

Message from the President



Challenging the Status Quo of Regional Banks—Lessons from the Heisei Era

Looking back on Japan's Heisei era from the perspective of finance, two major financial events can be seen to have affected the entire economy and led to a subsequent economic downturn. The first is the problem of nonperforming loans, which sparked the collapse of Japan's bubble economy and the major reorganization of city banks and so forth. The second is the global financial crisis of 2008 that started in the United States. In both cases, financial collapses had a huge impact that extended to regional industries and economies. However, these two events served as a lesson of the Heisei era that made us reconfirm the role that finance should play in "staying close to industry and the community, and contributing to their development."

Over this time, new services spread throughout the world, enabled by technological innovation such as the rise of the internet. As we benefitted from these services, they made our lives much more convenient and changed our consumption behavior. On the other hand, in Japan a raft of different issues have emerged against a backdrop of structural change with the population simultaneously declining and growing older. These include revitalizing industries that will drive regional economies, measures for aging social infrastructure built during Japan's high-growth period, and building regional healthcare systems to support the lives of residents. Taking the necessary measures from various angles to revitalize regional economies and build sustainable cities has become an urgent task.

These dramatic changes in people's lifestyles and the environment for regional economies alone will make the Reiwa era a time for further challenging the status quo of regional banks. We need to use the

diverse issues facing each of our individual and corporate customers as starting points, taking steps to provide financial services that help to solve them. We also need to focus on issues at the region-wide level and work in partnership with governments and others towards solutions. I believe it is by facing these changes in the times, continuing to meet the expectations of the region, and putting the lessons of the Heisei era into action that we will be able to continue serving our customers as their preferred bank in the new era as well.

Looking Back on the History of the Bank

In the Bank's history, we see that during the post-war recovery period, small and medium-sized companies in Kyoto City suffered from chronic financial stress, and the financial environment inevitably imposed constraints on growth. Concerned about this state of affairs, various sectors of Kyoto City requested the Bank to relocate its headquarters from Fukuchiyama City in the northern part of Kyoto Prefecture to inside Kyoto City. After relocating in response to this request, the Bank strove to facilitate financing for all manner of small and medium-sized companies located in every part of Kyoto Prefecture, including Kyoto City. In doing so, it has developed a strong presence as a locally headquartered bank.

Right about this time, a host of venture companies appeared in Kyoto, producing high-quality products with advanced technology development capabilities and unique management styles. The Bank provided willing, continuous financial support for these companies through loans and investments, and many of them went on to represent Japan as global companies. As Kyoto developed a reputation as a city of venture companies, the Bank built relationships with these ventures from their founding days, and grew together with

them along their journeys. This history is an immense source of pride for the Bank whose management principle is “Serving the Prosperity of the Community.”

Furthermore, the numerous shares that the Bank has invested in in the past and continued to hold have become exceptionally good assets over the years, even for a regional bank, and now provide dividend income that supports earnings and are a source of strong financial base. Through this history, the Bank has been able to accumulate the strength to continue stable management even if risk events such as economic downturns occur. Our intention is to continue to maintain and increase our financial soundness so that customers can continue to use our services with confidence over the long term.

Finance in Step with Local Industry All the Way

Initiatives to realize a sustainable society are becoming more important as a common theme for the nation. Producing firms that will drive the regional economy in the future has become the expectation of every region, with public and private entities teaming up to address the issue.

The Bank provides a range of support for ambitious entrepreneurs with great ideas, forming a pathway through a series of processes from preparing for the foundation of a company to commercializing an idea. We also offer support through various kinds of consulting for CEOs who are aiming for further business growth, such as business matching to expand sales channels, M&A and so forth, to expand the business. In particular, we are passionate in our efforts to support company foundation among venture firms, given that this field is deeply related to the Bank's historical growth journey. We have also invested in several funds, and set up our own original fund. We aim to actively continue investing, targeting a total investment of around ¥5 billion over 10 years.

Furthermore, the closure of businesses as business owners age has become a social issue facing regional economies, and is drawing more attention. The Bank has been training specialist staff in divisions concerned with business succession and is focusing on financial services aligned to business owners that involve working together to find solutions to their concerns.

This industrial promotion will not produce overnight results. However, the Bank will follow the management principle it has adhered to since its foundation and concentrate its efforts towards achieving sustainable development of the region.



Taking Steps to Provide Financial Services to Meet the Needs of Today

Outside of industry promotion, there are various initiatives that regional banks are required to approach. These include consulting services in fields of great interest to individual customers, such as savings, asset formation, and asset succession. In an age where people are expected to live to 100 and leave many cases of inheritance, this kind of consulting service is becoming more important.

The Bank started operations of Kyogin Securities Co., Ltd. in 2017 and entered the trust services business itself last year. With this structure, we can provide customers with banking, securities, and trust services all at their local branch. It represents a major step forward for us as a comprehensive financial service provider. For our customers, we hope to be able to provide detailed consultations of various kinds according to their life stages at their usual banking branch.

Meanwhile, as digital technology continues to advance with surprising speed, a growing number of customers want to do bank transactions using smartphones and so forth. To meet their needs, we have launched the “Kyogin App,” which enables customers to open accounts without visiting a branch and check their balances and transaction records at any time of day. We are now working to expand the functionality of the app. Moreover, with regard to the drive towards a cashless society being promoted by the government, we are actively taking measures with a view to providing value to customers who prefer to avoid cash payments due to hassle and so forth. We are working to introduce new services, including the start of a partnership with bank-affiliated digital currency platform, “J-Coin Pay.”

Through these activities, the Bank of Kyoto Group will continue striving to provide new financial services to meet the needs of today.

As the times change, so do customers' needs for financial services, and their expectations of regional banks.

The Bank of Kyoto Group will always pay attention to feedback from customers and strives to transform itself so that it can provide services in line with customers' demands.

In an era that is challenging the status quo for regional banks, we aim to steadfastly carry out our mission and role, meeting the expectations of a wide range of stakeholders while working to sustainably increase our corporate value.

I would like to thank you for your continued support and kind consideration.

Nobuhiro Doi

Nobuhiro Doi

President
The Bank of Kyoto, Ltd.