

July 26, 2022 - Small Meeting "Coalition of TSUBASA System Infrastructure" Main Questions and Answers

Q. Please tell us why Chiba Bank's system investment efficiency is excellent, although I am aware of the strictness of ROI verification, etc., internalization of human resources, cost-share through TSUBASA alliance, etc.

A. We recognize that the three main reasons for the high efficiency of system investment are. Regarding the first point of the strictness of investment screening, projects exceeding ¥50 million are to be discussed at Board of Designated Directors, and the effects of investment are to be verified annually thereafter. On the other hand, this does not slow the pace of investment, and it is firmly able to invest in forward-looking projects. The second point, internalization of human resources, is a system in which bank employees are firmly involved in the examination and review of requirements, etc., to avoid vendor lock-in. Cost-sharing through TSUBASA alliance in the third point, also leads to the sharing of know-how.

Q. Please tell us in detail the strengths and and future issues of TSUBASA alliance compared with other regional bank system-sharing teams.

A. There are two major strengths. The first point is collaboration in a wide range of fields, and collaboration is being promoted in a number of subsystems in addition to core systems. Cooperation is deepening in business and clerical fields other than systems, and the effects are emerging. The second point is that the participating banks have adopted an equal agreement system and have maintained a bank-led framework in the coalition scheme of core system. Participating banks maintain their know-how by developing and operating systems in collaboration with IT companies without significantly reducing the number of system personnel after outsourcing. Although there

are no major issues at present, as the number of banks participating in coalition of core system will increase to five, we will firmly work to ensure stable operation and continuous improvement in development quality and efficiency.

Q. Can any number of banks participate in the coalition of core system? If the number of participating banks increases, will the development cost and the running cost be allocated, and will Chiba Bank's system cost decrease by that amount?

A. In theory, any bank can participate if it has a system device or personnel. In terms of costs, although it is not simple calculations, an increase in the number of participating banks leads to distributed cost. In development, for example, it is a scheme in which "many developments can be made at the same cost" or "costs decline with the same operation."

Q. How will the next core system change from the conventional system? Are the transition to public cloud, etc. considered, including the accounting system?

A. TSUBASA is being renewed on a new basis, and the Bank have renewed this year. The program has been renovated in the initial development of the coalition so that it can be used for a long period of time, and the next renewal is expected to be around 2030. Therefore, it is not at a stage where we can concretely explain the next system, but we plan to consider a wide range of issues, including mainframe continuation, open architecture, and cloud computing.

Q. Regarding system coalition, TSUBASA is an initiative of five banks, but is it being operated more efficiently than other teams with a larger number of participants? Also, it seems that the other system-sharing banks have a pay-as-you-go or fixed fee structure. What is TSUBASA fee system?

A. Quantitative comparisons are not possible because the degree of efficiency improvement of other teams is not known. However, the development and operation personnel and outsourcing expenses have been considerably reduced due to the coalition, and we believe that the system can be operated efficiently. Development and operation outsourcing fees are fixed, and rules for prorating among participating banks are individually established. The rules are detailed to ensure that the burden is borne fairly, such as by prorating the amount of system resources, maintenance, personnel, etc., and by prorating the amount of use or equally.

Q. Banks with different core systems are entering TSUBASA alliances. What are the advantages of such partial collaboration for Chiba Bank?

A. We are collaborating subsystems other than the core system and linking them in business and clerical operations other than the system, and the effects are emerging. Thanks to efforts in sustainable finance and other large-scale syndicated loans, M&A, inheritance trusts, and strengthened collaboration in fields such as cashless and apps, the effects on revenue have recently become significant.

Q. Other teams seem to be imagining the shift to open architecture and cloud computing, and as a next step, the joint operation of infrastructure with other teams of the same system companies. What is TSUBASA planning?

A. As mentioned earlier, TSUBASA believes that it is timed to renew the new infrastructure, and that the next renewal will be around 2030. We plan to consider a wide range of

issues, including mainframe continuation, open architecture, and cloud computing. Open architecture, and cloud computing will be considered based on various factors, including the fact that larger scale does not necessarily lead to cost reduction, and that TSUBASA's program structure is maintained and the necessity for a complete renovation is not high.

Q. Although TSUBASA project started in 2008, I have the impression that it progressed rapidly in 2015. Please tell us how it actually developed.

A. At the time of its establishment, each bank had yet to timely upgrade core systems from their life cycles. During this period, the bank conducted research on the following core systems and carried out activities such as the collaboration of subsystems.

Q. Which banks often issue ideas? Please tell us the degree of contribution.

A. TSUBASA alliance have around 40 subcommittees, about half of which meet every month or weekly. Each bank brings together various ideas, and each bank thoroughly participates in the discussion, including active opinions and, if opposed, reasons for opposition, etc. The culture of incorporating good examples has taken root in TSUBASA alliance, and constructive discussions are being held.

Q. Are the physical data centers and hardware sections traditionally used by each bank, as well as the programs that are moving on them, also common among each bank in the coalition of core system?

A. The host systems of five banks are aggregated into two centers. In the two centers, the physical cabinets are shared, and in the logically divided areas, five banks operate a common program.

Q. What are the advantages of using different vendors for core system and subsystems? Is it correct to assume that IBM, NTT Data, and others will continue to be major players in core systems?

A. We have more than 300 subsystems, each of which uses a combination of systems in their respective areas of expertise in the right jobs. We believe that most regional banks are in a similar situation. In addition, IT companies that can provide core systems with full banking functions will continue to be mainly those that currently provide systems to the various system-sharing teams for the foreseeable future.

Q. What operations are specifically targeted for the establishment of an efficient administrative system? Does the reduction in cost become greater when they are realized?

A. In the process of centralizing headquarters operations, it is possible to operate more efficiently by adopting best practices, simplifying administrative procedures, and improving operational efficiency with economies of scale. Banks with shared core system are also able to share clerical work, so they can not only process keying in the system, but also standardize acceptance methods and inspection methods at the counter. With the lineup of subsystems, further effects are expected, and in the future, we are looking at joint operation of inspection, etc., which remained a very heavy burden among each branch. When the collaboration of inspection is realized, it has a considerable impact in terms of cost, and can be expected to have an effect that does not limit itself to the collaboration of traditional clerical work.