



Kyushu FG

Company Information Meeting

June 2, 2016

Kyushu Financial Group, Inc.



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Summary of Financial Results for Fiscal Year Ended March 2016



1. Financial Results Summary

- Core business profit for FY 2015 declined by 900 million yen to 31,800 million yen due to decreases in gross business profit (mainly in fees and commissions income) and increases in expenses.
- Net income increased by 2,200 million yen to 25,500 million yen despite increases in credit costs, thanks to increases in gain on sale of equity securities, etc.

Profit & Loss

Simple sums of Higo Bank's and Kagoshima Bank's unconsolidated numbers

(100 mil. yen)

Highlights

	Mar. 2015	Mar. 2016		Change	
	Sum	Sum	Higo	Kagoshima	Sum
Gross business profit	1,095	1,093	554	539	-2
Interest and dividend income	921	934	474	460	12
Fees and commissions	150	145	72	73	-5
Other business profit	22	13	7	6	-9
(of which gain or loss on government and other bonds)	(22)	(20)	(16)	(3)	-2
Expenses	745	755	398	357	9
Core business profit	327	318	139	178	-9
Allowance for doubtful accounts (subtract)	18	-26	-	-26	-44
Net business profit	331	364	155	208	32
Non-recurring profit or loss	54	28	58	-30	-26
Non-performing loans disposal expenses (subtract)	17	114	1	113	97
Equity securities-related profit or loss	55	107	36	70	51
Other non-recurring profit or loss	15	35	22	12	19
Ordinary income	386	392	214	178	6
Extraordinary profit and loss	1	-4	-3	-0	-5
Pre-tax net income	387	388	210	177	0
Net income	233	255	139	115	22
(Credit costs)	33	69	-17	86	35

- Interest & dividend income: Increased 1,200 mil. yen year on year
 - Interest on loans: -700 mil. yen
 - Interest on securities: +2,200 mil. yen

- Expenses: Increased 900 mil. yen year on year
 - Personnel expenses: -700 mil. yen
 - Non-personnel expenses: +700 mil. yen
 - Taxes: +1,000 mil. yen

- Equity securities-related profit or loss: Increased 5,100 mil. yen year on year
 - Portfolio investment: +4,200 mil. yen
 - Relationship investment: +900 mil. yen

- Credit cost: Increased 3,500 mil. yen year on year
 - Provision for general loan losses: -4,400 mil. yen
 - Non-performing loans disposal expenses: +9,700 mil. yen

- Kyushu Financial Group consolidated results for FY 2016
 - Profit and loss only of Kagoshima Bank in 2H FY 2015 added to consolidated results of Higo Bank for full FY 2015.
 - An extraordinary gain of 88,400 million yen posted as "gain on negative goodwill" accompanying the management integration.

Kyushu Financial Group Consolidated Results	Mar. 2016
Consolidated revenues	1,312
Consolidated ordinary income	256
Profit attributable to owners of parent	1,084

2. Interest and Dividend Income

• Interest and dividend income increased by 1,200 mil. yen to 93,400 mil. yen despite decreases in interest income on loans, thanks to increases in interest income on securities.

Domestic Division: -900 mil. yen (interest on loans: -800 mil. yen; interest on deposits: +100 mil. yen; and interest on securities: -100 mil. yen); International Division: +2,100 mil. yen

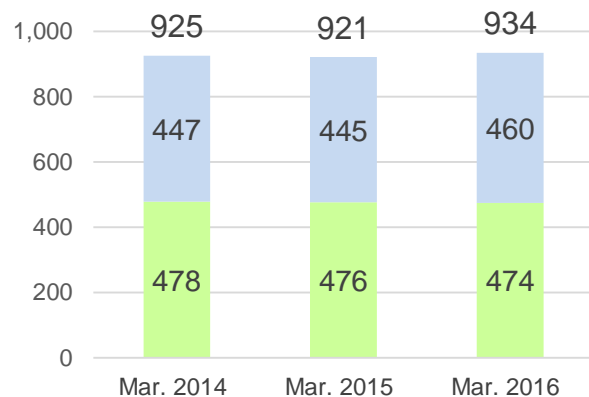
Interest and Dividend Income

(100 mil. yen)

	Mar. 2014			Mar. 2015			Mar. 2016			Change in Sum from Mar. 2015
	Sum	Higo	Kagoshima	Sum	Higo	Kagoshima	Sum	Higo	Kagoshima	
Interest and dividend income	925	478	447	921	476	445	934	474	460	12
Domestic Division	891	450	440	881	442	438	872	429	443	-9
Interest on loans	728	361	367	720	352	367	712	344	368	-8
Interest on deposits (subtract)	26	14	12	26	13	12	27	13	13	1
Interest on securities	213	124	89	217	128	88	216	122	93	-1
International Division	34	27	6	40	33	6	61	44	16	21
Interest on securities	40	33	7	49	42	7	72	52	19	22

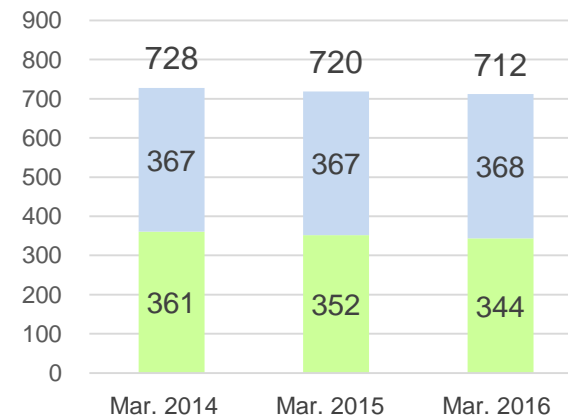
Interest and Dividend Income

(100 mil. yen)



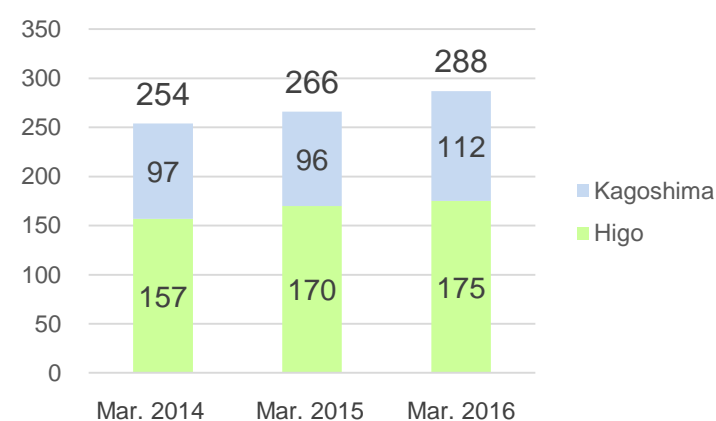
Interest on Domestic Loans

(100 mil. yen)



Interest on Securities

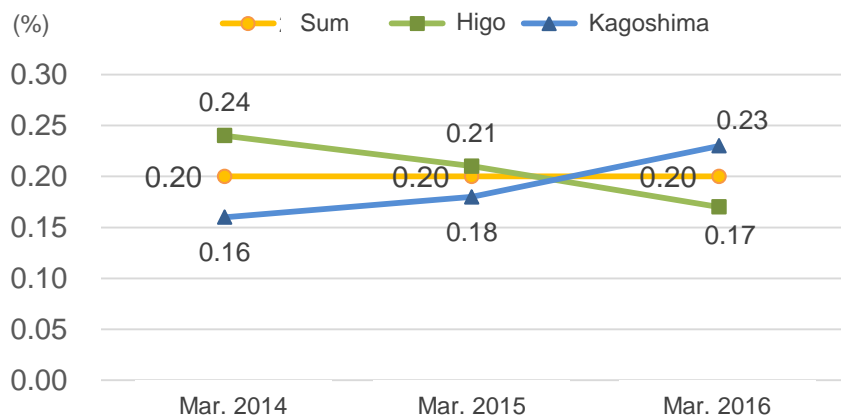
(100 mil. yen)



3. Net Interest Margin and Net Yield

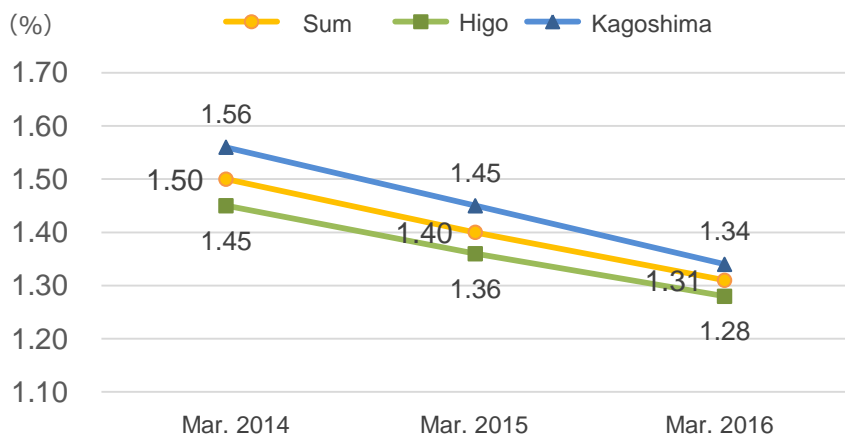
- Net interest margin remained essentially unchanged from the previous fiscal year at 0.20%, as the drop in the investment yield was offset by the decline in the funding cost.
- Net yield dropped by only 0.03% from the previous fiscal year, as the drop in the yield on loans was almost offset by the rise in the yield on securities.

Net Interest Margin

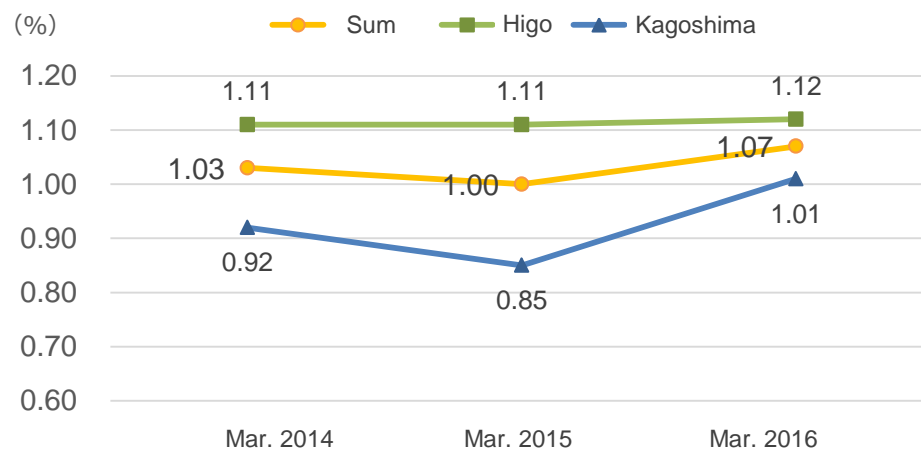


	Mar. 2015	Mar. 2016		Change in Sum
	Sum	Sum	Higo Kagoshima	
① Investment yield	1.26%	1.23%	1.22% 1.24%	-0.03%
Yield on loans	1.40%	1.31%	1.28% 1.34%	-0.09%
Yield on securities	1.00%	1.07%	1.12% 1.01%	0.07%
② Funding cost	1.06%	1.03%	1.05% 1.01%	-0.03%
Interst rate on deposits	0.04%	0.03%	0.04% 0.03%	-0.01%
Net interest matgin (① - ②)	0.20%	0.20%	0.17% 0.23%	0.00%

Yield on Loans



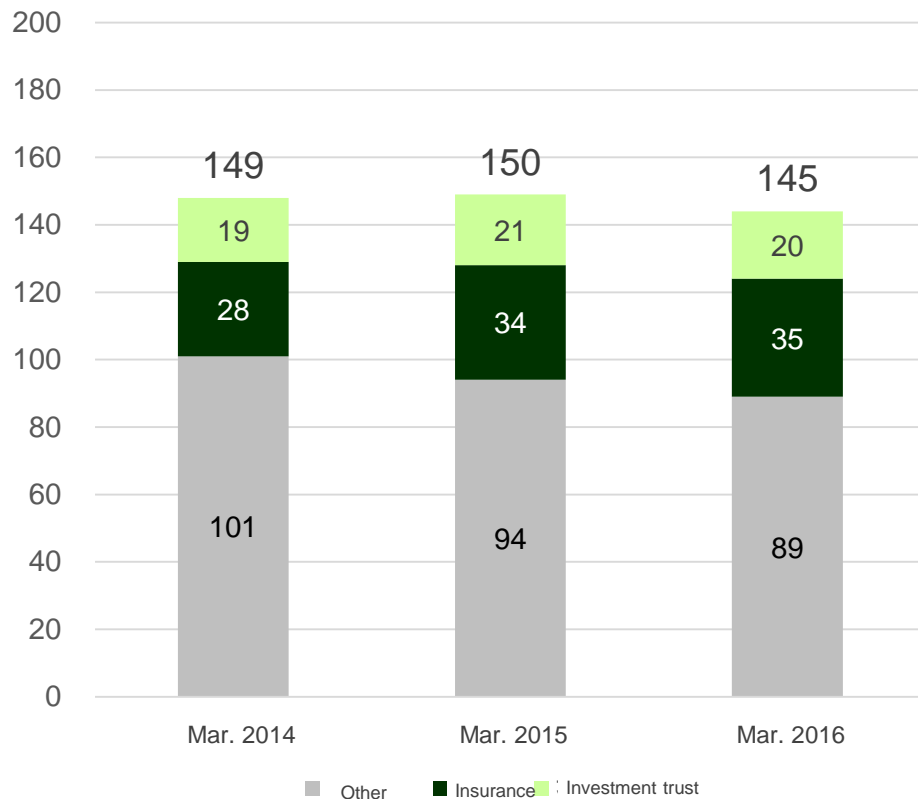
Yield on Securities



- Fees and commissions decreased 500 million yen, year on year, due to drops in the commissions on assets under management and increases in fees payable owing to increases in loans.
- Sale of assets under management declined 33,700 million yen, year on year, due mainly to decreases in sale of insurance policies.

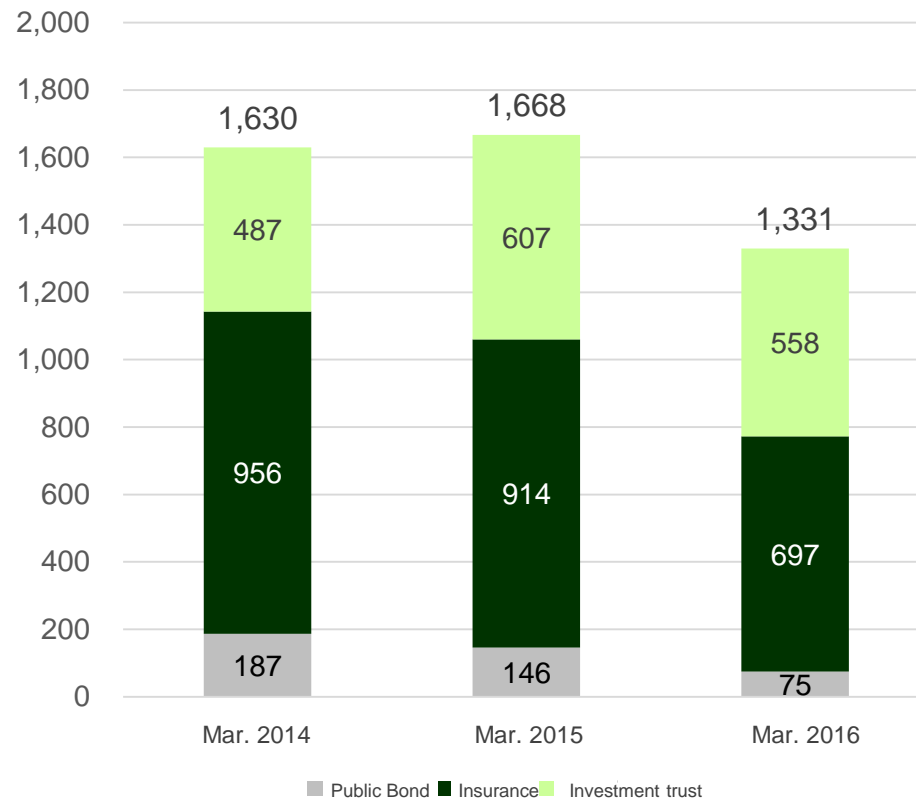
Fees and Commissions

(100 mil. yen)



Sale of Assets under Management

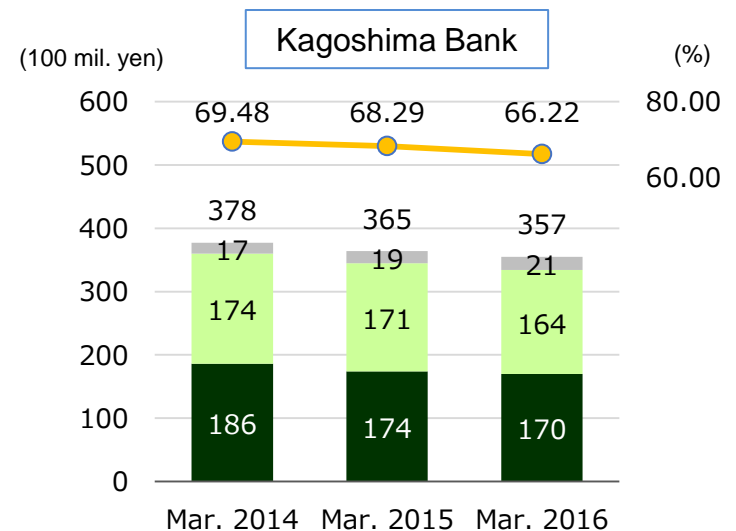
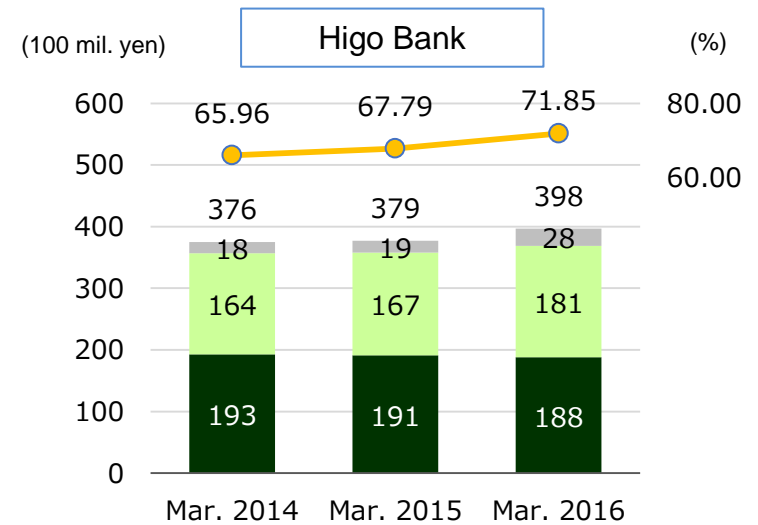
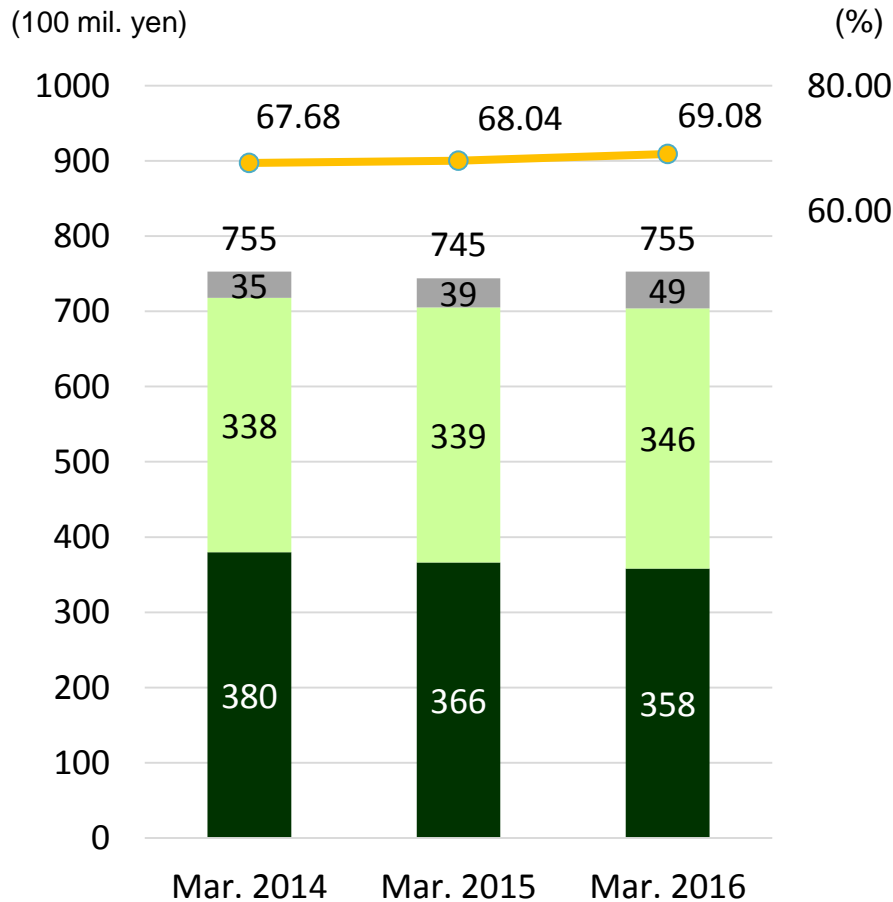
(100 mil. yen)



5. Expenses

- Expenses increased 900 million yen, year on year. Although personnel expenses decreased thanks to reduced retirement benefit expenses, non-personnel expenses increased including expenditures associated with construction of the new head office building of Higo Bank and tax expenses.
- OHR rose by 1.04 percentage points, year on year, mirroring increases in expenses.

Expenses

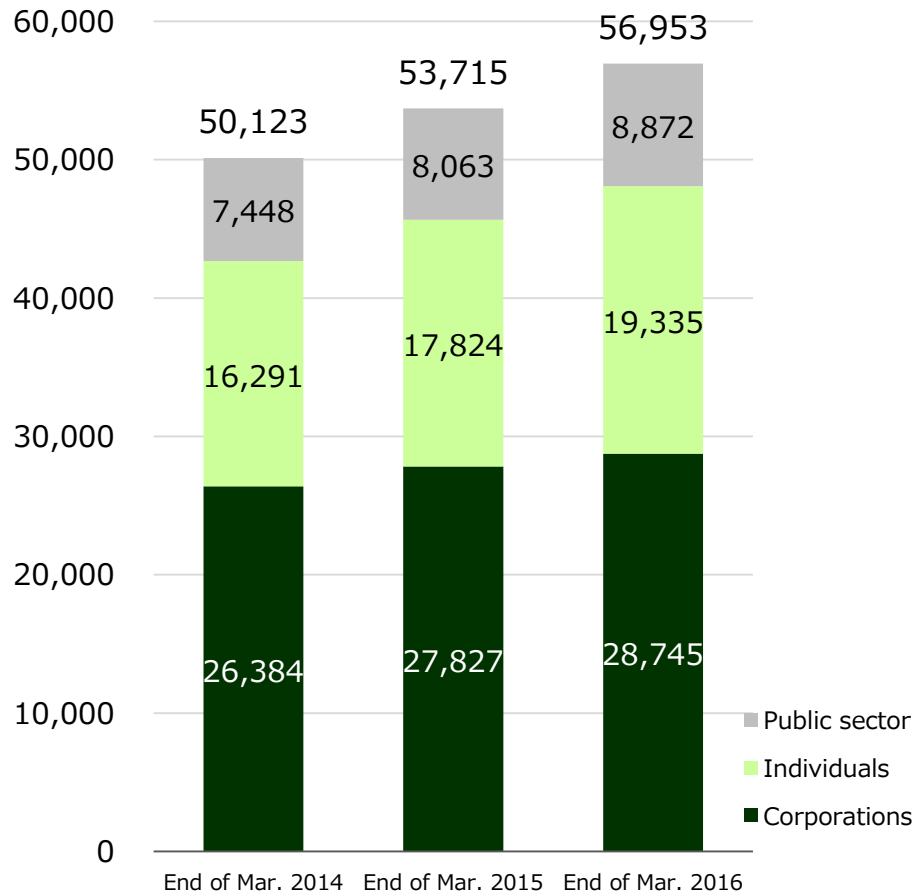


6. Loans

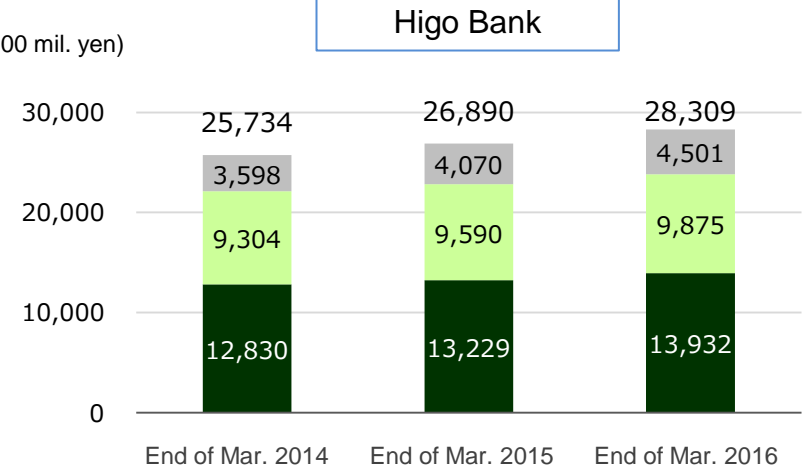
- The balance of loans increased 323,700 million yen, up 6.0%, from the previous fiscal year.
- Loans to corporations, individuals and public sector entities all increased favorably. (Loans to corporations: +91,700 million yen; loans to individuals: +151,000 million yen; and loans to public sector entities: +80,900 million yen)

Balance of Loans

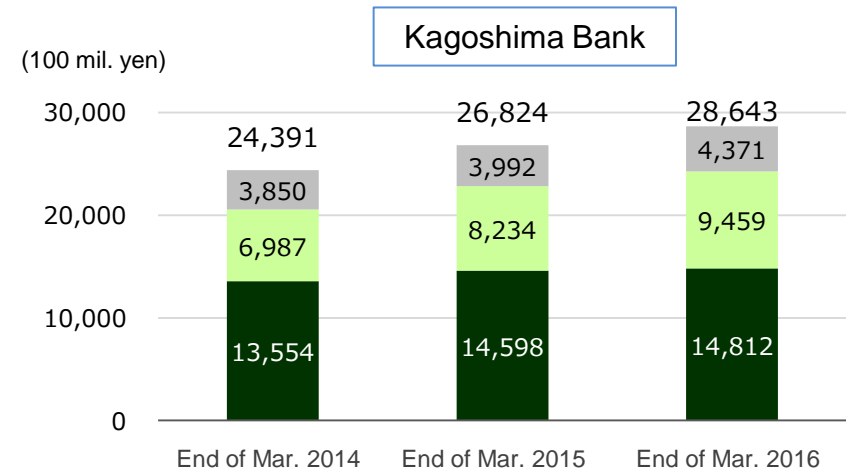
(100 mil. yen)



(100 mil. yen)



(100 mil. yen)

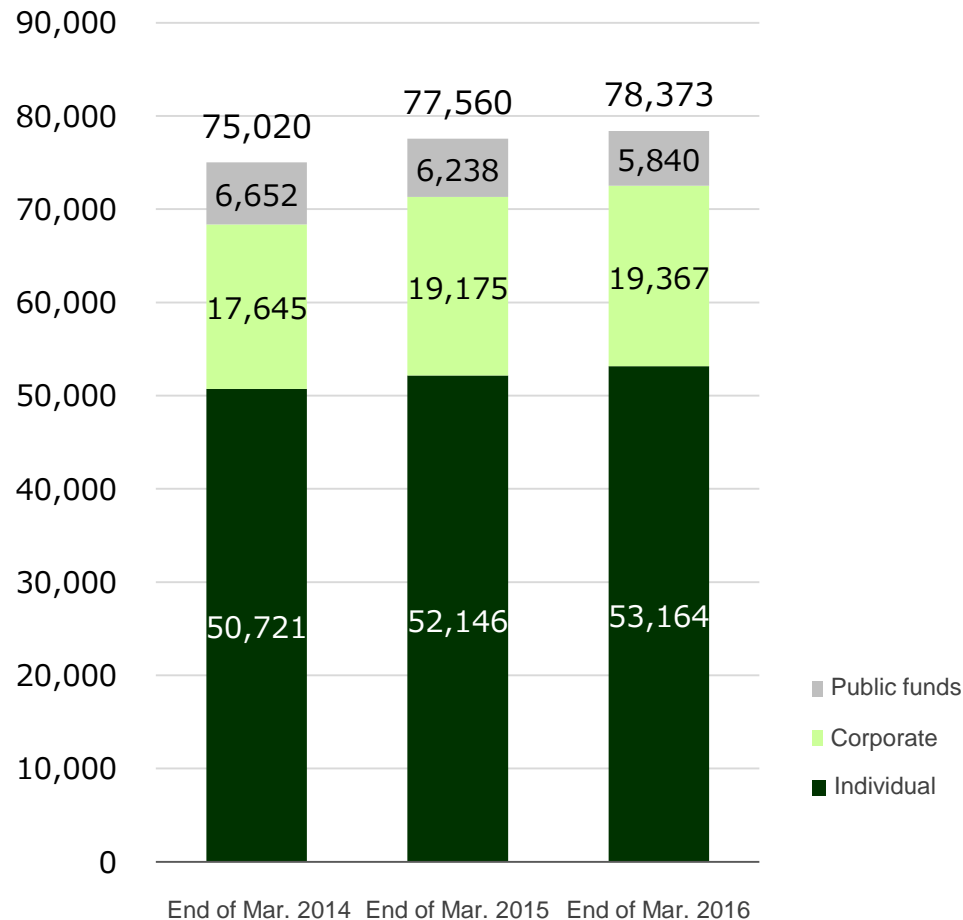


7. Deposits

- The balance of deposits increased 81,200 million yen (1.0%), year on year.
- Although the balance of deposits of public funds decreased, deposits of corporate and individual funds increased. (Deposits of individual funds: +101,800 million yen; deposits of corporate funds: +19,100 million yen; and deposits of public funds: -39,700 million yen)

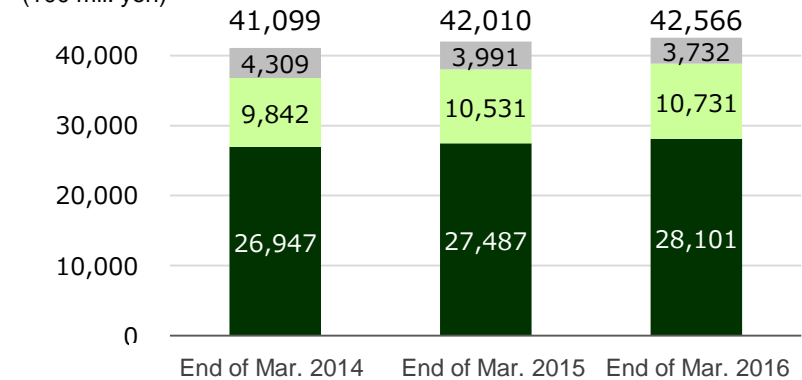
Balance of Deposits (inc. NCDs)

(100 mil. yen)



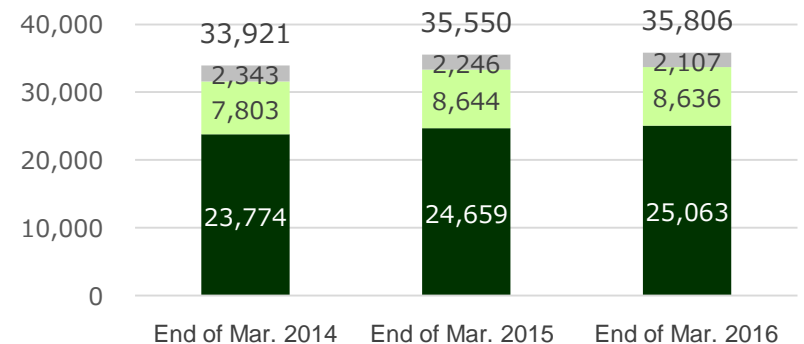
Higo Bank

(100 mil. yen)



Kagoshima Bank

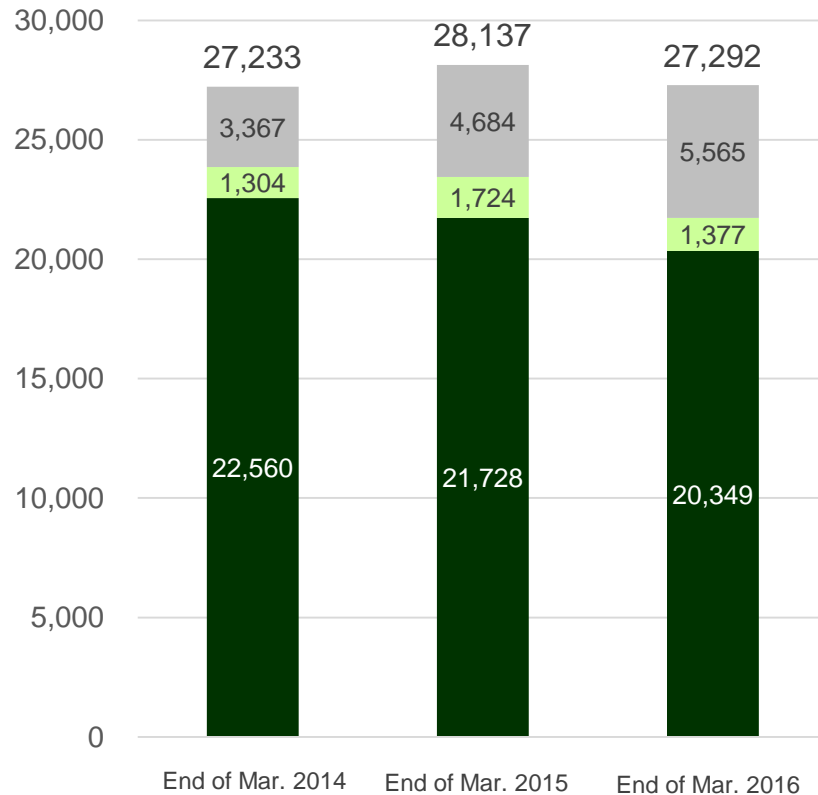
(100 mil. yen)



- The balance of securities decreased 84,500 million yen, year on year, due mainly to decreases in domestic bonds and equity securities.
- The valuation gain on securities decreased 24,700 million yen, due mainly to changes in the market environment and realization of gains through sale of equity securities owned for the purpose of relationship.

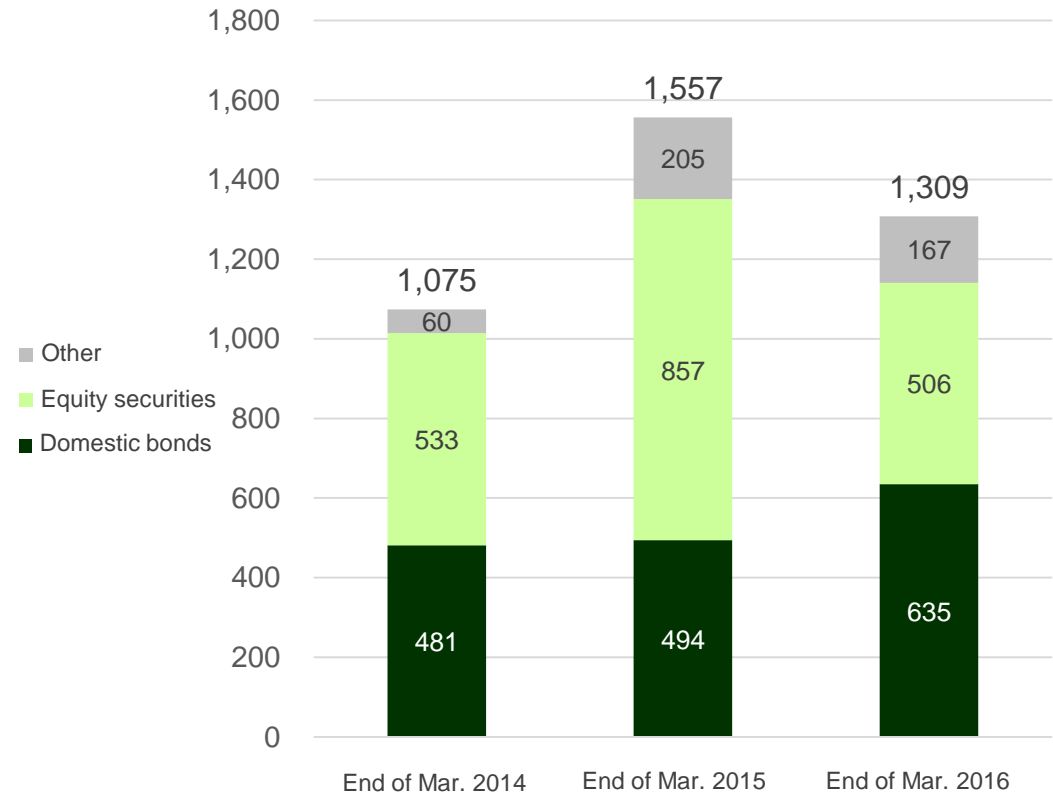
Balance of Securities

(100 mil. yen)



Valuation Gain on Securities

(100 mil. yen)

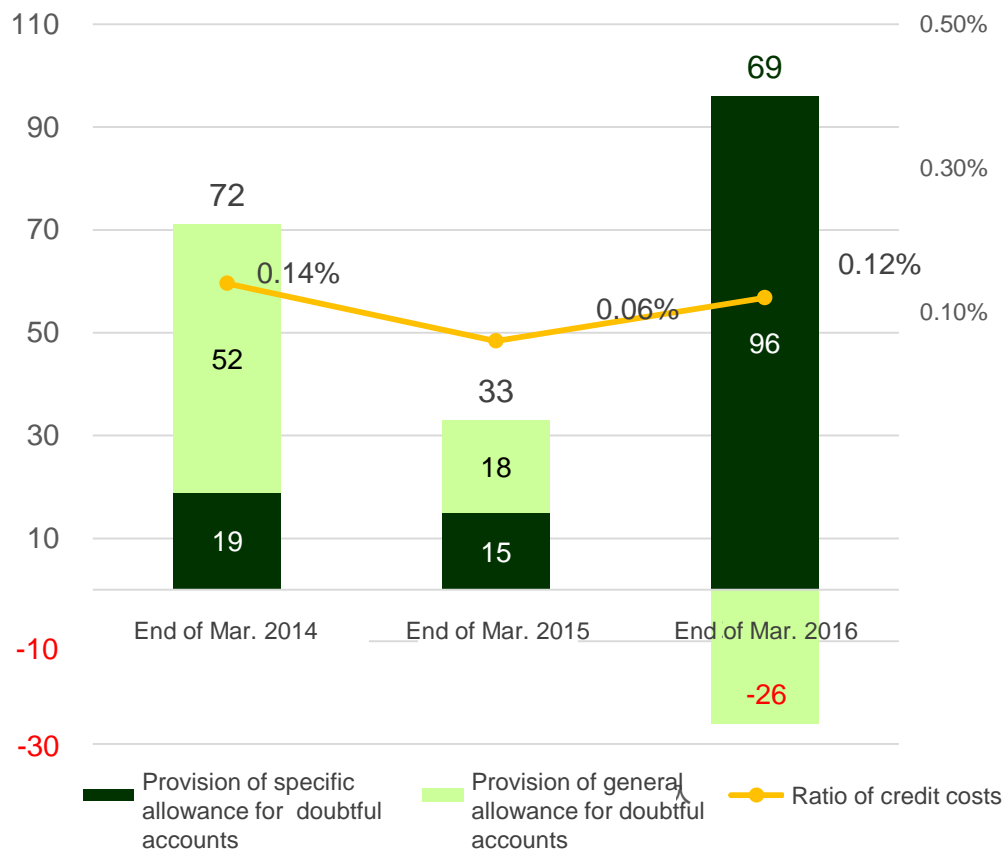


9. Credit Costs and Loans Disclosed Pursuant to Financial Reconstruction Law

- The credit costs increased 3,500 million yen from the previous fiscal year to 6,900 million yen. The reversal of general allowance for doubtful accounts was more than offset by increases in the provision of specific allowance for doubtful accounts.
- The loans to be disclosed pursuant to the Financial Reconstruction Law increased 2,400 million yen due to increases in the doubtful loans, although the ratio of non-performing loans remained low at 2.40%.

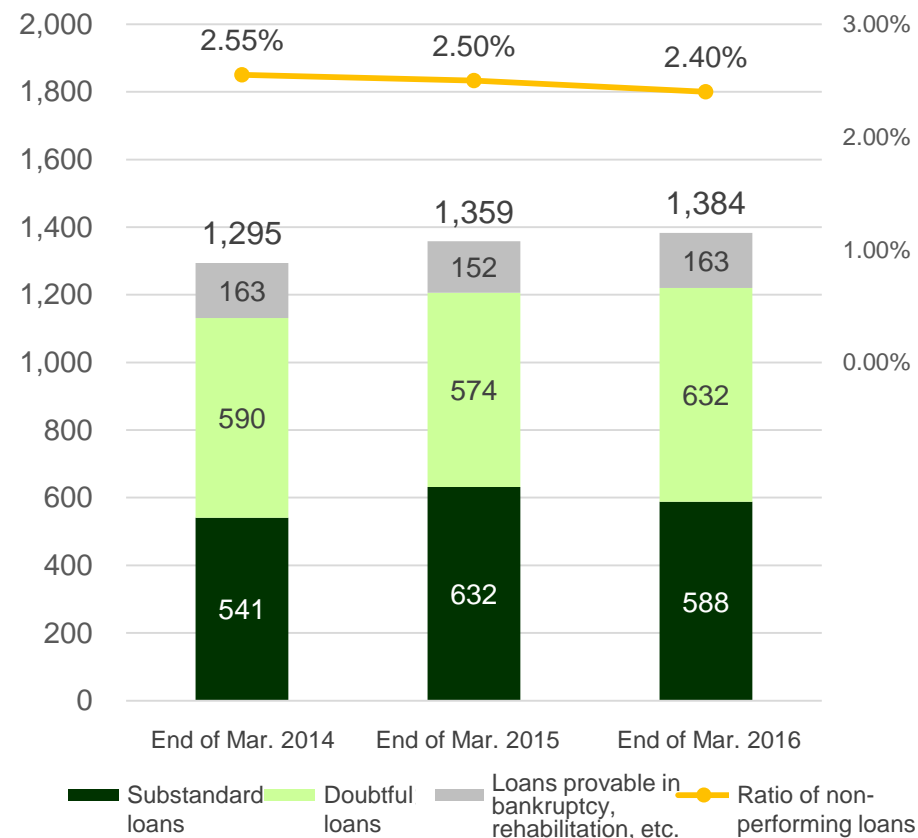
Credit Costs

(100 mil. yen)



Loans Disclosed Pursuant to Financial Reconstruction Law

(100 mil. yen)

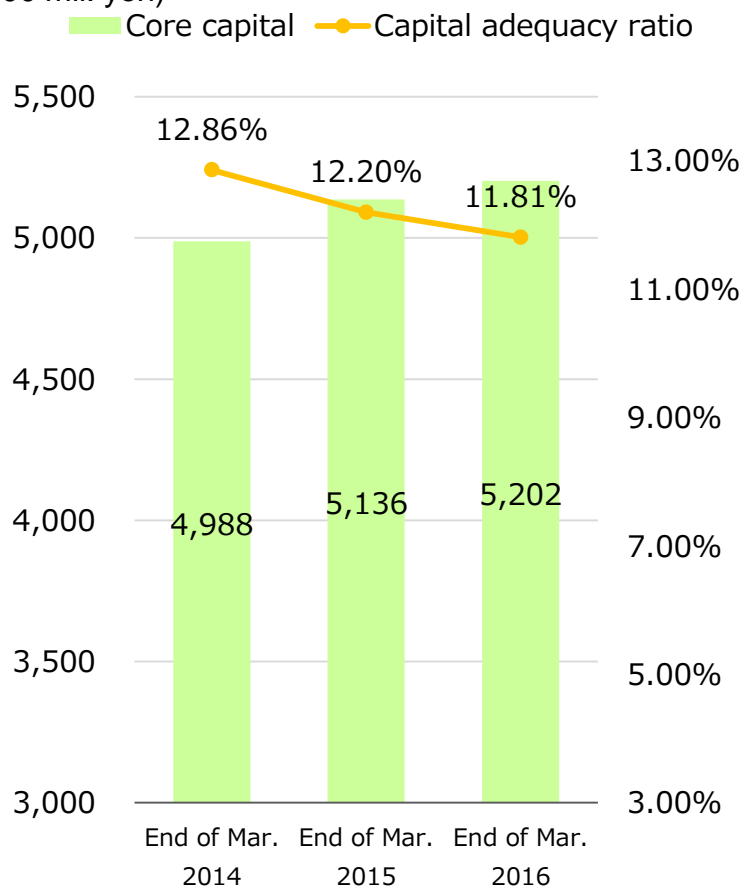


10. Capital Adequacy Ratio

- The core capital increased 6,500 million yen from a year earlier to 520,200 million yen.
- Despite the increase in the core capital, the capital adequacy ratio declined by 0.39 percentage points from a year earlier to 11.81%, due to increases in loans (and accordingly risk assets).
- The consolidated capital adequacy ratio was 12.86%.

Capital Adequacy Ratio

(100 mil. yen)



Capital Adequacy Ratio (Sum of 2 Banks)

(100 mil. yen)

	Mar. 2015	Mar. 2016		Change in Sum	
	Sum	Sum	Higo		Kagoshima
① Core capital	5,136	5,202	2,573	2,629	65
Shareholders' equity	4,766	4,923	2,493	2,430	157
② Risk asset	42,096	44,045	21,266	22,779	1,949
③ Capital adequacy ratio (① / ②)	12.20%	11.81%	12.10%	11.54%	-0.39%

Capital Adequacy Ratio (KFG Consolidated)

(100 mil. yen)

	Mar. 2016
	KFG Consolidated
① Core capital	5,755
Shareholders' equity	5,473
② Risk asset	44,729
③ Capital adequacy ratio (① / ②)	12.86%

11. Performance Forecasts

• The performance forecasts for FY 2016 are yet to be published, because the direct and indirect impacts of the Kumamoto Earthquakes cannot be estimated reasonably at present. The forecasts will be published as soon as it becomes possible to prepare them.

【Reference】 Impact of Negative Interest Rate Policy

● Top Lines Estimated as of Mar. 2016 (*)

Sum of 2 Banks	FY 2015 Actual	FY 2016 Forecast	Year-to-year Change
Average balance of loans	5,448.8 bil. yen	5,790.0 bil. yen	+341.2 bil. yen (+6.3%)
Average balance of deposits and NCDs	7,815.9 bil. yen	8,080.0 bil. yen	+264.1 bil. yen (+3.4%)
Gross business profit	109.3 bil. yen	106.3 bil. yen	-3.0 bil. yen (-2.7%)
Interest and dividend income	93.4 bil. yen	90.8 bil. yen	-2.6 bil. yen (-2.8%)

* Impact of earthquakes NOT incorporated.

● Actions to be Taken to Cope with Negative Interest Rate Policy

【Loans】

- Enhancement of efforts to take risks in relation to business loans in consideration of regional factors and portfolio composition.
- Enhancement of efforts to increase credit-card and other personal loans.

【Securities】

- Increase in investment in foreign bonds, equity securities and investment trusts, and enhancement of investment income through timely transactions.

【Fees and Commissions】

- Promotion of services that can be new revenue sources, such as intermediary business of financial products, and adjustment of the fee schedules for existing products and services.

Kyushu Financial Group's Management Strategy



In the 1st medium-term management plan, the Group will solidify the strengths (know-how) of the two banks to enhance the capability of the Group as comprehensive financial group, with a view to establishing the management foundation for providing the optimal and best services. At the same time, the Group will strive to enhance the Group's governance procedures.



“Become Kyushu’s top comprehensive financial group for customers”

1st Medium-term Management Plan (from Oct. 1, 2015 to Mar. 31, 2018): Collaboration Stage

【Basic Policy】 Establish Management Basis for Providing Optimal and Best Services to Customers

**Management
Foundation**

- "Comprehensive financial capabilities" to meet diverse needs of customers
- "Brand value" trusted by stakeholders
- "Organizational operating capabilities" to realize the Group’s total optimization

**Group
Strategies
by Division**

Sales Division Strategies

Individual

Corporate

Public Sector

**Market Division
Strategies**

Risk & Management Resources Management Division Strategies

Individually Formed Strategies

Individually Formed Strategies



うるおいある未来のために。
肥後銀行

6th Medium-term
Management Plan,
Higo Bank

Collaboration



鹿児島銀行

6th Medium-term
Management Plan,
Kagoshima Bank

Summary of "2016 Kumamoto Earthquakes"

- On April 14 and 16, 2016, epicentral earthquakes with intensity of 7 on the Japanese scale occurred one after another, with numerous afterquakes, causing massive damages. These earthquakes were unprecedented in that the seismic centers were spread over a wide area.
- According to the preliminary calculation of the Cabinet Office, the damages caused by the Kumamoto Earthquakes were estimated at 2.4 to 4.6 trillion yen (as released by the Cabinet Office on May 23, 2016).
 - <Buildings (residential houses, etc.): 1,600 to 3,100 billion yen; social infrastructure (roads, etc.): 400 to 700 billion yen; utilities (electricity, gas, etc.): 100 billion yen; and others (parks, farmlands, etc.): 400 to 700 billion yen>

【Damages in Kumamoto Prefecture】 as of May 24, 2016

(Human Damages)
49 dead; 1 missing; and 1,676 injured (major & minor)

(Damages to Residential Houses) **98,822 houses**
Completely destroyed: 8,047 houses; half destroyed: 18,100 houses; and partially destroyed: 72,675 houses

(Damages to Other Buildings) 245 public buildings; and 662 other buildings

(Damages to Industries)

<Agriculture, Forestry and Fisheries>

- Damages as at May 13: **ca. 134.5 billion yen** (Estimated by Agriculture, Forestry and Fisheries Department of Kumamoto Prefecture)
- Agriculture: ca. 94.2 billion yen; forestry: ca. 36.9 billion yen; and fisheries: ca. 3.2 billion yen

<Tourism>

- **ca. 330,000 persons** cancelling overnight stays after the earthquakes (Department of Commerce, Industry, Tourism and Labor of Kumamoto Prefecture)
- Of 301 cultural heritages (historic sites, beauty spots, buildings, etc.) that are tourism resources, 45 (15%) were collapsed, cracked, or otherwise damaged.

<Manufacturing>

- Many factories and plants of automobile, electric appliance, and semiconductor-related manufacturers stopped operations, although many of them resumed operations gradually from around early May.

(Damages to Traffic Systems and Infrastructure)

- Parts of general roads remain closed due to landslides, etc.
- Although there still remain certain restrictions, expressways, bullet trains and flights resumed regular services by the end of April.
- Electricity and gas services were restored by the end of April.
- Water supplies stopped at ca. 380,000 houses at one time, and are still unavailable at ca. 1,200 houses as of May 24.

【Damages to Higo Bank】

(Human Damages) No deaths or missing persons.

(Damages to Offices) At one time, 5 branch offices were closed temporarily due to damages of the earthquakes (Kiyama branch, Hiroyasu branch, Misotenjin branch, Takuma branch, and Higashimachidanchi branch). All of them resumed regular operations by April 25.

On April 25, 2016, designated as "severe natural disaster" under the Act on Special Financial Aid to Cope with Severe Natural Disasters

On May 10, 2016, designated as "emergency disaster" under the Act on Restoration from Major Disasters

The rate of the central government subsidies for disaster restoration work is increased by 10 to 20 points (with a maximum of about 90% of costs covered by the central government).

The central government may, on behalf of prefectures and other local governments, perform disaster recovery work on roads and bridges managed by the local governments, reducing their burdens.

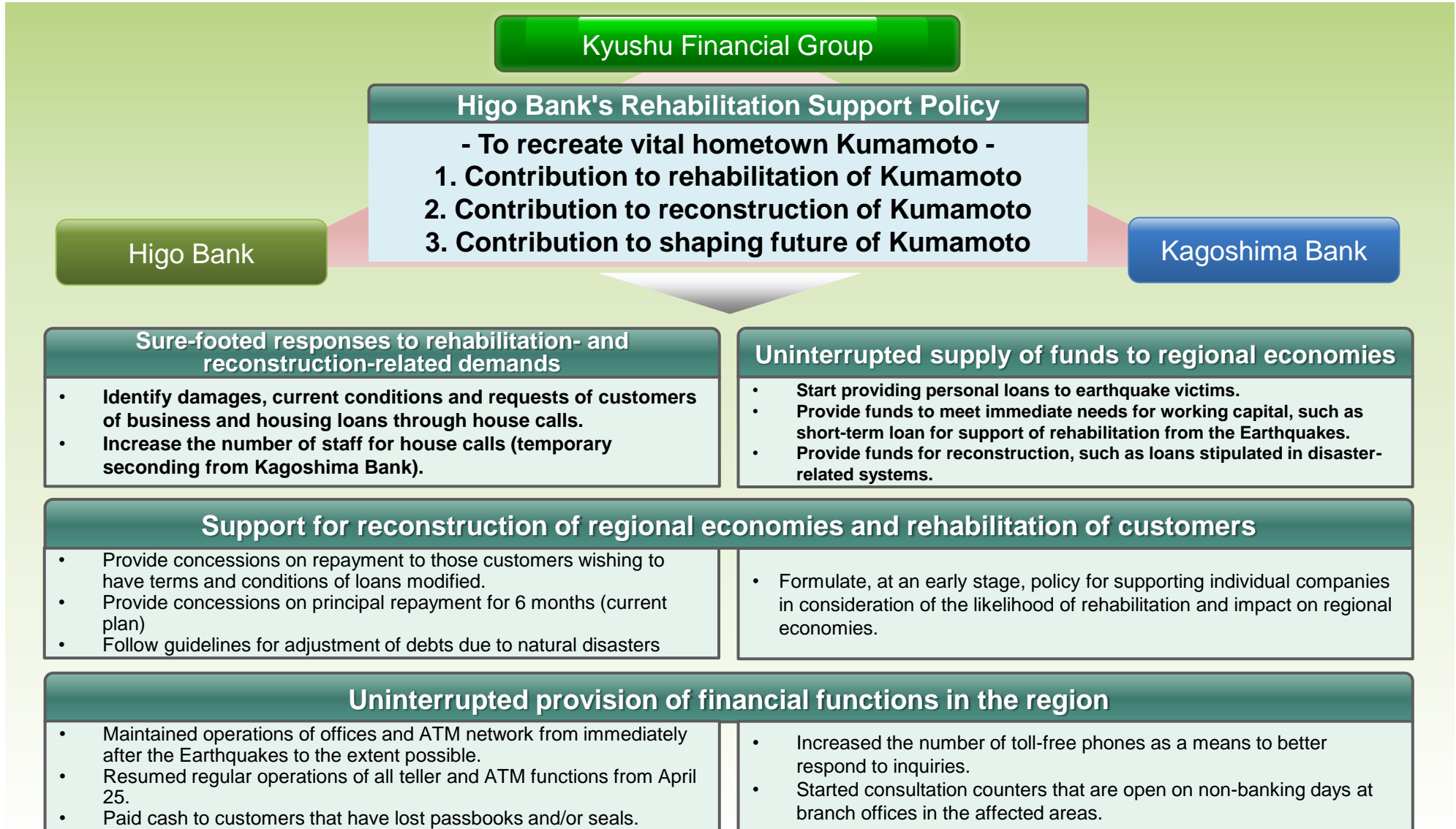
On May 17, 2016, the supplementary budget for rehabilitation from Kumamoto Earthquakes was passed for an amount of 778 billion yen.

- Removal of debris and restoration of infrastructure such as roads and bridges
- Support for rehabilitation of damaged companies and provision of emergency aid for putting life of disaster victims back in order
- Provision of disaster relief aids for construction of temporary houses, etc.

Full-scale work for rehabilitation and recovery to accelerate with generous assistance of the central government

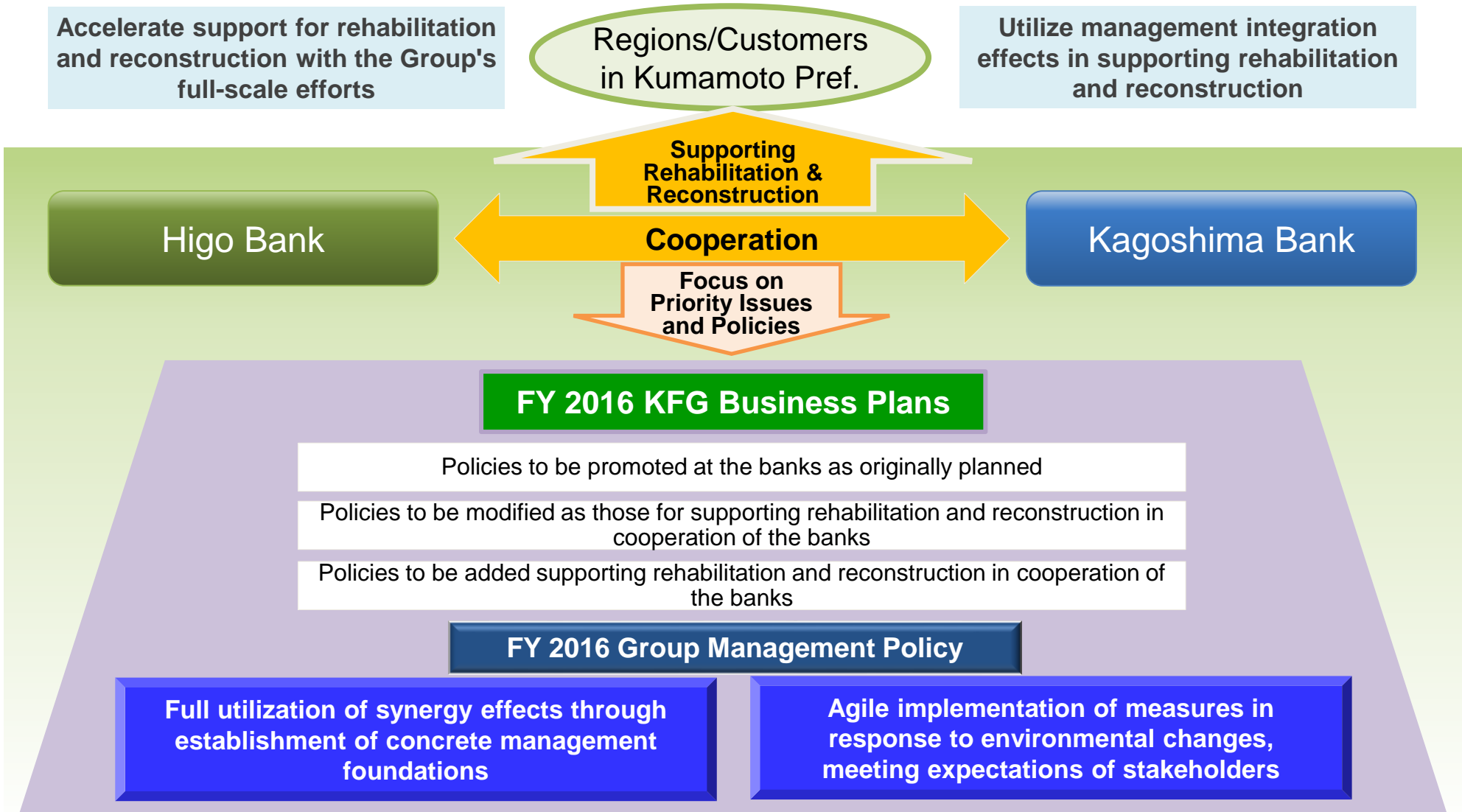
3. Measures Taken after Earthquakes and Efforts for Supporting Rehabilitation and Reconstruction

As financial group rooted in the community, the Group will launch full-scale efforts for supporting rehabilitation and reconstruction of the regional societies and economies after the earthquakes.



4. Utilization of Management Integration Effects for Supporting Rehabilitation and Reconstruction after "2016 Kumamoto Earthquakes"

In FY 2016, the Group will seek to realize the group management policy by promoting the KFG business plans, and utilize the management integration effects in supporting rehabilitation and reconstruction of the region.



5. Numerical Targets and Results for FY 2015

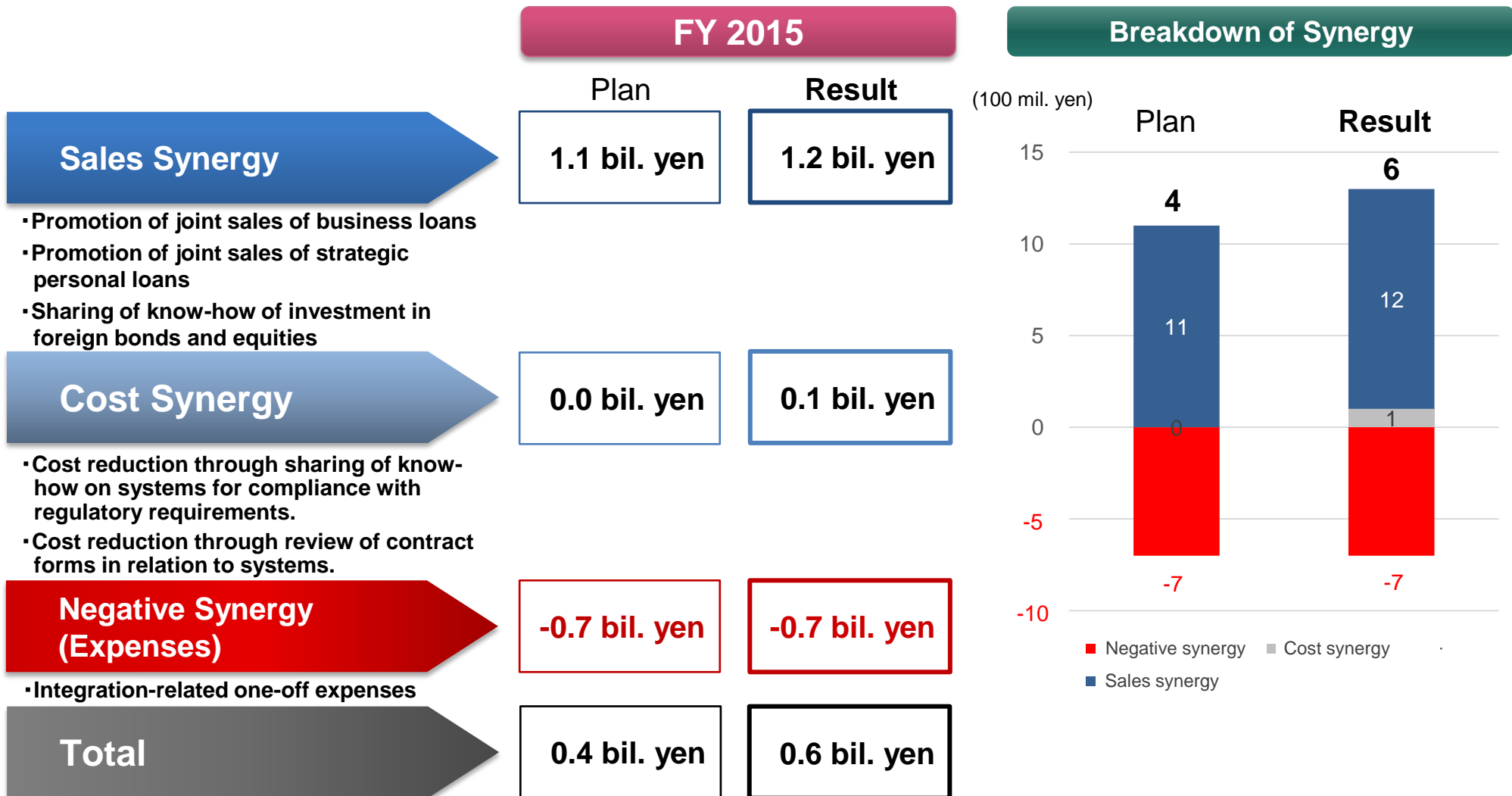
Numerical Targets	Targets for FY 2015 (in Medium-term Plan)	Results for FY 2015	Difference	Targets for FY 2017 (in Medium-term Plan)
Deposits *1 (Simple Sum of 2 banks)	7.8 tril. yen	7.8 tril. yen	0.0 tril. yen	8.4 tril. yen
Loans (Simple Sum of 2 banks)	5.5 tril. yen	5.6 tril. yen	+0.1 tril. yen	5.9 tril. yen
Net Business Profit (Simple Sum of 2 banks)	30.5 bil. yen	36.4 bil. yen	+5.9 bil. yen	37.4 bil. yen
Net Income (Simple Sum of 2 banks)	24.5 bil. yen	25.5 bil. yen	+1.0 bil. yen	28.0 bil. yen
ROE (Simple Sum of 2 banks)	4.1%	4.2%	+0.1%	4.5%
Return on Shareholders' Equity (Simple Sum of 2 banks)	5.0%	5.2%	+0.2%	5.3%

*1 Including NCDs.

6. Effect of Management Integration (Synergy) in FY 2015

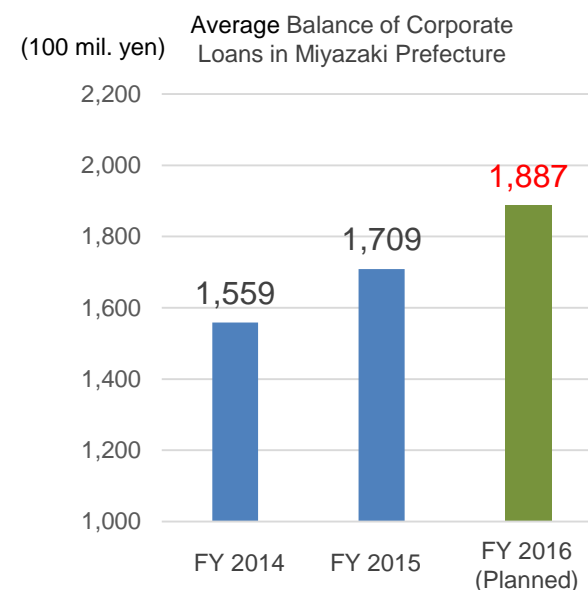
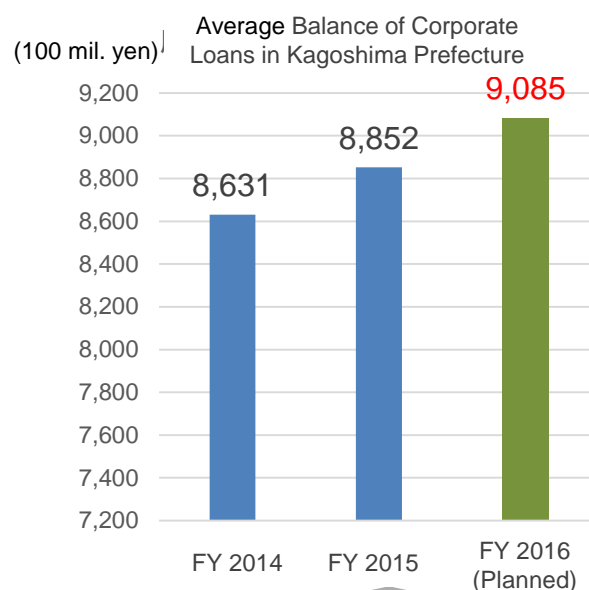
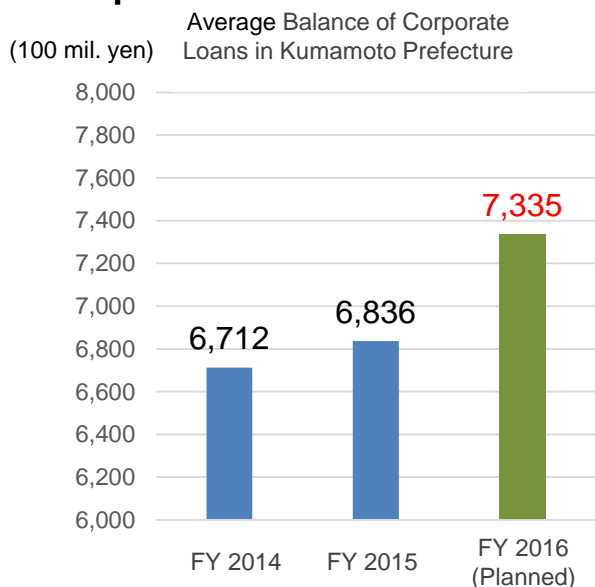
The effect of the management integration in FY 2015 (6 months) was 0.6 billion yen, up by 0.2 billion yen from the original plan.

The sales synergy amounted to 1.2 billion yen, up by 0.1 billion yen from the original plan, thanks to promotion of sales cooperation. The cost synergy amounted to 0.1 billion yen, up by 0.1 billion yen, centering on systems-related expenses. The negative effect, such as one-off expenses, was in line with the original plan.



7. Sales Strategies - Joint Sales Initiatives -

The Group will build joint sales procedures for local communities of the two banks to increase loans to corporate customers in these areas.



Building Joint Sales Procedures for Local Communities (Kumamoto, Kagoshima and Miyazaki Prefectures)

Corporate loans extended in 2H FY 2015 through joint sales initiatives: 3,990 mil. yen

Strengthen joint sales initiatives, targeting clearly identified prospective customers

- Share prospective customers by sector (healthcare, agriculture, environment, etc.)
- Clarify policies for major or new customers of the two banks

Establish and strengthen joint sales initiatives at branch offices

- Clearly publicize joint sales policy to generate consciousness
- Incorporate in performance evaluation (group cooperation)

Build information-sharing platform

- Share sales information systems

7. Sales Strategies - Joint Sales with Combined Know-how of Two Banks: Agricultural Sector -

The Group will share and mutually utilize strengths of the other bank in the agricultural sector, thereby creating integration synergy allowing the Group to meet diverse needs of customers. The Group will also support post-quake reconstruction of agriculture that is the key industry of the region.



Strengths of Higo Bank

- Many transactions with rice and vegetable farms
- Expertise in supporting establishment of agricultural corporations
- Variety of small-lot loan products to meet diverse capital needs

Loans to agricultural sector:
13.3 bil. yen
as of end of Mar. 2016

Integration Synergy

- Expand business into livestock field by sharing ABL know-how
- Share know-how on specific crops
- Integrate both banks' resources for local agriculture and collaboratively support the development of 6th industry
- Study establishing a new company for supporting regional agriculture (production, distribution, etc.)

Strengths of Kagoshima Bank

- Many transactions with livestock farmers
- Built sophisticated management structure with livestock ABL management system
《ABL Loans to livestock farmers: 76 borrowers totaling 23.7 billion yen》
Cow: 60 borrowers totaling 20.2 billion yen; pig: 15 borrowers totaling 2.9 billion yen; horse: 1 borrower totaling 0.6 billion yen; and others (crude tea, distilled spirit, yellowtail, etc.)

Loans to agricultural sector:
57.1 bil. yen
as of end of Mar. 2016

Current State of Agriculture

Damages to agriculture caused by Kumamoto Earthquakes: ca. 94.2 bil. yen (*)

Damages to horticulture facilities: 105 places	Damages to crops: 4 regions for strawberries, tomatoes, etc.
Damages to livestock barns and farming sheds: 1,140 places	Damages to farmland: 3,774 places (collapsed slopes, cracks, liquefaction, etc.)
Damages to fruit grading facilities and pastures: 213 places	Damages to reservoirs and irrigation canals: 3,957 places
Dead and disposed livestock: 541,310 animals	

As key industry of the region...

Agricultural Output (FY 2014)	Kumamoto	Kagoshima	Miyazaki	Total
	328.3 bil. yen	426.3 bil. yen	332.6 bil. yen	1,087.2 bil. yen
	No. 6	No. 3	No. 5	(No. 2)

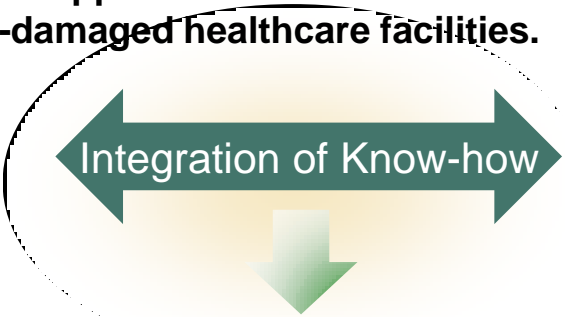
The agricultural outputs of 3 prefectures in Southern Kyushu amounted to 1,087.2 billion yen, close to that of Hokkaido, ranked No. 1 (1,111.0 billion yen).

(*) Published on May 13 by Agriculture, Forestry and Fisheries Department of Kumamoto Prefecture (excluding Mashiki Town, Minami Aso Village, and Nishihara Village where it was not possible to perform damage surveys)

Source: Prepared from Agricultural Income Produced Statistics made by statistics Department, Ministry of Agriculture, Forestry and Fisheries

7. Sales Strategies - Joint Sales with Combined Know-how of Two Banks: Healthcare Sector -

The Group will share and mutually utilize strengths of the other bank in the healthcare sector, thereby creating integration synergy. The Group will also support maintenance of healthcare infrastructure in the region by assisting reconstruction of earthquake-damaged healthcare facilities.



Strengths of Higo Bank

- Ready to take on business succession transactions with enhanced support system
- Posted experts well versed in the industry

Strengths of Kagoshima Bank

- Medical institution bonds and other diverse financing methods; and rich sales support system
- Sophisticated sales support from Healthcare Promotion Office newly formed in Apr. 2016

Integration Synergy

- Enhance business evaluation capabilities, utilizing healthcare sales support system
- Improve capabilities to support businesses at all life stages
- Business development in broader metropolitan areas

Loans to healthcare sector:
152.9 bil. yen
as of end of Mar. 2016

Loans to healthcare sector:
274.9 bil. yen
as of end of Mar. 2016

Healthcare Market

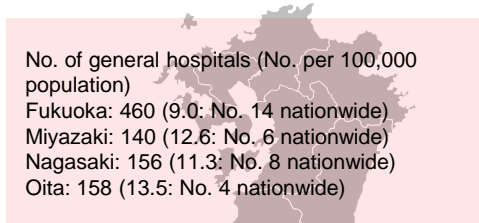
Utilize sales support system to assist reconstruction of damaged healthcare facilities, to develop new customers in the region, and to develop businesses in other prefectures.

Sales Support System



- Buildings of hospitals and nursing facilities damaged by the Earthquakes
- Assist reconstruction
- Maintain healthcare infrastructure in the region

No. of Hospitals (*1)	Kumamoto: 181		Kagoshima: 231		
	Bank	Higo	Kagoshima	Higo	Kagoshima
Customer Hospitals (*2)		132	16(2)	9(4)	139
Share		74.0% (134/181)		61.9% (143/231)	



(*1) Excluding public hospitals (with 20 beds or more)
 (*2) The figures in the parentheses represent non-overlapping hospitals.

Source: Prepared from Dynamic Survey of Medical Institutions and Hospitals (2014) published by the Ministry of Health, Labour and Welfare

7. Sales Strategies - Overseas Strategies/Strategies for Other Prefectures -

In the overseas strategies, the Group will expand the solution network to cover wider overseas areas, which will enable the Group to assist the customers to start operations overseas and to enhance support to customers at overseas sites. In the strategies for other prefectures, the Group will promote sales initiatives through cooperation of the two banks.

Overseas Strategies

【Shanghai】

- Mutual use of networks through integration of Shanghai offices of the two banks

【Hong Kong】

- Promotion of exports of agricultural and livestock products to Hong Kong; and attraction of tourists to Kyushu

【Other Areas】

- Consider establishing new offices
- Joint development of human resources for overseas operations

- Assist customers to start operations overseas; and enhance support to customers at overseas sites
- Strengthen support for cooperation



Strategies for Other Prefectures

【Fukuoka】

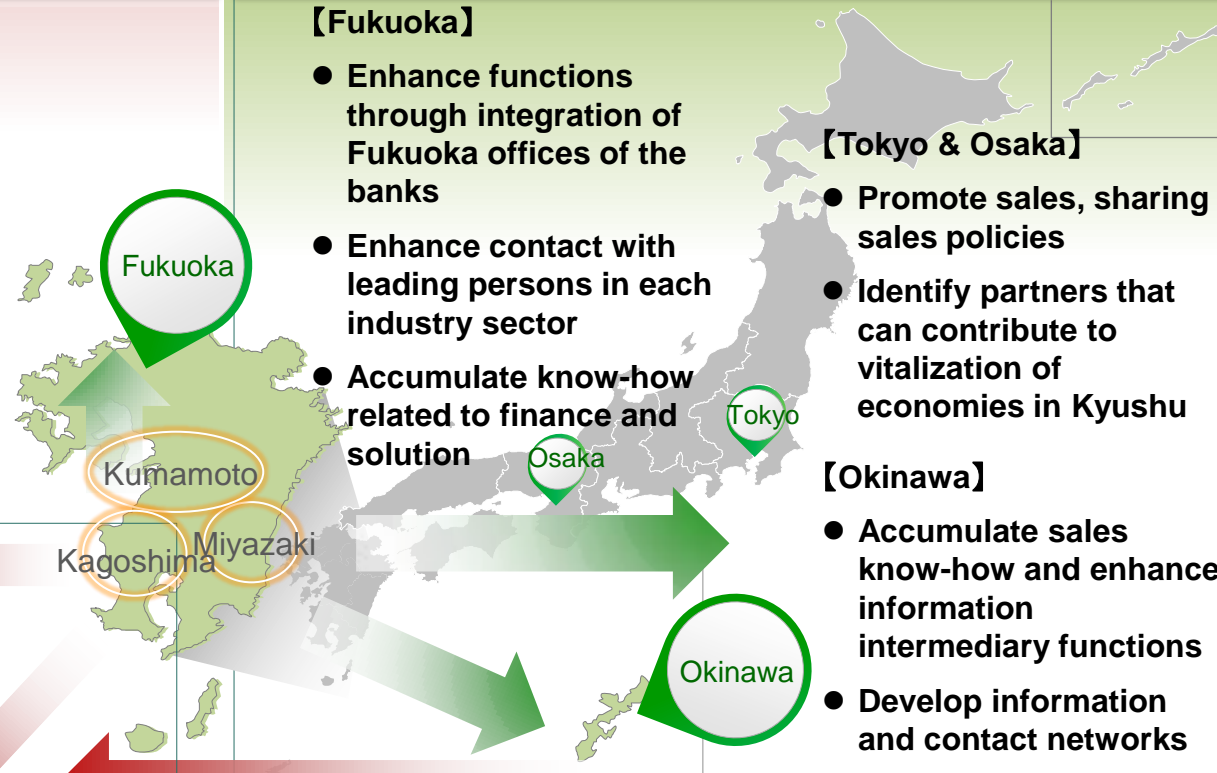
- Enhance functions through integration of Fukuoka offices of the banks
- Enhance contact with leading persons in each industry sector
- Accumulate know-how related to finance and solution

【Tokyo & Osaka】

- Promote sales, sharing sales policies
- Identify partners that can contribute to vitalization of economies in Kyushu

【Okinawa】

- Accumulate sales know-how and enhance intermediary functions
- Develop information and contact networks



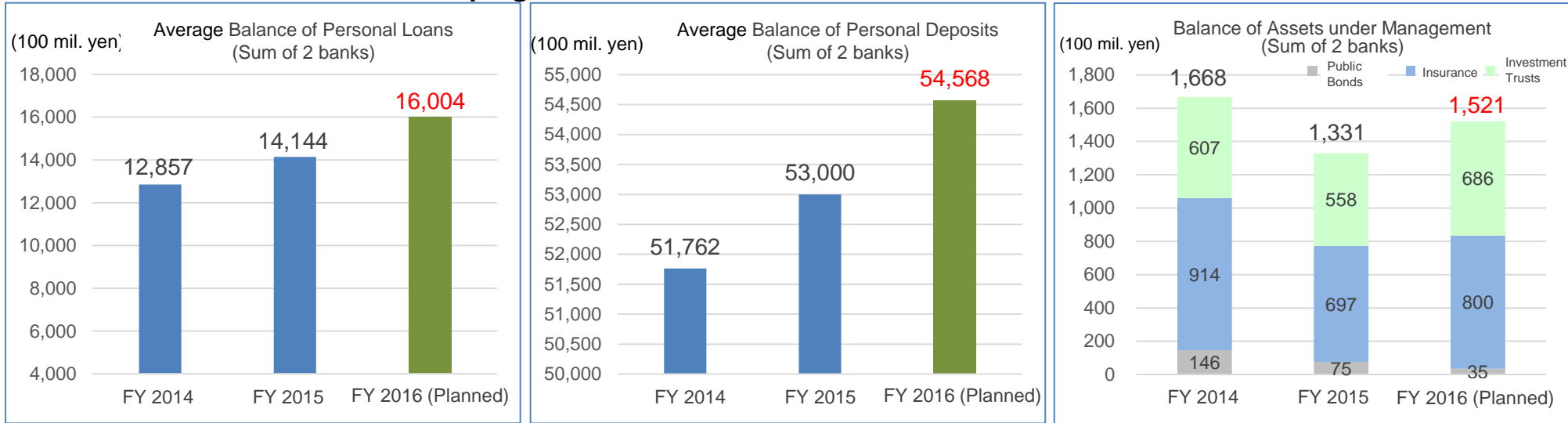
Support export of agricultural and livestock products, using Naha Airport's hub functions

Results of Okinawa Branch (as of end of Mar. 2016)

Deposits	910 mil. yen
Loans	3,630 mil. yen
Personal	2,760 mil. yen
Corporate	870 mil. yen

7. Sales Strategies - Joint Development of Strategic Products and Implementation of Joint Campaigns -

The Group will join forces of the two banks to develop financial products and services that will meet the needs of customers and to embark on campaigns.



Joint Development of Strategic Products and Implementation of Joint Campaigns

Kyushu Financial Group

Higo Bank

Joint Development & Implementation

Kagoshima Bank

Utilize strengths of two banks

Mutual introduction of personal loan products after verification of effectiveness of these products

Joint introduction of asset management products (for inheritance and as measures for prevention of outflow of deposits)

● Implement campaigns for personal products (to celebrate the 1st anniversary of integration)

【Objects】

- Publicize intent of KFG integration and improve recognition of the Group
- Vitalize exchanges of local customers of the banks
- Identify attributes of customers for customer retention

《Reference》

The integration celebration campaign was popular in which the Group gave small gifts to 1,050 customers by lot that newly opened term-deposit accounts.

Results	Higo Bank	Kagoshima Bank
Term Deposits	47.9 bil. yen	61.8 bil. yen

7. Sales Strategies - Development of Products and Services and Promotion of Sales through Utilization of Information Technologies -

The Group will fully utilize financial IT literacy accumulated at the two banks to develop and provide financial services that optimally meet the needs of the customers.



Kyushu Financial Group

Electronic Money for Regional Development

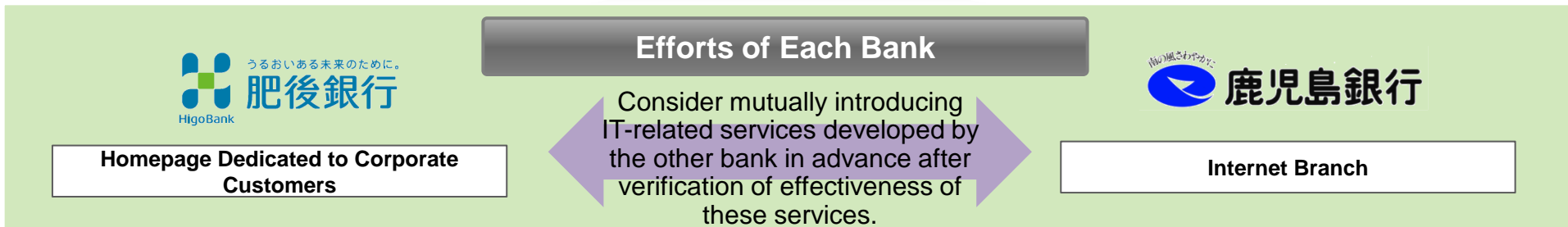
- Study introduction of electronic money, which has already been in place in Kumamoto Prefecture, to Kagoshima Prefecture.
- Facilitate widespread use in the two prefectures.

Joint Development of IT Tools

- Study development of consulting tools for enhancement of sales
- Move to paperless administrative procedures for improved efficiency

Responses to FinTech

- Joint formation of FinTech project team



7. Sales Strategies - Provision of Support for Regional Development Programs -

Supporting the allied local governments for implementation of regional development strategies, the Group will fulfill its duties as financial institution. The Group will also assist with full might initiatives for rehabilitation and reconstruction of the tourism industry that has a major impact on the regional economy.

Support for Realization of Regional Development

No. of Local Governments Having Established Regional Development Strategies (*)

Higo: 13/46 Kagoshima: 19/44

Regional development is now moving from strategy formulation to execution phase.

* Higo Bank is in alliance with District Economics Research Institute of Kumamoto Area. Kagoshima Bank is in alliance with Kyushu Economic Research Institute.

Kyushu Financial Group

Higo Bank: Regional Creation Strategy Office, Regional Promotion Division

Kagoshima Bank: Regional Development Office, Regional Development Division

Kyushu Economic Research Institute

District Economics Research Institute of Kumamoto Area

Support for Execution of Regional Development Strategies

【Efforts of KFG and 2 Banks for Regional Vitalization】

- Held lecture presentation to celebrate establishment of PPP/PFI platform (KFG)
- Concluded agreement on attraction of visitors to Japan (KFG, 2 banks)
- Concluded comprehensive agreement with various local governments (2 banks)
- Held "One-day Tour to Kumamoto and Kagoshima" (2 banks)
- Held and cooperated on regional development events (2 banks)
- Installed currency exchange machines at airports (Higo)
- Concluded alliance with local governments for dealing with empty houses (Kagoshima)

• The two banks developed tour products in cooperation with local governments along the "Hisatsu Orange Railway," which were marketed by local tour companies.

• In March 2016, a chartered train was run on "Hisatsu Orange Railway" and events were held at key stations to highlight regional attractiveness, including "station markets."

Utilizing "Hisatsu Orange Railway" that connects Kumamoto and Kagoshima Prefectures, the Group created opportunities for expansion of exchange activities of people residing in these prefectures.



Although the traffic infrastructure is being restored, many tourist facilities and lodging accommodations were damaged, which is a major blow to the tourism industry that is expected to play a crucial part in the regional development.

Kumamoto Castle



Aso Shrine



The effect to the tourism industry is felt across Kyushu.

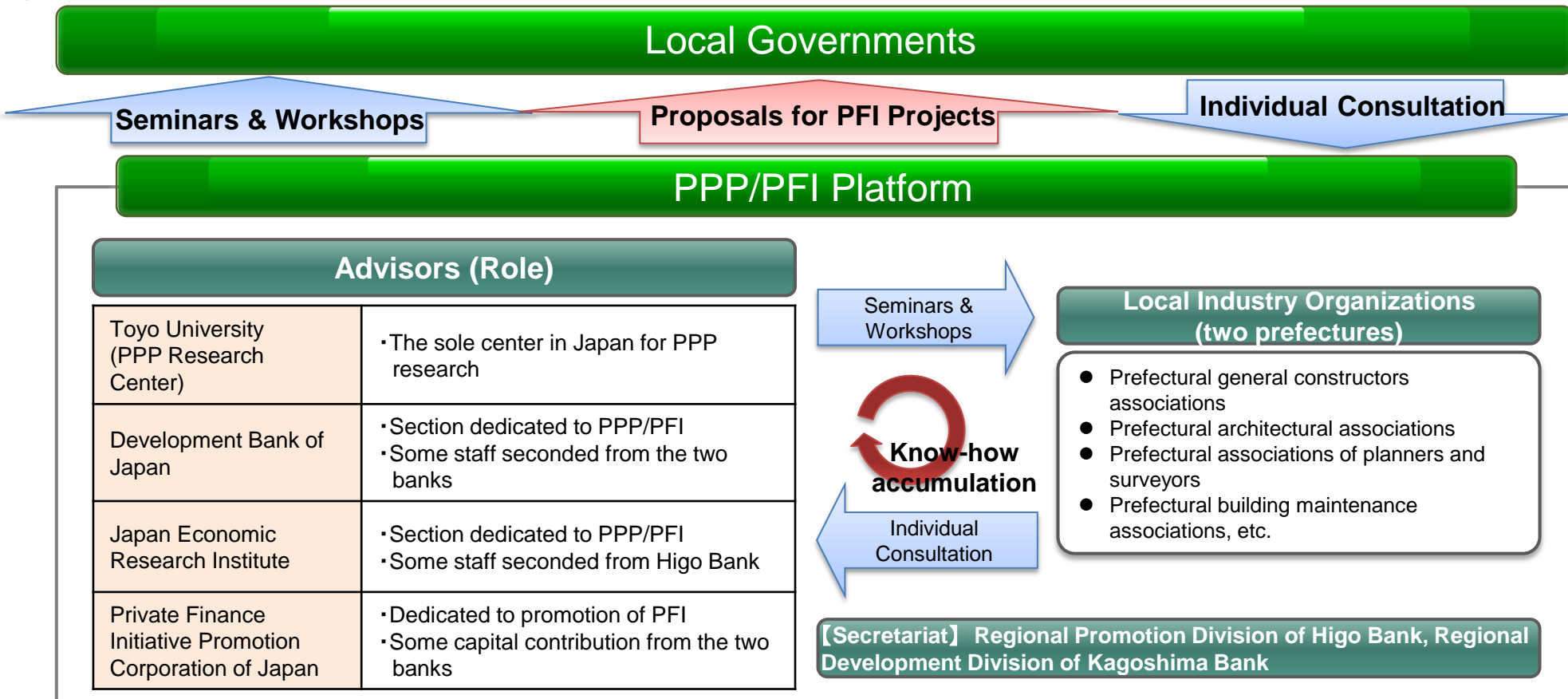
No. of cancellations of overnight stays after the Earthquakes
 All Kyushu: 568,000
 Kumamoto: 180,000; Oita: 150,000;
 Kagoshima: 76,000; Miyazaki: 47,000;
 Nagasaki: 73,000; and Fukuoka: 30,000

The Group will tighten coordination with local governments to first reconstruct the regions steadily

Support for rehabilitation and reconstruction of the "tourism industry"

- Support reconstruction and seismic strengthening works of tourist facilities and lodging accommodations
- Support reconstruction of traffic network to tourist spots
- Support programs to restore cultural assets
- Hold tourist events, such as "cheer-up" tours

In order to address issues in the regions such as aged community facilities, the Group will accelerate activities of the PPP/PFI platform and further respond proactively to needs of the community facilities and local governments for funds for rehabilitation and reconstruction.



Also respond to needs for funds for rehabilitation and reconstruction

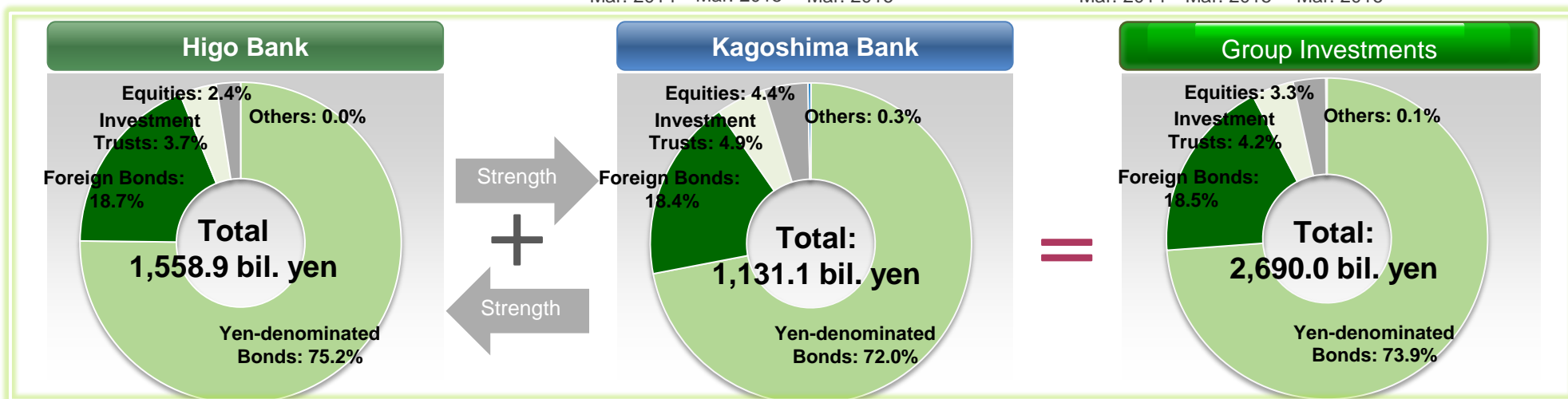
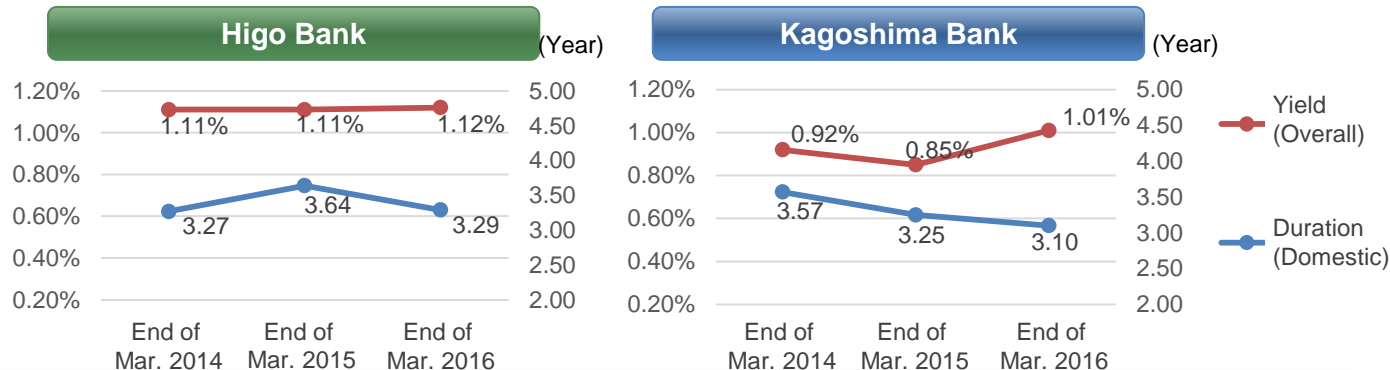
Community facility buildings managed by cities, towns and villages in Kumamoto Prefecture damaged by the Kumamoto Earthquakes: 245 buildings (as of May 24, 2016)

Five local government buildings at Ozu Town, Mashiki Town, Uto City, Yatsushiro City and Hitoyoshi City were damaged. As damage surveys are still going on at certain cities, towns and villages, more damages may be found in the future.

In an environment where the impact of the negative interest rate is widely felt, the Group will share expertise of the investment divisions of the two banks and will generate stable investment income that supports the Group's earnings through diverse and timely investment.

Measures to Cope with Negative Interest Rate

- Share investment and funding methods
- Increase weights of foreign bonds, equity securities, REITs, etc.
- Timely management of investment in domestic bonds in response to market trend



Average Balance (100 mil. yen)	FY 2015	FY 2016 (Planned)	Diff.
Yen bonds	11,733	11,721	-12
Foreign bonds	2,919	2,908	-11
Investment trusts	562	580	+18
Equities	387	380	-7

Average Balance (100 mil. yen)	FY 2015	FY 2016 (Planned)	Diff.
Yen bonds	9,101	8,142	-959
Foreign bonds	1,108	2,077	+969
Investment trusts	403	557	+154
Equities	483	503	+20

Average Balance (100 mil. yen)	FY 2015	FY 2016 (Planned)	Diff.
Yen bonds	20,835	19,863	-972
Foreign bonds	4,027	4,985	+958
Investment trusts	966	1,137	+171
Equities	871	883	+12

The Group will commonalize administrative procedures and systems to improve efficiency and promote personnel exchanges for fostering human resources and promoting mutual understandings with a view to bring a sense of unity of the Group as a basis for producing a full-scale effect of the integration.

Commonalization of Systems and Administrative Procedures

Since the establishment of KFG, the Group has been working steadily to commonalize subsystems and administrative procedures.

【Achievements】

	Details
Oct. 2015	Integration of market systems (to be operational in Oct. 2016)
Jan. 2016	Integration of administrative procedures for issuance of blank bills and checks
Apr. 2016	Commencement of balance and transactions reports in Braille

【Effect of Integration】

- Improved operational efficiency thanks to standardization and commonalization of administrative procedures of the two banks.
- Reduction in revision and running costs

【Systems to be considered for mutual introduction】

- Kagoshima's "KALJUS" (Housing loan centralized examination system)
- Kagoshima's "KeyManPersonal" (Project progress management system)
- Kagoshima's "COMPASS" (Insurance business support system)
- Higo's "INPLUS" (Asset management business support system)

Personnel Exchanges

Since 2016, the Group started exchanges of personnel for the purpose of enhancing human resources development, promoting mutual understandings and bringing a sense of unity of the Group.

【Overview of Personnel Exchanges】

Type		No. of seconded personnel (sum of 2 banks)	Date of commencement
Branch Office	Managers	10	Spring 2016
	Non-managers	40	Summer 2016
Head Office	Managers	10	Spring 2016
	Non-managers	10	Spring 2016

- In addition, the Group will also promote personnel exchanges proactively through joint participation in training sessions and regional events that are already in place.

9. Risk and Management Resources Management Strategies

- Group Optimization in View of Deregulations -

Taking the opportunity of the revision to the Banking Act, the Group will adjust distribution of the management resources of the Group optimally in order to expand business areas and enhance Group functions.

Overview of Revision to Banking Act

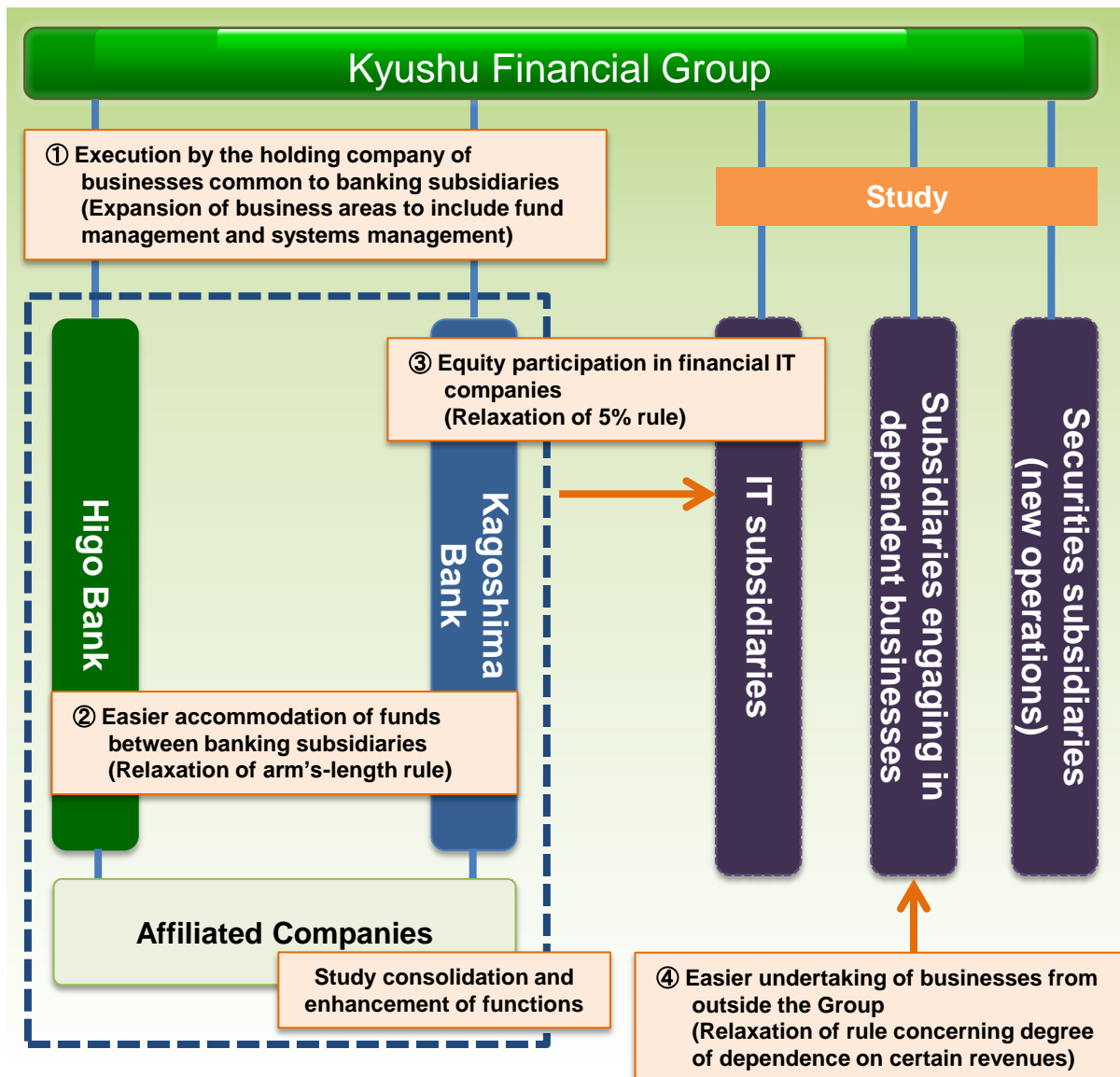
① Execution of common and/or overlapping work by holding company
(Expansion of business areas of banking holding company)

② Accommodation of funds within Group
(Relaxation of arm's-length rule)

③ Equity participation in financial IT companies
(Relaxation of 5% rule)

④ Undertaking of settlement-related administrative work
(Relaxation of rule concerning degree of dependence on certain revenues)

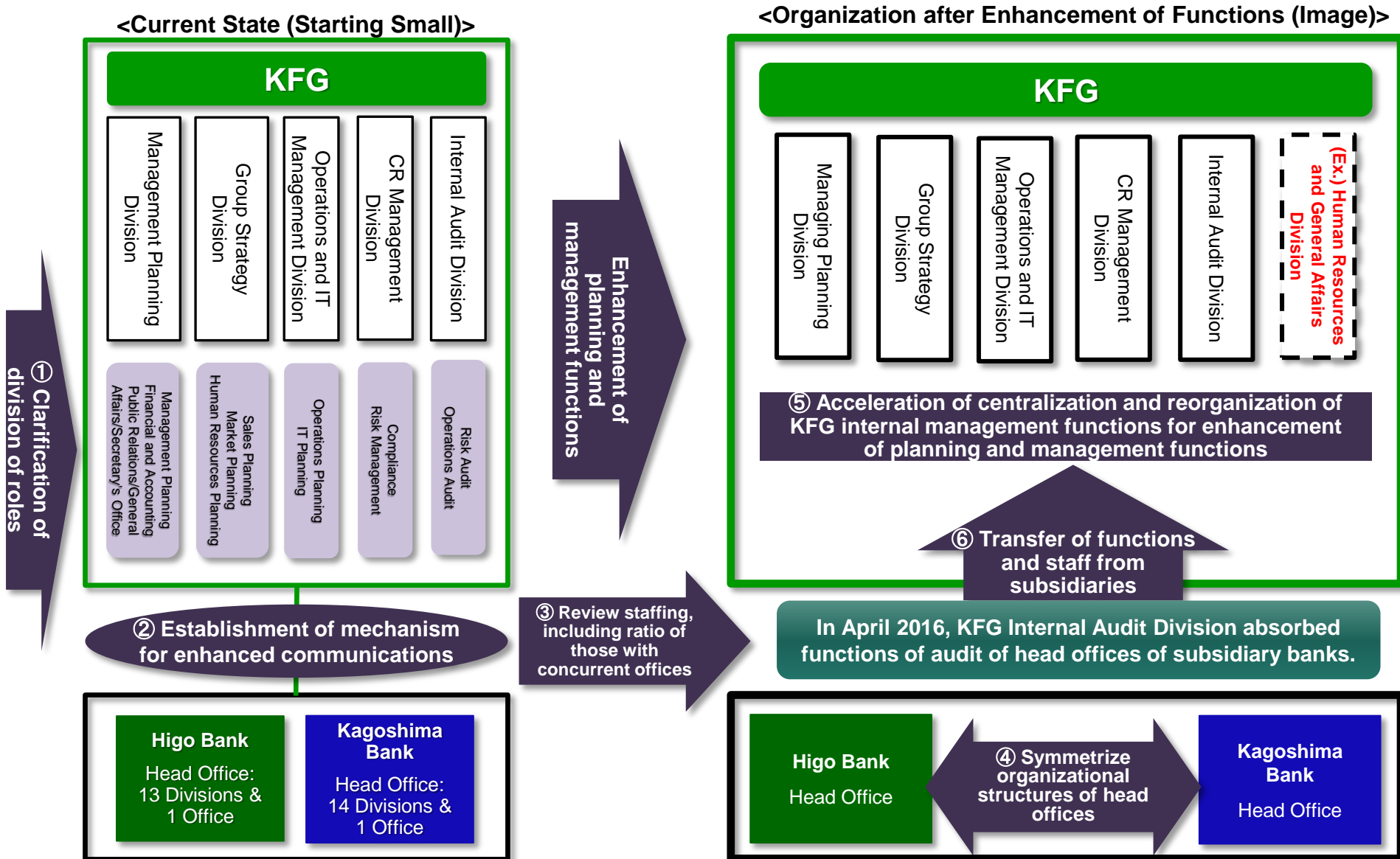
【Others】
Clarification of functions of banking holding company
Revision of management obligation of contractors



9. Risk and Management Resources Management Strategies - Enhancement of Organizational Management Capabilities -

The Group will enhance its organizational management capabilities by adding new functions to KFG or transferring functions from subsidiaries.

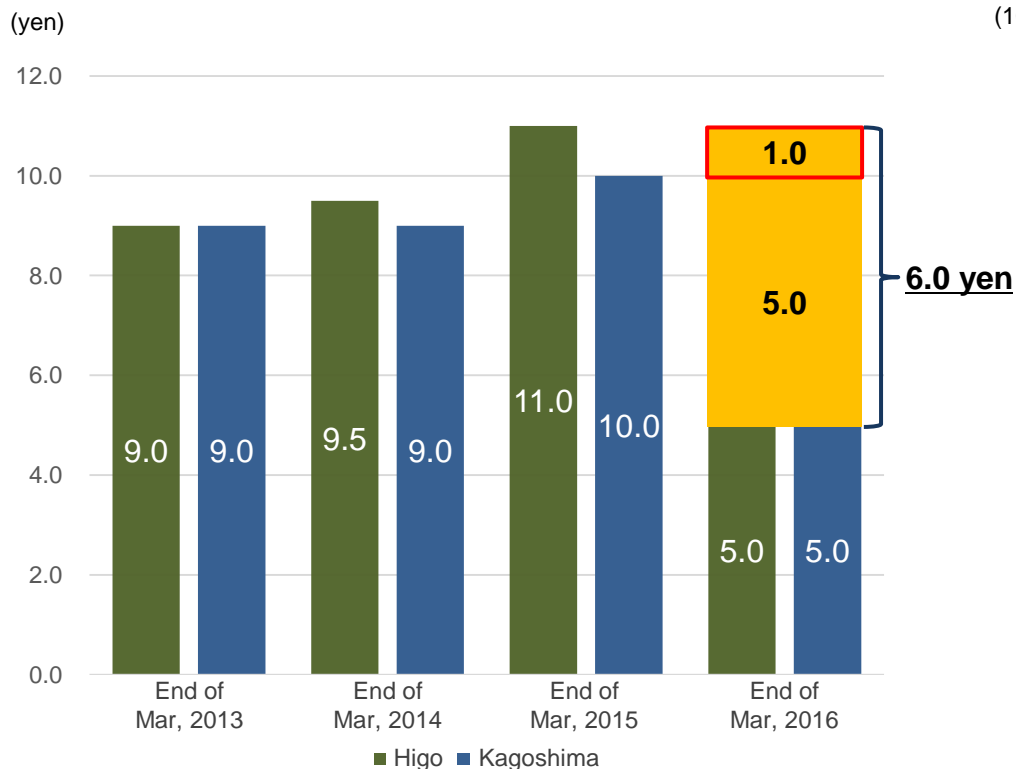
Enhance organizational management capabilities for concrete realization of integration effects



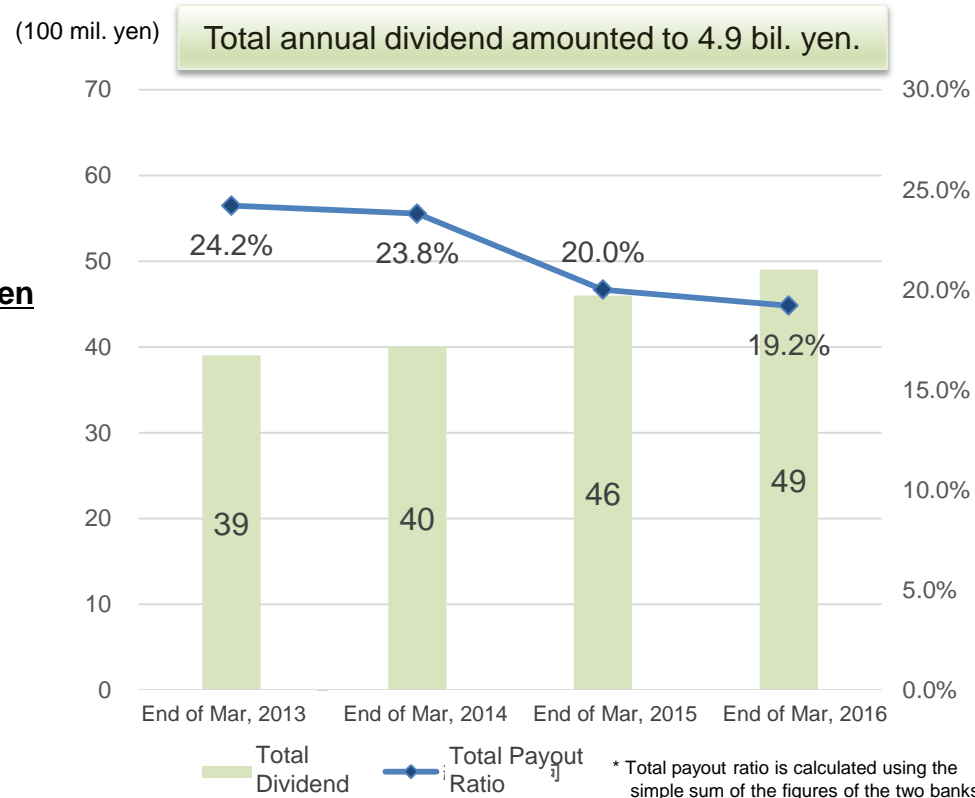
The basic policy of Kyushu Financial Group is to achieve growth of profit that enables the Group to pay dividends stably in a tough earnings environment, by improving capital efficiency while paying due attention to increasing retained earnings.

At the end of the fiscal year ended March 2016, Kyushu Financial Group paid a dividend of 6 yen per share comprising a ordinary dividend of 5 yen per share and a commemorative dividend of 1 yen per share, for a total of 11 yen per share for the entire fiscal year (an interim dividend of 5 yen per share and a term-end dividend of 6 yen per share).

Dividend per Share



Total Dividend and Total Payout Ratio



Measures taken by one bank that has proven effective will be considered for implementation at the other bank, in order to enhance the integration effects.

Private Placement Bond in Support of Schools

- To celebrate issuance of private placement bond by the customer, Higo Bank donates study materials, etc. to a school in Kumamoto Prefecture specified by the customer.

Contribution to regional education and child rearing.



- Originally planned to be available from Jan. to Mar. 2016. Due to popularity, however, it is now available till end of June 2016.
- 20 private placement bonds for a total of 1.7 bil. yen. Donation of 3.5 mil. yen in total to 20 schools.
- Extend the scope to include reconstruction of educational environment from the Earthquakes.



Holding Regional Development Fairs

2016 Kumamoto Region Development Fair
Concept: "Disseminate attractiveness and possibility of Kumamoto to the world"

Date: Feb. 9 & 10, 2016
Hosts: Higo Bank, Kumamoto Industrial Cultural Promotion
Sponsors: Kumamoto Prefecture, Kumamoto City, Kumamoto Prefectural Tourist Federation, JA Group, Kumamoto Agricultural Corporations Association
Visitors: General (including those operating agricultural, forestry and fisheries businesses), international students, representatives of companies both in and out of Kumamoto Prefecture, etc.
15,000 visitors (including 173 foreign nationals)



Served meat and other cuisine



Served fruit juice and other drinks



Hot spa experience (hand bath)



Performance of traditional arts



Ritsumeikan Asia Pacific University



Kumamoto University



Invitation of international students (173 students from 33 countries)



Having international students disseminate information on Kumamoto to home countries (Requiring international students to spread information on SNS)

Information dissemination and marketing by international students

Invitation to shopping in urban districts

Town center



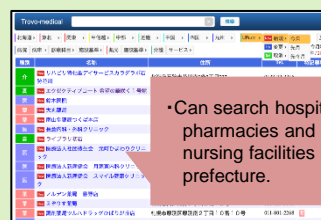
Survey of shops in urban districts about capabilities to serve shoppers from abroad (language skills, wifi, duty-free services, credit cards, and infrastructure) (Requiring filling questionnaire)

New Initiatives in IT

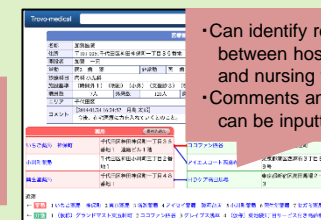
- In April 2015, Kagoshima Bank established Southern Wish, Inc. together with Nomura Research Institute, Invio Co., Ltd., etc.
- Southern Wish provides systems and consulting services mainly to financial institutions utilizing expertise of the Bank, Nomura Research Institute and Invio, and is developing state-of-art systems as a FinTech company.
- In March 2016, one of the megabanks started using the healthcare and nursing sales support system "Trovo-medical," which was developed jointly by the Bank and Invio.



System Overview	
System name	Trovo-medical
Key functions	<ul style="list-style-type: none"> • Search latest information on medical institutions, nursing facilities and dispensing pharmacies nationwide • Analysis of healthcare market by region • Accumulation of data of individual companies
Users	Pharmaceutical companies, property management companies, etc.



• Can search hospitals, pharmacies and nursing facilities by prefecture.



• Can identify relationship between hospitals, pharmacies and nursing facilities.
• Comments and research results can be inputted.

In March 2016, one of the megabanks started using the system.

Olive Business in Hioki City

- As a project under the comprehensive business cooperation agreement with Hioki City, the Bank, together with regional companies, founded Kagoshima Olive Co., Ltd.
- In February 2015, an olive oil retailer "Vigore" was opened in Hioki City, creating five jobs. (Sale of oil produced in Spain and Italy)
- The company retained a famous designer and renewed the designed of the bottle and package of olive oil being sold, thus enhancing branding.
- The company also started developing cosmetics using the olive as new product, and has already launched olive oil soap as the first merchandise.
- Building a factory in Hioki City is planned for growing olives, processing them into products and selling the products in an integrated manner. Furthermore, the factory will be built adjacent the olive farmland, which jointly will form a tourist attraction.

Job Creation



Branding & product development



Further job creation and business development

Full-scale production of olives locally



Building factory to enhance attractiveness as tourist site



- Designated as business qualified for regional development promotion grant
- Introduced as one of the 55 projects with unique features out of 3,172 qualified projects nationwide

What matters in regional vitalization:
"Make visible," "Implement," and "Continue"

This material includes statements regarding the Group's future performance, which do not constitute a guarantee of its future performance and involve risks and uncertainties.

Please note that the future performance may differ from targets or forecasts due to changes in the business environment, etc.



For inquiries regarding these materials, contact:

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Tel. 096-326-5588

Numerical Data



1. Financial Results Summary

【Higo Bank】

- Net business profit decreased 1.3 billion yen from the previous fiscal year to 15.5 billion yen, due to decreases in interest and dividend income and fees and commissions.
- Net income increased 1.7 billion yen from the previous fiscal year to 13.9 billion yen, thanks to increase in gain on sale of equity shares.

Higo Bank Profit & Loss

(100 mil. yen)

	Mar. 2015	Mar. 2016	Change
Gross business profit	560	554	-6
Interest and dividend income	476	474	-2
Fees and commissions	75	72	-3
Other business profit	7	7	0
(of which gain or loss on government and other bonds)	(11)	(16)	4
Expenses	379	398	18
Core business profit	168	139	-28
Allowance for doubtful accounts	10	-	-10
Net business profit	169	155	-13
Non-recurring profit or loss	33	58	25
Non-performing loan disposal expenses (subtract)	0	1	1
Equity securities-related profit or loss	24	36	12
Other non-recurring profit or loss	8	22	14
Ordinary income	202	214	11
Extraordinary profit and loss	-0	-3	-3
Pretax net income	202	210	8
Net income	122	139	17
(Credit costs)	9	-17	-26

【Kagoshima Bank】

- Net business profit increased 4.6 billion yen from the previous fiscal year to 20.8 billion yen, thanks to increases in interest and dividend income and reduction in expenses.
- Net income increased 0.4 billion yen from the previous fiscal year to 11.5 billion yen. The increase in the non-performing loan disposal expenses was more than offset by the increase in the gain on sale of equity securities, etc.

Kagoshima Bank Profit & Loss

(100 mil. yen)

	Mar. 2015	Mar. 2016	Change
Cross core profit	535	539	4
Interest and dividend income	445	460	14
Fees and commissions	75	73	-2
Other business profit	14	6	-8
(Of which gain or loss on government and other bonds)	(10)	(3)	-6
Expenses	365	357	-8
Core business profit	159	178	19
Allowance for doubtful accounts	7	-26	-33
Net business profit	162	208	46
Non-recurring profit or loss	21	-30	-51
Non-performing loan disposal expenses (subtract)	17	113	96
Equity securities-related profit or loss	31	70	39
Other non-recurring profit or loss	7	12	5
Ordinary income	183	178	-5
Extraordinary profit or loss	1	-0	-2
Pretax net income	185	177	-7
Net income	110	115	4
(Credit expenses)	24	86	62

2. Interest and Dividend Income

[Higo Bank] 47.4 billion yen (-0.2 billion yen, year on year)

· The domestic division suffered decreases in interest income on both loans and securities, which, however, were substantially offset by the increase in interest income on securities of the international division.

[Kagoshima Bank] 46.0 billion yen (+1.4 billion yen, year on year)

· The domestic division enjoyed increases in interest income on both loans and securities. The international division also posted an increase in interest income on securities. As a result, interest and dividend income increased 1.4 billion yen, year on year, as against the decrease in interest and dividend income recorded in the previous fiscal year.

Interest and Dividend Income

Higo Bank

(100 mil. yen)

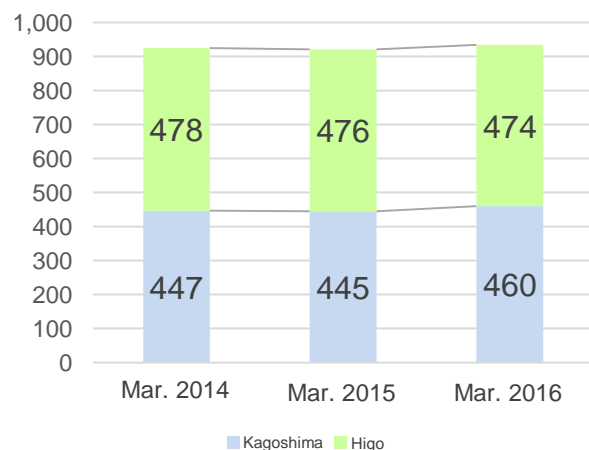
	Mar. 2014	Mar. 2015	Mar. 2016	Change from Mar. 2015
Interest and dividend income	478	476	474	-2
Domestic Division	450	442	429	-13
Interest on loans	361	352	344	-8
Interest on deposits (subtract)	14	13	13	0
Interest on securities	124	128	122	-6
International Division	27	33	44	11
Interest on securities	33	42	52	10

Kagoshima Bank

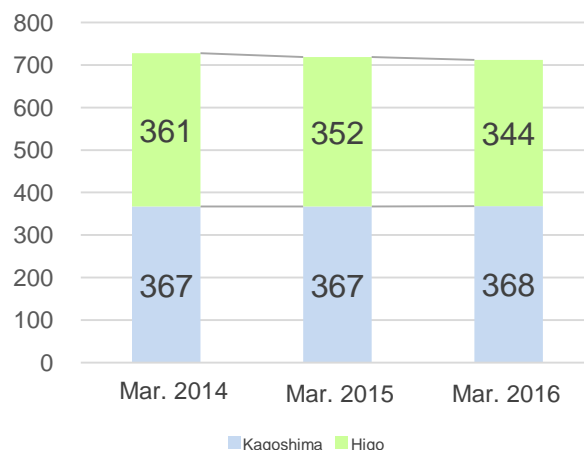
(100 mil. yen)

	Mar. 2014	Mar. 2015	Mar. 2016	Change from Mar. 2015
Interest and dividend income	447	445	460	14
Domestic Division	440	438	443	5
Interest on loans	367	367	368	1
Interest on deposits (subtract)	12	12	13	1
Interest on securities	89	88	93	5
International Division	6	6	16	9
Interest on securities	7	7	19	12

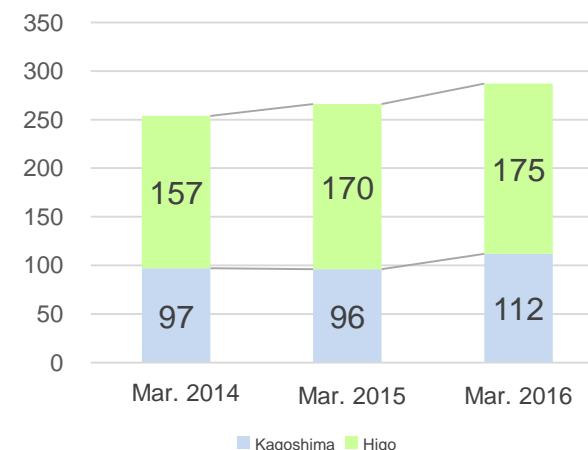
Interest and Dividend Income



Interest on Domestic Loans



Interest on Securities



3. Fees and Commissions

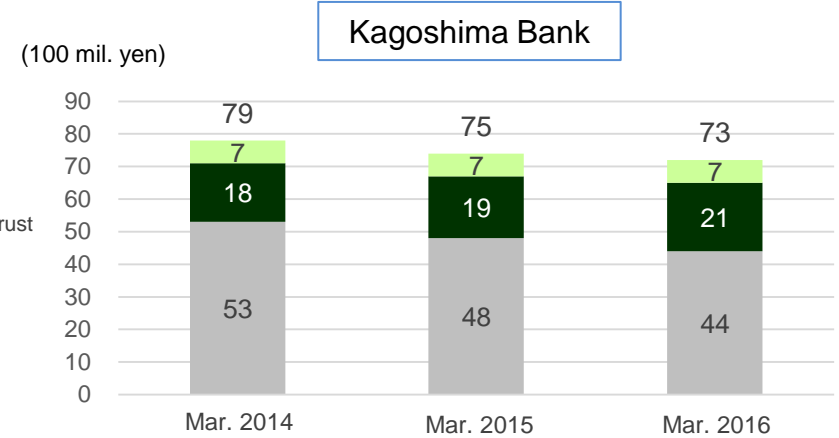
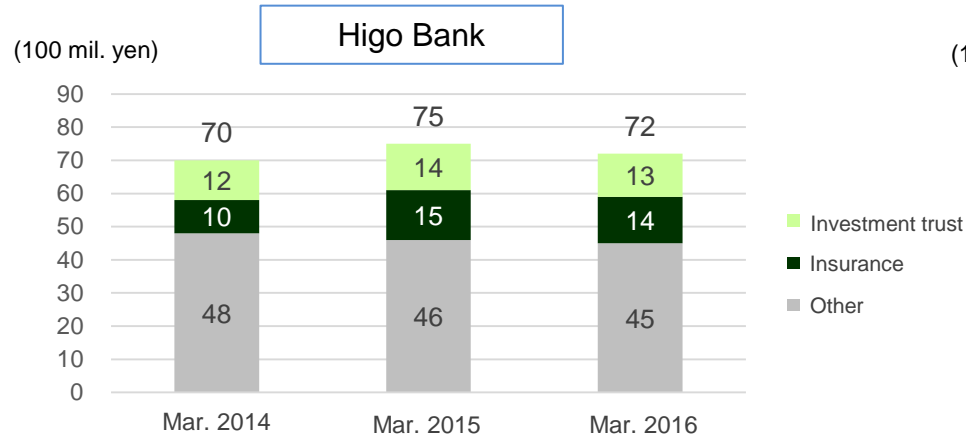
[Higo Bank]

- Fees and commissions decreased 0.3 billion yen from the previous fiscal year, mainly due to decrease in commissions on assets under management.

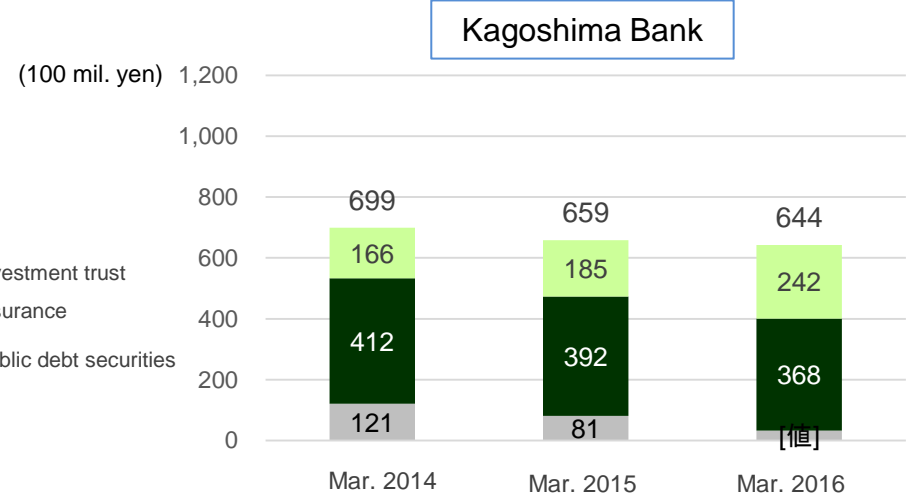
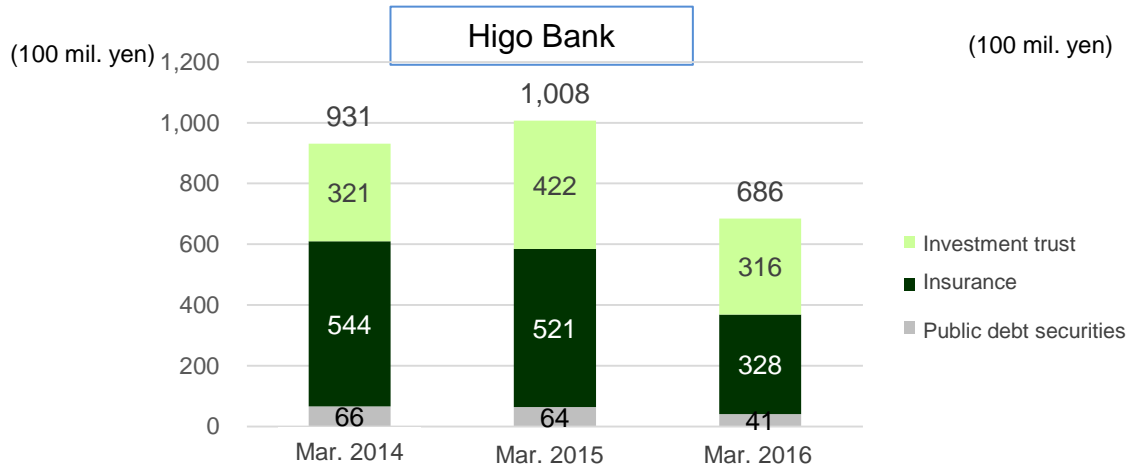
[Kagoshima Bank]

- Although commissions on assets under management increased, fees payable (expenses) also increased mirroring the increase in outstanding housing loans. As a result, fees and commissions decreased 0.2 billion yen from the previous fiscal year.

Fees and Commissions



Sale of Assets under Management



4. Expenses

【Higo Bank】

- Expenses increased 1.8 billion yen from a year earlier, mainly due to the increase in the operating expenses accompanying rebuilding of the head office building, and OHR rose by 4.06 percentage points to 71.85%.

【Kagoshima Bank】

- Expenses decreased 0.8 billion yen from a year earlier, mainly due to the decrease in payment of deposit insurance premiums, and OHR dropped by 2.07 percentage points to 66.22%.

Expenses



5. Loans (Average Balance)

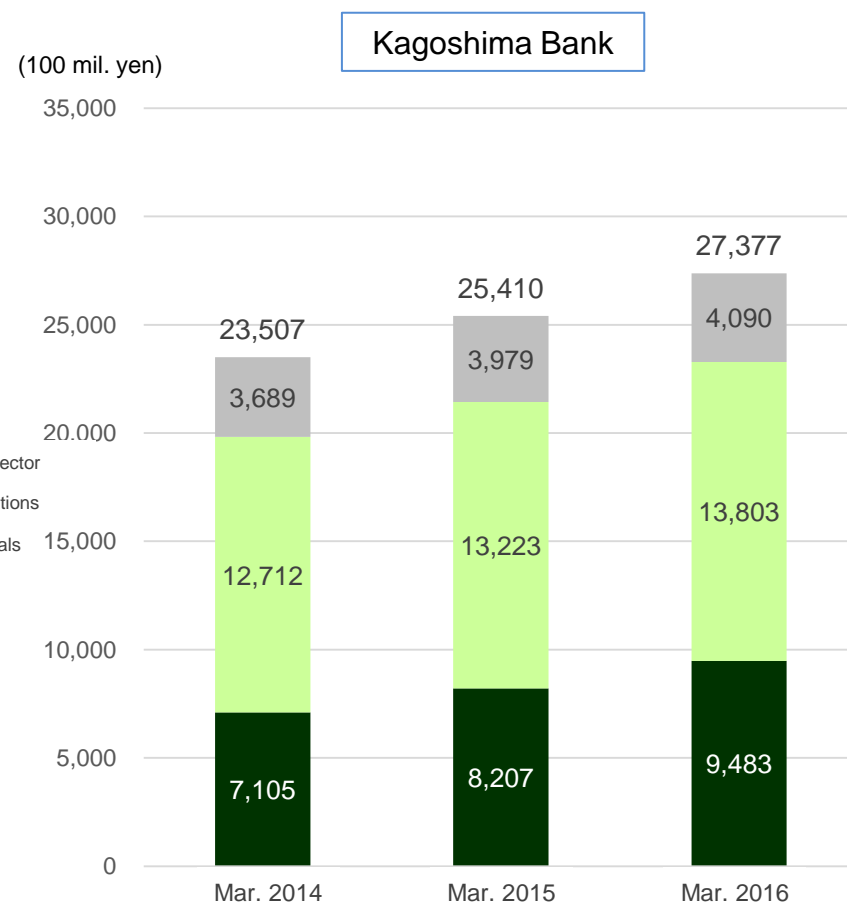
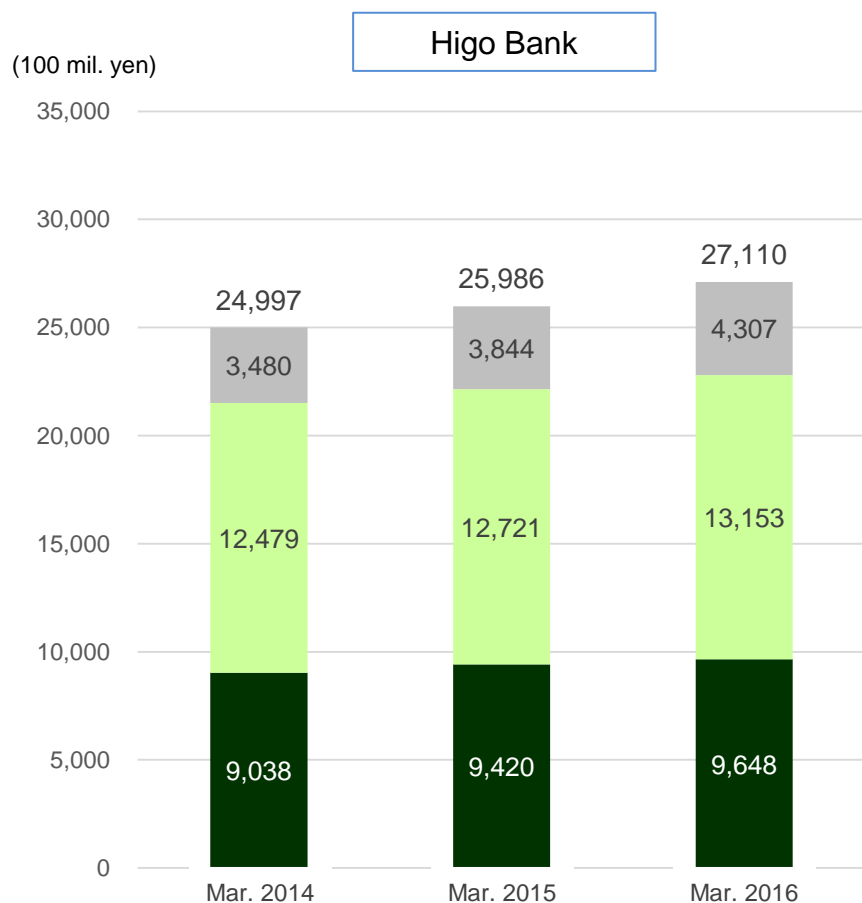
[Higo Bank]

• The average balance of loans increased 112.4 billion yen from a year earlier, mainly to corporations and to public sector entities.

[Kagoshima Bank]

• The average balance of loans increased 196.7 billion yen from a year earlier, mainly to corporations and to individuals.

Balance of Loans



6. Deposits (Average Balance)

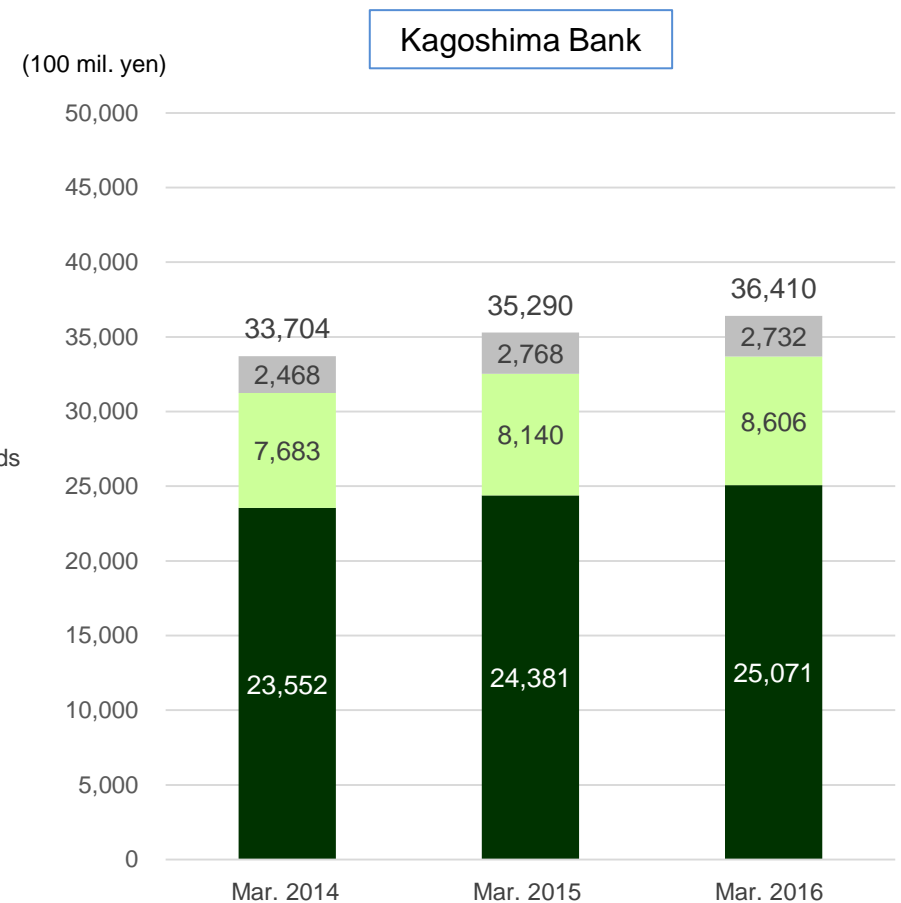
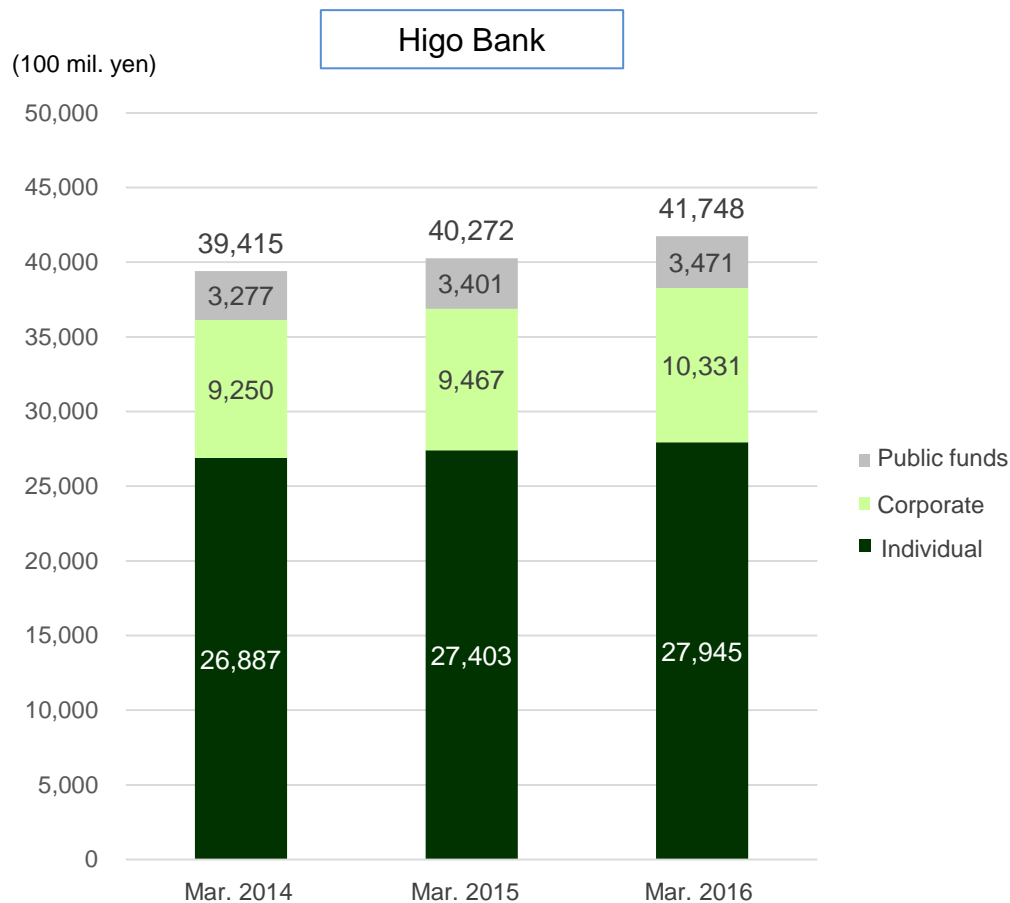
[Higo Bank]

• The average balance of deposits increased 147.6 billion yen from a year earlier, mainly from individuals and from corporations.

[Kagoshima Bank]

• The average balance of deposits increased 112.0 billion yen from a year earlier, mainly from individuals and from corporations.

Balance of Deposits (inc. NCDs)



7. Securities

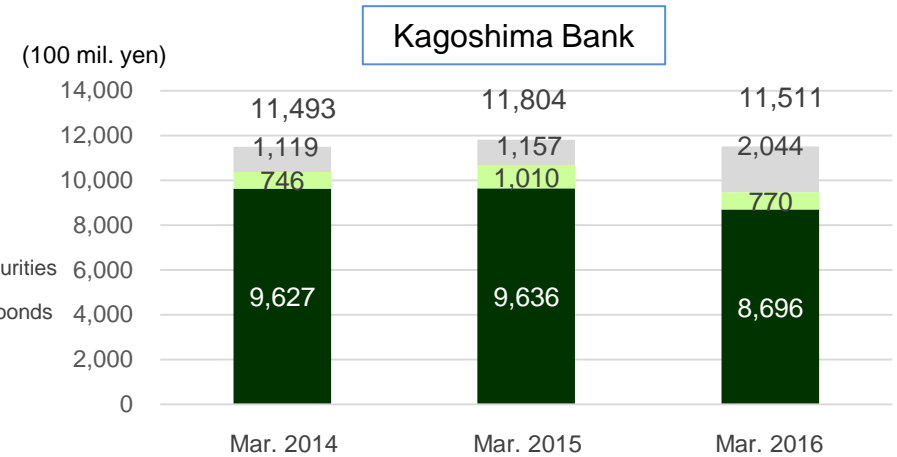
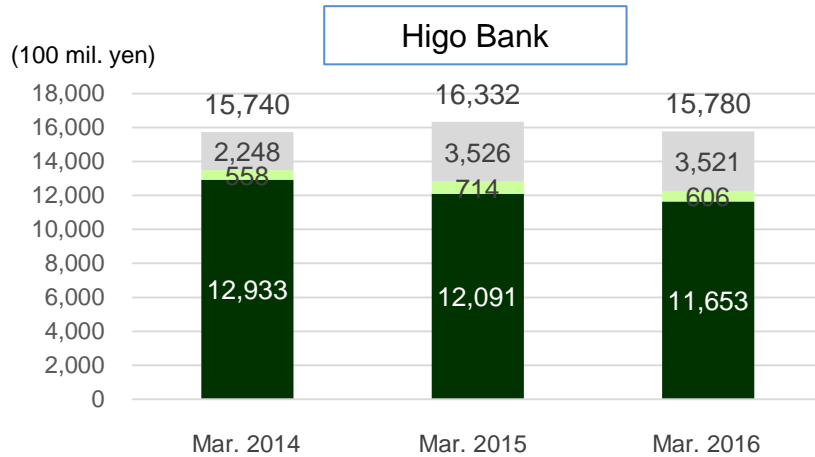
[Higo Bank]

- The balance of securities decreased 55.2 billion yen from a year earlier to 1,578.0 billion yen, due mainly to decreases in domestic bonds.
- The valuation gain on securities decreased 5.3 billion yen, due mainly to realization of gains through sale of equity securities owned for the purpose of relationship.

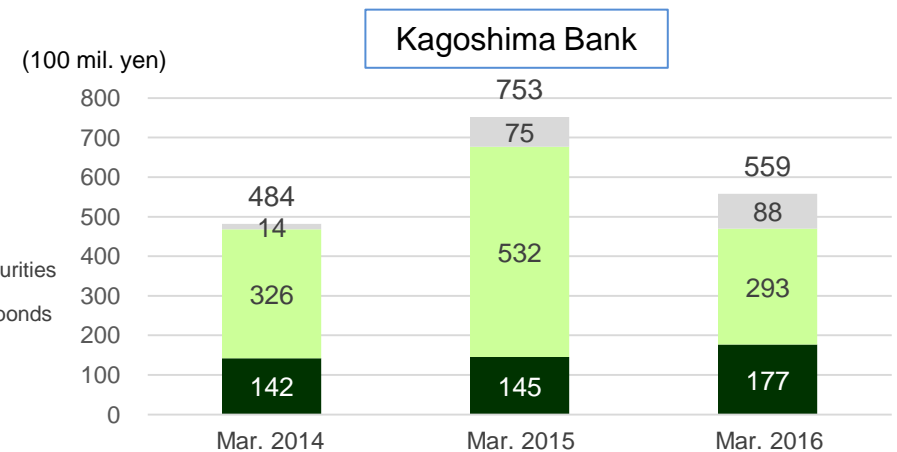
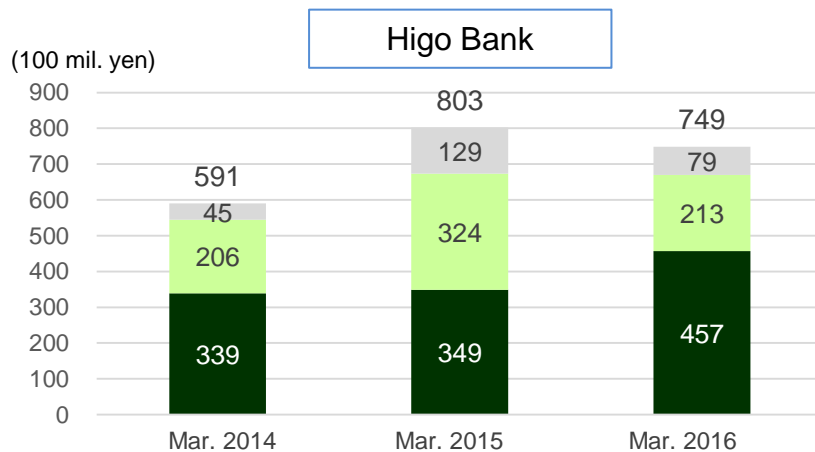
[Kagoshima Bank]

- The balance of securities decreased 29.3 billion yen from a year earlier to 1,155.1 billion yen, due mainly to decreases in domestic bonds.
- The valuation gain on securities decreased 19.4 billion yen, due mainly to realization of gains through sale of equity securities owned for the purpose of relationship.

Balance of Securities



Valuation Gain on Securities



8. Credit Costs and Loans Disclosed Pursuant to Financial Reconstruction Law

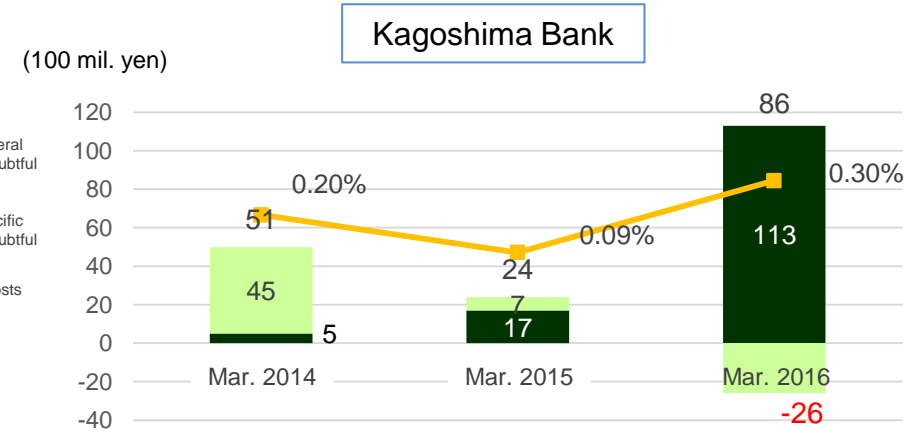
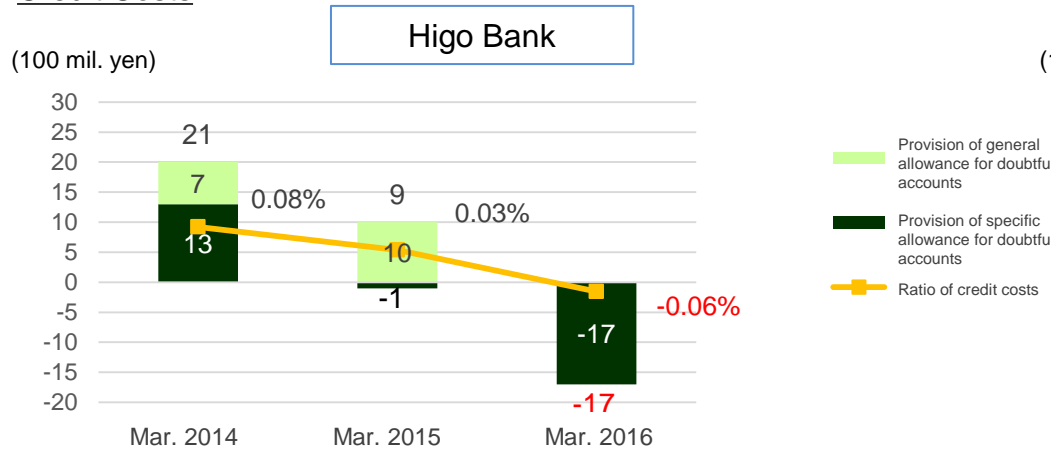
[Higo Bank]

- The ratio of credit costs was -0.06%, thanks to reversal of allowance for doubtful accounts.
- The ratio of non-performing loans dropped by 0.28 percentage points from a year earlier to 1.98%.

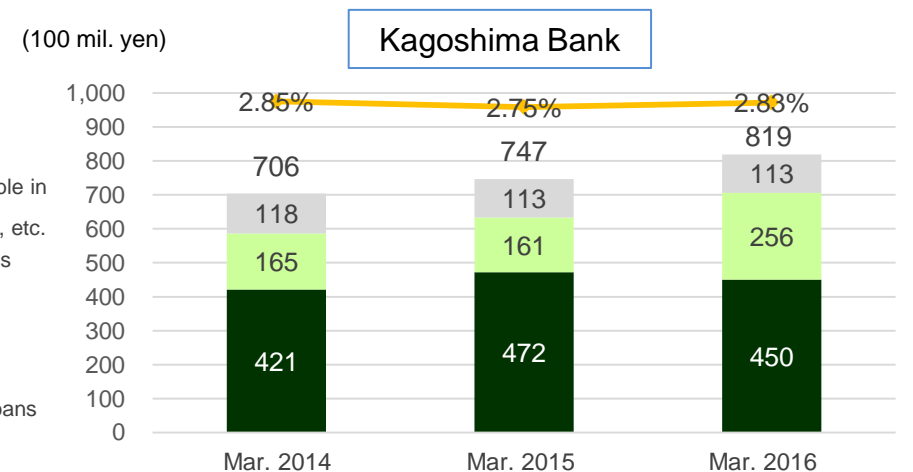
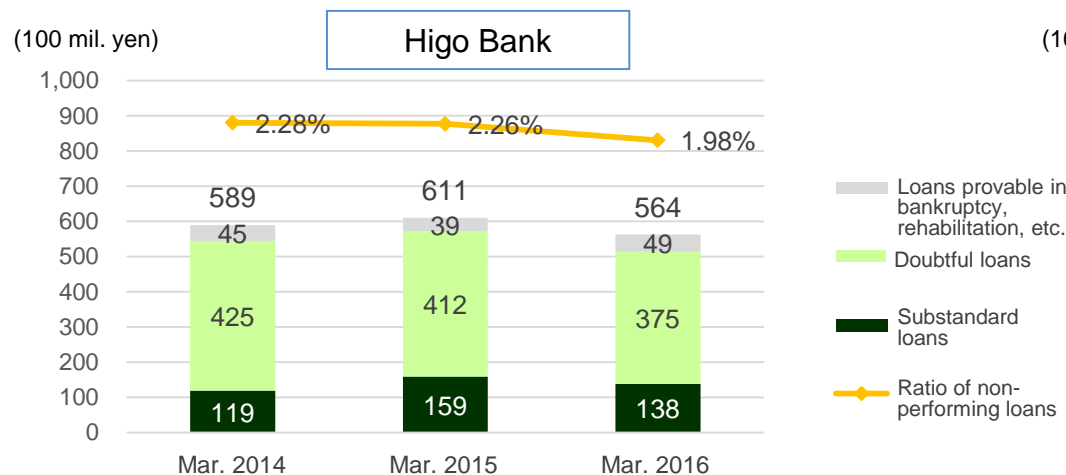
[Kagoshima Bank]

- The ratio of credit costs was 0.3%, due to increases in provision of specific allowance for doubtful accounts.
- The ratio of non-performing loans rose by 0.08 percentage points from a year earlier to 2.88%, due to increases in doubtful loans.

Credit Costs



Loans Disclosed Pursuant to Financial Reconstruction Law



9. Capital Adequacy Ratio

【Higo Bank】

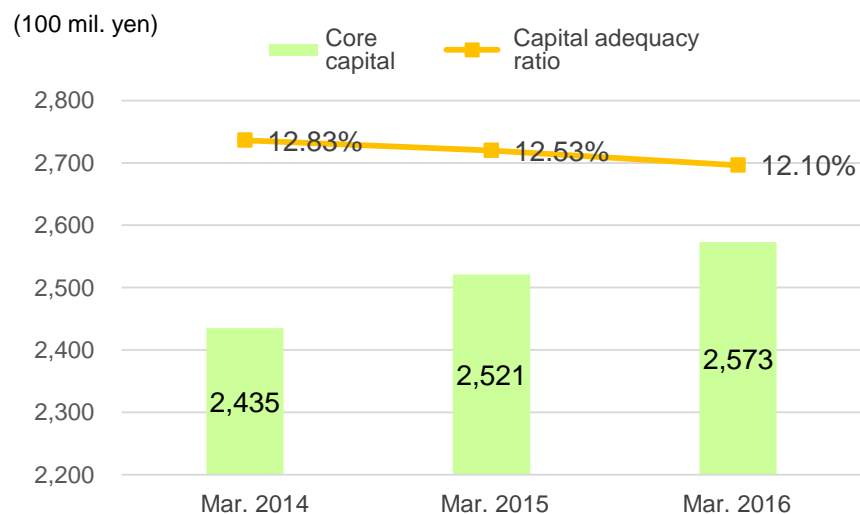
- The capital adequacy ratio declined by 0.43 percentage points from a year earlier to 12.10%, with increases in risk assets more than offsetting the increases in core capital.

【Kagoshima Bank】

- The capital adequacy ratio declined by 0.35 percentage points from a year earlier to 11.54%, mainly due to increases in loans (and accordingly risk assets).

Capital Adequacy Ratio

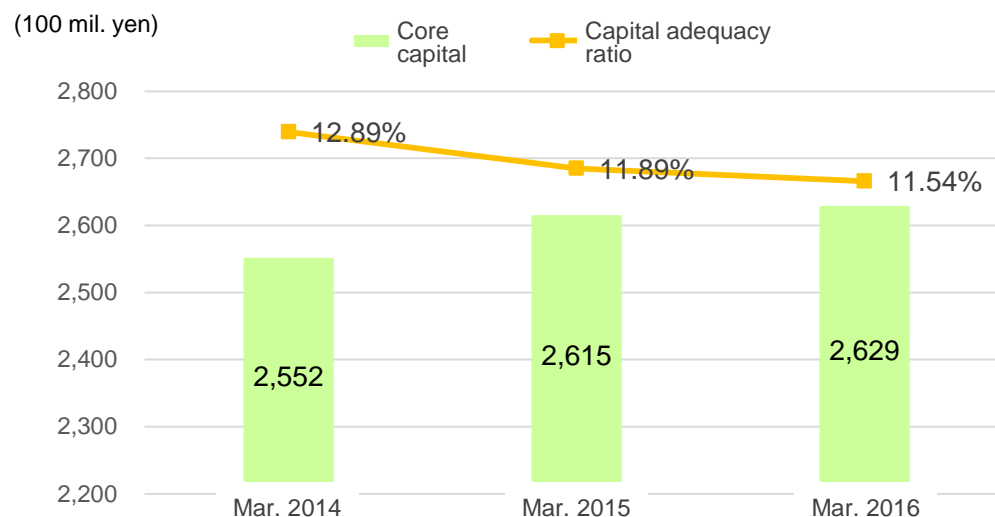
Higo Bank



(100 mil. yen)

	Mar. 2015	Mar. 2016	Change
① Core capital	2,521	2,573	51
② Risk asset	20,109	21,266	1,157
③ Capital adequacy ratio (① / ②)	12.53%	12.10%	-0.43%

Kagoshima Bank



(100 mil. yen)

	Mar. 2015	Mar. 2016	Change
① Core capital	2,615	2,629	13
② Risk asset	21,987	22,779	792
③ Capital adequacy ratio (① / ②)	11.89%	11.54%	-0.35%