

## Message from the President



## Creating the Region's Future Together in a New Era with COVID-19

### Sweeping Changes in the Business Climate— Impact from the Spread of COVID-19

The novel coronavirus (COVID-19) pandemic is seriously affecting the global economy. The International Monetary Fund (IMF) has expressed grave alarm, projecting the world economy in 2020 will experience the worst downturn since the Great Depression in 1929. The COVID-19 crisis is affecting an extensive range of domestic industries, and regional economies face extremely harsh conditions. Notably, many of our customers that operate businesses are seeing sharp sales declines like never before, regardless of their business area.

The entire Bank is working to provide flexible assistance, while closely coordinating with governments. To support cash flows for the foreseeable future, we promptly established the COVID-19 Special Financing Program. Other initiatives include enhancing the framework for branches offering weekend and holiday

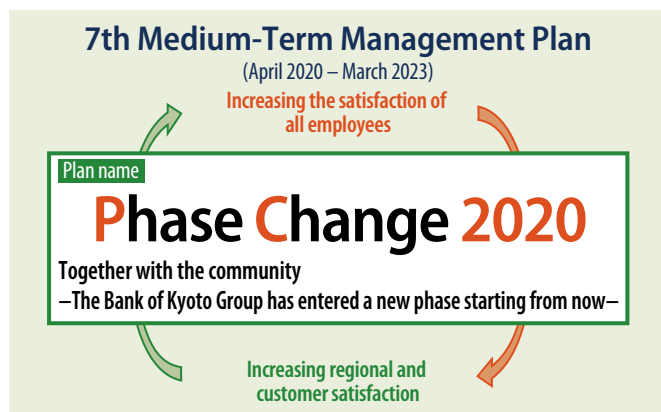
consultation services and setting up a toll-free hotline dedicated to COVID-19-related financial issues. It is expected to take a considerable amount of time for economic activities to recover to levels before the COVID-19 crisis. We seek to fulfill its obligation as a regional financial institution to further buttress the regional economy to facilitate recovery and revitalization.

The COVID-19 crisis has brought to light an array of corporate management issues. Among them, renewed attention has come to the importance of the financial structure supporting corporate business continuity. Since the gravity of business operations' sustainability or so-called sustainability management has been advocated to date, I think financial strength is likely to be emphasized even more going forward.

The Bank has long stressed sound and solid management and its financial health has been a strength. Anchored by this robust financial foundation, our intention is to continue to support our customers by providing flexible funding and financial services

matching their needs, especially at a time when our customers operating businesses are facing worsening earnings outlooks due to the COVID-19 pandemic.

## Start of 7th Medium-Term Management Plan



In April 2020, we launched our 7th medium-term management plan “Phase Change 2020.” Our business environment is changing so quickly and dramatically that we need to rethink everything from scratch to adapt to the new era. To that end, we saw a need to recognize that we have entered a new phase and reset our mindset. To convey our desire for all employees to embark on a fresh start in fiscal 2020, we named our management plan “Phase Change 2020.” The plan has four main themes: shift in business domain from banking to comprehensive financial solutions, best mix of face-to-face and digital services, to establish an even more fulfilling environment where employees can grow and play active roles, and to develop and secure specialized and diverse human resources.

The current medium-term management plan incorporates several measures to further raise the enterprise value of the Bank.

Firstly, the plan renews focus on human resources (employees) as a source of enterprise value creation with the two fundamental themes of “increasing the satisfaction of all employees” and “increasing regional and customer satisfaction,” and paints a picture wherein both sustain a virtuous cycle so as to fuel major growth and development.

Next, we took the unprecedented step of introducing a process for bringing together the views of all employees on “how they want the Bank to be” at the stage of management plan development. We referred to this as “All 4,000 employees thinking together about ‘The Bank of Kyoto’s Future Vision.’” Plentiful discussion with all branches and head office divisions enabled the Bank to consolidate and reconfirm the views of all 4,000 employees and reflect them in the plan. Employees became more interested

in the medium-term management plan by taking part in this formulation process. In addition, I think that the phrase “together with the community,” embodying the shared sentiment of all employees, has become a slogan that each of us at the Bank can sympathize with during the COVID-19 crisis and an underlying motivator for our work.

Moreover, we made conscious efforts to integrate attainment of the Sustainable Development Goals (SDGs) into the management plan. In its role as a regional financial institution, the Bank has operated with a view to the sustainability of society on its own accord. By further developing that perspective in accordance with the SDGs, which are international targets, we aim for employees to experience a greater sense of unity with society through their jobs and feel pride in their work at the Bank playing an important part in the regional economy.

We also look to boost employee engagement including by creating an environment where employees can thrive, and tie that to enhanced enterprise value.

## Strengthening Consulting Capabilities to Respond to Customers’ Diverse Needs and Issues

Under the previous medium-term management plan, the Bank’s efforts revolved around the main theme of “fully leverage consulting capabilities,” and under the current medium-term management plan, these consulting capabilities will be further broadened. We have built a branch network over a wide area and developed community-based business activities to date, and will redouble our pursuit of consulting-oriented business activities that fully leverage information that has been accumulated in the process.



For business customers, changes in the business environment are driving growing needs not just for financing but also sales channel expansion, overseas expansion, business succession, executive matching and so forth. In order for comprehensive corporate consulting services to meet such needs, the Bank enhanced its ability to propose solutions in part by establishing the Consulting Business Specialist Team as a one-stop hub linking head office divisions and branches. Based on know-how amassed so far, we will further strengthen solution-oriented business going forward.



For individual customers, there are growing needs for services such as asset succession to the next generation and asset formation in an age where people are expected to live to 100 amid increasing unease about future social security as the ultra-low interest rate environment continues and the aging of society advances. The Bank regards as a great strength its ability to provide banking, securities, and trust services in tune with customers' changing needs according to their life stages, all through familiar staff at local branches. Going forward, we will continue to enhance our products and services and otherwise strengthen and leverage our comprehensive consulting functions for individual customers.

We will cultivate personnel with strengths in the kind of specialist skills and abilities required for consulting to meet the needs of both business and individual customers.

## Best Mix of Real and Digital

The COVID-19 pandemic has brought about dramatic changes in people's behavior and values. For example, remote work has rapidly increased after many years of waning popularity, and many people have probably now seen some promise for it as a new style of working. The Bank was able to implement remote work on a trial basis relatively smoothly since it has actively been promoting digitalization to date, but issues remain. We reconfirmed that

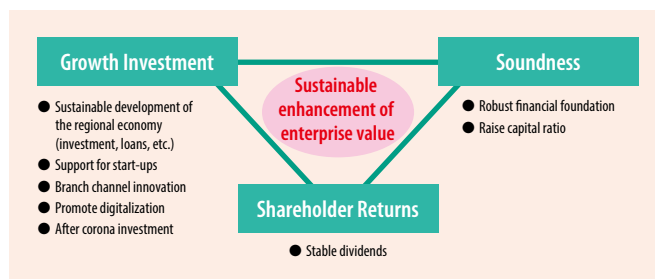
"digital, non-face-to-face, and remote" are key words that will give rise to new value in the coming era.

Numerous people have likely found the experience of working remotely to be convenient on one hand, but to have underlined anew the value of conventional real-world experiences and conversations on the other hand. As communication tools enabling video and voice chat become more prevalent, the boundaries between the face-to-face (real) and non-face-to-face (digital) worlds could become even blurrier, but I think domains that cannot be replaced by digital options will remain. Accordingly, I believe that accurately identifying domains emphasizing the real world and domains where digitalization is advancing powerfully will be vital moving ahead, not just for responding to crises such as the COVID-19 pandemic but also for growth strategies.

"The best mix of face-to-face services and digital services" is one of the main themes in the medium-term management plan underway. By adding a digital dimension to the real-world customer and regional networks we've built up so far that include branches and employees, we aim to forge even stronger relationships with customers while establishing the best mix suited to the coming era to provide services that can satisfy customers.

## A Triple Balance: Investing in Growth, Securing Soundness, and Enhancing Shareholder Returns

For a regional financial institution to continuously enhance enterprise value, we regard deftly balancing investments in growth, ensuring soundness, and increasing shareholder returns as key.



In establishing medium- to long-term management strategies, we strive to make appropriate decisions about balancing these three tasks in light of the business environment, including the future economic outlook. I want to optimize that process and consider factors such as notable polarization among the three tasks and whether strategies meet the expectations of various stakeholders.

Regarding shareholder returns, the Bank's fundamental policy is to provide stable dividends. As indicated in the current

medium-term management plan, we plan to raise the dividend payout ratio from 25% hitherto by 5% to 30%.

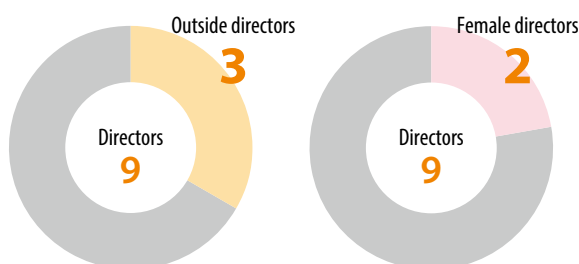
Turning to growth investments, we intend to focus on areas such as corporate financing and support for start-ups (investment, etc.) in particular, as well as further promotion of branch channel innovation and digitalization to meet customers' needs.

And what makes such growth investments possible and supports stable management is a strong financial position. Since the regional economy is rapidly weakening now due to the spread of COVID-19, the Bank regards its top priority as helping pave the way for recovery and revitalization. The current situation reinforces our drive to put robust financial footing to work for the region.

## Initiatives to Strengthen Governance

As part of establishing unwavering trust from customers and society as a whole, the Bank is working to strengthen corporate governance based on management transparency and soundness.

From June 26, 2020, we increased the ratio of outside directors on the Board of Directors to one-third and the number of female directors to two.



In addition, we are promoting constructive dialogue with shareholders and institutional investors by disclosing information through investor relations, shareholder relations, and other activities.

## Looking to a New Era with COVID-19

The phrases "Before Corona" and "After Corona" have come into use, mirroring BC's use as an abbreviation for "Before Christ." It is being said that this unknown infectious disease has brought such immense changes to society around the world that even if the threat of COVID-19 passes in the future, the world will not be the same. It might be prudent to prepare for the end of one era and the coming of "a new era with COVID-19" premised on co-existing with the threat of other infectious diseases.

The COVID-19 pandemic is dramatically changing people's awareness, and dealing with the infectious disease is proving to be extremely difficult. However, I believe that what companies need



now is the fortitude to turn crisis into opportunity by finding prospects amid the turmoil and following up with actions to take on new challenges, rather than being pessimistically paralyzed by these trying times.

By continuing to stay by the side of our customers affected by the pandemic and provide robust assistance in supporting businesses and returning to a growth trajectory, the Bank of Kyoto Group will fulfill its mission as a regional financial institution and live up to the expectations of its diverse stakeholders.

We hope for recovery of regional economies as soon as the pandemic can be contained, and renew our determination to build a future for the region together with local communities.

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

Nobuhiro Doi

President  
The Bank of Kyoto, Ltd.