May 21, 2021－Financial Results for the FY2020 ended March 31, 2021
Main Questions and Answers

Q. What are the reasons for establishing a highly profitable and highly efficient management system and how do you think about sustainability? Also, how will management issues be addressed?

A. The establishment of a highly profitable and highly efficient management system is based on the fact that the Bank has continuously opened new branches in Tokyo and expanded its business base within its system of thoroughly and sustainably controlling expenses. We had branches in the eastern part of Tokyo adjacent to Chiba Prefecture historically. Since becoming President in March 2009, however, even though the impact of the global financial crisis has remained, we have continued to expand our business base by positioning the areas adjacent to Tokyo, Saitama, and Ibaraki in Chiba Prefecture as a greater Chiba area. In recent years, the Bank has established new branches in Tokyo's 23 wards as a strategic business area. Meanwhile, in Chiba Prefecture, the Bank has been changing branch functions and reviewing its branch network at the same time. While various operations are increasing, the Bank has invested management resources of people, resources, and money in markets with higher profitability and growth potential while maintaining about 4,200 employees. This has led to the accumulation of high-quality assets, such as loans to small and medium-sized companies, real estate leasing companies, and housing loans in Tokyo. Over the 12 years, the Bank opened 11 new branches domestically, while changing 11 branches to branch-in-branch. We also closed one branch and reviewed 23 branches' functions. The bank shifted people, resources, and money while the number of branches as a whole remained almost unchanged. As a result, the loan outstanding of the Akihabara Block in Tokyo to small and medium-sized enterprises and individuals was approximately ¥240 billion as of March 2009, immediately after the appointment of President. However, as of March 31, 2021, the loan outstanding to them had increased by approximately ¥1 trillion to approximately ¥1,240 billion, and it was possible to build up quality assets in Tokyo on a sustainable basis.

The second point is the development and utilization of human resources. Since the collapse of the bubble economy, the Bank has maintained its overseas branches and continuously cultivated market-resilient human resources and succeeded in know-how. In addition, the Bank has been hiring outside personnel with know-how from early on, and these personnel are now active in key positions in each department. This is true not only for the market division but also to the system division, the corporate solution division, and the risk management division. The development of so-called viable human resources and the flexible use of mid-career recruitment personnel have become the pillars of the Bank's current business. In terms of human resources, the promotion of diversity also plays a major role. We believe that the power of diversity has been great in terms of making our organization a brighter and more active organization. Promoting diversity has been positioned as an important management strategy, and the Bank has actively promoted women. The number of women in managerial positions has increased about fivefold in the past 12 years, and many women executives, department general managers, and branch general managers have also been born. This has led to the diversity of our human resources and the activation and vitalization of discussions in promoting various measures.

The third point is that the Bank has been pursuing three alliance strategies. Regarding the three collaborations, they lead not only to cost reductions, but also to top-line enhancements, which generate effects equal to or greater than those of business integration. By continuing to deepen and develop alliance strategies, the Bank believes it is possible to maintain high efficiency and profitability. The partnership with Bank of Yokohama has just begun, but TSUBASA alliance has taken more than 12 years to establish the current structure. The alliance with Musashino Bank has also been in place for more than five years, and the alliance is proceeding based on a long-term strategy.

Until now, the Bank has actively invested in digital strategies, operational efficiency improvements, and other forward-looking initiatives, and has promoted a variety of new businesses. Going forward, the Bank intends to further strengthen these initiatives. Prior to the COVID-19 impact spreading, the Bank launched a cashless business and made aggressive investments, including promoting digitization. As a result, we were able to respond quickly to changes in the environment, such as remote and non-contact. The new head office building, which was completed in September last year, has also become a digital, remote, and paperless office, and we believe it will serve as a basis for supporting our development over the next 50 years. In addition, even in a low interest rate environment, the Bank did not take excessive credit risk or market risk and conducted conservative operations, which it believes has also led to high profitability and stable profits.

We are confident that the Bank will continue to maintain high and stable profitability and high efficiency by further deepening these measures under the new president. Rather than trying to make profits in a temporary manner, the Bank has been able to increase profitability and efficiency through the accumulation of a variety of measures. I think that the Bank will become even more efficient and profitable by taking a variety of measures in the future and further deepening the current measures.

As for management issues, matters that are not management issues today can become management issues tomorrow, we have responded by constantly searching for management issues, improving them, and deepening them. Currently, we are aware of DX and other issues as management issues, and specifically, responses to changes can be cited. Customers visits are down about 40% from 10 years ago, and currently are down from 15% to 20% annually due to the impact of COVID-19, and we believe that they will continue to decrease from 3% to 5% annually in the future. Customers visits to ATMs fell 14% in 10 years. On the other hand, the number of access to apps and internet banking has increased by 4.3 times. We aim to have 1.5 million digital customers by strengthening this app, and the number of accesses will increase significantly in the future, and we expect the total number of visits and accesses to be around twice the current level in two years. The proportion of non-face-to-face channels in the number of visits and accesses is probably about half to seventy percent in total accesses, and the business structure will change significantly. Responding to these changes in the environment is of paramount importance, and with a view to transforming the bank itself into a digital bank, we intend to create touch points and access points that can cover customers who have not previously been in contact by carefully reviewing channels, products, and services while providing services that transcend the boundaries of banks, particularly apps. On the other hand, we think that face-to-face channels will become more important than ever. Digital will become the focus of the retail channel, but the importance of real branches, which are the points of difference, will increase as more specialization is required than in the past. After knowing each customer well, we will deepen relationships while deepening needs.

The Bank also believes it is important to deepen its alliance strategies. The 10 TSUBASA banks have about 23 million individual accounts, of which about 15 million are active. This customer base is comparable to megabanks. Based on this customer base, in addition to what has already been implemented, such as the API common platform and the money-laundering center, if it can transform various services such as apps, corporate portals, and cashless and remote consulting into platforms, it is considered that this will lead to further top-line improvements and cost reductions for the entire alliance banks. The number of individual user IDs in the API common platform rose from 0.43 million in April last year to 1.08 million in this March. By actually operating the expanded customer base in this way, the Bank believes that it will become a financial group that fully utilizes economies of scale, including the utilization of data.

Q. The Bank has foregone disclosing its shareholder return policy during the current medium-term management plan, but does it intend to be conscious of a dividend payout ratio of 30% along with the total return ratio on a consolidated basis?

A. Due to the continuing uncertainty of the economic environment caused by COVID-19, the Bank has foregone the disclosure of its shareholder return policy under the current medium-term management plan. We would like to consider the announcement of shareholder return policy while watching the progress of results and COVID-19 situation. When the Bank raised its dividend by ¥2 in February, we mentioned that its objective was to raise the dividend payout ratio to 30%. However, once again the Bank raised its dividend by ¥2 this time, the main objective is to maintain a dividend payout ratio of 30% while profits are expected to increase in the current fiscal year. Going forward, the Bank will be conscious of maintaining a dividend payout ratio of 30% on a consolidated basis.

Q. Regarding credit costs, compared to the initial plan of ¥8.0 billion in the previous fiscal year, your credit costs came to ¥10.4 billion, including ¥3.0 billion in advance and preventive allowance. Looking at the plan for the current fiscal year, you estimated the amount at ¥10.0 billion at the beginning of the year. Please show us the background for this.

A. In the previous fiscal year, due to the effects of government support and other measures, the initial plan for the new downgrades was ¥9.2 billion, while the new downgrades attributable to COVID-19 were ¥5.3 billion, which was significantly lower than the forecast. However, due to the ongoing economic instability caused by COVID-19, at the end of the fiscal year the Bank implemented ¥3.0 billion in advance and preventive allowance. In the estimation of credit costs for the current fiscal year, the calculation was made from three dimensions based on a macro perspective and micro perspectives through customer questionnaires and the actual conditions of individual customers. Even in the stressed environment, where recovery takes time depending on conditions in specific industries and individual companies, new downgrades are expected to be in the range of ¥10.5 billion, which is within the ¥11.0 billion forecast for the current fiscal year.

Q. Regarding the mid-6% ROE target in the medium-term plan, is it clear that it will be achieved even without the control of the denominator, such as strengthening shareholder returns?

A. Interest on domestic loans has rebounded for the first time in 12 years, and is expected to increase further in this fiscal year. In addition, further increases in net fees and commissions income and a decrease in expenses are expected, and credit costs are also expected to be kept down to a certain extent. Therefore, the Bank expects a reversal of ROE, and it is also looking to achieve its medium-term plan target of mid-6% for the next fiscal year. With regard to shareholder returns, given that there is a strong sense of uncertainty over the impact of COVID-19, it cannot be stated that it has clearly included amounts, etc., but the Bank intends to consider disclosing its policy while monitoring the progress of business performance and the situation of COVID-19.

Q. Regarding the SDGs, how do you consider the need to make major systemic investments in order to respond to the risks of climate change and other issues? Are there changes in business operations, such as changes in loan interest rates in response to customers' climate change risks?

A. From the past, the risks of climate change have been grasped in hearings including business partners and supply chains, and new investment in systems, etc. is not considered necessary. On the other hand, we will actively disclose TCFD, etc. In addition, the Bank does not currently consider setting loan interest rates in response to customers' climate change risks. The Bank is involved in sustainability-linked loans and SDGs Friends loans as its own products. However, the Bank offers loans to customers who actively engage in SDGs while hearing their efforts, and does not set interest rates in line with customers' climate-change risks.

Q. Regarding the attributes of customers downloading the app, what is the percentage of users as main bank accounts and digital native generations? Also, what types of targeted customers will be in the future?

A. Among the 0.3 million downloaded customer attributes, more than 30% are in their 20s, and more than half are in their 30s or younger, so our app is penetrating to the digital native generation. In terms of usage, for example, the number of intrabank transfers used in March has increased by around 20% compared with the previous month, and the usage rate has been increasing. 92% of customers downloading the app use it more than once a month and 2/3 use it more than once a week. Many customers use it frequently.

Q. How is the timeline for expanding functions related to M&A and business matching with alliance banks in the corporate portal.

A. It is separate from the corporate portal, but in the future, it intends to create a system that can be linked among alliance banks and promote business matching and M&A. For M&A, although it does not extend to platforms, it has been exchanging information for some time. Regarding corporate customers, the total number of TSUBASA banks is approximately 1.8 million companies, of which there are more than 0.18 million borrowers. Therefore, we believe that a certain level of results will be achieved if platforms such as M&A and business matching become fully operational.

Q. What functions will be consolidated in what timeline at TSUBASA Alliance Co., Ltd., to improve efficiency?

A. With regard to money-laundering, a joint project was launched in October 2020, and it is preparing for the timeline to start the system around next June by consolidating the overlapping operations by consolidating the knowledge and know-how of each bank. Other areas are considering the consolidation of administrative centers and clerical work. The TSUBASA general purpose paperless system, which is being developed in collaboration with Chugoku Bank, is the basis for the complete stamp-less and paperless system. Ultimately, the Bank intends to use it as a platform mainly for TSUBASA banks, which are sharing core systems.

Q. What will be the most important point for the entire bank to change to a digital bank?

A. With regard to channels, given that the number of access and touch points are significantly shifting to digital, we think it is best for us to change ourselves rather than create new entities in order to respond to that change. To this end, the Bank believes that one way is to make use of apps, corporate portals, etc. so that most of the transactions of the Bank can be made completely even in non-face-to-face terms. In addition to this, we need not only to be able to conduct banking transactions, but also to go beyond banks and connect with the Bank. We believe that API common platform of T&I Innovation Center, which we are working in TSUBASA banks, plays a key role. It is important to provide services that are useful to customers while sufficiently advancing external collaboration through the API common platform. DBS in Singapore is upgrading its services while providing more than 200 external services to customers through API, and we have around 12 external connections via API currently. We intend to provide services that are useful to customers by enhancing the sophistication of services while increasing the number of external partners in the future.

Q. On page 17, COVID-19-related loans were implemented at ¥700 billion and the balance of COVID-19-related loans at the end of March 2021 was ¥400 billion. Does this indicate that ¥300 billion was repaid in one year?

A. The outstanding balance of loans with guarantee Association is about ¥330 billion against the execution of about ¥360 billion. Borrowings with a term of less than three years account for around 10%, and 90% of the borrowings are for three years or more, and the outstanding balance will be maintained to a certain extent in the future. On the other hand, for loans without guarantee of the Association, COVID-19-related loans are short-term loans, and the purpose of funding is different, as is the case with customers who have borrowed money by increasing their cash on hand while watching the situation. Approximately ¥330 billion of new loans to be extended by loans without guarantee of the Association also includes spot loans, overdrafts, and commitment lines, most of which have already been repaid because they are short-term funds. At the end of March, the outstanding balance of loans without guarantee of the Association of ¥68 billion does not include spot loans, overdrafts, or commitment lines, and the majority are long-term funds with a borrowing period of one year or more.

End