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Announcement of Fukuoka Financial Group's "Sixth Mid-Term Management Plan"

Fukuoka Financial Group, Inc. (Chairman of the Board & President : Takashige Shibato; hereinafter referred to as "FFG") hereby announces that it formulated the "Sixth Mid-Term Management Plan" covering the three-year period, April 2019 through to March 2022 (hereinafter referred to as the "Plan"). Following is a general outline of the Plan.

1. Business environment surrounding FFG

Since its establishment in April 2007, FFG has developed into a broad area-based regional financial group with an extensive network covering all of Kyushu, centering on Fukuoka, Kumamoto and Nagasaki prefectures. The Group has established a fundamental management style, including its Single Platform/Multiple Brands, and it has expanded a variety of activities contributing to development of the local economy.

Under its previous mid-term plan—the Fifth Mid-Term Management Plan—FFG positioned the next decade as the "Stage of Evolution." Setting a long-term vision of being the Best Regional Bank, incorporating its desire to be "the best regional financial group for all stakeholders, contributing to and developing alongside the community by providing high-quality financial services," the Group worked on strengthening all aspects, including business, human resources and organization.

As a broad area-based regional financial group, FFG has proceeded with the development of a stable regional financial system while strengthening its management base. For instance, in April 2019, management integration with the Eighteenth Bank, Ltd. was achieved, aimed at helping to revitalize the Nagasaki economy.

Meanwhile, the business environment surrounding financial institutions is expected to become increasingly severe. In addition to such structural issues as a progressively declining population, dwindling birthrate and aging society and prolonged low interest rates, rapid advances in digital technologies look like leading to a succession of new entrants from different sectors into the financial business. The digitization trend in particular is dramatically reshaping social and industrial structures, and it is expected that customer behavior will continue to change and their needs will continue to diversify further.

While actively tackling such social issues as the future contraction of local markets, regional financial institutions are being asked to build sustainable business models that can also keep pace with these rapid environmental changes.

2. FFG's goal

FFG views its greatest mission as a regional financial institution is to contribute to the invigoration and development of the regional economy. Since the previous mid-term plan, based on the fundamental principle of achieving a virtuous cycle of "contribution to regional economic development" and "improvement of FFG corporate value," the Group has promoted specific initiatives that contribute to regional revitalization, such as assessment of business potential.

Advances in ICT have brought about rapid changes in the business environment and in customer needs, and have led to the entry of new competitors into the financial business. In order to respond to these developments, it is imperative that transformation to digitization be promoted. Face-to-face dialogue remains the most important means of identifying the issues and needs of customers with accuracy, and more than ever before, responding to these needs and issues requires the provision of optimal solutions. To this end, FFG will develop human resources and put systems in place capable of offering advanced solutions, and will put effort into strengthening its consulting function, providing solutions for the real challenges facing communities and customers.

FFG views the recent environmental changes as great opportunities for transformation and growth. With realization of the Group’s brand slogan “To be your Bank of choice” at the heart of all its corporate activities, FFG will achieve sustainable growth by further accelerating initiatives aimed at “evolution” in all aspects, including financial services, business style, human resources and organization.

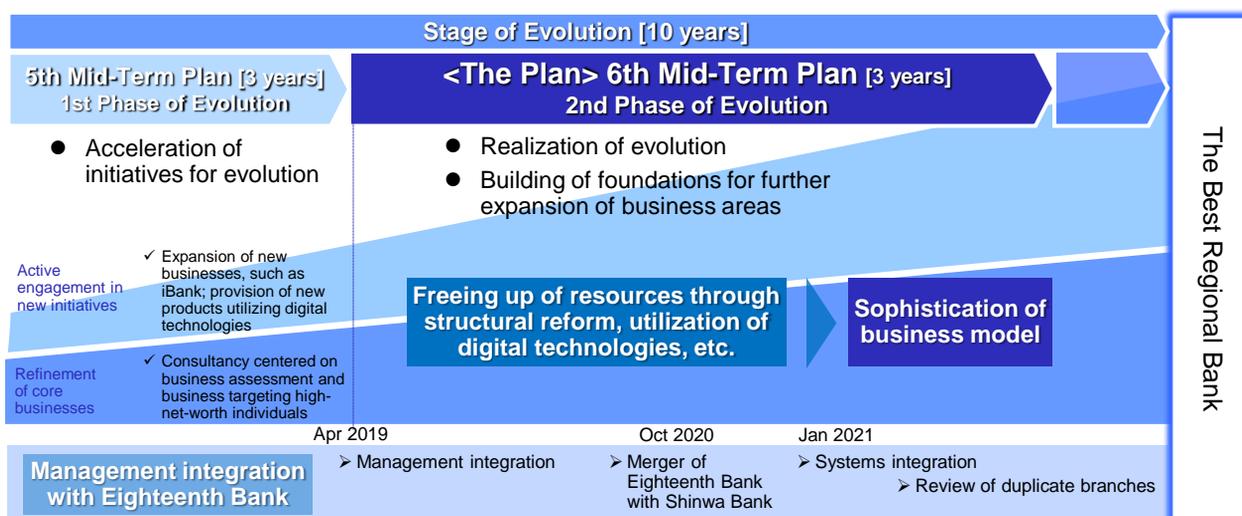
Furthermore, in order to become an organization that can continue to evolve while responding flexibly to changes in the environment, FFG will fully leverage its human resources and new digital technologies, and will act for customers beyond the bounds of finance as it strives to be a financial group that contributes to growth of its customers along with regional economic development.

3. Overview of the Sixth Mid-Term Management Plan

(1) Positioning of the plan

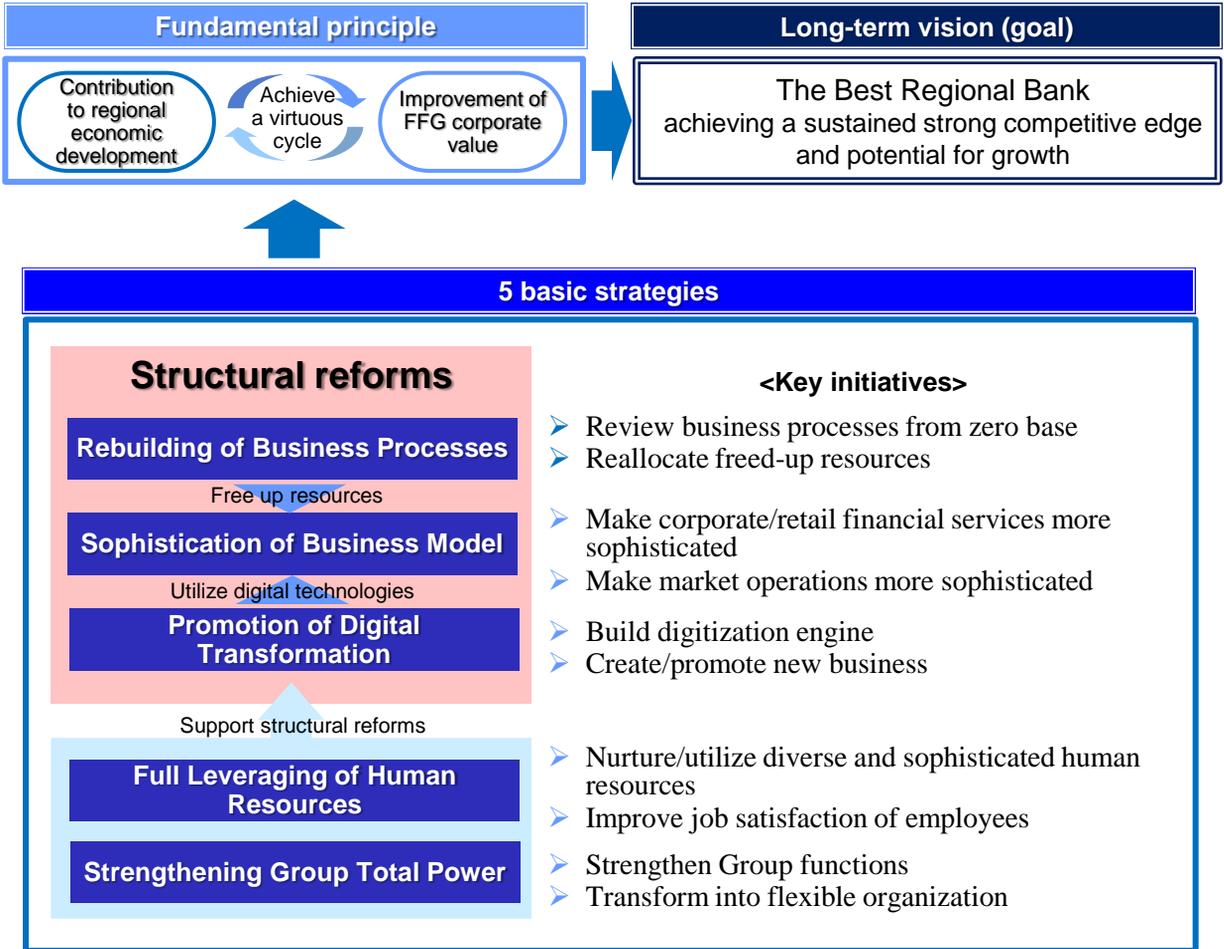
Under the Sixth Mid-Term Management Plan, during the “2nd Phase of Evolution” aimed at realizing the Group’s long-term vision of being the “Best Regional Bank,” FFG will accelerate the structural reforms promoted during the previous mid-term plan, and by committing the freed-up resources to areas of growth, and by utilizing digital technologies, the Group will give concrete form to the results of reform, such as progressively enhancing its business model. FFG will also proceed with the building of foundations for further expansion of its business areas. In addition, FFG will contribute to revitalization of the Nagasaki economy, by ensuring that management integration with the Eighteenth Bank in Nagasaki and merger of the Eighteenth Bank with the Shinwa Bank go through, and by bringing the synergy effects of integration to fruition at an early stage.

Name	Sixth Mid-Term Management Plan
Plan period	April 2019 – March 2022 (3-year period)
Long-term vision (goal)	The “Best Regional Bank” achieving a sustained strong competitive edge and potential for growth The best regional financial group for all stakeholders, contributing to and developing alongside the community by providing high-quality financial services
Fundamental principle	Achieve a virtuous cycle of “contribution to regional economic development” and “improvement of FFG corporate value”
5 basic strategies	Strategy I. Rebuilding of business processes Strategy II. Sophistication of business model Strategy III. Promotion of digital transformation Strategy IV. Full leveraging of human resources Strategy V. Strengthening group total power



(2) Basic strategies and key initiatives

Based on the fundamental principle of achieving a virtuous cycle of “contribution to regional economic development” and “improvement of FFG corporate value,” FFG has set five basic strategies in the Plan—namely, structural reform through “Rebuilding of Business Processes,” “Sophistication of Business Model” and “Promotion of Digital Transformation,” supported by “Full Leveraging Of Human Resources” and “Strengthening Group Total Power”—and will aim to achieve its long-term vision by conducting various strategies and initiatives.



[Overview of basic strategies]

Basic Strategy I: Rebuilding of Business Processes

- In addition to realizing the results of work style reforms and operational reforms tackled during the Fifth Mid-Term Management Plan, FFG will free up resources (personnel, time, space), and will transform branches into places of consultation by fundamentally reviewing business processes and further accelerating other initiatives.

Review business processes from zero base	<ul style="list-style-type: none"> Continue with substantial streamlining of business processes especially at branches, and dramatically improve productivity, through efforts for digitization and automation (such as the introduction of tablets) as well as efforts for centralizing work into headquarters.
Reallocate freed-up resources	<ul style="list-style-type: none"> Strive to boost sales force and to create innovation, by taking resources freed up through improved efficiencies and putting them into core businesses and areas of growth.

Basic Strategy II: Sophistication of Business Model

- FFG will earn genuine recognition from customers and establish a customer-centric, solutions-based business style, by identifying the true challenges and needs of customers through dialogue, and by providing highly-professional, high-quality financial services making the most of digital technologies.
- FFG will strive to increase the sophistication of operations in order to make market operations its second key source of earnings behind loans.

Make corporate financial services more sophisticated	<ul style="list-style-type: none"> ● Provide advanced, optimal solutions suited to each customer's stage in life, such as establishing the FFG Entrepreneurship Center and nurturing local entrepreneurs during the start-up phase, offering digitization support, personnel referrals and other support for sustainable growth during the growth/stable phase, and strengthening support systems for corporate turnarounds during the downturn/reconstruction phase. In addition, strengthen the investment banking business targeting local companies, using equity and fees as consideration for business growth.
Make retail financial services more sophisticated	<ul style="list-style-type: none"> ● In addition to strengthening professional services, such as rebuilding the investment trust business model utilizing a digital tool that proposes optimal portfolios and strengthening the inheritance support system to enrich respective services before and after an inheritance event, provide high-quality services by building a structure in which specialist personnel are assigned according to customer needs.
Make market operations more sophisticated	<ul style="list-style-type: none"> ● Improve and stabilize earnings by broadening investment diversification and by building risk-controlled portfolios based on diversified investment.

Basic Strategy III: Promotion of Digital Transformation

- To address changes in customer behavior and changes in social structure associated with advances in digital technologies, FFG will promote digital transformation, using digital technologies to fundamentally transform the traditional banking business, such as business processes, decision-making procedures, and value offered to customers.

Build digitization engine	<ul style="list-style-type: none"> ● Proceed with the building of a digitization engine, such as developing an "agile development framework" for promptly and flexibly introducing products and services from a customer reference point, and building a "data utilization framework" designed to give value to information by aggregating and analyzing internal and external data.
Create/promote new business	<ul style="list-style-type: none"> ● In addition to expanding the iBank business, create and promote new business, such as through establishment of the Zero Bank Design Factory, a systems development subsidiary responsible for conducting research and development of next-generation banking systems and reviewing the rollout of BaaS.*

* BaaS (Banking as a Service): Provision of financial functions and products, etc. as a service to various businesses

Basic Strategy IV: Full Leveraging of Human Resources

- FFG will realize sustainable organizational growth, by improving the job satisfaction of employees through human resources management based on changes in business strategy and the external environment.

Nurture/utilize diverse and sophisticated human resources	<ul style="list-style-type: none"> ● In addition to nurturing diverse and sophisticated human resources, such as personnel to lead reform, personnel responsible for making corporate and retail financial services more sophisticated, and digital specialist personnel, build a system that enables the optimal allocation of personnel throughout the Group.
Improve job satisfaction of employees	<ul style="list-style-type: none"> ● Develop a system whereby employees can get a real feeling of fulfillment in work, such as through flattening the organization and redesigning standards of assessment/treatment for accommodating diverse personnel and diverse work styles.

Basic Strategy V: Strengthening Group Total Power

- In addition to providing optimal solutions to customers, such as through enhancing the single platform, refining the multiple brands and fully utilizing Group company functions, FFG will invigorate internal and external communication and will strive to transform into a flexible organization.

Strengthen Group functions	<ul style="list-style-type: none"> ● Strengthen Group functions, such as by consolidating certain business operations of subsidiary banks into functions of the holding company and reviewing new functions for Group companies.
Transform into flexible organization	<ul style="list-style-type: none"> ● Enhance communication with all stakeholders more than ever before, and work to transform the organization into one which can respond flexibly to changes in the environment and changes in customer needs.

(3) Target management indices

In pursuit of the FFG long-term vision, that is, being “the ‘best regional bank’ achieving a sustained strong competitive edge and potential for growth,” the following target management indices are set for the Plan.

Target management indices	Final year target (FY2021)	Notes * FY2018 is the comparison reference year, and includes the Eighteenth Bank
Current net income (consolidated)	57.5 billion yen	• + about 1.5 billion yen from FY2018
ROE	About 6%	• Level with FY2018
Capital adequacy ratio	About 12%	• + about 1 point from FY2018
OHR (consolidated)	About 60%	• - about 4 points from FY2018

(4) Dividend policy

As for returning profits to shareholders, FFG adopts a performance-based dividend policy (dividend table) based on its aim of increasing shareholder value by enhancing corporate value. Raising the target dividend payout ratio (consolidated) from the previous level of about 30% to about 35%, FFG’s policy is to pay dividends according to the level of consolidated current net income. (However, this is subject to change depending on such factors as business development and risk environments, etc.) Target dividend payouts have now also been newly set for consolidated current net income levels of 55.0 billion yen and above.

Consolidated current net income level	Target per share dividend	Comparison with current dividend table
Above 60 billion yen	From 115 yen per year	New level for this period
55–60 billion yen	From 105 yen per year	"
50–55 billion yen	From 95 yen per year	+10 yen
45–50 billion yen	From 85 yen per year	+10 yen
40–45 billion yen	From 75 yen per year	+10 yen
35–40 billion yen	From 65 yen per year	+5 yen
30–35 billion yen	From 55 yen per year	No change
25–30 billion yen	From 50 yen per year	"
20–25 billion yen	From 45 yen per year	"
15–20 billion yen	From 40 yen per year	"
Below 15 billion yen	From 35 yen per year	"

[Reference: Dividend policy for FY2019]

Given the temporary nature of factors associated with management integration with the Eighteenth Bank, irrespective of the table above, FFG plans to pay 85 yen as a minimum dividend in fiscal 2019, being on par with the planned dividend amount for the previous year. In the event earnings are revised upward, FFG will reconsider the amount of the dividend.

FFG will achieve sustained growth into the future by steadily implementing a variety of strategies and measures based on the Sixth Mid-Term Management Plan.

Contact for further inquiries

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