

A portrait of Yasuyuki Matsuoka, President of the Bank of Japan, wearing a dark blue suit, white shirt, and striped tie. He is smiling and looking slightly to the right. The background is a blurred office setting with a window and a plant.

Top  
Interview

**Yasuyuki Matsuoka**  
**President**

**We aim to refine our business model, which takes loans to small and medium-sized enterprises as its starting point, and be a “trusted bank” in difficult circumstances.**

**The balances mainly of loans and deposits both increased, but a harsh revenue environment continued in the second year of the 4th medium-term management plan.**

*The Japanese economy continues to show moderate recovery momentum, but the degree of uncertainty has increased in the financial sector situation, partly owing to negative interest rates. What comment do you have on the business performance of the Kiyo Financial Group in the past fiscal year?*

In the past fiscal year, the Japanese economy showed signs of moderate recovery momentum, as corporate earnings moved toward improvement against a background of a recovery in the global economy, and there were signs of a pickup in capital investment, while personal spending was also firm, backed by robust employment and income conditions.

With regard to the outlook for the Japanese economy, a moderate recovery trend is expected to continue, backed by an ongoing trend of improvement in employment and income conditions against a background of firm corporate earnings and capital investment, despite some sense of uncertainty remaining in regard to political and economic trends overseas, such as the US administration and disclarity in the economies of China and emerging economies in Asia.

In financial markets, the yen depreciated, partly owing to the policies of President Trump in the US, and stock markets were robust. However, looking at the current financial sector situation, a sense of uncertainty has continued since the introduction of quantitative and qualitative financial easing with negative interest rates by the Bank of Japan.

Turning to regional economies, problems such as the decline in the number of business offices are becoming pronounced, owing to the dwindling birthrate, aging society and social changes resulting from the decreasing population. The role that regional financial institutions should fulfill in such situation is being reexamined, with a roadmap presented in the “Benchmarks for the Bank’s Financial Intermediary Function” announced by the Financial Services Agency in September 2016.

In the major business area of the Group, Wakayama Prefecture, the number of tourists was the highest ever in 2016, owing partly to the effect of a series of events, including Kinokuni Wakayama National Sports Festival in 2015. However, the brisk market activity gradually cooled and former issues reemerged, including sluggish corporate production and including sluggish corporate production and personal spending.

In Osaka Prefecture, favorable conditions continued in tourism, including visitors to a large commercial complex in Suita City significantly surpassing initial expectations in its first year since opening, and visitors to Kansai International Airport at the highest level ever in 2016, with the highest number of overseas tourists ever for the fourth consecutive year. In addition, there are a number of factors leading to expectations for future economic growth, such as the planned construction of a building complex at the JR Osaka Station Terminal by a major home appliance retailer, targeting completion in two years, 2019, and the construction of a large shopping center in Sakai City.

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

As a result, in the year ended March 31, 2017, the Bank posted steady increases in the balances mainly of both loans and bills discounted and deposits, and in regard to profits for the year, fees

and commissions increased year-on-year, owing partly to an increase in commission revenue related to commercial transactions. However, as the revenue environment remained harsh, interest on loans and bills discounted, our main business revenue, declined year-on-year mainly because of low yield, and securities-related profit and loss declined year-on-year, partly because proceeds from sales of securities were lower than the previous year, and the Bank posted losses on sales of securities due to securities transactions, mainly in foreign bonds, in order to improve our securities portfolio.

In terms of business performance, the Kiyo Bank's gross operating income was ¥49.3 billion, and net income totaled ¥10.2 billion, on a non-consolidated basis.

## **Amid drastic market changes, we have reexamined our mission and our strengths, and have set forth a new, sustainable business model.**

*The past fiscal year was the second year of the 4th medium-term management plan, but what was the effect of financial market conditions? Could you please tell us about any changes in strategy?*

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 disparity is widening between the two in economic performance over the years. Given this situation, our view is based on individual regional strategies.

There is no change to this overall direction, but as you say, the environment surrounding regional banks changed considerably from 2015 to 2016. Significantly, the Bank of Japan introduced a negative interest rate policy, competition with other financial institutions intensified, and restructuring among regional banks and credit unions accelerated. The changes in the environment are extremely harsh, and, although there may be some variation, this situation is expected to continue for some time. From this assumption, a sustainable business model has become necessary.

The Bank has once again reverified the mission it should fulfill as a regional bank and its strengths, and has established a business model that takes lending to small and medium-sized enterprises as its starting point as a sustainable business model. We shall respond promptly and accurately to various funding needs, closely follow the core issues of our business customers, and offer solutions. This is the area where we can make the greatest use of our abilities, so we will use management resources to make further progress on this point, and strengthen our differentiation from other banks. In addition to supporting local companies in their main businesses, we shall also focus on maintaining even closer ties with business owners.

In the past fiscal year, we set forth different strategies for each region based on this new viewpoint. First, in Wakayama Prefecture, we endeavored to strengthen our financial intermediary function as the leading bank in the prefecture, in addition to focusing on consolidating commercial transactions by restructuring our branch network. Furthermore, we began measures to

strengthen our ties and business relationships with relatively small business operators, such as farming, fishing, restaurants, and service businesses, who account for a large proportion of businesses in the prefecture, as well as strengthening measures such as business establishment support and new business support.

In Osaka Prefecture, we focused management resources on transactions with small and medium-sized enterprises, our greatest strength, and began measures to offer financial services that prioritize “quality” and “speed” by utilizing the functions of our Loan Department and Business Promotion Division in Osaka City and Sakai City.

In both regions, we believe that building a foundation to both enhance the presence of the Bank and “strengthen earnings power” will be a significant target for the second half of the medium-term management plan.

*Four independent strategies have been established in the 4th medium-term management plan. What kind of progress did you make in them? Could you please explain with reference to their relation to the new sustainable business model that you described?*

The first strategy is improving management efficiency to provide support to the regional community on a long-term basis. We aim to ensure stable business foundations over the long term through economies of scale, and the greatest factor to that end will be strengthening our branch network. In this regard, we established five new branches in Osaka Prefecture from 2015 to 2016. Expanding our branch network and enhancing brand recognition in Osaka Prefecture has been a longstanding issue for the Bank, and I think it is fair to say that we focused on this issue the most during the first two years of the 4th medium-term management plan. In this fiscal year, we are finally at the stage where we can use this to deliver a high level of earnings. In addition, we established a new Osaka Office of the Loan Department in Osaka City in 2015, and inquiries about loans have subsequently more than doubled per year since.

On the other hand, in Wakayama Prefecture, we consolidated our network of city branches offering full banking services from 16 branches to eight, and posted specialist staff able to respond to sophisticated inquiries, thus enhancing consulting abilities on a per-branch basis.

Furthermore, we enhanced the functions of our business center in order to strengthen ties with more business offices.

In addition, we reopened the Kaseda Branch and the Kudoyama Branch after overhauls, as part of efforts to increase convenience for regional customers.



**We are rolling out ambitious strategies, mainly in Wakayama Prefecture, as we look to commit ourselves fully to relationship banking.**

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

The direction of our second strategy is aiming to increase the number of borrowers and the balance of loans by committing ourselves fully to the relationship banking operation, a strength of this Bank. This issue is directly linked to our sustainable business model, i.e. a business model that takes lending to small and medium-sized enterprises as its starting point, and we have rolled out a number of important strategies.

First, our Industry Reports have thus far been created for internal use, but we have renewed their content to make them available for use by commercial customers. The Industry Reports focus on important regional industrial fields, and are an informational tool that provides analysis of the latest trends, in addition to basic industry knowledge. With this renewal, business operators will also be able to view the main points of the Industry Reports. We have already published reports on healthcare, agrifood and tourism industries, and they have been well received. We plan to continue to publish reports, and hope they will be useful for customers in business development and founding businesses.



In addition, the Bank also strives to hold various seminars and workshops for business operators, and we focused on this area in 2016, rolling out events that take up the latest business themes, such as businesses that utilize traditional houses in Wakayama Prefecture, and HACCP international standards for food safety.

The Regional Revitalization Office and the Industry Research Office are mainly responsible for implementing this series of measures, but going forward, we intend to further enhance the functions of these two sections, centered around relationship banking in the region.

As for financial products, we began providing a new type of loan for business operators, the loan for business resilience. Disasters such as the Nankai Trough megaquake and the Tokai-Tonankai-Nankai triple earthquake are anticipated in Wakayama Prefecture and Osaka Prefecture, the business areas of the Bank. This product provides funds with a flexible interest rate and period for the construction of disaster prevention facilities, measures to make facilities earthquake-resistant, and business continuity planning, in preparation for these disaster risks, and it is a business loan based on relationship banking which contributes to increased regional resilience.

**We are focusing on the multifaceted development of CSR activities, in order to increase our value as a regional bank.**

*CSR activities related to regional revitalization are also included in the third strategy. CSR is surely closely related to relationship banking that you mentioned, and your mission in regard to the benchmarks.*

As you say, CSR activities are closely related to the main business of a regional bank. In fact, I think the very act of supporting the regional economy through lending and consulting itself is CSR. Let me explain a number of measures that were important in the past fiscal year in that sense.

First, the Kiyo CSR Private Placement Bond is an example that embodies the diversity of contribution to the region. Private placement bonds are a structure for companies with excellent finances to raise funds, but a CSR private placement bond adds to this the factor of supporting the CSR activities of the company issuing the private placement bond. With this structure, we contribute some of the commissions we receive from the issuer of the private placement bond as donations for causes such as regional healthcare and welfare facilities, educational facilities, and the issuer can choose the recipient of the donations. We began providing this product in June 2016, and have handled 132 issues as of June 2017. I believe this is an extremely significant measure for us as a regional bank, in ways that include enhancing the credibility and social value of the issuer, strengthening their finances, and contributing to the region.

In addition, regarding businesses that utilize the traditional houses of Wakayama Prefecture, which I touched upon in my explanation of our second strategy, we have decided to launch larger initiatives in parallel with commercialization events and other measures. We plan to promote a community that utilizes traditional houses in partnership with external corporations with expertise regarding the utilization of traditional houses as well as local governments, as a project with the long-term vision of awakening Wakayama Prefecture's dormant tourism and cultural resources and revitalizing the regional economy.

Furthermore, from May 2017, we have entered into a business alliance with Booking.com, an accommodation reservation website, to distribute information to travelers in Japan and overseas on the attractions of the accommodation facilities of ryokan (Japanese

inns) and tourist business operators in the Bank's business area. Booking.com is headquartered in the Netherlands and is the world's largest accommodation reservation website, available in 227 countries and over 40 languages. We are the first bank in Japan to enter into a business alliance with Booking.com.

In addition, we further expanded "housing loans in partnership with local governments," which we launched in 2015. We have partnered with local governments in Wakayama, Osaka, and Nara prefectures to provide housing loans with expanded interest rate discount ranges to customers settling down permanently in or moving to these business areas, as an initiative to support the rejuvenation and revitalization of these regions through our main functions as a bank.

***In regard to CSR that is directly related to your main business, you are also focusing on a regional revitalization fund.***

Crowdfunding is becoming established as a method of raising business funds by disclosing business details online and collecting funds from individual investors, and the Bank has been providing a crowdfunding introductory service for the past two years. In 2016, a fund for a company to provide hot spring water was established with a seafood processing company in Wakayama Prefecture, a customer of the Bank. In addition, we also launched an introductory service for reward-based crowdfunding that also targets general consumers.

We intend to continue proactively investing management resources in online businesses that will enhance the potential of the regional economy and business operators, as exemplified by the alliance with the aforementioned Booking.com.

In relation to investment and lending, the Wakayama Community Revitalization Fund, which supports tourist businesses through partnerships with external groups, is steadily building a track record, and in 2016 provided funding to accommodation facilities in Shirahama Town as its second investment. The Kiyo 6th Industrialization Fund, which supports integrated businesses centered on the agriculture, fisheries and forestry industries from their establishment, is also providing support to its investment targets from a funding perspective, in addition to assistance including personnel support.

In terms of enhancing corporate value, shareholder returns are a major issue. 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.

**We will endeavor to increase linkage and consolidation of strategies, while facing the final year of our plan with a unified and resilient stance.**

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

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.

This includes the formulation of a Basic Policy Regarding Customer-Oriented Business Conduct as we diligently aim to realize the main points of the Principles for Customer-Oriented Business Conduct announced by the Financial Services Agency in March 2017. We will continue to provide high-quality financial products and services that truly satisfy customers, and information useful for accurate judgments, thus contributing to the development of our customers.



***This fiscal year rounds up the 4th medium-term management plan. How will you take on this year, reflecting on the previous two years?***

I think the past two years have been full of difficulties for us regional banks, starting with the introduction of negative interest rates in 2015. However, we cannot be pessimistic, as regional business operators and small and medium-sized enterprises have been battling headwinds since long before then.

In fact, I would like to adopt a positive stance, viewing these harsh circumstances as an opportunity for us to draw on the trust we have built with regional customers over many years, and our true value as a relationship banking business. Our sustainable business model, i.e. a business model that takes lending to small and medium-sized enterprises as its starting point, is an expression of that resolve, and we have also expressed it through the benchmarks for the Bank that we recently announced.

In terms of the fact that this is the final year of the 4th medium-term management plan, I would like to face it with the words "unifying force." Our aim is to break out of these harsh circumstances and at the same time realize a higher level of satisfaction for our customers, by increasing linkage between strategies and measures in various areas, as well as management resources such as branches and personnel, while promoting greater efficiency and consolidation, upon "aligning our strengths."

For the medium-term management plan, this year is the finishing touch, but I also consider it the year of a new beginning as we enter a new phase. I would like to use the sense of alertness and energy that exceeds those of 2015 and 2016 to tackle our management issues and social mission.

We ask shareholders and all other stakeholders for your continuing support and encouragement.