Fukuoka Financial Group

Investor Meeting

Financial Results & Earnings Projections

Management Strategy

June 2020

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Part I

Financial Results & Earnings Projections

Summary of Financial Results for FY2019

Profit & loss (4 banks total)

(¥ bil.)

[Compared to projection of Nov. 2019]	4 banks non-consolidated total		Bank of Fukuoka (non-consolidated)		Kumamoto Bank (non-consolidated)		Shinwa Bank (non-consolidated)		Eighteenth Bank (non-consolidated)	
	FY2019	YoY chg.	FY2019	YoY chg.	FY2019	YoY chg.	FY2019	YoY chg.	FY2019	YoY chg.
Gross business profit	201.3	(5.6)	131.3	(1.6)	18.7	(0.7)	24.4	(2.0)	26.9	(1.3)
Net interest income	178.4	(3.6)	113.5	(1.2)	17.8	(0.1)	22.0	(1.5)	25.1	(0.8)
Domestic	168.9	(4.1)	105.3	(1.7)	17.8	(0.1)	21.9	(1.5)	23.9	(0.9)
International	9.6	0.5	8.2	0.5	0.0	(0.0)	0.1	(0.0)	1.2	0.0
Non-interest income	22.8	(2.0)	17.8	(0.4)	0.9	(0.6)	2.3	(0.5)	1.8	(0.5)
Net fees and commissions	21.0	(0.8)	16.1	0.8	0.8	(0.6)	2.1	(0.5)	1.9	(0.5)
Specified trade income	2.5	0.5	2.4	0.5	0.1	0.0	0.2	0.0	(0.1)	0.0
Bond-related income	(0.7)	(1.7)	(0.7)	(1.7)	(0.0)	0.0	0.0	(0.0)	(0.0)	0.0
Overhead expenses (-)	123.1	1.2	67.7	0.9	13.6	(0.3)	19.9	0.2	21.9	0.4
Actual business profit	78.2	(6.7)	63.5	(2.5)	5.1	(0.4)	4.5	(2.2)	5.0	(1.7)
Transfer to general reserve for possible loan losses (-)	60.0	60.5	39.1	39.3	5.8	6.3	3.8	3.4	11.3	11.5
Business profit	18.2	(67.3)	24.4	(41.8)	(0.6)	(6.7)	0.7	(5.6)	(6.3)	(13.2)
Core business profit [+0.3]	78.9	(5.0)	64.2	(0.8)	5.1	(0.4)	4.5	(2.2)	5.0	(1.7)
Other operating profit (loss)	(9.7)	(10.3)	(0.6)	(3.1)	(2.5)	(0.9)	(2.7)	(2.4)	(4.0)	(3.9)
Ordinary profit [▲58.1]	8.4	(77.6)	23.8	(44.9)	(3.1)	(7.6)	(2.0)	(8.0)	(10.3)	(17.0)
Extraordinary profit (loss)	(11.0)	(10.3)	(0.2)	0.0	(0.0)	0.0	(3.5)	(3.2)	(7.3)	(7.1)
Income (loss) before income taxes	(2.6)	(87.9)	23.6	(44.9)	(3.1)	(7.6)	(5.5)	(11.2)	(17.6)	(24.2)
Income taxes (-)	(5.3)	(28.4)	4.5	(13.7)	(1.2)	(1.9)	(1.6)	(3.3)	(6.9)	(9.4)
Net income [▲39.1]	2.7	(59.6)	19.1	(31.2)	(1.9)	(5.7)	(3.8)	(7.9)	(10.6)	(14.8)
Credit cost (-) [51.2]	61.4	56.3	38.9	36.8	6.8	5.9	4.1	3.2	11.6	10.3

Profit & loss (FFG consolidated)

[Compared to projection of Nov. 2019]	FY2019	YoY chg.
Gross business profit	222.1	(9.0)
Actual business profit	66.8	(17.2)
Core business profit	67.5	(15.3)
Ordinary profit [▲57.8]	(5.3)	(87.0)
Consolidated net income* [▲37.9]	110.6	+54.7

Consolidation adjustments

Net income (4 banks total)	2.7
FFG non-consolidated	(10.7)
Adjustment related to Minna Bank	(5.4)
Subsidiary income	1.1
Negative goodwill	117.4
Land impairment adjustment, etc.	5.5
FFG consolidated net income	110.6

* Net income attributable to owners of the parent.
Year-on-year change is comparison with FFG consolidated (3 banks) + The Eighteenth Bank consolidated.

Point 1 *Core business profit is 78.9 billion yen*

- (YoY chg.) -5.0 billion yen
- Main driver is net interest income decrease due to redemption of high yield bonds and public loans.

Point 2 *Credit cost is 61.4 billion yen*

- Transferred 61.4 billion yen as a result of reserving provisions totaling 57.0 billion yen, including forward-looking provisions, preventive provisions for the impact of COVID-19, and the adjustment of reserve standards following the business integration.

Point 3 *Net income is 2.7 billion yen*

- (YoY chg.) -59.6 billion yen
- Net income amounted to 2.7 billion yen as a result of the above credit cost, plus -8.3 billion yen for other operating losses associated with the provision for inactive accounts, integration expenses and so on, and an extraordinary loss of -11.0 billion yen partly due to impairment of fixed assets in relation to the integration.

Point 4 *Consolidated net income is 110.6 billion yen*

- (YoY chg.) +54.7 billion yen
- Recorded 117.4 billion yen in gains on negative goodwill in connection to the business integration with the Eighteenth Bank.

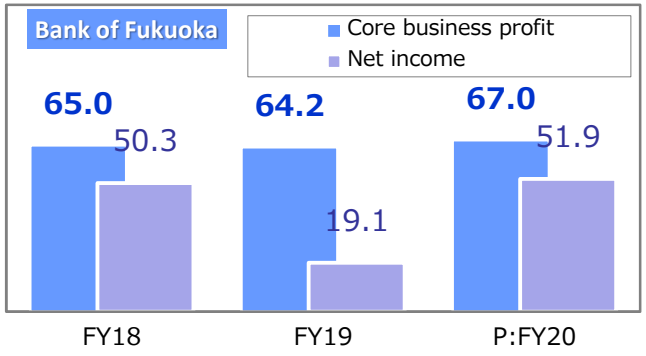
Earnings Projections for FY2020

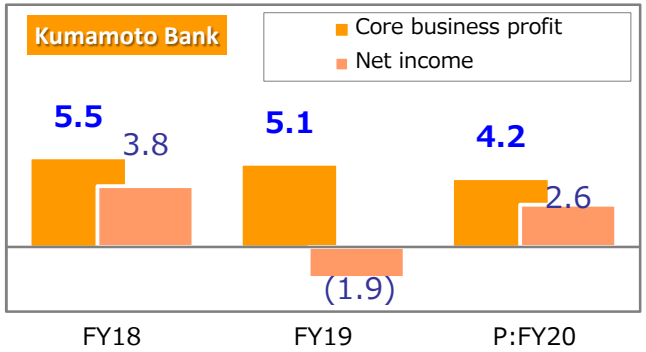
Profit & loss (3 banks total)

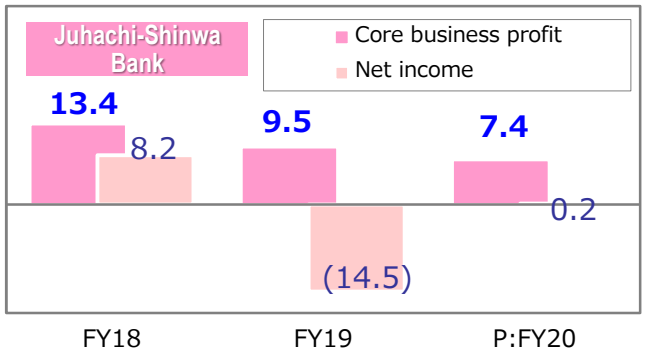
(¥ bil.)

	3 banks non-consolidated total		Bank of Fukuoka (non-consolidated)		Kumamoto Bank (non-consolidated)		Juhachi-Shinwa Bank (non-consolidated)	
	P:FY2020	YoY chg.	P:FY2020	YoY chg.	P:FY2020	YoY chg.	P:FY2020	YoY chg.
Gross business profit	205.0	3.7	137.8	6.5	17.9	(0.7)	49.2	(2.0)
Net interest income	177.3	(1.2)	115.1	1.6	17.3	(0.5)	44.9	(2.3)
Domestic	166.1	(2.8)	105.5	0.3	17.3	(0.5)	43.3	(2.5)
International	11.1	1.6	9.5	1.3	0.0	(0.0)	1.6	0.3
Non-interest income	27.7	4.9	22.7	4.9	0.6	(0.2)	4.4	0.2
Net fees and commissions	22.4	1.4	17.7	1.6	0.6	(0.2)	4.1	0.1
Specified trade income	2.3	(0.2)	2.0	(0.4)	0.1	0.0	0.2	0.2
Bond-related income	3.0	3.7	3.0	3.7	(0.0)	(0.0)	0.0	0.0
Overhead expenses (-)	123.4	0.3	67.8	0.0	13.7	0.2	41.8	0.1
Actual business profit	81.6	3.5	70.0	6.5	4.2	(0.9)	7.4	(2.1)
Core business profit	78.6	(0.2)	67.0	2.8	4.2	(0.9)	7.4	(2.2)
Ordinary profit	70.8	62.4	70.0	46.2	3.1	6.2	(2.3)	10.0
Net income	54.7	52.0	51.9	32.8	2.6	4.5	0.2	14.7
Credit cost (-)	5.8	(55.6)	3.5	(35.4)	0.8	(6.0)	1.5	(14.2)

Profit & loss [by Bank] (¥ bil.)







* FY17–19 are shown on a non-consolidated total basis

Profit & loss (FFG consolidated)

	P:FY2020	YoY chg.
Gross business profit	228.4	6.3
Actual business profit	70.4	3.6
Core business profit	67.5	(0.0)
Ordinary profit	56.0	61.3
Consolidated net income*	40.0	(70.6)

* Net income attributable to owners of the parent

Consolidation adjustments

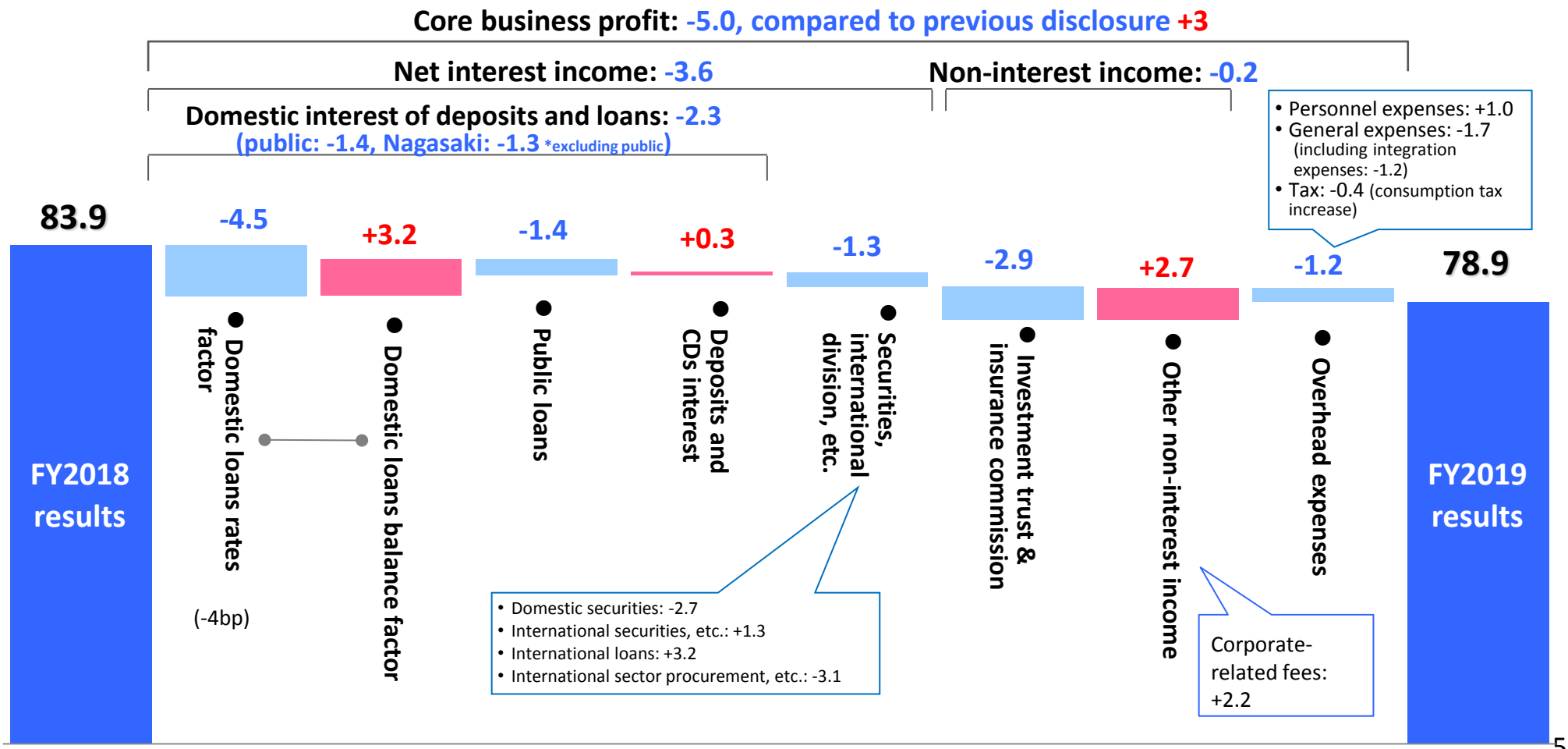
Net income (4 banks total)	54.7
FFG non-consolidated	(10.3)
Adjustment related to Minna Bank	(5.5)
Subsidiary income	3.3
Negative goodwill	-
Land impairment adjustment	-
Securities adjustment, etc.	(2.3)
FFG consolidated net income	40.0

Transition of Top Line: FY2019 Results

- Net interest income decreased 3.6 billion yen year-on-year, primarily due to redemption of public loans and government bonds.
- Non-interest income decreased 0.2 billion yen year-on-year, with the decrease in investment trust and insurance commissions being offset by an increase in corporate-related fees, etc.
- Overhead expenses decreased 1.2 billion yen year-on-year, primarily due to costs incurred in the business integration with the Eighteenth Bank.

FY2019 results [YoY chg.]

(¥ bil.)

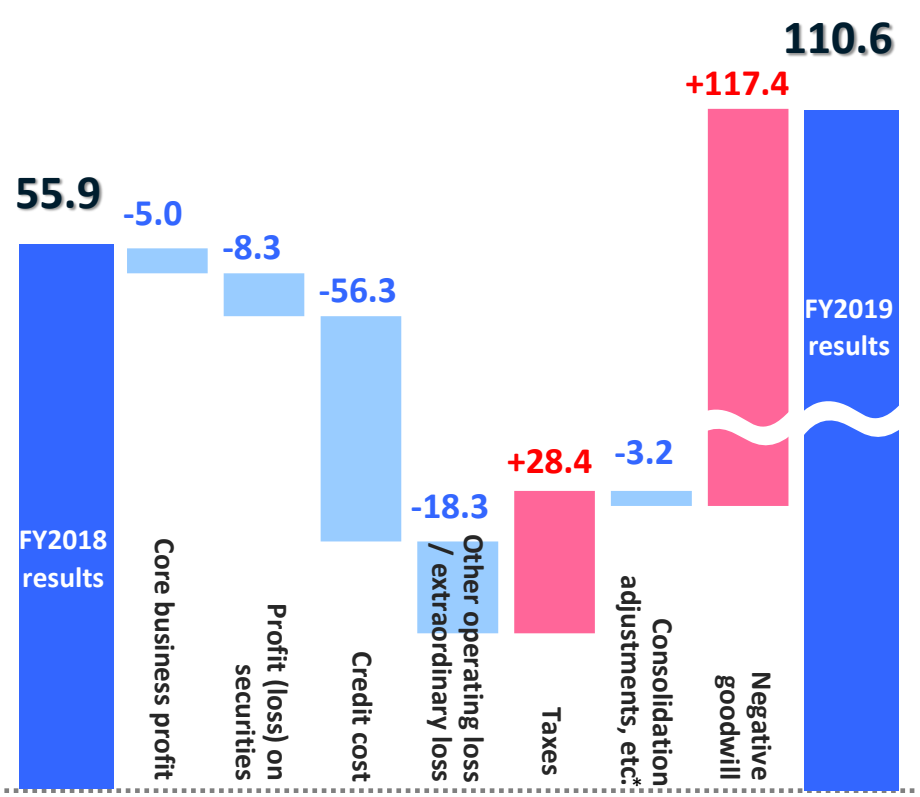


FY2019 Consolidated Net Income: Factors Driving Year-on-Year Change

Fukuoka Financial Group

Consolidated net income (¥ bil.)

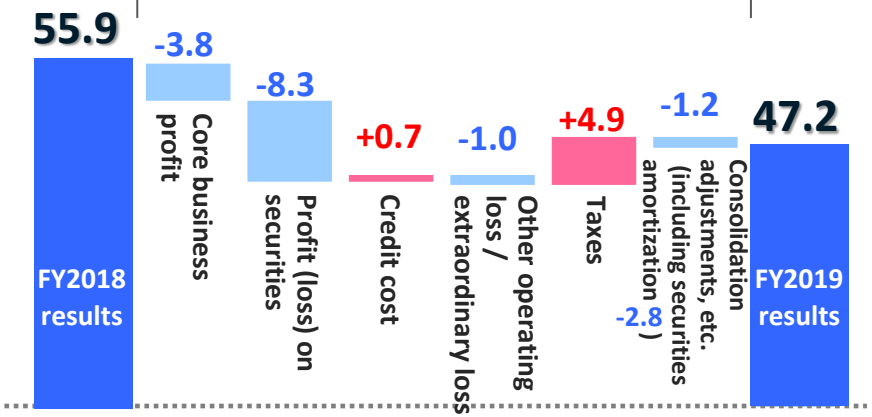
YoY chg. +54.7 (after taxes)



* Including expenses related to the integration of Nagasaki Guarantee Service, a subsidiary of the Eighteenth Bank (credit cost: -0.7 billion yen)

Excluding the following factors

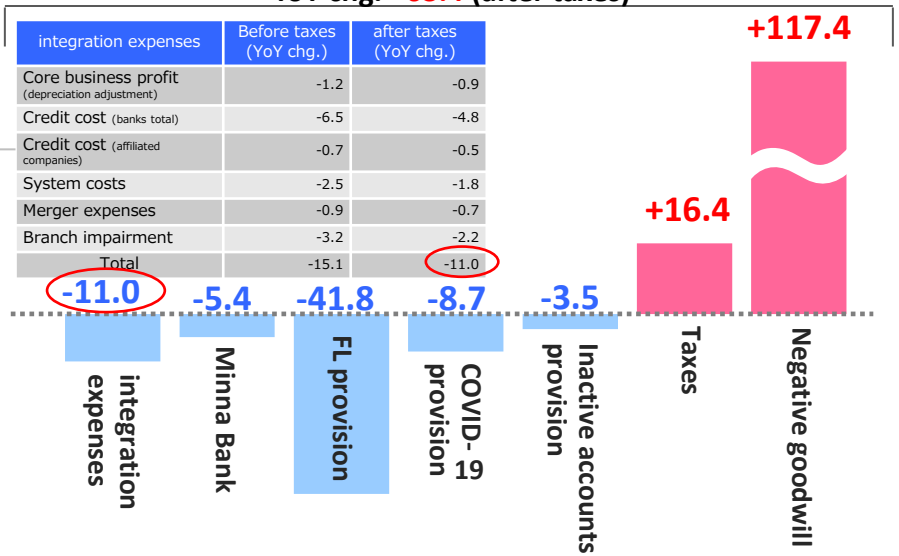
YoY chg. -8.7 (after taxes)



Negative goodwill, integration-related, Minna Bank, FL provision, etc.

YoY chg. +63.4 (after taxes)

integration expenses	Before taxes (YoY chg.)	after taxes (YoY chg.)
Core business profit (depreciation adjustment)	-1.2	-0.9
Credit cost (banks total)	-6.5	-4.8
Credit cost (affiliated companies)	-0.7	-0.5
System costs	-2.5	-1.8
Merger expenses	-0.9	-0.7
Branch impairment	-3.2	-2.2
Total	-15.1	-11.0

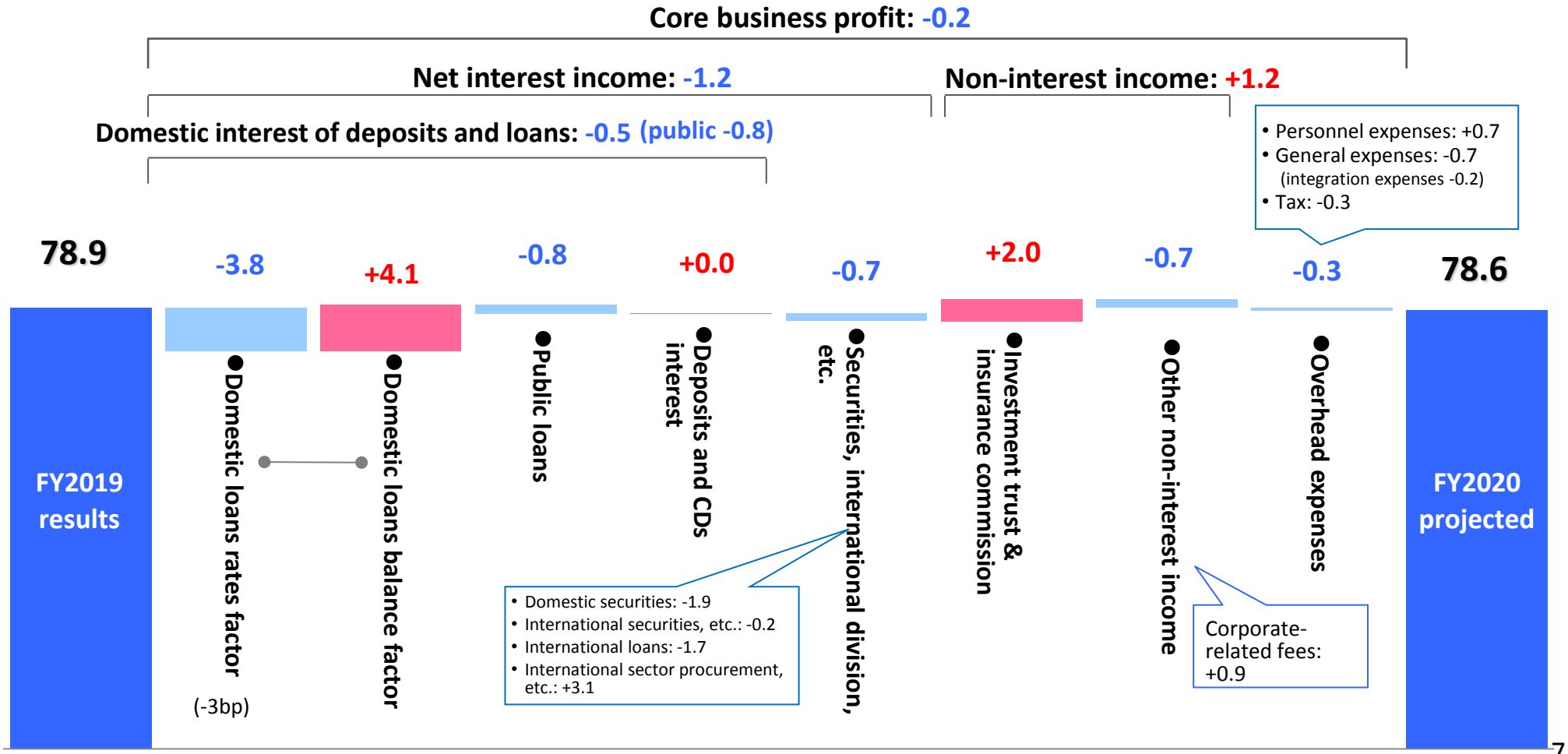


Transition of Top Line: FY2020 Projected

- The projection for core business profit is 78.6 billion yen, on par with the previous year, with the downward pressure on earnings attributable to the redemption of public loans and government bonds, etc. countered by an increase in loans balance and an increase in asset management products sales.

P:FY2020 [YoY chg.]

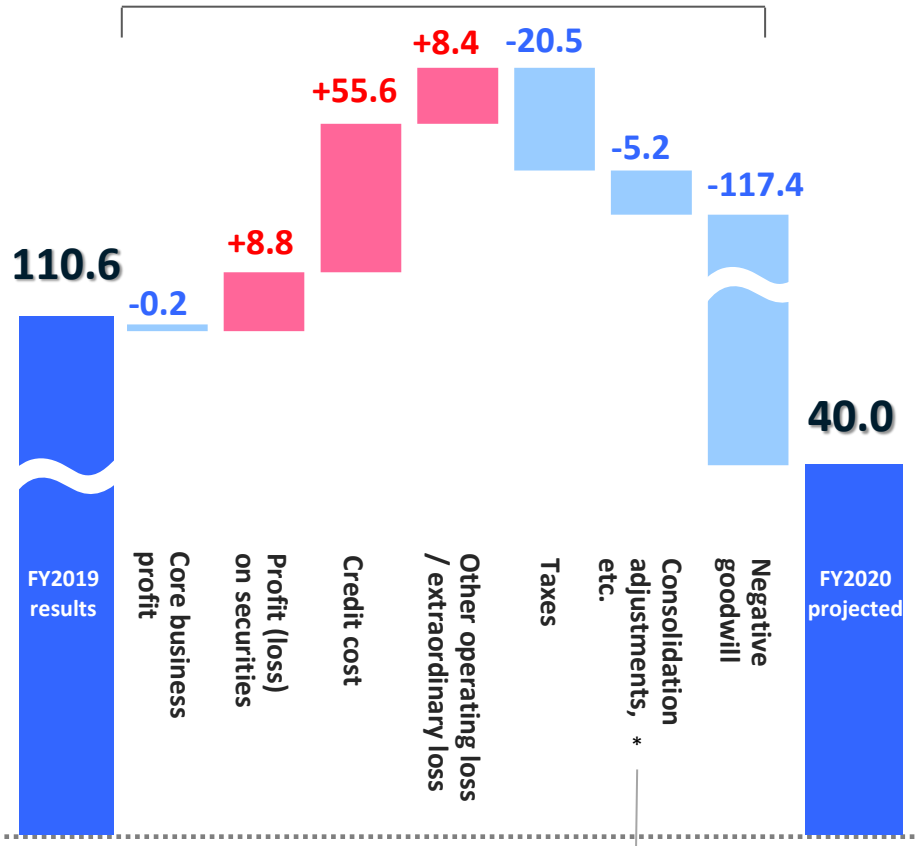
(¥ bil.)



FY2020 Earnings Projections: Factors Driving Year-on-Year Change

Consolidated net income (¥ bil.)

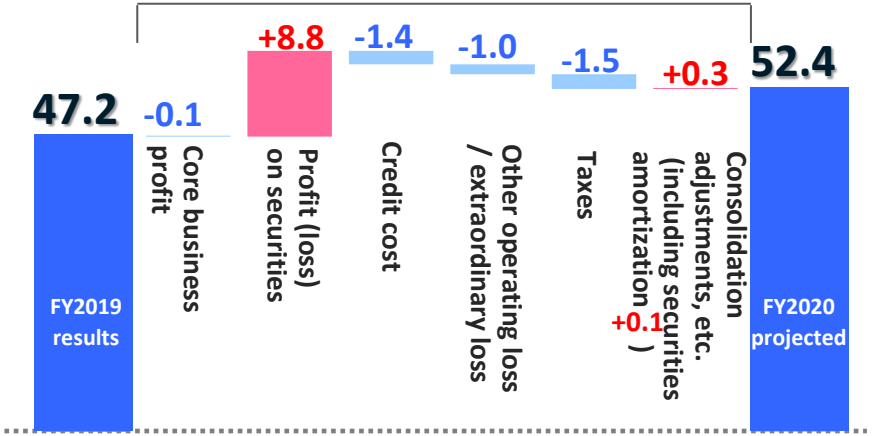
YoY chg. -70.6 (after taxes)



* Including expenses related to the integration of Nagasaki Guarantee Service, a subsidiary of the Eighteenth Bank (credit cost: -0.7 billion yen)

Excluding the following factors

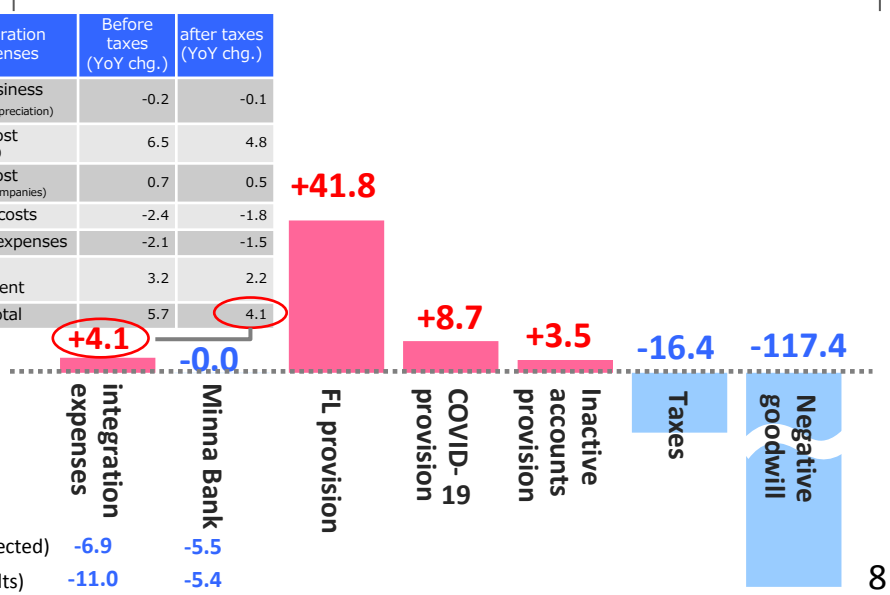
YoY chg. +5.2 (after taxes)



Negative goodwill, integration-related, Minna Bank, FL provision, etc.

YoY chg. -75.7 (after taxes)

Integration expenses	Before taxes (YoY chg.)	after taxes (YoY chg.)
Core business profit (depreciation)	-0.2	-0.1
Credit cost (banks total)	6.5	4.8
Credit cost (affiliated companies)	0.7	0.5
System costs	-2.4	-1.8
Merger expenses	-2.1	-1.5
Branch impairment	3.2	2.2
Total	5.7	4.1



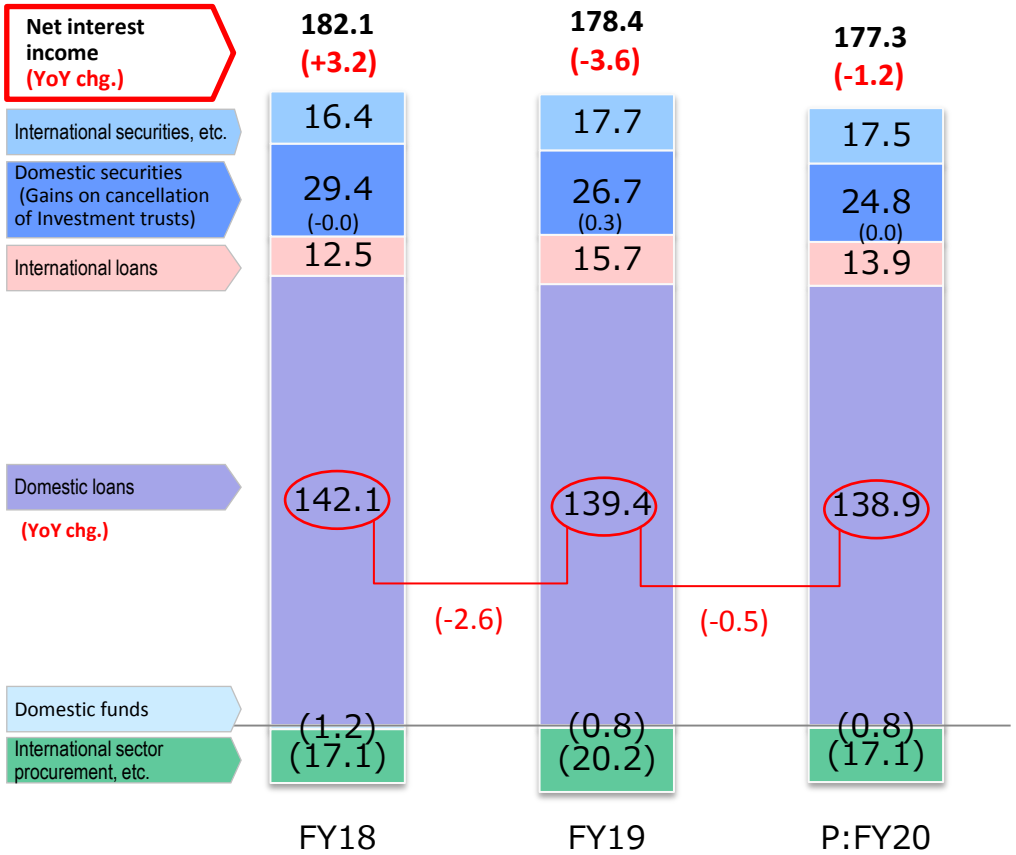
	integration expenses	Minna Bank
(FY2020 projected)	-6.9	-5.5
(FY2019 results)	-11.0	-5.4

Net Interest Income

- Regarding net interest income, we plan to make up for any decrease in earnings attributable to redemption of domestic bonds with broader securities investment diversification and improved procurement costs in the international division, etc.
- Despite the decrease due to redemption of public funds, we plan to keep the decrease in interest rates on domestic loans to 0.5 billion yen by increasing the balance of loans to SMEs.
- Although interest rates on loans are expected to decrease, we plan to moderate the decrease of domestic deposit loan gross margin.

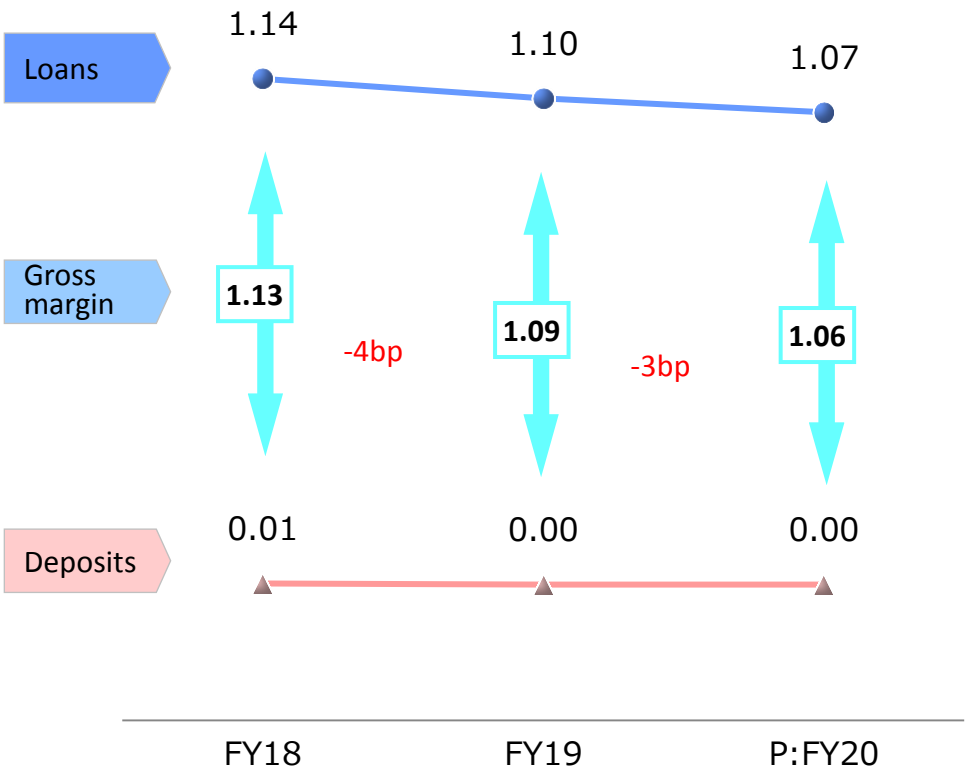
Net interest income (4 banks total)

*Domestic loans … Excluding loans to FFG and Government (¥ bil.)
*Domestic funds … Domestic deposits + CDs



Domestic deposit loan gross margin (4 banks total)

*Domestic loans … Excluding loans to FFG and Government (%)
*Domestic funds … Domestic deposits + CDs

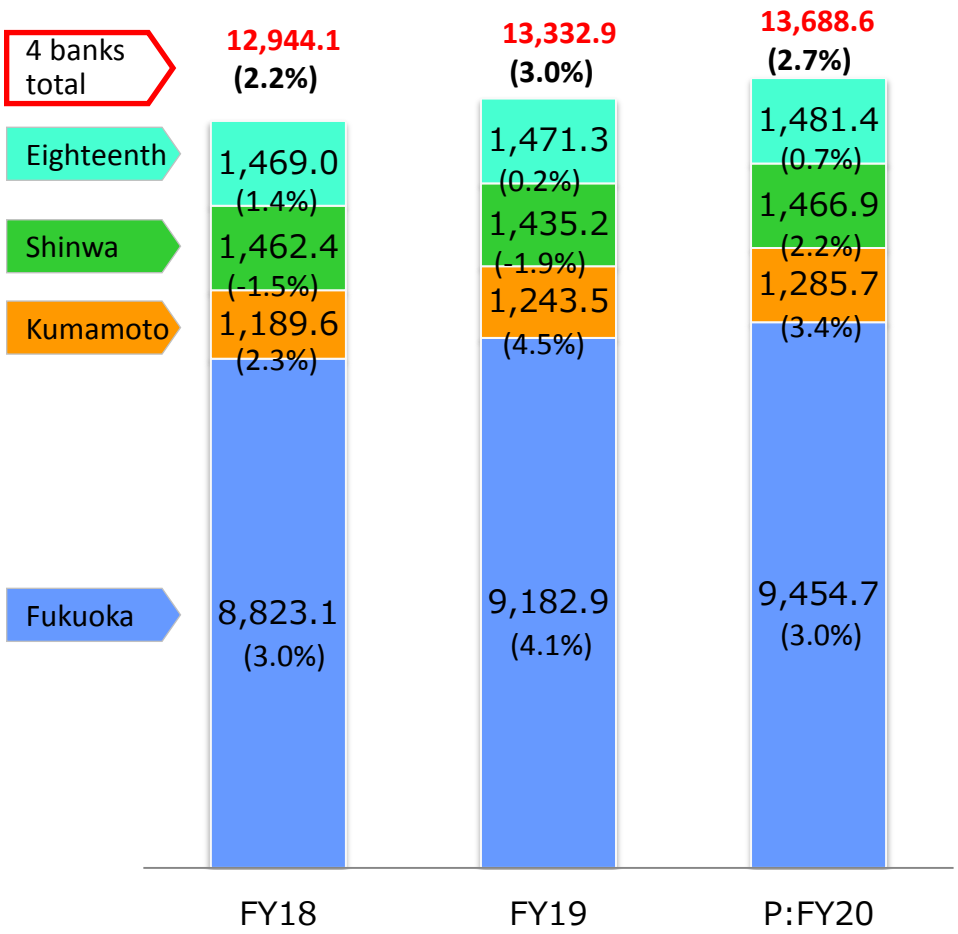


Loans

- Loans increased at an annual rate of +3.0% in FY2019, due to an increase in the balance of loans to SMEs.
- In FY2020, annual rate is projected to remain on par with previous year, due to increases in balance of loans to SMEs and to retail.

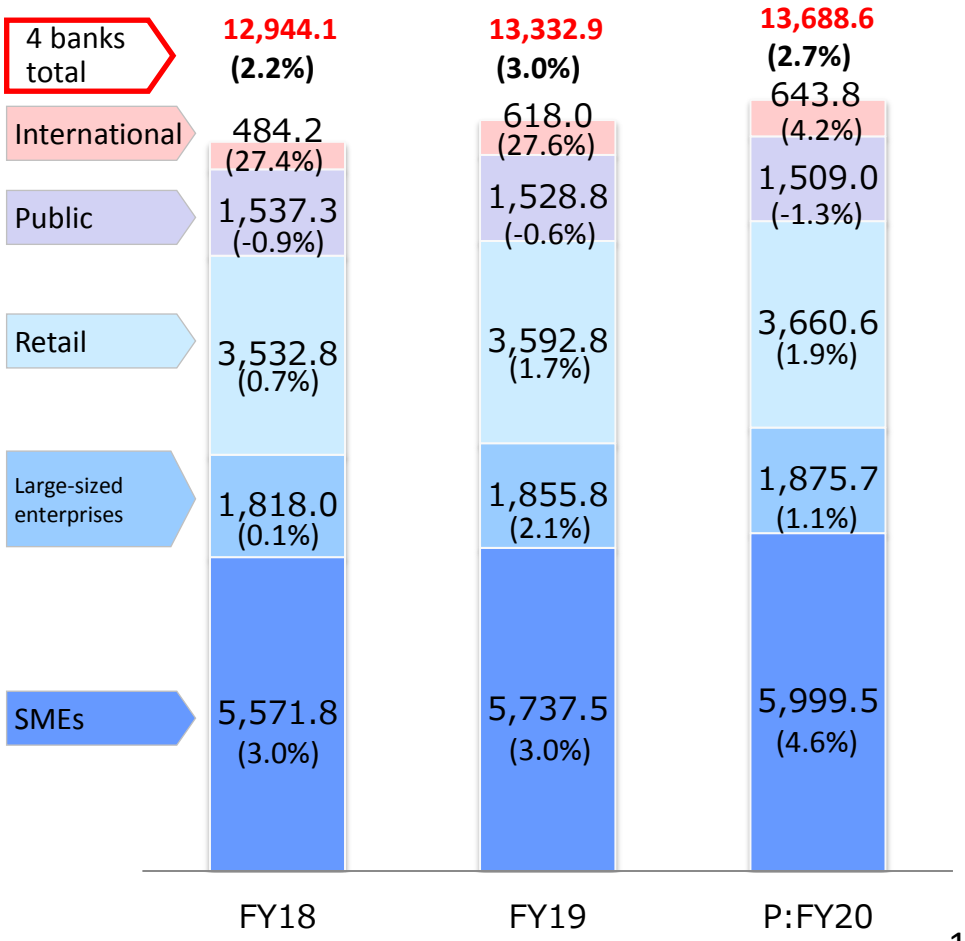
Loans (domestic + international)

* Excluding loans to FFG and Government (annual rate) (¥ bil.)



Loans (by segment)

* Excluding loans to FFG and Government (annual rate) (¥ bil.)

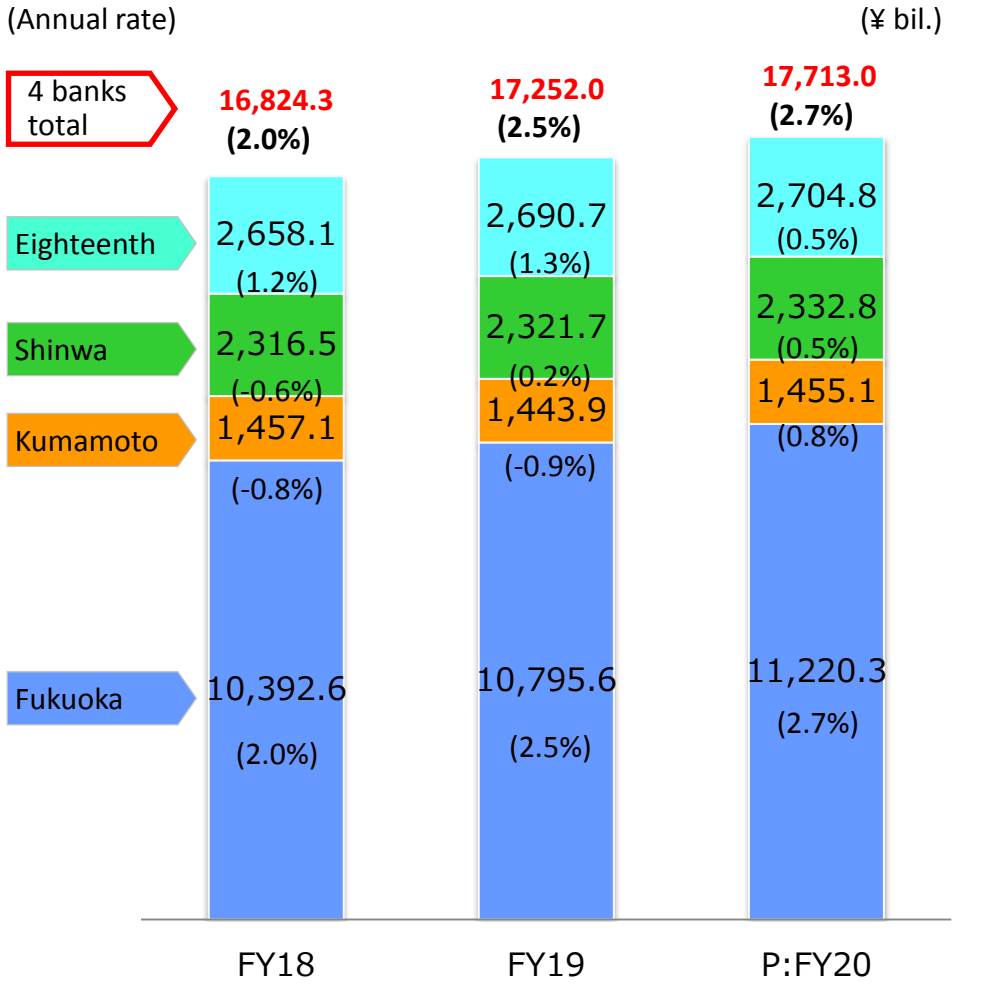


* Itemized loans by segment show the balance standardized across the 4 banks.

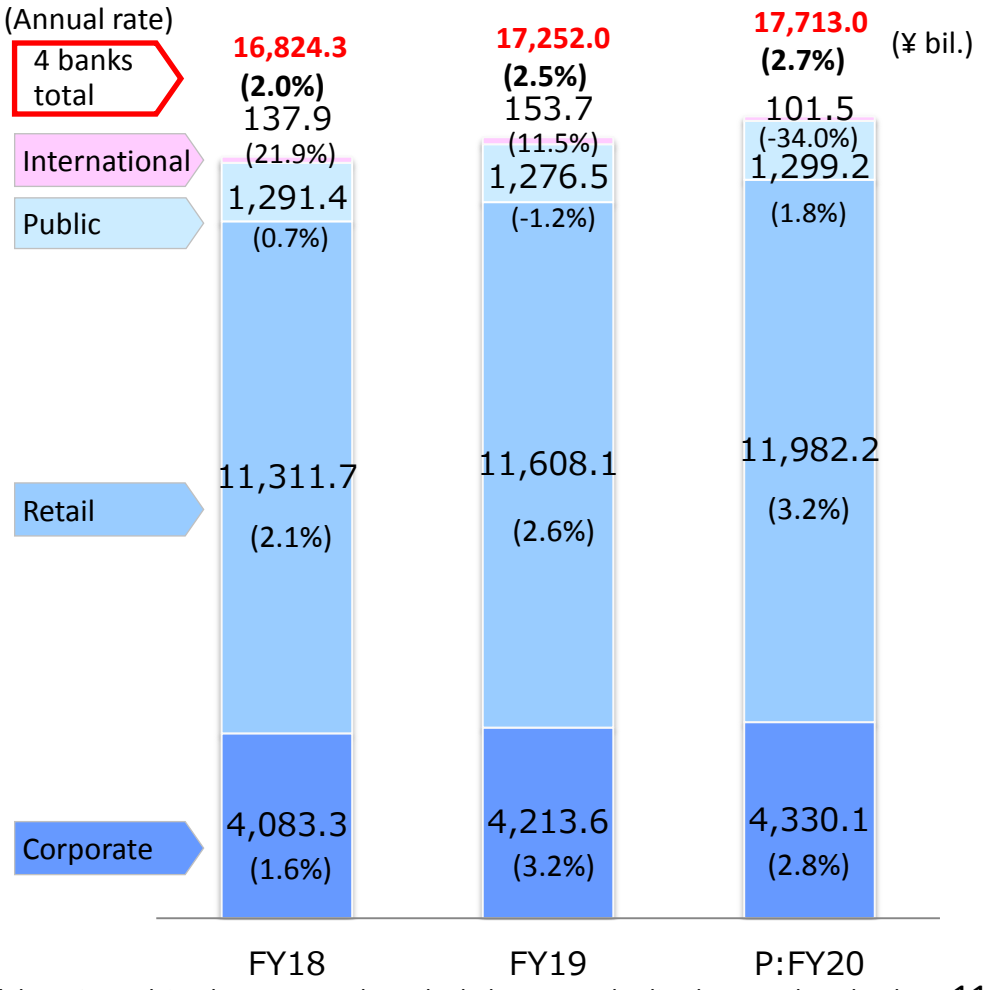
Deposits & CDs

- Deposits & CDs maintained an increasing trend, backed by expansion of customer base.
- Increasing trend is projected to continue in FY2020

Deposits and CDs (domestic + international)



Deposits and CDs (by segment)

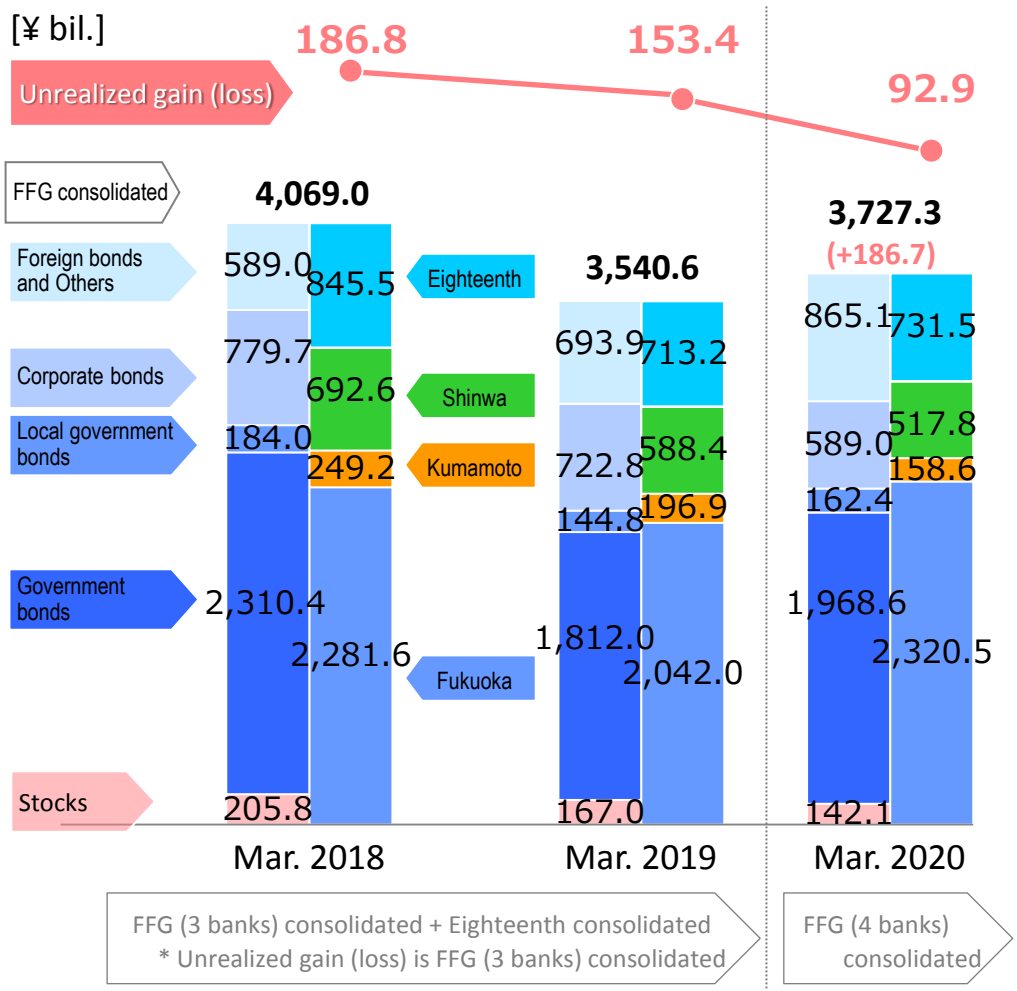


* Itemized deposits and CDs by segment show the balance standardized across the 4 banks.

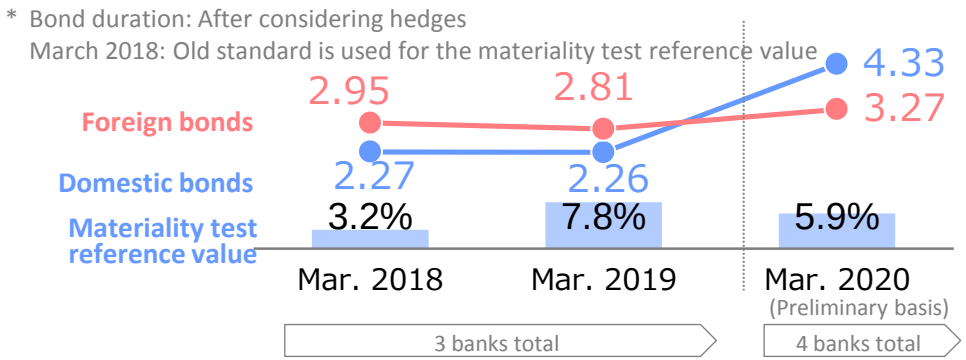
Securities

- While decreasing on a year-on-year basis, unrealized gain on securities as of March 31, 2020 is 92.9 billion yen, and maintains a reasonable level.
- Although domestic bond duration lengthened, the materiality test reference value for interest rate risk was low.

Securities portfolio (FFG consolidated)



Bond duration & materiality test reference value



Securities-related profit & loss (4 banks total)

[¥ bil.]	FY17	FY18	FY19
Stocks	2.2	6.5	(0.1)
Bonds	(0.8)	1.2	(0.7)
Total	1.4	7.7	(0.8)

Initiatives for investment diversification

Balance

[¥ bil.]

	Mar. 2019	Mar. 2020	Mar. 2021 planned
Diversified investment	532.6	741.1	About 1,100.0

Main initiatives for investment diversification

- ✓Stocks: Japanese stocks, foreign stocks, PE funds
- ✓Real estate: J-REIT funds, private REITs
- ✓Securitization: JHF RMBS, US MBS etc.

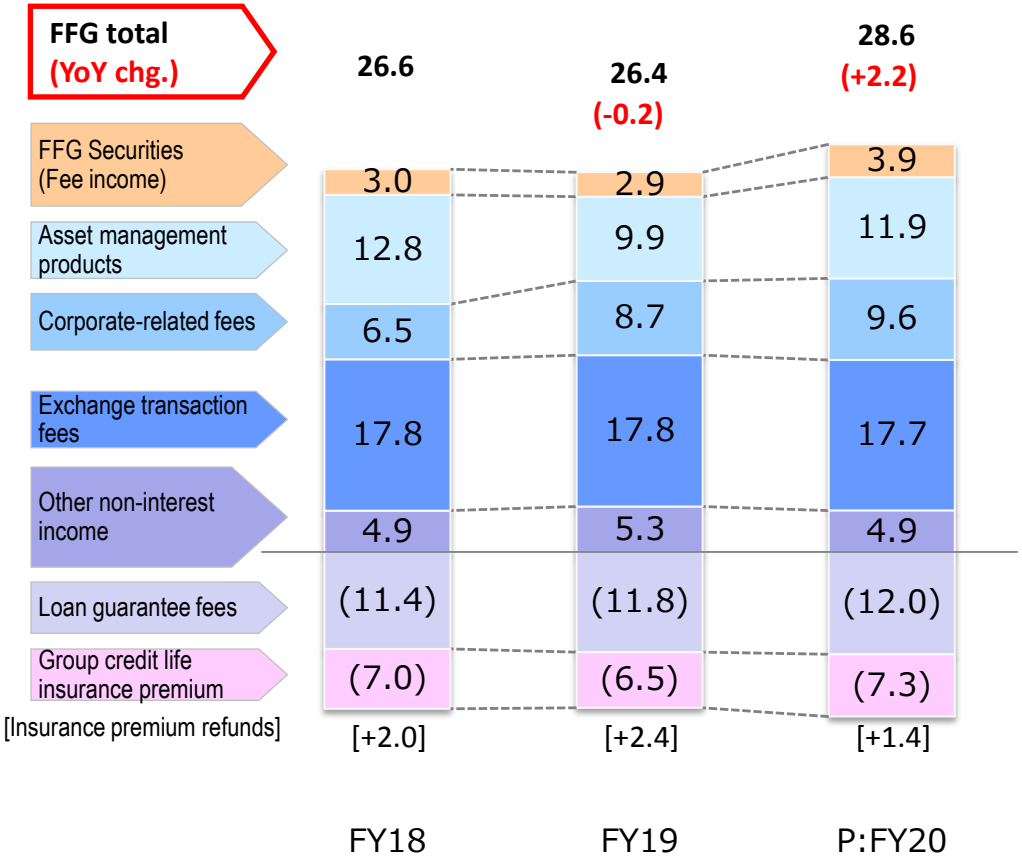
Non-interest Income

- Non-interest income is projected to increase, primarily in fees for asset management products and corporate-related fees.
- We will build asset management products sales through a portfolio-based business style unaffected by market fluctuations.

Non-interest income (4 banks total + FFG Securities)

* Excluding gains (losses) on bonds

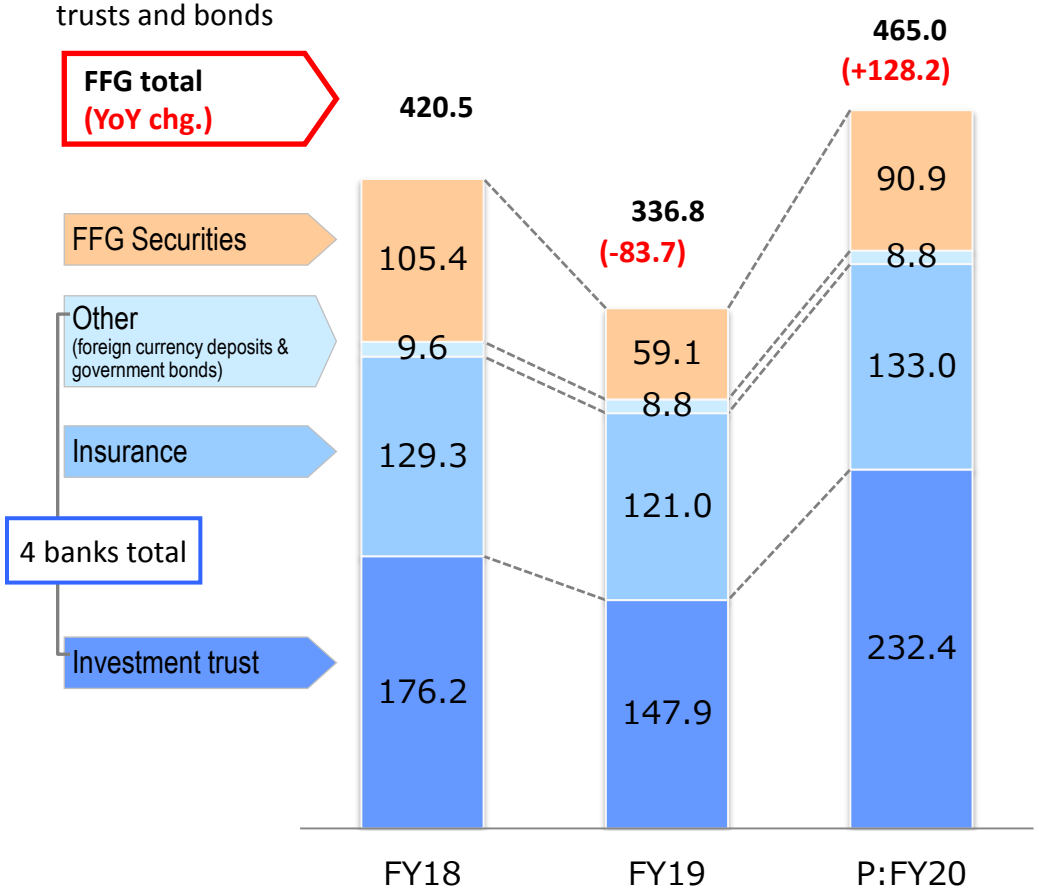
(¥ bil.)



Asset management product sales

* Figures for FFG securities are the total sales of investment trusts and bonds

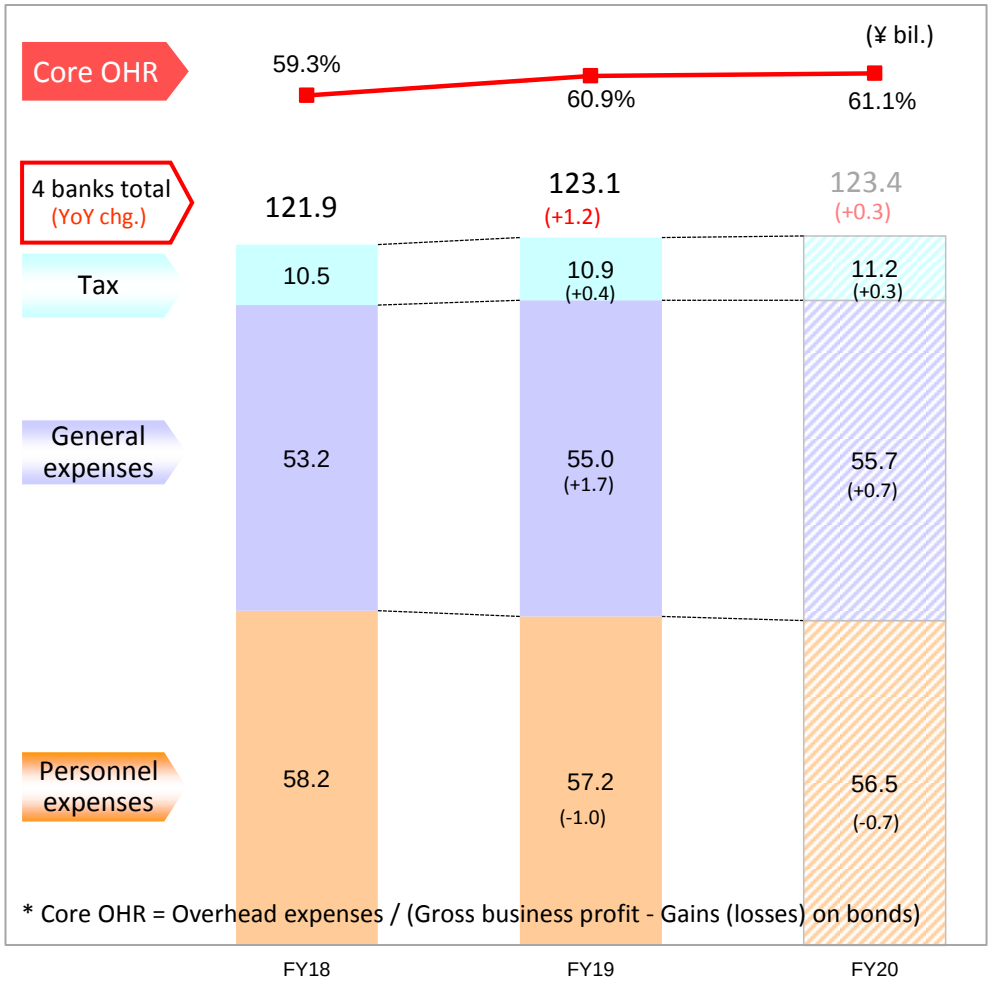
(¥ bil.)



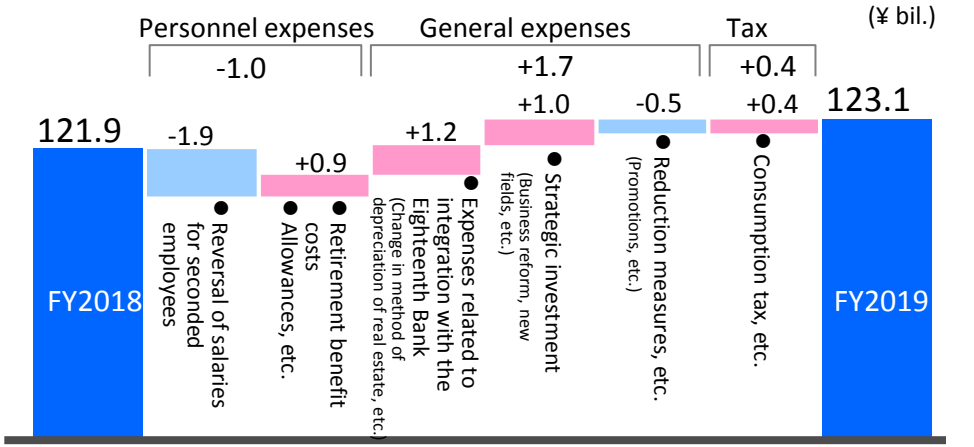
Overhead Expenses

- In FY2019, while the reversal of salaries for seconded employees increased and advertising costs reduced, overhead expenses increased by 1.2 billion yen due to increases in integration expenses and strategic investment.
- In FY2020, overhead expenses are projected to increase by 0.3 billion yen due to increases in integration expenses and strategic investment of the past fiscal year.

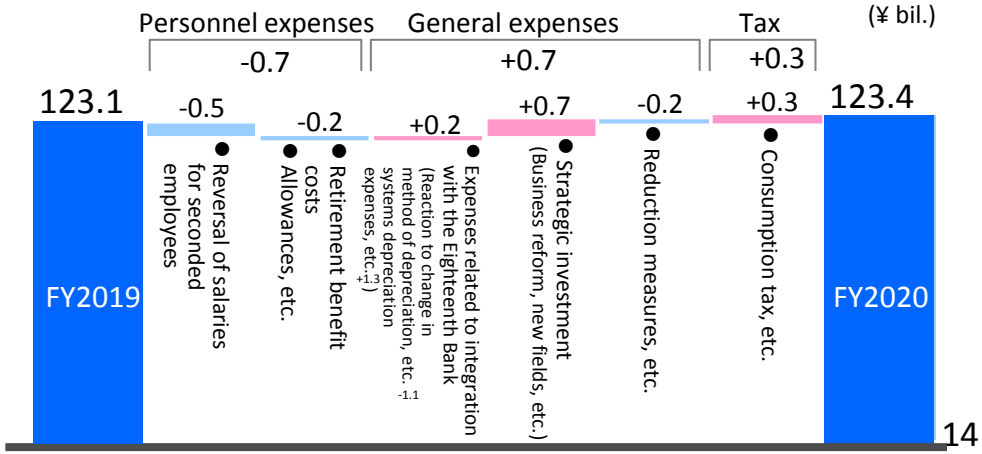
By category / OHR (4 banks total)



FY2019 factors of change (YoY chg.)



FY2020 factors of change (YoY chg.)



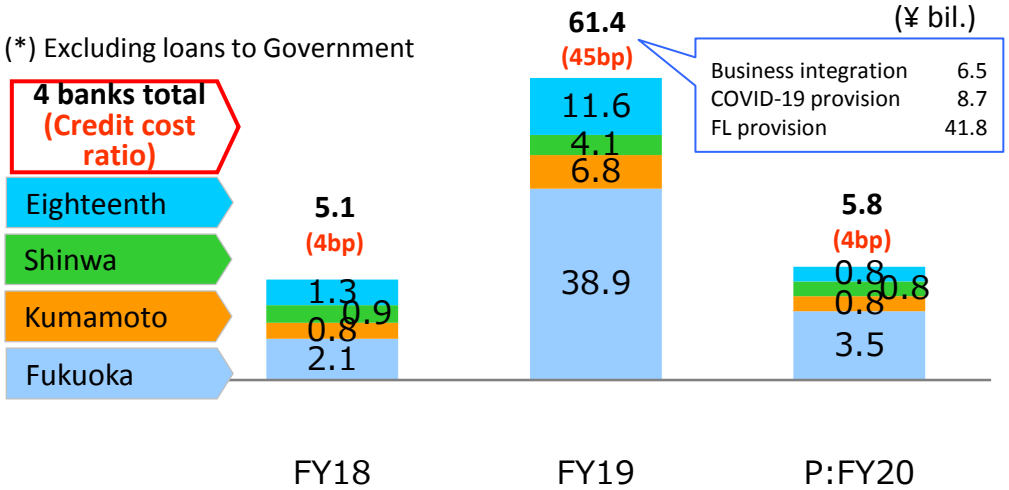
Credit Cost & NPL

- In FY2019, we recorded a transfer of 61.4 billion yen to credit cost partly due to the introduction of a forward-looking provision.
- In FY2020, a transfer of 5.8 billion yen is projected.

Credit cost (4 banks total)

(*) Excluding loans to Government

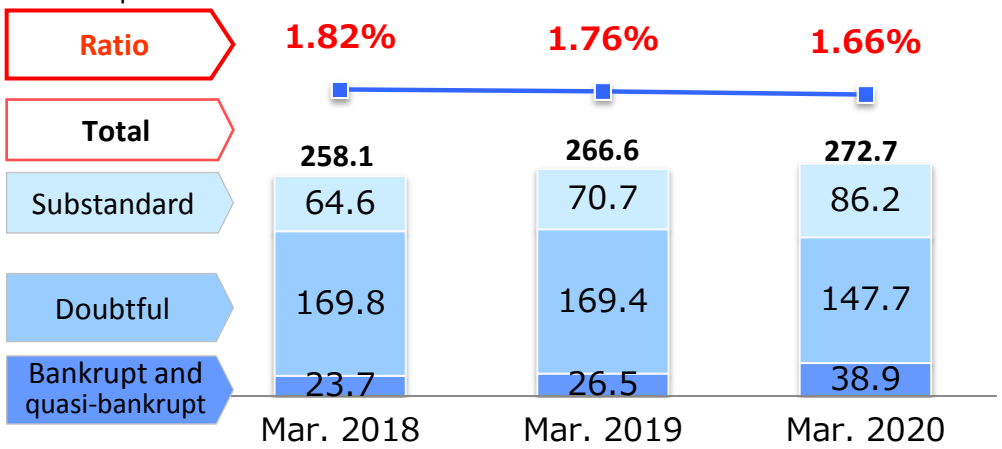
(¥ bil.)



Non-performing loans & ratio (4 banks total)

* After partial write-off

(¥ bil.)



■ FY2019 credit cost breakdown

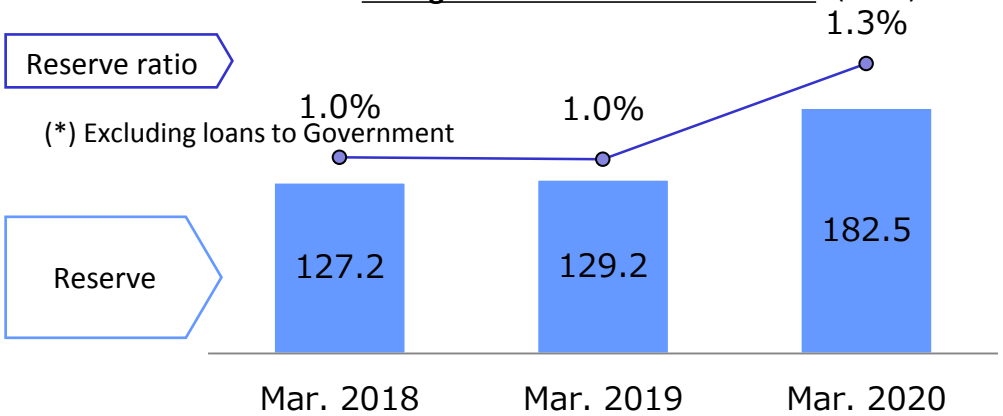
(¥ bil.)

		4 banks total	YoY chg.	Fukuoka	YoY chg.	Kumamoto	YoY chg.	Shinwa	YoY chg.	Eighteenth	YoY chg.
Increasing factors	New bankruptcies	0.9	0.4	0.7	0.5	0.1	(0.0)	0.0	(0.1)	0.1	(0.0)
	Downgrade	22.4	(0.3)	16.2	2.1	3.6	0.0	1.7	(1.3)	0.9	(1.1)
	Collateral decline	1.4	(0.0)	0.9	(0.3)	0.2	0.1	0.2	0.1	0.1	0.0
	FL provision	41.8	41.8	26.9	26.9	4.7	4.7	4.2	4.2	6.0	6.0
	COVID-19 provision (57.0)	8.7	8.7	7.5	7.5	0.4	0.4	0.6	0.6	0.2	0.2
	Integration	6.5	6.5	-	-	-	-	0.2	0.2	6.3	6.3
	Other*	1.7	1.0	1.8	1.3	(0.2)	(0.3)	0.0	(0.0)	0.1	0.0
	Subtotal	83.5	58.1	54.0	38.0	8.8	5.0	7.0	3.7	13.7	11.5
Decreasing factors	Upgrade	(9.0)	(1.4)	(7.0)	(1.2)	(0.6)	(0.3)	(1.1)	(0.2)	(0.3)	0.3
	Changes of default ratio	(2.6)	(0.1)	(1.5)	0.5	(0.3)	0.2	(0.2)	0.2	(0.5)	(1.0)
	Redemption, etc.	(10.5)	(0.3)	(6.7)	(0.4)	(1.1)	1.0	(1.6)	(0.5)	(1.2)	(0.4)
	Subtotal	(22.1)	(1.8)	(15.1)	(1.1)	(2.0)	1.0	(2.8)	(0.5)	(2.1)	(1.1)
Total		**61.4**	**56.3**	**38.9**	**36.8**	**6.8**	**5.9**	**4.1**	**3.2**	**11.6**	**10.3**
Total (excluding special factors)		4.4	(0.7)	4.5	2.5	1.6	0.8	(0.9)	(1.8)	(0.9)	(2.2)

* Including 10 uniform PD change factors

Changes in reserve & reserve ratio

(¥ bil.)



Part II

Management Strategy

Business Environment Surrounding FFG

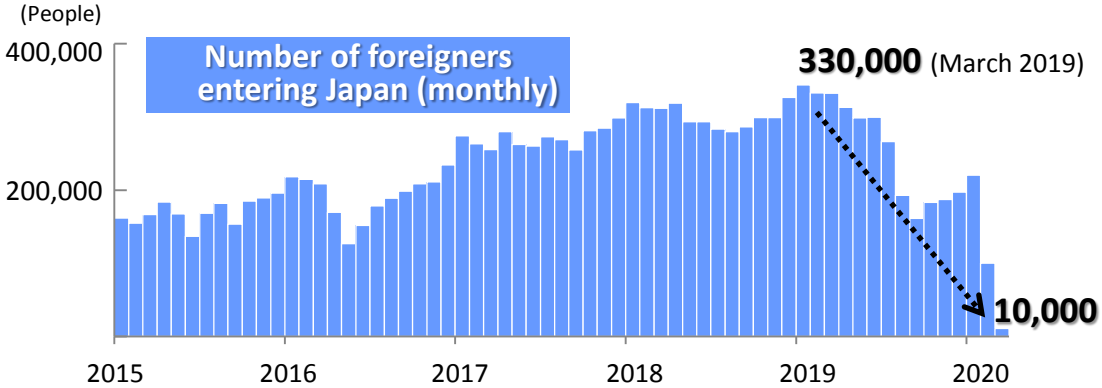
- Kyushu has recently seen a decrease in consumer spending and production because of the spread of COVID-19.
- Inbound demand, which had been strong, has decreased significantly because of immigration restrictions imposed by Japan and other countries and regions.

Kyushu Economy

Consumption

- **Significant decline in department store sales**
- **Registration of new passenger vehicles (including light vehicles) is weakening**
- **Significant decline in both domestic and international travel**
- **Rapid deterioration in tourism**

[Inbound] *As of March 2020*

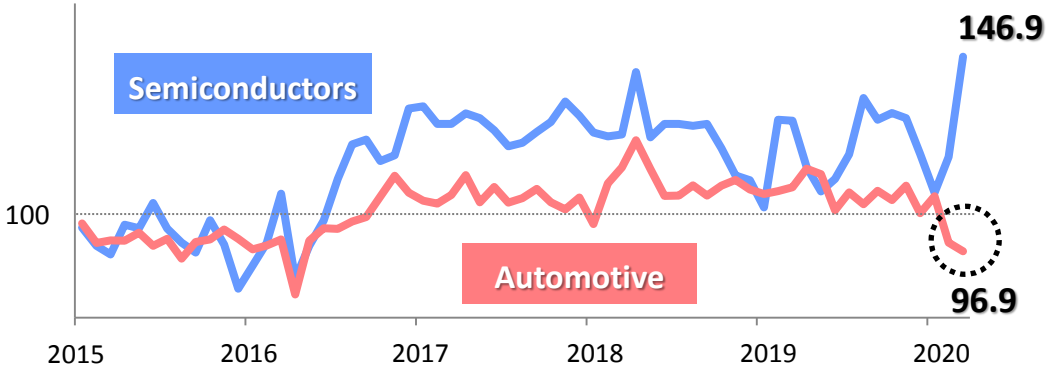


Source: Kyushu District Transport Bureau

Production

- **Decrease in vehicle production**
- **Shipbuilding remains low**
- **Production of electronic components and devices, especially smartphones, is weakening**
- **Production in iron, steel and non-ferrous metals is weakening**

[Industrial production index] *As of March 2020* FY2015 = 100



Source: *Financial and Economic Overview of Kyushu and Okinawa (April 2020)*, Bank of Japan Fukuoka Branch

Source: Kyushu Bureau of Economy, Trade and Industry

FFG's Growth Strategy

- In FY2020, we will build foundations for achieving strong, sustainable competitive and growth potential, based on the vitally important strategies of: Rebuilding of business processes; Establishment of new investment trust business; Minna Bank; and Merger of the Eighteenth Bank with Shinwa Bank.

Apr. 2019 — Mar. 2022

6th Mid-Term Plan | **Next Mid-Term Plan** | **Long-term vision**

Structural reform

- **I Rebuilding of business processes**
- **Sophistication of business model** — **II Establishment of new investment trust business**
  Corporate/retail financial services, market operations, etc.
- **Promotion of digital transformation (DX)**
  iBank, **IV Minna Bank**

Business integration with the Eighteenth Bank

- **Business integration (Apr. 2019)** — **III Merger of the Eighteenth Bank with Shinwa Bank**
  - **Integration of administration/IT systems (Jan. 2021)**
  - **Consolidation of branches (May. 2021)**

The Best Regional Bank
achieving strong, sustainable competitive and growth potential

Key Measure I: Rebuilding of Business Processes

- Simultaneously achieve greater business efficiency and customer convenience, by successfully eliminating paper documents, personal seals and clerical operations, and accelerating the shift toward self-services and digitization, taking account of changes in post-COVID-19 customer behavior.
- During the current mid-term plan, reduce business operations of banks and affiliated companies by about 20%, and shift resources to areas of growth.

Elimination of paper documents, personal seals and clerical operations

Implement during FY2020

- Introduction of tablets at counters

<Head Office, Bank of Fukuoka>

- Digitization of investment trust transactions
- Digitization of insurance transactions
- Shift to online housing loan agreements
- Digitization of consumer loan agreements

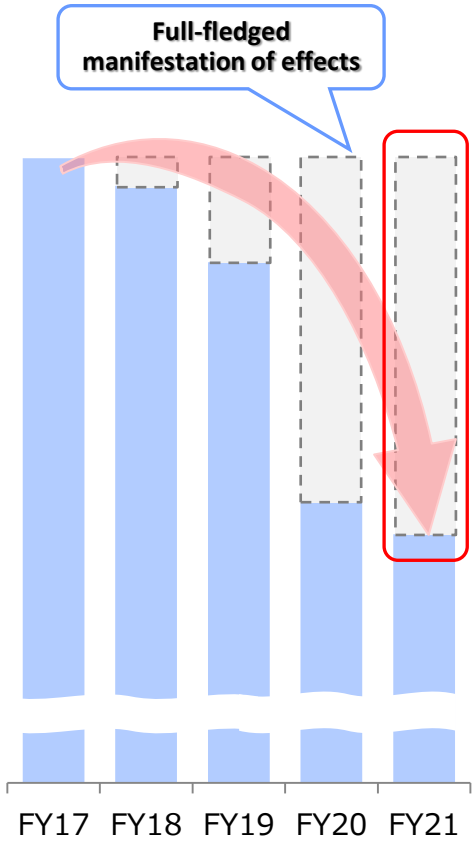
- Greater centralization of clerical work into headquarters
- More widespread introduction of RPA / AI-OCR

Acceleration of the shift toward self-services and digitization of banking

With a view to post-COVID-19…

- Promotion of self-services and digital transactions, taking account of changes in customer behavior
  Shift toward ATMs, Internet banking and banking apps, etc.

Business operations of branches, headquarters and affiliated companies



Reduce business operations by the equivalent of 2,000 workers (About 20% of total)

[Clerical work]
Reduction equivalent to 700 workers

[Part-time work, etc.]
Reduction equivalent to 1,300 workers

- **Reallocation of resources to areas of growth, such as investment trust sales and Minna Bank**
- **Personnel reduction via recruitment adjustments (natural attrition)**

Key Measure II: Establishment of New Investment Trust Business

- Realize "stable earnings for FFG" and "expansion of customer base," by providing **highly specialized services** tailored to customer needs and supporting **stable asset building** through long-term relations.

1. Reform business style

2. Promote proposals of time diversification

Establishment of portfolio-based business style

- ✓ Develop asset-building services from a long-term perspective which are not affected by short-term market fluctuations

Support for asset building and expansion of customer base through proposal of installment-type products

Development of "Investment Trust Palette" service (Bank of Fukuoka)

- ✓ Support for "long-term asset building" via proposals individually adapted for customers by investment trust specialists

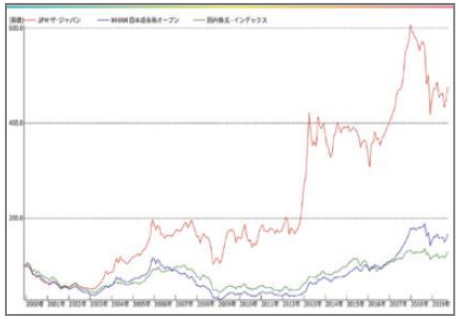
資産づくりに「てあつさ」を。
投信のパレット

FFG's unique system

- Almost all 4,800 investment trusts in Japan are evaluated fairly and impartially
- Future target returns are shared with the customer, and optimal combinations of investment trusts are proposed with international diversification

Assessment on scale of 1–5

Comparison chart



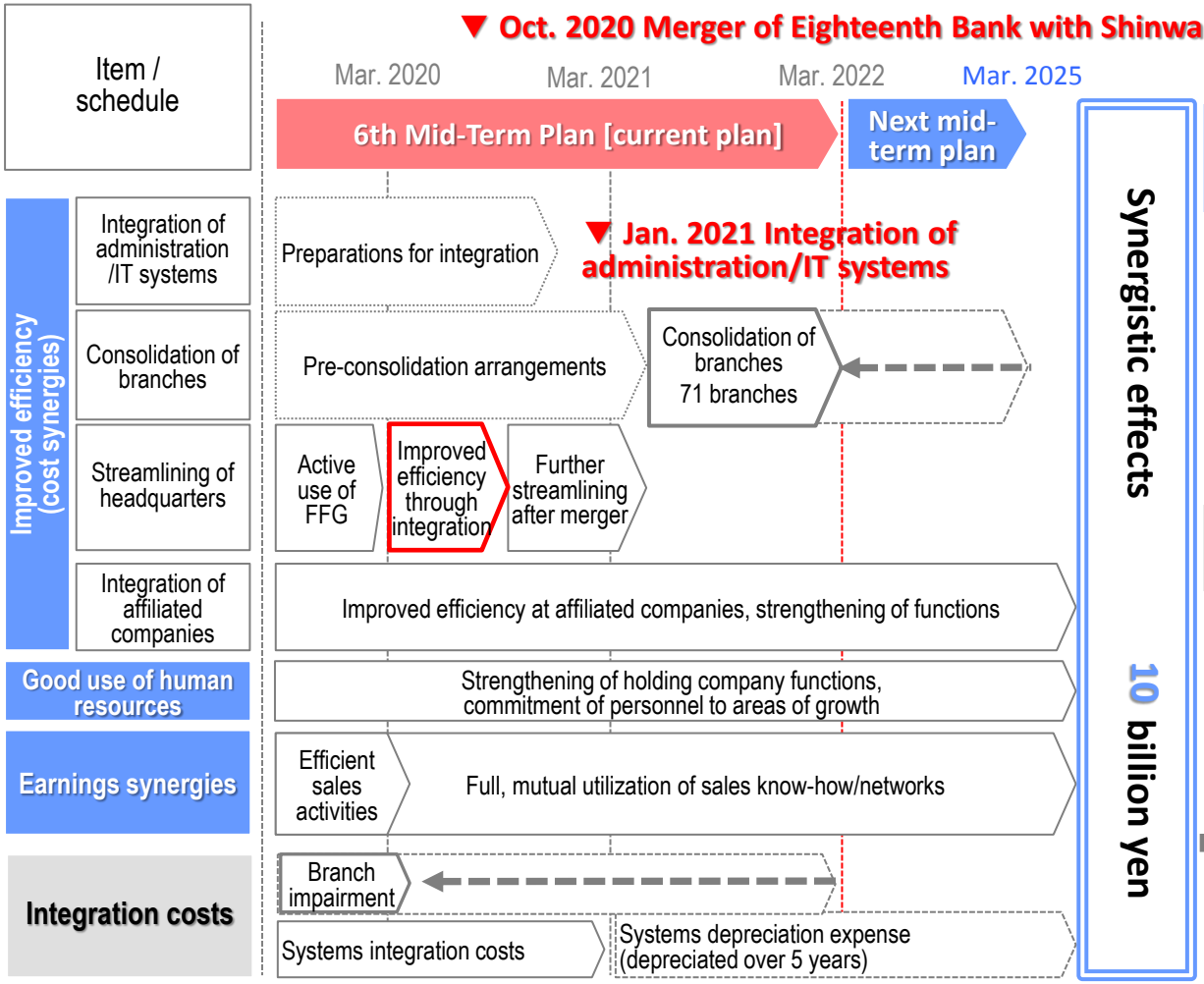
Future services

- Fixed-sum redemption service (from Aug. 2020)
- At-home online services (from Oct. 2020)

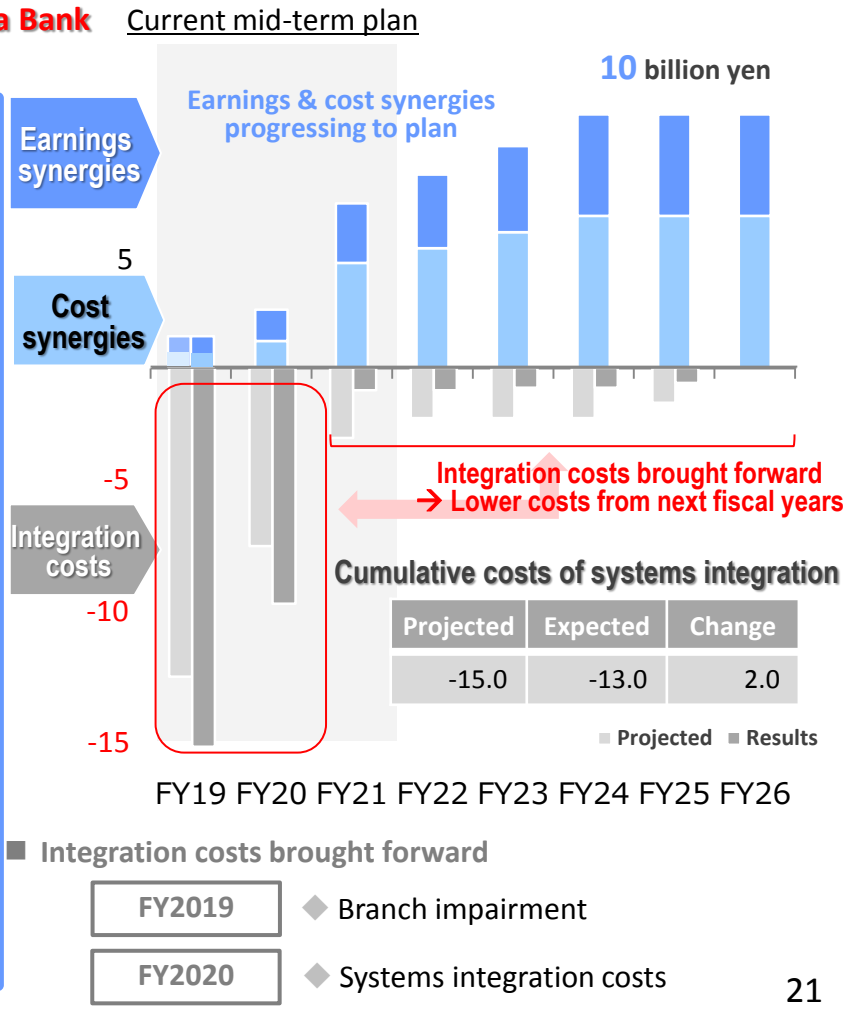
Key Measure III: Business Integration with the Eighteenth Bank

- This fiscal year, we will steadily implement the merger and integration of administration/IT systems, laying the foundations for the new bank.
- As for synergistic effects, although integration expenses are incurred until this fiscal year, they are expected to become profitable from next fiscal year.

Schedule



Synergistic effects



Key Measure IV: Minna Bank

- From a zero base, we will build a business model unique to Minna Bank with an aim of opening during FY2020.
- Returning/sharing the fruits generated by the new bank will help to accelerate/realize the overall DX of FFG.

Overview of business model

1 B2C services

Digital native generation

New financial services

2 BaaS services

Partner customers

Partner companies

Non-financial services

+

Financial functions

Winner of JFIA2020 Grand Prix

Minna Bank

Next-generation banking system

Google Cloud Platform

Earnings structure

(1) B2C services

- Consumer loans
- Card/payment
- Other value-added services

(2) BaaS services

- Consumer loans
- White label customer management
- External sales of solutions

Synergies for existing business

FFG Fukuoka Financial Group

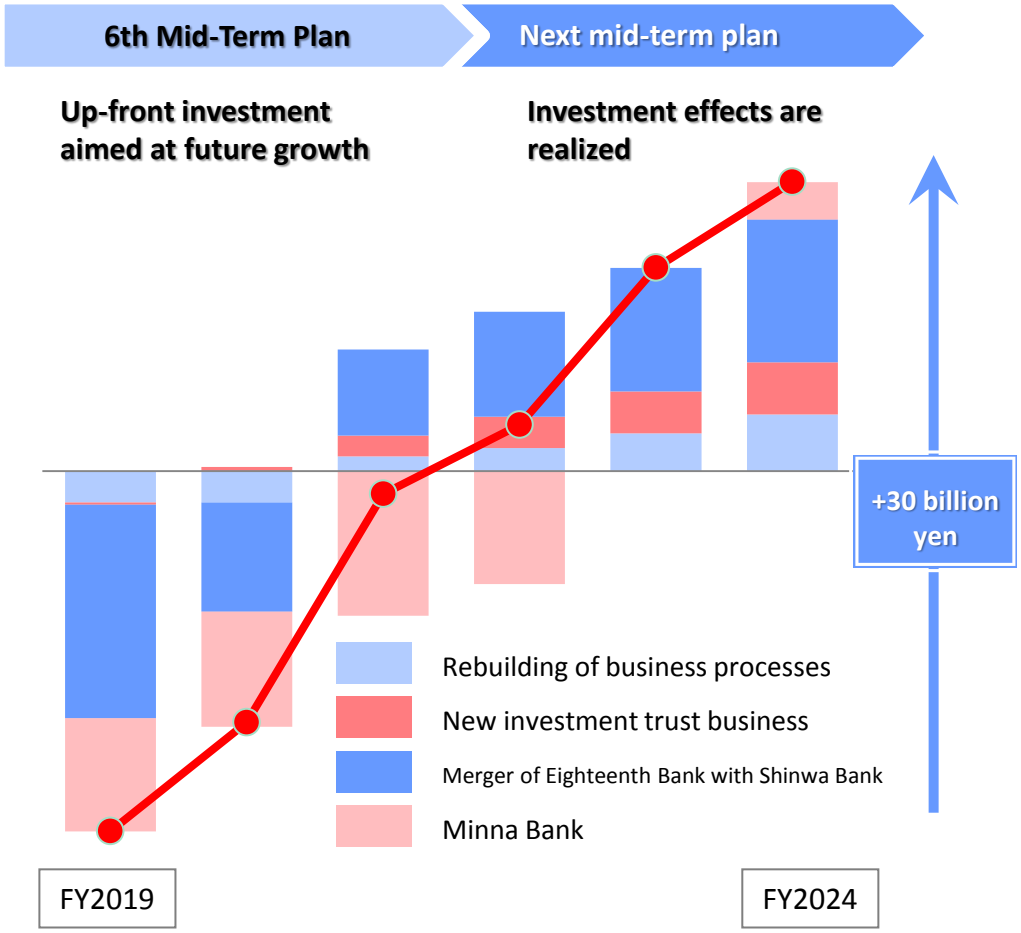
Fruits of efforts are returned/shared

- Securing & return of specialist personnel
- Sharing of new financial services
- Knowledge on cutting-edge technology

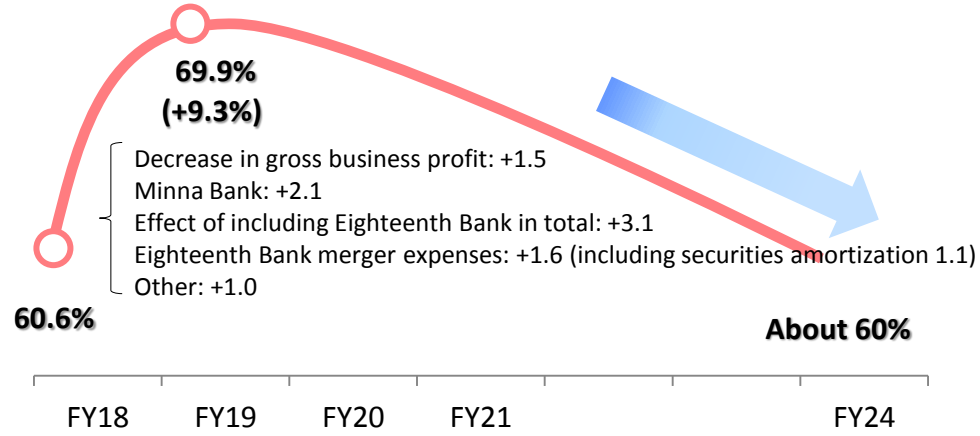
Earnings Effect of Key Measures (Image)

- We will build up earnings by utilizing the earnings effect of key measures to make up for any downward pressure on earnings attributable to lower yields, etc.
- By the final year of the next mid-term plan, we aim to achieve an earnings effect of about 30 billion yen (compared to FY2019).

Growth investment and earnings effect



Consolidated OHR

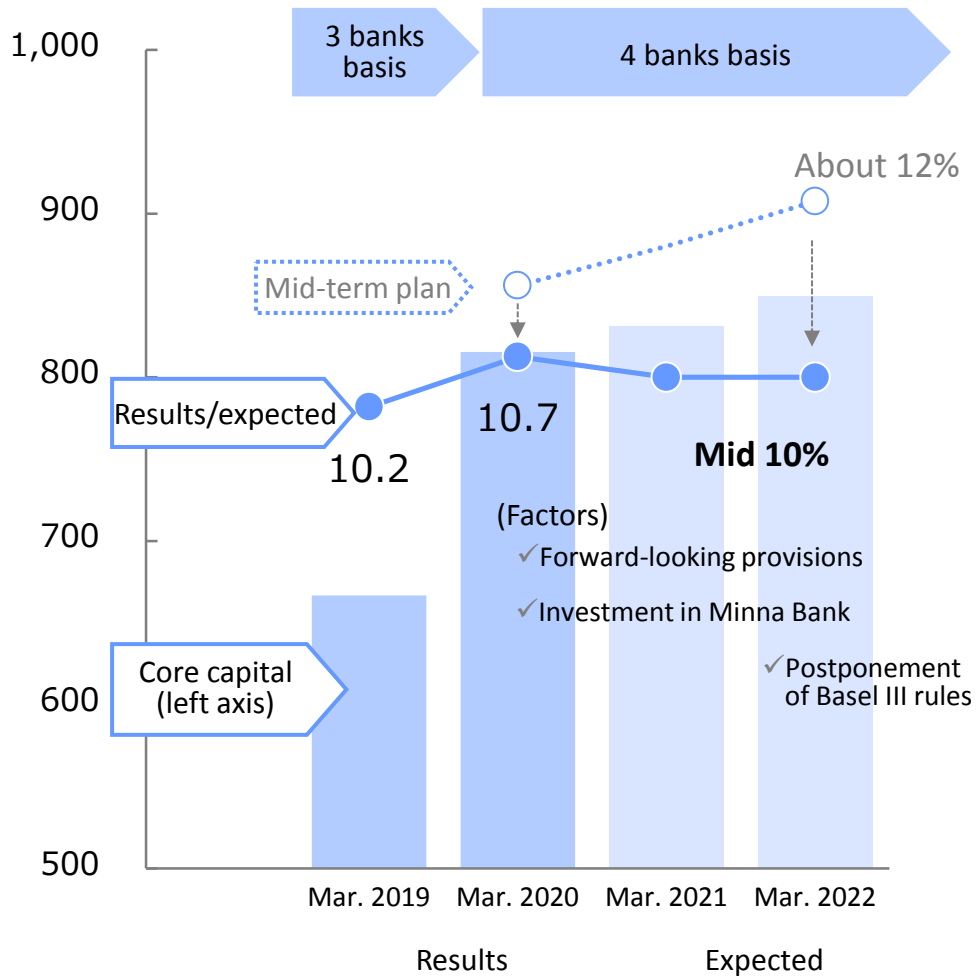


	Initiatives to improve OHR	[FY2019–FY2024] Effect (estimate)
Bank of Fukuoka	Rebuilding of business processes	➢ Reduce banking personnel by 600
Kumamoto Bank	Rebuilding of business processes Utilization of "branch-in-branch"	➢ Reduce banking personnel by 150 ➢ 64 ⇒ 57 branches (-7)
Juhachi-Shinwa Bank	Rebuilding of business processes Realization of integration synergies	➢ Reduce banking personnel by 600 ➢ 185 ⇒ 114 branches (-71)
Minna Bank	Development of attractive services Effective promotion	➢ Contribute to earnings from 4th year

Capital Policy & Shareholder Returns

- Based on the premise of maintaining capital soundness, we strive for balanced capital management, making returns to shareholders and growth investments aimed at improving corporate value.

Capital adequacy ratio (FFG consolidated)(¥ bil., %)



Capital policy

Capital policy

- Based on the premise of maintaining soundness, strive for capital management that balances shareholder returns with growth investment

Shareholder returns

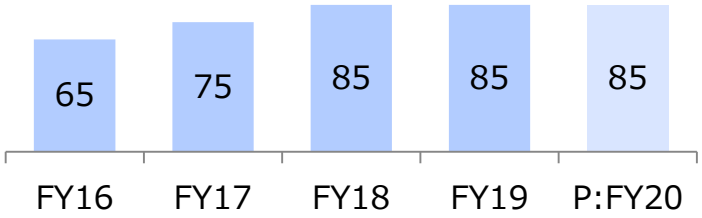
- Aim for continuous dividend payments (maintain/increase) through stable profit growth
  - ✓ **Dividend payout ratio: About 35%**
    (Set table of target dividends)

Dividend policy

FY2020

- Given the temporary nature of factors attributable to business integration with the Eighteenth Bank, regardless of the table of target dividends, an **annual dividend of 85 yen** is scheduled, the same as the previous fiscal year

Dividend per share
(¥)



Impact of COVID-19

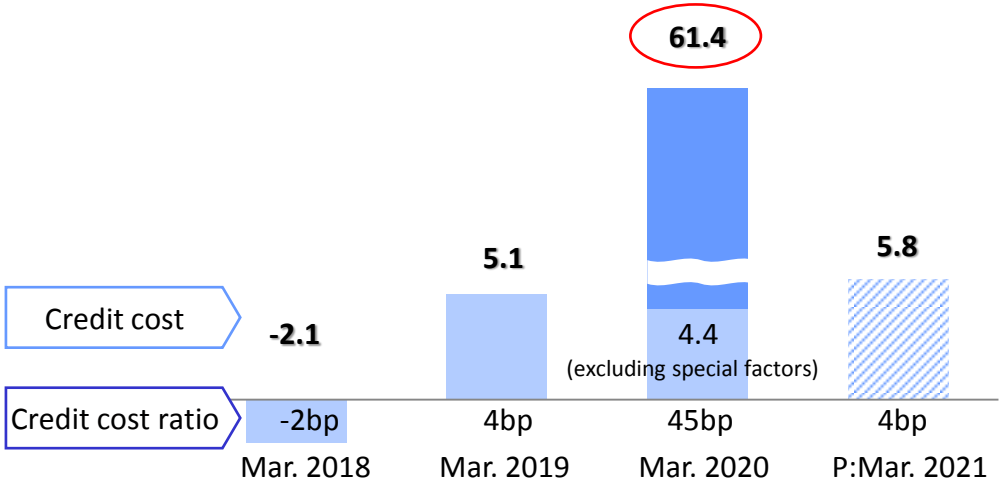
- Despite the negative impact associated with the stagnation of economic activity, corporate demand for funds will increase significantly.
- Impacts on credit costs that are envisaged at this point in time have been incorporated into the financial data for FY2019.

Possible key impacts

Corporate	Retail	Market
■ Increase in demand for funds (+) ■ Decrease in capital investment (-)	■ Increase in demand for card loans (+) ■ Decrease in sales of investment trusts / insurance (-)	■ Lower dollar procurement costs (+) ■ Decline in dividend yield (-)

Reserve for possible loan losses

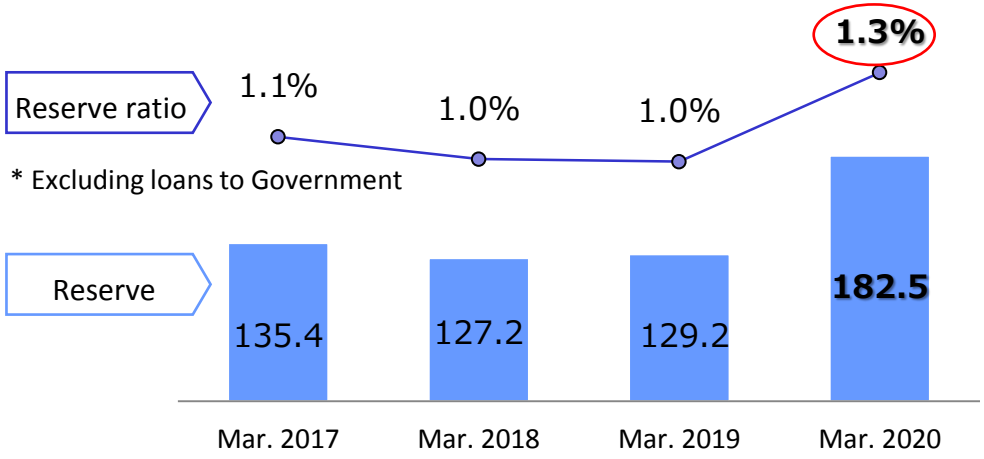
Changes in credit cost and credit cost ratio



* Excluding loans to Government

Changes in reserve and reserve ratio

(¥ bil.)



* Excluding loans to Government

Response to COVID-19

- We are providing customers with reliable financing support, while thoroughly implementing measures to prevent the spread of infection.
- We will achieve strong, sustainable competitive and growth potential, by incorporating post-COVID-19 action into our structural reforms currently in place.

Key "current" initiatives

Support for customers

- Financing support
- Support for contingent fund procurement
- Contingent provisions for effects of COVID-19
- Forward-looking provisions

Preventing the spread of infection

- Shift toward Internet banking / self-services
- Implementation of teleworking / rotating shift work
- Implementation of non-face-to-face sales

Key "post-COVID-19" initiatives

- Increasing need for support for core business
- Reshoring/ redundancy of supply chains
- Emergence of new growth industries
- Preparation for the future, and increased awareness for risk
- Shift toward more digital and remote services
- Shift toward e-commerce and cashless transactions

Corporate customers 220,000+

- Business assessments
- Business matching
- Assistance in development of business strategies
- M&A, business succession
- Recruitment support
- Digitization support
- Support for creation of new industries
- Risk consulting

Retail customers 6,000,000+

- Asset building support
- Life planning

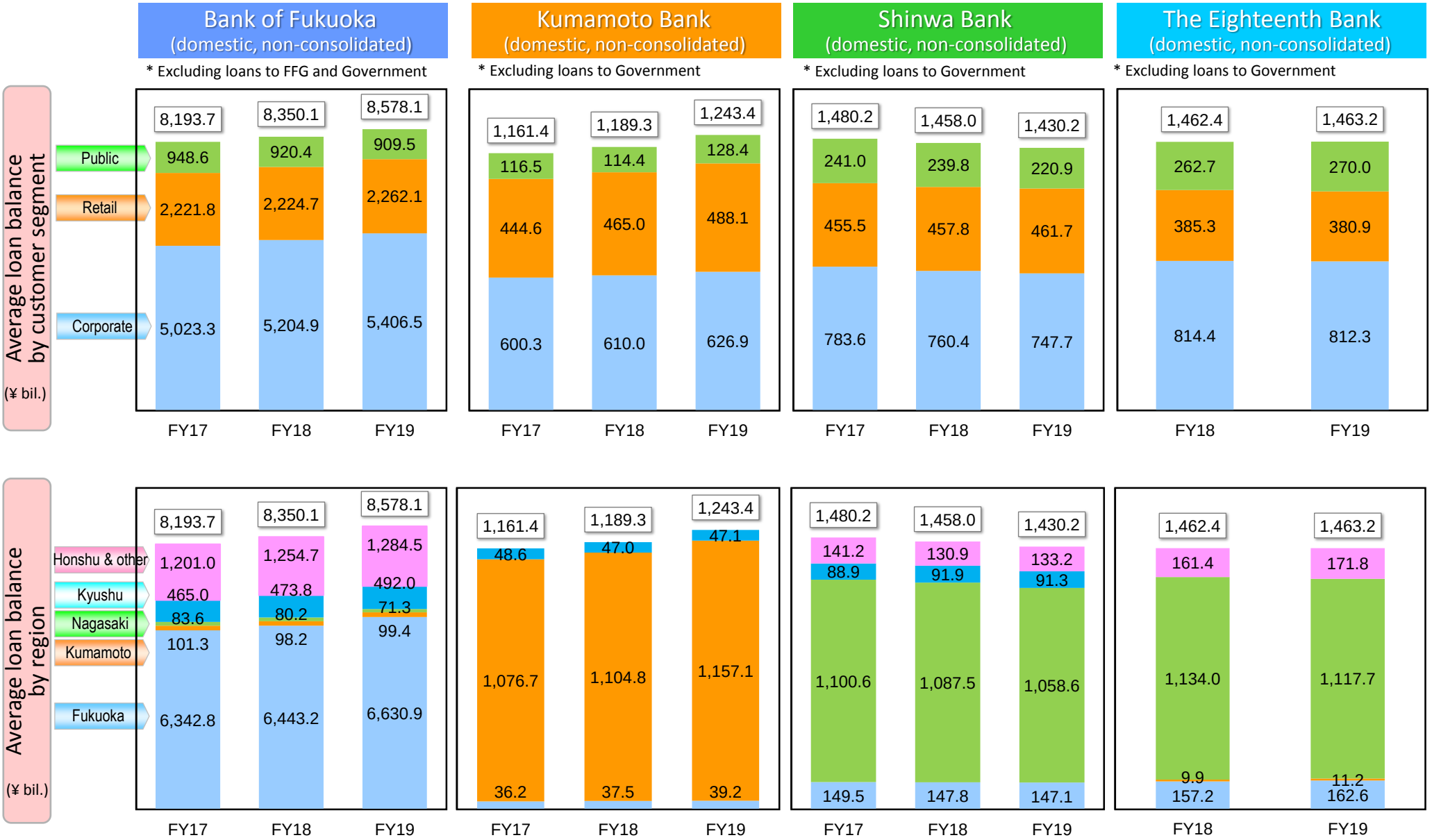
Bank management structure

- Strengthening of remote sales via website, etc.
- Digitization of customer transactions, shift to self-services
- Review of branch form, utilization of surplus space
- Development and expansion of new digital solutions

Part III

[Reference] Figures

Average Balance of Loans (by Bank)



Average Balance of Loans (by Industry)

Classification by industry

(¥ bil.)

	Mar. 31, 2020										Change from Mar. 31, 2019				
	4 banks total	%	Fukuoka	%	Kumamoto	%	Shinwa	%	Eighteenth	%	4 banks total	Fukuoka	Kumamoto	Shinwa	Eighteenth
Domestic loans (excluding the special international financial transactions account)	16,284.5	100.0%	10,816.9	100.0%	1,616.1	100.0%	1,797.8	100.0%	2,053.5	100.0%	1,247.0	919.1	81.7	77.8	168.4
Manufacturing	883.4	5.4%	640.9	5.9%	49.8	3.1%	104.3	5.8%	88.3	4.3%	(7.2)	(11.5)	1.3	4.5	(1.4)
Agriculture and forestry	40.7	0.2%	20.4	0.2%	9.4	0.6%	3.0	0.2%	7.8	0.4%	0.0	(0.1)	0.9	0.2	(1.0)
Fishery	30.3	0.2%	13.1	0.1%	2.6	0.2%	5.3	0.3%	9.1	0.4%	1.8	1.5	(0.1)	0.6	(0.3)
Mining, quarrying and gravel	20.3	0.1%	12.2	0.1%	0.7	0.0%	6.1	0.4%	1.2	0.1%	(0.5)	(2.0)	0.1	1.4	0.1
Construction	355.4	2.2%	211.7	2.0%	48.5	3.0%	54.6	3.0%	40.4	2.0%	15.8	7.9	2.8	4.7	0.4
Electricity, gas, heat supply and water	400.6	2.5%	300.1	2.8%	19.8	1.2%	37.1	2.1%	43.4	2.1%	47.5	43.5	0.8	1.0	2.1
Information and communications	48.8	0.3%	32.9	0.3%	3.7	0.2%	4.8	0.3%	7.1	0.3%	(2.7)	(2.2)	(0.1)	(0.6)	0.1
Transport and postal service	715.2	4.4%	603.8	5.6%	17.3	1.1%	50.2	2.8%	43.8	2.1%	45.8	45.2	3.1	4.2	(6.6)
Wholesale and retail trade	1,226.9	7.5%	895.2	8.3%	86.9	5.4%	101.3	5.6%	143.5	7.0%	30.7	24.6	2.9	2.8	0.5
Finance and insurance	644.5	4.0%	573.7	5.3%	6.9	0.4%	8.8	0.5%	55.0	2.7%	88.1	91.2	(0.1)	(4.1)	1.2
Real estate and leasing	2,964.3	18.2%	2,260.4	20.9%	246.6	15.3%	240.7	13.4%	216.5	10.5%	165.0	118.4	11.3	9.0	26.3
(Real estate)	2,619.0	16.1%	2,003.1	18.5%	239.6	14.8%	214.5	11.9%	161.6	7.9%	114.7	79.3	9.6	8.6	17.2
Services	1,288.0	7.9%	805.7	7.4%	153.6	9.5%	156.9	8.7%	171.7	8.4%	(41.4)	(20.4)	0.9	(2.4)	(19.4)
Government, local public sector	4,031.0	24.8%	2,151.3	19.9%	470.1	29.1%	557.8	31.0%	851.6	41.5%	830.3	569.7	37.2	51.8	171.5
Others	3,634.4	22.3%	2,295.0	21.2%	499.7	30.9%	466.2	25.9%	373.3	18.2%	73.9	53.6	21.0	4.6	(5.4)

Note: Loans to finance and insurance include loans by the Bank of Fukuoka to the Fukuoka Financial Group (123.3 billion yen at March 31, 2020, and 129.5 billion yen at March 31, 2019.

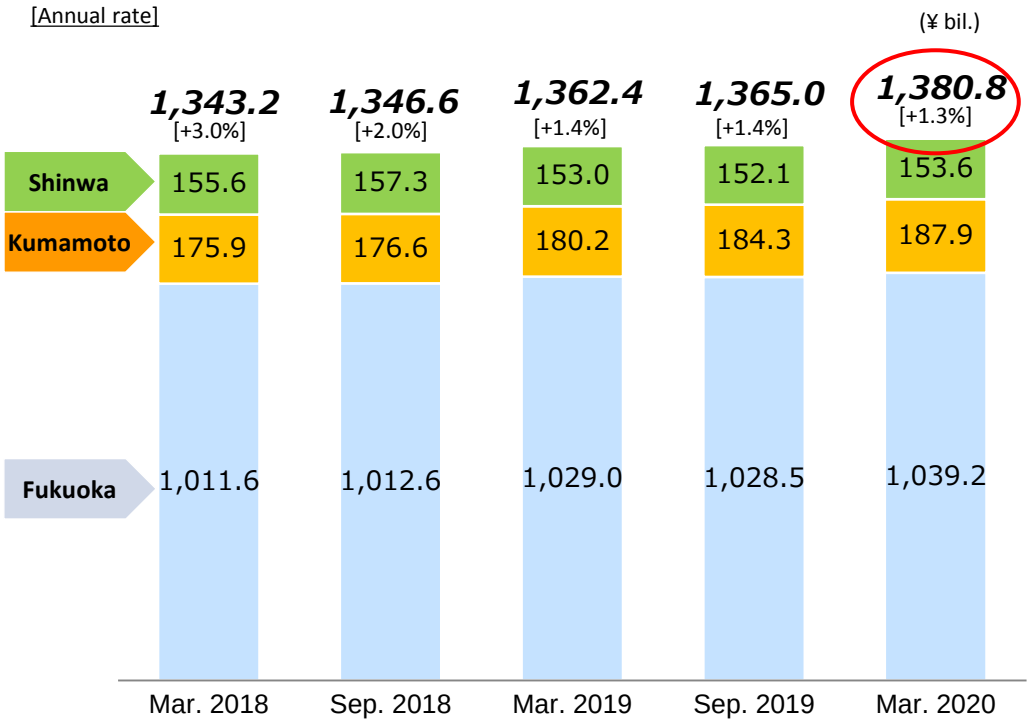
Risk monitored loans, classified by industry

(¥ bil.)

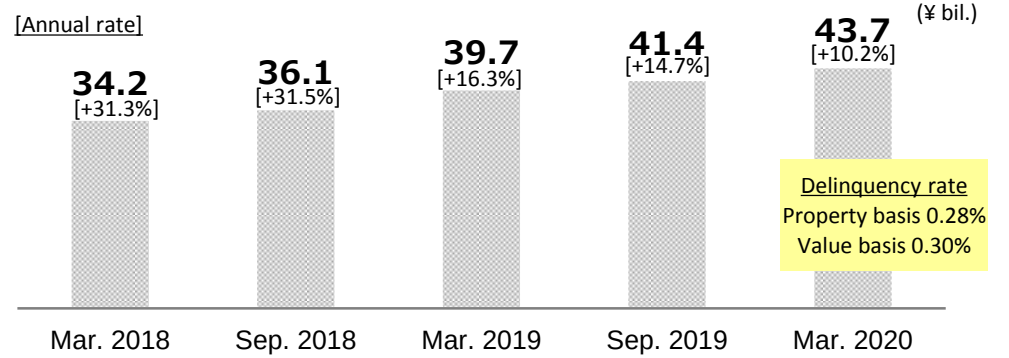
	Mar. 31, 2020										Change from Mar. 31, 2019				
	4 banks total	%	Fukuoka	%	Kumamoto	%	Shinwa	%	Eighteenth	%	4 banks total	Fukuoka	Kumamoto	Shinwa	Eighteenth
Domestic loans (excluding the special international financial transactions account)	272.7	100.0%	153.5	100.0%	36.8	100.0%	34.5	100.0%	47.9	100.0%	6.1	(3.8)	3.7	2.7	3.6
Manufacturing	43.2	15.8%	25.3	16.5%	5.7	15.5%	6.4	18.7%	5.8	12.1%	9.2	4.2	3.0	2.5	(0.6)
Agriculture and forestry	3.5	1.3%	2.1	1.4%	0.8	2.2%	0.4	1.0%	0.2	0.4%	0.4	0.0	0.2	0.1	0.0
Fishery	0.6	0.2%	0.2	0.1%	0.2	0.6%	0.1	0.2%	0.1	0.2%	(0.1)	0.1	(0.1)	0.0	(0.1)
Mining, quarrying and gravel	0.1	0.0%	–	–	0.1	0.2%	–	–	–	–	(0.1)	–	0.0	0.0	(0.1)
Construction	11.0	4.0%	6.4	4.1%	1.5	4.1%	1.9	5.5%	1.3	2.7%	(0.3)	(1.1)	0.8	(0.2)	0.3
Electricity, gas, heat supply and water	1.6	0.6%	1.4	0.9%	0.2	0.6%	–	–	–	–	0.8	1.0	(0.2)	–	–
Information and communications	1.1	0.4%	0.3	0.2%	0.4	1.0%	0.2	0.7%	0.2	0.5%	(0.1)	(0.1)	0.0	(0.1)	0.1
Transport and postal service	7.2	2.7%	4.3	2.8%	0.4	1.2%	1.5	4.5%	1.0	2.1%	0.4	0.0	(0.5)	0.5	0.4
Wholesale and retail trade	67.2	24.6%	36.6	23.8%	6.4	17.5%	10.5	30.5%	13.6	28.4%	5.0	3.9	0.3	0.1	0.5
Finance and insurance	7.5	2.8%	7.3	4.8%	0.2	0.5%	0.0	0.0%	0.0	0.0%	0.0	(0.1)	0.1	0.0	0.0
Real estate and leasing	28.6	10.5%	16.6	10.8%	4.6	12.5%	2.9	8.5%	4.4	9.3%	(6.0)	(5.3)	(0.3)	(1.0)	0.5
(Real estate)	28.2	10.3%	16.4	10.7%	4.5	12.1%	2.9	8.5%	4.4	9.1%	(2.1)	(5.2)	(0.3)	(0.9)	4.4
Services	69.2	25.4%	33.0	21.5%	11.9	32.3%	5.7	16.6%	18.7	38.9%	(4.9)	(8.1)	0.2	0.5	2.7
Government, local public sector	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Others	31.8	11.7%	20.1	13.1%	4.3	11.8%	4.8	13.8%	2.6	5.4%	1.8	1.8	0.1	0.0	(0.1)

Balance of Apartment Loans

Balance of apartment loans
(loans not involving guarantee companies)



Balance of investment mortgages (prestige)



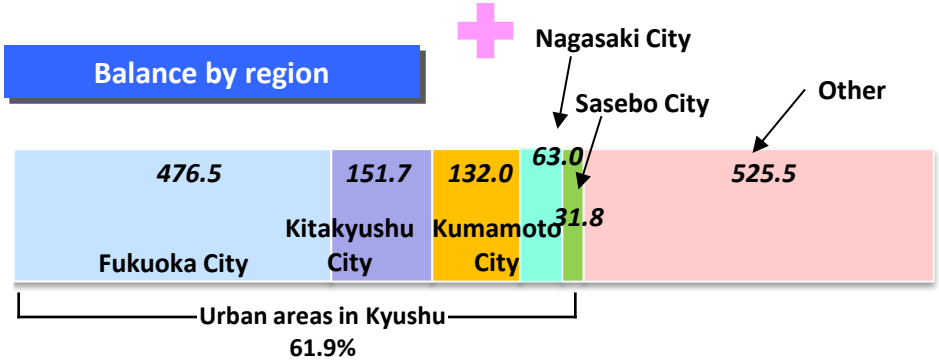
State of apartment loans
(loans not involving guarantee companies)

Screening stance

- Assessed comprehensively, verifying both debtor attributes and financed property
- Property potential and liquidity are investigated, before verifying CF taking into account vacancy risk and interest rate risk

Vacancy risk	Stress loading rising 10% every 10 years
Interest rate risk	Stress loading rising 2% in the 5th year onward

Balance by region



✓ **60% in urban areas (central districts of Fukuoka, Kumamoto and Nagasaki)**

Delinquency rate

Property basis	0.32%
Value basis	0.27%

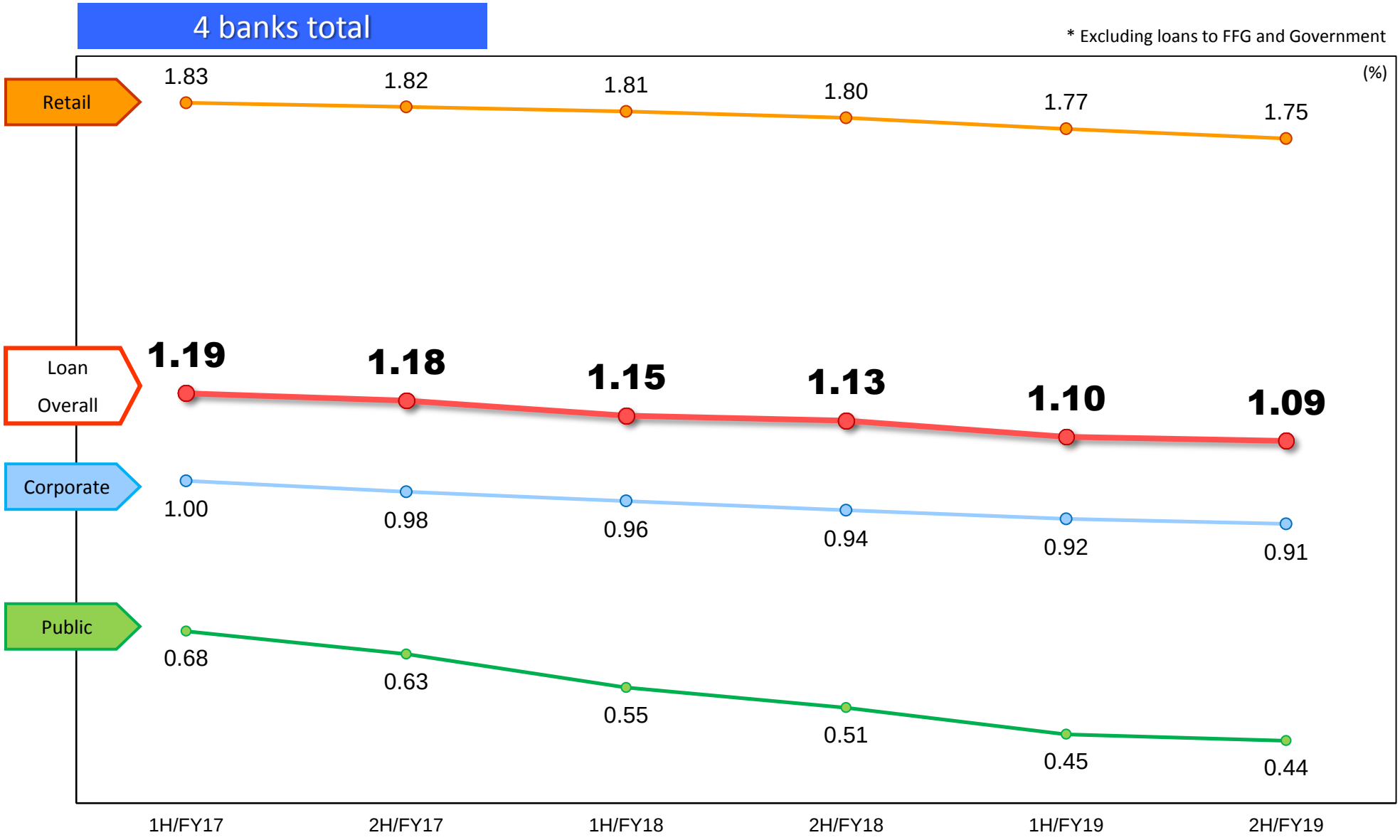
Value of collateral (market value basis)

Balance (A)	1,380.8 billion yen
Value of collateral (B)	1,146.5 billion yen

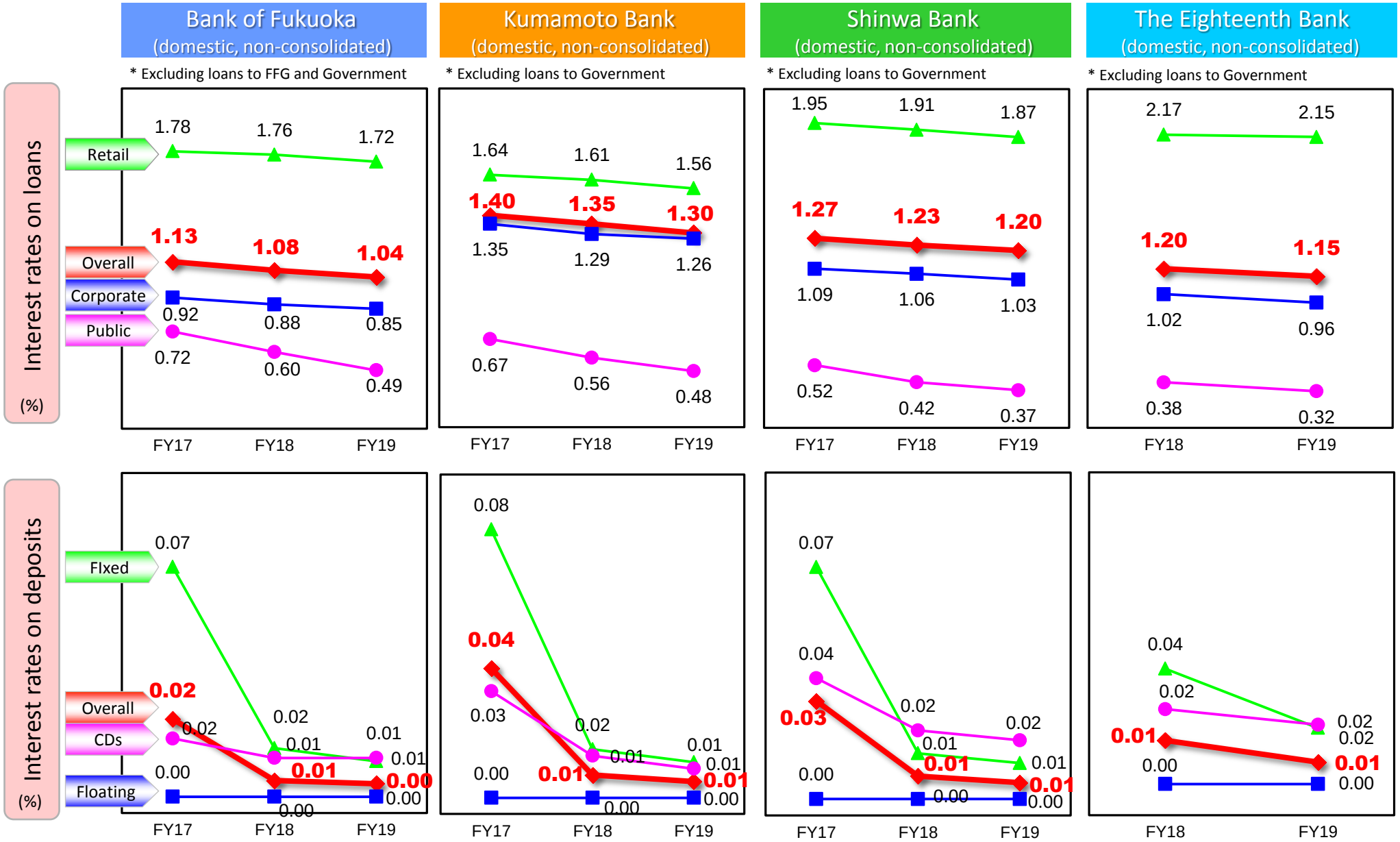
Collateral coverage ratio (B/A): 83.0%

Average Balance of Deposits & CDs (by Bank)

Interest Rates on Loans (by Segment)



Interest Rates on Loans and Deposits & CDs (by Bank)



Breakdown of Loans and Deposits & CDs by Type

Domestic loans (As of Mar. 31, 2020)

	4 banks total	Fukuoka	Kumamoto	Shinwa / Eighteenth
Based on short-term prime rate	22.6%	18.6%	28.3%	30.8%
Short-term spread	6.1%	7.6%	2.0%	3.7%
Short-term loan	**28.7%**	**26.2%**	**30.3%**	**34.5%**
Based on flexible prime rate	24.3%	24.6%	35.8%	18.7%
Money market loan	7.9%	9.9%	2.0%	5.1%
Long-term flexible	32.2%	34.6%	37.8%	23.8%
Fixed-rate mortgage loan	5.9%	5.5%	4.6%	7.5%
Long-term fixed	39.1%	39.2%	31.9%	41.8%
Long-term loan	**71.3%**	**73.8%**	**69.7%**	**65.5%**
Total	100.0%	100.0%	100.0%	100.0%

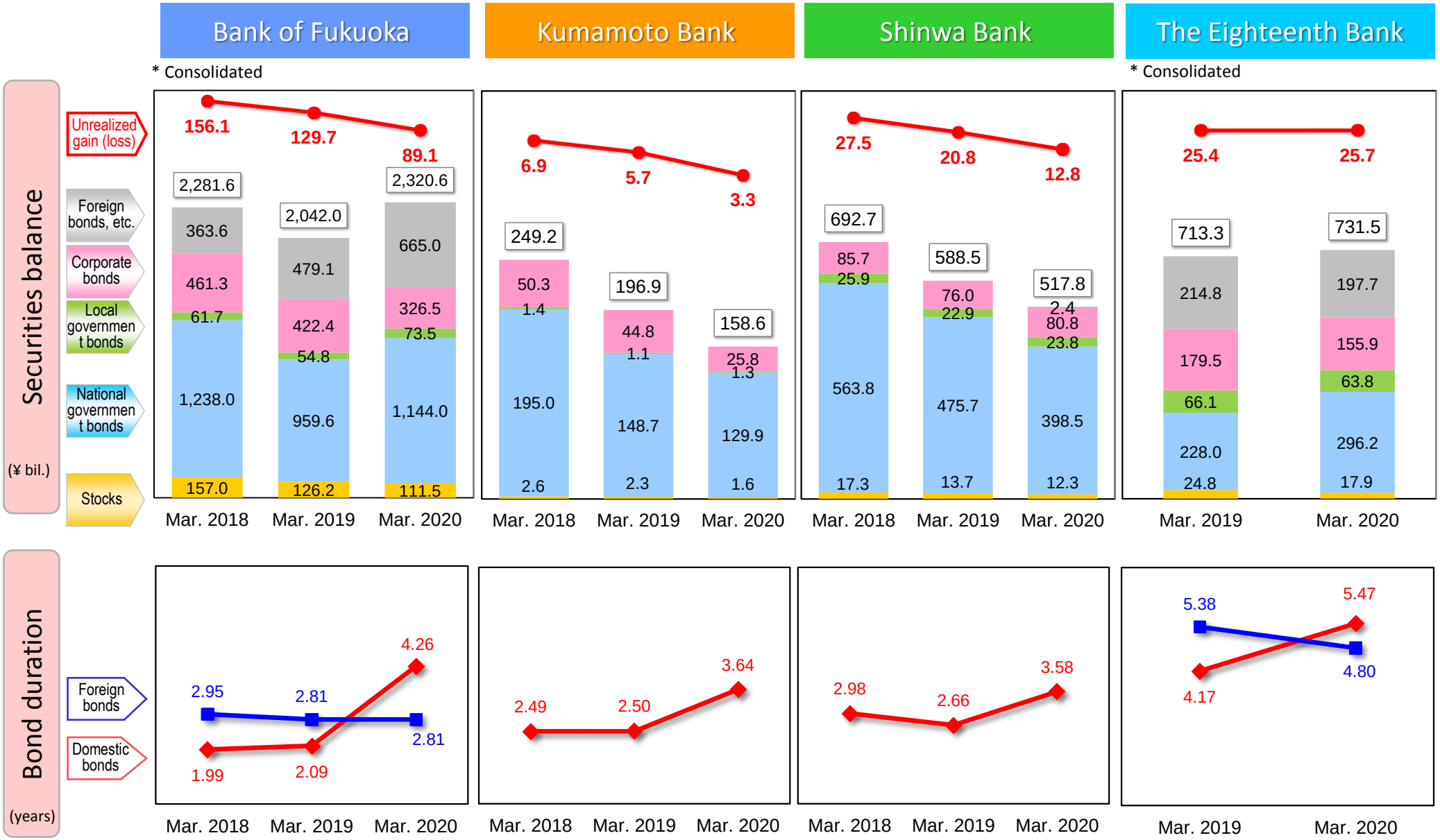
Portfolio by base rate

Short-term prime rate	46.7%	43.2%	64.1%	48.5%
Short-term flexible prime rate	14.0%	17.5%	4.0%	8.8%
Long-term prime rate	0.0%	0.0%	0.0%	0.0%
Fixed rate	39.3%	39.2%	31.9%	42.6%
Total	100.0%	100.0%	100.0%	100.0%

Domestic Deposits (As of Mar. 31, 2020)

	4 banks total	Fukuoka	Kumamoto	Shinwa / Eighteenth
Interest	56.5%	58.2%	54.6%	53.5%
Non-interest	12.1%	13.0%	6.0%	12.1%
Floating deposit	**68.7%**	**71.2%**	**60.7%**	**65.6%**
Core deposit	21.7%	21.2%	32.1%	19.8%
Large deposit	7.4%	5.6%	7.2%	11.3%
Time and savings deposit	29.1%	26.8%	39.3%	31.1%
Negotiable deposit	2.2%	2.0%	0.1%	3.3%
Time and saving deposit & negotiable deposit	**31.3%**	**28.8%**	**39.3%**	**34.4%**
Total	100.0%	100.0%	100.0%	100.0%

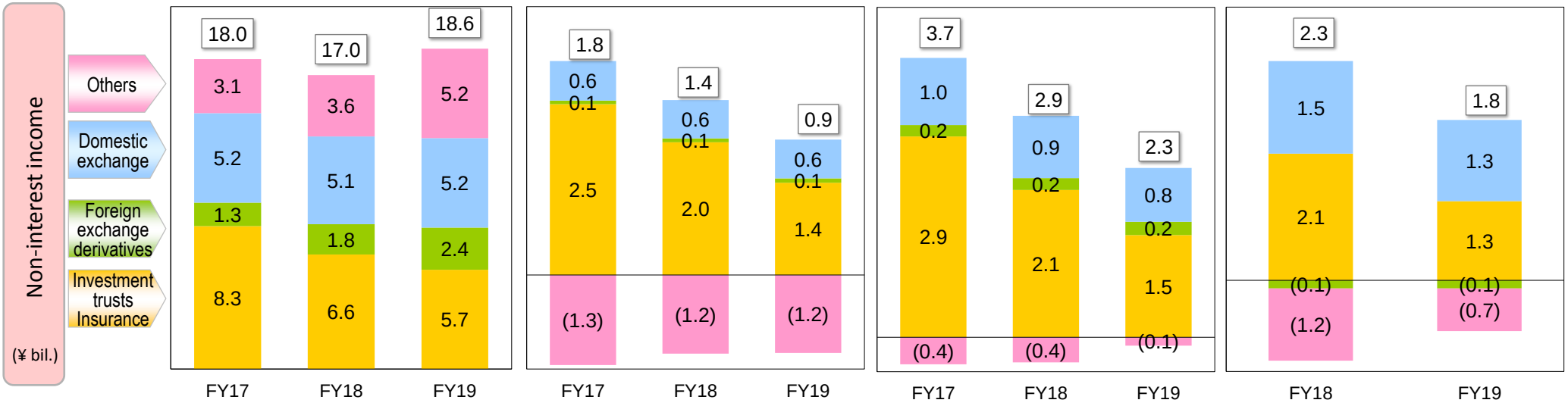
Securities (by Bank)



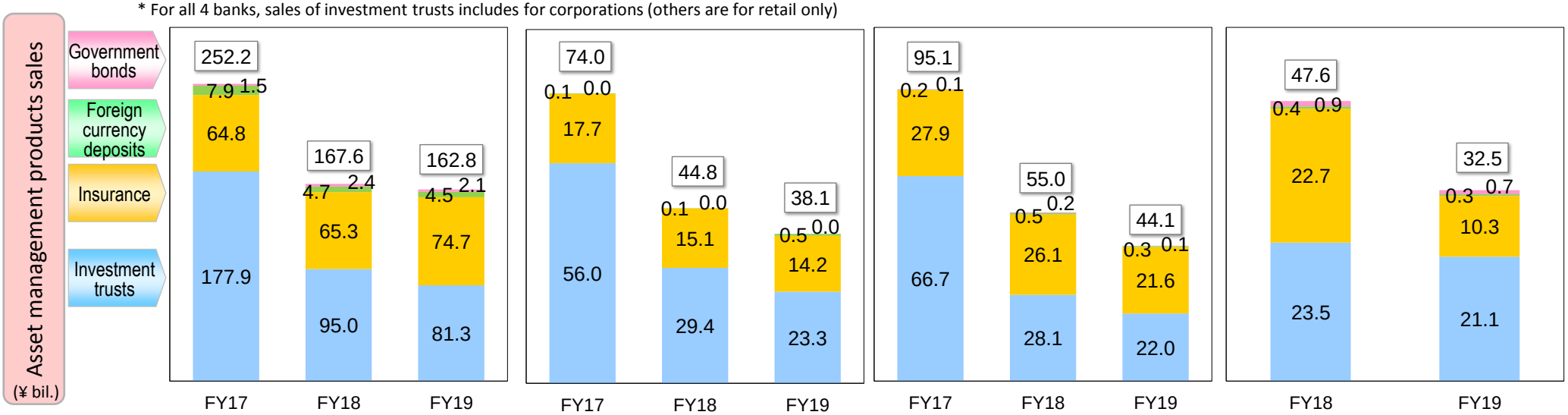
Non-interest Income / Asset Management Products Sales (by Bank)

Bank of Fukuoka | Kumamoto Bank | Shinwa Bank | The Eighteenth Bank

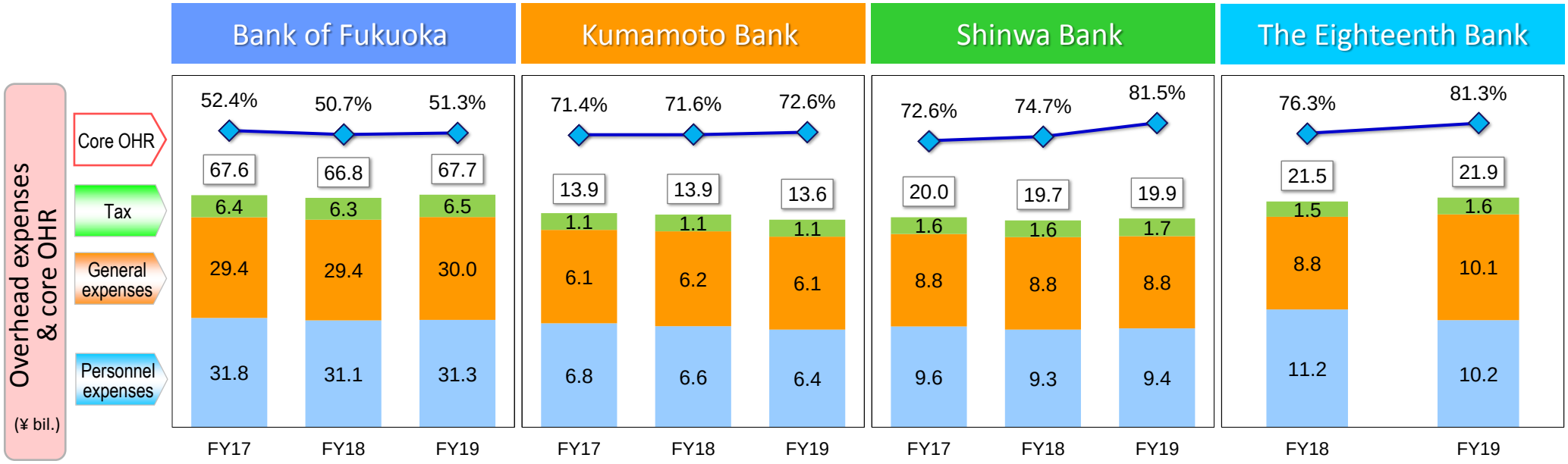
* For all 4 banks, excluding gains (loss) on bond and on marketable products



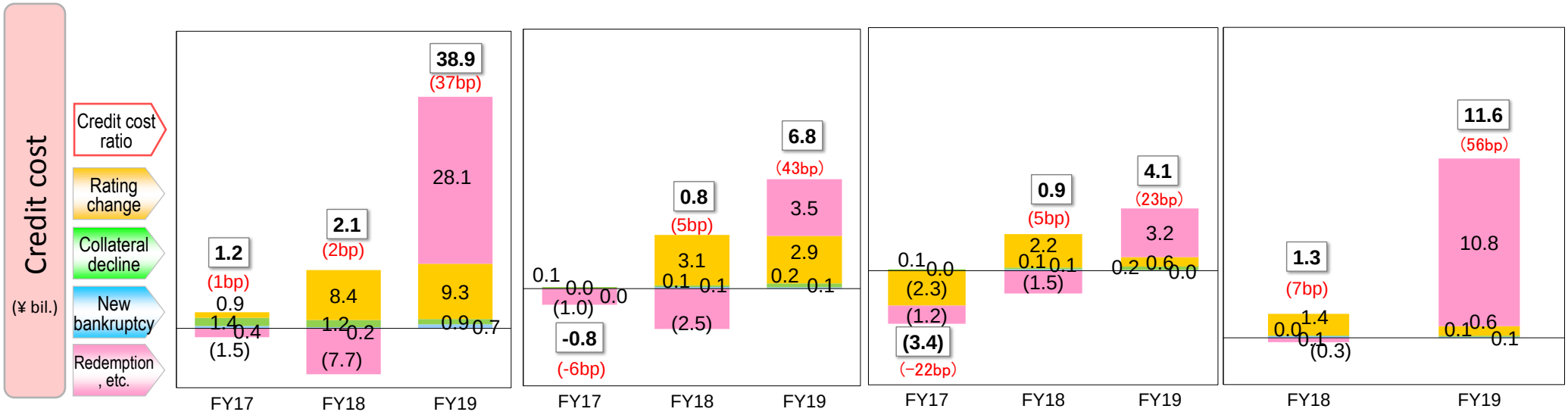
* For all 4 banks, sales of investment trusts includes for corporations (others are for retail only)



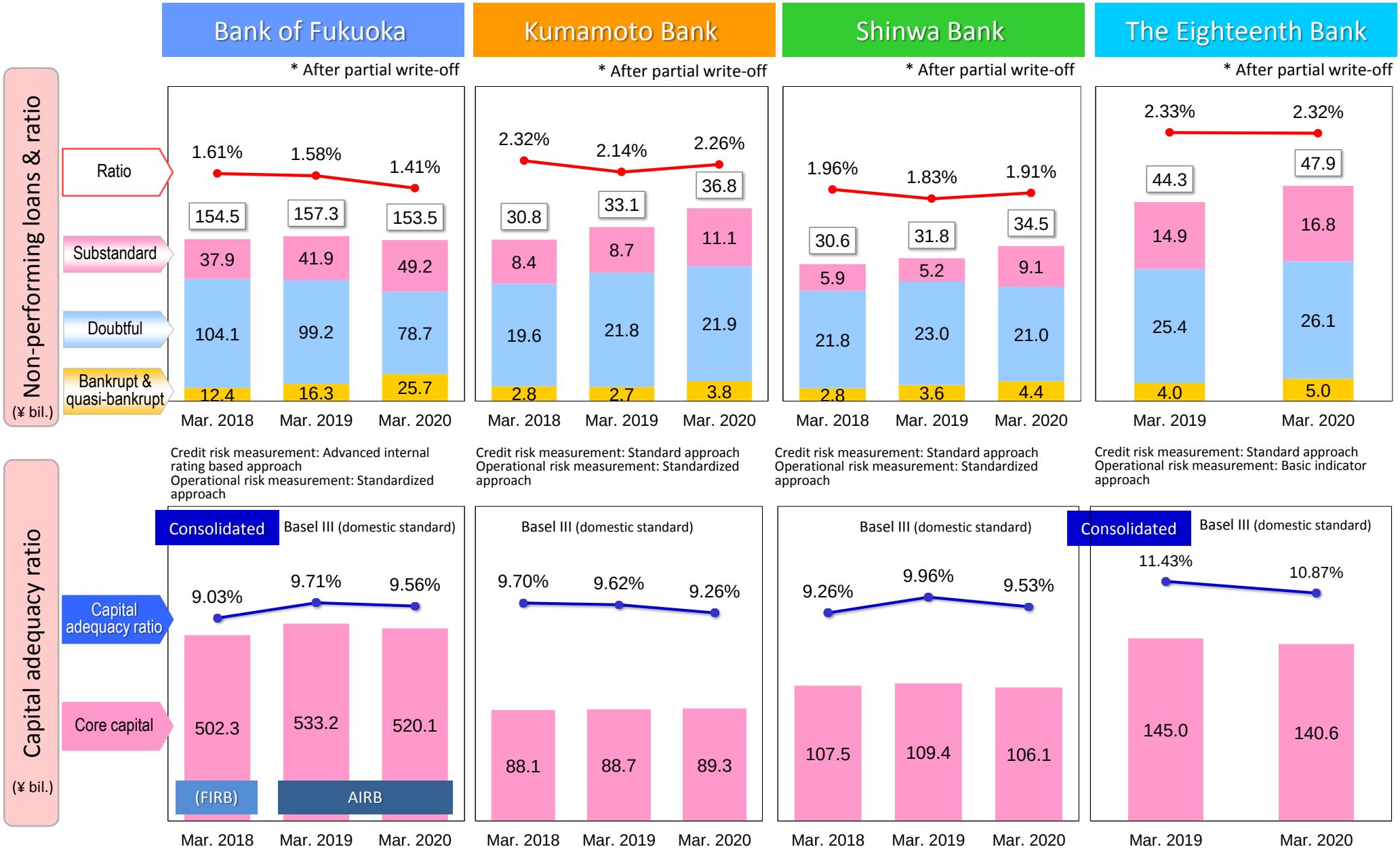
Overhead Expenses / Credit Cost (by Bank)



* Core OHR = Overhead expenses / (Gross business profit - Gains (losses) on bonds)



Non-Performing Loans / Capital Adequacy Ratio (by Bank)



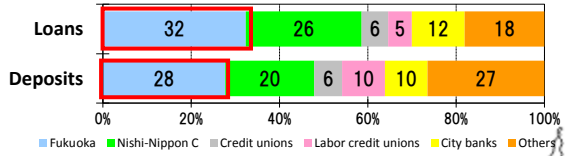
Part IV

[Reference] Kyushu Economy

Market Share

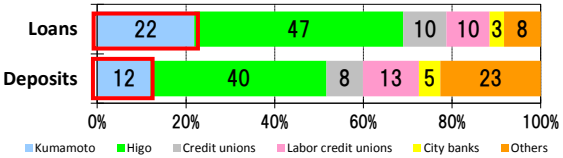
Fukuoka Pref.

Population	Number of business establishments	Loans	Deposits
5,060,000	223,000	21.5 trillion yen	35.9 trillion yen



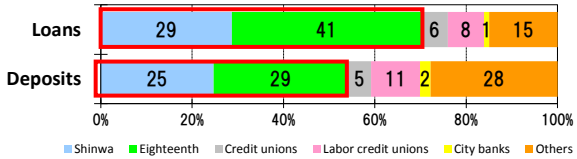
Kumamoto Pref.

Population	Number of business establishments	Loans	Deposits
1,770,000	74,000	5.2 trillion yen	11.2 trillion yen



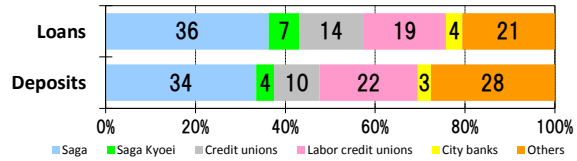
Nagasaki Pref.

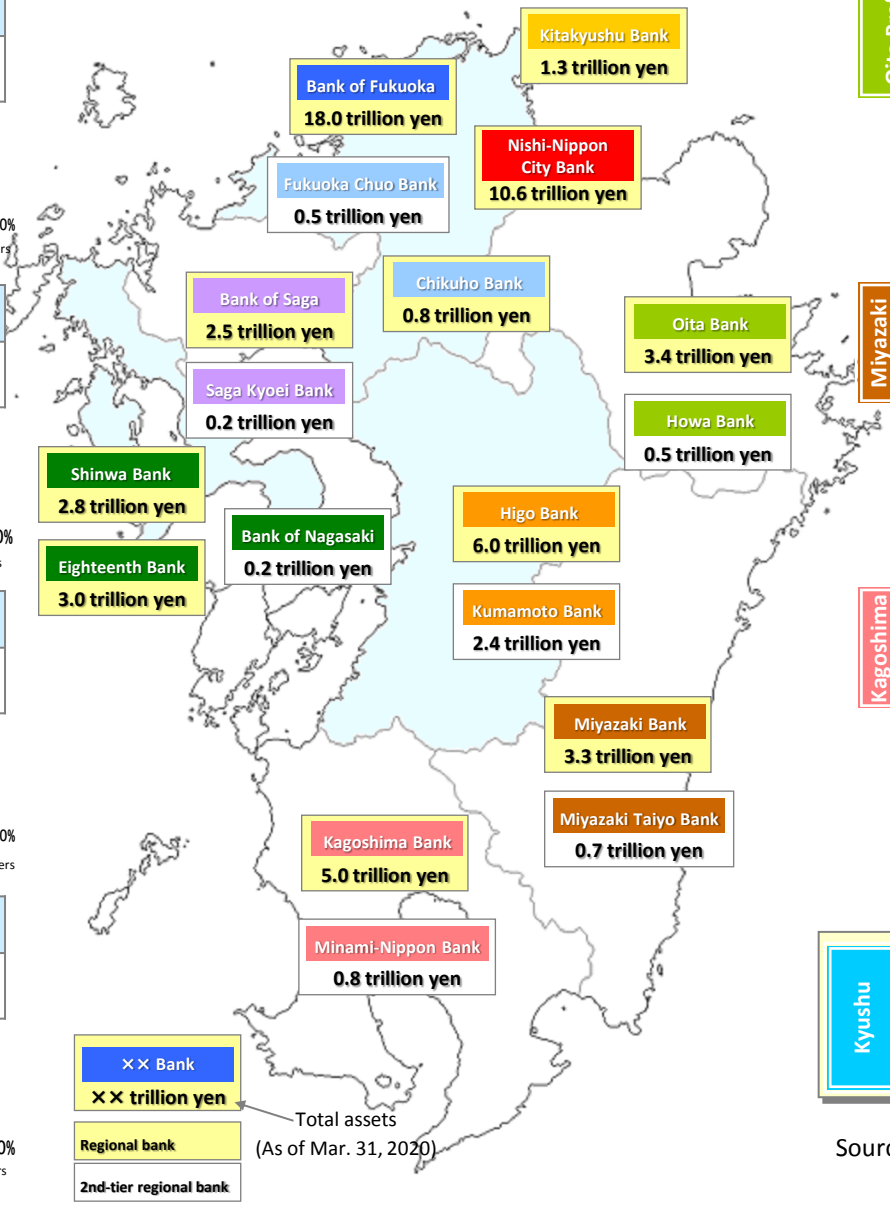
Population	Number of business establishments	Loans	Deposits
1,360,000	63,000	3.7 trillion yen	8.2 trillion yen



Saga Pref.

Population	Number of business establishments	Loans	Deposits
820,000	38,000	2.0 trillion yen	5.3 trillion yen

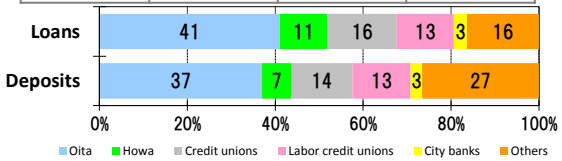




Source: Financial digests

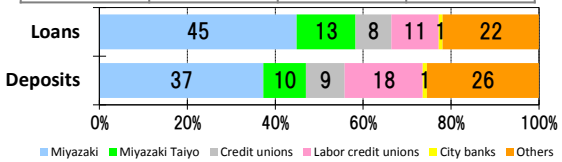
Oita Pref.

Population	Number of business establishments	Loans	Deposits
1,150,000	54,000	3.4 trillion yen	7.7 trillion yen



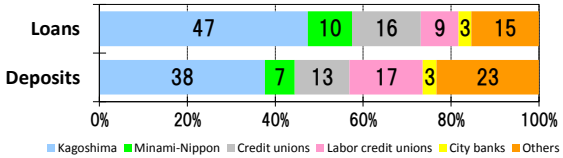
Miyazaki Pref.

Population	Number of business establishments	Loans	Deposits
1,100,000	53,000	3.2 trillion yen	6.1 trillion yen



Kagoshima Pref.

Population	Number of business establishments	Loans	Deposits
1,630,000	77,000	5.0 trillion yen	9.7 trillion yen



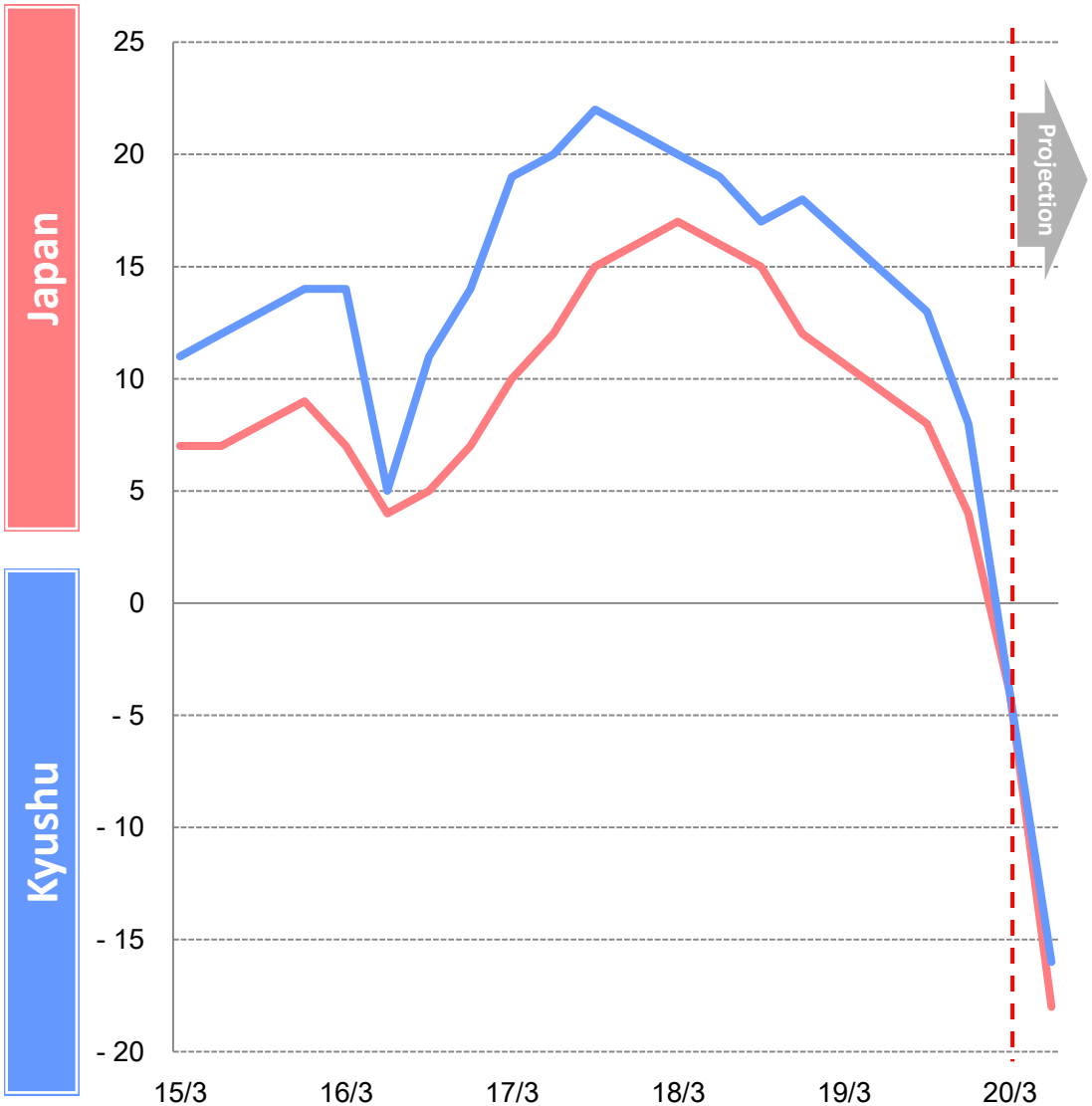
Kyushu

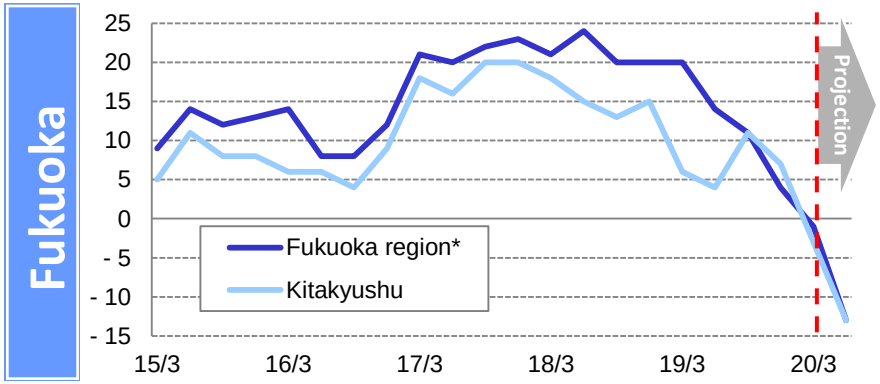
Population	Number of business establishments	Loans	Deposits
12,870,000	583,000	44.0 trillion yen	84.0 trillion yen

Sources: *2016 Economic Census for Business Activity*, Ministry of Internal Affairs and Communications
Monthly Kinyu Journal

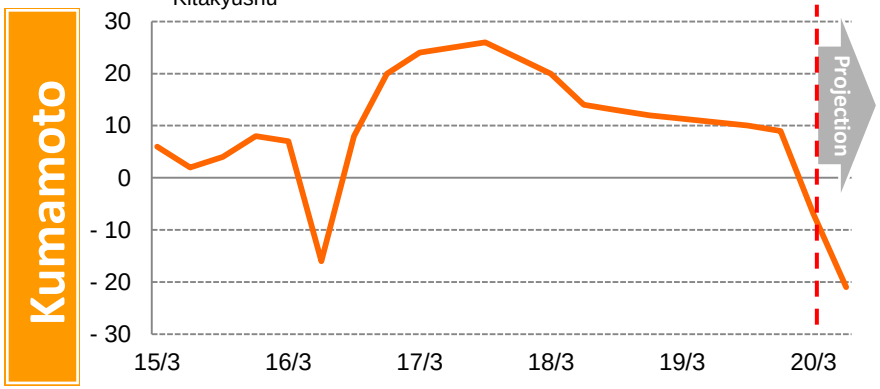
Economic Trends

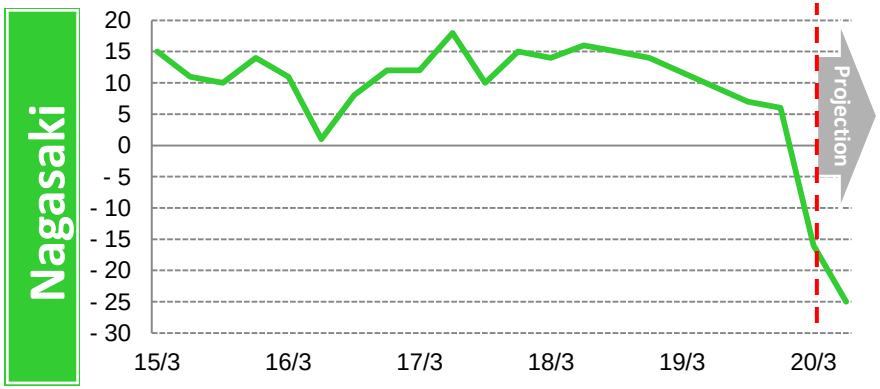
Bank of Japan's Tankan Business conditions D.I.





* Fukuoka region: Fukuoka Prefecture plus Saga Prefecture, excluding Kitakyushu

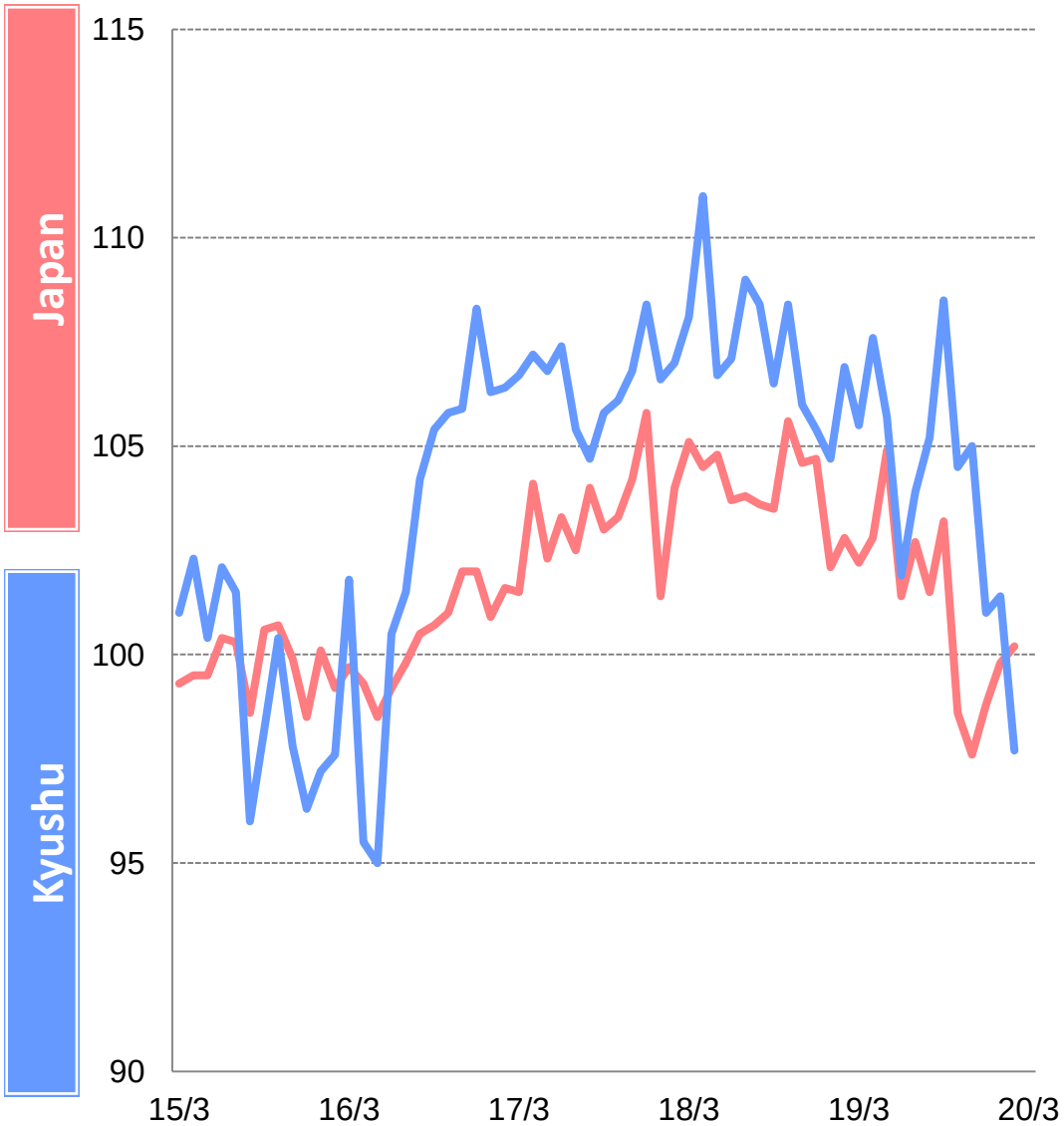




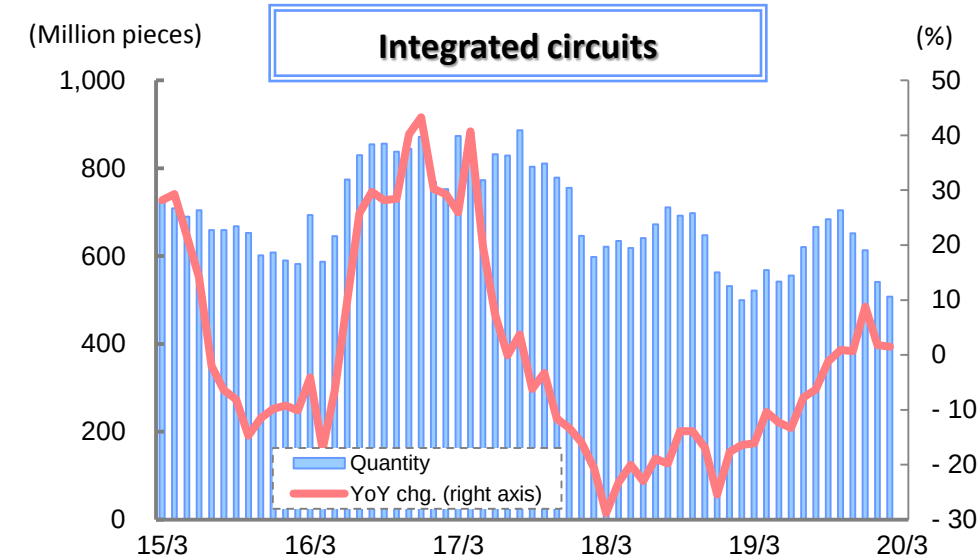
Source: Bank of Japan

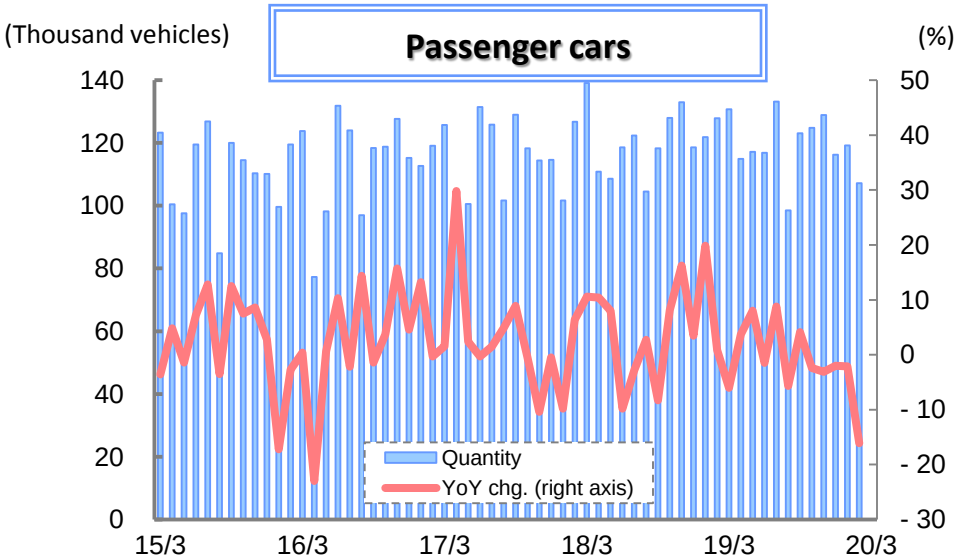
Industrial Production Trends

Industrial production index (FY2015 = 100)



[Kyushu] Main industry trends

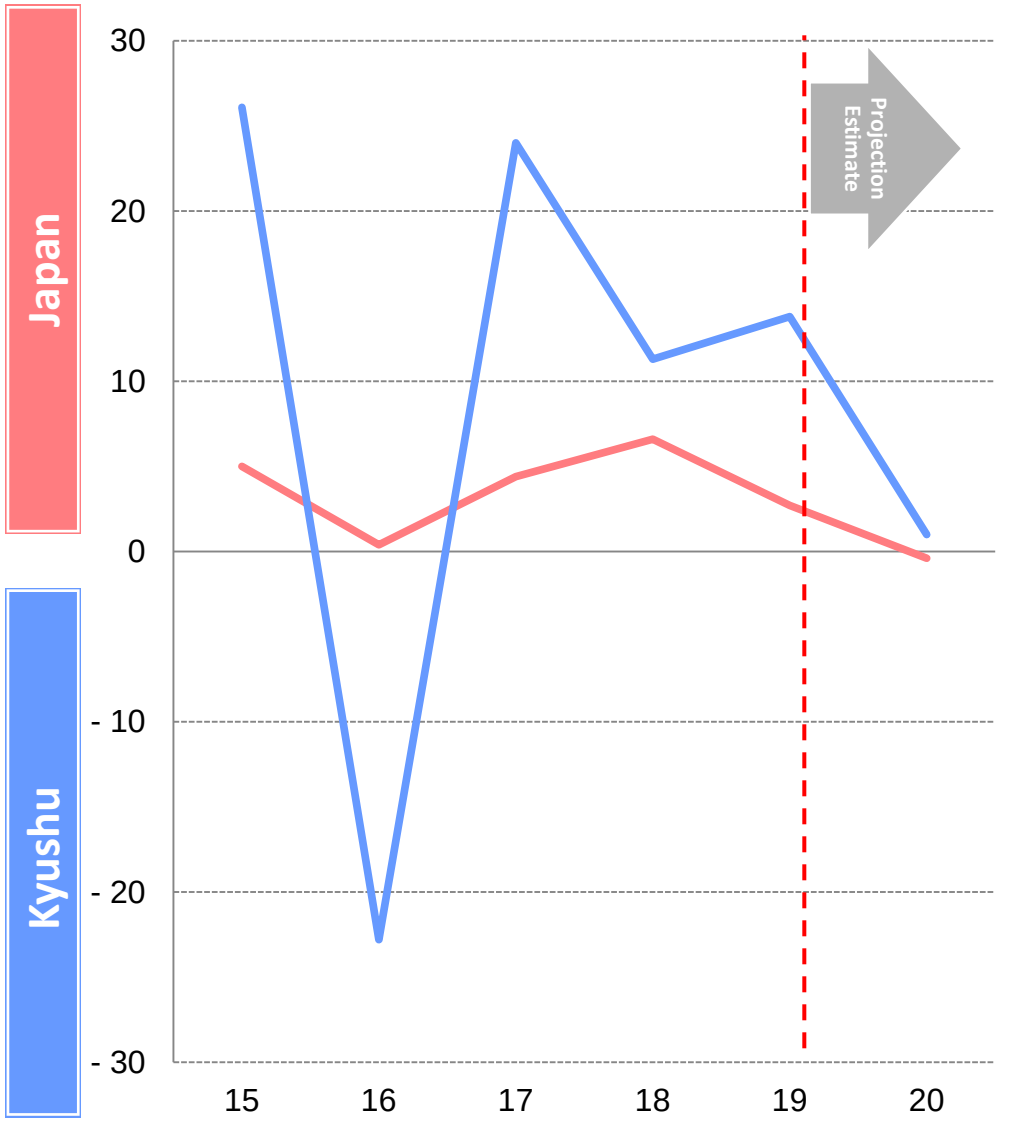




Source: Kyushu Bureau of Economy, Trade and Industry

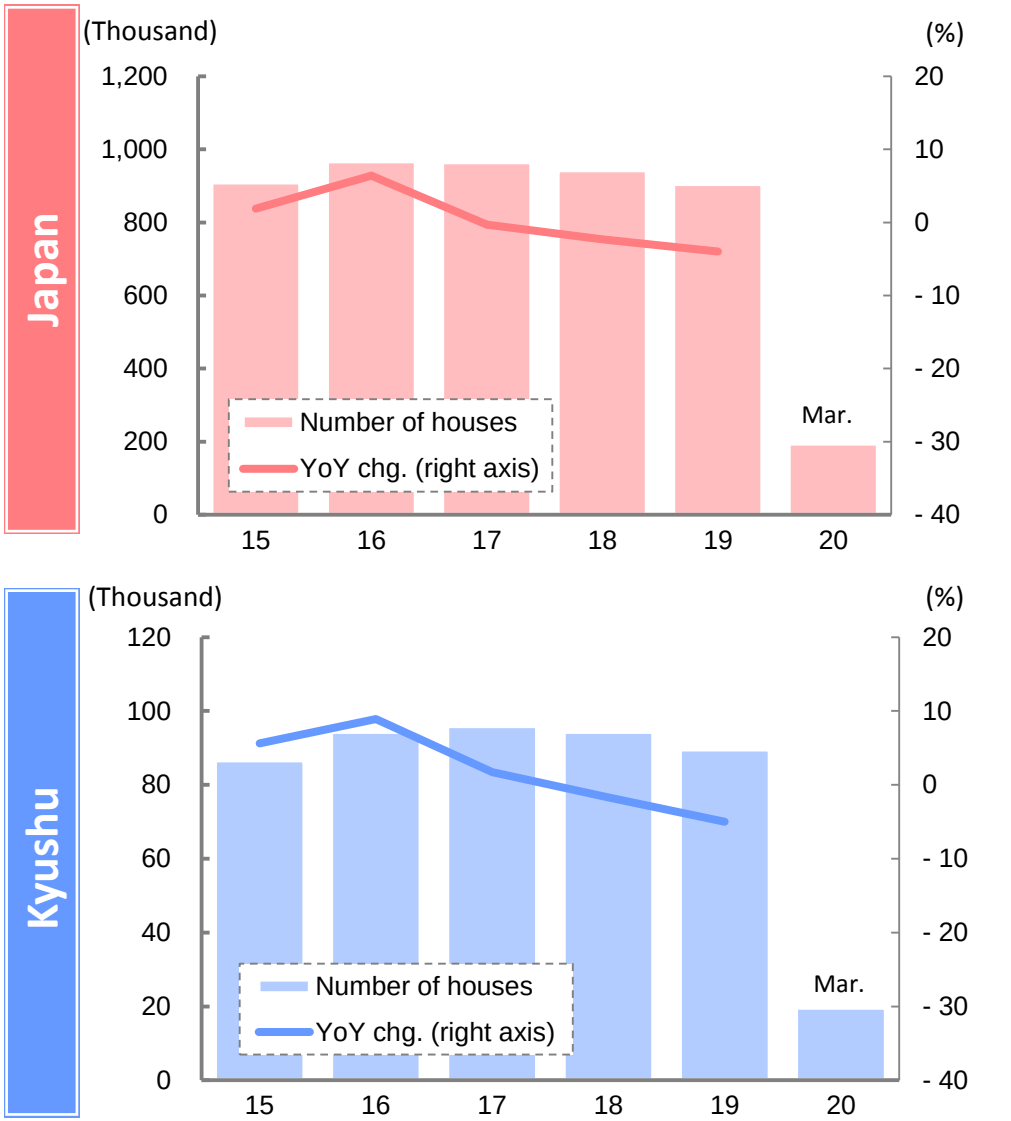
Capital Investment / Housing Investment

Capital investment: Bank of Japan's Tankan (YoY chg.)



Source: Bank of Japan

Housing starts



Source: Ministry of Land, Infrastructure and Transport

Volatility of standard land prices

<Ministry of Land, Infrastructure and Transport: 2020 Outline of results of land prices survey>

- ○ Japan: Residential lands have risen for 3rd consecutive year, all uses and commercial lands have risen for 5th consecutive year.
- ○ 3 major metropolitan areas: Both residential and commercial lands rose in each area.
- ○ Other areas: Both residential and commercial lands rose in the four regional cities (Sapporo, Sendai, Hiroshima and Fukuoka).
  Outside the four regional cities, volatility was fairly flat.
  (Announced in March 2020, Ministry of Land, Infrastructure and Transport)

(%)

	Residential land			Commercial land		
	2019	2020	Change	2019	2020	Change
Japan	0.6	0.8	+0.2	2.8	3.1	+0.3
3 major metropolitan areas	1.0	1.1	+0.1	5.1	5.4	+0.3
Tokyo area	1.3	1.4	+0.1	4.7	5.2	+0.5
Fukuoka	2.6	3.5	+0.9	4.9	6.7	+1.8
Saga	0.3	0.6	+0.3	0.3	0.6	+0.3
Nagasaki	0.0	0.2	+0.2	1.3	1.2	-0.1
Kumamoto	1.0	1.1	+0.1	3.4	3.5	+0.1
Oita	0.8	1.3	+0.5	0.9	1.1	+0.2
Miyazaki	-0.3	-0.2	+0.1	-1.0	-0.7	+0.3
Kagoshima	-1.0	-0.9	+0.1	-1.0	-0.9	+0.1
Yamaguchi	0.1	0.3	+0.2	-0.3	-0.2	+0.1

Major cities in Fukuoka Pref.

(%)

	Residential land		Commercial land	
	2019	2020	2019	2020
Fukuoka City	5.3	6.8	12.3	16.5
Kitakyushu City	-0.1	0.1	1.0	1.3

Major cities in Kumamoto Pref.

	Residential land		Commercial land	
	2019	2020	2019	2020
Kumamoto City	1.3	1.5	6.2	6.3
Yatsushiro City	-0.4	-0.4	-0.9	-0.8

Major cities in Nagasaki Pref.

	Residential land		Commercial land	
	2019	2020	2019	2020
Nagasaki City	1.0	1.3	5.9	5.3
Sasebo City	-0.1	0.1	0.6	0.6

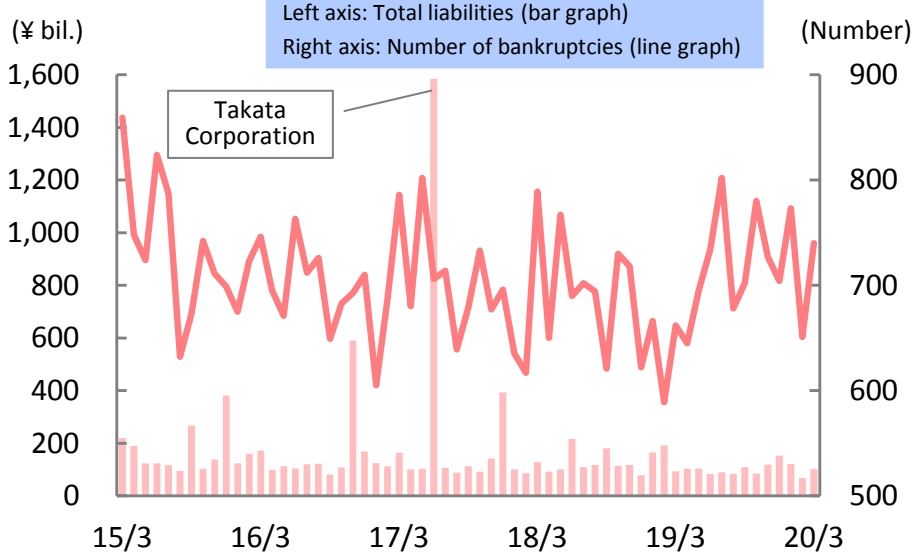
Source: Ministry of Land, Infrastructure and Transport

Corporate Bankruptcies

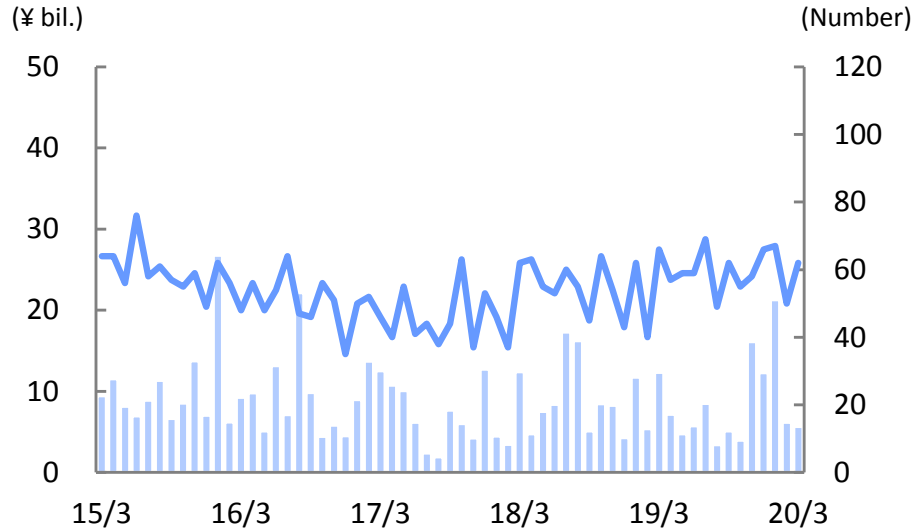
Number of bankruptcies and total liabilities

Left axis: Total liabilities (bar graph)
Right axis: Number of bankruptcies (line graph)

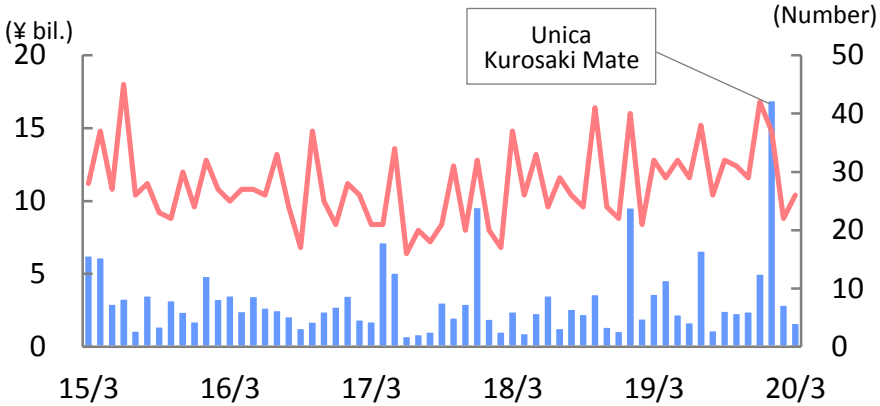
Japan



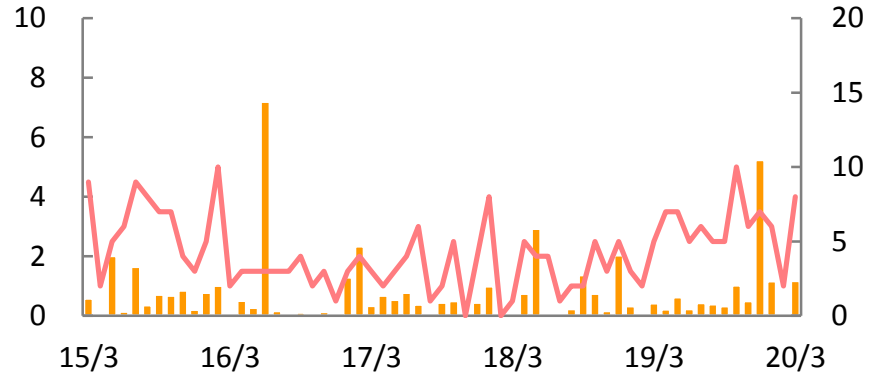
Kyushu



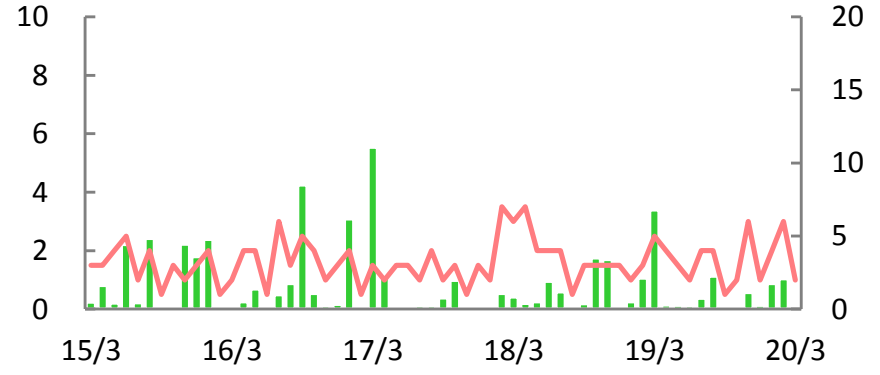
Fukuoka



Kumamoto



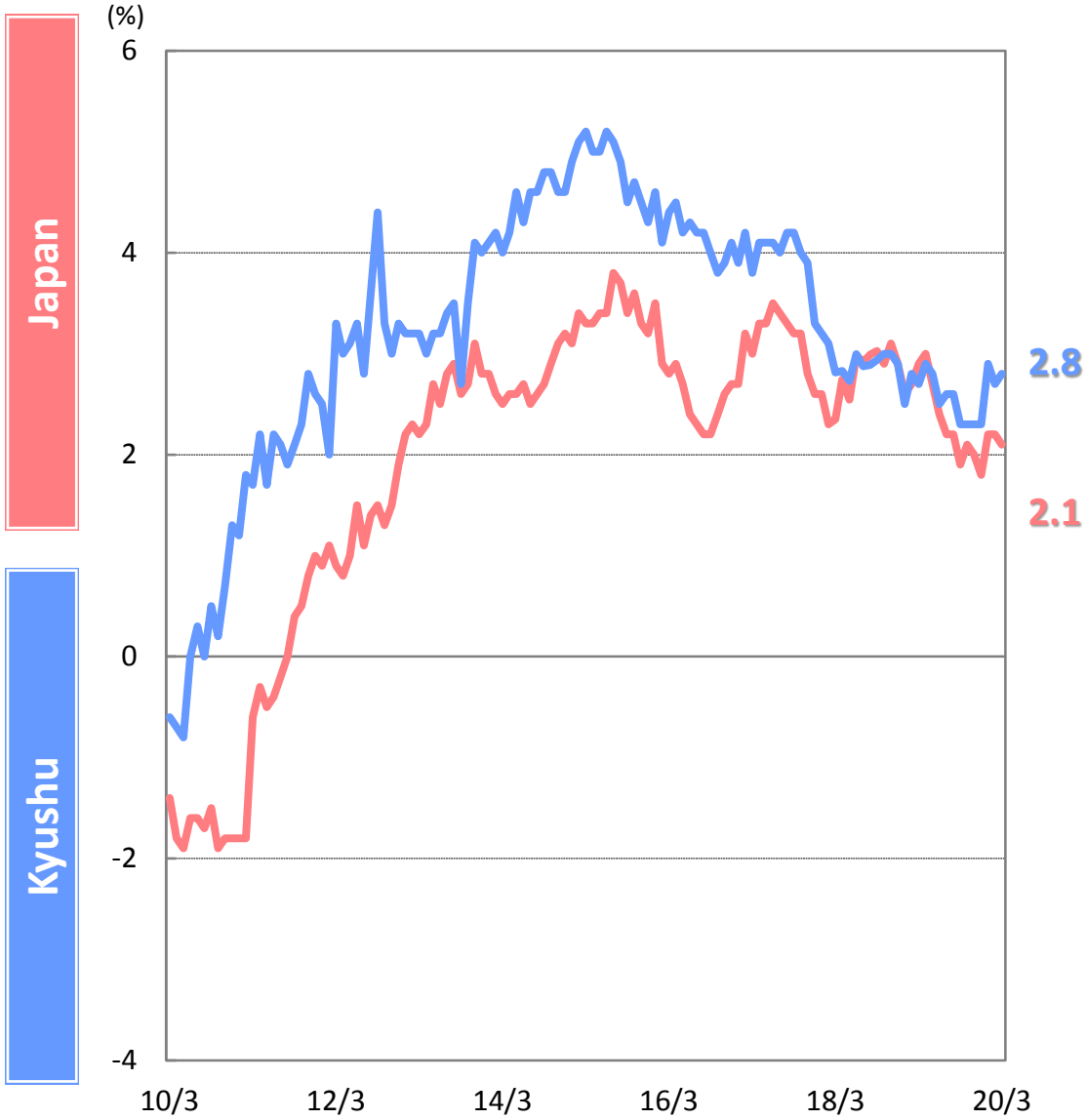
Nagasaki

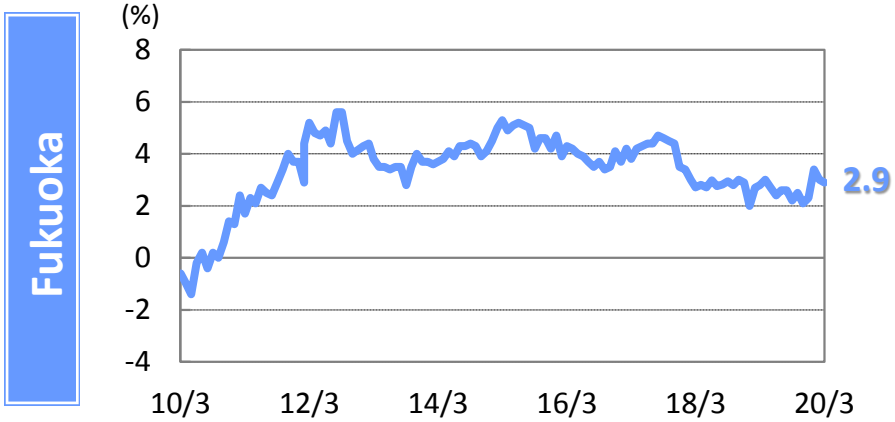


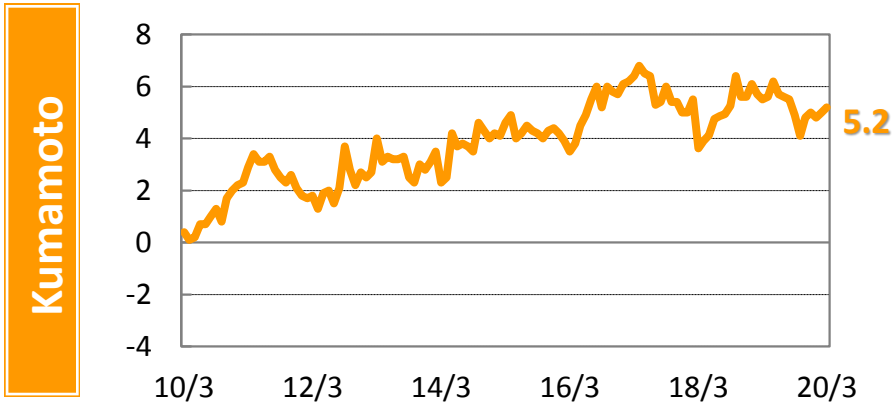
Source: Tokyo Shoko Research

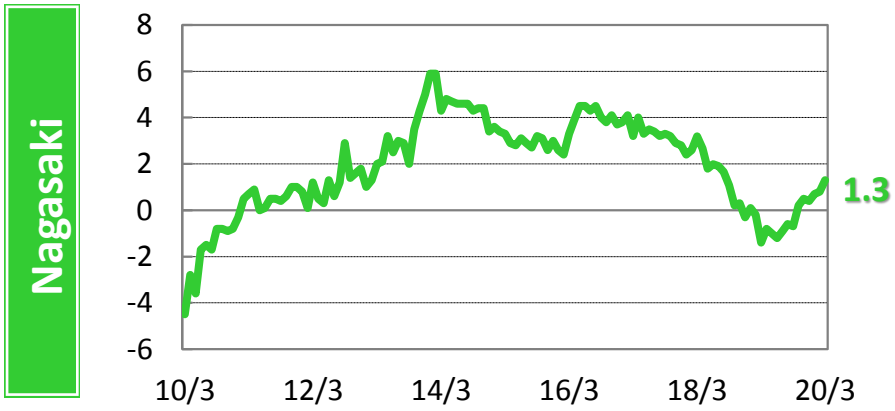
Loans

Rate of increase of bank loans (YoY chg., monthly)





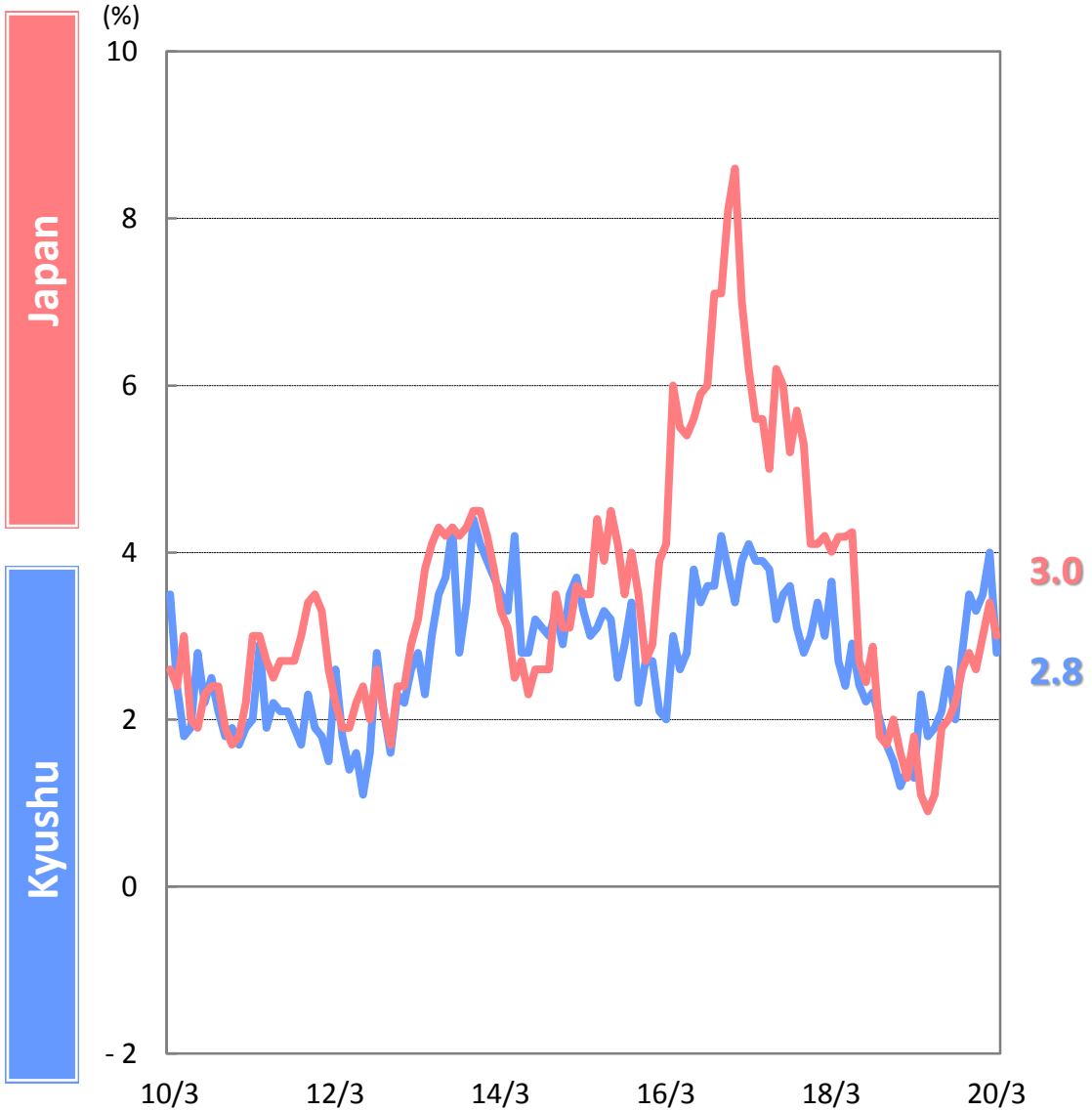


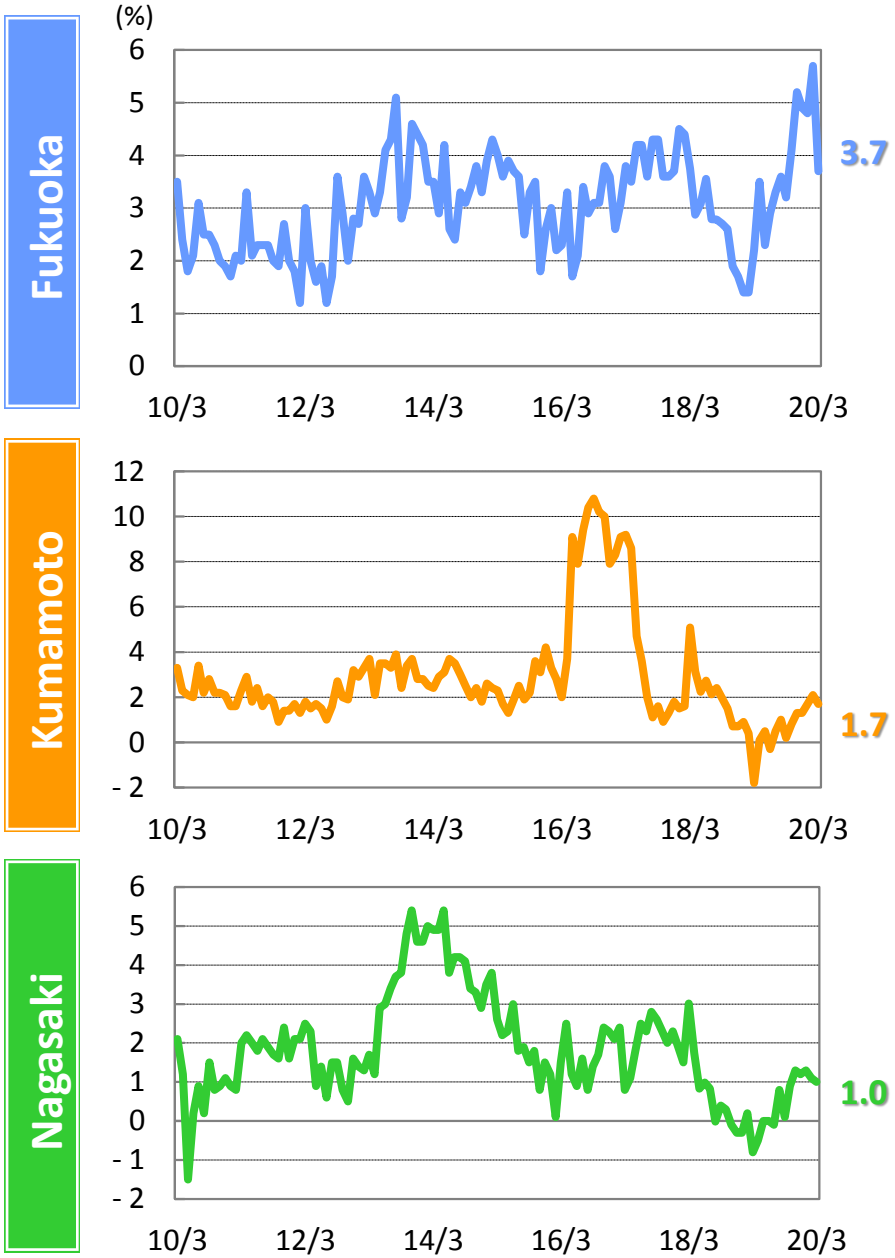


Source: Bank of Japan

Deposits

Rate of increase of bank deposits (YoY chg., monthly)





Source: Bank of Japan

Contact for further inquiries:

Public Relations Group, Corporate Planning Division
Fukuoka Financial Group

- **Phone:** **+81 - 92 - 723 - 2255**
- **E-mail:** **ffg-ir@fukuoka-fg.com**
- **Website:** **https://www.fukuoka-fg.com**

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