



Kyushu FG

# Company Information Meeting

## June 5, 2018

Kyushu Financial Group, Inc.



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# Summary of Financial Results for Fiscal Year Ended March 2018



# 1. Financial Results Summary

- Gross business profit declined year on year by 4,200 million yen to 102,000 million yen, due chiefly to decreases in fees and commissions and in gains on government and other bonds.
- Pretax profit grew by 7,800 million yen to 29,300 million yen and net income rose by 4,700 million yen to 19,300 million yen, as credit costs decreased and equity securities-related profit increased.

## Profit and Loss

	Kyushu Financial Group Consolidated Results			Sum		
	Mar. 2018	YoY	Mar. 2017	Mar. 2018	YoY	Mar. 2017
						(100 mil. yen)
Ordinary income	1,646	-75	1,722	1,371	-126	1,498
Gross business profit	1,020	-42	1,062	991	-46	1,037
Interest and dividend income	884	-3	887	917	-6	924
Fees and Commissions	122	-11	134	110	-13	124
Other business profit	12	-27	39	-37	-25	-12
(of which gain or loss on government and other bonds)	(-42)	(-37)	(-4)	(-37)	(-36)	(-0)
Expenses	751	-24	776	710	-30	740
Core business profit	310	19	291	317	19	297
Allowance for doubtful accounts (subtract)	-46	-61	15	-48	-63	14
Net Business Profit	315	44	271	329	47	282
Non-recurring profit or loss	-21	34	-55	7	4	2
Non-performing loan disposals (subtract)	94	3	90	87	-1	89
Equity securities-related profit or loss	53	21	31	76	-13	89
Other non-recurring profit or loss	19	17	1	17	16	2
Ordinary income	293	78	215	336	51	285
Extraordinary profit and loss	-1	3	-5	-1	4	-6
Pre-tax net income	292	82	209	335	56	279
Net Income	193	47	146	233	37	196
(Credit costs)	47	-57	104	37	-64	102

## Highlights

(Kyushu Financial Group  
Consolidated Results)

- Interest and dividend income  
Year-on-year change: -300 mil. yen
  - Interest on loans -400 mil. yen
  - Interest on securities -40 mil. yen

- Expenses  
Year-on-year change: -2,400 mil. yen
  - Personnel expenses -300 mil. yen
  - Non-personnel expenses -2,000 mil. yen
  - Taxes -80 mil. yen

- Credit costs  
Year-on-year change: -5,700 mil. yen
  - Provision of general allowance for doubtful accounts -6,100 mil. yen
  - Non-performing loans disposal expenses +300 mil. yen

## 2. Interest and Dividend Income

- Interest and dividend income was 91,700 million yen, down by 600 million yen from the previous fiscal year due to the drop in loan interest, impacted by negative interest rates.

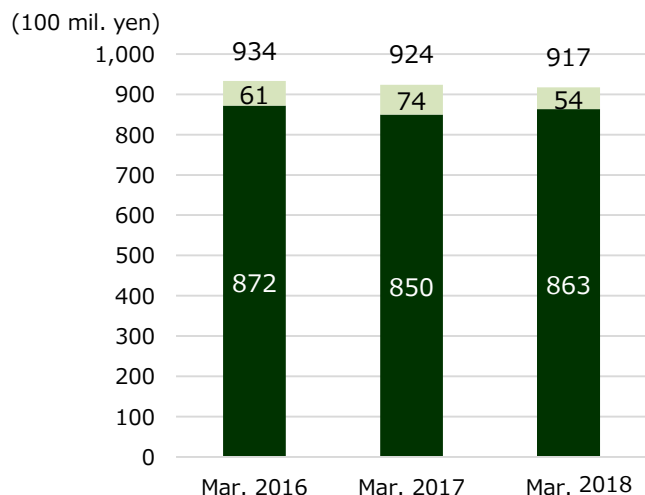
(Domestic Division: Interest on loans -600 mil. yen; Interest on deposits -300 mil. Yen; Interest on securities +900 mil. yen; International Division: Interest on securities -1,300 mil. yen)

### Interest and dividend income

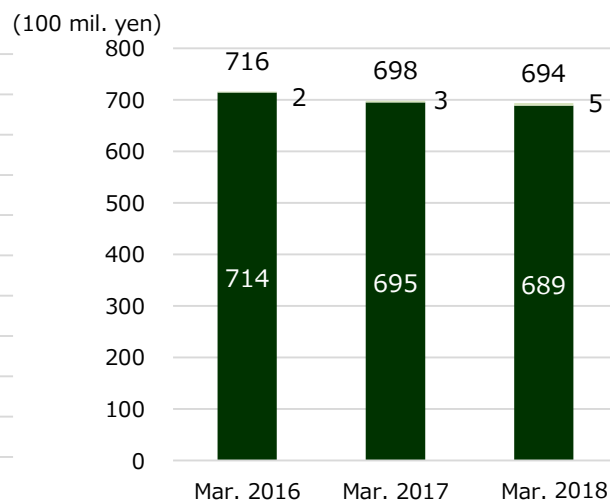
(100 mil. yen)

	Mar. 2016			Mar. 2017			Mar. 2018			vs. Mar. '17 Change
	Sum	Higo	Kagoshima	Sum	Higo	Kagoshima	Sum	Higo	Kagoshima	
Interest and dividend income	934	474	460	924	470	453	917	461	456	-6
Domestic Division	872	429	443	850	414	435	863	418	444	12
Interest on loans	714	346	368	695	330	365	689	329	360	-6
Interest on deposits (subtract)	25	13	11	15	8	7	12	6	6	-3
Interest on securities	216	122	93	199	116	82	209	117	92	9
International Division	61	44	16	74	55	18	54	43	11	-19
Interest on loans	2	1	0	3	2	0	5	4	0	1
Interest on deposits (subtract)	0	0	0	0	0	0	0	0	0	0
Interest on securities	72	52	19	97	67	30	83	61	22	-13

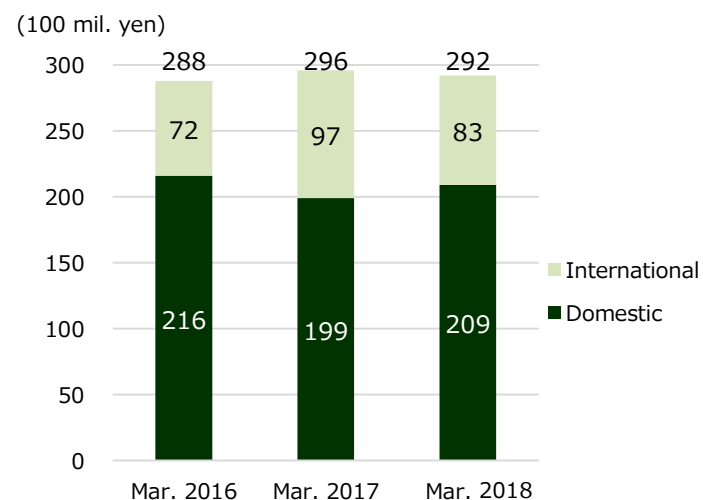
Interest and Dividend Income



Interest on Domestic Loans



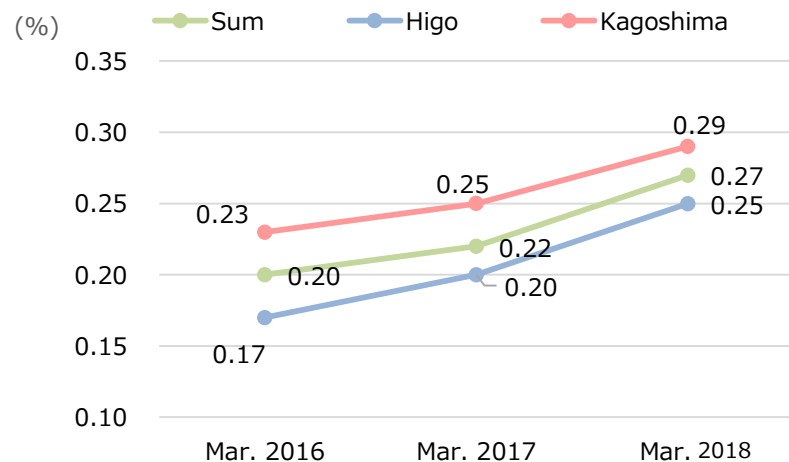
Interest on Securities



### 3. Net Interest Margin and Net Yield

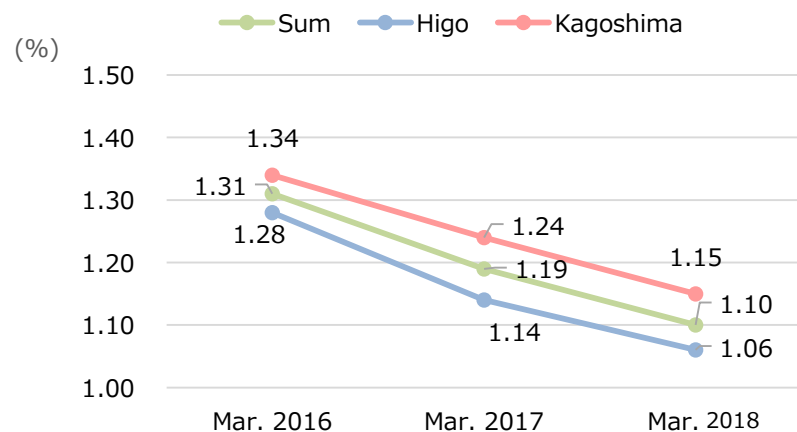
- Yield on investments was 1.13%, down 0.03% year on year, as yield on loans declined while yield on securities rose.
- Net interest margin was 0.27%, up 0.05% year on year, due to lower funding costs offsetting the drop in investment yield.

#### Net Interest Margin

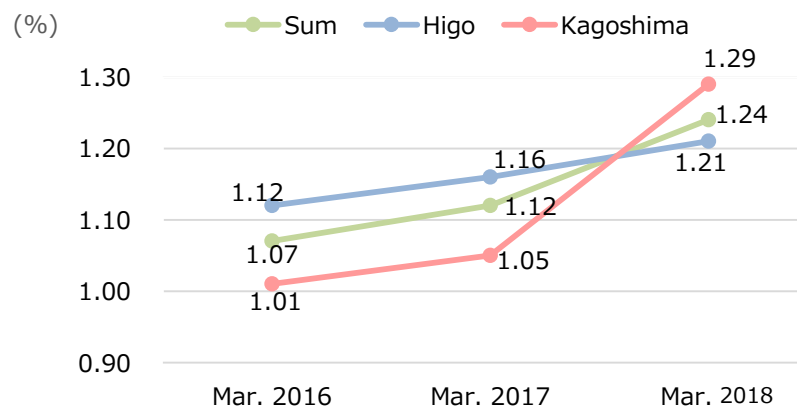


	Mar. 2017	Mar. 2018		Change	
	Sum	Sum	Higo	Kagoshima	Sum
(1) Investment yield	1.16%	1.13%	1.10%	1.17%	-0.03%
Yield on Loans	1.19%	1.10%	1.06%	1.15%	-0.09%
Yield on Securities	1.12%	1.24%	1.21%	1.29%	0.12%
(2) Funding cost	0.94%	0.86%	0.85%	0.88%	-0.08%
Interest rate on deposits	0.02%	0.01%	0.01%	0.01%	-0.01%
Net interest margin ((1)-(2))	0.22%	0.27%	0.25%	0.29%	0.05%

#### Yield on Loans



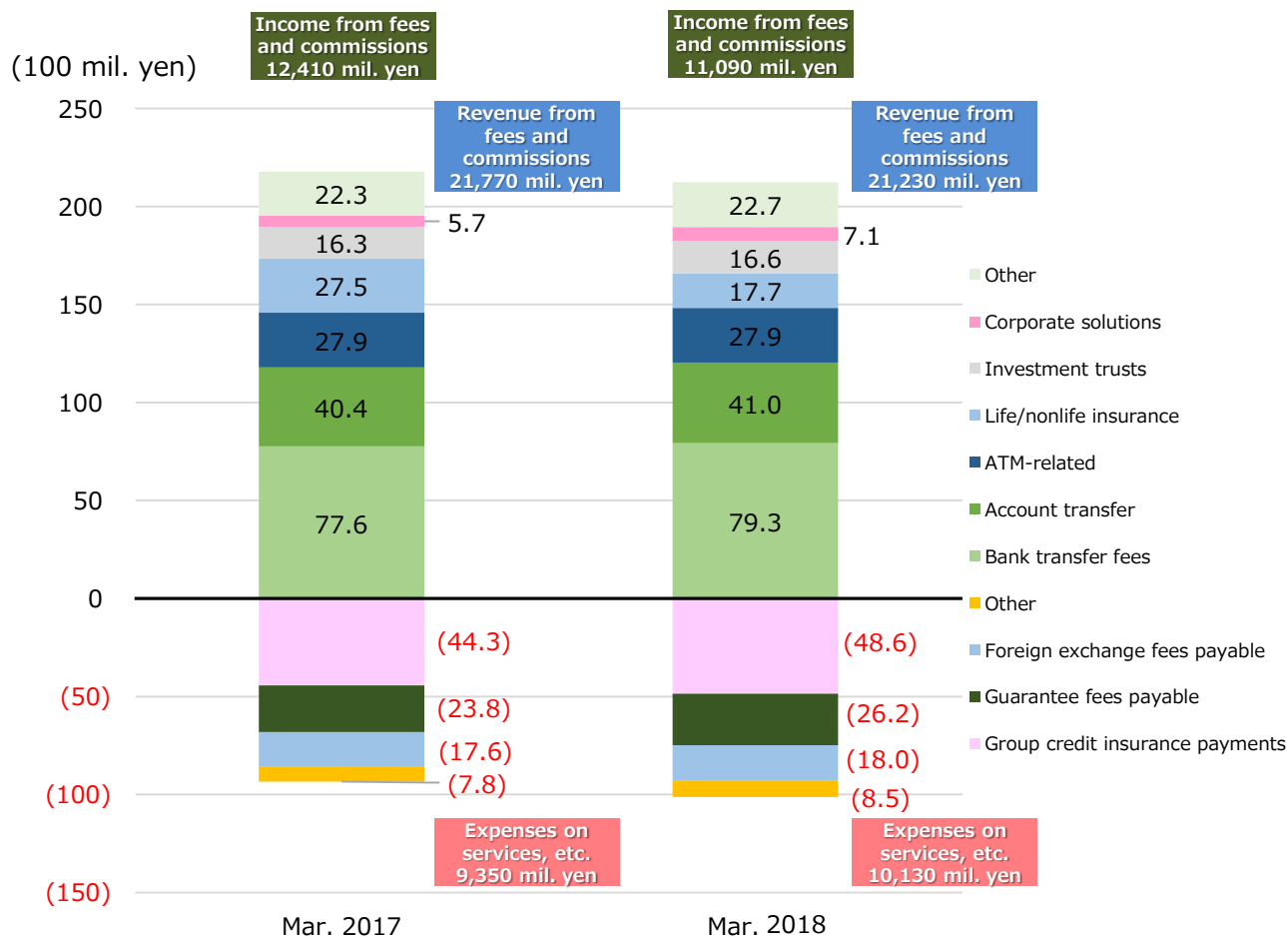
#### Yield on Securities



# 4. Fees and Commissions:

- Fees and commissions were 11,900 million yen, down by 1,310 million yen year on year, affected in part by the decline in commissions on assets under management.

## Fees and Commissions



- Revenue from fees and commissions  
Year-on-year change: -530 mil. yen
  - Life and nonlife insurance (drop in value of sold policies) -980 mil. yen
  - Investment trusts +30 mil. yen
  - Related fees (review based on comparison of two banks, etc.) +230 mil. yen
  - Corporate solutions (structuring of syndicated loans, etc.) +140 mil. yen

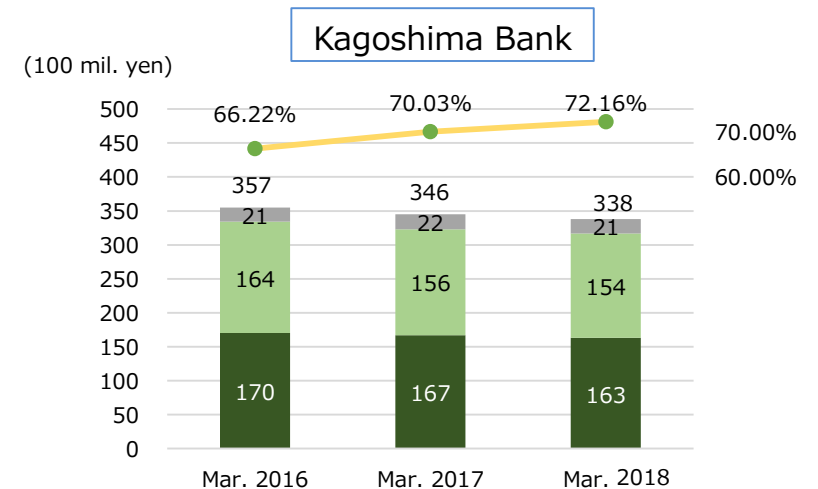
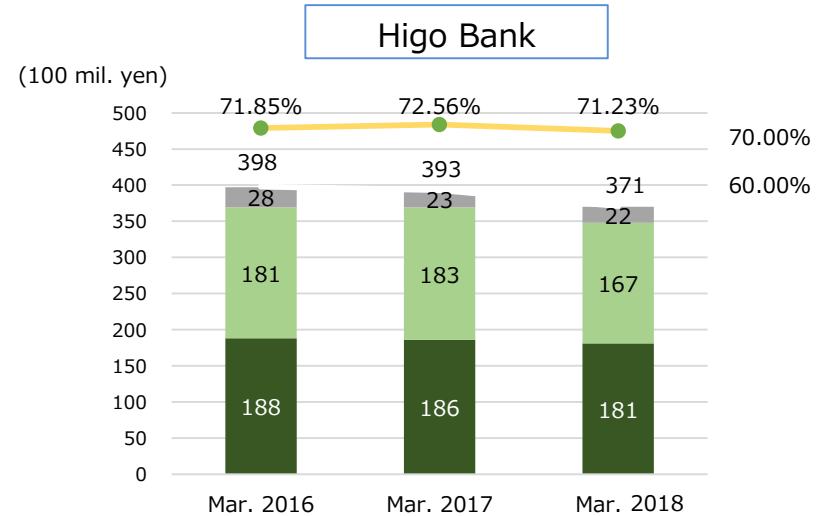
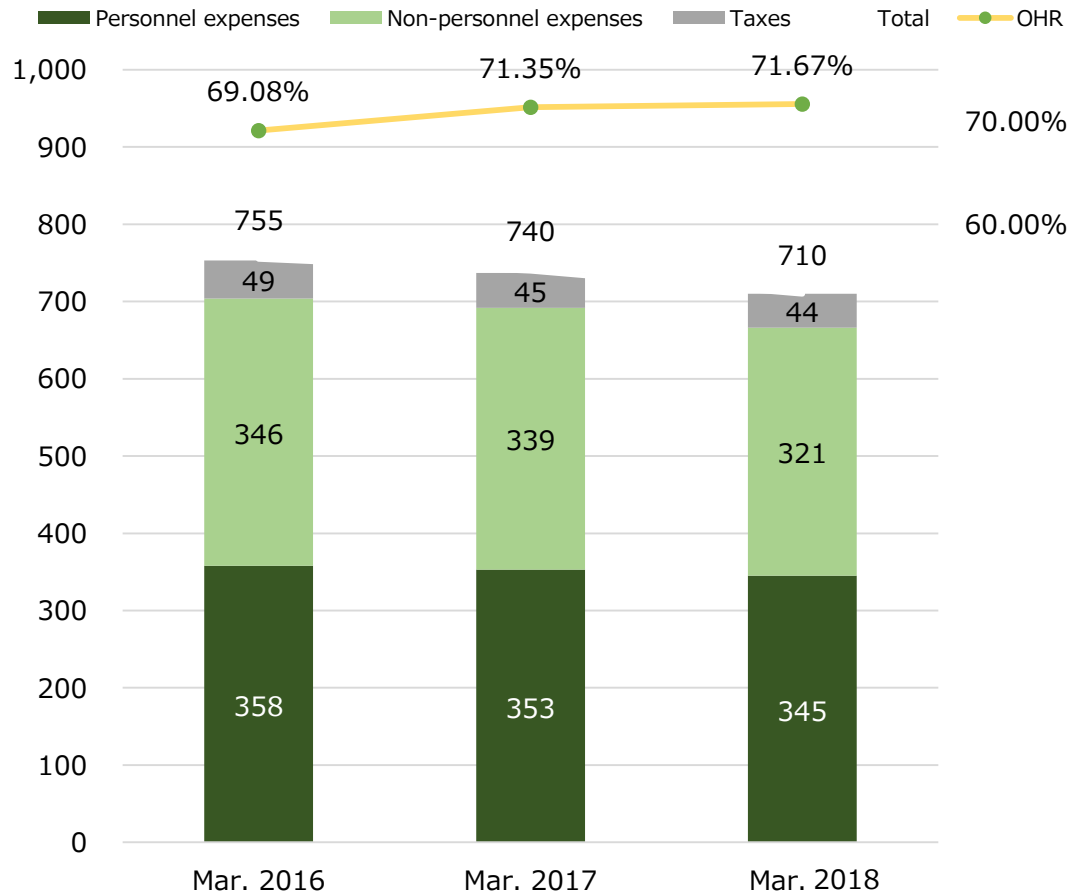
- Revenue from fees and commissions  
Year-on-year change: +770 mil. yen
  - Group credit insurance payments (increase in policy rates) +430 mil. yen
  - Guarantee commissions (increase in personal loans) +240 mil. yen

# 5. Expenses

- Expenses decreased 3,000 mil. yen to 71,000 million yen due to lower personnel expenses, non-personnel expenses, and tax expenses.
  - ◆ Personnel expenses: -800 million yen (improved productivity due to workstyle reforms)
  - ◆ Non-personnel expenses: -1,900 million yen (work processes thoroughly reviewed to take advantage of synergy from management integration)
- OHR increased by 0.32% to 71.67% with the decline in gross business profit.

## Expenses

(100 mil. yen)

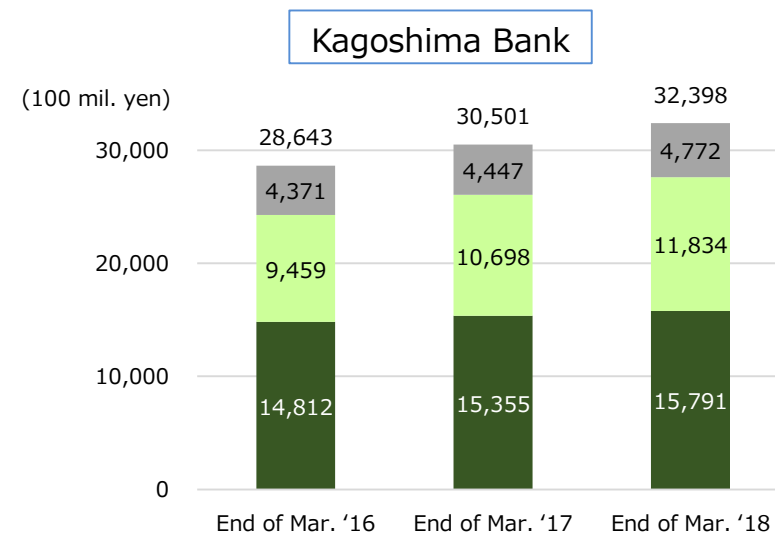
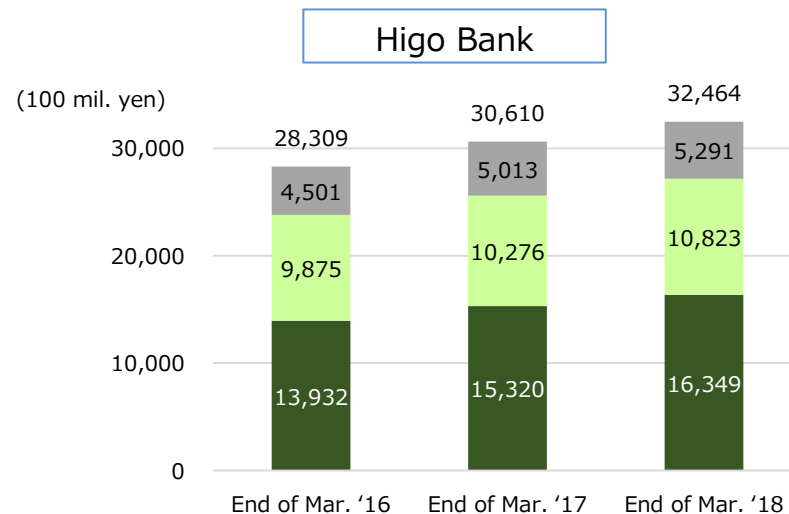
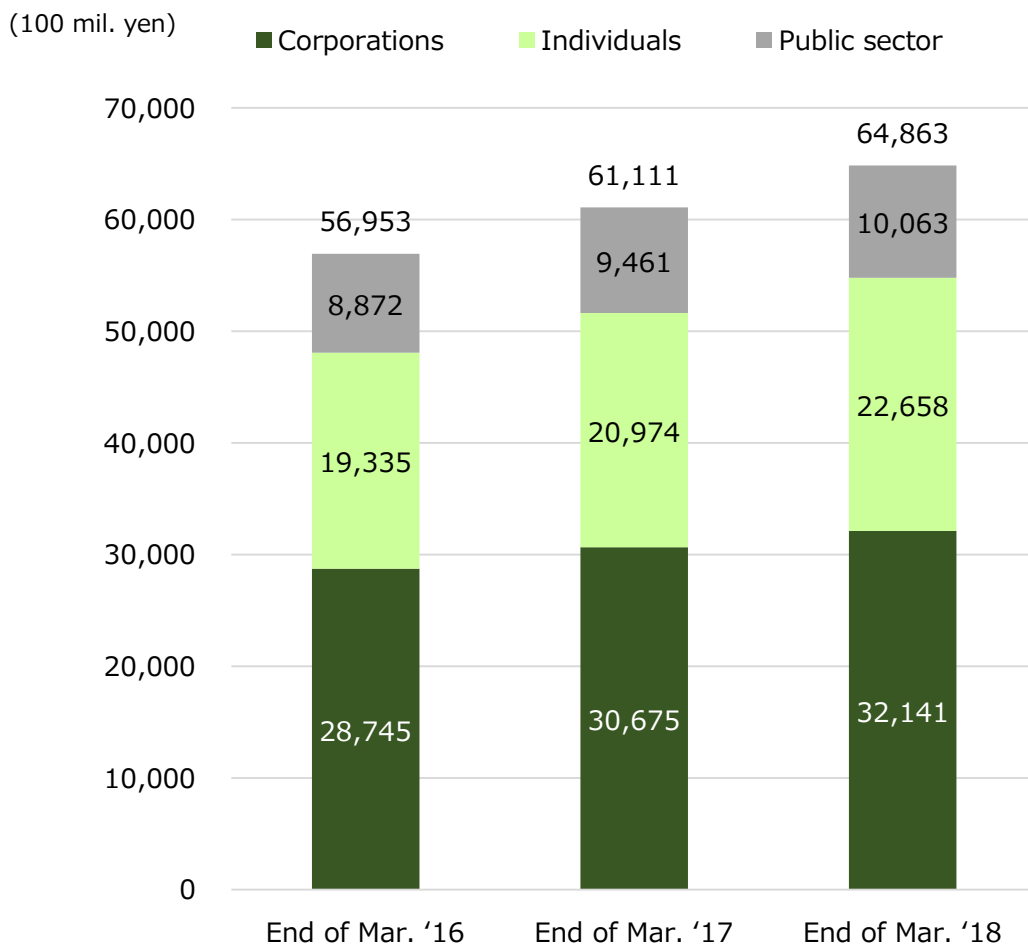




# 6. Loans

- The balance of loans increased 375,100 million yen (+6.1%) year on year.
- Loans to corporations, to individuals, and to the public sector all grew steadily.  
 (Loans to corporations: +146,600 mil. yen; to individuals: +168,300 mil. yen; to public sector: +60,200 mil. yen)

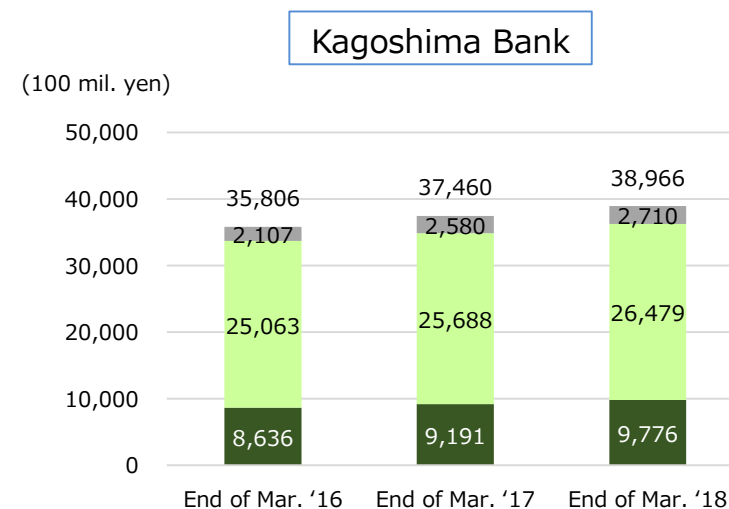
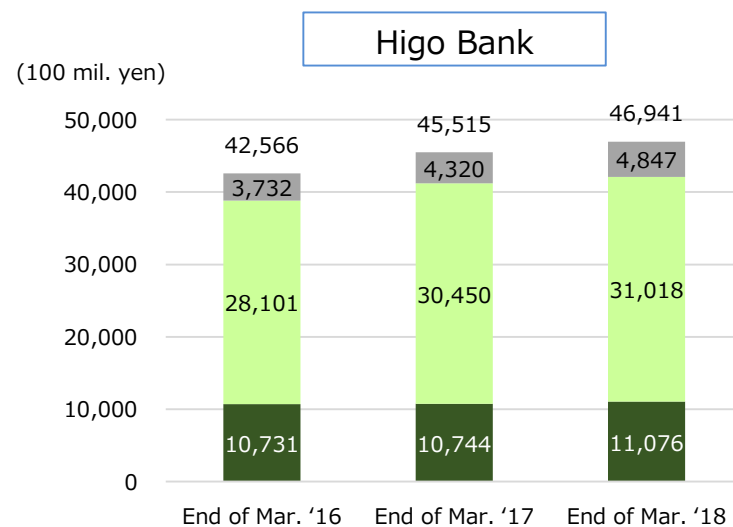
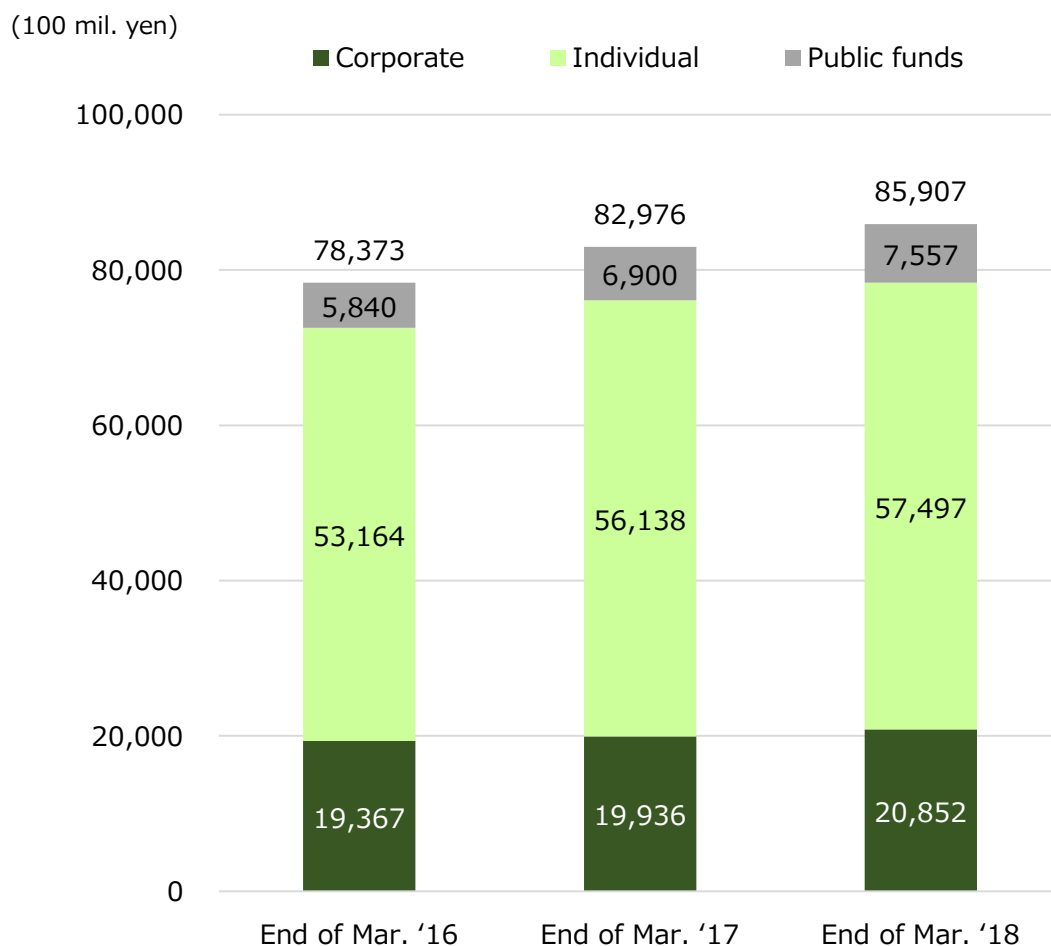
## Balance of Loans



# 7. Deposits

- The balance of deposits increased 293,100 million yen (+3.5%) year on year.
- Corporate, personal and public-sector deposits all grew steadily.  
(Insurance money inflow now at normal levels after a surge following Kumamoto earthquakes having run its course.)  
(Corporate deposits: +91,500 mil. yen; individual deposits: +135,800 mil. yen; public sector deposits: +65,700 mil. yen)

## Balance of Deposits (incl. NCDs)

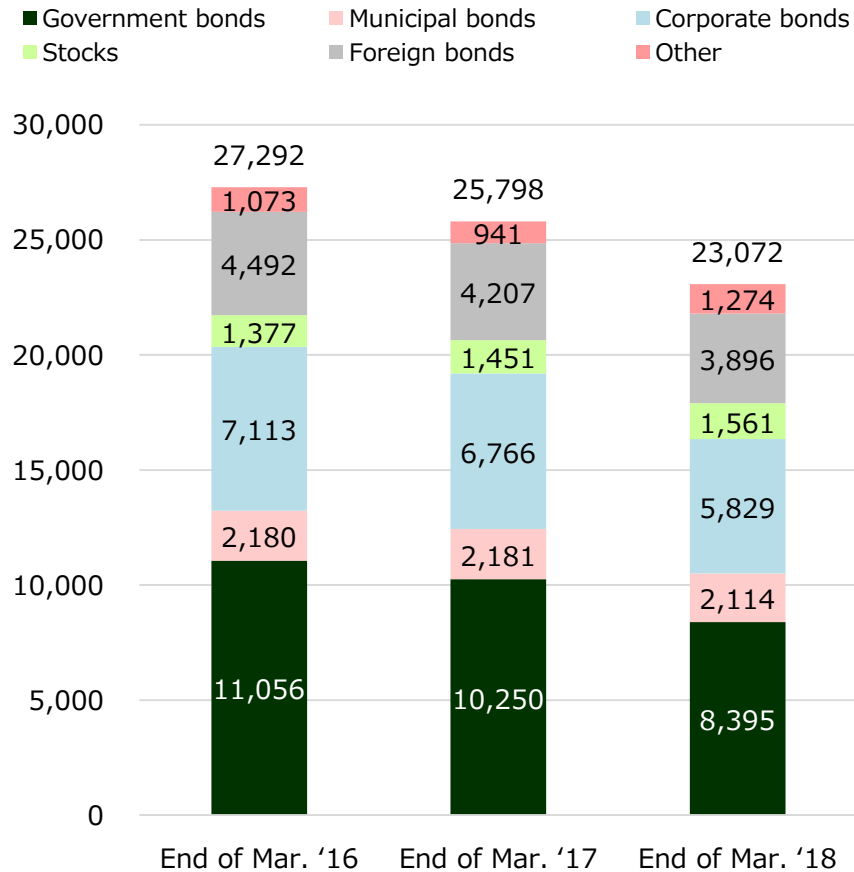


# 8. Securities

- The balance of securities decreased 272,600 million yen to 2,307,200 million yen, due mainly to a decline in government bonds.
- Valuation gain on securities fell by 2,600 million yen to 103,100 million yen year on year even though a fall in unrealized gains on bonds was partly offset by an increase in unrealized gains on equities.

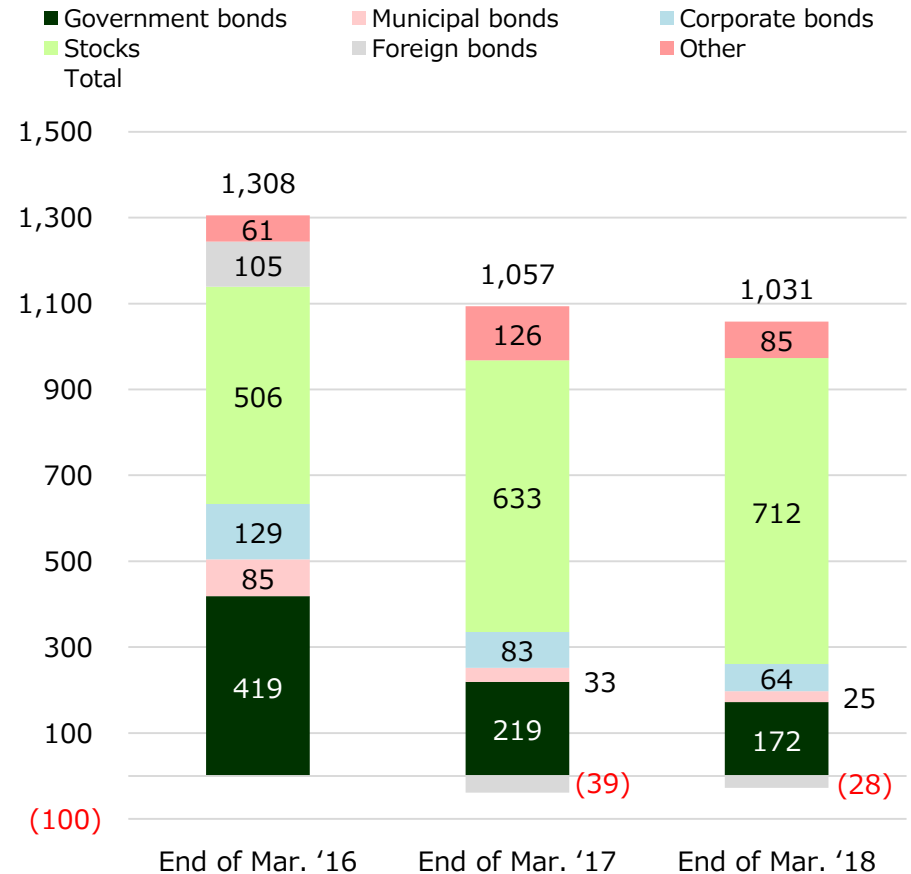
## Balance of Securities

(100 mil. yen)



## Valuation Gain on Securities

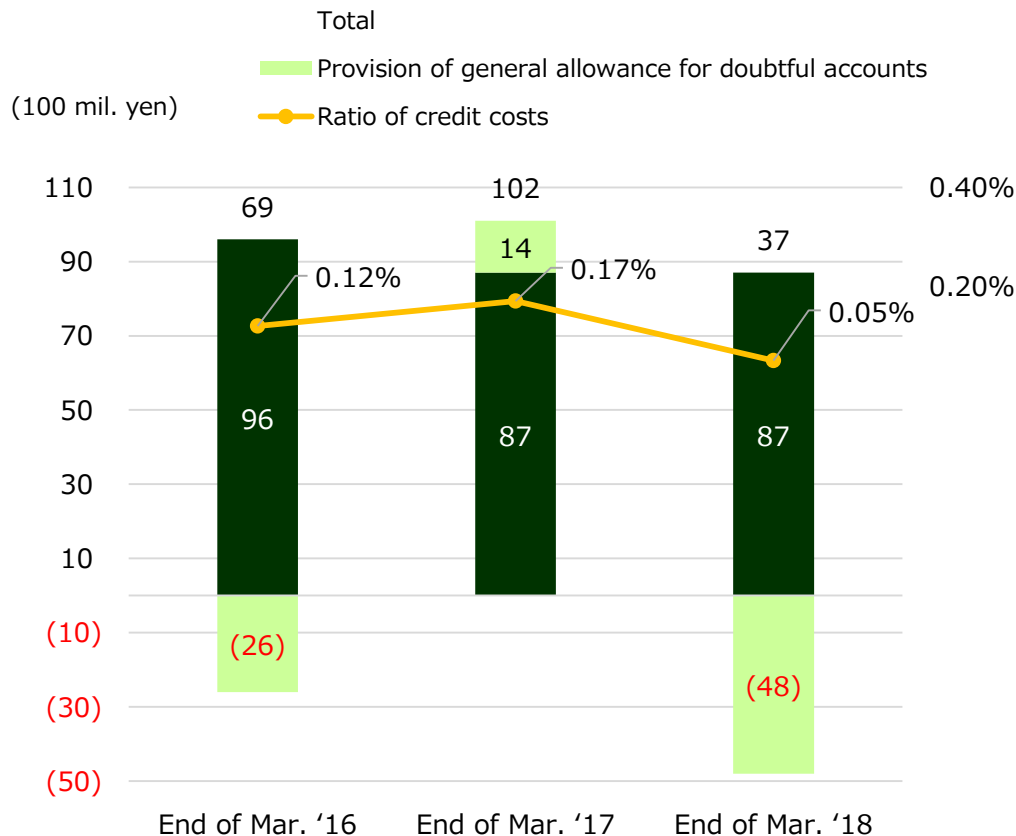
(100 mil. yen)



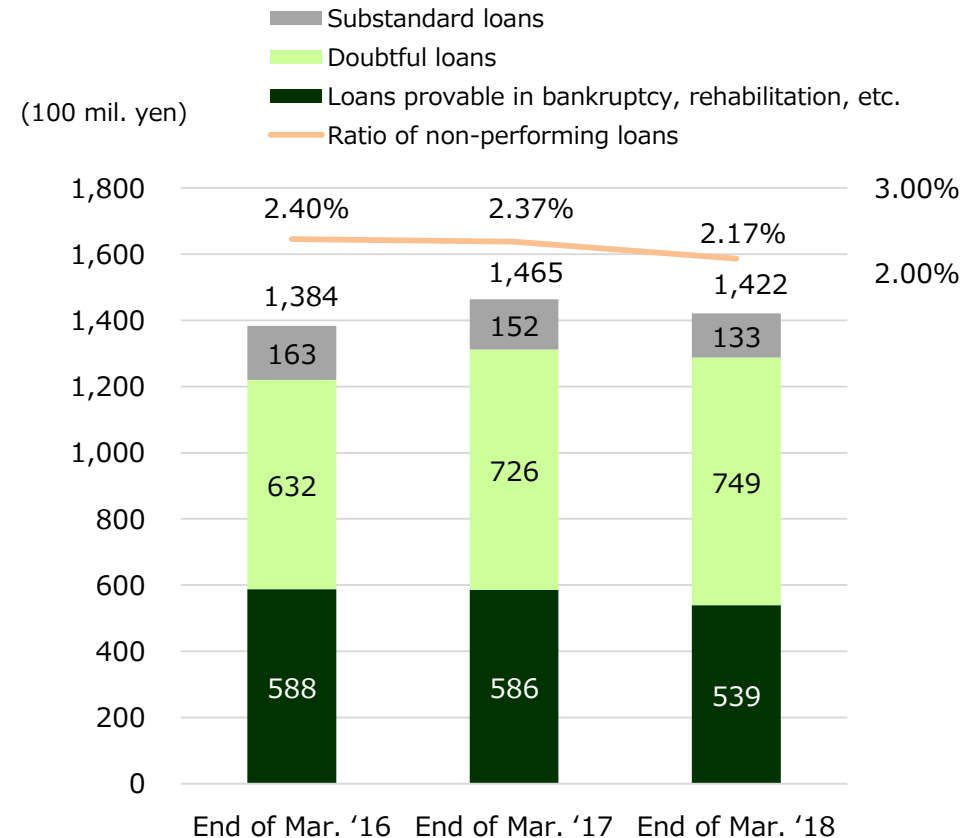
# 9. Credit Costs and Loans Disclosed Pursuant to Financial Reconstruction Act

- Credit costs fell by 6,400 million yen year on year to 3,700 million yen with an increase in reversal of provision of general allowance for doubtful accounts.
  - ◆ Thorough response to customer needs, including reconstruction support to victims of the Kumamoto earthquakes -> No new provisions
- Loans disclosed pursuant to Financial Reconstruction Act decreased by 4,200 million yen from the previous fiscal year-end. The ratio of non-performing loans fell 0.20% from the previous fiscal year-end to 2.17%.

## Credit Costs



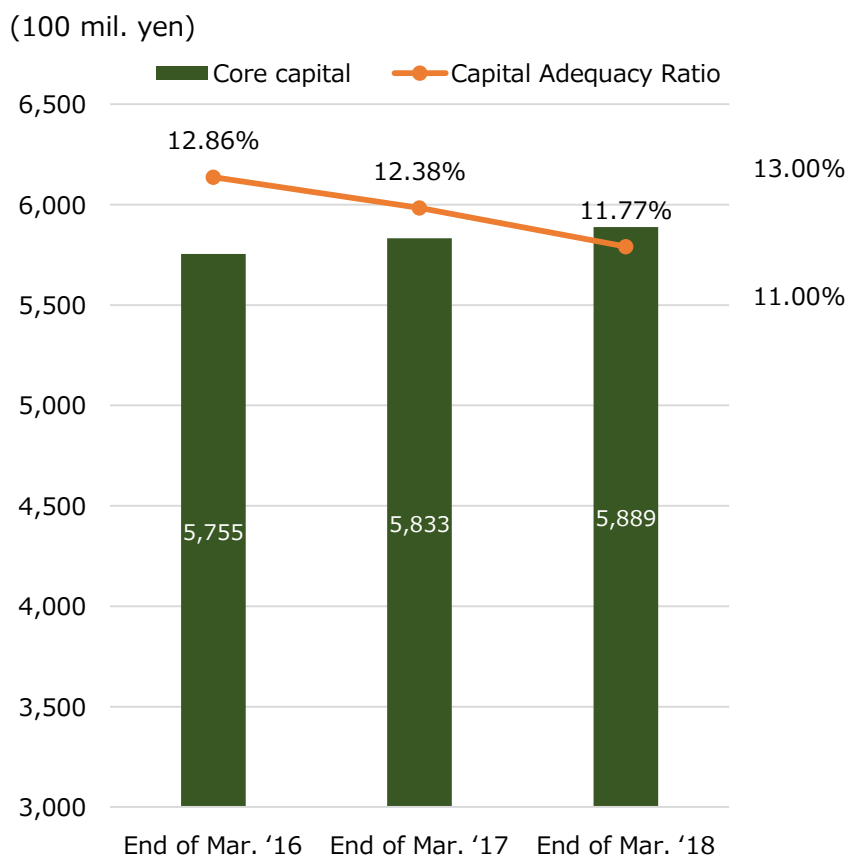
## Loans Disclosed Pursuant to Financial Reconstruction Act



# 10. Capital Adequacy Ratio

- Core capital increased by 5,500 million yen year on year to 588,900 million yen.
- Despite the increase in core capital, the capital adequacy ratio declined by 0.61% year on year to 11.77%, affected by the increase in risk assets as lending grew.

## Capital Adequacy Ratio (KFG Consolidated)



## Capital Adequacy Ratio (KFG Consolidated)

(100 mil. yen)

	Mar. 2017	Mar. 2018	Change
(1) Core capital	5,833	5,889	55
Shareholders' equity	5,589	5,728	139
(2) Risk assets	47,102	50,027	2,924
(3) Capital adequacy ratio ((1)/(2))	12.38%	11.77%	-0.61%

## Capital Adequacy Ratio (Sum of 2 Banks)

(100 mil. yen)

	Mar. 2017	Mar. 2018		Change	
	Sum	Sum	Higo	Kagoshima	Sum
(1) Core capital	5,275	5,366	2,662	2,703	91
Shareholders' equity	5,023	5,202	2,629	2,572	178
(2) Risk assets	46,467	49,344	24,133	25,211	2,877
(3) Capital adequacy ratio ((1)/(2))	11.35%	10.87%	11.03%	10.72%	-0.48%

## FY2018 Performance Forecasts (simple sum of 2 banks)

(100 mil. yen)

	Mar. 2018	Mar. 2019		Change	
	Sum	Sum	Higo	Kagoshima	Sum
Gross business profit	991	1,043	536	506	52
Interest and dividend income	917	916	452	463	-1
Fees and Commissions	110	103	60	42	-7
Other business profit	-37	22	23	0	61
(of which gain or loss on government and other bonds)	-37	15	21	-5	52
Expenses	710	708	367	341	-1
Core business profit	317	319	148	170	1
Allowance for doubtful accounts (subtract)	-48	13	8	5	62
Net Business Profit	329	321	161	159	-8
Non-recurring profit or loss	7	39	28	11	32
Non-performing loans disposal expenses (subtract)	87	20	0	20	-66
Equity securities-related profit or loss	76	54	34	20	-21
Other non-recurring profit or loss	18	11	0	11	-7
Ordinary income	336	361	190	171	24
Extraordinary profit and loss	-1	-3	-2	-1	-1
Pre-tax net income	335	357	187	169	22
Net Income	233	250	130	120	16
(Credit costs)	37	39	14	25	3

**Fees and commissions:**

**Up 100 million yen year on year in amount adding Kyushu FG Securities figure**

Kyushu Financial Group Consolidated Results	Mar. 2018	Mar. 2019
Consolidated revenues	1,646	1,627
Consolidated ordinary income	293	338
Profit attributable to owners of parent	193	228

# Kyushu Financial Group's Management Strategy



## Group Management Philosophy

1. The Group will respond to the trust and expectations of customers and will **provide optimal, high-level comprehensive financial services** to its customers.
2. The Group will develop alongside local regions and actively contribute in the **realization of a vigorous local community**.
3. The Group will nurture an abundance of creativity and a free-spirited organizational culture, continuing to challenge itself to move toward a better future.

## “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)

#### Basic policy:

Building a business foundation geared toward providing optimal, high-level comprehensive financial services to our customers.

#### Three areas of management foundation:

- (1) “Comprehensive financial service strength” that can respond to various needs of customers
- (2) “Brand strength” that can win trust of stakeholders
- (3) “Organizational strength” that can realize optimum for the group

### (2) Integration Stage

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

- **Proceeding with the group integration process in steps based on the management foundation built in the collaboration stage, and further strengthening this foundation.**
- **Take full advantage of integration synergies, from the standpoints both of Group consolidated gross profit and cost efficiency, toward sustained growth.**

## Vision



## 2. Review of 1st Group Medium-Term Management Plan

- Although balance targets for deposits and loans reached targets, targets for net business profit and net Income were unachieved due to decreases in interest and dividend income and income from fees and commissions.

Numerical Targets (Simple sum of 2 banks)	FY2017 Medium-Term Management Plan Targets	FY2017 Result	Difference
Deposits (incl. NCDs)	8.4 tril. yen	8.5 tril. yen	0.1 tril. yen
Loans	5.9 tril. yen	6.4 tril. yen	0.5 tril. yen
Net Business Profit	37,400 mil. yen	32,900 mil. yen	-4,500 mil. yen
Net Income	28,000 mil. yen	23,300 mil. yen	-4,700 mil. yen
ROE	4.5%	3.8%	-0.7%
Return on Shareholders' Equity	5.3%	4.5%	-0.8%

### 3. Taking Advantage of Integration Synergies

Integration benefits in the 1st Group Medium-Term Management Plan (October 2015-March 2018) amounted to 10,400 million yen, significantly outperforming the target.

Integration benefits	1st Group Medium-Term Management Plan		Difference	FY2015	FY2016	FY2017
	Plan	Result		Result	Result	Result
<b>Top line expansion synergies (1)</b>	<b>6,100 mil. yen</b>	<b>9,300 mil. yen</b>	<b>+3,200 mil. yen</b>	<b>1,200 mil. yen</b>	<b>3,300 mil. yen</b>	<b>4,800 mil. yen</b>
<b>Collaborative measures aimed at individuals</b> <ul style="list-style-type: none"> <li>Common-strategy products (housing loans)</li> <li>Mutual introduction of effective assets under management products, etc.</li> </ul>		2,200 mil. yen		200 mil. yen	700 mil. yen	1,300 mil. yen
<b>Collaborative measures aimed at corporate customers</b> <ul style="list-style-type: none"> <li>Collaborative sales promotion</li> <li>Solution-related commissions, etc.</li> </ul>		2,100 mil. yen		200 mil. yen	600 mil. yen	1,300 mil. yen
<b>Collaborative measures aimed at public sector</b> <ul style="list-style-type: none"> <li>Collaborative sales promotion to local public entities, etc.</li> </ul>		200 mil. yen		20 mil. yen	50 mil. yen	120 mil. yen
<b>Collaborative measures in market sectors</b> <ul style="list-style-type: none"> <li>Share know-how on foreign bonds and stock market investment</li> </ul>		4,800 mil. yen		800 mil. yen	1,900 mil. yen	2,100 mil. yen
<b>Cost reduction synergies (2)</b>	<b>700 mil. yen</b>	<b>1,800 mil. yen</b>	<b>+1,100 mil. yen</b>	<b>100 mil. yen</b>	<b>500 mil. yen</b>	<b>1,200 mil. yen</b>
<b>System related efficiencies</b> <ul style="list-style-type: none"> <li>Information system integration</li> <li>Review of costs by benchmarking, etc.</li> </ul>		900 mil. yen		100 mil. yen	300 mil. yen	500 mil. yen
<b>Clerical work-related efficiencies</b> <ul style="list-style-type: none"> <li>Review of maintenance fees and fees for outsourcing of clerical work</li> <li>Reduction in office equipment procurement costs, etc.</li> </ul>		500 mil. yen		0 mil. yen	100 mil. yen	400 mil. yen
<b>Other cost reduction</b> <ul style="list-style-type: none"> <li>Cost reduction through sales and market-related measures</li> <li>Reduction in IR and PR-related expenses</li> <li>Reduction in capital spending and non-personnel expenses, etc.</li> </ul>		400 mil. yen		0 mil. yen	100 mil. yen	300 mil. yen
<b>One-time, integration-related expenses (negative) (3)</b>	<b>800 mil. yen</b>	<b>700 mil. yen</b>	<b>-100 mil. yen</b>	<b>700 mil. yen</b>	<b>-</b>	<b>-</b>
<b>Total integration benefits (1) + (2) - (3)</b>	<b>6,000 mil. yen</b>	<b>10,400 mil. yen</b>	<b>+4,400 mil. yen</b>	<b>600 mil. yen</b>	<b>3,800 mil. yen</b>	<b>6,000 mil. yen</b>

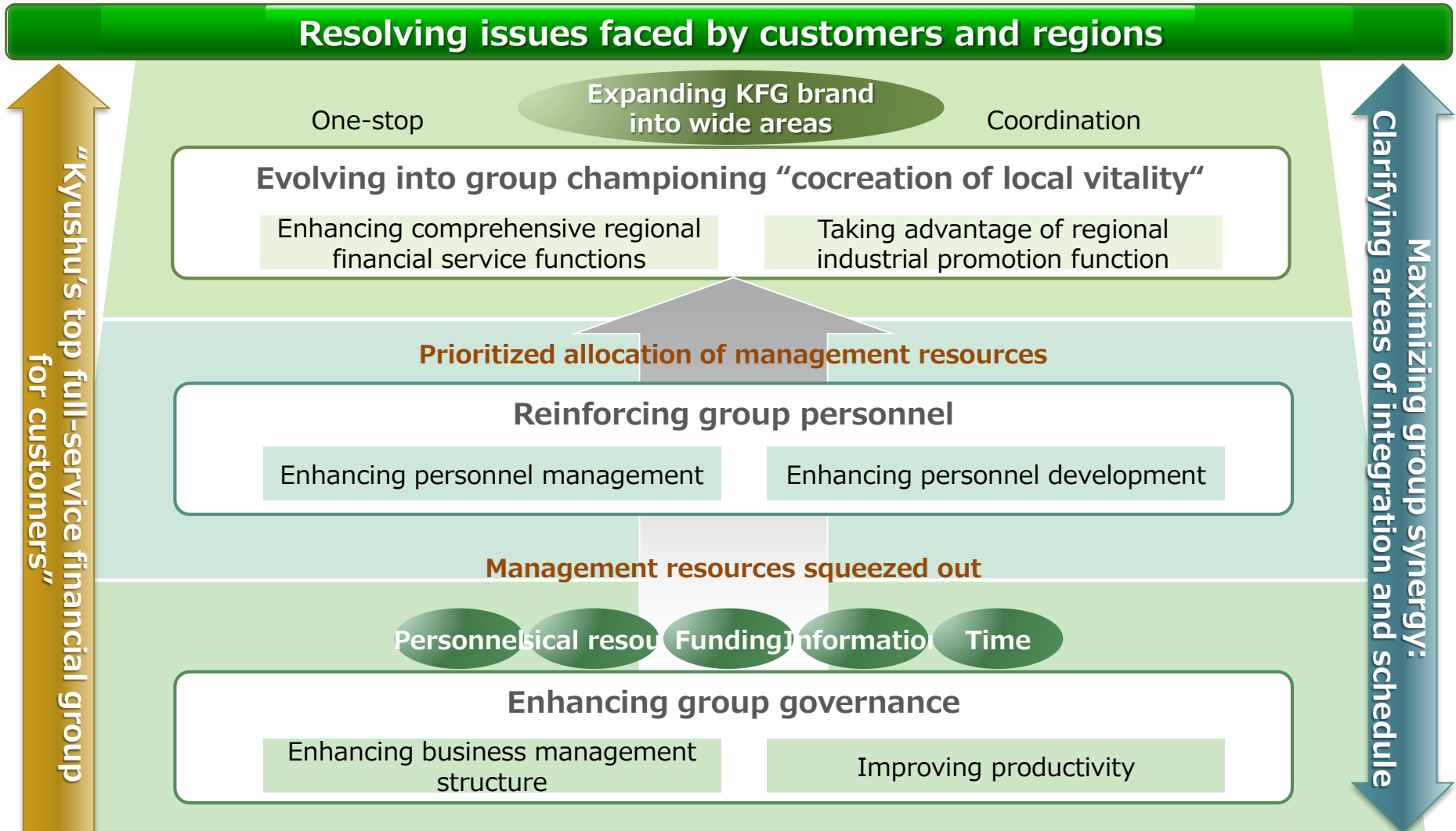
## 4. Review of 2nd Group Medium-Term Management Plan

The Second Group Medium-Term Management Plan sets “Evolving into Group Championing ‘Cocreation of Local Vitality,’” “Reinforcing Group Personnel” and “Enhancing Group Governance” as the basic strategies based on issues faced by the Group, and “Strategic Pillars” as focus themes for each strategy.

<b>Name</b>	2nd Group Medium-Term Management Plan: Integration Stage
<b>Period</b>	Three years (April 2018 to March 2021)
<b>Vision</b>	“Kyushu’s top full-service financial group for customers”
<b>Basic Policy</b>	To maximize group synergy, aiming to provide optimal, high-level services to our customers

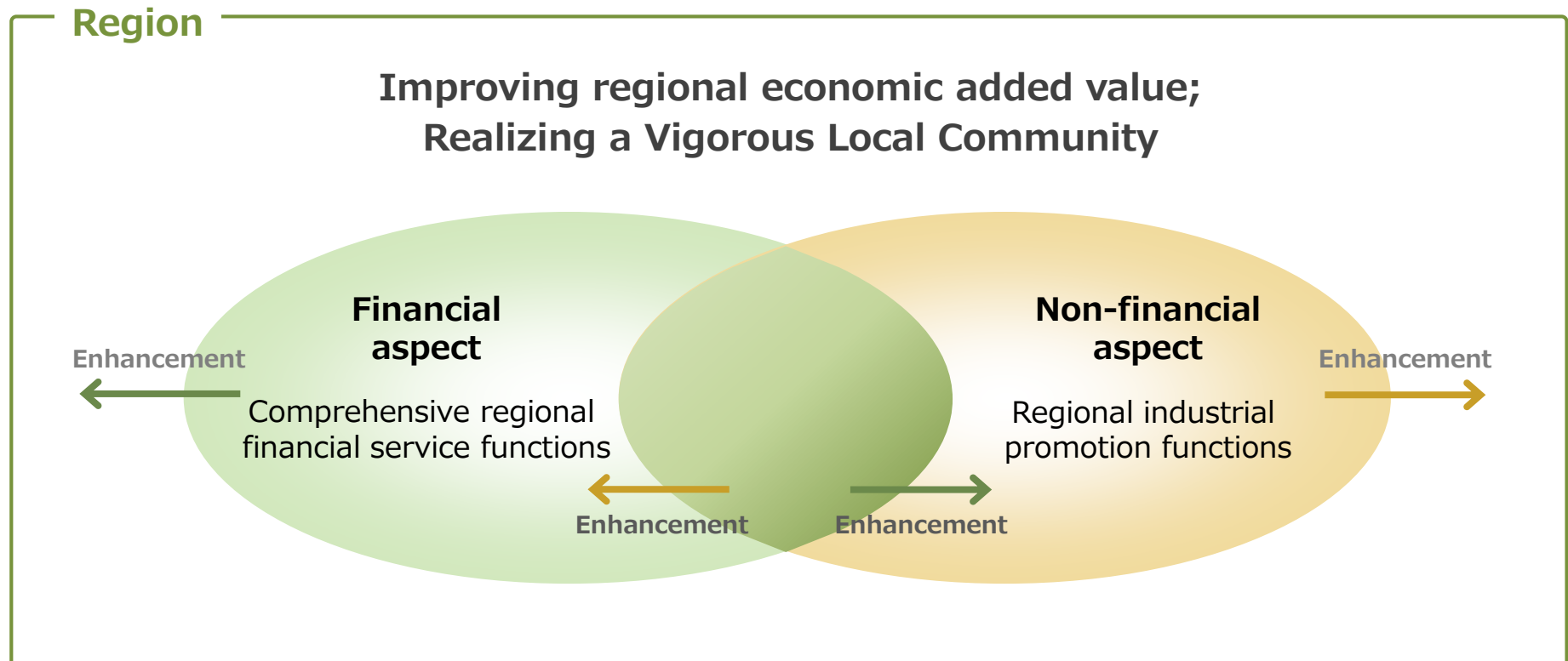
<b>Basic Strategies &amp; Strategic Pillars</b>	Basic Strategies	Strategic Pillars
	<b>(1) Evolving into group championing “cocreation of local vitality”</b>	<ul style="list-style-type: none"> <li>(1) Enhancing comprehensive regional financial service functions</li> <li>(2) Taking advantage of regional industrial promotion function</li> </ul>
	<b>(2) Reinforcing group personnel</b>	<ul style="list-style-type: none"> <li>(1) Enhancing personnel management</li> <li>(2) Enhancing personnel development</li> </ul>
	<b>(3) Enhancing group governance</b>	<ul style="list-style-type: none"> <li>(1) Enhancing business management structure</li> <li>(2) Improving productivity</li> </ul>

In order for us to evolve into a group championing “cocreation of local vitality” for the goal of becoming Kyushu’s top full-service financial group for customers, we will endeavor to resolve issues faced by customers and regions by squeezing management resources through enhanced group governance with a particular focus on enhancing personnel strengths. At the same, we will clearly define specific areas and schedule of integration in each basic strategy and strive to maximize group synergy.



## 6. Realizing a Vigorous Local Community (Cocreation of Local Vitality)

We aim to become a full-service financial group that supports long-term growth of customers and regions and creates a "Community Full of Vitality," a goal specified in the Group Management Philosophy, by taking advantage of comprehensive regional financial service functions and regional industrial promotion functions that go beyond financial aspects.

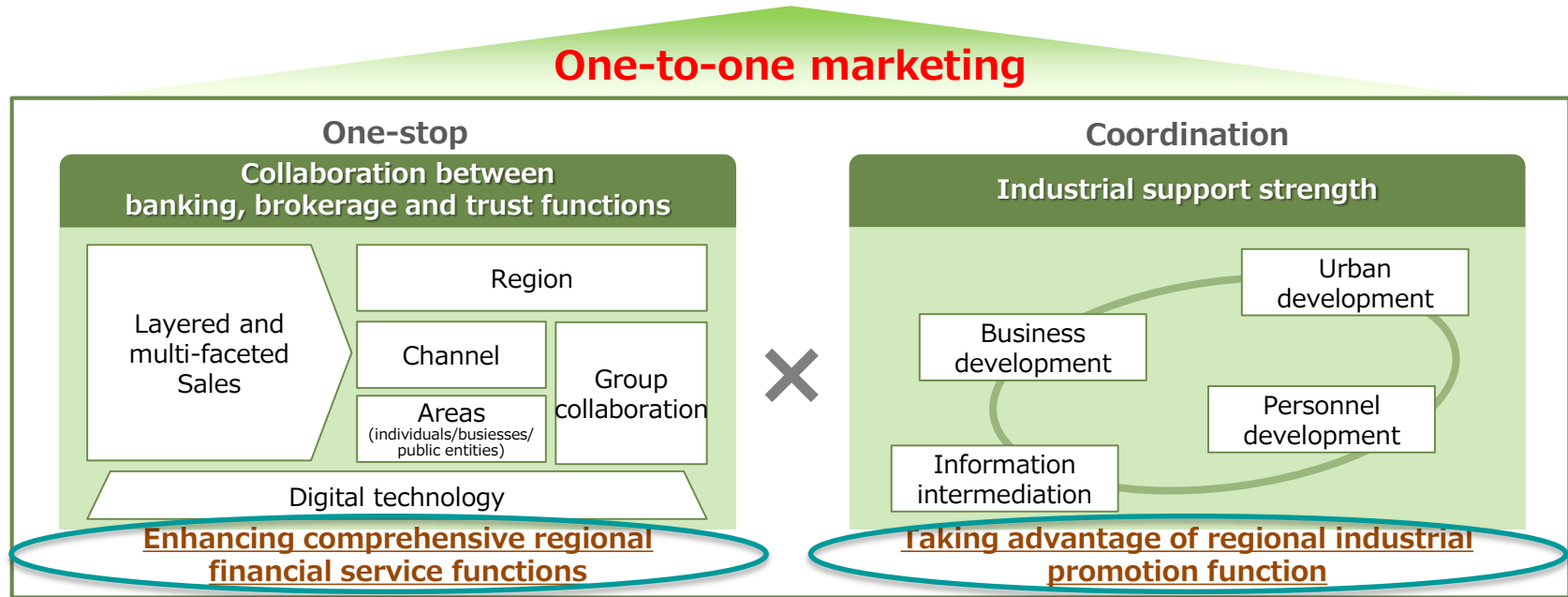


# 7. Basic Strategy:

## (1) Evolving into Group Championing “Cocreation of Local Vitality”

We aim to help resolve various issues faced by individual customers and regions by providing one-stop, comprehensive financial services combining banking, brokerage and trust functions and taking advantage of our industrial support strengths through coordination of local entities. To do this, we will actively get involved in the creation and development of regional industries by taking advantage of collaboration and tie-ups with external partners and investment and funds, while striving to allocate group management resources in an effective way.

### Issues/needs faced by customers and regions



Effective allocation of management resources

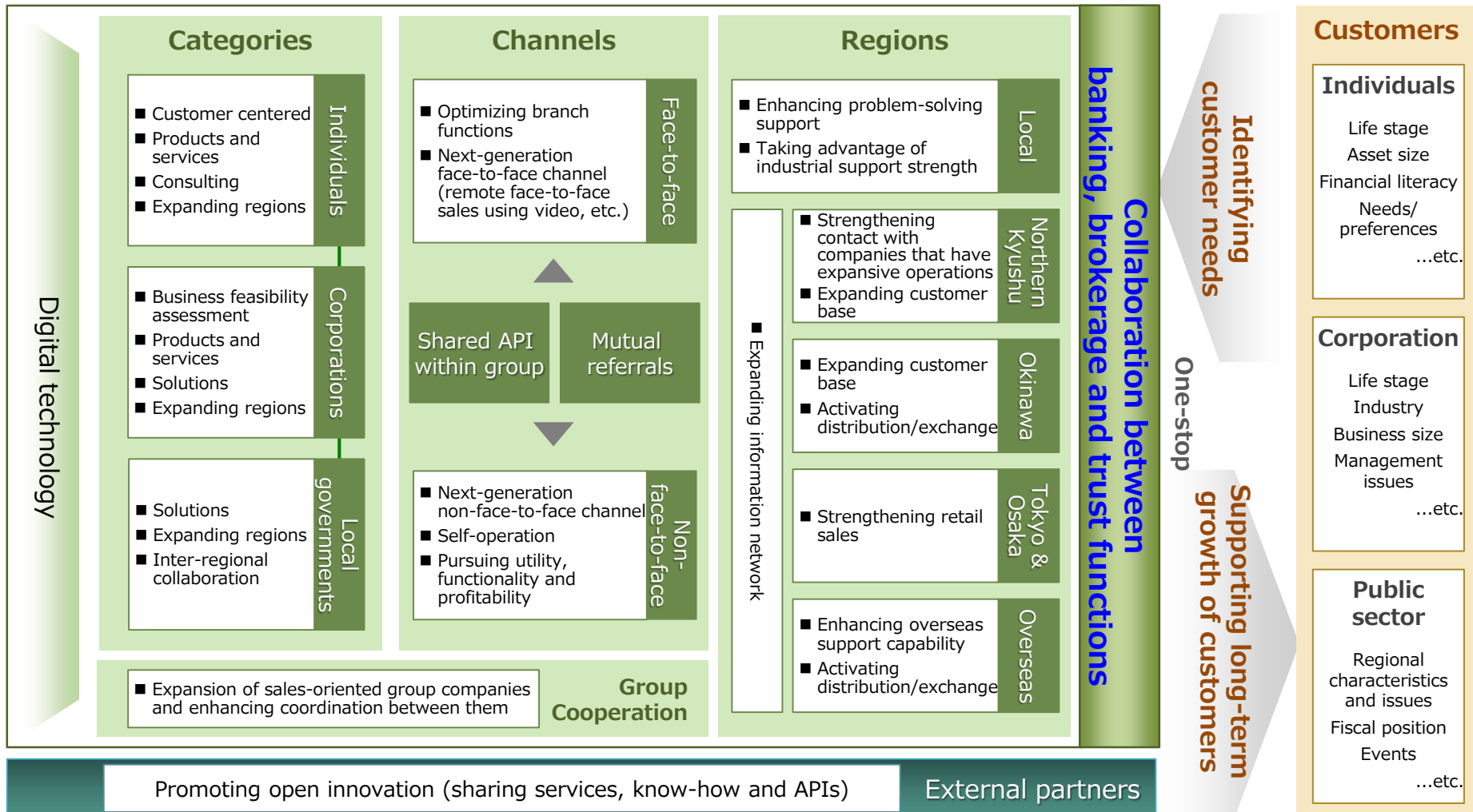


# 7. Basic Strategy:

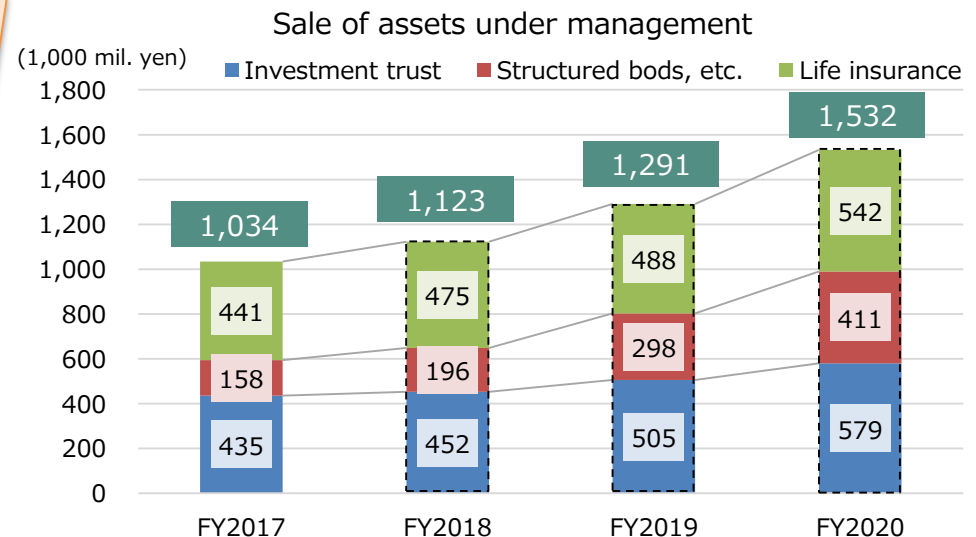
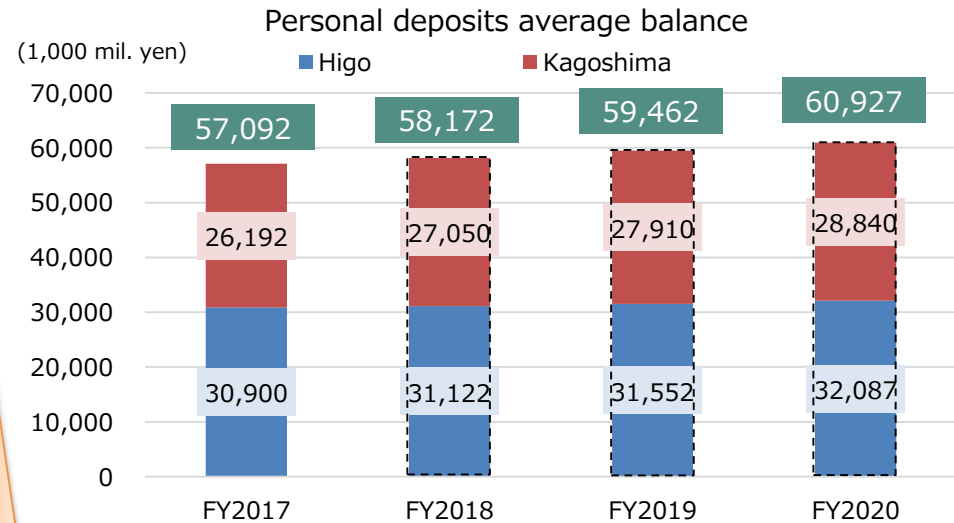
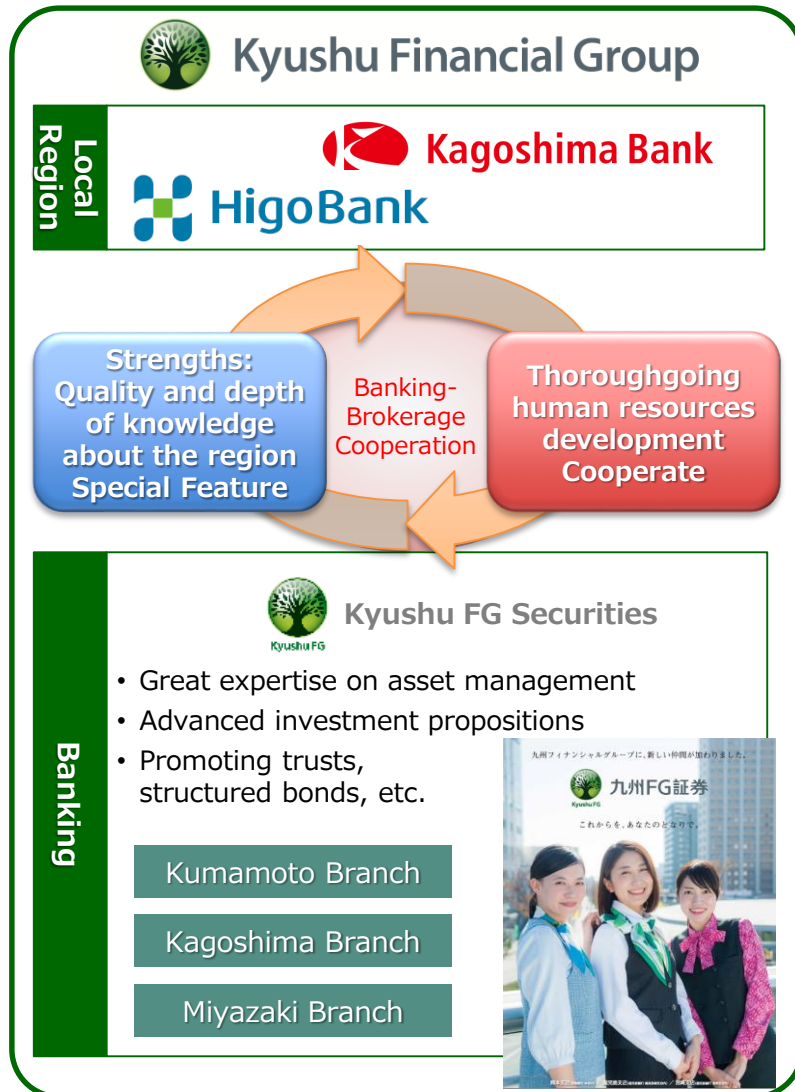
## (1) Evolving into Group Championing “Cocreation of Local Vitality”

### (1) Enhancing comprehensive regional financial services functions: Establishing collaboration between banking, brokerage and trust functions

In terms of enhancing comprehensive regional financial service capability, we aim to offer ideas suited to customers’ lifecycle and goals in one-stop packages and support their long-term growth by coordinating the banking and securities companies, as well as trust functions **within the group**.



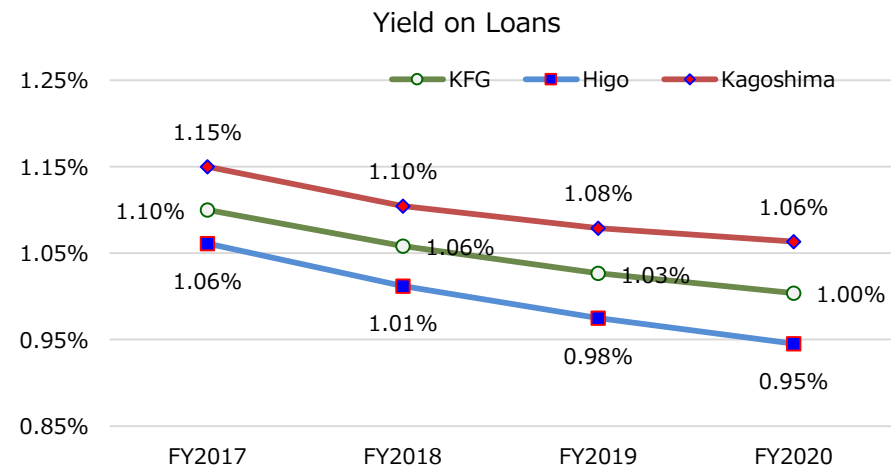
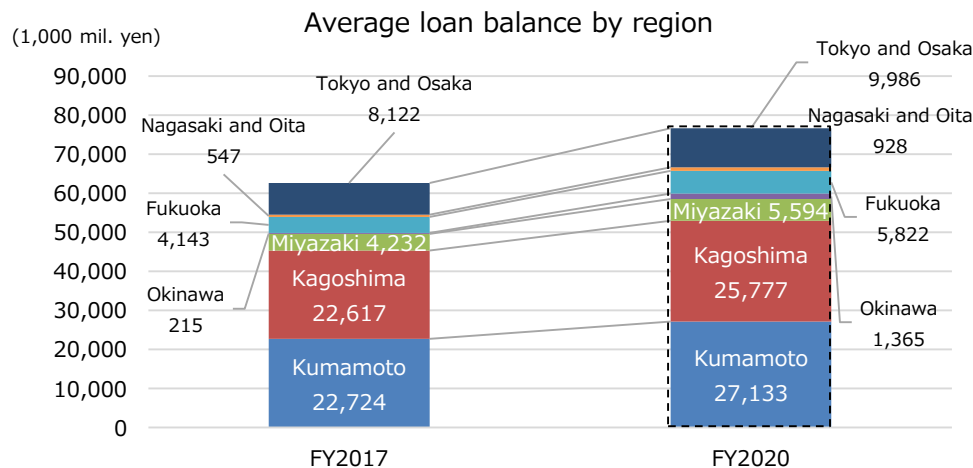
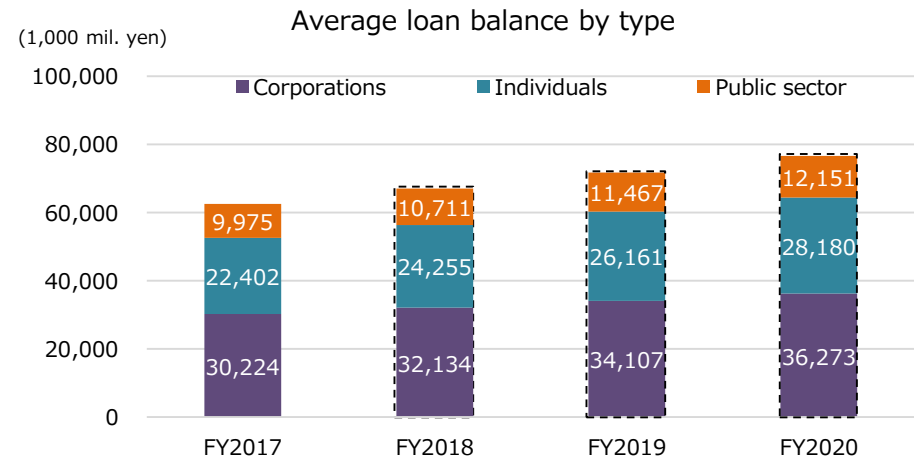
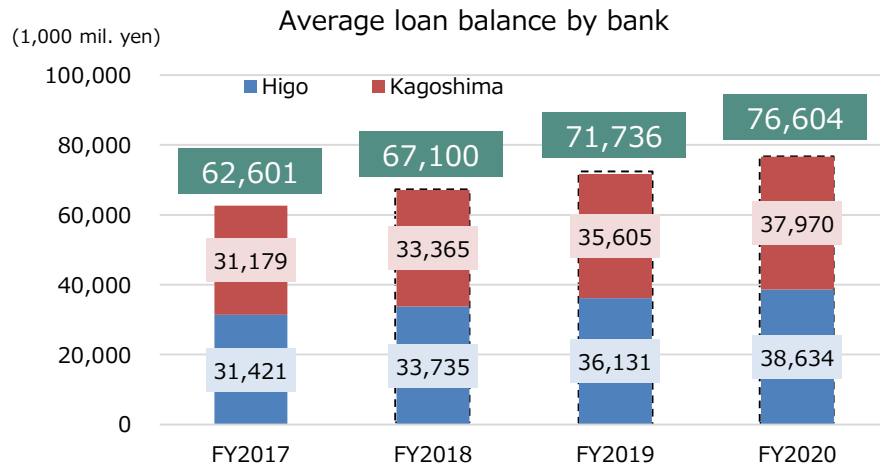
We aim to provide one-stop, comprehensive financial services to regional customers through enhanced banking-brokerage collaboration with Kyushu FG Securities which launched operations in January 2018. As a securities company with quality and depth of knowledge about the region as its strength, we will raise level of consulting functions through thoroughgoing human resources development efforts, and provide customers with optimal asset formation and financing schemes.





We aim to expand lending in our regions (Kumamoto, Kagoshima and Miyazaki) as well as in other prefectures through sales activities that take advantage of the two banks' strengths to help solve issues faced by customers.

- Sales promotion in our regions - Kagoshima and Miyazaki: business feasibility assessment and greater use of strategy of combining corporate and individual solicitation / Kumamoto: strengthening efforts on creative reconstruction support
- Strengthening efforts on solutions (promoting joint funds, structured finance, etc.)
- Strengthening PPP and PFI support
- Expanding customer scope in northern Kyushu, Okinawa and urban areas



In respect of overseas strategy, we aim to expand foreign-exchange revenues through collaboration between sales and market divisions, and support our customers' overseas expansion and strengthen support to their overseas operations. In respect of strategy outside our prefectures, we will promote collaborative sales between the two banks and strengthen sales promotion that takes advantage of characteristics of both in each region.

## Overseas Strategies

### KFG/Both Banks

- **Strengthening efforts on international business**
  - Strengthening foreign exchange business promotion (collaboration between sales and market divisions)
  - Jointly developing skill levels of market sales personnel
  - Consider setting up new bases

### Shanghai

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

### Hong Kong

- Promoting agricultural and dairy exports to Hong Kong and attract tourists through C& Higo Dining Company

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



## Strategies for Other Prefectures

### Fukuoka

- **Building "Kyushu Financial Group Fukuoka Building"**  
Strengthening sales and information center functions for Fukuoka
- Promoting northern Kyushu strategy
- Holding events where representatives from department stores, etc. and local companies in Fukuoka can meet for business talks

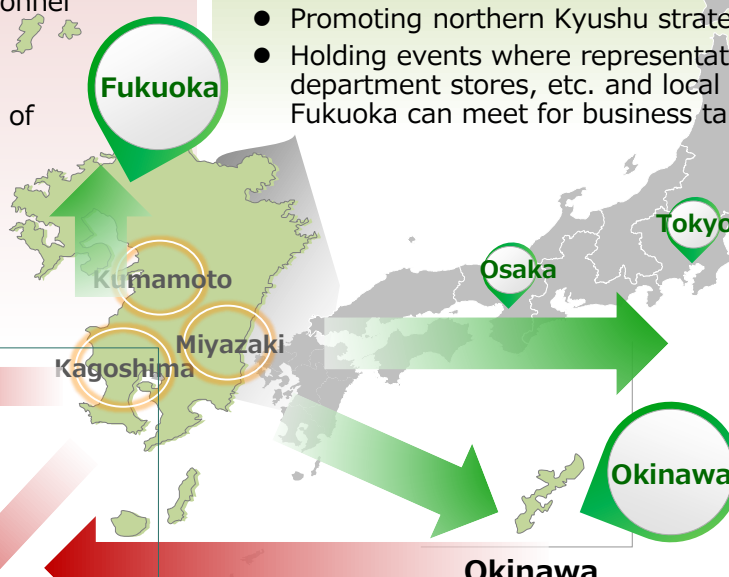


### Tokyo and Osaka

- **Establishing General Research Office in KFG Corporate Planning Division (April 2018)**
- Finding partners who can help invigorate Kyushu economy
- Strengthening retail sales in urban areas

### Okinawa

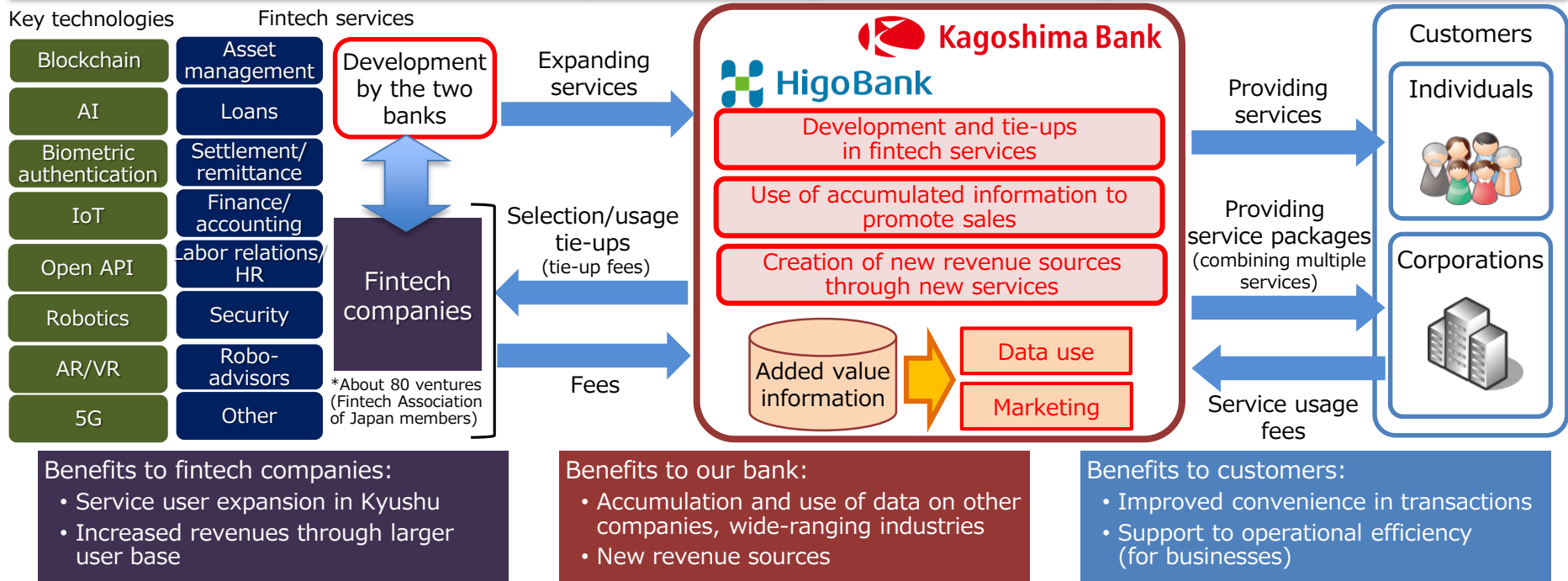
- **Reinforcing sales operations (Second Kagoshima Bank branch to open July 2018)**
- Accumulating sales know-how, enhancing information intermediation function, developing networks (entities to share information with)
- Brought together Okinawa companies and local department stores for sales talks



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

We aim to improve convenience for customers, create new financial services and digitalize existing processes using latest technologies. We will develop, or tie up with external partners on, fintech services and take advantage of them within the group, and provide such services to customers.

**In anticipation of full-fledged arrival of the age of data capitalism, we will promote digital innovation that actively takes advantage of latest technologies.**



### Improvement in customer convenience

Enhanced mobile banking services

Verification and tests on latest authentication technologies

### Creation of new financial services

Enhanced data usage through AI

Building new cashless settlement systems

### Digitalization of existing operations

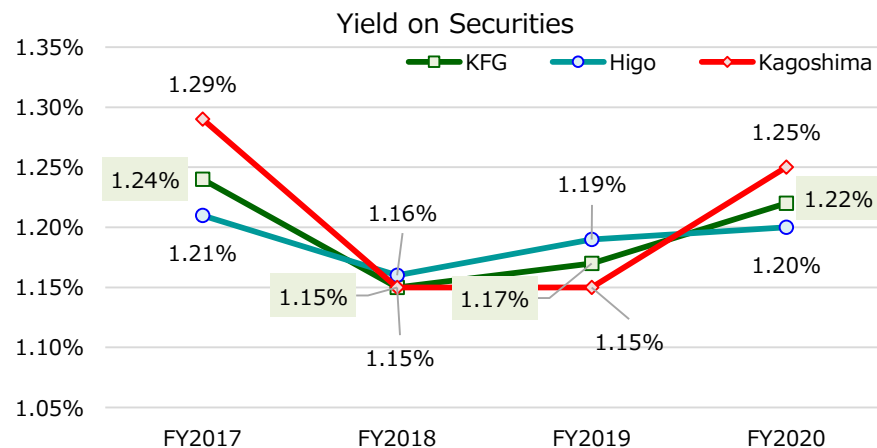
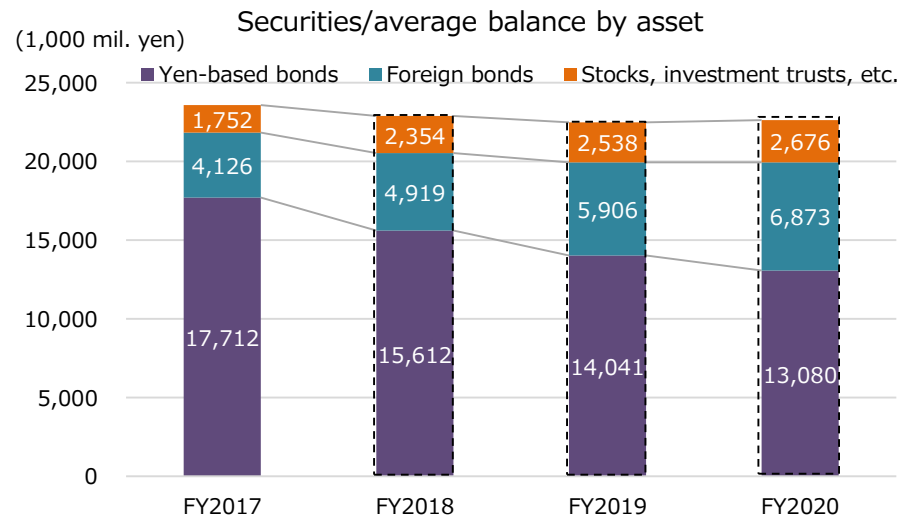
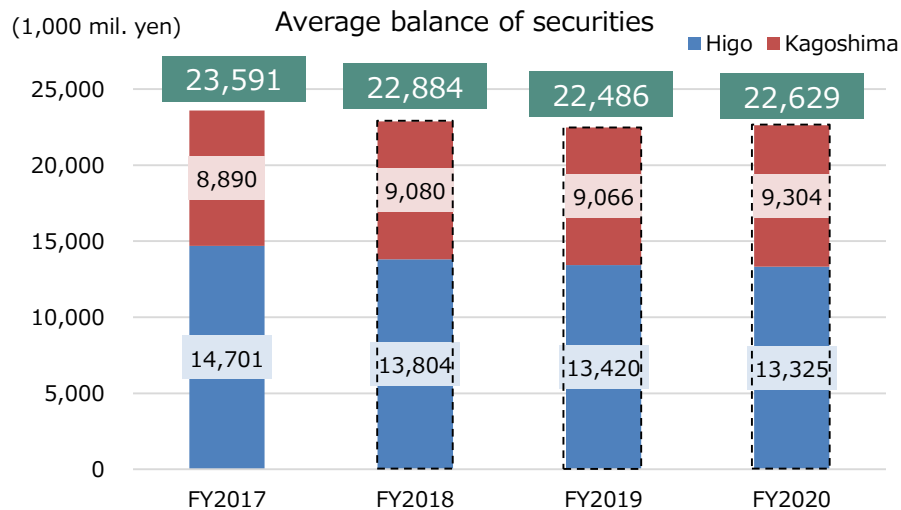
Operational reforms through RPA introduction

Work processes rationalized through IT

Service expansion through API

More diversified non-face-to-face channel

In market sectors, we will work on diversifying and improving flexibility of investment to enhance medium-to-long-term profitability and aim to improve investment returns through stable growth in comprehensive income (interest and dividends, related income and evaluation gains). Furthermore, we will strive to strengthen and improve our risk management, in view of expected significant increase in risk associated with overseas interest rates, trusts, etc.



**Stable growth in comprehensive income**  
 (comprehensive income = interest and dividends + related income + valuation gain or loss)

- Interest and dividends: More diversified bond investment and use of investment trusts
- Related income: Opportunistic trading and use of derivatives
- Valuation gain or loss: Use of hedging and improved portfolio management

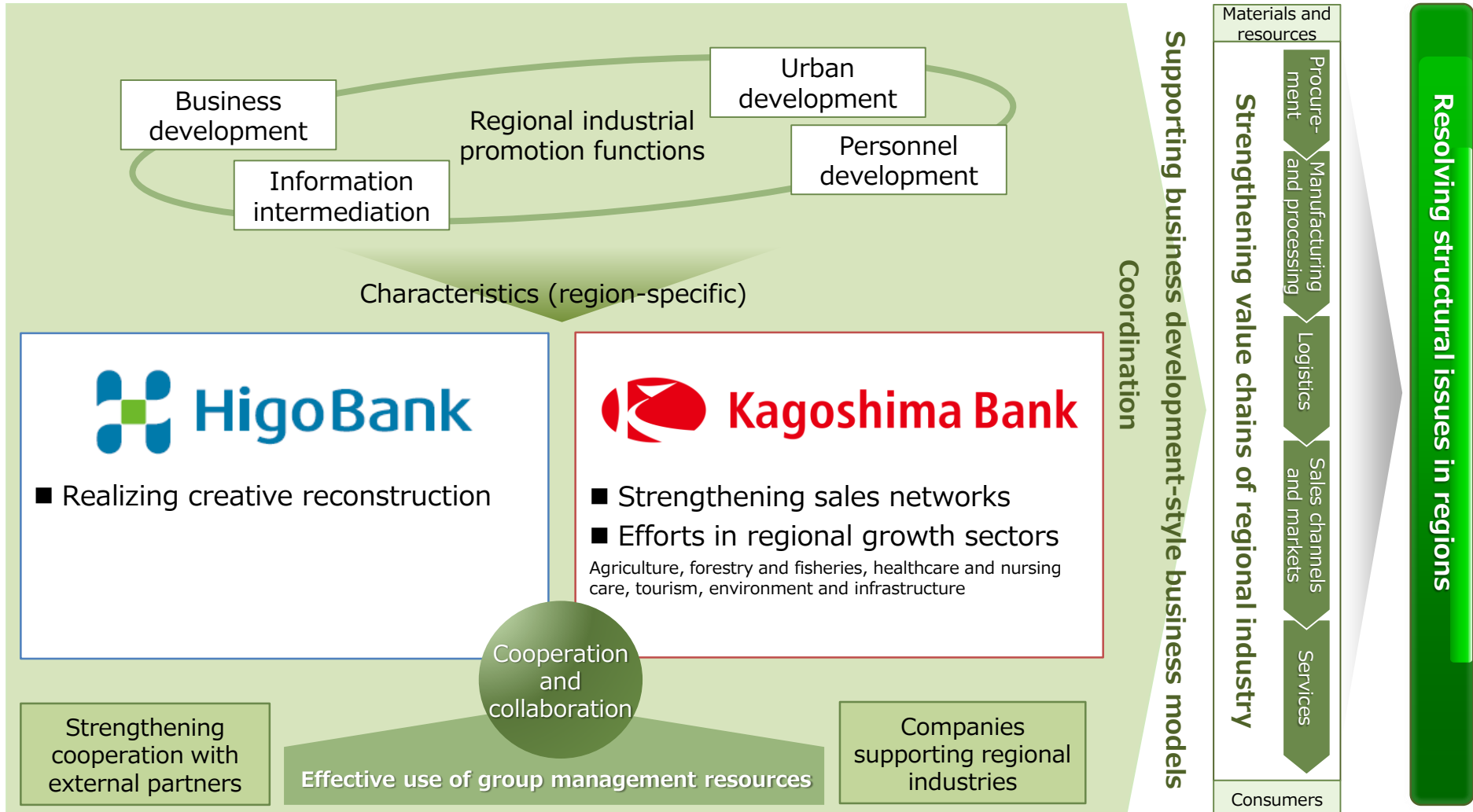
Strengthened and improved risk management

# 7. Basic Strategy:

## (1) Evolving into Group Championing “Cocreation of Local Vitality”

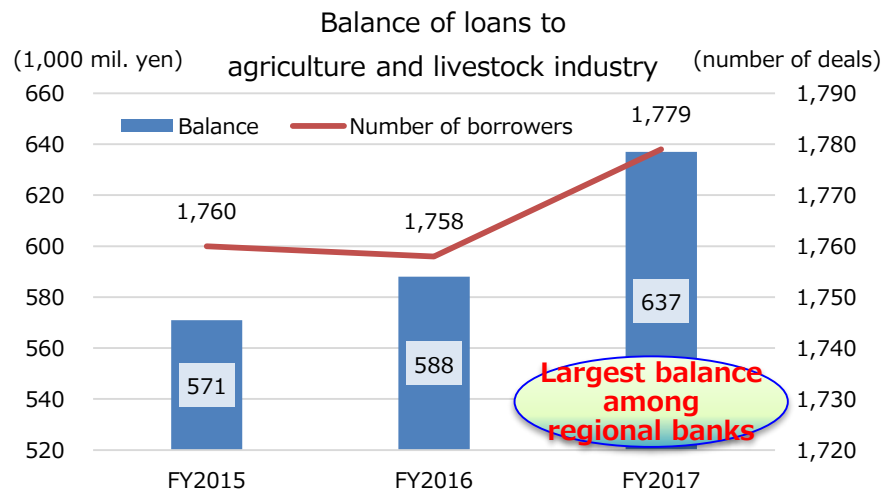
### (2) Taking advantage of regional industrial promotion function

In this area, we aim to support customers’ business development-style business models from the viewpoint of “business development,” “information intermediation,” “urban development” and “personnel development,” while effectively utilizing group management resources. In addition, we will work to resolve structural issues of regions by strengthening value chains of regional industry through measures such as collaboration with external partners, where necessary, and launch of operating companies originating from the group.

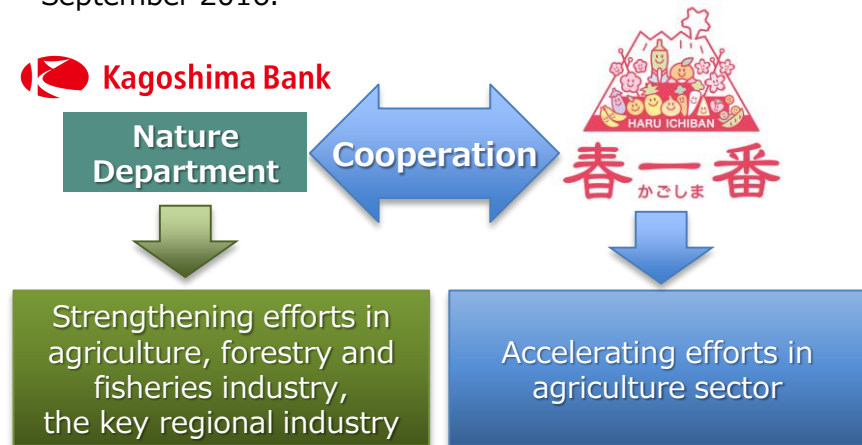


## Realizing potential of “agriculture, mountain and fisheries village” through enhanced efforts to support regional revitalization

- Largest balance among nation’s regional banks of lending to agriculture and livestock industry.
- Having accumulated specialized know-how and data through efforts in agriculture and livestock industry over many years.



- Newly establishing “Nature Department” specifically tasked to strengthen efforts in the primary industry, a key regional industry, in April 2018.
- Accelerating efforts on developing new business models for farming, in collaboration with agricultural company “Haru Ichiban” jointly set up with regional business partners in September 2016.



### Supporting income improvement for producers by taking advantage of trading-company functions

- Creating new supply chains through collaboration with Haru Ichiban.
- Strengthening efforts to support introduction of ICT in farming.

### Strengthening efforts in forestry and fisheries industries

- Developing fisheries ABL schemes.
- Strengthening collaboration with Japan Finance Corporation in forestry and fisheries sectors.

### Using accumulated know-how in agriculture and livestock industry

- Promoting ABL financing that reflects market environment and supporting management improvement.
- Developing new markets (Okinawa).

In December 2016, group subsidiary Higo Bank jointly established “Kumamoto DMC Co., Ltd.,” a company tasked to promote foods and tourism of the entire prefecture, with the Kumamoto prefectural government and others. The bank aims to support revitalization of regional economy through tourism.

**Major events to take place in Kumamoto Prefecture during period covered by the next Medium-Term Management Plan:**

- Recovery of access routes to Mt. Aso (Route 57, Aso Ohashi bridge)
- International sporting events (rugby, handball, etc.)
- Renewal of stations, ports, bus terminals and airports
- Revitalization of core commercial areas (Sakuramachi and Kumamoto Castle)

**Aiming at tourism promotion through close collaboration with Kumamoto DMC, taking account of general developments in the prefecture**



**Increased support from the relevant government agencies thanks to registration as Japanese version of DMO (regional collaboration DMO)**

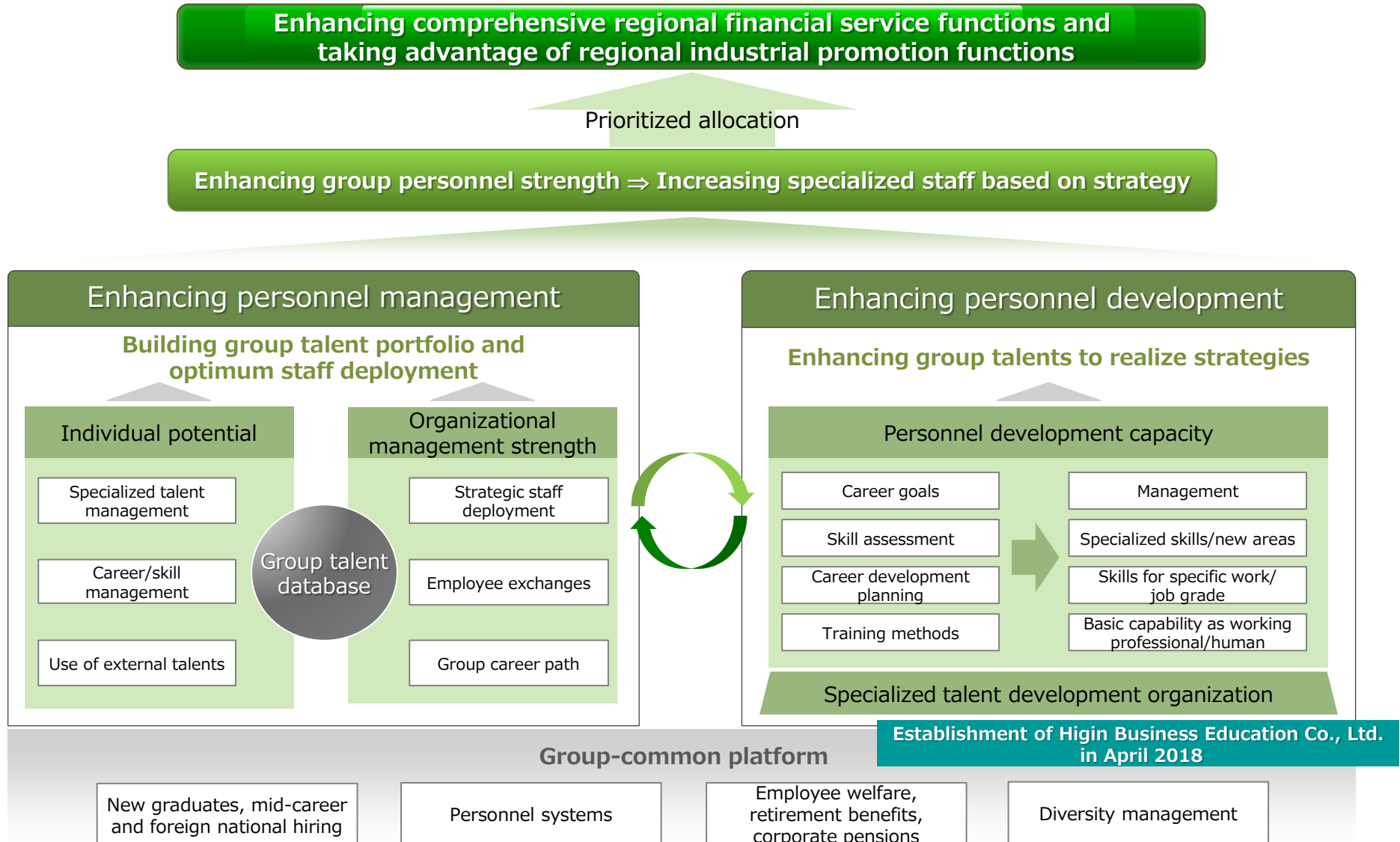
**Growing Kumamoto DMC into a body playing a central role in Kumamoto’s tourism**

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

# 8. Basic Strategy:

## (2) Reinforcing Group Personnel

We will engage in a group-wide effort to enhance personnel management and development in order to train specialized staffers and optimize staff deployment for the realization of strategies.

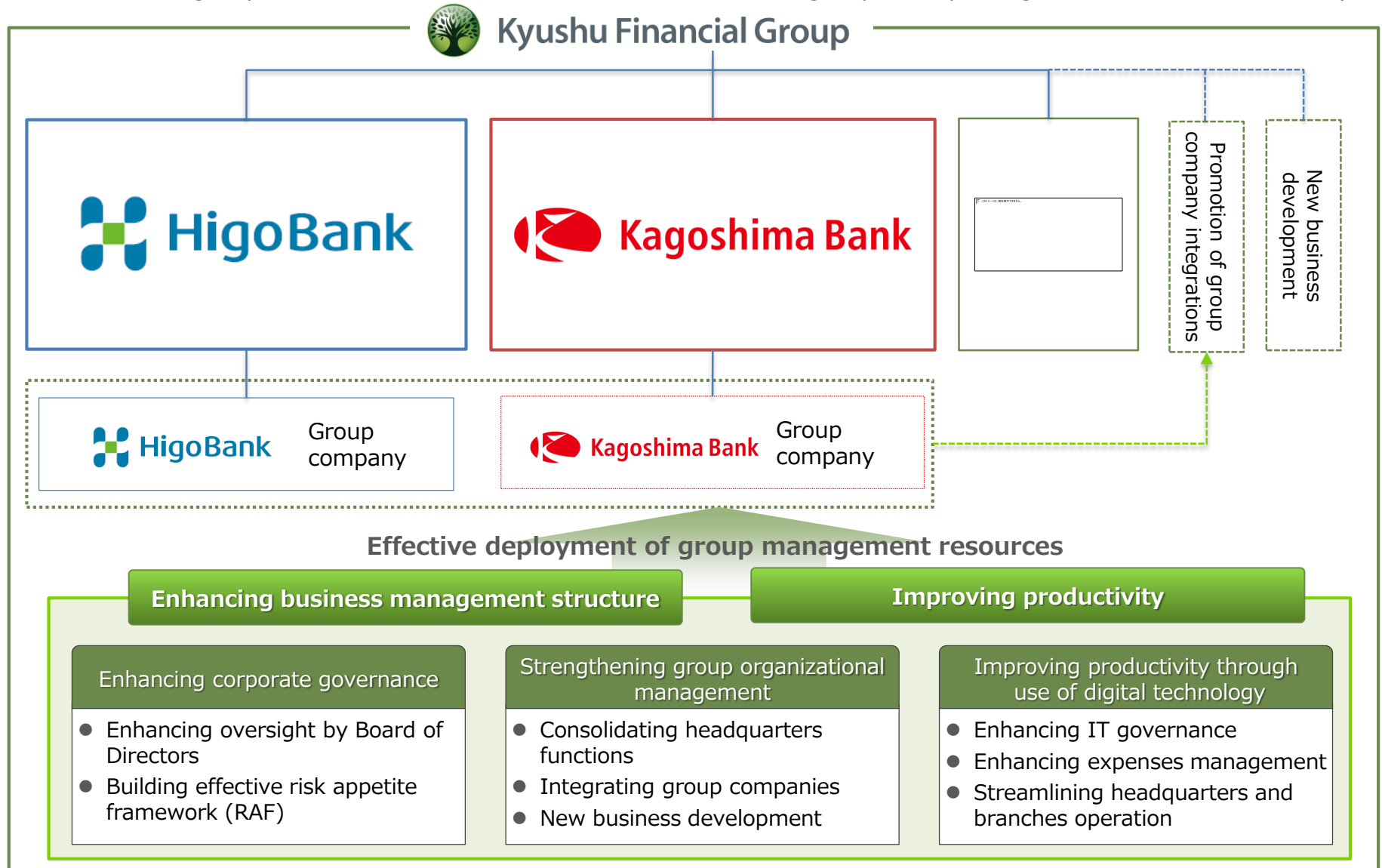




# 9. Basic Strategy:

## (3) Enhancing Group Governance

We will work to enhance our business management structure and improve productivity of branches and headquarters in order to squeeze out management resources (personnel, physical resources, money, information and time) and allocate them within the group in an effective manner for its evolution into a group championing "cocreation of local vitality."



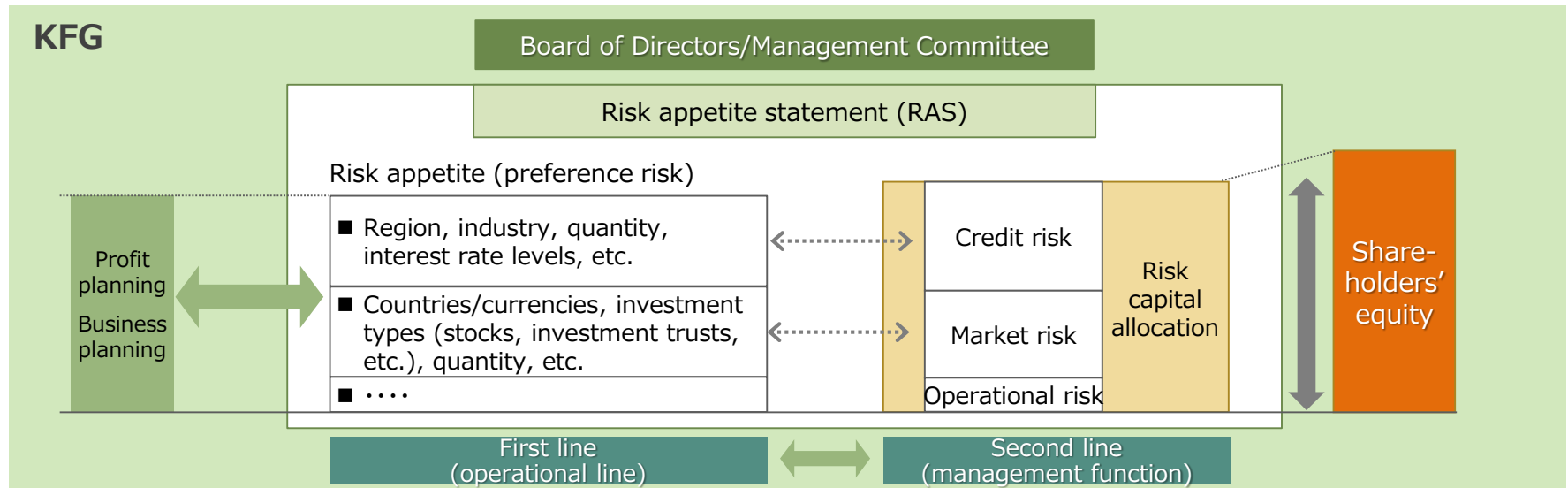
# 9. Basic Strategy:

## (3) Enhancing Group Governance

### (1) Enhancing business management structure: Building effective RAF

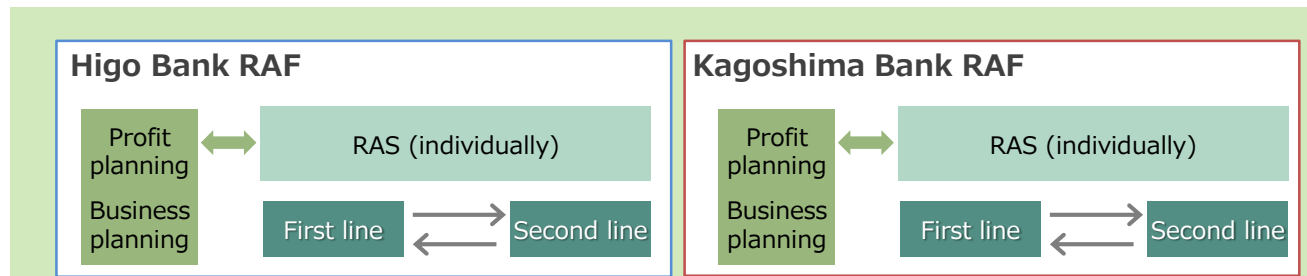
### Enhancing revenue and risk management structure through development of group-wide RAF

#### Group RAF



Negotiating risk capital

Risk capital allocation and monitoring



**Group company RAFs**

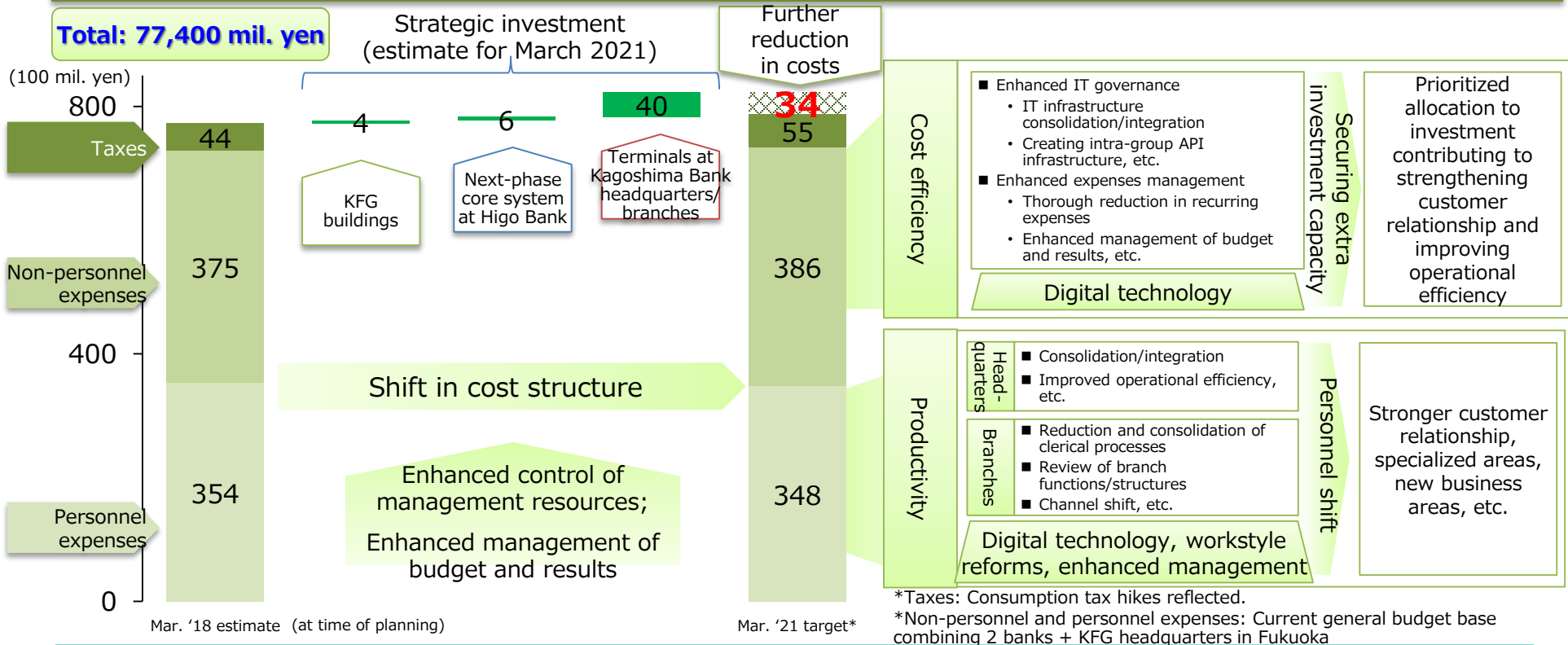
Building structure with future in mind

# 9. Basic Strategy:

## (3) Enhancing Group Governance

### (2) Improving productivity

Seeking to improve productivity by clarifying management resource allocation based on strategic investment



## 10. 2nd Group Medium-Term Management Plan: Numerical Targets Kyushu Financial Group

Item		Final-Year Target	Basis
Growth Potential	Average Loan Balance	7.6 tril. yen	Sum
	Average Deposit and NCD Balance	9.2 tril. yen	
Profitability	Net Income	25,000 mil. yen	Consolidated
	Income from Services to Customers*	14,000 mil. yen	
	Return on Shareholders' Equity	Over 4%	
Efficiency	OHR	Less than 70%	
Financial Soundness	Capital Adequacy Ratio	Above 10%	

\*Income from Services to Customers:

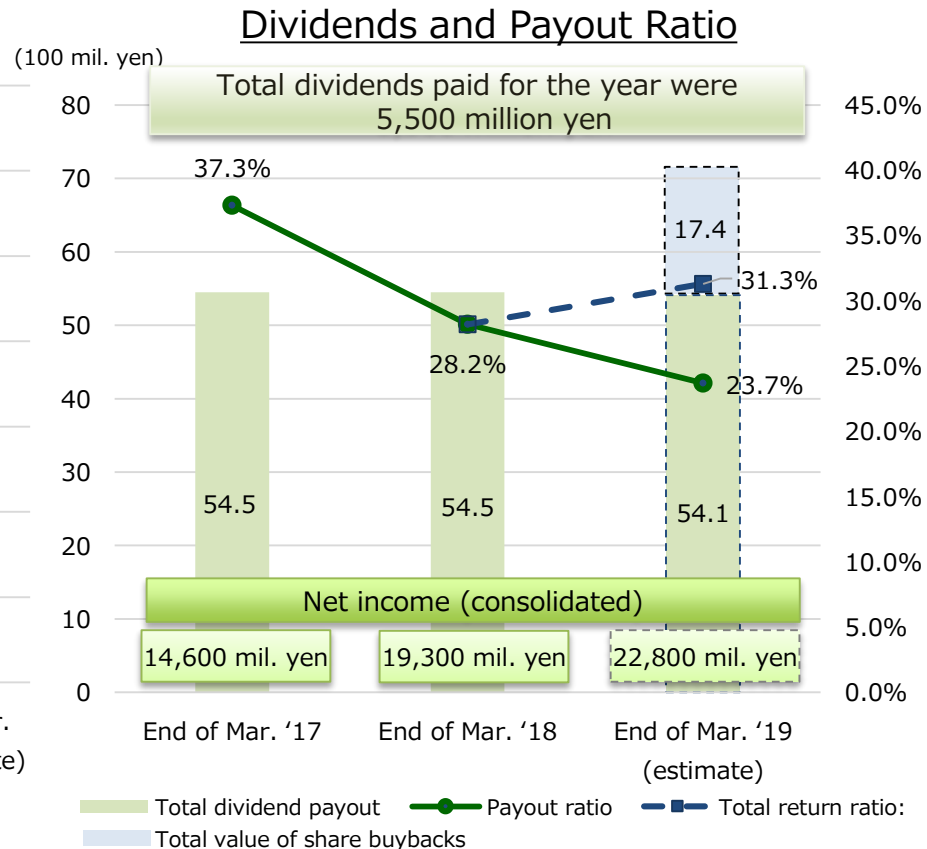
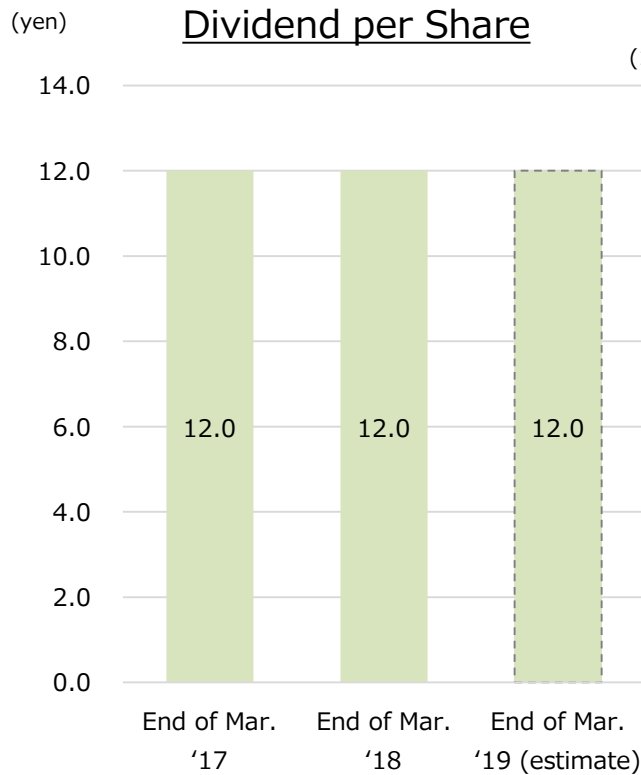
Average balance of lending × loan-deposit interest spread + fees and commissions – expenses.

Dividend policy under the current medium-term management plan

On the basis of stable dividends, we aim to pay out from increased income driven by improving capital efficiency while seeking to secure ample retained earnings.

\*Stable dividends: Incremental payout through stable income growth.

- The Kyushu Financial Group paid dividends of 12 yen per share at the end of March 2018. Payout ratio (consolidated) was 28.2%.
- The dividend level at the end of March 2019 is likewise expected to be 12 yen.
- Share buybacks conducted with an aim to maximizing shareholder returns through improved capital efficiency.



### Share buybacks

Number of outstanding shares: 3 million

Total acquisition value: 1,740 mil. yen

Total return ratio: 31.3%

Appropriate measures taken to address ESG issues for the goal of realizing sustainable society

Realizing sustainable growth of companies and improving corporate value

### Environmental

- Efforts for environmental finance (renewable energy-related loans)
- Efforts in forest maintenance projects and water resource protection activities (environmental protection activity)
- Creating environment-friendly branches (rooftop greening, solar power generation, etc.)

### Social

- Efforts on regional revitalization (efforts for regional industrial promotion and creative reconstruction)
- Promotion of workstyle reforms (introduction of earlier working hours and work interval system)
- Promotion of diversity (actively assigning females and hiring persons with disabilities)
- Contribution to regional cultural activities (Kagin Cultural Foundation and Higo no Satoyama Gallery)

### Corporate governance

- Study of possibility to set up a voluntary advisory body (nomination and compensation)
- Study of possibility to shift to company with audit and supervisory committee
- Integration of compliance guidance and education functions, and enhancing risk management structure

Enhancing disclosure related to non-financial information  
(organizing and disclosing information based on ESG and SDGs)

# Numerical Data



# 1. Financial Results Summary

## Higo Bank

- Gross business profit declined by 2,000 million yen year on year to 52,200 million yen, due mainly to decreases in interest and dividend income and gains on government and other bonds.
- Ordinary income grew by 5,600 million yen year on year to 17,900 million yen due mainly to a decrease in credit costs.
- Net income was 12,300 million yen, up 3,500 million yen year on year.

## Kagoshima Bank

- Gross business profit declined year on year by 2,500 million yen to 46,900 million yen, due chiefly to decreases in fees and commissions and in gains on government and other bonds.
- Ordinary income was 15,700 million yen, down 400 million yen year on year, as lower credit costs and expenses were offset by a drop in gains on stocks, etc.
- Net income was 10,900 million yen, up 100 million yen year on year.

## Higo Bank Profit & Loss

(100 mil. yen)

	Mar. 2017	Mar. 2018	Change
Gross business profit	542	522	-20
Interest and dividend income	470	461	-9
Fees and commissions	63	63	0
Other business profit	8	-3	-11
(of which gain or loss on government and other bonds)	(20)	(2)	-17
Expenses	393	371	-21
Core business profit	128	147	18
Allowance for doubtful accounts (subtract)	-5	-11	-5
Net Business Profit	154	161	6
Non-recurring profit or loss	-31	17	49
Non-performing loans disposal expenses (subtract)	52	13	-38
Equity securities-related profit or loss	16	27	11
Other non-recurring profit or loss	3	3	-0
Ordinary income	123	179	56
Extraordinary profit and loss	-0	-0	-0
Pre-tax net income	123	178	55
Net Income	87	123	35
(Credit costs)	45	1	-43

## Kagoshima Bank Profit & Loss

(100 mil. yen)

	Mar. 2017	Mar. 2018	Change
Gross business profit	494	469	-25
Interest and dividend income	453	456	2
Fees and commissions	61	47	-13
Other business profit	-19	-34	-14
(of which gain or loss on government and other bonds)	(-21)	(-39)	-18
Expenses	346	338	-8
Core business profit	169	170	1
Allowance for doubtful accounts (subtract)	20	-37	-57
Net Business Profit	127	167	40
Non-recurring profit or loss	33	-10	-44
Non-performing loans disposal expenses (subtract)	36	74	37
Equity securities-related profit or loss	73	48	-24
Other non-recurring profit or loss	-2	14	17
Ordinary income	161	157	-4
Extraordinary profit and loss	-6	-0	5
Pre-tax net income	155	156	0
Net Income	108	109	1
(Credit costs)	57	36	-20



## 2. Interest and Dividend Income

**Higo Bank** 46,100 mil. yen (down 900 mil. YoY)

- Lower interest rates on domestic loans and lower interest on securities, impacted by negative interest rates, led to a 900 million yen year-on-year decline.

**Kagoshima Bank** 45,600 mil. yen (up 200 mil. YoY)

- Up 200 mil. year on year as a decline in interest on domestic loans, impacted by negative interest rates, was offset by an increase in interest on securities.

### Interest and dividend income

#### Higo Bank

(100 mil. yen)

	Mar. 2016	Mar. 2017	Mar. 2018	vs. Mar. '17 Change
Interest and dividend income	474	470	461	-9
Domestic Division	429	414	418	3
Interest on loans	346	330	329	-1
Interest on deposits (subtract)	16	9	6	-2
Interest on securities	122	116	117	0
International Division	44	55	43	-12
Interest on securities	52	67	61	-6

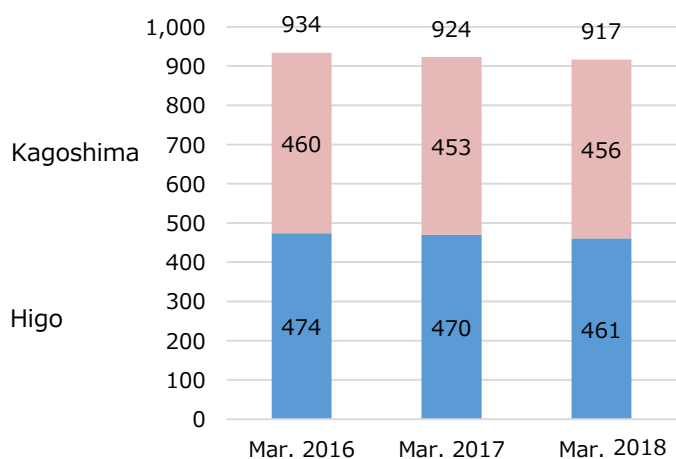
#### Kagoshima Bank

(100 mil. yen)

	Mar. 2016	Mar. 2017	Mar. 2018	vs. Mar. '17 Change
Interest and dividend income	460	453	456	2
Domestic Division	443	435	444	8
Interest on loans	368	365	360	-4
Interest on deposits (subtract)	13	7	6	-1
Interest on securities	93	82	92	9
International Division	16	18	11	-6
Interest on securities	19	30	22	-7

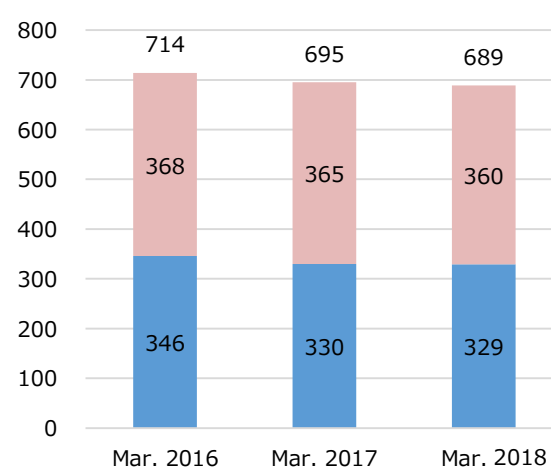
#### Interest and Dividend Income

(100 mil. yen)



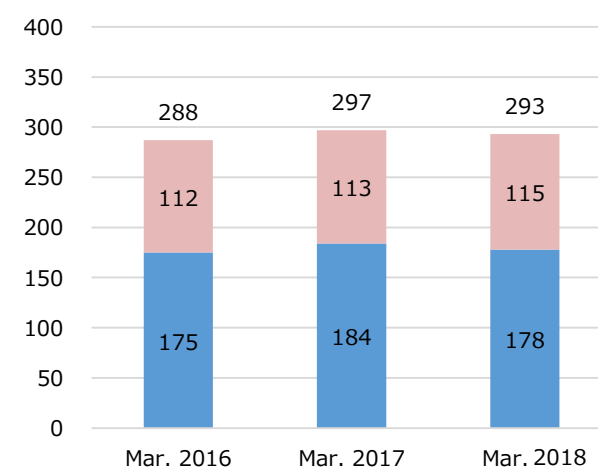
#### Interest on Domestic Loans

(100 mil. yen)



#### Interest on Securities

(100 mil. yen)



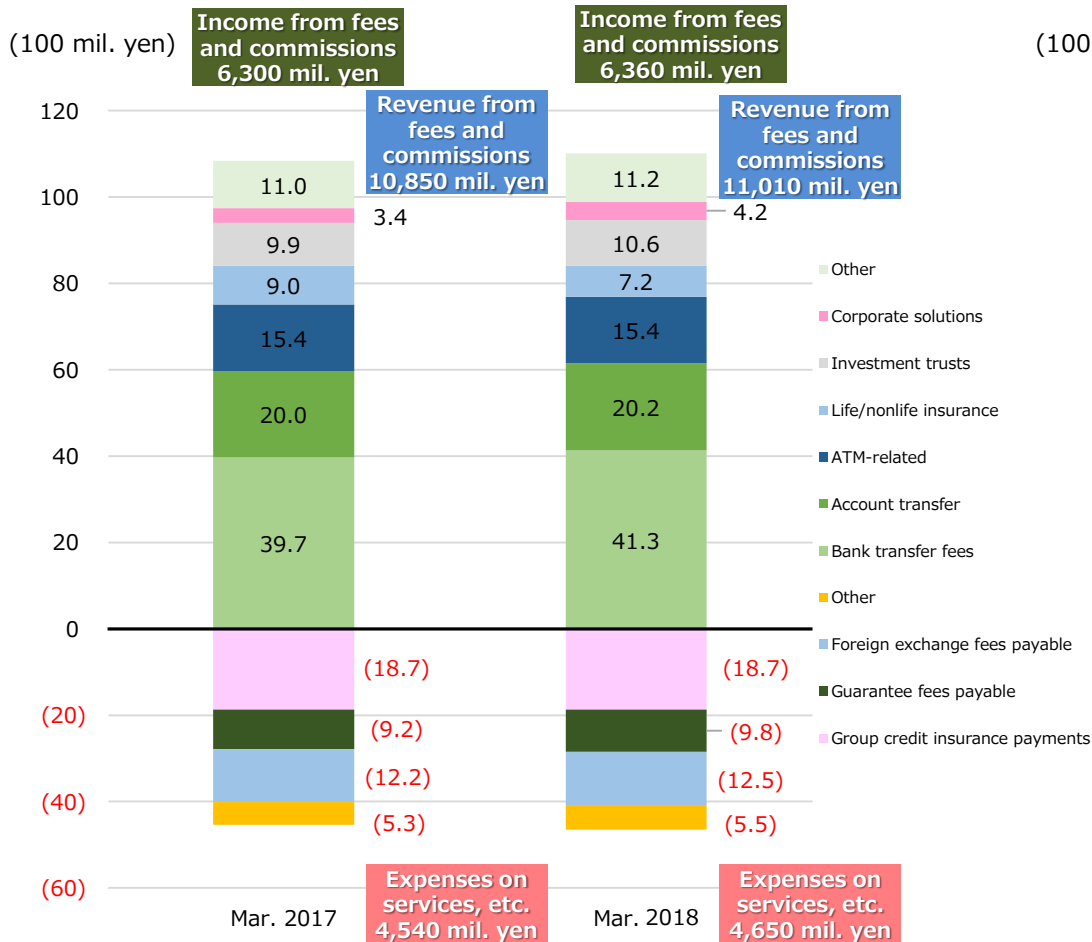
# 3. Fees and Commissions

• Fees and commissions increased 60 mil. yen year on year to 6,360 mil. yen as a fall in commissions on assets under management was offset by an increase in other commissions and fees.

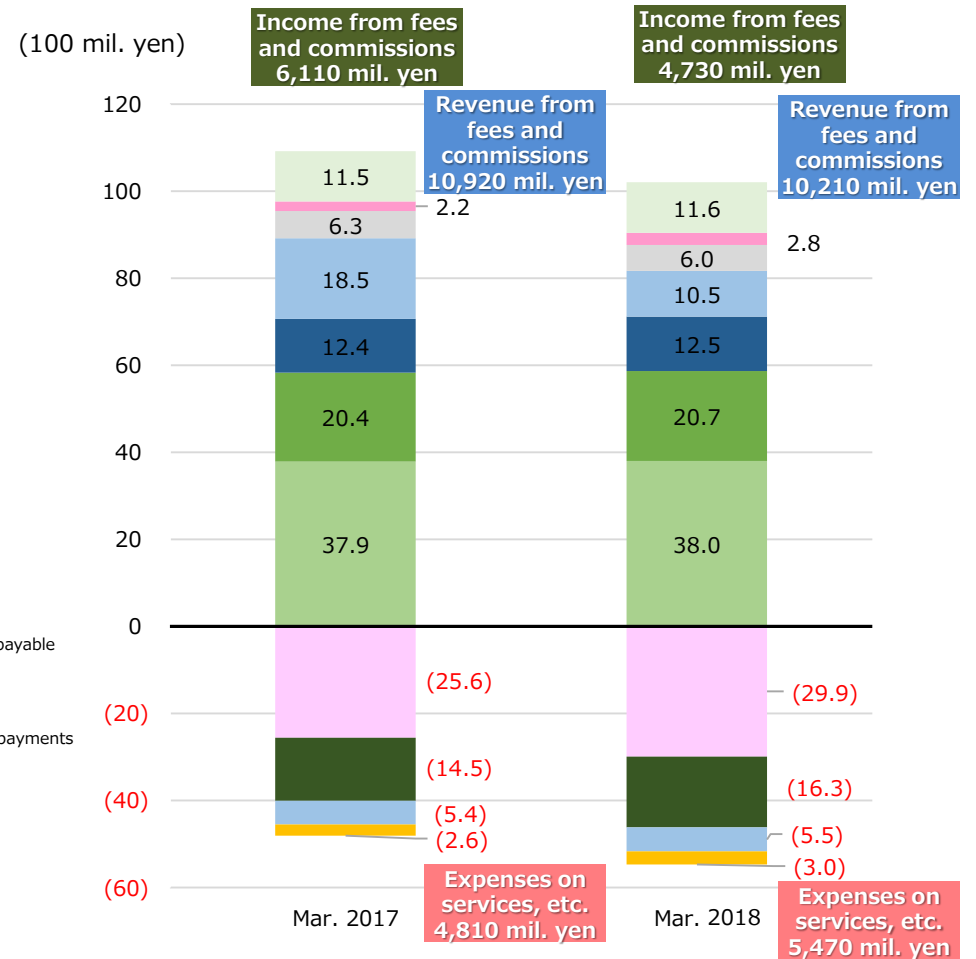
• Fees and commissions were down by 1,370 mil. yen year on year to 4,730 mil. yen, as commissions on assets under management declined and guarantee commissions increased due to increased personal loans.

## Fees and Commissions

### Higo Bank



### Kagoshima Bank



# 4. Expenses

## Higo Bank

- Expenses fell by 2,100 mil. yen year on year to 37,100 mil. yen owing to a thorough reduction in non-personnel expenses.
- OHR was 71.23%, down 1.33% year on year.

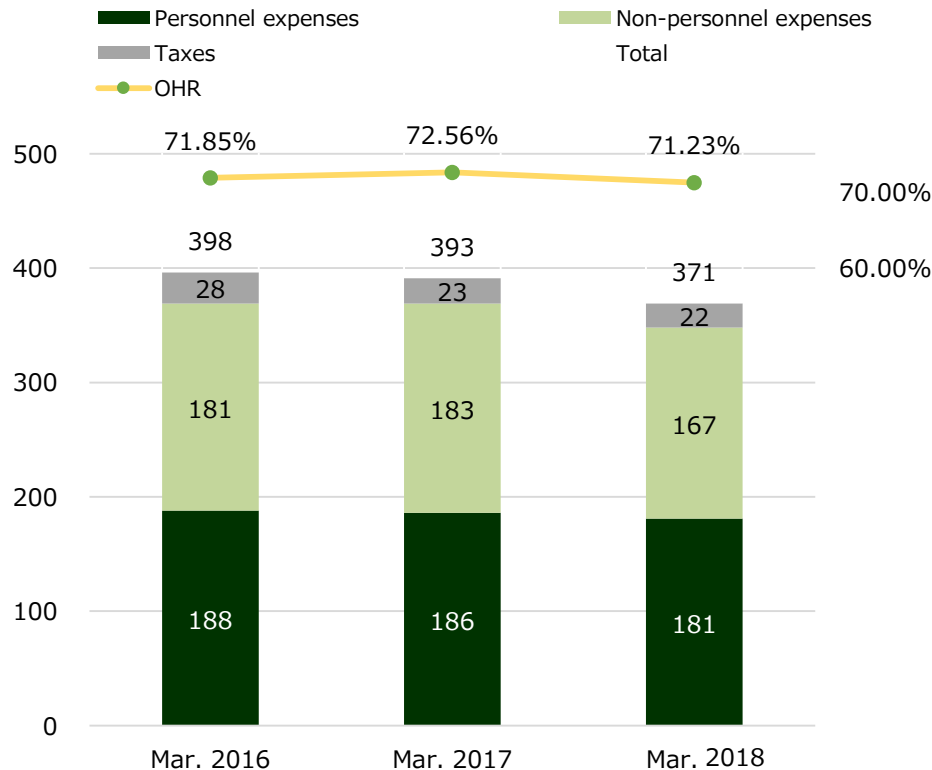
## Kagoshima Bank

- Expenses declined by 800 mil. yen year on year to 33,800 mil. yen, due mainly to lower non-personnel and personnel expenses.
- OHR increased by 2.13% year on year to 72.16% due to a decline in gross business profit.

## Expenses

Higo Bank

(100 mil. yen)



Kagoshima Bank

(100 mil. yen)



# 5. Loans (Average Balance)

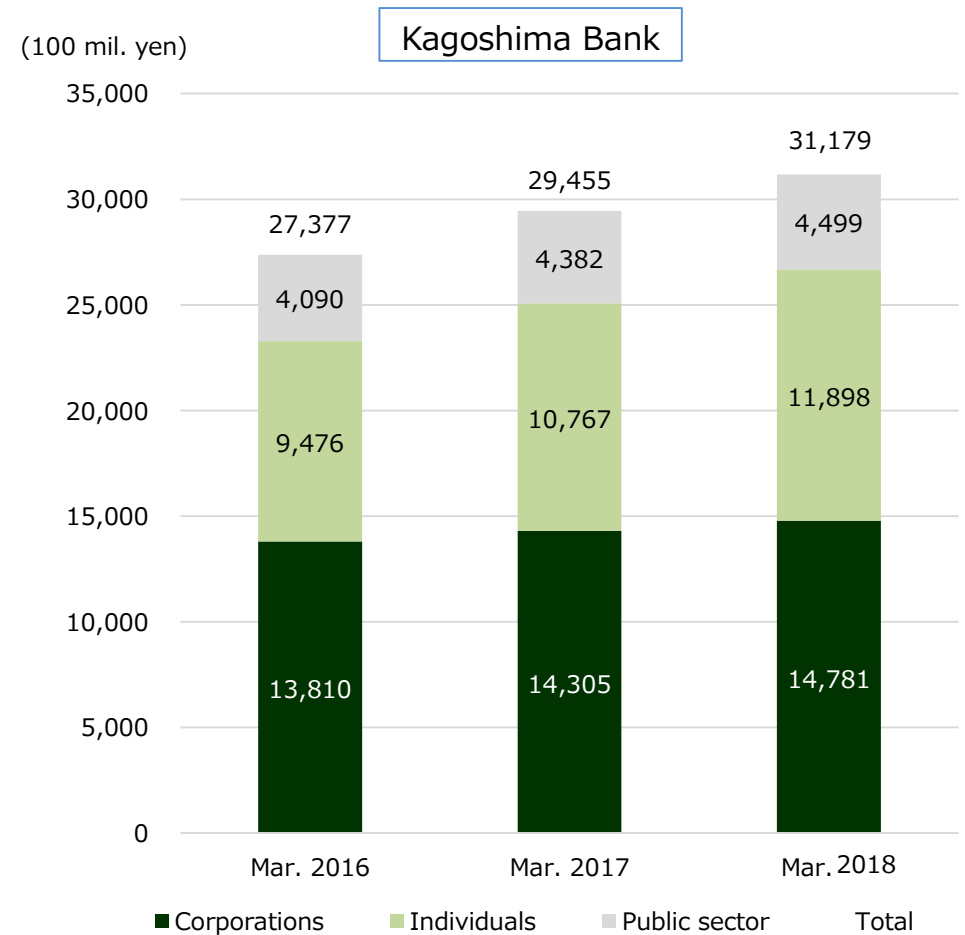
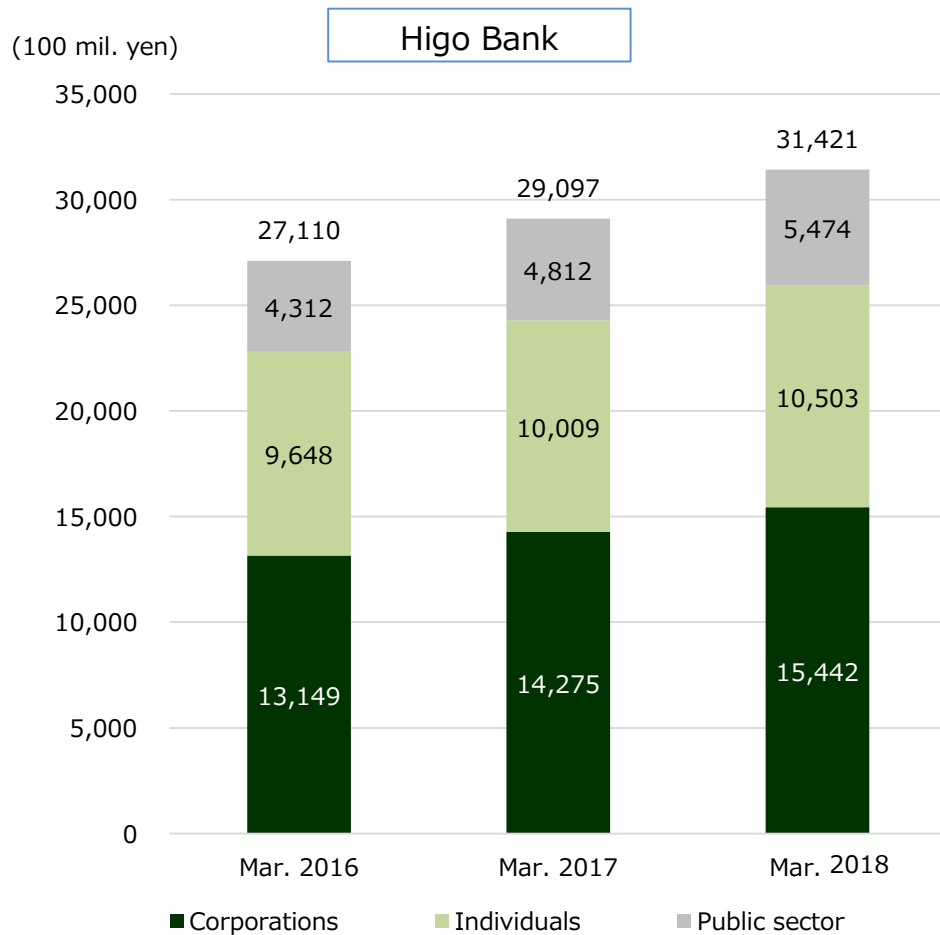
## Higo Bank

- Grew steadily for corporate, individual and public sector customers, with the overall figure rising by 232,400 year on year to 3,142,100 mil. yen.

## Kagoshima Bank

- Rose by 172,400 mil. yen year on year to 3,117,900 mil. yen as housing loans and other loans to individuals increased by 172,300 mil. yen year on year.

### Balance of Loans



# 6. Deposits (Average Balance)

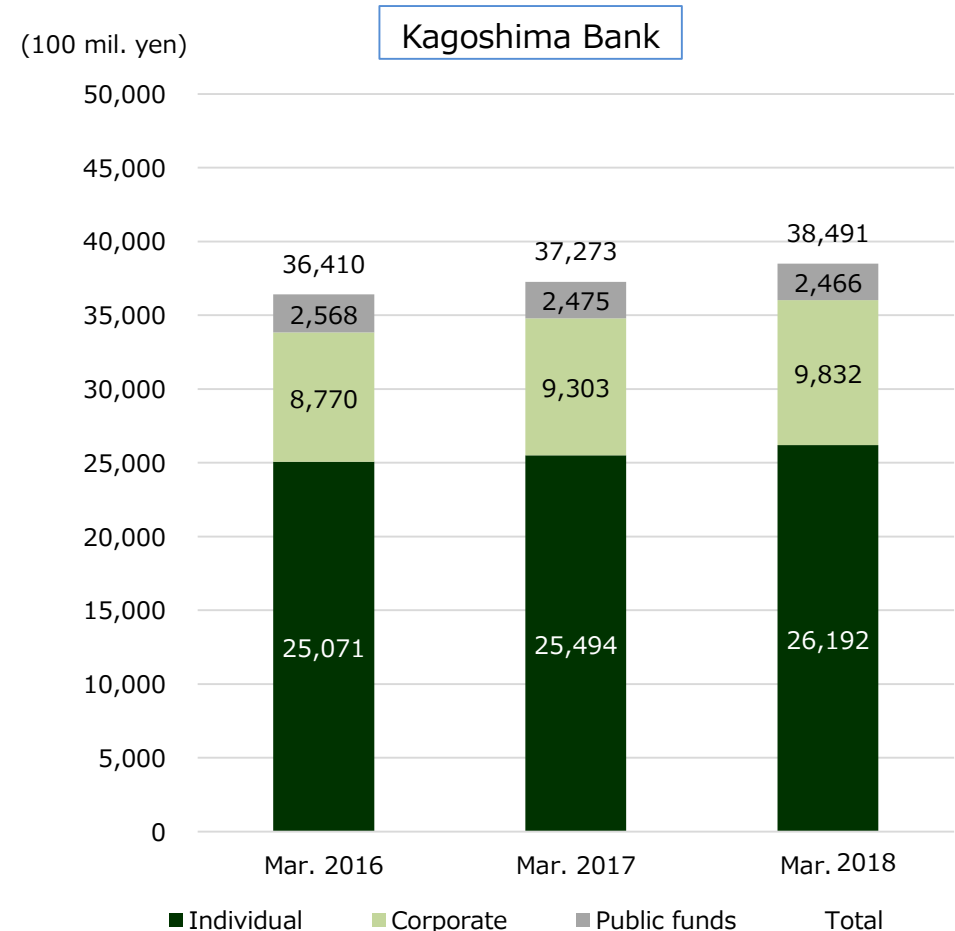
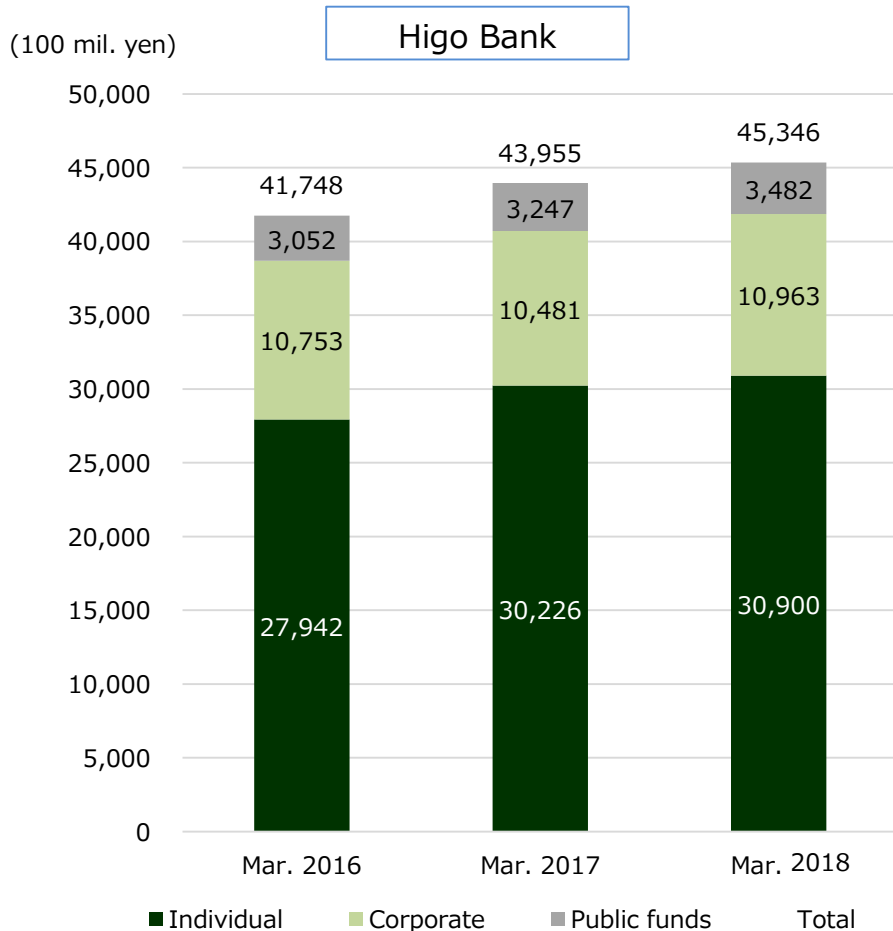
## Higo Bank

- The average balance of deposits rose to 4,534,600 mil. yen, up 139,100 mil. yen year on year, as personal, corporate and public-sector deposits all grew.

## Kagoshima Bank

- The average balance of deposits rose to 3,849,100 million yen, up 12,180 million yen year on year, as personal and corporate deposits both grew.

### Balance of Deposits (incl. NCDs)



# 7. Securities

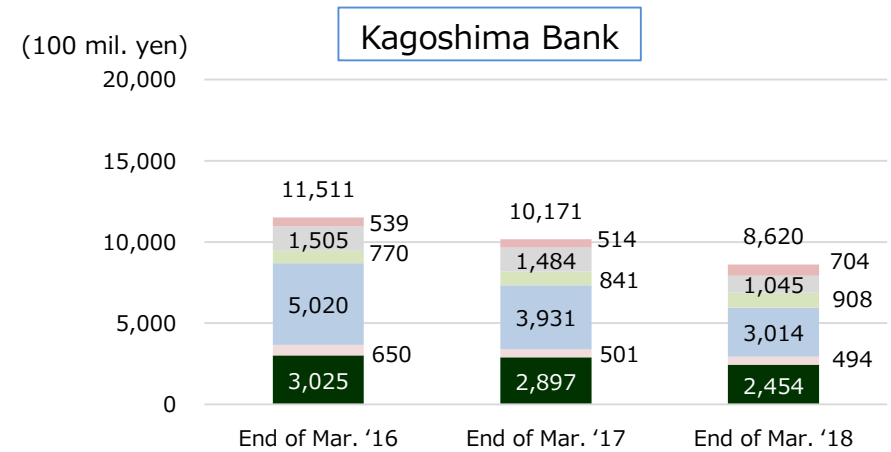
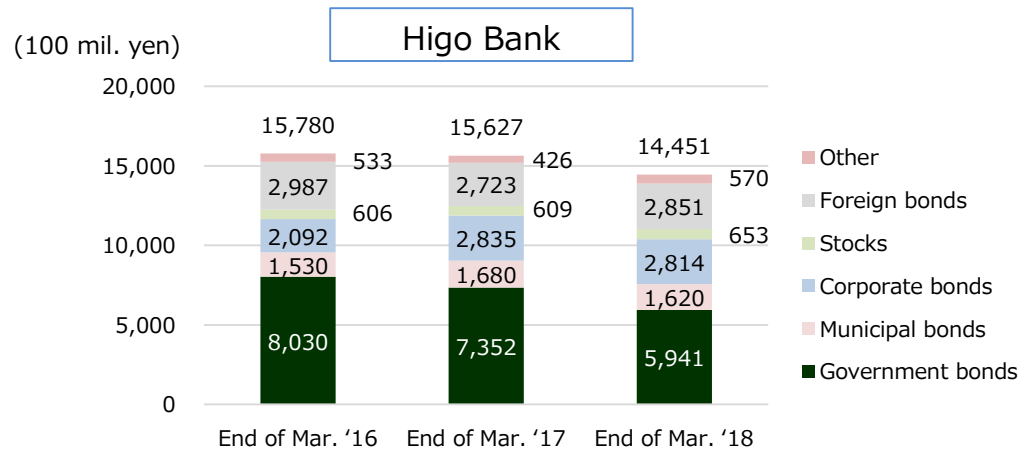
## Higo Bank

- The balance of securities dropped by 117,600 mil. yen from the end of previous fiscal year to 1,445,100 mil. yen due mainly to redemptions and sale of domestic bonds.

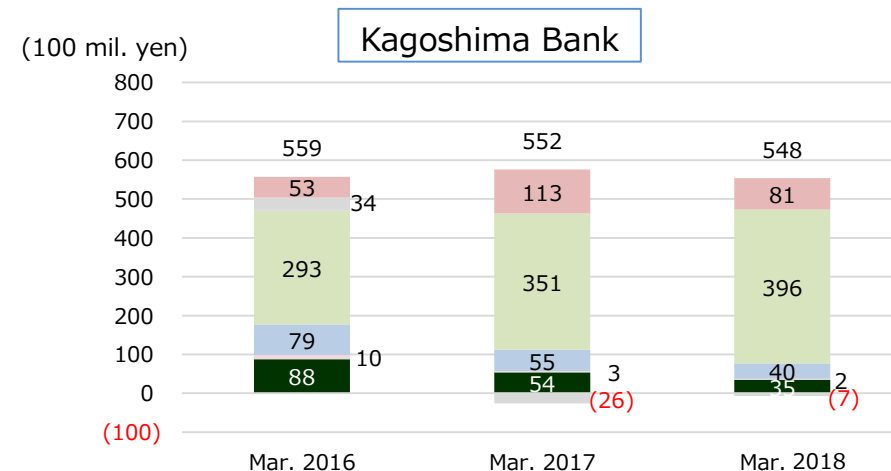
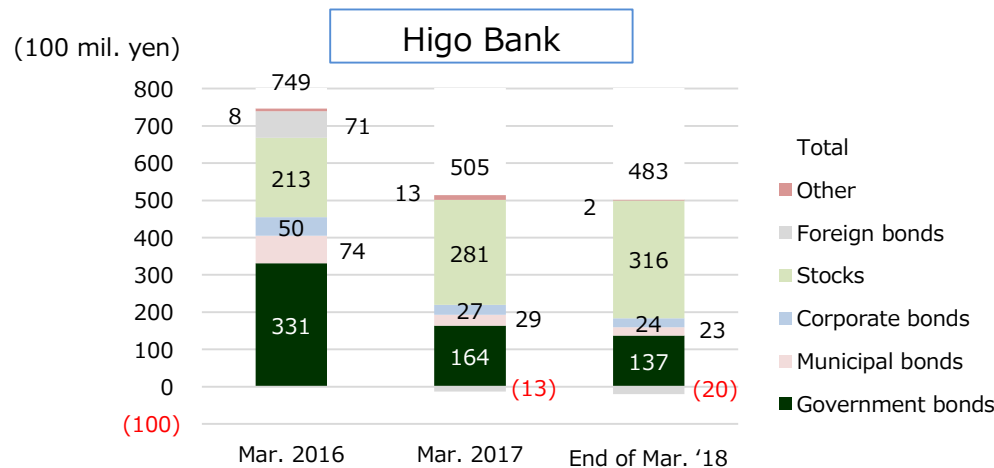
## Kagoshima Bank

- The balance of securities decreased by 155,100 mil. yen from the end of the previous fiscal year to 862,000 mil. yen, led by a decline in domestic bonds.

### Balance of Securities



### Valuation Gain on Securities



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

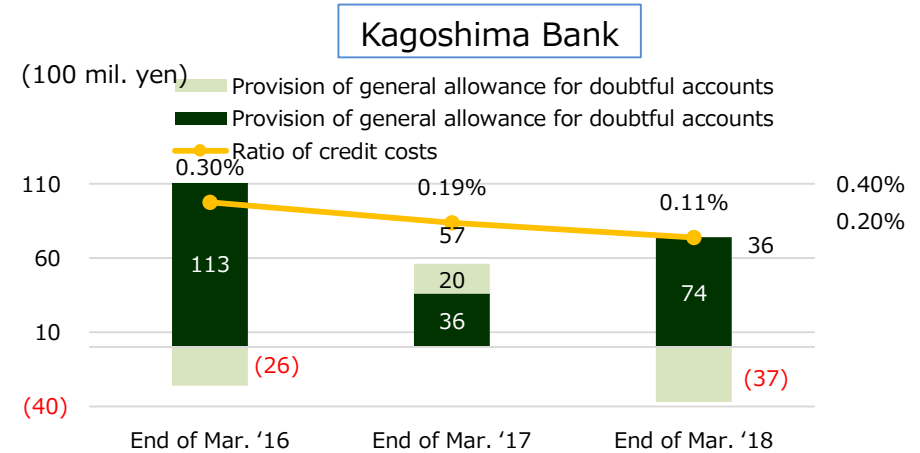
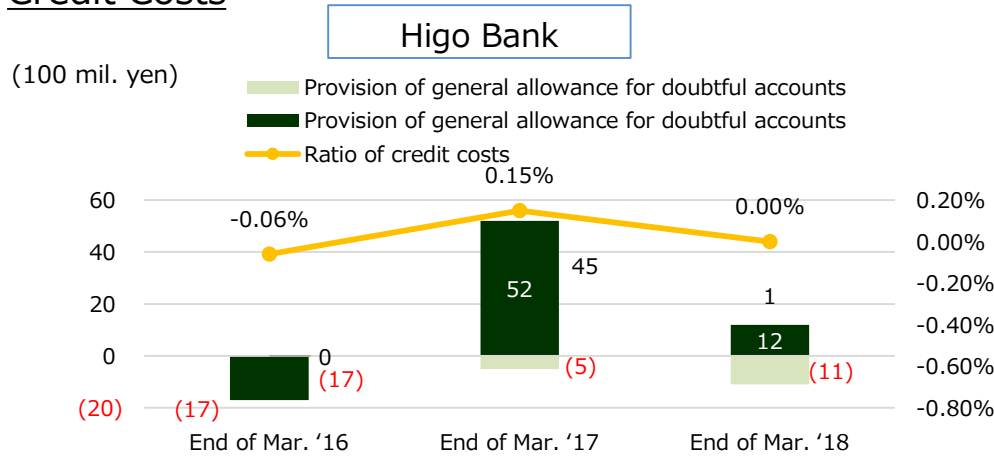
## Higo Bank

- The ratio of credit costs declined 0.15% year on year to 0.00%.
- The ratio of non-performing loans dropped 0.22% year on year to 1.94%.

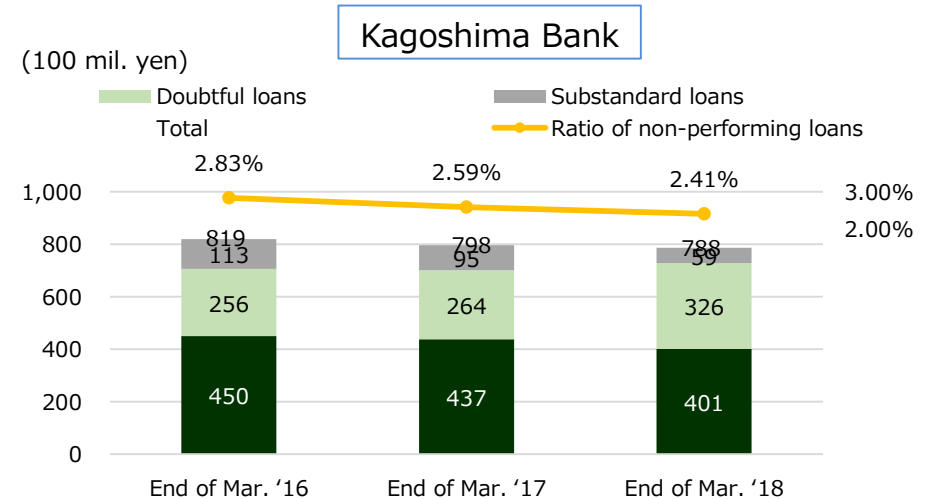
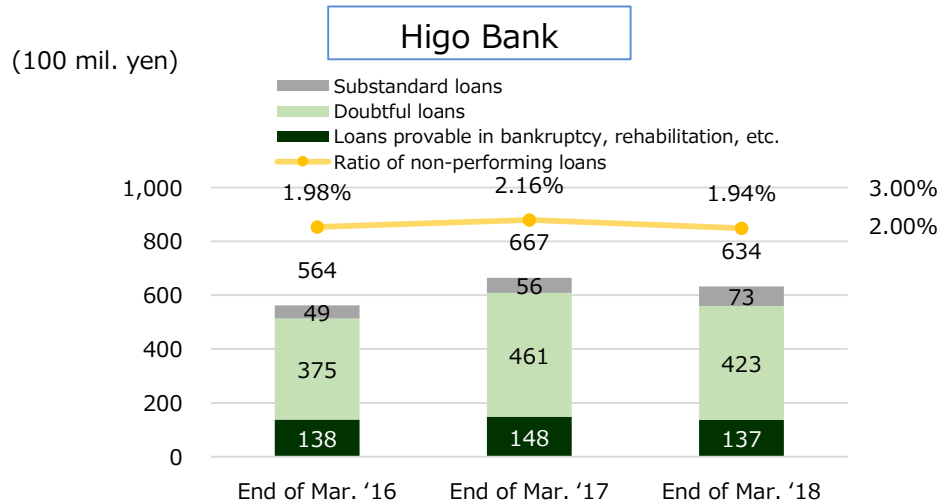
## Kagoshima Bank

- The ratio of credit costs declined 0.08% year on year to 0.11%.
- The ratio of non-performing loans dropped 0.18% year on year to 2.41%.

### Credit Costs



### Loans Disclosed Pursuant to Financial Reconstruction Act



# 9. Capital Adequacy Ratio

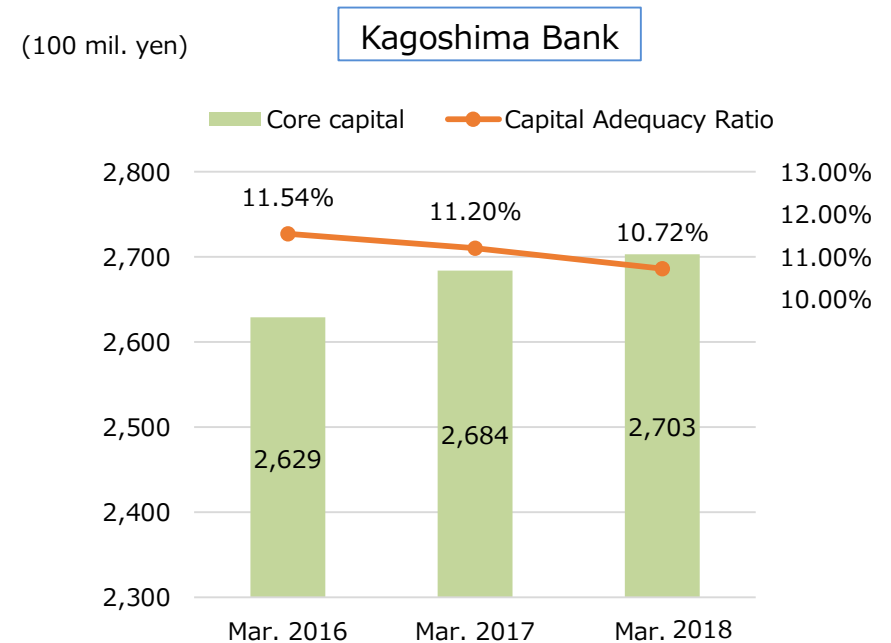
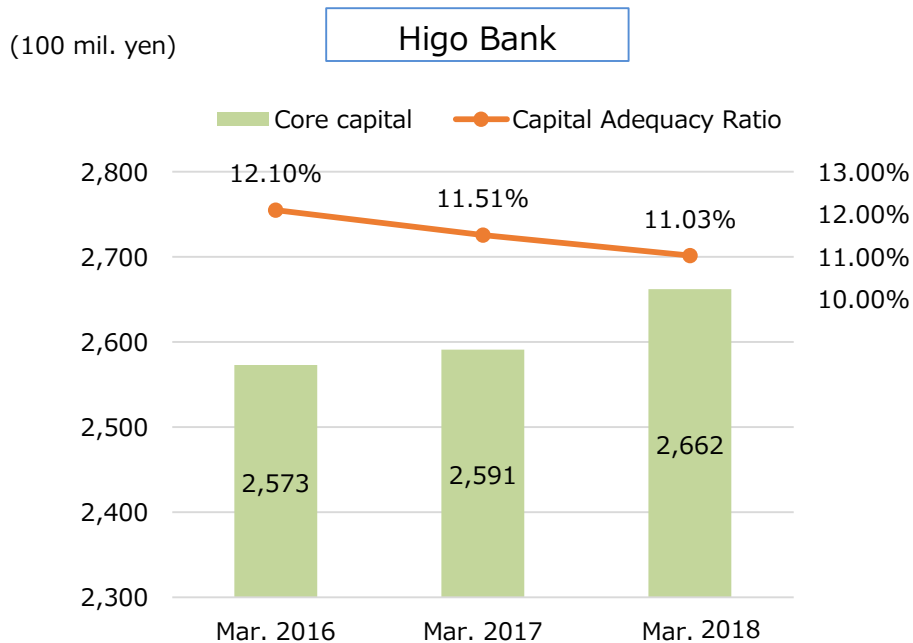
## Higo Bank

- Capital adequacy ratio declined by 0.48% year on year to 11.03%, mainly due to a rise in risk assets as lending grew.

## Kagoshima Bank

- Capital adequacy ratio declined by 0.48% year on year to 10.72%, mainly due to a rise in risk assets as lending grew.

### Capital Adequacy Ratio



(100 mil. yen)

	Mar. 2016	Mar. 2017	Mar. 2018	Change
(1) Core capital	2,573	2,591	2,662	71
(2) Risk assets	21,266	22,507	24,133	1,625
Capital adequacy ratio ((1)/(2))	12.10%	11.51%	11.03%	-0.48%

(100 mil. yen)

	Mar. 2016	Mar. 2017	Mar. 2018	Change
(1) Core capital	2,629	2,684	2,703	19
(2) Risk assets	22,779	23,959	25,211	1,251
Capital adequacy ratio ((1)/(2))	11.54%	11.20%	10.72%	-0.48%



# 10. Housing Loans (including Apartment Loans) and Other Loans

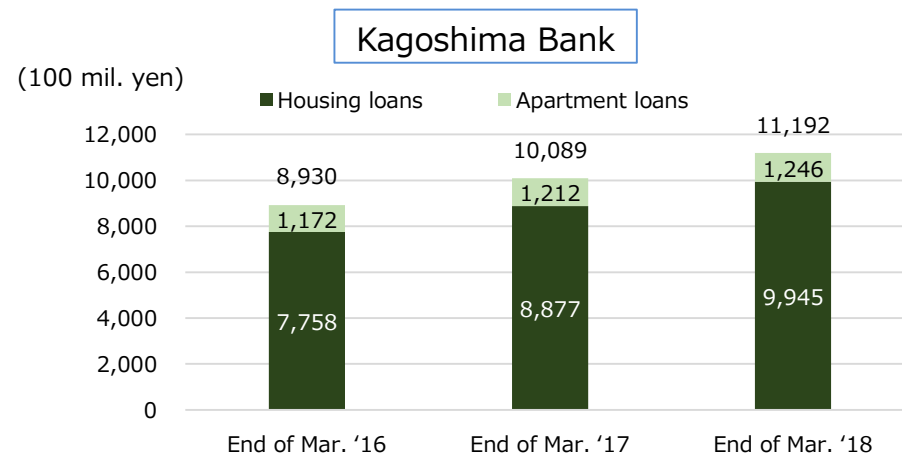
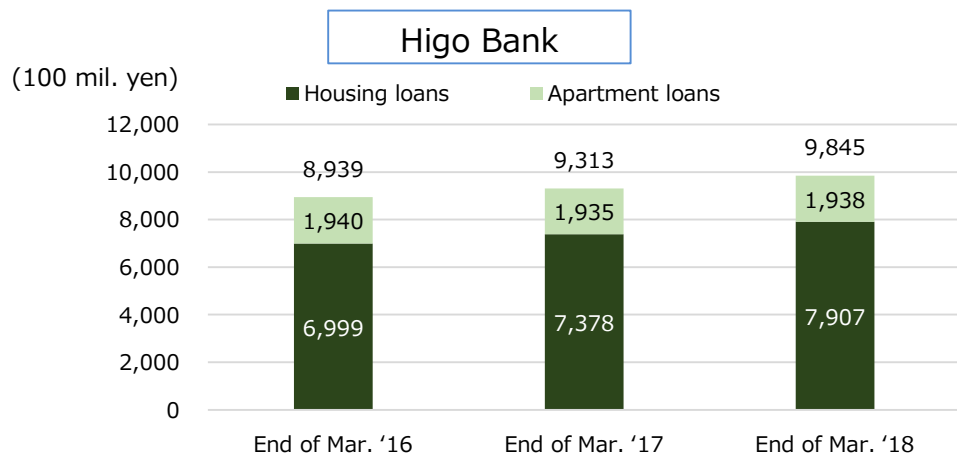
## Higo Bank

- The balance of housing loans (including apartment loans) was 984,500 mil. yen.
- The balance of other loans (including card loans) was 42,700 mil. yen.

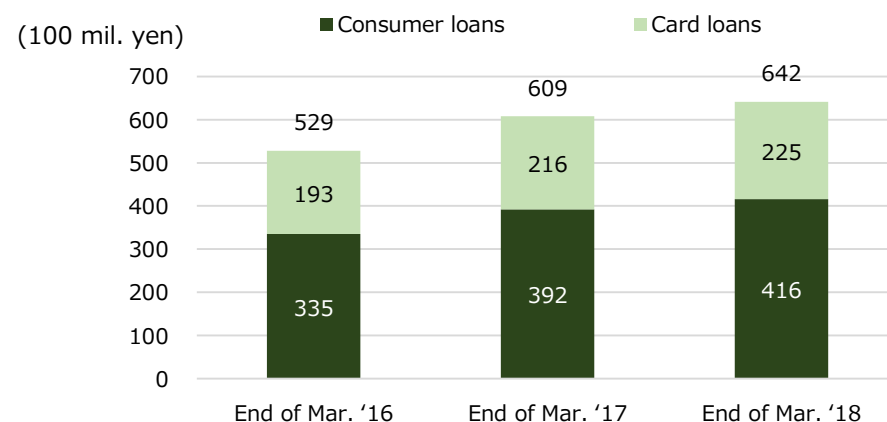
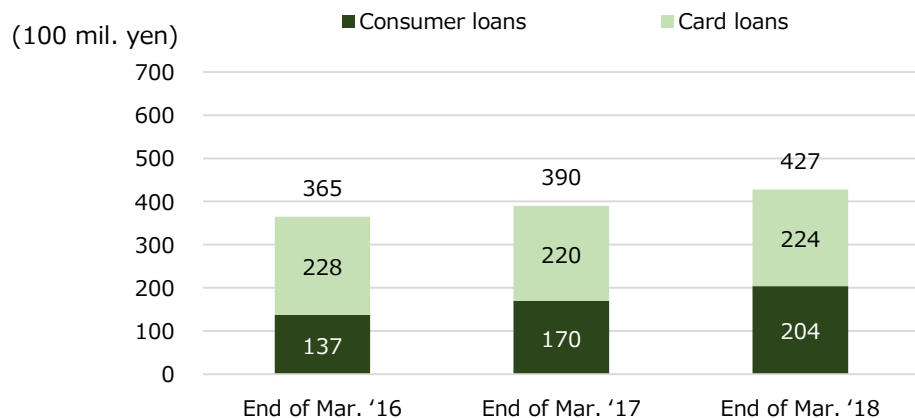
## Kagoshima Bank

- The balance of housing loans (including apartment loans) was 1,119,200 mil. yen.
- The balance of other loans (including card loans) was 64,200 mil. yen.

### Balance of housing loans (including apartment loans)



### Balance of other loans



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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