



Kyushu FG

Company Information Meeting

June 6, 2017

Kyushu Financial Group, Inc.



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Summary of Financial Results for Fiscal Year Ended March 2017



1. Financial Results Summary

- Gross business profit declined year on year by 5,500 million yen to 103,700 million yen, due chiefly to decreases in fees and commissions and in gains on government and other bonds.
- Ordinary income was 28,500 million yen, down year on year by 10,700 million yen, while net income declined by 5,900 million yen to 19,600 million yen, as higher credit costs offset lower expenses.

Profit and Loss

Simple sums of the consolidated numbers of
Higo Bank and Kagoshima Bank

(100 mil. yen)

	Mar. 2016	Mar. 2017		Change	
	Sum	Sum	Higo	Kagoshima	Sum
Gross business profit	1,093	1,037	542	494	-55
Interest and dividend income	934	924	470	453	-9
Fees and commissions	145	124	63	61	-21
Other business profit	13	-11	7	-19	-24
(of which gain or loss on government and other bonds)	20	0	20	-21	-21
Expenses (subtract)	755	740	393	346	-14
Core business profit	318	298	128	169	-19
Allowance for doubtful accounts (subtract)	-26	14	-5	20	41
Net business profit	364	282	154	127	-82
Non-recurring profit or loss	28	2	-31	33	-25
Non-performing loans disposal expenses (subtract)	114	89	52	36	-25
Equity securities-related profit or loss	107	89	16	73	-17
Other non-recurring profit or loss	35	2	4	-2	-33
Ordinary income	392	285	123	161	-107
Extraordinary profit and loss	-4	-6	0	-6	-1
Pre-tax net income	388	279	123	155	-109
Net income	255	196	87	108	-59
(Credit costs) (subtract)	69	102	45	57	32

Highlights

- Interest and dividend income
Year-on-year change: -900 mil. yen
 - Interest on loans -1,800 mil. yen
 - Interest on securities +800 mil. yen
- Expenses
Year-on-year change: -1,400 mil. yen
 - Personnel expenses -400 mil. yen
 - Non-personnel expenses -500 mil. Yen
 - Taxes -400 mil. yen
- Equity securities-related profit or loss
Year-on-year change: -1,700 mil. yen
 - Portfolio investment -3,600 mil. yen
 - Relationship investment, ETF, etc. +1,900 mil. yen
- Credit costs
Year-on-year change: +3,200 mil. yen
 - Provision of general allowance for doubtful accounts +4,100 mil. yen
 - Non-performing loans disposal expenses -2,500 mil. yen
 - Reversal of allowance for doubtful accounts -1,600 mil. yen

Kyushu Financial Group Consolidated Results	Mar. 2016	Mar. 2017
Consolidated revenues	1,312	1,722
Consolidated ordinary income	256	215
Profit attributable to owners of parent	1,084	146

- Kyushu Financial Group consolidated results
 - Profit attributable to owners of parent Year-on-year change -93,900 mil. Yen
(An extraordinary gain of 88,400 million yen was posted in the previous fiscal year as "gain on negative goodwill" with the management integration.)

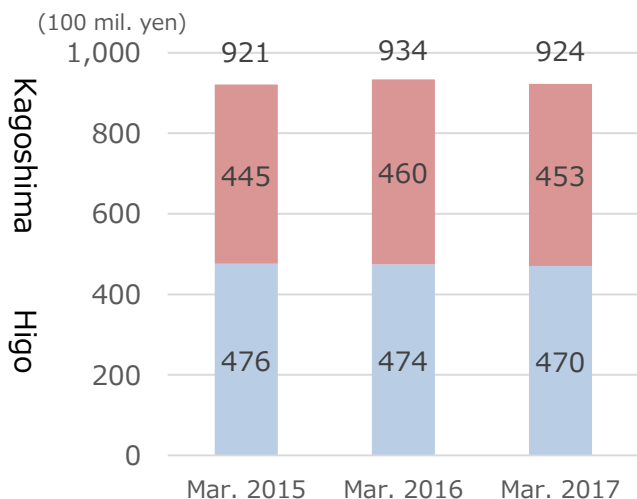
2. Interest and Dividend Income

- Interest and dividend income was 92,400 million yen, down by 900 million yen from the previous fiscal year due to the drop in loan interest, impacted by negative interest rates.
(Domestic Division: Interest on loans -1,900 mil. yen; Interest on deposits -1,300 mil. Yen; Interest on securities -1,600 mil. yen; International Division: Interest on securities +2,500 mil. yen)

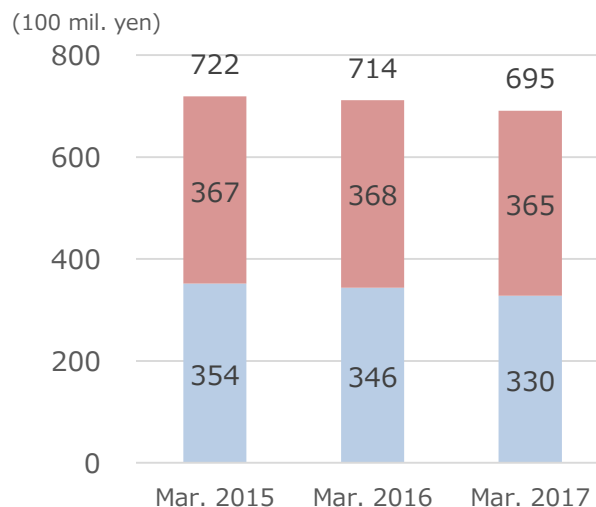
Interest and dividend income

	Mar. 2015			Mar. 2016			Mar. 2017			Change from Mar. 2016
	Sum	Higo	Kagoshima	Sum	Higo	Kagoshima	Sum	Higo	Kagoshima	
Interest and dividend income	921	476	445	934	474	460	924	470	453	-9
Domestic Division	881	442	438	872	429	443	850	414	435	-22
Interest on loans	722	354	367	714	346	368	695	330	365	-19
Interest on deposits (subtract)	28	15	12	30	16	13	17	9	7	-13
Interest on securities	217	128	88	216	122	93	199	116	82	-16
International Division	40	33	6	60	44	16	74	55	18	12
Interest on securities	49	42	7	72	52	19	97	67	30	25

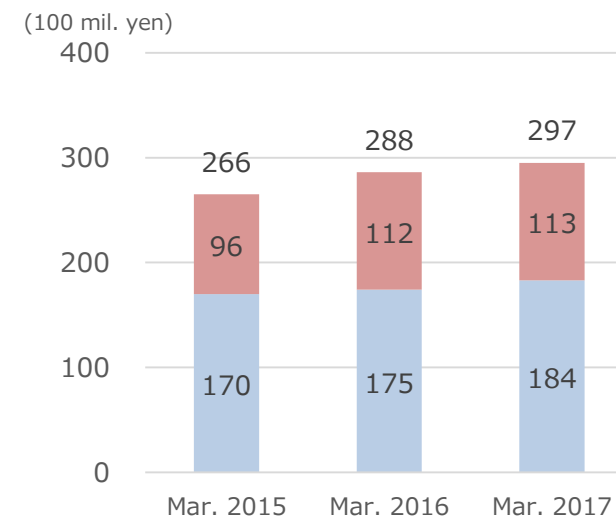
Interest and Dividend Income



Interest on Domestic Loans



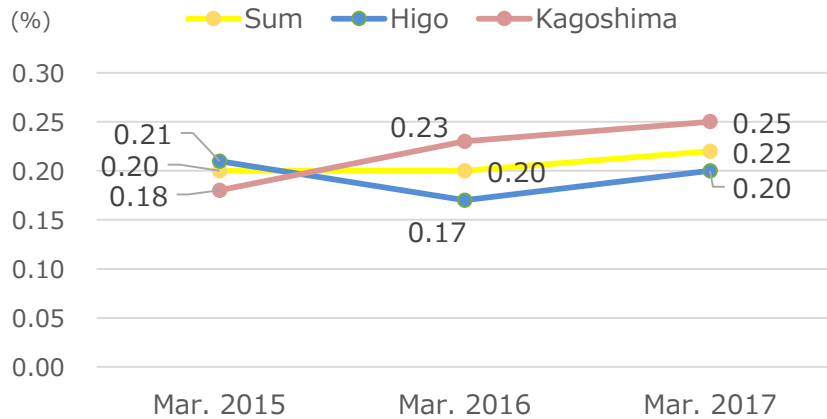
Interest on Securities



3. Net Interest Margin and Net Yield

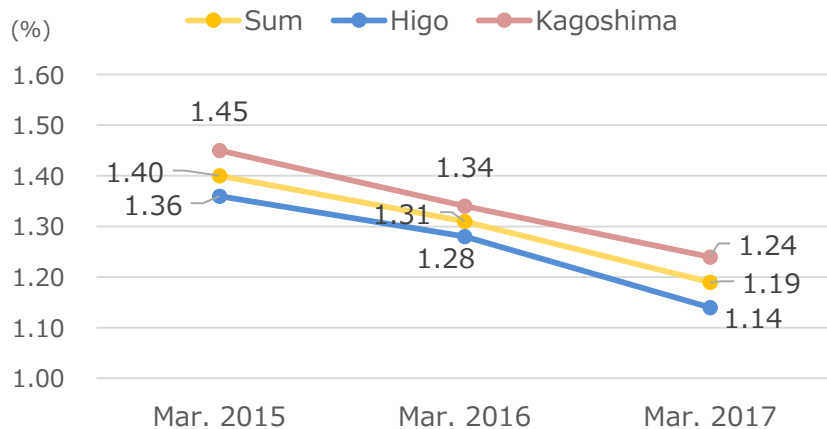
- Yield on investments was 1.16%, down 0.07% year on year, as yield on loans declined while yield on securities rose.
- Net interest margin was 0.22%, up 0.02% year on year, due to lower funding costs offsetting the drop in investment yield.

Net Interest Margin

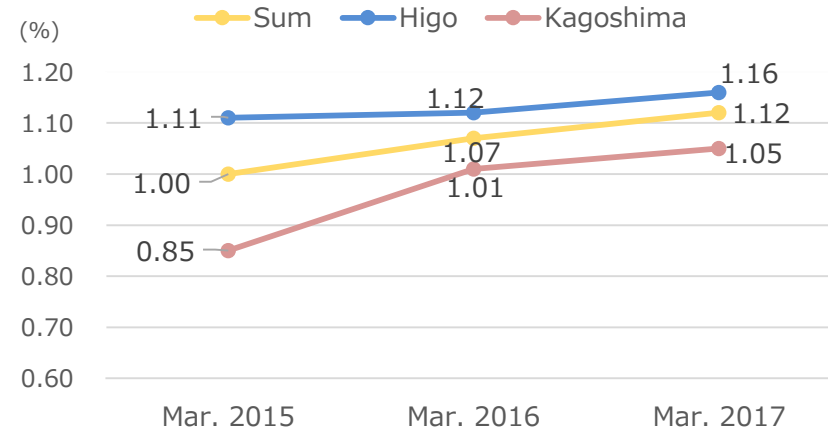


	Mar. 2016	Mar. 2017		Change	
	Sum	Sum	Higo		Kagoshima
(1) Investment yield	1.23%	1.16%	1.14%	1.18%	-0.07%
Yield on Loans	1.31%	1.19%	1.14%	1.24%	-0.12%
Yield on Securities	1.07%	1.12%	1.16%	1.05%	0.05%
(2) Funding cost	1.03%	0.94%	0.94%	0.93%	-0.09%
Interest rate on deposits	0.03%	0.02%	0.02%	0.02%	-0.01%
Net interest margin ((1)-(2))	0.20%	0.22%	0.20%	0.25%	0.02%

Yield on Loans



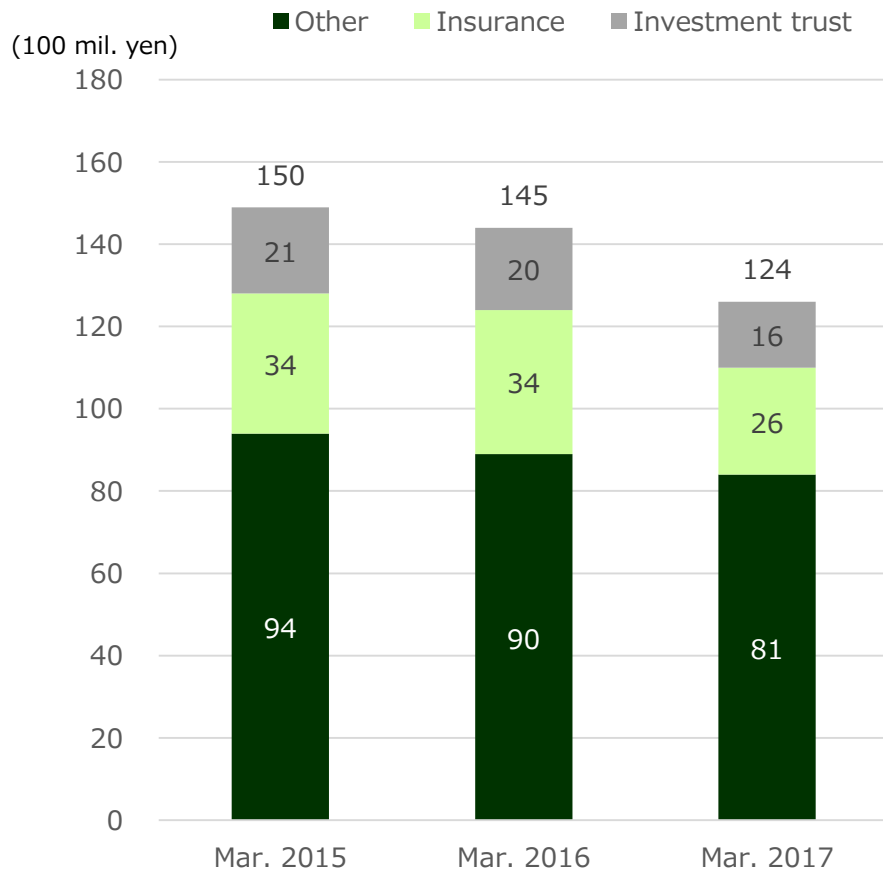
Yield on Securities



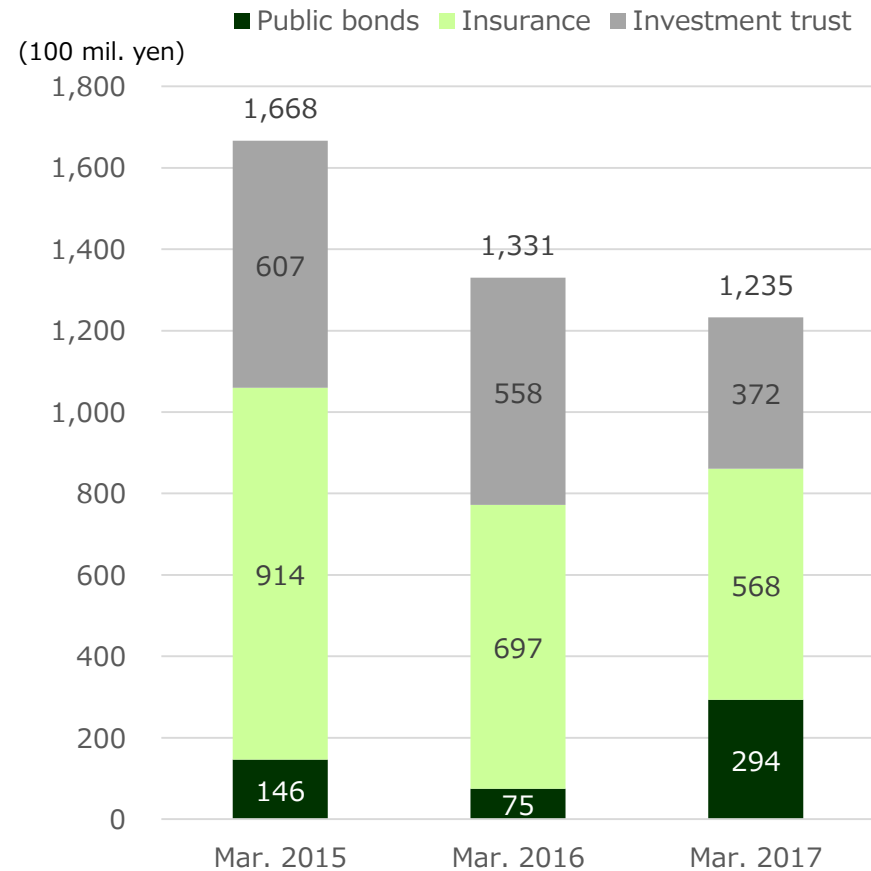
4. Fees and Commissions

- Fees and commissions were 12,400 million yen, down by 2,100 million yen year on year, affected in part by the decline in commissions on assets under management.
- Regarding sale of assets under management, insurance and investment trust sales declined; however, public bond sales by Higo Bank increased greatly, as that bank introduced a special government bond sale to individuals, with part of the proceeds from commissions being donated to the Kumamoto earthquake recovery effort.

Fees and Commissions



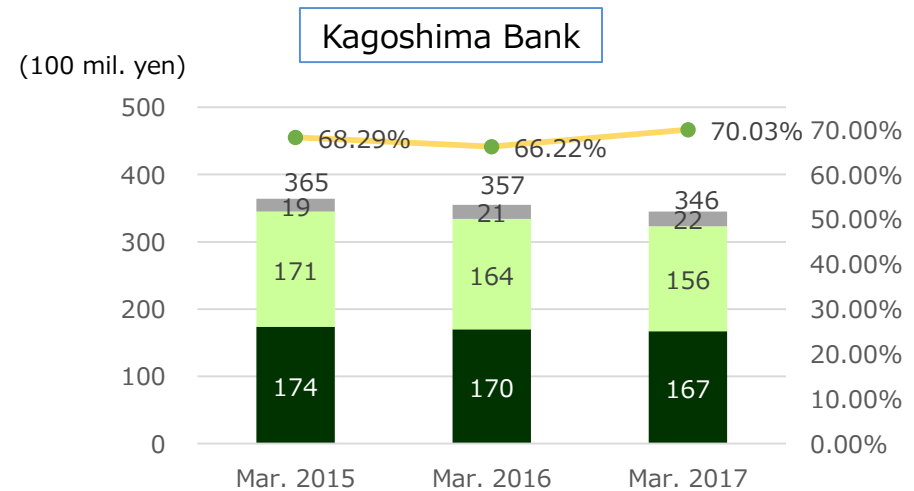
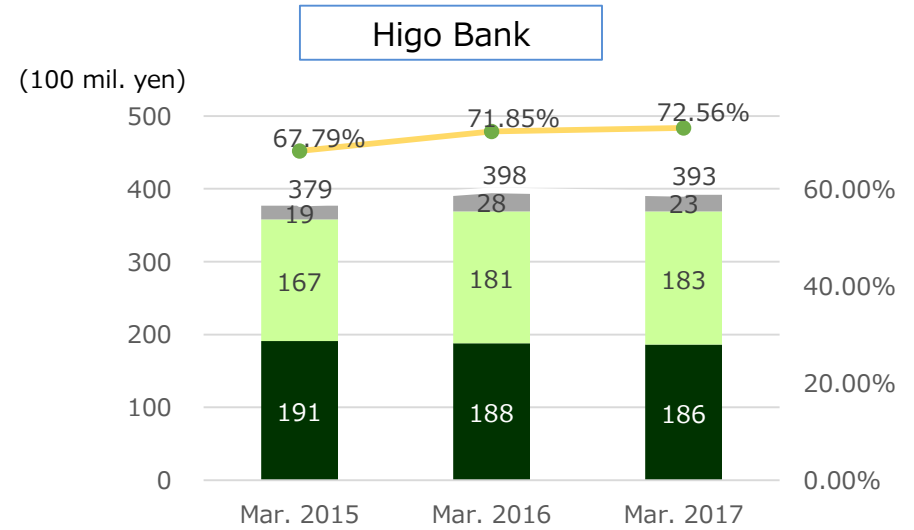
Sale of Assets under Management



5. Expenses

- Expenses decreased 1,400 mil. yen to 74,000 million yen due to lower personnel expenses, non-personnel expenses, and tax expenses.
- OHR increased by 2.27% to 71.35% with the decline in gross business profit.

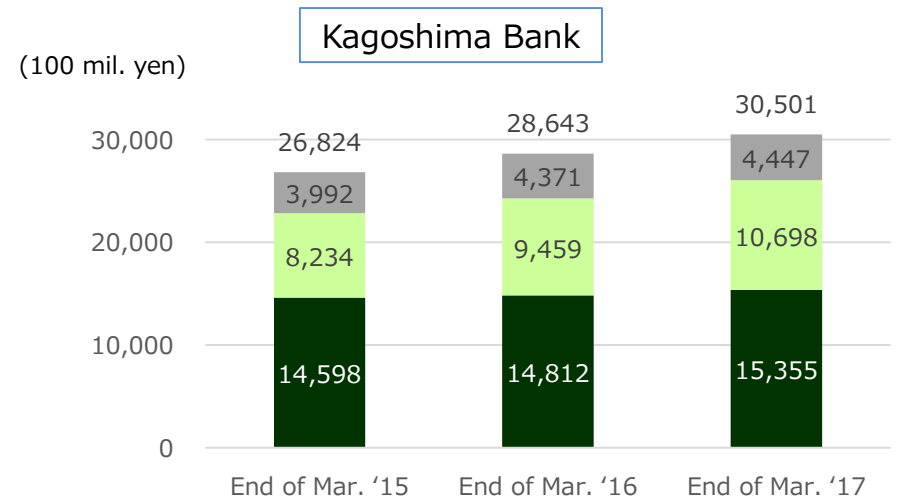
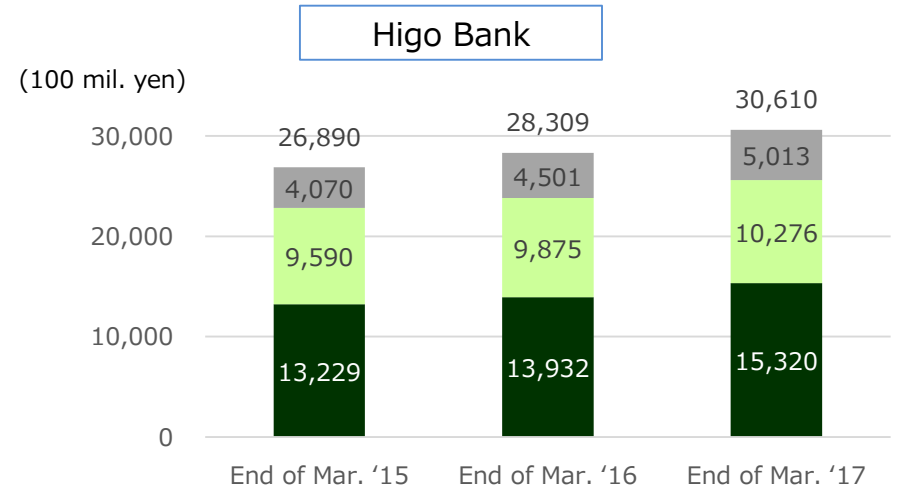
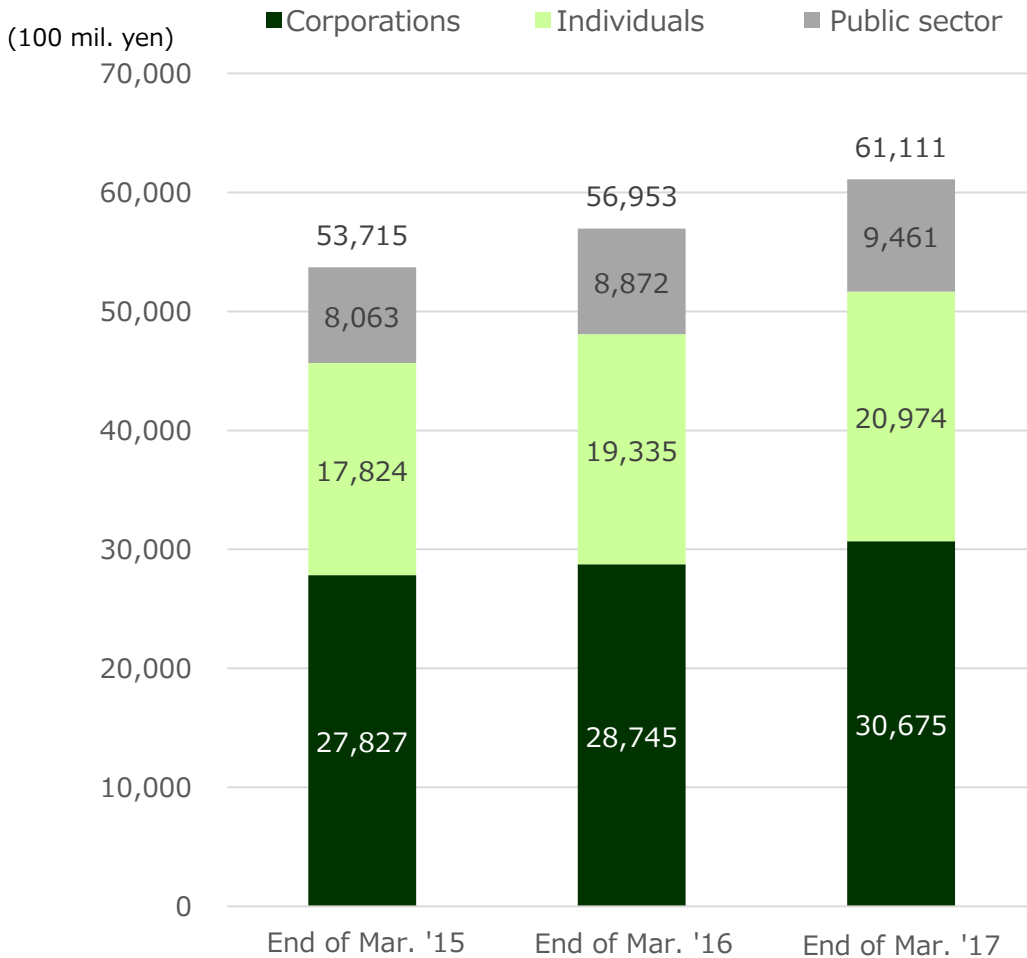
Expenses



6. Loans

- The balance of loans increased 415,800 million yen (+7.3%) year on year.
- Loans to corporations, to individuals, and to the public sector all grew steadily.
(loans to corporations: +193,000 mil. yen; to individuals: +163,900 mil. yen; to public sector: +58,800 mil. yen)

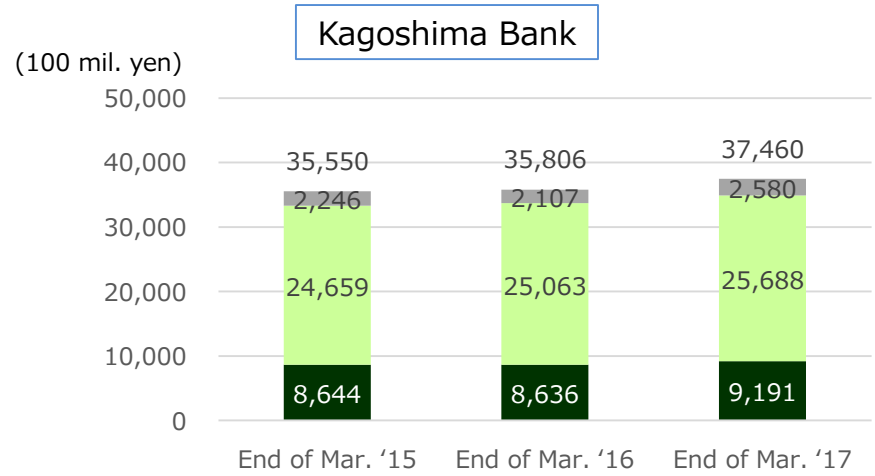
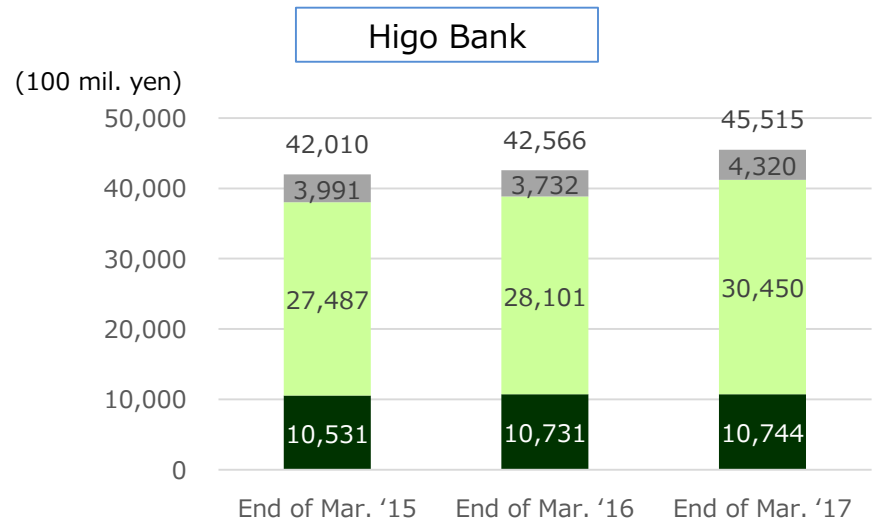
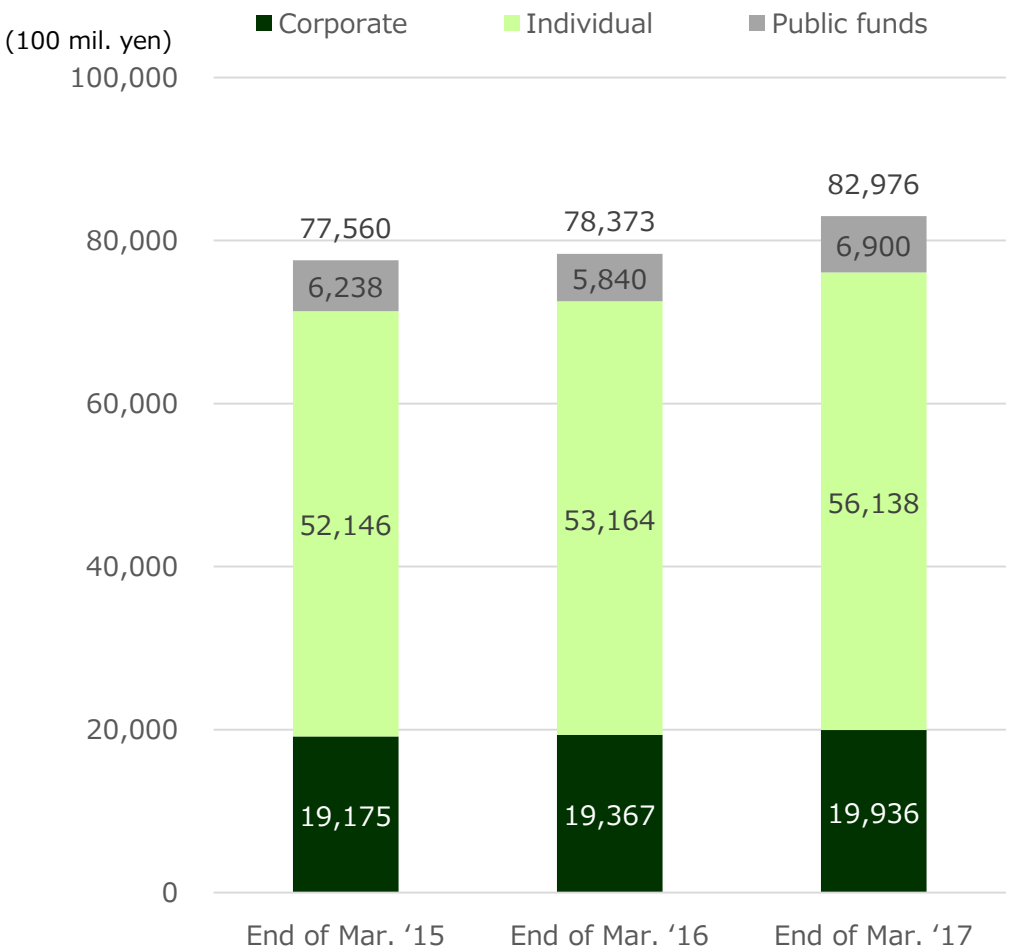
Balance of Loans



7. Deposits

- The balance of deposits increased 460,200 million yen (+5.8%) year on year.
- There was a large influx of earthquake insurance funds and donations relating to the 2016 Kumamoto earthquakes (approx. 350,000 mil. yen), and individual funds deposits grew.
(corporate deposits: +56,800 mil. yen; individual deposits: +297,300 mil. yen; public sector deposits: +106,000 mil. yen)

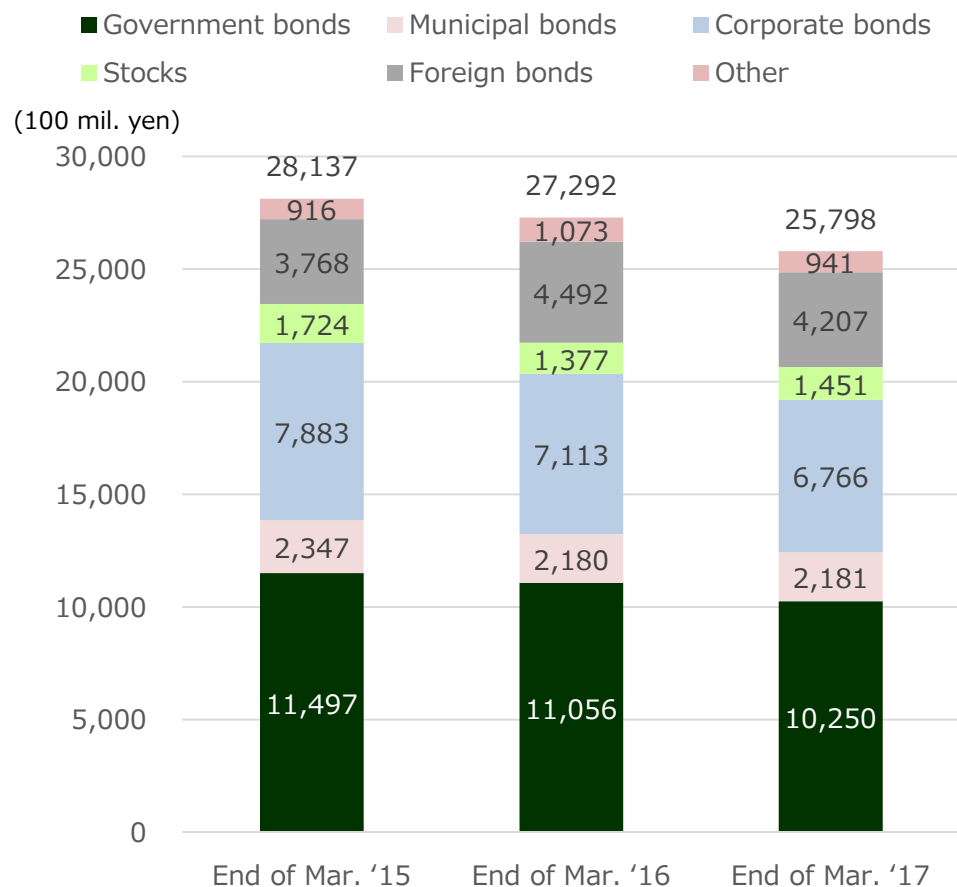
Balance of Deposits (incl. NCDs)



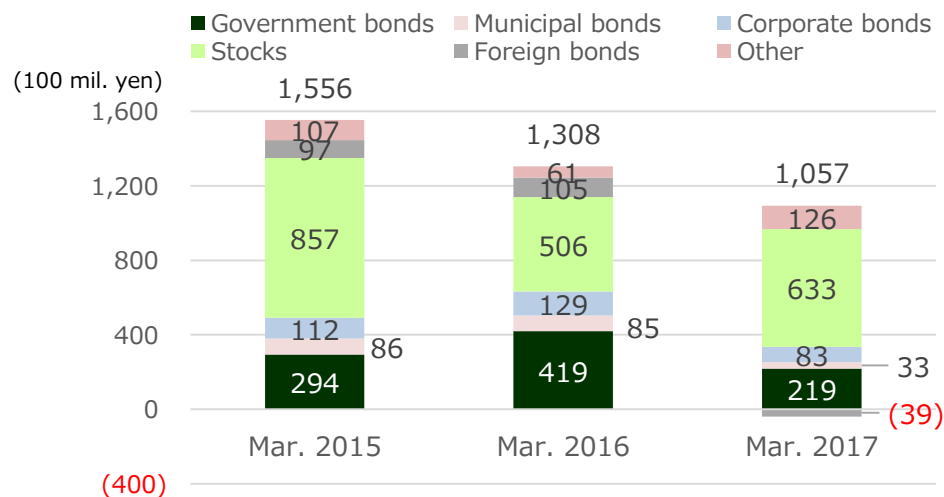
8. Securities

- The balance of securities decreased 149,300 million yen to 2,579,800 million yen, due mainly to a decline in government bonds.
- The valuation gain on securities decreased 25,000 million yen to 105,700 million yen, despite a rise in unrealized gain of equity securities, as interest rates rose in Japan and overseas, and unrealized gains on government bonds and foreign bonds were lower.

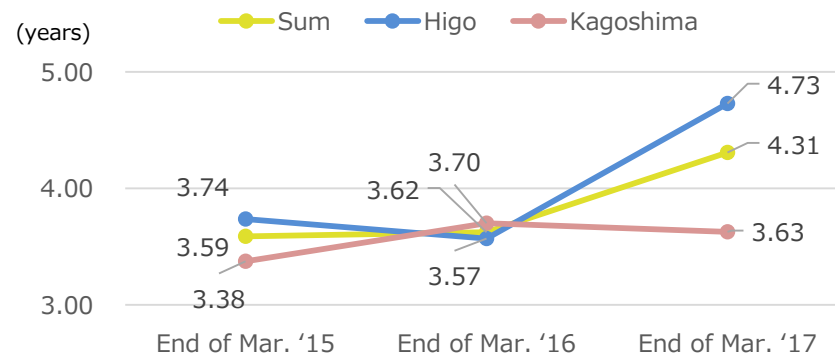
Balance of Securities



Valuation Gain on Securities



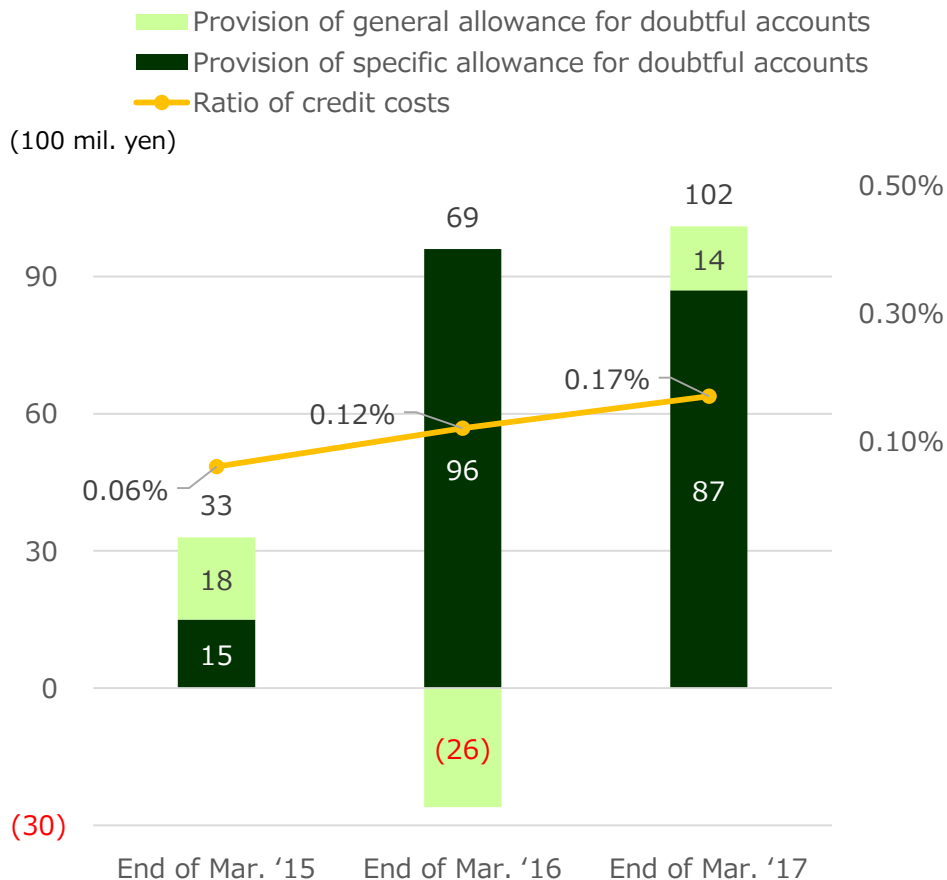
Duration



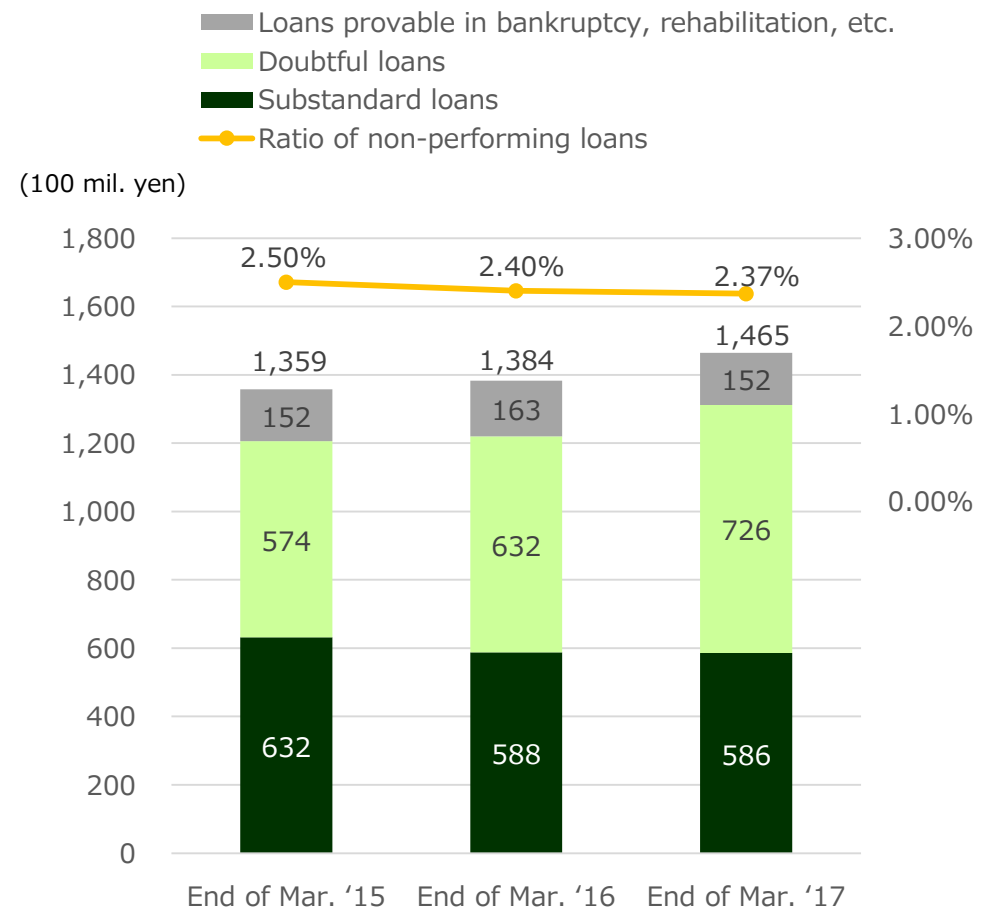
9. Credit Costs and Loans Disclosed Pursuant to Financial Reconstruction Act

- Credit costs rose 3,200 million yen year on year to 10,200 million yen with the increase in provision of general allowance for doubtful accounts.
- Loans to be disclosed pursuant to the Financial Reconstruction Act increased 8,000 million yen year on year, but the ratio of non-performing loans was down 0.03% to 2.37%.

Credit Costs



Loans Disclosed Pursuant to Financial Reconstruction Act

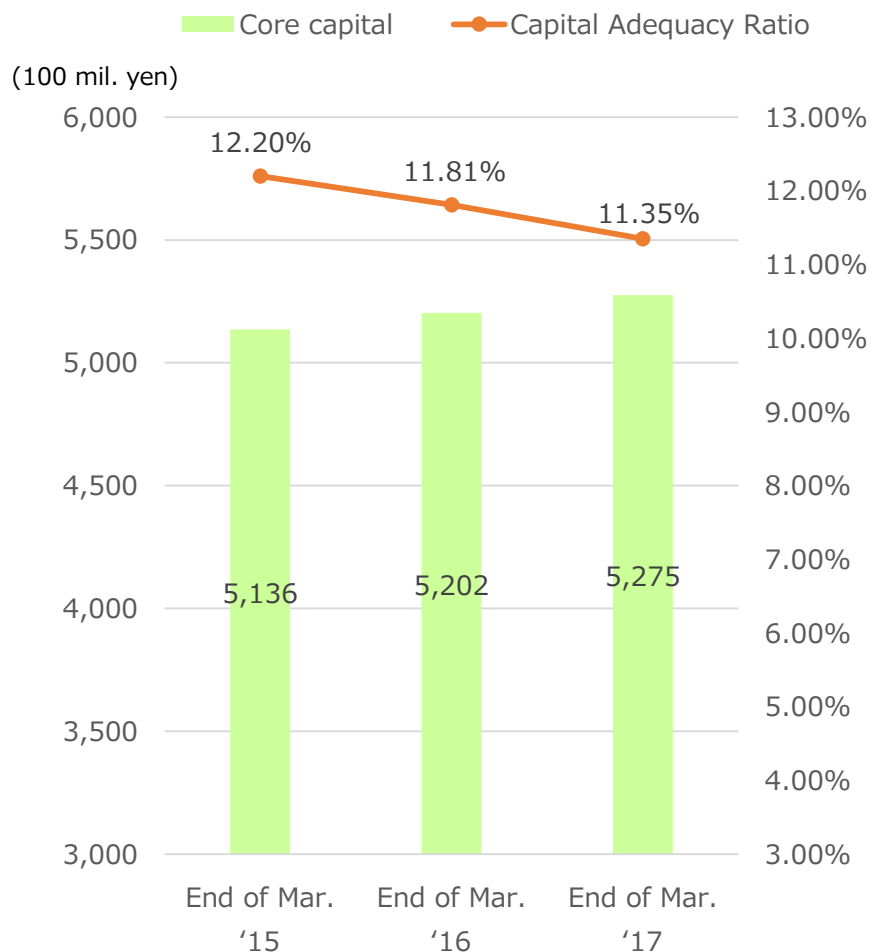


(30)

10. Capital Adequacy Ratio

- Core capital increased by 7,300 million yen year on year to 527,500 million yen.
- Despite the increase in core capital, the capital adequacy ratio declined by 0.46% year on year to 11.35%, affected by the increase in risk assets as lending grew.
- The consolidated capital adequacy ratio was 12.38%.

Capital Adequacy Ratio (Sum of 2 Banks)



Capital Adequacy Ratio (Sum of 2 Banks)

(100 mil. yen)

	Mar. 2016	Mar. 2017		Change	
	Sum	Sum	Higo	Kagoshima	Sum
(1) Core capital	5,202	5,275	2,591	2,684	73
Shareholders' equity	4,923	5,023	2,533	2,490	100
(2) Risk assets	44,046	46,467	22,507	23,959	2,421
(3) Capital adequacy ratio ((1)/(2))	11.81%	11.35%	11.51%	11.20%	-0.46%

Capital Adequacy Ratio (KFG Consolidated)

(100 mil. yen)

	Mar. 2016	Mar. 2017	Change
(1) Core capital	5,755	5,833	78
Shareholders' equity	5,473	5,589	116
(2) Risk assets	44,729	47,102	2,373
(3) Capital adequacy ratio ((1)/(2))	12.86%	12.38%	-0.48%

FY2017 Performance Forecasts (simple sum of 2 banks)

(100 mil. yen)

	Mar. 2017	Mar. 2018		Change	
	Sum	Sum	Higo	Kagoshima	Sum
Gross business profit	1,037	1,037	545	492	0
Interest and dividend income	924	905	460	445	-19
Fees and commissions	124	116	68	47	-8
Other business profit	-11	14	16	-1	26
(of which gain or loss on government and other bonds)	0	23	25	-2	23
Expenses (subtract)	740	729	380	349	-10
Core business profit	298	284	140	144	-13
Allowance for doubtful accounts (subtract)	14	5	-4	10	-9
Net business profit	282	302	170	132	20
Non-recurring profit or loss	2	36	20	16	33
Non-performing loans disposal costs (subtract)	89	31	10	21	-57
Equity securities-related profit or loss	89	59	27	32	-30
Other non-recurring profit or loss	2	8	3	5	6
Ordinary income	285	339	190	149	54
Extraordinary profit and loss	-6	-1	0	-1	5
Pre-tax net income	279	338	190	147	59
Net income	196	232	130	102	36
(Credit costs) (subtract)	102	37	6	31	-65

Kyushu Financial Group Consolidated Results	Mar. 2017	Mar. 2018
Consolidated revenues	1,722	1,610
Consolidated ordinary income	215	300
Profit attributable to owners of parent	146	196

Kyushu Financial Group's Management Strategy



Vision “Kyushu’s top full-service financial group for customers”

Achieved in two stages, from Collaboration to Integration

(1) Collaboration Stage

1st Medium-Term Management Plan (Oct. 2015 to Mar. 2018)

- Deepen understanding and mutually introduce effectiveness.
- To derive maximum benefit from synergies in the Integration Stage, bring together strengths (know-how) of both banks to raise the capabilities as a full-service financial group.
- Raise the level of Group governance, and build mechanisms for optimal distribution of Group management resources.

(2) Integration Stage

2nd Medium-Term Management Plan and after (from April 2018)

- Carry out Group integration in stages, for a stronger management foundation.
- Take full advantage of integration synergies, from the standpoints both of Group consolidated gross profit and cost efficiency, toward sustained growth.

Key Policy Measures and Initiatives

Sales	Collaborative sales strategies; New product and service development
	Promotion of regional revitalization strategies
	Advancing strategies for other prefectures and countries
	Business area diversification
Markets	Sharing of operations know-how; More efficient back office operations
Risks/ Resources Management	System and clerical work efficiency and standardization
	Personnel interchange and collaborative education

FY2018 Group Management Policy

Promote thorough mutual understanding and take full advantage of integration synergies

Expand earning power by strengthening top lines and stepping up cost reduction efforts

2. Numerical Targets and Results for FY2016

- Volume of deposits and loans trended favorably
- Net business profit and net income fell short of targets, mainly due to lower interest and dividend income and lower fees and commissions.
 - Interest and dividend income: Revenue from interest on loans: 3,400 mil. yen below Medium-Term Management Plan (avg. balance factors +2,500 mil. yen, yield factors -5,900 mil. yen)
 - Earnings from securities: 1,400 mil. yen below Medium-Term Management Plan
 - Fees and commissions: 1,700 mil. yen below Medium-Term Management Plan (Commissions on assets under management -1,100 mil. yen, group credit insurance payments (costs) +300 mil. yen)

Numerical Targets (Simple sum of 2 banks)	FY2016 Medium-Term Management Plan Targets	FY2016 Results	Difference	FY2017 Forecasts
Deposits (incl. NCDs)	8.1 tril. yen	8.2 tril. yen	+0.2 tril. yen	8.2 tril. yen
Loans	5.7 tril. yen	6.1 tril. yen	+0.4 tril. yen	6.2 tril. yen
Net Business Profit	35,200 mil. yen	28,200 mil. yen	-7,000 mil. yen	30,200 mil. yen
Net Income	26,700 mil. yen	19,600 mil. yen	-7,100 mil. yen	23,200 mil. yen
ROE	4.4%	3.3%	-1.1%	3.9%
Return on Shareholders' Equity	5.3%	3.9%	-1.4%	4.5%

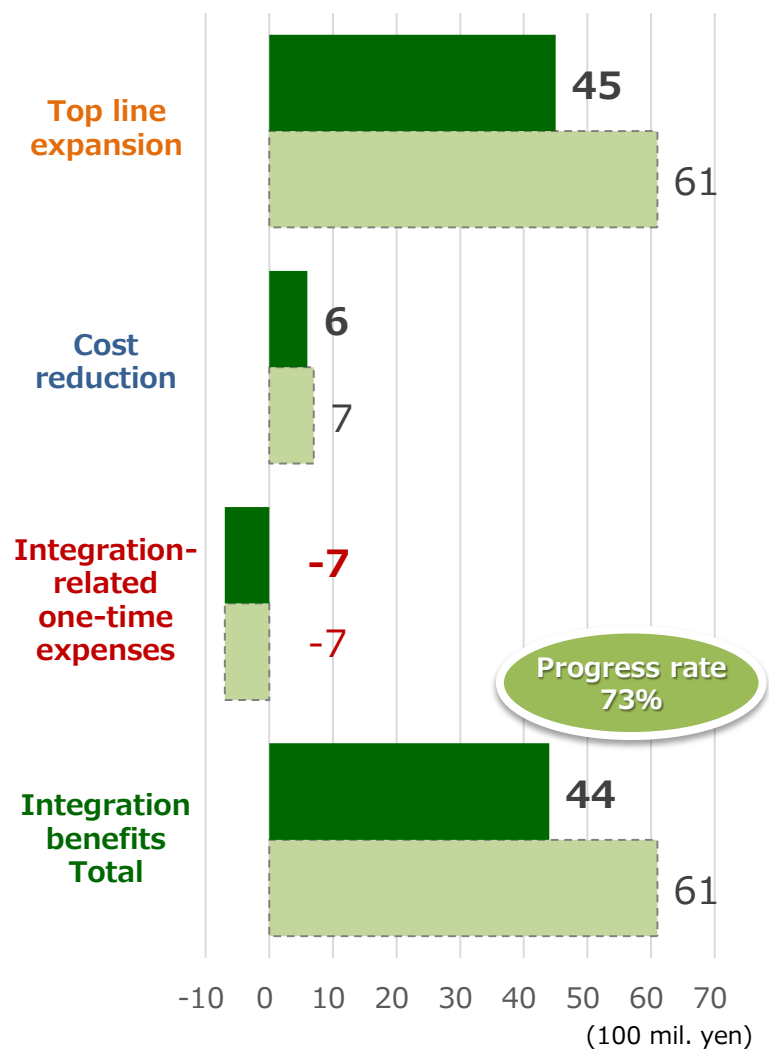
3. Taking Advantage of Integration Synergies

The benefits of integration synergies were 3,800 million yen (1,400 million yen higher than plan). This brings the cumulative benefits to 4,400 million yen in the year and a half since the merger.

	FY2016	
	Plan	Result
Top line expansion synergies (1)	2,200 mil. yen	3,300 mil. yen
Collaborative measures aimed at individuals <ul style="list-style-type: none"> Common-strategy products (housing loans) Mutual introduction of effective assets under management products, etc. 		700 mil. yen
Collaborative measures aimed at corporate customers <ul style="list-style-type: none"> Collaborative sales promotion Solution-related commissions, etc. 		600 mil. yen
Collaborative measures aimed at public sector <ul style="list-style-type: none"> Collaborative sales promotion to local public entities 		0 mil. yen
Collaborative measures in market sectors <ul style="list-style-type: none"> Share know-how on foreign bonds and stock market investment 		1,900 mil. yen
Cost reduction synergies (2)	200 mil. yen	500 mil. yen
System related efficiencies <ul style="list-style-type: none"> Information system integration Review of costs by benchmarking, etc. 		300 mil. yen
Clerical work-related efficiencies <ul style="list-style-type: none"> Review of maintenance fees and fees for outsourcing of clerical work Reduction in office equipment procurement costs, etc. 		100 mil. yen
Other cost reduction <ul style="list-style-type: none"> Cost reduction through sales and market-related measures Reduction in IR and PR-related expenses Reduction in capital spending and non-personnel expenses, etc. 		100 mil. yen
Total integration benefits (1)+(2)-(3)	2,400 mil. yen	3,800 mil. yen

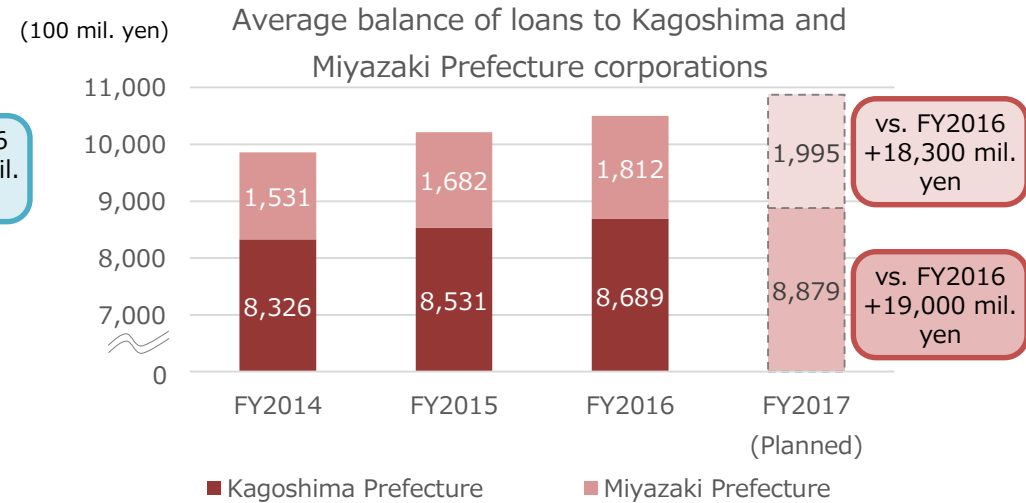
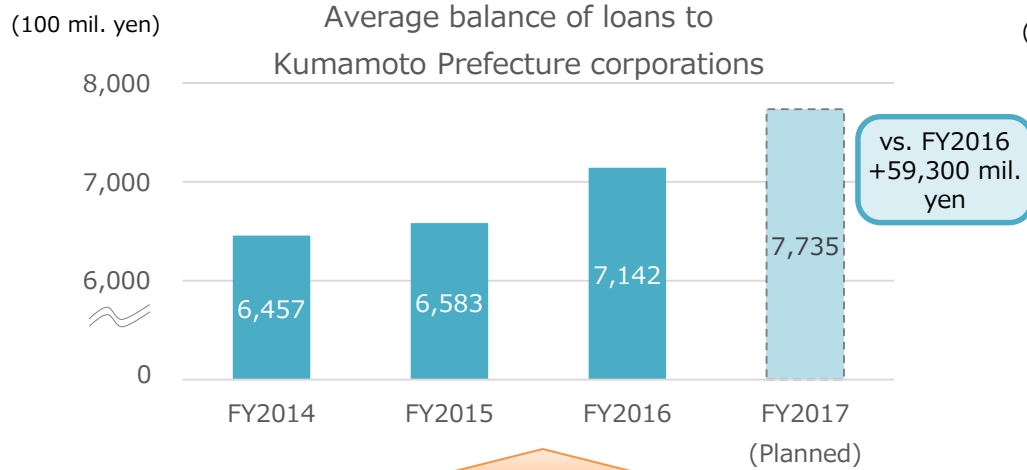
Accumulated total integration benefits

■ Progress (FY2015-16) ■ Plan (FY2015-2017)



4. Sales Strategies: Boosting lending to local enterprises

Along with local (Kumamoto, Kagoshima, Miyazaki) financing based on business assessments, collaborative sales are being carried out with clearly defined targets aimed at boosting lending to local enterprises.



Responding to earthquake recovery needs with detailed measures

Drawing on financial intermediation functions

Higo

End of Mar. '16	End of Mar. '17
11,635	13,422 ↗
877,400 mil. yen	984,200 mil. yen ↗

Customers served as main bank (no. 1 in loan balance)

*Total for all branches including outside prefecture

Loan recipients
Loan balance

Kagoshima

End of Mar. '16	End of Mar. '17
8,002	8,240 ↗
949,600 mil. yen	969,000 mil. yen ↗

Collaborative sales promotion

- Collaborative sales promotion to the local region
Kagoshima and Miyazaki: Targeted sales
Kumamoto: Help with application for disaster-related group aid
- Joint fund promotion, coordinated loan arrangement
- Encouraging business matching between the two banks

Collaborative sales promotion accomplishments in FY 2016

- Coordinated loans disbursed: 6,900 mil. yen (sector) Healthcare: 4,500 mil. yen, Agriculture: 300 mil. yen, Other: 2,100 mil. yen
- Fund-backed loans disbursed: 2,500 mil. yen

5. Sales Strategies: Sales collaboration merging know-how of both banks in the agricultural and healthcare sectors

By sharing and mutually introducing the strengths of both banks in the agriculture and healthcare sectors, integration synergies will be created in support of the diverse needs of customers.



Integration Synergies

- Expansion to livestock sector by sharing ABL know-how (start of Higo Bank Agri Pro management system introduction)
- Sharing know-how per crop type
- Collaborative support for sixth-sector industrialization by merging local agriculture resources of both banks
- Establishment of new company, Haru Ichiban, for supporting local agriculture (production, distribution, etc.)

Strengths in Agriculture Sector

- Many dealings with rice and vegetable farms
- Experienced at helping with agriculture corporation setup
- Variety of small-lot products to meet diverse funding needs

Loans to agriculture sector as of end of Mar. '17
15,100 mil. Yen
 (up 1,800 mil. yen year on year)

Strengths in Agriculture Sector

- Many dealings with livestock farms
- Has built up an advanced management structure centering on livestock ABL management system (Agri Pro) (ABL financing to livestock farmers: Balance (end of Mar. '17) 80 borrowers, 30,700 mil. yen)
 Cattle: 58 borrowers, 24,800 mil. yen
 Pigs: 21 borrowers, 5,200 mil. yen
 Horses: 1 borrower, 600 mil. yen

Loans to agriculture sector as of end of Mar. '17
58,800 mil. Yen
 (up 1,700 mil. yen year on year)



Integration Synergies

- Business assessment enhanced by use of healthcare industry sales support system
- Raise level of expertise throughout all life stages
- Wide deployment in urban areas

Strengths in healthcare sector

- Meeting business succession needs with improved support structure
- Assignment of personalized staff familiar with the industry

Loans to healthcare and welfare sector as of end of Mar. '17
156,800 mil. Yen
 (up 3,900 mil. yen year on year)

Strengths in healthcare sector

- Variety of funding methods such as medical institution bonds and fuller sales support system
- Advanced sales support from Healthcare Promotion Office

Loans to healthcare and welfare sector as of end of Mar. '17
281,800 mil. Yen
 (up 13,100 mil. yen year on year)

6. Sales Strategies: Provision of diverse funds to the region

Support regional revitalization not only with loans but with diverse funds provision, including jointly arranged funds, utilizing financial intermediation functions.

	Support matched to enterprise life stages		Help with setting up agriculture corporation	Assistance with Kumamoto earthquake recovery	
Fund name	Higo/Kagoshima Regional Revitalization Fund	KFG Regional Enterprise Support Fund	KFG Agriculture Fund	Kumamoto Recovery Support Fund	Kumamoto Mirai Sosei Fund
When arranged	Feb. 2014	Oct. 2015	Dec. 2015	July 2016	Aug. 2016
Total amount	1,000 mil. yen	2,000 ⇒ 2,500 mil. yen	1,000 mil. yen	10,000 mil. yen	5,000 mil. yen
Investors	Higo Bank Higin Capital Kagoshima Bank Kagoshima Development	Higo Bank Kagoshima Bank Kyushu Kizuna Capital Japan Post Bank* *Additional investment Nov. 2016	Higo Bank Higin Capital Kagoshima Bank Kagoshima Development Japan Finance Corporation	Higo Bank Kagoshima Bank Development Bank of Japan Higin Capital HSK & D Partners	Higo Bank Kagoshima Bank Organization for Small and Medium Enterprises and Regional Innovation (SMRJ) Kumamoto Mirai Sosei Capital
Investment instruments /amount invested	3 firms/ 625 mil. yen C& Higo Dining Company (P23) included	3 firms/ 329 mil. yen	1 firm/ 32 mil. yen Haru Ichiban (P22)	6 firms/ 1,020 mil. yen	2 firms/ 196 mil. yen Kumamoto DMC (P23) included

Investment performance: 15 firms/2,200 mil. yen *Fund-backed loans disbursed additionally: 3,100 mil. yen

7. Sales Strategies: Initiatives toward regional revitalization (establishment of agriculture corporation)

- In September 2016, Group member Kagoshima Bank and its business partners jointly established an agriculture corporation, toward solving problems faced by the region in the agriculture sector, such as the shrinking and aging agricultural labor force and the increase in abandoned agricultural land.
- Aimed at making the agriculture corporation a true enterprise with improved earning power and efficiency, a new agriculture business model is being established for creating local employment and expanding the base of agriculture.



[Purpose for establishing] Turn agriculture into an industry appealing to young people

- (1) Pursue forms of agriculture with high efficiency, productivity and profitability
[Introduce the latest technologies for efficiency]
 - Introducing agriculture ICT and environmental control functions, centralize management from production to shipping
 - By visualization (through data) of the growing environment and techniques, pass along growing know-how
- (2) Train young aspiring farmers, increasing the agricultural labor force in the prefecture
[Create employment by establishing a new agriculture business model]
 - Provide attractive labor conditions including stable pay, regular work week, social insurance and other benefits
 - Build a profitable business model (future development to sixth-sector industrialization)

Change the image of agriculture from a struggling field to a thriving enterprise



Logo Mark



Harvest



1st shipment



Sale in stores

7. Sales Strategies: Initiatives toward regional revitalization (promotion of tourism)

- In August 2016, agreements on promoting local tourism were signed with Kumamoto Prefecture and Kagoshima Prefecture. Regional revitalization is to be achieved by tourism-related initiatives in both prefectures.
- Among these initiatives, Group member Higo Bank in December 2016 established Kumamoto DMC Co., Ltd. jointly with Kumamoto Prefecture, to promote the prefecture's food and tourism. In April 2017, an antenna shop was opened in Hong Kong in cooperation with the business partner, to promote the prefecture's products, expand its exports, and attract in-bound tourism from Hong Kong.

Agreements on promotion of local tourism



Kumamoto and Kagoshima Prefectures

- (1) Discover and improve tourism resources and design tour routes
- (2) Draw up plans for tour packages with routes traversing both prefectures
- (3) Conduct promotions to attract overseas tourists

Promotional tours for visitors from Taiwan

(conducted in Nov. '16 and Jan. '17)

- Held to attract tourists so as to raise occupancy of foreign flights, increase interchange population, and breathe new life into regional economy

Kumamoto DMO established



Kumamoto DMC Co., Ltd.

くまもとDMC
KUMAMOTO DMC Co., Ltd.

- Provides information about Kumamoto tourism resources and food, and promotes their appeal
- Aims to expand profits of tourism business operators
- Includes 2 staff from Higo Bank and 1 from Kagoshima Bank

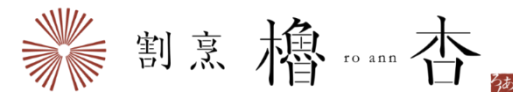
Initiatives for revitalization of Kumamoto Prefecture

*DMO (Destination Management Organization):
Local management organization promoted by Japan Tourism Agency.
DMC was established as an incorporated DMO.



Kumamoto PR project in Hong Kong

C& Higo Dining Company



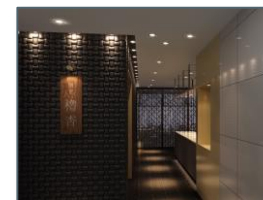
Kumamoto Castle, symbol of the prefecture

"Yagura": Uto Yagura, famous turret of Kumamoto Castle, and other such turrets

"An": Another name for Kumamoto Castle, Ginnan (Ginkgo) Castle



i-SQUARE in Hong Kong city center



Storefront



Feast with Kumamoto foods

8. Sales Strategies: Strategies for other prefectures and countries

As overseas strategies, the solutions network is being expanded to cover a wider area and become more global, while assistance is being strengthened for customers expanding overseas, including provision of site support. Collaborative sales promotion strategies for other prefectures by both banks are being strengthened.

Overseas Strategies

KFG Headquarters

- **International Business Support Group established** (April '17)
 - Strengthen promotion of foreign exchange business
 - Jointly develop overseas human resources
 - Consider setting up new bases

Shanghai

- Mutual use of network by unifying Shanghai offices of both banks

Hong Kong

- **C& Higo Dining Company established** (April '17)
 - Promote agricultural and livestock exports to Hong Kong and attract tourists

- Assist with business expansion overseas, including site support
- Strengthen collaboration support



Fukuoka

Strategies for Other Prefectures

Fukuoka

- **KFG Fukuoka Office established** (April '17)
 - Strengthen contacts with key persons in each industry
 - Accumulate expertise on finance and solutions



Tokyo and Osaka

- Promote sales with shared policy goals
- Find partners who can help invigorate Kyushu economy

Okinawa

- Accumulate sales know-how and enhance information intermediation functions
- Develop information sharing networks
- **Brought together Okinawa companies and local department stores for sales talks**

Support exports of agricultural and livestock products taking advantage of Naha Airport hub functions

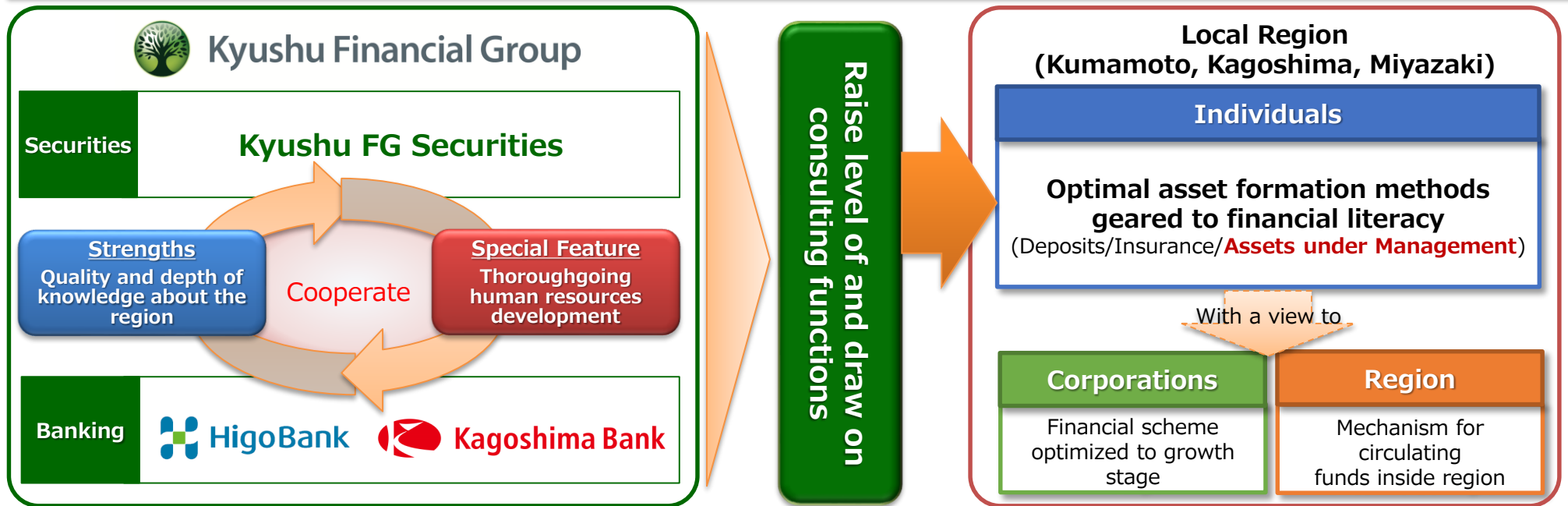
Okinawa Branch	Balance at end of Mar. '17	YoY change
Deposits	3,360 mil. yen	+2,440 mil. yen
Loans	13,370 mil. yen	+9,730 mil. yen
(Personal)	10,760 mil. yen	+8,000 mil. yen
(Corporate)	2,460 mil. yen	+1,580 mil. yen

9. Sales Strategies: Establishment of securities subsidiary

By strengthening Group functions through securities subsidiary establishment, we will provide comprehensive financial services to the region while working for regional revitalization.

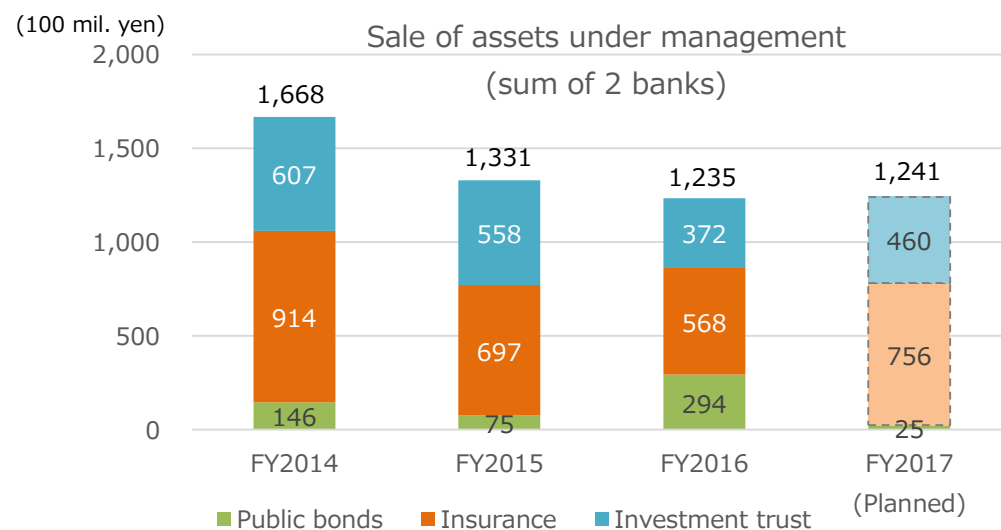
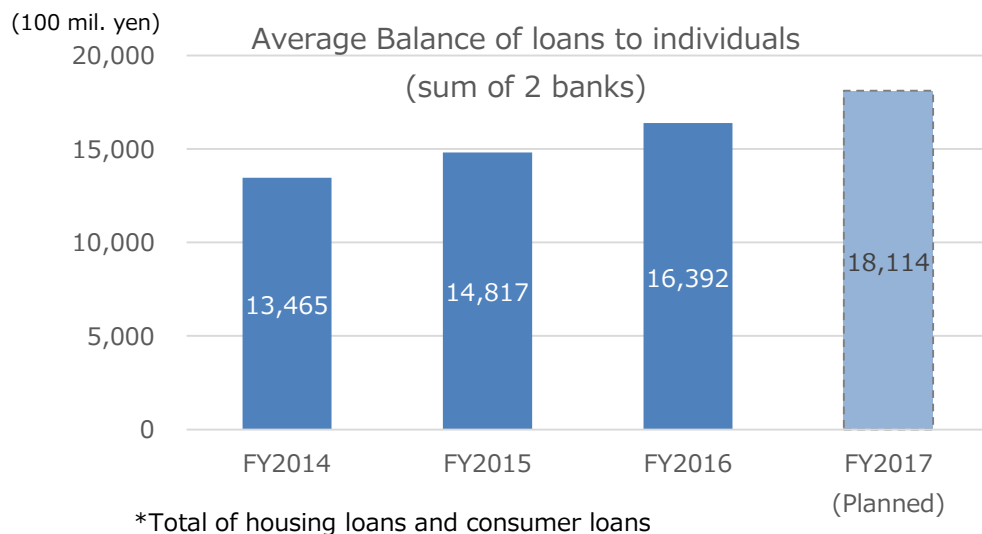
Company name	Kyushu FG Securities Co., Ltd.
Headquarters	13-5, Koyamachi 1-chome, Chuo-ku, Kumamoto City, Kumamoto
Customer branches	Three branches (Kumamoto, Kagoshima, Miyazaki)
Capital	3,000 million yen
Equity share	Wholly owned
Planned start of operations	January 2018

As a securities company with **quality and depth of knowledge about the region as its strength**, we will **raise level of consulting functions through thoroughgoing human resources development efforts**, and provide customers with **optimal asset formation and financing schemes**.



10. Sales Strategies: Efficiency through joint strategic products

Besides introducing financial products and services in both banks optimized to customer needs, we will seek to raise efficiency of clerical work processes and work forces.



Introduction of financial products and services optimized to customer needs

● Housing loans

- Introduced housing loan products drawing more on group trust functions (Kagoshima → Higo) (Dec. '15)
Cumulative amount disbursed after introduction: 90,600 mil. yen

● Assets under management

- Cross-introduction of products with high customer demand (3 insurance products, 1 investment trust product, etc.)
FY 2016 sales: 15,500 mil. yen (commissions 500 mil. yen)

Raising efficiency of clerical work processes and work forces (FY 2017 initiatives)

● Cross-introduction of clerical work/system effectiveness and standardization

- Personal loans:
Introduction of concentrated screening and progress management systems
⇒ Standardize with housing loans screening and clerical work flow
- Assets under management:
Introduction of processing support system for assets under management

● Joint development of sales promotion tools

- Establish new sales style making use of tablets
⇒ Roll out to all branches of both banks
⇒ Joint development of tablet content
⇒ Joint development of self-contained transaction schemes (personal loans, assets under management)

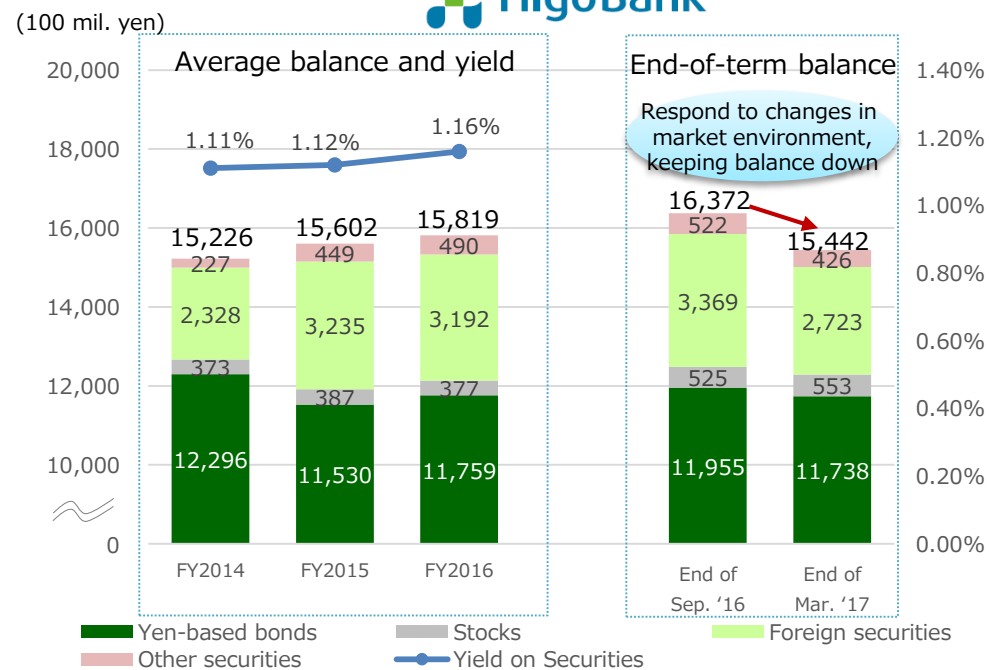
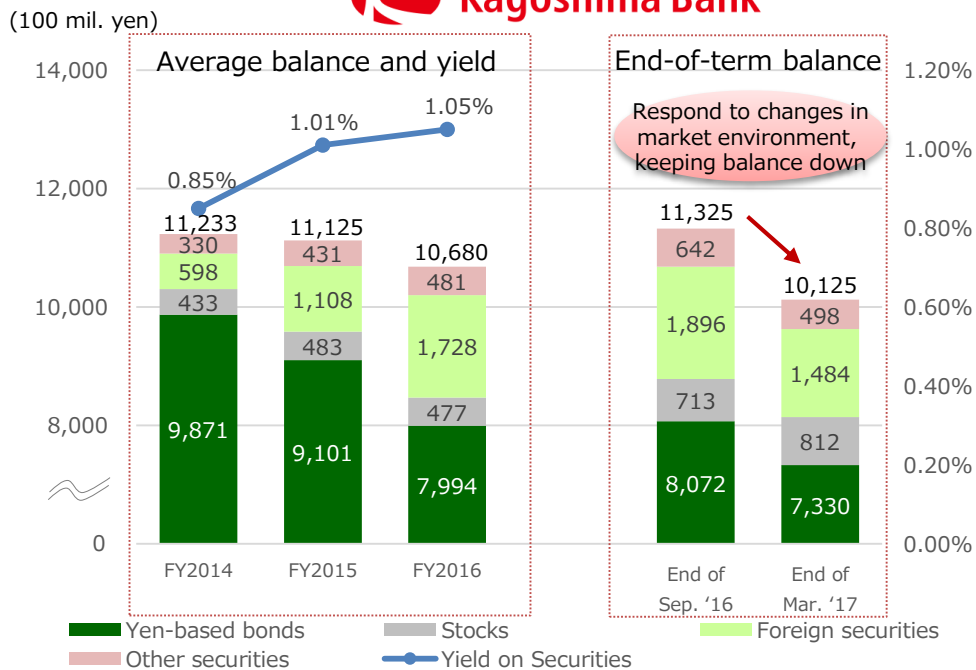
11. Market Strategies:

Operational efficiency in securities management

As market strategy at a time of negative interest rates, the expertise of the financial management divisions of both banks is being shared, and a variety of dynamic management is being carried out to support Group earnings, creating steady profits from financial management operations. At the same time, market-related operations are being made more efficient.

Strategy for negative interest rates

- Sharing knowledge of fund management and sources
- Investment shift to foreign bonds, stocks, REITs, etc.
- Dynamic management keyed to market trends



Financial management going forward

- Continue to strengthen diverse and dynamic management, raising profit levels
- With a close eye on US interest rate strategy and the global economy, respond effectively to any increase in rates

Efficiency initiatives

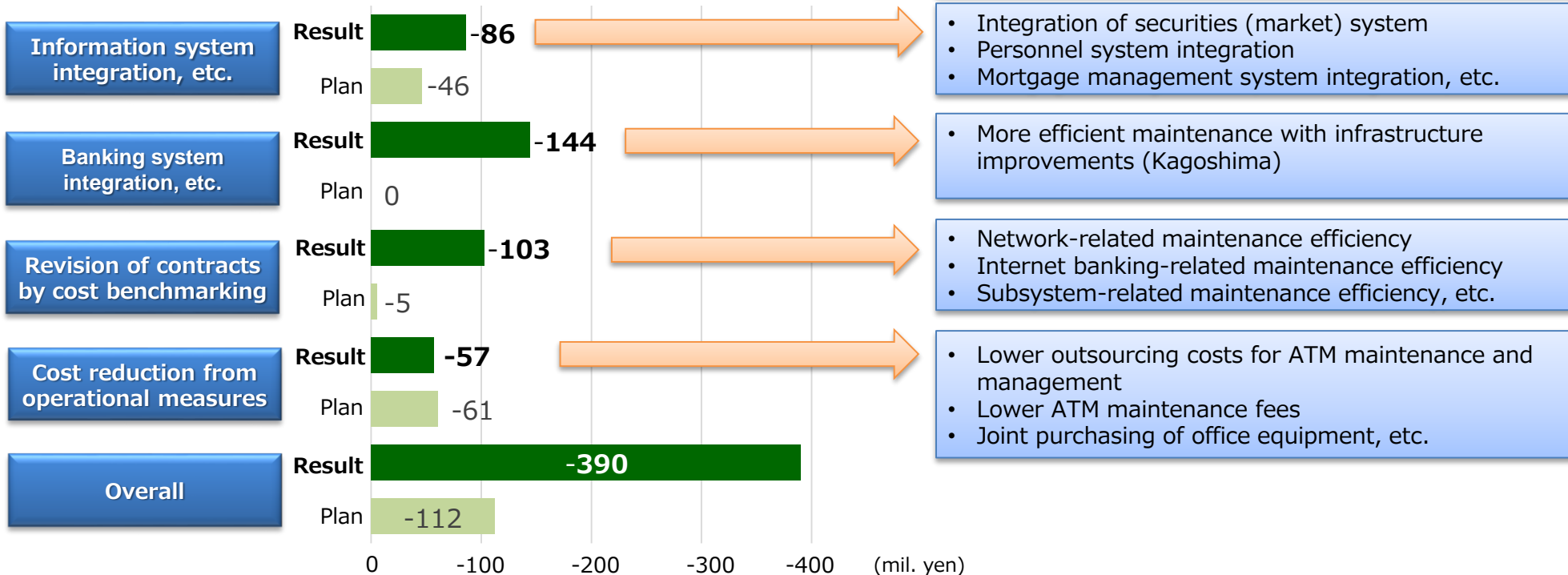
- Integration of securities (market) system (in operation from Oct. '16)
- Began standardizing clerical work flow

Cost reduction benefits in FY2016:
83 million yen

12. Risk and Management Resources Strategies: Cost reduction and personnel exchange

Cost reduction synergies in system and clerical work areas (FY '16): -400 million yen

To reduce costs, collaborative measures were taken focusing on standardization and integration of systems and clerical procedures.



- ### Main achievements
- Integration of securities (market) system
 - Personnel system integration
 - Mortgage management system integration, etc.
 - More efficient maintenance with infrastructure improvements (Kagoshima)
 - Network-related maintenance efficiency
 - Internet banking-related maintenance efficiency
 - Subsystem-related maintenance efficiency, etc.
 - Lower outsourcing costs for ATM maintenance and management
 - Lower ATM maintenance fees
 - Joint purchasing of office equipment, etc.

Expansion and continuation of personnel exchanges

Promote mutual understanding through personnel exchange including personnel transfer between banks

- Discover and report to realize mutual understanding and introduce effectiveness ⇒ Conduct monitoring and reflect in policy measures.

From Apr. '16 – Mar.'17: 30 persons
(5 managers each from branches and 10 each from headquarters)

Expand

From Oct. '16: 20 additional
(10 non-managerial staff each from branches)

Continue

From Apr. '17: 30 additional
(5 managers each from branches and 10 each from headquarters)

Conducted group training for new employees (hired in FY2016) (Oct. 2016)

- Bringing together new employees and offering opportunity for interchange, fostered awareness as Kyushu Financial Group members (Higo 121, Kagoshima 116 employees)

13. Response to Kumamoto Earthquakes

Hit by an unprecedented two back-to-back earthquakes of maximum seismic intensity (“7” on the Japanese scale) in April 2016, Kumamoto and neighboring Oita Prefecture suffered extensive damage. In response, Kumamoto Prefecture budgeted 172,800 million yen in FY 2017 to earthquake-related spending. Rebuilding demand is strong, and the Kumamoto economy is rebounding steadily, even if there are still issues in some areas and industries.

With the Higo Bank playing a leading role, the Group is actively supporting the recovery and rebuilding efforts, on the corporate, individual, and regional promotion fronts, toward the creative restoration of “our home Kumamoto.”

Personal and physical damage

- Deaths: 217 (including indirect) ● Damaged residences: Approx. 190,000 ● Temporary housing: 4,300
- Amount of damages: 3,785,000 million yen (residences and residential land: 2,037,700 mil. yen; commercial facilities: 820,000 mil. yen; agriculture, forestry, fisheries: 179,300 mil. yen)
- Group aid: 420 groups approved, amount applied for: 124,500 million yen, funding decided: 44,700 mil. yen
(As of April 30, 2017 as announced by Kumamoto Prefecture)

Main response measures

Corporations

- Group aid support
- 31,700 million yen recovery fund
- Seminars, explanatory meetings

Individuals

- Various disaster recovery loans
- Help with “double loan” problem
- Consultations, seminars

Regional promotion

- Group donations totaling 2,100 million yen
- Website with recovery support information “Kasesurumon”



Group aid seminar



Housing loan consultations

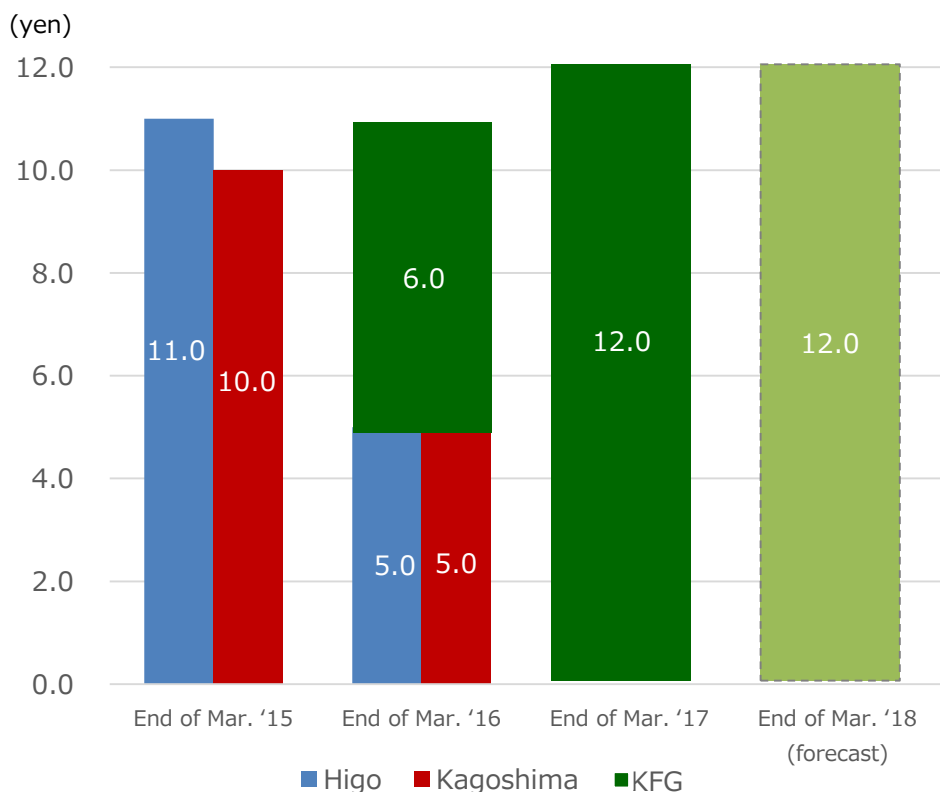
<u>Accomplishments</u> (As of March 31, 2017, Higo Bank)	
Disaster related financing:	73,000 mil. yen, 3,900 cases
Recovery fund:	2,000 mil. yen, expected to rise to 6,000 mil. yen
Housing loans:	20,300 mil. yen, 949 loans

14. Capital Policies: Shareholder Return

The basic policy of the Kyushu Financial Group is to pay stable dividends even in a difficult earnings environment, by raising capital efficiency and achieving earnings growth while maintaining ample internal reserves.

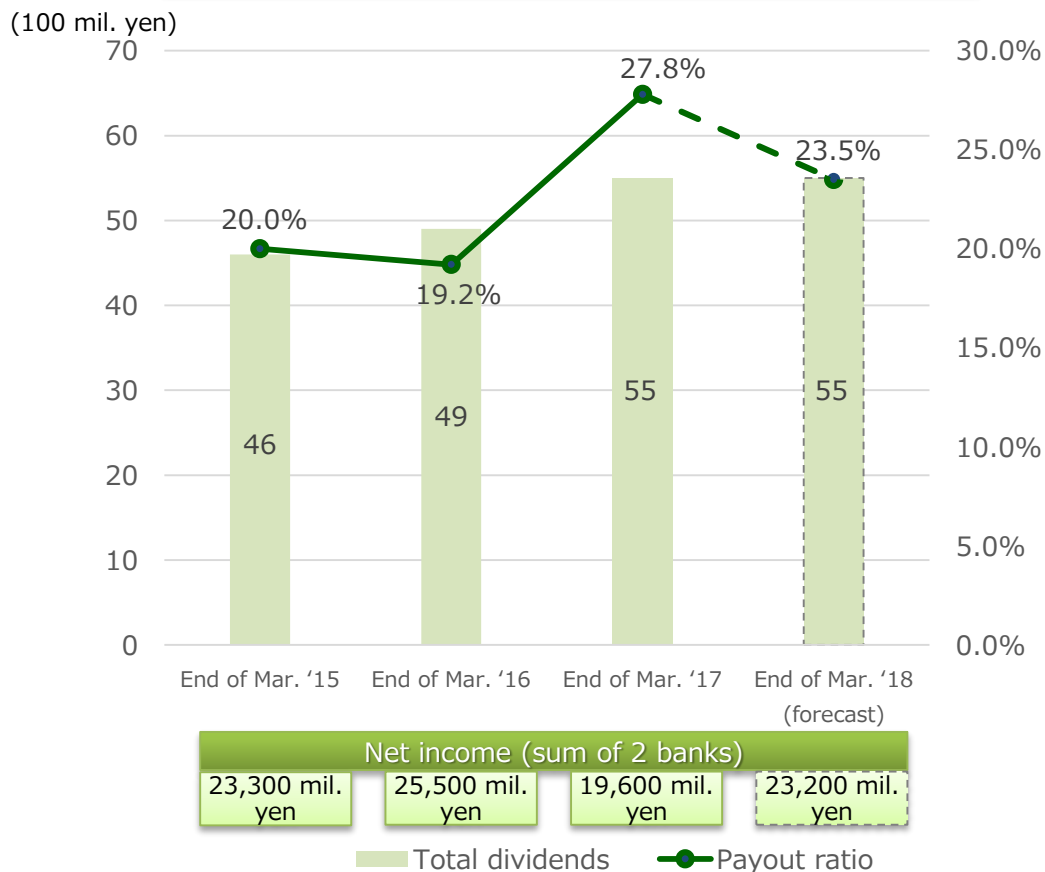
The Kyushu Financial Group paid dividends of 12 yen per share at the end of March 2017.
 As a result, the payout ratio (simple sum of 2 banks) was 27.8%.
 The dividend level at the end of March 2018 is likewise expected to be 12 yen.

Dividend per Share



Dividends and Payout Ratio

Total dividends paid for the year were 5,500 million yen



*Payout ratio is calculated as the simple sum of 2 banks.

Numerical Data



1. Financial Results Summary

Higo Bank

- Gross business profit declined year on year by 1,100 million yen to 54,200 million yen, due chiefly to decreases in fees and commissions and in interest and dividend income.
- Ordinary income was down year on year by 9,000 million yen to 12,300 million yen, affected by a rise in credit costs due to the Kumamoto earthquakes, a drop in equity securities-related profit and other factors.
- Net income fell 5,200 million yen year on year to 8,700 million yen.

Kagoshima Bank

- Gross business profit declined year on year by 4,400 million yen to 49,400 million yen, due mainly to decreases in gains on government and other bonds and in fees and commissions.
- Ordinary income was 16,100 million yen, down year on year by 1,700 million yen, as lower credit costs and expenses were offset by the drop in gross business profit.
- Net income was 10,800 million yen, down 700 million yen year on year.

Higo Bank Profit & Loss

(100 mil. yen)

	Mar. 2016	Mar. 2017	Change
Gross business profit	554	542	-11
Interest and dividend income	474	470	-3
Fees and commissions	72	63	-9
Other business profit	7	8	1
(of which gain or loss on government and other bonds)	-16	-20	-3
Expenses	398	393	-4
Core business profit	139	128	-10
Allowance for doubtful accounts (subtract)	-	5	5
Net business profit	155	154	-1
Non-recurring profit or loss	58	-31	-89
Non-performing loans disposal costs (subtract)	1	52	50
Equity securities-related profit or loss	36	16	-20
Other non-recurring profit or loss	4	3	0
Ordinary income	214	123	-90
Extraordinary profit and loss	-3	0	3
Pre-tax net income	210	123	-87
Net income	139	87	-52
(Credit costs)	-17	45	62

Kagoshima Bank Profit & Loss

(100 mil. yen)

	Mar. 2016	Mar. 2017	Change
Gross business profit	539	494	-44
Interest and dividend income	460	453	-6
Fees and commissions	73	61	-12
Other business profit	6	-19	-26
(of which gain or loss on government and other bonds)	-3	-21	-24
Expenses	357	346	-10
Core business profit	178	169	-9
Allowance for doubtful accounts (subtract)	-26	20	47
Net business profit	208	127	-81
Non-recurring profit or loss	-30	33	64
Non-performing loans disposal costs (subtract)	113	36	-76
Equity securities-related profit or loss	70	73	2
Other non-recurring profit or loss	12	-2	-15
Ordinary income	178	161	-17
Extraordinary profit and loss	0	-6	-5
Pre-tax net income	177	155	-22
Net income	115	108	-7
(Credit costs)	86	57	-29

2. Interest and Dividend Income

Higo Bank 47,000 mil. yen (down 300 mil. YoY)

- Lower interest rates on domestic loans and lower interest on securities, impacted by negative interest rates, led to a 300 million yen year-on-year decline.

Kagoshima Bank 45,300 mil. yen (down 600 mil. YoY)

- Lower interest rates on domestic loans and lower interest on securities, impacted by negative interest rates, led to a 600 million yen year-on-year decline.

Interest and dividend income

Higo Bank

(100 mil. yen)

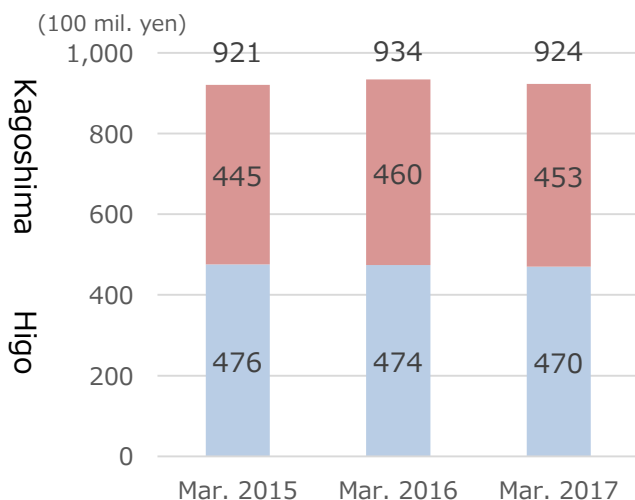
	Mar. '15	Mar. '16	Mar. '17	Change from Mar. '16
Interest and dividend income	476	474	470	-3
Domestic Division	442	429	414	-14
Interest on loans	354	346	330	-16
Interest on deposits (subtract)	15	16	9	-7
Interest on securities	128	122	116	-5
International Division	33	44	55	10
Interest on securities	42	52	67	14

Kagoshima Bank

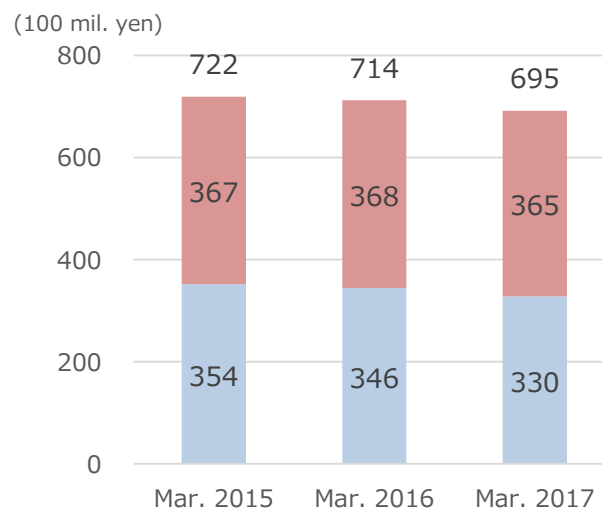
(100 mil. yen)

	Mar. '15	Mar. '16	Mar. '17	Change from Mar. 2016
Interest and dividend income	445	460	453	-6
Domestic Division	438	443	435	-7
Interest on loans	367	368	365	-2
Interest on deposits (subtract)	12	13	7	-5
Interest on securities	88	93	82	-10
International Division	6	16	18	1
Interest on securities	7	19	30	10

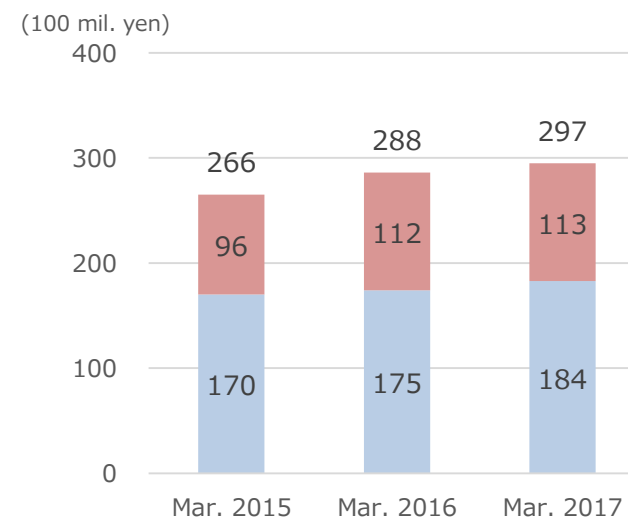
Interest and Dividend Income



Interest on Domestic Loans



Interest on Securities



3. Fees and Commissions

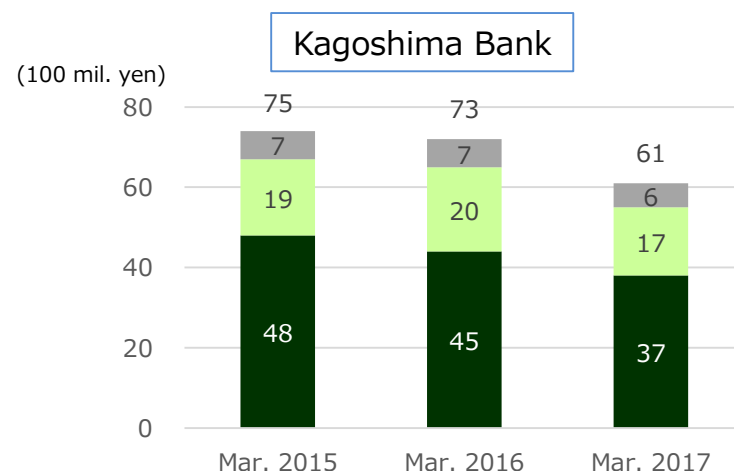
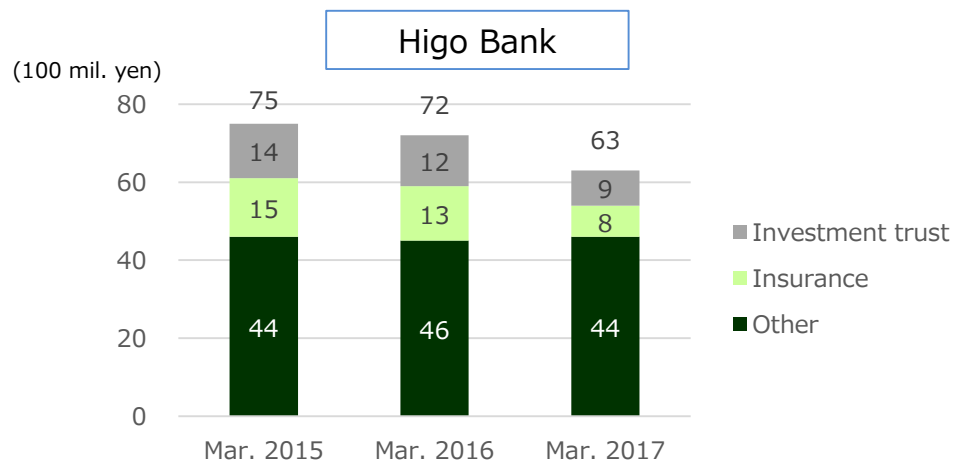
Higo Bank

- Fees and commissions were down by 900 million yen year on year, affected by the decline in commissions on assets under management.

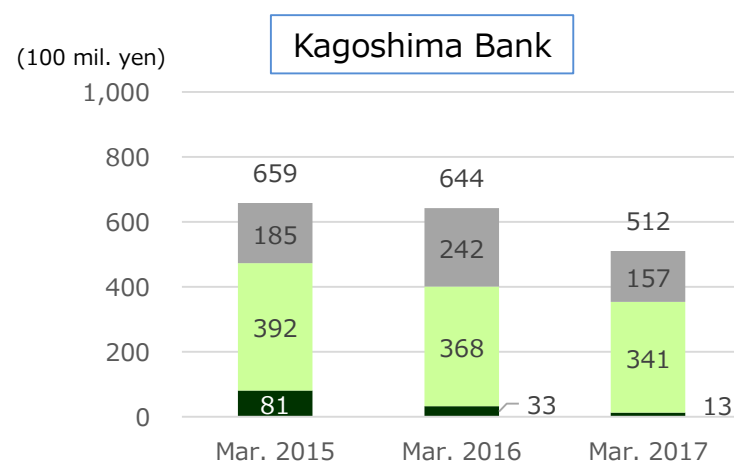
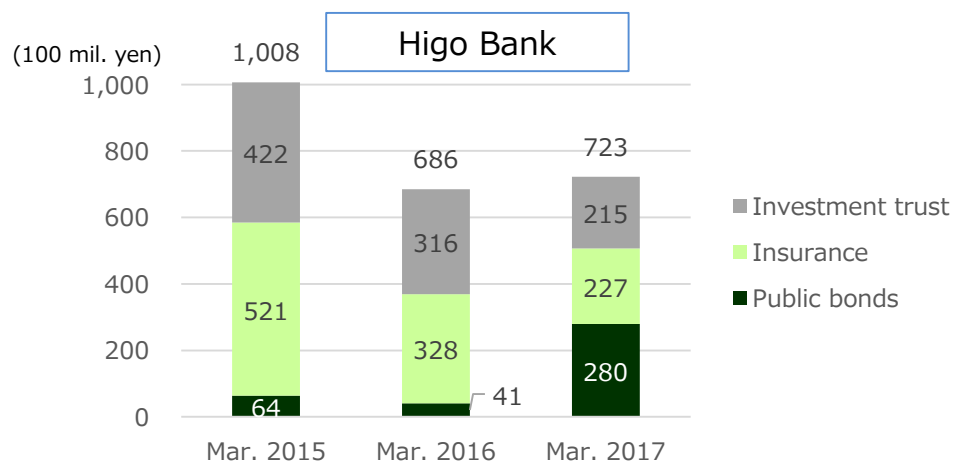
Kagoshima Bank

- Fees and commissions were down by 1,200 million yen year on year. Major factors were a decline in commissions on assets under management and increases in group credit insurance payments and guarantee fees payable.

Fees and Commissions



Sale of Assets under Management



4. Expenses

Higo Bank

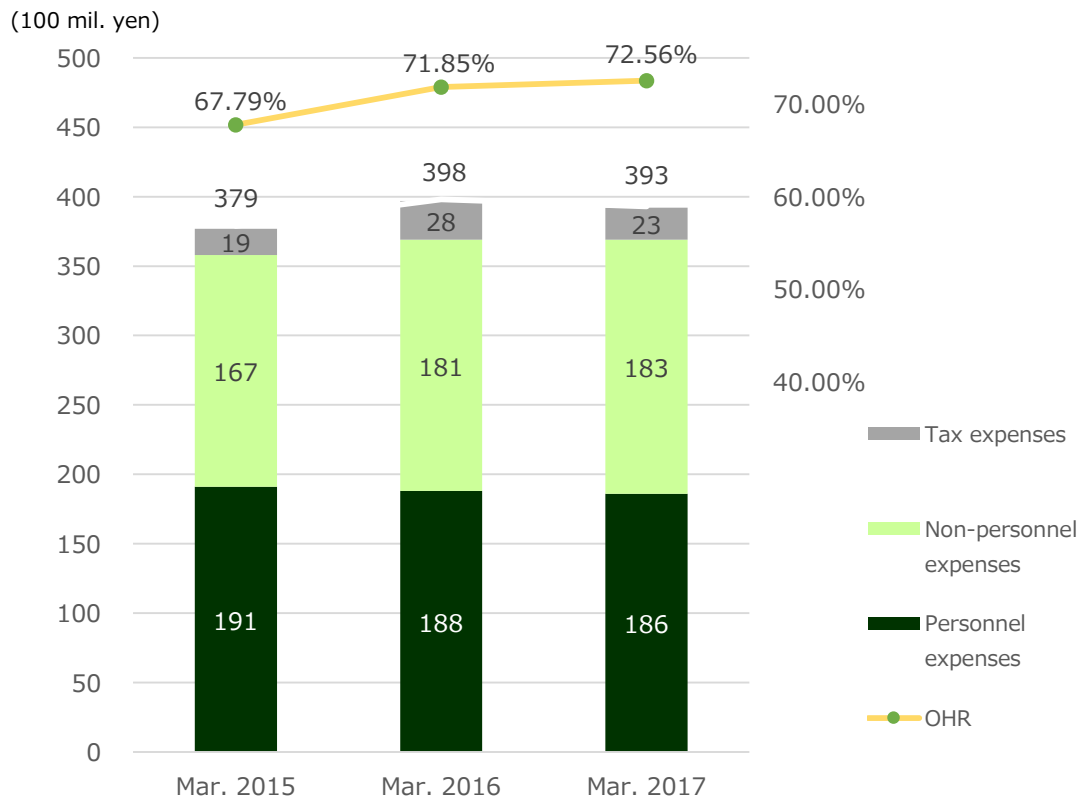
- Expenses declined 400 mil. yen year on year to 39,300 million yen due to lower personnel expenses and tax expenses, even though non-personnel expenses related to the Kumamoto earthquakes increased.
- OHR was 72.56%, up 0.71% year on year.

Kagoshima Bank

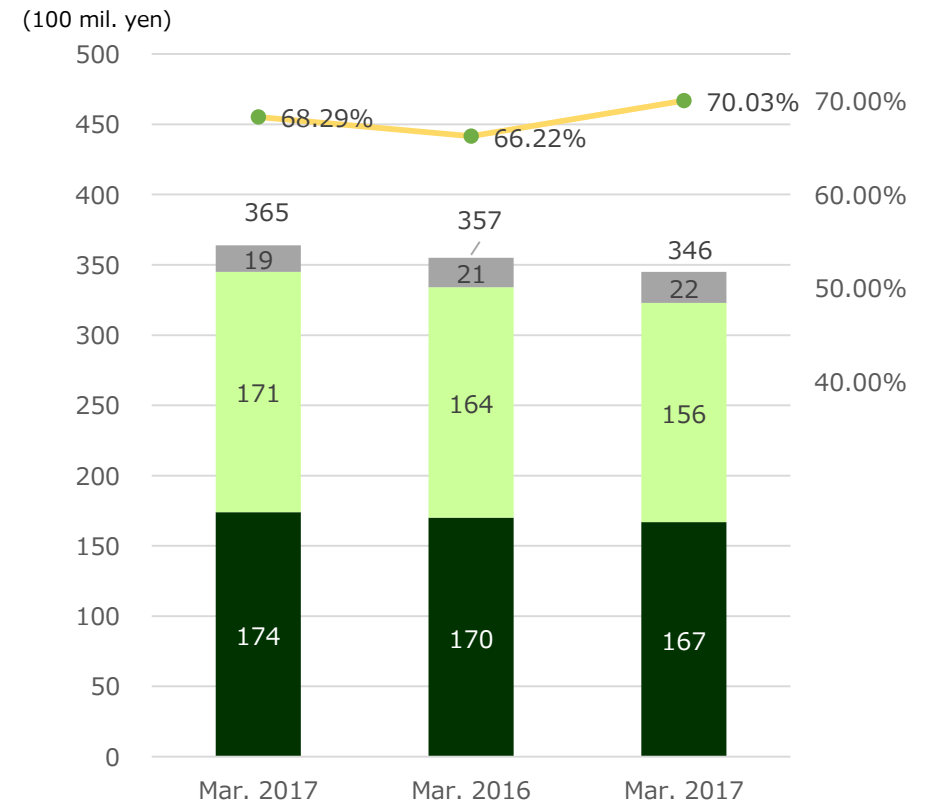
- Expenses declined 1,000 mil. yen year on year to 34,600 million yen, due mainly to lower non-personnel and personnel expenses.
- OHR was 70.03%, up 3.81% year on year.

Expenses

Higo Bank



Kagoshima Bank



5. Loans (Average Balance)

Higo Bank

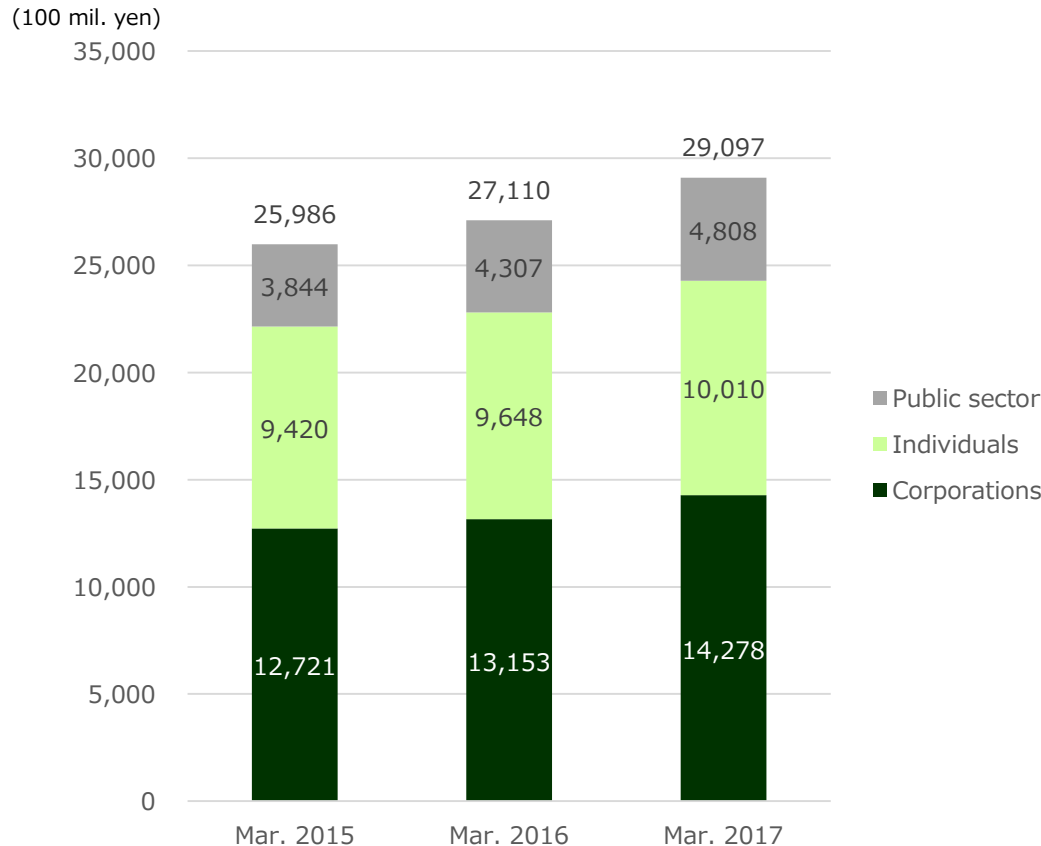
- Corporate loans, many of them for disaster recovery following the Kumamoto earthquakes, were up by 112,500 million yen year on year, for an overall increase in balance of loans to 2,909,700 million yen, a rise by 198,600 million yen.

Kagoshima Bank

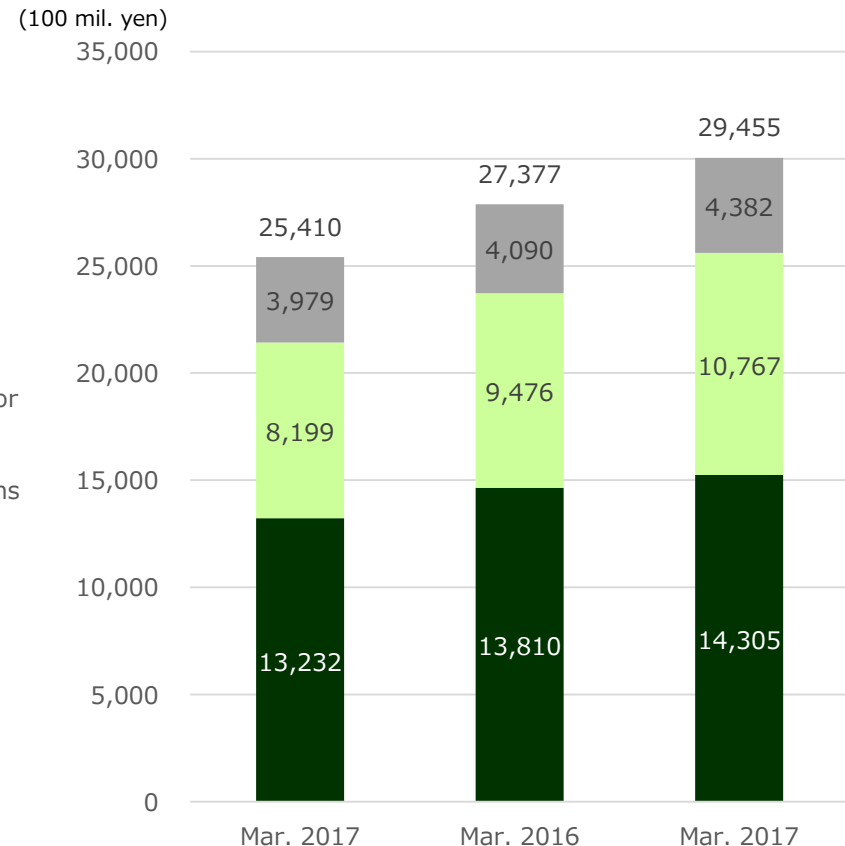
- Housing loans and other loans to individuals were up by 129,000 million yen year on year, as the overall balance on loans grew by 207,700 yen year on year to 2,945,500 million yen.

Balance of Loans

Higo Bank



Kagoshima Bank



6. Deposits (Average Balance)

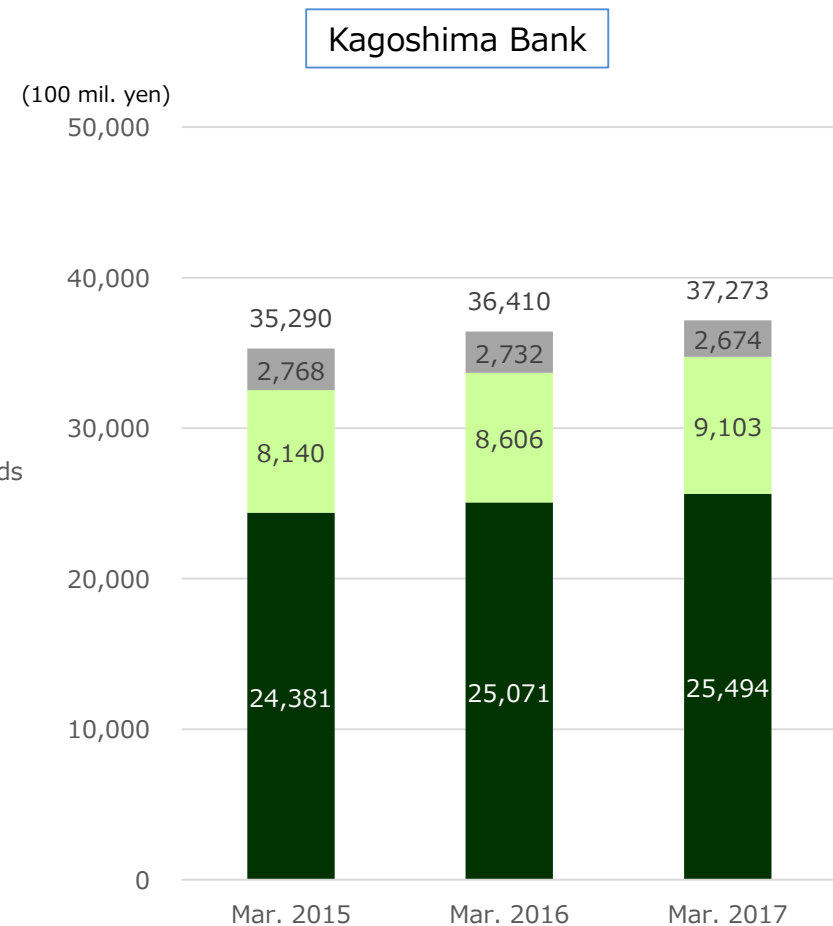
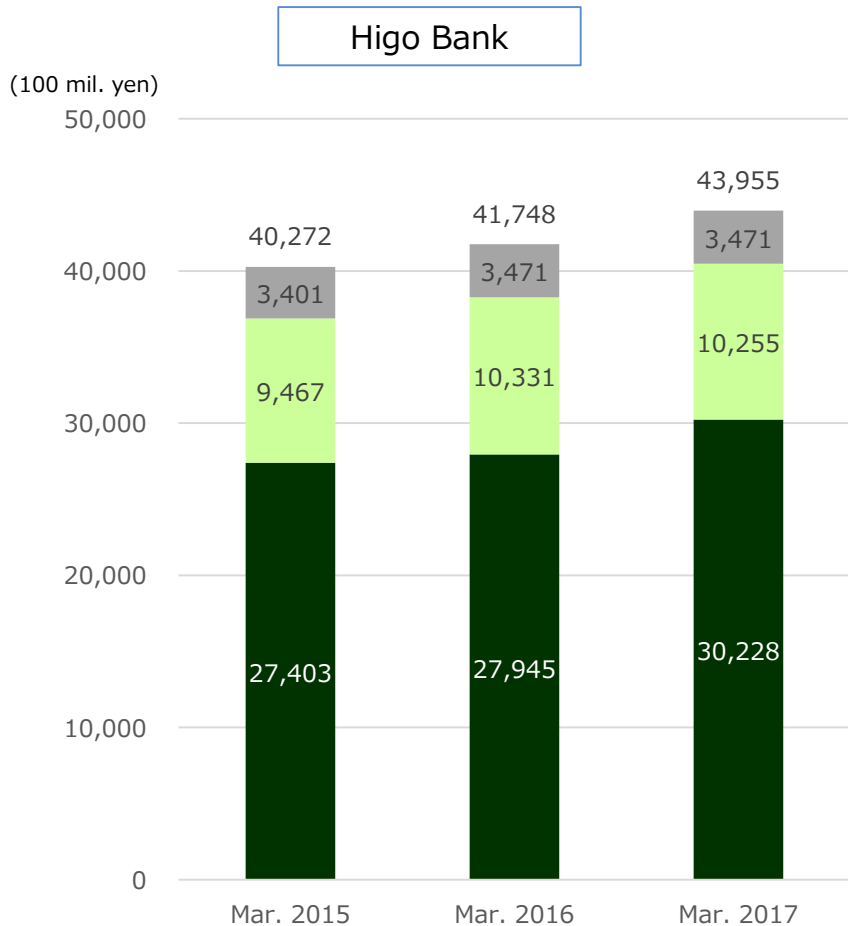
Higo Bank

- The average balance of deposits grew to 4,395,500 million yen, up 220,700 million yen year on year. The main factor was the increase in personal deposits with the influx of disaster insurance-related payments.

Kagoshima Bank

- The average balance of deposits rose to 3,727,300 million yen, up 86,300 million yen year on year, as personal and corporate deposits both grew.

Balance of Deposits (incl. NCDs)



7. Securities

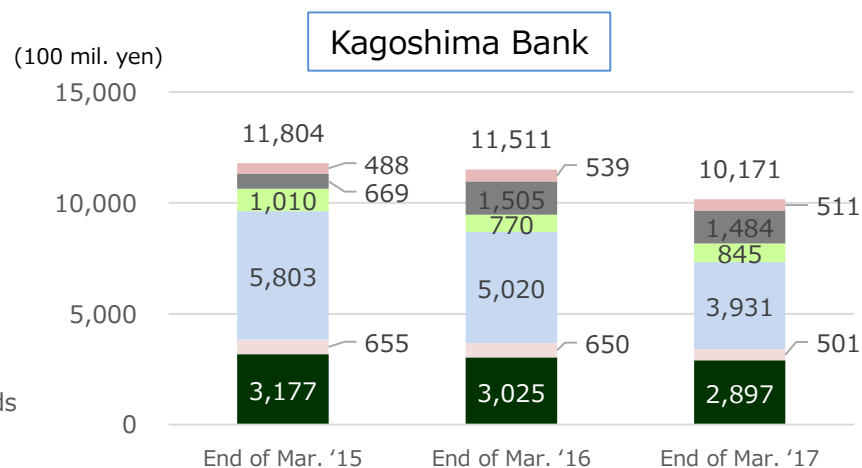
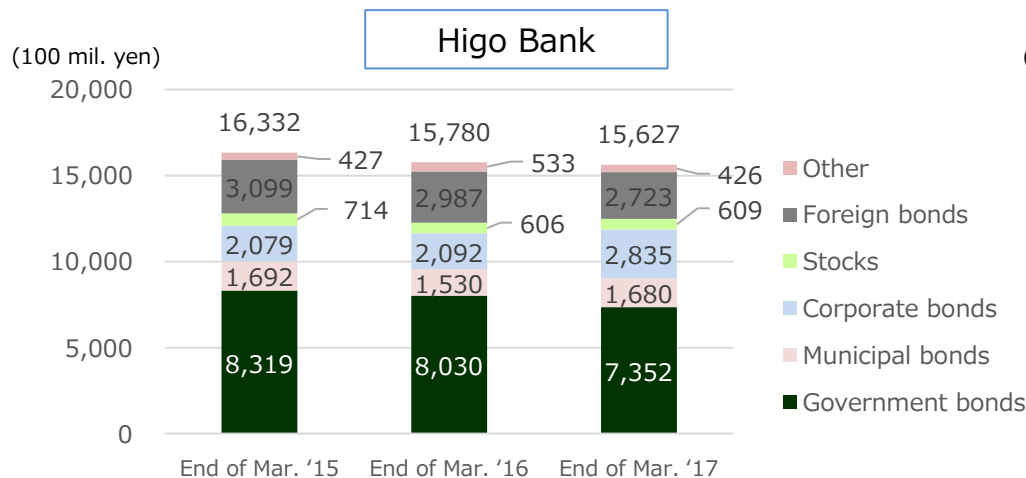
Higo Bank

- The balance of securities decreased 15,300 million yen year on year to 1,562,700 million yen, due mainly to redemptions and sell-off of domestic and foreign bonds as well as a drop in unrealized gain.

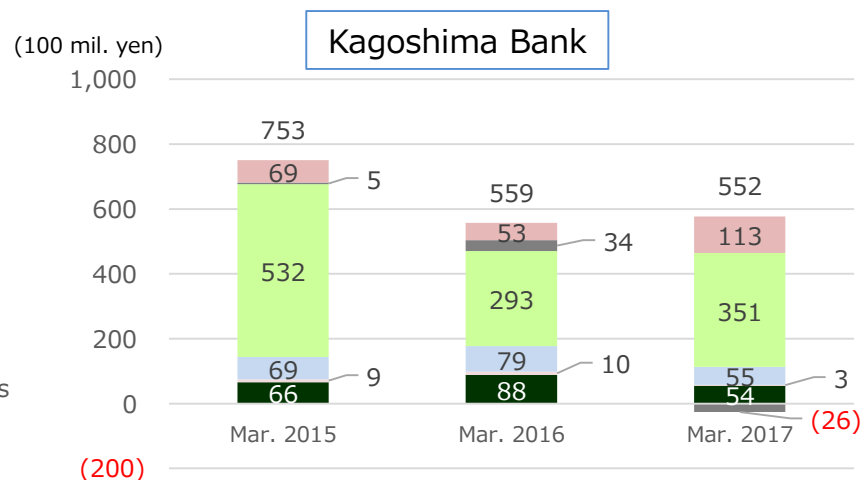
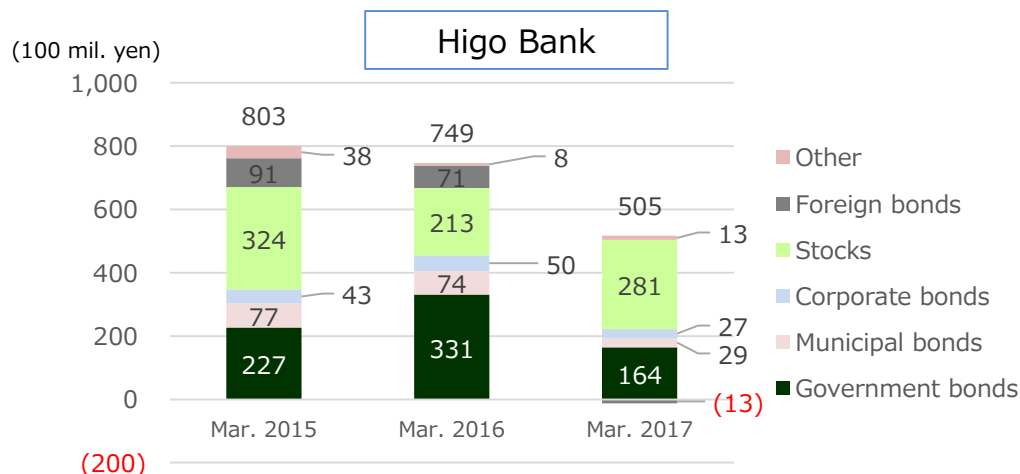
Kagoshima Bank

- The balance of securities decreased 134,000 million yen year on year to 1,017,100 million yen, due mainly to a decline in corporate bonds.

Balance of Securities



Valuation Gain on Securities



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

Higo Bank

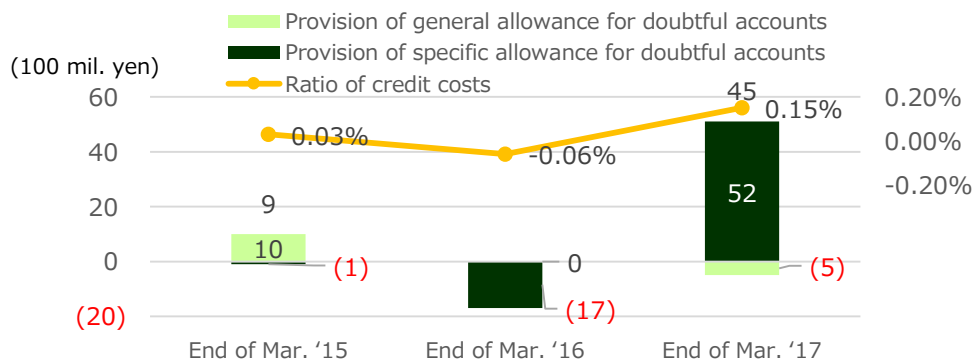
- The ratio of credit costs was 0.15%, as the provision of specific allowance for doubtful accounts increased, affected by the Kumamoto earthquakes.
- The ratio of non-performing loans rose 0.18% year on year to 2.16%.

Kagoshima Bank

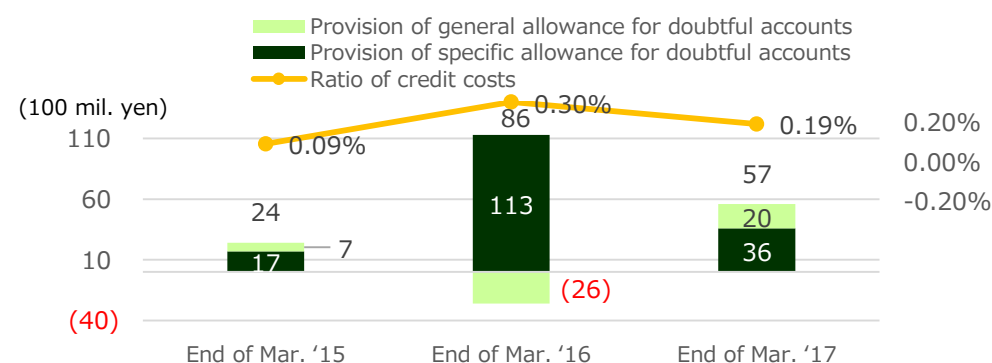
- The ratio of credit costs declined 0.11% year on year to 0.19%.
- The ratio of non-performing loans dropped 0.24% year on year to 2.59%.

Credit Costs

Higo Bank

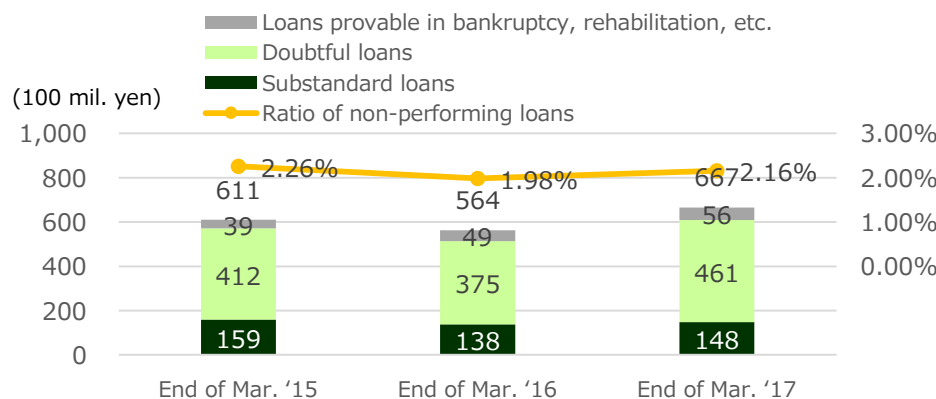


Kagoshima Bank

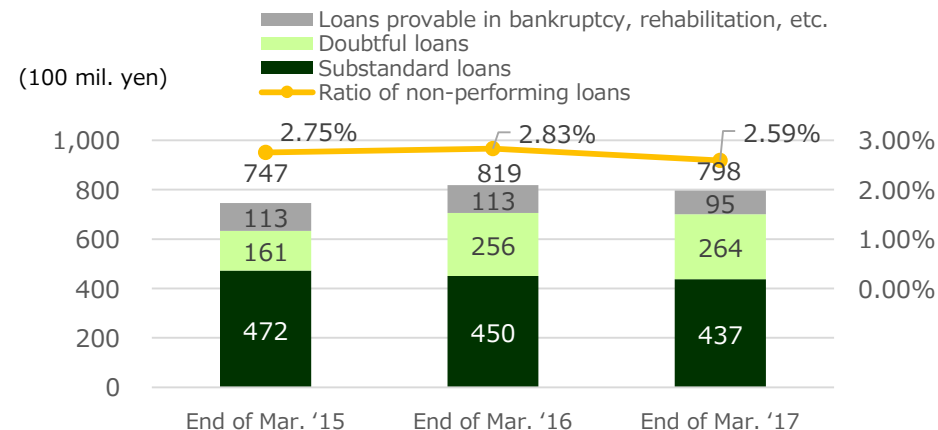


Loans Disclosed Pursuant to Financial Reconstruction Act

Higo Bank



Kagoshima Bank



9. Capital Adequacy Ratio

Higo Bank

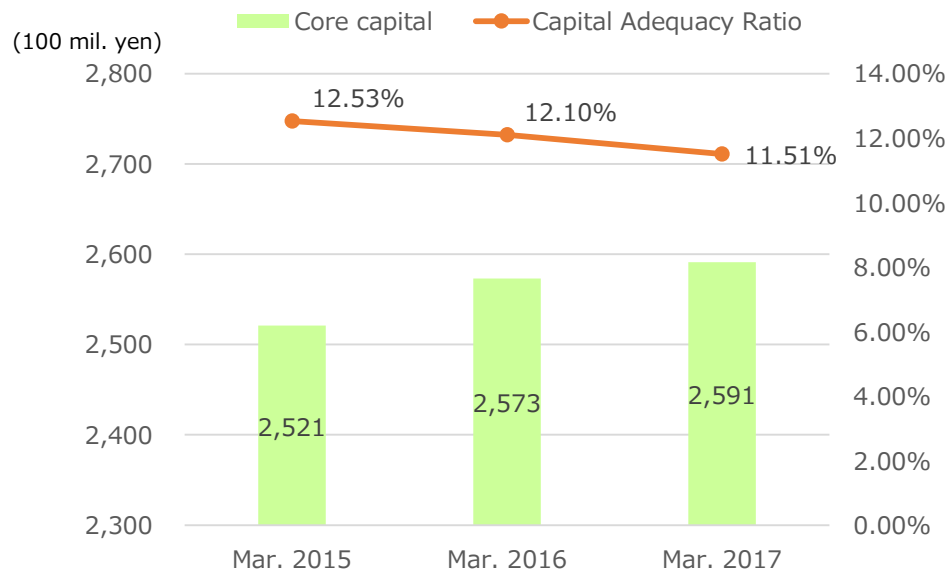
- Capital adequacy ratio declined by 0.59% year on year to 11.51%, the main factor being a rise in risk assets from increased lending.

Kagoshima Bank

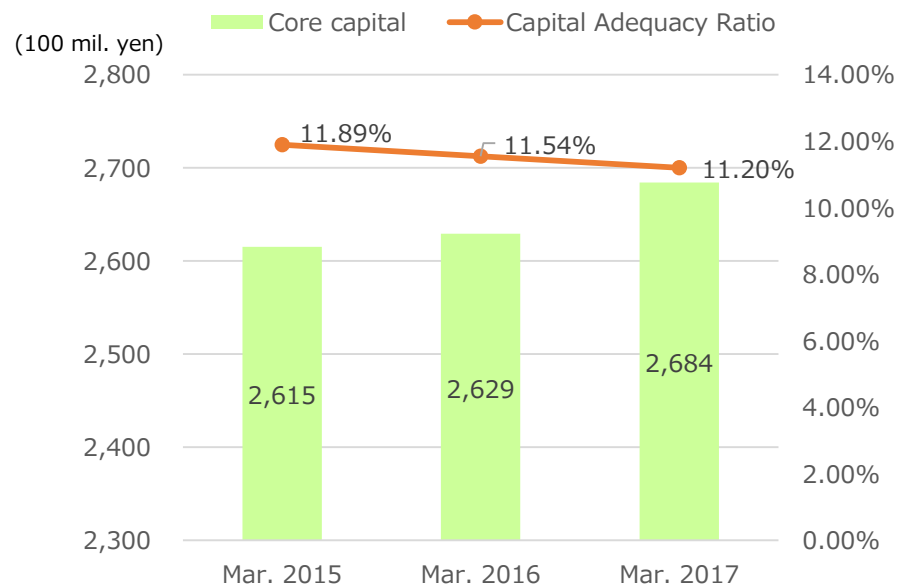
- Capital adequacy ratio declined by 0.34% year on year to 11.20%, mainly due to a rise in risk assets as lending grew.

Capital Adequacy Ratio

Higo Bank



Kagoshima Bank



(100 mil. yen)

	Mar. 2015	Mar. 2016	Mar. 2017	Change
(1) Core capital	2521	2,573	2,591	18
(2) Risk assets	20109	21,266	22,507	1,241
(3) Capital adequacy ratio ((1)/(2))	12.53	12.10%	11.51%	-0.59%

(100 mil. yen)

	Mar. 2015	Mar. 2016	Mar. 2017	Change
(1) Core capital	2615	2,629	2,684	55
(2) Risk assets	21987	22,779	23,959	1,180
(3) Capital adequacy ratio ((1)/(2))	11.89	11.54%	11.20%	-0.34%

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.

Note carefully that future performance may differ from targets or forecasts due to changes in the business environment or other factors.



Kyushu FG

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