

Yasuyuki Matsuoka President



Earnings surpassed initial target for the first fiscal year of the 4th medium-term management plan

The Japanese economy continues to show moderate recovery momentum, but the situation in emerging countries and countries economically dependent on natural resources is a matter of increasing concern. What comment do you have on the business performance of the Kiyofinancial Group in the past fiscal year?

In the past fiscal year, the Japanese economy showed signs of moderate recovery momentum, with improvement in corporate earnings and signs of a pickup in capital investment against a background of government economic and financial stimulus policies, with the improved employment and income pictures giving a firm tone to personal spending. However, looking at the current financial sector situation, the degree of uncertainty has increased. Downside factors include the lowering of long-term interest rates through introduction of quantitative and qualitative financial easing with negative interest rates by the Bank of Japan, and increased concerns about deceleration in the Chinese and other emerging economies and the impact of US economic policymaking.

In the major business area of the Group, Wakayama Prefecture, the number of tourists, including overseas visitors, increased substantially due to events held throughout the Prefecture including the Great Memorial Service for the 1200th Anniversary of the Opening of Koya-san and Kinokuni Wakayama National Sports Festival. However, the prefectural economy overall was stagnant, with weak corporate production activity and exports, and with personal spending treading water due to the warm winter and other factors.

In Osaka Prefecture, a second straight record increase was seen in visitors to large theme parks, including more overseas tourists. In addition, there was an increase in travelers passing through Kansai International Airport on international flights using low-cost carriers, and the overall total of visitors reached a new all-time high. There were signs of large-scale building starts, including commercial and logistics facilities and hotels, in areas such as Osaka City center and suburbs, but overall the local economy showed slackness in exports and production activities, with stagnation setting in in the second half in housing investment and public works expenditure, which had been buoyant in the first half.

Under such circumstances, the Group took measures to increase customer convenience, and focused efforts on supporting the development of the regional economy by helping to strengthen corporate earnings and management structure.

As a result, in the year ended March 31, 2016, the Bank posted steady increases in the balances of both loans and bills discounted and deposits, a greater-than-expected increase in securities-related profit and loss and an increase in commission revenue from assets under custody. Credit-related expenses also declined in part due to the tapering off of depreciation and amortization on core system investment costs during the term, so that earnings surpassed initial target. However, the revenue environment in our main businesses remained harsh, with yield on loans continuing its decline due to the adverse impact of low market rates and other factors, and a decline in interest on loans and bills discounted.

In terms of business performance, the Kiyofinancial Bank's gross operating income was ¥56.0 billion, and net income totaled ¥17.6 billion, on a non-consolidated basis.

A year of focus on the branch strategy aimed at releasing the potential of each area

In the last year, the 4th medium-term management plan was launched. What can you tell us about the general objectives of this plan?

The 4th medium-term management plan lays down a blueprint for becoming a “bank going beyond banks.” Its major theme is accelerating growth through clear strategies for individual regions, corresponding to the characteristics of the Wakayama and Osaka areas. There are differences in the characteristics of the two areas forming the business base of the Bank, Wakayama Prefecture and Osaka Prefecture, and so a stark disparity has arisen between the two in economic performance over the years. Given this situation, our policy is based on individual regional strategies.

In Wakayama Prefecture, we aim to strengthen measures that contribute significantly to regional growth, including support for business owners and partnerships with local public authorities, and maintain our position as leading regional bank in the prefecture, while

Refining customer dialogue and proposal capability: a bank that goes beyond banks.

The second stage of our action plan has been launched, with a view to regional revitalization

strengthening fund procurement in preparation for future declines in deposits.

In Osaka Prefecture, we will strengthen our management framework to step up our commitment to increasing the number of business customers, while rigorously developing relationship banking that gets to the root of issues faced by our customers. We will also aggressively help with promotional activities that raise the profiles of customer companies.

Four strategies have been established in the 4th medium-term management plan. What kind of progress have you achieved in each of them in the first fiscal year?

The first strategy is improving management efficiency to provide support to the regional community on a long-term basis. We aim to ensure stability of business operations over the long term through economies of scale. A particular focus is investing in branches in Osaka Prefecture, the key to future business expansion.

We got the ball rolling in the past fiscal year with the relocation of Kishiwada Branch and Esaka Branch, and in May of this year, we opened a new branch, the Moriguchi Branch. The overhauled Esaka Branch was relocated from its upper-floor site within an office building onto a ground-level, street-facing site, and increased its range of business handled by expanding from specialized loan-related operations to general banking. Moriguchi City meanwhile is an important area for us, adjoining Osaka City, and previously we had no representation there. This is our first branch in Moriguchi City.

In addition, we drew up plans for a new concept branch at Izumigaoka station and opened it in June 2016.

Occupying two floors of a multipurpose commercial building at Izumigaoka station on the Semboku Rapid Railway, Izumigaoka Ekimae (Izumigaoka Station Forecourt) Branch occupies a multipurpose building in which the second floor is a regular branch while the first forms the Kiyo Station Plaza multipurpose space. This is a new type of bank branch that did not exist before. In addition to large-screen televisions and bookshelf facilities, it contains a nursing room, a children's corner and other facilities with a concept of "Customers can drop in when they feel like and relax freely." It is also the 40th branch we have opened in Osaka Prefecture. It is earmarked as an important business base for future retail operations in southern Osaka Prefecture.

Last year, we also rebuilt and relocated the Kimiidera Branch in Wakayama Prefecture and the Takada Branch in Nara Prefecture. It was indeed a year of investment in branches. In the future, we will work to ensure that these branches generate steady earnings.

Also launched in April 2016 was the Kiyo Bank's smartphone account-opening application, for which preparations have been underway for some time. This is a service enabling opening of general accounts and the making of applications for Kiyo mobile Internet banking services using only this smartphone application. This is a new sales channel that provides customer convenience. Internet platforms are channels with extremely great development potential. In the future, we plan to proactively build up this business alongside our branch development.

Other issues in the 4th medium-term plan are marshaling resources to strengthen sales channels and personnel selection and training. The Bank has long been committed to the "Positive Action" initiative, which encourages greater hiring of women. As part of this, in January of last year, we established a Diversity Promotion Office aimed at providing career and personal development support to individual employees, to boost corporate value. In the belief that corporate value

is the same as human worth, we will take measures in the future to further develop human resources.

The brand strategy is investment in the future.

We will continue to get our message out to people of all generations.

What progress have you made in your second strategy, strengthening business promotion which pegs operational scale to earnings level?

By committing ourselves fully to the relationship banking business, a strength of this Bank, we have created a main plank in our strategy of increasing the number of borrowers and the balance of loans. Last year, as part of that trend, we launched our general support program for entrepreneurs in our area planning to start a business. Under the general concept of low interest financing through partnerships with Japan Finance Corporation (public institution), the Federation of Credit Guarantee Corporations and other organizations, this support covers not only funding, but also preparation of business plans and problem-solving after startup launch.





At the same time, an issue in the second strategy is strengthening assets-under-custody operations. In December of last year, we unveiled a new series of investment trust products, and in March of this year, we launched the Kiyo Bank insurance call center staffed by experts in insurance to handle queries. In these and other areas too, we are making steady progress in the Plan.

What comments do you have on the third strategy, improving corporate value and brand power in the market? In the past fiscal year, to celebrate the 120th anniversary of your founding, you got heavily involved in brand promotion, including broadcast of commercials to bolster the corporate image.

As you say, to commemorate the milestone of the 120th anniversary of our founding, we launched a wide-area promotional campaign including corporate PR through the mass media.

Improving our brand power in the eyes of the regional community and our customers is an important long-term ambition, but in fact the pressing task is raising awareness of the Bank among customers within the Osaka Prefecture area. In the northern and eastern parts of Osaka Prefecture, and elsewhere, the degree of awareness of the Bank still has room to grow. Aiming to achieve the same degree of name recognition as we have in Wakayama Prefecture, we rolled out targeted policies within Osaka Prefecture as a part of the 120th anniversary project in the past fiscal year. As part of that initiative, we provided original programming for FM802, the Osaka commercial radio station, and were lead sponsor of a live concert arranged in the spring of 2015 under the leadership of FM802. Both promotional campaigns targeted younger generations. We intended partly to appeal to young people of Osaka Prefecture to foster their feelings of familiarity and positivity towards the Bank, helping us to strengthen hiring in the future, one of our major longer-term targets.

We also launched a time deposit that supports the UN World Heritage-registered Mozu-Furuichi Kofungun (cluster of tombs), to reach out across different generations of customers. This is a product timed to capitalize on the interest generated by the UN World Heritage registration of Mozu-Furuichi Kofungun in Sakai City, Osaka Prefecture.

A sum equivalent to 0.01% of the total deposit is contributed to the Sakai City world cultural heritage registration promotion fund. We believe that this also gave a boost to measures to support the development of regional culture.

Furthermore, the Kiyo Concert, a classical music event held every year in Wakayama Prefecture, were organized specially in Kishiwada City, and enjoyed by many customers from Osaka Prefecture too. We plan to organize a wide range of different approaches to raise our profile within Osaka Prefecture.

CSR activities through main businesses are a mission of a regional bank. We will proactively uphold that commitment

Another pillar of the third strategy is cited as CSR activities for local communities. What kind of initiatives have you undertaken in this area?

One example of a major initiative was our involvement and organizational cooperation as official sponsor in the Kinokuni Wakayama National Sports Festival held in autumn of last year. By supporting large-scale events that drive the economic revitalization of Wakayama Prefecture, including those that bring in tourists, we gave something back to the region in a way that is fitting for the 120th anniversary milestone.

Likewise, we have launched measures to expand areas covered in the Kigyo no Mori corporate afforestation initiative in Wakayama Prefecture in which the Bank participates as a volunteer organization.

At the same time, we believe that activities that support the regional economy through basic banking business operations are themselves corporate CSR activities. Last year, we also focused resources on such activities.

Our initial move was creating our “Regional Revitalization Project Team.” Activities in partnership with local industry, government and universities aimed at regional revitalization have been encouraged at the national level, and regional banks too are expected to contribute through their proprietary expertise and networks. The regional revitalization project team was set up in response to these expectations. We intend to knuckle down while maintaining close cooperative frameworks with local authorities.

Other new initiatives included the launch of the “Wakayama Community Revitalization Fund” and the “Kiyo 6th Industrialization Fund.” The former fund supports local tourist businesses through partnerships with external groups. In October of last year, an initial investment was made in a company in the Kada, Wakayama Prefecture. The second fund supports new businesses in the fields of agriculture, fisheries and forestry in partnership with Mizuho Bank and other financial institutions. The first investment recipient from this latter fund, a fish processing and export business in Shingu City, Wakayama Prefecture, built a new plant and embarked on its full-scale business deployment. The Bank concluded an agreement on local revitalization in Wakayama Prefecture with Mizuho Bank last year, and will maintain cooperative frameworks for broad-front regional revitalization support in the future too.

Another initiative launched last year was Kiyo Innovation Support Program, which supports innovative entrepreneurs in the region. This program provides long-term support on all fronts, from business planning to funding, to entrepreneurs involved in research and development in high-quality joint projects with private companies and universities. Nine companies were selected as recipients last year, the initial fiscal year.

In the CSR activities carried out through services to individual customers, we began to handle special housing loans with expanded interest rate discount ranges, in partnership with local public

authorities, for customers moving into or settling down permanently in any area of Wakayama, Osaka and Nara prefectures, and thereby we contribute to strengthening of the fundamentals of the regional economy.

Improvement of corporate value is, I think, a major issue for return of profit to shareholders. What measures are you taking in this area?

In consideration of all of our shareholders, we have an ongoing policy of improving per-share value through acquisition of treasury stock. We continued this policy in the past fiscal year. Looking ahead, we will maximize shareholder returns while maintaining and increasing earnings levels.

What progress are you making with the fourth strategy, of further strengthening the business management system?

In recent years, the importance of business continuity planning and related measures as an issue for management has grown.

We have a thorough, ongoing commitment to compliance and protection of customers, and we will continue to strengthen Asset Liability Management (ALM) systems and live up to our responsibilities as a financial institution.

Wakayama and Osaka prefectures are located in the Nankai Trough megaquake and Tokai-Tonankai-Nankai triple earthquake belts, and are considered to be risk areas. To date the Bank has put a lot of effort into strengthening business continuity planning in readiness for such a disaster. We have built up a track record in simulation training for major earthquake scenarios for customers who are business owners. Our series of measures in last year was highly rated by specialist organizations, enabling us to win an award. This has inspired us to further broaden the scope of activities in this area.

In the first fiscal year of the Plan, an efficient start was made and seeds were sown. From this year, the focus is put on their growth

Last year was your first year in the post of president, so what overall impressions do you have? How do you see the Bank shaping up in the second year of the 4th medium-term management plan?

In several senses, the year I took on this role was a milestone year. It was a year of tenseness for me, in which we worked extremely hard to build up the business, especially the branch network, get our PR message across and pursue regional revitalization measures, so I feel a sense of accomplishment. I feel that we did have some success with the early stage of the medium-term management plan. Regarding the bank that goes beyond banks, which is both the guiding principle of the 4th medium-term management plan and our corporate slogan, I would like to clearly state that we are committed to aggressive reform beyond the constraints of the past in our solution-proposal capability, our services and our domains of activity. This will enable us to face a time of change in the roles expected of regional banks. What is needed for reform is, I think, the ability to get things started quickly, and the ability to subsequently stick at it. In the past fiscal year, we were busy sowing the seeds of reform on a wide range of fronts, with a sense of urgency. From the current fiscal year, we will do our utmost to cultivate those seeds and harvest the fruit.

Finally, how do you view the future prospects of the Kiyo Financial Group and what message do you have for stakeholders?

It seems likely regional banks will continue to face harsh operating conditions, what with the falling yields on long-term government bonds and pressure on yield on loans in the wake of the introduction of

negative interest rates. However, we cannot turn bearish or show lack of dynamism, given our role of supporting business owners and SME customers in the region who are also facing harsh operating conditions.

Looking ahead, our goal is to commit ourselves fully to solution services, leveraging our consulting business, a strength of the Bank, interfacing with the customer, rigorously identifying issues and proposing solutions. By raising our profile in the three areas where we have an edge – ability to communicate with customers, analytical capabilities and proposal capabilities – I believe we can continue to play a role as the bank of choice, despite harsh operating conditions.

Last year, in order to improve our expertise in appraisals of commercial viability for customers who are business owners, we took steps to strengthen our new framework including establishment of an Industry Research Office within the Regional Economic Promotion Department. I think that will help us to develop a qualitatively better consulting role in years ahead.

We will continue to make every effort to be a bank that repays more than it receives from our shareholders, local customers, and each and every employee at the bank, and so we ask for your continuing support and encouragement.

