

Message from
the President

Because we are in such tumultuous times,
we are unwavering in our commitment to
“becoming the bank of first choice for
customers.”

TOP INTERVIEW



A handwritten signature in black ink, appearing to read 'H. Katayama', written in a cursive style.

Hiroomi Katayama
President

As external demand started to pick up last year, the domestic economy also showed signs of recovery. How would you describe the management environment for the Kiyo Financial Group?

The Japanese economy during the previous year witnessed improvements in exports mainly to the emerging countries and Asia, while manufacturing also showed signs of recovery during the first half of the fiscal year. The economy, in general, seemed to be on a path to recovery, as evidenced by growth in personal consumption as a result of the government's economic stimulus packages. However, as the various stimulus measures, including the eco-car subsidies, came to an end in the latter half of the year, the manufacturing sectors and personal consumption began to slump and the economic recovery slowed down.

In our Group's main operating area of Wakayama Prefecture and Osaka Prefecture, production activities by enterprises and public investment exhibited upward momentum, while personal consumption also seemed to pick up. Nevertheless, as the effects of the economic stimulus measures began to wear off in the latter half of the year, the economy also came to a standstill.

Meanwhile, despite these circumstances, plans have been underway for new companies to set up operations within industrial complexes in Wakayama Prefecture. Additionally, a number of positive developments have also taken place, such as the launch of the Union of Kansai Governments and the improvement of the expressway network including the Keinawa Expressway and the arterial highway network such as those connecting Wakayama and Osaka, which are expected to serve as springboards for further development of the regional economy.

On the other hand, on March 11 of this year, the Great East Japan Earthquake struck, followed by the catastrophic nuclear power plant accident. These effects have been felt widely across our nation's manufacturing sector and heavy downward pressure is feared to prevail for some time. In the Group's operating area also, the earthquake's impact is being felt, as evidenced by the slowdown in production activities mainly among the manufacturing sector due to the disruption of the supply chain. In addition, compounded with the downturn in consumer confidence, the future of the regional economy remains uncertain.

Under such an economic environment, the Group has



been engaged in strengthening its marketing organization and providing various financial services by making efforts to step up loans to small and medium-sized enterprises (SMEs) that comprise the core of our revenue base and expand sales of financial instruments for personal customers such as personal deposits and personal assets under management.

Consequently, in terms of the consolidated business performance of Kiyō Holdings, Inc. for the year ended March 2011, ordinary profit increased by ¥4.6 billion year-on-year to ¥11.2 billion and net income increased by ¥0.8 billion year-on-year to ¥6.6 billion due to such factors as the increases in our loan balance including loans to SMEs, mortgage loans and deposits, as well as the increase in income from interest reflecting the increase in investments such as in JGBs. On a non-consolidated basis, Kiyō Bank's gross operating income remained almost the same at ¥58.8 billion and net income increased approximately by ¥0.8 billion year-on-year to ¥8.3 billion.

Additionally, despite the increase in operating expenses due to the implementation of the new main system of the Bank, now that the system is up and running, we plan to further enhance operational efficiency and increase our revenue from this fiscal year.

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

The target of the 2nd medium-term management plan is “becoming the bank of first choice for customers” and to this end, our most important strategy has been “to achieve competitive superiority in our home region.” The Bank's main operating areas are Wakayama Prefecture, where the Bank was first founded, and the southern part of Osaka Prefecture, both of which have been the focus of the Bank's development efforts for some time. This area, south of Sakai City, is an area with an extremely high growth potential for the Bank, as there are no other financial institutions headquartered there. As a result of proactively injecting our strategic capabilities into this area, the balance of deposits and the balance of loans in Osaka Prefecture increased by ¥41.5 billion and ¥42.0 billion year-on-year,

respectively, in the performance by area for the fiscal year ended March 2011.

Although our goal of “covering a wide range spanning the prefectures of Wakayama and Osaka” will not be achieved overnight, we hope that the precise allocation of management resources, including branches and personnel, will steadily bring us closer to our goals.

Could you tell us about progress on “restructuring an efficient marketing organization in order to create diverse points of contact with customers,” the other themes in the 2nd medium-term management plan?

In terms of the second major theme of “restructuring an efficient marketing organization in order to create diverse points of contact with customers,” I believe that the major challenge facing us is to maximize customer satisfaction. Last year, which marked the second year of our plan, we continued to upgrade services and products, which become contact points with our customers, following the same efforts made the year before. In particular, the service for personal customers that has been most positively received reputation was the Kiyō Fureai Club, a club for pensioners. Thanks to the improved services offered by the club from two years ago, including the increase in the number of shops and restaurants offering member-benefit services and invitations to lectures and seminars by noted experts, we received better than expected positive reactions to the renovation of the club. Applications for the free lectures and seminars exceed the capacity every time, and in one year since the renovation of the club, these services have grown to the point of truly representing the Bank.

The Bank has been focusing on strategies toward our elderly customers, as epitomized by the Kiyō Fureai Club. As an undertaking geared toward our “pre-pensioner” customers, who will be receiving their pensions shortly, we hold pension consultation meetings by certified social insurance and labor consultants in Wakayama Prefecture and the southern part of Osaka Prefecture. These services will become particularly significant as strategies to steadily secure deposits in Wakayama Prefecture, where the population is expected to age, and consequently we intend to step up our efforts there.

Our business expansion, which “tests the limits of ingenuity and spares no effort” to the end of maximizing customer satisfaction, is the Group’s greatest strength.

As the asset-building needs of our personal customers are expected to continue to grow in these times of economic uncertainty, in an effort to answer these needs and enhance its capacity for proposing asset management solutions, the Bank reinforced its dedicated staff last year. We have established an organization capable of promptly responding to customer consultations by recruiting new personnel with specialized knowledge of risk instruments such as investment trusts and assigning them to sales counters, while increasing the number of headquarter staff to support the sales counter staff. We have been reinforcing staff for personal assets under management and conducting meticulous over-the-counter/face-to-face consulting, in the hopes of acquiring more customers who are “fans of Kiyo Bank.”

Additionally, last September we relocated the “Osaka Chuo Branch” to a newly constructed building on Midosuji in Osaka. Midosuji is a major thoroughfare in Osaka that connects Osaka’s traffic and businesses and is an ideal location for the new branch, as it allows a broad range of customers from individuals to many individual business owners in Osaka to access to the Bank’s services for their conveniences. Moreover, in conjunction with the opening of the Osaka Chuo Branch, we established the “Osaka Chuo Mortgage Loan Center” within the premises and integrated the mortgage loan centers, which had previously been located in Tsurumi and Nishitanabe, with the Osaka Chuo Mortgage Loan Center. We believe that locating the branch, which serves as the window for the Bank’s various products and services, next to the Mortgage Loan Center, realized a one-stop destination for services that contributes to the convenience of customers and ultimately to the enhancement of customer satisfaction.



What kind of initiatives have you taken toward SME customers?

Providing support to our regional SME customers is one of the Bank’s most important businesses. Last year we implemented a number of new initiatives. One example is the introduction of the “Hearing Sheet to Reinforce Corporate Contacts” aimed at improving our capability to provide services to the client companies. Although a key to successfully providing corporate support is the “precise monitoring and analysis of the customer’s management issues,” in reality, differences occur from sales staff to sales staff and from branch to branch in the volume and precision of the information monitored. Therefore we hope that the preparation of an information sheet that standardizes such information in a more sophisticated manner and the sharing of information thus prepared among the branches and headquarters will enable us to make precise proposals tailored to our customers’ needs.

We also launched a “Global Support Desk” within the Business Promotion Division to support customers planning to expand their business operations overseas, namely Asia. Although we had provided support services to companies expanding their business overseas in the past, we have assigned staff dedicated to support services to our Global Support Desk and will improve our consulting and proposal services by coordinating with outside organizations.

The Bank’s business loan balance in Osaka Prefecture already exceeds that of Wakayama Prefecture and our initiatives aimed toward the corporate banking market in Osaka Prefecture have been increasing importance both from the offensive and defense perspectives. In light of these circumstances, in 2009 we decided to boost our strategic capabilities by focusing on the southern part of Osaka Prefecture, namely Sakai City. We increased the number of sales staff at the sales branches and established the Corporate Sales Development Office, which had been based in Osaka City, in Sakai City as well and made efforts to increase the number of customers through the two-hub system together with the office in Osaka City. We believe that 2010 turned out to be a year in which these efforts translated into concrete results. Having further increased the staff of the Corporate Sales Development Office and reinforced activities exclusively to cultivate new customers in April 2011, we are expecting respectable results in the coming year.

What progress has the Bank made in the repayment of public funds?

In 2006, the Bank merged with (the former) Wakayama Bank and received ¥31.5 billion of public funds. Consequently, the accumulation of internal reserves and the completion of preparations to pay back the funds have been

TOP INTERVIEW

one of the basic themes of the current management plan. We have been utilizing the public funds to buy time during which we strive to achieve our goals of expanding the scope of our business and improving our asset quality, while we have been successfully raising the level of our equity.

Two years into the current plan, our internal reserves are accumulating steadily and by March 31, 2012 we expect to have accumulated internal reserves exceeding the amount of the borrowed public funds. Our asset quality is also improving, as our equity ratio and our Tier 1 capital ratio are also rising, while the proportion of deferred tax assets to Tier 1 capital has been declining. While we will need to keep an eye on the trend of revision of Capital Adequacy Requirements, we plan to discuss the possibility of partial repayment of the funds to take effect at the end of the current fiscal year.

We often hear about CSR (corporate social responsibility) activities these days. What are the Kiyo Financial Group's views toward CSR?

For the Kiyo Bank, whose basic corporate policy is to contribute to the regional economy, the banking business itself represents an exercise in CSR. Meanwhile, we have long wished to contribute in some way to the development of sports and culture in the region as the Kiyo Financial Group.

Consequently, Kiyo Holdings, Inc. has established a women's basketball team as a concrete measure for that purpose and has set a goal to qualify for the National Sports Festival in Wakayama Prefecture (Kinokuni Wakayama Kokutai) to be held in 2015. Being a young team formed in April, the team intends to engage in activities to teach and train the children of the community in basketball, while striving to become a team loved by the community. We therefore ask for your support of the team.

The Group, to date, has been involved in a number of activities to boost the development of regional culture and sports and environmental beautification projects, including classical music concerts held by the Kiyo Cultural Foundation, sponsorship of junior baseball tournaments, and the Kiyo Bank's "Small Acts of Kindness Movements," and it will continue to dedicate itself to the revitalization of the regional community in as many ways as possible.

In an age where the nature of the banking business itself is tested, we, the members of the Kiyo Bank, will be united to achieve our strategies and goals.

What do you hope to achieve in this final year of the 2nd medium-term management plan? Also please let us know the Bank's prospects after the conclusion of the current management plan.

We believe that the final year of our current management plan will, in many ways, be a year in which the nature of our banking business will be tested. We have become increasingly aware of the pivotal importance of steadily practicing the bare basics of the banking business, which are, enhancing the points of contact with customers, and increasing the number of customers. We are also convinced that as long as we continue these efforts, we will be able to overcome the harsh business environment we will be in.

After the conclusion of the 2nd medium-term management plan, as the next step for completion of preparations for repayment of public funds, we will make it our main goal to make repayments according to our plan and to improve the return of profits to our shareholders.

Although our nation's financial and economic future remains shrouded in uncertainty due to the impact of the recent earthquake, I am confident that as long as we uphold a clear-cut strategy and the employees are united in their resolve, we will be able to achieve our goals.

We are committed to approaching our goal of "becoming the bank of first choice for customers" and we look forward to receiving the continued support and encouragement of all our stakeholders.

