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## **Announcement of Fukuoka Financial Group’s “Fifth Mid-Term Management Plan”**

Fukuoka Financial Group, Inc. (President: Takashige Shibato; hereinafter referred to as “FFG”) hereby announces that it has formulated the “Fifth Mid-Term Management Plan: Aiming to be the Best Regional Bank” covering the three-year period, April 2016–March 2019 (hereinafter referred to as the “Plan”). Following is a general outline of the Plan.

With respect to the “Memorandum of Understanding regarding Business Integration with The Eighteenth Bank, Limited,” which was announced on February 26, 2016, since it is currently at the basic agreement stage, any effects and impacts assuming the business integration is realized have not been taken into account in the strategies or in the projected profits and numerical data contained in the Plan. The Plan will be reviewed and revised once business integration with The Eighteenth Bank, Limited has been resolved and realized, at which time, the revised Plan will be announced.

### **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. During these nine years, 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 regional economy.

Turning to the external environment, the business environment surrounding regional financial institutions is expected to become increasingly severe, due to such factors as declining birthrate and aging population, prolonged low interest rates, and the entry of firms from different sectors into the banking business. Regional economies in particular are facing such structural challenges as populations continuing to decline and age with increasing speed. It is anticipated, therefore, that regional markets will contract in the future.

Against a backdrop of these changes in social structure, not only are regional financial institutions required to maintain stable regional financial systems, but they are also being asked to fulfill a role in supporting the invigoration and development of regional economies more aggressively and proactively than ever before. These roles include regional revitalization and assessment of business potential.

### **2. FFG’s long-term strategy**

#### **(1) Overview**

The ultimate mission of a regional financial institution is to contribute to the invigoration and development of the regional economy.

Given this, FFG will advance a “long-term strategy” with a ten-year timeframe, based on two key themes, namely, “development of a stable financial system covering the regional economic zone” centered around the local Kyushu region and “initiatives for the development and invigoration of the regional economy.”

## [Long-term Strategy]

### ■ Development of a stable financial system covering the regional economic zone

Management strategies of a regional financial institution involve a variety of “strategy options,” from the pursuit of stand-alone growth, to the aspiration of discrete growth, which includes business integration. In the past, FFG has taken proactive steps with regard to the ever-changing business environment, quickly developing into a “broad area-based regional financial group,” and building a stable regional financial system centered around Kyushu.

Going forward, by working to strengthen its management base in conjunction with various strategies, we will continue to build a more stable regional financial system and contribute to regional revitalization.

### ■ Initiatives for the development and invigoration of the regional economy (positive approach to “assessment of business potential”)

As a specific action helping to develop and revitalize the regional economy, FFG will make a concerted effort for the “assessment of business potential.”

We will offer optimal solutions to local Kyushu customers and to the community, by developing activities that strengthen our “relations with our customers” (a principle that we have advanced since the previous mid-term management plan) and by demonstrating the “group total power” we have accumulated over time, including our judgment, know-how, structures and human resources.

Furthermore, against a backdrop of rapidly evolving information and communications technology (ICT) and changes in social structure, it is anticipated that the needs of customers and the community will be more diversified and sophisticated. We will meet those needs by maintaining and ensuring high-quality financial services, actively challenging new business areas and advanced financial services making the best use of FinTech, while leveraging the firm management base and business base we have built up.

Although the business integration with The Eighteenth Bank, Limited is a topic currently under review, we believe that forming a robust financial group through business integration is one of the effective strategies for a regional financial institution to achieve “regional revitalization.” Assuming the business integration comes to fruition, we believe that further strengthening FFG’s management base and further enhancing our network will lead to maintenance and stabilization of Kyushu’s regional financial system well into the future, and we are confident that we will be able to support the development and invigoration of the Kyushu economy more than ever before.

## (2) A new stage of evolution and FFG’s long-term vision

In order to advance this kind of long-term strategy amid a rapidly changing business environment, it is essential that we anticipate and adapt to various changes in the business environment, that is, we continue to constantly evolve.

Given this, we have positioned the next decade starting with the FFG Fifth Mid-Term Management Plan as a new stage of evolution following on from the past nine years during which we strived for significant growth.

During this stage of evolution, based on the management and business foundations that we have laid so far, in addition to areas on our current trajectory, we will also actively take up the challenge in new, isolated areas, and we will evolve our business model in all aspects, including with respect to financial services, business style, human resources and organization.

We will again set a long-term vision of being “The Best Regional Bank achieving a sustained strong competitive edge and potential for growth,” incorporating our desire to be “the best regional financial group enjoying support from all stakeholders” as our goal for this new stage.

At FFG, we will aspire to become the “best regional bank”—a new regional financial group without comparison, equipped with the highest level of financial services, networks, human resources and organizational power, while remaining rooted in the local community.

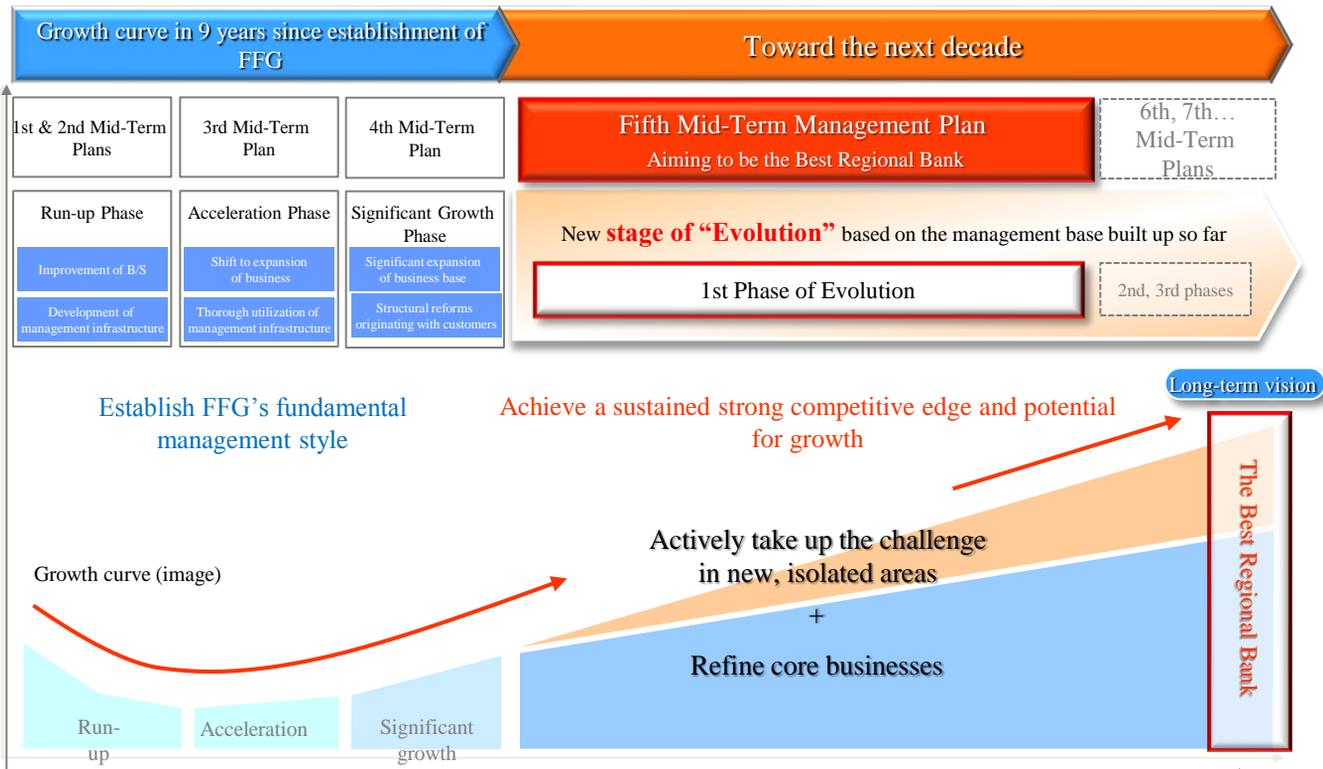
With respect to the recent 2016 Kumamoto Earthquakes, we will fulfill our mission as a regional financial institution, by not only providing adequate financial services for regional reconstruction and invigoration, but by also uniting together and getting involved in various social contribution activities.

### 3. Overview and positioning of the Fifth Mid-Term Management Plan

The Fifth Mid-Term Management Plan is positioned as the first phase of a new stage of evolution which is being initiated with an aim of achieving our long-term vision. While striving to establish a firm management base and business model that remain steady even with possible future changes in the business environment, we will accelerate initiatives aimed at “evolution” in all aspects, including financial services, business style, human resources and organization.

<b>Title of plan Subheading</b>	Fifth Mid-Term Management Plan: Aiming to be the Best Regional Bank
<b>Period</b>	3 years (April 2016 – March 2019)
<b>Long-term vision (goal)</b>	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
<b>Fundamental principle</b>	Achieve a virtuous cycle of “contribution to regional economic development” and “improvement of FFG corporate value,” by constantly continuing to “evolve” while anticipating changes in the business environment
<b>Basic strategies (4 key strategies)</b>	I Evolve business model II Strengthen human resources III Exercise group total power IV Build strong brand power

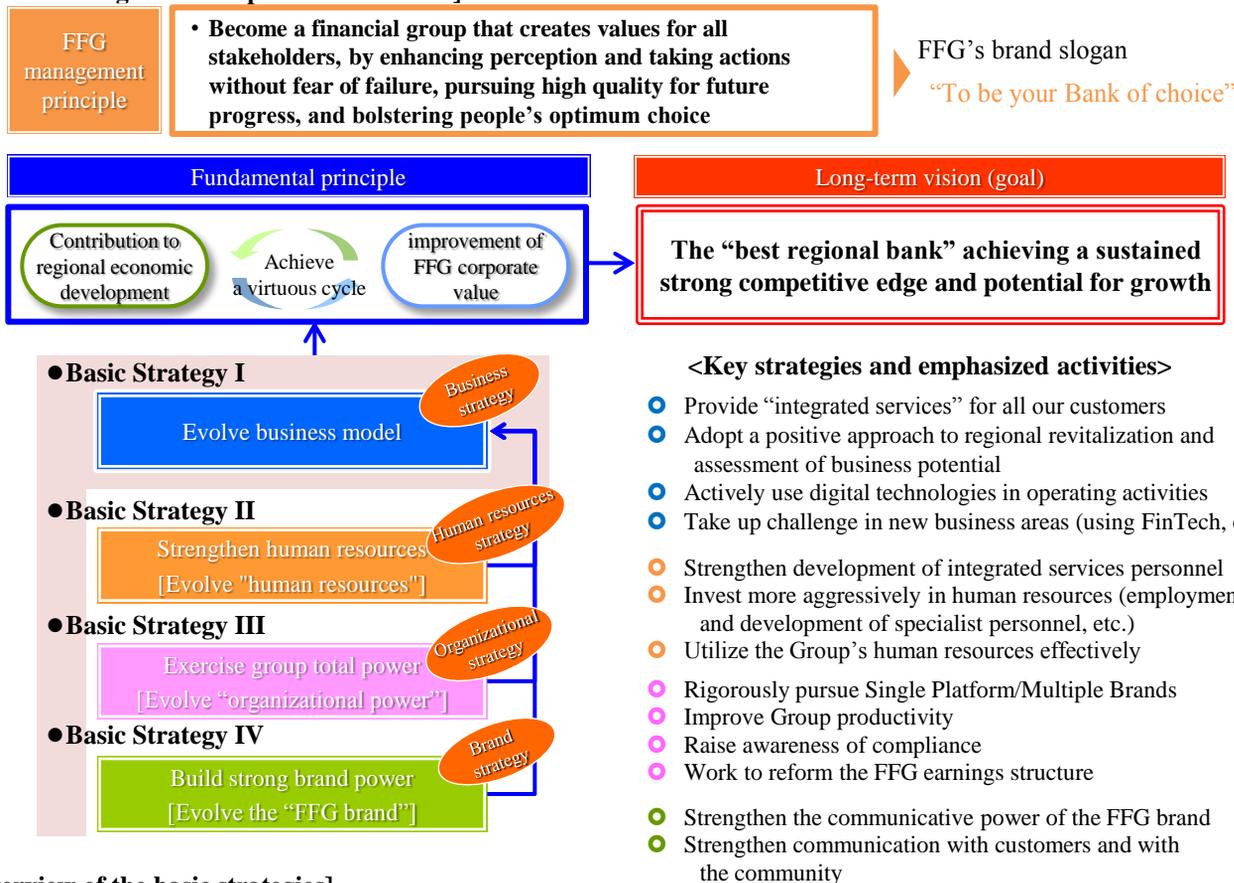
#### ■ FFG’s mid-term management plans since establishment, and image of heightened growth phase



#### 4. Basic strategies and emphasized activities of the Fifth Mid-Term Management Plan

The fundamental principle in the Plan is to “achieve a virtuous cycle of *contribution to regional economic development* and *improvement of FFG corporate value*.” Based on this, four basic strategies have been set to evolve our business model, human resources, group total power and the FFG brand power. We will aim to achieve our long-term vision by conducting various strategies and initiatives, always with our brand slogan “To be your Bank of choice” at the core of all strategies and measures.

##### [4 basic strategies and emphasized activities]



##### [Overview of the basic strategies]

#### Basic Strategy I: Evolve business model

- In the Fourth Mid-Term Management Plan, we engaged in “integrated services” for all our customers. Under current Plan, we will strengthen both the quality and quantity of these “integrated services,” and we will provide services and products based on our customers’ actual and potential needs, with optimal timing and through optimal channels.

Provide “integrated services” for all our customers	▶ In addition to enhancing both the quality and quantity of consulting for all customers while taking full advantage of the Group’s financial services function, aim to expand transactions by enhancing customer contact and improving the quality of services.
Adopt a positive approach to regional revitalization and assessment of business potential	▶ Adopt an aggressive and proactive approach to contributing to regional economic invigoration and to efforts for assessing business potential—two roles required of regional financial institutions.
Actively use digital technologies in operating activities	▶ Incorporate advanced information and communications technology (ICT) into the “integrated services” process, and accommodate all customer needs in a broader and more timely manner.
Take up challenge in new business areas (using FinTech, etc.)	▶ In addition to taking up the challenge for a new business model while actively utilizing information and communications technology (ICT), work to uncover innovative ideas and new technologies, examine their applicability to financial services, and support and nurture commercialization.

## Basic Strategy II: Strengthen human resources

- We will strive to strengthen the Group’s human resources, by actively investing in human resources and developing and utilizing personnel who can support FFG in achieving a sustained strong competitive edge and potential for growth.

<b>Strengthen development of integrated services personnel</b>	▶ In addition to putting FFG’s brand slogan “To be your Bank of choice” into practice in customer relations and in operating activities, work to develop and enhance “integrated services personnel” equipped with knowledge, skills and know-how.
<b>Invest more aggressively in human resources</b>	▶ More aggressively invest (employ/develop) in personnel who will support the future of FFG and in personnel equipped with the specialized skills necessary for achieving FFG’s growth strategy.
<b>Utilize the Group’s human resources effectively</b>	▶ Unleash the maximum potential of human resources within FFG, by responding positively to diversity, including promoting the active involvement of female personnel, and by working to improve productivity through changes in work style.

## Basic Strategy III: Exercise group total power

- In addition to rigorously pursuing the “Single Platform/Multiple Brands” management style across each division of FFG, the entire Group will unite in strengthening our organizational power, such as through improving productivity and reforming our earnings structure, and in exercising the group’s strong overall abilities and service capabilities more than ever before.

<b>Rigorously pursue Single Platform/Multiple Brands</b>	▶ Rigorously pursue FFG’s fundamental “Single Platform/Multiple Brands” management style across each division, and work to further strengthen FFG’s management structure.
<b>Improve Group productivity</b>	▶ Strive to improve Group productivity, by actively using advanced information and communications technology (ICT) in operating activities, effecting changes in work style, and achieving greater efficiencies in centralized administrative divisions.
<b>Raise awareness of compliance</b>	▶ Strive to further raise awareness of compliance by making internal communication within the Group more active.
<b>Work to reform the FFG earnings structure</b>	▶ In addition to increasing non-interest income by actively accumulating stable earning assets centered around the local Kyushu region and by enhancing assets under management and consulting services, work to make the securities divisions more sophisticated and diverse and to strengthen earning power on a Group consolidated basis.

## Basic Strategy IV: Build strong brand power (To be your Bank of choice)

- We will build strong brand power for FFG and for our subsidiary banks, always with our brand slogan “To be your Bank of choice” at the core of the Plan.

<b>Strengthen the communicative power of the FFG brand</b>	▶ Strengthen the brand management of FFG and the subsidiary banks, and strive to raise the degree to which customers and the community recognize and recall FFG.
<b>Strengthen communication with customers and with the community</b>	▶ Conduct CSR activities and initiatives strengthening FFG’s communication capacity so that customers and the community can get a sense of the feeling expressed in the brand slogan “To be your Bank of choice” at various points of contact.

## 5. 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 (FY2018)	Notes
Profitability indices	Net income (consolidated)	45 billion yen	• +1.0 billion yen from the value announced for FY2015
	ROE	5% or more	• [Reference] Tangible ROE: about 6%
Growth indices	Average balance of total loans (3 banks total)	11.5 trillion yen	• + about 1 trillion yen from FY2015
	Average balance of total deposits and CDs (3 banks total)	13.9 trillion yen	• + about 1 trillion yen from FY2015
	Outstanding balance of assets under management for individual customers (3 banks + Fukuoka Securities total)	2 trillion yen	• + about 0.7 trillion yen from FY2015
Health index	Capital adequacy ratio	About 9%	• + about 0.5 points from FY2015
Efficiency index	OHR (consolidated)	About 60%	• - about 2 points from FY2015

- \* Assumes a scenario where market interest rates, etc. remain at the current level.
- \* Other information pertaining to projected figures, etc. (including a breakdown for three subsidiary banks) will be published after the announcement of the FY2015 financial statements (scheduled for May 2016).
- \* Net income: Net income attributable to owners of the parent
- \* The comparison of net income (consolidated) is a comparison against the FY2015 earnings projection announced on November 10, 2015.
- \* 3 banks total: The Bank of Fukuoka + The Kumamoto Bank + The Shinwa Bank
- \* Outstanding balance of assets under management for individual customers: Balance of investment trusts for individual customers + Balance of individual insurance
- \* The effects and impacts (projected profits and numerical data) of, and attributable to, the Memorandum of Understanding regarding Business Integration with The Eighteenth Bank, Limited, which was announced on February 26, 2016, have not been taken into account in these management indices. The indices will be revised once business integration with The Eighteenth Bank has been resolved and realized, at which time, they will be announced.

## 6. Dividend policy

As for returning profits to shareholders, FFG adopts a performance-based dividend policy (dividend table) based on our aim of increasing shareholder value by enhancing corporate value. Keeping our target dividend payout ratio (consolidated) at about 30%, our policy is to pay dividends according to the level of consolidated 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 net income levels of 45.0 billion yen and above.

Consolidated net income level	Per share dividend (reference value)	
Over 50 billion yen	Per year	from 17 yen
45–50 billion yen	Per year	from 15 yen
40–45 billion yen	Per year	from 13 yen
35–40 billion yen	Per year	from 12 yen
30–35 billion yen	Per year	from 11 yen
25–30 billion yen	Per year	from 10 yen
20–25 billion yen	Per year	from 9 yen
15–20 billion yen	Per year	from 8 yen
Below 15 billion yen	Per year	from 7 yen

FFG will achieve sustained growth over the future by steadily implementing a variety of strategies and measures based on the long-term strategy and on the Fifth Mid-Term Management Plan.

### **Contact for further inquiries**

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