

Message from the President

Placing top priority on customer satisfaction, we aim to make full use of our expertise to serve as a reliable partner for our customers and to work hard to improve our services.



A handwritten signature in black ink, which appears to read "H. Katayama". The signature is fluid and cursive.

Hiroomi Katayama
President

Looking back over the year

During fiscal 2009, the reporting term, the Japanese economy, failed to break out of the worsening global financial environment of the prior year as expected. With a weak autonomous recovery, the economic slump continued, and there was continued speculation that the economy is headed toward a second dip, including a worsening employment situation and a stronger deflationary trend. Amid these circumstances, consumer spending has gradually rallied as a result of the “Eco-Point Program” and other economic stimulus packages, and there are signs of recovery in the export and manufacturing sectors as well, resulting from such measures as public investments and consumer-stimulus packages in various foreign countries.

As with the country as a whole, there were also signs that consumer spending and public investment are recovering in our group’s main operating area of Wakayama Prefecture and Osaka Prefecture, as a result of economic-stimulus packages and other factors. Nevertheless, these effects do not appear to have spread to small and medium-sized enterprises (SMEs) yet, despite signs of recovery among large enterprises. It was a very difficult year for our main customers: SMEs and self-employed individuals.

Turning to the consolidated business performance of Kiyo Holdings, Inc. for the fiscal year ended March 2010, ordinary profit increased ¥15.1 billion year on year, to ¥6.6 billion, due to such factors as the increase in other income resulting from the improvement to securities-related gains and losses by Kiyo Bank. Our net income increased ¥4.4 billion year on year, to ¥5.8 billion.

On a nonconsolidated basis, Kiyo Bank’s gross operating income increased by ¥10.6 billion year on year, to ¥58.9 billion, and its net income increased by ¥4.6 billion year on year, to ¥7.5 billion.

Income from interest, fees, and commissions – the core sources of income for a bank – were hit hard during the reporting term; this was in part due to the fact that market interest rates fell and sales of asset accounts slumped more than we had assumed at the planning stage. Nevertheless, we believe that we were able to achieve business performance nearly according to plan.

Achievements in the first year of the 2nd medium-term management plan

The greatest focus of our 2nd medium-term management plan is to achieve competitive superiority in the Bank's home region (Wakayama Prefecture and southern part of Osaka Prefecture). Our original home region is Wakayama Prefecture, and that fact will not change, but we have also been building up a network of branches in southern part of Osaka Prefecture for decades. The foundation of our current plan is to make customers in this area to accept Kiyo Bank as a regional bank, in the same way as customers in Wakayama Prefecture do. We intend to make the most of our superiority in covering a wide area spanning the prefectures of Osaka and Wakayama.

Recently, there has been much talk in the media and other circles about large enterprises, which are leaders in the solar-cell related business, expanding into the southern part of Osaka bay area with new plants in the cities of Sakai and Kaizuka. In fact, the market in southern Osaka to the south of Sakai City has twice the number of businesses as Wakayama Prefecture. Our business loan balance in Osaka Prefecture already exceeds that of Wakayama Prefecture. Mortgage loans account for approximately 30% of our loan portfolio, and competition over mortgage loans is particularly fierce in Osaka City, and southern part of Osaka Prefecture.

Sakai City is an ordinance-designated city with a population of 800,000. Despite this fact, there are no financial institutions headquartered here, and we have identified it as a key region for our bank. There is still great potential for further growth in the southern part of Osaka Prefecture.

We already have 26 branches in southern part of Osaka. We have focused a great deal of our business strategies there, and it will continue to be a key area for the allocation of our corporate resources. We have determined that the enhancement of communication and contact with our customers is an absolute requirement for satisfying customers, and we intend to give somewhat more consideration to increasing our workforce as well as, if possible, employing new marketing channels.

We are increasing our sales force for the corporate sector. In October 2009, we enhanced our competitive abilities with a focus on southern part of Osaka, and centered on Sakai City. We have created a new Corporate Sales Development Office in Sakai City, creating a two-site organization together with the office in Osaka City. In addition, we have assigned 10 people to the new Sales Development Office in Sakai. These account for half of the 20 additional personnel assigned to the corporate division, enhancing the cultivation of new SME customers around Sakai City. Although we are still studying our branch strategy, we intend to enhance our network with some branches, including opening new branches.

Meanwhile, the population in Wakayama Prefecture is expected to continue to age, which will make economic growth there a challenge. We thus intend to maintain our high share of the loan market there, and focus on procuring deposits and other assets, including account assets.

We have always provided a variety of support to our SME customers, including business successions, mergers and acquisitions, and support for operational improvements, but we have now begun new initiatives as well. Two examples are our SME Core Workforce Hiring Support Project and Growth Business Development Support Project, formed under a comprehensive agreement with Wakayama prefectural government with the goal of enhancing the operations of local SMEs. These projects match key human resources with SMEs that have growth potential. The projects are creating leading companies in the area by dispatching employees to companies who can serve as the presidents' right-hand men and women. Moreover, the Growth Business Development Support Project also forms teams of around three to five experts, with a budget provided by the prefectural government. Under this system, the expert teams verify operational improvements and the details of new businesses at SMEs, and provide support for resolving issues at SMEs for a three-year period. We have great expectations of fulfilling our responsibilities as a regional bank toward customers striving in today's challenging economic climate.

We are also committed to repaying public funds. One of the fundamental themes of our 2nd medium-term management plan is Completion of Preparations for Paying Back the Public Funds. In 2006, we merged with (former) Wakayama Bank. With regards to ¥31.5 billion of public funds we accepted as a consequence of this merger, we intend to accumulate internal reserves during the period of the current plan, and create a concrete schedule for repaying these funds.

If we proceed according to plan, we expect to maintain sufficient equity by March 31, 2012, even while expanding our scope of business. On the point of accumulating assets for repayment as well, we plan to have internal reserves exceeding our ¥31.5 billion in public funds. We nevertheless believe that even greater efforts will be required in order to achieve the targets of our plan, because some parts of the plan will be impacted by future economic trends.

Commitment to becoming the bank of first choice for customers in our home region

The greatest target in our 2nd medium-term management plan is achieving competitive superiority in our home region (Wakayama Prefecture and southern part of Osaka Prefecture). In order to achieve this, we must become the bank of first choice for customers in our home region. Truly, the target of our 2nd medium-term management plan could be called “becoming the bank of first choice for customers in our home region.”

Doing this will require a thorough dedication to improving customer satisfaction, and the realization of a marketing organization that maximizes satisfaction. We must develop human resources with high levels of expertise, and meet diverse customer needs with high added-value financial services. And we must enhance our points of contact with our customers; this will also enhance our earnings capabilities.

As part of these efforts, we have begun to restructure an efficient marketing organization in order to create diverse points of contact with customers. In our retail division, we are enhancing our direct channels through our call centers (“Hello Service Centers”). We have many customers with whom we do not have frequent contact, and who do not receive our full menu of services, but there are limits to how large we grow our sales force. At the very least, innovative ideas are needed to provide points of contact via telephone and the Internet.

We have therefore roughly doubled the number of operator seats at our call center, from 23 to 51. We are participating in an emergency economic measure by Wakayama Prefecture, called the “Encouraging People to Live and Work in Wakayama!” project; after a strict selection process of the 418 applicants residing in Wakayama Prefecture and Osaka Prefecture, we hired new employees to enhance our call-center staff starting on July 1, 2009.

The role of our call center is to convey information of use to our customers. The intention of this major increase in our workforce is to provide custom-tailored new services, including information about deposits and services, as well as notifications of the end of fixed interest-rate terms for mortgage loans.

Furthermore, we also migrated to a new system in May 2010. Accounting systems are essential for a bank to carry out its operations quickly and accurately. A good accounting system will make operations more efficient as well as improve customer satisfaction.

Our migration to the new system during Japan’s “Golden Week” holidays this year caused some inconveniences to our customers, including temporary closings of our ATMs, but we successfully completed the migration to the new “Bank Vision” system on May 4, 2010. BankVision is an open accounting system using new technologies. It is highly general, facilitating mutual use between program modules, and offering benefits in terms of both economy and flexibility. The system is also even more stable than the previous one.

Leveraging the features of this new system, we will be committed to satisfy our customers by supporting new types of service, and swiftly providing new products and services.

Meanwhile, in January 2010, we completely renovated a club for pensioners, the Kiyō Fureai Club we created in 1987. The number of branches offering member-benefit services increased to several hundred, and in the future we intend to increase this number to 1,000. In addition, we have also greatly increased the selection of services offered to club members, including lectures and seminars by celebrities and entertainers, free invitations to culture schools, and locally produced gifts.

We are happy to report that the reaction to the improved club has been even more positive than we expected. Lectures and culture schools in particular have had huge signup lists, to the point where we have had to switch to larger venues. This is one example of how thrilled our staff members are with the reaction to the new services. We are happy that we made these improvements, and we plan to remain committed to making improvements in order to offer services that satisfy our customers.

In addition to the above, in February 2010 the Board of Directors approved the introduction of an employee shareholding incentive plan. The goal of this plan is to give the Group’s employees an incentive to improve our corporate value over the medium to long term, raise employee awareness of participating in the management of the Company, and therefore improve corporate performance.

Although the economic environment is likely to remain challenging for some time, we are committed to approaching our goal of becoming the bank of first choice for customers in our home region through the achievement of our 2nd medium-term management plan. I look forward to receiving the continued support and encouragement of all our stakeholders.