



Kyushu FG

Company Information Meeting December 2019

Kyushu Financial Group, Inc.



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Summary of Financial Results for Second Quarter of Fiscal Year Ending March 2020



1. Interim Financial Results Summary

- Gross business profit increased 1,800 million yen year on year, as other business profit rose thanks to improvement in gain on government and other bonds while interest and dividend income as well as fees and commissions declined.
- Ordinary income declined 1,600 million yen year on year, as non-recurring profit fell due to decreases in equity securities-related profit.

Profit and Loss

	KFG consolidated			2 banks combined		
	1H FY2019	YoY change	1H FY2018	1H FY2019	YoY change	1H FY2018
Revenues	845	0	844	699	1	697
Gross business profit	569	18	551	546	15	530
Interest and dividend income	435	-15	450	449	-18	468
Fees and Commissions	68	-7	76	62	-7	69
Income from specified transactions	2	-1	4	0	0	0
Other business profit (of which gain or loss on government and other bonds)	63 (39)	43 (42)	19 (-3)	34 (39)	42 (42)	-7 (-3)
Expenses (-)	374	5	369	350	3	347
Core business profit	155	-29	185	155	-31	186
Provision of allowance for doubtful accounts (-)	-3	-7	3	-4	-8	4
Net Business Profit	198	20	178	199	19	179
Nonrecurring profit/loss	-36	-36	0	-1	-8	7
Nonperforming loan disposals (-)	18	-12	31	15	-12	28
Equity securities-related profit or loss	-13	-51	38	16	-24	41
Other nonrecurring profit/loss	-4	3	-7	-2	3	-6
Ordinary income	162	-16	178	198	11	186
Extraordinary profit/loss	-0	-0	-0	-1	-0	-0
Pre-tax interim net income	161	-16	178	197	10	186
Interim net income	111	-9	121	139	8	131
(Credit costs)	15	-19	34	11	-20	31

Highlights

Kyushu Financial Group Consolidated Results

- Interest and dividend income (YoY change):
-1,500 mil. yen
 - Interest on loans: +600 mil. yen
 - Foreign currency funding costs (-): +2,000 mil. yen
- Revenue from fees and commissions (YoY change):
-700 mil. yen
 - Fees related to assets under management: -200 mil. yen
 - Group credit insurance premiums (-): +400 mil. yen

- Securities-related profit or loss (YoY change):
-900 mil. yen
(including KFG consolidation adjustment of
-2,700 mil. yen)
 - Gain or loss on government and other bonds:
+4,200 mil. yen
(Domestic Division: +1,500 mil. yen, International
Division: +2,600 mil. yen)
 - Equity securities-related profit or loss:
-5,100 mil. yen

- Expenses (YoY change): +500 mil. yen
 - Personnel expenses: -100 million yen
 - Non-personnel expenses: +200 mil. yen
 - Taxes: +200 mil. yen

- Credit costs (YoY change): -1,900 mil. yen
 - Provision for allowance of doubtful accounts:
-700 mil. yen
 - Amount of disposed non-performing loans:
-1,200 mil. yen

2. Interest and Dividend Income

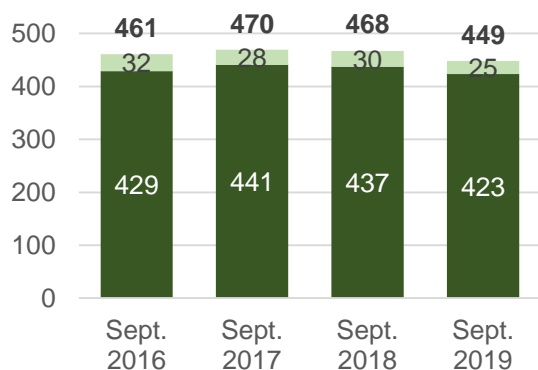
- Interest and dividend income declined 1,800 million yen to 44,900 million yen from a year ago as interest on securities fell while interest on loans increased.
 Domestic division: -1,300 mil. yen (interest on loans +100 mil. yen; interest on securities -1,900 mil. yen);
 International division: -400 mil. yen

Interest and Dividend Income

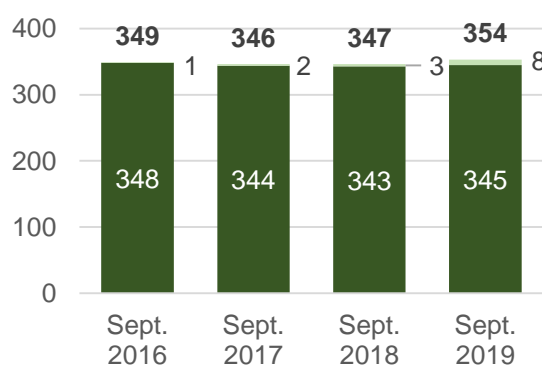
(100 mil. yen)

	Sept. 2016			Sept. 2017			Sept. 2018			Sept. 2019			Change from Sept. 2018
	2 banks combined	Higo	Kagoshima	2 banks combined	Higo	Kagoshima	2 banks combined	Higo	Kagoshima	2 banks combined	Higo	Kagoshima	
Interest and dividend income	461	233	227	470	235	234	468	233	234	449	221	227	-18
Domestic Division	429	210	218	441	212	229	437	208	229	423	203	220	-13
Interest on loans	348	165	182	344	163	180	343	164	179	345	165	180	1
Interest on deposits	8	4	3	7	3	3	4	1	2	3	1	2	-0
Interest on securities	105	62	42	116	62	54	108	55	52	88	46	42	-19
International Division	32	23	9	28	23	5	30	25	5	25	18	7	-4
Interest on loans	1	0	0	2	2	0	3	3	0	8	5	2	4
Interest on deposits	0	0	0	0	0	0	0	0	0	0	0	0	0
Interest on securities	40	27	13	41	29	11	45	35	10	59	44	15	14

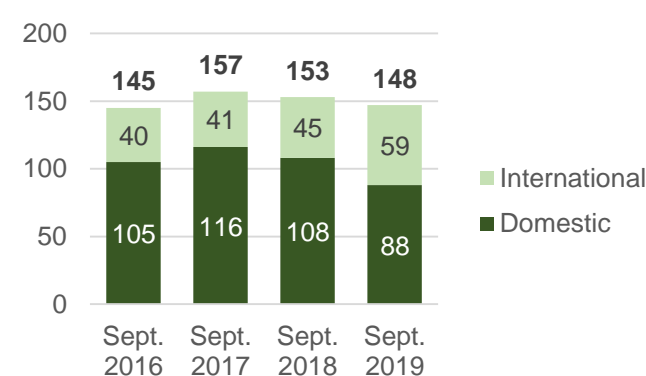
Interest and Dividend Income
(100 mil. yen)



Interest on Loans
(100 mil. yen)



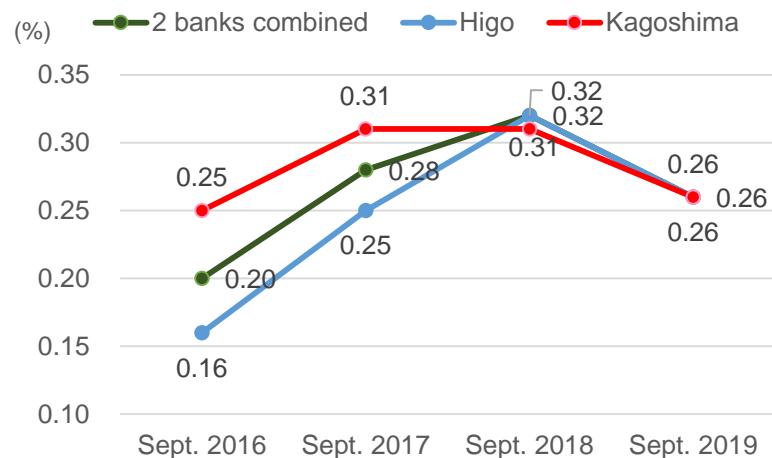
Interest on Securities
(100 mil. yen)



3. Net Interest Margin and Net Yield

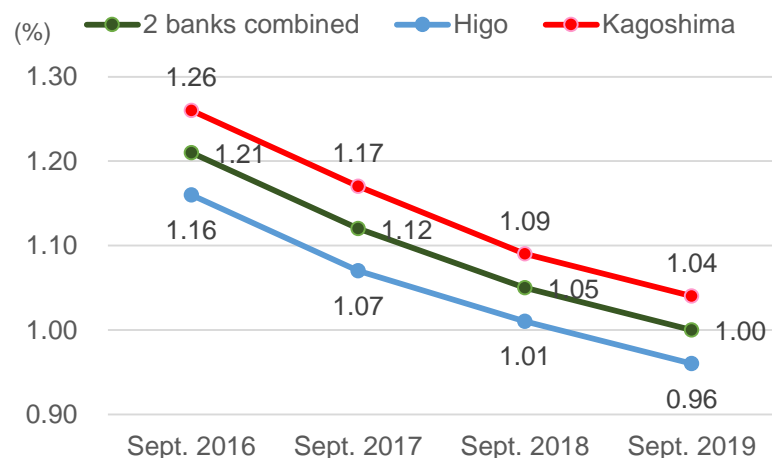
- Yield on investments was 1.09%, down 0.03% year on year, as yield on loans declined while yield on securities rose.
- Net interest margin was 0.26%, down 0.06% year on year, due to a drop in investment yield and higher funding costs.

Net Interest Margin

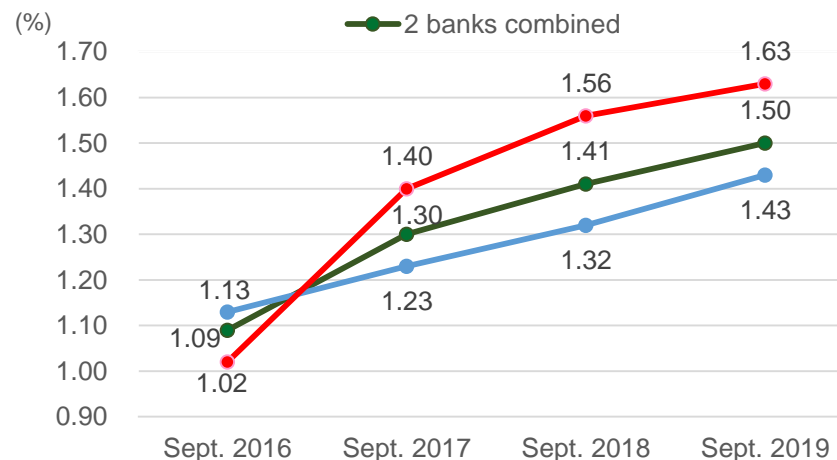


	Sept. 2018	Sept. 2019		Change	
	2 banks combined	2 banks combined	Higo	Kagoshima	2 banks combined
(i) Investment yield	1.12%	1.09%	1.06%	1.12%	-0.03%
Yield on Loans	1.05%	1.00%	0.96%	1.04%	-0.05%
Yield on Securities	1.41%	1.50%	1.43%	1.63%	0.09%
(ii) Funding cost	0.80%	0.83%	0.80%	0.86%	0.03%
Yield on funding	0.06%	0.11%	0.15%	0.06%	0.05%
Yield on deposits	0.01%	0.00%	0.00%	0.01%	-0.01%
Overall Interest Spread ((i) – (ii))	0.32%	0.26%	0.26%	0.26%	-0.06%

Yield on Loans



Yield on Securities

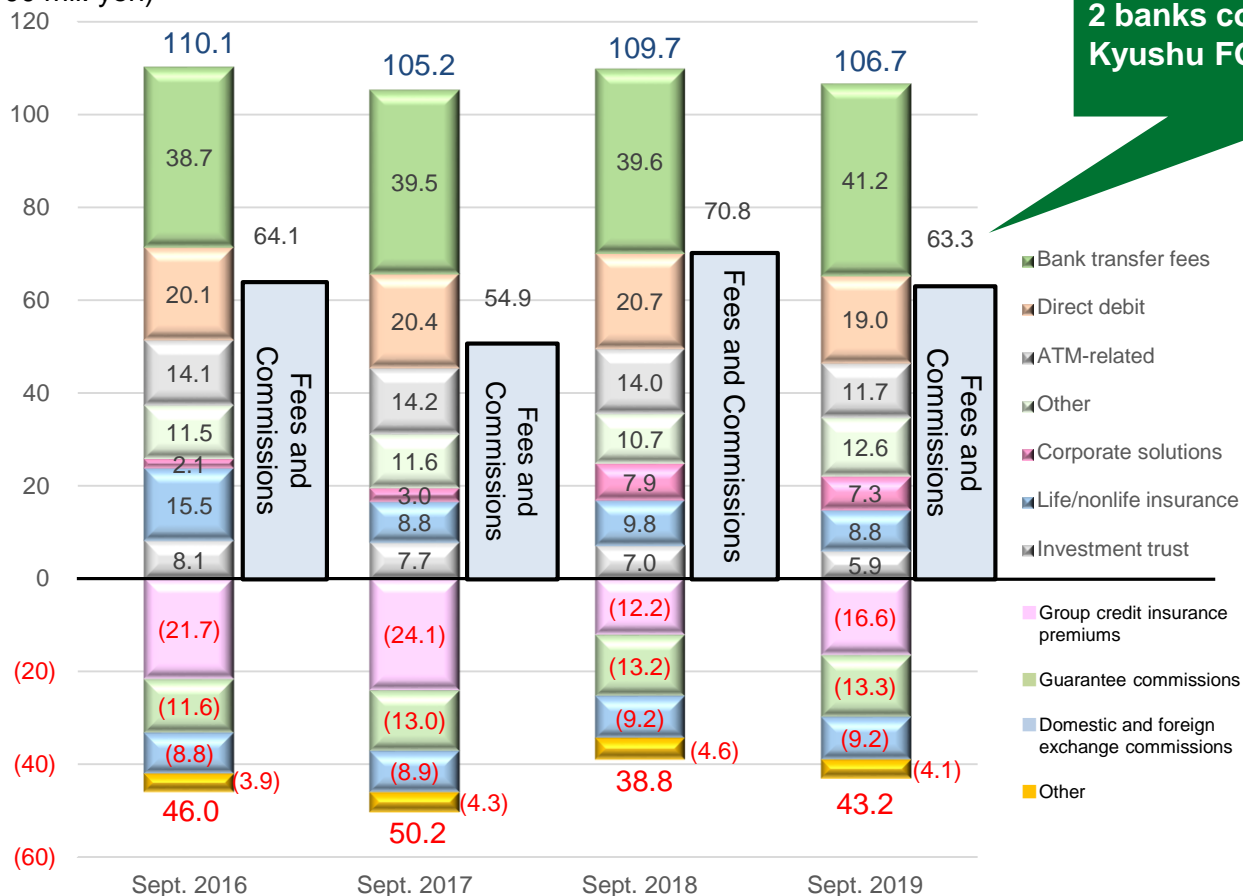


4. Fees and Commissions

- Fees and commissions were down by 780 million yen year on year to 6,180 million yen mainly due to a decline in commissions related to assets under management and an increase in group credit insurance payments. (6,330 million yen if assets under management of Kyushu FG Securities are added.)

Fees and Commissions

(100 mil. yen)



2 banks combined: 6,180 mil. yen
Kyushu FG Securities: 150 mil. yen

- Revenue from fees and commissions (YoY change): -300 mil. yen
- Bank transfer fees: +160 mil. yen
 - ATM-related: -230 mil. yen
 - Assets under management (investment trusts and life and nonlife insurance): -210 mil. yen
 - Corporate solutions: -60 mil. yen

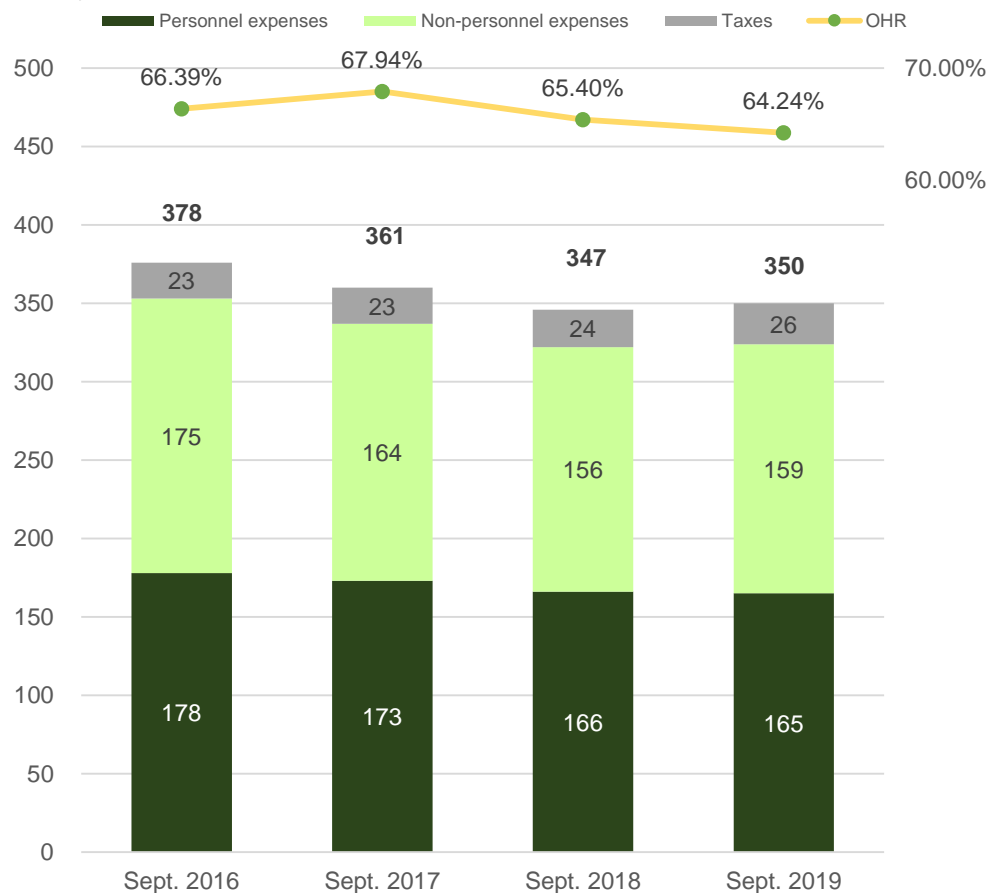
- Revenue from fees and commissions (YoY change): +440 mil. yen
- Group credit insurance premiums: +440 mil. yen

5. Expenses

- Expenses increased 300 million yen year on year to 35,000 million yen due to higher non-personnel expenses and tax expenses while personnel expenses declined.
- On the other hand, OHR declined by 1.16% year on year to 64.24% due to an increase in gross business profit.

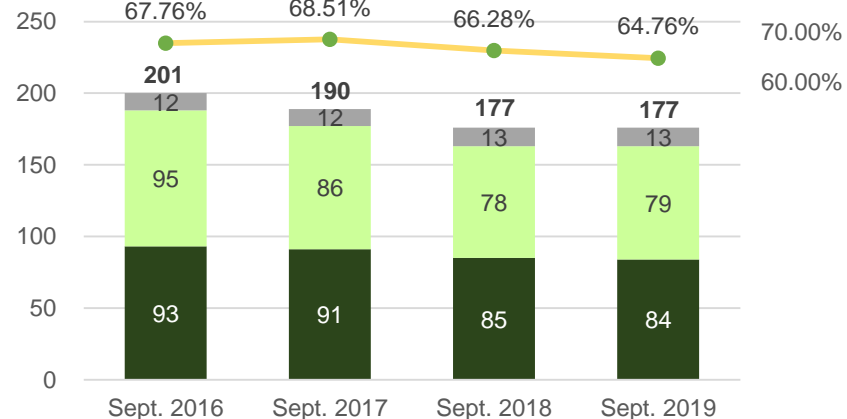
Expenses

(100 mil. yen)



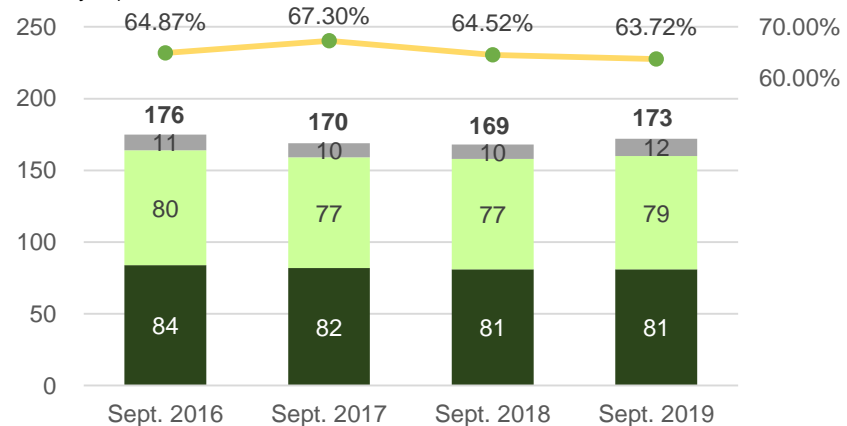
Higo Bank

(100 mil. yen)



Kagoshima Bank

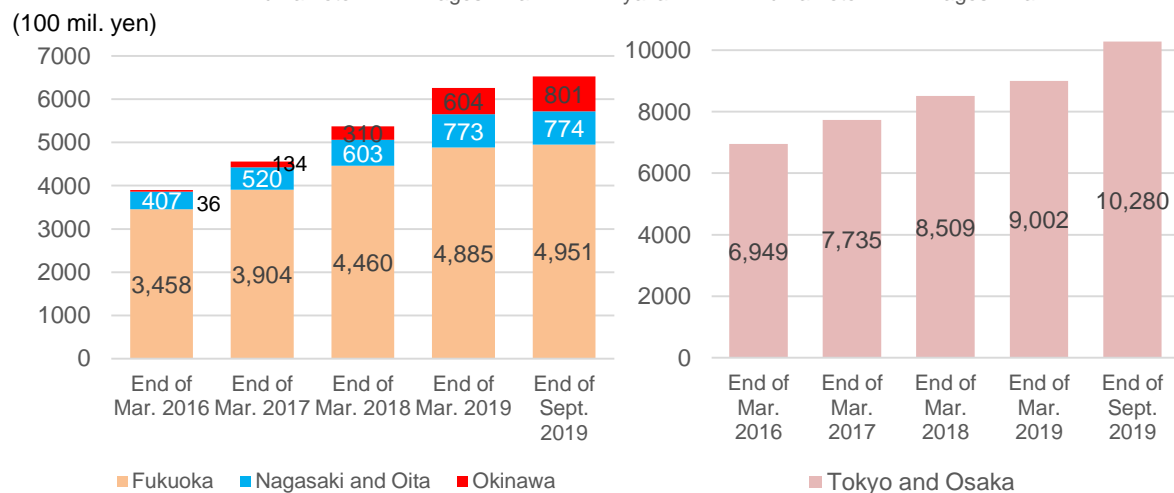
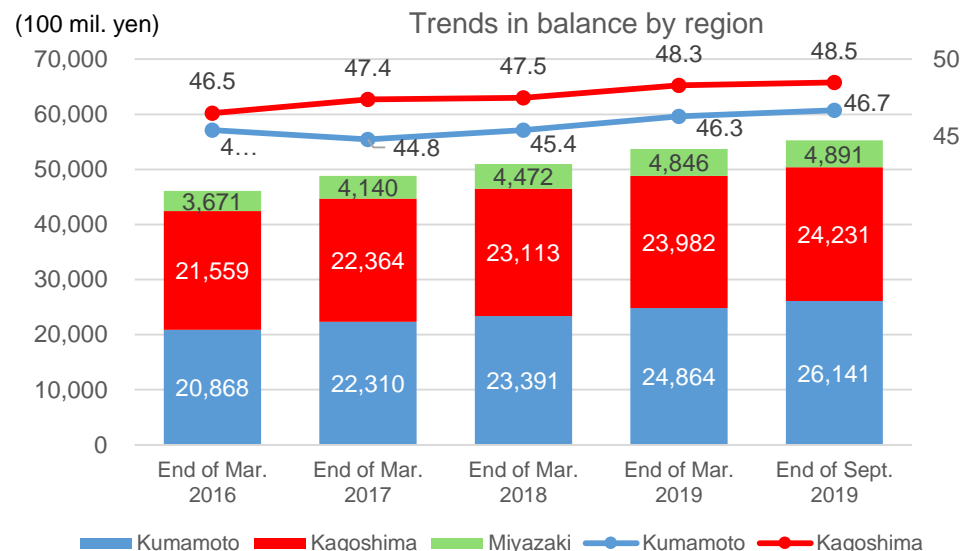
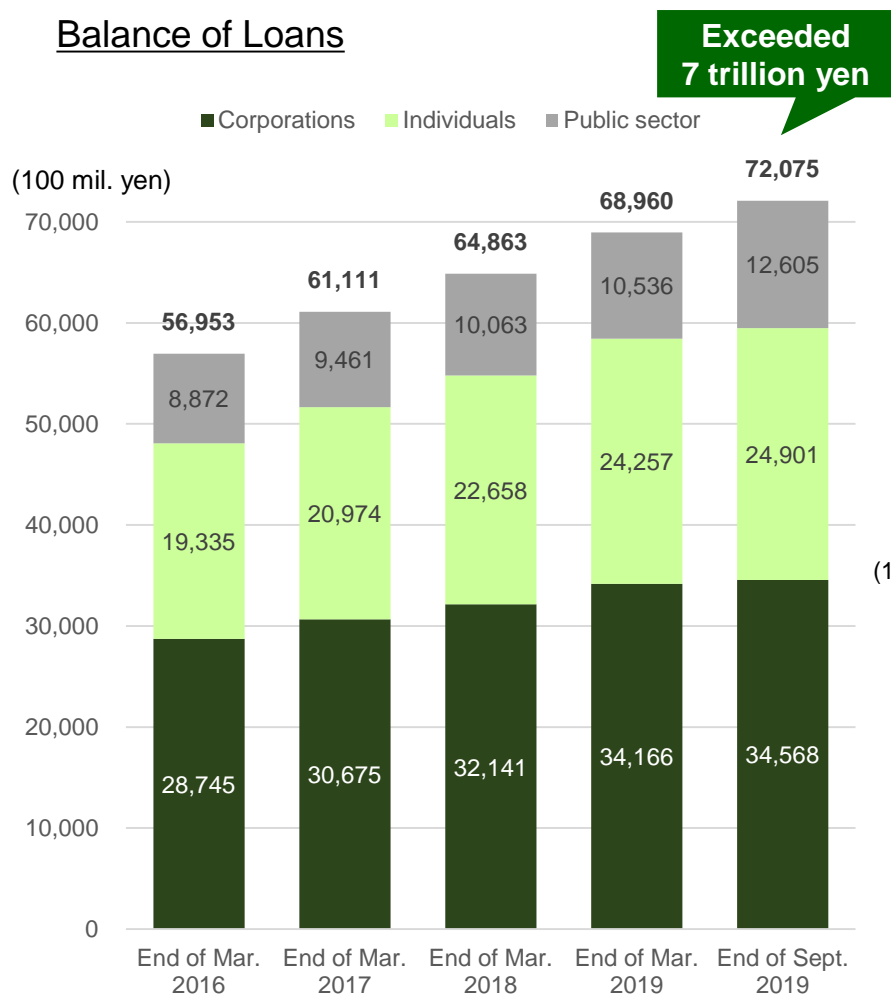
(100 mil. yen)



6. Loans

- The balance of loans increased 311,400 million yen (up 4.5%) from the end of the previous fiscal year to 7,207,500 million yen.
- Loans to corporations, to individuals, and to the public sector all grew steadily. (loans to corporations: +40,100 mil. yen; to individuals: +64,300 mil. yen; to public sector: +206,800 mil. yen)

Balance of Loans

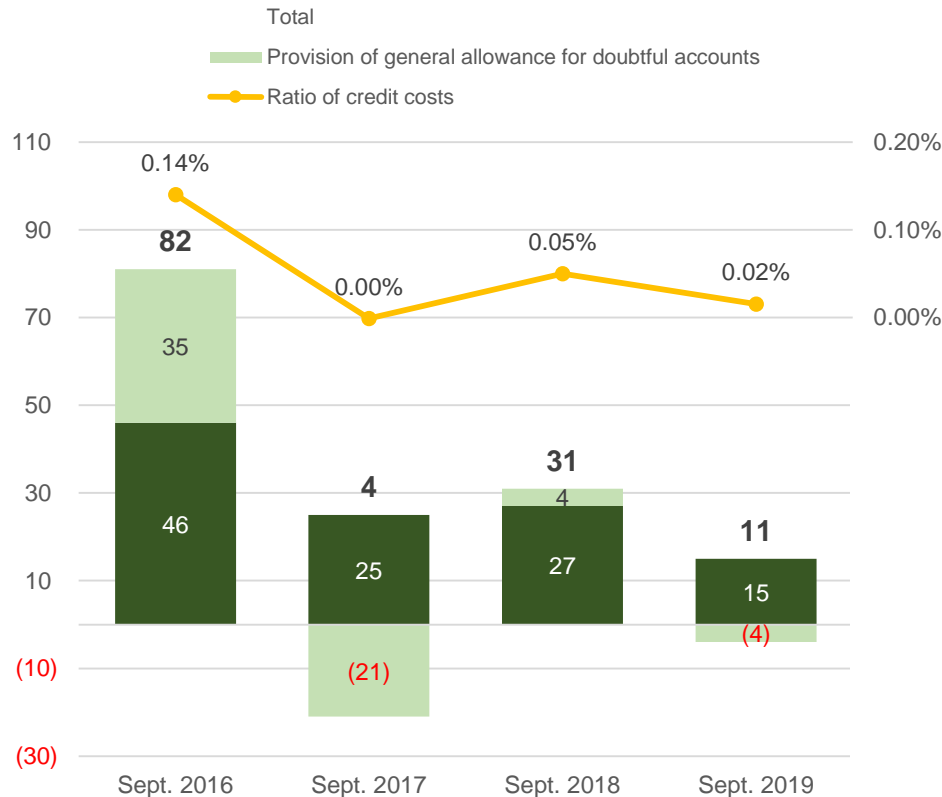


7. Credit Costs and Loans Disclosed Pursuant to Financial Reconstruction Act

- Credit costs fell 2,000 mil. yen year on year to 1,100 mil. yen with declines in both disposed non-performing loans and provision of allowance for doubtful accounts.
- Loans disclosed pursuant to Financial Reconstruction Act were roughly unchanged from a year ago at 133,200 million yen, and the ratio of nonperforming loans was 1.83%.

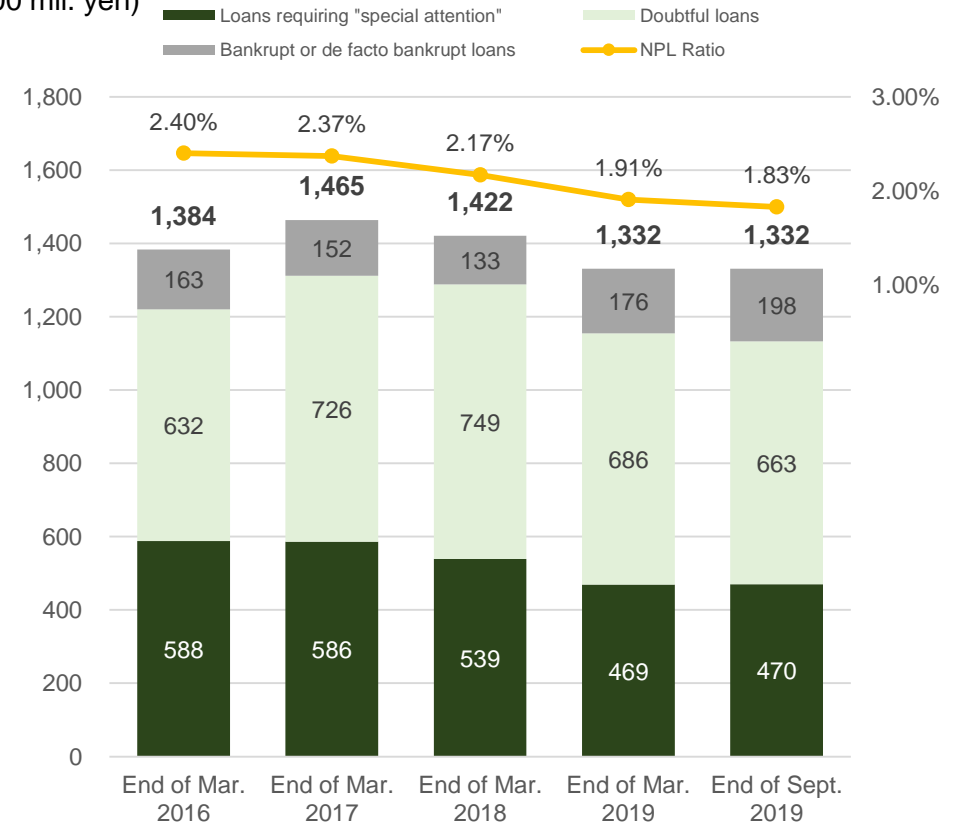
Credit Costs

(100 mil. yen)



Loans Disclosed Pursuant to Financial Reconstruction Act

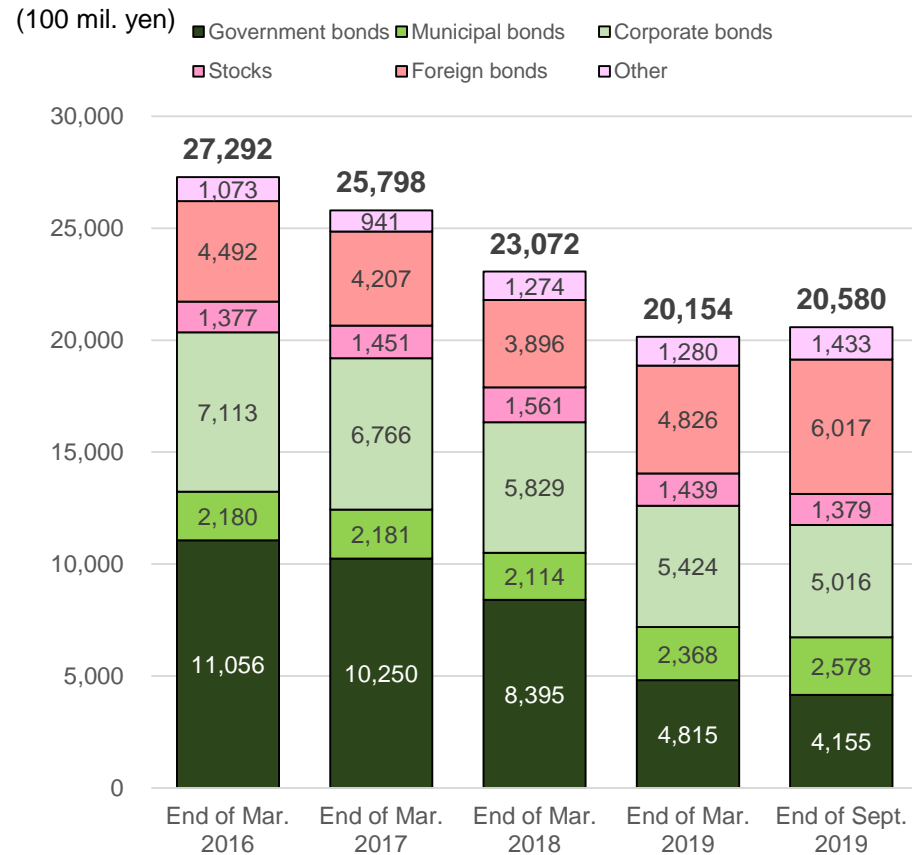
(100 mil. yen)



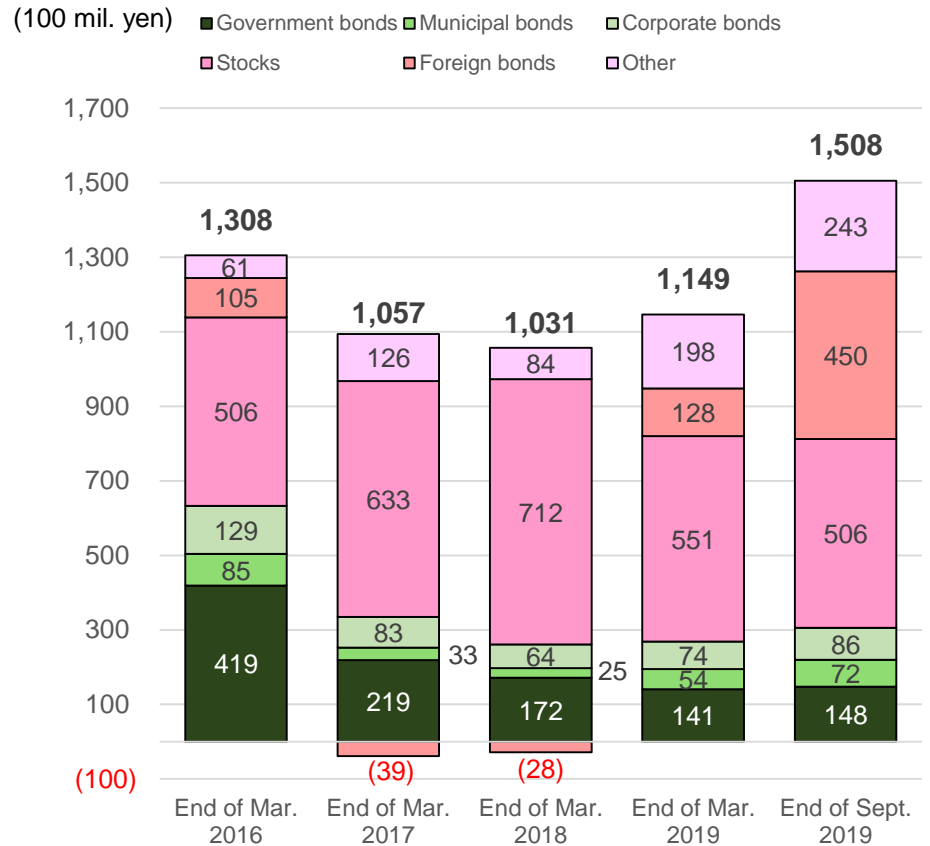
8. Securities

- Balance of securities increased, led by foreign bonds, by 42,600 million yen compared with the end of the previous fiscal year.
- Valuation gain on securities increased 35,900 million yen from the end of the previous fiscal year, as valuation of foreign bonds significantly improved.

Balance of Securities



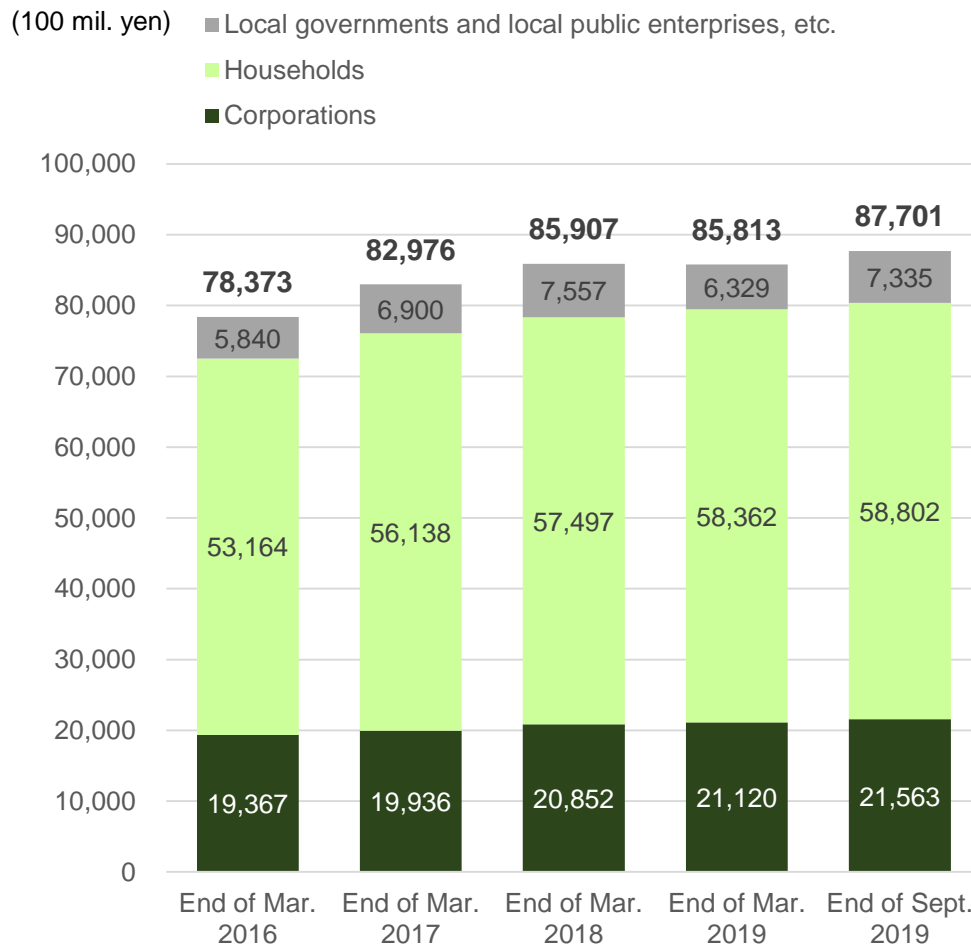
Valuation Gain on Securities



9. Total Deposits and Assets under Management

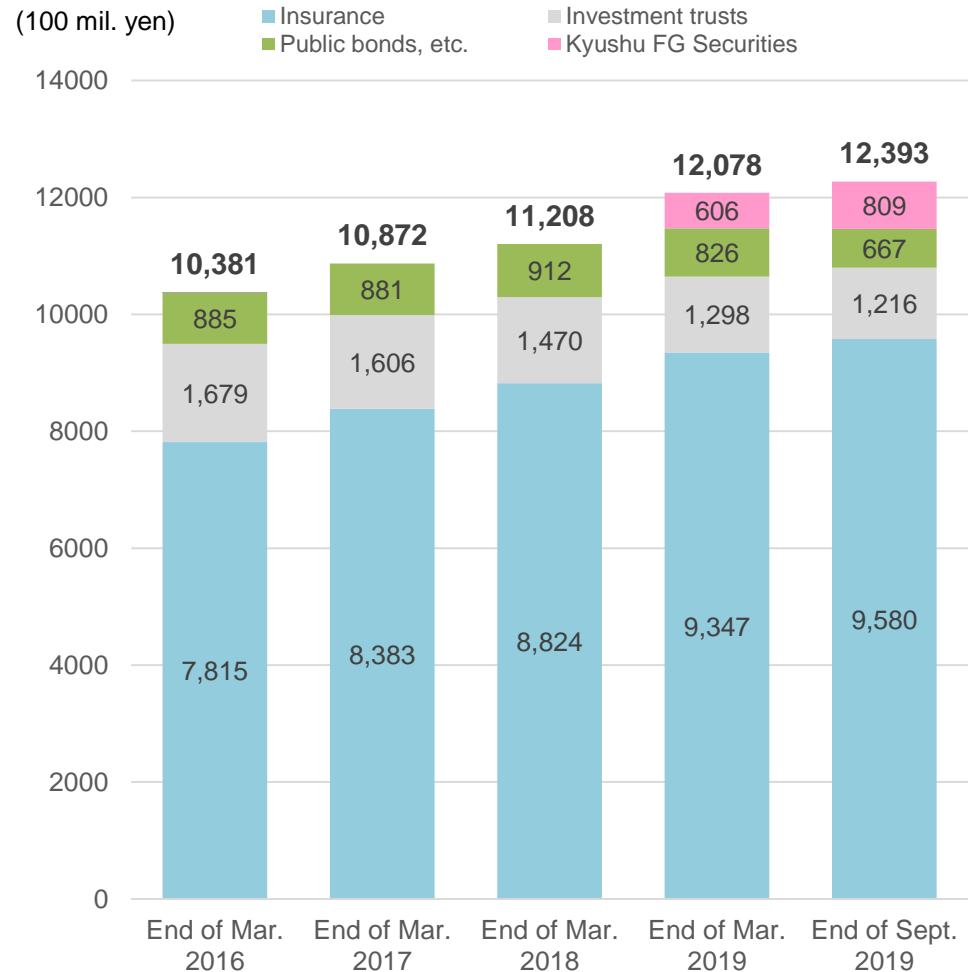
- Deposits increased 188,800 million yen (up 2.2%) compared with the end of the previous fiscal year to 8,770,100 million yen.
- All types of deposits, corporations, households, and local governments and local public enterprises increased steadily (corporations: +44,200 mil. yen; households: +44,000 mil. yen; local governments and local public enterprises, etc.: 100,500 mil. yen)
- Balance of assets under management increased 31,500 million yen from the end of the previous fiscal year to 1,239,300 million yen.

Balance of Deposits (incl. NCDs)



Balance of Assets under Management

(balance for insurance is accumulated sales)

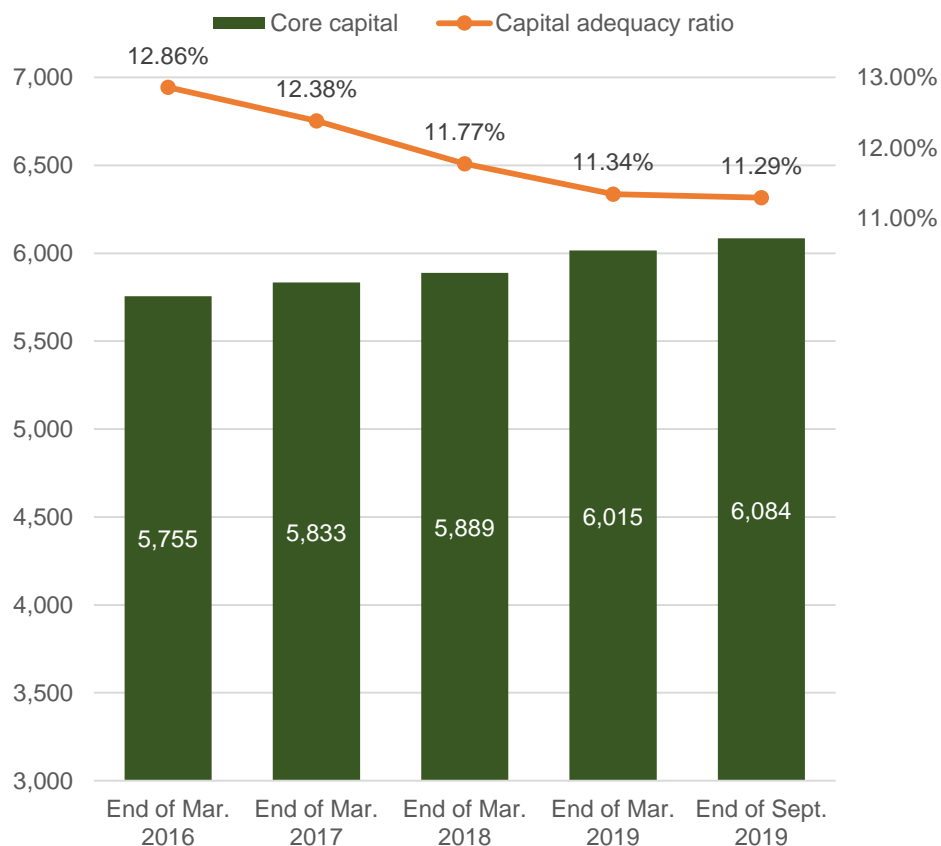


10. Capital Adequacy Ratio

- Core capital increased by 6,900 million yen from the end of the previous fiscal year to 608,400 million yen.
- Despite the increase in core capital, capital adequacy ratio declined 0.05% from the end of the previous fiscal year to 11.29%, affected by an increase in risk assets as lending grew.

Capital Adequacy Ratio (KFG Consolidated)

(100 mil. yen)



Capital Adequacy Ratio (KFG Consolidated)

(100 mil. yen)

	Mar. 2019	Sept. 2019	Change
(i) Core capital	6,015	6,084	69
Shareholders' equity	5,924	6,016	92
(ii) Risk assets	53,039	53,879	840
(iii) Capital adequacy ratio ((i)/(ii))	11.34%	11.29%	-0.05%

Capital Adequacy Ratio (2 banks combined)

(100 mil. yen)

	Mar. 2019	Sept. 2019		Change	
	2 banks combined	2 banks combined	Higo	Kagoshima	2 banks combined
(i) Core capital	5,515	5,608	2,792	2,816	93
Shareholders' equity	5,396	5,509	2,795	2,714	113
(ii) Risk assets	52,326	53,128	26,232	26,896	802
(iii) Capital adequacy ratio ((i)/(ii))	10.54%	10.56%	10.64%	10.47%	0.02%

11. Performance Forecasts

FY2019 Performance Forecasts (KFG consolidated)

(100 mil. yen)

KFG consolidated	Mar. 2019	Mar. 2020	Change
Consolidated revenues	1,703	1,653	-50
Consolidated ordinary income	337	338	1
Net income attributable to shareholders of parent	222	228	6

FY2019 Performance Forecasts (simple aggregation of 2 banks)

(100 mil. yen)

	Mar. 2019	Mar. 2020		Change	
	2 banks combined	2 banks combined	Higo	Kagoshima	2 banks combined
Gross business profit	1,038	1,049	520	529	11
Interest and dividend income	930	887	435	451	-43
Fees and Commissions	121	113	60	53	-7
Other business profit	-13	48	24	24	62
(of which gain or loss on government and other bonds)	5	51	34	17	46
Expenses	697	708	359	349	11
Core business profit	340	289	127	162	-51
Allowance for doubtful accounts (-)	-5	9	1	7	14
Net Business Profit	346	331	159	172	-15
Nonrecurring profit/loss	9	8	10	-1	-1
Non-performing loans disposal expenses (-)	40	18	8	9	-21
Equity securities-related profit or loss	59	25	23	1	-34
Other nonrecurring profit/loss	-9	1	-4	6	11
Ordinary income	355	340	170	170	-15
Extraordinary profit/loss	-5	0	0	0	5
Pre-tax net income	350	340	170	170	-10
Net income	245	240	120	120	-5
(Credit costs)	34	29	10	19	-5

**Kyushu FG Securities
Earnings Forecasts**
**Fees and commissions:
400 mil. yen**
**Income from specified
transactions: 800 mil. yen**

Kyushu Financial Group's Management Strategy



1. To Become Kyushu's Top Full-Service Financial Group for Customers

A field-oriented group that stands together with customers and the region



九州フィナンシャルグループ



九州FG証券



鹿児島銀行

Enhancement of governance
Reinforcement of human resources



肥後銀行



Delegation of authority,
field-oriented approach

Each company practices field-oriented, high-quality management independently as the top financial institution of the region

Sustainable development of customers and the region

Virtuous cycle for customers, the region, and KFG

Sustainability of the region

Pride
(nature, culture, motivation in life)

Health, safety,
and security

Dream,
hope

Economic stability

Economic capital

Human capital

Natural capital

Cultural capital

Realize a virtuous cycle

Improve sustainability of the region, customers and the Group

Sustainability of the Group

SDG Efforts

Social contribution activities

Management philosophy

Sustainability of customers

Comprehensive regional financial service functions

Functions to promote regional industries



Higo Bank Winner of 2019 Japan Quality Award

Japan Quality Award

It commends companies with an excellent management framework that enables them to carry out overall management from the customers' perspective and to keep creating new values through self-improvement.

Reasons for commendation

- Systematic organizational change and personnel development for realizing creation of high values
- Internal review of management quality framework and its utilization in the main business
- Social contribution activities through financial and non-financial services
- Reform of corporate culture through integration of the entire organization



肥後銀行は、銀行として初の「日本経営品質賞」を受賞いたしました。

日本経営品質賞とは、お客様の視点から経営全体を見直し、お客様に対する新たな価値を追求し、創造し続ける企業だけに与えられる賞です。その基本理念は、「顧客本位」「独自能力」「社員重視」「社会との調和」の4つです。

肥後銀行は、日本経営品質賞の基本理念を満たす卓越した経営を目指し、地域・お客様の課題解決支援に、取り組んでおります。

そしてこれからも、お客様や地域に高く評価される金融グループを目指してまいります。

うるおいある未来のために。

日本経営品質賞 自己革新を通じて価値を創出し続ける「卓越した経営の仕組み」を有する企業表彰制度として、公益財団法人日本生産性本部が創設しました。本賞は、80年代の米国経済の復活に寄与したとされる米国国家品質賞「マルコム・ボルドリッジ国家品質賞」を範としており、この賞の考え方は、世界100か国以上の国や地域で展開されています。

経営品質協議会
Japan Quality Award Council

SUSTAINABLE DEVELOPMENT GOALS

九州フィナンシャルグループは、持続可能な社会づくりにコミットしています。

九州フィナンシャルグループ

肥後銀行

鹿児島銀行

九州FG証券

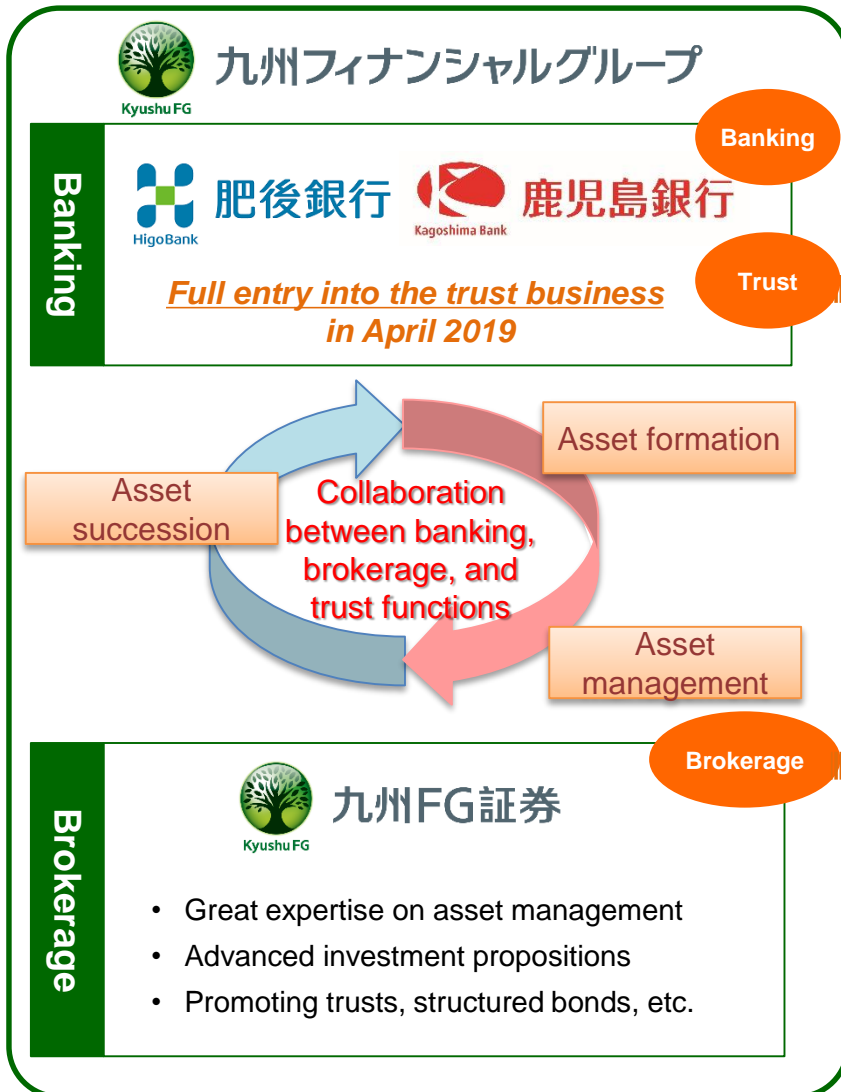
2. Numerical Targets and Results for 1H FY2019

Numerical Targets	FY2018 Results	FY2019 Performance Forecasts	1H FY2019 Results	FY2020 (final fiscal year) Targets
Average Loan Balance (2 banks combined)	6.7 tril. yen	7.1 tril. yen	7.0 tril. yen	7.6 tril. yen
Deposits (average balance) (including NCD; 2 banks combined)	8.5 tril. yen	8.7 tril. yen	8.7 tril. yen	9.2 tril. yen
Consolidated interim net income	22.2 bil. yen	22.8 bil. yen	11.1 bil. yen	25.0 bil. yen
Income from service to customers*	12.1 bil. yen	12.1 bil. yen	6 bil. yen	14.0 bil. yen
Consolidated ROE (Shareholders' equity)	3.7%	3.8%	3.7%	4% and above
Consolidated OHR	68.2%	69.9%	65.7%	Less than 70%
Consolidated capital adequacy ratio	11.3%	10.7%	11.2%	10% and above

* Income from Service to Customers: Average balance of lending x loan-deposit yield spread + fees and commissions - Expenses

3. Efforts for Establishment of Collaboration Between Banking, Brokerage, and Trust Functions

- As both banks started offering trust business in April 2019, the Group became the first regional bank in Kyushu 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.

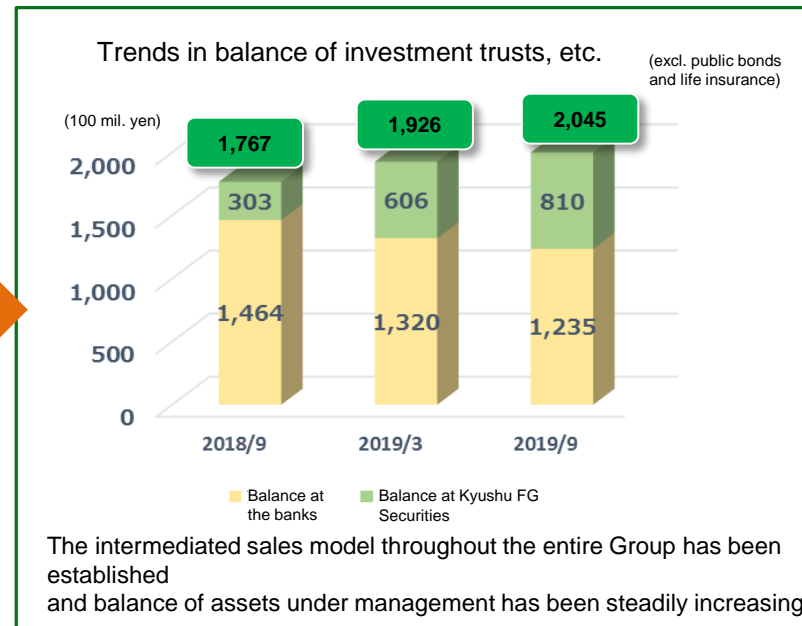


Trust results: 143 cases (as of the end of September 2019)

- The number of consultation and contracts are on increasing trend
- Improvement in branch sales force's ability to make proposals through collaboration between banking, brokerage, and trust functions

* Trust product lineup

- Testamentary trust
- Legacy planning
- Money trust (testamentary substitute, calendar year gift-style trust)

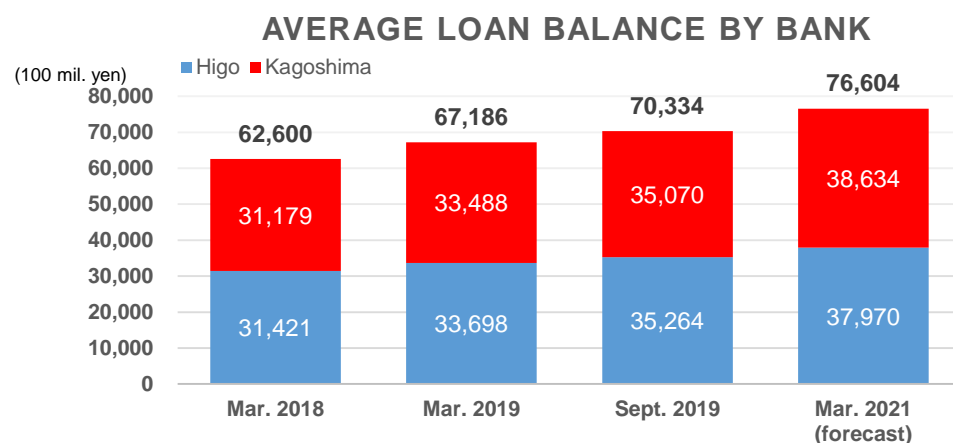


Proposal of optimum products and services corresponding to each stage of customer's lifecycle

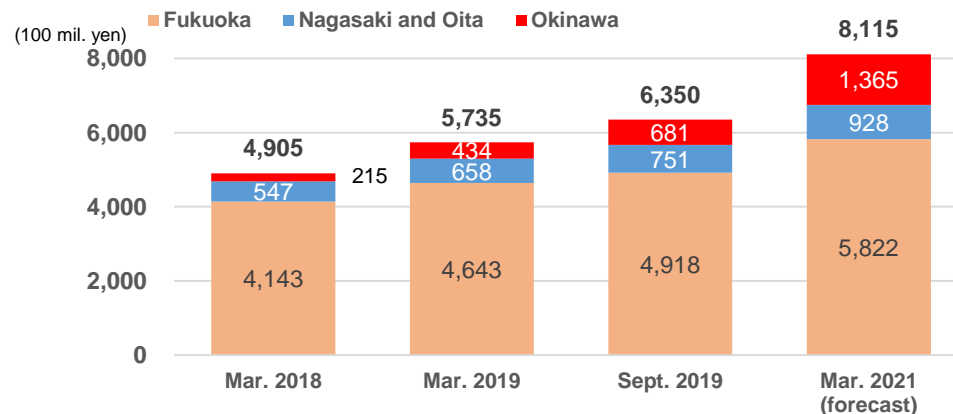
4. Expanding Lending

We aim to expand lending in our regions (Kumamoto, Kagoshima and Miyazaki) as well as others through sales activities that take advantage of the strengths of both banks 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
- Expanding customer scope in northern Kyushu, Okinawa and city areas
- Strengthening efforts on solutions (M&As, business succession, structured finance, etc.)
- Strengthening PPP and PFI support

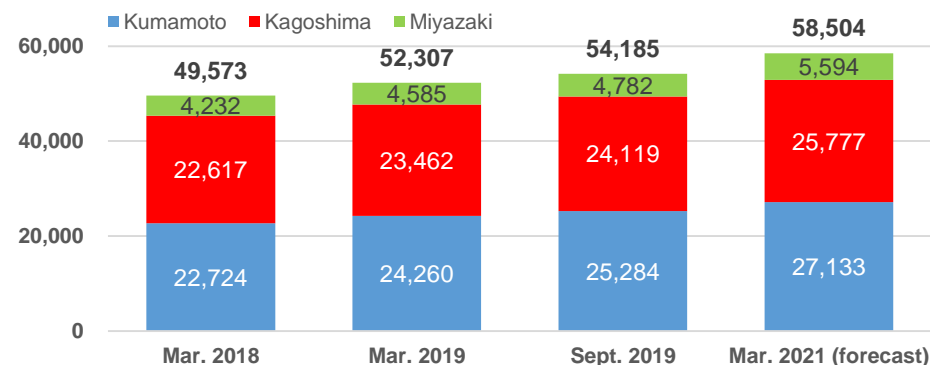


Northern Kyushu, Okinawa

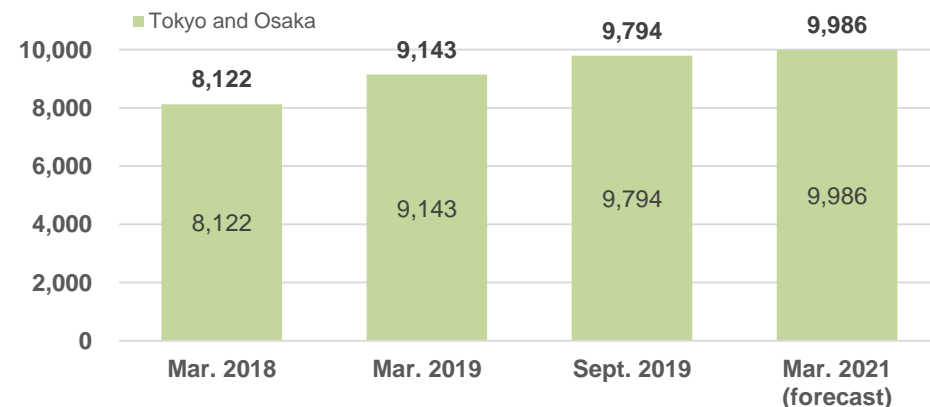


(100 mil. yen)

Local customers



Urban areas



5. 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 both 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)]

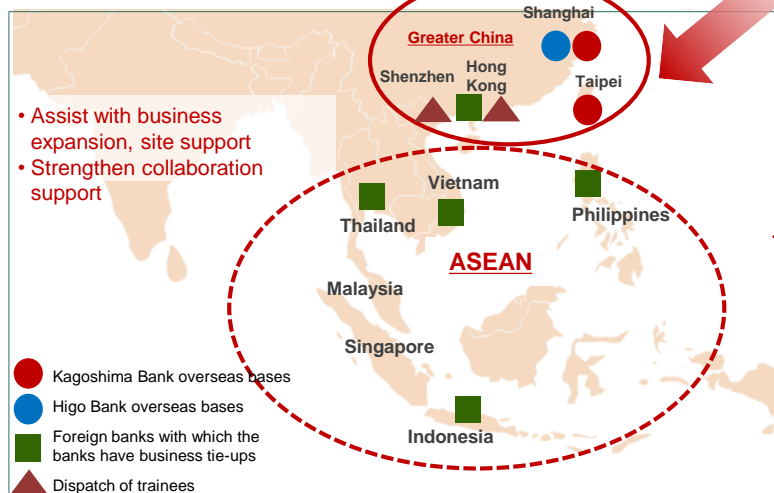
- **Utilization of the Group's overseas bases and information sharing**

- **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

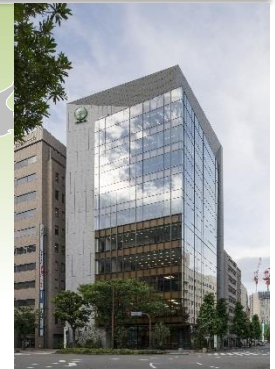


Strategies for Other Prefectures

[Fukuoka]

- **Kyushu Financial Group Fukuoka Building Starts Operation (July 2019)**

- Consolidation of sales and information center functions at Fukuoka and upgrading of the functions
- 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

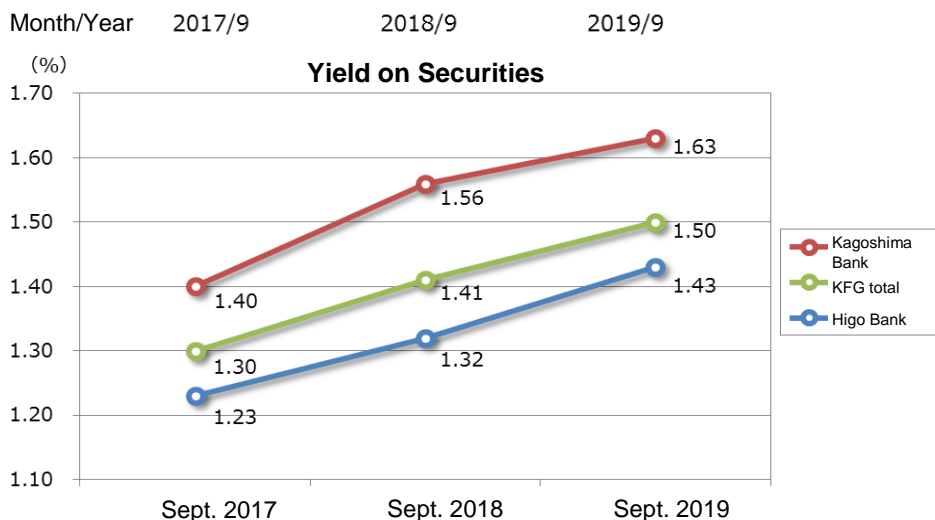
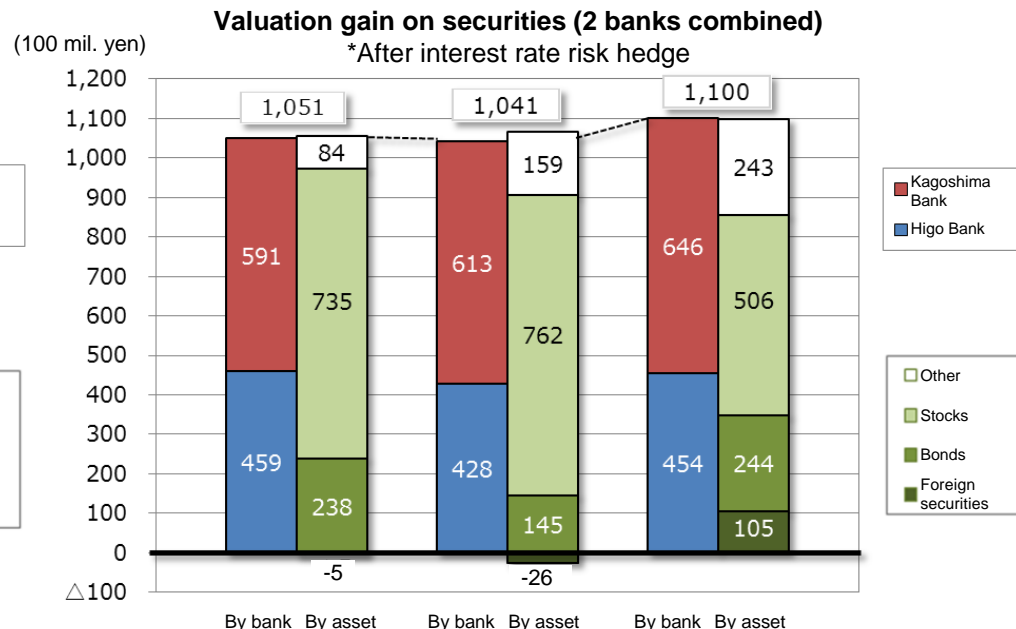
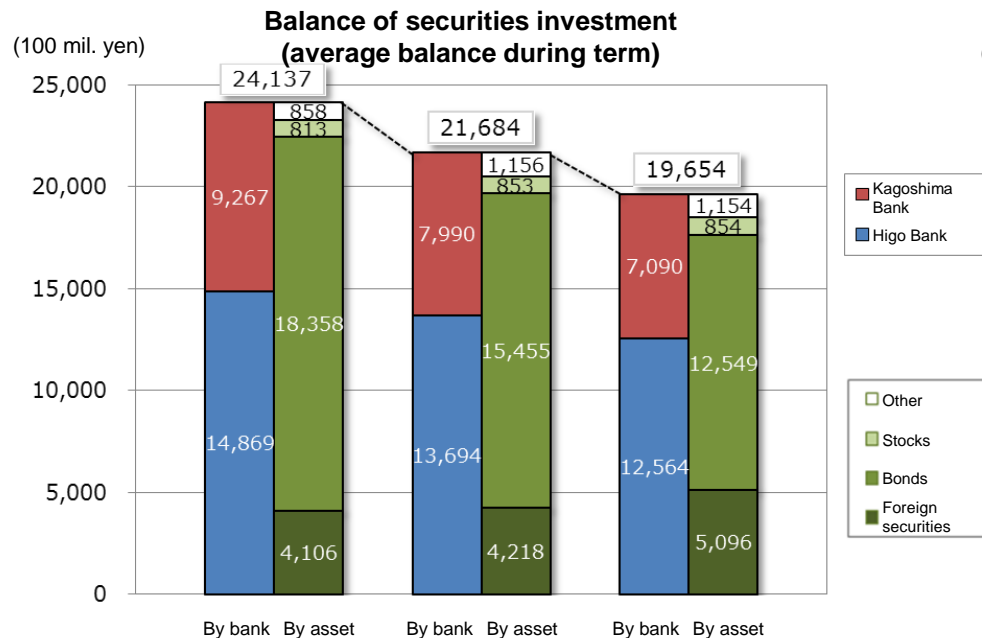
[Okinawa]

- Reinforcing sales operations with 2 branches of Kagoshima Bank
- Enhancing information intermediation function, developing networks (information collaboration)

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

6. Market Strategies: Securities Management

Amid declining balance due primarily to redemption of yen-denominated bonds, the market division has been working to improve diversification and improvement of flexibility of fund management to enhance profitability in the medium- to long-term.



Month/Year 2017/9 2018/9 2019/9

- 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 government bonds and U.S. agency securities.
- In addition to diversification of physical assets, we are working to enhance investment performance by using options and other derivatives, and by diversifying investment methods.
- 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 interest rate risks.

7. Revenue Diversification Efforts

We established the Business Development Office aimed at revenue diversification and enhancement of incubation function for the future.

It proposes and plans business development themes, oversees each project, manages progress, and provides support.



九州フィナンシャルグループ

The scope of operation is on track to gradually expand.

Information, human resources, management function, research and development function

Existing business domains

Business domains being developed

Maintain and strengthen regional financial functions while optimizing financial organizations and functions

Revitalize the region through investment in and development of new businesses and inter-business collaboration that go beyond the scope of finance

Maintain and strengthen

Expand

Comprehensive regional financial service functions

Banking

Capital

Brokerage

Accounting

Consultation

Trust

IT

Lease

Credit cards

**Building scheme for monetization
Optimum allocation
of business
resources**

Functions to promote regional industries

Promotion of agriculture

Promotion of tourism

Health care and nursing care

Real estate development

Distribution channels

Personnel placement

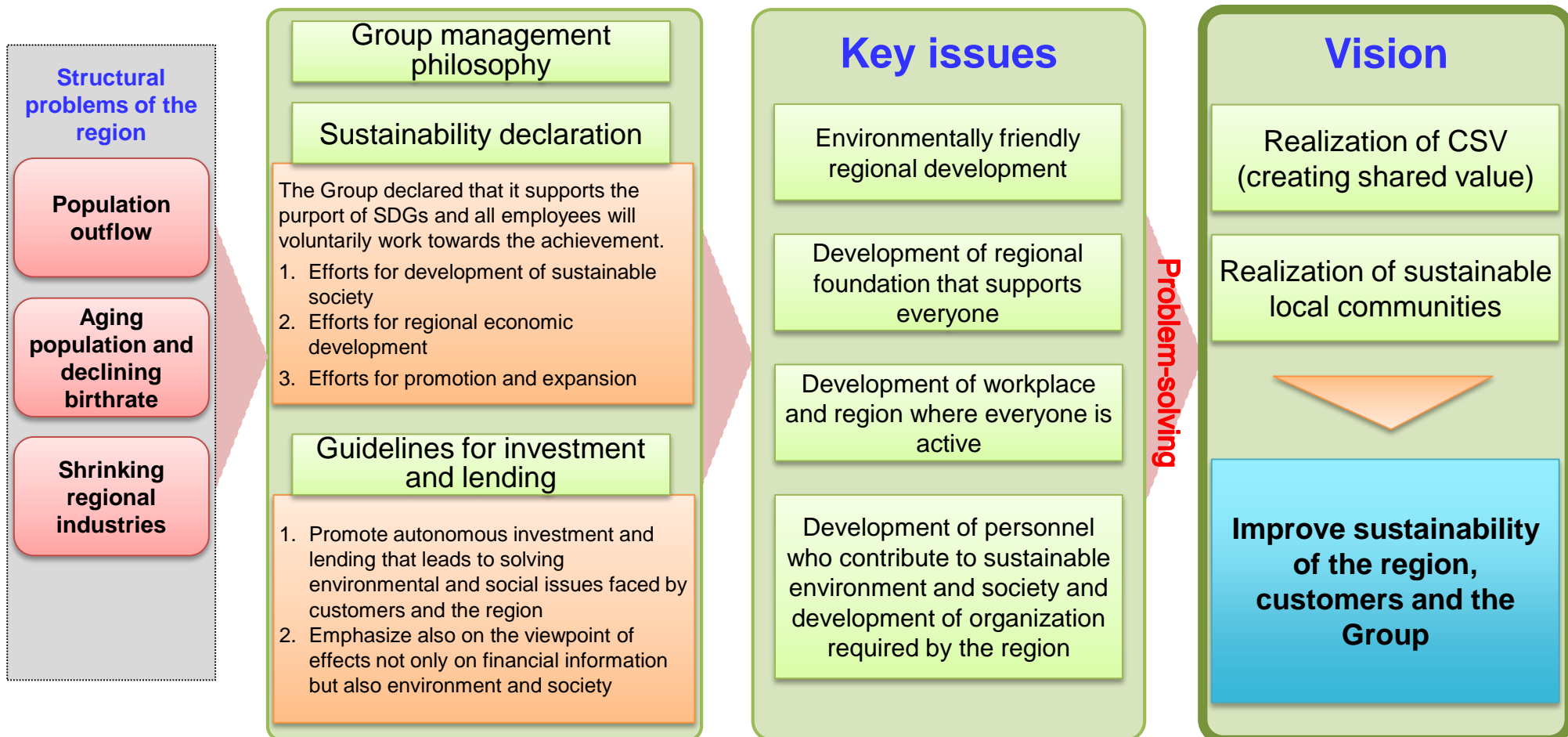
Logistics

Education

8. SDGs and ESG Efforts (Overview)



To contribute to one of its management philosophy, “The Group will develop alongside local regions and actively contribute in the realization of a vigorous regional society and economy,” the Group formulated the sustainability declaration and aims to contribute to the sustainable development of local communities by working to solve various issues faced by customers and the region from the perspective of ESG and improve corporate values through such efforts.



Environment

Kyushu Financial Group strives to conserve the natural environment through its business activity and various social contribution work to protect and pass on the 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 218.2 bil. yen (donation: 10.91 mil. yen)
- Promote environmentally rated loan program and environmentally friendly loan products
Environmentally friendly loans disbursed: 600 mil. yen
- Take account of companies' track record in tackling environmental issues when assessing their credit performance
- Loans to renewable energy projects: **Approx. 5.6 bil. yen**



➤ National Park Official Partnership deal with the Ministry of the Environment

We are conducting tourism promotion initiatives for 2 national parks in our Group's local region, which are part of the 8 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
- Groundwater conservation through afforestation and reviving of rice paddies
Paddy fields: Approx. 11.5 ha, trees planted: 130,000 (cumulative)
- Environmental conservation activity through Higo Water and Greenery Protection Fund Charitable Foundation
- Signatory to Kagoshima Environment Partners Agreement



➤ Selected as a financial institution participating in the project to promote regional ESG finance by the Ministry of the Environment.

Kagoshima Bank was selected as a financial institution participating in the project to promote regional ESG finance implemented by the Ministry of the Environment.

The bank aims to establish ESG finance through the project to solve a local problem (livestock excretion treatment) using biomass power generation and build a local-production-for-local-consumption model at Kimotsuki Town, Kagoshima Prefecture.

Case Study: National Park Official Partnership

For realization of a “local community full of vitality,” which is indispensable for sustainable development of the region, Kagoshima Bank concludes the agreement for mutual cooperation and collaboration pertaining to regional revitalization with municipalities and work on promotion of regional industry (currently it has agreements with 12 municipalities).

Strengthen tie-ups and collaboration for regional revitalization

Ibusuki City



Name of project	<u>Ibusuki outdoor project</u> (an initiative based on the National Park Official Partnership between the bank and the Ministry of the Environment)	
Objective	Verification of affinity and marketability of outdoor contents of Ibusuki (Kirishima-Kinkowan National Park)	
Implementation period	From October 26 to November 4, 2019 (10 days)	
Contents	Glamping (60,000 yen/group)	40 groups of families living in the prefecture (138 persons)
	Outdoor dinner (15,000 yen/person)	For local involved parties (81 persons)
	The Caravan (60,000/person)	6 groups of wealthy class living outside the prefecture (12 persons)
Business partners	Wonder Wanderers Inc. (Tokyo; <u>an official partner company of the Ministry of Environment</u>)	



Tent (interior)



Tent (exterior)



Outdoor dining scene



Restaurant for guests



Activity (Chiringashima guided walks)

Feasibility study for tourism resource

Search for tourism demand

Raise awareness of outdoor potential

Regional economy revitalization through increase in nonresident population

Realization of regional economic society full of vitality

8. SDGs and ESG Efforts (ii)

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
- **Joint fund result (cumulative): 8.9 bil. yen**
- Efforts to promote regional industrial measures by setting up entities aimed at promoting tourism and farming

➤ Won the Deal of the Year at the Bank of the Year

Higo Bank received the Deal of the Year award at the 7th Bank of the Year Awards Ceremony held by Nihon M&A Center Inc. for its contribution to continuation and development of companies suffering absence of a successor of the management.



Contribution to regional communities

- Support creative reconstruction from the devastation of Kumamoto earthquake
Introduction of reconstruction-support products; foundation of reconstruction fund
- **Reconstruction-support-related loans (cumulative): 246.9 bil. yen**
- Efforts to help train regional talents
Industry-academia-government cooperation Kumamoto Tech Plan Grand Prix was held
Kyushu Asia Human Resources Development Cooperative is accepting foreign trainees
A financial education project for children with learning disabilities
- Promote sports in the region
Official sponsor of the 2019 Women's Handball World Championship
- A cheering party made up of 2,000 employees and 100 volunteers for the event operation
The event sponsor campaigns on foreign currency deposit, etc.



← The Kumamon IC Card commemorating the event (a regional public transit IC card)
Higin Card of the Higo Bank Group issued a card with special design commemorating the event. It supported the event and at the same time promoted cashless transactions in the region.

Diversity and work-life balance

- Ikubosu (management and superiors supportive of male employees participating in child rearing) training and meetings for exchange of opinions
- Acquisition of the Platinum Kurumin certification
- Career challenge system



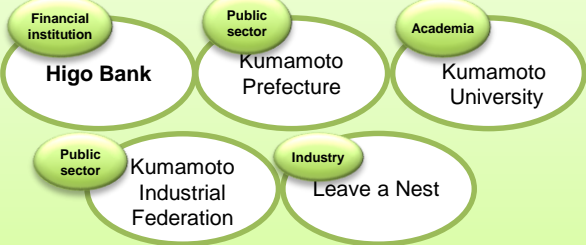
Case Study: Creation and Nurturing of Regional Industries

Higo bank is implementing various measures through collaboration with municipalities, universities, and businesses in Kumamoto Prefecture. Through these measures, it aims to create new industries in the region.

Start-up support in Kumamoto Prefecture

[Start-up support based on collaboration between industry, academia, public sector, and financial institution]

- Kumamoto Tech Planter, an initiative through collaboration of Kumamoto Prefecture, Kumamoto University, Kumamoto Industrial Federation, and Leave a Nest, is working on providing support to those who are starting business in the prefecture. It held the 4th Tech Grand Prix in July. 32 teams have entered, and the event saw 110 teams in total participate in it so far.
- 8 businesses were founded through Kumamoto Tech Planter and more than 500 million yen in funds have been raised.



- Measures to support creation of venture businesses based on collaboration of industry, academia, public sector, and financial institution
- Creation of new industry and employment by commercializing business seeds
- Opening of L-HUB KUMAMOTO, an incubation facility

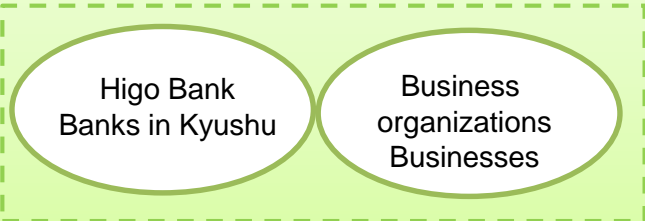
<Tech Plan Grand Prix>
 Time: July 2019
 Audience: 362 persons
 Presentation: 12 teams
 (Entry by 32 teams)



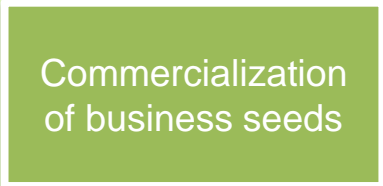
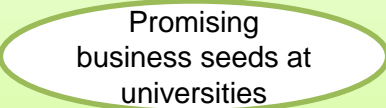
Start-up support in Kyushu

[University-based Venture Promotion Conference in Kyushu]

- The University-based Venture Promotion Conference in Kyushu was established in 2017 to promote commercialization of business seeds from research at universities in Kyushu jointly with financial institutions, universities, and businesses in Kyushu.
- The member organizations set up the Business Seeds Fostering Fund for Promoting University-based Venture Businesses in Kyushu to donate funds to business seed technologies that originated at universities.



Support by industry, public sector, and financial institutions



9. Enhancing Group Governance

Organizational revision

To promote integration of the Group and enhance its business management function while pursuing revenue diversification for strengthening consolidated earnings and new business development

Integration Newly established Integration of public relations and accounting divisions

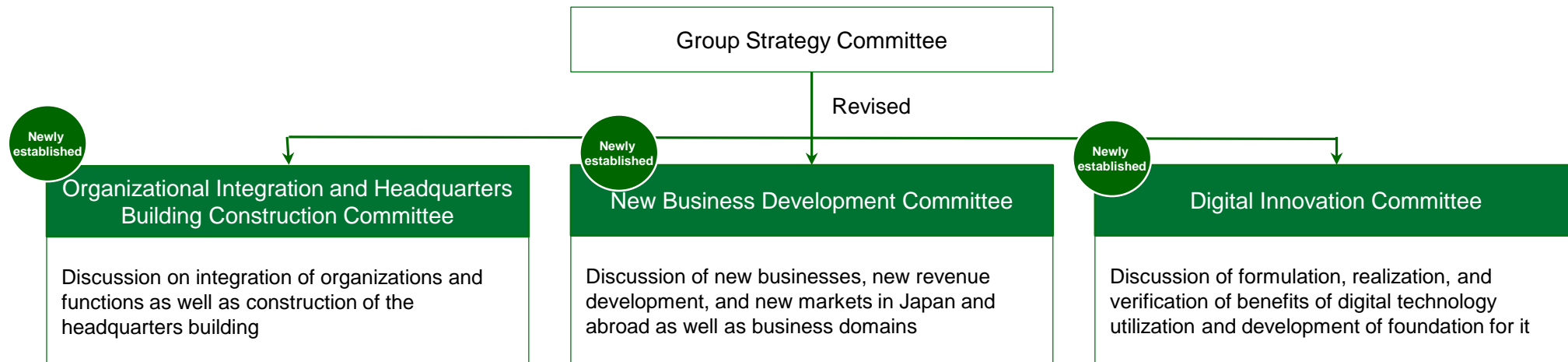
- New establishment of the public relations and IR department and integration of public relations functions of the 3 companies
Newly established the Public Relations and IR Department to accelerate the speed at which public relations and IR strategies are drafted and improve brand strength by enhancing quality. Integrated public relations divisions within the Group.
- Integration of accounting divisions
Integrated accounting divisions within the Group. Integrated standards and work flow regarding financial statements and reporting at the Group to improve quality and efficiency of account settlement operation.

Newly established New establishment of the Business Development Office

- New establishment of the Business Development Office
Newly established the Business Development Office specialized in development of new businesses within the Business Strategy Department*.
*We renamed the Group Strategy Department as the Business Strategy Department as part of structural improvement in response to rapid environmental and technological changes and to strengthen consolidated earnings and clarified the department's role to draft strategy for development of existing and new businesses.

Revision of committees

To strengthen response to cross-organizational issues at the Group (Reorganized the Group Strategy Committee and newly established the following 3 committees by clarifying the strategy issues.)



10. Capital Policies: Shareholder Return

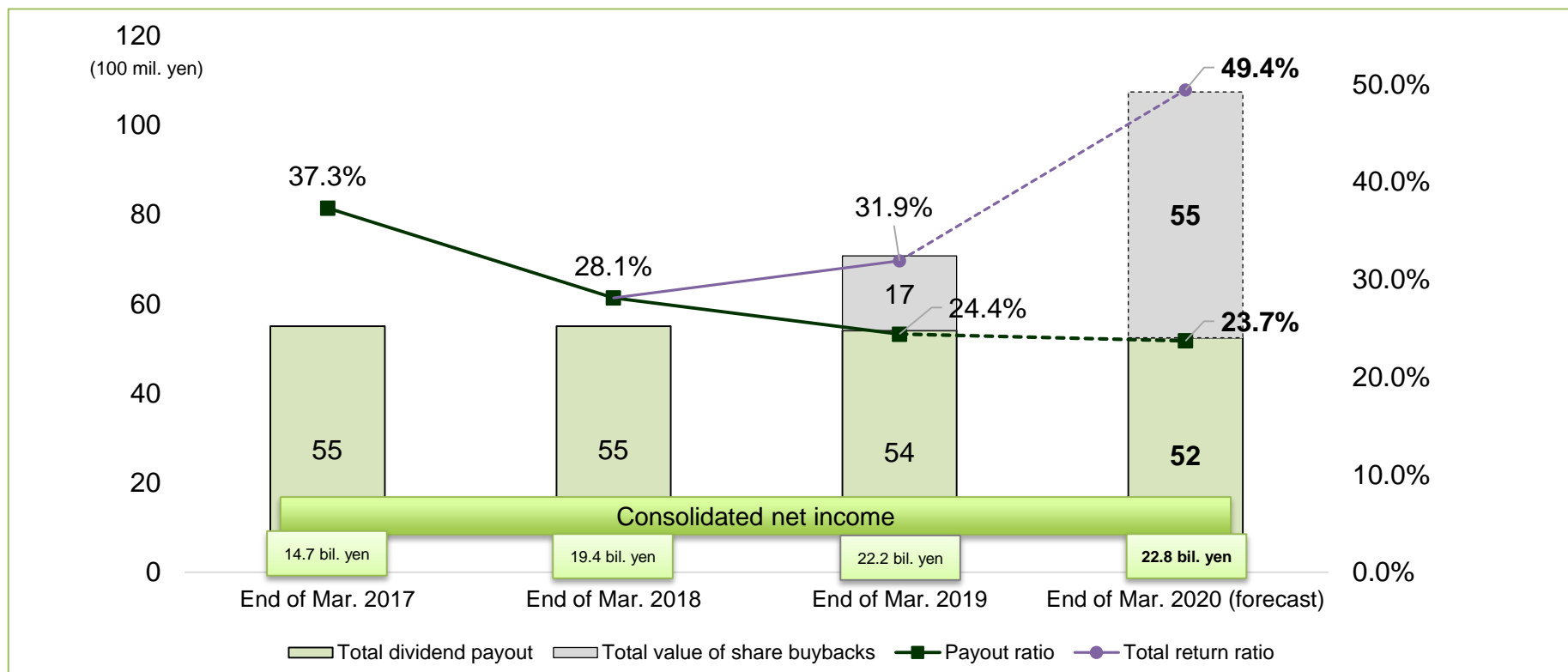
The basic policy of the Kyushu Financial Group is to pay stable dividends by raising capital efficiency with a flexible capital policy and achieving earnings growth while maintaining ample internal reserves.

[Fiscal Year Ending March 2020]

Stable dividend payment	Dividends per share: interim dividend of 6 yen (annual dividend of 12 yen expected)/ 5.2 bil. yen in total
Flexible capital policy	Share buybacks: 5.5 bil. yen (upper limit), 12 mil. shares (upper limit)

* Ratio to the total number of outstanding shares (excluding treasury stock): 2.65%
 * Buyback period: from November 13, 2019, to March 24, 2020

Trends in Dividends and Payout Ratio



Numerical Data



1. Financial Results Summary

[Higo Bank]

- Gross business profit increased 600 mil. yen year on year to 27,300 mil. yen, as gains on government and other bonds improved while interest and dividend income as well as fees and commissions declined.
- Ordinary income rose 300 mil. yen year on year to 11,400 mil. yen thanks to an increase in net business profit, although profit nonrecurring profit declined.
- Interim net income rose 200 mil. yen year on year to 7,900 mil. yen.

Higo Bank Profit & Loss

(100 mil. yen)

	Sept. 2018	Sept. 2019	Change
Revenues	381	379	-2
Gross business profit	267	273	6
Interest and dividend income	233	221	-11
Fees and commissions	40	33	-7
Other business profit	-6	19	25
(of which gain or loss on government and other bonds)	(0)	(25)	(25)
Expenses (-)	177	177	0
Core business profit	89	71	-18
Provision of Allowance for doubtful accounts (-)	-0	-4	-4
Net Business Profit	90	101	10
Nonrecurring profit/loss	20	13	-7
Nonperforming loan disposals (-)	10	9	-0
Equity securities-related profit or loss	30	20	-10
Other nonrecurring profit/loss	-0	2	2
Ordinary income	111	114	3
Extraordinary profit/loss	-	0	0
Pre-tax interim net income	111	114	3
Interim net income	77	79	2
(Credit costs)	9	4	-4

[Kagoshima Bank]

- Gross business profit increased 900 mil. yen year on year to 27,200 mil. yen, as gains on government and other bonds improved while interest and dividend income declined.
- Ordinary income rose 800 mil. yen from a year ago to 8,300 mil. yen thanks to an increase in net business profit.
- Interim net income rose 600 mil. yen year on year to 6,000 mil. yen.

Kagoshima Bank Profit & Loss

(100 mil. yen)

	Sept. 2018	Sept. 2019	Change
Revenues	316	320	3
Gross business profit	263	272	9
Interest and dividend income	234	227	-7
Fees and commissions	29	29	-0
Other business profit	-0	15	16
(of which gain or loss on government and other bonds)	(-3)	(14)	(17)
Expenses (-)	169	173	3
Core business profit	96	84	-12
Provision of Allowance for doubtful accounts (-)	4	0	-4
Net Business Profit	88	98	9
Nonrecurring profit/loss	-13	-14	-1
Nonperforming loan disposals (-)	18	6	-11
Equity securities-related profit or loss	10	-3	-14
Other nonrecurring profit/loss	-5	-4	1
Ordinary income	75	83	8
Extraordinary profit/loss	-0	-1	-0
Pre-tax interim net income	75	82	7
Interim net income	54	60	6
(Credit costs)	22	7	-15

2. Interest and Dividend Income

[Higo Bank] 22,100 mil. yen (down 1,100 mil. YoY)

- Interest and dividend income declined 1,100 mil. yen from a year ago as interest on securities (Domestic Division) fell while interest on loans in Japan slightly increased.

[Higo Bank] 22,700 mil. yen (down 700 mil. YoY)

- Interest and dividend income declined 700 mil. yen from a year ago as interest on securities (Domestic Division) fell.

Higo Bank Interest and Dividend Income

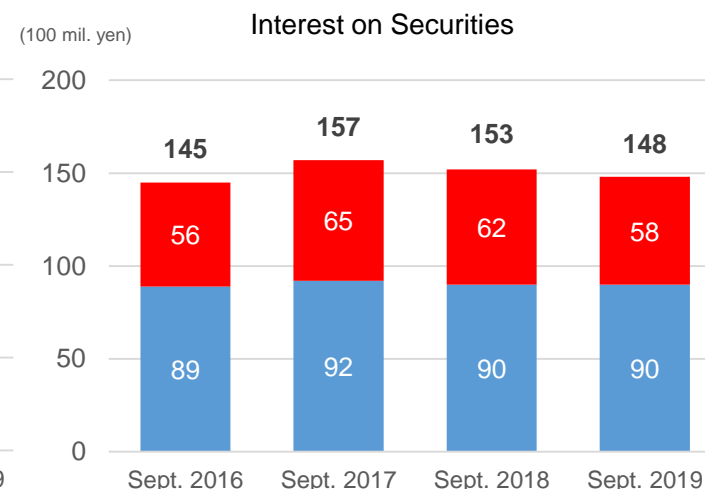
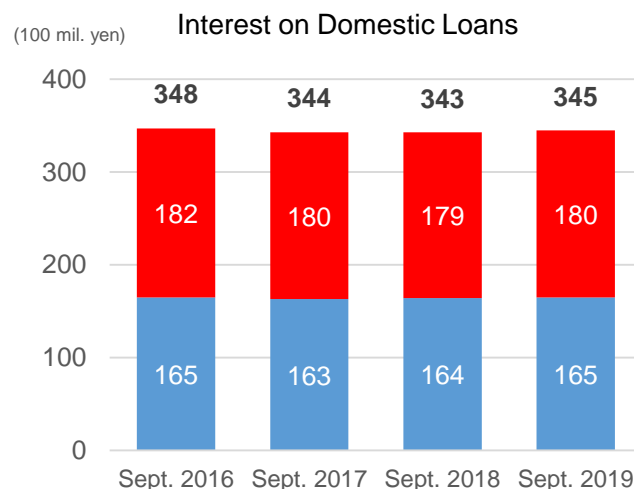
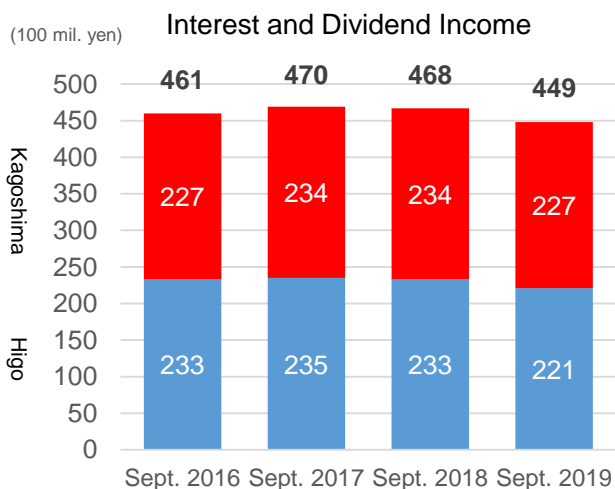
(100 mil. yen)

	Sept. 2016	Sept. 2017	Sept. 2018	Sept. 2019	Change from Sept. 2018
Interest and dividend income	233	235	233	221	-11
Domestic Division	210	212	208	203	-4
Interest on loans	165	163	164	165	1
Interest on deposits	4	3	1	1	-0
Interest on securities	62	62	55	46	-9
International Division	23	23	25	18	-6
Interest on loans	0	2	3	5	2
Interest on deposits	0	0	0	0	0
Interest on securities	27	29	35	44	8

Kagoshima Bank Interest and Dividend Income

(100 mil. yen)

	Sept. 2016	Sept. 2017	Sept. 2018	Sept. 2019	Change from Sept. 2018
Interest and dividend income	227	234	234	227	-7
Domestic Division	218	229	229	220	-9
Interest on loans	182	180	179	180	0
Interest on deposits	3	3	2	2	-0
Interest on securities	42	54	52	42	-10
International Division	9	5	5	7	1
Interest on loans	0	0	0	2	1
Interest on deposits	0	0	0	0	-0
Interest on securities	13	11	10	15	5



3. Fees and Commissions

[Higo Bank]

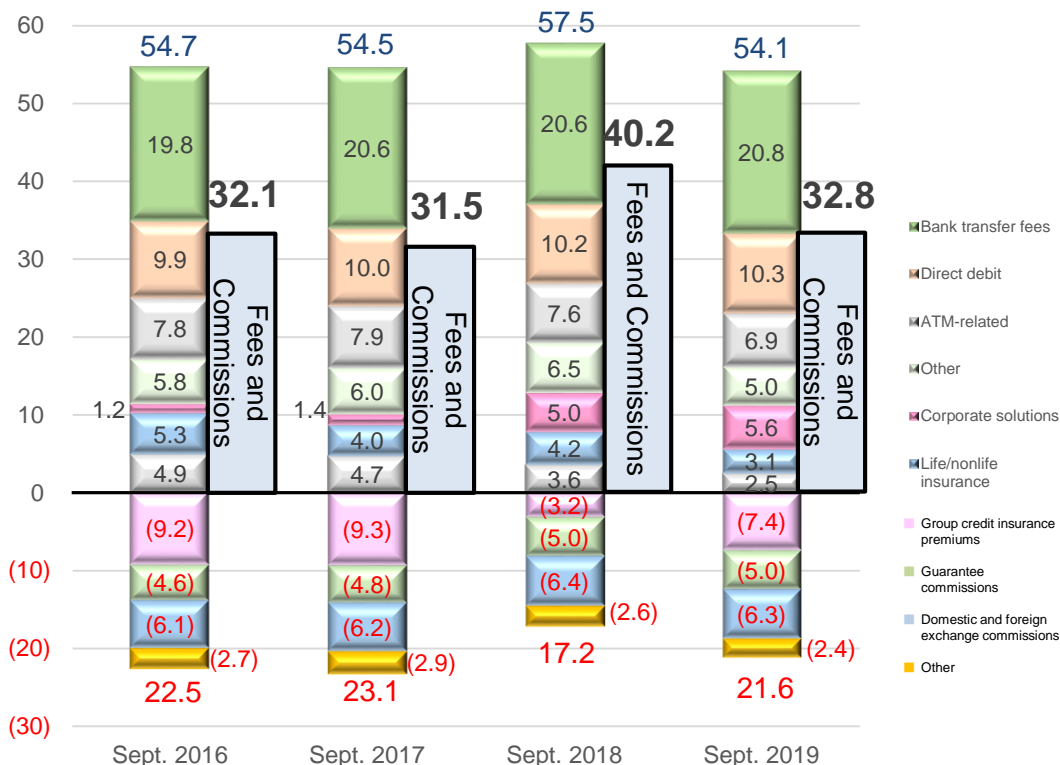
- Fees and commissions were down by 730 mil. yen year on year to 3,280 mil. yen mainly due to a decline in commissions related to assets under management and an increase in group credit insurance payments.

[Kagoshima Bank]

- Fees and commissions came to 2,900 mil. yen, unchanged from a year earlier.

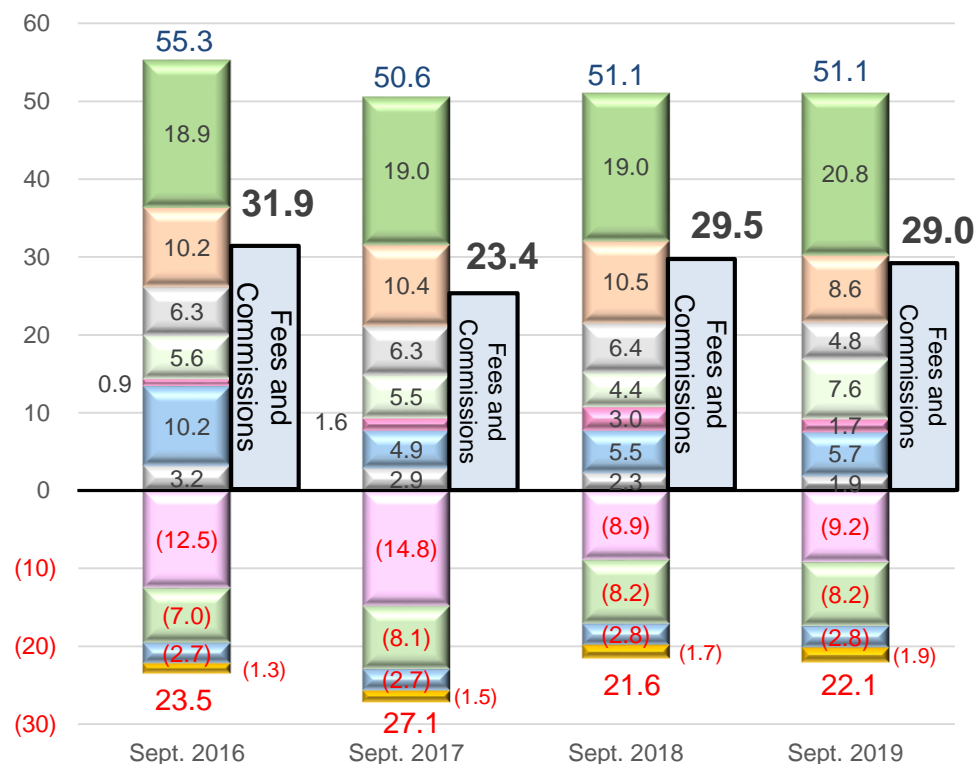
Higo Bank Fees and Commissions

(100 mil. yen)



Kagoshima Bank Fees and Commissions

(100 mil. yen)



4. Expenses

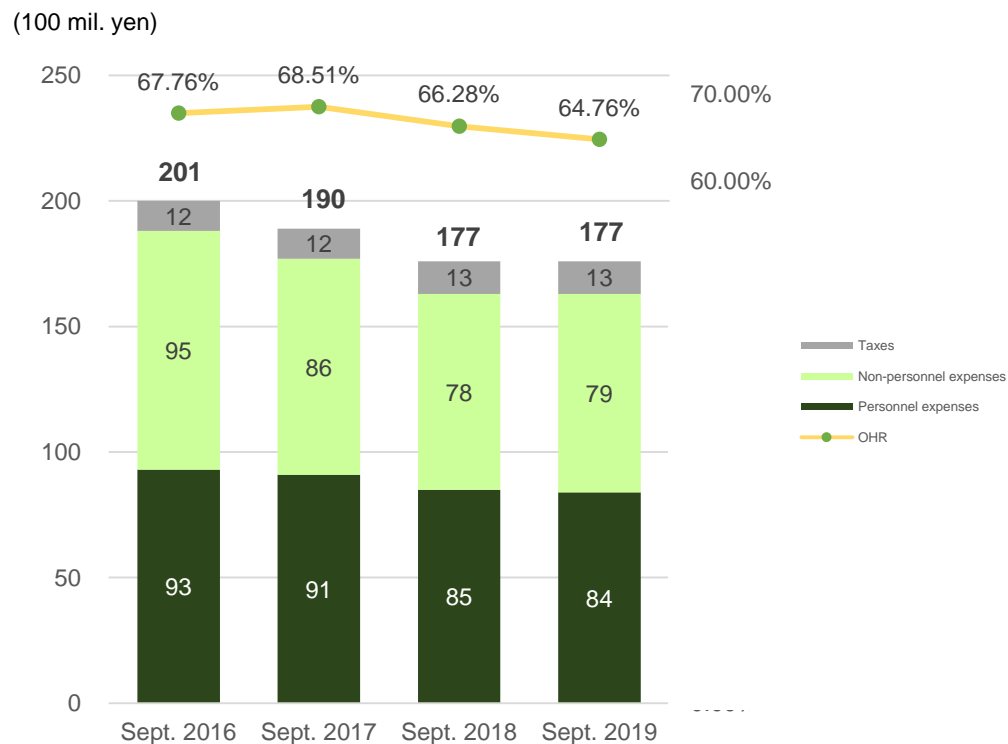
[Higo Bank]

- Expenses came to 17,700 mil. yen, unchanged from a year earlier.
- OHR fell 1.52pp year on year to 64.76%.

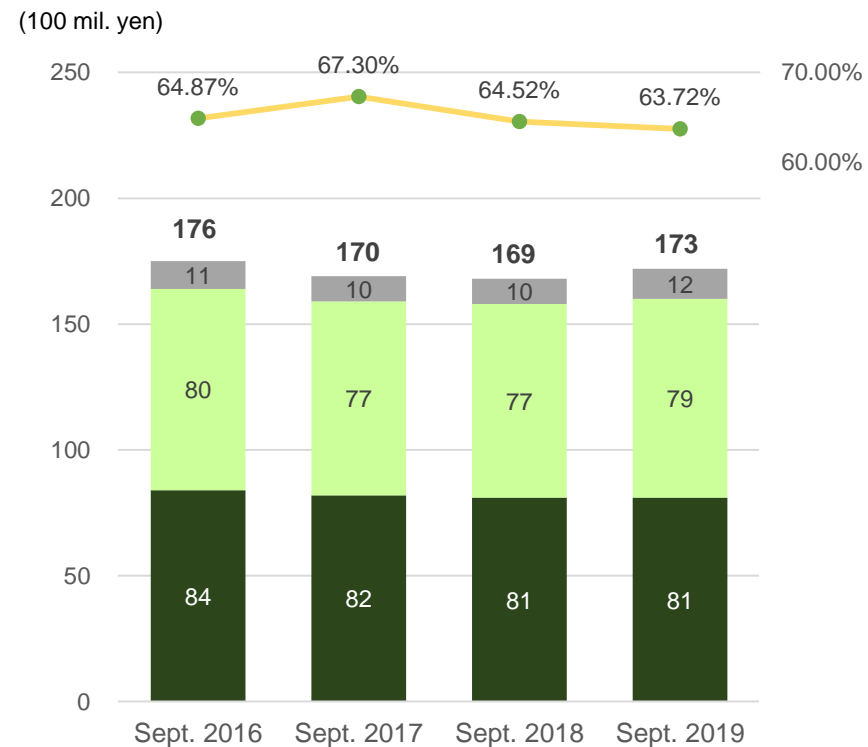
[Kagoshima Bank]

- Expenses increased 300 mil. yen to 17,300 mil. yen, as depreciation-related to the annex of the headquarters building and taxes rose.
- OHR was 63.72%, down 0.80pp year on year.

[Higo Bank] Expenses



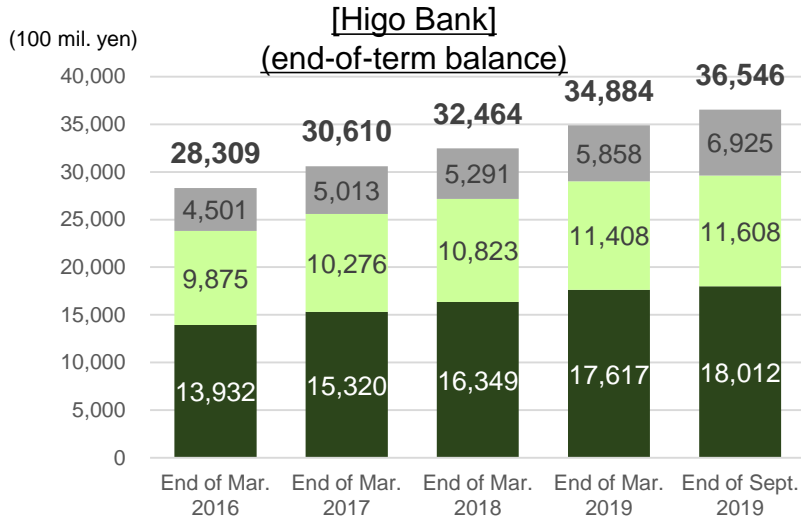
[Kagoshima Bank] Expenses



5. Loans (End-of-term Balance, Average Balance)

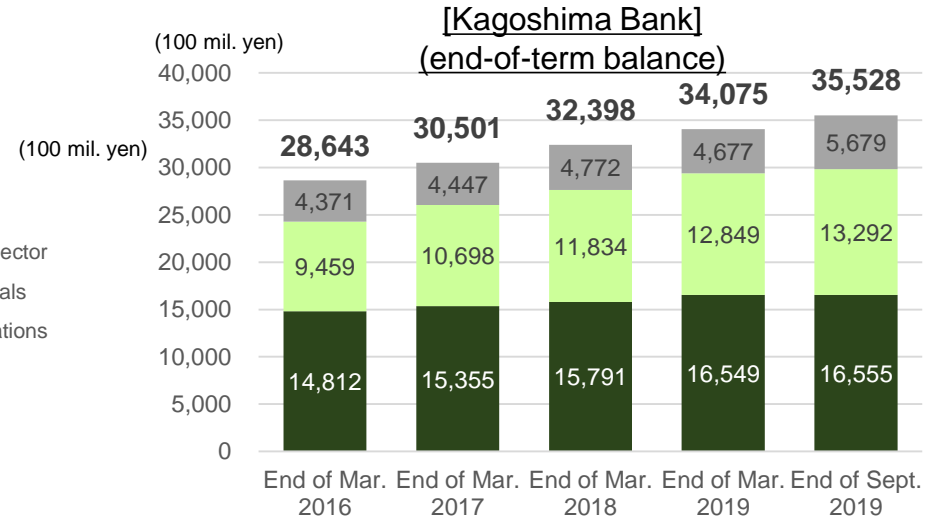
[Higo Bank] (end-of-term balance)

- Loans provided increased 166,200 mil. yen from the end of the previous fiscal year to 3,654,600 mil., as loans to each sector rose.

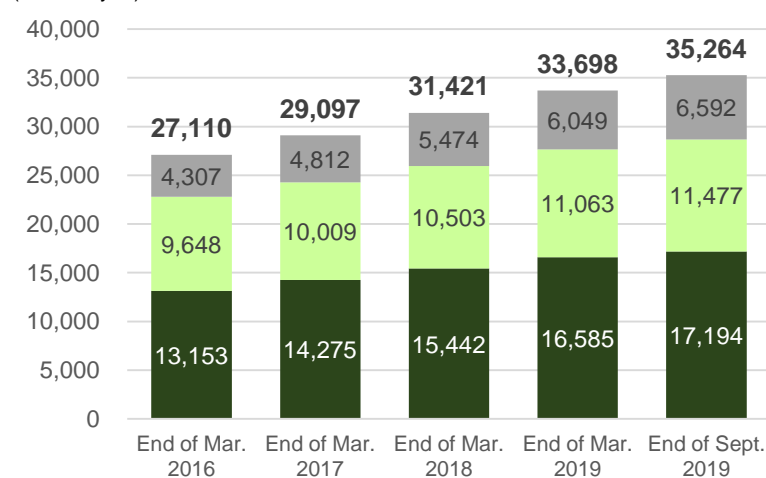


[Kagoshima Bank] (end-of-term balance)

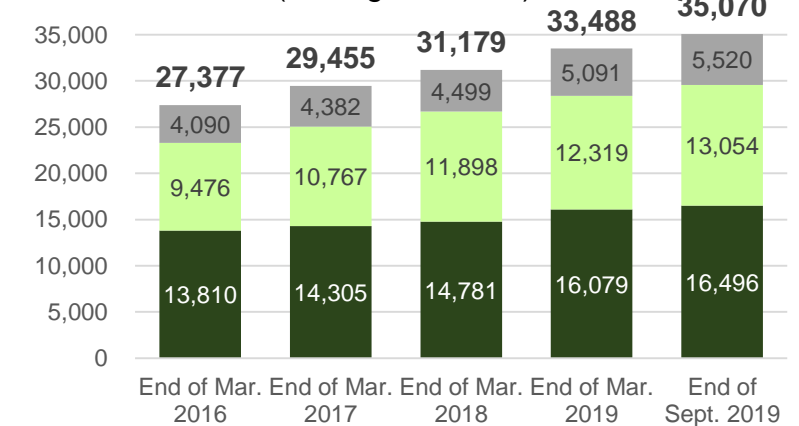
- Loans provided increased 145,200 mil. yen from the end of the previous fiscal year to 3,552,800 mil., as loans to each sector rose.



[Higo Bank] (average balance)



[Kagoshima Bank] (average balance)

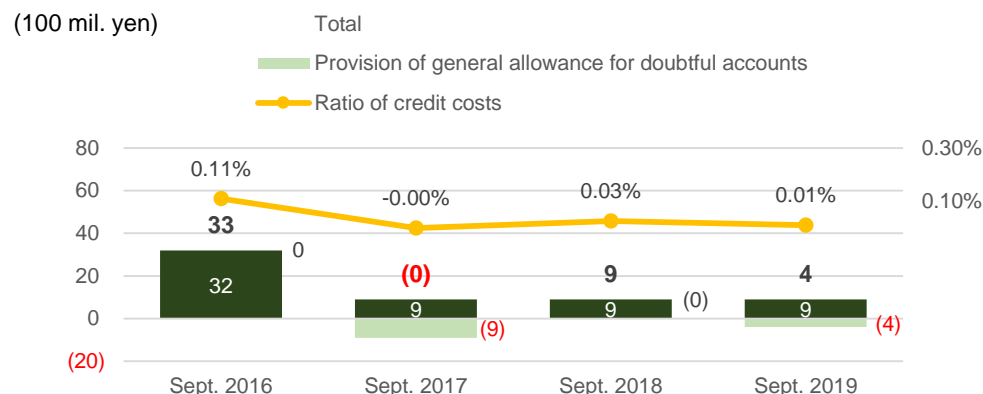


6. Credit Costs and Loans Disclosed Pursuant to Financial Reconstruction Act

[Higo Bank]

- The ratio of credit costs declined 0.02pp year on year to 0.01%.
- The ratio of non-performing loans fell 0.08pp from the end of the previous fiscal year to 1.49%.

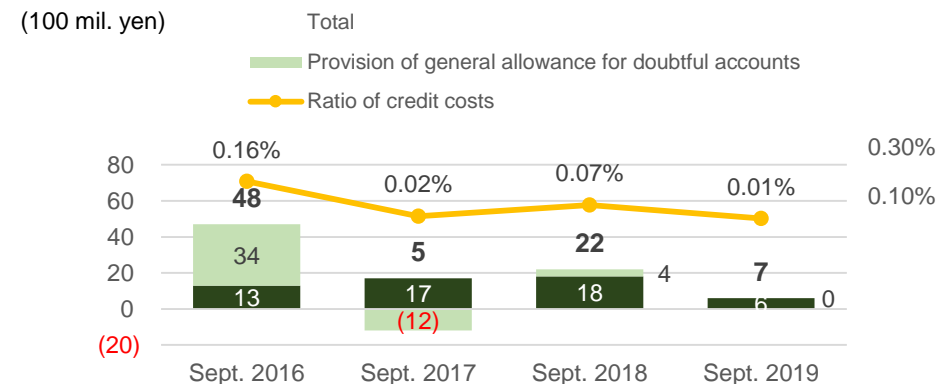
[Higo Bank] Credit Costs



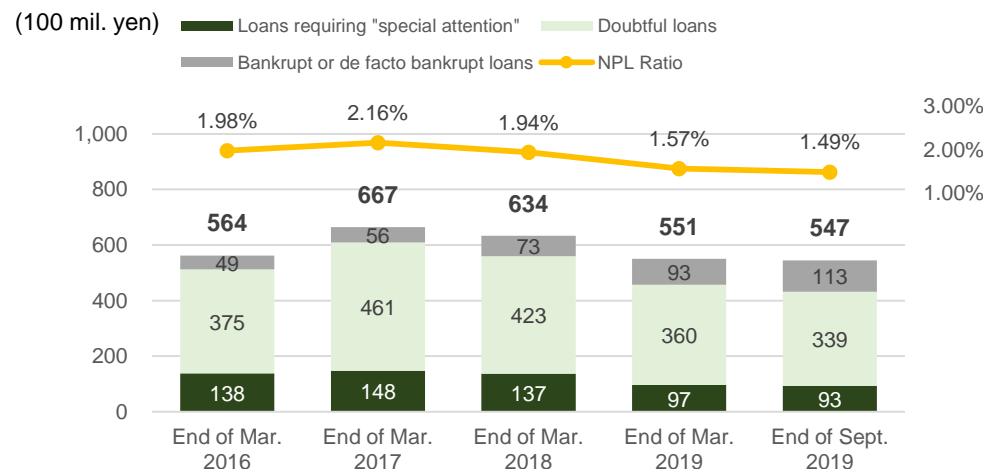
[Kagoshima Bank]

- The ratio of credit costs declined 0.06pp year on year to 0.01%.
- The ratio of non-performing loans dropped 0.09pp from the end of the previous fiscal year to 2.18%.

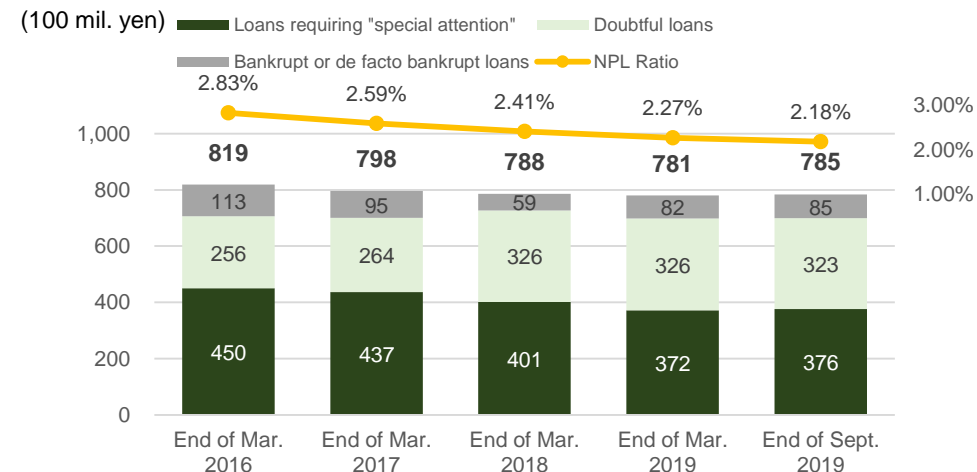
[Kagoshima Bank] Credit Costs



[Higo Bank] Loans Disclosed Pursuant to Financial Reconstruction Act



[Kagoshima Bank] Loans Disclosed Pursuant to Financial Reconstruction Act

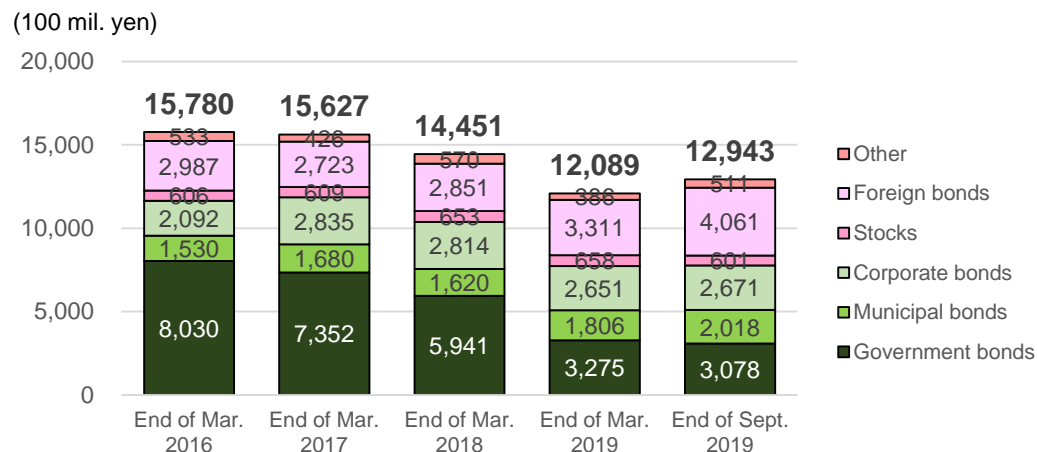


7. Securities

[Higo Bank]

- The balance of securities increased 85,400 mil. yen from the end of the previous fiscal year to 1,294,300 mil. yen, as foreign bonds rose while government bonds declined.

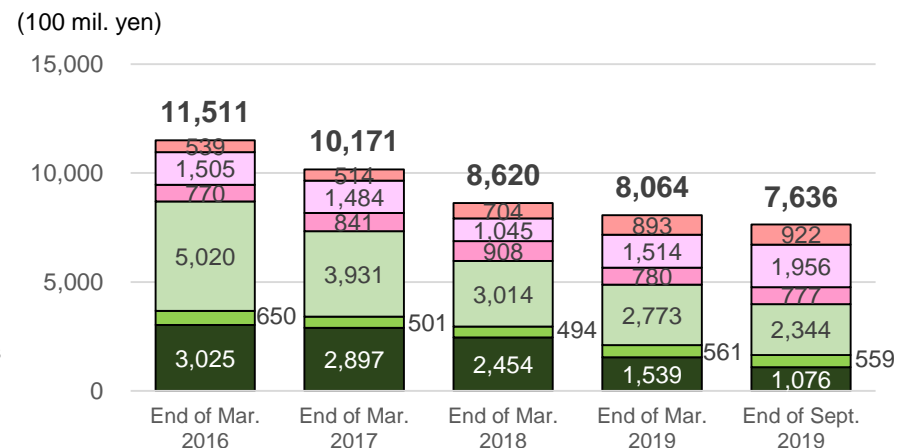
[Higo Bank] Balance of Securities



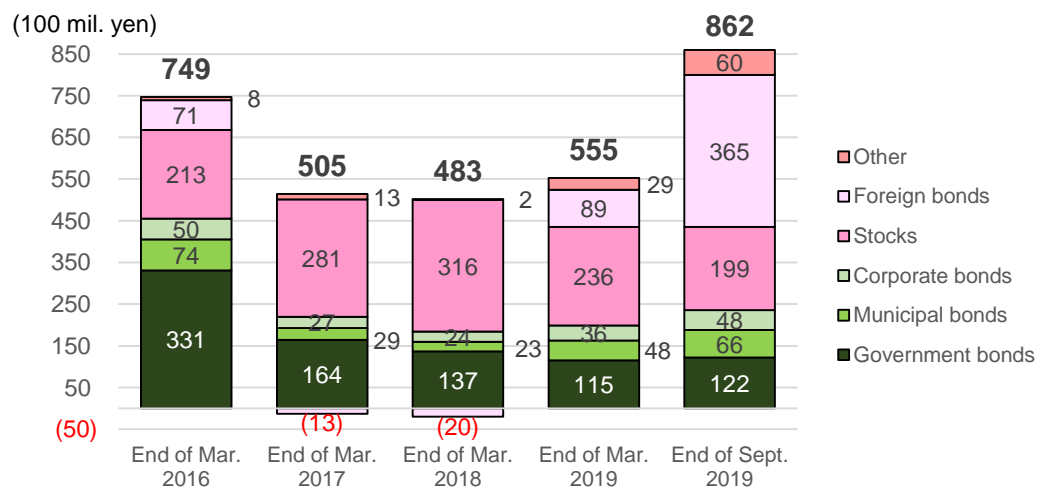
[Kagoshima Bank]

- The balance of securities decreased 42,700 mil. yen from the end of the previous fiscal year to 763,600 mil. yen, as an increase in foreign bonds was not enough to offset a decline in government bonds.

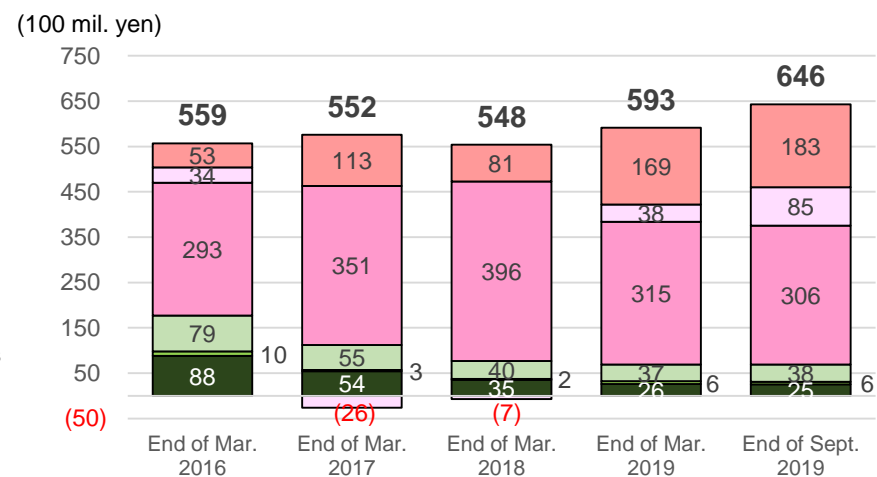
[Kagoshima Bank] Balance of Securities



[Higo Bank] Valuation Gain on Securities



[Kagoshima Bank] Valuation Gain on Securities



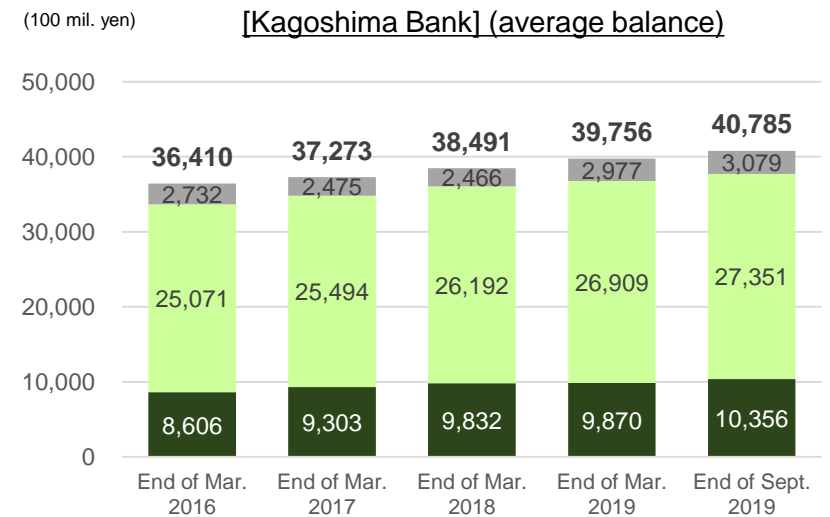
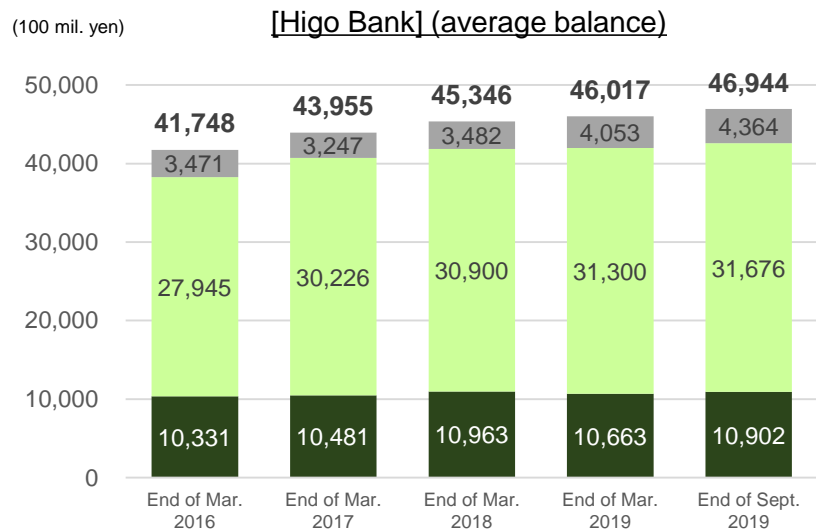
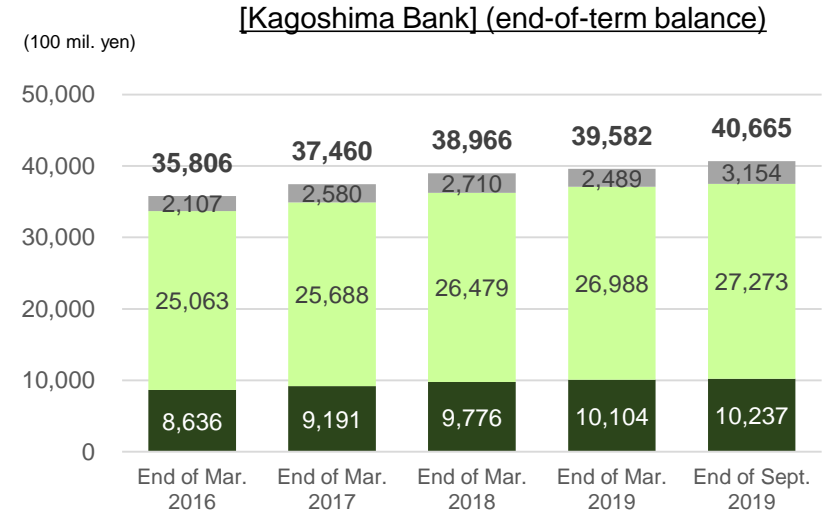
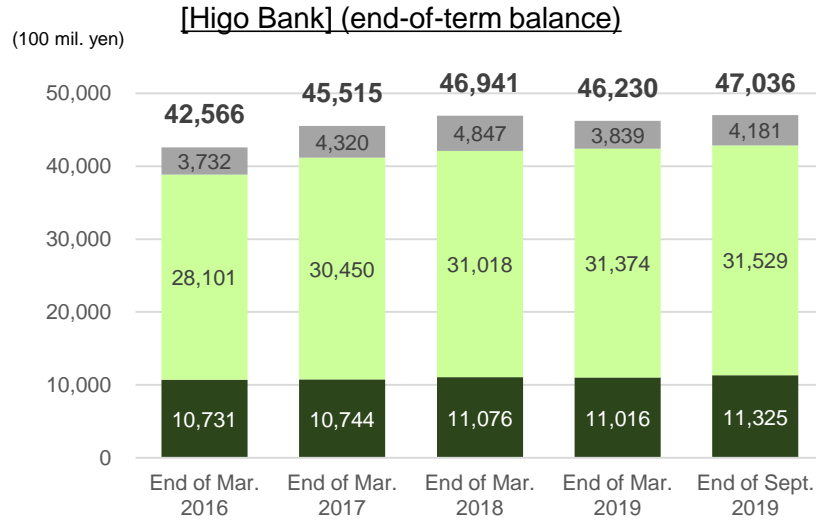
8. Total Deposits (incl. NCD) (End-of-term Balance, Average Balance)

[Higo Bank] (end-of-term balance)

- Deposits increased 80,600 mil. yen from the end of the previous fiscal year to 4,703,600 mil. yen, as deposits at each sector rose.

[Kagoshima Bank] (end-of-term balance)

- Deposits increased 108,200 mil. yen from the end of the previous fiscal year to 4,066,500 mil., as deposits at each sector rose.

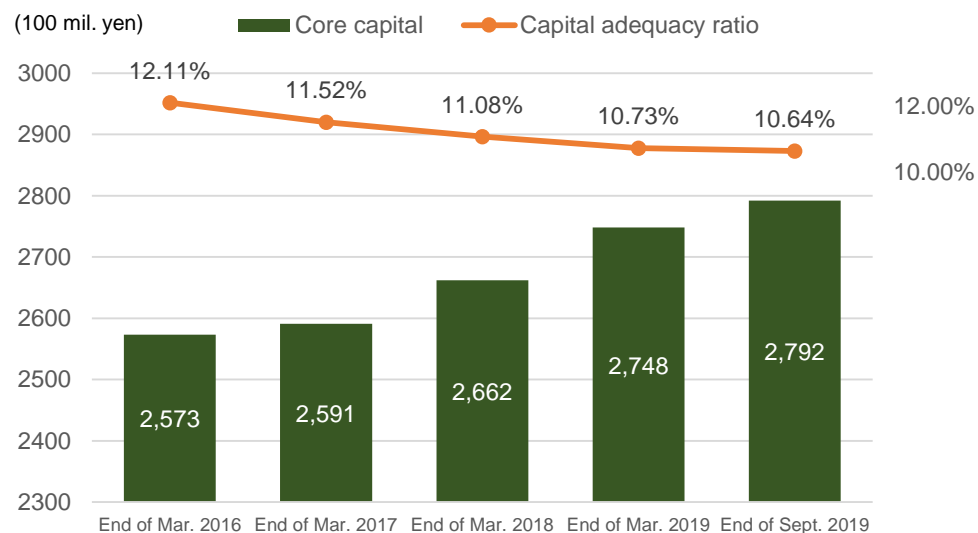


9. Capital Adequacy Ratio

[Higo Bank]

- Capital adequacy ratio declined by 0.09pp year on year to 10.64%, mainly due to a rise in risk assets as lending grew.

[Higo Bank] Capital Adequacy Ratio



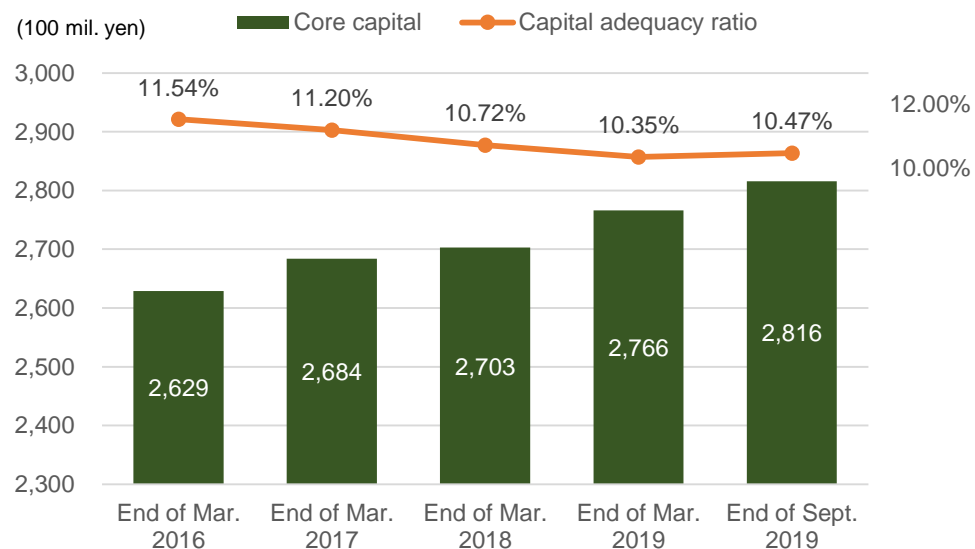
(100 mil. yen)

	Mar. 2016	Mar. 2017	Mar. 2018	Mar. 2019	Sept. 2019	Change from Mar. 2019
(i) Core capital	2,573	2,591	2,662	2,748	2,792	44
(ii) Risk assets	21,243	22,488	24,020	25,610	26,232	622
(iii) Capital adequacy ratio ((i)/(ii))	12.11%	11.52%	11.08%	10.73%	10.64%	-0.09%

[Kagoshima Bank]

- Capital adequacy ratio was 10.47%, up 0.12pp compared with the end of the previous fiscal year.

[Kagoshima Bank] Capital Adequacy Ratio



(100 mil. yen)

	Mar. 2016	Mar. 2017	Mar. 2018	Mar. 2019	Sept. 2019	Change from Mar. 2019
(i) Core capital	2,629	2,684	2,703	2,766	2,816	49
(ii) Risk assets	22,779	23,959	25,211	26,716	26,896	180
(iii) Capital adequacy ratio ((i)/(ii))	11.54%	11.20%	10.72%	10.35%	10.47%	0.12%

10. Balance of Housing Loans (including apartment loans)

[Higo Bank]

- The balance of housing loans (including apartment loans) was 1,065,200 mil. yen.
- Of this, the balance of apartment loans represented 5.21%.
- No share house or sublease deals were included.

[Kagoshima Bank]

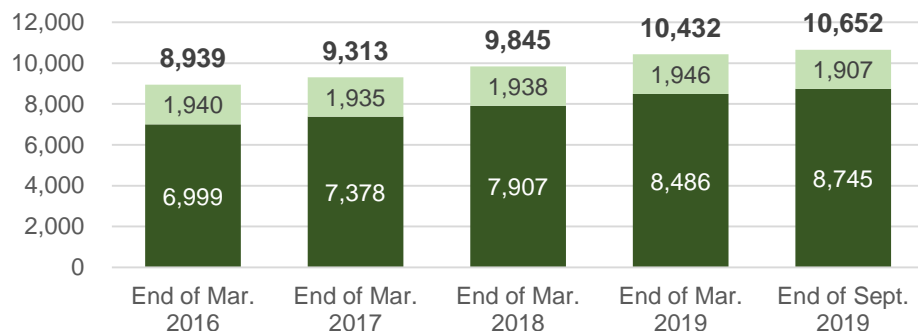
- The balance of housing loans (including apartment loans) was 1,258,200 mil. yen.
- Of this, the balance of apartment loans represented 3.56%.
- No share house or sublease deals were included.

[Higo Bank] Balance of housing loans (including apartment loans)

[Kagoshima Bank] Balance of housing loans (including apartment loans)

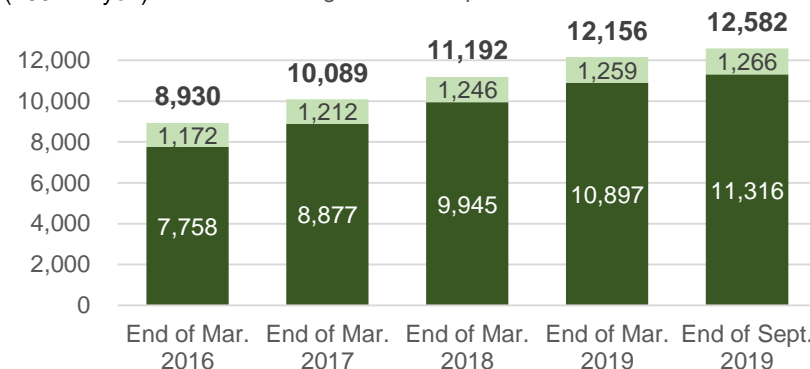
(100 mil. yen)

■ Housing loans ■ Apartment loans

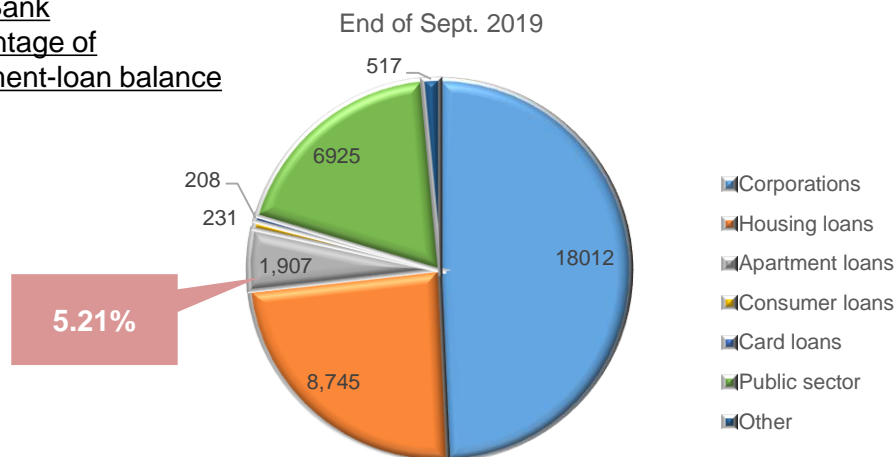


(100 mil. yen)

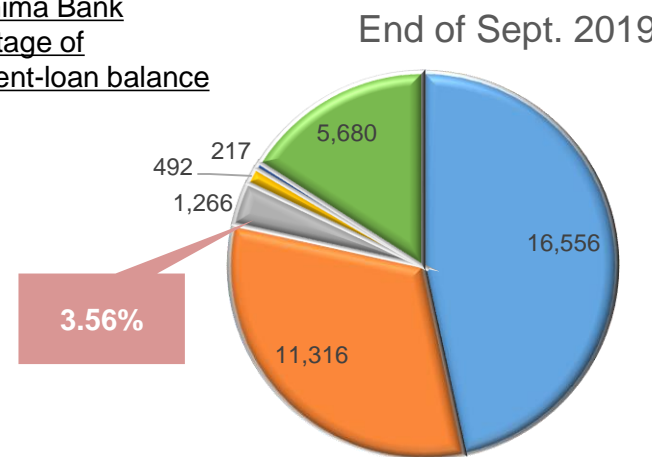
■ Housing loans ■ Apartment loans



Higo Bank Percentage of apartment-loan balance



Kagoshima Bank Percentage of apartment-loan balance



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

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



Kyushu FG

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