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Seeking to be the top regional bank in the area, we will pursue even greater customer satisfaction.

Although challenging economic conditions continued during the previous year both in Japan and abroad, an upswing in the economy could be seen, backed by factors such as the rising expectations toward new economic policies toward the end of the year. How would you describe the management environment for the Kiyo Financial Group?

Although the Japanese economy during the previous year was underpinned by domestic demand including demand related to reconstruction after the Great East Japan Earthquake, the situation remained severe amid factors such as the global economic slowdown triggered by the prolonged sovereign debt crisis in Europe and the ongoing appreciation of the yen. Furthermore, a decline was seen in production and personal consumption mainly due to the impact of a substantial drop in exports to China due to the deteriorating relationship between Japan and China. However, following the change of government administration in December, expectations rose with regard to economic measures and monetary policies, and signs of an upturn emerged including correction of the strong yen and rising stock prices.

In our Group's main operating area of Wakayama Prefecture and Osaka Prefecture, a sense of economic standstill persisted amid the impact of factors including the strong yen, the high price of raw materials, and electricity shortages, while corporate production activities and personal consumption continued to stagnate in the wake of the global economic slowdown. Signs of recovery appeared in some sectors in response to the subsequent favorable shift towards the depreciation of the yen and high stock prices, but economic trends were slack overall.

In these circumstances, the Group has worked to increase the number of customers by enhancing the points

of contact with customers, as we endeavored to contribute to the regional economy. Consequently, in terms of the consolidated business performance of Kiyo Holdings, Inc. for the year ended March 2013, there was steady growth in loans to SMEs as well as in deposits, in addition to a significant increase in bond-related profit and loss, mainly in gain on sales of Japanese government bonds. In addition, credit-related expenses were down, resulting in a ¥12.5 billion year-on-year increase in ordinary profit to ¥27.2 billion, and a ¥10.5 billion year-on-year rise in net income to ¥18.1 billion, far surpassing the initial plan. On a non-consolidated basis, Kiyo Bank's gross operating income increased by ¥6.6 billion year-on-year to ¥64.6 billion, and net income increased by ¥10.6 billion year-on-year to ¥19.2 billion.

Last year marked the first year of the 3rd medium-term management plan. Could you tell us about your achievements under the plan?

Under the 3rd medium-term management plan, we continue to be guided by our vision of "becoming the bank of first choice for customers," as we deploy four strategies: "strengthening the business 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."

Of these strategies, the Bank places top priority on "strengthening the business base mainly in the southern part of Osaka Prefecture." To this end, we moved the Business Promotion Department to the Kiyo Sakai Building (Sakai Branch) in July of last year, and established a new "Osaka Headquarters," after which we increased the number of staff within the headquarters who

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specialize in fields targeting corporate clients such as business matching, M&A, and support for overseas expansion.

Along with Wakayama Prefecture which is the site of our founding, Osaka Prefecture is an important operating area for the Bank. In particular, the area south of Sakai City is a market in which no other banks are headquartered, and we have been making efforts to develop this area and to build a base for some time. With the assignment of central operating functions to the core branch in southern Osaka Prefecture, we have increased its flexibility, which we believe will lead to a stronger collaboration with branches inside Osaka Prefecture and creation of a powerful driving force toward “becoming localized in southern Osaka.”

In addition, in order to further enhance convenience for personal customers, in October 2012 we launched a cash back service for ATM commission fees for customers using ATMs of The Bank of Tokyo Mitsubishi-UFJ, Ltd. We have improved ATM channels particularly within Osaka Prefecture, and starting in April 2013 there is no



charge for withdrawals during certain hours at “Patsat” ATMs located within the main stations of the Nankai, Hankyu, Hanshin, and Kita-Osaka Kyuko railway lines and Kobe Municipal Subway.

Moreover, we formulated a strategy last year for the enhancement of branches, and two new branches (including expansion and relocation) are scheduled to open in Osaka Prefecture in the fall of this year.

Could you tell us about the 2nd strategic theme of “transforming the operating organization to improve customer satisfaction”?

We reorganized our forces in order to strengthen consulting model operations, including the reassignment of liaison officers as loan liaison officers for corporate customers and private businesses. At the same time, through enhancements to the organizational support system within headquarters for corporate management issues such as business succession, business diversification, and overseas expansion, we hope to increase the number of specific proposals we offer to customers.

In addition, last year saw the start of the three-year “Business Process Reform (BPR) Project,” which coincides with the 3rd medium-term management plan. With this project’s goal of transforming branches “from places that handle administrative services to places that offer consulting and sales,” we are striving for a comprehensive renewal of systems, employee awareness, and quality of services within the Bank. We intend to promote this project strongly, as an effort that is directly linked to achieving customer satisfaction and raising productivity and management efficiency.

And can you tell us about the 3rd and 4th strategies, “strengthening the business management system” and “establishing a stronger presence through CSR activities”?

With regard to the compliance system, which is one of the business management systems, the Group positions strict





adherence to laws and rules as one of its most important tasks, and we strive to conform to social norms in our business activities. Specifically, we have established guidelines regarding solicitation for financial instruments and specialized personnel equipped with expert knowledge, including asset management advisors, to deal with liaison sales of client asset products. In this way, we are enhancing the quality of our consulting services and implementing thorough protection for our clients.

Also, engaging in CSR activities as a good corporate citizen is something we recognize as an important mission for a regional financial institution. The Kiyofinancial Group has long been involved in CSR activities in a variety of areas including sports, culture, and improving the environment. This is a Bank-wide activity, with each individual branch also engaged in its own CSR activities. Furthermore, with efforts such as the organization of the “Dementia Support Training Workshop” for branch CS (customer service) leaders and assigning one or more dementia support personnel to each branch, we seek to respond to various customers in a way that reflects the perspective of each in a society with an aging population and growing welfare needs.

During the previous year, we were able to make significant progress towards complete repayment of public funds.

The Bank’s effort toward the complete repayment of public funds is a theme carried over from the 2nd medium-term management plan. Can you give us an update on the progress made in the previous year?

In 2006, the Bank received ¥31.5 billion in public funds following the business integration with (the former) Wakayama Bank.

Afterwards, in the period up until the conclusion of the 2nd medium-term management plan in March 2012, we were able to accumulate internal reserves in excess of the amount of public funds injected. Therefore, in September 2012, we acquired approximately half of the preferred shares issued at the time of the business integration from the Resolution and Collection Corporation, and repaid ¥15.4 billion.

The Bank posted steady profit for the year ended March 2013 as well. With regard to the balance of borrowed public funds, we have already received approval at the Ordinary General Meeting of Shareholders regarding the establishment of a framework for acquisition of preferred shares. As a result, we intend to implement an appropriate capital policy in consultation with the relevant agencies so as to be able to make a complete repayment by the end of September 2013.

I would like to ask about developments for this fiscal year. A merger of Kiyofinancial Inc. and the Kiyofinancial Bank is planned for October 2013. Please discuss the background of the merger and your vision for the years ahead.

An agreement to merge the two companies of Kiyofinancial Holdings, Inc. and the Kiyofinancial Bank, with the Kiyofinancial Bank as the surviving company, has been approved at the Ordinary General Meeting of Shareholders, and the merger and stock listing will take place on October 1, 2013.

Kiyofinancial Holdings, Inc. was established to ensure the smooth business integration at the time of the merger of the Kiyofinancial Bank and (the former) Wakayama Bank in 2006, as a holding company for both banks. However, in the course of over six years, we believe that Kiyofinancial Holdings, Inc. has largely accomplished the purpose for which it was established. In the meantime, the business environment surrounding the Group has undergone major changes, and important new challenges have emerged such as speeding up management judgment and reinforcing governance. In light of this, we have decided to eliminate the pure holdings company and reorganize as a simple group structure centered on our business subsidiary, the Kiyofinancial Bank, in order to speed up decision-making and management judgment, and to build a solid financial foundation.

Following the merger, we will take advantage of the new structure to increase our rapid response capacity and flexibility as a financial institution in order to contribute even further to the development of the regional economy. We ask for the understanding and further support of all our stakeholders.

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The mission of the Bank is to offer consulting based on sharing the challenges facing small and medium-sized enterprises (SMEs).

There are concerns about the severe conditions surrounding SMEs after the conclusion of the SME Financing Facilitation Act on March 31 of this year. As a supporter of local SMEs, what is the Bank's stance with regard to developing its operations?

The Bank considers support for SMEs and private businesses as one of its most important duties. This stance has not changed at all despite the conclusion of the SME Financing Facilitation Act, and I believe that the challenges we have to deal with will become even more diverse in the future. We will put in place a structure capable of offering a finely tuned response at each stage for our customers who are struggling in the harsh economic environment, including not only financial arrangements, but also sharing management challenges and drawing up improvement plans, as well as support for rehabilitation.

Last year, we carried out strategic allocation of resources to reinforce our support for corporate customers, including strengthening bases for consulting operations and increasing personnel. This year, we will make active use of these, in addition to collaborating with external organizations such as the Regional Economy Vitalization Corporation of Japan (REVIC) and SME Rehabilitation Support Committee, in order to enhance our structure so as to support even more customers.

In 2015, two years from now, the Kiyo Bank will mark the 120th anniversary of its founding. Are you engaged in any projects leading up to that occasion?

The final year of the 3rd medium-term management plan will be 2015, which also marks the 120th anniversary of the Bank's founding. We hope to make the two years leading up to this landmark a period where we grow to be the "top regional bank in the area." Bearing in mind the Bank's history of supporting the region and being supported by it, and without settling on our past performances or being complacent with current circumstances, we will continue our pursuit of transformation and development.

In addition, the year 2015 will see the holding of the Kinokuni Wakayama National Sports Festival, as well as the 1200th anniversary of the opening of Koyasan (Mt. Koya). As such, it is highly expected to be a year of increased tourism demand in Wakayama Prefecture and significant economic revitalization. The Bank has long made efforts to support the establishment of a "regional brand" by local enterprises, and we intend to strengthen our engagement in the tourism field in Wakayama Prefecture on this occasion. Going ahead, we will study and implement concrete policies to revitalize and support

tourism in collaboration with external organizations, and look forward to playing a role in increasing the "popularity and good spirits" of Wakayama Prefecture, the site of our Bank's founding, on the landmark occasion of our 120th anniversary.

Strategies and visions are born from the ingenuity and effort of each and every employee.

Finally, what do you consider vital to the Kiyo Financial Group in the years ahead?

Despite the growing sense of recovery in the Japanese economy overall, it will take some time before it can be appreciated by individual SMEs and the general population. Under these circumstances, the Bank's basic stance of "testing the limits of ingenuity and sparing no effort for the sake of our customers" is, I believe, our greatest strength when it comes to making a contribution to the local economy and lifestyle. Recognizing that our various strategies and visions for the future start from this basic stance, all officers and employees must exert their individual power to the utmost.

This year, as the second year of the 3rd medium-term management plan, is an extremely important year for the Group that will witness events of vital importance, namely the scheduled complete repayment of public funds and the merger of Kiyo Holdings, Inc. and the Kiyo Bank. With a new spirit, we will stride firmly on the path towards realizing our goal of "becoming the bank of first choice for customers," and so ask for the continuing support and encouragement of all our stakeholders.

