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Securities code: 7180

June 6, 2018

To our shareholders:

Motohiro Kamimura
President
Kyushu Financial Group, Inc.
6-6, Kinseicho, Kagoshima-shi, Kagoshima-ken
(The address above is the registered address of the Company. Head office operations are conducted at the address below.)
1, Rempeicho, Chuo-ku, Kumamoto-shi, Kumamoto-ken

NOTICE OF THE 3RD ORDINARY GENERAL MEETING OF SHAREHOLDERS

You are cordially invited to attend the 3rd Ordinary General Meeting of Shareholders of Kyushu Financial Group, Inc. (the “Company”), which will be held as described below.

If you are unable to attend the meeting in person, you may exercise your voting rights in writing or on the Internet, etc. After reviewing the Reference Documents for the General Meeting of Shareholders hereinafter described, please exercise your voting rights no later than Monday, June 25, 2018 at 5:30 p.m. (Japan Standard Time).

1. Date and Time: Tuesday, June 26, 2018 at 10:00 a.m. (Japan Standard Time)

2. Venue: The Kagoshima Bank, Ltd. Kagin Kaikan with
2-7-28, Yojiro, Kagoshima-shi, Kagoshima-ken

3. Purposes:

Items to be reported:

1. Business Report and Consolidated Financial Statements for the 3rd Term (from April 1, 2017 to March 31, 2018), as well as the results of audit of the Consolidated Financial Statements by the Accounting Auditor and the Board of Corporate Auditors.
2. Non-Consolidated Financial Statements for the 3rd Term (from April 1, 2017 to March 31, 2018)

Items to be resolved:

- Proposal 1:** Election of Ten (10) Directors
Proposal 2: Election of One (1) Corporate Auditor

Notes:

- 1 Among the documents that the Company should provide to its shareholders when sending this Convocation Notice, the information contained in the following documents is posted on the Company’s website (<https://www.kyushu-fg.co.jp/>) in accordance with the laws and regulations and the provisions of Article 16 of the Company’s Articles of Incorporation, and therefore it is not included in the documents attached hereto.
 - (i) The Non-Consolidated Statement of Changes in Net Assets, and the Notes to Non-Consolidated Financial Statements
 - (ii) The Consolidated Statement of Changes in Net Assets, and the Notes to Consolidated Financial StatementsThus, the documents attached hereto comprise only part of the Consolidated Financial Statements and Non-Consolidated Financial Statements, etc., that the Accounting Auditor audited in preparing its Accounting Audit Report and that the Corporate Auditors audited in preparing their Audit Report.
- 2 If any revision is made to the Reference Documents for the General Meeting of Shareholders, the Business Report, the Non-Consolidated Financial Statements, or the Consolidated Financial Statements, the Company will post the revised material on its website (<https://www.kyushu-fg.co.jp/>).

Reference Documents for the General Meeting of Shareholders

Proposal 1: Election of Ten (10) Directors

The terms of office of all nine (9) current Directors will expire at the conclusion of this meeting. Director Hiroyuki Matsunaga resigned as of March 31, 2018. Therefore, the Company proposes the election of ten (10) Directors.

Please note that the nominations of the Candidates for Directors have been approved by the Board of Directors under the Candidate Selection Policies established by the Company.

<Director Candidate Selection Policies>

1. On the assumption that Candidates for Director satisfy the statutory requirements, the selection policies are as follows.
 - (i) Candidates for Director originally from the Group who possess knowledge, experience, and ability in various fields, such as management, business, and supervision in financial services, and who also are well informed about economic and social conditions must be selected with a balanced representation of backgrounds.
 - (ii) In accord with the preceding item, multiple candidates for Outside Director who have knowledge, experience, and ability in fields that should particularly be supplemented from the perspective of management of the Group and who do not infringe the independence standards established by the Company must be selected.
2. In selecting candidates for Director, the Board of Directors must observe the policies set forth in the preceding item and, in the selection stage, provide an opportunity for appropriately receiving the Outside Directors' involvement and advice.
3. Each time that selections are made, the Board of Directors must examine the percentage of Outside Directors in the entire Board of Directors as well as the balance between knowledge, experience, and ability, etc., in accord with such factors as changes in the management environment surrounding the Group and the Group's management strategy.

Furthermore, the two (2) Outside Directors both meet the independence standards for outside officers established by the Company. (Please refer to page 9 of this document for an overview of the Outside Officer Independence Standards.)

The candidates for Director are as follows.

No.	Name	Current position and responsibilities in the Company	
1	Takahiro Kai	Chairman of the Board (Head)	[For reelection]
2	Motohiro Kamimura	President (Head, in charge of Audit Department)	[For reelection]
3	Tsuyoshi Mogami	Director and Senior Managing Executive Officer (In charge of Corporate Planning Division and Compliance and Risk Management Division)	[For reelection]
4	Tsutomu Nakamura	Senior Managing Executive Officer (In charge of Group Strategy Department and Operations Administration and IT Management Division)	[New election]
5	Yoshihisa Kasahara	Director	[For reelection]
6	Akihisa Koriyama	Director	[For reelection]
7	Toru Hayashida	Director and Executive Officer (General Manager of Corporate Planning Division)	[For reelection]
8	Tsukasa Tsuruta	Director and Executive Officer (General Manager of Group Strategy Department)	[For reelection]
9	Katsuaki Watanabe	Director	[For reelection] [Outside]
10	Yuji Nemoto	–	[New election] [Outside]

No.	Name (Date of birth)	Career summary	Number of the Company's shares owned
1	<p>Takahiro Kai (April 25, 1951)</p> <p>[For reelection]</p> <p>Attendance at 12 out of 12 board of directors meetings (100%)</p>	<p>Apr. 1975 Joined The Higo Bank, Ltd.</p> <p>June 2006 Senior Managing Director</p> <p>June 2008 Representative Director and Deputy President</p> <p>June 2009 Representative Director and President (to present)</p> <p>Oct. 2015 Chairman of the Board of the Company (to present)</p> <p>[Position and responsibilities in the Company] Chairman of the Board (Head)</p> <p>[Significant concurrent positions outside the Company] Representative Director and President of The Higo Bank, Ltd. (to assume office of Director and Chairman of the bank on June 26, 2018)</p> <p>Chairman of The District Economics Research Institute of Kumamoto Area, Chairman of Foundation for the Preservation of Green and Water Resources in the Province of Higo</p>	98,770
		<p>Reasons for nomination as candidate for Director</p> <p>Since the Company's establishment in 2015, Takahiro Kai has supervised the general management of the Group as Chairman of the Board, and has also driven the management of The Higo Bank, Ltd., now a wholly owned subsidiary of the Group, as its President since 2009. Since he possesses abundant knowledge, rich experience, and high ability in the field of financial services, the Company believes that Takahiro Kai can contribute to the Group's further development, and it has therefore nominated him as a candidate for Director.</p>	
2	<p>Motohiro Kamimura (August 18, 1952)</p> <p>[For reelection]</p> <p>Attendance at 12 out of 12 board of directors meetings (100%)</p>	<p>Apr. 1975 Joined The Kagoshima Bank, Ltd.</p> <p>June 2004 Director and General Manager of Operations Management Division</p> <p>June 2006 Managing Director</p> <p>June 2010 President (to present)</p> <p>Oct. 2015 President of the Company (to present)</p> <p>[Position and responsibilities in the Company] President (Head, in charge of Audit Department)</p> <p>[Significant concurrent positions outside the Company] President of The Kagoshima Bank, Ltd., Chairman of The Kagin Cultural Foundation</p>	36,950
		<p>Reasons for nomination as candidate for Director</p> <p>Since the Company's establishment in 2015, Motohiro Kamimura has supervised the general management of the Group as President, and has also driven the management of The Kagoshima Bank, Ltd., now a wholly owned subsidiary of the Group, as its President since 2010. Since he possesses abundant knowledge, rich experience, and high ability in the field of financial services, the Company believes that Motohiro Kamimura can contribute to the Group's further development, and it has therefore nominated him as a candidate for Director.</p>	

No.	Name (Date of birth)	Career summary	Number of the Company's shares owned
3	Tsuyoshi Mogami (June 18, 1956) [For reelection] Attendance at 12 out of 12 board of directors meetings (100%)	Apr. 1980 Joined The Higo Bank, Ltd. June 2011 Director, Executive Officer, and General Manager of Loan Management Division June 2013 Director and Managing Executive Officer June 2015 Director and Senior Managing Executive Officer Oct. 2015 Director of the Company Apr. 2018 Director and Senior Managing Executive Officer (to present) May 2018 Director of Kyushu FG Securities, Inc. (to present) [Position and responsibilities in the Company] Director and Senior Managing Executive Officer (In charge of Corporate Planning Division and Compliance and Risk Management Division) [Significant concurrent positions outside the Company] Director of Kyushu FG Securities, Inc.	42,326
Reasons for nomination as candidate for Director Since the Company's establishment in 2015, Tsuyoshi Mogami has played a central role as officer in charge of the Group Strategy Department of the Company, and since April of this year, as Director and Senior Managing Executive Officer, he has also worked to promote various measures as Director in charge of the Corporate Planning and Compliance and Risk Management divisions. Since he possesses abundant knowledge, rich experience, and high ability in the field of financial services, the Company believes that Tsuyoshi Mogami can contribute to the Group's further development, and it has therefore nominated him as a candidate for Director.			
4	Tsutomu Nakamura (December 28, 1957) [New election]	Apr. 1981 Joined The Kagoshima Bank, Ltd. June 2011 Director and Chief of Sendai Branch June 2013 Managing Director and General Manager of Sales Strategy Division June 2014 Managing Director Apr. 2018 Senior Managing Executive Officer of the Company (to present) May 2018 Director of Kyushu FG Securities, Inc. (to present) [Position and responsibilities in the Company] Senior Managing Executive Officer (In charge of Group Strategy Department and Operations Administration and IT Management Division) [Significant concurrent positions outside the Company] Director of Kyushu FG Securities, Inc.	22,540
Reasons for nomination as candidate for Director Tsutomu Nakamura has held various positions in The Kagoshima Bank, Ltd., which is now a wholly owned subsidiary of the Group. After having worked successively as Director in charge of personnel and Director in charge of business, since April of this year, he has also held the position of Senior Managing Executive Officer and has worked to promote various measures as Director in charge of the Group Strategy Department and the Operations Administration and IT Management Division. Since he possesses abundant knowledge, rich experience, and high ability in the field of financial services, the Company believes that Tsutomu Nakamura can contribute to the Group's further development, and it has therefore nominated him as a candidate for Director.			

No.	Name (Date of birth)	Career summary	Number of the Company's shares owned
5	Yoshihisa Kasahara (January 5, 1962) [For reelection] Attendance at 12 out of 12 board of directors meetings (100%)	Apr. 2014 Managing Executive Officer of Mizuho Trust & Banking Co., Ltd. Apr. 2015 Joined The Higo Bank, Ltd. (Managing Executive Officer and General Manager of Internal Audit Division) June 2015 Director and Managing Executive Officer May 2016 Director of The Kagoshima Bank, Ltd. June 2016 Director of the Company (to present) Apr. 2018 Representative Director and Deputy President of The Higo Bank, Ltd. (to present) [Position and responsibilities in the Company] Director [Significant concurrent positions outside the Company] Representative Director and Deputy President of The Higo Bank, Ltd. (to assume office of Director and President of the bank on June 26, 2018)	23,200
Reasons for nomination as candidate for Director After working in the position of Managing Executive Officer at Mizuho Trust & Banking Co., Ltd., from 2015, Yoshihisa Kasahara worked successively as the General Manager of the Internal Audit Division and the Director in charge of the Internal Audit Division in The Higo Bank, Ltd., which is now a wholly owned subsidiary of the Group. Then, in 2018, he assumed the position of Director and Deputy President of the bank. He has also played a central role at the Company as the Director in charge of the Compliance and Risk Management Division and the Audit Department since 2016. Since he possesses abundant knowledge, rich experience, and high ability in the field of financial services, the Company believes that Yoshihisa Kasahara can contribute to the Group's further development, and it has therefore nominated him as a candidate for Director.			
6	Akihisa Koriyama (May 11, 1957) [For reelection] Attendance at 12 out of 12 board of directors meetings (100%)	Apr. 1980 Joined The Kagoshima Bank, Ltd. June 2010 Director and General Manager of Personnel Division June 2011 Managing Director and General Manager of Integrated Planning Division June 2014 Senior Managing Director (to present) Oct. 2015 Director of the Company (to present) [Position and responsibilities in the Company] Director [Significant concurrent positions outside the Company] Senior Managing Director of The Kagoshima Bank, Ltd.	26,660
Reasons for nomination as candidate for Director Since the Company's establishment in 2015, Akihisa Koriyama has played a central role as Director in charge of corporate planning, and he has held various positions in The Kagoshima Bank, Ltd., which is now a wholly owned subsidiary of the Group. After having worked successively as Director in charge of corporate planning, Director in charge of business, and Director in charge of personnel, since 2014, he has held the position of Senior Managing Director. Since he possesses abundant knowledge, rich experience, and high ability in the field of financial services, the Company believes that Akihisa Koriyama can contribute to the Group's further development, and it has therefore nominated him as a candidate for Director.			

No.	Name (Date of birth)	Career summary	Number of the Company's shares owned
7	Toru Hayashida (June 6, 1959) [For reelection] Attendance at 11 out of 12 board of directors meetings (91.6%)	Apr. 1983 Joined The Higo Bank, Ltd. June 2013 Executive Officer and General Manager of General Planning Division June 2015 Director, Executive Officer and Chief of Business Integration Preparation Section Oct. 2015 Director Oct. 2015 Director and General Manager of Corporate Planning Division of the Company Apr. 2018 Director, Executive Officer and General Manager of Corporate Planning Division (to present) [Position and responsibilities in the Company] Director and Executive Officer (General Manager of Corporate Planning Division)	22,300
<p>Reasons for nomination as candidate for Director</p> <p>Since the Company's establishment in 2015, Toru Hayashida has worked on establishing management plans and strengthening the corporate management system. He has held various positions in The Higo Bank, Ltd., now a wholly owned subsidiary of the Group. After working as Executive Officer and General Manager of General Planning Division, he assumed the position of Director, Executive Officer and Chief of Business Integration Preparation Section. Since he possesses abundant knowledge, rich experience, and high ability in the field of financial services, the Company believes that Toru Hayashida can contribute to the Group's further development, and it has therefore nominated him as a candidate for Director.</p>			
8	Tsukasa Tsuruta (August 16, 1959) [For reelection] Attendance at 12 out of 12 board of directors meetings (100%)	Apr. 1984 Joined The Kagoshima Bank, Ltd. June 2014 Director and General Manager of Business Supporting Division June 2015 Executive Officer and General Manager of Business Supporting Division Apr. 2016 Executive Officer and Counselor of Corporate Planning Division June 2016 Director and General Manager of Group Strategy Department of the Company June 2017 Director of Kyushu FG Securities Establishment Pre-Opening, Inc. (currently, Kyushu FG Securities, Inc.) Apr. 2018 Director, Executive Officer and General Manager of Group Strategy Department of the Company (to present) [Position and responsibilities in the Company] Director and Executive Officer (General Manager of Group Strategy Department)	16,300
<p>Reasons for nomination as candidate for Director</p> <p>Since assuming the office of Director of the Company in 2016, Tsukasa Tsuruta has worked to establish sales strategies and expand the business as General Manager of the Group Strategy Department. At The Kagoshima Bank, Ltd., which is now a wholly owned subsidiary of the Group, he has worked successively in the positions of Chief of various branches, General Manager of Credit Supervision Division, and Director and General Manager of Business Supporting Division. Since he possesses abundant knowledge, rich experience, and high ability in the field of financial services, the Company believes that Tsukasa Tsuruta can contribute to the Group's further development, and it has therefore nominated him as a candidate for Director.</p>			

No.	Name (Date of birth)	Career summary	Number of the Company's shares owned
9	Katsuaki Watanabe (February 13, 1942) [For reelection] [Outside] Attendance at 9 out of 12 board of directors meetings (75.0%)	Apr. 1964 Joined Toyota Motor Co., Ltd. (currently, Toyota Motor Corporation) Sept. 1992 Director of Toyota Motor Corporation June 1997 Managing Director June 1999 Senior Managing Director June 2001 Executive Vice President June 2005 President June 2009 Vice Chairman June 2011 Senior Advisor July 2015 Advisor (to present) Oct. 2015 Director of the Company (to present) [Position and responsibilities in the Company] Outside Director [Significant concurrent positions outside the Company] Advisor of Toyota Motor Corporation (to resign on June 30, 2018), Corporate Auditor of Sumitomo Electric Industries, Ltd.	5,400
Reasons for nomination as candidate for Outside Director Since the Company judges that, based on the rich experience, broad insight, and knowledge that Katsuaki Watanabe has developed as a top executive of a leading manufacturer, he can supervise the general management of the Group from an objective and neutral standpoint, the Company requests his election as an Outside Director. Furthermore, he does not infringe on the independence standards established by the stock exchanges, and he also meets the "Outside Officer Independence Standards" established by the Company.			
10	Yuji Nemoto (October 27, 1954) [New election] [Outside]	Apr. 1978 Joined Japan Development Bank (currently, Development Bank of Japan Inc.) Apr. 2004 General Manager of Regional Planning Department Apr. 2006 Professor at Faculty of Economics, Toyo University (to present) Apr. 2008 Director of Research Center for PPP, Toyo University (to present) June 2015 Director of The Kagoshima Bank, Ltd. (Outside) (to present) [Position and responsibilities in the Company] - [Significant concurrent positions outside the Company] Director of The Kagoshima Bank, Ltd. (to resign on June 26, 2018), Professor of Toyo University	-
Reasons for nomination as candidate for Outside Director Since the Company judges that, based on the rich experience, broad insight, and knowledge that Yuji Nemoto has developed being involved in regional policy as a university professor and as an expert in public policy, urban development and regional development, he can supervise the general management of the Group from an objective and neutral standpoint, the Company requests his election as an Outside Director. Furthermore, he does not infringe on the independence standards established by the stock exchanges, and he also meets the "Outside Officer Independence Standards" established by the Company.			

- Notes:
1. Candidate Takahiro Kai concurrently serves as Chairman of The District Economics Research Institute of Kumamoto Area and Chairman of Foundation for the Preservation of Green and Water Resources in the Province of Higo, and The Higo Bank, Ltd., which is a wholly owned subsidiary of the Company, makes donations to both of these foundations. Candidate Motohiro Kamimura concurrently serves as Chairman of the Kagin Cultural Foundation, and The Kagoshima Bank, Ltd., which is a wholly owned subsidiary of the Company, makes donations to this foundation. There is no special interest between any of the other candidates for Director and the Company.
 2. Katsuaki Watanabe and Yuji Nemoto are candidates for Outside Director.
 3. The term of office of Katsuaki Watanabe as Outside Directors of the Company will be approximately two (2) year and nine (9) months at the conclusion of this meeting.
 4. Katsuaki Watanabe is registered, with the stock exchanges on which the Company is listed, as Independent Officer who has no possibility of a conflict of interest arising with ordinary shareholders. If he is elected as Outside Director, the

Company plans to continue to register him as Independent Officer. If the election of Yuji Nemoto is approved, the Company also plans to register him as an Independent Officer.

5. With respect to the liability provided for in Article 423, Paragraph 1 of the Companies Act, the Company has entered into a limited liability agreement with Katsuaki Watanabe that limits his liability to the minimum liability amount set forth in Article 425, Paragraph 1 of the Companies Act. The Company plans to newly enter into a similar limited liability agreement with Yuji Nemoto.
6. In December 2013, Sumitomo Electric Industries, Ltd., where Katsuaki Watanabe serves as an outside auditor, received a cease and desist order, etc., from the Japan Fair Trade Commission on the suspicion of having violated the Antimonopoly Act in connection with receiving orders from Tokyo Electric Power Company Holdings, Incorporated, for overhead transmission line construction. In addition to this, in July 2013, Sumitomo Electric Industries, Ltd., received notification from the European Commission of its decision finding infringements of the EU competition law in connection with transactions for automotive wiring-harness products, and, in August 2014, the same company was ordered by the National Development and Reform Commission of China to pay a surcharge under the Chinese Antimonopoly Law. Furthermore, in April 2014, a surcharge was imposed on the same company by the European Commission for its finding of infringement of the EU competition law in connection with transactions involving high voltage and special high voltage power cables. It has been found that these violations ended before Katsuaki Watanabe's term of office. Until the situations became known, he was not aware of acts that were subject to orders, decisions, etc. However, with respect to compliance, on a regular basis and in collaboration with other corporate auditors, he checks and expresses opinions on the internal control system and concrete measures. Furthermore, after the situations became known, to eliminate and prevent violations of antitrust law, including overseas competition law, he made statements concerning such issues as development and improvement of the entire Sumitomo Electric Group's compliance system for competition law and the thoroughness and firm establishment of that system.

<Outside Officer Independence Standards>

- 1 An outside officer must not be an executive director, an executive officer, or an employee of the Company or a Group company (hereinafter referred to as “person who executes business”), and he or she must not have been a person who executes business at any time in the past ten (10) years. Furthermore, an outside officer must not be a director, an auditor, an accounting advisor, an executive officer, a corporate executive officer, or an employee of any company of which the Group is the main shareholder. (This means any company in which, at the end of the most recent business year, the Group’s ratio of voting rights held is 10% or more of the total voting rights.)
2. An outside officer must be neither an entity whose major customer is the Company or a Group company nor a parent company or a significant subsidiary of that entity. Furthermore, if the entity is a company, then an outside officer must be neither a person who executes business of the company nor, at any time in the last three (3) years, a person who executes business of the company.
3. An outside officer must be neither an entity who is a major customer of the Company or a Group company nor a parent company or significant subsidiary of that entity. Furthermore, if the entity is a company, then an outside officer must be neither a person who executes business of the company nor, at any time in the last three (3) years, a person who executes business of the company.
4. An outside officer must not be a person who executes business of an organization that receives donations, etc., from the Company or a Group company that exceed a specified amount. (Specified amount means the larger of either ¥10 million per year on average in the last three (3) years, or 30% of the average annual total expenses of the organization that receives donations, etc.)
5. An outside officer must not be an officer, such as a director, of a company, the parent company of a company, or the group company of a company that receives directors from the Company or a Group company.
6. An outside officer must not now be the Accounting Auditor or an employee, etc., of the Accounting Auditor of the Company or a Group company; furthermore, within the past three (3) years, as such an employee, etc., he or she must not have been responsible for audit work of the Company or a current Group company.
7. An outside officer who is an attorney, consultant, etc. (including, in the case of a corporation, an employee, etc., who should perform the duties of those functions) must not have received, from the Company or a Group company, other than directors’ remuneration, any monetary or other economic benefit of ¥10 million or more per year on average in the last three (3) years, and he or she must not be an employee, etc., of a law office, etc., that has the Company or a Group company as a major client.
8. An outside officer must be neither a close relative of a Director or an Executive Officer of the Company or a Group company nor a close relative of an important employee, etc., who is in a position equivalent to officer, such as advisor, associate director, or consultant, of the Company or a Group company (hereinafter referred to as “person equivalent to an officer”). Furthermore, in the last five (5) years, he or she must not have been the spouse or a relative within the second degree of kinship (hereinafter referred to as “close relative”) of the said Director, Executive Officer, or person equivalent to an officer, and his or her close relative must not correspond to the same criteria as those in items 1, 2, 3, 4, 6, and 7 above.
9. In addition, an outside officer must be a person who has no possibility, on a regular and continuous basis, of a substantial conflict of interest arising with the Company’s ordinary shareholders as a whole, for any circumstance other than a reason taken into account in the aforementioned items.

Supplementary Provisions

- 1 Even if a person does not satisfy any one of the items 2 through 8 above, if the Company considers that, in light of his or her character, insight, etc., the person is suitable as an outside officer of the Company, then, on condition that his or her candidacy will be explained publicly, the person may be selected as a candidate for an outside officer of the Company.
2. Under these standards, if an outside officer who is judged as possessing independence loses independence, he or she shall notify the Company promptly.
3. In these standards, “a major customer” means an entity whose transaction value between it and the Group in any of the past three (3) business years, including the most recent business year, is 1% or more of the yearly gross annual sales revenue (consolidated annual gross income from business in the case of the Company).

Proposal 2: Election of One (1) Corporate Auditor

Corporate Auditor Shiichiro Shimoyama will resign at the conclusion of this meeting. Therefore, the Company proposes the election of one (1) Corporate Auditor as his substitute.

Please note that the nomination of the Candidate for Corporate Auditor has been determined by the Board of Directors under the Candidate Selection Policies established by the Company, and that the Board of Directors has obtained the consent of the Board of Corporate Auditors.

<Corporate Auditor Candidate Selection Policies>

1. On the assumption that the candidates for Corporate Auditor satisfy the statutory requirements, the selection policies for them are as follows.
 - (i) One (1) or more candidates for Corporate Auditor must be originally from the Group and possess knowledge, experience, and ability in various fields, such as management, business, and supervision in financial services, be well informed about economic and social conditions, and possess appropriate knowledge of finance and accounting.
 - (ii) In accord with the preceding item, candidates for Outside Corporate Auditor who have knowledge in an area that should particularly be supplemented from the perspective of management audits of the Group and who do not infringe the independence standards established by the Company (see page 9) must be selected such that they account for half or more of the total number of candidates for Corporate Auditor who are selected.
2. In selecting candidates for Corporate Auditor, the Board of Directors shall observe the policies set forth in the preceding item and, in the selection stage, obtain the consent of the Board of Corporate Auditors.

The Candidate for Corporate Auditor is as follows.

Name (Date of birth)	Career summary	Number of the Company's shares owned
Yuichi Tanabe (October 11, 1961) [New election]	Apr. 1985 Joined The Higo Bank, Ltd. June 2013 General Manager of Personnel Division June 2014 Chief of Suizenji Branch Mar. 2016 General Manager of Internal Audit Division Mar. 2017 Corporate Auditor (to present) Position in the Company — [Significant concurrent positions outside the Company] Corporate Auditor of The Higo Bank, Ltd.	17,900

Reasons for nomination as candidate for Corporate Auditor

Yuichi Tanabe has held various positions in The Higo Bank, Ltd., which is now a wholly owned subsidiary of the Group. After having worked successively as General Manager of the personnel, Chief of a branch and General Manager of the Internal Audit Division, in 2017, he assumed the position of Auditor. Since he possesses abundant knowledge, rich experience, and high ability in the field of financial services as well as appropriate knowledge of finance and accounting, the Company believes that Yuichi Tanabe can contribute to ensuring the soundness of the Group, and it has therefore nominated him as a candidate for Corporate Auditor.

Notes: There is no special interest between the candidate and the Company.

Business Report for the 3rd Term (from April 1, 2017 to March 31, 2018)

1. Status of the Company

(1) Progress and results of the Group's operations

[Major businesses of the Group]

The Group is comprised of the Company, which is a bank-holding company, and 17 consolidated subsidiaries, including The Higo Bank, Ltd. (hereinafter referred to as "Higo Bank") and The Kagoshima Bank, Ltd. (hereinafter referred to as "Kagoshima Bank"), and is engaged in operations related to financial services, such as banking services, leasing services, credit card services, credit guarantee services and financial instrument transaction services.

On June 1, 2017, Kyushu FG Securities, Inc. (Name at time of establishment: Kyushu FG Securities Establishment Pre-Opening, Inc.) was established.

[Financial and economic environment]

During the fiscal year under review, the Japanese economy continued to recover owing to modest global economic growth. Real GDP growth has remained positive for eight consecutive quarters since 2016. Exports and production activities recovered, and consumer spending was brisk against a backdrop of improvements in income and employment conditions. Although housing investment was weak, both public and capital investments were solid.

Under this economic environment, the Nikkei Stock Average temporarily dropped to ¥18,000 level primarily in response to the worsening situation in North Korea, but by the end of fiscal 2017, it had recovered to the ¥21,000 level against a backdrop of favorable results posted by domestic companies and higher stock prices worldwide. In response to the exit strategy of US monetary-easing policies, the exchange rate stayed in the range of around ¥105 to ¥115 (against the dollar).

As for the local economy, production activities and consumer spending were strong. Some improvements were seen in employment conditions, but labor shortages became more pronounced in some areas. In regard to investment, there were some signs of recovery public works. Although there is still some residual impact of the Kumamoto Earthquake two years ago on tourism, the number of both domestic and inbound customer has been increasing, and there was a recovery in tourism investment overall.

[Progress and results of the Group's operations]

The Company was established on October 1, 2015 by means of joint share transfer by Higo Bank and Kagoshima Bank in conjunction with the business integration.

Targeting the realization of growth of the Group, three management philosophical pillars have been established:

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 to the realization of a vigorous regional society and economy.
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.

To realize the Group management philosophy, the period from October 2015 to March 2018 was set as the "collaboration stage" for the "1st Medium-Term Management Plan." To provide optimal and best services to customers, establishment of a management base consisting of "comprehensive financial capability to meet various customer needs," "brand power trusted by stakeholders" and "organization management capability to optimize the entire Group" was put forth as the basic policy. As this fiscal year was the final year of the plan, the companies within the Group came together to work on improving the Group's corporate value.

The main measures implemented by the Group during the fiscal year under review were as follows:

“Comprehensive financial capability to meet various customer needs”

(Aiming to provide a one-stop service)

To provide a one-stop service for the diverse asset management needs of our customers, the Group established Kyushu FG Securities, Inc. for the purpose of delivering highly specialized financial instruments and services, and operations were launched in January 2018. The Group will support the long-term growth of local customers by demonstrating comprehensive regional financial capability, including strengthening our efforts to address asset succession needs, and will work to revitalize the region.

(Aggressive investment in regional funds)

As part of our regional revitalization efforts, in fiscal 2017 the Group made 28 investments totaling ¥4.5 billion in funds jointly established and invested in by Higo Bank and Kagoshima Bank. In particular, the Group made 19 investments totaling ¥3.6 billion in the “Kumamoto Recovery Support Fund” and the “Kumamoto Mirai Sosei Fund” established for the purpose of supporting the recovery and reconstruction of companies damaged by the Kumamoto earthquake in 2016.

(Solving the business challenges of our customers)

Business meetings mutually utilizing the networks of Higo Bank and Kagoshima Bank are held in Japan and other countries to support the customer market expansion and supplier cultivation.

Additionally, “Bridge,” our business matching system, was launched in October 2017 as a consulting tool to support the solution of our customers’ challenges. By sharing customer needs for market expansion, material procurement, streamlining of office work and reduction of expenses between the banks and acting as an intermediary, the entire Group will meet the customer needs.

(Roll-out of various services)

The Group is collaborating to improve convenience for our customers by expanding services.

As part of these efforts, “Mutual ATM Deposit Service” was launched in July 2017. It is now possible to make deposits and repay card loans to Kagoshima Bank accounts at Higo Bank ATMs and vice versa.

Moreover, in March 2018, Higo Bank and Kagoshima Bank began to provide the “PayB” Smartphone Payment Service for payment slips issued at convenience stores and other locations. Using a smartphone camera, the barcode on a payment slip for utility charges, taxes, mail-order products, etc. is scanned, and the payment is made in real time from the customer’s bank account.

“Brand power trusted by stakeholders”

(Initiatives in the tourism field)

Based on the “Agreement on Promoting Local Tourism” signed between the prefectures of Kumamoto and Kagoshima, they have strengthened their tourism promotions, encouraging the use of regular international flights and attracting tourists. Additionally, web promotions for attracting FIT (foreign independent travelers) from Taiwan and Hong Kong utilizing the “Let’s Go” Japan tourism information website are being carried out in collaboration with KUMAMOTO DMC Co., Ltd. (Kumamoto Destination Management Organization), which was jointly established by Higo Bank and Kumamoto Prefecture, for the purpose of attracting FIT and creating/promoting environment to accept FIT.

(Initiatives toward regional revitalization)

Higo Bank has been operating “Harmonicar” mobile branch vehicles since October 2017 to improve convenience for customers and support a BCP for disasters. The efforts for regional customers include providing financial services in regions where there are fewer branches and emergency response in the event of disasters. Additionally, in October 2017, the “2017 Kumamoto Regional Promotion Fair” was held to communicate the appeal of Kumamoto in Japan and around the world, which is moving ahead with creative recovery from the Kumamoto earthquake.

Kagoshima Bank is implementing an internship called the “Kagoshima Bank Regional Revitalization Project” for students who will be the regional leaders of the future, and is making efforts to raise awareness of regional revitalization among students. At the same time, it signed a “Collaborative Agreement on Regional Revitalization Initiatives” with eight higher education institutions within the prefecture in April 2017 and is

implementing initiatives to solve the challenges related to people in the region (outflow of human resources/labor shortage).

(CSR initiatives)

The Group is also actively working on challenges related to the environment, society, etc. to create a rich regional community.

The Group is engaged in ongoing environmental conservation activities, including cultivating headwater forests, implementing flooding paddy fields operation and maintaining forests, to pass on the abundant natural resources of our home towns to the next generation. In addition to such efforts, the Group continues to assist with medium- to long-term revitalization of the regional community by participating in regional events, sponsoring sporting and cultural events, engaging in social welfare activities, etc.

Moreover, the Group is also actively engaged in efforts to achieve a work-life balance and promote the women's success through work style reform and other initiatives in order to create a workplace in which our employees can work with enthusiasm.

“Organization management capability to optimize the entire Group”

(Shared clerical work/systems)

The Group is continuing to work on shared clerical work processes and systems to maximize the effect of the business integration. In October 2017, the IC cash card issuance operations were integrated for joint issuance to improve convenience for customers and streamline operations.

The Group is also working to create shared systems for image processing related to assets under management, credit document management, inheritance, etc.

(Development of organizational structure for the Company to strengthen the Group governance)

Each department of the headquarters has introduced the group system to strengthen the Company's business operation system and the functions of the headquarters and has clarified roles and responsibilities.

The Company is also working to strengthen the information gathering function to promote expansion, including establishing an International Business Support Group within the Group Strategy Department and Fukuoka Office in order to expand the solution network contributing to regional revitalization and to expand the customer base starting with the Group's home town.

(Promotion of personnel exchange)

To foster a sense of unity within the Group and strengthen the organization through mutual understanding, the Group conducts joint training and implements personnel exchanges with human resource transfers. Also in the fiscal year under review, the Group conducted personnel exchanges for 50 employees from various levels at the headquarters and branches, and the total number of exchanges reached 100 employees.

Fiscal 2017 Financial Results

The consolidated results of the Group in the fiscal year under review were as follows:

(Deposits [deposits and negotiable certificates of deposit])

Deposits increased ¥290,500 million year on year to ¥8.5729 trillion owing primarily to promotion of individual and corporate deposits.

(Loans)

Loans increased ¥375,700 million year on year to ¥6.4461 trillion owing primarily to expansion of loans to small and medium enterprises and promotion of personal loans.

(Securities)

Securities decreased ¥272,400 million year on year to ¥2.3041 trillion.

(Profit and loss)

Consolidated ordinary income decreased ¥7,520 million year on year to ¥164,696 million due primarily to a decrease in gains on sales of government and other bonds. Consolidated ordinary profit increased ¥7,848 million year on year to ¥29,381 million. Additionally, profit attributable to owners of the parent increased ¥4,793 million year on year to ¥19,395 million.

With regard to distributing profits, the Company maintains a basic policy of increasing capital efficiency and providing stable dividends through profitable growth while giving consideration to enhancing internal reserves. In line with the aforementioned policy, the Company proposes to pay a year-end dividend for the fiscal year under review of ¥6 per share.

(Non-consolidated year-end balances of main accounts and operating results of Higo Bank)

With regard to year-end balances of main accounts, deposits (deposits and negotiable certificates of deposit) increased ¥142,600 million year on year to ¥4.6941 trillion owing primarily to increases in public, corporate and personal deposits, loans increased ¥185,400 million year on year to ¥3.2464 trillion owing primarily to increases in corporate loans to local small and medium enterprises and other companies and personal loans, and securities decreased ¥117,600 million year on year to ¥1.4451 trillion due mainly to a decrease in government bonds.

Additionally, net business profit increased ¥690 million year on year to ¥16,173 million, ordinary profit increased ¥5,606 million year on year to ¥17,971 million, and net income increased ¥3,552 million year on year to ¥12,311 million.

(Non-consolidated year-end balances of main accounts and operating results of Kagoshima Bank)

With regard to year-end balances of main accounts, deposits (deposits and negotiable certificates of deposit) increased ¥150,500 million year on year to ¥3.8966 trillion owing primarily to increases in corporate and personal deposits, loans increased ¥189,700 million year on year to ¥3.2398 trillion owing primarily to increases in general loans, and securities decreased ¥155,000 million year on year to ¥862,000 million due mainly to a decrease in corporate bonds.

Additionally, net business profit increased ¥4,029 million year on year to ¥16,793 million, ordinary profit decreased ¥449 million year on year to ¥15,711 million, and net income increased ¥148 million year on year to ¥10,991 million.

[Business environment and issues to be addressed]

In South Kyushu, the home of the Group, there is a constant outflow of the working-age population to metropolitan and urban areas. The region faces with structural problems, including the acceleration of the declining birthrate and aging population as well as a shrinking market.

Moreover, in the financial industry, business environment surrounding the financial institutions is increasingly harsh due to a decline of yield on investments in conjunction with the introduction of negative interest rate policy, in addition to the competition with Japan Post Bank and other regional financial institutions. The Group is also required to address innovations in digital technology associated with advances in Fintech.

In the midst of these circumstances, the Group recognizes that our mission is to provide comprehensive financial services tailored to each of our customers by fully utilizing our management resources and to contribute to regional revitalization continuously based on the characteristics of the region.

On the occasion of the business integration on October 1, 2015, the Group sets forth the Group's 1st Medium-Term Management Plan (covering the period from October 1, 2015 to March 31, 2018), which establishes the six numerical targets below, and has since been working to improve the corporate value of the Group.

(Numerical targets for FY 3/2018)

(1) Balance of deposits	¥8.4 trillion
(2) Balance of loans	¥5.9 trillion
(3) Net business profit	¥37,400 million
(4) Net income	¥28,000 million
(5) ROE	4.5%
(6) Return on shareholders' equity	5.3%

(All totals are simple sum of two banks)

(Summary of Group's 1st Medium-Term Management Plan)

In the aim of becoming "Kyushu's top full-service financial group for customers" as set forth in the Group's long-term vision, the Group worked to strengthen our management foundation through the efforts such as collaborative sales promotion, establishing Kyushu FG Securities, and standardize the systems and office work during the period of the Medium-Term Management Plan. As a result, both deposits and loans remained on an upswing, and the results were almost as planned.

At the same time, there have also been major changes in the environment that go beyond what the Group anticipated when formulating the plan, such as the introduction of a negative interest rate policy and the 2016 Kumamoto earthquake. As such, the Group recognizes that consulting and solution capabilities, response to technological innovation, further penetration of the KFG brand, improvement of productivity and development of human resources as issues the Group must continue to address for further enhancement of the corporate value of the Group as a regional financial group, while working to further improve profitability and efficiency.

(Overview of Group's 2nd Medium-Term Management Plan)

Based on the structural problems of the region, the business environment surrounding regional financial institutions and the summary of the Group's 1st Medium-Term Management Plan, the Group has identified "contribution to regional revitalization," "enhancement of comprehensive financial capabilities (enhancement of profitability, technological innovation, highly added value and improvement of productivity)," "enhancement of Group governance" and "strengthening of human resources development" as the issues the Group needs to work on.

In the aim of growing together with our customers and the region as a regional financial group, the Group has established the Group's 2nd Medium-Term Management Plan (covering the period from April 1, 2018 to March 31, 2021) as described below to create new value from the standpoint of social awareness in addition to growth, profitability and financial soundness the Group currently pursues.

[Overview]

1. Name: 2nd Medium-Term Management Plan - Integration Stage -
2. Period: Three years (April 2018-March 2021)
3. Vision: Become Kyushu's top full-service financial group for customers
4. Basic policy: Maximize Group synergy to provide the optimal and best services to our customers
5. Basic strategy and strategic pillars

Basic strategy	Strategic pillars
(1) Evolution into a Group that co-creates regional vitality	1. Enhancement of regional comprehensive financial functions 2. Demonstration of function of promoting regional industry
(2) Strengthening of Group's human resources	1. Enhancement of human resources management 2. Enhancement of human resources development
(3) Raise the level of Group governance	1. Enhancement of business management structure 2. Improvement of productivity

6. Numerical targets

Item		Target for final year	Reference
(1) Growth	1. Average balance of loans	¥7.6 trillion	Simple sum of two banks
	2. Average balance of deposits/NCD	¥9.2 trillion	
(2) Profitability	1. Net income	¥25,000 million	Consolidated
	2. Business profits from services provided to customers*	¥14,000 million	
	3. Return on shareholders' equity	4% level	
(3) Efficiency	1. OHR	Under 70%	
(4) Financial soundness	1. Capital adequacy ratio	10% or higher	

* Business profits from services provided to customers:

Average balance of loans x interest margin for loans and deposits + fees and commissions - expenses

Based on the management foundation built during the period of the 1st Medium-Term Management Plan (collaboration stage), the Group will work on integration of the group with a sense of urgency to become "Kyushu's top full-service financial group for customers" and tie that into sustainable growth. The Group greatly appreciates understanding and support from all our shareholders and look forward to continued support in the future.