

Small Meeting "DX Strategy and Corporate Solutions"

Main Questions and Answers

[September 28, 2021]

DX strategy

Q. Regarding profit opportunities from DX, what areas of profit opportunities do you consider to be significant at this time?

A. We naturally believe that there are significant profit opportunities in the areas of consumer loans, card payment, financial products such as investment trust and insurance, which already have a commensurate business scale. We think the main field is to expand profit opportunities by providing digital "convenient" and "easy" functions in these areas to customers and using them by customers with whom we have not had contact in the past. Regional trading companies, the advertising business, and EC malls are considered these main fields as businesses to make them even more convenient to use. These are also expected to be profitable by using digital to form a regional ecosystem while keeping costs down.

Q. The U.S. and European banks are moving toward the self-development of systems development personnel and systems development. How are you looking at these in the future?

A. Until now, it has been actively developing human resources capable of assuming project managers in app and system development. First, it will firmly train 100 DX core personnel and 20 DX specialist personnel, which are planned in the DX personnel certification system. In addition, in regard to system development that will occur in the future, the Bank's policy is to effectively utilize the resources of group companies, such as the Chibagin Computer Service, and to respond by assessing the costs and effects of the portion it undertakes on its own and the portion it undertakes in collaboration with other companies.

Q. What are your thoughts on the necessity of establishing a digital bank? Please tell us your views on the advantages and disadvantages of establishing a digital bank under the Group.

A. Our basic strategy is to provide customers with convenient banks by maximizing the synergies between digital functions and real branches for both existing and new customers, and we do not intend to "establish new" digital banks. If newly established, we think that the flexibility of systems and business design would increase, but with the aim of becoming a digital and real-life convenient bank, we chose a strategy in which the bank itself would become a digital bank.

Q. What are the biggest challenges and obstacles in DX?

A. Our strategy is to make our customers more convenient in both digital and real, but one of our competitors, online banks, is also moving into the real market. "Speed" is becoming extremely important while there is a movement such as advancing into the housing loans market using the banking agency business and establishing real contact points for investment consultations by online banks. The Moonshot goals are based on an awareness of speed, and in the future, it will be necessary to continue to provide services and improve them rapidly. We think it is extremely important to create organizations and human resources that enable speedy responses and to flexibly change them according to circumstances.

Q. Please tell us how to unify data using specific examples.

A. There are a considerable number of host data and databases on subsystems. Until now, in order to analyze data, it was necessary to access each database and combine it with Excel and Access, which took time and effort. The

data retrieval system introduced this time can carry out the retrieval across databases, and it seems that the data is unified, and the retrieval speed is fast, and the analysis of a large amount of data becomes possible. There are some functions that can visualize the data by graph, etc., and it can be utilized as a tool for the analysis of the data more than before. In August, the Bank began returning to sales representatives of the branches a list prepared by data engineers and data scientists at headquarters. For example, we have created a list of customers with few assets in custody at the Bank among large payroll depositors from a unique perspective that has never existed before, and we are able to efficiently provide the list. Currently, personnel at headquarters use the tool, but when it is eventually available to all employees, including those in charge at sales at branches, they will be able to create a list from each perspective. We would like to make maximum use of the data search system to advance database marketing and make personalized proposals.

Corporate Solutions

Q. Can you continue to find new growth drivers for corporate solutions? When syndicated loan-related commissions leveled off, the growth in corporate solutions revenues may also level off.

A. In addition to large-scale projects such as syndicated loans and renewable energy-related projects to large companies and medium-sized companies utilizing alliances, initiatives such as syndicated loans to small and medium-sized companies and loans with covenants that can also provide consulting have led to solid earnings growth. With the government's international commitment to reduce greenhouse gas emissions to zero by 2050, we expect to expand environment-related loans in the future and believe we are in a position to leverage our strengths. In non-finance-related businesses, the Bank is steadily expanding its advisory services for companies, and the establishment of Business Succession Consulting Division has enabled it to respond to business succession in an integrated manner. As a result, the Bank is expected to expand its business in non-finance fields as well. We believe that deepening our solutions in line with changes in our customers' operating environment will result in a continued increase in corporate solutions revenue.

Q. Please tell us about the structural factors and backgrounds that have been continuously found for growth topics, such as private placements and cashless.

A. We believe that the background is that the Bank maintains the lowest level of OHR among Japanese banks, and that it is possible to actively make positive investments when necessary. Under the investment plan of the current medium-term management plan, positive investment outweighs investment in maintenance, upkeep, and other areas. In addition, from the perspective that we have been able to find growth topics, we believe that there is healthy competition in the Tokyo metropolitan area, which is our operating base, and that the background to this is that information will come about what customers want and what we should invest in. In 2006, the Bank entered the inheritance and trust business, which was quite early as a Japanese bank, but it has become one of the pillars of current growth in fee and commissions income. Recently, we have entered the cashless business on its own and is expected to contribute to future increases in fee and commissions income. We have also actively entered the business, which entails major investment at the outset. Currently, we believe that "deregulation of the scope of business of banks" is an opportunity to advance new businesses, and it is pushing ahead with initiatives for new businesses, such as regional trading companies and remote consulting. Going forward, the Bank will continue to make forward-looking investments, and establish a system within the Bank so that it can proceed with specific deliberations on further new businesses, while closely monitoring developments in revisions to the Banking Act.

Q. What types of support are specifically provided by the departments and personnel of ICT advisory? Please also tell us about the scale of revenue.

A. The Bank began providing ICT consulting services in April 2021, and a cumulative total of around 50 consultations on projects from branches. Of these, 7 consultations have reached consulting contracts, including agreements. Examples of specific initiatives include the establishment of a sales management system aimed at improving operational efficiency and support for the introduction of a paperless system. By providing support for the design of business systems that reflect the intentions of employees through interviews and other means, we have received a certain level of evaluation from customers. In response to customer needs, the Bank collaborates with group companies such as Chibagin computer services and external vendors when introducing IT services. Three employees members of the Advisory Department of the Corporate Business Division provide customer support, all of whom have experience seconding to an IT system vendor or a consulting company. Currently, we have three employees, but if it expects to expand operations, it would like to increase the number of employees. Consultant revenues range from ¥1million to ¥5million per case, and incidental effects include introducing a system that introduces group companies such as Chibagin Computer Services and the amount is several million yen to over ¥10million per case. Therefore, if the number of consultants increases, we will generate ¥100million units of revenues in the future and contribute to consolidated group revenues as well as non-consolidated revenues.

Q. What are the number of personnel and years of experience in the department in charge of business succession? Can you conduct all business flow almost on our own?

A. The Bank has eight employees in charge of M&A, and plans to increase the number of employees by one from October to nine. In addition, there are four consultants, mainly in charge of internal succession, and the total of 13 employees in this department. The years of experience of M&A employees has matured to the longest of six years, and to the shortest of three years, and they are assigned to trainees before assignment, ensuring that they have skills. All M&A workflows are internalized, and when necessary, we conducted by ourselves by confirming the opinions of specialists such as lawyers and accountants.

Q. What is the potential number of business succession projects and the scale of revenue? In addition, what are your main competitors?

A. If the number of companies with shareholders' equity of 100 million or more and the age of their managers of 60 years or older were to be selected, there would be about 2,800 projects, so there are many potential projects. We are aiming for an annual revenue scale of around ¥1 billion in the final year of the current medium-term management plan. Competition with companies specializing in M&A and other financial institutions is becoming fierce. Amid various strategies that regional financial institutions can take, the Bank's main focus in Chiba Prefecture is to provide services on our own. The three pillars of M&A as well as internal succession and employee succession are profit opportunities for the Bank, and customers are able to choose from a broad range of options.

Q. Hearings on the needs of manager are not limited to business succession, but also lead to other business opportunities. What methods of picking up information? How do you deploy information to other departments?

A. Branches are regarded as the channel for corporate sales as well as for managers, and General Manager of branches and other sales representatives firmly pick up customer needs. By engaging in internal succession and M&A, which had been undertaken by separate departments, in one department, a system was established in which branches can pick up customer needs in an easy-to-understand manner. Each department deepens needs by carefully picking up customer needs through branch channels. In terms of cooperation between departments in

headquarters, the Corporate Business Division holds regular meeting and discussions on projects are also, so we are able to build a system that enables it to provide comprehensive solutions to customers.

Others and Common

Q. What is your overall vision for future initiatives in DX and corporate solutions?

A. We believe it is necessary to respond speedily and undertake agile initiatives other than ensuring and protecting customer information, while DX is implementing a variety of initiatives at each bank. It is a matter of course for IT companies to ensure speedy efforts, and we would like to win trust by becoming a company like an IT company, although it is a bank. Some customers, especially younger customers, choose other banks, even if they live in Chiba Prefecture and our bank is nearby. In this environment, the Bank's vision of a digital bank is to enhance the appeal of the app by firmly promoting digital initiatives, and at the same time, to provide both services at real branches so that customers can come to branches for consultations on housing loans and financial products. Some areas will take a long time to become profitable, and there will be times when we fail, but we believe that these will be supported by corporate solutions based on our close relationships with regional companies and business succession for the next generation. If either of these is lacking, it could undermine the foundation of our bank, and we want to make sure that we do everything we can to further enhance the trust and reputation we have earned so far.

[September 29, 2021]

DX strategy

Q. Are there differences in profitability, etc., between those who use and do not use the Chibagin app?

A. The number of customers who use Chibagin app exceeds 380,000. Compared to customers who do not use apps, the profit per account differs by about 30%, and the profit of customers who use apps is about ¥300 per month higher. Profitability is even higher when compared to customers who do not sign up for loans, financial products, or credit cards. The reasons for the differences in profitability include the fact that customers using the app use the Bank as their main bank and also that the number of times they access the Bank has increased dramatically due to using of the app. The number of other bank transfers released in June, and card loan applications are also growing. We think that the use of the app will make a further difference in profitability in the future because it will lead to a lot of use of our services. We believe it is extremely important to increase the number of users of apps and to promote the addition of functions and services so that customers who use the app feel it is convenient.

Q. With regard to the expected effects of the introduction of a search system to unify data, will you be able to attract customers from other banks? If so, do you think you will be able to get customers in Chiba prefecture to switch from other banks, or do you think you will be able to approach customers outside of Chiba prefecture?

A. Regarding the list provided using DYNATREK, it started in August, and we think that the effects will be apparent in the future. The list that had been provided in the past was an event-based marketing system, such as a list of customers who had a large deposit in an account at a certain timing, for which the list was provided as the event occurred. On the other hand, the list that can be provided under the new system is a list based on data that the Bank did not previously have as its starting point, such as a list of customers who have a record of paying property taxes from their accounts. In addition, it will be possible to easily collect data on how salaries are transferred, and we will create and distribute a list of our customers with whom we have had few transactions or with whom we have not been able to make contact although there is room to expand transactions. Rather than attracting customers from other banks, we intend to distribute primarily a list that is intended to further deepen transactions with our customers. As a result, we believe that it is based on our customers' data, even though it may be other banks' customers, and that we will deepen our customers. In terms of whether customers are in Chiba prefecture or those outside of Chiba prefecture, the large population of individual customers resides in Chiba prefecture, so we think that customers in Chiba prefecture will be the main customers first.

Q. Regarding mid-career recruitment of external human resources for DX, recruitment of persons requiring high personnel costs also considered? Please also tell us whether there is a potential acquisition of the FinTech company itself or what FinTech services you want.

A. We actively recruit mid-career personnel with experience in digital technology, marketing, and digital business planning, which can be outside specialists, and in some cases, we recruit personnel at relatively high labor cost levels in within our compensation. In addition, acquisitions of companies that have the digital services which we want, cannot be considered unless such companies emerge. As announced in August, we have formed a strategic partner with “Change Inc.”, a publicly traded company that provides IT consulting. We have also collaborated as a partner to launch Chibagin Market Co. Ltd., a regional trading company, and to develop human resources and promote administrative DX in local governments. Change involves many points of contact with companies with a variety of technologies, and if we find a company that can become our partner, we believe that we may consider acquiring.

Q. Rather than having banks as the parent company, the holding company may be easier to move forward with the regional ecosystem.

A. Discussions are ongoing each time, but at present there are not so many tax and regulatory benefits, and we recognize that issues such as double governance, maintenance costs, and governance of group subsidiaries will arise. We believe that governance to Group subsidiaries is working under the current structure, and at this point the need to establish a holding company structure is low. However, in cases such as collaboration with a different industry or the provision of non-financial services, such as starting a new business and establishing a business company, there is an advantage to being affiliated company rather than a subsidiary of a bank, as it is more able to insulate itself from risks or does not require a procedure for approval than it is to be a subsidiary of a bank. Going forward, we will continue to examine the advantages and disadvantages while carefully confirming them.

Q. What are your thoughts on the development of personnel who can manage DX personnel? Will they really have the DX management skills or be able to create that vision?

A. We assume that those who are certified as specialists under the DX certification system are those who can measure their skills and aptitudes. In addition to securing specialist personnel through mid-career recruitment, we believe that the development of human resources on the management side will be sustained by continually developing internal personnel with core and specialist under the certification system. We believe that raising the base literacy of all personnel will enable the development of such human resources, and this situation is such that we recommend the acquisition of IT Passport as bank-wide initiatives. Currently, DX efforts are being led by employees who already have the skills, such as those with outside trainee experience and mid-career recruits. By working with skilled personnel on DX, we intend to cultivate the human resources under it without interruption.

Corporate Solutions

Q. What do you think about the view that some corporate solution revenues may be preempting interest income?

A. We believe that finance-related fees are appropriate compensation for arranging or monitoring activities, and we do not think that interest revenues are preemption. Fees for M&A, advisory services, and business matching are also given as compensation for such services.

Q. What is the breakdown of the target amount for sustainable finance? (Does it include housing loans and whether there is a portion that will be transferred from the previous ordinary capital expenditures.)

A. The current result is about ¥320 billion. Going forward, we have set a target of ¥2 trillion for sustainable finance and ¥1 trillion for environmental finance. We think that other than environmental finance, the target will be social-related nursing and nursing care services, poverty resolution, the development of new drugs and others. Transition finance will also be included in this target. We also plan to include solar power generation on the roof and switching to EV vehicles, and the construction of zero-energy houses (ZEH) that consume no energy as a whole. However, the definition may be changed from time to time in response to changes in the trend of the world in the future, and we will respond flexibly.

Q. Do you provide support to corporate customers in developing and implementing ESG and SDGs strategies?

A. Regarding the status of customers' efforts toward ESG and SDGs, we have hearings with medium-sized companies and larger, including listed companies in Chiba Prefecture. However, we feel that there are still few companies with awareness of ESG, such as decarbonization and other issues, including in-house systems. In fact, some local governments have already started SDGs registration system in neighboring prefectures, but Chiba Prefecture is in a state where there are several local governments that will proceed in the future. We feel that it is necessary for the Bank

to conduct educational activities not only for corporations but also for local governments. As a leading bank in the region, we believe that the role we should play in this field is extremely large. We also recognize that the promotion of regional ESG finance is a key role for regional banks. As an entry activity, we would like to conduct not only financing, but also enlightenment activities that contribute to ESG and SDGs, such as decarbonization, mainly for small and medium-sized companies, through advisory services and other activities. Specifically, it is considering whether advisory services can support the acquisition of ISO14001 and the formulation of targets for reducing CO2.

Q. How do you define environmental finance? Is it consistent with the definition in the Bank of Japan's climate change operations?

A. The details of the Bank of Japan's climate change operations will be confirmed at the briefing scheduled for October. However, the definition of the operations for climate change is extremely narrow because it is in accordance with and equivalent to the principles. The current result of the Bank's target for environmental finance of ¥1 trillion is mainly project finance for renewable energy and is basically included within the definition of the Bank of Japan. However, we consider that it is important whether sustainable finance for SMEs will become the object of the Bank of Japan's climate change operations. With green wash and other problems, the Bank of Japan has not clearly stated the criteria, which makes it difficult to draw a line. We believe that it is necessary to establish standards for the extent to which lending to SMEs is referred to as green finance in the future. We think that the measurement of some quantitative effects, such as contributing to the environment and society, will be a key point, and we feel that we need to align our awareness with the Bank of Japan's policy.

End