

We will face each challenge head-on. We will spend the next three years pursuing the refinement of relationship banking.

**Although the financial environment was harsh in the final year of the 4th medium-term management plan, indicators such as the balance of loans grew steadily.**

**As the Japanese economy continues to show moderate recovery momentum, what comment do you have on the business performance of the Kiyo Financial Group in the past fiscal year?**

With regard to the Japanese economy in the past fiscal year, the recovery trend of personal spending was sustained through factors such as improvements in employment and income conditions. Also, corporate earnings and production continued to show moderate recovery, owing to factors such as the pickup of overseas economies and improvements in capital investment. Regarding the economic outlook, ongoing recovery is expected on the whole, owing to firm corporate earnings and capital investment in Japan, although uncertainty remains in the economic trends of countries such as the US and emerging Asian countries including China.

On the other hand, uncertainty remains in the environment surrounding regional financial institutions due to continued financial easing measures by the Bank of Japan and the restructuring of banks and credit unions is accelerating due to intensified competition. The industry is also facing a new phase of ICT reforms represented by AI and FinTech.

In the major business area of the Group, Wakayama Prefecture, the number of tourists was the highest ever in 2017 owing to the effects of inbound tourism. Furthermore, there were activities aimed at privatizing the Nanki-Shirahama Airport, and the Kii Peninsula was selected fifth among the top 10 global destinations

in the “Best in Travel 2018” regions ranking in “Lonely Planet,” a world-renowned travel guide. The area is garnering much attention in the tourism field both from within and outside of Japan.

In Osaka Prefecture, the tourism industry experienced a brisk level of activity, with both the total number of visitors to the Kansai International Airport and the number of overseas tourists at the highest level ever, and positive effects of inbound tourism, leading to expectations for future economic growth.

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

As a result, in the year ended March 31, 2018, while the Bank posted an increase in the balance of loans and bills discounted mainly to small and medium-sized enterprises, and a steady increase in the balance of corporate deposits, interest on loans and bills discounted declined year-on-year mainly because of low yield. On the other hand, owing to the thorough implementation of cost-cutting measures and a decrease in credit costs, the Kiyo Bank’s gross operating income was ¥48.8 billion, and net income totaled ¥10.5 billion, on a non-consolidated basis.

**The 4th medium-term management plan concluded amid a persisting low interest rate environment. What progress have you made?**

Indeed, the 4th medium-term management plan concluded amid harsh conditions in the financial market. Regarding our business performance, indicators such as the balance of loans performed largely according to plan, as year-on-year growth continued through the three years of the management plan. However, regarding deposits, etc., the situation demanded that we shift our measures from volume expansion to cutting procurement costs. In such an environment, deeming that there is a need to reconstruct a

sustainable business model that can respond flexibly to changes in the circumstances, we established a business model that takes lending to small and medium-sized enterprises as its starting point. By responding to various funding needs swiftly and accurately, and offering solutions to core issues of our business customers, we invest our management resources in ways we can make the greatest use of our abilities, so as to demonstrate the overwhelming advantage we have over other banks. I shall elaborate on such efforts in the results of strategic initiatives conducted in the past fiscal year.

### **We worked on various support measures and revitalization strategies centering on the tourism field, the key to regional revitalization.**

**Please tell us about the progress made in the first strategy—improving management efficiency to provide support to the regional community on a long-term basis.**

The first strategy strove to ensure a stable management scale in the long term. Since a major factor to that end is strengthening our branch network, we expanded our branch network mainly in the Osaka area during the first half of the management plan period. We concluded the first stage of such efforts in 2016, and in the past fiscal year, worked on consolidating the functions of branches by balancing two goals: Provide more sophisticated services to business customers, and strengthen earnings capabilities under the current harsh financial conditions.

I will provide more details on the above initiative later along with the building of a new sales structure, during the explanation of the 5th medium-term management plan.

**What progress have you made in your second strategy, strengthening business promotion which pegs operational scale to earnings level? This seems to be a strategic domain that is strongly linked to the new business model.**

One of the directions 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 the Bank. As you have pointed out, this is directly linked to the reconstructed business model, and leads to the core of the 5th medium-term management plan.

As this was a measure that we particularly focused on in the 4th medium-term management plan, I shall talk about it together with the results of the final year. First of all, we identified business areas that will create new trends and industrial fields that are expected to expand in the future, and actively held seminars and workshops on them. This was a measure to support those in the region who wish to start up a business or newly enter the market through information. Our past topics have included the HACCP standards for food safety, and in the past fiscal year, we held seminars for the medical-engineering collaboration business and agribusiness with a focus on Good Agricultural Practices (GAP).

When we refer to relationship banking activities through the provision of information, Industry Reports are a part of the domain. The Industry Reports are an informational tool that provides basic industry knowledge and an analysis of the latest trends regarding important regional industries, handy for use by business operators. They were first published in 2016, and new themes are added each year to enhance the reports.

Furthermore, as a measure to support customers with the expansion of sales channels, the Bank has been providing a

crowdfunding referral service to raise business funds from general investors online. From May 2017, we also launched a referral service for reward-based crowdfunding, which is more effective in sales channel development and marketing for business operators. Along with the investment-based crowdfunding that we have been providing, we will continue contributing to the business development of all our business customers.

**What progress have you made in your third strategy, improving corporate reputation and branding in the market? This must be linked to social contribution activities, a major mission of regional banks.**

Regional revitalization has become a strategic issue of Japan in recent years, and the responsibilities and expectations of regional banks as supporters of regional economies are increasing by the year. Similarly, the source of our corporate identity lies in enhancing our presence and fulfilling our unique role in the development of regional economy and culture.



Last year, we concluded alliance agreements with three regional municipalities in Wakayama Prefecture, and began promoting a community that utilizes traditional houses. By reviving the value of historical resources, we will strive to support the increase in the number of tourists and the promotion of employment.

Such initiatives represent our social contribution through our trade of regional banking, and are a part of our ESG initiatives.

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

We made a thorough commitment to compliance through the three years of the plan, and we will continue to strengthen Asset Liability



Management (ALM) systems and live up to our responsibilities as a financial institution in the future.

We formulated a Basic Policy Regarding Customer-Oriented Business Conduct, based on the Principles for Customer-Oriented Business Conduct announced by the Financial Services Agency in March 2017, and disclosed our action plan. We will strive to improve our operation of assets under management such as investment trusts by expanding services from the customer's viewpoint and employee education, and regularly announce the achievements. We will continue to provide high-quality products and services that truly satisfy customers, and accurate information, thus contributing to the development of our customers.

### **In the 5th medium-term management plan, we will further deepen our relationships with regional small and medium-sized enterprises.**

**The 5th medium-term management plan began this fiscal year. Please explain the details.**

The 5th medium-term management plan that began in April this year positions the strategy formulated in 2016—a business model that takes lending to small and medium-sized enterprises as its starting point—as its core, and further develops it. Over three years, we will strive to further enhance our presence in the region and strengthen our earnings capabilities. Specifically, our actions will build on the provision of diverse solutions to the core issues faced by customers, by fully demonstrating our financial intermediary function to local companies.

To further define the direction of the plan, we formulated two main strategies focusing on transactions with small and medium-sized enterprises, as well as a satellite strategy aimed at individuals and the regional community as a whole.

**Please tell us about the first main strategy.**

The first main strategy is the deepening of the business model that takes lending to small and medium-sized enterprises as its starting point. One of its major pillars is the “core customer strategy.” This is a strategy that focuses management resources on core customers—the core customer segment when business customers are segmented by the two criteria of transaction volume and earnings standards.

Increasing the absolute number of people in the core customer segment is also a major goal, and we will promote aggressive sales activities for this purpose. This is a strategy to enhance in-depth marketing and pursue thorough cost-effectiveness, and we believe it will become the foundation for future sales measures.

The second pillar is strengthening the earnings opportunities of business customers by supporting their main businesses. Centering on the Pyxis Sales Office, an external affairs division at headquarters, this is an initiative to offer comprehensive proposals aimed at solving issues, starting with business succession, an important issue for local companies. Furthermore, by supporting the main businesses of business customers such as through strengthening business matching, which utilizes the Bank's network, we also plan to increase fees related to feasibility transactions.

The third pillar is increasing earnings opportunities through enhancing transactions with business owners. The headquarters will lead the strategy, through dedicated staff specializing in asset management, inheritance and business succession, and make sophisticated proposals to business owners and the wealthy. The Private Banking Desk, newly established in the Pyxis Sales Office, bears the central function of this strategy and promotes cooperation with each sales branch.

**Please describe the second main development. It appears that there will be significant transformation, such as that of the divisional structure.**

The second main strategy is the building of a new sales structure that increases competitiveness.

First, I will give an explanation on the fundamental reconstruction of the sales structure. Conventionally, the Bank had a sales structure of two business departments divided by two major markets, Osaka Prefecture and Wakayama Prefecture. To increase the competitiveness of feasibility transactions, the Osaka area will be divided into three business departments, Osaka, Sakai and Minami-Osaka, and combined with the Wakayama business department, the sales structure will be reconstructed into a four-business department structure.

In line with the above, we will review the branch strategy. We will consolidate and strengthen the branches, changing the number of branches offering full banking services from 33 to 30 in Osaka Prefecture, and from 32 to 13 in Wakayama Prefecture. Furthermore, we will newly establish Corporate Sales Departments at main locations in Wakayama Prefecture, raising the sales potential after consolidating the feasibility transactions in the area. We will strive to strengthen connections with core customers, by assigning officers to the four new business departments as general managers.

Through these developments, we aim to simultaneously realize improvements in service capabilities and productivity.

**By initiatives such as consolidating and strengthening branch channels and focusing on the IT field, we will drastically transform the distribution of management resources.**

Top Interview

**Yasuyuki Matsuoka  
President**



Please tell us about the satellite strategy. The first theme is stated as “developing a sales structure with a focus on communication with the region.”

First, in targeting individual customers, we will formulate new sales measures for the asset formation group. An example is the Kiyō Money Plaza newly established in April this year. We renewed some locations among the housing loan centers, and turned them into comprehensive retail locations, where consulting for services such as asset formation is provided. Also, at direct marketing centers, which is the telephone contact for customers, Hybrid Desks specializing in asset management were set up.

Furthermore, in anticipation of a future increase in needs for online transactions of stocks, etc., we will develop a business alliance with SBI SECURITIES Co., Ltd., the largest online securities company. Based on a strategy aiming to promote and strengthen assets under management of investment trusts, etc., we began transactions in July this year.

As an innovative channel strategy, in June 2018, we cooperated with FM802, one of the major FM radio stations in the Kansai region, and opened “KiyōBank×802 NAMBA SQUARE” in front of the ticket gates at the Nankai Namba Station. On top of providing online financial services, this is an extremely unique new branch format that is also equipped with information distribution functions for art, music, etc. We aim to develop it into a pillar of our brand that targets groups ranging from the young to the asset formation group.



Please describe the second theme of the satellite strategy, developing an IT strategy that realizes service capability improvement.

The IT environment is an essential strategic issue that must be considered in the field of customer services, as it is indispensable to people’s lives and businesses today. From the perspective of our operations, responding to the evolution of financial technology and the construction of big data is a vital mission.

Business alliances with companies in other industries, centering on FinTech companies, and cooperative businesses with other financial institutions form the spine of this strategy. The Bank has always worked on IT-linked collaborations, such as cooperation with online accommodation sites that support the tourism business, and crowdfunding handling operations. In recent years, we also cooperated with online securities companies as mentioned above.

Going forward, we plan to continue prioritizing the investment of management resources in this domain. As the central institution of this initiative, we newly established the IT Strategy Office, which will cooperate with the sales strategy division and the systems development division.

**“Initiatives for regional revitalization” is stated as another theme of the satellite strategy.**

As I mentioned in the summary of the 4th medium-term management plan, we view the act of contributing to the regional economy as our most important mission, and this mission remains unchanged in the new management plan. We plan to connect the dots of the various strategies and measures mentioned above into a line, to form a “plane” that leads to regional revitalization.

In particular, we believe support for tourism-related companies that are currently thriving and alliances with FinTech companies will become the major starting points of regional revitalization.

**In view of the first year of the 5th medium-term management plan, a turning point, do you have any special comments for the stakeholders?**

“We will face each challenge head-on, and become a bank that exceeds our customers’ expectations.” That is the Bank’s commitment to our customers in the 5th medium-term management plan. “Facing each challenge head-on” refers to uncovering the core problem of an issue, thereby making it possible to approach an issue that seemed impossible to tackle at first glance. Through ingenuity developed all the more under harsh conditions and proactive actions, we aim to respond to the issues of customers and regional economies.

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