FUKUOKA FINANCIAL GROUP

ANNUAL REPORT 2021

Fukuoka Financial Group, Inc.

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Disclaimer Regarding Forward-looking Statements

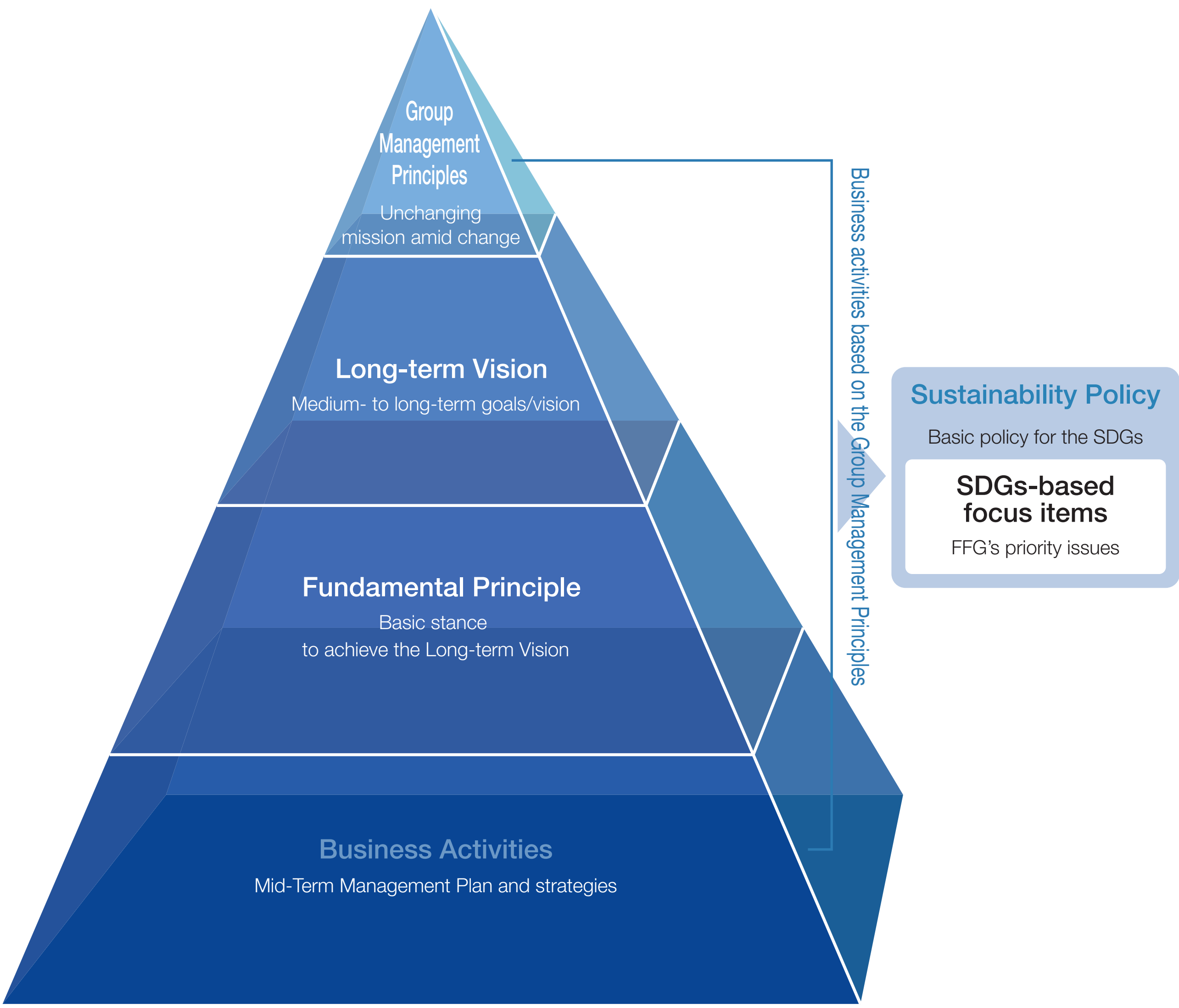
The forward-looking statements in this annual report are based on management's assumptions and beliefs in light of information available up to the date of publication, and involve both known and unknown risks and uncertainties. Actual financial results may differ materially from those presented in this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

Our Principles

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

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

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



Group Management Principles

FFG aims to become a financial group that creates values for all stakeholders by:

Enhancing perception and taking actions without fear of failure,
Pursuing high quality for future progress, and
Bolstering people's optimum choice.

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

To be your Bank of choice

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

Your closest bank
Your reliable bank
Your sophisticated bank

Long-term Vision

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

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

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

Fundamental Principle

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

Sustainability Policy

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

The Story of Fukuoka Financial Group

Fukuoka Financial Group, Inc. (FFG), was established as a financial holding company through the joint share transfer of the Bank of Fukuoka and the Kumamoto Bank on April 2, 2007. The Shinwa Bank joined into the Group in the same year and in 2019, the Eighteenth Bank also integrated. Since those two banks merged on October 1, 2020, The Juhachi-Shinwa Bank was newly established.

With its headquarters in Fukuoka, the largest city in Kyushu, FFG's network extends across the Kyushu region through bases in the three prefectures of Fukuoka, Kumamoto and Nagasaki.

All officers and employees of the Fukuoka Financial Group are united in their efforts to fulfill the promise to stakeholders to make FFG "your Bank of choice." We look forward to your continued support in our drive to upgrade our services as a broad area-based regional financial group that spans local and global levels.

Fukuoka Financial Group, Inc.

Within Kyushu	419
Other	9

THE BANK OF FUKUOKA, LTD.

Fukuoka Prefecture	152
Within Kyushu	12
Other	6

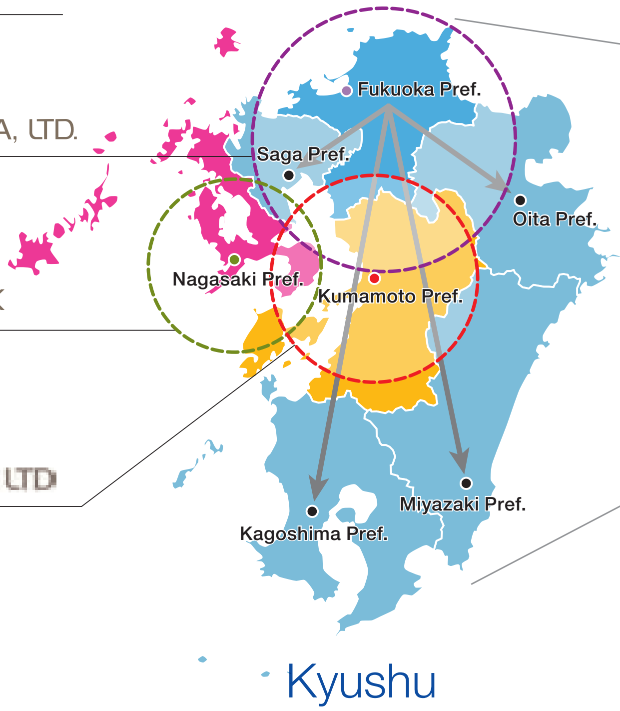
JUHACHI-SHINWA BANK

Nagasaki Prefecture	164
Within Kyushu	21
Other	3

THE KUMAMOTO BANK, LTD

Kumamoto Prefecture	63
Within Kyushu	7

(As of November 30, 2021)



History of Fukuoka Financial Group

1877

Foundation of the Bank of Fukuoka, Ltd.

Foundation of the Eighteenth Bank, Ltd.

1879

Foundation of the Shinwa Bank, Ltd.

1929

Foundation of the Kumamoto Bank, Ltd.

2007

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

October
Management integration of the Shinwa Bank, Ltd.

2009

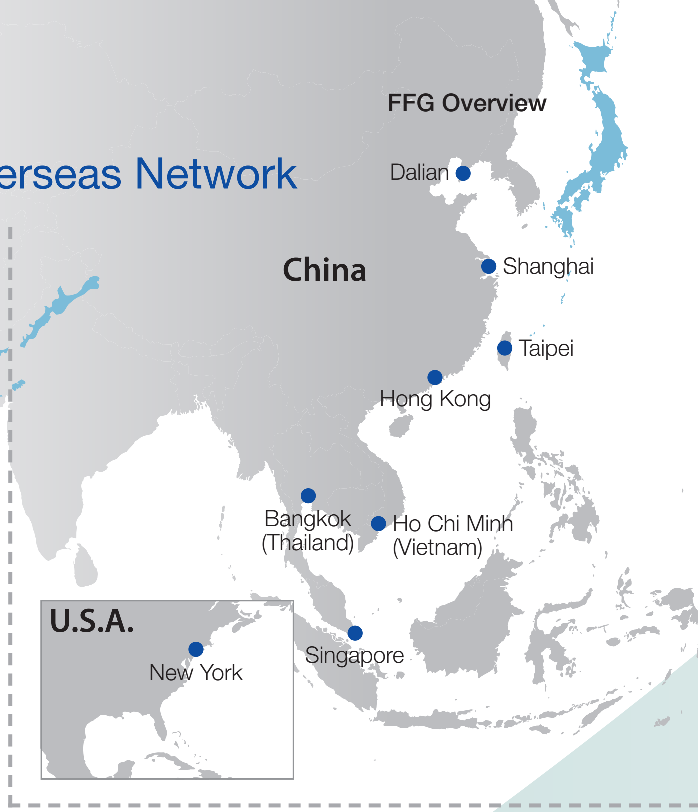
January
IT system integration of the Kumamoto Bank, Ltd.

2010

January
IT system integration of the Shinwa Bank, Ltd.

FFG's Overseas Network

Kyushu has strong relationships with Asian countries and is a market with enormous potential. We are supporting our customers by broadly strengthening our contact points throughout Japan and overseas.



2012

March
Opening of representative office in Bangkok

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

2015

December
Opening of representative office in Taipei

2016

April
Launch of iBank Business

July
Opening of representative office in Ho Chi Minh City

2019

April
Business Integration with the Eighteenth Bank, Ltd.

2020

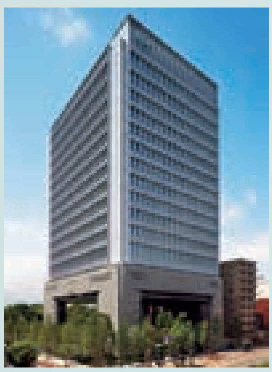
October
Merger of the Shinwa Bank, Ltd. and the Eighteenth Bank, Ltd. (The Juhachi-Shinwa Bank, Ltd. was established.)

2021

May
Launch of commercial operations of Minna Bank, Ltd.

—**Loans:** ¥17.2 trillion
—**Deposits:** ¥19.5 trillion
(as of March 31)

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


FFG Head Office (Fukuoka City)

Kyushu Figures

10% of Japan's Economy

Population 10.2 %

10.2% of total population of Japan lives in Kyushu.

Scale of Production 4 th

The Kyushu region represents the fourth-largest economy in Japan, following Tokyo (Kanto), Osaka (Kinki) and Nagoya (Chubu) regions.

Time to Airport 5 minutes

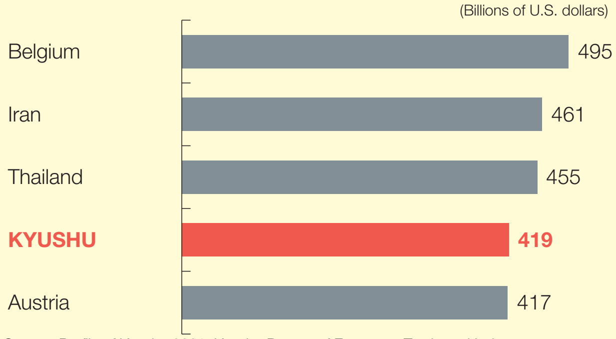
Fukuoka Airport is only 5–10 minutes by subway from central Fukuoka.

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

In terms of GDP, Kyushu is the fourth largest economy following the three major metropolitan areas of Kanto, Kinki, and Chubu, and is an important domestic production base for key industries including the cars, IC-related, agricultural, and food product industries.

In addition, as high-speed transport networks with Fukuoka Prefecture at its center have been developed, Kyushu not only offers convenience, but as a gateway to Asia has high potential for expanded transactions with the Asian region.

Kyushu's Place in the World



Source: Profile of Kyushu 2021, Kyushu Bureau of Economy, Trade and Industry

Data Analysis for Kyushu

Gross Prefectural Production*1 (FY2017)

Kyushu Total **47.0** trillion yen

Number of Businesses*1 (2016)

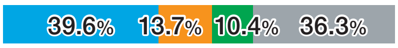
Kyushu Total **582,764**

Loans*2 (March 31, 2021)

Kyushu Total **39.0** trillion yen

Population*1 (2020)

Kyushu Total **13.0** million



Commercial Sales*3 (2014)

Kyushu Total **34.4** trillion yen

Deposits*2 (March 31, 2021)

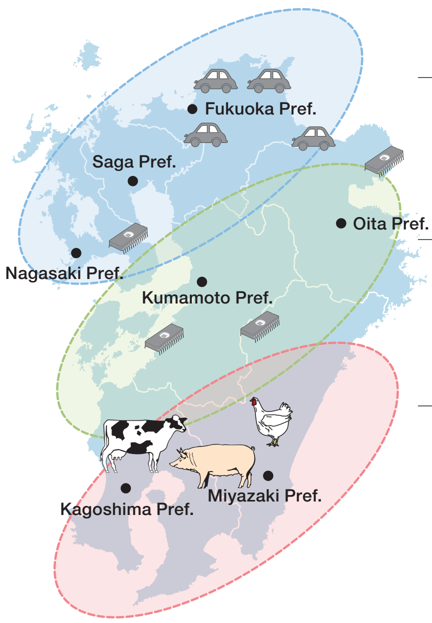
Kyushu Total **53.2** trillion yen

Fukuoka
Kumamoto
Nagasaki
Other prefectures of Kyushu

Sources
*1 Kyushu Economic Status 2020, Kyushu Bureau of Economy, Trade and Industry
*2 Deposits, Vault Cash, and Loans and Bills Discounted by Prefecture, Bank of Japan
*3 Census of Commerce in 2014 (confirmed report), Ministry of Economy, Trade and Industry

Well-Balanced Industry Grouping

Kyushu is an important base of production in Japan for the cars, integrated circuits (IC), agriculture and food industries.



Northern Kyushu, a center of "Car Island"

is an important car-producing region with accumulated factory base of domestic manufacturers such as Toyota, Nissan and Daihatsu.

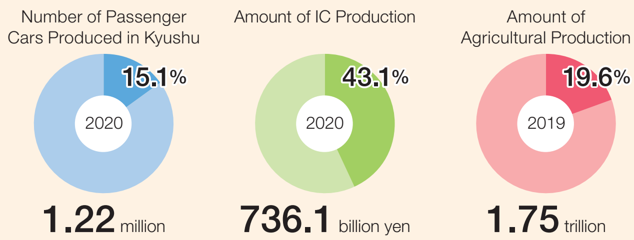
Middle Kyushu, contributes to "Silicon Island"

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

Southern Kyushu, a center of "Food Island"

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

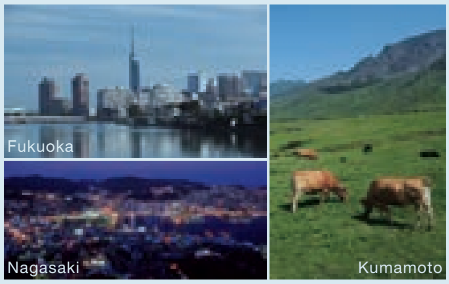
Share in Japan



Sources: Kyushu Bureau of Economy, Trade and Industry

What is Kyushu?

Kyushu is located in the south westernmost area of Japan. It is bordered by the East China Sea to the west and the Pacific Ocean to the east. The climate is slightly warmer and more tropical than Honshu. The region has rich nature, multiple World Heritage sites, and a robust tourism industry. In Fukuoka Prefecture, where the headquarters of FFG is located, new seeds for growth are sprouting, characterized by large-scale redevelopment that takes advantage of the National Strategic Special Zone and active start-up support through public-private collaboration.



Convenient Transport Hub

Since various means of transportation of land, sea, and air are concentrated in central Fukuoka, it has taken the role of a hub which connects the flow of people, goods, money and information with each prefecture in Kyushu.

Fukuoka Airport
Maintenance of terminal building and expansion of landing field in progress

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

Kyushu Shinkansen
Broad network linking Fukuoka, Kumamoto and Kagoshima

A New Wave in the Regional Economy
—Fukuoka, a Global Startup City

National Strategic Special Zone for Global Startups & Job Creation

Fukuoka City has been designated as a National Strategic Special Zone focused on start-up support and job creation, and offers substantial support, including preferential tax treatment and subsidies, to start-up companies. At Fukuoka Growth Next, a next-generation start-up support facility, Fukuoka City and local companies (the public and private sectors) work together to offer development programs, collaborate with global accelerators, and create financing opportunities.
As part of the Startup Hub City Project, Fukuoka City has been selected as a Global Startup City and Kitakyushu City as a Startup City, which indicates an accelerating trend to support start-ups in various areas.

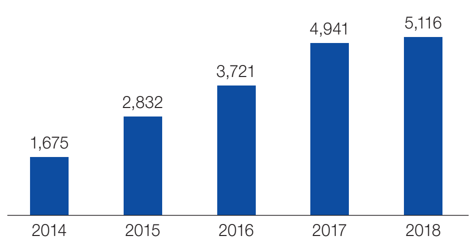
Fukuoka City Ranked 1st in Japan

Population growth rate
(among designated cities)*1
Proportion of young generation
(among designated cities)*2
Business start rate
(among 21 major cities)*3
Proportion of prospective entrepreneurs
(among designated cities)*3

Amount of funds raised
by university-based start-ups*4
Kyushu University Ranked 3rd in Japan

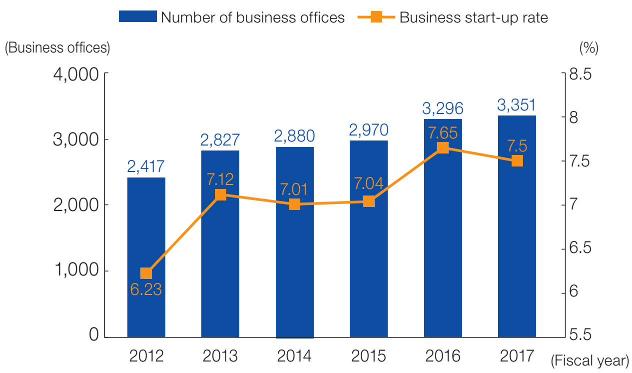
Source:
*1 Statistics Bureau of Japan, "2020 Population Census"
*2 Fukuoka City, "Vision for Global Start-up City Fukuoka"
*3 Fukuoka City, "Fukuoka Facts"
*4 INITIAL, Inc., "2021 1H Japan Startup Finance"

Foreign nationals entering Kyushu (In thousands)



Source: Ministry of Land, Infrastructure, Transport and Tourism

Number of newly established business offices and business start-up rate in Fukuoka City



Source: Fukuoka Labour Bureau

Takashige Shibato

Director, Chairman & President
Fukuoka Financial Group, Inc.

Message from the President

“Our shape and way may change, but not our commitment.”

Environmental Changes Accelerated by the Pandemic

It has been over a year and a half since the infectious disease caused by a previously unknown virus (COVID-19) was confirmed. With several variants circulating, it still runs rampant around the globe.

I would like to express my deepest condolences to all those who have lost their lives due to infections and my heart goes out to all those who are suffering from the disease and to their friends and families. I would also like to express my profound respect and thanks to healthcare professionals and all those who are working hard to prevent the spread of COVID-19.

We at Fukuoka Financial Group, Inc. (FFG) have been working as one while placing top priority on providing support to our corporate customers that have been impacted by the virus.

In the event of such emergency, we have become even more aware of our mission as a regional financial institution to provide seamless financing to support the business activities of local corporate customers and to make sure to continue offering financial services such as payment functions.

The Business Environment Has Changed at an Accelerated Pace

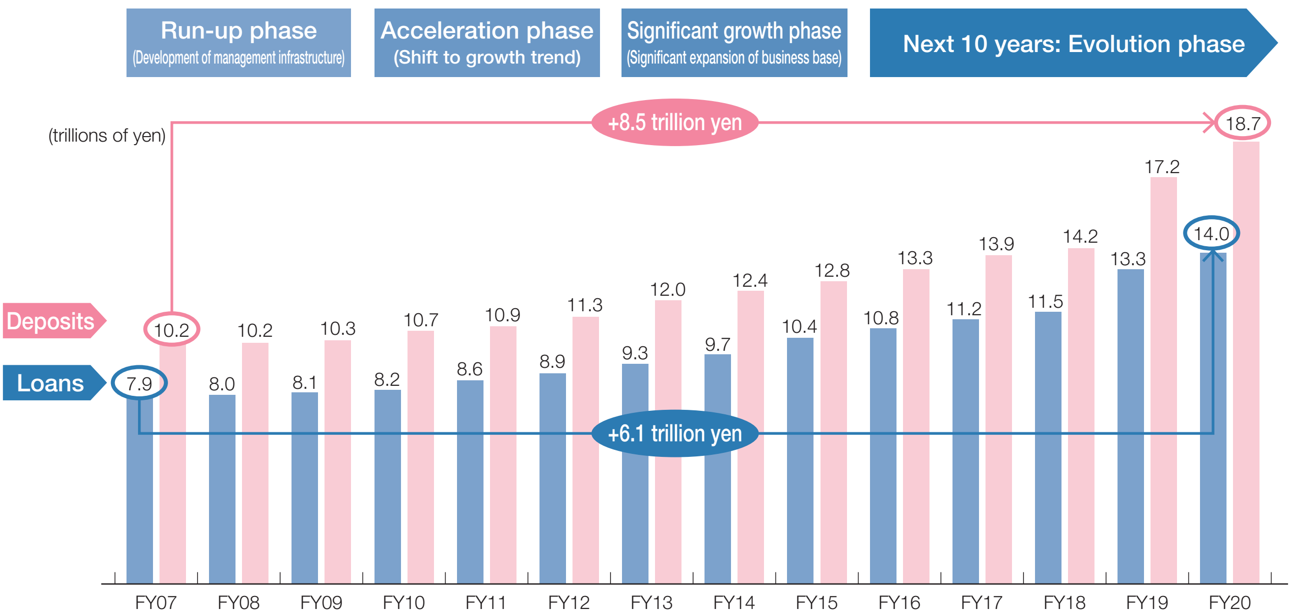
The COVID-19 pandemic has caused problems beyond just the disease itself. It has brought about changes in a short period of time across many different areas including digitalization, sustainability, and workstyles that would have taken years under normal conditions. In particular, there are two areas that have the impact to radically change conventional business mindsets and styles: DX and sustainability. Occurring amidst a changing society, the pandemic has impacted all aspects of people's lifestyles and social consciousness.

For example, restrictions to physical activities during the pandemic have allowed for the prevalence of virtual conferences and teleworking, a broader range of places where workers can live, and the expansion of online shopping. At the same time, however, disparities in capabilities to implement digitalization have widened as well.

As workstyles and lifestyles become more diverse, people have become more aware of environmental problems and what society should be like on a local and global scale, and have come to place importance on sustainability.

Particularly in regard to climate change issues, the concept of sustainability, which had only been progressing slowly, has rapidly become widespread, combined with global political trends against the backdrop of both strengthened international partnerships and jockeying for initiatives.

Also in Kyushu, the business base of FFG, there have been significant environmental changes in both aspects of business and lifestyle as we prepare for the after-COVID era. Even with such a variety of changes, I am sure that Kyushu still has great potential given its proximity to fast-growing countries and regions in Asia and its regional characteristics where the increasingly important semiconductor-related industrial cluster has been built.



*Non-consolidated total and average balance (figures for FY 2019 onwards are the balance after integration with the former Eighteenth Bank). Loans: excluding loans to FFG and the government. Deposits: deposits + CDs.

Our Stance Toward the Current of Environmental Changes

Based on our fundamental policy of achieving a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value," we have strived to achieve a sustainable society in view of environmental changes.

In today's rapidly changing external environment, it is necessary to respond quickly and seize opportunities for growth. Coronavirus measures, DX, and sustainability that we are currently facing are all new challenges, but they are rather presenting good opportunities for growth. By leveraging these opportunities, we will make the region more sustainable with customers.

Coronavirus Measures

The Group has been working as one while placing top priority on thoroughly providing cash management support to customers whose business environments have been greatly altered by the COVID-19 pandemic. Although we are gradually seeing signs of the recovery of economic activities thanks to widespread vaccinations, efforts to curb the spread of infections, and other factors, coronavirus measures will continue to be a top priority as long as it remains uncertain when the pandemic will be under control. Meanwhile, our policy is to continue to make efforts as we view providing customers with business support that anticipates the "after-COVID" era as well as the ongoing "with-COVID" condition as new opportunities.

Digital Transformation (DX)

The aim of digital transformation is based on the premise of how we can leverage digital technology to transform business processes, and simply implementing the technology itself is not the end objective. Rapidly evolving digital technology has caused dramatic changes to business rules in all industries and altered the competitive environment. Competition with new players has become intensive in the financial industry as well, but we take the current of DX as a significant opportunity to differentiate ourselves from competitors by redefining the banking business and radically transforming ourselves.

Sustainability

Regional financial institutions like FFG depend on the sustainable development of the regions where they operate. In August 2020, we formulated our Sustainability Policy to contribute to the development of a sustainable society.

One of the policy's seven focus items is "environmental protection." Especially in regard to response to climate change, considering the frequent occurrence of massive damage caused by heavy rains in recent years in Kyushu, the business base of FFG, in addition to the recent increase in intensity of damage due to extreme weather events around the globe, we view addressing climate change as an important issue in terms of our business strategy.

Through our initiatives to create local communities capable of sustainable growth, we will expand our business opportunities, such as exploring existing businesses and creating new ones, while contributing to the community and customers as a matter of course.

FFG's Growth Strategy

FFG is carrying out a variety of initiatives to respond to changes in the business environment and achieve further growth. One of the initiatives that the head office and branches are tackling together is business reforms. Through business reforms, we are drastically reviewing business processes of customer service at the counter and back-office administrative operations, and management operations at the head office by implementing tablet terminal, digitalizing loan agreements, adopting RPA, and utilizing other digital technology measures. This will enhance areas where customer needs have increased and enable us to allocate resources to explore new businesses.

One of the areas we are strengthening is the investment trust business. As low growth and low interest rates have become the norm and we are forced to switch from a conventional loan and deposit business, we are taking on the challenge of providing new value in the personal asset management business. The core of this is "Investment Trusts Palette," which is FFG's proprietary system that aggregates information and assessments on investment trusts. By assisting customers with mid-to long-term asset building as we listen to their individual objectives and goals for building assets as well as their life plans in the future, we have steadily grown our trust balance.

Furthermore, in FY2020, we merged with the Juhachi-Shinwa Bank in order to invigorate the economy of Nagasaki, which faces issues such as having the fastest population decline in Kyushu. We will leverage the business strength and know-how gained from the integration to build a virtuous cycle of contribution to regional economic development and improvement of FFG corporate value.

Expecting the business environment to continue changing at an accelerated rate, we will continue our ceaseless efforts for business reforms and work on our next growth strategies.

Coronavirus Measures: Focusing Efforts on Business Support

Since the COVID-19 pandemic started, as a financial institution FFG has placed top priority on customers' cash management. By May 2021, our three banking subsidiaries have executed a combined total of 31,000 loans, totaling approximately 800 billion yen.

Since it is still uncertain when the pandemic will be under control, we will continue to do our utmost to provide cash management support. We will focus our efforts on business support by not only offering assistance through loans, but also being even more attentive to customers' circumstances and providing solutions such as equity financing, M&A, and business matching to address the various issues they face, in consideration of both the ongoing "with-COVID" condition and the "after-COVID" era. FFG has a broad yet close-knit network that covers all of Kyushu and has remained by the side of our customers for many years. We firmly believe that our strength and role is to provide close and attentive support to customers that face a different business environment from before the pandemic.

Furthermore, we will share solutions to new challenges faced by FFG with local customers, such as the evolution of DX brought about by the pandemic, and overcome these difficult times.

Digital Transformation (DX)

The current wave of structural changes resulting from digitalization is massive enough to shake the very core of companies and could be a game changer that alters the landscape of the Japanese financial industry. We will ride this wave and continue taking on a wide range of challenges to explore new business areas.

Our iBank business, which we started in 2016, and Minna Bank, which we launched this year, are creating touchpoints for customers that have been difficult to reach with existing businesses, generating new ideas, and fostering a new corporate culture.

iBank serves as a banking and electronic payment agent. Existing corporate customers can easily access existing financial and non-financial services via smartphone, and it is used by customers of the six regional financial institutions, including the three banks of FFG. Minna Bank serves as a bank that provides innovative financial services and a new financial experience to digital natives across Japan.

Minna means "everyone" in Japanese. The name expresses our pursuit of the customer-centered approach from the ground up in the digital age and our commitment to being a bank that gives shape to the voices of "everyone" who uses our services in line with our brand slogan: "To be your Bank of Choice."

Minna Bank is performing as planned. As of the end of September, the app has been downloaded 330,000 times, and 140,000 accounts have been opened. In terms of customer age groups, most of the customers who have opened accounts are of the digital native generation as initially expected, with people aged 15, the minimum age to open an account, to 39 accounting for about 70% of all customers.

Another distinctive feature of Minna Bank is its diverse human resources. People with occupations not found in a conventional bank, such as engineers, data scientists, and designers, are building services that are supported by digital native customers. And we plan to utilize the know-how and culture we have gained through these initiatives in our existing banking business.

Incorporating External Technology through Corporate Venture Capital (CVC)

Due to the increasing complexity and further division of labor in society, a company can no longer achieve innovation by itself. For areas we cannot handle ourselves, we need to take an open innovation approach where we collaborate with companies that have the right expertise.

Accordingly, we are working to expand customer solutions by building alliances through corporate venture capital (CVC) and are shifting to produce some services in-house such as agile development initiatives to meet the needs of diversifying customers.

Sustainability

As local communities and society become more sustainable, addressing climate change is something that cannot be avoided. FFG has positioned efforts for addressing climate change as an important issue in terms of its business strategy. Aiming to share useful information with its stakeholders in an easy-to-understand manner, the Group endorsed the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) in August 2020. Currently, we are conducting scenario analyses of physical and transition risks.

Taking into account the Japanese government's policy on decarbonization initiatives exemplified in the 2050 Carbon Neutral Declaration, we will accelerate the activities we have been already undertaking to mitigate our environmental impact. First, we will set CO_2 reduction targets, and then strengthen reduction efforts. The Environment and Society-Conscious Loan Policy we formulated last year specifies that we shall not finance new construction projects for coal-fired thermal power plants, in principle, and we will proceed with efforts towards decarbonizing our portfolio. Through initiatives like this, we will boost our resilience against climate change.

FFG recognizes that helping corporate customers in the transition to a decarbonized society is an important and extremely challenging initiative for a regional financial institution. We will engage in dialogue with our corporate customers, and strive to provide attentive support through financial and other services deemed necessary based on that dialogue.

As part of these efforts, this April, we established the SDGs support subsidiary Sustainable Scale, Inc. The company utilizes its extensive expertise to help local companies and communities quickly start and continue "sustainable" business management and behavior. By spreading awareness of the significance and benefits of SDGs among local companies, and encouraging activities that will lead to sustainable growth, we hope to contribute to the development of sustainable local communities. These efforts will also lead to "improvement of FFG corporate value."

Creating Change-Resilient Human Resources and Organizations

We use the Japanese term "*jinzai* (human assets or human resources)" to convey the sense that "employees are a valuable asset of the company." Banks do not make things, so the intangible asset of people's capabilities are directly linked with the growth of their organizations. Two things are necessary to realize the full potential of people's capabilities.

The first is to secure and develop a diverse range of human resources to respond flexibly and quickly to environmental changes. In order to meet the needs of diverse customers while maintaining hard-earned trust, you need to develop and promote human resources that can respond flexibly to changes in the environment. This April, as part of our new human resources system, we established a specialist track for which employees can apply to take part. The objective of the new career track is to create an organizational culture where people can take on the challenge of making changes and demonstrate their expertise. We hope employees will proactively raise their hands and apply for the career track to improve their expertise and realize their potential in the areas where they excel.

The second is to foster an organizational culture that continues taking on challenges. In order to produce innovative human resources, it is essential to foster an organizational culture that serves as soil.

Examples include becoming an organization that can act immediately when it finds something that may change the future, an organization that can collaborate horizontally instead of vertically with other companies or internal departments and sections, an organization that encourages taking on new challenges without fear of failure, an organization that can quickly identify and respond to changes in society, or an organization that internally shares required information quickly and acts based on that information without fail.

To that end, we are strengthening collaboration by carrying out cross-organization, project-based business operations such as business reforms. FFG made the above-mentioned iBank, Minna Bank, and Sustainable Scale independent organizations so they could proactively take on new challenges. We need to cultivate a new organizational culture within these independent organizations and build a process to bring that culture back to FFG.

It is also extremely important to embrace diversity and inclusion. Standing at the forefront as one of Kyushu's core companies, FFG will unearth talent we had not been able to utilize so far by opening our doors to a wider range of people, which includes appointing women to managerial positions and actively recruiting mid-career professionals, and create a corporate culture where people accept each other's differences, enabling employees to demonstrate their full potential and promoting diversity among employees. By doing so, we will bring about innovation and provide local communities and customers with unprecedented new value.

Capital Strategy and Shareholder Returns

Our basic philosophy on capital strategy and shareholder returns is to strive to continuously maintain and increase dividends through stable profit growth, by considering the balance between growth investments and shareholder returns based on the premise of maintaining the soundness of the company. It has remained unchanged since our foundation in 2007.

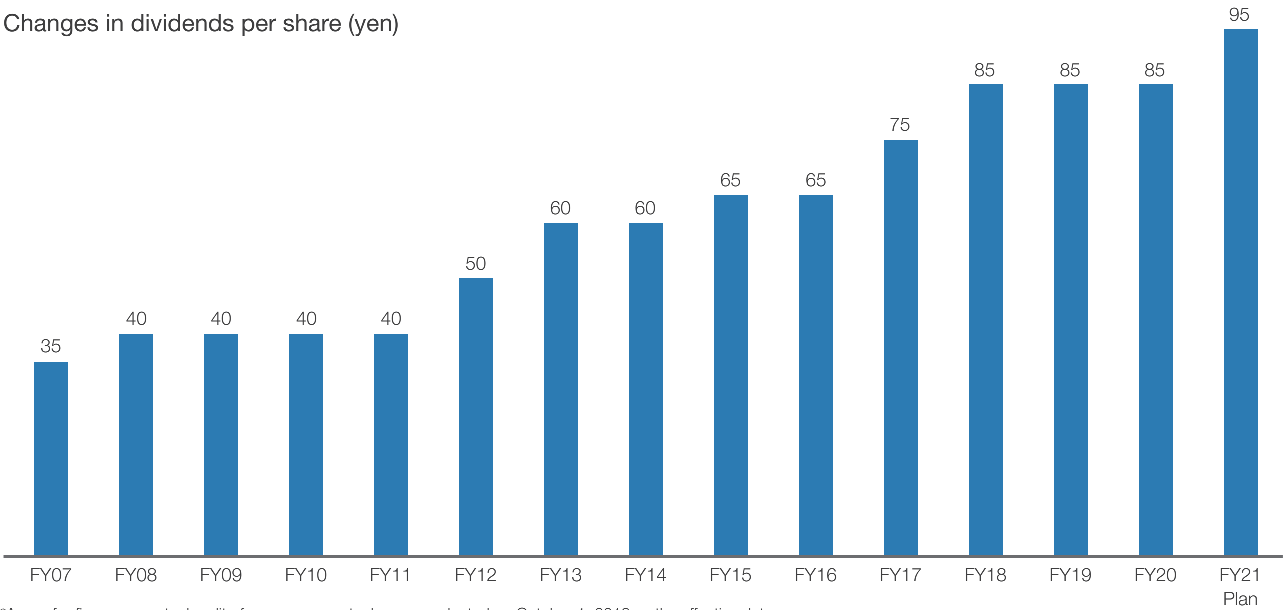
FFG has continuously grown while overcoming a wide range of crises and changes in the external environment, including the financial crisis triggered by the collapse of Lehman Brothers, the Great East Japan Earthquake, the implementation of negative interest rates, and the current COVID-19 pandemic. But through it all, we have maintained stable dividends without seeing a decrease even once.

For FY2021, we expect dividends to increase to 95 yen, a 10 yen increase from last year. The year we were founded, dividends were 35 yen (note: after considering the reverse stock split), which means that dividends for FY2021 will be 60 yen higher than that first year.

In terms of capital, we have made investments such as Minna Bank, and will continue utilizing capital efficiently to make investments that will lead to improving corporate value, which includes investments to expand existing businesses in addition to launching new ones.

And we will continue engaging in productive and constructive dialogue with stakeholders, and achieve sustainable growth and improve corporate value by proactively disclosing financial and non-financial information.

Changes in dividends per share (yen)



*A one-for-five reverse stock split of our common stock was conducted on October 1, 2018 as the effective date.
The above figures are calculated by recalculating dividends before September 2018 on a post reverse stock split basis.

Our Shape and Way May Change, but not Our Commitment.

Even in today's rapidly changing environment, we will continue taking on new challenges to fulfill our mission to make local communities more sustainable.

But one thing we will always maintain regardless of how the times change is our relationship of trust with our customers. In order to maintain it, FFG strives to grow with the region and customers by co-creating places where communities and people can excel and providing attentive service. We will keep our promise to be:

Your closest bank
Your reliable bank
Your sophisticated bank

FY2021 is the final year of the 6th Mid-Term Management Plan. Striving for sustainable growth, Group officers and employees will work together to the utmost of their abilities to ensure that their efforts made so far come to fruition. We look forward to the further understanding and support of our shareholders, customers, and other stakeholders.

October 2021
Director, Chairman & President
Fukuoka Financial Group, Inc.

T. Shibato

Strengths of FFG

Strengths Developed	Details
Corporate culture without fear of failure A culture that maintains a sound awareness of risk, while enhancing perception and acting and making decisions without fear of failure	When FFG was established by the Bank of Fukuoka and the Kumamoto Family Bank (now the Kumamoto Bank) in April 2007, we set forth our Group Management Principles, which are a unified set of values for all Group employees, and our brand slogan, "To be your Bank of choice," based on the Group Management Principles. Six months later, in October 2007, the Shinwa Bank joined FFG, thus creating an unprecedented type of broad-area based financial group with three banks among our group companies. In April 2019, FFG entered into a business integration with the Eighteenth Bank, aiming to create a more stable financial system for the whole of Kyushu and invigorate
Single Platform/ Multiple Brands A management style optimally suited to business integration between regional banks to facilitate the pursuit of economies of scale and efficiency	FFG consists of 3 banks, namely the Bank of Fukuoka, the Kumamoto Bank, the Juhachi-Shinwa Bank. Its unique management style called "Single Platform/Multiple Brands" maintains the history and brand of each bank, which have long been popular with regional communities in the prefectures of Fukuoka, Kumamoto, and Nagasaki. It also operates the 3 banks like one bank, by creating common business systems,
Sophisticated and diverse human resources Human resources that possess a high-level of expertise and a diverse range of skills to offer the optimal solutions	FFG has concentrated the business bases, information, expertise, etc. of each bank, with their differing histories and culture, and has utilized their mutual strengths to integrate the human resources and culture of each bank. We use a Japanese term for "human capital" to convey the sense that "employees are an asset (capital) of the company." As this term implies, corporate growth requires human resources with a high level of expertise and a diverse range of skills, who are capable of addressing the needs of customers. Therefore we have actively invested in our personnel.
Group total power Total financial power including affiliated companies capable of meeting all the needs of retail and corporate customers	FFG is a comprehensive financial service group with 22 affiliated companies in total. It is capable of addressing all the needs of our retail and corporate customers, from securities, insurance, and consulting, to marketing and venture support. Few financial groups are capable of performing this many functions, and the power of our organization, which includes banks and affiliated companies, is one of FFG's unique strengths. A system for integrated Group management has been built based on the idea of
Broad yet close-knit network A broad area-based regional financial group covering the whole of Kyushu	The size of the economy in Kyushu is approximately 44 trillion yen, and is said to make up 10% of Japan's economy. There are many production sites belonging to companies in core auto, semiconductor, and agricultural industries, while new industries in renewable energy and healthcare have also started to be developed in recent years. As the regional economy becomes increasingly integrated, the area also has active economic interaction with nearby markets in Asia. Kyushu is an attractive market where future growth can be expected, including inbound tourism demand.
Solid business base A top-class customer base among regional banks built through customer-focused sales	In the run-up phase, lasting for three years from our establishment, FFG developed management infrastructure and improved the balance sheet. Entering the acceleration phase (2010), it focused on customer-centered sales under our brand slogan, "To be your Bank of choice." In corporate banking, we utilized our human resource capabilities with their high level of expertise and our capabilities as an organization with a diverse range of functions to

Results

the regional economy.

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

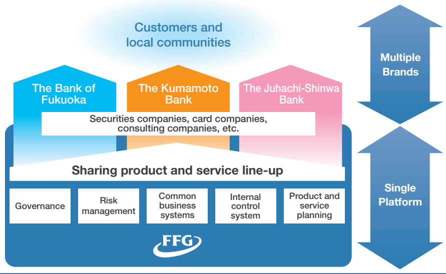
FFG is committed to unceasing evolution through the selection and implementation of strategic options that anticipate the changing times, without fear of failure.

- Disposal of non-performing loans
  - March 2001 The Bank of Fukuoka recorded an allowance for loan losses of 175.0 billion yen (a loss of 76.8 billion yen); V-shaped recovery from the following year
  - February 2009 Company split Improvement in ratio of non-performing loans (5-6% level to 2-3% level)
- Business integration
  - ☑ April 2007 The Kumamoto Family Bank (now the Kumamoto Bank)
  - ☑ October 2007 The Shinwa Bank
  - ☑ April 2019 The Eighteenth Bank

  (October 2007 The Shinwa Bank and April 2019 The Eighteenth Bank:) 2020.10 Merger (The Juhachi-Shinwa Bank)
- New initiatives
  - April 2016 iBank business (participated in by 9 regional banks across Japan)
  - May 2021 Launch of commercial operations of Minna Bank

products, and services internally.

This management style is optimally suited to business integration between regional banks to facilitate the pursuit of economies of scale and efficiency, while maintaining our commitment to our customers and local communities.



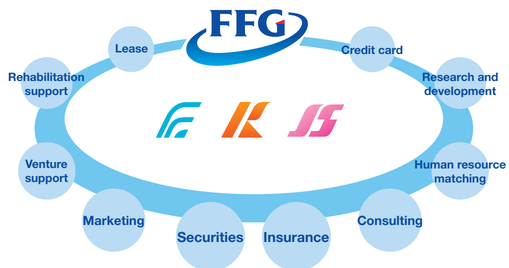
Looking ahead, we shall continue to utilize the underlying diversity we have developed thus far to appropriately manage human resources in a way that takes into consideration changes in business strategy and the external environment, by promoting the exchange of personnel with companies in different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

- Development and recruitment of specialist personnel
  - Financial Planners who is equivalent to 1st grade Certified Skilled: 441
  - Number of mid-career recruitment: 75 (FY2020)
- Promotion of diversity
  - Women in management positions: 412
  - Return to work systems
  - Improve working conditions of young and senior employees
  - Number of foreign employees: 9

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

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

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



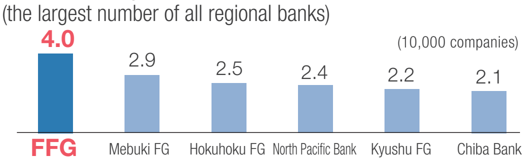
FFG considers Kyushu as a single economic zone. We have created a "broad area-based regional financial group" seamlessly covering the whole of Kyushu, by covering every inch of the heartland markets of Fukuoka, Kumamoto, and Nagasaki prefectures, which make up approximately 60% of the economy in Kyushu,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

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

focus on resolving the issues of SMEs (owners). Retail customer sales base was significantly expanded by ensuring customers' loyalty with a strong line-up of products and highly convenient services.

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

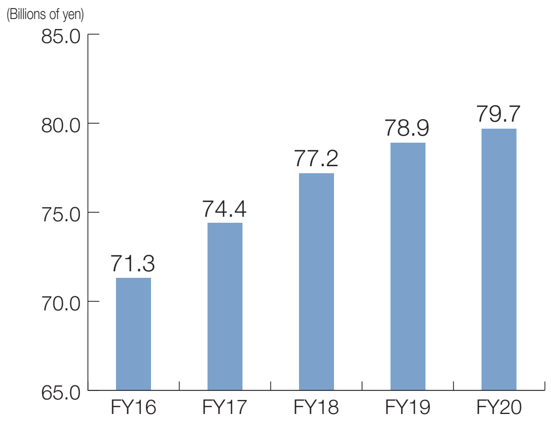
- Retail banking customers: Approximately 6.5 million (approx 50% of Kyushu's population)
- Corporate banking customers: Approximately 280,000
  (approx 40% of business offices in Kyushu)
- Companies using FFG as main bank: 40,000
  (the largest number of all regional banks)



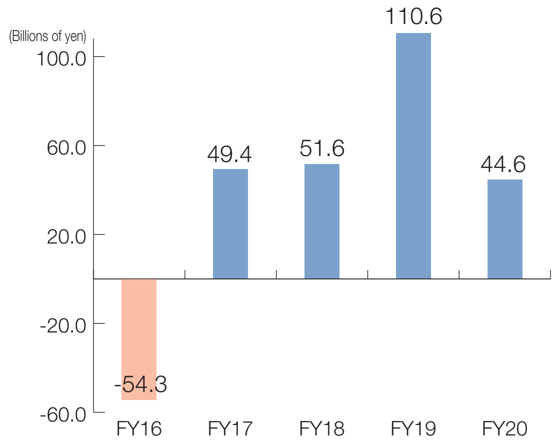
*Source: Data provided by TOKYO SHOKO RESEARCH

Financial and Non-financial Data

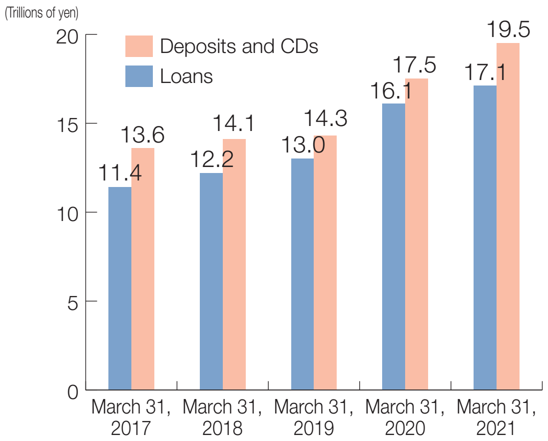
Core business profit (3banks total)



Consolidated net income

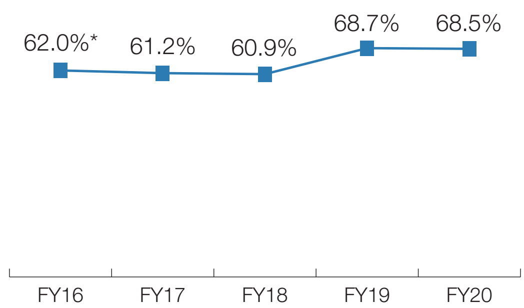


Balance of deposits and loans at the end of the period (consolidated)



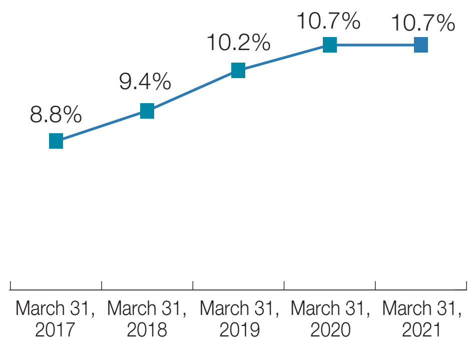
Consolidated core OHR

$$\text{Consolidated core OHR} = \frac{\text{Consolidated expenses}}{\text{Consolidated gross business profit} - \text{Gains (losses) on bonds, such as Japanese government bonds}}$$



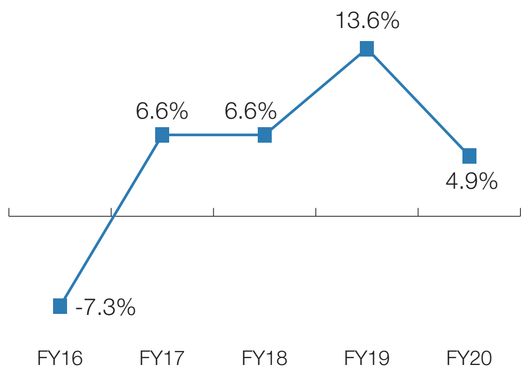
*Excluding amortization of goodwill

Consolidated capital adequacy ratio



Consolidated ROE

$$\text{Consolidated ROE} = \frac{\text{Net income attributable to owners of the parent}}{\left(\text{Net assets at the beginning of the period} + \text{net assets at the end of the period}\right) \div 2}$$



Customer-Oriented Investment Trust Sales Company

Bank of Fukuoka
Highest rating "S"

Minna Bank

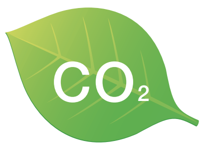
"Red Dot Design Award 2021"
Brand of the Year Award
(First Japanese company and first financial institution in the world to win)

reddot winner 2021
financial services brand of the year

FFG's CO_2 emissions

36%
reduction

in FY 2020 from FY2013

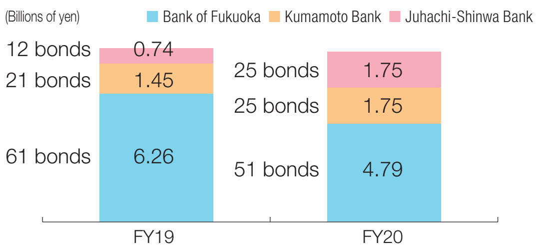


CDP Score

CDP
Climate Change
Questionnaire 2020
FFG's CDP Score

B-

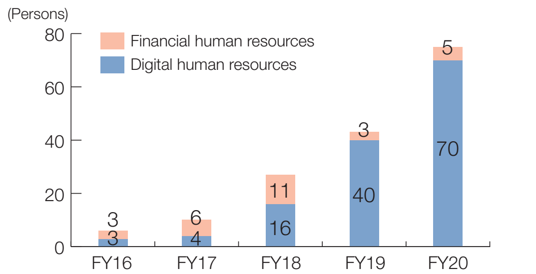
SDGs private-placement bonds issuance amount



Renewable energy-related loans

Loan balance
Approx.
220.0 billion yen
(As of June 30, 2021)

Number of mid-career recruitment trends



Appointment of women with titled positions

	As of March 31, 2021 [Actual results]	As of March 31, 2023 [Targets]
Bank of Fukuoka	12.3%	15.0%
Kumamoto Bank	22.4%	21.0%
Juhachi-Shinwa Bank	12.8%	15.0%

Women with titled positions = Women with managerial positions + women with titled positions who have her subordinates

Value Creation Process

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

Priority Issues of Local Communities (FFG's Materiality)

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

Fundamental Principle

Contribution to regional economic development

Achieve a virtuous cycle

Business activities

Business model transformation

- Transformation to sustainable business model
  Corporate/Retail financial services
- Promotion of digital transformation (DX)
- Minna Bank

Driving forces for transformation

- Full leveraging of human resources
- Strengthening Group total power

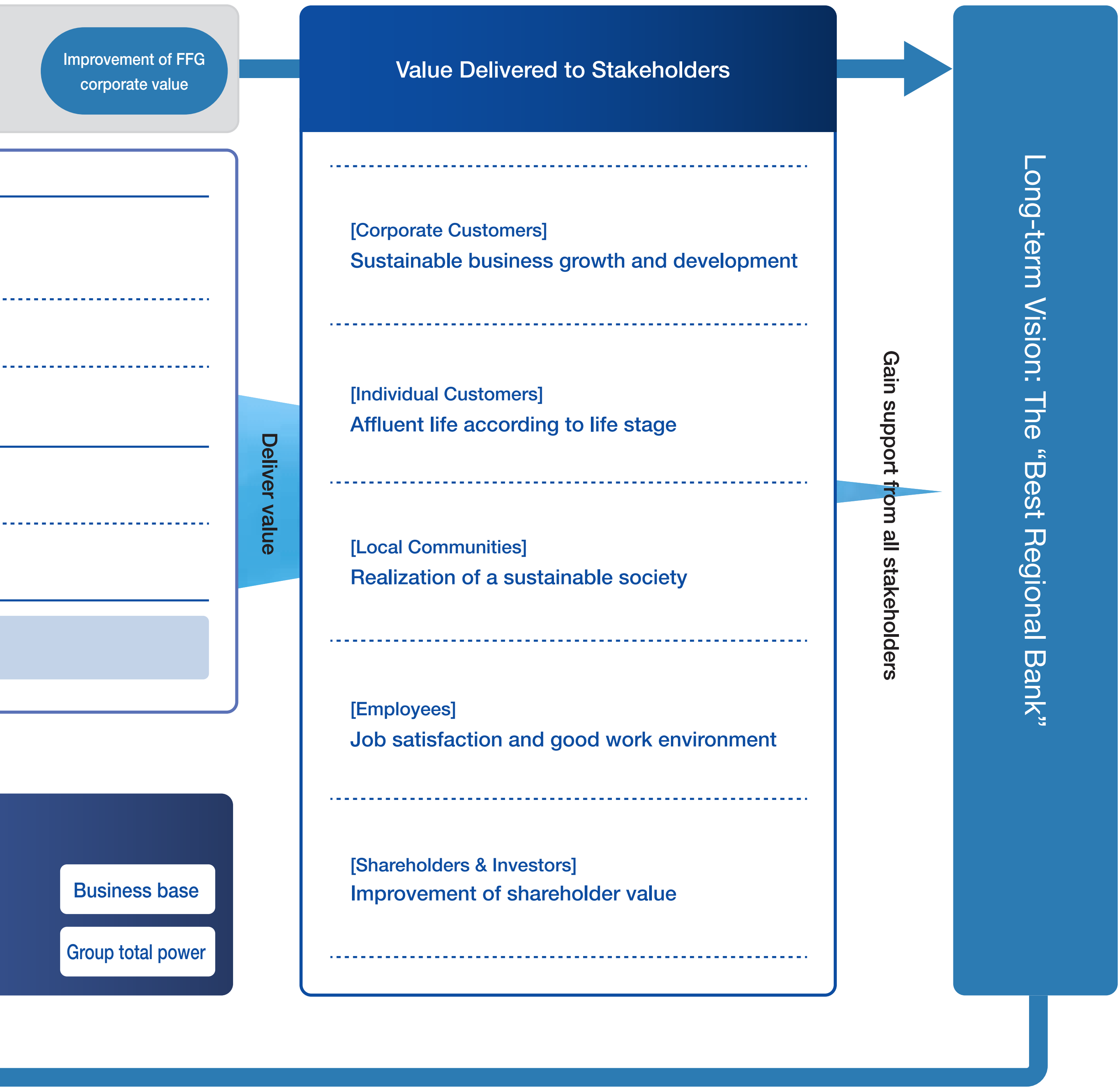
Strategic options (business integration, etc.)

Capital injection
(source of value for competition)

FFG's Strengths

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

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



Contribute to sustainable development of Kyushu

Risks to Achievement of Long-term Vision

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

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

and Action Plans

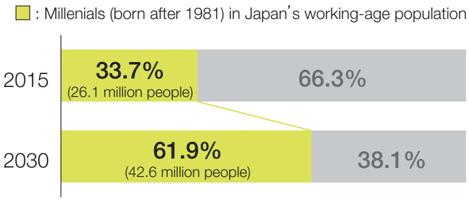
FFG maintains a sound awareness of risk regarding future risks that may impede the achievement of its Long-term Vision, such as the declining population and new entrants from non-banking industries. At the same time, it implements various strategies and measures in anticipation of future changes in the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

Opportunities (FFG's stance)	Strategies and major measures/indicators	
Maintain and expand customer base Improve customers' convenience and experience by effectively combining our network of branches and non-face-to-face channels using digital technologies. **Differentiate FFG from competitors** Expand customer contact points and achieve an unrivaled level of competitiveness by securing a competitive edge leveraging our human resources and organization. **Create new growth from a long-term perspective** Create new business opportunities utilizing FFG's network and knowledge and information about the industry Contribute to creating the future of local communities	**Transformation to sustainable business model** **Promotion of digital transformation (DX)**	● Business reforms ● iBank business ● Minna Bank ● New investment trust business ● M&A, business succession ● Regional general trading businesses ● Digitalization support ● Venture support ● Open innovation ● Industry-academia-government collaboration ● Industry research ● SDGs support
Increase forward-looking reserves **Enhance management efficiency and create synergy**	**Strengthening Group total power** **Business integration, alliance**	● Capital accumulation, forward-looking reserves ● Merger of the Shinwa Bank and the Eighteenth Bank ● Cost saving
Utilize diverse and sophisticated human resources Improve employee engagement Foster an open organization and culture Secure diverse human resources by promoting diversity	**Full leveraging of human resources**	● Fostering organizational culture seeking creation and challenge ● Development and recruitment of specialist personnel ● Promotion of active participation of women and senior employees ● Optimal placement of personnel in the Group ● Redesign of human resource system ● Interview about organizational culture
Enhance brand loyalty (presence) **Sophistication of risk appetite management** **Ensure effectiveness of governance**	**Strengthening Group total power**	● Community contribution activities ● Corporate governance ● Sophistication of risk appetite framework ● Cyber security ● Tightening compliance and measures against money laundering ● Enhancement of communications

Priority Initiatives

Minna Bank

Scale of target customers (proportion in working-age population)



Japan's first digital bank

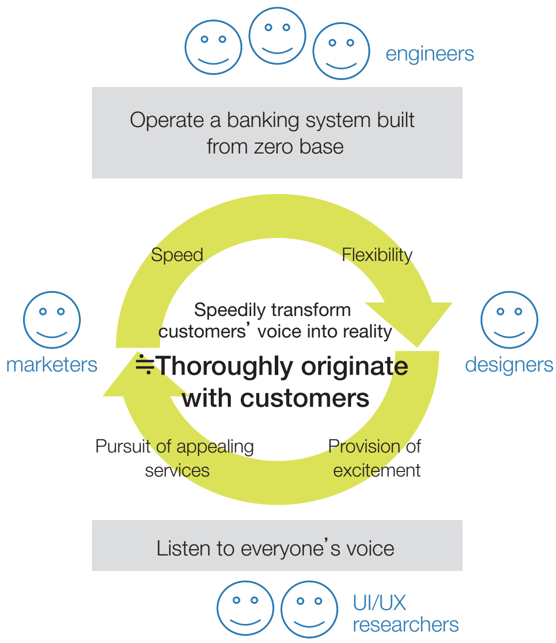
Minna Bank started commercial operations in May 2021 as Japan's first digital bank, where all procedures and operations originate with a digital perspective. It aims to offer stress-free, frictionless, convenient, and attractive services for digital natives, who are estimated to account for 61.9% of the working-age population in 2030. While FFG has been advancing group-wide digital transformation in conventional services, a reasonable period of time is needed for full digitalization, due to business process and system restrictions. The launch of Minna Bank enables us to proactively offer banking services expected by the next generation, protect our management base, and gain a new market.

Business development

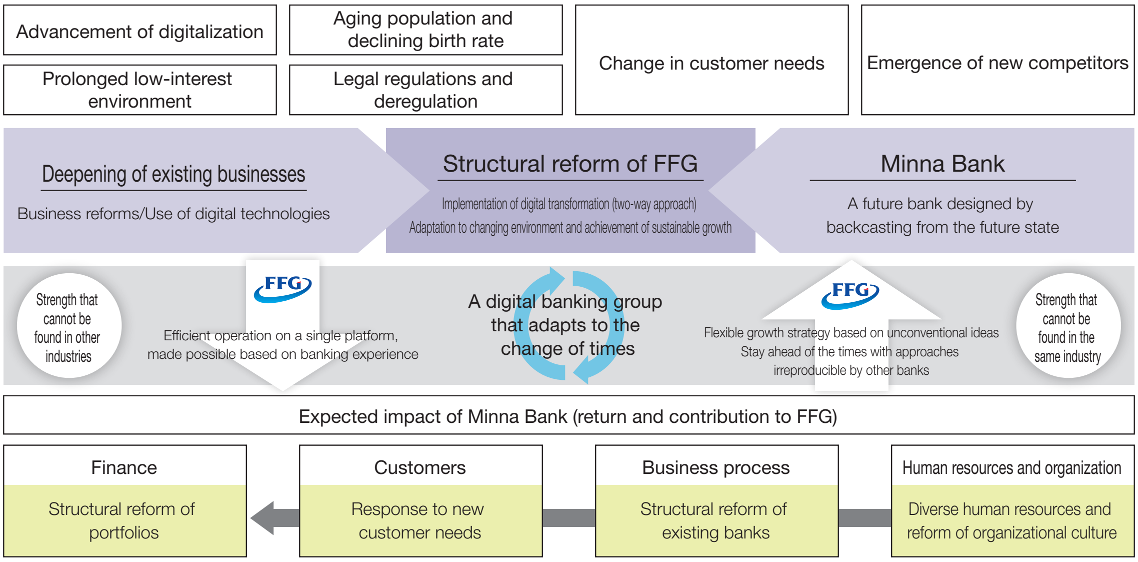
Minna Bank offers an unprecedented, new type of financial experience and value by considering how future banks should be and redefining banks' three main functions (deposits, exchange, and loans) and three main functions (financial intermediation, credit creation, and settlement). Its business has started with simple and minimalist services for individual customers, completed on a smartphone. (The app design and commitment to operability were highly regarded, and Minna Bank became the first financial institution to win Brand of the Year at the internationally renowned Red Dot Design Award 2021.) In the future, the bank looks to develop the BaaS business for corporate customers, as well as to sell and offer banking systems jointly developed by a system subsidiary.

Overview of Minna Bank

Mission	**Deliver valuable connections to everyone**
Target	■ To provide minimalist financial services that cater to the sensibilities, behaviors, and needs of digital natives (a collective term for Millennials and Generation Z) who have grown up with the internet and smartphones since childhood.
Service concepts	**1) Transform everyone's voice into reality** - New financial services aligned with evolving customer behaviors **2) Deliver the best to everyone** - Comprehensive financial concierge based on customer understanding **3) Integrate into everyone's lives** - Banking as a Service (BaaS) business
Business domains	1) **B2C services:** Providing financial services to Japan's digital natives with a next-generation banking system 2) **B2B2X services:** Providing the financial functions of a digital bank to partner companies via an API 3) **IP monetization:** continue to develop banking functionality and license the IP externally

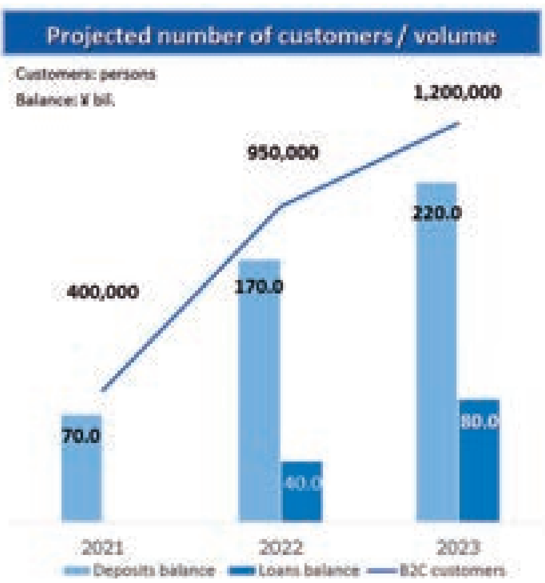


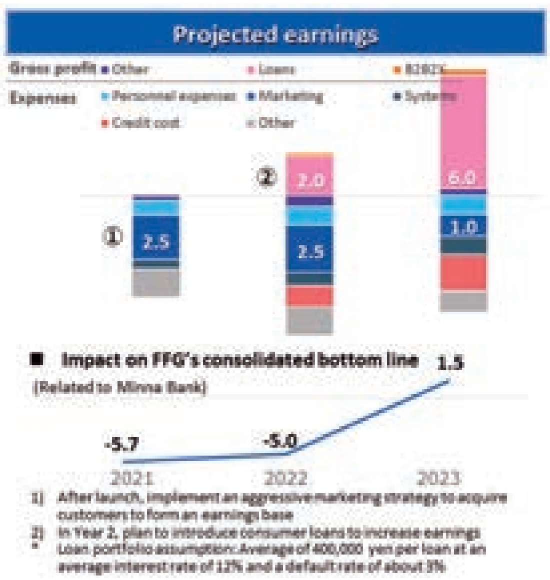
Under the service concept of “transform everyone’s voice into reality,” Minna Bank develops services that thoroughly originate with customers. The bank organizes systems to collect customers’ voice and speedily reflects the voice in its services. This is made possible by leveraging its strengths of insourced system development and in-house system operation. The know-how accumulated by Minna Bank, pioneering as Japan’s first digital bank, will be shared with FFG Group banks. The entire Group will work together to pursue the ideal state of banks.



Primary metrics

In its B2C business, Minna Bank plans to acquire 0.4 million customers in the first year and 1.2 million customers in the third year. To create the initial customer base, it will incur marketing expenses as upfront costs and roll out a plan for user acquisition with digital advertising and a referral program. In the second year, consumer loans, the main product for bolstering profits, will be launched to accumulate balance. We aim to make Minna Bank profitable on its own in the third year by increasing the loan balance to 80 billion yen.





● For more details about Minna Bank, please refer to IR Presentation on our website.
http://www.fukuoka-fg.com/en/investorimg/pdf/202106investor_meeting.pdf

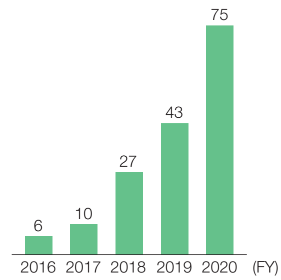
Priority Initiatives

Full leveraging of human resources

Human resources are the assets of FFG and sources of corporate value. We explore an optimal development system and organizational culture to align with changes in the business environment and employees' values.

Developing autonomous human resources is a particular focus in our human resources strategy. Organization-led personnel systems have been reviewed, and new systems have been built to encourage employees to act based on their intrinsic motivation and proactively enhance expertise. Specifically, we introduced the Career Challenge system, where employees can choose what type of work they engage in, and the Specialist Course for experienced employees. To deepen mutual understanding between employees, which is essential as a base for growth, measures are taken to facilitate communication within the company.

Number of mid-career hires



Number of Career Challenge applicants

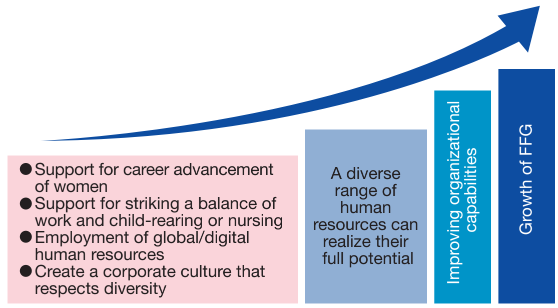
238 per FY

Average for FY2018 to FY2021

Diversity and Inclusion

Due to the recruitment and development of specialist personnel in response to changes in the management environment and to the diversification of employees' backgrounds, a diverse range of skills, experiences, and cultures co-exist. Under these circumstances, we are promoting diversity in the belief that leveraging the diverse values and sensibilities of our employees will help to improve our organizational capabilities. For the active participation of women, in particular, FFG declared its own targets for the promotion of women to management positions of its own accord, even before the Act on the Promotion of Female Participation and Career Advancement in the Workplace was enacted, and has been focusing its efforts on supporting women in advancing their careers and establishing an environment to allow them to balance work and life.

Model for promotion of diversity activities



These initiatives are currently being further evolved beyond women into the development of an organization in which anyone can experience job satisfaction.

FFG will position Diversity and Inclusion as a top priority challenge for sustainability management. As well as further promoting women's active participation with a view to the development of top leaders, FFG will also expand its efforts in this area to include people with disabilities and LGBTQ.

■History of diversity promotion

Supporting women's careers

October 2013

Launch of "Support for Women Project: Fuwari"

This project was launched by a team of 13 female employees in different positions conducting different operations. The team proposes reforms from the perspectives of systems and awareness, reflecting feedback and ideas obtained from workplaces. It also plans and runs a variety of events. "Sub-Fuwari" members are also appointed to the different sales areas to look after activities in those areas. These members serve as a bridge between workplaces and headquarters by gathering feedback from workplaces and conveying policies and messages from headquarters to the workplaces in accessible ways. Since the project was first launched, old members have moved on and new members have taken their place, carrying on the initiatives and intentions of their predecessors and continuing the project's activities. Even while their activities were curtailed during the COVID-19 pandemic, they have made effective use of social media and online meetings to keep up their efforts.

・As of September 30, 2021, a total of 338 members (total for three banks) have participated.

A Fuwari meeting

Fuwari members reporting to FFG's officers

FY2013

Began various training workshops for female employees

・Loan workshops for women (held 31 times for a total of 694 attendees)
・Career workshops for women (held 26 times for a total of 623 attendees)

Work-life balance support/respect for diversity

October 2014
Announcement of targets for promotion of women

April 2015
Establishment of new Diversity Promotion Office

Restructured into the FFG Diversity Promotion Group in April 2016 to cover the entire group

Status of women with titled positions

	As of March 31, 2021 (Actual results)	As of March 31, 2023 (Targets)
Bank of Fukuoka	12.3%	15.0%
Kumamoto Bank	22.4%	21.0%
Juhachi-Shinwa Bank	12.8%	15.0%

Women with titled positions = Women with managerial positions + women with titled positions who have subordinates

FY2016
Strengthening of work-life balance support systems

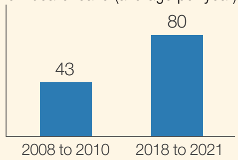
(childcare service fees subsidies system, partner co-location system, reinstatement system, etc.)

● Support program for returning to work

This is FFG's original program to support the smooth return to work of female employees after childbirth or childcare leave. Interviews and training corresponding to all stages, from pregnancy discovery to returning to work, are consistently conducted by the Diversity Promotion Group. A work-life balance hotline to respond to questions and concerns has also been established.

Pre-return workshop

Number of female employees who returned to work after taking childcare leave (average per year)



*Figures are rounded off

Strengthening of management development

● Joined Ikuboss Corporate Alliance

● Joint Ikuboss Seminars by the three banks

FFG is concentrating its efforts on the improvement of supervisors' management capabilities to ensure that each and every employee can make the most of their individuality and realize their full potential. Over the past six years, 11 seminars have been held, targeting not only people currently in management positions, but also younger employees who will be managers in the future.

Panel discussion attended by officers responsible for human resources at all three banks

For an organization in which anyone can experience job satisfaction

April 2018
Established daycare center inside the company

October 2018
Launch of "Men's Fuwari"

Male employees who are close to promotion to managerial positions were invited to join this project, with the expectation of proposals from the male perspective and the strengthening of future management. So far, 46 employees from the three banks have participated in the project. They have deepened their understanding of female employees, who have to change the way they work in accordance with life events, and thought about the creation of workplaces in which anybody can experience job satisfaction.

February 2019
Began promotion of childcare leave for men

To extend support for work-life balance beyond women to include men, FFG has made up to 10 working days of paid childcare leave available to male employees within eight weeks after their partners have given birth. At the same time, FFG is working to promote men's participation in childcare by such means as thoroughly explaining this system to supervisors of male employees whose partners are expecting and striving to create an environment that is conducive to men taking such leave.

Percentage of leave taken in FY2020

53.2%

July 2020
Creation of Diversity (Fuwari) website on Intratop

The creation of this new website provides easier access to necessary information, by posting the work-life balance support handbook to help employees balance work and childcare or nursing and articles about role models who are actively participating.

FY2021
Upgrading of loan workshops

Each of the three banks upgraded and re-launched the loan workshops for women that have been held since FY2015. This initiative is encouraging women's learning through the planning and implementation of voluntary workshops on Saturdays and after work hours, in anticipation of the increasing diversity of women's career paths.

June 2021
Launch of mentor system

Each woman in a managerial position is assigned a female executive as a mentor. Through one-on-one meetings held at least once a month, these women are given the opportunity to think about their own careers while learning directly from their mentors about the work, roles, and mindset of higher positions.

November 2021
Launch of LGBTQ seminars for all employees

Sustainability

Fundamental Principle for Sustainability

Amid the COVID-19 identified in December 2019, our living environment considerably changed as seen in a significant step forward in a new way of working using digital technology. Environmental issues have been also getting more serious, a notable example is frequent occurrences of large-scale natural disasters. Such global changes brought the growth of interest in and expectations for ESG investment, and higher motivation to solve social issues particularly among the younger generation. Therefore, the importance of “awareness of sustainability” and “initiatives for achieving SDGs” to make our society sustainable has been increasing more than ever before.

FFG has provided appropriate services focusing on the social situation and changes in customers as an entity to support “sustainable growth of local communities.” To step forward, it is necessary to pursue “how to make customer’s business and FFG’s activities sustainable” by enhancing employees’ understanding of impacts on all business activities and perspectives they should develop in the future while feeling the trend of sustainability. Accordingly, FFG incorporated a viewpoint of sustainability into actual practices of the Group Management Principles and established a “Sustainability Policy,” which clearly states its concept in FY2020. At the same time, 7 items to be intensively addressed were decided. In the fiscal year ending March 31, 2022, we have enhanced mainly organizational and human resource systems to accelerate the initiatives.

We will quickly work on the initiatives from various perspectives, strengthening the systems in response to the times and identifying activities that would lead to sustainability from a long-term view, not limited to visible issues. To be more specific, by giving back knowledge and expertise and providing information to entire communities, we contribute to the realization of sustainability such as environmentally conscious industrial promotion and joint creation of rich lifestyle in 4 aspects stated on the right: “Products and Services,” “Customers,” “Local Communities” and “FFG.”

The close relationship with the communities we have built in a long history convinces us that there is a “future we can create together” toward the realization of a sustainable society.

Executive Officer, General Manager of Corporate Planning Division

Masahiro Fujii

Timeline of Initiatives for Sustainability

2019	Oct	Issued SDGs private placement bond
2020	Aug	Established Sustainability Policy, and identified seven focus items
		Expressed support for and signed the recommendations of the TCFD
	Oct	Announced the “Environment and Society-Conscious Loan Policy”
	Dec	Rated “B -” in the CDP score
2021	Apr	Newly established Sustainability Promotion Group in the Industrial Finance Division of the Fukuoka Bank
		Established Sustainable Scale, Inc., a subsidiary for supporting SDGs
		Started handling “YOLO Card” for foreign residents
	May	Held SDGs seminar with outside lecturers for all employees
	Jun	Started handling SDGs/ESG fund in Investment Trusts Palette
	Jul	Started campaign of SDGs foreign currency time deposit
	Aug	Started handling LGBT housing loan
	Sep	Held the 1st Sustainability Promotion Conference
	Oct	Newly established Sustainability Administration Group in Corporate Planning Division
		Newly established Sustainability Promotion Planning Group in Sales Administration Division

Sustainability Policy

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

1 Contributing to the realization of sustainability through financial services
- Sustainability-related services -

We have developed products meeting SDGs needs of corporate and individual customers.

2 Realizing customer’s sustainability together
- SDGs support for corporate customers -

Sustainable Scale, Inc., a subsidiary for supporting SDGs, has developed a scoring model for evaluating sustainability-related initiatives of customers, proceeding with external cooperation.

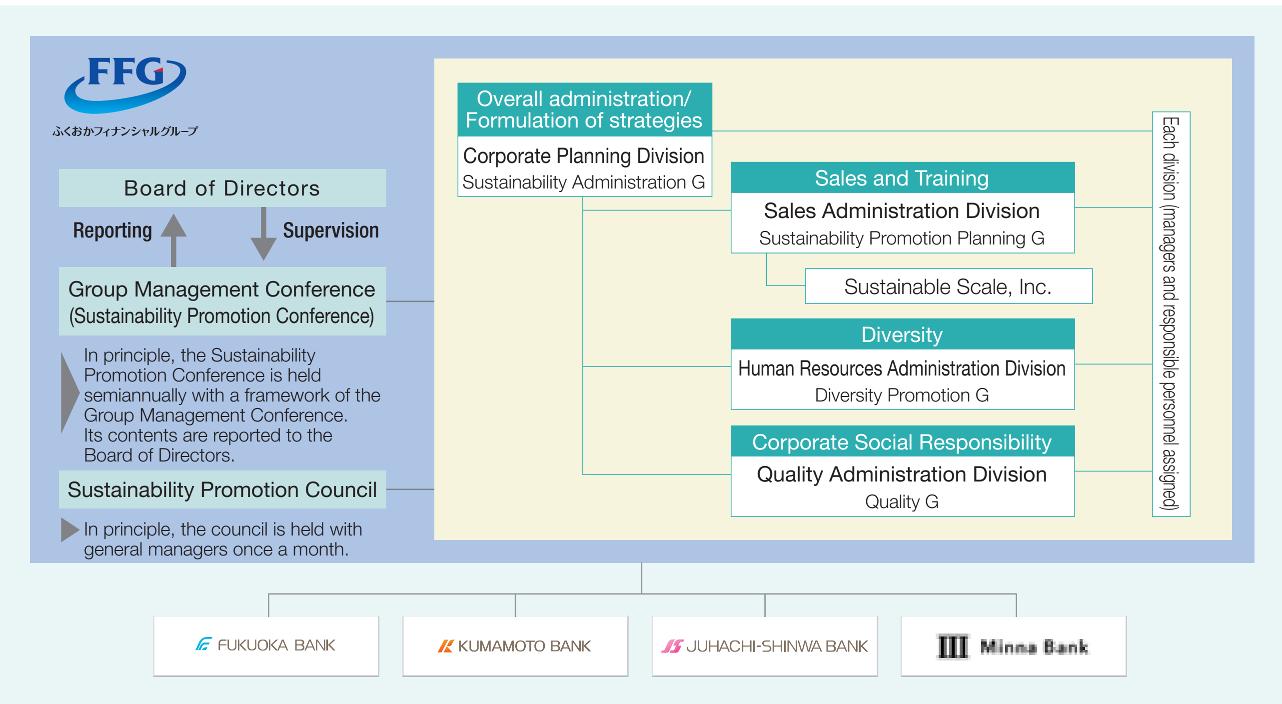
3 Contributing to the sustainability of local communities
- Connecting communities -

Based on networks and close relationships with local communities we have built as a local financial institution, FFG has worked on the revitalization of communities that only FFG can realize by connecting lands and people.

4 Promoting sustainability of FFG
- Becoming a sustainable organization -

Positioning efforts for addressing climate change as an important element of its business strategy, FFG has supported the TCFD.

Sustainability Promotion Structure



Sustainability

Materiality

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

Impact on achievement of the Long-term Vision

- Relevance to revitalization of local communities
- Mega trend (Inevitable trend)
- Degree of impact on human resources
- Degree of impact on total Group power

Stakeholder opinions

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

Focus Items

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

1 Contributing to the realization of sustainability through financial services

Environment and society-conscious loan policy

The “Environment and Society Conscious Loan Policy” is defined as a specific policy for investments and loans for the Bank of Fukuoka, the Kumamoto Bank, and the Juhachi-Shinwa Bank, and focuses on the following points:

i) We will contribute to solving environmental and social issues through loan services

ii) We will not, in principle, finance new construction projects for coal-fired thermal power plants.

* The balance of loans in project finance for construction of coal-fired thermal power plants in the Group was 13.2 billion yen as of September 30, 2021, scheduled to become zero by FY2035.

Details of the “Environment and Society-Conscious Loan Policy” will be posted on our website. Please refer to it.

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

SUSTAINABLE DEVELOPMENT GOALS

SDGs (Sustainable Development Goals)

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

FFG's sustainability-related products

With an eye to contributing to the creation of sustainable society as a local financial group, FFG offers sustainability-related products and services focusing on "long-term asset building" in the era of the 100-year lifespan and "respect for diversity," which would allow anybody to live with peace of mind as being themselves.

The Group has handled SDGs private placement bonds at each group bank since 2019 in order to provide companies and organizations working on SDGs opportunities to have a contact point with each other. From the fiscal year ending March 31, 2022, FFG also started handling new donation-type foreign currency time deposits, investment trusts in the ESG field, and prepaid cards exclusively for foreign residents, and introduced housing loans responding to the needs of LGBT to help develop comfortable communities.

In October 2021, the Group started handling the "Sustainable Scale Index," an ESG and SDGs scoring model, for the purpose of supporting corporate customers' activities to achieve SDGs (for more details, please see P. 34). Taking this service as the starting point, we are aiming to increase opportunities to talk with customers and lead them to deeper understanding also from the viewpoint of SDGs.

[Foreign currency time deposit] FFG SDGs Foreign Currency Time Deposit (US dollar) [July 1, 2021 - March 31, 2022]	
Summary	Offer a 50% discount on the foreign-exchange fee for the foreign currency time deposit (from 1 yen to 0.5 yen) and donate all the amounts to organizations that contribute to the achievement of SDGs. [Organizations to be donated] ○Japan International Cooperation Agency (JICA), ○Japan Association for the World Food Programme, ○The Nippon Foundation's support for disaster recovery, ○Japanese Red Cross Society, ○Japan Committee for UNICEF, ○Fukuoka Prefecture, Kumamoto Prefecture and Nagasaki Prefecture (donating to measures against COVID-19, disaster restoration, and other measures that contribute to the sustainable development) * Organizations to be donated as of the beginning of handling the deposit may be subject to change.

[Investment trust] Alliance Bernstein Global Growth Opportunities (GGO) [Available from June 25, 2021]	
Summary	An active fund, which invests in issues that contribute to the achievement of SDGs, evaluating companies and selecting issues in light of ESG ("Environment," "Society," and "Corporate Governance")

[Housing loan] Housing Loan responding to needs of LGBT [Available from August 2, 2021]	
Summary	Added same-sex partners to a joint and several obligor and guarantor of housing loan for which only relatives such as parent and child, and a legally married couple were accepted, in principle.

Visa prepaid card "YOLO Card" with post-paid service exclusively for foreign residents [Available from April 30, 2021]	
Summary	Unlike credit cards, examinations and a bank account are not necessary. The card can readily be issued and available for foreign residents soon, and respond to unexpected expenses with the post-paid service.

2 Realizing customer's sustainability together

Sustainable Scale, Inc., a subsidiary for supporting SDGs

FFG established "Sustainable Scale, Inc.," a subsidiary for supporting SDGs. Its purpose is to encourage the creation and growth of local communities, which sustainably grow through SDGs activities and companies that support such communities as a bridge between them. With an eye to contributing to the sound growth of local communities, we promote initiatives toward the realization of management transformation focusing on the sustainability of local communities and companies, so-called "Sustainability Transformation (SX)."

Sustainable Scale evaluates activities for the achievement of SDGs by local communities and companies, and makes them quantitatively visible, with Dr. Shunsuke Managi, Distinguished Professor at Kyushu University and representative of UN's Inclusive Wealth Report assigned to a position of director.

With FFG and Kyushu University as axes, it provides advice and expertise toward "Sustainability Transformation (SX)," in cooperation with experts with knowledge in various fields.

SDGsに新しい"ものさし"を

Sustainable Scale

Business Structure

Support for SDGs with the introduction of a scoring model

Supporting the introduction of SDGs

SDGs Scoring Model Service "Sustainable Scale Index"

- Your own activities for SDGs can be indexed and visible by answering about 200 evaluation items.
- As evaluated by industry, it is possible to know your present position by comparing an industrial average and your own value.

POINT 1 Providing indexes usable for community people

As there are fewer index data on activities for ESG and SDGs of unlisted companies than listed companies, FFG builds a scoring model for both listed and unlisted companies and provides indexes usable for various customers.

POINT 2 Establishing a unique evaluation system jointly with Kyushu University

The unique SDGs evaluation model is provided, which was developed jointly by FFG's subsidiary Sustainable Scale, Inc. and Kyushu University.

Using this service

- Able to know key points for achieving SDGs through answering questions.
- Your own entire business can be carefully examined from the viewpoint of SDGs, which would lead to the understanding of SDGs.

Talk with the bank on evaluation results

Response to priority issues

Setting of goals and introduction of the management plan

Based on an evaluation report of this service, we increase opportunities for talks between bank personnel and local companies, taking up a variety of matters as themes in terms of SDGs, to lead to support toward continuous growth of local companies.

Co-create customers' futures from the new perspective of sustainability.

President of Sustainable Scale

Tadashi Fujiyoshi

Representative of Sustainable Scale, Inc.
Executive Officer and General Manager of Industrial Finance Division, The Bank of Fukuoka

In April 2021 we established Sustainable Scale, Inc., with the mission to make SDGs a new yardstick in business. It is one of the specific initiatives FFG is working on to meet expectations for financial institutions to contribute to achieving SDGs.

The words "sustainability" and "SDGs" have become widely used in recent years. They have gained attention in several fields, but although many of our corporate customers have begun active efforts, some of them are unsure of what they need to do or know they need to do something but do not know where to start.

FFG's mission is to help customers' growth strategies. We ascertain what customers need to continue growing towards the future, and offer insight and solutions to enable them to overcome their shortcomings and respond to changes in the environment. Today, incorporating the concept of sustainability into corporate management is an essential part of this. In some industries, companies are expected to tackle environmental challenges such as SDGs and decarbonization across the entire supply chain, and risk being unable to keep doing business if they cannot. At FFG, we wanted to start eliminating the obstacles for customers to address SDGs and encouraging them to operate their businesses with a longer perspective. Sustainable Scale strives to visualize a wide range of issues by presenting them in the form of data and numbers, so that customers can implement a more concrete and defined sustainability management approach. We have the full cooperation of Distinguished Professor Shunsuke Managi of Kyushu University, representative of the UN's Inclusive Wealth Report, as our academic and scientific backbone.

From now on, FFG corporate account managers will discuss and offer proposals with a focus on SDGs in addition to the loan proposals and business succession measures we currently provide. The launch pad for discussions is Sustainable Scale's SDGs scoring model, which was jointly developed with Kyushu University. Up to now, the soundness of a company has been expressed by its financial statements, but this model shows soundness in non-financial areas. It can measure not only an individual company's results, but also its position compared to all companies or its industry peers, and enables us to share information such as other companies' initiatives and industry trends. Scores are calculated from the results of responses with nearly 200 items. FFG corporate sales representatives work attentively with customers to consider their sustainability issues and challenges together, covering everything from explaining the need to increase non-financial soundness to proposing measures to fulfill each of the 200 items. As we implement this model in more customers and accumulate more data, we will boost accuracy and improve the quality of the information we provide.

Sustainable Scale plans to roll out a variety of services and projects with individual companies. To accomplish this, we will form partnerships with players from different industries to actively leverage external expertise and networks. As a member of FFG, we want to be a place where customers can experience the speed of global changes and be exposed to a wide range of ideas through collaborating with people and companies they would not normally have the opportunity to meet, and develop multi-faceted projects with diverse teams of men and women that have different levels of experience.

As I meet and talk with a wide range of people these days, I am constantly updating my ideas for what I want to accomplish with Sustainable Scale. I will put all my strength into giving shape to my long-standing commitment to do work that is good for the world, and benefit local communities.

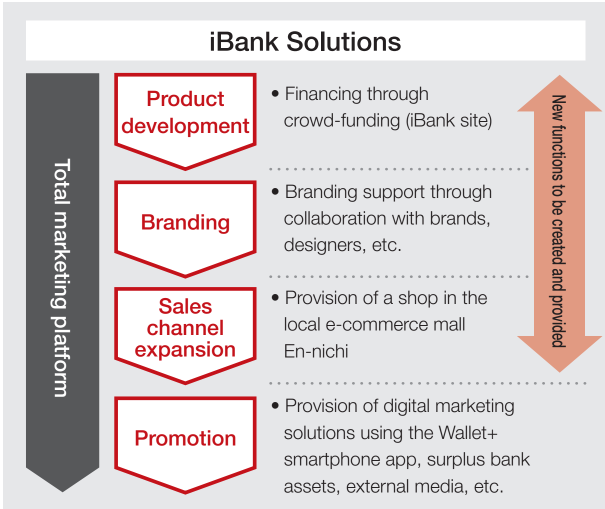
3 Contributing to the Sustainability of Local Communities

The Fukuoka Financial Group will strive to address the needs and challenges faced by local governments, companies, schools, entrepreneurs, and producers in Kyushu and fulfill the role expected of us as a leader to activate the community. By combining the strengths of our broad yet close-knit network and solid customer base, we will be able to bring about new innovations. We are working to activate the local economy with a mid- to long-term perspective that transcends the category of financial business, and we are confident we can accomplish it thanks to our long-standing roots in the community.

Promoting the attractions of local communities — regional general trading businesses initiatives

Since the day it was founded, iBank Marketing has provided support focused on marketing to local customers, and discovered and widely promoted engaging local products and services. In 2019, the company established a "regional general trading businesses" to create a one-stop platform that covers everything from product development and test marketing through crowd-funding, to reevaluating branding, using an e-commerce mall to expand sales channels, and promoting offerings with our Wallet+ advertising function.

- Number of items carried on En-nichi, our local e-commerce mall: 1,500 (as of October 2021)



Helping connect products and services online

Satoshi Ono
Regional General Trading Businesses
iBank Marketing Co., Ltd.

Currently, I am mainly involved in operating the online store En-nichi. In line with the site's concept of "local attraction," I approach businesses that offer products with a distinctive local story to ask them to open shops on the site and plan special seasonal events that we can do specifically because it is an online platform. When the COVID-19 pandemic started, we opened an online shop for Hasami ware and Arita ware ceramics. It saw 3.50 million pageviews and sales exceeded 18.00 million yen during the last "Golden Week" (a long holiday in April and May in Japan). With over 180,000 people across Japan visiting the site, the response has been great. iBank's strategy to attract customers, which combines our advertising expertise, SEO efforts, communication on social media, and other efforts, has been effective.

With our platform En-nichi Funding, we conduct online test marketing of a limited number of items for a limited time to see if a product will be accepted by consumers and help businesses carry out pre-launch sales, which includes conveying the ideas the new product is meant to express. In the past, we could hear direct feedback from consumers at events held at producer direct markets and department stores. Unfortunately, that is difficult to do today, so we will identify businesses' needs by using online questionnaires and other means to offer proposals that exceed expectations.

I have experience working in business matching services and outside Japan. As the scope of the banking business has expanded, I feel that I have entered a new stage where I can use the networks and experience I have gained to contribute to resolving businesses' issues with a more diverse approach. True to iBank's mission to "design connections with the community," we will build a network with other trading companies as a "regional general trading business" that connects consumers to great local products and services through digital technology, and strive to be a reliable platform that is widely known among both customers and local governments.

Sustainable Community Development with a Comprehensive Approach

Hiroaki Yoshioka
Regional Revitalization Promotion Department,
Regional Co-creation Division,
The Bank of Fukuoka, Ltd.

The Regional Co-creation Division is a front office department that works with the public sector. It carries out planning and offers proposals for regional revitalization businesses to resolve local issues in collaboration with universities and external alliance partners. Our proposals include using the En-nichi regional general trading business service and the promotion menu by the Wallet+ advertising function operated by iBank.

Seven years ago, I was temporarily assigned to the Ministry of Land, Infrastructure, Transport and Tourism, where I was involved in the hardware aspect of community development. But I realized that to activate regional communities, we need to do more than just make physical structures. It is essential to have people who can manage and operate those structures and a sustainably profitable business model to attract those people. What I want to do now is to create business models specific to each community by combining financial and non-financial services and leveraging En-nichi as a software menu to contribute to improving the services of businesses and local customers.

Banks that do business with local governments and companies are expected to act as intermediaries in partnerships. Because we are a local bank, we believe we can also be a platform service provider that creates systems to ensure money circulates in the community. We will engage in daily dialogue and thoroughly deliberate to attain this goal.

Supporting Growth with Our Full Strength as an Intermediary Beyond Finance

Kazuhiro Nagao
Deputy Manager of the
Regional Promotion Division
The Juhachi-Shinwa Bank

Since we merged to form the Juhachi-Shinwa Bank, we became a business partner to nearly every business in the prefecture. Going forward, the key to supporting the growth of our customers will depend on not only the expansion and maintenance of our share but also how far we can be involved in addressing their concerns in non-financial matters. A big part of this is services of En-nichi, which assists businesses with package design and branding. We also engage in regular communications and hold regular workshops at branches to ensure this solution is utilized across the entire bank.

The reason that the En-nichi e-commerce site features so many businesses from Nagasaki is due to their close proximity to our branches. This lets us approach businesses that have no experience operating an e-commerce site and provide attentive support until their shop is online. Since many of our customers fit into this category, we tell new employees that we want them to be more than a bank clerk, but to think from the perspective of a trading company employee and to take up hobbies and gain skills that would benefit customers such as photography, design, copywriting and cooking.

I serve positions in both the Regional Promotion Division and iBank, and I am doing the job I wanted to do ever since joining the Juhachi-Shinwa Bank. The bank is evolving into an organization that thinks about what it can do for the regional community from the bottom up, from a comprehensive financial firm into a comprehensive intermediary business. We will strive to acquire a wide range of skills, engage with the community, and become a company that encourages customers to take that next step while providing support the whole way through.

Leveraging Universities' Intellectual Property

Recently we have been focusing efforts on utilizing the intellectual property of universities to help people start businesses. Through a joint research agreement with Kyushu University, we launched the FFG Incubation Program, where Kyushu University Business School students collaborate with researchers to turn business seeds into actual businesses. We also started the FFG Entrepreneurship Center, a talent development course for Nagasaki University students.

This fiscal year we established the Kitakyushu-shi SDGs Innovation & Entrepreneurship Forum (KIEPS) with the Kyushu Institute of Technology, University of Kitakyushu and Nagasaki University to transform existing industries and support the development of new industries that can provide customer-centered products and services.

Collaboration with Local Universities

FFG Incubation Program

Developed an educational program for founding venture companies based on the results of academic research in collaboration with Kyushu University

FFG ふくおかフィナンシャルグループ × 九州大学 KYUSHU UNIVERSITY

FFG Entrepreneurship Center

An endowed course primarily for students of Nagasaki University for nurturing the next generation of entrepreneurs established in October 2019

FFG ふくおかフィナンシャルグループ × 長崎大学

KIEPS: Kitakyushu SDGs Innovation & Entrepreneurship Platform

国立大学法人 九州工業大学 / 北九州市立大学 / KIEPS / 国立大学法人 長崎大学 NAGASAKI UNIVERSITY / FFG

An SDG start-up ecosystem consortium established in March 2021 in northern Kyushu to promote industry throughout Kyushu and create unicorn companies.

4 Promoting Sustainability of FFG

Environment: climate change (initiatives addressing TCFD* recommendations)

FFG has positioned efforts for addressing climate change as an important element of its business strategy. Aiming to share easy-to-understand and useful information with its stakeholders, the Group declared in August 2020 that it supports the recommendations of the TCFD. We have conducted scenario analyses of physical and transition risks in line with TCFD recommendations and disclosed them in the Annual Report 2021. Going forward, we will continue to maintain a system in line with these recommendations.

* TCFD: Task Force on Climate-related Financial Disclosures

Governance

- Under the direction and advice of the Board of Directors, the FFG head office has built an organizational structure to promote sustainability measures across the entire Group with the Corporate Planning Division as an administration division.
- Under the above-mentioned sustainability promotion structure, we prioritize addressing climate change as a pillar of FFG's SDGs-based focus item of "environmental protection."
- In order to clarify FFG's roles and responsibilities regarding the risks and opportunities of climate change, our Risk Management Policy stipulates that the Board of Directors is responsible for developing and establishing various risk management systems based on the characteristics of the climate-related risk, and action plans and other related matters are discussed by the Board of Directors or the Group Risk Management Committee, depending on the nature of the climate-related risk.
- With regard to investments and loans, our Environment and Society-Conscious Loan Policy, which takes into consideration the demands of the international community for the prevention of global warming and our expectations for the realization of sustainable local communities, is clearly stated in the Credit Policies of the Bank of Fukuoka, the Kumamoto Bank, and the Juhachi-Shinwa Bank, and decided by each bank's Board of Directors.

Strategies

Risks and Opportunities:

- The main climate-related risks faced by the Fukuoka Financial Group are as follows:

Type	Details of risk
Physical risk	• Increase in damage to customers and branches due to more record-breaking heavy rains and typhoons in the Kyushu region, FFG's business base • Decline in value-in-use of collateral properties due to rising sea levels, etc.
Transition risk	• Manifestation of negative impacts that comes with transitioning to a decarbonized society on finances and business continuity of mainly SME customers with limited resources to respond the transition • Decrease in value of loans for businesses such as coal-fired thermal power plants due to strengthened restrictions on businesses that could negatively impact the environment and society • Decline in corporate value due to gap between FFG's climate change initiatives and stakeholders' expecta-tions

- In response to physical risks faced by FFG, we will conduct proper risk assessments of damage to FFG branches from natural disasters, and carry out maintenance and review locations of branches to strengthen BCP.
- As for opportunities created by physical risks to customers, we plan to further expand our risk mitigation scheme using insurance and other means, and BCP development and assessment support services.
- In terms of opportunities created by transition risks to customers, we will also incorporate SDGs perspectives into our initiatives for business assessment to create loans to help our customers seize new business opportunities emerging from

the transition to a decarbonized society, etc. Furthermore, in April 2021 FFG established the subsidiary Sustainable Scale to support its SDG efforts. The company drives initiatives to achieve sustainability transformation (SX), in other words, to transform local communities and companies to prioritize sustainability in management by appropriately assessing SDG initiatives and making the quantitative results publicly available. FFG also plans to offer a wide range of services through this company to address the climate-related risks of corporate customers. For more details about the company, please see page 34 of this report.

- Through these initiatives, we will realize our core value — to be "Your closest bank," "Your reliable bank," and "Your sophisticated bank," which is embedded in our brand slogan: "To be your Bank of choice."

Environment and Society-Conscious Loan Policy:

- As interest in sustainability has increased in recent years, financial institutions also are expected to work to solve environmental and social problems through investments and loans.
- In response, FFG has formulated the Environment and Society-Conscious Loan Policy to contribute to solving environmental and social problems through loans. The policy lays out points to keep in mind when considering loans for businesses that may have a negative impact on the environment or society, such as coal-fired thermal power plants. For a list of the main points of the Environment and Society-Conscious Loan Policy, please see page 32 of this report.

Scenario analysis:

- FFG utilizes scenario analysis to identify the impact of climate-related risks on the Group and establish strategic resilience.
- Based on the results of the scenario analysis, we will create business opportunities and mitigate risks for corporate customers by enhancing engagement with them to ensure they can adapt to climate change and transition to a decarbonized society.

	Physical risk	Transition risk
Risk analyzed	• Damage to collateral properties from storms and floods • Deterioration of financial conditions due to the suspension of obligors' businesses	• Deterioration of financial conditions from decreased net sales and increased costs that comes with transitioning to a decarbonized society
Applicable portfolio	• Borrowers with business feasibility in Japan	• Utility and energy sector*
Scenario	• RCP 8.5 (4℃ scenario) or RCP 2.6 (2℃ scenario) in the IPCC** Fifth Assessment Report	• NGFS*** Orderly scenarios • Analyze two scenarios: with or without business structure transformation
Analysis method	• Use a storm and flood model to estimate the level of impact on locations and structures such as obligors' collateral properties and business offices	• Forecast changes in future performance in the target sector based on the transition scenario, and estimate the impact on ratings and credit costs
Analysis results	• Additional credit costs that could be incurred by 2050: **Up to 5.0 billion yen**	• Additional credit costs that could be incurred by 2050: **Total: 14.0 – 21.0 billion yen**

* Applies to carbon-related assets in the TCFD's Supplemental Guidance for Banks. As of the end of March 2020, the percentage of such assets in the loan portfolio is 2.0%
**IPCC: UN Intergovernmental Panel on Climate Change
*** NGFS: Network of Central Banks and Supervisors for Greening the Financial System

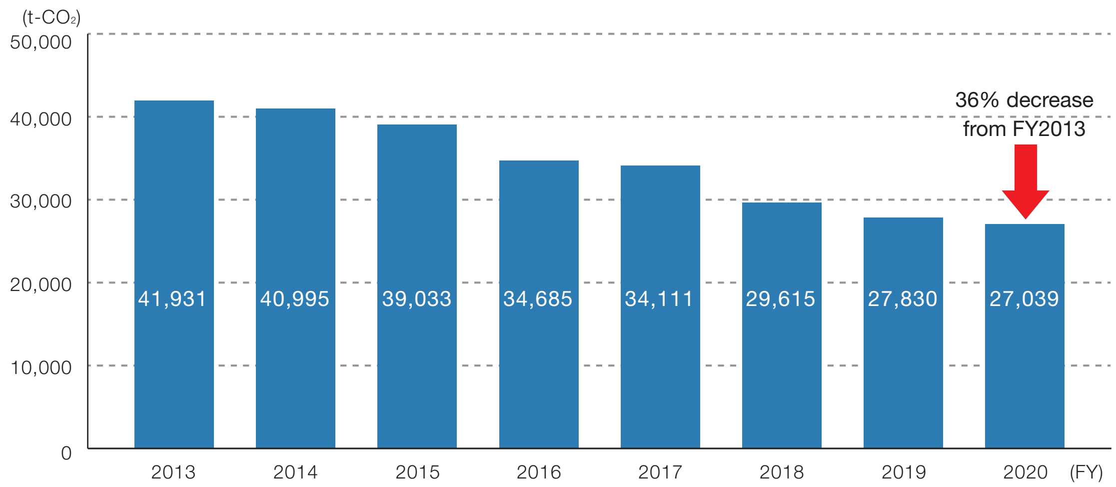
Risk Management

- Climate-related risks could impact every aspect of the banking business, and should they manifest, there would be ripple effects across every risk category including credit, market, liquidity, and operational risks. Our Board of Directors is actively involved in the development and establishment of proper risk management systems based on such characteristics of the climate-related risk.
- Climate-related risks that are deemed important are managed and addressed within a comprehensive risk management framework by risk category depending on how a risk is likely to manifest itself.
  For example, we assess the physical risk of damage to FFG branches from storms and floods within the operational risk management framework, and appropriately control the risk by taking necessary measures such as reevaluating insurance policies.
- In regard to climate-related risks in our credit portfolio, we quantitatively ascertain the level of impact through scenario analysis, and consider the proper course of action as needed.
  Our scenario analysis method is still a work in progress and we are updating the types of usable scenarios as needed. FFG is working to improve the sophistication of scenario analysis with the help of external experts.
  - ☑ With physical risks, we analyzed the damage to hypothecated property from disasters such as typhoons, heavy rain, and flooding, and the impact that the deterioration of financial conditions caused by the suspension of borrowers' businesses would have on credit costs.
    In the analysis, we ran a simulation of the changes in the size and frequency of disasters that an increase in temperature would cause based on a storm and flood model with the help of external experts and estimated the level of impact on locations and structures such as borrowers' hypothecated property and places of business. Then we estimated the credit cost increase taking into account the increase in unsecured loans due to damage to hypothecated property and the changes in obligors' categories due to the deterioration of borrowers' financial conditions.
    Based on the results, we were able to estimate that additional credit costs that may be incurred by 2050 due to physical risks for FFG could reach up to 5 billion yen.
  - ☑ With transition risks, we analyzed the impact that the deterioration of borrowers' financial conditions from decreased sales and increased costs caused by the transition to a decarbonized society would have on credit costs. Specifically, we conducted an analysis of the utility and energy sector, which has been designated under the TCFD's Supplemental Guidance for Banks as high transition risk carbon-related assets and for which development of analysis methods has progressed to a certain extent.
    In the analysis, we engaged the help of external experts to create a scenario based on the NGFS's orderly transition scenario in which carbon costs have increased, the power source mix has changed, and the demand for fossil fuels has decreased; forecasted changes in the performance of the target sector; and estimated the impact on ratings and credit costs.
    Based on the results, we were able to estimate that additional credit costs that may be incurred by 2050 due to transition risks for FFG would be about 14-21 billion yen in total.
    The range in this estimate is based on whether or not a transition in the existing business structure was assumed when forecasting changes in future performance.

Indicators and Targets

- In order to further advance initiatives to address climate-related problems, FFG has decided to set targets and conduct monitoring for the following indicators.
  We plan to set specific target figures by taking into account the Japanese government's environmental and energy policies, FFG's business model, and other factors.
  - ☑ Total amount of sustainable finance to be executed by FY2030
  - ☑ Reduction of CO_2 (Scope1 and 2) emissions by FY2030
  - ☑ Targets contributing to mitigating environmental impact
- FFG developed a Group-wide environmental policy in April 2009, and has made efforts to prevent and mitigate the potential environmental impact of its own business activities.
  To achieve a decarbonized society, we are promoting "Eco Actions" including appropriate office temperature control, turning off vending machines during the night, encouraging workers to shut down computers when they leave their desk, and energy consumption management at the branch level. We are also increasing eco-friendly offices by introducing solar power generation systems and LED lighting for ATM booths at branches.
- As a result of these initiatives, in FY2020 the total of CO_2 emissions (Scopes 1 and 2 combined) for the Banking Division (the Bank of Fukuoka, the Kumamoto Bank, and the Juhachi-Shinwa Bank) amounted to 27,039 tons, a 36% decrease from FY2013.

■Trends in CO_2 Emissions from FFG Business Activities



• Combined total for Scope 1 and 2
• Values up to FY2019 are totals of the four former banks.

- FFG began responding to the CDP* Climate Change Questionnaire from FY2020 to meet the needs of investors for environmental information from the Group. The resulting CDP score is as follows.

	FY2020
CDP Score (climate change)	B-

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

- The Fukuoka Financial Group will use external assessments such as that of CDP to promote effective climate change initiatives.

Corporate Governance

Basic Views on Corporate Governance

The Group Management Principles state the Group's goal to become a financial group that creates value for all stakeholders, including shareholders, customers, local communities and our employees, and the Group's basic management policy is based on the same view.

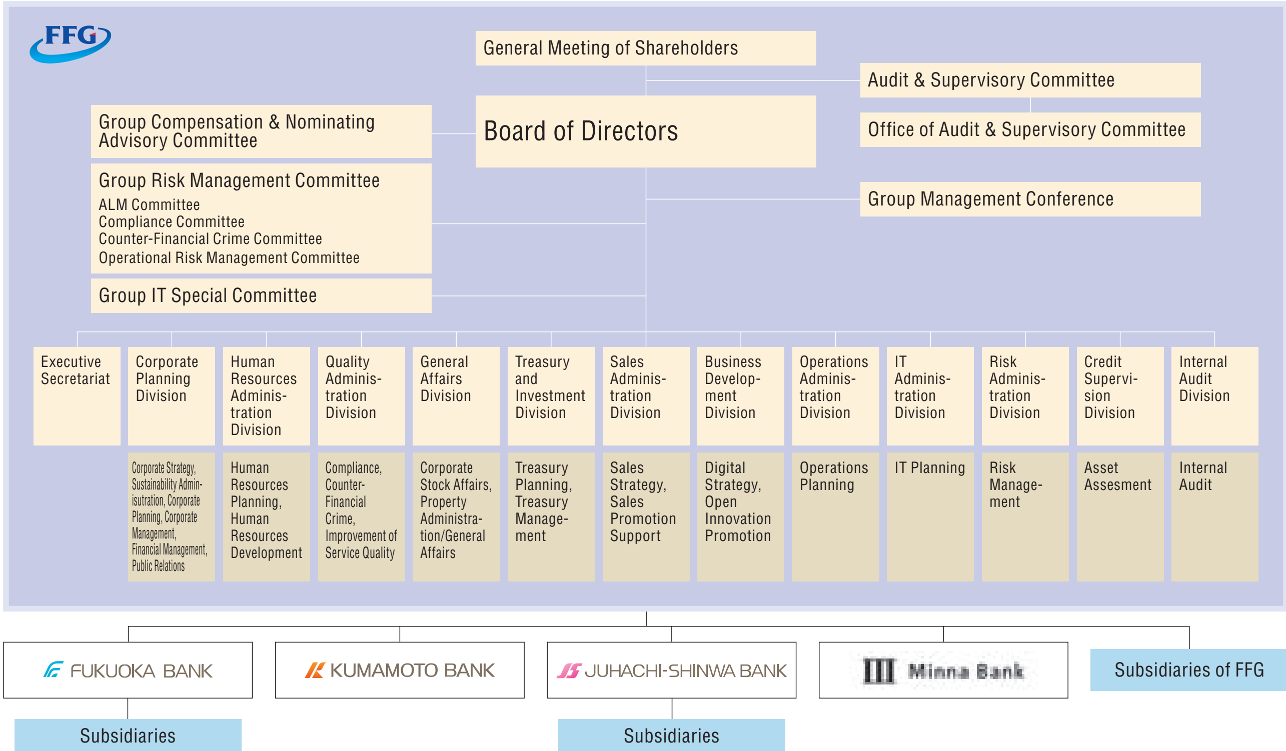
Under these Group Management Principles, the Company, as a holding company to govern the Group, mainly consisting of the core subsidiary banks, is focused on realizing highly effective corporate governance for the purpose of optimizing the management resources of the Group and administering the Group as a whole in a sound and appropriate manner.

Corporate Governance Framework

The following is an overview of the Company's management and business organization framework.

■Corporate Governance Framework

(As of January 4, 2022)



●Board of Directors

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

●Audit & Supervisory Committee

The Audit & Supervisory Committee is composed of 3 Audit & Supervisory Committee (including 2 external Directors), and these Audit & Supervisory Board Members shall audit Directors' job performance and examine the status, etc. of business conditions and assets of the Group as a whole based on the basic policies and audit plan for auditing the Group as a whole.

Board of Directors

Takashige Shibato

Director, Chairman & President
(Representative Director)

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

Yasuhiko Yoshida

Director &
Deputy President
(Representative Director)

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

Hisashi Goto

Director &
Executive Officer

The Bank of Fukuoka, Ltd.;
Director & Senior Managing
Executive Officer

Hiroshi Miyoshi

Director &
Executive Officer

The Bank of Fukuoka, Ltd.;
Director & Senior Managing
Executive Officer

Toshimi Nomura

Director &
Executive Officer

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

Takujiro Mori

Director &
Executive Officer

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

Koji Yokota

Director &
Executive Officer

Minna Bank, Ltd;
Director & President

Masahiko Fukasawa

External Director

AlixPartners Asia LLC;
Managing Director

Toshiya Kosugi

External Director

Truth, Human Science and
Management Organization
Laboratory LLC; Representative

Kazunori Tanaka

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

Hideo Yamada

External Director
(Audit & Supervisory
Committee Member)

Graduate School of Business
and Finance, Waseda
University; Professor

Nobuko Ishibashi

External Director
(Audit & Supervisory
Committee Member)

Kobe City Law Office;
Representative partner lawyer

Corporate Governance

●Office of Audit & Supervisory Committee

To enable the Audit & Supervisory Committee system to function efficiently, staff (2 members) will be exclusively designated to support the Audit & Supervisory Committee.

●Group Nominating Advisory Committee, Group Compensation Advisory Committee

The Group Nominating Advisory Committee and the Group Compensation Advisory Committee, as advisory bodies to the Board of Directors, discuss matters related to the appointment/dismissal and the compensation of Directors, etc. to enhance transparency and fairness of our Group management. The composition of each Committee is as follows.

Group Nominating Advisory Committee

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

Group Compensation Advisory Committee

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

●Group Management Conference

The Group Management Conference is composed of 7 executive Directors (with the President acting as Chairperson) (also attended by the full-time Audit & Supervisory Committee), and shall discuss important matters related to business and affairs of the Group including group management and operational planning based on basic guidelines stipulated and matters entrusted by the Board of Directors.

●Group Risk Management Committee

The Group Risk Management Committee is composed of 7 executive Directors and officers in charge of relevant departments (with the President acting as Committee Chairperson) (also attended by the full-time Audit & Supervisory Committee), and shall discuss and report on matters related to asset portfolio management, compliance and counter-financial crime management in addition to carrying out discussions concerning each of the risk management systems of the Group as a whole.

●Group IT Special Committee

The Group IT Special Committee is composed of 7 executive Directors and officers in charge of relevant departments (with the President acting as Committee Chairperson) (also attended by the full-time Audit & Supervisory Committee), and shall discuss matters related to IT strategy, system risk management and investment in IT systems to strengthen the IT governance system of the Group as a whole.

●Executive Officers

Twenty Executive Officers (including 7 members serving concurrently as Directors) are elected by a resolution of the Board of Directors and entrusted with the duty of facilitating quick decision-making and strengthening business execution functions of the Board of Directors.

Pick up! Evaluation of Effectiveness of the Board of Directors (Summary)

The Board of Directors analyzes and evaluates the effectiveness of the Board of Directors as a whole on an annual basis. By continuing this initiative, we will further improve the effectiveness of our Corporate Governance and link this to the improvement of corporate value in the mid- to long-term.

The method and results of evaluation of the effectiveness of the Board of Directors as a whole for FY2020 are as follows.

[Evaluation method]
The evaluation of the Board of Directors was implemented by following the method (procedures) described below.

i) Conducted a questionnaire to evaluate the effectiveness of the Board of Directors with Directors and Executive Officers;
ii) Additionally conducted interviews with External Directors to collect a wider range of opinions; and
iii) Based on the results of i) and ii), analyzed and evaluated the effectiveness of the Board of Directors as a whole, and implemented sharing of awareness on issues, discussions on improvement measures, etc.

The evaluation method in general and the details of the questionnaire were decided based on a review from the objective perspective of external experts.

[Evaluation results (summary)]

1. Overall evaluation
   - We verified that the Board of Directors was properly operated pursuant to the Corporate Governance Guidelines and that the effectiveness of the Board of Directors as a whole is ensured.
2. Update on improvement measures on issues pointed out in the evaluations in the prior years
   - Based on the issues pointed out in the evaluations in the prior years, we transitioned to a company with an audit & supervisory committee last year in order to further enhance the effectiveness of the Board of Directors, streamlined the Board of Directors by reducing the number of Directors, and raised the ratio of External Directors. In addition, we worked, on an ongoing basis, to narrow down points and improve preparation of materials for discussions when submitting proposals to the Board of Directors, management conferences, etc., as well as promote opinion exchanges between the External Directors and executive members.
   - Through these initiatives, we verified that discussions at the Board of Directors, management conferences, etc., have been vitalized and that the quality of discussions has also been making steady progress.
3. Sharing of awareness on issues and improvement measures
   - We shared the awareness that it is important to further promote discussions on themes that we will need to tackle from a medium- to long-term perspective toward improvement of sustainable corporate value in the future.
   - We confirmed that we will flexibly set up opportunities for information sharing and opinion exchanges, either officially or unofficially, and that we will continue to improve the quality of the provision of information for discussions by executive members. These initiatives aim for deepening discussions on medium- to long-term risks and business opportunities in light of the rapidly changing business environment, including issues over sustainability and the spread of novel coronavirus disease (COVID 19), as well as for making better use of the insight of External Directors in various discussions.
   - Through these initiatives, we will further improve effectiveness of corporate governance and thereby create higher mid- to long-term corporate value.

Corporate Governance

Interview with External Director

The journey has just begun.
I will strive to raise awareness of issues and make suggestions from a heightened perspective to support FFG in moving forward at the new stage.

External Director
Masahiko Fukasawa
Managing Director,
AlixPartners Asia LLC

Q What is your view on FFG for the past year?

The fiscal year ending March 31, 2022 is the final year of the 6th Mid-Term Management Plan. FFG has so far advanced such initiatives as "structural reform (including rebuilding business processes, sophistication of business model, and promotion of digital transformation (DX))," "full leveraging of human resources," and "strengthening Group total power." Each of these initiatives is growing bigger and bigger, gradually starting to produce outcomes. In addition, FFG successfully and stably completed the merger of the Shinwa Bank and the Eighteenth Bank to establish the Juhachi-Shinwa Bank during this fiscal year. The merger has been welcomed by our customers. Moreover, a lot of measures have been taken for reviewing human resource strategy, having a sense of speed, and ensuring diversity and inclusion to reproduce FFG's strengths, which I mentioned as issues in the interview for last year's Annual Report. In addition to this, FFG has built a foundation for new businesses by launching Minna Bank and Sustainable Scale. Given that FFG has made these achievements while contributing to customers and society affected by the COVID-19 pandemic, I recognize anew that the Group is a great organization with underlying strength.

Two factors have made this possible. One is management's leadership. Issue setting and stringent follow-up take place at the Board of Directors meetings and are also found in interactions in the process prior to the meetings. The other is the power of the organization and individuals. FFG has the capabilities of gathering a wide range of information, setting issues, and thinking and taking action to solve them, as well as the capabilities as an organization of creating and building a framework for that approach. FFG identifies issues to be addressed and properly implements the PDCA cycle, and has leaders who support such efforts in the field. Human resources engaged in traditional banking operations are making untiring efforts to improve operational quality and efficiency while working on transformation for delivering value to customers. In addition, there are human resources who can design and materialize entirely new businesses. I find that these capabilities of each executive and employee serve as a powerful driving force for the Group.

Q What do you feel are issues at present?

Key issues are having a vision for the future, keeping on trying to create new business models, and human resource strategy.

●Having a vision for the future

While FFG continues to show the signs of success with its constant bold initiatives, I do not think that it has reached the point where its individual and corporate customers and other wide-ranging stakeholders can broadly imagine the future vision of FFG. We are properly doing what to do, but it is still not enough. Recognizing this gap is very important.

The purpose, that is, "what FFG exists for and what value FFG wants to deliver," is shared within the Group and will not change significantly. However, the approach to achieving the purpose and what FFG should do to achieve it will change depending on environmental and technological changes. Therefore, I would like to make a contribution as an external Director so as to repeatedly discuss and share the image of FFG's vision for the future at the Board of Directors meetings and identify the path to get there.

●Keeping on trying to create new business models

When it comes to response to environmental changes, FFG launched Minna Bank to promote digital transformation (DX) and Sustainable Scale in the field of SDGs, which is extremely important for a bank to fulfill its social responsibilities. FFG not only constantly talks about megatrends but also has begun actual operations by giving shape to the concept developed in tandem with global trends. This is a huge step forward.

For the banking sector, whose business framework has long been fixed, the experience of creating business models from scratch is truly valuable. Being exposed to such a stimulating experience will become an absolutely great asset not only for people who play a central role in promoting projects but also for management and employees surrounding them. Firstly, FFG's management, including external Directors, spent a lot of time discussing Minna Bank. In order to realize the concept developed, we establish systems and infrastructure from scratch, create a team with a unifying force by involving external specialists, and consider branding and marketing from angles different from the usual ones. Through this process, insights, know-how, and philosophies that we did not have before will be accumulated. The same is true of Sustainable Scale, in terms of working with external specialists to create intellectual properties. As the world will increasingly require these skills in the future, I find it especially valuable to be able to accumulate successful experiences now. Repeating the experience of managing and commercializing the know-how and intellectual properties we have created will lead to similar activities in different areas in the future. As an external Director, I think it is important to convey that I recognize the value of these efforts from such a viewpoint.

At present, FFG is able to provide limited services targeted at very limited customers, but it still has a lot of things to do and try going forward. It also must expand the scope of business and points of contact. Keeping on transforming itself while constantly envisioning the future will bring about success. With the recognition that the journey has just begun, I intend to continue with my efforts to help FFG move forward with a sense of speed without stopping.

●Human resource strategy

Human resource strategy is an extremely important issue constantly discussed at the Board of Directors meetings. As I have mentioned at the beginning, the capabilities of individuals serve as a powerful driving force to support FFG, and further it has been proved that there are human resources who serve as a driver to give shape to new ideas. Next, I believe it is urgent to consider how to continue producing human resources who are powerful, open-minded, and unconventional in a sense going forward, or how to make such human resources outside the Group get interested in FFG. As the operating environment of banks has so far tended to produce generalists rather than specialists, it will take time to develop the types of human resources that will be needed from now on. In addition, to continue growing as an organization, FFG needs to become a team of experts where each member has clear career goals, skills, and expertise. I find it essential to be aware of these points and further accelerate discussions on human resource strategy.

Another thing that FFG must consider again at the stage where it stands today is leadership to meet the expectations of society as the entire Group. The new initiatives mentioned earlier are just a part of FFG. Although individual employees fulfill their roles and responsibilities in different ways, we need to unite the Group as a single organization so as to ensure that all members, regardless of their positions, can be proud of being a part of FFG because the entire Group is making a great contribution to society as one team. To this end, the roles of leaders in different fields are very important. It is essential for the leaders in the fields, whether branches, head office, or group businesses, to convey in an easy-to-understand manner what value their operations provide and what the things learned through them will bring about in the future, as a colleague working at the same workplace. I believe that this will become a key to increasing the attractiveness and underlying strength of the organization. Only an environment embracing diversity and inclusion, which FFG emphasizes, will enable it to grow into an organization that can nurture the individuality of employees, promote their collaboration, and continue to achieve greater results.

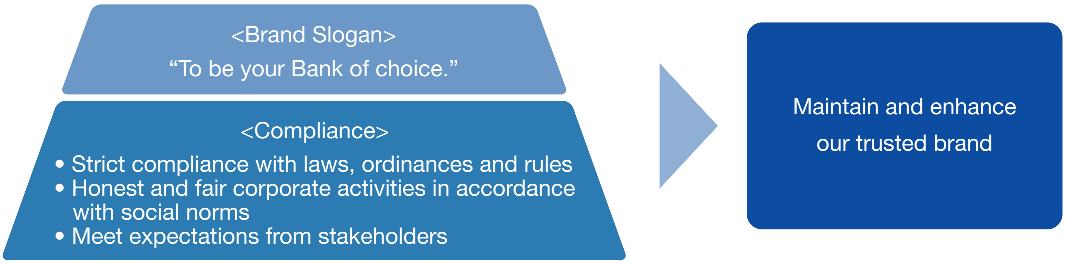
I sense that there is a long way to go for each initiative. But I am committed to supporting FFG's growth at the new stage by guiding the Group to have a long-term perspective and raising awareness of issues and making suggestions from all angles.

Compliance: To protect a trusted brand

Fundamental Principle

FFG strives to enable each and every officer and employee to act with the awareness that they are responsible for our brand slogan, “To be your Bank of choice.”

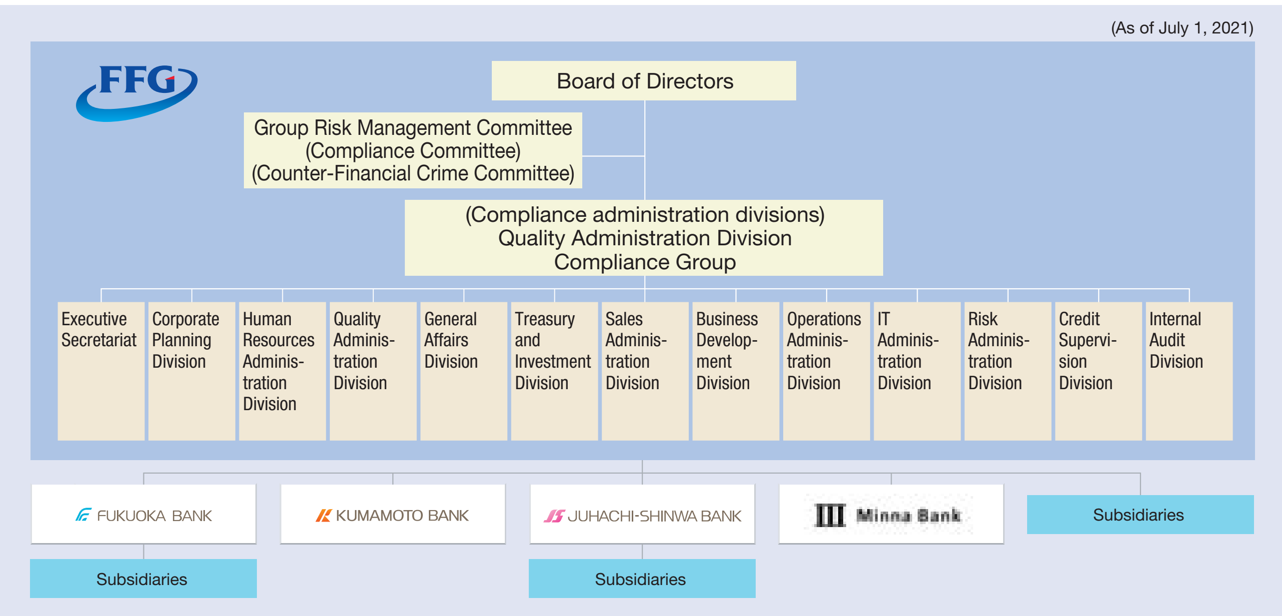
Compliance is the foundation for this, and FFG strictly observes all laws, ordinances and rules, as well as conforms to social norms in carrying out honest and fair corporate activities, aiming to gain unwavering trust from stakeholders.



Compliance framework

As a subcommittee of the Board of Directors, FFG has established a Compliance Committee to discuss and report on significant matters associated with compliance. The Compliance Committee, whose members include the President and Directors, periodically assesses and monitors the compliance system, AML/CFT management system, and customer protection and other management systems. The Committee also appoints a Chief Compliance Officer (CCO) to manage compliance of the overall Group, as well as establishes compliance administration divisions.

FFG has established a Compliance Charter, which shows the compliance-related basic values, spirit, and code of conduct in common among Group companies and a Compliance Manual, which compiles ethical provisions, in-house regulations, laws and other pertinent ordinances. FFG also has established a Compliance Program for each fiscal year as a practical plan for priority issues and action plans in relation to compliance to steadily maintain the compliance system of the Group as a whole for its increased effectiveness.



Instilling and enhancing compliance awareness

The main measures of FFG's Compliance Program are to enhance and strengthen the compliance system, the AML/CFT management system, and the customer protection management structure. It takes initiatives like the following, focusing particularly on issues such as compliance risks due to environmental changes and whether there are any discrepancies or gaps between what FFG thinks is common sense and what the rest of the world thinks is common sense

- Transmitting messages from Management (notices, strategic meetings for all branches, training sessions, etc.)
- Status-specific training sessions (for new hires, supervisors, managers, etc.)
- Compliance reinforcement months twice a year
  - On-the-job training through video distribution, etc.
  - Awareness tests regarding compliance
  - Monitoring by individual employees for compliance violations
  - Monitoring compliance status at each workplace according to operations
  - Monitoring at each workplace for appropriate handling of personal and customer information

Whistleblowing System and Other Initiatives for the Early Discovery and Correction of Misconduct

FFG has set up a whistle blowing system called the Whistle blowing Hotline for the early detection and correction of acts such as violations of laws and ordinances, or violations of employment rules. Not only an internal contact point, but also an external contact point in a law office has been established in order to ensure confidentiality.

In addition to the Whistle blowing Hotline, various systems have been established to report and consult with Human Resources department and supervisors about anything so that troubles, concerns, etc. can be gathered more broadly and addressed early.

Anti-bribery and Anti-corruption Initiatives

FFG endeavors to prevent bribery and corruption before they are committed by outlining our approach and measures against bribery and corruption as an organization in a Compliance Manual and familiarizing officers and employees with this.

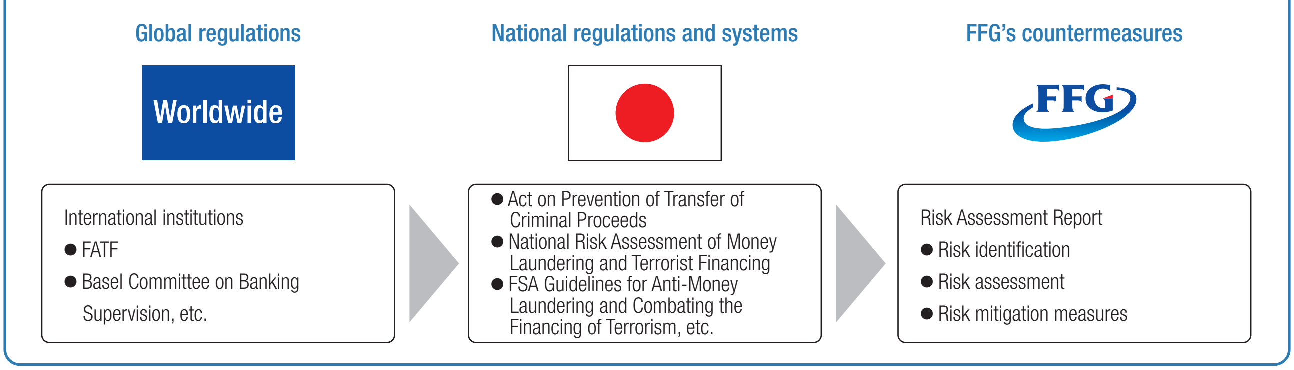
Compliance: To protect a trusted brand

Anti-Money Laundering and Countering the Financing of Terrorism

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

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

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



FFG's Main Initiatives

- Establishment of the Management System

Positioning the prevention of money laundering and other financial crimes as one of the most critical issues for business management, FFG has established the Counter-Financial Crime Group under the Quality Administration Division as an administration department and works to ensure uncompromising verification and sophistication of the management system to maintain and improve public trust.

FFG regularly holds Counter-Financial Crime Committee meetings attended by the management and heads of each department in order to discuss and report measures and cases. Understanding that financial crimes such as money laundering can pose a material risk to the business, the management and heads of each department proactively take the initiative and require all employees to fully understand the countermeasures.

- Revision of the Risk Assessment Report

FFG identifies and assesses the risks associated with products and services that FFG and its Group companies offer, and in order to reduce such risks, we have established a written Risk Assessment Report by a Specified Business Operator, etc. (Risk Assessment Report), which is revised at least once a year.

- Employee training

FFG provides on-the-job training for all employees, status-specific training, and business-specific training, and continuously promotes certification tests and qualification acquisition related to the prevention of money laundering and other financial crimes.

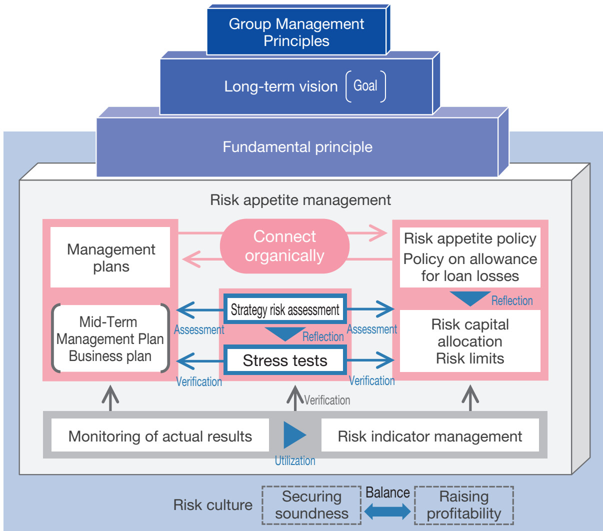
The Group reviews the status of compliance with measures to prevent money laundering and other financial crimes, and based on the results, continuously improves the system.

Risk Appetite Framework

Financial institutions receive profits in exchange for taking on various risks that arise from businesses, etc., including credit risk on loans and market risk on securities investment.

FFG defines the types and amount of risk taken on voluntarily with the aim of achieving management goals as “Risk appetite.” With this risk appetite as the starting point, we introduced the “Risk Appetite Framework” to conduct business management and risk management.

Through establishing the Risk Appetite Framework, our stance towards risk-taking is clarified, which enables FFG to pursue more opportunities for profit, and to conduct more appropriate risk control.



Risk Appetite Policy

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

The risk appetite policy consists of “Fundamental principle,” which specifies the fundamental principle for risk-taking in each risk category, and “Risk Appetite (qualitative and quantitative),” which specifies specific risk-taking methods and the quantitative levels thereof.

There are seven risk categories in the risk appetite policy comprising “Compliance risk” and “ESG risk” added to the five(*) comprehensive risk management categories.

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

Policy on Allowance for Loan Losses

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

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

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

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

Risk Appetite Framework

Stress Tests

Amid drastic changes in the external environment surrounding financial institutions, FFG positions stress tests as an effective method of evaluating the sustainability of its business model.

FFG conducts multiple types of stress tests, striving to strengthen its responsiveness to each type of risk. Specifically, through multiple stress scenarios that reflect deteriorating risks including credit risk and market risk that may arise in the future, FFG verifies the appropriateness of its management plans and risk appetite. Through scenarios that refer to extremely large market fluctuations, etc. in the past, FFG verifies the adequacy of regulatory capital and economic capital under stress situations.

Strategy Risk Assessment

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

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

Risk Indicator Management

Among potentially significant risks identified, FFG conducts risk indicator management on risks for which quantitative analysis is possible and that have a material impact on FFG. Specifically, utilizing risk heat maps, etc. which comprise various quantitative indicators such as production and employment-related indices and expected inflation rate, FFG conducts initiatives to capture indicators of risk actualization in the future.

The aims of risk indicator management are: “to swiftly recognize a heightened level of a potentially significant risk for FFG” and “to discuss and implement specific countermeasures at an early stage for risks where the possibility of actualization is high and the impact is large, so as to keep the impact on FFG to a minimum.”

Addressing Material Risks

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

Material risks	FFG initiatives
Expansion of COVID-19	• Establishment and promotion of a company-wide business continuity system
Unexpected increase in credit-related costs	• Adequate reserve to combat future risks via a forward-looking allowance system
Compliance	• For details, please refer to Pages 48 through 50
Financial crime and money laundering	• For details, please refer to Page 50
Cyber security	• Establishment of an advanced cyber security management system for the digital age
Natural disasters and climate change	• Establishment of a climate-related risk management framework in line with TCFD recommendations → For details, please refer to Pages 38 through 41 • Establishment of an effective business continuity system through the use of hazard maps, etc.
Intensifying competition due to entrants from other sectors, etc.	• Securing countermeasures via digital transformation (DX), etc. → For details, please refer to Pages 26 through 27

Risk Management

Approach to Risk Management

Although financial deregulation, globalization and the development of IT technologies have expanded business opportunities for banks, they have caused the risks that these institutions face to become more diverse and complex. In this environment, risk management has become increasingly important, embracing recognition, comprehension and analysis of risks and the implementation of appropriate control measures.

FFG, in so far as is possible, applies a uniform yardstick to quantify the diverse risks that arise in the pursuit of its business and, based on comprehensive understanding, aims for management that strikes a balance between maintaining soundness and raising profitability. This is implemented groupwide through the FFG's risk management measures.

Furthermore, FFG aims for horizontal coverage, leveraging the brands of each Group bank, with an efficient single-platform business administration system in the implementation of its groupwide management.

With regard to risk management, we employ a variety of advanced risk management procedures and infrastructure, which we deploy groupwide through a common risk management platform.

FFG institutes a Risk Management Policy as a common standard applied within the Group and formulates an annual Risk Management Program, which serves as an action plan. Through this stance, we are reinforcing and upgrading risk management groupwide.

Risk Classifications and Definitions

In so far as is possible, FFG exhaustively deals with risks arising in the execution of its business activities. We differentiate these risks into the following classifications, which we manage in accordance with their respective risk characteristics.

Furthermore, for more effective implementation we carry out ongoing revisions to each risk management method in tune with advances in risk quantification technologies and other developments.

Risk Classifications Targeted for Management

Risk categories		Definitions	Methods	
Credit Risk		Risk of losses arising from asset values that have fallen or been erased (including off-balance-sheet assets) by the worsening financial position of obligors	Management by VaR	Integrated risk management
Market Risk		Risk of losses arising from variation in the value of held assets and liabilities (including off-balance-sheet assets and liabilities) as a result of fluctuations in market risk factors, such as interest rates, exchange rates and stock prices, or from variation in profits generated by assets and liabilities		
	Interest-Rate Risk	Risk of losses arising from declining profits caused by interest-rate fluctuations in the event of mismatched periods for interest rates applicable to assets and liabilities		
	Volatility Risk	Risk of losses arising from fluctuations in prices of securities and other instruments		
	Exchange-Rate Risk	Risk of losses arising from currency rate fluctuations in the event of a position of excessive assets or liabilities on a net basis for foreign-currency-denominated assets and liabilities		
Operational Risk		Risk of losses arising from inappropriate business mechanisms, activities by executives and employees or systems, or from the impact of external events The following are risk management subcategories	Management using a fixed quantitative scale	Comprehensive risk management
	System Risk	Risk of losses arising from computer system down time or system deficiencies, from illegal use of computers, or from other similar risks (including risks arising from disasters, social infrastructure accidents and other such mishaps)		
	Administrative Risk	Risk of losses arising from failure by executives and employees or other organizational staff (such as part-time and dispatched workers) to perform their duties, from accidents or fraud, or from other similar risks		
	Tangible Asset Risk	Risk of losses arising from damage to tangible assets as a result of accidents, disasters, criminal acts or asset management defects		
	Labor Risk	Risk of losses arising from problems with labor practices (problems with treatment of personnel, management of employee duties and union activities), from workplace health and safety environment issues, or risk from employer liabilities caused by claims arising from illegal conduct of executives and employees		
	Legal Risk	Risk of losses arising from violations of laws or contracts, forming of improper contracts, and other legal causes		
	Reputation Risk	Risk of losses arising from unsubstantiated or untrue rumors among customers or in the market that detract from the Group's reputation, or from risks arising from loss of confidence or obstruction to business operations as a result of public disclosure of improper business administration	Management by qualitative assessment	
Liquidity Risk				
	Cash Management Risk	Risk of losses arising from difficulties in securing necessary funds as a result of mismatching the period of cash management and procurement or unforeseen cash outflows, or from fund procurement unavoidably carried out at interest rates significantly higher than usual		
	Market Liquidity Risk	Risk of losses arising from the inability to carry out transactions due to market disruptions and other factors, or from transactions unavoidably conducted at prices significantly less favorable than usual		

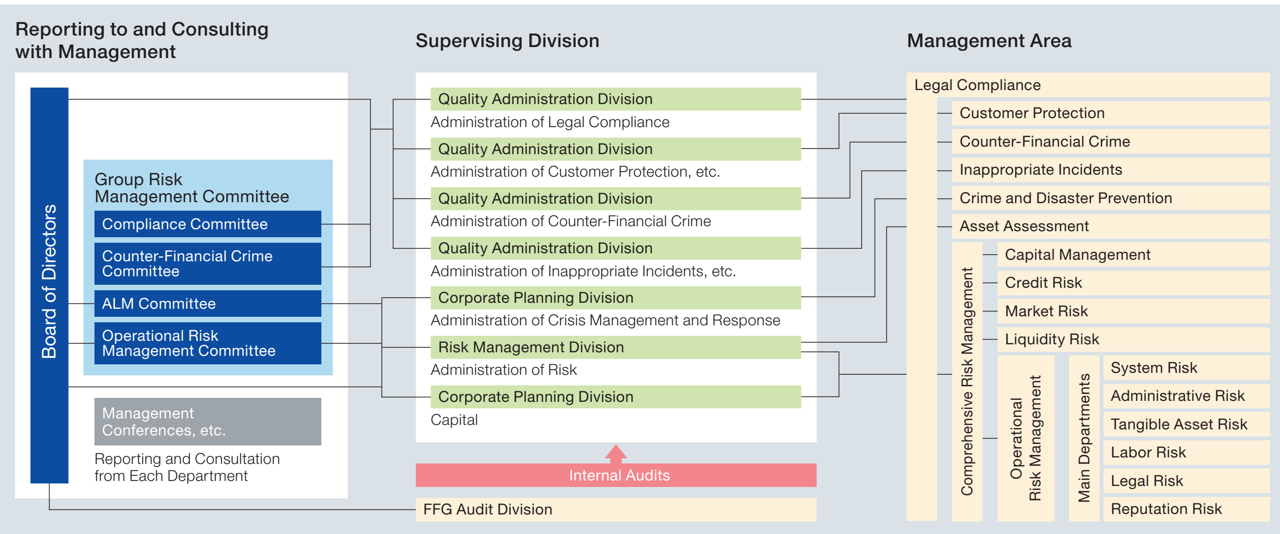
Risk Management

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

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

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

FFG's Risk Management Framework



Comprehensive Risk Management

About Comprehensive Risk Management

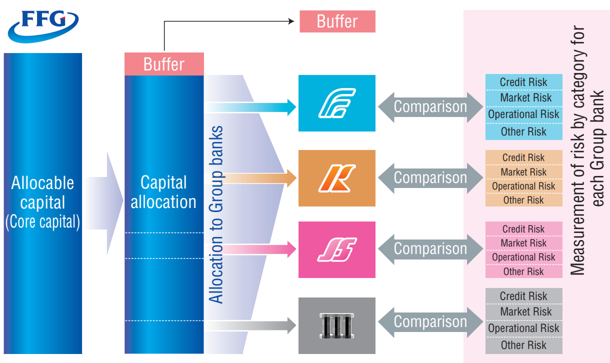
Comprehensive risk management makes an integrated assessment of risks that financial institutions face, evaluated for each risk category, by comparison with that financial institution's capital. Categories include credit risk, market risk and operational risk, as well as credit-concentration risk and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

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

Risk Capital Allocation System

FFG has introduced a risk capital allocation system within the framework of its comprehensive risk management. Specifically, FFG assesses its capital allocation on the basis of FFG consolidated capital (Core capital), maintaining the remainder as a buffer against risks that are difficult to measure. Capital allocation is applied to each Group bank and the usage is monitored and managed on a monthly basis.

Framework of the Group Risk Capital Allocation System



Credit Risk Management

Credit risk is the risk of losses arising from asset values (including off-balance-sheet assets) that have fallen or been erased by the worsening financial position of obligors.

This is the main risk category incurred by the Group. In order to post appropriate profits and maintain soundness of assets, credit risk management is one of the most important issues in bank management.

With regard to credit risk management, FFG is developing its management along the lines of a multi-brand single platform while employing the same common rating systems, screening procedures and credit portfolio management procedures across FFG.

FFG's basic policy on groupwide credit risk management is set out in its Risk Management Policy, which forms the basis for a Credit Policy for each Group bank. This policy indicates a basic approach covering the judgment and behavior for the appropriate operation of credit businesses.

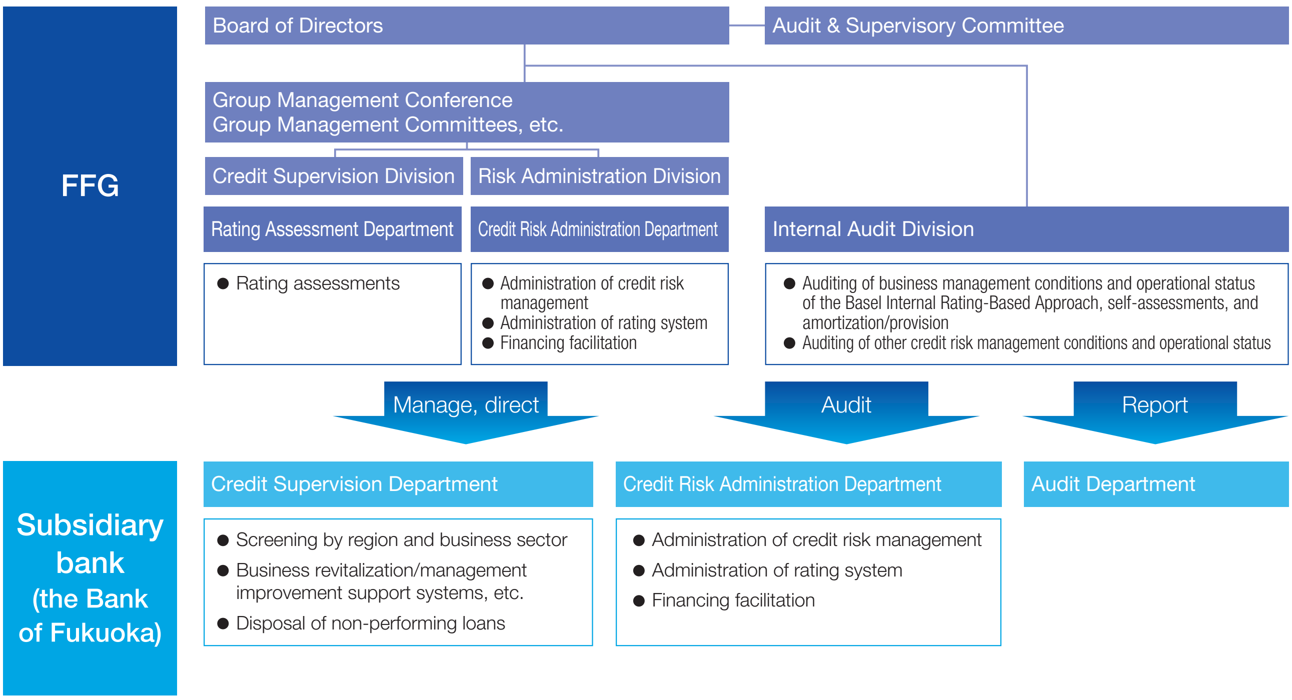
FFG has also created the Credit Risk Management Program as an action plan for enhancing the groupwide credit risk management framework and strengthening groupwide credit portfolio operations.

Credit Risk Management System

The Credit Risk Management System is centered on the Risk Management Division, which administers the formulation of credit risk management policy and manages the rating systems and credit risk for the Group.

Screening for individual loan applications is conducted by the credit supervision departments of each Group bank and rating assessments based on the credit ratings system are chiefly conducted by the Credit Supervision Division, FFG's rating assessment department, in conjunction with business offices of each Group bank. FFG's Risk Administration Division handles Group-level management of obligors' dealings with banks within the Group.

FFG's Internal Audit Division audits the soundness of asset content, and the appropriateness of credit risk management conditions from a standpoint independent from each Group bank. The division reports its findings to FFG's Board of Directors. The audit departments of each Group bank receive audit reports from the FFG's Internal Audit Division and report the audit results to the respective boards of directors.



Risk Management

Obligor Ratings

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

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

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

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

Quantification of Credit Risk

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

Framework for Individual Credit Management

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

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

Market Risk Management

FFG's Board of Directors has established a basic policy on market risk management. In light of this basic policy, the Group Risk Management Committee has determined a management policy for market risk, including ALM, as a system for controlling risk groupwide by monitoring the status of policy implementation and risk.

Moreover, FFG's Risk Management Division ascertains and analyzes the market risk conditions and status of market risk management of the Group, based on reporting from the market risk administration divisions of the Group banks. The Group's Risk Management Division provides a framework for advising the market risk administration divisions of the Group banks on risk management arrangements and periodically reporting to the Board of Directors.

Specifically, the division manages market risk by considering the risk profiles of the Group banks and monitoring the implementation status of various risk limits set by aligning them with risk capital apportioned to the banks. The trading and banking divisions use the common yardstick of VaR for setting such limits on risk.

Note: VaR is the largest loss likely to be suffered on a portfolio position with a given probability.

Liquidity Risk Management

The Board of Directors of the Group has instituted a basic policy on liquidity risk management in the recognition that downplaying liquidity risk could lead to serious problems of business failure and, in turn, the systemic risk of a chain reaction of defaults by financial institutions. In light of this basic policy, the Group's Risk Management Committee has determined a liquidity risk management policy following consultations with the ALM committees of the Group banks, which forms a framework for controlling risk across the Group by monitoring the status of policy implementation and risk conditions.

Furthermore, the Group's Risk Administration Division ascertains and analyzes the Group's liquidity risk situation and the status of liquidity risk management, based on reporting from the liquidity risk administration divisions of the Group banks. The Group's Risk Administration Division forms a framework for advising the liquidity risk administration divisions of the Group banks on risk management arrangements and periodically reports to the Board of Directors.

Specifically, the division manages liquidity risk by determining management categories according to the status of cash flow at the Group banks, actions to be taken for each category and limits for each type of risk associated with cash flow in consideration of the banks' risk profiles.

Operational Risk Management

Operational risk refers to risks associated with inadequacies in the Group's internal business processes, mistakes by officers or regular employees, and system failures, as well as losses attributable to such external factors as disasters. Operational risk is managed by classification into administrative risk, system risk, tangible assets risk, labor risk, legal risk and reputational risk.

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

The Board of Directors of the Group maintains organizational frameworks and mechanisms for appropriate management of operational risk. By establishing Operational Risk Management Rules, which stipulate basic regulations for forestalling the manifestation of risks and minimizing the impact in the event of occurrence, and the Operational Risk Management Program, which specifies priority action items for each fiscal year, the Group comprehensively manages operational risk.

In addition, to appropriately designate, assess, understand, manage, and reduce operational risk, we collect and analyze related loss information for realized risks, and for potential risks we use risk and control self-assessments (RCSA: self-assessment on risk and the effectiveness of risk control) to implement appropriate countermeasures. The Group also monitors and controls operational risk in an appropriate and timely manner through the Board of Directors and the Operational Risk Management Committee.

Communication with Stakeholders

Dialogue with Shareholders and Investors

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

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

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

Results for FY2020	
Annual shareholders meeting	Shareholders in attendance: 110
Briefings for institutional investors and analysts	May 2020 (131 in attendance) November 2020 (104 in attendance)
Minna Bank Business Briefing	January 2021 (132 in attendance)
Individual meetings with institutional investors and analysts	127 sessions

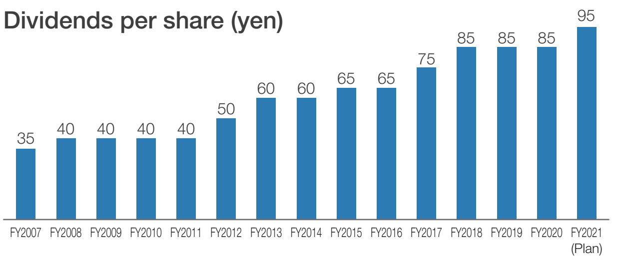
FFG’s Corporate Communication (IR) Calendar

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

Enhancing Shareholder Returns

With regard to returning profits to shareholders, the Group adopts a performance-based dividend policy (dividend table) based on its aim of increasing shareholder value by enhancing corporate value. In consideration of the balance between maintenance of soundness and growth investment, we have set the target payout ratio (consolidated) of about 35%, and our policy is to pay dividends according to the level of consolidated net income.

Dividends per share (yen)



*A one-for-five reverse stock split of our common stock was conducted on October 1, 2018 as the effective date.
The above figures are calculated by recalculating dividends before September 2018 on a post reverse stock split basis.

Target dividend table

FFG consolidated net income level*	Full-year dividend per share	Payout ratio
60 billion yen or more	115 yen	Up to 37%
55-60 billion yen	105 yen	33 to 36%
50-55 billion yen	95 yen	33 to 36%
45-50 billion yen	85 yen	32 to 36%
40-45 billion yen	75 yen	32 to 36%
35-40 billion yen	65 yen	31 to 36%
30-35 billion yen	55 yen	30 to 35%
25-30 billion yen	50 yen	32 to 38%
20-25 billion yen	45 yen	34 to 43%
15-20 billion yen	40 yen	38 to 51%
Below 15 billion yen	35 yen	45% or higher

*Indicates net income attributable to owners of the parent

Fukuoka Financial Group

The Bank of Fukuoka

The Kumamoto Bank

The Juhachi-Shinwa Bank

Independent Auditor's Report

The Board of Directors
Fukuoka Financial Group, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Fukuoka Financial Group, Inc. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, 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, 2021, 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.

<table>
<tr><td colspan="2">The determination of the debtor classification and the future business forecast for estimating the default rate based on the economic outlook.</td></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor's Response</th></tr>
<tr><td>The Group is mainly engaged in the banking business, and its lending business is the core of its business.

In the consolidated balance sheet as of the end of the fiscal year, the Group recorded Loans and bills discounted of ¥17,145,879 million and a corresponding Allowance for loan losses of ¥202,675 million. Loans and bills discounted account for approximately 60% of total assets in the consolidated balance sheet. There is a possibility that credit losses may occur due to uncertainties such as trends in the global and Japanese economies, fluctuations in real estate prices and stock prices, and business conditions of debtors including the spread of COVID-19.

For this reason, the Group estimated amount of expected loss due to future credit deterioration and recorded it as Allowance for loan losses. Details of calculation method are described in "h. Allowance for Loan Losses" in Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements. In addition, details of the estimation of Allowance for loan losses are described in "u. Significant Accounting Estimates" in Summary of Significant Accounting Policies of Notes to Consolidated Financial Statements.

The Allowance for loan losses is calculated in accordance with the self–assessment standards and the amortization and provision standards prescribed by the Group. The calculation process includes the determination of the debtor classification, which is determines by evaluating the debtor's ability to earn profits based on the debtor's repayment status, financial position, business performance and their future prospects, etc., and the estimation of the default rate based on the economic outlook.</td>
<td>In considering the determination of the debtor classification and the future business forecast for estimating the default rate based on the economic outlook, we have mainly conducted the following audit procedures:

・ Assess the accuracy and completeness of the classification of debtors and the credit ratings on which it is based, as well as the information on debtors on which these are based, and the Group's internal controls to ensure the reliability of the future business forecast in estimating default rates and the information on which these are based.

・ In addition to the monetary impact of the transition of the debtor classifications on the amount recorded in the Allowance for loan losses, the debtors' business types, repayment status, financial position or degree of deterioration in business performance, and the impact of COVID-19 were considered to be necessary to identify the debtors to be verified.

・ In order to grasp the actual condition of the debtor's recent repayment status, financial position, and business performance, we inspected a set of materials related to the Group's self-assessment, such as explanatory materials on the debtor's business performance, materials on the borrowing and repayment status, investigation materials for understanding the actual financial position, financial statements, trial balance, etc., and asked questions to the department in charge of the loan.</td></tr>
</table>

In particular, the reasonableness and feasibility of business improvement plans, etc. that embody these prospects for improvement in the future are more important factors in determining the classification of debtors with deteriorated repayment status, financial position, or business performance. The reasonableness and feasibility of business improvement plans are affected by changes in the business environment surrounding the debtor and the success or failure of the debtor's business strategy. In estimating the default rate based on the economic outlook, forecasts are made based on the latest economic indicators and past business cycles. Therefore, the degree of reliance on uncertainty in estimates and management's judgment is high. Accordingly, we have identified the determination of the debtor classification with deteriorated repayment status, financial position, or business performance, and the future business forecast for estimating the default rate based on the economic outlook, as a Key Audit Matter.	• In order to evaluate the ability of debtors to earn profits, the rationality and feasibility of management improvement plan, etc., which embody the repayment status, financial position, and future prospects of the debtors were examined. Regarding major profit and loss items such as sales, cost of sales, selling general and administrative expenses of the debtors, trend analysis from the past results and evaluation of estimates based on the achievement level of management improvement plan, etc. of the past were carried out. In addition, discussions were carried out with the officers in charge of loans and the department in charge of loans, including the effects of COVID-19. • The future business forecast for estimating the default rate based on the economic outlook is predicted based on the latest economic indicators and past business cycles, etc. Therefore, the future business forecast was evaluated by comparing with available external information. In addition, the evaluation of the estimation method of the default rate based on the adopted assumption was performed by verifying and recalculating the main input data. Internal experts (evaluation experts of domestic network firms to which we belong) were involved in the complex areas.

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 financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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.

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

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 28, 2021

Noboru Miura
Designated Engagement Partner
Certified Public Accountant

Yoshihiro Fujii
Designated Engagement Partner
Certified Public Accountant

Takeshi Nagasato
Designated Engagement Partner
Certified Public Accountant

Consolidated Balance Sheet

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 7 and 17)	¥ 6,086,101	¥ 4,555,981	$ 54,973
Call loans and bills bought (Note 17)	—	23,236	—
Receivables under resale agreements (Note 17)	—	37,621	—
Monetary claims bought (Notes 3 and 17)	40,350	54,688	364
Trading assets	1,506	1,630	13
Money held in trust (Note 4)	19,215	14,734	173
Securities (Notes 3, 7, 10, 11 and 17)	3,840,858	3,797,852	34,692
Loans and bills discounted (Notes 5, 7 and 17)	17,145,879	16,126,222	154,871
Foreign exchanges (Note 5)	17,304	32,933	156
Lease receivables and lease investment assets (Note 7)	15,785	15,857	142
Other assets (Note 7)	232,921	283,821	2,103
Tangible fixed assets (Note 6)	206,521	209,629	1,865
Intangible fixed assets	18,187	19,206	164
Net defined benefit assets (Note 9)	26,178	8,459	236
Deferred tax assets (Note 12)	15,884	47,770	143
Customers' liabilities for acceptances and guarantees (Note 10)	45,991	45,662	415
Allowance for loan losses (Note 5)	(202,675)	(206,904)	(1,830)
Total assets	**¥27,510,013**	**¥25,068,405**	**$248,487**
Liabilities			
Deposits (Notes 7 and 17)	¥19,488,484	¥17,521,469	$176,031
Call money and bills sold (Note 17)	1,698,137	2,248,706	15,338
Payables under repurchase agreements (Notes 7 and 17)	1,331,403	1,369,069	12,026
Cash collateral received for securities lent (Notes 7 and 17)	1,025,930	638,281	9,266
Trading liabilities	0	—	0
Borrowed money (Notes 7 and 17)	2,735,073	2,159,259	24,704
Foreign exchanges	2,177	1,679	19
Short-term bonds payable	41,000	29,000	370
Bonds payable (Notes 8 and 17)	10,000	10,000	90
Other liabilities	140,820	156,225	1,271
Net defined benefit liabilities (Note 9)	1,142	4,379	10
Provision for losses on interest repayments	22	26	0
Provision for losses from reimbursement of inactive accounts	7,239	8,592	65
Provision for contingent liabilities losses	0	0	0
Reserves under the special laws	24	22	0
Deferred tax liabilities (Note 12)	800	6	7
Deferred tax liabilities for land revaluation (Note 6)	22,929	22,961	207
Acceptances and guarantees (Note 10)	45,991	45,662	415
Total liabilities	**¥26,551,179**	**¥24,215,343**	**$239,826**
Net assets			
Capital stock	¥ 124,799	¥ 124,799	$ 1,127
Capital surplus	141,387	141,418	1,277
Retained earnings	543,245	514,682	4,906
Treasury stock	(2,453)	(2,446)	(22)
Total shareholders' equity	**806,978**	**778,454**	**7,289**
Valuation difference on available-for-sale securities (Note 11)	112,506	65,358	1,016
Deferred gains or losses on hedges	(16,814)	(32,547)	(151)
Revaluation reserve for land (Note 6)	51,422	51,495	464
Remeasurements of defined benefit plans (Note 9)	4,696	(9,721)	42
Total accumulated other comprehensive income	151,811	74,584	1,371
Non-controlling interests	43	23	0
Total net assets	**¥ 958,833**	**¥ 853,062**	**$ 8,660**
Total liabilities and net assets	**¥27,510,013**	**¥25,068,405**	**$248,487**

Consolidated Statement of Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Interest income:			
Interest on loans and discounts	¥148,913	¥155,206	$1,345
Interest and dividends on securities	35,350	37,936	319
Interest on call loans and bills bought	6	138	0
Interest on receivables under resale agreements	(214)	0	(1)
Interest on due from banks	0	0	0
Other interest income	3,411	6,859	30
Trust fees	0	0	0
Fees and commissions	56,352	56,283	509
Trading income	758	344	6
Other operating income	22,082	17,010	199
Other income	8,357	126,851	75
Total income	**¥275,019**	**¥400,630**	**$2,484**
Expenses			
Interest expenses:			
Interest on deposits	¥ 1,303	¥ 5,262	$ 11
Interest on call money and bills sold	(851)	(994)	(7)
Interest on payables under repurchase agreements	(297)	2,198	(2)
Interest on cash collateral received for securities lent	1,895	5,946	17
Interest on borrowings and rediscounts	1,277	1,622	11
Interest on short-term bonds	10	5	0
Interest on bonds	194	195	1
Other interest expenses	9,086	11,592	82
Fees and commissions payments	24,528	25,007	221
Other operating expenses	12,281	8,236	110
General and administrative expenses	150,284	147,602	1,357
Other expenses	15,976	85,723	144
Total expenses	**¥215,688**	**¥292,398**	**$1,948**
Income before income taxes	**59,330**	**108,231**	**535**
Income taxes: (Note 12)			
Current	14,884	15,954	134
Deferred	(141)	(18,308)	(1)
Total income taxes	**14,743**	**(2,353)**	**133**
Net income	**44,586**	**110,585**	**402**
Net loss attributable to non-controlling interests	**(60)**	**(22)**	**(0)**
Net income attributable to owners of the parent (Note 13)	**¥ 44,647**	**¥110,607**	**$ 403**

Consolidated Statement of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Net income	¥ 44,586	¥110,585	$ 402
Other comprehensive income:			
Valuation difference on available-for-sale securities	47,148	(42,412)	425
Deferred gains or losses on hedges	15,733	(12,308)	142
Remeasurements of defined benefit plans	14,418	(9,476)	130
Total other comprehensive income	**77,300**	**(64,197)**	**698**
Comprehensive income (Note 14)	**¥121,887**	**¥ 46,387**	**$1,100**
Total comprehensive income attributable to:			
Owners of the parent	121,948	46,409	1,101
Non-controlling interests	(60)	(22)	(0)

Consolidated Statement of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2021 and 2020

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of March 31, 2019	¥124,799	¥ 94,164	¥419,871	¥ (391)	¥638,443	¥107,770	¥(20,239)	¥51,560	¥ (245)	¥138,847	¥17	¥777,308
Changes during the period:												
Increase by stock swap		47,120			47,120							47,120
Dividends from surplus			(15,861)		(15,861)							(15,861)
Net income attributable to owners of the parent			110,607		110,607							110,607
Acquisition of treasury stock				(2,055)	(2,055)							(2,055)
Disposition of treasury stock		0		0	1							1
Transfer from revaluation reserve for land			65		65							65
Purchase of shares of consolidated subsidiaries		11			11							11
Capital increase of consolidated subsidiaries		122			122							122
Net changes of items other than shareholders' equity						(42,412)	(12,308)	(65)	(9,476)	(64,263)	5	(64,257)
Total changes during the period	—	¥ 47,254	¥ 94,811	¥(2,054)	¥140,010	¥ (42,412)	¥(12,308)	¥ (65)	¥(9,476)	¥ (64,263)	¥ 5	¥ 75,753
Balance as of March 31, 2020	¥124,799	¥141,418	¥514,682	¥(2,446)	¥778,454	¥ 65,358	¥(32,547)	¥51,495	¥(9,721)	¥ 74,584	¥23	¥853,062
Changes during the period:												
Dividends from surplus			(16,158)		(16,158)							(16,158)
Net income attributable to owners of the parent			44,647		44,647							44,647
Acquisition of treasury stock				(7)	(7)							(7)
Disposition of treasury stock		(0)		0	0							0
Transfer from revaluation reserve for land			73		73							73
Capital increase of consolidated subsidiaries		(31)			(31)							(31)
Net changes of items other than shareholders' equity						47,148	15,733	(73)	14,418	77,227	20	77,247
Total changes during the period	—	¥ (31)	¥ 28,562	¥ (7)	¥ 28,523	¥ 47,148	¥ 15,733	¥ (73)	¥14,418	¥ 77,227	¥20	¥105,771
Balance as of March 31, 2021	¥124,799	¥141,387	¥543,245	¥(2,453)	¥806,978	¥112,506	¥(16,814)	¥51,422	¥ 4,696	¥151,811	¥43	¥958,833

	Millions of U.S. dollars (Note 2)											
	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of March 31, 2020	$1,127	$1,277	$4,648	$(22)	$7,031	$ 590	$(293)	$465	$ (87)	$ 673	$0	$7,705
Changes during the period:												
Dividends from surplus			(145)		(145)							(145)
Net income attributable to owners of the parent			403		403							403
Acquisition of treasury stock				(0)	(0)							(0)
Disposition of treasury stock		(0)		0	0							0
Transfer from revaluation reserve for land			0		0							0
Capital increase of consolidated subsidiaries		(0)			(0)							(0)
Net changes of items other than shareholders' equity						425	142	(0)	130	697	0	697
Total changes during the period	—	$ (0)	$ 257	$ (0)	$ 257	$ 425	$ 142	$ (0)	$130	$ 697	$0	$ 955
Balance as of March 31, 2021	$1,127	$1,277	$4,906	$(22)	$7,289	$1,016	$(151)	$464	$ 42	$1,371	$0	$8,660

Consolidated Statement of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Cash flows from operating activities:			
Income before income taxes	¥ 59,330	¥ 108,231	$ 535
Depreciation of fixed assets	12,271	12,160	110
Impairment losses	678	3,414	6
Gain on negative goodwill	—	(117,433)	—
Net change in allowance for loan losses	(4,229)	56,600	(38)
Net change in net defined benefit assets	(17,718)	10,074	(160)
Net change in net defined benefit liabilities	(3,236)	906	(29)
Net change in provision for losses on interest repayment	(4)	2	(0)
Net change in provision for losses from reimbursement of inactive accounts	(1,352)	2,479	(12)
Net change in provision for contingent liabilities losses	0	(160)	0
Interest income	(187,467)	(200,141)	(1,693)
Interest expenses	12,618	25,829	113
Net losses (gains) related to securities transactions	(5,171)	(1,518)	(46)
Net losses (gains) on money held in trust	(130)	84	(1)
Net exchange losses (gains)	(74)	57	(0)
Net losses (gains) on disposal of noncurrent assets	415	387	3
Net change in trading assets	124	123	1
Net change in trading liabilities	0	(0)	0
Net change in loans and bills discounted	(1,019,656)	(1,249,236)	(9,210)
Net change in deposits	1,967,014	600,797	17,767
Net change in borrowed money (excluding subordinated borrowed money)	575,814	316,549	5,201
Net change in due from banks (excluding deposits with the Bank of Japan)	407	(2,109)	3
Net change in call loans	75,196	(40,128)	679
Net change in call money	(588,234)	449,339	(5,313)
Net change in payables under securities lending transactions	387,648	(18,800)	3,501
Net change in foreign exchanges - Assets	15,629	(22,078)	141
Net change in foreign exchanges - Liabilities	498	434	4
Net change in lease receivables and lease investment assets	71	(1,129)	0
Net change in short-term bonds payable - Liabilities	12,000	13,000	108
Interest received	202,421	214,412	1,828
Interest paid	(14,113)	(25,626)	(127)
Other, net	74,490	(63,651)	672
Subtotal	1,555,242	72,870	14,047
Income taxes paid	(13,419)	(24,998)	(121)
Net cash provided by operating activities	**1,541,822**	**47,871**	**13,926**
Cash flows from investing activities:			
Payments for purchases of securities	(847,559)	(1,224,276)	(7,655)
Proceeds from sale of securities	239,293	218,138	2,161
Proceeds from redemption of securities	623,744	871,750	5,634
Payments for purchases of tangible fixed assets	(1,000)	—	(9)
Payments for purchases of tangible fixed assets	(4,169)	(5,380)	(37)
Proceeds from sale of tangible fixed assets	724	409	6
Payments for purchases of intangible fixed assets	(6,293)	(8,150)	(56)
Net cash provided by (used in) investing activities	**4,740**	**(147,507)**	**42**
Cash flows from financing activities:			
Proceeds from share issuance to non-controlling interests	50	150	0
Payments for purchases of treasury stock	(7)	(18)	(0)
Proceeds from sale of treasury stock	0	1	0
Dividends paid	(16,151)	(15,855)	(145)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(266)	—
Net cash used in financing activities	**(16,108)**	**(15,989)**	**(145)**
Effect of exchange rate changes on cash and cash equivalents	**74**	**(57)**	**0**
Net increase (decrease) in cash and cash equivalents	**1,530,528**	**(115,683)**	**13,824**
Cash and cash equivalents at beginning of the year	**4,545,697**	**4,489,326**	**41,059**
Increase in cash and cash equivalents by stock swap (Note 15)	**—**	**172,053**	**—**
Cash and cash equivalents at end of the year (Note 15)	**¥6,076,226**	**¥4,545,697**	**$54,884**

1. Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying consolidated financial statements of FFG and its consolidated subsidiaries are prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the consolidated financial statements prepared by FFG as required under the Financial Instruments and Exchange Act of Japan.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

b. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of FFG and all companies, excluding 6 companies, namely, FFG Agricultural Corporation Support Investment Limited Partnership, FFG Agriculture, Forest and Fisheries Industries Support Investment Limited Partnership, FFG Venture Investment Limited Partnership No.1, FFG Venture Investment Limited Partnership No.2, FFG Strategy Investment Limited Partnership No.1, and diffeasy. inc, controlled directly or indirectly by FFG. All significant intercompany balances and transactions have been eliminated in consolidation.

The Eighteenth Bank, Limited (hereinafter the "Eighteenth Bank") was excluded from the scope of consolidation from the third quarter of the fiscal year ended March 31, 2021, because it ceased to exist as a result of an absorption-type merger where the Shinwa Bank, Ltd. (hereinafter the "Shinwa Bank") is the surviving company. Effective October 1, 2020, the Shinwa Bank changed its trade name to the Juhachi-Shinwa Bank, Ltd.

The above-mentioned unconsolidated subsidiaries are excluded from the scope of consolidation because their assets, net income (loss) (amount corresponding to the FFG's equity position), retained earnings (amount corresponding to the FFG's equity position), accumulated other comprehensive income (amount corresponding to the FFG's equity position) and others are immaterial to the extent that their exclusion from the scope of consolidation does not preclude reasonable judgment of the FFG's financial position and results of operations.

There are no affiliated companies over which FFG exercises significant influence in terms of their operating and financial policies. The above-mentioned unconsolidated subsidiaries are excluded from the scope of the equity method because their net income (loss) (amount corresponding to the FFG's equity position), retained earnings (amount corresponding to the FFG's equity position), accumulated other comprehensive income (amount corresponding to the Group's equity position), and others are immaterial to the extent that their exclusion from the scope of companies accounted for by the equity method does not preclude reasonable judgment of the FFG's financial position and results of operations.

c. Trading Assets and Liabilities

Trading account transactions are the transactions in which profit opportunities arise from the differences between different markets and short-term movements in rates and other indices, including interest rates, currency exchange rates, and dealing in marketable securities. These transactions are included in the consolidated financial statements as of the respective trading dates.

"Trading assets" and "Trading liabilities" are valued as follows: Securities and monetary assets are valued at market price at the balance sheet date; swaps, futures, options and other derivative transactions are valued on the assumption that they were settled at the balance sheet date.

Gains and losses on specific transactions are recorded by adding or deducting differences between valuation gains or losses at the previous balance sheet date and those at the current balance sheet date to the interest earned or paid in the current year for securities, monetary assets, etc. With respect to derivatives, the differences between the gains and losses from assumed settlement at the previous balance sheet date and those at the current balance sheet date are added to or deducted from the interest earned or paid in the current year.

d. Securities

Held-to-maturity debt securities are stated at cost computed by the moving average method or amortized cost (straight-line method).

Available-for-sale securities whose market value is available are stated at the market value at the fiscal year-end (cost of securities sold is calculated using the moving-average method), and available-for-sale securities for which fair value is not readily determinable are stated at cost computed by the moving-average method.

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 market value.

f. Depreciation and Amortization of Fixed Assets

Depreciation of buildings is principally computed using the straight-line method. Other tangible fixed assets are principally depreciated using the declining-balance method.

The estimated useful lives of the tangible fixed assets are as follows:

Buildings	3 years to 50 years
Other	2 years to 20 years

Intangible fixed assets are amortized using the straight-line method. Costs of computer software developed or obtained for internal use are amortized using the straight-line method for the estimated useful life of 5 years.

Lease assets under finance leases which do not transfer ownership of leased assets to lessees, consisting primarily of office equipment, are depreciated by the straight-line method over the lease terms of the respective assets. Residual value of the tangible fixed assets under finance leases which do not transfer ownership of leased assets to lessees is guaranteed residual value on lease agreements or zero value.

g. Treatment of Deferred Assets

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

h. Allowance for Loan Losses

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

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

All credits are assessed by each credit origination department, and the results of the assessments are verified and examined by the independent examination department.

Allowances for loan losses are provided for on the basis of such verified assessments.

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

i. Retirement Benefits

The expected benefit payments are attributed to each period by the benefit formula method upon calculating projected benefit obligations.

Prior service cost and actuarial gain or loss is amortized mainly in the following manner:

- Prior service cost is amortized by the straight-line method over certain periods (9–12 years), which are shorter than the average remaining years of service of the employees.
- Actuarial gain or loss is amortized by the straight-line method from the following year over certain periods (9–12 years), which are shorter than the average remaining years of service of the employees.

Certain consolidated subsidiaries apply a simplified method where the amount to be required for voluntary termination at the fiscal year-end is recorded as projected benefit obligations in the calculation of their net defined benefit liabilities and retirement benefit expenses.

j. Provision for Losses on Interest Repayments

The provision accounts for the necessary amount to prepare for possible losses on claims for repayments of interests on loans that exceed the maximum interest rate set by the Interest Limitation Law.

k. Provision for Losses from Reimbursement of Inactive Accounts

The provision for losses from reimbursement of inactive accounts for the necessary amount for deposits discontinued from liabilities in consideration of past payment performance, owing to depositor requests for reimbursement.

l. Provision for Contingent Liabilities Losses

The provision for contingent liabilities losses is provided at the amount considered necessary to cover possible contingent losses.

m. Reserves under the Special Laws

Reserves under the special laws corresponds to the financial instruments transaction liability reserves of FFG Securities Co., Ltd., as reserves against losses resulting from a securities-related accident. These reserves are calculated in accordance with the provisions of Article 46-5, Paragraph 1, of the Financial Instruments and Exchange Act and Article 175 of the Cabinet Office Ordinance on Financial Instruments Businesses, etc.

n. Translation of Assets and Liabilities Denominated in Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date.

o. Revenue and Expenses for Lease Transactions

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

p. Hedge Accounting

(1) Hedge accounting for interest rate risks

For derivatives to hedge the interest rate risk associated with various financial assets and liabilities, FFG applies the deferred method which is stipulated in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Committee Practical Guideline No. 24, October 8, 2020). FFG assesses the effectiveness of such hedge for offsetting changes in interest rate, by classifying the hedged items (such as deposits and loans) and the hedging instruments (such as interest rate swaps) by their maturity. FFG assesses the effectiveness of such hedges for fixing cash flows by verifying the correlation between the hedged items and the hedging instruments.

(2) Hedge accounting for foreign exchange risks

FFG applies the deferred method of hedge accounting for derivatives to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities as stipulated in "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry 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 one-to-one hedges are applied to certain assets and liabilities of FFG.

q. Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

FFG and certain of its domestic subsidiaries adopted a consolidated taxation system, with FFG as the parent for consolidated taxation.

Concerning items that transitioned to the group tax sharing system established under the "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020) and items for which the non-consolidated taxation system was revised in response to the transition to the group tax sharing system, FFG and some of its domestic subsidiaries do not apply the provision of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28 of February 16, 2018) in accordance with Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39 of March 31, 2020). Accordingly, the amounts of deferred tax assets and deferred tax liabilities are presented based on the provisions of tax laws before the amendment.

r. Appropriation of Retained Earnings

Under the Companies Act, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 22.

s. Cash and Cash Equivalents

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

t. 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."

(Additional information)

FFG adopted "Revised Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24 of March 31, 2020) from the consolidated financial statements for the end of the fiscal year ended March 31, 2021, and disclosed "Principles and procedures of accounting treatments adopted when relevant accounting standards, etc. are not clear."

u. Significant Accounting Estimates

Items whose recorded amount in the consolidated financial statements for the fiscal year ended March 31, 2021 for accountingwas 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 year ended March 31, 2021

(Millions of yen)

	2021
Allowance for loan losses	¥202,675

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

(a) Calculation method

See "h. 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 based on an economic outlook." 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 based on an economic outlook

  It is set by estimating the latest economic indicators and past business cycles, etc. At the end of the fiscal year ended March 31, 2021, FFG assumes that the economy will move toward a moderate recovery as with the gradual lifting of restrictions on economic activities are gradually relaxed along with and dissemination of vaccines althoughdespite currently stagnant economic recovery remains stagnant due to the resurgence of COVID-19.

(c) Impact on the consolidated financial statements for the following fiscal year ending March 31, 2022

Regarding main assumptions, there is a high level of uncertainty in estimates. 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, 2022.

v. Accounting Standards Issued but Not Effective

(1) The ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29 of March 31, 2020), and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30 of March 26, 2021).

(a) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(b) Scheduled date of adoption

FFG expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(c) Impact of adopting the accounting standard and implementation guidance

FFG is currently evaluating the effect of adopting the accounting standard and implementation guidance on its consolidated financial statements.

(2) The ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30 of July 4, 2019), "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31 of July 4, 2019), "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10 of July 4, 2019) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 of March 31, 2020).

(a) Overview

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

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

(b) Scheduled date of adoption

FFG expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(c) Impact of adopting the accounting standard and implementation guidance

FFG is currently evaluating the effect of adopting the accounting standard and implementation guidance on its consolidated financial statements.

w. Changes in Presentation

(1) FFG adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 of March 31, 2020) from the consolidated financial statements for the end of the fiscal year ended March 31, 2021. Accordingly, a note for significant accounting estimates was described in the consolidated financial statements.

However, in the said note, details for the fiscal year ended March 31, 2020 were not presented in accordance with the provisional treatments prescribed in Paragraph 11, proviso of the said accounting standard.

(2) FFG examined the business management of its consolidated subsidiaries taking the opportunity of the merger of the Shinwa Bank and the Eighteenth Bank, which were FFG's consolidated subsidiaries, and the change of the trade name of the surviving company effective October 1, 2020. As a result, from the perspective of disclosing the consolidated financial statements reflecting transactions more appropriately, expenses related to finance leases and installment transactions of its consolidated subsidiaries, which had been recorded in "General and administrative expenses," have been recorded in "Other operating expenses" from the fiscal year ended March 31, 2021.

In order to reflect this change in presentation, the consolidated financial statements for the year ended March 31, 2020 has been reclassified. As a result, ¥7,349 million of general and administrative expenses presented in the consolidated statement of income for the year ended March 31, 2020 has been presented in other operating expenses.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥110.71 = US$1.00, the approximate rate of exchange on March 31, 2021, 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, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
National government bonds	¥1,908,120	¥1,986,119
Local government bonds	155,884	162,451
Corporate bonds	504,950	601,196
Equity securities	214,436	152,071
Other securities	1,057,467	896,013
Total	¥3,840,858	¥3,797,852

Equity securities included investments in unconsolidated subsidiaries of ¥175 million at March 31, 2021.

Other securities included investments in unconsolidated subsidiaries of ¥6,571 million and ¥4,759 million at March 31, 2021 and 2020, respectively.

National government bonds, etc. at March 31, 2020, included bonds of ¥5,168 million, which were being rented to third parties without collateral under lending contracts (securities lending transactions).

Corporate bonds included bonds offered through private placement. FFG's guarantee obligation for such private-placement bonds was ¥34,589 million and ¥32,797 million at March 31, 2021 and 2020, respectively.

■ Held-to-maturity securities

The following tables summarize carrying values, fair values and differences of securities with available fair values at March 31, 2021 and 2020:

(Millions of yen)

2021		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥14,374	¥14,822	¥ 448
	Corporate bonds	6,665	6,825	159
	Other	–	–	–
	Subtotal	¥21,039	¥21,647	¥ 607
Securities with fair value not exceeding carrying value	National government bonds	¥ 3,100	¥ 3,074	¥ (26)
	Corporate bonds	5,505	5,347	(158)
	Other	–	–	–
	Subtotal	¥ 8,606	¥ 8,421	¥(184)
	Total	¥29,645	¥30,068	¥ 422

(Millions of yen)

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

■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2021 and 2020:

(Millions of yen)

2021		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥ 988,534	¥1,024,752	¥ 36,218
	Local government bonds	83,715	84,035	320
	Corporate bonds	253,507	255,528	2,021
	Equity securities	79,390	182,759	103,369
	Other	789,956	835,010	45,054
	Subtotal	¥2,195,102	¥2,382,086	¥186,983
Securities with carrying value not exceeding acquisition cost	National government bonds	¥ 884,139	¥ 865,893	¥ (18,245)
	Local government bonds	72,105	71,848	(256)
	Corporate bonds	238,615	237,250	(1,365)
	Equity securities	14,641	11,967	(2,674)
	Other	195,755	191,032	(4,723)
	Subtotal	¥1,405,257	¥1,377,992	¥ (27,265)
	Total	¥3,600,360	¥3,760,078	¥159,718

(Millions of yen)

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

Securities with fair values (excluding securities held for trading purpose) that have fallen substantially below the acquisition cost and are not expected to recover to the acquisition cost are carried at their fair values. The unrealized losses have been recognized for such securities during the period (hereinafter, "recording impairment losses"). For the fiscal years ended March 31, 2021 and 2020, impairment losses were ¥18 million and ¥1,506 million, respectively. The determination of whether the fair value has fallen significantly is based on independent asset classification, with issuers of securities divided into the following classifications.

Bankrupt, effectively bankrupt, in danger of bankruptcy	Fair value below acquisition cost
Needs attention	Fair value 30% or more below acquisition cost
Normal	Fair value 50% or more below acquisition cost, or fair value 30% or more but less than 50% below acquisition cost and market price below a certain level

A bankrupt issuer is one that is currently bankrupt, under special liquidation, in disposition by suspension of business by a clearinghouse, or legally or formally bankrupt from the standpoint of effective management. Effectively bankrupt indicates that an issuer is experiencing business failure in substance. An issuer in danger of bankruptcy is one that is highly likely to be classified as bankrupt in the future. Needs attention indicates an issuer that will require care in management. A normal issuer is one that falls outside the above-stated categories of bankrupt issuer, effectively bankrupt issuer, issuer in danger of bankruptcy and issuer requiring caution.

The following table summarizes total sales amounts of Available-for-sale securities sold, and amounts of the related gains and losses for the fiscal years ended March 31, 2021 and 2020:

(Millions of yen)

	2021		
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥125,894	¥ 306	¥ 130
Local government bonds	—	—	—
Corporate bonds	—	—	—
Equity securities	6,814	3,684	336
Other	85,962	7,408	5,625
Total	¥218,671	¥11,399	¥6,092

(Millions of yen)

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

4. Money Held in Trust

The following table summarizes carrying value and gain (loss) on valuation included in the consolidated statement of income regarding money held in trust for trading purpose at March 31, 2021 and 2020 and for the fiscal years then ended:

(Millions of yen)

	2021	
	Carrying value	Gain (loss) on valuation
Money held in trust for trading purpose	¥11,915	¥31

(Millions of yen)

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

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, 2021 and 2020:

(Millions of yen)

	2021		
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥7,300	¥7,300	¥—

(Millions of yen)

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

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2021 and 2020 included the following loans:

(Millions of yen)

	2021	2020
Loans to borrowers in bankruptcy	¥ 11,325	¥ 10,783
Delinquent loans	188,184	175,860
Loans past due for three months or more	452	614
Restructured loans	111,548	85,543
Total	¥311,511	¥272,802

Loans are generally placed on non-accrual status when the ultimate collectibility of either the principal or interest becomes doubtful because payments have been in arrears for a certain period of time or due to other reasons. Loans to borrowers in bankruptcy represent non-accrual loans to borrowers in legal bankruptcy as defined in the Corporation Tax Law. Delinquent loans represent non-accrual loans other than loans to borrowers in bankruptcy and restructured loans.

Loans past due for three months or more represent loans on which payments of principal or interest have been in arrears for three months or more, but do not meet the criteria for loans to borrowers in bankruptcy and delinquent loans.

Restructured loans are loans that have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.), and are not classified in any of the above categories.

Notes discounted are recorded as cash lending/borrowing transactions in accordance with "Accounting and Auditing Treatments of the Application of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Committee Practical Guideline No. 24, October 8, 2020). FFG has a right to sell or collateralize such bills at the discretion of FFG. At March 31, 2021 and 2020, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥33,290 million and ¥44,710 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, 2021 and 2020 amounted to ¥4,883,281 million and ¥4,543,678 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 ¥4,540,377 million and ¥4,298,376 million at March 31, 2021 and 2020, respectively.

As many of these contracts expire undrawn, the aggregate total of the undrawn amount does not necessarily affect the future cash flows of FFG and its consolidated subsidiaries. Many of these contracts have clauses that allow FFG's consolidated subsidiaries to turn down a loan request or reduce the amounts of the credit line if there is a change in financial conditions, a need to establish increased securities, or other similar reasons. In addition to obtaining necessary collateral (real estates, securities, etc.) at the time the commitment contract is entered into, FFG's consolidated subsidiaries assess the condition of the customer's business operations, and analyze other information, based on internal procedures and standards. If necessary, the contract is reviewed and revised, or additional steps are taken to secure the credit extended to the customer.

6. Tangible Fixed Assets

Land used for the Bank of Fukuoka's business activities has been revalued on the basis prescribed by the Law Concerning Land Revaluation (Proclamation No. 34 dated March 31, 1998). As for the revaluation difference, the income tax account corresponding to the revaluation difference amount is included in liabilities as "Deferred tax liabilities for land revaluation account," and the revaluation difference, net of this deferred tax liability, is included in net assets as "Revaluation reserve for land account."
Date of revaluation: March 31, 1998
Revaluation method as stated in Article 3-3 of the Law Concerning Land Revaluation:

The value of land is based on the official notice prices calculated as directed by public notification of the Commissioner of the National Tax Administration and as provided in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No. 119 dated March 31, 1998), after making reasonable adjustments.

At March 31, 2021 and 2020, the difference between the revalued carrying amount and fair value of lands being revalued pursuant to Article 10 of the law were ¥(8,292) million and ¥4,291 million, respectively.

Accumulated depreciation for tangible fixed assets amounted to ¥160,671 million and ¥159,780 million at March 31, 2021 and 2020, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥17,230 million and ¥17,040 million at March 31, 2021 and 2020, respectively.

7. Pledged Assets

Assets pledged as collateral at March 31, 2021 and 2020 consisted of the following:

(Millions of yen)

	2021	2020
Assets pledged as collateral:		
Securities	¥2,885,149	¥2,502,333
Loans and bills discounted	4,332,137	2,883,459
Lease receivables and lease investment assets	778	1,724
Other assets	3	3
Liabilities corresponding to assets pledged as collateral:		
Deposits	59,018	68,667
Payables under repurchase agreements	1,331,403	1,369,069
Cash collateral received for securities lent	1,025,930	638,281
Borrowed money	2,726,180	2,147,007

In addition, cash and due from banks of ¥2 million, securities totaling ¥9,999 million and other assets of ¥747 million were pledged as collateral for settlement of exchange or as guarantee on futures transactions at March 31, 2021.

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

Other assets included initial margins of futures markets of ¥158 million, cash collateral paid for financial instruments of ¥151,906 million, and deposits of ¥3,051 million at March 31, 2021.

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

8. Bonds Payable

Bonds payable included callable (subordinated) debenture bonds of ¥10,000 million, payable in yen, due in 2026 at March 31, 2021 and 2020.

9. Retirement Benefit Plans

The consolidated subsidiaries engaged in banking businesses have a cash balance plan-type corporate pension plan as a defined benefit plan and 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, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
Projected benefit obligation at the beginning of the fiscal year	¥167,674	¥142,457
Increase by stock swap	—	24,462
Service cost	4,745	4,828
Interest cost	252	242
Actuarial loss	1,130	3,312
Retirement benefits paid	(7,924)	(8,034)
Prior service cost	1,246	—
Contributions by participants of plans	431	406
Other	0	—
Projected benefit obligation at the end of the fiscal year	¥167,557	¥167,674

The changes in plan assets during the fiscal years ended March 31, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
Plan assets at the beginning of the fiscal year	¥171,754	¥159,998
Increase by stock swap	—	21,982
Expected return on plan assets	5,866	6,189
Actuarial gain (loss)	21,625	(9,694)
Contributions by FFG's subsidiaries	332	308
Retirement benefits paid	(7,417)	(7,435)
Contributions by participants of plans	431	406
Other	—	—
Plan assets at the end of the fiscal year	¥192,593	¥171,754

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2021 and 2020.

(Millions of yen)

	2021	2020
Funded projected benefit obligation	¥166,013	¥166,205
Plan assets at fair value	(192,593)	(171,754)
	(26,580)	(5,549)
Unfunded projected benefit obligation	1,543	1,469
Net asset for retirement benefits in the balance sheet	¥ (25,036)	¥ (4,080)

(Millions of yen)

	2021	2020
Net defined benefit liabilities	¥ 1,142	¥ 4,379
Net defined benefit assets	(26,178)	(8,459)
Net asset for retirement benefits in the balance sheet	¥(25,036)	¥(4,080)

The components of retirement benefit expenses for the fiscal years ended March 31, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
Service cost	¥4,745	¥ 4,828
Interest cost	252	242
Expected return on plan assets	(5,866)	(6,189)
Amortization of actuarial loss (gain)	1,562	(444)
Amortization of prior service cost	(94)	(163)
Other	—	—
Retirement benefit expenses	¥ 599	¥(1,727)

The components of remeasurements of defined benefits plans included in other comprehensive income (before tax effect) for the fiscal years ended March 31, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
Prior service cost	¥ (1,341)	¥ (163)
Actuarial gain (loss)	22,057	(13,452)
Other	—	—
Total	¥20,716	¥(13,615)

The components of remeasurements of defined benefits plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
Unrecognized prior service cost	¥ 1,052	¥ (289)
Unrecognized actuarial loss (gain)	(7,800)	14,257
Other	—	—
Total	¥(6,748)	¥13,968

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2021 and 2020 was as follow:

	2021	2020
Debt securities	39%	47%
Equity securities	39%	31%
Cash and due from banks	1%	1%
Other	21%	21%
Total	100%	100%

Total plan assets included retirement benefit trusts of 31% and 29% as of March 31, 2021 and 2020, 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:

	2021	2020
Discount rate	0.3%	0.3%
Long-term expected rate of return on plan assets	3.5%	3.3%
Estimated rate of increase in salary	3.3%	3.5%

(2) Defined contribution plans

The amounts to be paid to defined contribution plans by consolidated subsidiaries were ¥355 million and ¥329 million for the fiscal years ended March 31, 2021 and 2020, respectively.

10. Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are included in this account. As a contra account, “Customers’ liabilities for acceptances and guarantees” is shown on the assets side, which represents FFG’s right of indemnity from the applicants.

FFG’s guarantees total ¥34,589 million and ¥32,797 million at March 31, 2021 and 2020, respectively, for private placement corporate bonds. Relevant acceptances and guarantees and customers’ liabilities for acceptances and guarantees have been recorded in the net amount.

11. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale securities at March 31, 2021 and 2020 consisted of the following:

(Millions of yen)

	2021	2020
Gross valuation difference on available-for-sale securities	¥159,718	¥92,950
Deferred tax liabilities applicable to valuation difference	47,211	27,592
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for non-controlling interests	112,506	65,358
Amount attributable to non-controlling interests	—	—
Valuation difference on available-for-sale securities	112,506	65,358

12. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
Deferred tax assets:		
Allowance for loan losses	¥ 58,957	¥ 62,433
Net losses carried forward	5,569	4,961
Net defined benefit liabilities	4,950	12,269
Depreciation of securities	5,948	7,072
Depreciation expenses	3,712	3,731
Deferred gains or losses on hedges	7,344	14,216
Fair value gains related to consolidated taxation	4,026	4,138
Other	11,796	10,240
Subtotal	102,305	119,063
Valuation allowance for net losses carried forward	(5,283)	(4,921)
Valuation allowance for total deductible temporary differences, etc.	(14,078)	(17,381)
Subtotal	(19,362)	(22,302)
Total	82,943	96,761
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	(47,211)	(27,592)
Retirement benefit trust	(3,439)	(3,017)
Securities returned from retirement benefit trust	(3,159)	(3,159)
Reserve for special depreciation	(452)	(467)
Fair value losses related to consolidated taxation	(716)	(755)
Other	(12,879)	(14,005)
Total	(67,860)	(48,998)
Net deferred tax assets (liabilities)	¥ 15,083	¥ 47,763

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, 2021 and 2020.

(%)

	2021	2020
Statutory tax rate	30.4	30.4
Change in valuation allowance	(5.2)	1.3
Gain on negative goodwill	—	(33.0)
Entertainment expenses and other items permanently excluded from expenses	1.5	0.3
Per capital residence tax	0.4	0.2
Dividend revenue and other items permanently excluded from gross revenue	(1.9)	(0.3)
Other	(0.4)	(1.0)
Effective tax rate	24.8	(2.1)

13. Net Income Attributable to Owners of the Parent per Share

Net income attributable to owners of the parent per share for the fiscal years ended March 31, 2021 and 2020 were as follows:

(Yen)

	2021	2020
Net income attributable to owners of the parent per share:		
Basic	¥234.86	¥581.83
Diluted	—	—

Basic net income attributable to owners of the parent per share is computed by dividing net income attributable to owners of the parent by the weighted average number of shares of common stock outstanding during the year.

For the fiscal years ended March 31, 2021 and 2020, as there were no dilutive securities, the amount of diluted net income attributable to owners of the parent per share of common stock is not stated.

14. Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2021 and 2020 were the following:

(Millions of yen)

	2021	2020
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥69,086	¥(59,530)
Reclassification adjustments to profit or loss	(2,318)	(998)
Amount before income tax effect	66,767	(60,528)
Income tax effect	(19,619)	18,115
Total	47,148	(42,412)
Deferred gains or losses on hedges		
Gains (losses) arising during the year	18,290	(21,015)
Reclassification adjustments to profit or loss	4,315	3,331
Amount before income tax effect	22,605	(17,684)
Income tax effect	(6,872)	5,376
Total	15,733	(12,308)
Remeasurements of defined benefit plans		
Gains (losses) arising during the year	19,247	(13,007)
Reclassification adjustments to profit or loss	1,468	(608)
Amount before income tax effect	20,716	(13,615)
Income tax effect	(6,297)	4,139
Total	14,418	(9,476)
Total other comprehensive income	¥77,300	¥(64,197)

15. Supplementary Cash Flow Information

(1) Reconciliation of cash and cash equivalents

The reconciliation of cash and due from banks in the consolidated balance sheet to cash and cash equivalents in the consolidated statement of cash flows at March 31, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
Cash and due from banks	¥6,086,101	¥4,555,981
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(9,875)	(10,283)
Cash and cash equivalents	¥6,076,226	¥4,545,697

(2) Details of significant non-cash transactions

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

(Millions of yen)

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

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

16. Leases

As lessee

Finance leases which do not transfer ownership of leased assets to lessees

The leased assets primarily consist of office machinery and equipment. See Note 1 for the depreciation method of the leased assets.

Operating leases

Total future lease payments under non-cancelable operating leases at March 31, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
Within one year	¥ 58	¥ 66
Over one year	113	92
Total	¥171	¥158

17. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

FFG's operations center on the banking business with various financial services. Through these operations, FFG generates income primarily from interest on loans to customers, as well as through marketable securities—mainly bonds—and call loans. FFG raises funds mainly through customer deposits, as well from call money, borrowed money and bonds. In this way, FFG principally holds financial assets and financial liabilities that are subject to interest rate fluctuations. FFG conducts asset-liability management (ALM) to minimize the negative impact of interest rate fluctuations. ALM includes the use of derivative transactions.

(b) Details of major financial instruments and their risk

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 because of certain conditions in the operating environment. FFG employs interest rate swap transactions to reduce its interest rate risk to a certain extent. In addition to the above-mentioned risks, securities denominated in foreign currencies are subject to exchange rate fluctuation risk which is a risk of suffering loss from exchange rate fluctuation. Currency swap transactions, etc. are used to reduce this risk to a certain extent.

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 "p. Hedge Accounting" of "Notes to Consolidated Financial Statements, 1. Summary of Significant Accounting Policies."

(2) Financial risk management system

(a) Management of credit risk

The principal risk that FFG encounters is credit risk, and managing credit risk appropriately to maintain asset soundness while generating appropriate returns is a topmost priority for bank management.

FFG's Board of Directors has formulated the "Credit Risk Management Policy," which establishes FFG's basic policy for credit risk management, and the "Credit Policy," which clarifies basic considerations and standards for decisions and actions for appropriate conduct of the credit business based on this basic policy, to manage credit risk appropriately. FFG also seeks to determine obligor status and supports initiatives targeting obligors, including management consultation, management guidance and management improvement. Furthermore, FFG calculates the amount of credit risk for individual obligors and portfolios, verifies the general allowance for loan losses, conducts comparisons with capital adequacy and employs credit risk management procedures to determine the rationality and quantity of credit risk.

FFG's organization for handling credit risk management is separated clearly into the Credit Risk Management Department and the Risk Audit Department. To ensure the effectiveness of credit risk management, within the Credit Risk Management Department, FFG has established the Screening Department, Credit Management Department, Ratings Department and Problem Obligor Management Department. The Credit Management Department formulates plans and works to ensure risk management preparedness in line with the credit risk action plans determined in our Risk Management Program. The Risk Audit Department audits the appropriateness of credit risk management.

The Credit Management Department reports appropriately and in a timely manner to the Board of Directors and the ALM Committee to communicate the status of credit risk and credit risk management regularly and on an as-needed basis.

The Credit Risk Management Department regularly determines credit information and market prices to manage credit risk on issuers of securities and counterparty risk on derivative transactions.

(b) Management of market risk

Along with credit risk, the returns on interest rate risk and other market risks constitute one of FFG's largest sources of earnings. However, returns are highly susceptible to the risks taken, and fluctuations in market risk factors can have a major impact on profitability and financial soundness.

FFG's Board of Directors has formulated the "Market Risk Management Policy" as its basic policy on managing market risk. The board has also created management regulations, which prescribe specific risk management methods, to manage market risk appropriately.

FFG's ALM Committee deliberates expeditious and specific measures to respond to changes in the market environment and determines response policies. The management committees of consolidated subsidiaries set FFG's risk capital and the ceilings necessary for managing other market risks, reviewing these settings every six months.

FFG's organization for managing market risks comprises the Market Transaction Department (front office), the Market Risk Management Department (middle office), the Market Operations Management Department (back office) and the Risk Audit Department. This organizational structure ensures a mutual checking function. The Market Risk Management Department has established the "Risk Management Program," which establishes action plans related to market risk, and works to prepare for and confirm market risk management. The Risk Audit Department audits the appropriateness of market risk management.

Furthermore, the Market Risk Management Department reports appropriately and in a timely manner to the Board of Directors and the ALM Committee to communicate the status of market risk and market risk management regularly and on an as-needed basis.

Quantitative information related to market risk

(i) Financial instruments held for trading purposes

FFG holds securities for trading purposes, classified as "Trading assets," and conducts certain derivative transactions for trading purposes, including interest rate-related transactions, currency-related transactions and bond-related transactions. These financial products are traded with customers or as their counter transactions, and risk is minimal.

(ii) Financial instruments held for purposes other than trading

Interest rate risk

FFG's main financial instruments affected by interest rate fluctuations—the primary risk variable—are "Loans and bills discounted," bonds within "Securities," "Deposits," "Borrowed money," "Bonds payable" and interest-related transactions within "Derivative transactions."

FFG calculates VaR on these financial assets and financial liabilities using the historical simulation method (holding period of 60 days, confidence interval of 99%, observation period of 1,250 days) and employs quantitative analysis in its interest rate fluctuation risk management.

As of March 31, 2021 and 2020, FFG's amount of interest rate risk (value of estimated losses) was ¥28,687 million and ¥26,523 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations with estimated gains or losses based on its portfolio for the VaR measurement period. As losses of the International Banking Department exceeded the VaR several times in back-testing conducted for the fiscal year ended March 31, 2019, FFG has been multiplying VaR by a fixed multiplier factor in order to ensure its conservativeness. In addition, as losses of the Domestic Banking Department exceeded the VaR two times in back-testing conducted for the fiscal year ended March 31, 2021, FFG considers that the measurement model employed by FFG captures interest rate risk with sufficient accuracy because losses exceeded the VaR within four times.

Among financial liabilities, VaR for "liquid deposits" that are included in "deposits" and have no maturity is calculated using an internal model with an appropriate term that assumes long-term holding.

As stated above, VaR measures interest rate risk using certain statistical probabilities based on historical market fluctuations, and consequently, this process may not capture risk in the event that interest rates fluctuate in a manner that has not been observed in the past. Therefore, FFG timely and appropriately reviews the measurement model to use, etc. as necessary to enhance the degree of precision for capturing risk.

Volatility risk

FFG's principal financial instruments affected by share price fluctuations—the main risk variable—are listed company shares and investment trusts contained in "Securities."

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

As of March 31, 2021 and 2020, FFG's amount of volatility risk was ¥81,580 million and ¥79,843 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations with estimated gains or losses based on its portfolio for the VaR measurement period. As losses exceeded the VaR several times in back-testing conducted for the fiscal year ended March 31, 2020, FFG reviews the observation period in the VaR measurement in order to ensure its conservativeness.

As stated above, VaR measures volatility risk using certain statistical probabilities based on historical market fluctuations, and consequently, this process may not capture risk in the event that prices fluctuate in a manner that has not been observed in the past. Therefore, FFG timely and appropriately reviews the measurement model to use, etc. as necessary to enhance the degree of precision for capturing risk.

(c) Management of liquidity risk

FFG recognizes the need to manage liquidity risk thoroughly, as it believes that downplaying liquidity risk could lead to serious problems of business failure and, in turn, the systemic risk of a chain reaction of defaults by financial institutions.

FFG's Board of Directors has formulated the "Liquidity Risk Management Policy" as its basic policy on managing liquidity risk, management regulations defining specific management methods, and regulations defining the method of responding to liquidity crises to manage liquidity risk appropriately.

FFG's ALM Committee deliberates expeditious and specific measures to respond to changes in the market environment and determines response policies. Management committees set cash flow limits and pledged collateral limits, reviewing these limits every six months.

FFG determines response policies corresponding to cash flow conditions (normal, concern, crisis). The Cash Flow Management Department assesses cash flow condition each month, and the ALM Committee deliberates response policies.

FFG's organization for managing liquidity risk comprises the Cash Flow Management Department, which is in charge of daily cash flow management and operations; the Liquidity Risk Management Department, which appropriately monitors daily cash flow management and operations; and the Risk Audit Department. This organizational structure ensures a mutual checking function. The Liquidity Risk Management Department has established the "Risk Management Program," which establishes action plans related to liquidity risk, and work to prepare for and confirm liquidity risk management. The Risk Audit Department audits the appropriateness of liquidity risk management.

Furthermore, the Liquidity Risk Management Department reports appropriately and in a timely manner to the Board of Directors and the ALM Committee to communicate the status of liquidity risk and liquidity risk management regularly and on an as-needed basis.

(3) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2021 and 2020 were as follows:

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

(Millions of yen)

2021	Carrying value	Fair value	Difference
Assets			
Cash and due from banks	¥ 6,086,101	¥ 6,086,101	¥ (0)
Call loans and bills bought	–	–	–
Receivables under resale agreements	–	–	–
Monetary claims bought	40,131	40,193	61
Securities			
Held-to-maturity securities	29,645	30,068	422
Available-for-sale securities	3,760,078	3,760,078	–
Loans and bills discounted	16,949,316	17,144,456	195,139
Total	¥26,865,274	¥27,060,898	¥195,624
Liabilities			
Deposits	¥19,488,484	¥19,488,703	¥ 218
Call money and bills sold	1,698,137	1,698,108	(28)
Payables under repurchase agreements	1,331,403	1,331,423	19
Payables under securities lending transactions	1,025,930	1,025,996	65
Borrowed money	2,735,073	2,725,829	(9,243)
Bonds payable	10,000	10,096	96
Total	¥26,289,029	¥26,280,158	¥ (8,871)
Derivatives			
Hedge accounting not applied	¥ 3,078	¥ 3,078	¥ –
Hedge accounting applied	(27,069)	(27,069)	–
Total	¥ (23,990)	¥ (23,990)	¥ –

(Millions of yen)

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

Allowance for loan losses on “Monetary claims bought” and “Loans and bills discounted” are directly deducted from the amounts on consolidated financial statements.

Derivatives are included within the amounts indicated for “Trading assets and liabilities” and “Other assets and liabilities.” Net amounts of receivables and payables arising from derivative transactions are indicated. Parentheses indicate totals that are net payable amounts.

Method of Calculating the Fair Value of Major Financial Instruments

Assets

(1) Cash and due from banks

With regard to cash and due from banks without maturities, as its fair values and book values are similar, the book values are assumed as the fair values. For due from banks with maturities, the present value is calculated by estimating the future cash flows deriving from each transaction, and then discounting these amounts to their present value at the risk-free market interest rate for each period plus discount premium that accounts for credit risk. This discount rate is calculated in accordance with internal ratings, based on the forecasted loss rate for each obligor.

(2) Securities

The fair values of equity securities are determined by their prices on stock exchanges. The fair values of bonds are determined by the prices on exchanges or the prices indicated by the financial institutions handling these transactions for FFG. Publicly listed base prices are used as the fair value of investment trusts. However, for debt securities without listed exchange prices and for which prices are not provided by the financial institutions with which these transactions are conducted, the present value is calculated by estimating the future cash flows deriving from each transaction, and then discounting these amounts to their present value at the risk-free market interest rate for each period plus discount premium that accounts for credit risk. This discount rate is calculated in accordance with internal ratings, based on the forecasted loss rate for each obligor. The present value of private-placement secured bonds is calculated by estimating the future cash flows deriving from each transaction, and then discounting these amounts to their present value at the risk-free market interest rate for each period plus discount premium that accounts for credit risk. This discount rate is calculated in accordance with internal ratings, based on the forecasted loss rate for each obligor.

See Note 3 for the description of securities by classification.

(3) Loans and bills discounted

The present value of loans is calculated primarily by estimating the future cash flows deriving from each transaction, and then discounting these amounts to present value at the risk-free market interest rate for each period plus discount premium that accounts for credit risk. This discount rate is calculated in accordance with internal ratings, based on the forecasted loss rate for each obligor. As floating interest rates reflect market interest rates in the short term, when estimating future cash flows on floating-rate instruments, the maturity date is considered to be the next interest rate settlement date. With regard to loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, the estimated collectible amount is based on either the present value of estimated future cash flows or the expected amounts recoverable from the disposal of collateral and/or under guarantees. The fair value is essentially equivalent to the consolidated balance sheet amount on the balance sheet date, after deducting the allowance for loan losses, the balance sheet amount is taken as the fair value. For loans that have no specific repayment period because loan amounts are less than the value of the assets securing them, the fair value using expected payment dates and interest rates is essentially equivalent to the book value, so the book value is taken as the fair value.

Liabilities

(1) Deposits

The fair value of demand deposits is determined as the payment amount (book value) if payments were demanded on the balance sheet date. The fair value of time deposits is calculated by categorizing these deposits by term, estimating their future cash flows and discounting them to their present value at the rate applied to new deposits.

(2) Borrowed money

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

(3) Bonds payable

Market value is used as the fair value of corporate bonds issued by FFG and its consolidated subsidiaries. With regard to corporate bonds without market value, the present value is determined by estimating the future cash flows for deriving from each transaction and discounting these amounts by the risk-free market interest rate for each period plus discount premium that corresponds to FFG's credit risk, as determined by the market price of its bonds. As floating interest rates reflect market interest rates in the short term, when estimating future cash flows on floating-rate instruments, the maturity date is considered to be the next interest rate settlement date.

Derivatives

Derivative transactions include interest-related transactions (interest rate futures, interest rate options, interest rate swaps, etc.), currency-related transactions (currency futures, currency options, currency swaps, etc.) and bond-related transactions (bond futures, bond futures options, etc.). The fair values of these derivative instruments are calculated by using values on listed exchanges, discounting them to their present value or through the use of option pricing models.

Financial instruments for which fair value is not readily determinable at March 31, 2021 and 2020 were as follows:

(Millions of yen)

	2021	2020
	Carrying value	Carrying value
Available-for-sale securities		
Unlisted equity securities	¥19,709	¥ 9,956
Unlisted foreign securities	0	0
Investments in limited partnership	31,424	30,875
Total	¥51,134	¥40,832

The fair value of unlisted equity securities and unlisted foreign securities of “Available-for-sale securities” are not readily determinable, and thus these are not subject to disclosures of fair values.

Impairment losses on unlisted equity securities, etc. for the fiscal year ended March 31, 2021 were ¥82 million. Impairment losses on unlisted equity securities for the fiscal year ended March 31, 2020 were ¥15 million.

Certain investments in limited partnership that holds assets without readily determinable fair value, such as unlisted equity securities, are not subject to disclosures of fair values.

The redemption schedule for monetary assets and securities with maturity dates at March 31, 2021 and 2020 are summarized as follows:

(Millions of yen)

2021	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	¥5,897,357	¥ –	¥ –	¥ –	¥ –	¥ –
Call loans and bills bought	–	–	–	–	–	–
Receivables under resale agreements	–	–	–	–	–	–
Monetary claims bought	40,350	–	–	–	–	–
Securities						
Held-to-maturity bonds						
Held-to-maturity government bonds	–	17,474	–	–	–	–
Held-to-maturity corporate bonds	–	12,171	–	–	–	–
Available-for-sale securities with maturities						
Available-for-sale government bonds	238,131	231,512	93,598	10,500	121,142	1,195,761
Available-for-sale local government bonds	20,224	18,779	43,841	5,516	45,666	21,856
Available-for-sale corporate bonds	62,537	126,976	41,253	4,585	3,796	239,627
Available-for-sale other	38,117	147,698	115,327	104,370	118,493	201,913
Loans and bills discounted	5,650,353	2,580,217	2,034,345	1,503,450	1,599,110	3,340,443
Total	¥11,947,072	¥3,134,831	¥2,328,366	¥1,628,422	¥1,888,208	¥4,999,601

Loans do not include an estimated ¥199,510 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥238,448 million in loans that have no set term.

(Millions of yen)

2020	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Due from banks	¥4,368,498	¥ –	¥ –	¥ –	¥ –	¥ –
Call loans and bills bought	23,236	–	–	–	–	–
Receivables under resale agreements	37,621	–	–	–	–	–
Monetary claims bought	54,480	–	–	–	–	208
Securities						
Held-to-maturity bonds						
Held-to-maturity government bonds	–	3,100	14,374	–	–	–
Held-to-maturity corporate bonds	–	9,487	2,683	–	–	–
Available-for-sale securities with maturities						
Available-for-sale government bonds	353,052	364,291	163,520	46,678	90,516	950,585
Available-for-sale local government bonds	13,557	35,644	31,332	17,669	40,361	23,886
Available-for-sale corporate bonds	143,829	123,161	89,895	9,104	4,607	203,198
Available-for-sale other	62,241	89,276	142,711	90,217	102,595	164,203
Loans and bills discounted	5,363,828	2,351,204	1,948,750	1,436,238	1,467,069	3,204,521
Total	¥10,420,346	¥2,976,166	¥2,393,268	¥1,599,908	¥1,705,149	¥4,546,602

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

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2021 and 2020 are summarized as follows:

(Millions of yen)

2021	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	¥19,068,592	¥323,748	¥ 88,347	¥ 3,019	¥4,777	¥ –
Call money and bills sold	1,698,137	–	–	–	–	–
Payable under repurchase agreements	1,298,190	5,535	27,677	–	–	–
Payable under securities lending transactions	1,025,930	–	–	–	–	–
Borrowed money	1,377,191	584,877	772,467	384	–	152
Bonds payable	–	–	–	10,000	–	–
Total	¥24,468,043	¥914,160	¥888,492	¥13,404	¥4,777	¥152

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

(Millions of yen)

2020	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Deposits	¥17,086,988	¥ 319,161	¥107,326	¥ 2,560	¥5,433	¥ –
Call money and bills sold	2,248,706	–	–	–	–	–
Payable under repurchase agreements	1,320,096	38,090	10,883	–	–	–
Payable under securities lending transactions	638,281	–	–	–	–	–
Borrowed money	611,193	902,534	644,829	294	244	163
Bonds payable	–	–	–	10,000	–	–
Total	¥21,905,266	¥1,259,786	¥763,038	¥12,854	¥5,677	¥163

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

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, 2021 and 2020 were as follows:

Hedge accounting not applied

As of March 31, 2021 and 2020, on derivative transactions to which hedge accounting is not applied, notional amounts as of the balance sheet date, fair values and gain (loss) are described below.

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

■ Interest-related transactions

(Millions of yen)

As of March 31, 2021	Notional amount	Fair value	Gain (Loss)
Interest rate swaps			
Receive/fixed and pay/floating	¥264,805	¥ 5,935	¥ 5,787
Receive/floating and pay/fixed	268,455	(3,951)	(3,835)
Receive/fixed and pay/fixed	2,000	(9)	57
Total	—	¥ 1,974	¥ 2,009

(Millions of yen)

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

■ Currency-related transactions

(Millions of yen)

As of March 31, 2021	Notional amount	Fair value	Gain (Loss)
Currency swaps	¥631,154	¥ 71	¥ 69
Foreign exchange contract			
Sell	75,224	(1,065)	(1,065)
Buy	65,787	1,150	1,150
Currency option			
Sell	607	(7)	(4)
Buy	607	8	7
Total	—	¥ 156	¥ 157

(Millions of yen)

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

■ Bonds–related transactions

(Millions of yen)

As of March 31, 2021	Notional amount	Fair value	Gain (Loss)
Bond futures			
Sell	¥100	¥(0)	¥(0)
Buy	—	—	—
Total	—	¥(0)	¥(0)

(Millions of yen)

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

■ Credit derivative transactions

(Millions of yen)

As of March 31, 2021	Notional amount	Fair value	Gain (Loss)
Credit default swaps			
Sell	¥56,000	¥952	¥932
Buy	2,000	(4)	(4)
Total	—	¥947	¥928

(Millions of yen)

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

Hedge accounting applied

As of March 31, 2021 and 2020, on derivative transactions to which hedge accounting is applied, hedge accounting method, hedged items, notional amounts as of the balance sheet date and fair values are described below.

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

■ Interest-related transactions

(Millions of yen)

As of March 31, 2021				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits		
	Receive/fixed and pay/floating		¥ 10,000	¥ 7
	Receive/floating and pay/fixed		1,614,512	(20,288)
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits		
	Receive/floating and pay/fixed		34,450	(191)
Total			—	¥(20,473)

(Millions of yen)

As of March 31, 2020				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits		
	Receive/ fixed and pay/floating		¥ 10,000	¥ 23
	Receive/ floating and pay/fixed		1,045,321	(47,098)
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity securities, and deposits		
	Receive/ floating and pay/fixed		32,734	(747)
Total			—	¥(47,822)

■ Currency-related transactions

(Millions of yen)

As of March 31, 2021				
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	¥700,530	¥(6,588)
Allocation method	Currency swaps	Loans denominated in foreign currencies	513	(7)
Total			—	¥(6,596)

(Millions of yen)

As of March 31, 2020				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Currency swaps	Financial assets and liabilities of which, loans, securities and deposits denominated in foreign currencies, and foreign exchange assets and liabilities	¥985,147	¥(2,367)
Allocation method	Currency swaps	Loans denominated in foreign currencies	484	(20)
Total			—	¥(2,387)

19. Business Integration

Transactions under common control

The Shinwa Bank and the Eighteenth Bank, which were FFG's consolidated subsidiaries, resolved to enter into a contract of an absorption-type merger at their respective annual shareholders meetings held on June 26, 2020. Following obtaining authorization (Article 30, Paragraph 1, of the Banking Act) for the two bank's merger on September 30, 2020, the merger was implemented and the surviving company changed its trade name effective October 1, 2020.

(1) Overview of business integration

(a) Name and business description of the integrated companies

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

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

(b) Purpose of the business integration

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

I. Simultaneously realizing vitalization of regional economy and improvement of corporate value
II. Contributing to growth of companies in Nagasaki Prefecture
III. Financial group rated as No.1 in customer satisfaction

(c) Date of the business integration

October 1, 2020

(d) Legal form of the business integration

Absorption-type merger where the Shinwa Bank is the surviving company and the Eighteenth Bank is the absorbed company

(e) Company name following the business integration

The Juhachi-Shinwa Bank, Ltd.

(2) Overview of the Implemented Accounting Treatments

In accordance with "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 of January 16, 2019) and "Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 of January 16, 2019), the above business integration was treated as a transaction under common control.

20. Segment Information

The FFG's reportable segment is composed of only the banking business. Segment information has been omitted because businesses other than the banking business were immaterial for the fiscal year ended March 31, 2021 and 2020.

Information on income by service has been omitted because income from the banking business accounts for more than 90% of ordinary income in the consolidated statement of income for the fiscal year ended March 31, 2021 and 2020.

Information on income by geographic area has been omitted because income from Japanese customers' accounts for more than 90% of ordinary income in the consolidated statement of income for the fiscal year ended March 31, 2021 and 2020.

Information on tangible fixed assets by geographic area has been omitted because total tangible fixed assets of the domestic operations constituted more than 90% of the consolidated total tangible fixed assets for the fiscal year ended March 31, 2021 and 2020.

Information on income by major customer has been omitted because no ordinary income derived from any external customer amounted to 10% or more of ordinary income in the consolidated statement of income for the fiscal year ended March 31, 2021 and 2020.

21. Related Party Transactions

There were no significant transactions with related parties to report for the fiscal years ended March 31, 2021 and 2020.

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, 2021, was approved at a shareholders meeting held on June 29, 2021 and became effective June 30, 2021:

	(Millions of yen)
Dividends on common stock (¥42.50 per share)	¥8,079

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Fukuoka, Ltd.

As of March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 4,260,002	¥ 3,305,917	$ 38,478
Call loans	901,864	1,084,074	8,146
Receivables under resale agreements	—	37,621	—
Cash collateral provided for securities borrowed	102,715	—	927
Monetary claims bought	23,714	24,040	214
Trading assets	549	745	4
Money held in trust	1,915	834	17
Securities	2,531,304	2,394,619	22,864
Loans and bills discounted	11,282,287	10,816,999	101,908
Foreign exchanges	12,875	26,430	116
Other assets	170,971	205,962	1,544
Tangible fixed assets	148,190	149,677	1,338
Intangible fixed assets	9,551	10,933	86
Prepaid pension expenses	11,377	11,650	102
Deferred tax assets	—	21,445	—
Customers' liabilities for acceptances and guarantees	25,245	27,846	228
Allowance for loan losses	(114,241)	(114,930)	(1,031)
Total assets	**¥19,368,322**	**¥18,003,869**	**$174,946**
Liabilities			
Deposits	¥12,599,220	¥11,143,073	$113,803
Call money	1,705,951	2,253,113	15,409
Payables under repurchase agreements	1,331,403	1,352,814	12,026
Cash collateral received for securities lent	902,087	557,115	8,148
Trading liabilities	0	—	0
Borrowed money	1,967,086	1,886,123	17,767
Foreign exchanges	1,891	1,544	17
Bonds payable	10,000	10,000	90
Other liabilities	109,596	119,930	989
Provision for losses from reimbursement of inactive accounts	3,890	4,661	35
Provision for contingent liabilities losses	0	0	0
Deferred tax liabilities	164	—	1
Deferred tax liabilities for land revaluation	22,929	22,961	207
Acceptances and guarantees	25,245	27,846	228
Total liabilities	**¥18,679,469**	**¥17,379,184**	**$168,724**
Net assets			
Capital stock	¥ 82,329	¥ 82,329	$ 743
Capital surplus	60,480	60,480	546
Retained earnings	415,786	399,139	3,755
Total shareholders' equity	**558,596**	**541,950**	**5,045**
Valuation difference on available-for-sale securities	95,083	62,354	858
Deferred gains or losses on hedges	(16,249)	(31,115)	(146)
Revaluation reserve for land	51,422	51,495	464
Total valuation and translation adjustments	130,256	82,734	1,176
Total net assets	**¥ 688,852**	**¥ 624,684**	**$ 6,222**
Total liabilities and net assets	**¥19,368,322**	**¥18,003,869**	**$174,946**

Non-Consolidated Statement of Income (Unaudited)

The Bank of Fukuoka, Ltd.
For the years ended March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥ 99,576	¥105,270	$ 899
Interest and dividends on securities	25,623	26,580	231
Interest on call loans	(278)	(205)	(2)
Interest on receivables under resale agreements	(214)	0	(1)
Interest on cash collateral provided for securities borrowed	1	—	0
Interest on deposits with banks	0	0	0
Interest on interest swaps	581	687	5
Other interest income	2,046	5,500	18
Trust fees	0	0	0
Fees and commissions	36,455	37,526	329
Trading income	7	7	0
Other operating income	7,271	2,412	65
Other income	7,276	7,476	65
Total income	**¥178,348**	**¥185,258**	**$1,610**
Expenses			
Interest expenses:			
Interest on deposits	¥ 1,029	¥ 4,824	$ 9
Interest on call money	(702)	(908)	(6)
Interest on payables under repurchase agreements	(292)	1,592	(2)
Interest on cash collateral received for securities lent	1,659	5,481	14
Interest on borrowing and rediscounts	1,151	1,554	10
Interest on bonds	194	195	1
Interest on interest swaps	8,770	11,201	79
Other interest expenses	414	429	3
Fees and commissions payments	20,770	21,427	187
Other operating expenses	4,183	690	37
General and administrative expenses	69,434	67,053	627
Other expenses	6,266	48,129	56
Total expenses	**¥112,878**	**¥161,671**	**$1,019**
Income before income taxes	**65,469**	**23,586**	**591**
Income taxes:			
Current	14,552	12,770	131
Deferred	1,397	(8,281)	12
Total income taxes	**15,950**	**4,488**	**144**
Net income	**¥ 49,519**	**¥ 19,098**	**$ 447**

Non-Consolidated Balance Sheet (Unaudited)

The Kumamoto Bank, Ltd.

As of March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 882,780	¥ 638,871	$ 7,973
Call loans	2,981	2,453	26
Monetary claims bought	0	0	0
Securities	129,407	159,789	1,168
Loans and bills discounted	1,881,589	1,616,142	16,995
Foreign exchanges	1,810	1,549	16
Other assets	8,944	8,932	80
Tangible fixed assets	16,542	16,764	149
Intangible fixed assets	1,266	1,554	11
Prepaid pension expenses	5,136	5,137	46
Deferred tax assets	7,278	7,516	65
Customers' liabilities for acceptances and guarantees	3,692	4,012	33
Allowance for loan losses	(20,761)	(21,952)	(187)
Total assets	**¥2,920,669**	**¥2,440,771**	**$26,381**
Liabilities			
Deposits	¥1,579,295	¥1,439,047	$14,265
Call money	698,500	660,000	6,309
Cash collateral received for securities lent	102,715	—	927
Borrowed money	441,700	244,900	3,989
Foreign exchanges	92	47	0
Other liabilities	3,877	3,932	35
Provision for losses from reimbursement of inactive accounts	1,432	1,577	12
Deferred tax liabilities for land revaluation	1,347	1,366	12
Acceptances and guarantees	3,692	4,012	33
Total liabilities	**¥2,832,653**	**¥2,354,884**	**$25,586**
Net assets			
Capital stock	¥ 10,000	¥ 33,847	$ 90
Capital surplus	57,694	33,847	521
Retained earnings	17,701	15,204	159
Total shareholders' equity	**85,395**	**82,899**	**771**
Valuation difference on available-for-sale securities	1,808	2,333	16
Deferred gains or losses on hedges	(233)	(432)	(2)
Revaluation reserve for land	1,045	1,087	9
Total valuation and translation adjustments	2,620	2,987	23
Total net assets	**¥ 88,016**	**¥ 85,886**	**$ 795**
Total liabilities and net assets	**¥2,920,669**	**¥2,440,771**	**$26,381**

Non-Consolidated Statement of Income (Unaudited)

The Kumamoto Bank, Ltd.

For the years ended March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥16,514	¥16,120	$149
Interest and dividends on securities	976	1,436	8
Interest on call loans	13	56	0
Interest on deposits with banks	0	0	0
Other interest income	249	179	2
Fees and commissions	4,847	4,621	43
Other operating income	100	65	0
Other income	1,079	447	9
Total income	**¥23,780**	**¥22,926**	**$214**
Expenses			
Interest expenses:			
Interest on deposits	¥ 59	¥ 93	$ 0
Interest on call money	(195)	(191)	(1)
Interest on cash collateral received for securities lent	1	—	0
Interest on interest swaps	50	49	0
Other interest expenses	7	9	0
Fees and commissions payments	3,859	3,830	34
Other operating expenses	29	3	0
General and administrative expenses	13,535	13,858	122
Other expenses	693	8,388	6
Total expenses	**¥18,040**	**¥26,041**	**$162**
Income (loss) before income taxes	**5,740**	**(3,114)**	**51**
Income taxes:			
Current	657	474	5
Deferred	398	(1,661)	3
Total income taxes	**1,055**	**(1,187)**	**9**
Net income (loss)	**¥ 4,684**	**¥ (1,926)**	**$ 42**

Non-Consolidated Balance Sheet (Unaudited)

The Juhachi-Shinwa Bank, Ltd.

As of March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 942,043	¥ 429,465	$ 8,509
Call loans	1,332	1,953	12
Monetary claims bought	60	0	0
Trading account securities	415	234	3
Money held in trust	10,000	—	90
Securities	1,193,368	519,073	10,779
Loans and bills discounted	4,130,724	1,797,878	37,311
Foreign exchanges	2,618	2,291	23
Other assets	35,958	23,837	324
Tangible fixed assets	63,131	39,325	570
Intangible fixed assets	4,856	4,358	43
Prepaid pension expenses	5,120	4,037	46
Deferred tax assets	1,376	4,500	12
Customers' liabilities for acceptances and guarantees	16,911	4,339	152
Allowance for loan losses	(42,847)	(17,960)	(387)
Total assets	**¥6,365,070**	**¥2,813,336**	**$57,493**
Liabilities			
Deposits	¥5,395,492	¥2,316,939	$48,735
Call money	210,364	350,326	1,900
Cash collateral received for securities lent	123,842	—	1,118
Borrowed money	320,221	10,536	2,892
Foreign exchanges	193	60	1
Other liabilities	9,039	5,026	81
Provision for losses from reimbursement of inactive accounts	1,916	1,640	17
Deferred tax liabilities for land revaluation	7,448	3,665	67
Acceptances and guarantees	16,911	4,339	152
Total liabilities	**¥6,085,429**	**¥2,692,534**	**$54,967**
Net assets			
Capital stock	¥ 36,878	¥ 36,878	$ 333
Capital surplus	81,196	36,878	733
Retained earnings	101,609	26,088	917
Total shareholders' equity	**219,684**	**99,844**	**1,984**
Valuation difference on available-for-sale securities	39,903	9,156	360
Deferred gains or losses on hedges	(379)	(863)	(3)
Revaluation reserve for land	20,432	12,665	184
Total valuation and translation adjustments	59,956	20,957	541
Total net assets	**¥ 279,641**	**¥ 120,801**	**$ 2,525**
Total liabilities and net assets	**¥6,365,070**	**¥2,813,336**	**$57,493**

(Note) The figures as of March 31, 2020 present those of the surviving company, the former Shinwa Bank.

Non-Consolidated Statement of Income (Unaudited)

The Juhachi-Shinwa Bank, Ltd.

For the years ended March 31, 2021 and 2020

	2021	2020	2021
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥25,011	¥17,221	$225
Interest and dividends on securities	8,339	4,594	75
Interest on call loans	56	47	0
Interest on deposits with banks	0	0	0
Interest on interest swaps	5	1	0
Other interest income	441	286	3
Fees and commissions	9,442	6,532	85
Other operating income	148	209	1
Other income	1,999	708	18
Total income	**¥45,444**	**¥29,601**	**$410**
Expenses			
Interest expenses:			
Interest on deposits	¥ 143	¥ 142	$ 1
Interest on call money	(79)	(134)	(0)
Interest on cash collateral received for securities lent	114	—	1
Interest on borrowing and rediscounts	33	1	0
Interest on interest swaps	154	98	1
Other interest expenses	0	0	0
Fees and commissions payments	6,353	4,385	57
Other operating expenses	256	6	2
General and administrative expenses	30,991	19,952	279
Other expenses	8,571	10,618	77
Total expenses	**¥46,540**	**¥35,072**	**$420**
Loss before income taxes	**(1,095)**	**(5,471)**	**(9)**
Income taxes:			
Current	(2,127)	(145)	(19)
Deferred	(1,112)	(1,491)	(10)
Total income taxes	**(3,239)**	**(1,637)**	**(29)**
Net income (loss)	**¥ 2,143**	**¥ (3,834)**	**$ 19**

(Notes)

1. The figures for the first six months of the year ended March 31, 2021 present those of the surviving company, the former Shinwa Bank.
2. The figures for the year ended March 31, 2020 present those of the surviving company, the former Shinwa Bank.

Corporate Data

Company Outline (as of September 30, 2021)

Fukuoka Financial Group, Inc.

Head Office	1-8-3, Otemon, Chuo-ku, Fukuoka 810-8693, Japan
Date of Establishment	April 2, 2007
Paid-in Capital	¥124.7 billion
Security Code	8354
Stock Listings	Tokyo Stock Exchange, Fukuoka Stock Exchange
Number of Employees	8,105 (Consolidated)
Telephone Number	+81-92-723-2500
Website	https://www.fukuoka-fg.com/

The Bank of Fukuoka, Ltd.

Head Office	2-13-1, Tenjin, Chuo-ku, Fukuoka 810-8727, Japan
Date of Establishment	March 31, 1945
Paid-in Capital	¥82.3 billion
Number of Employees	3,618
Telephone Number	+81-92-723-2131
Website	https://www.fukuokabank.co.jp/

The Bank of Fukuoka's Overseas Network

Hong Kong Representative Office
Room 404, 4/F, Far East Finance Centre,
16 Harcourt Road, Hong Kong
+852-2524-2169

Shanghai Representative Office
Room 2010, Shanghai International Trade Centre, 2201 Yan An Xi Road, Shanghai, China
+86-21-6219-4570

Dalian Representative Office
Room 622, Furama Hotel, No. 60 Ren Min Road, Dalian, China
+86-411-8282-3643

Representative Office Registered in Singapore
65 Chulia Street #27-03 OCBC Centre
Singapore 049513
+65-6438-4913

Bangkok Representative Office
16th Floor Unit 1606A, Park Ventures Ecoplex,
57 Wireless Road, Lumpini, Pathumwan,
Bangkok 10330, Thailand
+66-2-256-0695

New York Representative Office
One Rockefeller Plaza, Suite 1201,
New York, NY 10020-2003 U.S.A.
+1-212-247-2966

Taipei Representative Office
Fabulous International Commercial Building
6F-1, No.126, Songjiang Rd., Zhongshan Dist.,
Taipei City 10457, Taiwan
+886-2-2523-8887

Ho Chi Minh City Representative Office
Suite 1108, Saigon Tower, 29 Le Duan Street,
District 1, Ho Chi Minh City, Vietnam
+84-28-3822-2802

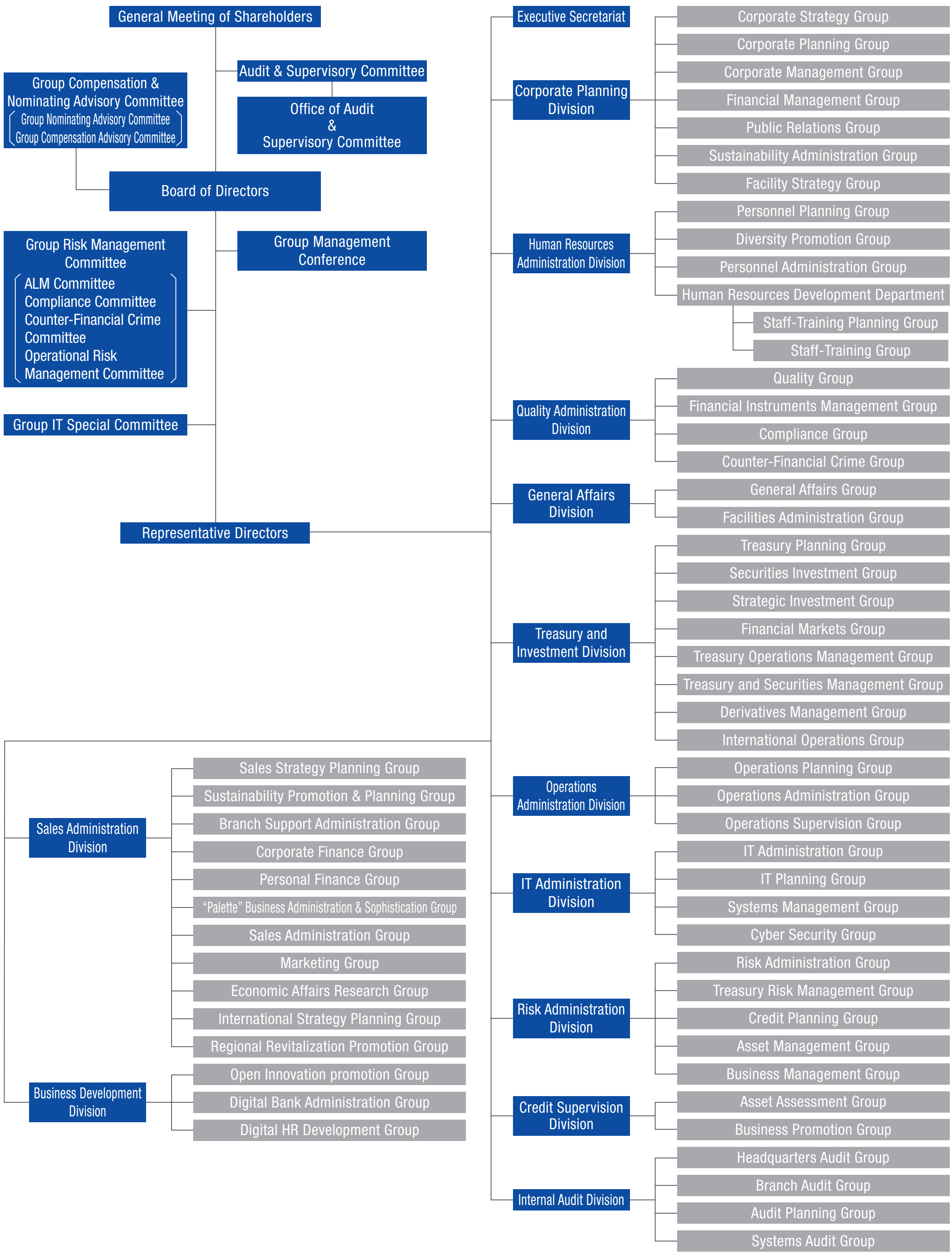
The Kumamoto Bank, Ltd.

Head Office	6-29-20, Suizenji, Chuo-ku, Kumamoto 862-8601, Japan
Date of Establishment	January 19, 1929
Paid-in Capital	¥10 billion
Number of Employees	849
Telephone Number	+81-96-385-1111
Website	https://www.kumamotobank.co.jp/

The Juhachi-Shinwa Bank, Ltd.

Head Office	1-11, Douzacho, Nagasaki 850-0841, Japan
Date of Establishment	September 1, 1939
Paid-in Capital	¥36.8 billion
Number of Employees	2,243
Telephone Number	+81-95-824-1818
Website	https://www.18shinwabank.co.jp/

Organizational Chart (as of January 4, 2022)



Group Company Chart (as of January 4, 2022)

- **Fukuoka Financial Group, Inc.**
  - **The Bank of Fukuoka, Ltd.**
    - Banking business: In addition to the head office, 165 branches and 4 sub-branches (including 1 branch dedicated to bank transfers and 1 to Internet banking)
      8 overseas representative offices (Hong Kong, Shanghai, Dalian, Singapore, Bangkok, New York, Taipei, Ho Chi Minh City)
    - Other businesses: 16 consolidated subsidiaries

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

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

The Eighteenth Lease Co.,Ltd.	Movable property and lease of rights

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

FFG Venture Business Partners Co., Ltd.	Investments and loans business
iBank marketing Co., Ltd.	Information processing and communication services business
Zerobank Design Factory Co., Ltd.	Research and development of banking system construction and financial business
FFG Growth Investment Co., Ltd.	Investments business
Sustainable Scale Co., Ltd.	Promotion of SDGs business

Share Information (as of March 31, 2021)

Investor Information

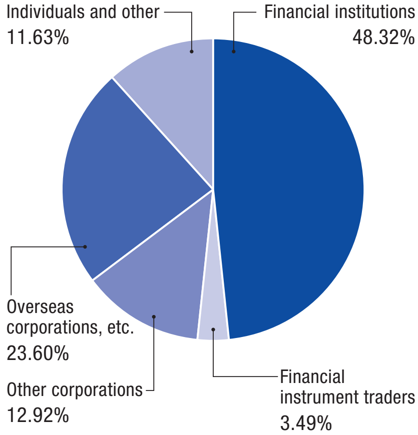
	Common stock
Number of authorized shares	360,000,000
Number of shares Issued	191,138,265

Major Shareholders

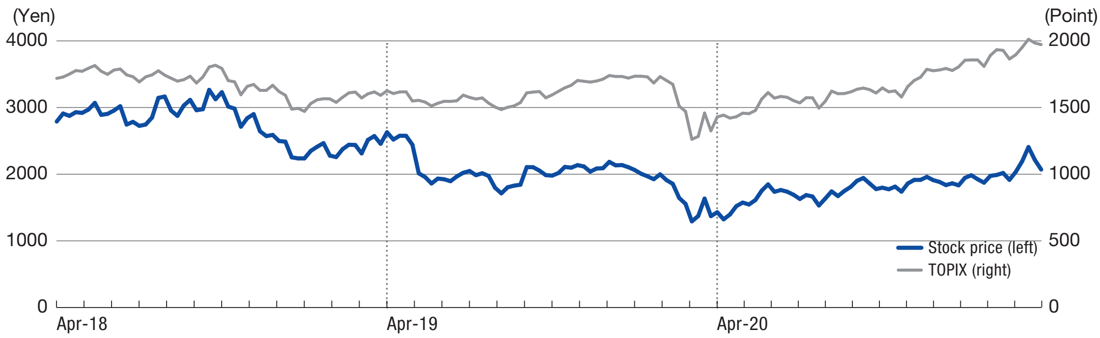
(Thousands of shares, %)

	Shares held	Ratio of shares held to issued number of shares
The Master Trust Bank of Japan, Ltd. (Trust account)	19,697	10.36
Custody Bank of Japan, Ltd. (Trust account)	13,551	7.12
Nippon Life Insurance Company	4,271	2.24
Meiji Yasuda Life Insurance Company	4,103	2.15
Sumitomo Life Insurance Company	3,790	1.99
The Dai-Ichi Life Insurance Company, Limited	3,523	1.85
Custody Bank of Japan, Ltd. (Trust account 9)	3,495	1.83
Custody Bank of Japan, Ltd. (Trust account 5)	2,729	1.43
Custody Bank of Japan, Ltd. (Trust account 4)	2,660	1.39
JP Morgan Securities Japan Co.,Ltd	2,579	1.35

Common Stock Distribution by Type of Shareholder



Stock Price



	FY2018	FY2019	FY2020
High (Yen)	3,370	2,677	2,422
Low (Yen)	2,117	1,223	1,286
Closing price as of March 31 (Yen)	2,456	1,371	2,070

* A one-for-five reverse stock split of our common stock was conducted on October 1, 2018 as the effective date.
The above stock prices are calculated by multiplying prices before October 2018 by five.

Fukuoka Financial Group, Inc.