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## With our abiding basic corporate policy and a new spirit, we will grow together with the region to realize our goal of “becoming the bank of first choice for customers.”

**During the previous year, the domestic economy was affected by the Great East Japan Earthquake, and the global economic climate remained challenging. How would you describe the management environment for the Kiyofinancial Group?**

The Japanese economy remained harsh during the previous year, due to factors including the slump in production capacity brought on by the effects of the Great East Japan Earthquake, which disrupted supply chains and damaged production facilities, in addition to the unstable supply of electricity and rapid appreciation of the yen. From mid-year, there were signs of recovery in production and exports, and personal consumption picked up due to special demand related to electricity conservation; afterwards, however, the economic outlook again turned uncertain amid a global economic slowdown triggered by the sovereign debt crisis in Europe, and soaring prices for crude oil and raw materials.

Under such an economic environment, the SME Financing Facilitation Act was extended to March 31, 2013 as a measure to improve operations at small and medium-sized enterprises (SMEs) and individually-owned businesses which continued to face severe conditions.

In our Group's main operating area of Wakayama Prefecture and Osaka Prefecture, public investment and housing starts were at a standstill, which, added to the impact of the rising yen and other factors, meant that production activities by enterprises slackened overall.

Also in Wakayama Prefecture, Typhoon No. 12 brought torrential rains in September of last year that caused significant damage mainly in the southern part of the prefecture, and the tourism industry suffered as transportation routes were temporarily cut off. We would like to offer our heartfelt sympathies to all of those who suffered damages resulting from the disaster.

In these circumstances, the Group has been actively engaged in contributing to the regional economy through steady and ongoing efforts with respect to the fundamentals of the banking business, that is, enhancing the points of contact with customers and increasing the number of customers.

Consequently, in terms of the consolidated business performance of Kiyofinancial Holdings, Inc. for the year ended March 2012, ordinary profit increased by ¥3.4 billion year-on-year to ¥14.6 billion, and net income increased by ¥1.0 billion year-on-year to ¥7.6 billion, due to factors such as the steady growth in our loan balance including loans to SMEs, mortgage loans, and deposits. On a non-consolidated basis, Kiyofinancial Bank's gross operating income decreased by ¥0.9 billion year-on-year to ¥57.9 billion, and net income increased by ¥0.3 billion year-on-year to ¥8.6 billion. Furthermore, with the elimination of a temporary increase in expenses associated with the launch of the new main system in May 2010, along with the implementation of a cost cutting project, we were able to reduce our operating expenses.

# T O P I N T E R V I E W

**Last year marked the final year of the 2nd medium-term management plan. Could you tell us about your achievements under the plan?**

Last year we wrapped up the 2nd medium-term management plan, which began in April 2009. Thanks to the united efforts of the Bank's officers and employees who strove vigorously to meet the plan's targets, I feel that we were able to achieve some positive results.

During the three years of the plan, we strengthened our business base according to three themes, with the goal of "becoming the bank of first choice for customers." The first of these themes was "steady growth through enhancing the points of contact with customers and increasing the number of customers." The Bank's main operating areas are Wakayama Prefecture and Osaka Prefecture, and in recent years, we have been pursuing a strategy to acquire even more customers particularly among corporate clients mainly in south of Sakai City. As a result, the number of new business loan customers in the Osaka City area and south of Sakai City rose steadily last year, as it had for the two years previous.

In terms of enhancing the points of contact with customers, we have worked proactively to expand channels for personal customers. We have bolstered our competitive edge with the introduction of very convenient channels such as an increased number of ATMs located outside branches (service stations) in Namba and other areas in Osaka Prefecture, and the launch of online investment trusts in October of last year.

Furthermore, supporting our SME customers who are doing their best amid a severe economic environment is one of the Bank's most important tasks. To that end, during the last year we partnered with external organizations and government financial institutions such as the Enterprise Turnaround Initiative Corporation of Japan (ETIC) and SME Revitalization Support Committee, in an effort to provide optimal methods of operational improvement and rehabilitation for our customers. We believe that enhancing the points of contact with customers means taking every opportunity to be a good consultant for our clients, and I feel that we have achieved positive results in this area as well.

**The second theme of the 2nd medium-term management plan is "strengthening the business management system." With the impact of the Great East Japan Earthquake and Typhoon No. 12 last year, business continuity plans have become the focus of greater attention. What is the Kiyo Financial Group's view of this?**

As you pointed out, the two natural disasters last year brought fresh attention to the BCP (business continuity plan), which is an issue for the corporate business management system. The Bank's branches were damaged in Typhoon No. 12, so the importance of this problem hit home with particular force. In light of that experience and feeling, we introduced emergency generator trucks in March 2012. This is an emergency vehicle system that allows us to provide continuous service to our customers

during local power outages caused by disasters, as a new initiative by the Bank on the theme of "being a financial institution resistant to disaster."

**Could you talk about the last theme of the 2nd medium-term management plan, "completion of preparations for repayment of public funds"?**

In 2006, the Bank merged with (the former) Wakayama Bank and received ¥31.5 billion of public funds. Consequently, completion of preparations to pay back the funds has been a major theme of the 2nd medium-term management plan. Throughout the three years of the plan's term, we have endeavored to expand the scope of our business; as a result, we have made steady progress in improving our asset quality and raising our equity ratio. By the year ended March 2012, the final year of the plan, our accumulated internal reserves exceeded the amount of the borrowed public funds, and so we consider the preparations for repayment to be completed.

With regard to carrying out repayment, we have established a framework for Kiyo Holdings, Inc. to acquire from the Resolution and Collection Corporation roughly half of the preferred shares issued at the time of the merger in 2006, and thus received approval from the Ordinary General Meeting of Shareholders for the action. Going forward, we intend to implement an appropriate capital

**The 2nd medium-term management plan has concluded, and I believe that growth has been steady.**





policy in consultation with the relevant agencies, based on comprehensive assessment of factors including the Company's financial situation, share price, and economic trends.

### **This fiscal year marks the start of the 3rd medium-term management plan. What is your approach going into the new plan?**

Under the 3rd medium-term management plan which runs from April 2012 to March 2015, we will continue to pursue our goal of “becoming the bank of first choice for customers,” and strive to step up both awareness and action with respect to “strong relationship banking that spurs regional economic growth.” In addition, we are keenly aware of our role and responsibility to be a good consultation partner for our customers, so we press ahead with a shift toward operations centered on consulting and support.

We will deploy four specific strategies: “strengthening the operating base mainly in the southern part of Osaka Prefecture,” “transforming the operating organization to improve customer satisfaction,” “strengthening the business management system,” and “establishing a stronger presence through CSR activities.”

### **What kinds of activities are included under the strategy “strengthening the operating base mainly in the southern part of Osaka Prefecture”?**

The area of Osaka Prefecture south of Sakai City is an extremely promising market for the Bank, as there are no other financial institutions headquartered there. While we have been working to develop this area for some time, we have set even higher targets for the three years to come, and are pressing ahead with business promotion. As part of building the framework for that endeavor, we moved the

Business Promotion Department to the Kiyo Sakai Building (Sakai Branch). By moving a headquarters function of the Bank to the Kiyo Sakai Building, which is a core branch in terms of the strategy for southern Osaka, we aim to expand our number of customers and deepen our cultivation efforts.



In our other operating area, Wakayama Prefecture, we have already captured approximately half of the regional market, and will strive to further strengthen our relationship with our customers, as we endeavor to maintain our market share as the top regional bank in the area.

### **And could you tell us about the strategies for “transforming the marketing organization to improve customer satisfaction,” and “strengthening the business management system”?**

With regard to “transforming the marketing organization to improve customer satisfaction,” we at the Bank recognize that enhancing the points of contact with customers is directly linked to improving customer satisfaction. Therefore, during the three years of the 2nd medium-term management plan, we devoted our efforts to strategic allocation of management resources including personnel, branches, and channels. During the term of the new plan, we will make maximum use of these management resources, while thoroughly implementing “relationship banking” with a meticulous consulting function at its core.

In terms of specific developments to transform the marketing organization, we are moving ahead with a three-year “Business Process Reform (BPR) Project” with the goal of transforming the stronghold of our banking business from “administrative services” to “consulting and marketing” in which we respond sincerely to consultations from our customers.

As for “strengthening the business management system,” we will continue to bolster the areas that are a financial institution's greatest responsibility, namely, client protection and compliance. In particular, we will concentrate efforts on enhancing awareness of responsibility with regard to sales of risk products, and on training personnel with specialized knowledge such as financial advisors and movable property assessment advisors. During the term of the new plan, we intend to

build awareness and position ourselves so as to be able to carry out appropriate risk control with regard to various risk factors including interest risk and credit risk.

**Please discuss the fourth new strategy, “establishing a stronger presence through CSR activities.” CSR (corporate social responsibility) has become a new theme, hasn’t it?**

Engaging in CSR activities as a good corporate citizen is not just a demand of the times, but is something we consider an important issue for a regional financial institution. The Kiyo Financial Group has long been actively involved in CSR activities in a variety of fields such as cultural events, sports, and improving the environment. The women’s basketball team established last year contributes to the promotion of sport by holding workshops and other events for children on holidays. We believe it a vital part of our mission to bring dreams and vigor to these children, and will continue to expand these activities further in the years ahead.



In addition, as I mentioned earlier when discussing the BCP (business continuity plan), one of our social contribution goals is to be a “financial institution resistant to disaster.” This initiative is prompted by the current situation, where the effects of the Great East Japan Earthquake are still being felt, and the potential for a major earthquake in the Nankai area is being discussed, inspiring us to do as much as we can for the safety and security of the region. Going forward, we will look at ways to build mechanisms and systems that allow the Group’s management resources to be used in regional disaster prevention and environmental measures.

Furthermore, one of the Group’s goals under the current plan is to have even more people in the region understand the diverse initiatives we are taking, including CSR activities. To that end, we will enhance our communications efforts.

The final year of the 3rd medium-term management plan will be 2015, a year which also marks the 120th anniversary of the Kiyo Bank’s founding. We hope to make the three years leading up to this landmark a period of transformation where we grow to be the “top regional bank in the area” both in name and reality. The understanding and support of the people in the region are of crucial importance in order to accomplish that goal.

**Finally, what do you consider to be of greatest importance to the Kiyo Financial Group in the years ahead?**

“Testing the limits of ingenuity and sparing no effort” for the sake of customer satisfaction and regional prosperity: an activist approach to business development is precisely the strength of the Group, and, I believe, its most vital component.

Under the current management plan, we are prepared to make even more aggressive moves than we have thus far, as we pursue the Bank’s goal of being “the top regional bank in the area spanning the prefectures of Wakayama and Osaka.” At the core of this endeavor lies the Bank’s fundamental principle of “sincere effort and action on the part of each and every employee to meet customer needs.” When the marketing organization that we have built up to date meshes with consideration for people, and capacity for action, I think it creates a powerful impetus.

In spite of lingering uncertainty in the social and economic environment, we will press ahead to achieve our goals, never forgetting our fundamental principles, and armed with a firm commitment and strategy.

With our abiding basic corporate policy and a new spirit, we will tackle the challenge of “becoming the bank of first choice for customers,” and so ask for the continuing support and encouragement of all our stakeholders.

**Launching the 3rd medium-term management plan: three years of growth and transformation to become the top regional bank in the area.**

