

**April 9, 2019 - Chiba Bank IR Day**  
**Main Questions and Answers**

**1. Progress and Measures of the Medium Term Management Plan / Alliance Strategy**  
**Hidetoshi Sakuma, President**

Q. I'd like to ask about sustaining your fees and commissions income. I think that it won't be easy to keep increasing this income, so what do you see as the main issues when it comes to enhancing non-interest income going forward?

A. It won't be easy, but there are many things that we can still do. We recognize that fees and commissions income is not strong yet when compared to the strength of our lending, so we aim to expand overall transaction volume by presenting a broad range of solutions, including a focus on our advisory services. We increased the number of personnel involved in business succession support and M&A work as we continue to address this area and grow.

Q. Why has the TSUBASA Alliance succeeded even though it's an alliance with regional banks far away?

A. There's a high level of trust among the bank presidents. The participating banks are prominent regional banks that are IBM system users. We are forward-thinking institutions that are aligned in our desire to achieve growth by working together. For one example, we got some hints when we visited foreign financial institutions together, leading us to quickly establish T&I Innovation Center.

Q. It's our understanding that interest spreads are declining more slowly. It seems like regional banks on the whole aren't lending at unreasonably low interest rates anymore, but is the competitive environment actually changing?

A. We understand that some banks have become weakened and they are no longer using unreasonably low interest rates to pursue volume. The decline in loan yields is steadily slowing, and in our case interest on loans has become positive year-on-year if international business is included.

Q. How do alliances benefit shareholders?

A. If these alliances go well, profits will grow and we will be able to provide the benefits to shareholders. We are focusing on strengthening fee-based businesses and operating more efficiently, and capital efficiency isn't worsening. The administrative operation sharing with Daishi Bank has allowed us to eliminate 25 part-time positions and improve efficiency by outsourcing domestic wire transfer data entry work. We will also be taking a look at the credit card business and other areas with the aim of boosting income.

Q. When it comes to credit-related costs, with the performance of some corporates worsening, it seems like the general allowance for loan losses might be somewhat low. Is there a possibility that you will reconsider your method for setting aside this allowance in order to make the reserve larger?

A. We are following certain rules for this, and we would need the approval of our auditors in order to change it. At present we don't have any plans to change it, but we would consider it if appropriate.

Q. If an exception is made to the anti-monopoly law to facilitate the realignment of regional banks, would this affect your relationships with regional banks in Chiba Prefecture?

A. Chiba Prefecture has a population of 6.2 million people, and considering that the size of this market is equivalent to six outlying prefectures with populations in the one million range, we don't think that the current tally of three regional and second-tier regional banks is excessive.

Q. Up to now you've worked hard on providing loans for property leasing businesses, but is there any change in how you see this business?

A. Chiba Prefecture has developed as its population has grown, and we have proactively addressed the needs of property leasing businesses, focusing mainly on landowners. Based on these regional characteristics and actual demand, there hasn't been any change in how we view this type of lending. At the same time, we pay careful attention to risk management and we have accumulated expertise in making credit decisions, such as carrying out on-site inspections when putting together loans; conservatively verifying income, considering factors like the stress of rising interest and vacancy rates; and conducting regular monitoring. While scrutinizing deals, we will continue to carefully cater to this business.

Q. What are your thoughts on a successor as president? What kind of person are you looking for?

A. I think that we will decide on someone who has a good understanding of various businesses, including overseas operations and alliances, and who also has a sense of balance and can demonstrate leadership. We are continuing to train personnel who will be able to realize sustainable growth in a changing business environment.

Q. I think that it's important develop the personnel who are responsible for corporate solutions, so what are your thoughts on future efforts to strengthen the organization? What kind of work does the Advisory Group in Corporate Business Division perform?

A. We think that it's important for us to develop personnel who can respond with agility to changes in the business environment and in our customers' needs. We have developed a large number of personnel who have been involved in the corporate business at our general branches, and we will demonstrate our strength in this area going forward. The Advisory Group in Corporate Business Division is starting out with nine people, and the organization will gradually expand. Up to now, the branches have coordinated with headquarters to provide consulting services free of charge to our customers, but going forward, we will look at advisory services as an opportunity to generate earnings.

Q. You've set an extremely high target for the balance of financial products, so I'd like to ask you to talk about the current challenges and what measures you will take in the future.

A. The industry as a whole has been struggling due to the state of the stock market and uncertainty about the global economic outlook. Along with continuing the activities to broaden our customer base in order to promote a shift from bank deposits to investments, we are also continuing to focus on developing sales representatives who are instilled with an understanding of fiduciary duty. We will offer our customers core funds that support long-term asset formation and we will also take advantage of funded-Tsumitate NISA accounts.

Q. What results have you seen from introducing the life design system for insurance?

A. We introduced this as a tool to help us to present the most appropriate products to our customers, consistent with their life plan. Because sales through the Hoken-no-Madoguchi channel have been so strong, we plan to expand it to all branches. We think that we'll also be able to use it for cross-selling, such as offering loans.

Q. When it comes to strategic shareholdings, it would be possible to take some profits in light of the current unrealized gains, and treating the development of a Corporate Governance Code as a chance to sell is one option. At the same time, there is the problem of it being hard to sell the shares of local companies and there are also those who think that selling is unrealistic when taking dividend income into consideration. Looking out for about the next three years, I'd like to know if you expect the pace of sales to accelerate, or if you see them following roughly the same trend as they have up to now.

A. Currently, on a book value basis they are worth about 100 billion yen, representing about 11% of consolidated Tier 1 capital. This isn't relatively high when compared with other banks. There is also the expected dividend income, so it wouldn't be realistic to suddenly speed up the sales. We will continue to reduce these holdings in a deliberate manner.

Q. If the conditions are right for a realignment of regional banks, specifically what sorts of mergers do you expect to see? Also, if banks leave the alliances, would this lessen the effects of these initiatives?

A. Currently, it's hard to find partners for mergers that would lead to dramatic improvements in ROE or customer service. Rather than thinking about initiatives to be taken following a merger, I think that we wouldn't go ahead if we were unable to quantify the specific outcomes in advance. Even an alliance can produce outcomes similar to a merger, so when working out the medium to long term business strategy, the idea was to take advantage of the combined 59 trillion yen in assets of the TSUBASA alliance member banks. We think that it's likely that the alliances will continue to expand, and we can expect to enjoy further benefits if the number of members increases.

## **2. Business Operational Reforms and Digitalization**

### **Tadayoshi Shinozaki, Director and Managing Executive Officer**

Q. Whether you'll be able to shift administrative personnel to sales is an issue. Could you please talk a little bit more about your career design training?

A. This is mainly for staffs who are engaged in back office work, and the training explains that administrative work is shrinking due to changes in the environment surrounding banks and mechanization, which is also happening on other industries. Because not all administrative work will disappear, we have created an opportunity for people to think about what kind of career they can pursue in the future, including performing functions in a centralized processing unit or acting as some kind of specialist. The reactions have been varied, but it's not as if they will be assigned to sales the next day. For example, people will be strategically shifted to highly productive areas only after being carefully trained, such as being reassigned after acquiring expertise in selling financial products in the promotion area at the bank's headquarters for about half a year.

Q. As regional banks expand their areas of business, how are you addressing new business areas such as staffing services?

A. We are launching our staffing business through a subsidiary in April, and we are mainly providing this service as a tool for corporate sales. By proactively matching companies with the talent that they are searching for, we aim to collaborate and grow with companies in the prefecture. We have just started up this business, but there are many needs, and the entire bank will be working to address them.

Q. Will it be possible to hold down increases in expenses, in absolute terms, as a result of business operational reforms?

A. Thanks to streamlining measures, we think that we are making steady progress towards building an organization that can operate trouble-free with fewer people even if there is an increase in the number of people retiring. It's conceivable that in the future there could be higher taxes, an increase in labor costs, and a heavier depreciation burden associated with efforts to proactively address systems requirements. However, we are confident that we will be able to realize efficient operations under the next medium-term plan even as we control overall expenses.

Q. Roughly what percentage of customers are opting for digital passbooks either when opening a new account or through your campaign encouraging customers to switch?

A. It has been just a short time since we introduced them, but there are already about 15,000. We think that young people accept them without any particular unease, and since this is the season when new employees should be opening payroll accounts, we'd like to talk about the trend later on.

Q. The government is planning to issue new banknotes. Will this affect your future ATM strategy?

A. Amid the cashless trend, we plan to review the number of installed machines. It might be a good time to do this while we are addressing compatibility with the new banknotes. We're already pursuing a collaboration with Musashino Bank, and we will seek leeway to cooperate with other banks in an effort to improve efficiency.

Q. What kind of issues are you facing in putting into practice anti-money-laundering measures? How much of your resources are needed to prepare the FATF Japan review?

A. When it comes to money laundering, the nation is making an effort to address the issue. While we see customer convenience as a top priority, it's also necessary to rigorously ensure Know Your Customer compliance. There are some customers who are resistant when asked for details about the purpose of a transaction, and it will take some time to enlighten them. In terms of human resources, there are about 10 people in the Compliance Division and Treasury Operation Division who are concurrently engaged in other work. We are also accepting mid-career people from major banks with overseas anti-money laundering experience. Amid the noise about so many improper remittances, developing initiatives while checking whether there has been lack of confirmation is also an issue. However, based on the assumption that we could become unable to operate overseas depending on our response, we are acting with a sense of urgency and we believe that this has reached an appropriate level.

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