August 10, 2021－Small Meeting After the First Quarter of FY2021 ending March 31, 2022
Main Questions and Answers

Q. Please explain your self-evaluation of the performance in the first quarter and future outlook of net fees and commissions income for the current year and the next fiscal year and beyond separately for investment trusts and personal annuities and for corporate solutions. I would like to know whether the downside factors associated with emphasis on steady income in investment trust sales has been exhausted, and what is the driver for future income growth in corporate solutions.

A. In terms of self-evaluation, the actual result of ¥6.7 billion was a record high for the first quarter and we believe that we were able to make the best proposals for our customers in an environment where we coexist with COVID-19. For the full year, we plan total income worth ¥28.0 billion, and our progress rate in the first quarter was about 25%. Normally, in the past, income used to increase significantly in the second and fourth quarters, so we believe at present that net fees and commissions income are on track, and we will be able to achieve our full-year target. Also, we have set a very high target of ¥30.0 billion for the next fiscal year, which is the final year of the Medium Term Management Plan. It is not an easily achievable figure, but we would like to achieve this goal by further increasing the income of corporate solutions and financial products sales, which has been faring well, and aiming to expand wide range of fields like cashless business and trust business and inheritance-related services, and so on.

Regarding investment trusts and personal annuities, while we kept emphasis on steady income from investment trust sales, we also secured a certain amount of one-time income. Comparing the progress in the first half of the year with the results in the past 6 semi-annual periods in the past 3 years, both the one-time and steady types of income were on an increasing trend. Considering the future market trends, we believe that the downside factors have been exhausted. Also, the balance of the Group's financial products, which was less than ¥1.9 trillion in March 2020, exceeded ¥2.1 trillion as of the end of June 2021. So, we believe it is a positive factor that we can expect a certain level of steady income in the future. In the future, we will continue to expand the scope of our business, such as through the sale of protection-type insurance policies, which we are strengthening our efforts in, and we will further improve our system to record both steady and one-time incomes. In addition, we would like to increase the sales of the fund wrap service, which we introduced in April, in order to increase the balance of the service and steady income.

Regarding corporate solutions, we have been doing well here since earlier, in particular, we posted a record high for the first quarter of ¥2.0 billion in the current fiscal year. In the finance services, we have not only worked on syndicated loans to large- and medium-sized companies through alliances but also stepped up our efforts to provide covenanted loans and face-to-face commitment lines of credit to small- and medium-sized companies, which are our main customers, so that we can provide consulting services to them along with lending. We believe that these efforts have led to the increase in income. In the non-finance services, we have also strengthened business matching through alliances, strengthened our M&A business in response to the growing need for business succession and business development after COVID-19, and steadily increase our fees by providing advisory services to businesses. In this way, the use of alliances is contributing to our overall income, and our efforts to strengthen our consulting functions for businesses have led to an increase in corporate solutions-related commissions, which we intend to further strengthen to boost overall income. In April, we started providing services of the Chibagin Business Portal as a new digital channel for corporate customers, establishing a system that allows customers and person in charge in branches to connect to each other via chat. With the aim of becoming a corporate portal that serves as a hub for all kinds of services and will be indispensable for business activities, we will continue to strengthen the portal’s functions. By doing so, we will establish a system that allows us to connect digitally with our customers and solve their business issues not only on a face-to-face basis but also online. We hope to generate income by providing solid support to our customers.

Q. Regarding credit costs, the first quarter is the timing of reviewing the accumulated default rate at borrowers, to which the DCF method was applied, because you adopted the number of borrowers for the review, net transfer to general allowance for loan losses seemed to be larger than those at other banks in the first quarter of both the previous and current fiscal years. When thinking about the next fiscal year, depending on the length of the calculation period, I don't think that net transfer to general allowance for loan losses will increase as much as in the previous and current fiscal years. What are your thoughts about this point at present?

A. In regard to credit costs, the amount of new downgrades was ¥1.2 billion in the first quarter, which was about 10% of the ¥11.0 billion planned for the year, and were kept at a low level as in other banks. On the other hand, net transfer to general allowance for loan losses was ¥1.6 billion, which makes the credit costs look a little higher than in other banks. A majority of this transfer was due to an increase in the default rate associated with the DCF method. As we make it a rule to conduct this review in the first quarter of each year, we do not expect any increase in the transfer for the same reason during the current fiscal year. This increase in the default rate can be attributed to the fact that the default rate in the DCF method is calculated based on the number of default cases, and we had a somewhat large number of small default cases. In addition, while the calculation is based on a 3-year average, a smaller number of default cases that occurred 4 years ago was excluded from the calculation coverage, leading to the rise in the default rate. We do not believe that a similar event will occur in the next fiscal year and beyond. This is only a result of calculation and does not correspond to the perception that non-performing loans have increased as a whole.

Q. This may be a little ahead from now, regarding interest-free loans, when we consider the beginning of the interest payment burden on borrowers in the future and the status of deferment period, interest-free loans could be a negative factor for interest on domestic loans. Please show us your opinion at present.

A. At the first quarter, demand for equipment and working capital other than those related to COVID-19 grew significantly, and the amount of execution returned to the pre-COVID-19 level. In this way, we believe that it is possible to increase the balance even after the special demand for COVID-19 is over, thanks to the favorable location of Chiba and our regular sales efforts. Particularly in terms of equipment funds, there is a reaction to the large decline in the previous fiscal year, and there is also a need for equipment investment that was not possible in the previous fiscal year, so various infrastructure-related projects are increasing in Chiba as reported in the newspapers. In addition, loans to the real estate leasing industry, one of our traditional strengths, have steadily been growing without being affected by COVID-19. As a result, while other banks are experiencing sluggish growth in their loan balances, we believe that we will be able to achieve solid results despite facing challenging environment.

Q. What are your thoughts on future progress of cashless business in terms of the numbers of card members, franchised stores, profit and so on?

A. Due to the impact of COVID-19, we have not been able to record as much revenue from new businesses, such as franchised stores and Visa debit cards, as we had originally planned. We expect to have not been able to acquire enough franchised stores in the restaurant sector due to the State of Emergency Declarations. Also, we have not been able to increase the number of contactless payments in the leisure and restaurant sectors due to people refraining from going out. Initially, we had expected the market to recover in the current fiscal year, but given the current situation, we think it will be as difficult as in the previous year. If the situation continues as it was in the first quarter, we expect that profit from the cashless business will increase by about ¥0.6 billion YoY, which is less than our initial plan of an increase of ¥0.9 billion. We plan to fill the expected deficit by various additional measures introduced in the second half of the previous fiscal year, such as ticket vending machines, POS cash registers, and a recurring service (continuous billing payment). By accumulating these measures, we hope to get close to our initial plan of the ¥0.9 billion increase. Once the impact of COVID-19 subsides and the use in restaurants and other facilities becomes more active, we believe that it is possible that it will rapidly catch up with the initial plan. As for other new measures, we are planning to utilize the cashless business in the areas of e-commerce and crowd funding, which are being pursued by regional trading company, and we are preparing to expand the business into the alliances. We hope to build a regional ecosystem with our cashless business, which will lead to business expansion and revenue enhancement for both corporations and individuals. In addition, the number of debit card holders has been growing steadily, more than we had planned, so we would like to steadily expand the base of debit card holders first and then expand the results of their use.

Q. How much of an impact will the reduction of transfer fees for domestic money exchange?

A. The Bank has not yet disclosed its policy on bank transfer fees, but we are currently working hard to finalize it. We think our policy doesn't deviate too much from what the megabanks and other regional banks are offering. Our forecast for the current fiscal year is for a decrease in transfer revenue of about ¥0.6 billion in the second half. The decrease in the second half was factored into the initial plan for the current fiscal year, so we do not expect any impact on the business plan in this fiscal year.

Q. The term-end balance growth of loans has remained strong at 5.5% YoY (The growth rate of loans to large corporate customers was 11%, loans to SMEs was 6%, housing loans was 3.1%). How do you see this growth of corporate lending for the current year and the next year? You previously mentioned that there is a flow of people from central Tokyo to Chiba due to the spread of telecommuting. So, could you tell us about your outlook for housing loans.

A. Due to the decline in COVID-19-related loans, the amount of loans executed was likely to decrease YoY. However, as a lot of COVID-19-related loans in the previous year were long-term ones, the decline after their expiry did not come soon, and we managed to show a steady increase in the outstanding balance. In particular, the amount of equipment funds in the first quarter increased by about 13% YoY, showing a steady rise. Demand for real estate leasing, including demand for replacement of housing, has continued to maintain its level partly due to the lack of an impact from COVID-19, and we believe that this is due to the fact that Chiba is located a little far from Tokyo. In addition, there has been an increase in equipment investment in the service and retail industries for business transformation and expansion based on the challenges of COVID-19, and this will continue to grow steadily in the future. Regarding housing loans, we believe that we will be able to maintain a certain increase in the balance in the future. Demand for housing in areas a little far from capital area is very high, and we have heard lamentation from real estate developers that there is no land to purchase. We continue to see high demand for single-family houses among young people and young families. While catching that demand steadily, we would like to conduct housing loans in cooperation with major real estate agents.

Q. Commissions on syndicated loans, etc. have progressed to exceed the full-year plan. Please tell us about the outlook of those loans.

A. The increase in income was driven not only by loan initiatives for large- and medium-sized companies through alliances, but also by commissions from face-to-face commitment lines and covenanted loans. While we continued our efforts in lending to SMEs, which are our main customers, we believe that strengthening our initiatives to conduct loans with covenants, which we can provide consulting services, have resulted in the continuous increase in income. The increase in income from syndicated loans to large- and medium-sized corporate customers is largely due to the accumulation of past initiatives. This is the result of the recognition of initiatives which utilize our alliances, like the recently released SLL for Nomura Real Estate Holdings and we would like to do our best in the future. In the previous fiscal year, we had several major syndicated loan projects. However, this fiscal year, we are aiming to achieve the same level as the previous year by steadily building up each project.

Q. I would like to know if there is a timetable for the calculation of SCOPE 3 or the setting of targets of CO_2 emission in the future.

A. With the publication of the Integrated Report in July of this year, we disclosed information by SCOPE, only calculated 1 and 2. With regards to SCOPE 3, it is still difficult to calculate the emissions from SMEs, and we are not to clearly state the timing of the calculation. Regarding CO_2 emissions, we had previously set a target of reducing CO_2 emissions in the fiscal year ending March 2031 by 26% from the year ended March 2014. With this target, we had achieved a 25% reduction in the year ended March 2021. However, as the Japanese government has changed its target to a 46% reduction, we would like to come up with a new plan at an appropriate time. We hope to develop the capability and readiness to disclose the information as soon as possible. In addition, we would like to strengthen our consulting services for customers in Chiba prefecture and think together with them about clime change in the future.

Q. What could be the bottleneck in implementing share buybacks from the second quarter onward.

A. In the current Medium Term Management Plan, our basic stance is to place emphasis on the dividend payment ratio, but the acquisition of treasury shares may be an option that can be taken. Through we have not been able to foresee the consequences of COVID-19 since the previous year, we preserve our strength by accumulating as much equity capital as possible while we prioritize maintaining certain levels of dividends. We believe that there may be room for changing our decision regarding the return policy when we assess the possibility of steadily achieving our business plan which we originally set a high level, and there is a bright prospect for the COVID-19 issue. We are not able to show an optimistic policy while the fifth wave of the pandemic is coming.

Q. Regarding clime change, you disclosed that an increase in credit costs will be up to JPY14 billion by 2050 in transition risks. If there are still other risks that could not be measurable, what kind of risks should we imagine?

A. The disclosed information is as currently anticipated, and the definition of what constitutes a stranded asset is not yet clear, not only for the Bank but also for the industry, so we will have to incorporate examples from the other companies, and overseas. For example, major bank is reported that it includes the automotive sector in its transition risks. That will not be our case because the automotive industry is not large in Chiba Prefecture, so we do not believe that it will be added significantly to the current disclosed figures. However, in future discussions, the scope of the area may become wider, so we would like to disclose or discuss such changes in a timely manner.

Q. I guess that a lot of regional banks want to hold such green credits. What do you think about the possibility that the business of managing green claims for other regional banks, as you did as a coordinator in the SLL with Nomura Real Estate Holdings, could lead to increased fees?

A. We conducted the sustainability linked loan for Nomura Real Estate Holdings in July, and we had been discussing this with the issuer for a long time. Although customers' intentions should come first, we believe that this is a highly regarded initiative in that it has expanded room for many regional banks and other financial institutions to enter by creating a framework to meet the needs of not only among megabanks but also among regional banks to increase the balance of green claims. By introducing such a framework to other lenders, we will be able to see a broad business expansion, or earn commissions for loans or others. As these efforts are still at an early stage, we will consider providing different framework for each customer and we would like to further strengthen the efforts.

Q. Your CET1 ratio rose from the end of June 2020. If you were to expand the denominator of the ratio, what options would you consider? Is there an option of strengthening card loans or equity investments? In that case, how much of RWAs can be allocated?

A. Regarding to expand the denominator, we believe that loans for local customers should be prioritized to support their finance. On the other hand, allocating the resources to card loans is also an option. In fact, we have been strengthening the balance of our unsecured loans. In order to avoid raising the default ratio by expanding those loans unnecessarily, it may want to control credit risk by making flexible strategy not adopting a uniform strategy. In the case of the Bank, a floor is imposed on our RWAs and the RWAs are expected to decrease when Basel III is finalized. Under these circumstances, we would like to continue taking various risks actively, including the strategic areas like this and new businesses.

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