Corporate Governance

CORPORATE GOVERNANCE

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Kyushu Financial Group, Inc.

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Securities code: 7180

https://www.kyushu-fg.co.jp

This document describes the state of the corporate governance at Kyushu Financial Group, Inc. ("Kyushu Financial")

I.Basic Stance on Corporate Governance and Capital Structure, Business Attributes, and Other Basic Information

1. Basic stance (updated)

The Kyushu Financial Group (the "Group") complies with laws and regulations and ensures appropriate business decision-making and the execution of operations according to its management philosophy, and strives to achieve high degrees of management transparency, openness to the public, and soundness of operation to enhance corporate governance.

<The Group's management philosophy>

1. The Group will respond to the trust and expectations of customers and will provide optimal, high-level comprehensive financial services to customers.
2. The Group will grow with local communities and actively contribute to the realization of vibrant communities.
3. The Group will nurture an abundance of creativity and a free-spirited organizational culture, continuing to challenge itself to move toward a better future.

In accordance with its basic stance on the corporate governance system stated below, Kyushu Financial has decided that it is appropriate to have an established framework in which the Board of Directors that consists of 11 Directors (including 2 External Directors) supervises business decision-making and the performance of Directors' duty, and 5 Auditors (including 3 External Auditors) and the Board of Corporate Auditors audit the status of the decision-making and supervision, thereby enhancing management efficiency and strengthening corporate governance. Hence, we have adopted the current form as a company with a board of corporate auditors.

<Basic stance on the corporate governance system>

1. We clearly define supervision and execution in order to establish an environment that allows the Board of Directors to focus on the supervision of the performance of Directors' duty, thereby ensuring the effectiveness of corporate governance.
2. The Board of Directors delegates decision-making on the execution of individual operations to Senior Management wherever possible unless it involves matters specified in laws and regulations or the articles of

incorporation, or the execution of material operations such as policies, strategies, or plans pertaining to the operation of the Group.

3. We have in place and leverage optional internal bodies, including the Group Executive Commission and other various committees, in order to support Senior Management in prompt and decisive decision-making, thereby ensuring flexible execution of operations and enhancing our corporate governance.
4. We leverage objective views offered by our External Officers wherever possible in order to ensure the fairness and transparency of our decision-making process pertaining to our operation.

We have also developed and published our "Corporate Governance Guidelines" with the aim of achieving the sustainable growth of the Group and increasing our medium- and long-term corporate value. The Group's officers and employees read the Guidelines for a full understanding so that they act accordingly.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

[Reasons for not applying the principles of the Corporate Governance Code] (updated)

[Principle 3-1 (iv)]	Policy and Procedure regarding the Dismissal of Senior Management
[Supplementary Principle 4-1 (iii)]	Development and Supervision of Plans for Successors of Chief Executive Officers
[Supplementary Principle 4-3 (iii)]	Establishment of an Objective, Timely, and Transparent Procedure for Dismissal of CEOs

We have established the Nomination and Remuneration Advisory Committee in order to ensure fairness and transparency in the decision-making process pertaining to the nomination of and compensation to our Directors, Executive Officers (hereafter "Management"), and Auditors. We have continuously discussed actions for the above principles in terms of transparency, openness to the public, and soundness in our operation.

[Disclosure pursuant to the principles of the Corporate Governance Code] (updated)

(Disclosure pursuant to the principle establishing that specified matters should be disclosed)

[Principle 1-4] Cross-held Shares

1. Cross-shareholding policy and criteria for exercising voting rights

Article 23, paragraphs 1 and 3 (Cross-held Shares) of the Corporate Governance Guidelines specify our cross-shareholding policy and criteria for exercising voting rights. Please visit our website where the Article is published.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

■ Our Approach to Reduction in Cross-held Shares

The Group holds the review stated in "2. Details of the review concerning cross-held shares" below in accordance with the Corporate Governance Guidelines. If the review has concluded that certain shares do not

need to be cross-held, we proceed with reduction only when the holders of those shares agree, taking account of any impact on the market.

■ Specific Criteria for Exercising Voting Rights

As a rule, the Group exercises its voting rights for all proposals in accordance with the Corporate Governance Guidelines.

We also discuss whether we agree or disagree with each proposal that will likely have an impact on the corporate value of our Group and/or the companies in which we invest*.

* The following are examples of proposals.

- Proposal for appointment of a Director/Auditor; proposal for compensation and a retirement bonus (when there is a governance-related concern (e.g., a scandal or poor performance over a certain period)
- Proposal for appropriation of surplus (dividends paid despite a loss; non-dividend despite a surplus for a certain period)
- Proposal for material changes to the article of incorporation
- Proposal for issuance of new shares
- Proposal for material reorganization (e.g., M&A, business merger)
- Proposal for anti-takeover measures, etc.

2. Details of the review concerning cross-held shares

The Group has regularly conducted comprehensive individual reviews of cross-held shares for qualitative (e.g., the purposes of holding the shares and compliance) and quantitative* evaluation in order to determine whether retaining those shares is still relevant, and has reported the details of the reviews to the Board of Directors.

* Formula for quantitative evaluation

Gross income from business (Interest income + Fee and commissions) + Annual dividend - Expenses - Cost of credit/Book value ≧ Return on shareholders' equity

Please note that, even when the review concludes that a stock fails to meet the quantitative criteria, we may retain it if it will likely improve through our dialogue with the issuing company.

We have also set the alarm (watching) point to review and determine whether to retain individual shares that may involve market risks to surface.

We also monitor the details and results of reviews by the Group companies and report them to the Board of Directors and other relevant bodies, and ensure consolidated market risk management in order to enhance our functions as a holding company.

[Principle 1-7] Transactions with Affiliated Parties

Please see Article 20 (Prevention of Transactions Adverse to the Interest of Shareholders) of the Corporate Governance Guidelines published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

[Principle 2-6] Fulfillment of Functions as an Asset Owner of Corporate Pensions

- The Group invests the reserves of the corporate pensions through the corporate pension funds offered by Higo Bank and Kagoshima Bank (hereafter the "Funds"). To ensure stable and long-term total earnings for corporate pensions and the payment of pension benefits over the years to come, we have thorough reviews and discussions with the asset management committees, councils, and board of representatives (hereafter the "Bodies") at these Funds and work with investment consultants and sub-advisers, thereby forming optimum pension assets.
- With regard to the investment of reserves, we make the following efforts so that we will serve functions as an asset owner.

■ At the Funds, the Bodies discuss matters regarding investments (e.g., the selection of investment products, allocation of investments, and earnings/risk analysis). Then the Funds appraise investments and manage earnings in accordance with the investment policies they have determined. We also conduct overall evaluations and monitoring of investment managers, taking account of their track records, investment policies, investment systems, and investment processes, among others.

■ We select the Funds' employees who are qualified in terms of skills in investments and administration (e.g., heads of marketing, personnel, and corporate planning departments; union representatives) as the members of the Bodies at the Funds. Moreover, we assign employees with expertise in investments (e.g., those with experience in marketing) to the position of business managers at the Funds.

■ In December 2019, the Funds announced that they would adopt the "Principles for Responsible Institutional Investors <<Japan's Stewardship Code>>" (hereafter the "SS Code"). In the role of "Institutional investors as asset holders," the Funds will urge sub-advisers to follow the principles of the SS Code, thereby helping increase the corporate value of the companies we invest in and boosting medium- and long-term return on investment.

[Principle 3-1 (i)] The Group's Management Philosophy and Medium-term Management Plan

We have an established Group-wide management philosophy that is made public. The details of the philosophy are stated in "I. 1. Basic Stance" in this document. The Group's medium-term management plan is also published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201805_02plan_cyukan.pdf)

[Principle 3-1 (ii)] Basic Stance on Corporate Governance and Basic Policy

Details are stated in "I. 1. Basic Stance" in this document. Please also refer to Article 3 (The Group's Basic Stance on Corporate Governance) of the Corporate Governance Guidelines published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

[Principle 3-1 (iii)] Policy and Procedure for Determining Directors' Remuneration

Please see Article 13 (Compensation to Directors and Auditors) of the Corporate Governance Guidelines published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

We also have the Nomination and Remuneration Advisory Committee as the advisory body for the Board of Directors concerning the nomination of and compensation to Management and Auditors. We follow the processes specified below when we make decisions regarding compensation to Management.

- The total compensation to Management for each fiscal year is submitted to the Nomination and Remuneration Advisory Committee for deliberation and determined by the Board of Directors.
- The exact amount of compensation to each Management member is submitted to the Nomination and Remuneration Advisory Committee for deliberation and determined by the President within the bounds of the total compensation for the fiscal year determined by the Board of Directors.

[Principle 3-1 (iv)] Policy and Procedure for Appointment, Dismissal, or Nomination of Directors

Please see Articles 9 (Appointment of Directors) and 12 (Appointment of Auditors) of the Corporate Governance Guidelines published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

We have established the Nomination and Remuneration Advisory Committee in order to ensure fairness and transparency in the decision-making process pertaining to the nomination of and compensation to Management and Auditors, and continuously discussed our policy and procedure for dismissal of Directors.

[Principle 3-1 (v)] Explanation about the Appointment, Dismissal, or Nomination of a Candidate for the Post of Director/Auditor

The reasons for the appointment of individual candidates for the posts of Directors at Kyushu Financial are disclosed in the attachment to the Notice of Convening the General Meeting of Shareholders. Copies of the Notice of Convening the General Meeting of Shareholders are mailed to all shareholders. The Notice is also published on our website.

(URL: https://www.kyushu-fg.co.jp/stock/pdf/20200619_soukai.pdf)

The reasons for the appointment of the Full-time Corporate Auditors are described below. The reasons for the appointment of the External Auditors are stated in "Relations with the Company (2)" under [Auditors] in this document.

Yuichi Tanabe	In 2017, Yuichi Tanabe became an Auditor at the Higo Bank, Ltd., one of the companies in the Group. In 2018, Mr. Tanabe started working as an Auditor at Kyushu Financial. He has properly audited the compliance systems and business operation at Kyushu Financial and across the Group since. He has a wealth of knowledge, experience, skills, and proper views on finance and accounting, which

	are all invaluable to financial services. We believe that he is well equipped to help us ensure the sound management of the Group, and thus we have appointed him an Auditor.
Hirofumi Kaigakura	In 2017, Hirofumi Kaigakura became an Auditor at Kyushu Financial and the Kagoshima Bank, Ltd., one of the companies in the Group. He has properly audited the compliance systems and business operation at Kyushu Financial and across the Group since. He has a wealth of knowledge, experience, skills, and proper views on finance and accounting, which are all invaluable to financial services. We believe that he is well equipped to help us ensure the sound management of the Group, and thus we have appointed him an Auditor.

We will also ensure accountability should we dismiss a Director.

[Supplementary Principle 4-1 (i)] Summary of the Scope of Delegation to Management

Please see Article 8, Paragraph 2 (Roles of Directors and the Board of Directors) of the Corporate Governance Guidelines published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

[Principle 4-8] Effective Use of Independent External Directors

We appoint two Independent External Directors and leverage their objective views wherever possible in order to ensure the fairness and transparency of our decision-making process pertaining to our operation.

[Principle 4-9] Criteria for Independence and qualifications of an Independent External Director

Please see the Attachment (Criteria for Independence of an External Officers) to the Corporate Governance Guidelines published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

[Supplementary Principle 4-11 (i)] About the Balance between Knowledge, Experience, and Skills Required of the Board of Directors

Please see Article 7 (Composition of the Board of Directors) and Article 9 (Appointment of Directors), Paragraphs 2 and 4 of the Corporate Governance Guidelines published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

[Supplementary Principle 4-11 (ii)] Directors and Auditors Serving as Officers at Other Listed Companies

Our Directors and Auditors who also serve as officers at other listed companies are disclosed on Page 34 in the Notice of Convening the General Meeting of Shareholders. Copies of the Notice of Convening the General Meeting of Shareholders are mailed to all shareholders. The Notice is also published on our website.

(URL: https://www.kyushu-fg.co.jp/stock/pdf/20200619_soukai.pdf)

[Supplementary Principle 4-11 (iii)] Summary of Analysis and Evaluation regarding the Overall Effectiveness of the Board of Directors

We analyze and evaluate the overall effectiveness of the Board of Directors annually, referring to our Directors' self-evaluations. The board meeting held in May 2020 conducted the analysis and evaluation for FY 2019 based on self-evaluations of all Directors and Auditors that encompassed how the Board of Directors is composed and how it operates. The meeting concluded that the overall effectiveness of the Board of Directors is ensured, and agreed that the following are the challenges that should be met to facilitate even more active discussions at board meetings.

- Having even fuller discussions at the Nomination and Remuneration Advisory Committee
- Having more extensive and in-depth discussions about medium- and long-term issues in order to increase sustainable corporate value

[Supplementary Principle 4-14 (ii)] Policy on Training for Directors and Auditors

Please see Article 14 (Assistance System and Training Policy for Directors and Auditors), Paragraph 1 of the Corporate Governance Guidelines published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

[Principle 5-1] Policy on Constructive Dialogue with Shareholders

Please see Article 21 (Dialogue with Shareholders) of the Corporate Governance Guidelines published on our website.

(URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)

2. Capital structure

Stock ownership by foreign investors	10% to less than 20%

[Shares held by the largest shareholders] (updated)

Name	Number of Shares Held	Proportion (%)
Iwasaki Ikuei Bunka Zaidan	20,936,070	4.75
Meiji Yasuda Life Insurance Company	18,568,563	4.22
The Master Trust Bank of Japan, Ltd. (account in trust)	17,091,100	3.88
The Bank of Fukuoka, Ltd.	12,620,730	2.86
Japan Trusty Services Bank, Ltd. (account in trust 9)	10,806,700	2.45

Japan Trusty Services Bank, Ltd. (account in trust)	10,005,500	2.27
IR Bank	9,088,000	2.06
Employees' Stock Ownership Association of The Kagoshima Bank, Ltd.	7,852,995	1.78
Iwasaki Sangyo	7,616,887	1.73
Nippon Life Insurance Company	7,361,812	1.67

Controlling shareholder	—

Parent company	N/A

Note

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3. Business attributes

Stocks listed on	First Section of the Tokyo Stock Exchange; existing section of the Fukuoka Stock Exchange
Fiscal year-end	March
Industry	Banking
(Consolidated) Number of employees at the end of the previous fiscal year	1,000+
(Consolidated) Net sales for the previous fiscal year	100 billion to less than 1 trillion
Number of consolidated subsidiaries at the end of the previous fiscal year	10 to fewer than 50

4. Policy on the protection of minority shareholders when a transaction is conducted with the controlling shareholder

—

5. Other special circumstances that may have a material impact on corporate governance

There are no other special circumstances that may have a material impact on our corporate governance.

II. State of business management bodies pertinent to business decision-making, execution, and supervision and other corporate governance frameworks

1. Matters pertaining to the organizational structure and operation

Organizational form	Company with a board of corporate auditors

[Directors] (updated)

Number of directors specified in the articles of incorporation	14
Term of office of directors specified in the articles of incorporation	1 year
Chair of the Board	Chair of the Company (except when he/she also serves as the President)
Number of directors	11
External Directors appointed?	Yes
Number of External Directors	2
Number of External Directors designated as independent officers	2

Relations with the Company (1)

Name	Attribute	Relations with the Company (*1)									
		a	b	c	d	e	f	g	h	i	j	k
Katsuaki Watanabe	from another company											
Yuji Nemoto	from another company											

*1 Item chosen from the following that describes the appointee's relations with the Company

a. Executive of a listed company or its subsidiary

b. Executive or non-executive director of the parent company of a listed company

c. Executive of a fellow subsidiary of a listed company

d. Person whose major trading partner is a listed company or an executive of the person

e. Major trading partner of a listed company or an executive of the partner

f. Consultant, accounting expert, or legal expert who receives a large sum of money or any other property benefits than executive compensation from a listed company

g. Major shareholder of a listed company (or an executive of the corporation that is the major shareholder)

h. Executive of a listed company's trading partner who is not classified as the partner stated in d, e, or f above (applicable only to the person)

i. Executive of an entity with whom the Company has exchanged employees as External Officers (applicable only to the person)

j. Executive of an entity to which a listed company makes donations (applicable only to the person)

k. Other

Relations with the Company (2)

Name	Independent Officer?	Note to Supplement the Chosen Item	Reason for Appointment
Katsuaki Watanabe	Yes	Auditor at Sumitomo Electric Industries, Ltd.	Katsuaki Watanabe has a great wealth of experience as well as a broad view and extensive knowledge that he has acquired as a manager at a major manufacturing business. We decided that he would provide a neutral and objective view necessary to supervise the overall operation of the Group, and thus we had him on board as an External Director. He meets the criteria for independence specified by the stock exchange and fulfills the Criteria for Independence of an External Officer that we have established.
Yuji Nemoto	Yes	Professor at Toyo University	Yuji Nemoto engages in regional policies as a university professor and has a great wealth of experience as well as a broad view and extensive knowledge as an expert in public policy, urban development, and regional development. We decided that he would provide a neutral and objective view necessary to supervise the overall operation of the Group, and thus we had him on board as an External Director. He meets the criteria for independence specified by the stock exchange and fulfills the Criteria for Independence of an External Officer that we have established.

Any discretionary committee equivalent to a nomination committee or a compensation committee?	Yes

Discretionary committees, membership, and attributes of the chair

	Committee	All Committee Members	Full-time Committee Member	Internal Director	External Director	External Expert	Other	Chairperson
Discretionary Committee	Nomination and Remuneration Advisory Committee	4	N/A	2	1	0	1	Internal Director
Discretionary Committee	Nomination and Remuneration Advisory Committee	4	N/A	2	1	0	1	Internal Director

Note

We have the Nomination and Remuneration Advisory Committee as the advisory body for the Board of Directors in order to make our decision-making process fairer and more transparent, thereby helping improve our corporate governance, through focused discussions and exchanges of opinions with Representative Directors and External Officers about matters pertaining to the nomination of and compensation to Management and Auditors.

[Corporate Auditors]

Board of corporate auditors?	Yes
Number of auditors specified in the articles of incorporation	6
Number of auditors	5

How Auditors, Financial Auditors, and the internal audit unit work together

Our Auditors have experience and insight related to finance and accounting. They meet our Financial Auditors regularly or as necessary to receive reports and exchange opinions as part of their efforts to work closely with the Financial Auditors.

The Auditors also work closely with the Audit Division, which is our internal audit department, and request the Department to conduct an investigation or take other necessary actions in order to ensure efficient and effective audits.

The Audit Department reports the results of internal audits in the Group, along with the evaluations of the

Group's internal management process that are based on these audit results, to the Board of Directors regularly or as necessary. If the Department learns about any concerns or problems that may have material effects on our operation, they promptly report them to the Board of Directors and the Board of Corporate Auditors. The Department also works with Financial Auditors for internal control pertaining to financial reporting.

External Auditors appointed?	Yes
Number of External Auditors	3
Number of External Auditors designated as independent officers	3

Relations with the Company (1)

Name	Attribute	Relations with the Company (*1)												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Kenichi Sekiguchi	from another company													
Katsuro Tanaka	Attorney													
Yuko Tajima	Attorney													

*1 Item chosen from the following that describes the appointee's relations with the Company

a. Executive of a listed company or its subsidiary

b. Non-executive director or accounting advisor of a listed company or its subsidiary

c. Executive or non-executive director of the parent company of a listed company

d. Auditor of the parent company of a listed company

e. Executive of a fellow subsidiary of a listed company

f. Person whose major trading partner is a listed company or an executive of the person

g. Major trading partner of a listed company or an executive of the partner

h. Consultant, accounting expert, or legal expert who receives a large sum of money or any other property benefits than executive compensation from a listed company

i. Major shareholder of a listed company (or an executive of the corporation that is the major shareholder)

j. Executive of a listed company's trading partner who is not classified as the partner stated in f, g, or h above (applicable only to the person)

k. Executive of an entity with whom the Company has exchanged employees as External Officers (applicable only to the person)

l. Executive of an entity to which a listed company makes donations (applicable only to the person)

m. Other

Relations with the Company (2)

Name	Independent Officer?	Note to Supplement the Chosen Item	Reason for Appointment
Kenichi	Yes	Special Advisor at Meiji Yasuda Life	Kenichi Sekiguchi has a great wealth

Sekiguchi		Insurance Company Auditor at Hulic Co.,Ltd. The Group has capital ties with Meiji Yasuda Life Insurance Company. Meiji Yasuda Life also has regular transactions with Higo Bank and Kagoshima Bank, both of whom are the Group's wholly owned subsidiaries. The appointee himself has no special interest in the Group.	of experience as well as a broad view and extensive knowledge that he has acquired as a manager at a major financial institution. We decided that he would provide a neutral and objective view necessary for audits conducted to ensure the sound management of the Group, and thus we had him on board as an External Auditor. He meets the criteria for independence specified by the stock exchange and fulfills the Criteria for Independence of an External Officer that we have established.
Katsuro Tanaka	Yes	Senior Managing Partner of TMI Associates, Attorney Our wholly owned subsidiary Kagoshima Bank has a contract for legal advisory services with TMI Associates where the appointee works as Senior Managing Partner. The appointee himself has no special interest in the Group.	Katsuro Tanaka has a great wealth of experience as well as a broad view and extensive knowledge that he has acquired as an attorney. We decided that he would provide a neutral and objective view necessary for audits conducted to ensure the sound management of the Group, and thus we had him on board as an External Auditor. He meets the criteria for independence specified by the stock exchange and fulfills the Criteria for Independence of an External Officer that we have established.
Yuko Tajima	Yes	Partner Attorney of Sawayaka Law Office Director at the Chiba Bank, Ltd. Auditor at Tokio Marine & Nichido Life Insurance Co. Ltd.	Yuko Tajima has a great wealth of experience as well as a broad view and extensive knowledge that she has acquired as a public prosecutor and attorney. We decided that she would provide a neutral and objective view necessary for audits conducted to ensure the sound management of the Group,

			and thus we had her on board as an External Auditor. He meets the criteria for independence specified by the stock exchange and fulfills the Criteria for Independence of an External Officer that we have established.

[Independent Officers]

Number of independent officers	5

Other matters regarding independent officers

We designate all external officers as independent officers if they qualify.

[Incentives]

Measures taken in relation to the provision of incentives for Directors	Introduced a performance-linked compensation plan

Note to supplement the applicable item (updated)

The basic compensation (monthly compensation) to our Representative Directors, Senior Managing Executive Officers and above, and full-time Directors (excluding External Directors) and Executive Officers consists of defined salaries and performance-linked fees. The payment of performance-linked fees shall be based on the consolidated net income that indicates the overall state of the Group's operation. The payment ratio in percentage ranges from 0 percent to 110 percent according to how much has been achieved toward the target value for the fiscal year set in the second Group-wide medium-term management plan.

Stock options provided for	—

Note to supplement the applicable item

—

[Compensation to Directors]

Disclosed compensation	Individual amounts of compensation are not disclosed.

Note to supplement the applicable item

The total amount of compensation to Directors is disclosed.

Any policy on how to finalize the amounts of compensation or how to calculate the amounts?	Yes

Disclosed details of the policy on how to finalize the amounts of compensation or how to calculate the amounts

Compensation, bonuses, and other financial benefits in exchange for the performance of duty that our Directors and Auditors receive from us shall be determined by the resolution of our general shareholders meeting.
The 1st Annual Shareholders Meeting held on June 21, 2016, discussed monthly compensation to our Officers and resolved that the compensation to Directors would be capped at ¥25 million (including ¥3 million to External Directors) and the compensation to Auditors at ¥10 million.

[Support System for External Directors (External Auditors)]

The Corporate Planning Division assists External Directors with their duty, and the Office of the Board of Corporate Auditors assists External Auditors with theirs.
Board meeting documents are provided to External Directors and External Auditors ahead of the meeting, and the Corporate Planning Division, which handles administrative work for the Board of Directors, gives them explanations about the documents before the meeting. External Directors also visit our subsidiaries' stores in order to provide opportunities for store employees to exchange opinions.

2. Matters pertaining to such functions as the execution of operations, audits and supervision, nomination, and determination of compensation (summary of the current corporate governance framework) (updated)

<Execution of operations>

(1) Board of Directors

Our Board of Directors is defined as the decision-making body for matters specified in laws and regulations or the articles of incorporation and for the execution of the Group's material operations. Matters to be discussed and standards for monetary amounts have been established and specified in the Rules for the Board of Directors in order to provide clarification regarding supervision and execution.

(2) Group Management and Execution Council

The Group Management and Execution Council consists of Representative Directors and Senior Managing Executive Officers and above, and deliberates and makes decisions on matters delegated by the Board of Directors and discusses material matters concerning the Group's operation. The Council has extensive and in-depth discussions toward prompt and decisive decision-making.

(3) Committees under the Group Management and Execution Council

The following committees each regularly discuss matters for which they are responsible in order to effectively, efficiently, and promptly address the Group's cross-organizational issues.

- General Budget Committee
  The General Budget Committee discusses the Group's overall budget, progress toward goals, and cross-organizational issues, among others, based on the medium-term management plan.
- ALM Committee

The ALM Committee discusses the management of and policy on the Group's comprehensive risk, credit risk, market risk, and liquidity risk, along with matters regarding Group-wide revenue management, investments, and procurement.

- CR Committee
  The CR Committee discusses how well the Group's operational risk management and crisis management is working. The Committee also examines the effectiveness and appropriateness of the Group's control environment for legal compliance and discusses cross-organizational issues pertaining to compliance with laws and regulations.
- Organizational Integration and Headquarters Building Construction Committee
  The Organizational Integration and Headquarters Building Construction Committee discusses the integration (e.g., consolidation or unification) of the Group's organizations and functions, along with matters concerning the construction of the headquarters building.
- New Business Development Committee
  The New Business Development Committee discusses matters concerning new businesses launched to help increase the Group's consolidated revenue, the exploration of new revenue sources, and new domestic and overseas markets for our business domains.
- Digital Innovation Committee
  The Digital Innovation Committee discusses matters concerning the development and implementation of policies and strategies regarding how to take advantage of digital technologies adopted to change the Group's marketing and business processes and how to develop the infrastructure for these technologies. The Committee also examines the effects of these policies and strategies.
- Committee to Combat COVID-19
  The Committee to Combat COVID-19 discusses how to facilitate Group-wide information sharing pertaining to Group's response to COVID-19 and what initiatives the Group has launched for customers and the local economy.

(4) Executive Officers

We have introduced the executive officer system in order to separate the "functions of business decision-making and supervising the performance of Directors' duty" for which Directors should be responsible and the "function of executing operations" for which Executive Officers should be responsible. The separation has led to clear definitions of Directors' and Executive Officers' roles and responsibilities, systematically enabling flexible and efficient execution of operations.

<Supervision and audit>

(1) Supervision by the Board of Directors

Our Board of Directors consists of nine Directors who are financial experts and have developed their careers in the Group and two independent External Directors who supervise the overall operation of the Group from a neutral and objective perspective. The Board primarily makes decisions regarding matters specified in laws and regulations or the articles of incorporation as well as the execution of material operations pertaining to the Group's business, and supervises the performance of Directors' duty.

(2) Audit by Auditors

We have an established framework in which Auditors attend important meetings (including those of the Board of Directors, the Group Management and Execution Council, and other committees) and receive regular reports and interviews by the Audit Division and risk management departments in accordance with the audit policy and audit plan formulated each fiscal year. Furthermore, Auditors with considerable knowledge about

corporate management, including finance, conduct monitoring and review related to financial audits.

(3) Internal audit
The Audit Division of Kyushu Financial is independent from the audited departments. The Division audits the appropriateness and validity of the internal management process, which covers risk management, in accordance with the audit policy and plan for the fiscal year. The Division also reports the details of internal audits to the Board of Directors, the Group Management and Execution Council, and Auditors.

(4) Financial audit
We have a financial audit contract with Deloitte Touche Tohmatsu LLC that has been executed pursuant to the Companies Act and the Financial Instruments and Exchange Act so that Deloitte conducts audits accordingly.

<Nomination; Determination of compensation>
(1) Nomination and Remuneration Advisory Committee
We have the Nomination and Remuneration Advisory Committee as the advisory body for the Board of Directors in order to make our decision-making process fairer and more transparent, thereby helping improve our corporate governance, through focused discussions and exchanges of opinions with Representative Directors and External Officers about matters pertaining to the nomination of and compensation to Management and Auditors.

(2) Nomination of Management and Auditors
・ We consult the Nomination and Remuneration Advisory Committee about candidates for the posts of Directors. Then the candidates are selected by the Board of Directors and appointed at the General Shareholders Meeting in accordance with the articles of incorporation.
・ We consult the Nomination and Remuneration Advisory Committee about candidates for the posts of Auditors. Then, after approval is granted by the Board of Corporate Auditors, the candidates are selected by the Board of Directors and appointed at the General Shareholders Meeting in accordance with the articles of incorporation.
・ We consult the Nomination and Remuneration Advisory Committee about candidates for the posts of Executive Officers, and then the candidates are appointed at a Board of Directors meeting.

(3) Compensation to Management and Auditors
The 1st Annual Shareholders Meeting held on June 21, 2016, discussed monthly compensation to our Officers and resolved that the compensation to Directors would be capped at ¥25 million (including ¥3 million to External Directors) and the compensation to Auditors at ¥10 million.
At Kyushu Financial, the Board of Directors and (the Board of Corporate) Auditors have the authority to finalize the policy on the determination of the amounts of compensation to Management and Auditors or of how to calculate the amounts. The details of the authority and the scopes of their discretion are as stated below.
・ Compensation to Directors shall be determined by the Board of Directors through a fair and transparent deliberation within the amount resolved on at the General Shareholders Meeting. Opportunities to appropriately involve External Directors for advice are provided during this process.
・ Compensation to Auditors shall be treated separately from compensation to Directors, and determined through discussions with Auditors within the amount resolved on at the General Shareholders Meeting.
We also have the Nomination and Remuneration Advisory Committee to follow the processes specified below when we make decisions regarding compensation to Management.

・The total compensation to Management for each fiscal year is submitted to the Nomination and Remuneration Advisory Committee for deliberation and determined by the Board of Directors.
・The exact amount of compensation to each Management member is submitted to the Nomination and Remuneration Advisory Committee for deliberation and determined by the President within the total amount of compensation for the fiscal year determined by the Board of Directors.
Furthermore, the basic compensation (monthly compensation) to our Representative Directors, Senior Managing Executive Officers and above, and full-time Directors (excluding External Directors) and Executive Officers consists of defined salaries and performance-linked fees.
The payment of performance-linked fees shall be based on the consolidated net income that indicates the overall state of the Group's operation. The payment ratio in percentage ranges from 0 percent to 110 percent according to how much has been achieved toward the target value for the fiscal year set in the second Group-wide medium-term management plan.

3. Reason for our current corporate governance framework

Please see "I. 1. Basic Stance" in this document for the reason why we have adopted the current system.

III. Status of measures concerning shareholders and other stakeholders

1. Efforts to revitalize the General Shareholders Meeting and facilitate the exercise of voting rights (updated)

	Note
Early mailing of the notice of convening the General Shareholders Meeting	In addition to mailing the notice of the meeting ahead of the statutory deadline, we publish the notice on our website and disclose it at the Tokyo Stock Exchange in order to make sure that our shareholders have ample time to read all proposals.
Scheduling the General Shareholders Meeting for a date on which few other shareholders meetings are held	The 5th Annual Shareholders Meeting was held on June 19, 2020.
Exercising voting rights by an electronic means	We have introduced an online voting system.
Participating in an electronic platform for the exercise of voting rights and other efforts to improve the environment for the exercise of voting rights	We use the electronic platform designed for institutional investors to exercise their voting rights. The platform is run by ICJ, Inc.

by institutional investors	
Preparing the notice of the meeting (summary) in English	We publish the notice of the meeting in English on our website and make it available at the Tokyo Stock Exchange and on the platform for exercising voting rights.
Other	We make the following efforts to ensure that the Shareholders Meeting proceeds with clarity and transparency for our shareholders. ・ The notice of the meeting includes a list of candidates with their photos. ・ Business reports are explained using visuals projected onto a screen. ・ In addition to the main venue, satellite venues are set up in order to stream the meeting live for as many local shareholders in distant locations as possible.

2. Status of IR-related activities (updated)

	Note	Briefing by the representative?
Preparing and publishing our disclosure policy	Please see Article 25 (Ensuring Appropriate Disclosure of Information and Transparency) of the Corporate Governance Guidelines published on our website. (URL: https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)	
Holding regular briefing sessions for individual investors	We have been holding briefing sessions for individual investors since FY 2016.	Yes
Providing regular briefing sessions for analysts and institutional investors	We hold semiannual briefing sessions for analysts and institutional investors where Management provides explanations about our business strategies and financial condition. In June this year, in response to the coronavirus pandemic, we streamed the video of the briefing by Management on our website and held individual meetings, including telephone conferences.	Yes
Holding regular briefing sessions for overseas investors	We hold briefings for overseas investors through conferences with them organized by a securities company. The conference scheduled for March this year was cancelled due to the coronavirus pandemic.	N/A
Publishing IR materials on our website	We publish information about our financial results, information for timely disclosure, and documents used at corporate recruiting sessions, among others, on our website.	
Establishing IR-related departments (staff)	IR departments: Public Relations and IR Division	

3. Status of efforts toward sustainable relations with stakeholders

	Note
Establishing our determination to maintain sustainable relations with stakeholders in the internal rules	Please see Chapter 3 (Ensuring Shareholders' Rights and Equality) and Chapter 4 (Appropriate Cooperation with Other Stakeholders Than Shareholders) of the Corporate Governance Guidelines published on our website. (URL : https://www.kyushu-fg.co.jp/company/pdf/201512_govarnance_gideline.pdf)
Environmental actions and CSR initiatives	[Our efforts toward a sustainable society] The Group works to help develop a sustainable local economy and society in accordance with its management philosophy. To put greater effort into this initiative, we have adopted the perspectives of the Sustainable Development Goals (SDGs) set by the United Nations, along with those of Environmental, Social, and Corporate Governance (ESG). We have established the Sustainability Management Office in order to systemically supervise sustainable business activities across the Group, and announced our Sustainability Declaration so that the whole Group works toward the development of a sustainable society. (Sustainability Declaration) 1. Efforts toward the development of a sustainable society We practice eco-friendly management as part of our efforts to help develop a society where each of our customers and local residents will feel content with the outlook for life. 2. Efforts toward local economic development We take full advantage of our ability as a regional financial group in order to help resolve issues facing our customers and local community, thereby contributing to the development of the sustainable local economy. 3. Efforts toward collaborative growth We have constructive dialogue with our customers and local community to broaden our network of activities designed to help entire community become a sustainable society. With this Declaration in mind, we enforced the Guidelines on Investments and Loans in July 2019 as part of our efforts to help with the development of a sustainable local community through investments and loans, which are our primary business, thereby promoting autonomous and responsible investments and loans intended to resolve environmental and social issues facing our customers and local community. We also

actively assist with projects launched to help curb climate change or save biodiversity, or to promote local mainstay industries.

These efforts by the Group toward ESG finance received recognition, and we were awarded the Silver Prize in the Loan Category at the 1st ESG Finance Award Japan hosted by the Ministry of the Environment.

(Our initiatives for environmental actions and community service)

The Group actively works on environmental and social issues in an effort to help develop an enriching local community. Our ongoing initiatives for the environment include planting a watershed protection forest, waterlogging rice fields, and maintaining a forest in order to preserve local nature's bounty for posterity.

In July 2019, we expressed our support for the proposal by the Task Force on Climate-related Financial Disclosures (TCFD) and announced our Guidelines on Green Purchases in March 2020. We promote purchases that follow the Guidelines and continue to take other green actions across the Group, including the discontinuation of the use of plastic bags for customers as an effort toward departure from microplastics.

We also continue our medium- and long-term community service for local revitalization, which consists of our participation in local events, sponsorships for sports and cultural events, and social services, among others.

[The Group's COVID-19 response framework]

Considering the effects of the coronavirus pandemic on the local economy, the Group has set up the Committee to Combat COVID-19 in order to clearly define how the Group will continue to respond as well as to discuss how to facilitate the sharing of information about COVID-19 across the Group and what actions to take for customers and the local economy.

(The Group's response to COVID-19)

Creating a Vibrant Local Community with Our Customers and Local Residents

Given the effects of COVID-19 on the local economy, and in accordance with the Group's management philosophy, our top priority is the safety and security of our customers, local community, and employees. As a corporate group for co-creation of local vitality, the whole of the Group is committed to the creation of a society resilient to epidemics in order to revitalize the economy and develop a vibrant local community in cooperation with our customers and local residents.

1. Efforts to help customers continue their business and maintain their livelihood

The Group fully leverages its financial intermediary services to help customers

	stay in business and sustain their livelihood. We listen carefully to each customer to learn what they need so that we promptly and sincerely work to find a realistic solution to their problem. 2. Efforts toward the revitalization of the local economy The Group leverages the consulting services and the ability to find solutions that it has developed over the years while actively working in government-industry-academia collaboration to help recover the economy and industry across the region. 3. Efforts toward a viable future of the local community The Group leverages the local financial and industrial promotion services it offers as its permanent effort to work toward the creation of a vibrant local community with customers and local residents.
Establishing a policy pertaining to the provision of information for stakeholders	We have an established set of rules pertaining to timely disclosure for the purpose of providing information to stakeholders, thereby ensuring appropriate information disclosure.
Other	Higo Bank and Kagoshima Bank in the Group have made their General Employer Action Plans in relation to the Act on the Promotion of Female Participation and Career Advancement in the Workplace. These banks have established and expanded their internal systems to support employees with children in developing their careers while parenting as part of their efforts to facilitate women's successful careers. The Group will continue to focus on talent development as a gateway to women's career advancement and actively assign female employees to managerial positions.

IV. Matters regarding our internal control system

1. Basic stance on the internal control system and our actions

(1) We have established the following in order to ensure that the performance of duty by the Group's Directors, Executive Officers, and other employees conforms to laws and regulations as well as the articles of incorporation.

A. Kyushu Financial defines compliance as one of its most important management issues. We have established the Group-wide Basic Compliance Policy in order to ensure that Directors, Executive Officers, and other employees in the Group are committed to compliance.

B. Kyushu Financial has the CR Management Division as the Group's compliance management department. We also have a committee that regularly meets to deliberate material matters pertaining to compliance across the Group, thereby ensuring that our compliance system fully works and keeps improving.

C. Kyushu Financial has established the Group-wide Basic Policy on Actions against Anti-social Forces in order to make sure that Directors, Executive Officers, and other employees in the Group firmly reject any connections with anti-social forces that threaten the order and safety of civil society.

D. Kyushu Financial has established the Group-wide Basic Management Policy on Customer Protection in order to make sure that Directors, Executive Officers, and other employees in the Group are committed to protecting customers' interests and improving convenience for customers.

E. Kyushu Financial has established the Group-wide Compliance Hotline Rules. The Group's whistleblowing hotline has been set up according to the Rules to receive reports on any misconduct/violations of laws or requests for consultation about such misconduct or violations, thereby ensuring that appropriate actions are taken to address the problems.

F. Kyushu Financial has established the Group-wide Basic Policy on Internal Audits and Internal Audit Rules. Our Audit Division or the Group companies' audit departments regularly conduct(s) internal audits in order to examine the appropriateness and validity of the Group's control environments for legal compliance and customer protection.

(2) We have established the following in relation to keeping and managing information pertaining to the performance of duty by Directors.

Kyushu Financial has established an independent set of rules about document management to ensure that information pertaining to the performance of duty by our Directors is kept and managed for a reasonable period.

(3) We have established the following in order to manage the risk of losses the Group may incur.

A. Kyushu Financial defines risk management as one of its most important management issues. We have established the Group-wide Basic Policy on Risk Management in order to ensure that Kyushu Financial and its Group companies work together to appropriately manage various risks facing the Group.

B. Kyushu Financial has the CR Management Division as the Group's risk control department, along with a committee that discusses material matters concerning risk management across the Group, in order to ensure that its risk control works properly.

C. Kyushu Financial has established the Group-wide Basic Policy on Business Continuity in order to ensure that its business and the Group companies' business continue, and that the whole Group's regular functions recover as soon as possible, in times of crisis.

D. Kyushu Financial has established the Group-wide Basic Policy on Internal Audits and Internal Audit Rules. Our Audit Division or the Group companies' audit departments regularly conduct(s) internal audits in order to examine the appropriateness and validity of the Group's risk management system.

(4) We have established the following in order to ensure that Directors in the Group efficiently perform their duty.

A. The Rules for the Board of Directors at Kyushu Financial include basic provisions pertaining to how the Board of Directors is composed and operated. We also have the Group Management and Execution Council and other committees that deliberate and make decisions on matters delegated by the Board of Directors, thereby having in place the business management framework in which the Group is efficiently and appropriately operated in accordance with the Rules for the Group Management and Execution Council and the committees' guidelines.

B. Kyushu Financial has established the Organization Rules and Official Authority Rules that specify its organization, operations, and authority in order to ensure that Directors promptly and efficiently perform their duty.

(5) We have established the following in order to ensure appropriate operations in the corporate group that consists of Kyushu Financial and its Group companies.

A. Kyushu Financial has established the Group Business Management Rules, thereby having in place the Group's business management framework designed to provide guidance and perform management in order to ensure the subsidiaries' appropriate operation while respecting the Group companies' operational autonomy.

B. Kyushu Financial has the Rules concerning Matters for Discussion with and Reporting by Subsidiaries. These Rules specify that material matters regarding the Group companies' decision-making and execution of operations must be discussed with or reported to Kyushu Financial regularly or as necessary in order to ensure that Directors and Executive Officers in the Group efficiently and appropriately perform their duty.

C. Kyushu Financial has the Corporate Planning Division as the department that controls the operation of the Group companies. The Division provides assistance and guidance pertaining to the subsidiaries' business plans and supervises the promotion of the plans in accordance with the Organization Rules.

D. Kyushu Financial has established the Group-wide Basic Policy on Internal Control pertaining to Financial Reporting in order to ensure its compliance with the accounting standards and other relevant laws and regulations, and the reliability and appropriateness of its financial reporting.

E. Kyushu Financial has established the Basic Policy pertaining to Internal Transactions and the Basic Policy pertaining to Internal Business Alliances in order to ensure that transactions within the Group are appropriately conducted in accordance with laws and regulations.

F. Kyushu Financial has established the Group-wide Basic Policy on Internal Audits and Internal Audit Rules. Our Audit Division or the Group's audit departments regularly conduct(s) internal audits in order to examine the appropriateness and validity of the control environment for transactions within the Group.

(6) We have established the following in relation to employees assigned as assistants to Corporate Auditors.

Kyushu Financial has the Office of the Board of Corporate Auditors as the department that helps Auditors with their duty, and appropriately assigns employees who serve as assistants to the Auditors. Some of these employees

are the dedicated staff of the Office, and others work also for different departments.

(7) We have established the following in order to ensure the independence of the above-mentioned employees from Directors and the effectiveness of instructions given to these employees from Auditors.

A. Kyushu Financial places these employees under the supervision of Auditors in order to ensure the independence of the employees, who assist the Auditors with their duty, from Directors.

B. Kyushu Financial has established the Rules concerning Employees Serving as Assistants to Corporate Auditors. The Rules specify that the appointment, performance evaluation, or transfer of, or disciplinary action against the employees who assist with the duty of Auditors requires approval from the Auditors.

(8) We have established the following in order to ensure that Directors, Executive Officers, Auditors, and other employees in the Group, or others who have received reports from them, make reports to Corporate Auditors or other relevant auditors.

A. Kyushu Financial has established the Group-wide Rules of Reporting to Corporate Auditors. When any Directors, Executive Officers, Auditors, and other employees in the Group discover a fact that may cause considerable damage to Kyushu Financial or any Group company, they must report the fact immediately to our Auditors or Board of Corporate Auditors according to these Rules.

B. Directors, Executive Officers, Auditors, and other employees in the Group report on material matters pertaining to the execution of operations regularly or as necessary to our Auditors, and take appropriate actions when the Auditors ask them for reporting, pursuant to the Rules of Reporting to Corporate Auditors. Furthermore, if a person receives a report on a material matter pertaining to the execution of operations from any Directors, Executive Officers, Auditors, or other employees in the Group, the person is required to report it to our Auditors.

C. At Kyushu Financial, if Directors, Executive Officers, Auditors, or other employees in the Group need to report any misconduct or violation of laws they have discovered, there is a system to enable them to report it directly to our Auditors pursuant to the Group-wide Compliance Hotline Rules. Furthermore, the CR Management Division promptly reports on whistleblowing in the Group to our Auditors.

(9) We have established the following in order to ensure that those who have made a report to Auditors do not receive disadvantageous treatment because of the report.

Kyushu Financial has established the Group-wide Rules of Reporting to Corporate Auditors and Compliance Hotline Rules, which forbid disadvantageous treatment of a person who has made a report to our Auditors.

(10) We have established the following in relation to the prepayment of the expenses that arise from the performance of duty by Corporate Auditors, the expenses that arise from reimbursement procedures and other performance of the duty, or the policy pertaining to debt disposal.

When Auditors request the prepayment of any expenses, Kyushu Financial promptly pays the amount or disposes of the debt, except when it determines that the expenses are not necessary for the Auditors to perform their duty.

(11) We have established the following in order to ensure that effective audits are conducted by Corporate Auditors.

A. Auditors may attend the meetings of the Board of Directors, the Group Management Execution Council, or other committees to offer their opinions in accordance with the Rules for the Board of Directors, the Rules for the Group Management and Execution Council, and the committees' guidelines.

B. Directors exchange opinions regularly or as necessary with Auditors in order to maintain appropriate communication.

C. The Audit Division of Kyushu Financial or the audit departments of the subsidiaries regularly report(s) audit results to auditors and work appropriately with the Office of the Board of Corporate Auditors, thereby ensuring effective audits by Auditors.

2. Basic stance on the exclusion of anti-social forces and our actions

(1) Basic stance

The Group has established the following principles in order to reject any connections with anti-social forces that threaten the order and safety of civil society.

A. We take Group-wide measures to handle any unreasonable demands from anti-social forces. These measures include legal responses that involve civil and criminal procedures.

B. We work closely with external professional bodies, including the police and attorneys, in ordinary times as part of our efforts to prepare ourselves to deal with anti-social forces.

C. We refuse any transactions as well as any other connections with anti-social forces.

D. Under no circumstances do we provide funds or any other benefits for anti-social forces.

E. We maintain our solid control environment in order to keep anti-social forces excluded and prevent any transactions with these forces.

(2) Present state

Our CR Management Division manages all information about anti-social forces that Kyushu Financial and the Group companies have. The Division collects and shares the information whenever possible.

V. Other

1. Anti-takeover measures

Any anti-takeover measures?	N/A

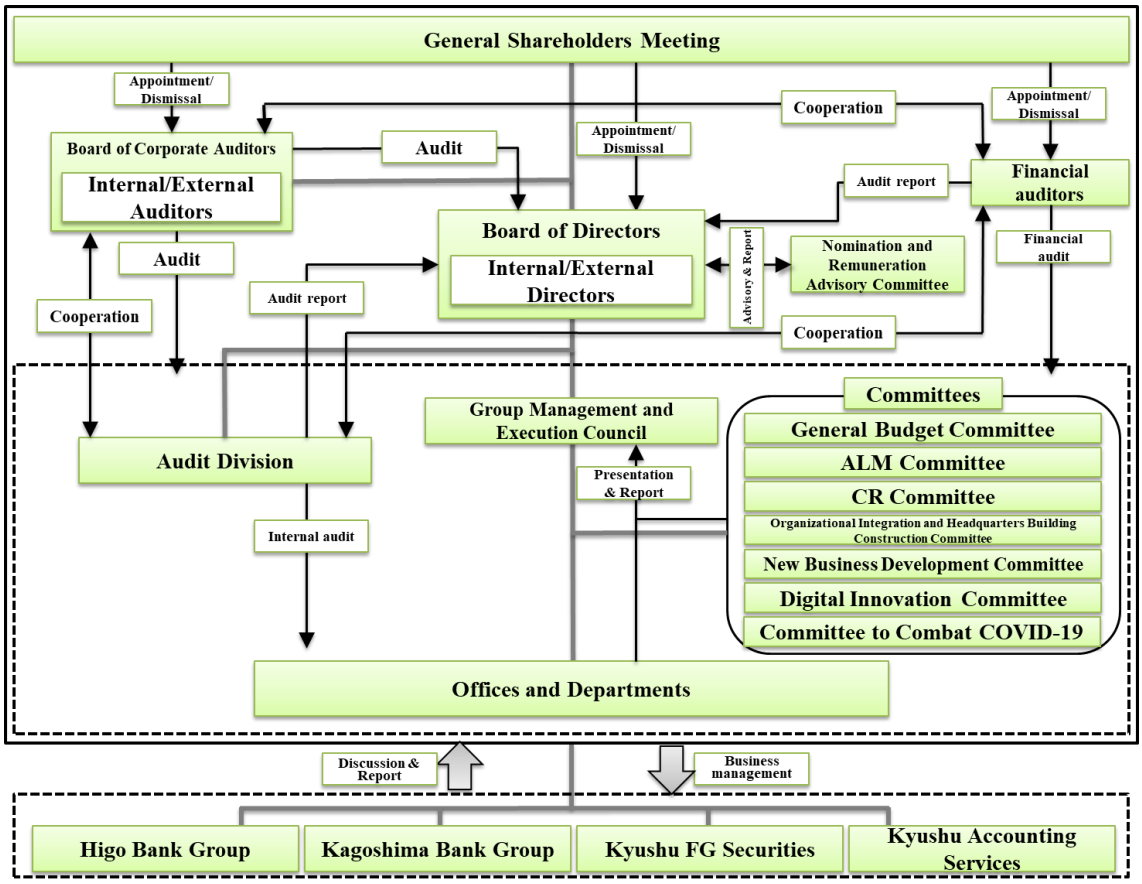
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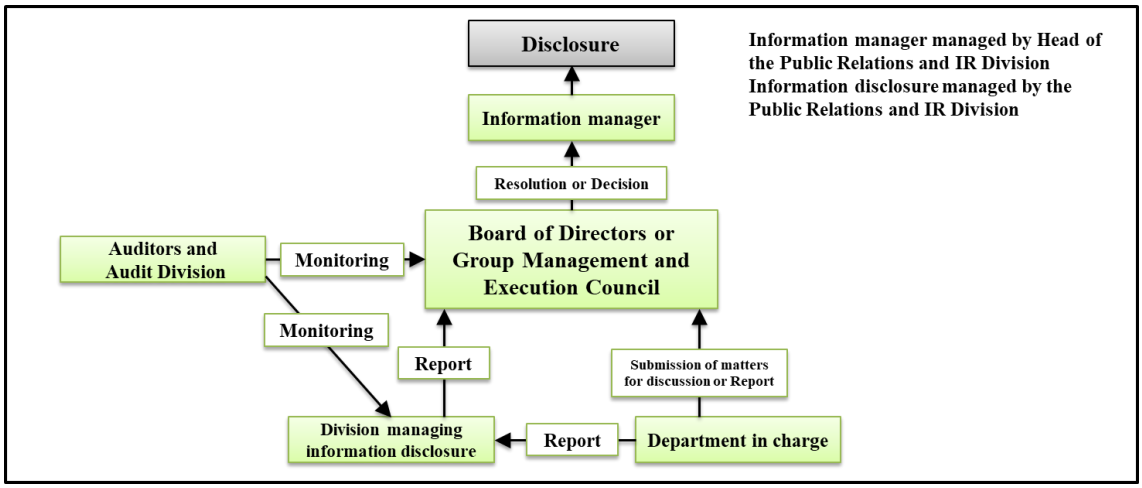
2. Other matters concerning our corporate governance framework

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[Corporate Governance Framework] (updated)



[Framework of Timely Disclosure] (updated)



End