Message from the President

Introduction

March 15, 2019, marked our 141st anniversary of establishment. I would like to wholeheartedly thank our customers and members of the local community, whose generous support has enabled us to serve the community until today throughout the Meiji, Taisho, Showa, and Heisei eras.

The Bank was founded on 1878 in the current Kawanoishi, Honai-cho, Yawatahama City, as The 29th National Bank—the first bank in Ehime Prefecture. Since its founding, the Bank has grown in the belief that no development is possible for us without the development of the local community.

Today, we are facing a new era where the acceleration of digital innovation allows us to instantly obtain information and services and customers’ needs are increasingly sophisticated and diversified.

Amid these changes, my goal is to fully leverage the convenience of digital technologies and at the same time provide services only made possible by “human” employees to become a “Digital-Human-Digital Bank” as a means to support customers’ bountiful lives and business development.

Under the corporate credo of “creating a bright and prosperous future for the region,” I will make an all-out effort together with our officers and employees so that Iyo Bank will become a bank that is still needed 10 years in the future for everyone. I hope for your continued patronage.

Financial and Economic Environment

In fiscal 2018, ended March 31, 2019, a moderate recovery continued overall in the Japanese economy owing to steady consumer spending due to a solid employment environment, despite sluggish growth in exports against the backdrop of a slowdown in the global economy.

Although uncertainty remains due to rising downside risk to domestic and overseas economies, including the development of trade issues, concerns over a slowdown in China’s economy, and a consumption tax hike, a recovery trend is likely to continue, supported by solid domestic demand in anticipation of the Olympic and Paralympic Games Tokyo 2020 and EXPO 2025 OSAKA, KANSAI, JAPAN.

The economy of Ehime Prefecture is expected to continue on a moderate recovery due to solid consumer spending and capital investment as public works are increasing for recovery and reconstruction from the heavy rainfall disaster in western Japan.

Business Performance

Under these circumstances, in keeping with our spirit of gratitude toward customers we worked to ensure our ability to provide products and services tailored to customer needs. We endeavored to expand our fields of operation and strengthen profitability in the aim of being a bank that is still needed 10 years in the future.

Regional Vitalization Initiatives

In line with its aim of growing sustainably along with its region, Iyo Bank has been involved in a variety of regional vitalization measures and provided support for realizing customers’ bountiful lives and business development.

As an initiative for supporting customers with their start-ups and growth, we launched the “Foundation and Regional Revitalization Businesses Utilizing Crowdfunding” in September 2018 and encouraged new regional projects by, for example, subsidizing part of contract fees to be paid to business partners for parties that reached target amounts.

Under the Shikoku Alliance of four regional banks on the island, the 2nd Shikoku Alliance Business Plan Contest was organized in February 2019 to raise awareness of entrepreneurship in the Shikoku region and provide businesses incubation services for parties with creative business plans.

As an initiative for community development and tourism promotion, in April 2018, we concluded the “Cooperation Agreement on Tourism Town Creation through Utilization of Town Houses, Traditional Houses and Other Historic Resources in Ozu City, Ehime Prefecture,” under which we are promoting town creation through preservation and utilization of historic buildings in the castle town in Ozu City. In addition, in November 2018, we invested in SORAYAMA ISHIZUCHI Co., Ltd., a regional tourism service organizer, to revitalize regional economies and create employment by developing programs that let tourists enjoy hands-on experience of the local sites to promote tourism in the Ishizuchi Mountain Range and the surrounding area. Iyo Bank’s other efforts to promote regional tourism include “HAIKU & WALK,” a website launched in February 2019 to showcase tanka or haiku poems inscribed on monuments in Matsuyama City in Japanese and English to communicate the haiku culture of Ehime prefecture inside and outside Japan.

In October 2018, we established the 2018 Japan Floods Restoration Support Fund to support the reconstruction from the heavy rainfall disaster in western Japan in terms of funding, human resources and eliminating excess debt. In addition, we have provided Group subsidy bridge loans to support advance expenses paid for facility reconstruction until it is covered by subsidies, as part of our efforts to support recovery and reconstruction from disaster as well as business reconstruction.
Head Office Organization
The Bank reformed the head office structure in August 2018 in order to increase the effectiveness of strategies under the “Fiscal 2018 Medium-Term Management Plan — Second Stage for 150” launched in April 2018. Specifically, we transformed the Business Strategy Department in the General Planning Division into the Digital Planning Department to manage ICT strategies that leverage digital technologies. Also, we established the Consulting Business Division for strengthening value propositions to customers and the Online Business Division mainly to improve functions and services via non-face-to-face channels. Furthermore, the Primary Sector Commercialization Primary Industry Support Department was established in the Regional Vitalization Division as a step to strengthen support systems for the development and revitalization of the primary sector, the key industry in the region.

Bank Branches and ATMs
Iyo Bank has a broad-ranging branch network that covers 13 prefectures in Japan, the largest number of prefectures covered by a regional bank. We have been upgrading our branches and strengthening customer service systems so that customers can use our services more effectively. While making a shift to next-generation branches that offer new functions and services, we placed the “Satto (quick) counter” in 41 branches (as of March 31, 2019) which provides semi-self-served cash transactions and tax payments among others. In this way, we have reduced inconvenience to customers and worked to make our branches easily accessible.

In addition, we introduced the AGENT System in February 2019 which allows customers to open new accounts and change their addresses with tablet devices. Customers can make paperless applications to open new accounts, instead of the traditional paper-based applications, simply by selecting options via chat and uploading photos of their driving licenses. In this way, customers will benefit from the convenience of digitization and a strengthened service structure with less waiting time through simple and speedy procedures. In the future, we will work to maximize customer contact points and improve advisory and consulting services, while aiming to reduce waiting time at the counter and realize hassle-free transactions without forms or seals through the digitization of administrative work.

Products and Services
As for financing products, we began handling Natural Disaster Responsive Financing in May 2018 that forgives debt obligation for a prescribed ratio of principal balance of loans if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location. It also provides funding within credit limit even after if an earthquake in a certain scale occurs at a prescribed location.

Our consulting service initiatives included the promotion of ICT consulting that supports the introduction and use of ICT by our customers to increase productivity and improve operational efficiency. In addition, in October 2018, we launched lease intermediary operations to provide compound proposals of bank lending and lease products to realize diversified fund procurement for customers, reduce administrative workload, and facilitate the use of tax reduction and subsidy schemes for capital investment.

As an initiative utilizing Fintech, the TSUBASA Alliance, which is an alliance among eight regional banks (as of March 31, 2019) including the Bank, is proceeding with the joint development of an API platform linking the Bank’s system with Fintech companies. We launched a series of services supporting the formation and management of customer assets, starting with linkage with the automated saving application Finbee and the automated household accounting/asset management service Money Forward in July 2018, as well as with the online household accounting service Zaim in December 2018.

In addition, in December 2018, we introduced the Insurance Robot Advisor that can create personalized insurance by having customers answer simple questions including their age, gender, and family structure using their PC or smartphone.

Furthermore, in March 2019, we commenced linkage with the settlement service J-Coin Pay that enables QR code payment and free instant money transfers among users using smartphones, and other services easily available whenever, wherever, free of charge. We will continue to work on measures to provide financial services that improve customer convenience and facilitate cashless transactions in the region.

ESG Initiatives
In addition to its financial activities, to realize its mission to “create a bright and prosperous future for the region,” Iyo Bank has promoted efforts for the environment, society and governance (ESG).

As environmental protection activities, in addition to offering grants through the Iyo Bank Environment Foundation “Evergreen” (public trust), we carried out Iyo Bank Evergreen Forest activities in four locations in Ehime Prefecture together with Ehime Prefecture, Ozu City, and FOREST FUND OF EHIIME. In addition, we carried out tree planting as part of the activities of the Society to Promote the Creation of Forests in Towns, for which the Bank serves as the secretariat, together with 68 member companies and organizations (as of March 31, 2019). We have aggressively promoted environmental preservation activities to realize a local community co-existing with nature.

As part of our social welfare activities, we established Iyogin Challenge & Smile Co., Ltd. to promote the sustained employment of persons with disabilities and obtained its certification as a special subsidiary company in June 2018. In this way, we have arranged an environment where persons with disabilities can work with peace of mind, while supporting their engagement in society and self-reliance.

We continue to provide scholarships and donate welfare devices through the “Iyo Bank Social Welfare Fund.” In the scholarship program, we increased scholarship recipients and amounts as part of our 140th anniversary commemorative project. In addition, we kept providing aid under the “Regional Cultural Activity Assistance Program.” We also held “Iyogin Junior Mirai Juku” and other financial education classes to promote financial literacy among children who will build society in the future, as efforts to create a community with vitality.

As for governance, the Bank has transitioned to a company with an Audit and Supervisory Committee and the number of outside directors exceeds one third of the total number of directors. Thus, we make efforts to strengthen audit and supervisory functions and revitalize the Board of Directors. As other measures, we have established the Management Deliberation Committee to deliberate director nominations and compensation and the Advisory Board to obtain capital investment and advice about the Bank’s management strategies and governance from external experts and created a structure where management transparency and objectivity are ensured.
In addition, for contributing to countermeasures against money laundering and terrorism funding for which strict standards are internationally required, we established the Basic Policies for Anti-Money Laundering and Combating the Financing of Terrorism in June 2018 and clarified the Bank's policy. Furthermore, since July 2018, we have worked to strengthen internal control structures by identifying, assessing, and verifying risks by having the Compliance Division control money laundering countermeasures, etc. in an integrated manner.

IR Activities and Ratings
Iyo Bank is proactively working to improve disclosure. To increase management transparency, we held annual results briefings for analysts and institutional investors in Tokyo in June and December 2018, and held results briefings accompanied by a special lecture presentation in four locations around Ehime Prefecture (Matsuyama, Imabari, Niihama and Shikokuchuo) in July 2018.

To foster a deeper understanding of its management activities by stockholders, suppliers and investors, the Bank is rated highly, with an “AA” rating by Japan Credit Rating Agency (JCR), an influential Japanese credit rating agency, an “A” rating by Standard & Poor’s (S&P), a global credit rating agency, and an “A+” rating by Rating and Investment (R&I). Furthermore, the Bank and its group company Shikoku Alliance Securities Co., Ltd. were rated “A+” and “A,” respectively, under R&I’s Customer-Oriented Investment Trust Sales Company Evaluation in December 2018.

Risk Management and Compliance
We have taken measures to establish a risk appetite framework for business management. Through regular discussions and monitoring, we aim to ensure balanced, sustainable growth and soundness. Also, we regularly review our business continuity structure corresponding to the quality of damages anticipated, including from disasters such as the Nankai Trough earthquake and heavy rainfall.

With respect to compliance, we comply with laws and regulations in accordance with the Basic Policy on Dealing with Antisocial Forces, by enhancing the precision of our measures to block antisocial forces before entering into any relationships by stepping up screening measures.

Business Performance
In fiscal 2018, ended March 31, 2019, performance was as follows: The term-end balance of deposits, including NCDs, increased ¥166.6 billion over the previous fiscal year-end, to ¥5,712.6 billion (US$51.469million). The loan balance at the end of the fiscal year rose ¥258.1 billion from the previous fiscal year-end, to ¥4,550.8 billion (US$41,001million). The balance of securities at the end of the fiscal year decreased ¥236.7 billion from the previous fiscal year-end, to ¥1,573.3 billion (US$14,175million). The balance of total assets at the end of the fiscal year rose ¥81.0 billion from the previous fiscal year-end, to ¥7,140.7 billion (US$64,336million).

Ordinary income increased ¥5,013 million on a consolidated basis year on year, to ¥107,222 million (US$966million), due to higher investment income, stemming from an increase in interest on loans and discounts as well as an increase in other operating income owing to higher gains on sale of bonds, etc. Meanwhile, ordinary expenses on a consolidated basis rose ¥11,587 million to ¥80,873 million (US$728million), with an increase in interest expense as well as other ordinary expenses rising due to higher provision of reserve for loan losses. As a result, net ordinary income decreased ¥6,574 million to ¥26,349 million (US$237million), while profit attributable to owners of parent decreased ¥4,400 million to ¥18,262 million (US$164million).

The capital ratio (Basel III standards), which measures bank prudence and soundness, stood at 14.38%.

Issues
Although the Japanese economy as a whole is expected to remain in a moderate recovery phase, the Bank’s operating environment is undergoing significant changes. Such factors include changes in economic and social structures due to the falling birthrate, increasingly aging population, and population decline, as well as the acceleration of digital innovation.

Under these circumstances, the Bank launched its “Fiscal 2018 Medium-Term Management Plan” in April 2018 and striving to realize the vision in the plan, the transformation of the Bank into a “Digital-Human-Digital Bank.” Capitalizing on the wave of digital Business as a great opportunity, we will develop services with high added value that only the Bank can offer by further leveraging digital technologies to bring about improvements in customer convenience and productivity, while perfecting attentive and professional consulting capabilities that only humans can do.

In 2019, Japan transitioned from Heisei to Reiwa. In this new era, we will take on challenges by embracing change. We would like to move ahead and grow hand in hand with members of the local community to realize our 10-year vision of becoming the leading financial services group in the Setouchi region in terms of customer satisfaction.

While working to ensure sound management and further strengthening the Bank’s business operations, we, as the full-service financial institution in your hometown, will put our full effort into realizing a sustainable and vital regional community. In these endeavors, we ask for the ongoing support of our stockholders.

Iwao Otsuka, President
Fiscal 2018 Medium-Term Management Plan
Period: Three years, from April 2018 through March 2021

Digital-Human-Digital Bank
— Whenever, wherever, closer to you —

Digital touch point
Customer contact points
- easy to use -

Human consulting
Group employees
- customer-oriented -

Digital operation
Administrative procedures
- simple -

Core Policy I
Consulting strategy
Strengthen ability to offer values tailored to each customer

Core Policy II
BPR strategy
Enhance productivity and reduce cost through optimum resource allocation

Core Policy III
Regional revitalization strategy
Commit to regional revitalization actively

Core Policy IV
Market strategy
Ensure stable, long-term earnings power through overseas and market investment

Core Policy V
Personnel strategy
Develop organizational culture that diversity of every person is leveraged and proactively and mutually enhanced

Closing domestic market, aging population with declining birthrate

Creation of new “methods to deliver values”

Risk Appetite Framework