SILCHESTER INTERNATIONAL INVESTORS LLP

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23rd May 2022

Silchester International Investors LLP ("**Silchester**"), acting on behalf of its clients, is the owner of 4,739,900 shares in The Bank of Kyoto, Ltd (the "**Bank**"). This represents 6.2% of the Bank's issued share capital. Silchester's clients are collectively the Bank's largest shareholder. Silchester's clients have been an owner of the Bank since 2006.

Silchester has engaged with the Bank's management and Board of Directors for more than 15 years. Silchester wants the Bank to maintain a sound capital structure, grow its revenues, fees and commissions and downsize its high cost legacy infrastructure. Silchester is disappointed to report that the Bank has failed to become a more prosperous business.

On 25th April 2022, Silchester announced that it would submit a special dividend resolution to the Bank. On 13th May 2022, the Bank confirmed that the resolution would be voted on at the Bank's June AGM.

Silchester's resolution calls for the Bank's shareholders to approve the payment of an additional special dividend of JP¥ 132 per share.

If approved, the total dividend paid by the Bank for the financial year ended 31st March 2022 would be JP¥ 232 per share. This compares to the Bank's full year earnings of JP¥ 273 per share.

On 13th May 2022, the Bank issued a statement opposing Silchester's special dividend resolution. In its statement, the Bank argued that Silchester's proposal is 'based on a short-term view that does not take into account the characteristics of the Bank as a regional financial institution and will not lead to the improvement of corporate value in the medium to long term'.

Silchester finds the Bank's arguments to be naïve and lacking financial acumen. The Bank's arguments misinterpret and misrepresent Silchester's special dividend resolution. The Bank and its Board of Directors are seeking to retain capital – not to benefit the Bank, its stakeholders, regulators, customers or shareholders – but for the comfort of management.

Silchester's special dividend request is based on a simple philosophy. Silchester would like the Bank to distribute ordinary and special dividends to shareholders that total:

- 100% of the annual dividend income that the Bank receives on its equity holdings; and,
- 50% of the net income from the Bank's core banking business.

Silchester's pay-out philosophy allows the Bank to complete periodic share repurchases if the Board of Directors determines that these repurchases are in the long-term interest of the Bank.

Silchester's pay-out philosophy allows the Bank to improve its operating performance over time, to enhance the Bank's technology infrastructure and increase lending to the local community. The Bank can expand into adjacent businesses if these improve the Bank's earnings and exceed its cost of capital.

Silchester's approach ensures that the Bank is focused on improving the profitability of its core banking business rather than hiding behind dividend streams generated from equity holdings.

Silchester's approach ensures that the Bank retains a fair share of the available earnings generated by the Bank's core lending and banking activities. Silchester's approach allows shareholders to benefit from all dividend income collected on the Bank's equity holdings.

Silchester notes that the Bank repurchased JP¥ 2.5bn of shares during the 31st March 2022 financial year and intends to pay JP¥ 100 per share of dividends. If the special dividend resolution is approved, the Bank will retain around **3%** of its consolidated earnings for the 31st March 2022 financial year.

Silchester's approach does not adversely impact the Bank's financial solvency or the Bank's ability to meet its obligations as a regional financial institution.

- The Bank's capital adequacy ratio stands at 12.1%. This compares to an average capital adequacy ratio of 9.6% for Japan's regional banks and a minimum regulatory requirement of 4%. Contrary to the Bank's 13th May 2022 statement, the Bank's solvency ratios will not decline following the payment of a special dividend.

- The Bank benefits from excess customer deposits. If the Bank wishes to increase lending volumes to individuals, local businesses and governmental bodies, it can do so. Any lending must be done prudently and profitably. Contrary to the Bank's 13th May 2022 statement, the Bank's ability to expand its lending book and meet community obligations will not be impaired following the payment of a special dividend.

- Silchester's approach does not require the Bank to dispose of its equity holdings. Silchester is simply asking the Bank to distribute all dividends from these equity holdings to shareholders. If the Bank independently chooses to sell one or more of its equity holdings, the proceeds of these sales should be distributed to shareholders via special dividends or opportunistic share repurchases.

- The Bank previously argued that the Bank needed to retain its equity holdings to preserve customer relationships. The Bank now argues that they are being held for historical reasons. Silchester notes that the Bank's equity portfolio includes holdings in companies such as Nintendo, Omron, Kyocera and Murata. Silchester notes that the value of the Bank's equity holdings currently exceeds the Bank's market capitalisation.

Silchester's approach forces the Bank and its Board of Directors to focus on the overall profitability of the Bank's core banking and lending business. Silchester's approach forces the Bank and its Board of Directors to be accountable to the Bank's owners and adopt an appropriate capital allocation discipline. This provides the following medium to long term benefits:

- The Bank is more likely to improve its ROE and cover its cost of capital. Over the past decade, the Bank has delivered a ROE of less than 3%. The Bank's ROE has lagged the ROEs delivered by other Japanese companies including other regional banks. The Bank's poor ROE arises from disappointing earnings, an excessively high cost-income ratio and excess capital retention. A low ROE is harmful to the Bank's owners, its stakeholders and the broader community. Low ROEs destroy corporate value over time.

- The Bank's reputation will improve. The Bank hopes to provide financial consultancy services to local businesses. To do so, the Bank and its Board of Directors must be seen to be responsible stewards of capital. Responsible stewards of capital display appropriate capital allocation policies.

- The Bank will increase returns to shareholders via a combination of stable ordinary dividends and ad hoc special dividends. The Bank's primary owners are Japanese. These include individuals, families, insurance companies, pension plans, corporations and government bodies. Many of these are located in the Kyoto Prefecture. Japanese shareholders rely on the Bank to grow its dividends. Higher dividends allow shareholders to meet their own financial obligations.

Silchester encourages all shareholders to carefully consider the special dividend proposal. Silchester encourages all shareholders to vote in favour of the special dividend proposal. The special dividend proposal gives all shareholders the right to express their views on the performance of the Bank and its management. A vote in favour of the special dividend resolution provides the Board of Directors with guidance on the Bank's future capital allocation policies and holds them accountable for its execution.

Please contact Tim Linehan (tlinehan@silchester.com) with questions on this press release.

About Silchester

Silchester is a UK based asset management firm. Silchester invests client moneys in publicly traded non-US equity securities using a bottom up, value based, investment approach. Silchester is a 'long-only' manager. Silchester does not short securities, utilise derivatives or invest in convertible instruments. Silchester seeks to invest in companies trading cheaply relative to their assets, earnings or dividends. Silchester has been invested in Japanese equity securities since 1995.

Silchester is the appointed investment manager for several large commingled funds. One of these commingled funds is the Silchester International Investors International Value Equity Trust. The Northern Trust Company acts as the custodian for this commingled fund. The Northern Trust Company holds the shares for this commingled fund in a nominee account called Northern Trust Company AVFC Re: Silchester International Investors International Value Equity Trust. The Northern Trust Company has provided Silchester with a power of attorney granting Silchester the authority, as investment manager, to introduce the special dividend proposal. The Northern Trust Company is not otherwise involved with this proposal.

Silchester is not an 'activist' investor. Silchester is a fiduciary for its client assets and takes its corporate governance obligations seriously. Silchester will engage with portfolio companies where appropriate.

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27th April 2022

Silchester International Investors LLP ("**Silchester**"), acting on behalf of its clients, is the owner of 4,739,900 shares in Bank of Kyoto, Ltd (the "**Bank**"). This represents 6.2% of the Bank's issued share capital. Silchester's clients are collectively the Bank's largest shareholder. Silchester's clients have been an owner of the Bank since September 2006.

Silchester has engaged with the Bank's management and Board of Directors for more than 15 years. Silchester wants the Bank to maintain a sound capital structure, grow its revenues, fees and commissions and downsize its high cost legacy infrastructure. Silchester is disappointed to report that the Bank has failed to become a more prosperous business.

Silchester is disappointed to report that the Bank's Board of Directors has failed to put an appropriate capital allocation discipline in place. This, coupled with operational inefficiencies, means that the Bank has failed to deliver a return on equity ("**ROE**") approaching 10%. A low ROE is particularly harmful to the Bank's owners. The Bank's primary owners are Japanese. These include insurance companies, pension plans, corporate treasuries, government bodies and individuals. Japanese shareholders, like Silchester's clients, rely on the Bank to grow its dividends and increase its ROE.

The Bank maintains a significant investment portfolio, including equity holdings in companies such as Nintendo, Omron, Kyocera and Murata. The value of the Bank's equity holdings vastly exceeds the Bank's market capitalisation. These shareholdings are not needed to maintain customer relationships.

In the Bank's most recent annual report, President Doi stated that the equity holdings are "*from many listed companies located locally in Kyoto … and companies that the Bank has held since a time when the Bank acted to facilitate their growth. This involved offering financing as well as actively investing in such entities at a time when they were regarded as venture companies*". President Doi went on to say that the Bank "*will seek optimal solutions that are readily comprehensible across a wide range of stakeholders which will bring about an increase in the enterprise value of the Bank*."

It seems clear to Silchester that many of these equity holdings can no longer be considered investments in 'venture companies'. They are equity holdings in large global listed companies. Contrary to President Doi's statement, Silchester notes that President Doi and the Bank's Board of Directors have failed to increase the Bank's enterprise value.

On various occasions, Silchester asked President Doi and the Bank's Board of Directors to take steps to improve the Bank's prosperity on which its stakeholders are relying. Silchester asked them to correct the Bank's capital allocation in order to deliver shareholder value. They refused.

In the financial year ended 31st March 2021, the Bank earned JP¥ 16.9 billion of net income. The Bank generated a ROE below 2%. The Bank told Silchester that JP¥ 17.3 billion was collected as dividend income on the Bank's equity holdings. This means that the Bank lost approximately JP¥ 0.4 billion on its core banking activities.

For the year ended 31st March 2022, the Bank is currently forecasting net income of JP¥ 20.0 billion. The Bank is forecast to generate a ROE below 2%. The Bank told Silchester that the Bank is expected to receive JP¥ 20.0 billion from its equity holdings during the year ended 31st March 2022. This means that the Bank will not generate any significant profit on its core banking activities.

On 28th December 2021, the Bank announced a new shareholder return policy. As part of this, the Bank agreed to target a 50% dividend pay-out ratio. The Bank announced a JP¥ 2.5bn share repurchase scheme. The Bank announced that a total of JP¥ 100 per share of dividends would be paid in a financial year where the Bank forecasts earnings of JP¥ 265 per share. While an improvement, these changes are wholly insufficient to correct the Bank's historic capital allocation approach.

On 14th February 2022, Silchester formally asked that the Bank to modify its dividend distribution policy. Silchester asked the Bank to distribute ordinary and special dividends to shareholders that total:

- 100% of the annual dividend income that the Bank receives on its equity holdings; and,
- 50% of the net income from the Bank's core banking business.

Silchester's proposed pay-out policy would ensure that the Bank's management is incentivised to generate earnings from its core lending and banking activities. Silchester's proposed pay-out policy would ensure that the Bank retains a fair share of these available earnings. It would give the Bank sufficient financial flexibility to expand its banking businesses. Silchester's proposed dividend pay-out policy allows the Bank's shareholders to benefit from all of the dividend income collected on the Bank's equity holdings. Adopting this dividend pay-out policy does not adversely affect the Bank and/or harm its future business prospects. It does not jeopardise the Bank's ability to meet solvency requirements, to work with its customers and/or to meet its obligations to stakeholders in the broader Kyoto Prefecture.

The Bank and its Board of Directors rejected Silchester's request. President Doi and the Bank's Board of Directors seek to continue with the same value destructive approach the Bank has followed for more than 15 years.

The Bank's current shareholder return policy is not in the interest of its shareholders. If the shareholder return policy is not improved, it will result in further harm to the Bank's stakeholders, including Japanese shareholders.

On 25th April 2022, Silchester sent the Bank a formal demand letter that reflects the share repurchase initiative announced in December 2021.

Silchester's demand letter requires the Bank to add a special dividend proposal to the Bank's annual general meeting agenda which will occur in June 2022. If the Bank rejects Silchester's demand letter or refuses to include Silchester's AGM resolution – for any reason – Silchester will take the necessary steps to call an EGM. Silchester controls the necessary shares to do so.

If Silchester's proposal is approved by shareholders, an additional special dividend of JP¥ 132 per share will be paid to all shareholders of record as of 31st March 2022. The total dividend paid by the Bank with respect to the financial year ended 31st March 2022 would be JP¥ 232 per share versus the Bank's JP¥ 265 per share earnings forecast.

Silchester encourages all shareholders to carefully consider the special dividend proposal. Silchester encourages all shareholders to vote in favour of the special dividend proposal. The special dividend proposal will give all shareholders the right to express their views on the performance of the Bank and its management. A vote in favour of the special dividend resolution will provide the Board of Directors with guidance on the Bank's future capital allocation and dividend distribution policies.

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Silchester first invested in the Bank in September 2006. Silchester has regularly discussed the Bank's operating performance and capital allocation with the Bank's Board of Directors and senior management. Silchester has sought for these discussions to remain confidential between Silchester and the Bank. Silchester has been forced to make this proposal public because of the Bank's unwillingness to seriously consider Silchester's proposals.

As of 27th April 2022, Silchester can exercise control over 6.2% of the Bank's issued share capital. The Silchester International Investors International Value Equity Trust holds over 2.7% of the Bank's issued share capital and has done so continuously for over six (6) calendar months. Silchester's clients are, collectively, the Bank's largest shareholder.