FFG Financial Report 2023

Fukuoka Financial Group

The Bank of Fukuoka

Building a better working world

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, 2023, 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, 2023, 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.

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The determination of obligor classification and estimation of default rates used as the measurement basis of allowance for loan losses for loans and bills discounted	
Description of Key Audit Matter	**Auditor's Response**
Fukuoka Financial Group, Inc. and its consolidated subsidiaries (collectively, the Group) are mainly engaged in the banking business, and its lending business is the core of its business. The Group recorded Loans and bills discounted of ¥17,688,382 million and a corresponding Allowance for loan losses of ¥187,829 million on the consolidated balance sheet as at the end of the fiscal year ended March 31, 2023. Loans and bills discounted accounted for approximately 59% of total assets, which is a material amount on the consolidated balance sheet. There is a possibility that loan losses may be incurred due to unforeseeable and uncertain events such as trends in the global and Japanese economies, fluctuations in real estate prices and stock prices, and business conditions of obligors including the impact of the COVID-19 pandemic. For this reason, the Group estimated the amount of expected losses due to future credit deterioration and recorded it as an Allowance for loan losses. Details of the calculation method are described in "h. Allowance for Loan Losses" of (1. Summary of Significant Accounting Policies) under Notes to Consolidated Financial Statements. In addition, details for the estimates of Allowance for loan losses are described in "u. Significant Accounting Estimates" of (1. Summary of Significant Accounting Policies) under Notes to Consolidated Financial Statements.	(1) Determination of the classification of obligors whose repayment status, financial position, or business performance has deteriorated For the determination of the classification of obligors whose repayment status, financial position, or business performance has deteriorated, we mainly performed the following audit procedures. ・ We evaluated the effectiveness of the Group's internal controls to ensure the reliability of determining obligor classification and the credit ratings that serve as the premises for such classification, as well as information related to obligors that forms the basis for such determination. ・ In addition to the monetary impact of the transition of the obligor classifications on the amount recorded in the Allowance for loan losses, obligors deemed necessary for assessment were selected by taking into account factors such as the obligor's industry, repayment status, financial position, extent of deterioration in business performance, and the impact of the COVID-19 pandemic. ・ In addition to the above, in order to identify risk scenarios where credit risk is assumed to be high and to select obligors for which there are concerns about deterioration in future business performance prospects, we performed an analysis on each obligor by using a self- assessment data analysis tool (a tool that visualizes obligor and loan data from the standpoint of regions, industries, and financial conditions of obligors in self-assessment audits, and provides support for the selection of audit targets focusing on the location of credit risk), and additionally selected obligors corresponding to such risk scenarios as obligors deemed subject to assessment.

The Allowance for loan losses is determined in accordance with the self-assessment standards and the amortization and provision standards prescribed by the Group. The calculation process includes the obligor classification, which is determined by evaluating the obligor's ability to earn profits based on factors such as the obligor's repayment status, financial position, business performance and their future prospects thereof. In addition, for loans other than those for which the Allowance for loan losses is recorded using the cash flow estimation method, an Allowance for loan losses is recorded by estimating default rates based on the economic outlook and estimating expected loss rates. In determining the classification of obligors whose repayment status, financial position, or business performance has deteriorated, the reasonableness and feasibility of business improvement plans and so forth that embody the prospects for improvement of these financial conditions of the obligors in the future are more important factors. The reasonableness and feasibility of business improvement plans and so forth are affected by changes in the business environment surrounding the obligor and the success or failure of the obligor's business strategy, and therefore there is a high degree of uncertainty in estimates and reliance on management's judgment. Furthermore, default rate estimates are statistically determined based on the economic outlook and past economic trends and actual bankruptcies. In economic forecasting, the expected one-year GDP growth rate is calculated using two scenarios (base scenario and downside scenario) based on the future economic outlook. Therefore, there is a high degree of uncertainty in estimates and reliance on management's judgment. Accordingly, we have determined the classification of obligors whose repayment status, financial position, or business performance has deteriorated, and the estimation of default rates, as key audit matters.	· In order to obtain an understanding of the obligor's actual recent repayment status, financial position, and business performance, we performed the following procedures. - We inspected materials related to the Group's self-assessment, such as explanatory materials including a description of the business, materials related to borrowing and repayment status, research materials that provide the details of actual financial position, and financial statements. - In order to obtain an understanding of the obligor's actual recent repayment status, financial position, and business performance, we made inquiries of responsible personnel in the department in charge of loans. · We performed the following procedures to evaluate the reasonableness and feasibility of business improvement plans and so forth for Obligors Who Need Attention (excluding obligors whose credit terms are re-scheduled or reconditioned) whose business improvement plans and so forth are the main determining factors. - For key items of reported income such as the obligor's revenue and so forth, we analyzed the trends based on past performance and the degree of achievement of business improvement plans and so forth established in prior years. - We discussed with personnel in charge and those responsible in the department in charge of loans as necessary regarding the reasonableness and feasibility of business improvement plans and so forth, and the impact of the COVID-19 pandemic.

	(2) Estimation of default rates For the estimation of default rates, we involved specialists from our network firm and mainly performed the following audit procedures. ・ We evaluated the effectiveness of the following internal controls to ensure that estimations of default rates are performed appropriately. - Review and approval of statistical methods used in default rate estimations - Review and approval of significant source data used in default rate estimations - Review and approval of the future economic outlook and two scenarios (base scenario and downside scenario) based on it ・ We evaluated the appropriateness of statistical methods used in default rate estimations. ・ We evaluated the reasonableness of the future economic forecasts which forms the basis of the two scenarios (base scenario and downside scenario). This included a comparison of the future economic forecasts with available external information. ・ We evaluated the appropriateness of the calculation of estimates by performing assessments and recalculations of significant source data.

Other Information

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

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

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

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

We have nothing to report in this regard.

Responsibilities of Management, the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, 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, 2023 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

August 10, 2023

Hirokazu Tanaka
Designated Engagement Partner
Certified Public Accountant

Yuji Yoshimura
Designated Engagement Partner
Certified Public Accountant

Hiroshi Miyagawa
Designated Engagement Partner
Certified Public Accountant

Consolidated Balance Sheet

Fukuoka Financial Group, Inc. and its subsidiaries
As of March 31, 2023 and 2022

	2023	2022	2023
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Assets			
Cash and due from banks (Notes 7, 15 and 17)	¥ 7,713,590	¥ 7,849,025	$ 57,766
Call loans and bills bought (Note 17)	18,694	14,686	139
Monetary claims bought (Note 17)	37,297	42,814	279
Trading assets	1,046	1,394	7
Money held in trust (Note 4)	18,914	19,074	141
Securities (Notes 3, 7, 9, 10 and 17)	3,953,472	4,110,270	29,607
Loans and bills discounted (Notes 5, 7 and 17)	17,688,382	16,703,622	132,467
Foreign exchanges (Note 5)	24,477	12,167	183
Lease receivables and lease investment assets	16,700	15,410	125
Other assets (Notes 5 and 7)	282,968	269,630	2,119
Tangible fixed assets (Note 6)	200,077	203,117	1,498
Intangible fixed assets	17,864	18,872	133
Net defined benefit assets (Note 8)	25,252	26,036	189
Deferred tax assets (Note 12)	52,246	37,290	391
Customers' liabilities for acceptances and guarantees (Notes 5 and 9)	61,126	47,808	457
Allowance for loan losses (Note 5)	(187,829)	(199,309)	(1,406)
Total assets	**¥29,924,282**	**¥29,171,912**	**$224,101**
Liabilities			
Deposits (Notes 7 and 17)	¥20,949,452	¥20,482,990	$156,889
Call money and bills sold (Note 17)	1,665,800	1,231,492	12,475
Payables under repurchase agreements (Notes 7 and 17)	433,407	1,497,851	3,245
Cash collateral received for securities lent (Notes 7 and 17)	680,468	837,530	5,095
Trading liabilities	2	—	0
Borrowed money (Notes 7 and 17)	4,951,707	3,876,327	37,083
Foreign exchanges	896	712	6
Short-term bonds payable	47,000	37,000	351
Other liabilities	203,259	188,946	1,522
Net defined benefit liabilities (Note 8)	1,146	1,150	8
Provision for losses from reimbursement of inactive accounts	5,107	6,054	38
Provision for share awards	108	—	0
Reserves under the special laws	24	24	0
Deferred tax liabilities (Note 12)	112	40	0
Deferred tax liabilities for land revaluation (Note 6)	22,911	22,917	171
Acceptances and guarantees (Note 9)	61,126	47,808	457
Total liabilities	**¥29,022,531**	**¥28,230,846**	**$217,348**
Net assets			
Capital stock	¥ 124,799	¥ 124,799	$ 934
Capital surplus	141,281	141,487	1,058
Retained earnings	591,638	579,369	4,430
Treasury stock	(8,068)	(2,461)	(60)
Total shareholders' equity	**849,650**	**843,195**	**6,362**
Valuation difference on available-for-sale securities (Note 10)	(4,812)	49,973	(36)
Deferred gains or losses on hedges	8,412	(1,850)	62
Revaluation reserve for land (Note 6)	51,382	51,395	384
Remeasurements of defined benefit plans (Note 8)	(4,219)	(1,778)	(31)
Total accumulated other comprehensive income	50,763	97,739	380
Non-controlling interests	1,337	131	10
Total net assets	**¥ 901,750**	**¥ 941,066**	**$ 6,753**
Total liabilities and net assets	**¥29,924,282**	**¥29,171,912**	**$224,101**

Consolidated Statement of Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2023 and 2022

	2023	2022	2023
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Income			
Interest income:			
Interest on loans and discounts	¥162,250	¥147,708	$1,215
Interest and dividends on securities	51,618	35,847	386
Interest on call loans and bills bought	335	7	2
Interest on receivables under resale agreements	(0)	(0)	(0)
Interest on due from banks	0	0	0
Other interest income	15,067	7,932	112
Trust fees	0	0	0
Fees and commissions	61,174	60,608	458
Trading income	652	1,204	4
Other operating income	34,181	21,327	255
Other income	6,270	6,022	46
Total income	**¥331,551**	**¥280,659**	**$2,482**
Expenses			
Interest expenses:			
Interest on deposits	¥ 5,928	¥ 980	$ 44
Interest on call money and bills sold	(538)	(696)	(4)
Interest on payables under repurchase agreements	1,774	(474)	13
Interest on cash collateral received for securities lent	16,933	1,094	126
Interest on borrowings and rediscounts	2,355	193	17
Interest on short-term bonds	16	13	0
Interest on bonds	—	142	—
Other interest expenses	18,738	9,025	140
Fees and commissions payments	24,746	24,913	185
Other operating expenses	61,626	18,310	461
General and administrative expenses	140,677	141,978	1,053
Other expenses (Note 11)	14,050	10,014	105
Total expenses	**¥286,310**	**¥205,497**	**$2,144**
Income before income taxes	**45,240**	**75,162**	**338**
Income taxes: (Note 12)			
Current	8,195	19,238	61
Deferred	5,759	1,766	43
Total income taxes	**13,955**	**21,005**	**104**
Net income	**31,285**	**54,157**	**234**
Net income attributable to non-controlling interests	**132**	**38**	**0**
Net income attributable to owners of the parent (Note 13)	**¥ 31,152**	**¥ 54,118**	**$ 233**

Consolidated Statement of Comprehensive Income

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2023 and 2022

	2023	2022	2023
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Net income	¥ 31,285	¥ 54,157	$ 234
Other comprehensive income:			
Valuation difference on available-for-sale securities	(54,786)	(62,532)	(410)
Deferred gains or losses on hedges	10,263	14,963	76
Remeasurements of defined benefit plans	(2,440)	(6,475)	(18)
Total other comprehensive income (Note 14)	**(46,963)**	**(54,044)**	**(351)**
Comprehensive income	**¥(15,678)**	**¥ 112**	**$(117)**
Total comprehensive income attributable to:			
Owners of the parent	(15,811)	74	(118)
Non-controlling interests	132	38	0

Consolidated Statement of Changes in Net Assets

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2023 and 2022

	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, 2021	¥124,799	¥141,387	¥543,245	¥(2,453)	¥806,978	¥112,506	¥(16,814)	¥51,422	¥ 4,696	¥151,811	¥ 43	¥958,833
Cumulative effects of changes in accounting policies			(913)		(913)							(913)
Restated balance as of April 1, 2021	¥124,799	¥141,387	¥542,332	¥(2,453)	¥806,065	¥112,506	¥(16,814)	¥51,422	¥ 4,696	¥151,811	¥ 43	¥957,920
Changes during the period:												
Dividends from surplus			(17,108)		(17,108)							(17,108)
Net income attributable to owners of the parent			54,118		54,118							54,118
Acquisition of treasury stock				(8)	(8)							(8)
Disposition of treasury stock		(0)		0	0							0
Transfer from revaluation reserve for land			27		27							27
Capital increase of consolidated subsidiaries		100			100							100
Net changes of items other than shareholders' equity						(62,532)	14,963	(27)	(6,475)	(54,071)	87	(53,983)
Total changes during the period	—	¥ 100	¥ 37,037	¥ (8)	¥ 37,129	¥ (62,532)	¥ 14,963	¥ (27)	¥(6,475)	¥ (54,071)	¥ 87	¥ (16,853)
Balance as of March 31, 2022	¥124,799	¥141,487	¥579,369	¥(2,461)	¥843,195	¥ 49,973	¥ (1,850)	¥51,395	¥(1,778)	¥ 97,739	¥ 131	¥941,066
Changes during the period:												
Dividends from surplus			(18,896)		(18,896)							(18,896)
Net income attributable to owners of the parent			31,152		31,152							31,152
Acquisition of treasury stock				(5,607)	(5,607)							(5,607)
Disposition of treasury stock		(0)		0	0							0
Transfer from revaluation reserve for land			12		12							12
Capital increase of consolidated subsidiaries		28			28							28
Sale of a part of shares of consolidated subsidiaries		(233)			(233)							(233)
Net changes of items other than shareholders' equity						(54,786)	10,263	(12)	(2,440)	(46,976)	1,205	(45,771)
Total changes during the period	—	¥ (205)	¥ 12,268	¥(5,607)	¥ 6,455	¥ (54,786)	¥ 10,263	¥ (12)	¥(2,440)	¥ (46,976)	¥1,205	¥ (39,315)
Balance as of March 31, 2023	¥124,799	¥141,281	¥591,638	¥(8,068)	¥849,650	¥ (4,812)	¥ 8,412	¥51,382	¥(4,219)	¥ 50,763	¥1,337	¥901,750

	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, 2022	$934	$1,059	$4,338	$(18)	$6,314	$ 374	$(13)	$384	$(13)	$ 731	$ 0	$7,047
Changes during the period:												
Dividends from surplus			(141)		(141)							(141)
Net income attributable to owners of the parent			233		233							233
Acquisition of treasury stock				(41)	(41)							(41)
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
Sale of a part of shares of consolidated subsidiaries		(1)			(1)							(1)
Net changes of items other than shareholders' equity						(410)	76	(0)	(18)	(351)	9	(342)
Total changes during the period	—	$ (1)	$ 91	$(41)	$ 48	$(410)	$ 76	$ (0)	$(18)	$(351)	$ 9	$ (294)
Balance as of March 31, 2023	$934	$1,058	$4,430	$(60)	$6,362	$ (36)	$ 62	$384	$(31)	$ 380	$10	$6,753

Consolidated Statement of Cash Flows

Fukuoka Financial Group, Inc. and its subsidiaries
For the years ended March 31, 2023 and 2022

	2023	2022	2023
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
Cash flows from operating activities:			
Income before income taxes	¥ 45,240	¥ 75,162	$ 338
Depreciation of fixed assets	11,957	12,278	89
Impairment losses	4,639	294	34
Net change in allowance for loan losses	(11,480)	(3,365)	(85)
Net change in net defined benefit assets	784	141	5
Net change in net defined benefit liabilities	(3)	7	(0)
Net change in provision for losses on interest repayment	—	(22)	—
Net change in provision for losses from reimbursement of inactive accounts	(946)	(1,185)	(7)
Net change in provision for contingent liabilities losses	—	(0)	—
Net change in provision for share awards	108	—	0
Interest income	(229,272)	(191,495)	(1,717)
Interest expenses	45,209	10,278	338
Net losses (gains) related to securities transactions	36,811	5,329	275
Net losses (gains) on money held in trust	(319)	(438)	(2)
Net exchange losses (gains)	(60)	(88)	(0)
Net losses (gains) on disposal of noncurrent assets	169	629	1
Net change in trading assets	347	112	2
Net change in trading liabilities	2	(0)	0
Net change in loans and bills discounted	(984,759)	442,257	(7,374)
Net change in deposits	466,462	994,505	3,493
Net change in borrowed money (excluding subordinated borrowed money)	1,075,380	1,141,254	8,053
Net change in due from banks (excluding deposits with the Bank of Japan)	3,584	1,113	26
Net change in call loans	1,509	(17,150)	11
Net change in call money	(630,137)	(300,196)	(4,719)
Net change in payables under securities lending transactions	(157,061)	(188,399)	(1,176)
Net change in foreign exchanges - Assets	(12,310)	5,136	(92)
Net change in foreign exchanges - Liabilities	184	(1,465)	1
Net change in lease receivables and lease investment assets	(1,289)	374	(9)
Net change in short-term bonds payable - Liabilities	10,000	(4,000)	74
Interest received	238,834	203,756	1,788
Interest paid	(38,629)	(10,932)	(289)
Other, net	40,627	3,060	304
Subtotal	(84,417)	2,176,952	(632)
Income taxes paid	(26,844)	(13,407)	(201)
Net cash provided by (used in) operating activities	**(111,261)**	**2,163,545**	**(833)**
Cash flows from investing activities:			
Payments for purchases of securities	(1,276,130)	(1,323,153)	(9,556)
Proceeds from sale of securities	983,877	536,238	7,368
Proceeds from redemption of securities	313,329	425,464	2,346
Payments for increase in money held in trust	—	(1,000)	—
Proceeds from decrease in money held in trust	200	—	1
Payments for purchases of tangible fixed assets	(3,538)	(4,491)	(26)
Proceeds from sale of tangible fixed assets	609	986	4
Payments for purchases of intangible fixed assets	(15,264)	(6,684)	(114)
Net cash provided by (used in) investing activities	**3,082**	**(372,639)**	**23**
Cash flows from financing activities:			
Payments for redemption of subordinated bonds	—	(10,000)	—
Proceeds from share issuance to non-controlling interests	50	150	0
Payments for purchases of treasury stock	(5,607)	(8)	(41)
Proceeds from sale of treasury stock	0	0	0
Dividends paid	(18,890)	(17,098)	(141)
Proceeds from sale of shares of subsidiaries not resulting in change in scope of consolidation	715	—	5
Net cash used in financing activities	**(23,732)**	**(26,956)**	**(177)**
Effect of exchange rate changes on cash and cash equivalents	**60**	**88**	**0**
Net increase (decrease) in cash and cash equivalents	**(131,851)**	**1,764,037**	**(987)**
Cash and cash equivalents at beginning of the year	**7,840,263**	**6,076,226**	**58,715**
Cash and cash equivalents at end of the year (Note 15)	**¥ 7,708,412**	**¥ 7,840,263**	**$57,727**

1. Summary of Significant Accounting Policies

a. Basis of Presentation

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

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

b. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of FFG and all subsidiaries, excluding 10 subsidiaries controlled directly or indirectly by FFG such as FFG Venture Investment Limited Partnership No. 1. All significant intercompany balances and transactions have been eliminated in consolidation.

FFG Succession Co., Ltd. and FFG Asset Management Co., Ltd. were included in the scope of consolidation from the fiscal year ended March 31, 2023 as they were newly established.

Nagasaki Guarantee Service Co., Ltd. was excluded from the scope of consolidation as a result of an absorption-type merger effected on April 1, 2022, with Fukugin Guarantee Co., Ltd., one of FFG's consolidated subsidiaries, as the surviving company.

The Eighteenth Card Co., Ltd. was excluded from the scope of consolidation as a result of an absorption-type merger effected on April 1, 2022, with FFG Card Co., Ltd., one of FFG's consolidated subsidiaries, as the surviving company.

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

In addition, there are four companies that are not regarded as FFG's subsidiaries even though the majority of their voting rights (business execution rights) are held by FFG in its own accounts. Investments in these four companies were made by FFG's unconsolidated subsidiaries engaged in investment and related businesses for the purpose of rehabilitating their businesses and earning capital gains, not to control the decision-making bodies of the investees. Therefore, the four companies meet the requirements prescribed in Paragraph 16 of "Implementation Guidance on Determining a Subsidiary and an Affiliate" ("ASBJ Guidance No. 22), and are not treated as FFG's subsidiaries.

There are no affiliated companies over which FFG exercises significant influence in terms of their operating and financial policies. The above-mentioned unconsolidated subsidiaries and two affiliated companies, Kumamoto Historical Town Development Investment Limited Partnership and Kyushu Open Innovation No. 2 Investment Business Limited Partnership, are excluded from the scope of the equity method because their net income (loss) (amount corresponding to the FFG's equity position), retained earnings (amount corresponding to the FFG's equity position), accumulated other comprehensive income (amount corresponding to the FFG's equity position) and others are immaterial to the extent that their exclusion from the scope of companies accounted for by the equity method does not preclude reasonable judgment of the FFG's financial position and results of operations.

c. Trading Assets and Liabilities

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

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

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

d. Securities

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

Available-for-sale securities are stated at fair value (cost of securities sold is calculated using the moving-average method), and equity securities, etc. that do not have a market price are stated at cost computed by the moving-average method.

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

Valuation difference on available-for-sale securities is included in net assets, net of income taxes.

Securities held as components of individually managed money trusts whose principal objective is investments in securities are stated at fair value.

e. Derivative Transactions

Derivatives for purposes other than trading are stated at fair value.

f. Depreciation and Amortization of Fixed Assets

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

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

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

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

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

g. Allowance for Loan Losses

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

- For credits extended to obligors that are legally bankrupt under the Bankruptcy Law, Special Liquidation in the Commercial Law or other similar laws (“Bankrupt Obligors”), and to obligors that are effectively in similar conditions (“Effectively Bankrupt Obligors”), allowances are maintained at 100% of amounts of claims, net of expected amounts from the disposal of collateral and/or on the amounts recoverable under guarantees.
- For credits extended to obligors that are not Bankrupt Obligors or Effectively Bankrupt Obligors but have a substantial chance of business failure going forward (“In-Danger-of-Bankruptcy Obligors”), allowances are maintained at the amount deemed necessary based on overall solvency analyses, on the amount of claims less expected amounts recoverable from the disposal of collateral and/or on the amounts recoverable under guarantees.
- For credits extended to obligors that are In-Danger-of-Bankruptcy Obligors or whose credit terms are 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, based on an economic outlook, default rates for each of the 17 categories: 10 categories under Normal Obligors, 6 categories under Obligors Who Need Attention and 1 category under In-Danger-of-Bankruptcy Obligors.

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

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

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

h. Retirement Benefits

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

Prior service cost and actuarial gains or losses are amortized mainly in the following manner:

- Prior service cost is amortized by the straight-line method over certain periods (9–11 years), which are shorter than the average remaining years of service of the employees.
- Actuarial gains or losses are amortized by the straight-line method from the following year over certain periods (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.

i. Provision for Losses from Reimbursement of Inactive Accounts

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

j. Provision of share awards

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

k. Reserves under the Special Laws

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

l. Translation of Assets and Liabilities Denominated in Foreign Currencies

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

m. Revenue and Expenses for Lease Transactions

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

n. Hedge Accounting

(1) Hedge accounting for interest rate risks

For derivatives to hedge the interest rate risk associated with various financial assets and liabilities, FFG applies the deferred method which is stipulated in “Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry” (JICPA Industry Committee Practical Guideline No. 24, March 17, 2022). FFG assesses the effectiveness of such hedge for offsetting changes in interest rate, by classifying the hedged items (such as deposits and loans) and the hedging instruments (such as interest rate swaps) by their maturity. FFG assesses the effectiveness of such hedges for fixing cash flows by verifying the correlation between the hedged items and the hedging instruments.

(2) Hedge accounting for foreign exchange risks

FFG applies the deferred method of hedge accounting for derivatives to hedge foreign exchange risks associated with various foreign currency denominated monetary assets and liabilities as stipulated in “Accounting and Auditing Treatment Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Committee Practical Guideline No. 25, October 8, 2020). The effectiveness of the currency swap transactions, exchange swap transactions and similar transactions hedging the foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed based on comparison of foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

Deferred hedges based on one-to-one hedges are applied to certain assets and liabilities of FFG.

o. Income Taxes

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

FFG and some of its domestic subsidiaries adopt the group tax sharing system.

p. Appropriation of Retained Earnings

Under the Companies Act, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 21.

q. Cash and Cash Equivalents

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

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

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

s. Significant Accounting Estimates

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

Allowance for loan losses

(1)The amount recorded in the consolidated financial statements for the fiscal years ended March 31, 2023 and 2022

(Millions of yen)

	2023	2022
Allowance for loan losses	¥187,829	¥199,309

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

(a) Calculation method

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

(b) Main assumptions

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

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

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

•Future business forecasts for estimating default rates

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

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

At the end of the fiscal year ended March 31, 2023, while economic activities affected by COVID-19 are moving towards normalization, FFG assumes that their recovery is slow and the global economy may head for a recession depending on trends such as monetary tightening around the world and the situation in Ukraine.

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

Main assumptions may be affected by uncertainties such as economic trends, real estate prices, changes in the business conditions of client companies, and the timing of the containment of COVID-19. 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, 2024.

t. Accounting Standards Issued but Not Yet Effective

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

(a)Overview

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

(b) Scheduled date of adoption

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

(c) Impact of adopting the implementation guidance

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

u. Changes in Accounting Policies

Adoption of Implementation Guidance on Accounting Standard for Fair Value Measurement

FFG has adopted the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the fiscal year ended March 31, 2023 and prospectively adopts the new accounting policies prescribed by the Guidance in accordance with the transitional treatment provided for in Paragraph 27-2 of the Guidance. The impact of this change on the consolidated financial statements is immaterial.

In addition, concerning notes on investment trusts in fair value information by level within the fair value hierarchy in the notes on financial instruments, notes pertaining to the fiscal year ended March 31, 2022 are not presented in accordance with Paragraph 27-3 of the Guidance.

v. Additional information

(1) Transactions for delivering own shares through a trust

(a) Overview of the transaction

From the fiscal year ended March 31, 2023, FFG has introduced a performance-linked stock compensation plan for FFG's directors (excluding directors serving as Audit & Supervisory Committee members and external directors) which seeks to clarify the link between directors' remuneration and the Group's performance and shareholder value, raise the motivation of directors to contribute to the medium- to long-term improvement of business performance and the growth of corporate value, and have directors share with all shareholders the risks and returns of share price fluctuations.

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

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

(b) FFG's shares held in the trust

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

(2) Business integration between FFG and THE FUKUOKA CHUO BANK, LTD.

FFG and THE FUKUOKA CHUO BANK, LTD. resolved at their respective Board of Directors meetings held on March 14, 2023 to implement a business integration by way of share exchange setting the effective date of the share exchange for October 1, 2023, on the condition that the approval of a general meeting of shareholders of Fukuoka Chuo Bank and authorization or approvals from the relevant authorities are obtained; and a share exchange agreement has been executed by and between the Companies as of the same date.

2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥133.53 = US$1.00, the approximate rate of exchange on March 31, 2023, 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, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
National government bonds	¥1,582,482	¥1,940,792
Local government bonds	134,863	141,332
Corporate bonds	424,207	488,866
Equity securities	192,124	185,564
Other securities	1,619,794	1,353,715
Total	¥3,953,472	¥4,110,270

Equity securities included investments in unconsolidated subsidiaries of ¥181 million and ¥175 million at March 31, 2023 and 2022, respectively.

Other securities included investments in unconsolidated subsidiaries of ¥13,883 million and ¥8,942 million at March 31, 2023 and 2022, respectively.

National government bonds included bonds of ¥2,755 million at March 31, 2023, which were being rented out to third parties without collateral under lending contracts (securities lending transactions).

Corporate bonds included bonds offered through private placement. FFG's guarantee obligation for such private placement bonds was ¥35,233 million and ¥35,509 million at March 31, 2023 and 2022, respectively.

■ Held-to-maturity debt securities

The following tables summarize carrying values, fair values and differences of securities with available fair values at March 31, 2023 and 2022:

(Millions of yen)

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

(Millions of yen)

2022				
		Carrying value	Fair value	Difference
Securities with fair value exceeding carrying value	National government bonds	¥14,374	¥14,499	¥ 124
	Corporate bonds	2,683	2,791	107
	Other	–	–	–
	Subtotal	¥17,058	¥17,290	¥ 232
Securities with fair value not exceeding carrying value	National government bonds	¥ 3,100	¥ 3,012	¥ (87)
	Corporate bonds	9,487	9,139	(348)
	Other	–	–	–
	Subtotal	¥12,587	¥12,152	¥(435)
	Total	¥29,645	¥29,442	¥(203)

■ Available-for-sale securities

The following tables summarize acquisition costs, carrying values and differences of securities with available fair values at March 31, 2023 and 2022:

(Millions of yen)

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

(Millions of yen)

2022				
		Acquisition cost	Carrying value	Difference
Securities with carrying value exceeding acquisition cost	National government bonds	¥ 734,951	¥ 757,778	¥ 22,826
	Local government bonds	17,045	17,158	112
	Corporate bonds	172,983	174,135	1,151
	Equity securities	69,324	153,580	84,256
	Other	494,403	522,786	28,383
	Subtotal	¥1,488,709	¥1,625,439	¥136,730
Securities with carrying value not exceeding acquisition cost	National government bonds	¥1,198,571	¥1,165,540	¥ (33,031)
	Local government bonds	124,920	124,173	(746)
	Corporate bonds	306,018	302,559	(3,459)
	Equity securities	28,056	22,626	(5,429)
	Other	807,462	783,324	(24,138)
	Subtotal	¥2,465,029	¥2,398,223	¥ (66,806)
	Total	¥3,953,739	¥4,023,663	¥ 69,924

Securities other than securities held for trading purpose (excluding equity securities, etc. that do not have a market price and investments in partnerships) that have fallen substantially below the acquisition cost and are not expected to recover to the acquisition cost are carried at their fair values. The unrealized losses have been recognized for such securities during the period (hereinafter, “impairment losses”). For the fiscal years ended March 31, 2023 and 2022, impairment losses were ¥271 million and ¥109 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 who needs attention.

The following table summarizes total sales amounts of available-for-sale securities sold, and amounts of the related gains and losses for the fiscal years ended March 31, 2023 and 2022:

(Millions of yen)

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

(Millions of yen)

	2022		
	Sales amounts	Amounts of the related gains	Amounts of the related losses
National government bonds	¥365,969	¥ 834	¥ 3,583
Local government bonds	—	—	—
Corporate bonds	881	1	—
Equity securities	14,130	1,172	327
Other	175,135	3,962	7,163
Total	¥556,116	¥5,970	¥11,074

4. Money Held in Trust

The following table summarizes carrying value and gains (losses) on valuation included in the consolidated statement of income regarding money held in trust for trading purpose at March 31, 2023 and 2022 and for the fiscal years then ended:

(Millions of yen)

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

(Millions of yen)

	2022	
	Carrying value	Gains (losses) on valuation
Money held in trust for trading purpose	¥13,074	¥31

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, 2023 and 2022:

(Millions of yen)

	2023		
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥5,800	¥5,800	¥—

(Millions of yen)

	2022		
	Acquisition cost	Carrying value	Difference
Money held in trust for other purpose	¥6,000	¥6,000	¥—

5. Claims

Claims based on the Banking Act and Act on Emergency Measures for the Revitalization of the Financial Functions at March 31, 2023 and 2022 were as follows. The claims consist of those recorded in the consolidated balance sheet as corporate bonds in "Securities" (limited to those guaranteeing all or a part of principal and interest, and offered through private placement in accordance with Article 2, Paragraph 3 of the Financial Instruments and Exchange Act), loans and bills discounted, foreign exchanges, accrued interest and suspense payments in "Other assets" and customers' liabilities for acceptances and guarantees, as well as securities in securities lending transactions indicated in the notes (limited to those under loan for use or lease contracts).

(Millions of yen)

	2023	2022
Bankrupt or quasi-bankrupt claims	¥ 39,844	¥ 39,330
Doubtful claims	153,778	160,701
Claims past due for three months or more	855	417
Restructured claims	110,176	113,660
Total	¥304,655	¥314,109

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

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

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

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

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

Notes discounted are recorded as cash lending/borrowing transactions in accordance with "Accounting and Auditing Treatments of the Application of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Committee Practical Guideline No. 24, March 17, 2022). FFG has a right to sell or collateralize such bills at the discretion of FFG. At March 31, 2023 and 2022, total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥30,883 million and ¥33,634 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, 2023 and 2022 amounted to ¥4,842,363 million and ¥4,960,845 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 ¥4,461,404 million and ¥4,569,232 million at March 31, 2023 and 2022, respectively.

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

6. Tangible Fixed Assets

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

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

Accumulated depreciation for tangible fixed assets amounted to ¥158,875 million and ¥156,988 million at March 31, 2023 and 2022, respectively.

The accelerated depreciation entry for tangible fixed assets amounted to ¥16,981 million and ¥17,114 million at March 31, 2023 and 2022, respectively.

7. Pledged Assets

Assets pledged as collateral at March 31, 2023 and 2022 consisted of the following:

(Millions of yen)

	2023	2022
Assets pledged as collateral:		
Securities	¥2,751,082	¥2,870,210
Loans and bills discounted	5,003,640	4,290,600
Other assets	3	3
Liabilities corresponding to assets pledged as collateral:		
Deposits	47,816	84,837
Payables under repurchase agreements	433,407	1,497,851
Cash collateral received for securities lent	680,468	837,530
Borrowed money	4,946,144	3,868,401

In addition, the following assets were pledged as collateral for settlement of exchange, etc. at March 31, 2023 and 2022.

(Millions of yen)

	2023	2022
Cash and due from banks	¥ 2	¥ 2
Securities	—	3,069
Other assets	838	758

Initial margins of futures markets, cash collateral paid for financial instruments and guarantee deposits included in other assets at March 31, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
Initial margins of futures markets	¥ 168	¥ 152
Cash collateral paid for financial instruments	146,485	176,422
Guarantee deposits	2,569	2,232

8. 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, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
Projected benefit obligation at the beginning of the fiscal year	¥166,409	¥167,557
Service cost	4,665	4,726
Interest cost	266	260
Actuarial losses (gains)	(491)	1,250
Retirement benefits paid	(9,021)	(7,852)
Prior service cost	—	—
Contributions by participants of plans	454	467
Other	—	—
Projected benefit obligation at the end of the fiscal year	¥162,283	¥166,409

The changes in plan assets during the fiscal years ended March 31, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
Plan assets at the beginning of the fiscal year	¥191,296	¥192,593
Expected return on plan assets	6,678	6,724
Actuarial gains (losses)	(3,665)	(6,833)
Contributions by FFG's subsidiaries	63	5,810
Retirement benefits paid	(8,437)	(7,465)
Contributions by participants of plans	454	467
Other	—	—
Plan assets at the end of the fiscal year	¥186,389	¥191,296

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2023 and 2022.

(Millions of yen)

	2023	2022
Funded projected benefit obligation	¥ 160,655	¥ 164,808
Plan assets at fair value	(186,389)	(191,296)
	(25,734)	(26,488)
Unfunded projected benefit obligation	1,628	1,601
Net asset for retirement benefits in the balance sheet	¥ (24,105)	¥ (24,886)

(Millions of yen)

	2023	2022
Net defined benefit liabilities	¥ 1,146	¥ 1,150
Net defined benefit assets	(25,252)	(26,036)
Net asset for retirement benefits in the balance sheet	¥(24,105)	¥(24,886)

The components of retirement benefit expenses for the fiscal years ended March 31, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
Service cost	¥ 4,665	¥ 4,726
Interest cost	266	260
Expected return on plan assets	(6,678)	(6,724)
Amortization of actuarial losses (gains)	22	(839)
Amortization of prior service cost	(355)	(380)
Other	—	—
Retirement benefit expenses	¥(2,079)	¥(2,957)

The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the fiscal years ended March 31, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
Prior service cost	¥ (355)	¥ (380)
Actuarial loss	(3,151)	(8,923)
Other	—	—
Total	¥(3,506)	¥(9,303)

The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
Unrecognized prior service cost	¥ 871	¥ 975
Unrecognized actuarial losses (gains)	5,190	1,580
Other	—	—
Total	¥6,062	¥2,555

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2023 and 2022 was as follows:

	2023	2022
Debt securities	34%	37%
Equity securities	37%	37%
Cash and due from banks	2%	1%
Other	27%	25%
Total	100%	100%

Total plan assets included retirement benefit trusts of 29% and 30% as of March 31, 2023 and 2022, 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:

	2023	2022
Discount rate	0.3%	0.3%
Long-term expected rate of return on plan assets	3.5%	3.5%
Estimated rate of increase in salary	3.3%	3.3%

(2) Defined contribution plans

The amounts to be paid to defined contribution plans by consolidated subsidiaries were ¥386 million and ¥391 million for the fiscal years ended March 31, 2023 and 2022, respectively.

9. Acceptances and Guarantees

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

FFG's guarantees total ¥35,233 million and ¥35,509 million at March 31, 2023 and 2022, respectively, for private placement corporate bonds. Relevant acceptances and guarantees and customers' liabilities for acceptances and guarantees have been recorded in the net amount.

10. Valuation Difference on Available-for-sale Securities

Valuation difference on available-for-sale securities at March 31, 2023 and 2022 consisted of the following:

(Millions of yen)

	2023	2022
Gross valuation difference on available-for-sale securities	¥(8,929)	¥ 69,924
Deferred tax assets (liabilities) applicable to valuation difference	4,117	(19,950)
Valuation difference on available-for-sale securities, net of the applicable income taxes before adjustment for non-controlling interests	(4,812)	49,973
Amount attributable to non-controlling interests	–	–
Valuation difference on available-for-sale securities	(4,812)	49,973

11. Impairment Losses

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

Impairment losses on intangible fixed assets of a consolidated subsidiary

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

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

(Millions of yen)

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

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

12. Income Taxes

The significant components of the deferred tax assets and liabilities as of March 31, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
Deferred tax assets:		
Allowance for loan losses	¥ 53,012	¥ 57,590
Net losses carried forward	5,312	5,199
Net defined benefit liabilities	5,980	6,184
Valuation difference on available-for-sale securities	4,117	–
Depreciation of securities	5,115	5,219
Depreciation expenses	4,953	3,553
Deferred gains or losses on hedges	–	808
Fair value gains related to consolidated taxation	3,853	3,976
Other	11,473	12,793
Subtotal	93,818	95,325
Valuation allowance for net losses carried forward	(3,518)	(3,728)
Valuation allowance for total deductible temporary differences, etc.	(14,020)	(13,632)
Subtotal	(17,539)	(17,360)
Total	76,279	77,965
Deferred tax liabilities:		
Valuation difference on available-for-sale securities	–	(19,950)
Retirement benefit trust	(5,352)	(4,406)
Securities returned from retirement benefit trust	(3,159)	(3,159)
Reserve for special depreciation	(452)	(452)
Fair value losses related to consolidated taxation	(465)	(467)
Deferred gains or losses on hedges	(3,659)	–
Other	(11,055)	(12,278)
Total	(24,145)	(40,715)
Net deferred tax assets (liabilities)	¥ 52,134	¥ 37,249

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, 2023 and 2022.

(%)

	2023	2022
Statutory tax rate	–	30.4
Change in valuation allowance	–	(1.9)
Entertainment expenses and other items permanently excluded from expenses	–	0.3
Per capital residence tax	–	0.3
Dividend revenue and other items permanently excluded from gross revenue	–	(1.3)
Other	–	0.1
Effective tax rate	–	27.9

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

FFG and some of its domestic consolidated subsidiaries have adopted the group tax sharing system from the fiscal year ended March 31, 2023. Accordingly, the accounting and disclosure of corporation taxes, local corporation taxes and tax effect accounting are treated in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021).

13. Per Share Data

Net income attributable to owners of the parent per share for the fiscal years ended March 31, 2023 and 2022 and net assets per share as of then were as follows:

(Yen)

	2023	2022
Net income attributable to owners of the parent per share:		
Basic	¥ 165.54	¥ 284.69
Diluted	—	—
Net assets per share	4,796.99	4,949.87

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

For the fiscal years ended March 31, 2023 and 2022, as there were no dilutive securities, the amount of diluted net income attributable to owners of the parent per share of common stock is not stated.

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

FFG’s shares held in the trust for the stock compensation plan, which were recorded as treasury stock under shareholders’ equity, were included in treasury stock to be deducted from the calculation of the weighted average number of shares of common stock outstanding during the fiscal year for the purpose of calculating net income per share. In addition, they were included in treasury stock to be deducted from the calculation of the number of shares of common stock outstanding at the fiscal year-end, for the purpose of calculating net assets per share.

14. Other Comprehensive Income

Each component of other comprehensive income for the fiscal years ended March 31, 2023 and 2022 were the following:

(Millions of yen)

	2023	2022
Valuation difference on available-for-sale securities:		
Gains (losses) arising during the year	¥(133,458)	¥(95,078)
Reclassification adjustments to profit or loss	54,604	5,283
Amount before income tax effect	(78,853)	(89,794)
Income tax effect	24,067	27,261
Total	(54,786)	(62,532)
Deferred gains or losses on hedges		
Gains (losses) arising during the year	16,841	15,490
Reclassification adjustments to profit or loss	(2,095)	6,009
Amount before income tax effect	14,745	21,499
Income tax effect	(4,482)	(6,535)
Total	10,263	14,963
Remeasurements of defined benefit plans		
Gains (losses) arising during the year	(3,173)	(8,084)
Reclassification adjustments to profit or loss	(333)	(1,219)
Amount before income tax effect	(3,506)	(9,303)
Income tax effect	1,066	2,828
Total	(2,440)	(6,475)
Total other comprehensive income	¥ (46,963)	¥(54,044)

15. Supplementary Cash Flow Information

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, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
Cash and due from banks	¥7,713,590	¥7,849,025
Interest-earning deposits with other banks (Excluding deposits with the Bank of Japan)	(5,177)	(8,762)
Cash and cash equivalents	¥7,708,412	¥7,840,263

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, 2023 and 2022 were as follows:

(Millions of yen)

	2023	2022
Within one year	¥ 58	¥ 55
Over one year	123	109
Total	¥181	¥164

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

(2) Financial risk management system

(a) Management of credit risk

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

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

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 included in "Securities," "Deposits," "Borrowed money," "Bonds payable" and interest-related transactions included in "Derivative transactions."

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

As of March 31, 2023 and 2022, FFG's amount of interest rate risk (value of estimated losses) was ¥57,600 million and ¥32,599 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations with estimated gains or losses based on its portfolio for the VaR measurement period. In the domestic banking department and the international banking department, losses exceeded the VaR several times in back-testing conducted for the fiscal year ended March 31, 2023. Therefore, FFG ensures a conservative estimate by measuring VaR using a fixed multiplier.

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

Thus VaR is a technique to measure interest rate risk using certain statistical probabilities based on historical market fluctuations, and consequently, this process may not capture risk in the event that interest rates fluctuate in a manner that has not been observed in the past. Therefore, FFG reviews the calculation models used, etc. in a timely and appropriate manner as necessary to improve the accuracy in capturing risk.

Volatility risk

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

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

As of March 31, 2023 and 2022, FFG's amount of volatility risk was ¥87,697 million and ¥85,014 million, respectively.

FFG conducts back-testing by comparing its VaR model calculations with estimated gains or losses based on its portfolio for the VaR measurement period. As a result of such back-testing conducted for the fiscal year ended March 31, 2023, no losses exceeded the VaR. FFG believes that the measurement model captures volatility risk with sufficient accuracy.

However, VaR measures volatility risk using certain statistical probabilities based on historical market fluctuations, and consequently, this process may not capture risk in the event that prices fluctuate in a manner that has not been observed in the past.

(c) Management of liquidity risk

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

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

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

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

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

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

(3) Fair values of financial instruments

Carrying values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2023 and 2022 were as follows. Equity securities, etc. that do not have a market price and investments in partnerships are not included in the table below. In addition, notes are omitted for items whose fair value approximates book value due to their short maturities, or whose carrying value is immaterial.

(Millions of yen)

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

(Millions of yen)

	2022		
	Carrying value	Fair value	Difference
Assets			
Securities			
Held-to-maturity debt securities	¥ 29,645	¥ 29,442	¥ (203)
Available-for-sale securities	4,023,663	4,023,663	–
Loans and bills discounted (*1)	16,510,063	16,689,798	179,735
Total	¥20,563,372	¥20,742,904	¥179,532
Liabilities			
Deposits	¥20,482,990	¥20,483,208	¥ 218
Borrowed money	3,876,327	3,860,971	(15,355)
Total	¥24,359,317	¥24,344,180	¥ (15,137)
Derivatives (*2)			
Hedge accounting not applied	¥ 2,687	¥ 2,687	¥ –
Hedge accounting applied (*3)	(5,015)	(5,015)	–
Total	¥ (2,328)	¥ (2,328)	¥ –

(*1) Allowance for loan losses on loans and bills discounted are directly deducted from the amounts on consolidated financial statements.
(*2) 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.
(*3) Derivatives to which hedge accounting is applied are interest rate swaps and currency swaps, etc. designated as hedging instruments to fix cash flows of financial assets and financial liabilities which are hedged items such as loans and securities, offset market fluctuation, or reduce foreign exchange risk. FFG applies deferred hedge accounting, interest rate swaps with exceptional accounting, or the allocation method to these derivatives.
In addition, "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (ASBJ PITF No. 40, March 17, 2022) is applied to the hedging relationships.

The carrying value of equity securities, etc. that do not have a market price and investments in partnerships at March 31, 2023 and 2022 were as follows. These are not included in "Available-for-sale securities" in the above tables.

(Millions of yen)

	2023	2022
	Carrying value	
Unlisted equity securities (*1) (*2)	¥11,617	¥ 9,357
Investments in partnerships (*3)	73,808	47,603

(*1) Unlisted equity securities are exempted from fair value disclosures in accordance with Paragraph 5 of "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020).
(*2) Impairment losses on unlisted equity securities were ¥52 million and ¥113 million for the fiscal years ended March 31, 2023 and 2022, respectively.
(*3) Investments in partnerships are exempted from fair value disclosures in accordance with Paragraph 24-16 of "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021).

The redemption schedule for monetary assets and securities with maturity dates at March 31, 2023 and 2022 are summarized as follows:

(Millions of yen)

	2023					
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Due from banks	¥ 7,512,108	¥ –	¥ –	¥ –	¥ –	¥ –
Call loans and bills bought	18,694	–	–	–	–	–
Monetary claims bought	37,297	–	–	–	–	–
Securities						
Held-to-maturity debt securities						
National government bonds	14,374	–	–	–	–	–
Corporate bonds	2,683	–	–	–	–	–
Available-for-sale securities with maturities						
National government bonds	103,405	91,115	5,390	8,843	186,170	1,173,182
Local government bonds	3,937	41,304	16,740	33,596	24,920	14,364
Corporate bonds	63,490	46,790	57,405	4,806	4,853	230,844
Other	64,565	105,164	160,607	74,417	125,065	614,724
Loans and bills discounted (*)	6,079,460	2,544,241	2,113,602	1,505,381	1,567,368	3,533,289
Total	¥13,900,017	¥2,828,615	¥2,353,746	¥1,627,045	¥1,908,377	¥5,566,406

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

(Millions of yen)

	2022					
	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Due from banks	¥ 7,648,055	¥ –	¥ –	¥ –	¥ –	¥ –
Call loans and bills bought	14,686	–	–	–	–	–
Monetary claims bought	42,814	–	–	–	–	–
Securities						
Held-to-maturity debt securities						
National government bonds	3,100	14,374	–	–	–	–
Corporate bonds	9,487	2,683	–	–	–	–
Available-for-sale securities with maturities						
National government bonds	121,059	155,684	45,543	9,018	249,355	1,342.657
Local government bonds	12,621	27,354	30,022	7,566	43,524	20,242
Corporate bonds	58,126	91,598	50,611	6,598	2,467	253,558
Other	61,328	157,423	163,908	151,193	90,156	324,848
Loans and bills discounted (*)	5,091,145	2,612,208	2,122,690	1,484,492	1,589,132	3,470,011
Total	¥13,062,425	¥3,061,328	¥2,412,776	¥1,658,870	¥1,974,636	¥5,411,317

(*) Loans do not include an estimated ¥193,061 million in uncollectible loans to Bankrupt Obligors, Effectively Bankrupt Obligors or In-Danger-of-Bankruptcy Obligors, and ¥140,879 million in loans that have no set term.

The payment schedule for corporate bonds, borrowed money and other interest-bearing liabilities at March 31, 2023 and 2022 are summarized as follows:

(Millions of yen)

2023	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Deposits (*)	¥20,579,691	¥ 298,298	¥ 65,027	¥4,260	¥2,173	¥ –
Call money and bills sold	1,665,800	–	–	–	–	–
Payables under repurchase agreements	353,289	80,118	–	–	–	–
Cash collateral received for securities lent	680,468	–	–	–	–	–
Borrowed money	795,142	3,054,329	1,100,509	1,100	–	625
Total	¥24,074,393	¥3,432,745	¥1,165,536	¥5,360	¥2,173	¥625

(*) Demand deposits are included in “1 year or less.”

(Millions of yen)

2022	1 year or less	More than 1 year but less than 3 years	More than 3 years but less than 5 years	More than 5 years but less than 7 years	More than 7 years but less than 10 years	More than 10 years
Deposits (*)	¥20,082,567	¥ 324,796	¥ 67,856	¥3,970	¥3,799	¥ –
Call money and bills sold	1,231,492	–	–	–	–	–
Payables under repurchase agreements	1,442,776	36,717	18,358	–	–	–
Cash collateral received for securities lent	837,530	–	–	–	–	–
Borrowed money	2,162,043	1,173,545	538,808	193	1,100	636
Total	¥25,756,410	¥1,535,058	¥625,023	¥4,164	¥4,899	¥636

(*) Demand deposits are included in “1 year or less.”

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

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

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

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

Level 3: Fair value measured using unobservable inputs

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

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

(Millions of yen)

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

Investment trusts whose unit price is deemed as fair value by applying the treatment provided for in Paragraphs 24-3 and 24-9 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) are not included in ”Securities.” The carrying value of investment trusts applying the treatment provided for in Paragraphs 24-3 and 24-9 was ¥8,665 million and ¥23,662 million, respectively.

(Millions of yen)

2022	Fair value			
	Level 1	Level 2	Level 3	Total
Securities				
Available-for-sale securities				
National government bonds	¥1,923,318	¥ –	¥ –	¥1,923,318
Local government bonds	–	141,332	–	141,332
Corporate bonds	–	428,365	48,329	476,694
Equity securities	176,207	–	–	176,207
Foreign bonds	300,151	385,069	114,091	799,312
Other	9	–	56,136	56,146
Total assets	¥2,399,686	¥ 954,767	¥218,557	¥3,573,011
Derivatives				
Interest-related	¥ –	¥ 1,920	¥ –	¥ 1,920
Currency-related	–	(4,845)	–	(4,845)
Bond-related	0	–	–	0
Credit derivatives	–	595	–	595
Total derivatives	¥ 0	¥ (2,329)	¥ –	¥ (2,328)

Investment trusts to which the transitional treatment provided for in Paragraph 26 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019) is applied are not included in the above table. The carrying value of such investment trusts was ¥442,995 million.

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

(Millions of yen)

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

(Millions of yen)

2022				
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities				
Held-to-maturity debt securities				
National government bonds	¥17,511	¥ –	¥ –	¥ 17,511
Corporate bonds	–	11,930	–	11,930
Loans and bills discounted	–	–	16,689,798	16,689,798
Total assets	¥17,511	¥ 11,930	¥16,689,798	¥16,719,241
Deposits	¥ –	¥20,483,208	¥ –	¥20,483,208
Borrowed money	–	3,857,954	3,017	3,860,971
Total liabilities	¥ –	¥24,341,163	¥ 3,017	¥24,344,180

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

Assets

Securities

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

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

Loans and bills discounted

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

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

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

Liabilities

Deposits

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

Borrowed money

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

Bonds payable

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

Derivatives

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

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

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

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

(a) Quantitative information on significant unobservable inputs

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

2022				
	Valuation techniques	Significant unobservable inputs	Scope of inputs	Weighted average of inputs
Securities				
Available-for-sale securities				
Corporate bonds				
Private placement bonds and specified bonds	Discounted present value method	Default probability	0.05%-16.59%	0.28%
		Bankruptcy loss ratio	20.00%-100.00%	83.32%
Foreign bonds				
Yen-denominated securitization	Discounted present value method	Default probability	0.05%	0.05%

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

(Millions of yen)

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

(Millions of yen)

2022								
		Gains (losses) or other comprehensive income for the fiscal year						
	Balance at the beginning of the fiscal year	Recorded in gains (losses) (*1)	Recorded in other comprehensive income (*2)	Purchase, sale, issuance and settlement, net	Transfer into Level 3	Transfer out of Level 3	Balance at the end of the fiscal year	Valuation gains (losses) of financial assets and financial liabilities held at the fiscal year-end included in gains (losses) for the fiscal year
Securities								
Available-for-sale securities								
Corporate bonds	¥47,198	¥ (3)	¥(108)	¥ 1,241	¥–	¥–	¥ 48,329	¥–
Foreign bonds	56,460	10,211	(903)	48,321	–	–	114,091	–
Other	59,096	(44)	(323)	(2,590)	–	–	56,136	–

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

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

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

In measuring fair value, FFG uses a valuation model that most appropriately reflects the nature, characteristics and risks of each financial instrument. In addition, when using quoted prices obtained from third parties, FFG verifies the appropriateness of the prices by using appropriate methods, such as checking the valuation techniques and inputs used, carrying out time-series analysis of prices, and comparing them with estimates calculated by FFG.

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

Default probability

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

Bankruptcy loss ratio

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

18. Derivative Transactions

FFG has entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates, interest rates and debt security prices.

Information regarding the derivative transactions outstanding as of March 31, 2023 and 2022 was as follows:

Hedge accounting not applied

As of March 31, 2023 and 2022, on derivative transactions to which hedge accounting is not applied, notional amounts as of the balance sheet date, fair values and gains (losses) 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, 2023	Notional amount	Fair value	Gains (Losses)
Interest rate swaps			
Receive/fixed and pay/floating	¥260,720	¥(4,249)	¥(4,305)
Receive/floating and pay/fixed	260,720	6,414	6,451
Other			
Sell	1,000	(24)	18
Buy	1,000	24	(9)
Total	—	¥ 2,165	¥ 2,155

(Millions of yen)

As of March 31, 2022	Notional amount	Fair value	Gains (Losses)
Interest rate swaps			
Receive/fixed and pay/floating	¥276,287	¥2,383	¥2,281
Receive/floating and pay/fixed	276,287	(226)	(142)
Other			
Sell	—	—	—
Buy	—	—	—
Total	—	¥2,157	¥2,138

■ Currency-related transactions

(Millions of yen)

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

(Millions of yen)

As of March 31, 2022	Notional amount	Fair value	Gains (Losses)
Currency swaps	¥309,998	¥ 57	¥ 55
Foreign exchange contract			
Sell	108,549	(5,278)	(5,278)
Buy	92,087	5,155	5,155
Currency option			
Sell	1,306	(36)	(29)
Buy	1,306	36	35
Total	—	¥ (66)	¥ (62)

■ Bond–related transactions

(Millions of yen)

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

(Millions of yen)

As of March 31, 2022	Notional amount	Fair value	Gains (Losses)
Bond futures			
Sell	¥100	¥ 0	¥ 0
Buy	—	—	—
Total	—	¥ 0	¥ 0

■ Credit derivative transactions

(Millions of yen)

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

(Millions of yen)

As of March 31, 2022	Notional amount	Fair value	Gains (Losses)
Credit default swaps			
Sell	¥48,000	¥595	¥582
Buy	—	—	—
Total	—	¥595	¥582

Hedge accounting applied

As of March 31, 2023 and 2022, 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, 2023				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, available-for-sale securities, and deposits		
	Receive/fixed and pay/floating		¥4,891,100	¥ (3,056)
	Receive/floating and pay/fixed		1,068,361	16,437
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity debt securities, and deposits		
	Receive/floating and pay/fixed		16,700	131
Total			—	¥13,512

(Millions of yen)

As of March 31, 2022				
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		¥ 420,000	¥(1,030)
	Receive/floating and pay/fixed		1,647,829	343
Interest rate swaps with exceptional accounting	Interest rate swaps	Interest bearing financial assets and liabilities of which, loans, held-to-maturity debt securities, and deposits		
	Receive/floating and pay/fixed		54,450	450
Total			—	¥ (236)

■ Currency-related transactions

(Millions of yen)

As of March 31, 2023				
Hedge accounting method	Transaction type	Principal hedged items	Notional amount	Fair value
Deferred hedge accounting	Currency swaps	Financial assets and liabilities of which, loans, securities and deposits denominated in foreign currencies, and foreign exchange assets and liabilities	¥987,504	¥(8,087)
Allocation method	Currency swaps	Loans denominated in foreign currencies	503	17
Total			—	¥(8,069)

(Millions of yen)

As of March 31, 2022				
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	¥737,765	¥(4,786)
Allocation method	Currency swaps	Loans denominated in foreign currencies	503	6
Total			—	¥(4,779)

19. Segment Information

The FFG's reportable segment is composed of only the banking business. Segment information has been omitted because businesses other than the banking business were immaterial for the fiscal years ended March 31, 2023 and 2022.

Information on income by service has been omitted because income from the banking business accounted for more than 90% of ordinary income in the consolidated statement of income for the fiscal years ended March 31, 2023 and 2022.

Information on income by geographic area has been omitted because income from Japanese customers accounted for more than 90% of ordinary income in the consolidated statement of income for the fiscal years ended March 31, 2023 and 2022.

Information on tangible fixed assets by geographic area has been omitted because total tangible fixed assets of the domestic operations constituted more than 90% of the consolidated total tangible fixed assets at March 31, 2023 and 2022.

Information on income by major customer has been omitted because no ordinary income derived from any external customer amounted to 10% or more of ordinary income in the consolidated statement of income for the fiscal years ended March 31, 2023 and 2022.

20. Related Party Transactions

There were no significant transactions with related parties to report for the fiscal years ended March 31, 2023 and 2022.

21. 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, 2023, was approved at a shareholders meeting held on June 29, 2023 and became effective on June 30, 2023:

(Millions of yen)

Dividends on common stock (¥52.50 per share)	¥9,867

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Fukuoka, Ltd.

As of March 31, 2023 and 2022

	2023	2022	2023
	Millions of yen	Millions of yen	Millions of U.S. dollars
Assets			
Cash and due from banks	¥ 5,879,585	¥ 5,174,401	$ 44,031
Call loans	654,934	768,009	4,904
Cash collateral provided for securities borrowed	—	129,302	—
Monetary claims bought	21,981	23,983	164
Trading assets	313	371	2
Money held in trust	3,114	3,074	23
Securities	2,552,656	2,768,308	19,116
Loans and bills discounted	11,635,392	11,641,307	87,136
Foreign exchanges	14,396	7,024	107
Other assets	207,745	208,087	1,555
Tangible fixed assets	144,457	146,301	1,081
Intangible fixed assets	9,596	9,155	71
Prepaid pension expenses	17,404	16,149	130
Deferred tax assets	19,476	11,917	145
Customers' liabilities for acceptances and guarantees	40,911	29,893	306
Allowance for loan losses	(103,791)	(110,967)	(777)
Total assets	**¥21,098,175**	**¥20,826,321**	**$158,003**
Liabilities			
Deposits	¥13,714,425	¥13,348,410	$102,706
Call money	2,520,805	1,491,182	18,878
Payables under repurchase agreements	433,407	1,497,851	3,245
Cash collateral received for securities lent	480,067	684,648	3,595
Trading liabilities	2	—	—
Borrowed money	3,059,320	2,912,345	22,911
Foreign exchanges	630	457	4
Other liabilities	163,475	154,377	1,224
Provision for losses from reimbursement of inactive accounts	2,587	3,208	19
Provision for share awards	32	—	0
Deferred tax liabilities for land revaluation	22,911	22,917	171
Acceptances and guarantees	40,911	29,893	306
Total liabilities	**¥20,438,578**	**¥20,145,291**	**$153,063**
Net assets			
Capital stock	¥ 82,329	¥ 82,329	$ 616
Capital surplus	60,480	60,480	452
Retained earnings	447,311	440,818	3,349
Total shareholders' equity	**590,121**	**583,629**	**4,419**
Valuation difference on available-for-sale securities	10,762	48,436	80
Deferred gains or losses on hedges	7,331	(2,431)	54
Revaluation reserve for land	51,382	51,395	384
Total valuation and translation adjustments	69,475	97,400	520
Total net assets	**¥ 659,597**	**¥ 681,029**	**$ 4,939**
Total liabilities and net assets	**¥21,098,175**	**¥20,826,321**	**$158,003**

Non-Consolidated Statement of Income (Unaudited)

The Bank of Fukuoka, Ltd.

For the years ended March 31, 2023 and 2022

	2023	2022	2023
	Millions of yen	Millions of yen	Millions of U.S. dollars
Income			
Interest income:			
Interest on loans and discounts	¥113,872	¥ 99,256	$ 852
Interest and dividends on securities	38,786	26,635	290
Interest on call loans	226	(182)	1
Interest on receivables under resale agreements	(0)	(0)	(0)
Interest on cash collateral provided for securities borrowed	11	11	0
Interest on deposits with banks	0	0	0
Interest on interest swaps	3,811	656	28
Other interest income	9,680	5,172	72
Trust fees	0	0	0
Fees and commissions	40,204	39,822	301
Trading income	7	0	0
Other operating income	14,970	4,765	112
Other income	4,200	4,291	31
Total income	**¥225,772**	**¥180,430**	**$1,690**
Expenses			
Interest expenses:			
Interest on deposits	¥ 5,733	¥ 816	$ 42
Interest on call money	(644)	(704)	(4)
Interest on payables under repurchase agreements	1,774	(474)	13
Interest on cash collateral received for securities lent	12,718	897	95
Interest on borrowing and rediscounts	2,319	164	17
Interest on bonds	—	142	—
Interest on interest swaps	19,624	8,631	146
Other interest expenses	503	427	3
Fees and commissions payments	21,449	20,956	160
Other operating expenses	38,737	7,334	290
General and administrative expenses	64,647	66,458	484
Other expenses	6,132	2,635	45
Total expenses	**¥172,995**	**¥107,284**	**$1,295**
Income before income taxes	**52,776**	**73,145**	**395**
Income taxes:			
Current	9,025	17,762	67
Deferred	4,724	2,590	35
Total income taxes	**13,749**	**20,352**	**102**
Net income	**¥ 39,027**	**¥ 52,792**	**$ 292**