



Kyushu FG

Company Information Meeting

June 5, 2019

Kyushu Financial Group, Inc.



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Summary of Financial Results for Fiscal Year Ended March 2019



1. Financial Results Summary

- Gross business profit increased year on year by 7,000 million yen to 109,000 million yen, due mainly to gains on government and other bonds as well as increases in interest and dividend income.
- Pretax profit grew 4,300 million yen to 33,700 million yen and net income rose 2,800 million yen to 22,200 million yen, as gross business profit increased and expenses and credit costs decreased.

Profit and Loss

	Kyushu Financial Group Consolidated Results			Two banks combined		
	Mar. 2019	YoY	Mar. 2018	Mar. 2019	YoY	Mar. 2018
						(100 mil. yen)
Ordinary income	1,703	56	1,646	1,409	38	1,371
Gross business profit	1,090	70	1,020	1,038	46	991
Interest and dividend income	903	19	884	930	12	917
Fees and commissions	135	12	122	121	10	110
Income from specified transactions	8	7	0	0	0	0
Other business profit	43	30	12	-14	23	-37
(of which gain or loss on government and other bonds)	(0)	(42)	(-42)	(0)	(37)	(-37)
Expenses (-)	744	-7	751	697	-13	710
Core business profit	345	35	310	340	22	317
Allowance for doubtful accounts (-)	-4	41	-46	-5	43	-48
Net business profit	351	36	315	346	16	329
Non-recurring profit or loss	-14	7	-21	9	2	7
Non-performing loan disposals (-)	44	-49	93	40	-47	87
Equity securities-related profit or loss	42	-10	53	59	-16	76
Other nonrecurring profit/loss	-11	-31	19	-9	-28	18
Ordinary income	337	43	293	355	19	336
Extraordinary profit and loss	-3	-1	-1	-5	-3	-1
Pre-tax net income	333	41	292	350	15	335
Net income	222	28	193	245	12	233
(Credit costs)	39	-7	47	34	-3	37

Highlights

Kyushu Financial Group Consolidated Results

- Interest and dividend income (YoY change): +1,900 mil. yen
- Interest on loans: +700 mil. yen
- Interest on securities: +1,500 mil. yen
- Revenue from fees and commissions (YoY change): +1,200 mil. yen
- Solution-related commissions: +600 mil. yen
- Income from specified transactions (YoY change): +700 mil. yen
- Kyushu FG Securities trading income: +700 mil. yen
- Gain or loss on sales of securities (YoY change): +3,200 mil. yen
- Gain or loss on government and other bonds: +4,200 mil. yen
(Domestic Division: +3,300 mil. yen, International Division: +900 mil. yen)
- Equity securities-related profit or loss: -1,000 mil. yen
- Credit costs (YoY change): -700 mil. yen
(incl. the impact of the unification of write-off and allowance standards: +1,900 mil. yen)
- Allowance for doubtful accounts: +4,100 mil. yen
- Amount of disposed non-performing loans: -4,900 mil. yen

2. Interest and dividend income

- Interest and dividend income increased 1,200 mil. yen to 93,000 mil. yen year on year due to increases in interest on loans and interest on securities.

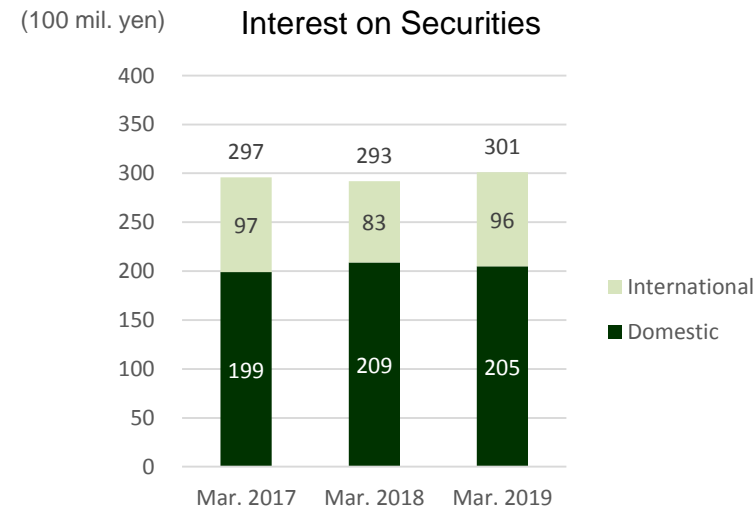
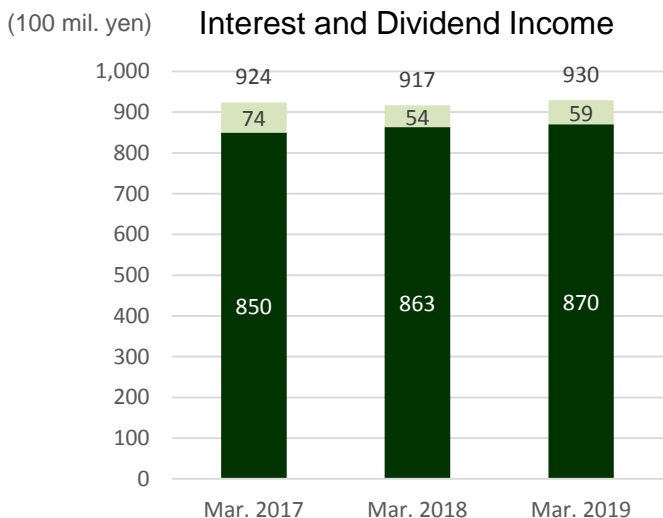
➢ Domestic Division: interest on loans +200 mil. yen; interest on deposits -400 mil. yen; interest on securities -400 mil. yen

➢ International Division: interest on loans +500 mil. yen; interest on securities +1,200 mil. yen

Interest and Dividend Income

(100 mil. yen)

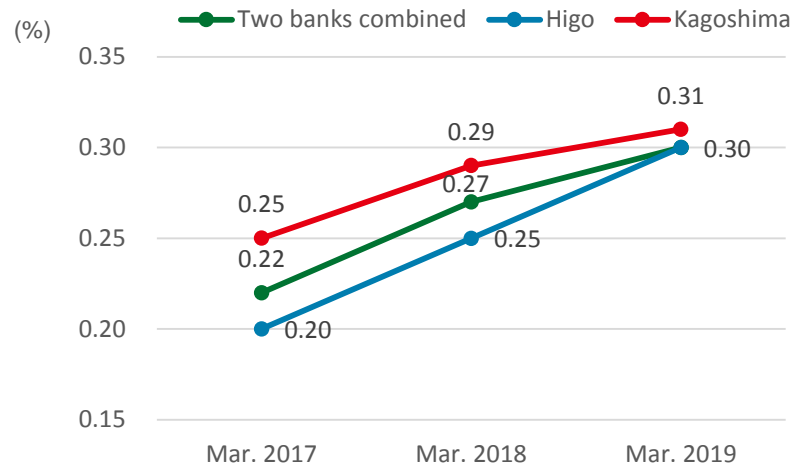
	Mar. 2017			Mar. 2018			Mar. 2019			vs. Mar. 2018 Change
	Two banks combined	Higo	Kagoshima	Two banks combined	Higo	Kagoshima	Two banks combined	Higo	Kagoshima	
Interest and dividend income	924	470	453	917	461	456	930	465	464	12
Domestic business	850	414	435	863	418	444	870	418	452	7
Interest on loans	695	330	365	689	329	360	691	331	360	2
Interest on deposits (subtract)	15	8	7	12	6	6	8	3	4	-4
Interest on securities	199	116	82	209	117	92	205	108	96	-4
International business	74	55	18	54	43	11	59	47	12	5
Interest on loans	3	2	0	5	4	0	10	8	2	5
Interest on deposits (subtract)	0	0	0	0	0	0	0	0	0	-0
Interest on securities	97	67	30	83	61	22	96	73	23	12



3. Net Interest Margin and Net Yield

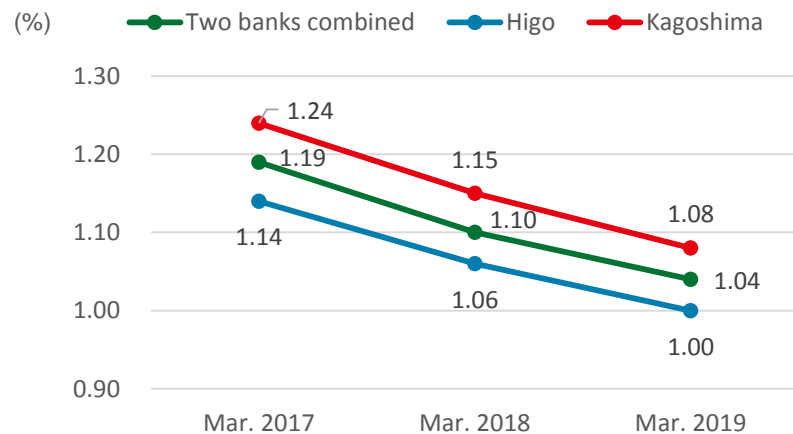
- Yield on investments was 1.11%, down 0.02% year on year, as yield on loans declined while yield on securities rose.
- Net interest margin was 0.30%, up 0.03% year on year, due to lower funding costs offsetting the drop in investment yield.

Net Interest Margin

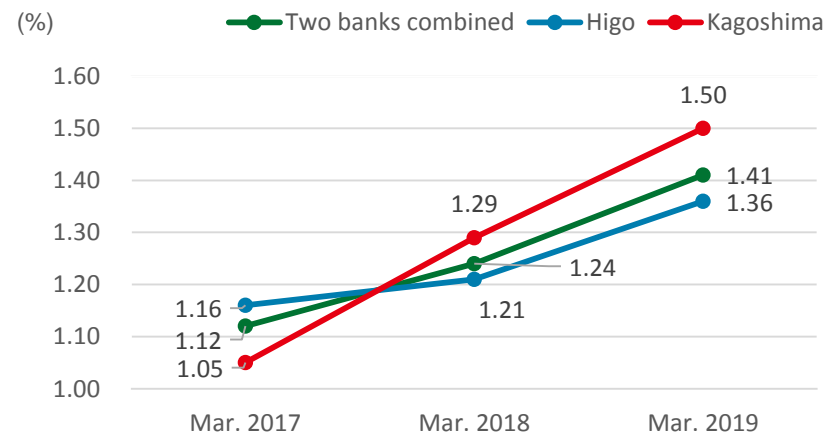


	Mar. 2018	Mar. 2019		Change	
	Two banks combined	Two banks combined	Higo	Kagoshima	Two banks combined
(i) Investment yield	1.13%	1.11%	1.08%	1.15%	-0.02%
Yield on Loans	1.10%	1.04%	1.00%	1.08%	-0.06%
Yield on Securities	1.24%	1.41%	1.36%	1.50%	0.17%
(ii) Funding cost	0.86%	0.81%	0.78%	0.84%	-0.05%
Interest rate on deposits	0.01%	0.01%	0.00%	0.01%	0.00%
Net interest margin (i)-(ii)	0.27%	0.30%	0.30%	0.31%	0.03%

Yield on Loans



Yield on Securities



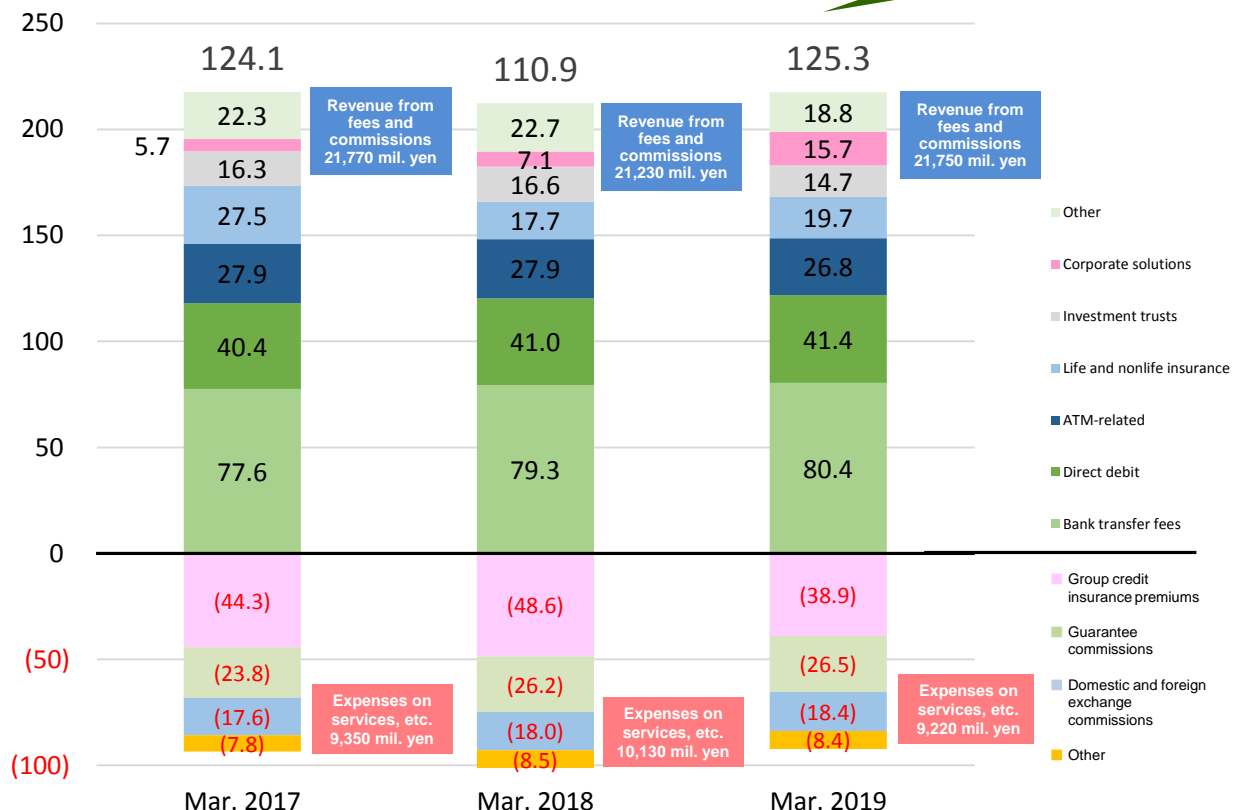
4. Fees and commissions

- Fees and commissions increased 1,050 mil. yen from a year ago to 12,150 mil. yen due mainly to an increase in corporate solutions-related commissions and the change of accounts in which group credit insurance dividends were booked (12,530 mil. yen if investment trust sales fees at Kyushu FG Securities are added).

Fees and Commissions

Sum of the two banks: 12,150 mil. yen
Kyushu FG Securities: 390 mil. yen

(100 mil. yen)



○ Revenue from fees and commissions (YoY change): +520 mil. yen

- Life and nonlife insurance: +200 million yen
- Investment trusts (including Kyushu FG Securities): -190 mil. yen
- Corporate solutions: +640 mil. yen

<<Arrangement: +250 mil. yen, M&As: +150 million yen, etc.>>

○ Revenue from fees and commissions (YoY change): -910 mil. yen

- Group credit insurance premiums: -970 mil. yen

(of which, portion due to change of accounts in which dividends were booked: -1,550 mil. yen)

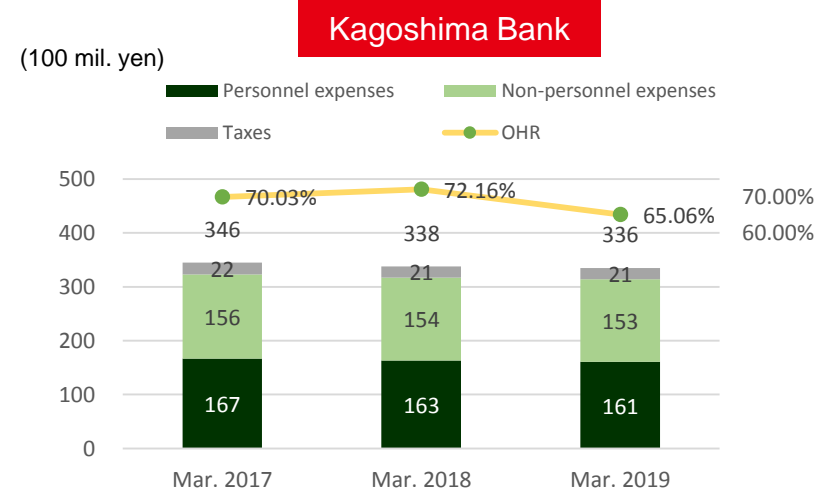
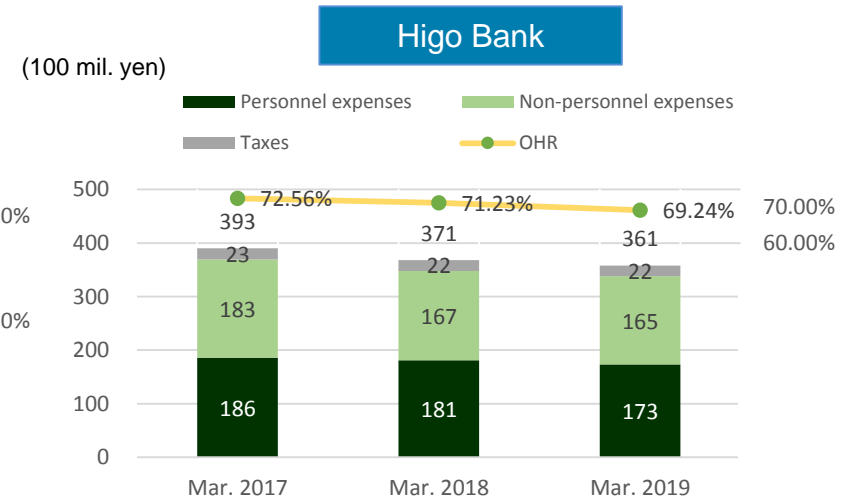
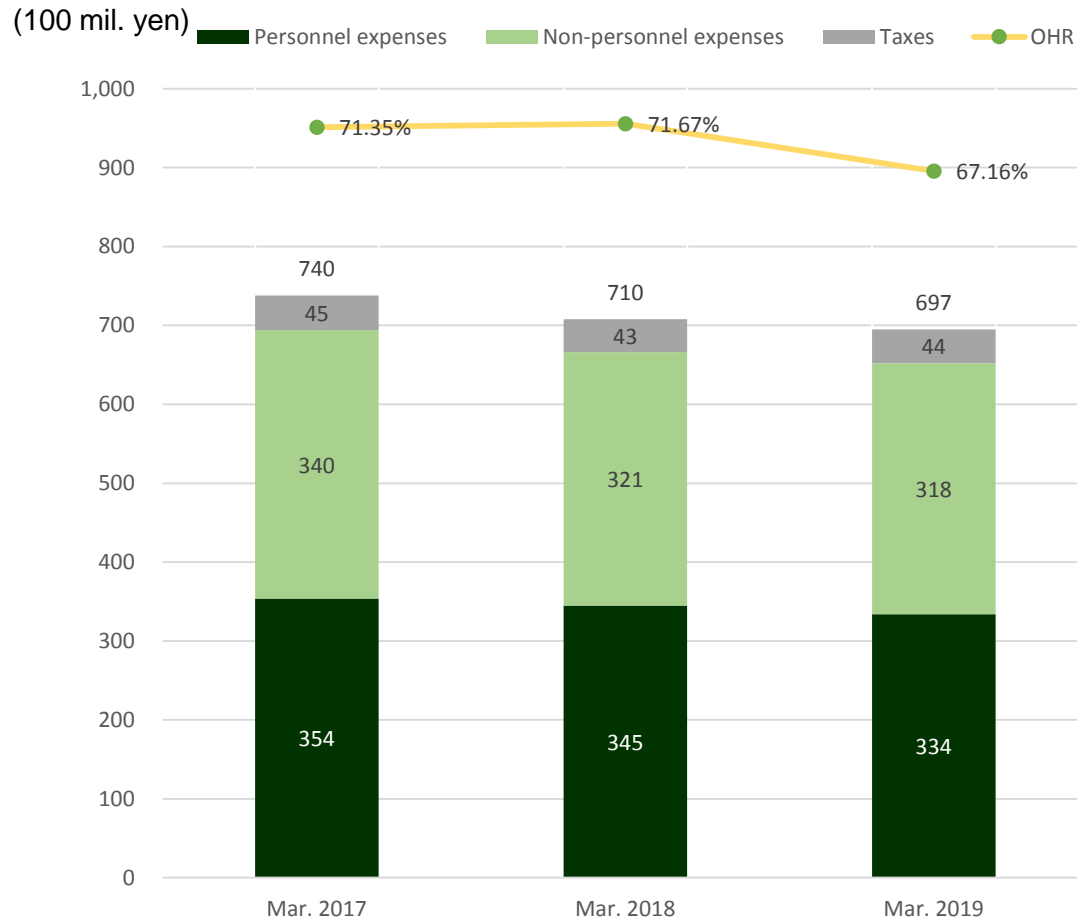
5. Expenses

- Expenses decreased 1,300 mil. yen to 69,700 mil. yen due to lower personnel expenses and non-personnel expenses.

- ◆ Personnel expenses: -1,000 million yen (improved productivity due to workstyle reforms)
- ◆ Non-personnel expenses: -200 mil. yen (integration benefits, reduction in purchasing cost, etc.)

- OHR declined by 4.51% to 67.16% as gross business profit increased.

Expenses

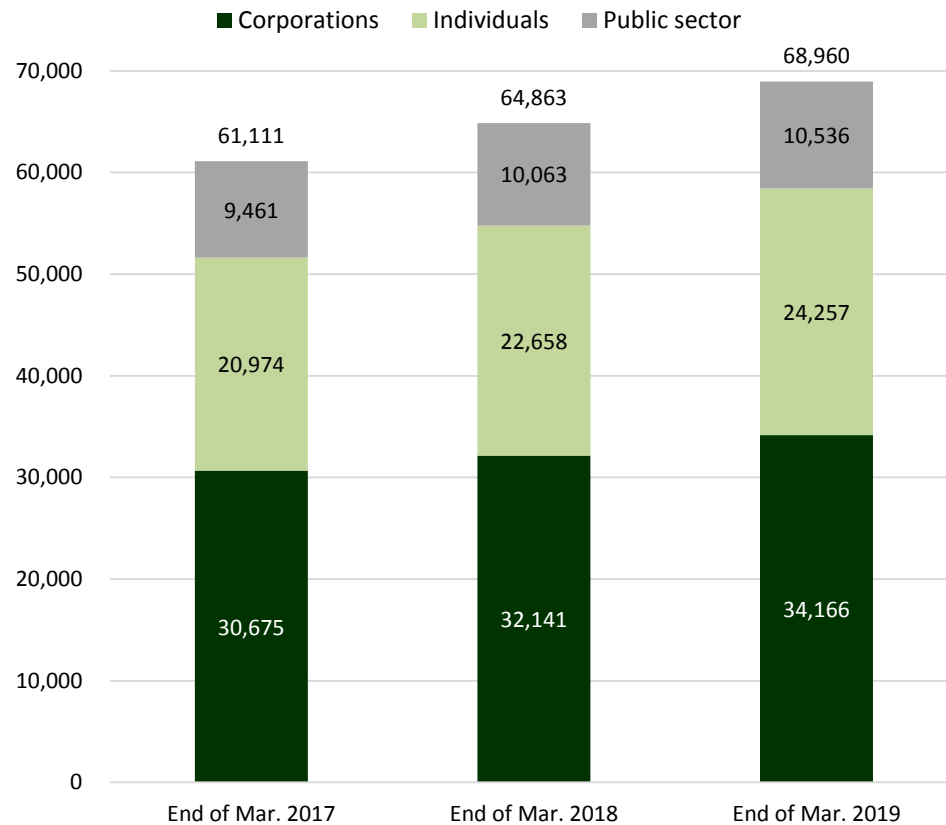


6. Loans

- The balance of loans increased 409,700 mil. yen (+6.3%) year on year.
- Loans to corporations, to individuals, and to the public sector all grew steadily.
(loans to corporations: +202,500 mil. yen; to individuals: +159,900 mil. yen; to public sector: +47,200 mil. yen)

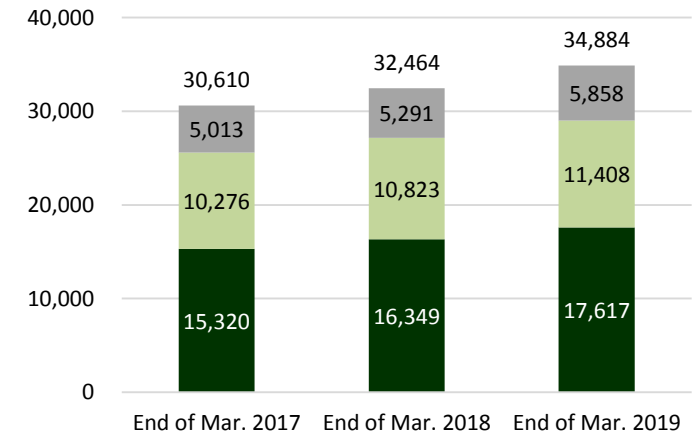
Balance of Loans

(100 mil. yen)



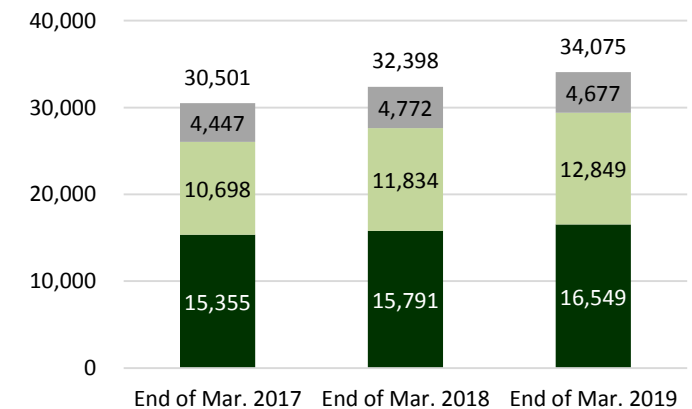
(100 mil. yen)

Higo Bank



(100 mil. yen)

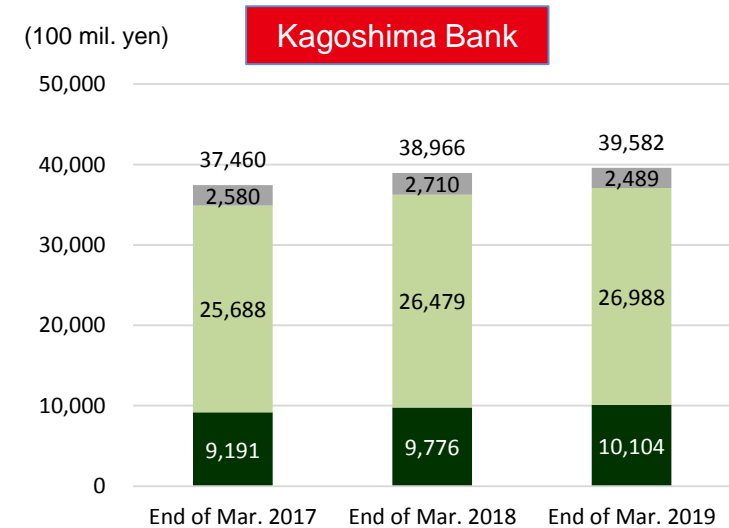
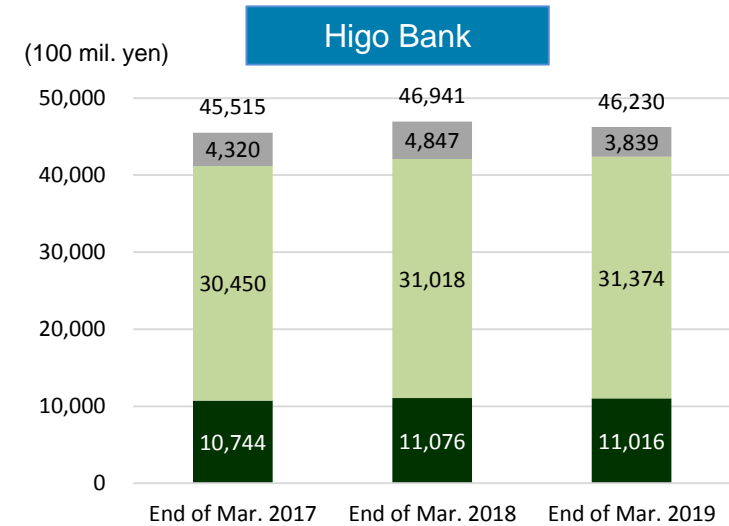
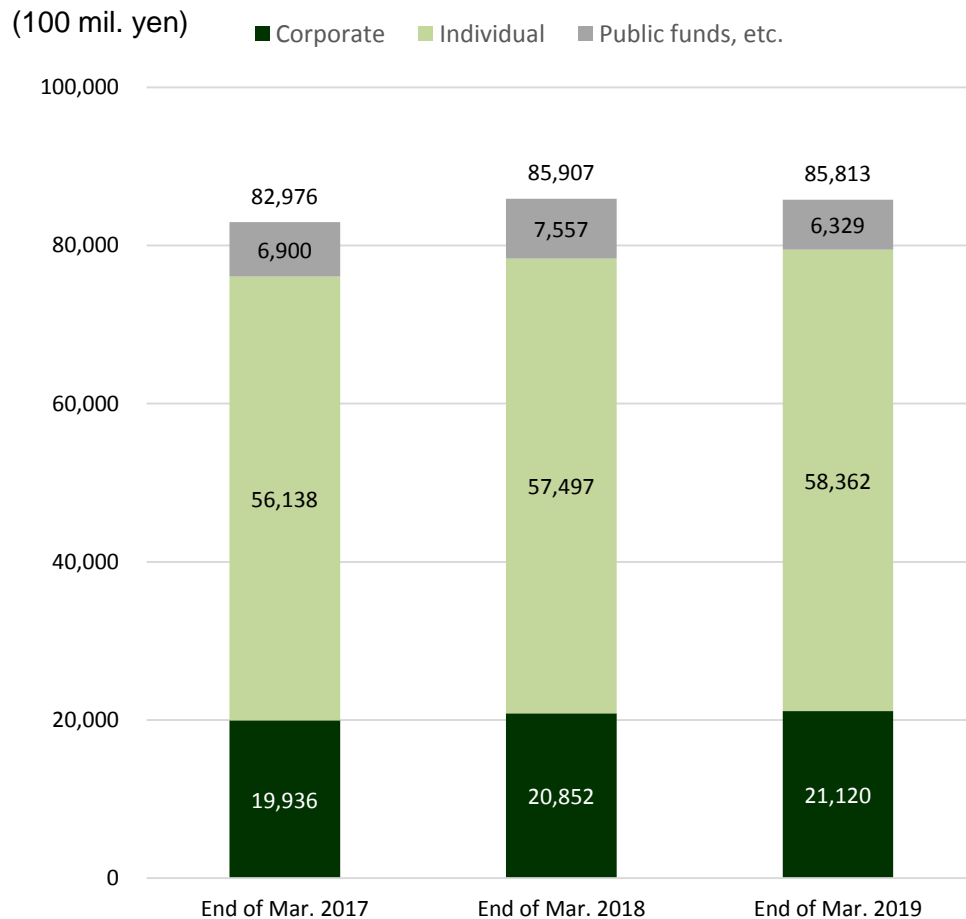
Kagoshima Bank



7. Deposits

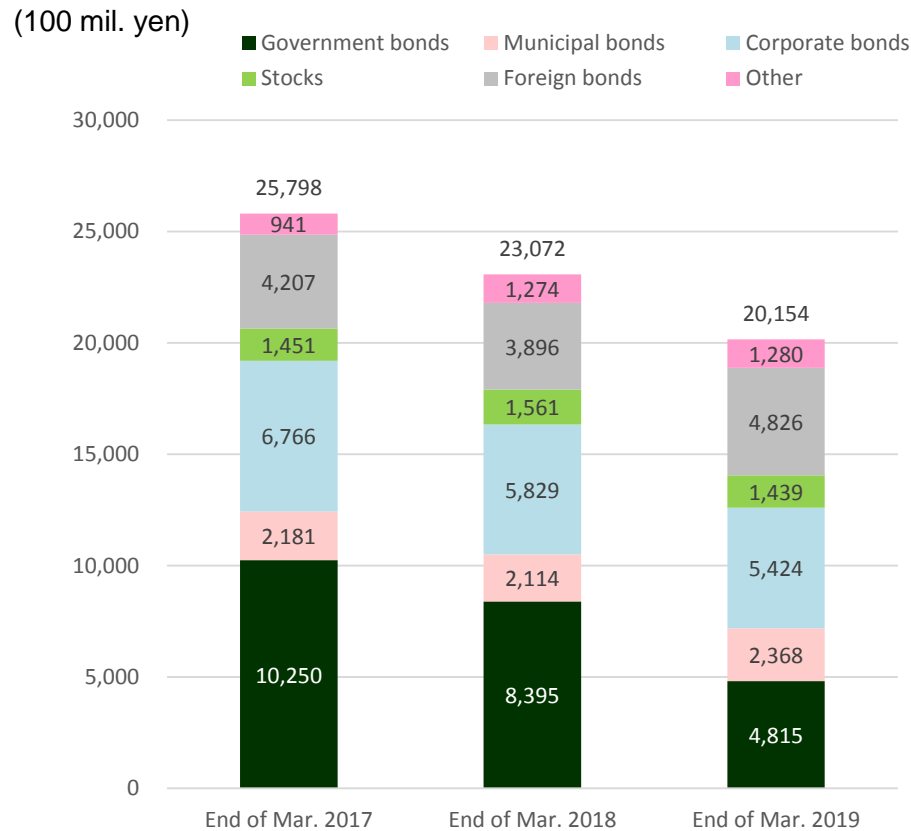
- Deposits decreased 9,400 mil. yen (-0.1%) year on year, as public sector deposits decreased significantly.
- Corporate and individual deposits increased steadily.
(corporate deposits: +26,800 mil. yen; individual deposits: +86,500 mil. yen; public sector deposits: -122,800 mil. yen)

Balance of Deposits (incl. NCDs)

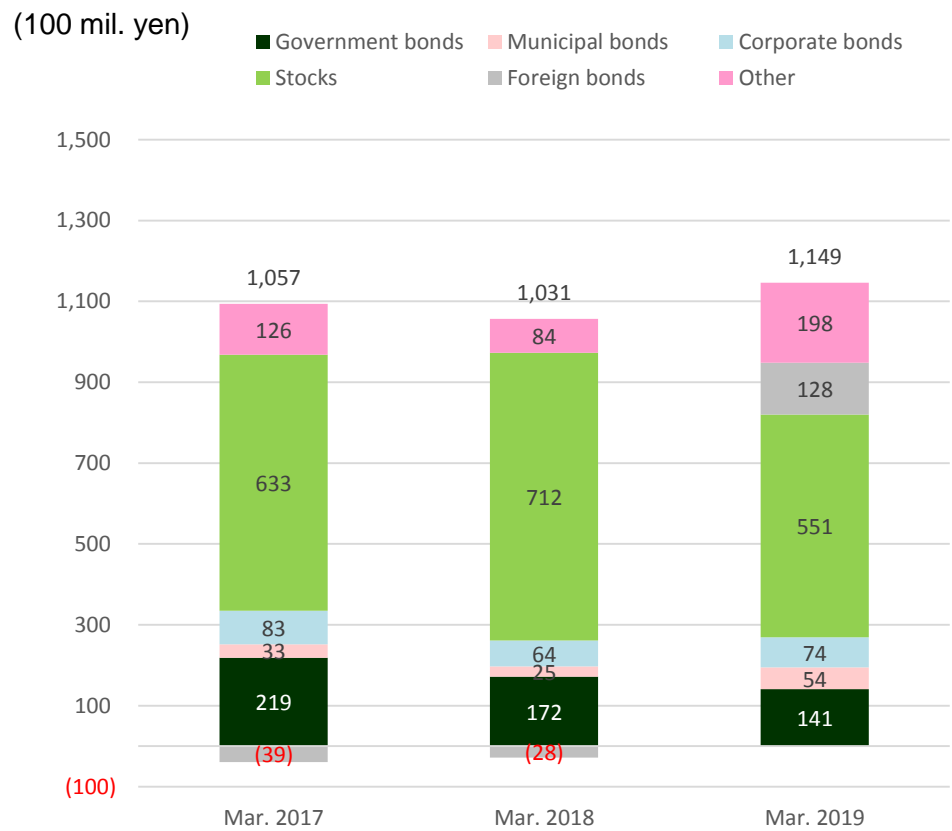


- The balance of securities decreased 291,800 mil. yen to 2,015,400 mil. yen due mainly to a decline in government bonds.
- Valuation gain on securities increased 11,700 mil. yen to 114,900 mil. yen, as valuation of foreign bonds turned positive.

Balance of Securities



Valuation Gain on Securities

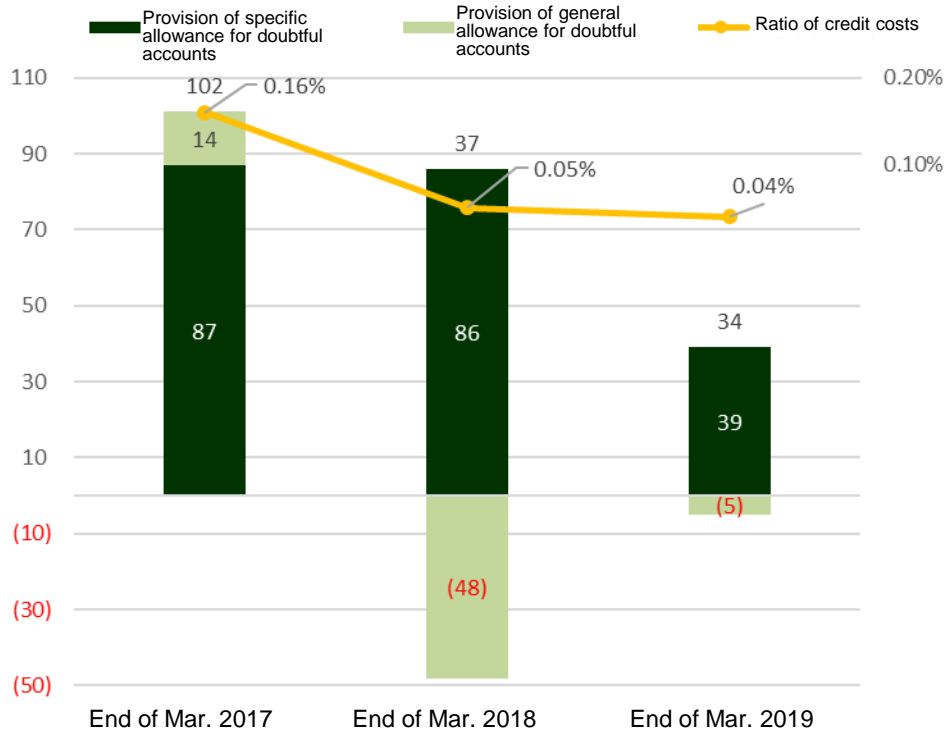


9. Credit Costs and Loans Disclosed Pursuant to Financial Reconstruction Act

- Credit costs fell 300 mil. yen year on year to 3,400 mil. yen with a decline in reversal of specific allowance for doubtful accounts.
- Loans disclosed pursuant to Financial Reconstruction Act decreased 8,900 mil. yen. The ratio of non-performing loans fell 0.26% from the previous fiscal year-end to 1.91%.

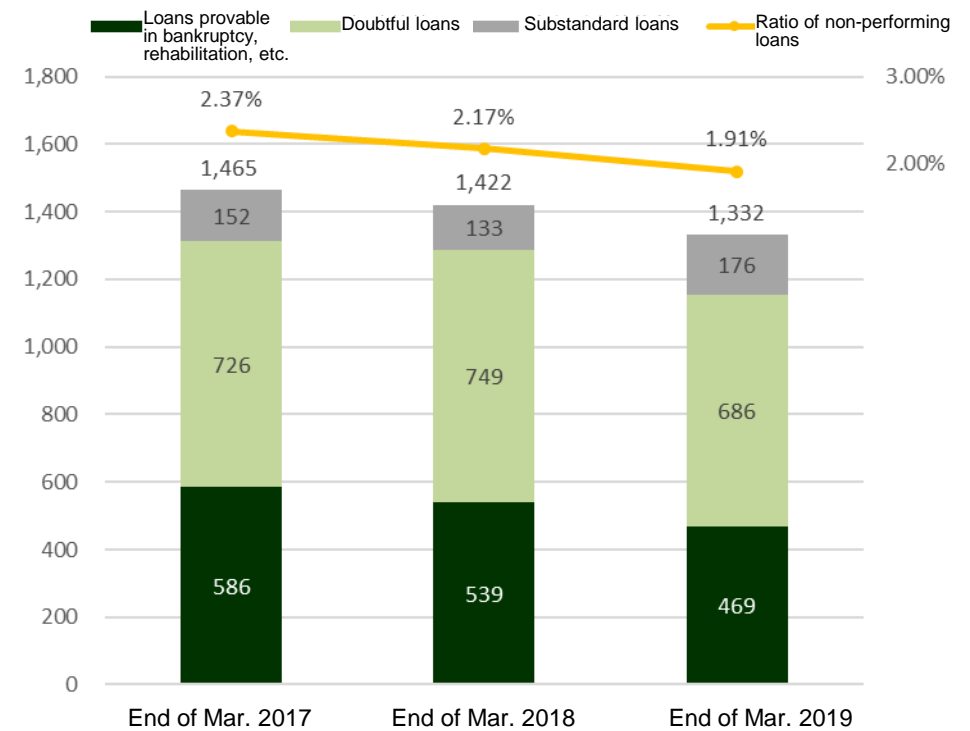
Credit Costs

(100 mil. yen)



Loans Disclosed Pursuant to Financial Reconstruction Act

(100 mil. yen)

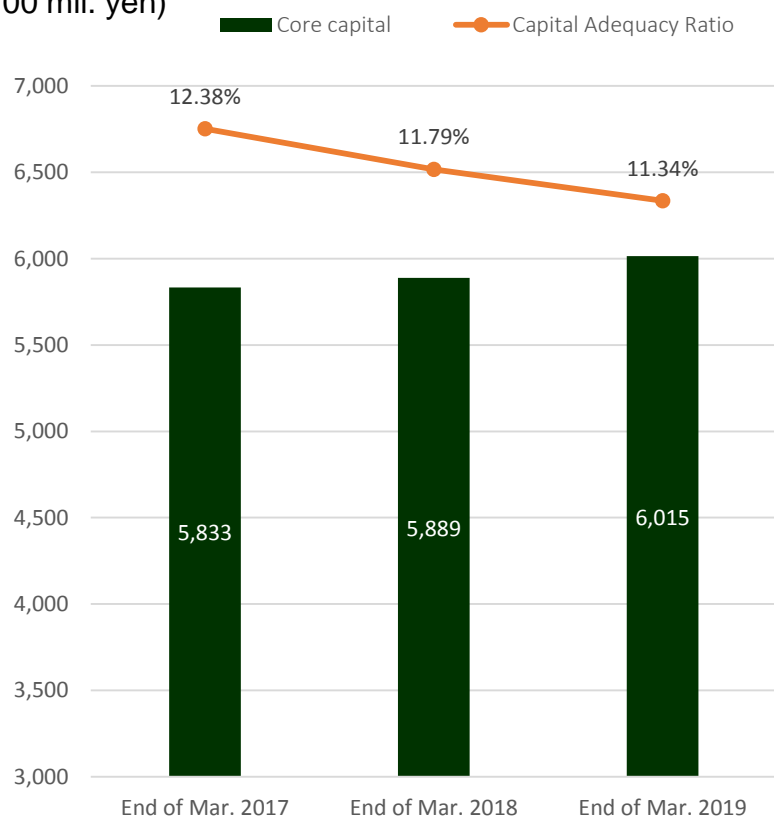


10. Capital Adequacy Ratio

- Core capital increased by 12,500 mil. yen year on year to 601,500 mil. yen.
- Despite the increase in core capital, the capital adequacy ratio declined by 0.45% year on year to 11.34%, affected by the increase in risk assets as lending grew.

Capital Adequacy Ratio (KFG Consolidated)

(100 mil. yen)



Capital Adequacy Ratio (KFG Consolidated)

(100 mil. yen)

	Mar. 2018	Mar. 2019	Change
(i) Core capital	5,889	6,015	125
Shareholders' equity	5,728	5,924	195
(ii) Risk assets	49,914	53,039	3,125
(iii) Capital adequacy ratio ((i)/(ii))	11.79%	11.34%	-0.45%

Capital Adequacy Ratio (2 Banks Combined)

(100 mil. yen)

	Mar. 2018	Mar. 2019		Change	
	Two banks combined	Two banks combined	Higo		Kagoshima
(i) Core capital	5,366	5,515	2,748	2,766	148
Shareholders' equity	5,202	5,396	2,729	2,666	194
(ii) Risk assets	49,231	52,326	25,610	26,716	3,094
(iii) Capital adequacy ratio ((i)/(ii))	10.90%	10.54%	10.73%	10.35%	-0.36%

11. Performance Forecasts

FY2019 Performance Forecasts (simple aggregation of 2 banks)

	Mar. 2019	Mar. 2020			Change
	Two banks combined	Two banks combined	Higo	Kagoshima	Two banks combined
Gross business profit	1,038	1,043	508	535	5
Interest and dividend income	930	899	431	467	-31
Fees and commissions	121	118	64	53	-3
Other business profit (of which gain or loss on government and other bonds)	-14 0	26 23	12 16	13 7	40 23
Expenses (-)	697	710	359	351	13
Core business profit	340	309	133	175	-31
Allowance for doubtful accounts (-)	-5	0	1	-2	4
Net business profit	346	333	147	186	-12
Non-recurring profit or loss	9	7	22	-15	-2
Non-performing loan disposals (subtract)	40	28	8	20	-11
Equity securities-related profit or loss	59	47	37	10	-12
Other nonrecurring profit/loss	-9	-11	-6	-5	-2
Ordinary income	355	340	170	170	-14
Extraordinary profit and loss	-5	4	2	2	9
Pre-tax net income	350	345	172	172	-5
Net income	245	240	120	120	-4
(Credit costs)	34	29	10	19	-5

Kyushu Financial Group Consolidated Results	Mar. 2019	Mar. 2020
Consolidated revenues	1,703	1,653
Consolidated ordinary income	337	338
Profit attributable to owners of parent	222	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.

Vision

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

◆ Achieved in two stages, from Collaboration to Integration

(i) 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 business foundation]

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

(ii) Integration Stage

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

- **Proceeding with the group integration process in steps based on the business 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.**

2. Overview 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 core strategies based on issues faced by the Group, and “Strategic Pillars” as focus themes for each strategy.

Name	2nd Group Medium-Term Management Plan: Integration Stage	
Period	Three years (April 2018 to March 2021)	
Vision	“Kyushu’s top full-service financial group for customers”	
Basic Policy	To maximize group synergy, aiming to provide optimal, high-level services to our customers	
Core Strategies & Strategic Pillars	Core Strategies	Strategic Pillars
	(1) Evolving into group championing “cocreation of local vitality”	(i) Enhancing comprehensive regional financial service functions (ii) Taking advantage of regional industrial promotion function
	(2) Reinforcing group personnel	(i) Enhancing personnel management (ii) Enhancing personnel development
	(3) Enhancing group governance	(i) Enhancing business management structure (ii) Improving productivity

3. Numerical Targets and Results for FY2018

Numerical Targets	FY2018 Medium-Term Management Plan Targets	FY2018 Results	FY2019 Performance Forecasts	FY2020 Target
Average Loan Balance (2 banks combined)	6.7 tril. yen	6.7 tril. yen	7.1 tril. yen	7.6 tril. yen
Deposits (average balance) (incl. NCDs and 2 banks combined)	8.6 tril. yen	8.5 tril. yen	8.7 tril. yen	9.2 tril. yen
Consolidated net income	22.8 bil. yen	22.2 bil. yen	22.8 bil. yen	25.0 bil. yen
Income from service to customers*	9.1 bil. yen	12.1 bil. yen	12.1 bil. yen	14.0 bil. yen
Consolidated ROE (Shareholders' equity)	4.0%	3.7%	3.8%	4% and above
Consolidated OHR	71.5%	68.2%	69.9%	Less than 70%
Consolidated capital adequacy ratio	11.2%	11.3%	10.7%	10% and above

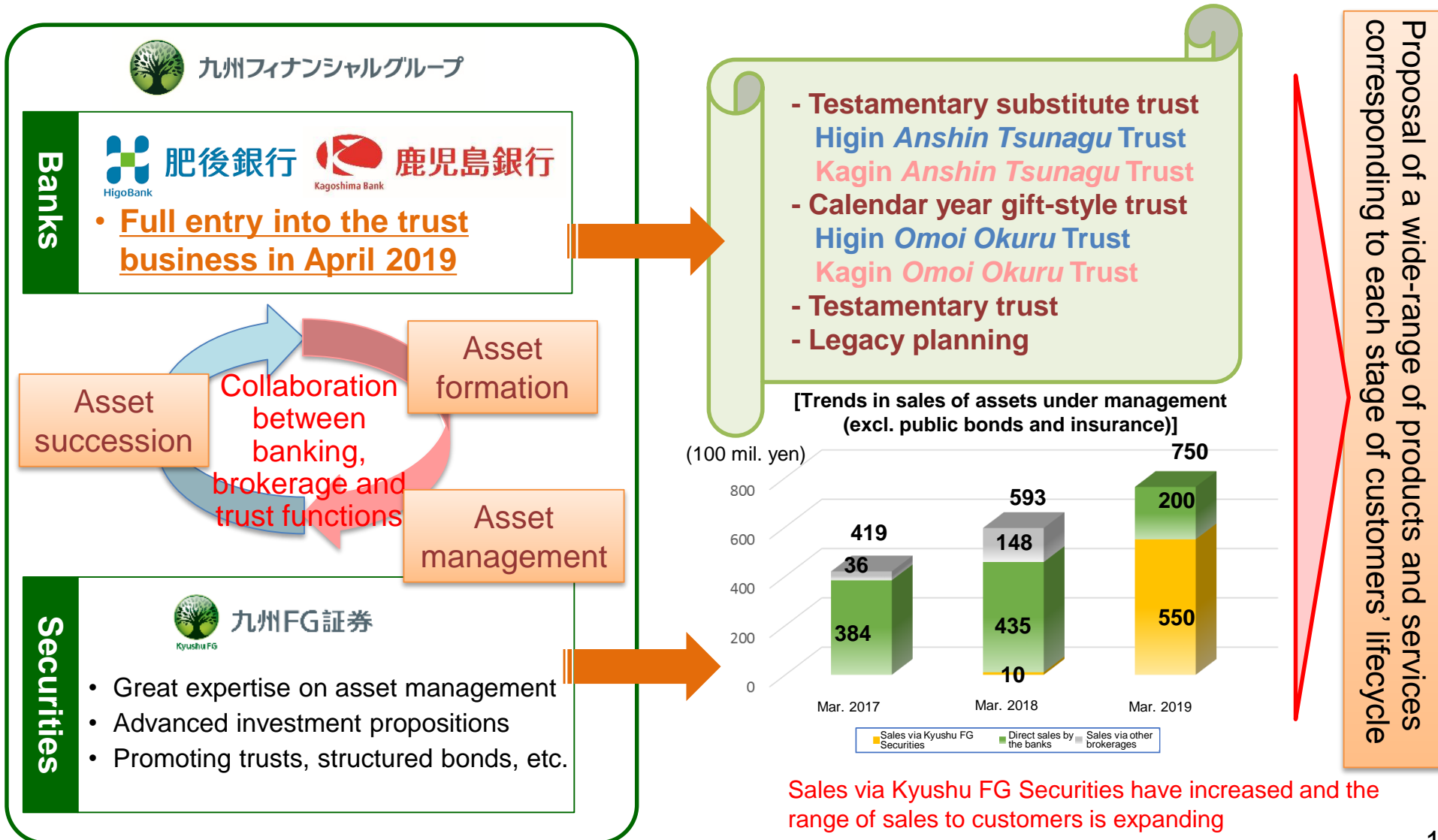
* Income from service to customers:

Average balance of lending x Loan-deposit interest spread + Income from fees and commissions - Expenses

4. Basic Strategy: (1) Evolving into Group Championing “Cocreation of Local Vitality” 九州フィナンシャルグループ

Efforts for establishment of collaboration between banking, brokerage and trust functions

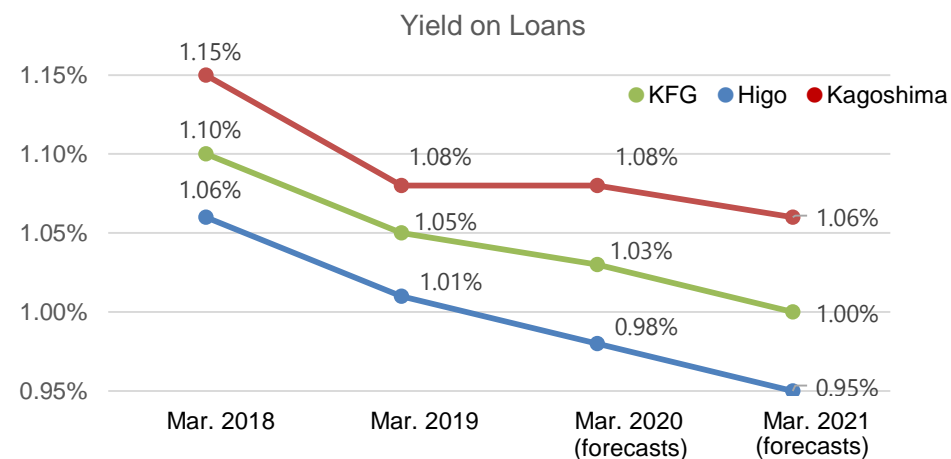
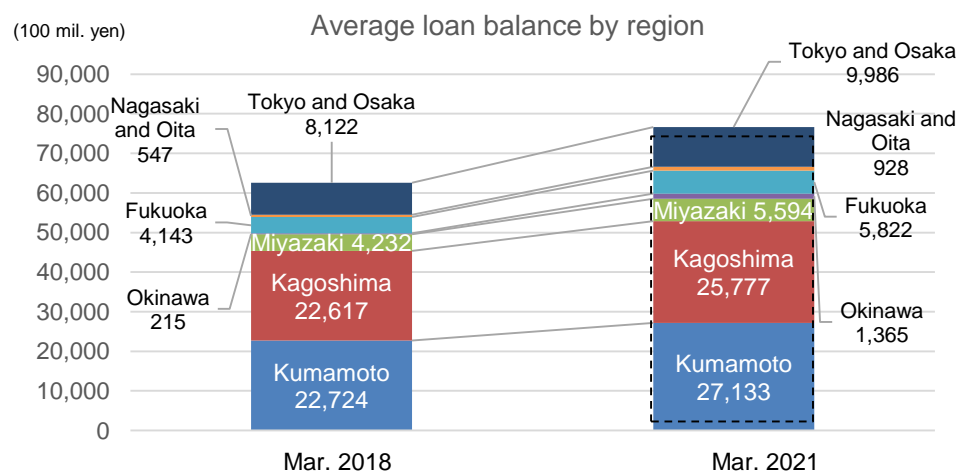
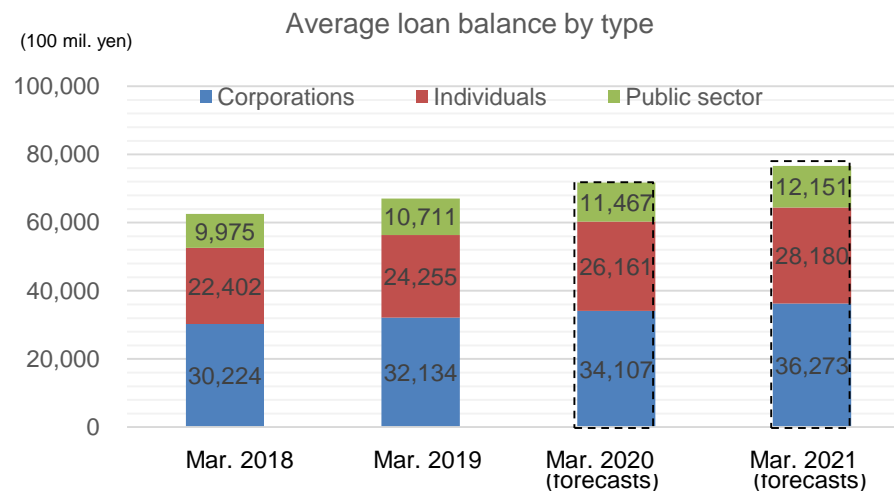
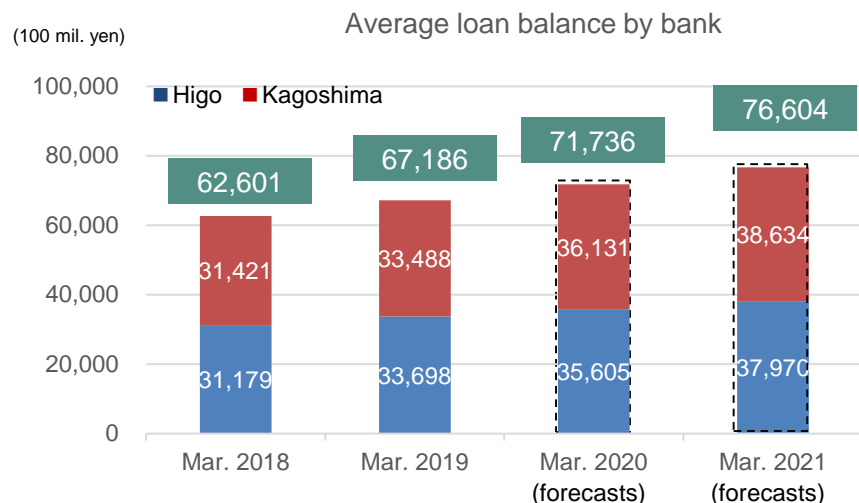
- As the two banks started offering trust business in April 2019, the group became the first regional bank in Kyushu able to offer a one-stop service that responds to customers’ requirements - to save, increase and leave - at each stage of lifecycle and inheritance.
- We will continue to offer highly specialized financial products and services to respond to customers’ diversifying needs.



Expanding Lending

We aim to expand lending in our regions (Kumamoto, Kagoshima and Miyazaki) as well as others 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 (M&As, business succession, structured finance, etc.) ● Strengthening PPP and PFI support
- Expanding customer scope in northern Kyushu, Okinawa and city areas



Strategies for Overseas Markets and Other Prefectures

In overseas strategy, we aim to expand foreign-exchange revenues through collaboration between sales and market divisions, and assist our customers' overseas expansion and strengthen support to their overseas operations. In 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**

- Strengthen promotion of foreign exchange business
- Jointly nurture global human resources
- Consider setting up new bases

[China, Taiwan (Greater China)]

- **Utilization of the group's overseas bases and information sharing**

- Kagoshima Bank opened a representative office in Taipei (Apr. 2019)
- Support entry into overseas markets and export expansion
- Promote tourism and exchange

[ASEAN]

- **Strengthening of collaboration with foreign banks through business tie-ups and enhancement of network**

- Offer information of local investment environment, local financial service, etc.
- Enhance the service menu



Strategies for Other Prefectures

[Fukuoka]

- **Kyushu Financial Group Fukuoka Building completed (July 2019)**

- Upgrading sales and information center functions for Fukuoka
- Promoting northern Kyushu strategy
- Support customers' sales channel expansion



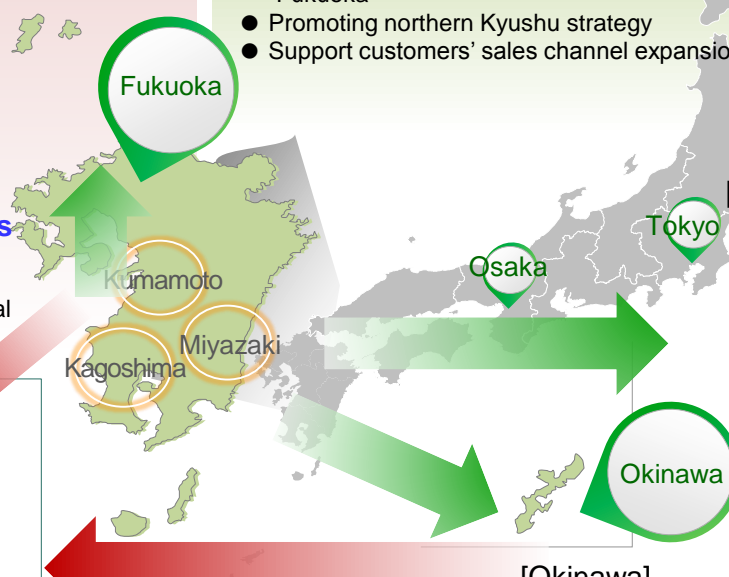
[Tokyo and Osaka]

- Various research and analysis utilizing the general research office
- Development of new services that connect local areas and urban areas
- Support customers through collaboration between banking, brokerage and trust functions
- Find partners who can help invigorate Kyushu economy

[Okinawa]

- Reinforcing sales operations (Second Kagoshima Bank branch opened in July 2018)
- Enhancing information intermediation function, developing networks (information collaboration)

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



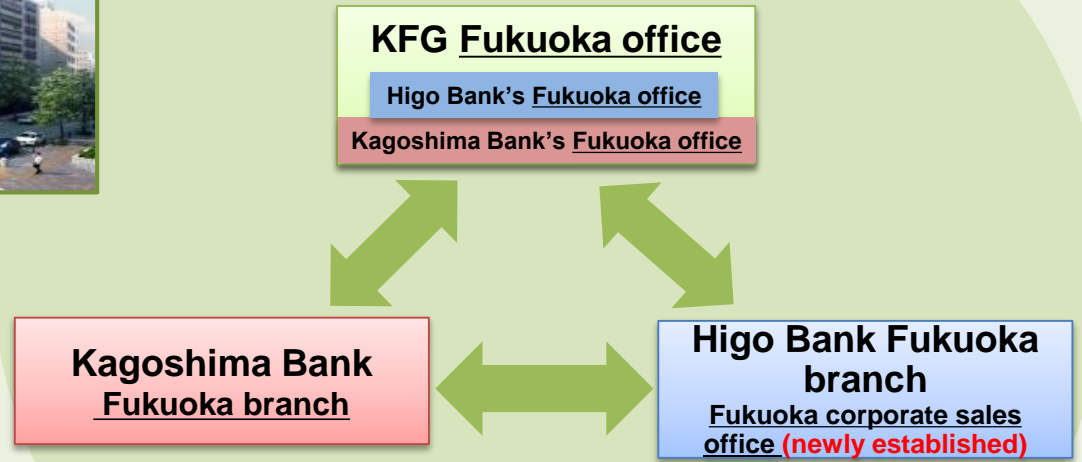
Reinforcement of Sales Operations with Construction of KFG Fukuoka Building 九州フィナンシャルグループ

**Kyushu Financial Group
Fukuoka Building**
(to open in July 2019)

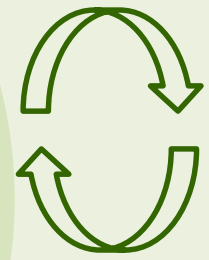
We put together some functions of the KFG Group and enhance comprehensive regional financial service functions



- Strengthen contacts with various industries and government sectors
- Support local customers' sales channel expansion and intermediate information (business meetings, business matching, etc.)
- Research activities to contribute to solution of medium- to long-term issues of various industries
- ➔ Taking advantage of regional industrial promotion function



- Expand business base through joint development of new customers
- Expand business by introducing each other's customers (medical, agriculture, tourism, manufacturing, etc.)
- Strengthen ability to offer solutions by sharing knowhow within the group (business succession, M&As, start-up support, overseas expansion, etc.)



Affiliated companies

- Kyushu Economic Research Institute
- Higin Lease Co., Ltd.

Digital Strategy Initiatives and Cases

(Kagoshima Bank's own mobile wallet service)

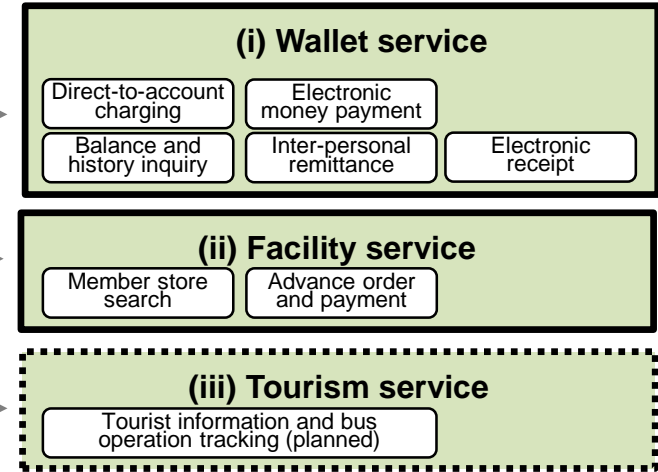
□ Provide (i) Wallet service (QR code payment); (ii) Facility service

(other services to be introduced in phases)



Easy to use

You just have to show QR code at cashier.
Anyone can pay easily.



- **Completely cashless commercial complex (bank-operated)** planned inside the new headquarters building under construction
- Implement various cashless initiatives, and offer the knowhow thus gained to customers outside the facility



<<Efforts at Kagoshima Bank>>

- Introduce cashless payment methods
- Provide POS register systems
- Data management

Digital Strategy Initiatives and Cases (Higo Bank)

Newly established Digital Innovation Office in the Corporate Planning Division (Apr. 1, 2019)

Improve convenience for customers

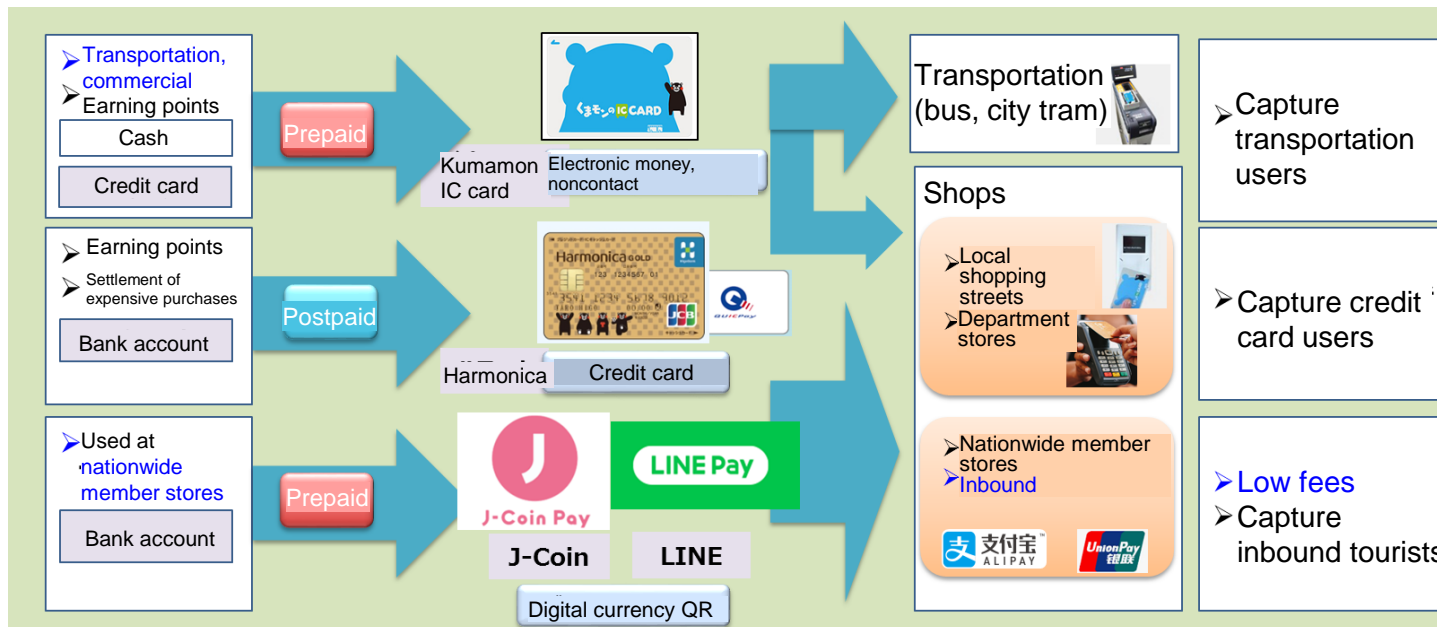
- Enhance apps and website
- Promote cashless settlement
- Carry out marketing by utilizing data

Improve operation quality, standardize, improve efficiency

- Simplify procedures, digitize (eliminate need of paper and seals)
- Utilize RPA and AI

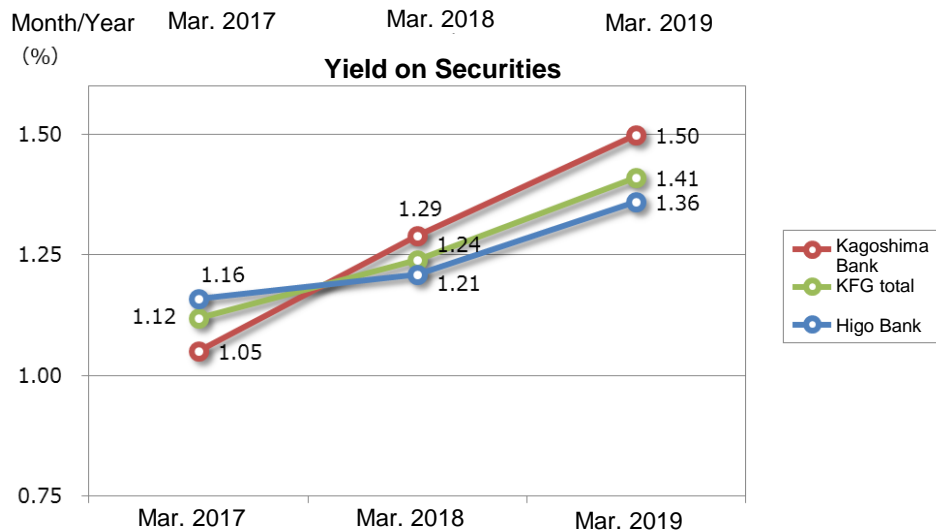
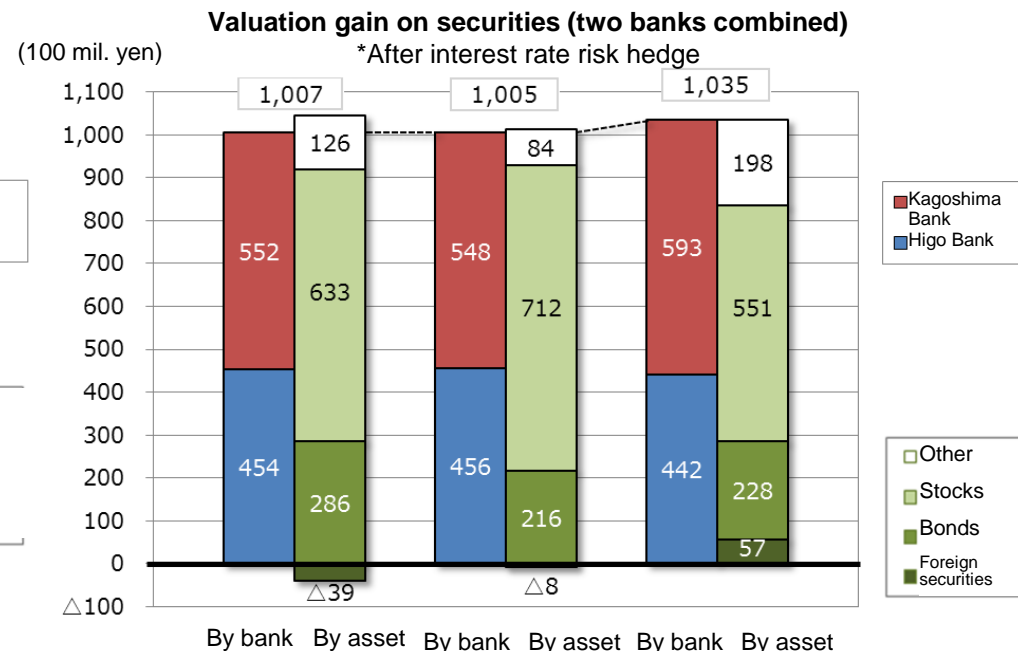
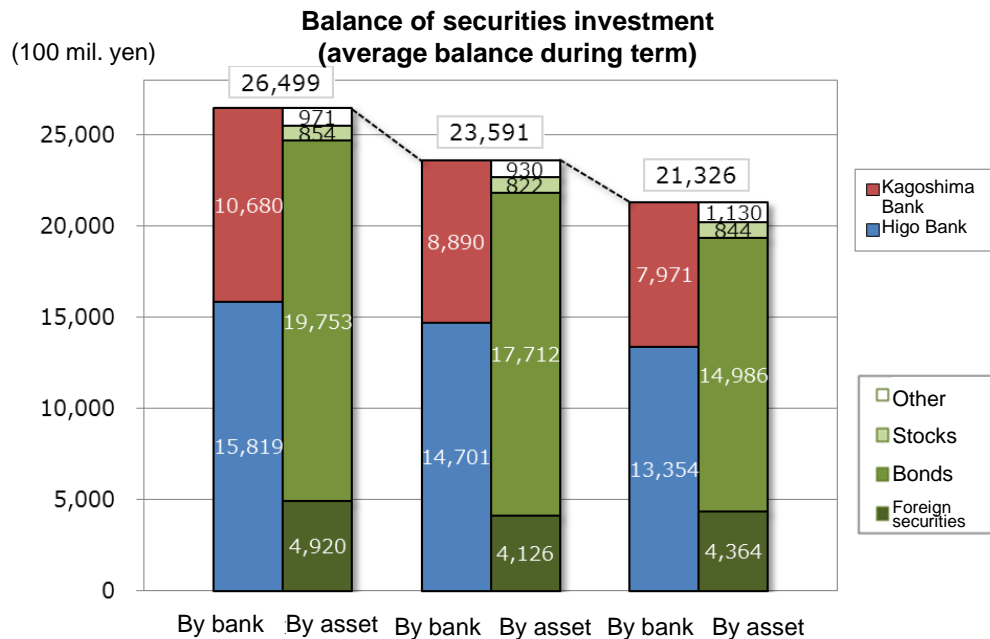
Improve customers' convenience, utilize accumulated data for sales promotion, and create new revenue source

[Image of cashless settlement promotion]



Market Strategies: Securities Management

In market sectors, we are working to diversify and improve flexibility of investment to enhance medium- to long-term profitability through stable growth in comprehensive income (interest and dividends, gain or loss on trading and evaluation gains).

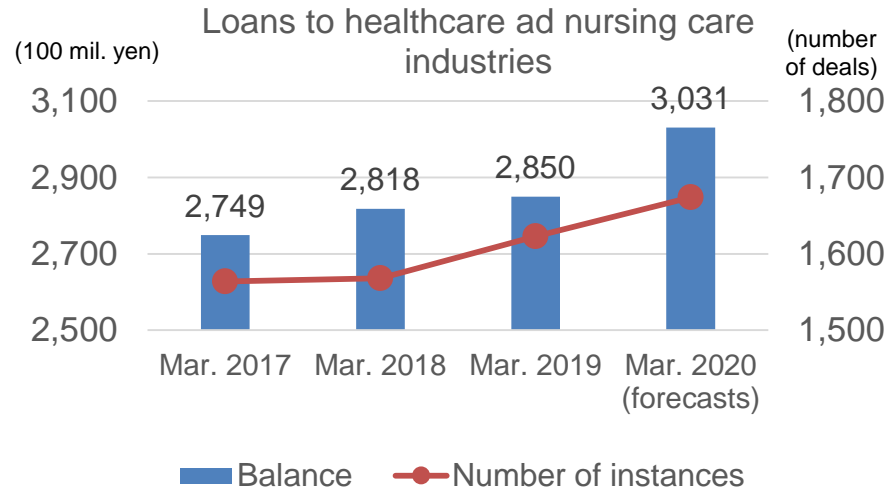


Month/Year Mar. 2017 Mar. 2018 Mar. 2019

- The balance of yen-denominated bonds decreased as some reached maturity, but in their place we have continued with investments in products with relatively high net interest margins, including European bonds, U.S. agency securities and financial bonds.
- In addition to diversification of physical assets, we have worked to enhance investment performance by using options and other derivatives, and by diversifying investment methods.
- Furthermore, we have strived to be flexible in our investment through transactions in physical assets and hedges using interest rate swaps, etc. in order to appropriately address market fluctuation risks.

Position healthcare and nursing care business as the region's core industry and provide continuous support for its growth

- Established the Healthcare Business Support Division in Mar. 2016 and increased dedicated employees
- Aim to increase transactions by leveraging information and knowhow accumulated in Kagoshima and Miyazaki



Content of the initiatives by the Healthcare Business Support Division

Finance support	Collaboration with and introduction of external specialized organizations
Start-up support, competition analysis	Medical fee claim statement diagnosis
Healthcare and nursing care market research	M&As, business succession
Support for business expansion and conversion	Issuance of medical institution bonds and medical care corporation bonds
Management improvement consulting	Various seminars and study sessions
Hospital bed reorganization simulation	Consulting for hospital reconstruction, etc.

Leverage Trovo-medical, an analysis tool we developed, to analyze medical institutions and nursing care facilities from multiple perspectives to visualize the market environment and demography by medical care zone.

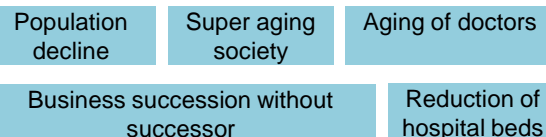
Realize regional revitalization through utilization of regional resources

At present

<Kagoshima Prefecture>
Number of hospitals and hospital beds to population:

2nd highest in Japan

Change in management environment



Support where branches and Healthcare Business Support Division work as one

Leverage information and knowhow we have accumulated so far and provide continuous support for growth

Strengthening of support

Start fee-based consulting service
“Medical business succession support”
“Hospital bed function conversion support”

Efforts in Tourism Sector (Higo Bank)

Information dissemination and sales

Higo Bank will work on vitalization of tourism in Kumamoto Prefecture through collaboration with Kumamoto DMC, a Japanese version of DMO that it established through a joint investment with the prefecture, and tourism-related businesses in the region.

Operation of Alt Kumamoto web media

Tour Plaza Kamitori, a tourist information center for foreign tourists, opened

Marketing support

- Regularly disseminate information regarding events in the prefecture and restaurants on the reconstruction support website Kasesurumon.
- Built a mechanism to attract visitors to tourist facilities in the prefecture by utilizing the stamp rally function



Menu Stamp page

Support of regional revitalization by utilizing funds

Reconstruction support

San-ai Rest House
San-ai Kogen Hotel



Restoration of buildings damaged by the earthquake

➤ **Aso Region Recovery Fair in San-ai** jointly hosted by Higo Bank and Kumamoto DMC (market, activities, bicycle event, etc.)



November 2018

- Enhance cooperation with local governments and businesses
- Vitalize Aso-Kuju National Park
- Brand enhancement by attracting tourists from inside and outside the prefecture as well as overseas

Kumamoto Mirai Sosei Fund

[Investors]
Organization for Small and Medium Enterprises and Regional Innovation (SMRJ), Higo Bank, Kagoshima Bank, Kumamoto Mirai Sosei Capital

Investment

Investment

Utilization of old Japanese-style houses

NOTE Hitokuma



➤ **Opened LOOP, a restaurant that utilizes the decrepit station house of Ohata Station in Hitoyoshi**

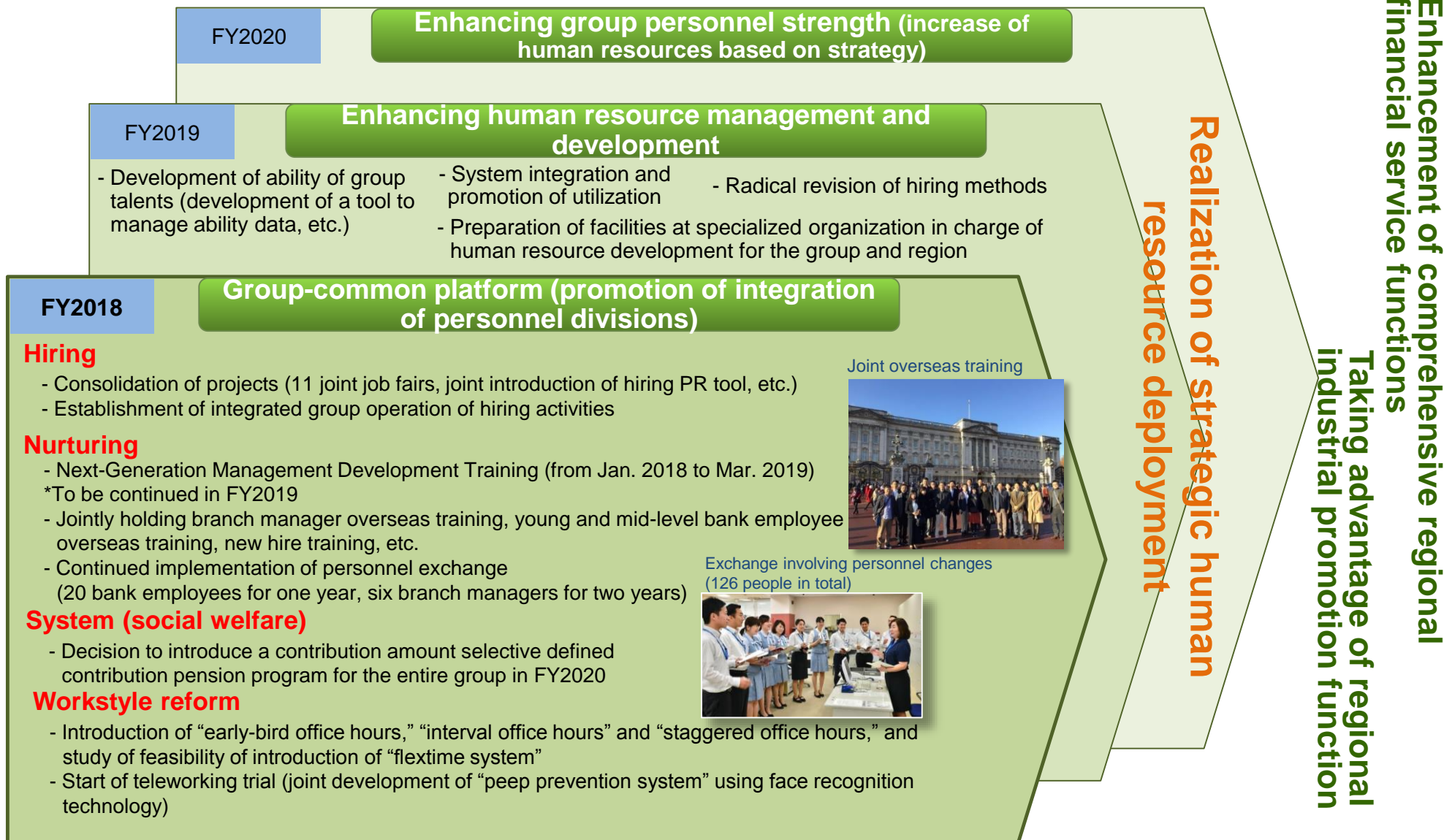
Support of prosperity creation that exceeds the level before the earthquake!

Signed partnership agreements with local governments and businesses for "the regional revitalization utilizing historical buildings"

- August 2017 Higo Bank, Hitoyoshi City, JR Kyushu, NOTE
- July 2018 Higo Bank, Kosa Town, a local organization, NOTE
- Considering expanding to other areas in the prefecture

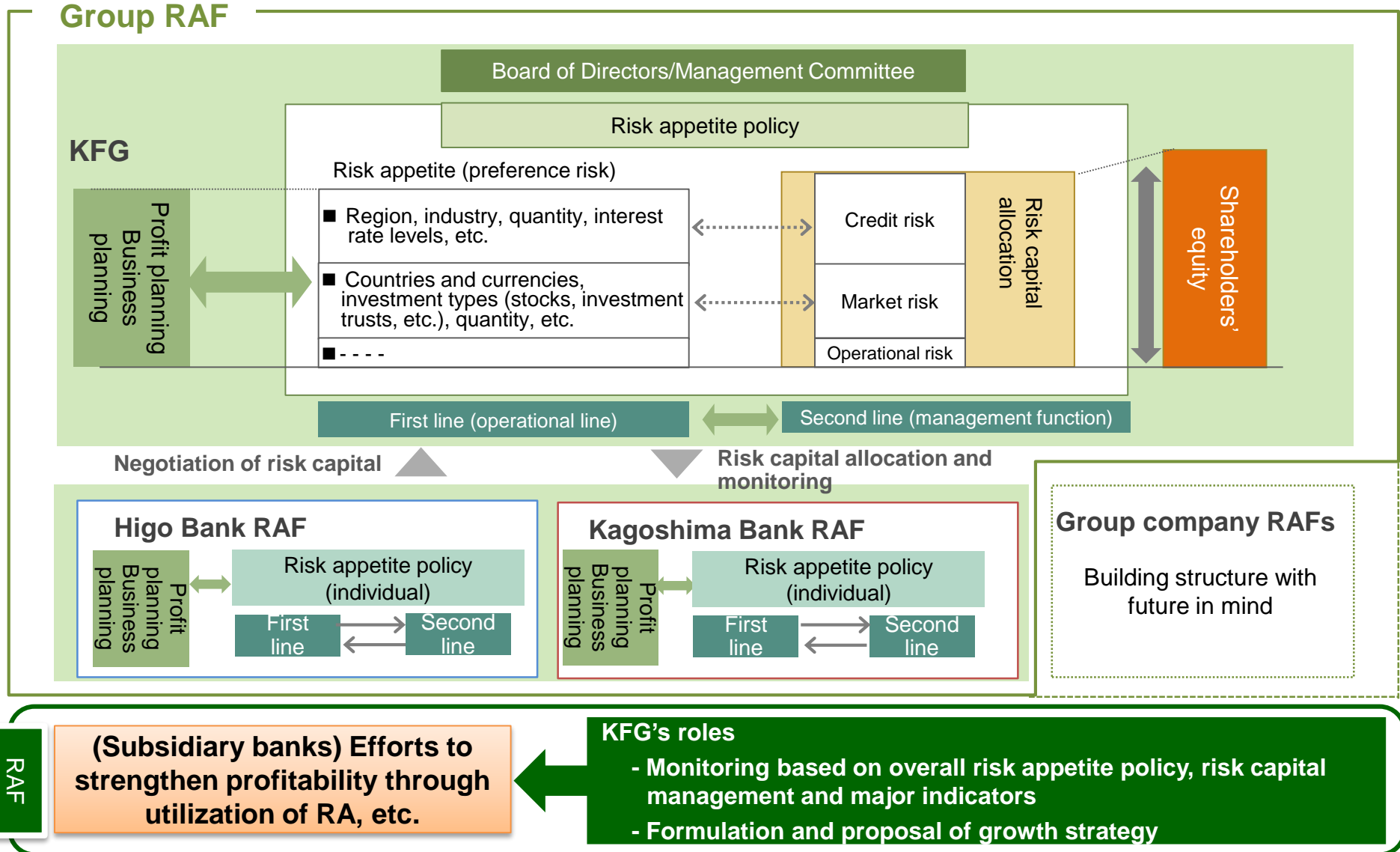
5. Basic Strategy: (2) Reinforcing Group Personnel

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.



6. Basic Strategy: (3) Enhancing Group Governance

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



Integration of Functions by Construction of Headquarters Building

We will construct a headquarters building to draw forth the comprehensive strength of the group and realize the management philosophy.

- **Make it a facility that enables efficient business operation and full demonstration of organizational power** by focusing on the future of our bank and the group companies.
- Realize flexible ways of working to promote workstyle reform **and improve work-life balance and enable an office environment that is creative, healthy and comfortable.**
- We are enhancing our efforts to contribute to sustainable regional economic and social development based on the group management philosophy, and make it an **environmentally conscious headquarters building.**
- Taking the experience of the Kumamoto earthquakes into consideration, we will improve safety during large-scale disasters and **enhance disaster prevention features** from the perspective of business continuation, and contribute to **creative reconstruction from the Kumamoto earthquakes.**



Kyushu FG

**Management
philosophy**

Brand



Silhouette of a big tree

Building overview

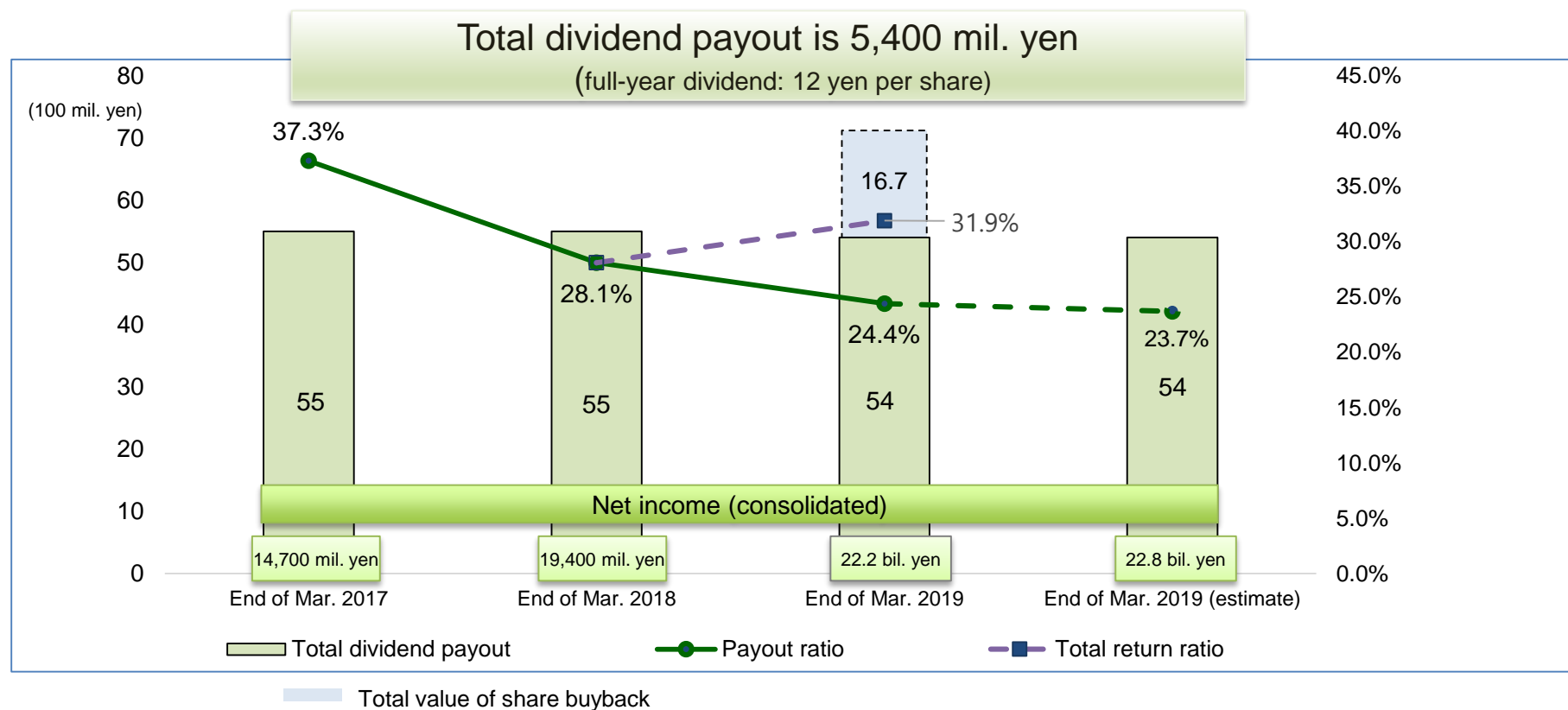
Site area	3,081.26 m ²
Total floor space	16,512.30m ²
Number of stories	11 stories above the ground
Composition	1F Kyushu FG Securities' Kumamoto Branch, parking, etc. 2F Entrance, large meeting room 3F to 11F Headquarters, group companies' head offices, etc.
Schedule	Apr. 2019 Start of construction Mar. 2021 Planned start of operations

7. Capital Policies: Shareholder Return

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

For the year ending March 2020, Kyushu Financial Group plans to pay 6 yen in interim dividend per share for a full-year total of 12 yen (6 yen in term-end dividend). As a result, the group expects a payout ratio (consolidated) of 23.7%.

Dividends and Payout Ratio



Environment

Kyushu Financial Group strives to conserve the natural environment through its business activity and various social contribution work to protect and pass on abundant nature in its region to the next generation.



Environment measures through business activity

- Offer products, including time deposits and investment trusts, that are environmentally friendly

Aso Green Time Deposit 212.5 bil. yen

- Promote environmentally rated loan program and environmentally friendly loan products

Environmentally friendly loans disbursed: 1,300 mil. yen

- Take account of companies' track record in tackling environmental issues when assessing the credit performance

- Loans to renewable energy projects: **Approx. 12.8 bil. yen**



➤ National Park Official Partnership deal with Ministry of the Environment

We carry out tourism promotion initiatives for the two national parks in our group's local region, which are part of the eight national parks selected for the ministry's Project to Fully Enjoy National Parks

- Aso-Kuju National Park
- Kirishima-Kinkowan National Park



Environmental measures through social contribution activities

- Recycling paper and introducing environmentally friendly vehicles for company cars
- Green and groundwater conservation through afforestation and reviving of rice paddies

Paddy fields: Approx. 10 ha, trees planted: 130,000 (cumulative)

- Environmental conservation activity through Higo Water and Greenery Protection Fund Charitable Foundation

- Signatory to Kagoshima Environment Partners Agreement



➤ Environmentally friendly branches

- Environmentally friendly headquarters and branch buildings (use of natural light, temperature control using double-skin structure, use of rain water, rooftop greening)
- Solar and wind power equipment
- Rainwater-permeable asphalt pavement
- Introduction of LED lighting



Social

Kyushu Financial Group is committed to support long-term regional growth by making maximum use of its comprehensive regional financial service functions and regional industrial promotion functions, and create a “local community full of vitality.”



Regional revitalization

- Efforts to create and support regional industries through partnership and tie-up with external entities and investment funds
- Promote regional industrial measures by setting up entities aimed at promoting tourism and farming

➤ Set up funds for regional promotion

- Higo/Kagoshima Local Revitalization Fund
- KFG Regional Enterprise Support Fund
- KFG Agriculture Fund
- Kumamoto Recovery Support Fund
- Kumamoto Mirai Sosei Fund



Total fund size:

56 funds, 8.7 bil. yen in total

- Efforts for solving business problems at customers and business negotiations

15 cases implemented, 171 cases signed

Contribution to regional communities

- Support creative reconstruction from the devastation of Kumamoto earthquake
Introduction of reconstruction-support products, establishment of reconstruction fund
Donation for supporting restoration of cultural assets in Kumamoto

Approx. 1.9 bil. yen (FY2016 - FY2018)

- Efforts for developing regional human resources
Held the Kumamoto Tech Plan Grand Prix in an industry-academia-government cooperation, and Mirai Sozo Plan Contest in cooperation with higher educational institutions in the prefecture
- Promote sports in the region
Higo Bank women's *ekiden* running race team and Kagoshima Bank track and field team jointly participated in national games for the first time

Workstyle reform

- Introduction of early-bird office hours, interval office hours and staggered office hours
- Development of technology for teleworking environment utilizing ICT

**-> First in the financial industry
Introduction of peek prevention system**





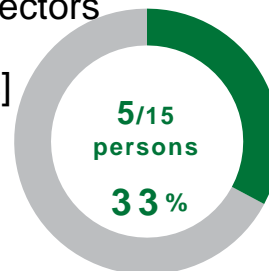
Corporate governance

Kyushu Financial Group, along with complying with the laws and regulations and ensuring appropriate decision-making and execution of operations for the realization of group philosophy, strives to achieve high degree of management transparency, openness to the public and soundness of operation to enhance corporate governance.

Enhanced audit function through external directors

- Board of directors comprised of 10 directors (of whom two are external directors) oversees operational decision making and execution of duties by directors
- “Company with board of company auditors” format adopted on the conviction that the structure, where five auditors (of whom three are external auditors) and the Board of Corporate Auditors monitor the state of execution of operations, is suited to improve the operational efficiency and enhance corporate governance
- Established the Nomination and Remuneration Advisory Committee as an advisory organ to the Board of Directors

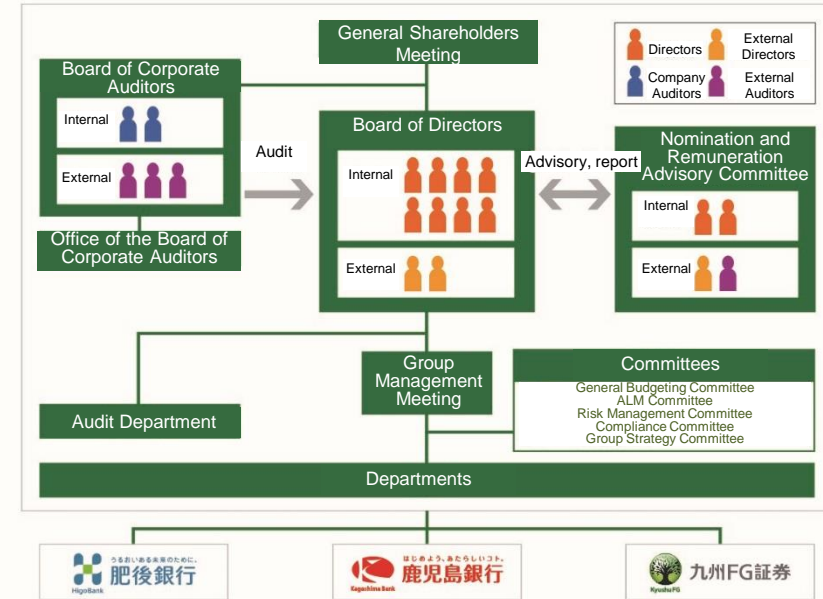
[Ratio of independent officers]



Enhance organizational strengths

- Streamlining and enhancement of organization through integration and consolidation of headquarters functions within the group and promotion of group-company consolidation
- Stronger sales force and improved productivity using extra management resources generated by organizational streamlining and reallocated from other areas

[Corporate governance structure]



Numerical Data



1. Financial Results Summary

[Higo Bank]

- Gross business profit came to 52,100 mil. yen, roughly in line with the previous year, as other business profit declined despite increases in interest and dividend income and fees and commissions.
- Ordinary income grew 100 mil. yen year on year to 18,100 mil. yen due to an increase in equity securities-related profit despite higher credit costs.
- Net income came to 12,400 mil. yen, up 100 mil. yen year on year.

Profit and Loss

Higo Bank

(100 mil. yen)

	Mar. 2018	Mar. 2019	Change
Gross business profit	522	521	-0
Interest and dividend income	461	465	3
Fees and commissions	63	69	5
Other business profit	-3	-13	-9
(of which gain or loss on government and other bonds)	(2)	(4)	(1)
Expenses (-)	371	361	-10
Core business profit	147	156	8
Allowance for doubtful accounts (subtract)	-11	-1	10
Net business profit	161	161	0
Non-recurring profit or loss	17	19	1
Non-performing loan disposals (subtract)	13	8	-4
Equity securities-related profit or loss	27	33	6
Other nonrecurring profit/loss	3	-5	-8
Ordinary income	179	181	1
Extraordinary profit and loss	-0	-1	-0
Pre-tax net income	178	180	1
Net income	123	124	1
(Credit costs)	1	7	5

[Kagoshima Bank]

- Gross business profit increased year on year by 4,700 mil. yen to 51,600 mil. yen, due mainly to an increase in interest and dividend income and gains on government and other bonds.
- Ordinary income came to 17,400 mil. yen, up year on year by 1,700 mil. yen, owing to lower credit costs and expenses.
- Net income came to 12,000 mil. yen, up 1,000 mil. yen year on year.

Kagoshima Bank

(100 mil. yen)

	Mar. 2018	Mar. 2019	Change
Gross business profit	469	516	47
Interest and dividend income	456	464	8
Fees and commissions	47	52	5
Other business profit	-34	-0	33
(of which gain or loss on government and other bonds)	(-39)	(-3)	36
Expenses (-)	338	336	-2
Core business profit	170	184	13
Allowance for doubtful accounts (subtract)	-37	-3	33
Net business profit	167	184	16
Non-recurring profit or loss	-10	-10	0
Non-performing loan disposals (subtract)	74	31	-42
Equity securities-related profit or loss	48	26	-22
Other nonrecurring profit/loss	14	-5	-19
Ordinary income	157	174	17
Extraordinary profit and loss	-0	-3	-2
Pre-tax net income	156	170	14
Net income	109	120	10
(Credit costs)	36	27	-9

2. Interest and dividend income

[Higo Bank] 46,500 mil. yen (up 300 mil. YoY)
- Increases in interests on domestic loans and interests on foreign securities led to a 300 mil. yen increase year on year.

[Kagoshima Bank] 46,400 mil. yen (up 800 mil. yen YoY)
- Increases in interests on loans and interests on securities resulted in an 800 mil. yen increase year on year.

Interest and Dividend Income

Higo Bank

(100 mil. yen)

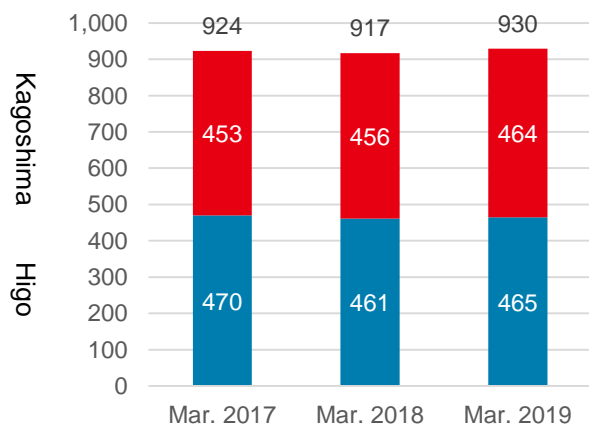
	Mar. 2017	Mar. 2018	Mar. 2019	vs. Mar. 2018 Change
Interest and dividend income	470	461	465	3
Domestic business	414	418	418	-0
Interest on loans	330	329	331	2
Interest on deposits (subtract)	8	6	3	-2
Interest on securities	116	117	108	-8
International business	55	43	47	4
Interest on loans	2	4	8	3
Interest on deposits (subtract)	0	0	0	0
Interest on securities	67	61	73	11

Kagoshima Bank

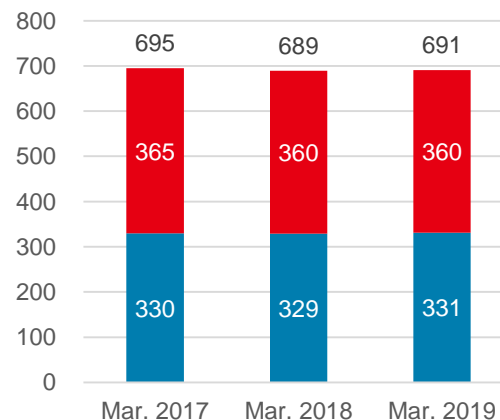
(100 mil. yen)

	Mar. 2017	Mar. 2018	Mar. 2019	vs. Mar. 2018 Change
Interest and dividend income	453	456	464	8
Domestic business	435	444	452	7
Interest on loans	365	360	360	0
Interest on deposits (subtract)	7	6	4	-1
Interest on securities	82	92	96	4
International business	18	11	12	1
Interest on loans	0	0	2	1
Interest on deposits (subtract)	0	0	0	-0
Interest on securities	30	22	23	0

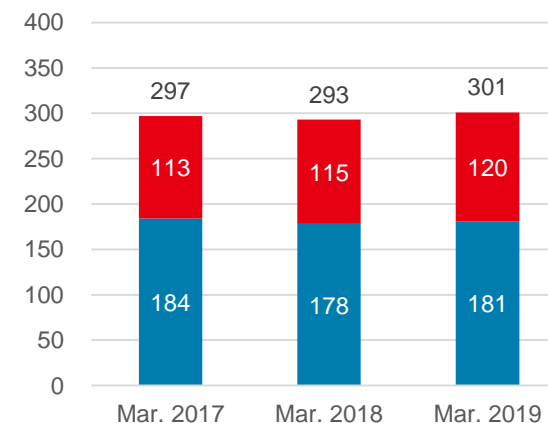
(100 mil. yen) Interest and Dividend Income



(100 mil. yen) Interest on Domestic Loans



(100 mil. yen) Interest on Securities



3. Fees and Commissions

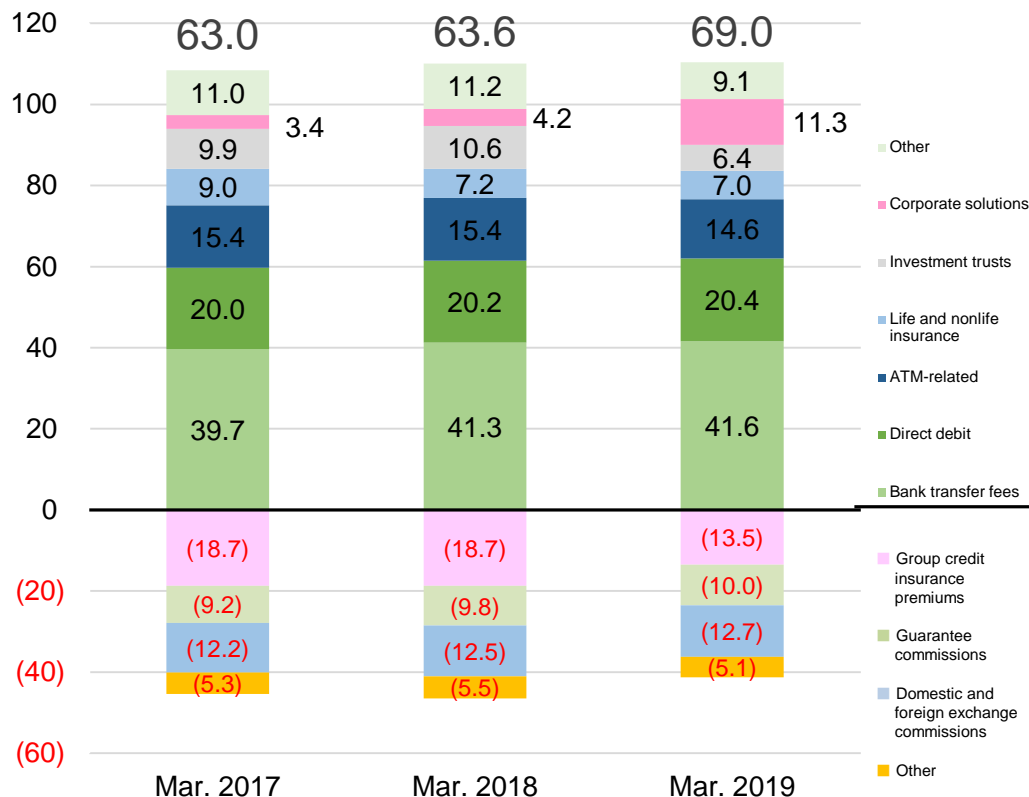
- Fees and commissions increased 540 mil. yen from a year ago to 6,900 mil. yen due mainly to an increase in corporate solutions-related commissions and the change of accounts in which group credit insurance dividends were booked.

- Fees and commissions increased 510 mil. yen from a year ago to 5,240 mil. yen due mainly to an increase in corporate solutions-related commissions and the change of accounts in which group credit insurance dividends were booked.

Fees and Commissions

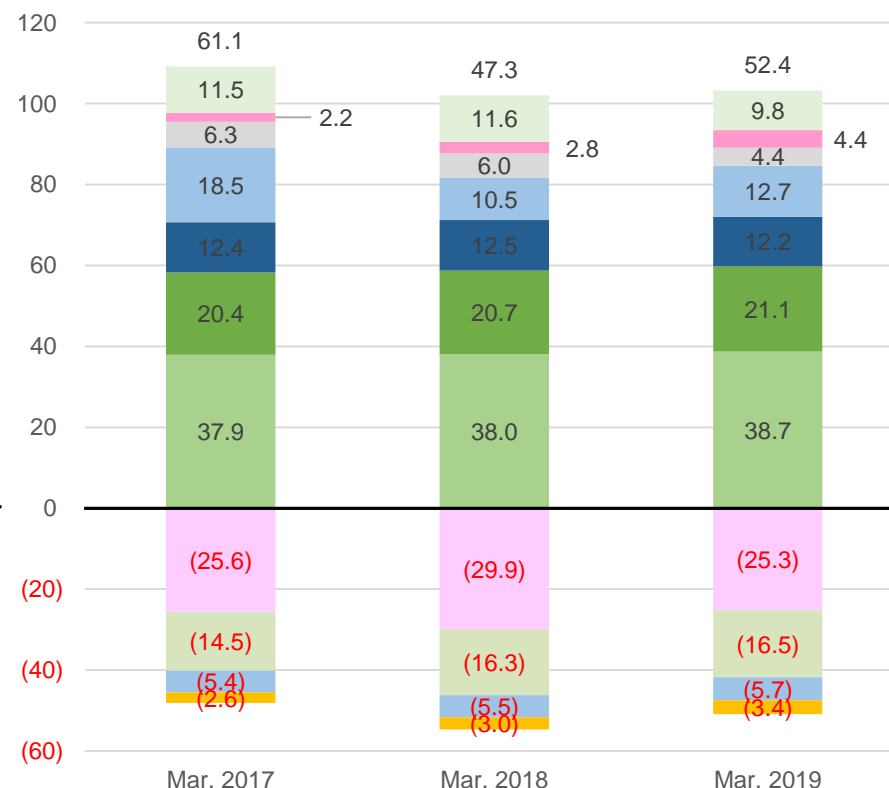
Higo Bank

(100 mil. yen)



Kagoshima Bank

(100 mil. yen)



4. Expenses

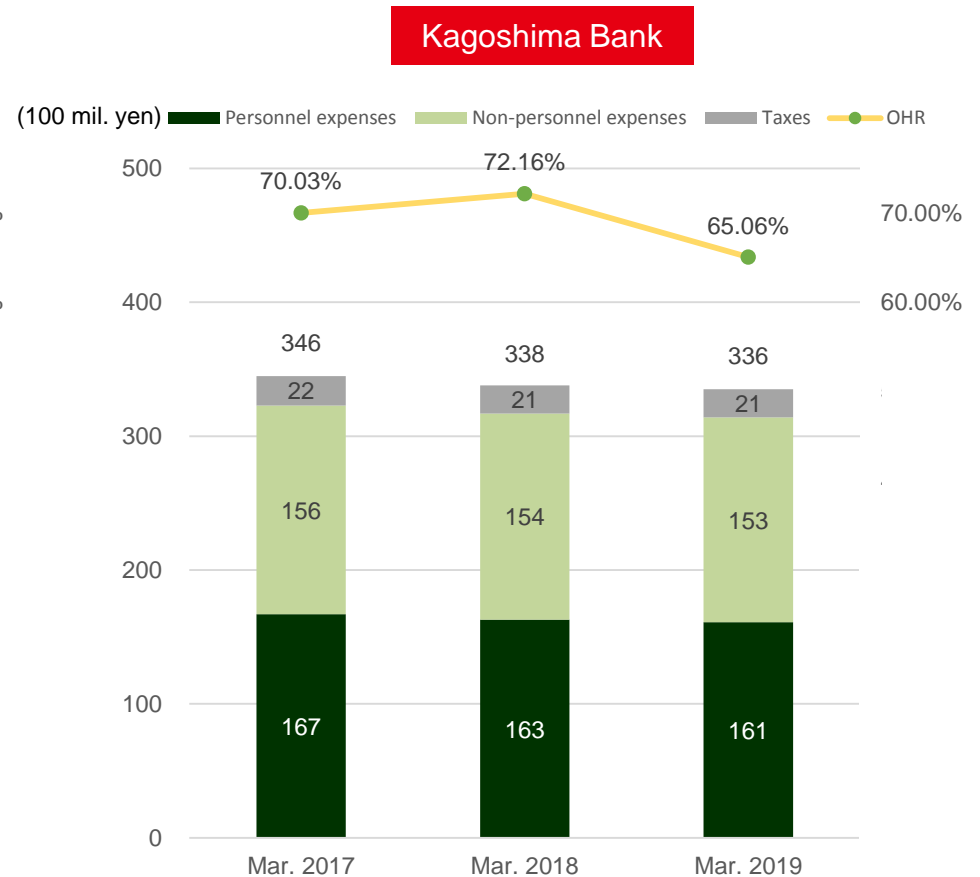
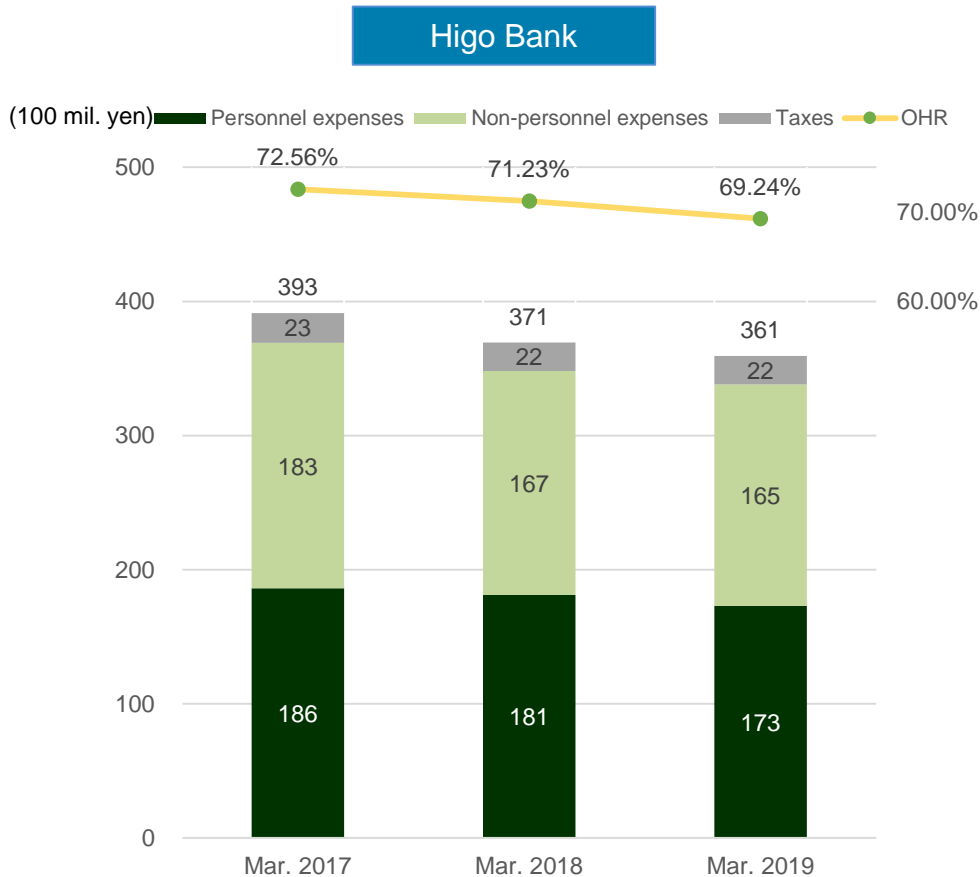
[Higo Bank]

- Expenses declined 1,000 mil. yen year on year to 36,100 mil. yen, due mainly to lower non-personnel and personnel expenses.
- OHR was 69.24%, down 1.99% year on year.

[Kagoshima Bank]

- Expenses declined 200 mil. yen year on year to 33,600 mil. yen, due mainly to lower non-personnel and personnel expenses.
- OHR declined by 7.10% year on year to 65.06% due to an increase in gross business profit.

Expenses



5. Loans (Average Balance)

[Higo Bank]

- Grew steadily for corporate, individual and public sector customers, with the overall figure rising 227,600 mil. yen year on year to 3,369,800 mil. yen.

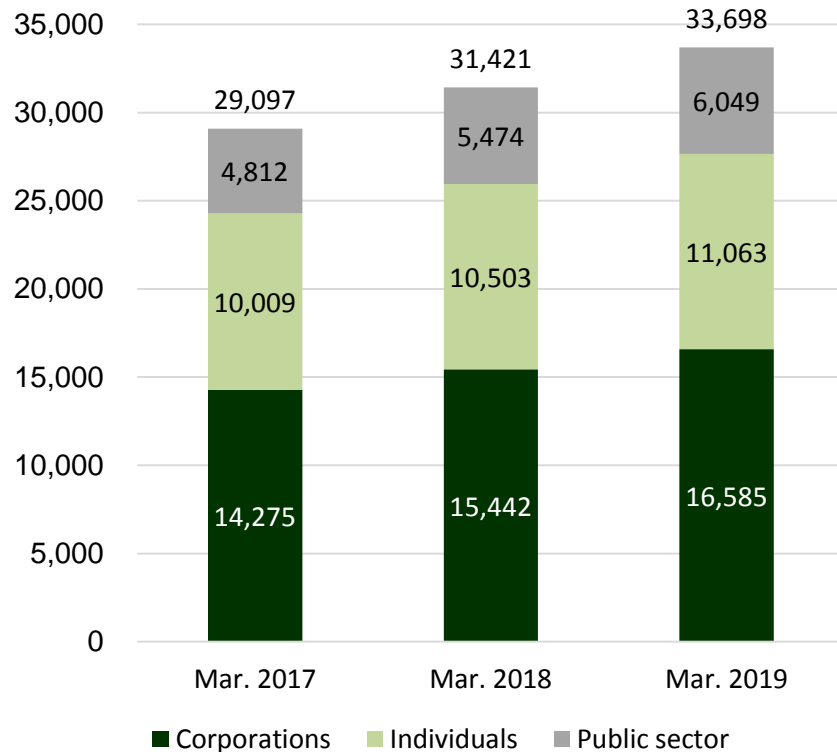
[Kagoshima Bank]

- Grew steadily for corporate, individual and public sector customers, with the overall figure rising 230,900 mil. yen year on year to 3,348,800 mil. yen.

Balance of Loans

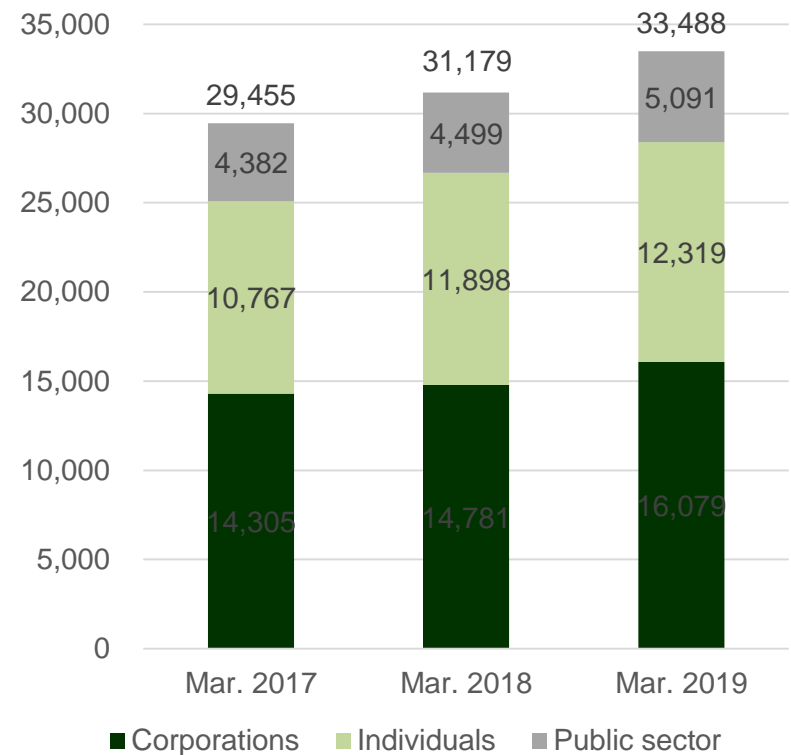
(100 mil. yen)

Higo Bank



(100 mil. yen)

Kagoshima Bank



6. Deposits (Average Balance)

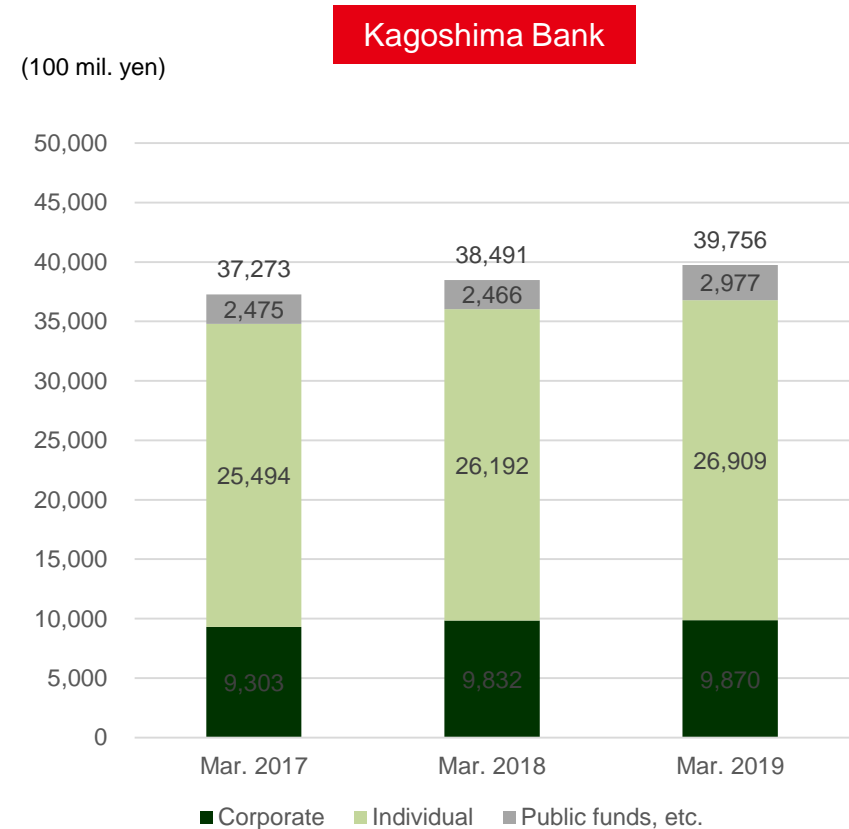
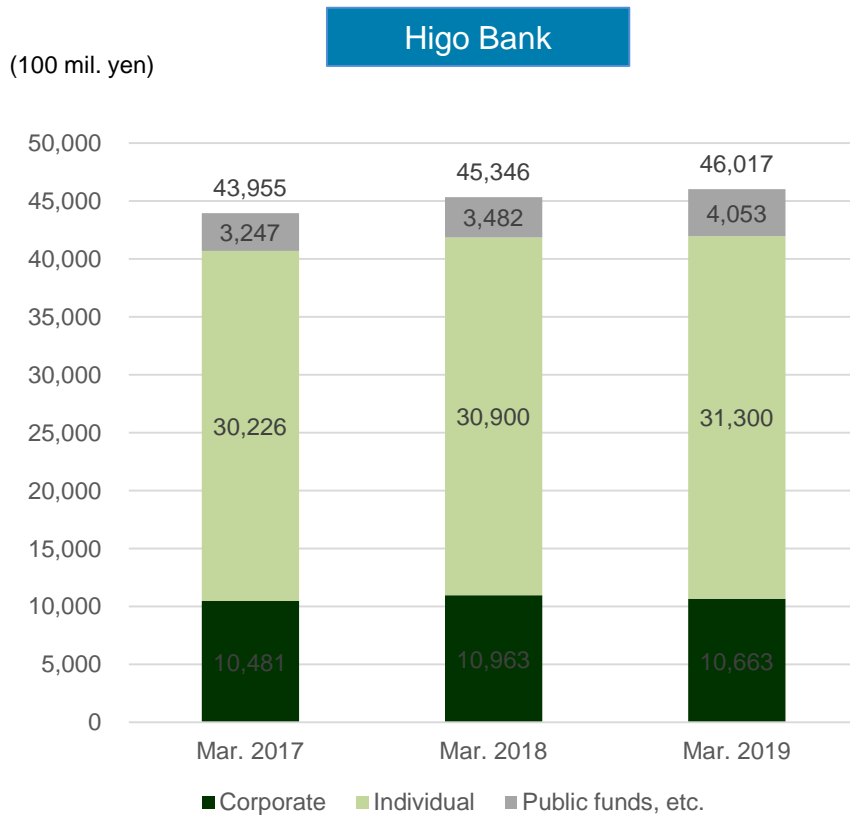
[Higo Bank]

- The average balance of deposits rose to 4,601,700 mil. yen, up 67,100 mil. yen year on year, as personal and public-sector deposits grew, while corporate deposits declined.

[Kagoshima Bank]

- The average balance of deposits rose to 3,975,600 mil. yen, up 126,500 mil. yen year on year, as personal, corporate and public-sector deposits all grew.

Balance of Deposits (incl. NCDs)



7. Securities

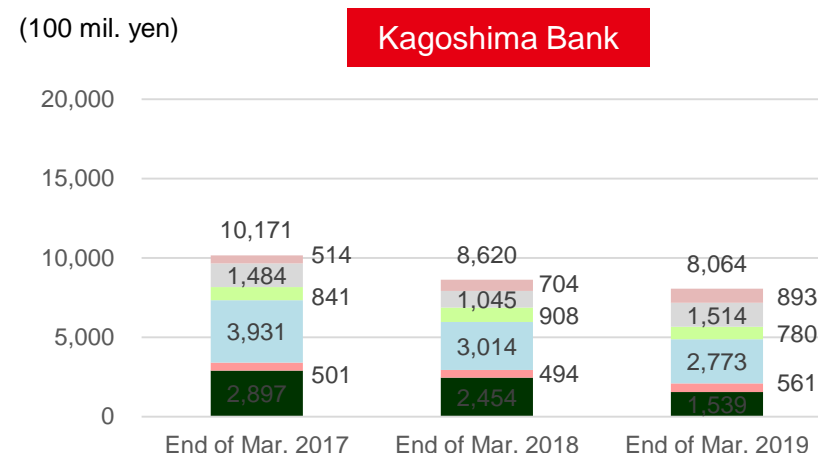
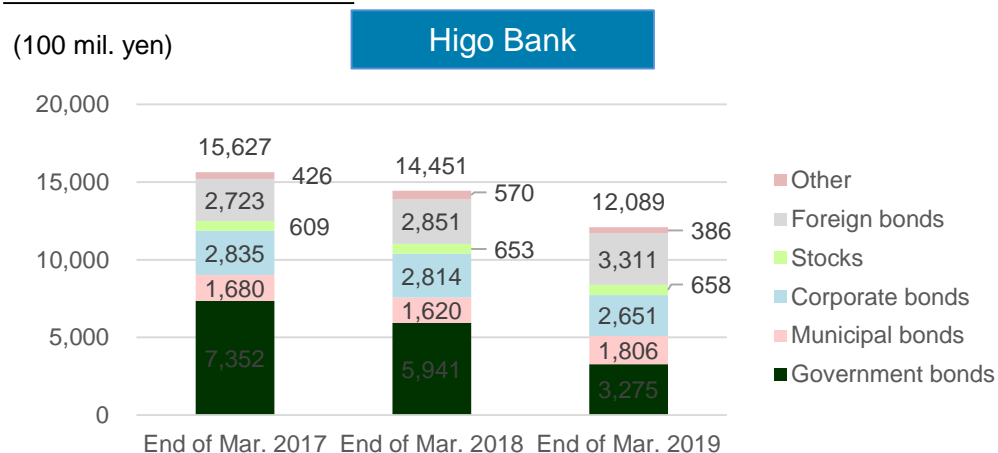
[Higo Bank]

- The balance of securities dropped 236,200 mil. yen from the end of previous fiscal year to 1,208,900 mil. yen due mainly to redemptions and sale of domestic bonds.

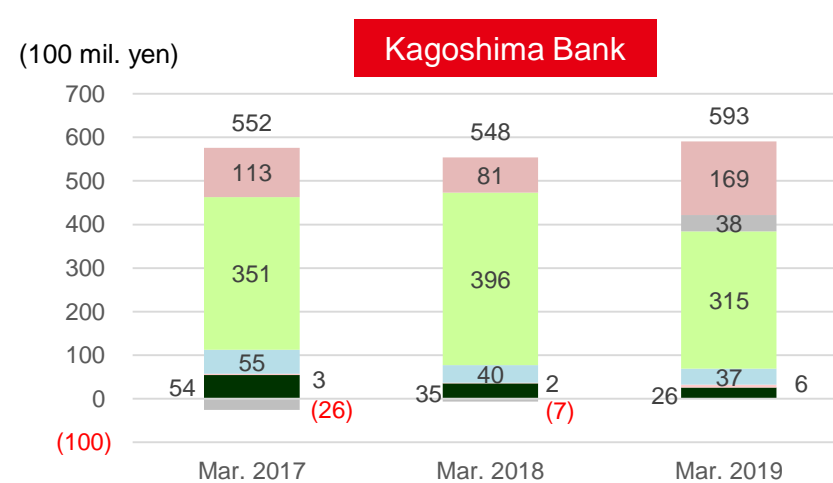
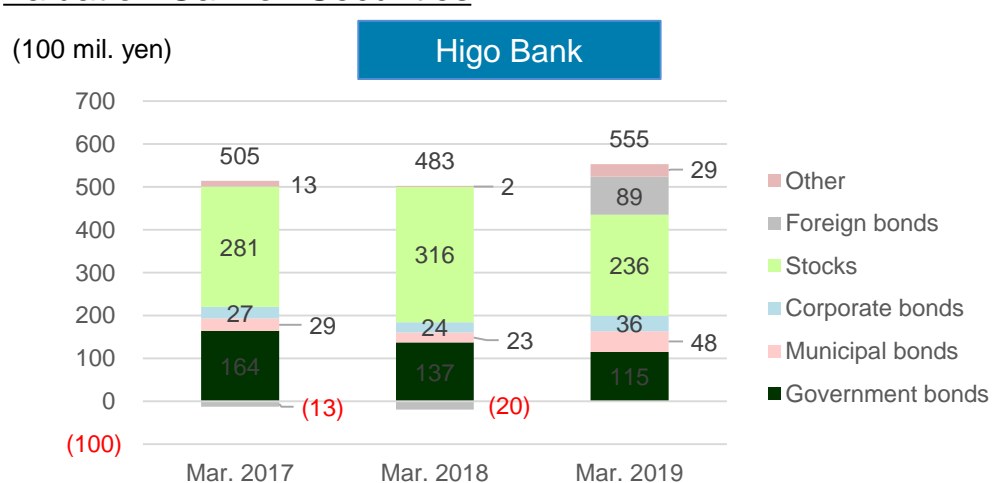
[Kagoshima Bank]

- The balance of securities decreased 55,500 mil. yen from the end of the previous fiscal year to 806,400 mil. yen, led mainly 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]

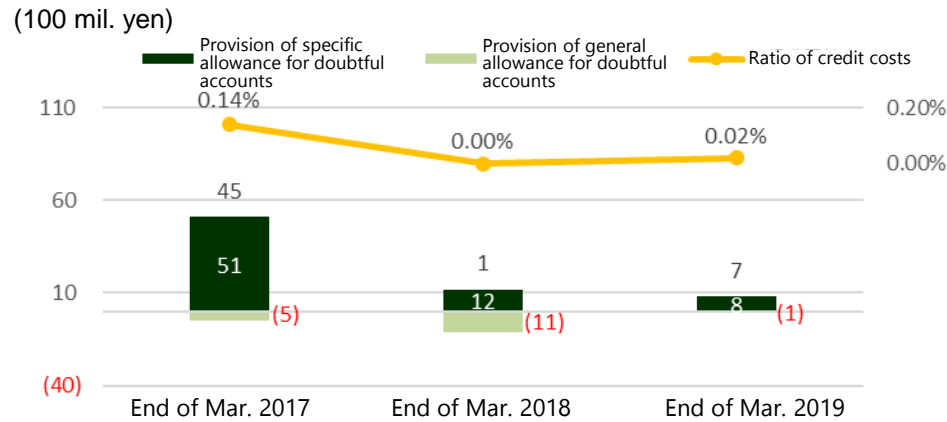
- The ratio of credit costs increased 0.02% year on year to 0.02%.
- The ratio of non-performing loans dropped 0.37% year on year to 1.57%.

[Kagoshima Bank]

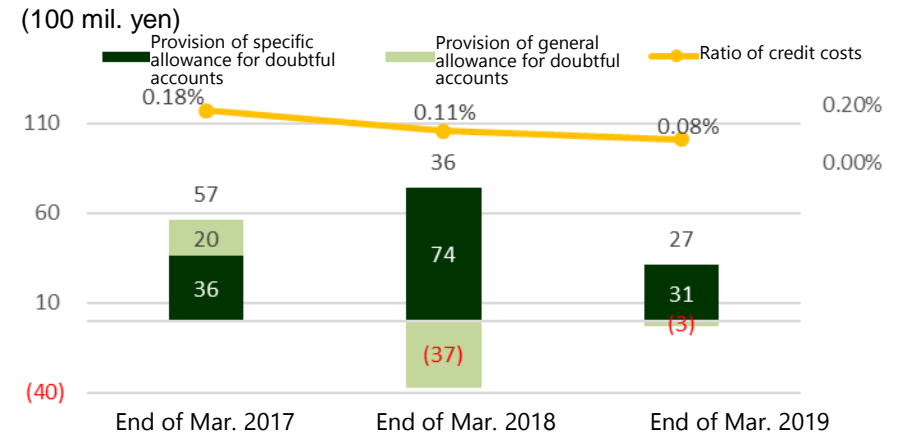
- The ratio of credit costs declined 0.03% year on year to 0.08%.
- The ratio of non-performing loans dropped 0.14% year on year to 2.27%.

Credit Costs

Higo Bank

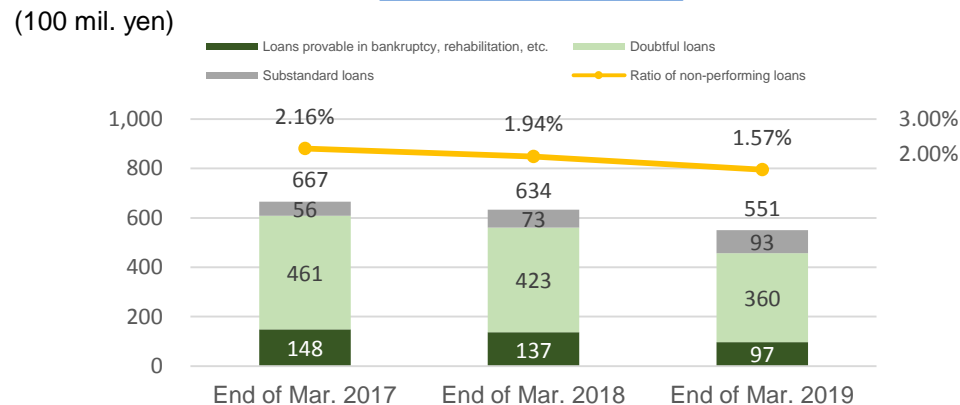


Kagoshima Bank

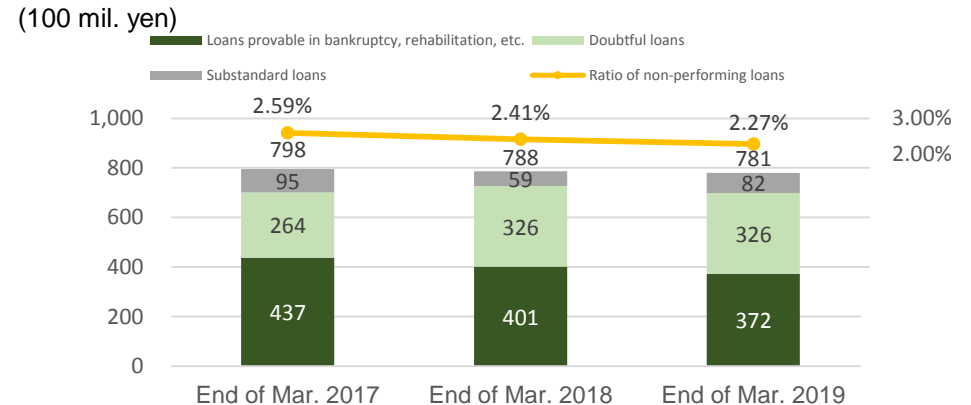


Loans Disclosed Pursuant to Financial Reconstruction Act

Higo Bank



Kagoshima Bank



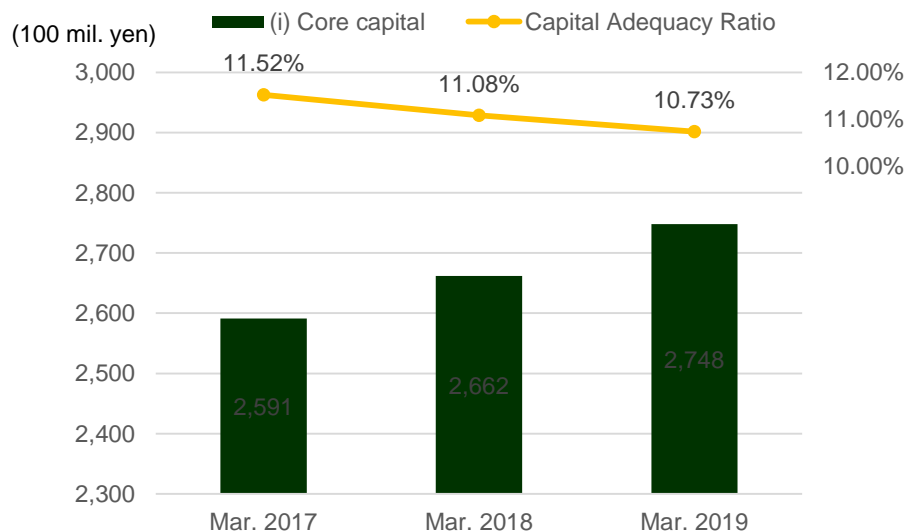
9. Capital Adequacy Ratio

[Higo Bank]

- Capital adequacy ratio declined by 0.35% year on year to 10.73%, mainly due to a rise in risk assets as lending grew.

Capital Adequacy Ratio

Higo Bank

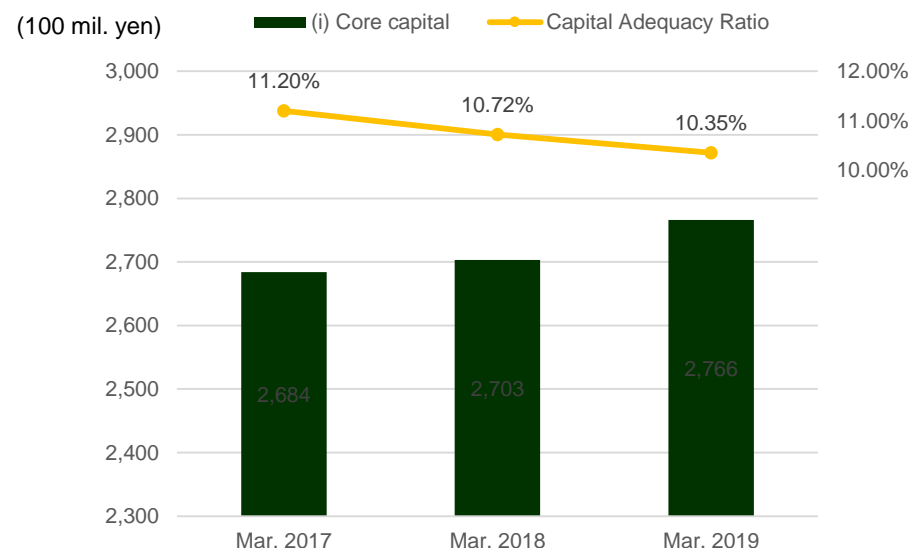


	Mar. 2017	Mar. 2018	Mar. 2019	Change
(i) Core capital	2,591	2,662	2,748	85
(ii) Risk assets	22,488	24,020	25,610	1,590
Capital Adequacy Ratio	11.52%	11.08%	10.73%	-0.35%

[Kagoshima Bank]

- Capital adequacy ratio declined by 0.37% year on year to 10.35%, mainly due to a rise in risk assets as lending grew.

Kagoshima Bank



	Mar. 2017	Mar. 2018	Mar. 2019	Change
(i) Core capital	2,684	2,703	2,766	63
(ii) Risk assets	23,959	25,211	26,716	1,504
Capital Adequacy Ratio	11.20%	10.72%	10.35%	-0.37%

10. Balance of Housing Loans (including apartment loans)

[Higo Bank]

- The balance of housing loans (including apartment loans) was 1,043,200 mil. yen.
- Of this, the balance of apartment loans represented 5.57%.
- No share house or sublease deals were included.

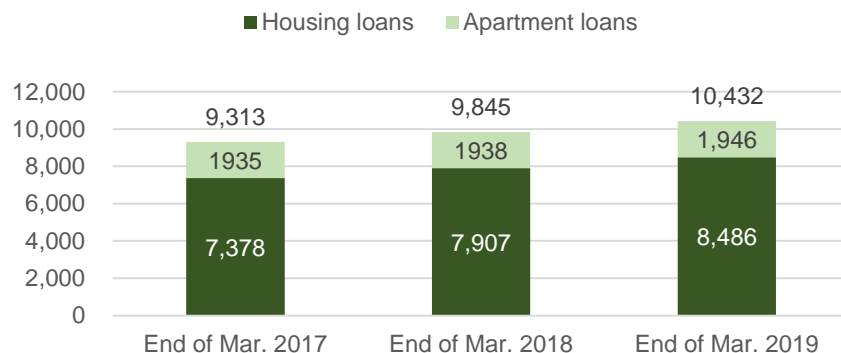
[Kagoshima Bank]

- The balance of housing loans (including apartment loans) was 1,215,600 mil. yen.
- Of this, the balance of apartment loans represented 3.69%.
- No share house or sublease deals were included.

Balance of Housing Loans (including apartment loans)

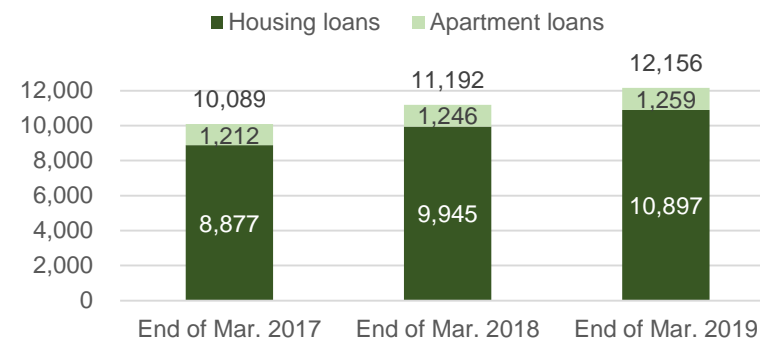
(100 mil. yen)

Higo Bank



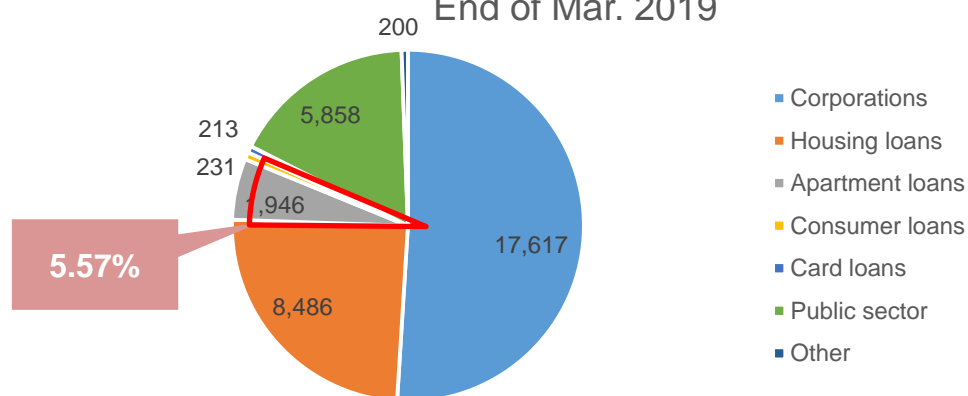
(100 mil. yen)

Kagoshima Bank

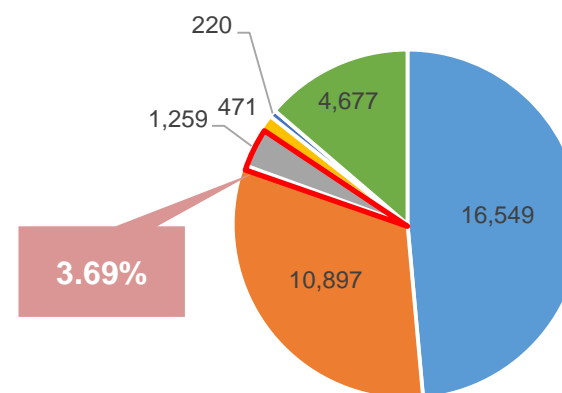


Percentage of apartment-loan balance

End of Mar. 2019



End of Mar. 2019



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.



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