024 and 2023

	2024	2023	2024
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Assets</b>			
Cash and due from banks (Notes 7, 15 and 17)	¥ 8,449,933	¥ 7,713,590	\$ 55,808
Call loans and bills bought (Note 17)	16,806	18,694	110
Monetary claims bought (Note 17)	41,569	37,297	274
Trading assets	493	1,046	3
Money held in trust (Note 4)	19,253	18,914	127
Securities (Notes 3, 7, 9, 10 and 17)	4,977,523	3,953,472	32,874
Loans and bills discounted (Notes 5, 7 and 17)	18,543,180	17,688,382	122,469
Foreign exchanges (Note 5)	12,309	24,477	81
Lease receivables and lease investment assets	20,725	16,700	136
Other assets (Notes 5 and 7)	380,196	282,968	2,511
Tangible fixed assets (Note 6)	216,108	200,077	1,427
Intangible fixed assets	23,562	17,864	155
Net defined benefit assets (Note 8)	69,884	25,252	461
Deferred tax assets (Note 12)	20,803	52,246	137
Customers' liabilities for acceptances and guarantees (Notes 5 and 9)	58,306	61,126	385
Allowance for loan losses (Note 5)	(200,929)	(187,829)	(1,327)
<b>Total assets</b>	<b>¥32,649,727</b>	<b>¥29,924,282</b>	<b>\$215,637</b>
<b>Liabilities</b>			
Deposits (Notes 7 and 17)	¥21,680,861	¥20,949,452	\$143,193
Call money and bills sold (Note 17)	2,150,000	1,665,800	14,199
Payables under repurchase agreements (Notes 7 and 17)	317,101	433,407	2,094
Cash collateral received for securities lent (Notes 7 and 17)	915,202	680,468	6,044
Trading liabilities	—	2	—
Borrowed money (Notes 7 and 17)	6,132,375	4,951,707	40,501
Foreign exchanges	1,906	896	12
Short-term bonds payable	55,800	47,000	368
Other liabilities	287,215	203,259	1,896
Net defined benefit liabilities (Note 8)	1,163	1,146	7
Provision for losses from reimbursement of inactive accounts	4,271	5,107	28
Provision for share awards	325	108	2
Reserves under the special laws	29	24	0
Deferred tax liabilities (Note 12)	553	112	3
Deferred tax liabilities for land revaluation (Note 6)	22,867	22,911	151
Acceptances and guarantees (Note 9)	58,306	61,126	385
<b>Total liabilities</b>	<b>¥31,627,980</b>	<b>¥29,022,531</b>	<b>\$208,889</b>
<b>Net assets</b>			
Capital stock	¥ 124,799	¥ 124,799	\$ 824
Capital surplus	143,631	141,281	948
Retained earnings	632,197	591,638	4,175
Treasury stock	(5,601)	(8,068)	(36)
<b>Total shareholders' equity</b>	<b>895,025</b>	<b>849,650</b>	<b>5,911</b>
Valuation difference on available-for-sale securities (Note 10)	33,469	(4,812)	221
Deferred gains or losses on hedges	20,616	8,412	136
Revaluation reserve for land (Note 6)	51,280	51,382	338
Remeasurements of defined benefit plans (Note 8)	19,951	(4,219)	131
Total accumulated other comprehensive income	125,317	50,763	827
Non-controlling interests	1,403	1,337	9
<b>Total net assets</b>	<b>¥ 1,021,746</b>	<b>¥ 901,750</b>	<b>\$ 6,748</b>
<b>Total liabilities and net assets</b>	<b>¥32,649,727</b>	<b>¥29,924,282</b>	<b>\$215,637</b>

# Consolidated Statement of Income

Fukuoka Financial Group, Inc. and its subsidiaries  
For the years ended March 31, 2024 and 2023

	2024	2023	2024
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥179,940	¥162,250	\$1,188
Interest and dividends on securities	85,854	51,618	567
Interest on call loans and bills bought	699	335	4
Interest on receivables under resale agreements	(0)	(0)	(0)
Interest on due from banks	0	0	0
Other interest income	42,151	15,067	278
Trust fees	0	0	0
Fees and commissions	67,722	61,174	447
Trading income	160	652	1
Other operating income	22,176	34,181	146
Other income	28,115	6,270	185
<b>Total income</b>	<b>¥426,822</b>	<b>¥331,551</b>	<b>\$2,818</b>
<b>Expenses</b>			
Interest expenses:			
Interest on deposits	¥ 13,252	¥ 5,928	\$ 87
Interest on call money and bills sold	(669)	(538)	(4)
Interest on payables under repurchase agreements	5,352	1,774	35
Interest on cash collateral received for securities lent	43,186	16,933	285
Interest on borrowings and rediscounts	5,363	2,355	35
Interest on short-term bonds	28	16	0
Other interest expenses	40,921	18,738	270
Fees and commissions payments	26,441	24,746	174
Other operating expenses	35,867	61,626	236
General and administrative expenses	150,918	140,677	996
Other expenses (Note 11)	28,667	14,050	189
<b>Total expenses</b>	<b>¥349,331</b>	<b>¥286,310</b>	<b>\$2,307</b>
<b>Income before income taxes</b>	<b>77,491</b>	<b>45,240</b>	<b>511</b>
Income taxes: (Note 12)			
Current	18,124	8,195	119
Deferred	(1,877)	5,759	(12)
<b>Total income taxes</b>	<b>16,246</b>	<b>13,955</b>	<b>107</b>
<b>Net income</b>	<b>61,244</b>	<b>31,285</b>	<b>404</b>
Net income attributable to non-controlling interests	66	132	0
<b>Net income attributable to owners of the parent (Note 13)</b>	<b>¥ 61,178</b>	<b>¥ 31,152</b>	<b>\$ 404</b>

# Consolidated Statement of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries  
For the years ended March 31, 2024 and 2023

	2024	2023	2024
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Net income	¥ 61,244	¥ 31,285	\$404
Other comprehensive income:			
Valuation difference on available-for-sale securities	38,281	(54,786)	252
Deferred gains or losses on hedges	12,203	10,263	80
Remeasurements of defined benefit plans	24,170	(2,440)	159
<b>Total other comprehensive income (Note 14)</b>	<b>74,656</b>	<b>(46,963)</b>	<b>493</b>
<b>Comprehensive income</b>	<b>¥135,900</b>	<b>¥(15,678)</b>	<b>\$897</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the parent	135,834	(15,811)	897
Non-controlling interests	66	132	0

# Consolidated Statement of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries  
For the years ended March 31, 2024 and 2023

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
	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		
<b>Balance as of March 31, 2022</b>	¥124,799	¥141,487	¥579,369	¥(2,461)	¥843,195	¥ 49,973	¥ (1,850)	¥51,395	¥ (1,778)	¥ 97,739	¥ 131	¥ 941,066
Changes during the period:												
Dividends from surplus			(18,896)		(18,896)							(18,896)
Net income attributable to owners of the parent			31,152		31,152							31,152
Acquisition of treasury stock				(5,607)	(5,607)							(5,607)
Disposition of treasury stock		(0)		0	0							0
Transfer from revaluation reserve for land			12		12							12
Capital increase of consolidated subsidiaries		28			28							28
Sale of a part of shares of consolidated subsidiaries		(233)			(233)							(233)
Net changes of items other than shareholders' equity						(54,786)	10,263	(12)	(2,440)	(46,976)	1,205	(45,771)
<b>Total changes during the period</b>	–	¥ (205)	¥ 12,268	¥(5,607)	¥ 6,455	¥(54,786)	¥10,263	¥ (12)	¥ (2,440)	¥ (46,976)	¥1,205	¥ (39,315)
<b>Balance as of March 31, 2023</b>	¥124,799	¥141,281	¥591,638	¥(8,068)	¥849,650	¥ (4,812)	¥ 8,412	¥51,382	¥ (4,219)	¥ 50,763	¥1,337	¥ 901,750
Changes during the period:												
Increase by stock swap		3,597		3,982	7,579							7,579
Dividends from surplus			(20,720)		(20,720)							(20,720)
Net income attributable to owners of the parent			61,178		61,178							61,178
Acquisition of treasury stock				(2,795)	(2,795)							(2,795)
Disposition of treasury stock		(1,247)		1,279	31							31
Transfer from revaluation reserve for land			101		101							101
Net changes of items other than shareholders' equity						38,281	12,203	(101)	24,170	74,554	66	74,620
<b>Total changes during the period</b>	–	¥ 2,349	¥ 40,559	¥ 2,466	¥ 45,375	¥ 38,281	¥12,203	¥ (101)	¥24,170	¥ 74,554	¥ 66	¥ 119,995
<b>Balance as of March 31, 2024</b>	¥124,799	¥143,631	¥632,197	¥(5,601)	¥895,025	¥ 33,469	¥20,616	¥51,280	¥19,951	¥125,317	¥1,403	¥1,021,746

	Millions of U.S. dollars (Note 2)											
	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total net assets
	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		
<b>Balance as of March 31, 2023</b>	\$824	\$933	\$3,907	\$(53)	\$5,611	\$ (31)	\$ 55	\$339	\$ (27)	\$335	\$8	\$5,955
Changes during the period:												
Increase by stock swap		23		26	50							50
Dividends from surplus			(136)		(136)							(136)
Net income attributable to owners of the parent			404		404							404
Acquisition of treasury stock				(18)	(18)							(18)
Disposition of treasury stock		(8)		8	0							0
Transfer from revaluation reserve for land			0		0							0
Net changes of items other than shareholders' equity						252	80	(0)	159	492	0	492
<b>Total changes during the period</b>	–	\$ 15	\$ 267	\$ 16	\$ 299	\$252	\$ 80	\$ 0	\$159	\$492	\$0	\$ 792
<b>Balance as of March 31, 2024</b>	\$824	\$948	\$4,175	\$(36)	\$5,911	\$221	\$136	\$338	\$131	\$827	\$9	\$6,748

# Consolidated Statement of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries  
For the years ended March 31, 2024 and 2023

	2024	2023	2024
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 77,491	¥ 45,240	\$ 511
Depreciation of fixed assets	12,618	11,957	83
Impairment losses	633	4,639	4
Gain on negative goodwill	(21,496)	—	(141)
Net change in allowance for loan losses	9,864	(11,480)	65
Net change in net defined benefit assets	(41,998)	784	(277)
Net change in net defined benefit liabilities	17	(3)	(0)
Net change in provision for losses from reimbursement of inactive accounts	(866)	(946)	(5)
Net change in provision for share awards	147	108	0
Interest income	(308,645)	(229,272)	(2,038)
Interest expenses	107,436	45,209	709
Net losses (gains) related to securities transactions	17,254	36,811	113
Net losses (gains) on money held in trust	61	(319)	0
Net exchange losses (gains)	(130)	(60)	(0)
Net losses (gains) on disposal of noncurrent assets	71	169	0
Net change in trading assets	553	347	3
Net change in trading liabilities	(2)	(2)	0
Net change in loans and bills discounted	(452,691)	(984,759)	(2,989)
Net change in deposits	202,216	466,462	1,335
Net change in borrowed money (excluding subordinated borrowed money)	1,167,467	1,075,380	7,710
Net change in due from banks (excluding deposits with the Bank of Japan)	776	3,584	5
Net change in call loans	(2,383)	1,509	(15)
Net change in call money	367,894	(630,137)	2,429
Net change in cash collateral received for securities lent	234,733	(157,061)	1,550
Net change in foreign exchanges - Assets	12,205	(12,310)	80
Net change in foreign exchanges - Liabilities	1,009	184	6
Net change in lease receivables and lease investment assets	(4,025)	(1,289)	(26)
Net change in short-term bonds payable - Liabilities	8,800	10,000	58
Interest received	315,063	238,834	2,080
Interest paid	(99,591)	(38,629)	(657)
Other, net	(127,499)	40,627	(842)
Subtotal	1,476,982	(84,417)	9,754
Income taxes paid (received)	3,896	(26,844)	25
<b>Net cash provided by (used in) operating activities</b>	<b>1,480,879</b>	<b>(111,261)</b>	<b>9,780</b>
<b>Cash flows from investing activities:</b>			
Payments for purchases of securities	(1,439,411)	(1,276,130)	(9,506)
Proceeds from sale of securities	302,570	983,877	1,998
Proceeds from redemption of securities	367,622	313,329	2,427
Payments for increase in money held in trust	(400)	—	(2)
Proceeds from decrease in money held in trust	—	200	—
Payments for purchases of tangible fixed assets	(10,304)	(3,538)	(68)
Proceeds from sale of tangible fixed assets	1,841	609	12
Payments for purchases of intangible fixed assets	(12,009)	(15,264)	(79)
<b>Net cash provided by (used in) investing activities</b>	<b>(790,090)</b>	<b>3,082</b>	<b>(5,218)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from share issuance to non-controlling interests	0	50	0
Payments for purchases of treasury stock	(17)	(5,607)	(0)
Proceeds from sale of treasury stock	0	0	0
Dividends paid	(20,709)	(18,890)	(136)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	—	715	—
<b>Net cash used in financing activities</b>	<b>(20,726)</b>	<b>(23,732)</b>	<b>(136)</b>
Effect of exchange rate changes on cash and cash equivalents	130	60	0
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>670,192</b>	<b>(131,851)</b>	<b>4,426</b>
Cash and cash equivalents at beginning of the year	7,708,412	7,840,263	50,910
Increase in cash and cash equivalents by share exchange	66,572	—	439
<b>Cash and cash equivalents at end of the year (Note 15)</b>	<b>¥8,445,177</b>	<b>¥7,708,412</b>	<b>\$55,776</b>

# Notes to Consolidated Financial Statements

Fukuoka Financial Group, Inc. and its subsidiaries  
Fiscal years ended March 31, 2024 and 2023

## 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 subsidiaries, excluding 11 subsidiaries controlled directly or indirectly by FFG such as FFG Venture Investment Limited Partnership No. 1. All significant intercompany balances and transactions have been eliminated in consolidation.

FFG Industries Co., Ltd. was included in the scope of consolidation from the fiscal year ended March 31, 2024 as it was newly established.

Effective October 1, 2023, FFG implemented a share exchange with THE FUKUOKA CHUO BANK, LTD. (hereinafter "Fukuoka Chuo Bank"), and therefore included Fukuoka Chuo Bank in the scope of consolidation from the fiscal year ended March 31, 2024.

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.

In addition, there are four companies that are not regarded as FFG's subsidiaries even though the majority of their voting rights (business execution rights) are held by FFG in its own accounts. Investments in these four companies were made by FFG's unconsolidated subsidiaries engaged in investment and related businesses for the purpose of rehabilitating their businesses and earning capital gains, not to control the decision-making bodies of the investees. Therefore, the four companies meet the

requirements prescribed in Paragraph 16 of "Implementation Guidance on Determining a Subsidiary and an Affiliate" ("ASBJ Guidance No. 22), and are not treated as FFG's subsidiaries.

There are no affiliated companies over which FFG exercises significant influence in terms of their operating and financial policies. The above-mentioned unconsolidated subsidiaries and two affiliated companies, Kumamoto Historical Town Development Investment Limited Partnership and Kyushu Open Innovation No. 2 Investment Business Limited Partnership, 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 FFG'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 fair value 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 trading account 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 are stated at fair value (cost of securities sold is calculated using the moving-average method), and equity securities, etc. that do not

have a market price are stated at cost computed by the moving-average method.

With respect to translation difference of available-for-sale securities (bonds) denominated in foreign currencies, among amounts that resulted from translating foreign currency-based fair value at the exchange rates on the balance sheet date, translation difference due to changes in foreign currency-based fair value (the amount translated changes in foreign currency-based fair value at the spot exchange rates on the balance sheet date) is treated as valuation difference, while the other difference is treated as net exchange losses (gains).

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 fair 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. 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, 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 re-scheduled 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, based on an economic outlook, default rates for each of the 17 categories: 10 categories under Normal Obligors, 6 categories under Obligors Who Need Attention and 1 category under In-Danger-of-Bankruptcy Obligors.

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.

Allowance for loan losses in consolidated subsidiaries not conducting banking businesses is provided by the actual write-off ratio method, etc.

#### **h. 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 gains or losses are amortized mainly in the following manner:

- Prior service cost is amortized by the straight-line method over certain periods (5–11 years), which are shorter than the average remaining years of service of the employees.
- Actuarial gains or losses are amortized by the straight-line method from the following year over certain periods (5–11 years), which are shorter than the average remaining years of service of the employees.

# Notes to Consolidated Financial Statements

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.

## **i. 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.

## **j. Provision of Share Awards**

The provision for share awards is provided at the amount of estimated share award obligations at the fiscal year-end for share-based payments to directors, etc. of FFG and some of its consolidated subsidiaries under the stock compensation plan.

## **k. 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.

## **l. 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.

## **m. Revenue and Expenses for Lease Transactions**

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

## **n. 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 Committee Practical Guideline No. 24, March 17, 2022). 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 Treatment Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Committee Practical Guideline No. 25, October 8, 2020). 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 interest rate swaps with exceptional accounting are applied to certain assets and liabilities of FFG.

## **o. 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 some of its domestic subsidiaries adopt the group tax sharing system.

## **p. 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.

## **q. Cash and Cash Equivalents**

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and deposits with the Bank of Japan which are included in “Cash and due from banks” in the consolidated balance sheet.

## **r. Principles and Procedures of Accounting Treatments Adopted When Relevant Accounting Standards, etc. Are Not Clear**

With respect to gains or losses on cancellation or redemption of investment trusts, in case of gains as a whole of investment trusts including dividends from revenue during the fiscal year, etc., it is recorded in “Interest and dividends on securities.” In case of losses, it is recorded in loss on redemption of bonds under “Other operating expenses.”



## s. Significant Accounting Estimates

Items whose recorded amount in the consolidated financial statements for the current fiscal year for accounting determined based on the account estimates, may have a significant impact on the consolidated financial statements for the following fiscal year were as follows:

Allowance for loan losses

### (1) The amount recorded in the consolidated financial statements for the fiscal years ended March 31, 2024 and 2023

	(Millions of yen)	
	2024	2023
Allowance for loan losses	¥200,929	¥187,829

### (2) Information on the details of significant accounting estimates for identified items

#### (a) Calculation method

See “g. Allowance for Loan Losses” of Note 1 for the method of calculating allowance for loan losses.

#### (b) Main assumptions

The main assumptions used in the method of calculating allowance for loan losses are “future performance forecasts of borrowers for judgement on category of obligors” and “future business forecasts for estimating default rates.” Details of assumptions are as follows:

- Future performance forecasts of borrowers for judgement on category of obligors

They are set by assessing the capability to generate future earnings of each obligor on an individual basis.

- Future business forecasts for estimating default rates  
The default rates are statistically estimated and calculated based on an economic outlook, past business trends and historical data of bankruptcy, and a GDP growth rate is used as an economic indicator.

In forecasting economic outlook, expected annual GDP growth rate is calculated using two scenarios, that is a baseline scenario and a downside scenario, based on future prospect of economics, which is then determined semiannually in principle by the Board of Directors.

At the end of the fiscal year ended March 31, 2024, despite positive signs such as normalization of economic activities due to the downgrading of COVID-19 to a Class V Infectious Disease and rises in share prices in Japan and the U.S., FFG assumes that there will continue to be a strong sense of uncertainty over the future outlook arising from sluggish personal consumption caused by rising prices as well as growing tensions of the situation in Ukraine and the Middle East.

#### (c) Impact on the consolidated financial statements for the following fiscal year

Main assumptions may be affected by uncertainties such as economic trends, real estate prices, and

changes in the business conditions of client companies. Accordingly, when assumptions used for initial estimates change, it may have a significant impact on allowance for loans losses in the consolidated financial statements for the fiscal year ending March 31, 2025.

## t. Accounting Standards Issued but Not Yet Effective

ASBJ issued the “Accounting Standard for Current Income Taxes” (ASBJ Statement No. 27, October 28, 2022), “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, October 28, 2022) and “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, October 28, 2022).

### (a) Overview

These accounting standards set forth the treatment of accounting classification of current income taxes in the case where other comprehensive income is taxable, as well as the treatment of tax effect accounting on sale of shares of subsidiaries and other instruments under the group taxation regime.

### (b) Scheduled date of adoption

FFG expects to adopt these accounting standards from the beginning of the fiscal year ending March 31, 2025.

### (c) Impact of adopting the implementation guidance

FFG is currently evaluating the impact of adopting these accounting standards on its consolidated financial statements.

## u. Additional Information

### Transactions for delivering own shares through a trust

#### (a) Overview of the transaction

FFG has introduced a performance-linked stock compensation plan for FFG’s directors (excluding directors serving as Audit & Supervisory Committee members and external directors) which seeks to clarify the link between directors’ remuneration and the Group’s performance and shareholder value, raise the motivation of directors to contribute to the medium- to long-term improvement of business performance and the growth of corporate value, and have directors share with all shareholders the risks and returns of share price fluctuations.

In addition to FFG’s directors, FFG’s executive officers, and directors and executive officers of The Bank of Fukuoka, Ltd., The Kumamoto Bank, Ltd., The Juhachi-Shinwa Bank, Ltd. and Minna Bank, Ltd. (collectively, the “Eligible Directors, etc.”) are covered by this plan.

This plan adopts the Board Incentive Plan (“BIP”) Trust scheme whereby FFG’s shares and money are delivered to the Eligible Directors, etc. according to their position and the degree of attainment of the target performance, etc.

# Notes to Consolidated Financial Statements

In addition, FFG has introduced a stock compensation plan for directors and executive officers of Fukuoka Chuo Bank. This is because FFG has succeeded the plan introduced by Fukuoka Chuo Bank as a result of making it a wholly owned subsidiary through a share exchange.

## (b) FFG's shares held in the trust

FFG's shares held in the trust are recorded as treasury stock under shareholders' equity at the carrying value in the trust. The carrying value of such treasury stock as of March 31, 2024 and 2023 was ¥676 million and ¥595 million, respectively. The number of such treasury stock as of March 31, 2024 and 2023 was 266 thousand shares and 242 thousand shares, respectively.

## 2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥151.41 = US\$1.00, the approximate rate of exchange on March 31, 2024, 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, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
National government bonds	¥2,173,163	¥1,582,482
Local government bonds	147,406	134,863
Corporate bonds	388,190	424,207
Equity securities	270,221	192,124
Other securities	1,998,541	1,619,794
<b>Total</b>	<b>¥4,977,523</b>	<b>¥3,953,472</b>

Equity securities included investments in unconsolidated subsidiaries and affiliated companies of ¥46 million and ¥181 million at March 31, 2024 and 2023, respectively.

Other securities included investments in unconsolidated subsidiaries and affiliated companies of ¥16,753 million and ¥13,883 million at March 31, 2024 and 2023, respectively.

National government bonds included bonds of ¥2,755 million at March 31, 2023, which were being rented out 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 ¥33,446 million and ¥35,233 million at March 31, 2024 and 2023, respectively.

## ■ Held-to-maturity debt securities

There were no held-to-maturity debt securities at March 31, 2024.

The following table summarizes carrying values, fair values and differences of securities with available fair values at March 31, 2023:

		(Millions of yen)		
		2023		
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥ 4,033	¥ 4,058	¥ 24
	Corporate bonds	2,683	2,744	60
	Other	—	—	—
	Subtotal	¥ 6,717	¥ 6,802	¥ 85
Securities with fair value not exceeding carrying value	National government bonds	¥10,340	¥10,160	¥(180)
	Corporate bonds	—	—	—
	Other	—	—	—
	Subtotal	¥10,340	¥10,160	¥(180)
<b>Total</b>		<b>¥17,058</b>	<b>¥16,963</b>	<b>¥ (94)</b>

## ■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2024 and 2023:

		(Millions of yen)		
		2024		
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥ 475,310	¥ 477,170	¥ 1,860
	Local government bonds	19,811	19,875	63
	Corporate bonds	35,261	35,436	174
	Equity securities	99,024	253,254	154,230
	Other	757,718	813,011	55,293
Subtotal	¥1,387,126	¥1,598,748	¥ 211,622	
Securities with carrying value not exceeding acquisition cost	National government bonds	¥1,787,699	¥1,695,992	¥ (91,706)
	Local government bonds	129,482	127,531	(1,951)
	Corporate bonds	365,406	352,753	(12,652)
	Equity securities	6,053	5,620	(432)
	Other	1,168,573	1,107,896	(60,676)
Subtotal	¥3,457,215	¥3,289,795	¥(167,419)	
<b>Total</b>	<b>¥4,844,341</b>	<b>¥4,888,544</b>	<b>¥ 44,202</b>	

(Millions of yen)				
2023				
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥ 373,165	¥ 383,218	¥ 10,053
	Local government bonds	14,449	14,536	86
	Corporate bonds	99,143	99,676	532
	Equity securities	63,031	150,988	87,956
	Other	605,654	624,956	19,301
	Subtotal	¥1,155,443	¥1,273,374	¥117,931
Securities with carrying value not exceeding acquisition cost	National government bonds	¥1,250,939	¥1,184,889	¥(66,049)
	Local government bonds	121,760	120,327	(1,432)
	Corporate bonds	329,453	321,847	(7,605)
	Equity securities	34,696	29,519	(5,177)
	Other	968,951	921,028	(47,922)
	Subtotal	¥2,705,802	¥2,577,613	¥(128,188)
<b>Total</b>	<b>¥3,861,245</b>	<b>¥3,850,988</b>	<b>¥(10,257)</b>	

Securities other than securities held for trading purpose (excluding equity securities, etc. that do not have a market price and investments in partnerships) 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, "impairment losses"). No impairment losses were recognized for the fiscal year ended March 31, 2024 while impairment losses amounted to ¥271 million for the fiscal year ended March 31, 2023. 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 who needs attention.

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, 2024 and 2023:

(Millions of yen)			
2024			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥179,579	¥ 664	¥20,215
Local government bonds	5,796	59	4
Corporate bonds	9,234	44	—
Equity securities	7,691	2,967	268
Other	51,354	2,345	1,391
<b>Total</b>	<b>¥253,656</b>	<b>¥6,080</b>	<b>¥21,879</b>

  

(Millions of yen)			
2023			
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥483,857	¥10,822	¥ 585
Local government bonds	—	—	—
Corporate bonds	5,708	0	—
Equity securities	8,396	2,676	455
Other	480,672	2,783	51,418
<b>Total</b>	<b>¥978,634</b>	<b>¥16,282</b>	<b>¥52,459</b>

#### 4. Money Held in Trust

The following table summarizes carrying value and gains (losses) on valuation included in the consolidated statement of income regarding money held in trust for trading purpose at March 31, 2024 and 2023 and for the fiscal years then ended:

(Millions of yen)		
2024		
	Carrying value	Gains (losses) on valuation
Money held in trust for trading purpose	¥13,053	¥22

  

(Millions of yen)		
2023		
	Carrying value	Gains (losses) on valuation
Money held in trust for trading purpose	¥13,114	¥124

# Notes to Consolidated Financial Statements

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, 2024 and 2023:

(Millions of yen)			
2024			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥6,200	¥6,200	¥—

(Millions of yen)			
2023			
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥5,800	¥5,800	¥—

## 5. Claims

Claims based on the Banking Act and Act on Emergency Measures for the Revitalization of the Financial Functions at March 31, 2024 and 2023 were as follows. The claims consist of those recorded in the consolidated balance sheet as corporate bonds in “Securities” (limited to those guaranteeing all or a part of principal and interest, and offered through private placement in accordance with Article 2, Paragraph 3 of the Financial Instruments and Exchange Act), loans and bills discounted, foreign exchanges, accrued interest and suspense payments in “Other assets” and customers’ liabilities for acceptances and guarantees, as well as securities in securities lending transactions indicated in the notes (limited to those under loan for use or lease contracts).

(Millions of yen)		
	2024	2023
Bankrupt or quasi-bankrupt claims	¥ 50,399	¥ 39,844
Doubtful claims	152,604	153,778
Claims past due for three months or more	1,337	855
Restructured claims	107,251	110,176
Total	¥311,592	¥304,655

Bankrupt or quasi-bankrupt claims are claims made against obligors who have fallen into bankruptcy for reasons such as the commencement of bankruptcy proceedings or reorganization proceedings, or the petition for commencement of rehabilitation proceedings, and claims similar to these.

Doubtful claims are claims that are made against obligors who are yet to have fallen into bankruptcy, but it is highly probable that the contractual principal and interest cannot be collected/received due to deterioration of the obligor’s financial condition and business performance, and those not classified as bankrupt or quasi-bankrupt claims.

Claims past due for three months or more represent claims for which payments of principal or interest have been in arrears for three months or more from the day following the agreed-upon payment date, but do not meet the criteria for bankrupt or quasi-bankrupt claims, or doubtful claims.

Restructured claims are claims that have been restructured to support the rehabilitation of certain obligors who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the obligors (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.

The amounts of claims in the above table are before deduction of allowance for loan losses.

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 Committee Practical Guideline No. 24, March 17, 2022). FFG has a right to sell or collateralize such bills at the discretion of FFG. At March 31, 2024 and 2023, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥38,791 million and ¥30,883 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, 2024 and 2023 amounted to ¥4,859,003 million and ¥4,842,363 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 ¥4,452,148 million and ¥4,461,404 million at March 31, 2024 and 2023, 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," and the revaluation difference, net of this deferred tax liability, is included in net assets as "Revaluation reserve for land."

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.

Accumulated depreciation for tangible fixed assets amounted to ¥169,261 million and ¥158,875 million at March 31, 2024 and 2023, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥17,013 million and ¥16,981 million at March 31, 2024 and 2023, respectively.

## 7. Pledged Assets

Assets pledged as collateral at March 31, 2024 and 2023 consisted of the following:

	(Millions of yen)	
	2024	2023
Assets pledged as collateral:		
Securities	¥ 3,446,494	¥ 2,751,082
Loans and bills discounted	5,013,750	5,003,640
Other assets	4	3
Liabilities corresponding to assets pledged as collateral:		
Deposits	41,916	47,816
Payables under repurchase agreements	317,101	433,407
Cash collateral received for securities lent	915,202	680,468
Borrowed money	6,128,154	4,946,144
Other liabilities	14	—

In addition, the following assets were pledged as collateral for settlement of exchange, etc. at March 31, 2024 and 2023.

	(Millions of yen)	
	2024	2023
Cash and due from banks	¥ 2	¥ 2
Other assets	712	838

Initial margins of futures markets, cash collateral paid for financial instruments and guarantee deposits included in other assets at March 31, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
Initial margins of futures markets	¥ 199	¥ 168
Cash collateral paid for financial instruments	183,219	146,485
Guarantee deposits	2,475	2,569

## 8. Retirement Benefit Plans

The consolidated subsidiaries engaged in banking businesses primarily have a cash balance plan-type corporate pension plan as a defined benefit plan and established retirement benefit trusts.

FFG and certain consolidated subsidiaries have a defined contribution-type corporate pension plan as a defined contribution plan.

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, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
Projected benefit obligation at the beginning of the fiscal year	¥162,283	¥166,409
Increase by share exchange	3,035	—
Service cost	4,548	4,665
Interest cost	265	266
Actuarial losses (gains)	(21,175)	(491)
Retirement benefits paid	(8,282)	(9,021)
Prior service cost	—	—
Contributions by participants of plans	450	454
Other	0	—
Projected benefit obligation at the end of the fiscal year	¥141,127	¥162,283

# Notes to Consolidated Financial Statements

The changes in plan assets during the fiscal years ended March 31, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
Plan assets at the beginning of the fiscal year	¥186,389	¥191,296
Increase by share exchange	5,668	—
Expected return on plan assets	6,578	6,678
Actuarial gains (losses)	12,982	(3,665)
Contributions by FFG's subsidiaries	5,705	63
Retirement benefits paid	(7,926)	(8,437)
Contributions by participants of plans	450	454
Other	—	—
Plan assets at the end of the fiscal year	¥209,848	¥186,389

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2024 and 2023.

	(Millions of yen)	
	2024	2023
Funded projected benefit obligation	¥ 139,458	¥ 160,655
Plan assets at fair value	(209,848)	(186,389)
	(70,390)	(25,734)
Unfunded projected benefit obligation	1,669	1,628
Net asset for retirement benefits in the balance sheet	¥ (68,720)	¥ (24,105)
	(Millions of yen)	
	2024	2023
Net defined benefit liabilities	¥ 1,163	¥ 1,146
Net defined benefit assets	(69,884)	(25,252)
Net asset for retirement benefits in the balance sheet	¥(68,720)	¥(24,105)

The components of retirement benefit expenses for the fiscal years ended March 31, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
Service cost	¥ 4,548	¥ 4,665
Interest cost	265	266
Expected return on plan assets	(6,578)	(6,678)
Amortization of actuarial losses (gains)	328	22
Amortization of prior service cost	71	(355)
Other	—	—
Retirement benefit expenses	¥(1,363)	¥(2,079)

The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the fiscal years ended March 31, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
Prior service cost	¥ 71	¥ (355)
Actuarial gains (losses)	34,486	(3,151)
Other	—	—
Total	¥34,557	¥(3,506)

The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
Unrecognized prior service cost	¥ 607	¥ 871
Unrecognized actuarial gains (losses)	(29,273)	5,190
Other	—	—
Total	¥(28,665)	¥6,062

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2024 and 2023 was as follows:

	2024	2023
Debt securities	33%	34%
Equity securities	39%	37%
Cash and due from banks	2%	2%
Other	26%	27%
Total	100%	100%

Total plan assets included retirement benefit trusts of 29% and 29% as of March 31, 2024 and 2023, 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:

	2024	2023
Discount rate	Mainly 1.4%	0.3%
Long-term expected rate of return on plan assets	Mainly 3.5%	3.5%
Estimated rate of increase in salary	Mainly 3.3%	3.3%

## (2) Defined contribution plans

The amounts to be paid to defined contribution plans by consolidated subsidiaries were ¥386 million and ¥386 million for the fiscal years ended March 31, 2024 and 2023, respectively.

## 9. 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 ¥33,446 million and ¥35,233 million at March 31, 2024 and 2023, respectively, for private placement corporate bonds. Relevant acceptances and guarantees and customers’ liabilities for acceptances and guarantees have been recorded in the net amount.

## 10. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale securities at March 31, 2024 and 2023 consisted of the following:

	(Millions of yen)	
	2024	2023
Gross valuation difference on available-for-sale securities	¥ 44,715	¥(8,929)
Deferred tax assets (liabilities) applicable to valuation difference	(11,246)	4,117
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for non-controlling interests	33,469	(4,812)
Amount attributable to non-controlling interests	—	—
Valuation difference on available-for-sale securities	33,469	(4,812)

## 11. Impairment Losses

Impairment losses for the fiscal year ended March 31, 2023 included the following:

Impairment losses on intangible fixed assets of a consolidated subsidiary

Zerobank Design Factory Co., Ltd., which is one of FFG’s consolidated subsidiaries, engages in the research and development of IT systems for Minna Bank, Ltd., which is also one of FFG’s consolidated subsidiaries. Accordingly, the two subsidiaries are grouped into a minimum cash generating unit.

Due to the revision of the two subsidiaries’ business plans for the following fiscal year onward, impairment losses on intangible fixed assets of Zerobank Design Factory Co., Ltd. were recorded in other expenses based on the “Accounting Standard for Impairment of Fixed Assets” for the fiscal year ended March 31, 2023 as follows:

2023			
Usage	Location	Type	Impairment losses
Business assets	Fukuoka Prefecture	Software	¥3,321
		Software in progress	1,067
Total			¥4,388

The difference between the net selling value, which is zero, and the carrying value of the above assets was recorded as impairment losses in other expenses.

## 12. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
Deferred tax assets:		
Allowance for loan losses	¥ 56,984	¥ 53,012
Net losses carried forward	5,234	5,312
Net defined benefit liabilities	449	5,980
Valuation difference on available-for-sale securities	—	4,117
Depreciation of securities	4,221	5,115
Depreciation expenses	4,750	4,953
Fair value gains related to consolidated taxation	3,784	3,853
Other	10,872	11,473
Subtotal	86,297	93,818
Valuation allowance for net losses carried forward	(3,396)	(3,518)
Valuation allowance for total deductible temporary differences, etc.	(12,133)	(14,020)
Subtotal	(15,529)	(17,539)
Total	70,767	76,279
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(11,246)	—
Retirement benefit trust	(6,272)	(5,352)
Securities returned from retirement benefit trust	(3,159)	(3,159)
Reserve for special depreciation	(673)	(452)
Fair value losses related to consolidated taxation	(465)	(465)
Deferred gains or losses on hedges	(8,991)	(3,659)
Other	(19,709)	(11,055)
Total	(50,517)	(24,145)
Net deferred tax assets (liabilities)	¥ 20,250	¥ 52,134

# Notes to Consolidated Financial Statements

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 years ended March 31, 2024 and 2023.

	(%)	
	2024	2023
Statutory tax rate	30.4	—
Change in valuation allowance	(0.7)	—
Gain on negative goodwill	(8.4)	—
Entertainment expenses and other items permanently excluded from expenses	0.4	—
Per capital residence tax	0.3	—
Dividend revenue and other items permanently excluded from gross revenue	(0.6)	—
Other	(0.5)	—
Effective tax rate	20.9	—

Note: The above information for the fiscal year ended March 31, 2023 is omitted because the difference between the statutory tax rate and the effective tax rate was less than 5% of the statutory tax rate.

FFG and some of its domestic consolidated subsidiaries adopt the group tax sharing system. Accordingly, the accounting and disclosure of corporation taxes, local corporation taxes and tax effect accounting are treated in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021).

## 13. Per Share Data

Net income attributable to owners of the parent per share for the fiscal years ended March 31, 2024 and 2023 and net assets per share as of then were as follows:

	(Yen)	
	2024	2023
Net income attributable to owners of the parent per share:		
Basic	¥ 324.76	¥ 165.54
Diluted	—	—
Net assets per share	5,397.27	4,796.99

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 fiscal year.

For the fiscal years ended March 31, 2024 and 2023, 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.

Net assets per share is computed by dividing net assets excluding non-controlling interests by the number of shares of common stock outstanding at the fiscal year-end.

FFG’s shares held in the trust for the stock compensation plan, which were recorded as treasury stock under

shareholders’ equity, were included in treasury stock to be deducted from the calculation of the weighted average number of shares of common stock outstanding during the fiscal year for the purpose of calculating basic net income attributable to owners of the parent per share. In addition, they were included in treasury stock to be deducted from the calculation of the number of shares of common stock outstanding at the fiscal year-end, for the purpose of calculating net assets per share.

## 14. Other Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2024 and 2023 were the following:

	(Millions of yen)	
	2024	2023
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥ 35,258	¥ (133,458)
Reclassification adjustments to profit or loss	18,386	54,604
Amount before income tax effect	53,645	(78,853)
Income tax effect	(15,363)	24,067
Total	38,281	(54,786)
Deferred gains or losses on hedges		
Gains (losses) arising during the year	13,827	16,841
Reclassification adjustments to profit or loss	3,706	(2,095)
Amount before income tax effect	17,534	14,745
Income tax effect	(5,330)	(4,482)
Total	12,203	10,263
Remeasurements of defined benefit plans		
Gains (losses) arising during the year	34,299	(3,173)
Reclassification adjustments to profit or loss	428	(333)
Amount before income tax effect	34,727	(3,506)
Income tax effect	(10,557)	1,066
Total	24,170	(2,440)
Total other comprehensive income	¥ 74,656	¥ (46,963)

## 15. Supplementary Cash Flow Information

### 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, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
Cash and due from banks	¥8,449,933	¥7,713,590
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(4,756)	(5,177)
Cash and cash equivalents	¥8,445,177	¥7,708,412



## 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, 2024 and 2023 were as follows:

	(Millions of yen)	
	2024	2023
Within one year	¥ 61	¥ 58
Over one year	139	123
Total	¥201	¥181

## 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 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

##### Loans and bills discounted

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.

##### Securities

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 under 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.

##### Deposits

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.

##### Derivative transactions

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 "n. 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 appropriate management to maintain asset soundness while securing 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 operations, 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.

# Notes to Consolidated Financial Statements

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 Risk Management Program that stipulates action plans regarding credit risk. 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 returns on 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 included in "Securities," "Deposits," "Borrowed money," "Bonds payable" and interest-related transactions included in "Derivative transactions."

FFG calculates VaR of 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, 2024 and 2023, FFG's amount of interest rate risk (value of estimated losses) was ¥86,183 million and ¥57,600 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. In the domestic banking department, losses exceeded the VaR several times in back-testing conducted for the fiscal year ended March 31, 2024. Therefore, FFG ensures a conservative estimate by measuring VaR using a fixed multiplier. However, as the losses did not exceed the VaR more than four times as of March 31, 2024, VaR is currently not estimated by using a fixed multiplier.

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.

Thus VaR is a technique to measure 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 reviews the calculation models used, etc. in a timely and appropriate manner as necessary to improve the accuracy in capturing risk.

#### Volatility risk

FFG's main financial instruments affected by share price fluctuations—the primary risk variable—are listed equity securities and investment trusts included in “Securities.”

FFG calculates VaR of these financial assets using the historical simulation method (holding period of 120 days, confidence interval of 99%, observation period of 1,250 days for listed equity securities held for strategic investment purpose; holding period of 60 days, confidence interval of 99%, observation period of 1,250 days for listed equity securities held purely for investment purpose and investment trusts) and employs quantitative analysis in its volatility risk management.

As of March 31, 2024 and 2023, FFG's amount of volatility risk was ¥89,714 million and ¥87,697 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 a result of such back-testing conducted for the fiscal year ended March 31, 2024, no losses exceeded the VaR. FFG believes that the measurement model captures volatility risk with sufficient accuracy.

However, 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.

#### (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.

The management committees of consolidated subsidiaries 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 monitors whether daily cash flow management and operations are carried out appropriately; 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, 2024 and 2023 were as follows. Equity securities, etc. that do not have a market price and investments in partnerships are not included in the table below. In addition, notes are omitted for items whose fair value approximates book value due to their short maturities, or whose carrying value is immaterial.

(Millions of yen)			
2024			
	Carrying value	Fair value	Difference
<b>Assets</b>			
Securities			
Held-to-maturity debt securities	¥ -	¥ -	¥ -
Available-for-sale securities (*1)	4,888,544	4,888,544	-
Loans and bills discounted (*2)	18,345,549	18,445,599	100,050
Total	¥23,234,093	¥23,334,143	¥100,050
<b>Liabilities</b>			
Deposits	¥21,680,861	¥21,681,267	¥ 405
Borrowed money	6,132,375	6,059,379	(72,995)
Total	¥27,813,236	¥27,740,647	¥ (72,589)
<b>Derivatives (*3)</b>			
Hedge accounting not applied	¥ 2,317	¥ 2,317	¥ -
Hedge accounting applied (*4)	23,954	23,954	-
Total	¥ 26,272	¥ 26,272	¥ -

# Notes to Consolidated Financial Statements

(Millions of yen)			
2023			
	Carrying value	Fair value	Difference
<b>Assets</b>			
Securities			
Held-to-maturity debt securities	¥ 17,058	¥ 16,963	¥ (94)
Available-for-sale securities (*1)	3,850,988	3,850,988	-
Loans and bills discounted (*2)	17,504,270	17,623,354	119,083
Total	¥21,372,317	¥21,491,305	¥118,988
<b>Liabilities</b>			
Deposits	¥20,949,452	¥20,949,915	¥ 462
Borrowed money	4,951,707	4,904,630	(47,077)
Total	¥25,901,159	¥25,854,545	¥ (46,613)
<b>Derivatives (*3)</b>			
Hedge accounting not applied	¥ 2,751	¥ 2,751	¥ -
Hedge accounting applied (*4)	5,443	5,443	-
Total	¥ 8,195	¥ 8,195	¥ -

(\*1) Available-for-sale securities include investment trusts whose unit price is deemed as fair value by applying the treatment provided for in Paragraphs 24-3 and 24-9 of "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021).

(\*2) Allowance for loan losses on loans and bills discounted are directly deducted from the amounts on consolidated financial statements.

(\*3) Derivatives indicate the sum of derivatives included within "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.

(\*4) Derivatives to which hedge accounting is applied are interest rate swaps and currency swaps, etc. designated as hedging instruments to fix cash flows of financial assets and financial liabilities of hedged items such as loans and securities, offset market fluctuation, or reduce foreign exchange risk. FFG applies deferred hedge accounting, interest rate swaps with exceptional accounting, or the allocation method to these derivatives.

In addition, "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (ASBJ PITF No. 40, March 17, 2022) is applied to the hedging relationships.

The carrying value of equity securities, etc. that do not have a market price and investments in partnerships at March 31, 2024 and 2023 were as follows. These are not included in "Available-for-sale securities" in the above tables.

(Millions of yen)		
	2024	2023
Carrying value		
Unlisted equity securities (*1) (*2)	¥11,346	¥11,617
Investments in partnerships (*3)	77,632	73,808

(\*1) Unlisted equity securities are exempted from fair value disclosures in accordance with Paragraph 5 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020).

(\*2) Impairment losses on unlisted equity securities were ¥63 million and ¥52 million for the fiscal years ended March 31, 2024 and 2023, respectively.

(\*3) Investments in partnerships are exempted from fair value disclosures in accordance with Paragraph 24-16 of "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021).

The redemption schedule for monetary assets and securities with maturity dates at March 31, 2024 and 2023 are summarized as follows:

(Millions of yen)							
2024							
	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	¥ 8,250,390	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	16,806	-	-	-	-	-	-
Monetary claims bought	41,569	-	-	-	-	-	-
<b>Securities</b>							
Held-to-maturity debt securities							
National government bonds	-	-	-	-	-	-	-
Corporate bonds	-	-	-	-	-	-	-
Available-for-sale securities with maturities							
National government bonds	50,994	297,888	450,282	65,407	227,914	1,080,675	
Local government bonds	20,569	29,566	19,497	35,546	24,488	17,739	
Corporate bonds	19,774	73,346	57,438	10,989	9,096	209,164	
Other	56,962	132,005	138,759	78,861	137,500	879,265	
Loans and bills discounted (*)	6,085,447	2,749,089	2,268,944	1,601,921	1,663,529	3,757,222	
Total	¥14,542,514	¥3,281,896	¥2,334,922	¥1,792,726	¥2,062,529	¥5,944,067	

(\*) Loans do not include an estimated ¥196,417 million in uncollectible loans to Bankrupt Obligor, Effectively Bankrupt Obligor or In-Danger-of-Bankruptcy Obligor, and ¥220,608 million in loans that have no set term.

(Millions of yen)							
2023							
	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	¥ 7,512,108	¥ -	¥ -	¥ -	¥ -	¥ -	-
Call loans and bills bought	18,694	-	-	-	-	-	-
Monetary claims bought	37,297	-	-	-	-	-	-
<b>Securities</b>							
Held-to-maturity debt securities							
National government bonds	14,374	-	-	-	-	-	-
Corporate bonds	2,683	-	-	-	-	-	-
Available-for-sale securities with maturities							
National government bonds	103,405	91,115	5,390	8,843	186,170	1,173,182	
Local government bonds	3,937	41,304	16,740	33,596	24,920	14,364	
Corporate bonds	63,490	46,790	57,405	4,806	4,853	230,844	
Other	64,565	105,164	160,607	74,417	125,065	614,724	
Loans and bills discounted (*)	6,079,460	2,544,241	2,113,602	1,505,381	1,567,368	3,533,289	
Total	¥13,900,017	¥ 2,828,615	¥2,353,746	¥1,627,045	¥1,908,377	¥5,566,406	

(\*) Loans do not include an estimated ¥188,539 million in uncollectible loans to Bankrupt Obligor, Effectively Bankrupt Obligor or In-Danger-of-Bankruptcy Obligor, and ¥156,499 million in loans that have no set term.

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2024 and 2023 are summarized as follows:

(Millions of yen)

2024						
	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 (*)	¥21,260,643	¥ 310,043	¥ 87,891	¥5,633	¥16,650	¥ -
Call money and bills sold	2,150,000	-	-	-	-	-
Payables under repurchase agreements	264,108	52,993	-	-	-	-
Cash collateral received for securities lent	915,202	-	-	-	-	-
Borrowed money	2,869,683	1,475,493	1,785,484	1,100	495	119
Total	¥27,459,637	¥1,838,529	¥1,873,375	¥6,733	¥17,145	¥119

(\*) Demand deposits are included in "1 year or less."

(Millions of yen)

2023						
	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 (*)	¥20,579,691	¥ 298,298	¥ 65,027	¥4,260	¥2,173	¥ -
Call money and bills sold	1,665,800	-	-	-	-	-
Payables under repurchase agreements	353,289	80,118	-	-	-	-
Cash collateral received for securities lent	680,468	-	-	-	-	-
Borrowed money	795,142	3,054,329	1,100,509	1,100	-	625
Total	¥24,074,393	¥3,432,745	¥1,165,536	¥5,360	¥2,173	¥625

(\*) Demand deposits are included in "1 year or less."

#### (4) Fair value information by level within the fair value hierarchy

The fair value of financial instruments is classified into the following three levels according to the observability and materiality of inputs used to measure fair value.

Level 1: Fair value measured using observable inputs that are quoted prices for identified assets or liabilities in active markets

Level 2: Fair value measured using observable inputs other than those included within Level 1

Level 3: Fair value measured using unobservable inputs

In cases where multiple inputs with a significant impact on the fair value measurement are used, fair value is classified into the level to which the input with the lowest priority in the fair value measurement belongs.

#### (a) Financial instruments carried at fair value in the consolidated balance sheet

(Millions of yen)

2024				
	Fair value			
	Level 1	Level 2	Level 3	Total
<b>Securities</b>				
Available-for-sale securities				
National government bonds	¥2,173,163	¥ -	¥ -	¥2,173,163
Local government bonds	-	147,406	-	147,406
Corporate bonds	-	348,952	39,238	388,190
Equity securities	258,875	-	-	258,875
Foreign bonds	364,533	893,501	7,686	1,265,721
Other (*1)	280,472	297,971	31,162	609,606
Total assets	¥3,077,044	¥1,687,832	¥78,088	¥4,842,964
Derivatives (*2)				
Interest-related	¥ -	¥ 33,174	¥ -	¥ 33,174
Currency-related	-	(7,242)	-	(7,242)
Credit derivatives	-	340	-	340
Total derivatives	¥ -	¥ 26,272	¥ -	¥ 26,272

(Millions of yen)

2023				
	Fair value			
	Level 1	Level 2	Level 3	Total
<b>Securities</b>				
Available-for-sale securities				
National government bonds	¥1,568,108	¥ -	¥ -	¥1,568,108
Local government bonds	-	134,863	-	134,863
Corporate bonds	-	379,450	42,073	421,524
Equity securities	180,507	-	-	180,507
Foreign bonds	264,946	509,714	217,566	992,226
Other (*1)	229,248	251,075	41,105	521,430
Total assets	¥2,242,810	¥1,275,103	¥300,745	¥3,818,660
Derivatives (*2)				
Interest-related	¥ -	¥ 15,677	¥ -	¥ 15,677
Currency-related	-	(7,960)	-	(7,960)
Bond-related	(2)	-	-	(2)
Credit derivatives	-	479	-	479
Total derivatives	¥ (2)	¥ 8,197	¥ -	¥ 8,195

(\*1) Investment trusts whose unit price is deemed as fair value by applying the treatment provided for in Paragraphs 24-3 and 24-9 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) are not included. The carrying value of investment trusts applying the treatment provided for in Paragraph 24-3 as of March 31, 2024 and 2023 was ¥15,040 million and ¥8,665 million, respectively. The carrying value of investment trusts applying the treatment provided for in Paragraph 24-9 as of March 31, 2024 and 2023 was ¥30,539 million and ¥23,662 million, respectively.

(\*2) Derivatives indicate the sum of derivatives included within "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.

# Notes to Consolidated Financial Statements

## (b) Financial instruments not carried at fair value in the consolidated balance sheet

(Millions of yen)				
2024				
Fair value				
	Level 1	Level 2	Level 3	Total
<b>Securities</b>				
Held-to-maturity debt securities				
National government bonds	¥-	¥ -	¥ -	¥ -
Corporate bonds	-	-	-	-
Loans and bills discounted	-	-	18,445,599	18,445,599
<b>Total assets</b>	¥-	¥ -	¥18,445,599	¥18,445,599
<b>Deposits</b>				
Deposits	¥-	¥21,681,267	¥ -	¥21,681,267
Borrowed money	-	6,059,329	49	6,059,379
<b>Total liabilities</b>	¥-	¥27,740,597	¥ 49	¥27,740,647

  

(Millions of yen)				
2023				
Fair value				
	Level 1	Level 2	Level 3	Total
<b>Securities</b>				
Held-to-maturity debt securities				
National government bonds	¥14,218	¥ -	¥ -	¥ 14,218
Corporate bonds	-	2,744	-	2,744
Loans and bills discounted	-	-	17,623,354	17,623,354
<b>Total assets</b>	¥14,218	¥ 2,744	¥17,623,354	¥17,640,317
<b>Deposits</b>				
Deposits	¥ -	¥20,949,915	¥ -	¥20,949,915
Borrowed money	-	4,903,439	1,191	4,904,630
<b>Total liabilities</b>	¥ -	¥25,853,354	¥ 1,191	¥25,854,545

Description of the valuation techniques and inputs used in the fair value measurement is as follows:

### Assets

#### Securities

The fair value of securities with an unadjusted quoted prices in active markets available is classified as Level 1. This mainly includes listed equity securities and national government bonds. Even if there is a published quoted price, in cases such as when the market is not active, fair value is classified as Level 2. This mainly includes local government bonds and corporate bonds. For investment trusts with no transaction price in markets, if there are no material restrictions causing market participants to demand compensation for risk of cancellation or claims for repurchases, fair value is based on the trusts' unit price, and is classified as Level 2.

The fair value of securities with no quoted price available is determined based on the present value calculated by discounting estimated future cash flows generated from each transaction at a discount rate, that is a market interest rate plus factors such as credit risk based on an expected loss rate by obligors' classification in accordance with internal rating, and is classified as Level 3.

#### Loans and bills discounted

The fair value of loans and bills discounted is determined principally based on the present value calculated by discounting estimated future cash flows generated from each transaction at a discount rate, that is a market interest rate plus factors such as credit risk based on an expected loss rate by loan type and obligors' classification in accordance with internal rating, and is classified as Level 3. In estimating future cash flows of loans with floating interest rates, which reflect market interest rates within a short period of time, the next interest due date is considered the maturity date.

With regard to claims to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, an estimated loss amount is based on either a present value of estimated future cash flows or an amount expected to be collected through collateral and guarantees, and therefore fair value approximates carrying value of claims, etc. at the balance sheet date less allowance for loan losses and such amount is used as fair value, which is classified as Level 3.

For loans that have no specific repayment period because loan amounts are limited to the value of assets pledged as collateral, fair value approximates book value considering their expected repayment periods and interest conditions, therefore book value is used as fair value, which is classified as Level 3.

### Liabilities

#### Deposits

The fair value of demand deposits is determined by the payment amount (book value) if demanded on the balance sheet date. The fair value of time deposits is based on the present value calculated by discounting estimated future cash flows, classified by certain periods of time, at an interest rate used when accepting new deposits, and is classified as Level 2.

#### Borrowed money

The fair value of borrowed money is based on the present value calculated by discounting estimated future cash flows generated from each transaction at a discount rate, that is a market interest rate plus factors such as FFG's credit risk estimated from bonds with a market price, etc. In cases where the amount of unobservable inputs has a significant impact on the fair value, the fair value is classified as Level 3, otherwise it is classified as Level 2. In estimating future cash flows of borrowed money with floating interest rates, which reflect market interest rates within a short period of time, the next interest due date is considered the maturity date.

## Bonds payable

The fair value of corporate bonds issued by FFG and its consolidated subsidiaries with a market price is based on the market price. The fair value of corporate bonds with no market price is based on the present value calculated by discounting estimated future cash flows generated from each transaction at a discount rate, that is a market interest rate plus certain factors such as FFG's credit risk estimated from bonds with a market price, etc. The fair value of corporate bonds with a market price is classified as Level 2 while that with no market price is classified as Level 3. In estimating future cash flows of corporate bonds with floating interest rates, which reflect market interest rates within a short period of time, the next interest due date is considered the maturity date.

## Derivatives

The fair value of derivatives with an unadjusted quoted price in active markets available is classified as Level 1. This includes bond futures and interest rate futures.

However, as most of derivatives are over-the-counter transactions and there is no published quoted price, fair value is calculated using valuation techniques such as the discounted present value method and option pricing models depending on the transaction type and the period to maturity. The main inputs used in these techniques are market interest rates, foreign currency exchange rates and volatility. In addition, price adjustments based on counterparties' credit risk and FFG's own credit risk are made.

In cases where unobservable inputs are not used or their impact is immaterial, fair value is classified as Level 2. In addition, in cases where significant unobservable inputs are used, fair value is classified as Level 3.

Information about Level 3 fair value of financial instruments carried at fair value in the consolidated balance sheet is as follows:

### (a) Quantitative information on significant unobservable inputs

2024				
	Valuation techniques	Significant unobservable inputs	Scope of inputs	Weighted average of inputs
Securities				
Available-for-sale securities				
Corporate bonds				
	Private placement bonds and specified bonds	Discounted present value method	Default probability	0.05%-7.15% 0.31%
			Bankruptcy loss ratio	20.00%-100.00% 83.22%
Foreign bonds				
	Yen-denominated securitization	Discounted present value method	Default probability	0.05% 0.05%

2023				
	Valuation techniques	Significant unobservable inputs	Scope of inputs	Weighted average of inputs
Securities				
Available-for-sale securities				
Corporate bonds				
	Private placement bonds and specified bonds	Discounted present value method	Default probability	0.05%-16.82% 0.40%
			Bankruptcy loss ratio	20.00%-100.00% 81.62%
Foreign bonds				
	Yen-denominated securitization	Discounted present value method	Default probability	0.05% 0.05%

### (b) Reconciliation from the beginning balance to the ending balance and valuation gains (losses) recognized

(Millions of yen)

2024						
Balance at the beginning of the fiscal year	Recorded in gains (losses) (*1)	Recorded in other comprehensive income (*2)	Purchase, sale, issuance and settlement, net	Transfer into Level 3	Transfer out of Level 3 (*3)	Balance at the end of the fiscal year
Securities						
Available-for-sale securities						
Corporate bonds	¥ 42,073	¥27	¥ (39)	¥(2,428)	¥-	¥39,238
Foreign bonds	217,566	0	47	6,843	-(216,770)	7,686
Other	41,105	(1)	(179)	(9,761)	-	31,162

(Millions of yen)

2023						
Balance at the beginning of the fiscal year	Recorded in gains (losses) (*1)	Recorded in other comprehensive income (*2)	Purchase, sale, issuance and settlement, net	Transfer into Level 3	Transfer out of Level 3	Balance at the end of the fiscal year
Securities						
Available-for-sale securities						
Corporate bonds	¥ 48,329	¥ (17)	¥ (202)	¥ (6,036)	¥-	¥42,073
Foreign bonds	114,091	7,463	(2,172)	98,183	-	217,566
Other	56,136	(34)	(255)	(14,740)	-	41,105

(\*1) Included mainly in "Other operating income" and "Other operating expenses" in the consolidated statement of income.

(\*2) Included in "Valuation difference on available-for-sale securities" under "Other comprehensive income" in the consolidated statement of comprehensive income.

(\*3) Transferred from Level 3 to Level 2 because observable inputs have become available. The transfers were made at the beginning of the fiscal year ended March 31, 2024.

### (c) Description of valuation processes used for the fair value measurement

In FFG, the Risk Management Department (middle office) and the Market Operations Management Department (back office) establish policies and procedures for the fair value measurement and each department measures fair value accordingly. Each department verifies the appropriateness of the valuation techniques and inputs used to calculate fair value and the appropriateness of the classification of fair value levels.

In measuring fair value, FFG uses a valuation model that most appropriately reflects the nature, characteristics and risks of each financial instrument. In addition, when

# Notes to Consolidated Financial Statements

using quoted prices obtained from third parties, FFG verifies the appropriateness of the prices by using appropriate methods, such as checking the valuation techniques and inputs used, carrying out time-series analysis of prices, and comparing them with estimates calculated by FFG.

(d) Description of sensitivity of the fair value measurement to changes in significant unobservable inputs

## Default probability

Default probability represents an estimate of the likelihood of a bankruptcy event occurring. A significant rise (decline) in default probability will lead to a significant decline (rise) in fair value.

## Bankruptcy loss ratio

Bankruptcy loss ratio represents an estimated rate of the loss expected to be incurred in the event of bankruptcy against the total bonds outstanding. A significant rise (decline) in bankruptcy loss ratio will lead to a significant decline (rise) in fair value.

## 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, 2024 and 2023 was as follows:

Hedge accounting not applied

As of March 31, 2024 and 2023, on derivative transactions to which hedge accounting is not applied, notional amounts as of the balance sheet date, fair values and gains (losses) as well as the method of measuring these fair values are described below.

The notional amounts of derivative transactions are not a direct measure of the FFG's market risk exposure in connection with its derivative transactions.

### Interest-related transactions

(Millions of yen)			
As of March 31, 2024	Notional amount	Fair value	Gains (Losses)
Interest rate swaps			
Receive/fixed and pay/floating	¥270,187	¥(5,614)	¥(5,719)
Receive/floating and pay/fixed	270,187	7,824	7,892
Other			
Sell	2,668	(50)	45
Buy	2,668	48	(33)
Total	—	¥ 2,208	¥ 2,184

(Millions of yen)			
As of March 31, 2023	Notional amount	Fair value	Gains (Losses)
Interest rate swaps			
Receive/fixed and pay/floating	¥260,720	¥(4,249)	¥(4,305)
Receive/floating and pay/fixed	260,720	6,414	6,451
Other			
Sell	1,000	(24)	18
Buy	1,000	24	(9)
Total	—	¥ 2,165	¥ 2,155

### Currency-related transactions

(Millions of yen)			
As of March 31, 2024	Notional amount	Fair value	Gains (Losses)
Currency swaps			
	¥771,106	¥ (29)	¥ (31)
Foreign exchange contract			
Sell	224,188	(9,633)	(9,633)
Buy	107,033	9,431	9,431
Currency option			
Sell	—	—	—
Buy	—	—	—
Total	—	¥ (231)	¥ (233)

(Millions of yen)			
As of March 31, 2023	Notional amount	Fair value	Gains (Losses)
Currency swaps			
	¥660,741	¥ 0	¥ (1)
Foreign exchange contract			
Sell	143,404	(4,260)	(4,260)
Buy	107,224	4,370	4,370
Currency option			
Sell	4	(0)	(0)
Buy	4	0	0
Total	—	¥ 109	¥ 107

### Bond-related transactions

As of March 31, 2024, there were no transactions to be disclosed.

(Millions of yen)			
As of March 31, 2023	Notional amount	Fair value	Gains (Losses)
Bond futures			
Sell	¥100	¥(2)	¥(2)
Buy	—	—	—
Total	—	¥(2)	¥(2)

### Credit derivative transactions

(Millions of yen)			
As of March 31, 2024	Notional amount	Fair value	Gains (Losses)
Credit default swaps			
Sell	¥21,000	¥340	¥334
Buy	—	—	—
Total	—	¥340	¥334

  

(Millions of yen)			
As of March 31, 2023	Notional amount	Fair value	Gains (Losses)
Credit default swaps			
Sell	¥39,000	¥479	¥466
Buy	—	—	—
Total	—	¥479	¥466



## Hedge accounting applied

As of March 31, 2024 and 2023, 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 as well as the method of measuring these fair values are described below.

The notional amounts of derivative transactions are not a direct measure of the FFG's market risk exposure in connection with its derivative transactions.

### Interest-related transactions

(Millions of yen)

As of March 31, 2024				
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		¥7,412,500	¥(18,370)
	Receive/floating and pay/fixed		1,490,467	49,335
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity debt securities, and deposits		
	Receive/floating and pay/fixed		—	—
Total			—	¥30,965

(Millions of yen)

As of March 31, 2023				
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		¥4,891,100	¥(3,056)
	Receive/floating and pay/fixed		1,068,361	16,437
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity debt securities, and deposits		
	Receive/floating and pay/fixed		16,700	131
Total			—	¥13,512

### Currency-related transactions

(Millions of yen)

As of March 31, 2024				
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	¥1,271,729	¥(7,008)
Allocation method	Currency swaps	Loans denominated in foreign currencies	1,126	(2)
Total			—	¥(7,010)

(Millions of yen)

As of March 31, 2023				
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	¥987,504	¥(8,087)
Allocation method	Currency swaps	Loans denominated in foreign currencies	503	17
Total			—	¥(8,069)

## 19. Business Integration

### Business integration between FFG and Fukuoka Chuo Bank

Effective October 1, 2023, FFG implemented a share exchange in which FFG became the wholly owing parent company and Fukuoka Chuo Bank became the wholly owned subsidiary.

#### (1) Overview of business integration

##### (a) Name and business description of the acquired company

Company name: THE FUKUOKA CHUO BANK, LTD.

Business description: Banking business

##### (b) Reason for the business integration

Through the business integration, FFG and Fukuoka Chuo Bank will contribute to the sustainable development of local economy by further leveraging their collective strengths as a group and supporting an entire range of regional customers.

##### (c) Date of the business integration

October 1, 2023

##### (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 share exchange	14.81%
Additional acquisition on the date of the business integration	85.19%
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 October 1, 2023 to March 31, 2024

# Notes to Consolidated Financial Statements

## (3) Acquisition cost of the acquired company and its breakdown by type of consideration

	(Millions of yen)
Fair value of Fukuoka Chuo Bank's common stock, which the Group owned immediately before the share exchange, on the date of the business integration	¥1,166
Fair value of Fukuoka Chuo Bank's First Series Class A preferred stock, which the Group owned immediately before the share exchange, on the date of the business integration	300
Fair value of FFG's common stock deemed as being delivered by FFG on the date of the business integration	7,579
Acquisition cost	¥9,045

## (4) Share exchange ratio by class of shares, and its calculation method and the number of shares delivered

### (a) Share exchange ratio by class of shares

#### (i) Common stock

FFG's common stock of 0.81 shares were allotted and delivered for each share of Fukuoka Chuo Bank's common stock.

#### (ii) First Series Class A preferred stock

FFG's common stock of 2.71 shares were allotted and delivered for each share of Fukuoka Chuo Bank's First Series Class A preferred stock.

### (b) Calculation method of the share exchange ratio

#### (i) Common stock

The exchange ratio was calculated upon consultation among the related parties based on the reports submitted by several financial advisors.

#### (ii) First Series Class A preferred stock

The number of shares allotted of FFG's common stock delivered as consideration for one share of Fukuoka Chuo Bank's First Series Class A preferred stock was calculated using the floating exchange ratio method. In this method, the exchange ratio was calculated by fixing the value of Fukuoka Chuo Bank's First Series Class A preferred stock when determining the share exchange, and dividing the fixed value by the average share price of FFG's common stock over a certain period of time immediately before the effective date.

The "certain period of time immediately before the effective date" refers to each of the trading days (excluding non-trading days) during the 10 days from September 4, 2023 to September 15, 2023.

### (c) Number of shares delivered

Common stock of 2,117,753 shares

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

Advisory fees, etc. of ¥79 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 ¥231 million

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

(a) Amount of gain on negative goodwill: ¥21,496 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)
Total assets	¥577,217
Of which, loans and bills discounted	402,106
Of which, securities	90,947
Total liabilities	546,787
Of which, deposits	513,860

## (9) Impact on the consolidated statement of income

The impact on the consolidated statement of income for the fiscal year ended March 31, 2024 assuming that the business integration had completed on April 1, 2023 is not presented because it is immaterial.

## 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 years ended March 31, 2024 and 2023.

Information on income by service has been omitted because income from the banking business accounted for more than 90% of ordinary income in the consolidated statement of income for the fiscal years ended March 31, 2024 and 2023.

Information on income by geographic area has been omitted because income from Japanese customers accounted for more than 90% of ordinary income in the consolidated statement of income for the fiscal years ended March 31, 2024 and 2023.

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 at March 31, 2024 and 2023.

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 years ended March 31, 2024 and 2023.

## 21. Related Party Transactions

There were no significant transactions with related parties to report for the fiscal years ended March 31, 2024 and 2023.

## 22. Subsequent Events

### 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, 2024, was approved at a shareholders meeting held on June 27, 2024 and became effective on June 28, 2024:

(Millions of yen)

Dividends on common stock (¥57.50 per share)	¥10,885
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# Non-Consolidated Balance Sheet (Unaudited)

The Bank of Fukuoka, Ltd.

As of March 31, 2024 and 2023

	2024	2023	2024
	Millions of yen	Millions of yen	Millions of U.S. dollars
<b>Assets</b>			
Cash and due from banks	¥ 5,371,979	¥ 5,879,585	\$ 35,479
Call loans	678,679	654,934	4,482
Cash collateral provided for securities borrowed	330,325	—	2,181
Monetary claims bought	21,961	21,981	145
Trading assets	115	313	0
Money held in trust	3,160	3,114	20
Securities	3,221,023	2,552,656	21,273
Loans and bills discounted	11,793,792	11,635,392	77,893
Foreign exchanges	6,175	14,396	40
Other assets	295,148	207,745	1,949
Tangible fixed assets	145,322	144,457	959
Intangible fixed assets	11,881	9,596	78
Prepaid pension expenses	21,473	17,404	141
Deferred tax assets	1,593	19,476	10
Customers' liabilities for acceptances and guarantees	38,441	40,911	253
Allowance for loan losses	(104,104)	(103,791)	(687)
<b>Total assets</b>	<b>¥21,836,970</b>	<b>¥21,098,175</b>	<b>\$144,224</b>
<b>Liabilities</b>			
Deposits	¥13,961,424	¥13,714,425	\$ 92,209
Call money	2,150,795	2,520,805	14,205
Payables under repurchase agreements	317,101	433,407	2,094
Cash collateral received for securities lent	662,081	480,067	4,372
Trading liabilities	—	2	—
Borrowed money	3,724,794	3,059,320	24,600
Foreign exchanges	2,087	630	13
Other liabilities	238,429	163,475	1,574
Provision for losses from reimbursement of inactive accounts	2,118	2,587	13
Provision for share awards	64	32	0
Deferred tax liabilities for land revaluation	22,867	22,911	151
Acceptances and guarantees	38,441	40,911	253
<b>Total liabilities</b>	<b>¥21,120,206</b>	<b>¥20,438,578</b>	<b>\$139,490</b>
<b>Net assets</b>			
Capital stock	¥ 82,329	¥ 82,329	\$ 543
Capital surplus	60,480	60,480	399
Retained earnings	463,896	447,311	3,063
<b>Total shareholders' equity</b>	<b>606,707</b>	<b>590,121</b>	<b>4,007</b>
Valuation difference on available-for-sale securities	42,556	10,762	281
Deferred gains or losses on hedges	16,219	7,331	107
Revaluation reserve for land	51,280	51,382	338
Total valuation and translation adjustments	110,056	69,475	726
<b>Total net assets</b>	<b>¥ 716,763</b>	<b>¥ 659,597</b>	<b>\$ 4,733</b>
<b>Total liabilities and net assets</b>	<b>¥21,836,970</b>	<b>¥21,098,175</b>	<b>\$144,224</b>

# Non-Consolidated Statement of Income (Unaudited)

The Bank of Fukuoka, Ltd.

For the years ended March 31, 2024 and 2023

	2024	2023	2024
	Millions of yen	Millions of yen	Millions of U.S. dollars
<b>Income</b>			
Interest income:			
Interest on loans and discounts	¥127,014	¥113,872	\$ 838
Interest and dividends on securities	64,636	38,786	426
Interest on call loans	868	226	5
Interest on receivables under resale agreements	(0)	(0)	(0)
Interest on cash collateral provided for securities borrowed	19	11	0
Interest on deposits with banks	0	0	0
Interest on interest swaps	16,646	3,811	109
Other interest income	12,138	9,680	80
Trust fees	0	0	0
Fees and commissions	43,570	40,204	287
Trading income	10	7	0
Other operating income	3,080	14,970	20
Other income	4,634	4,200	30
<b>Total income</b>	<b>¥272,620</b>	<b>¥225,772</b>	<b>\$1,800</b>
<b>Expenses</b>			
Interest expenses:			
Interest on deposits	¥ 12,947	¥ 5,733	\$ 85
Interest on call money	(874)	(644)	(5)
Interest on payables under repurchase agreements	5,352	1,774	35
Interest on cash collateral received for securities lent	30,082	12,718	198
Interest on borrowing and rediscounts	4,848	2,319	32
Interest on interest swaps	35,614	19,624	235
Other interest expenses	685	503	4
Fees and commissions payments	22,564	21,449	149
Other operating expenses	19,427	38,737	128
General and administrative expenses	67,062	64,647	442
Other expenses	10,672	6,132	70
<b>Total expenses</b>	<b>¥208,383</b>	<b>¥172,995</b>	<b>\$1,376</b>
<b>Income before income taxes</b>	<b>64,236</b>	<b>52,776</b>	<b>424</b>
Income taxes:			
Current	14,738	9,025	97
Deferred	1,059	4,724	6
<b>Total income taxes</b>	<b>15,798</b>	<b>13,749</b>	<b>104</b>
<b>Net income</b>	<b>¥ 48,438</b>	<b>¥ 39,027</b>	<b>\$ 319</b>