May 23, 2023－FY2022 Financial Results Meeting
Main Questions and Answers

[Full-year Plan]

Q. The Bank's forecast for the current fiscal year appears conservative. What is the background behind the announcement of this plan?

A. FY2023 is positioned as the year for laying down the foundation necessary for achieving the consolidated net income target of 75.0 billion yen for the final year of the Mid-term Plan.

We achieved record high profit in FY2022, as losses on sales of over 20.0 billion yen, including yen bonds, foreign bonds, and investment trusts, were covered by higher than usual gains on the sale of stocks and gains on the cancelation of investment trusts in addition to strong results in our core business. During FY2023, there is a high probability that gains on the sale of stocks and gains on the cancelation of investment trusts will stay at around the same level as FY2022 due to an adequate level of gross unrealized gains from investment trusts and unrealized gains from stocks. In the current fiscal year, however, we have focused somewhat on stable and sustainable earnings power by prioritizing carry income such as dividends and distributions. Although expenses will increase due to the earlier-than-planned execution of strategic investments, we expect to be able to see a return on these investments after a little more than three years and will be a significant contributor to achieving the final year profit target of the Mid-term Plan. Based on the results of our internal stress tests, our credit-related expenses have also been conservatively estimated, and we believe we have a sufficient buffer as we expect to recover our past preventive provisions to loan loss reserves.

We developed our plan with the understanding that our bottom-line forecast of 61.0 billion yen is the minimum level of achievement to be ensured. We believe that we can achieve our plan because we have an adequate buffer as well as a high degree of confidence in our ability to withstand changes in the environment, and we intend to steadily implement various measures so that we can post profits that exceed our plan. In addition, although interest rate hikes have not been factored into this forecast, if the Bank of Japan's monetary policy changes, we estimate that top-line revenue will increase by 1.5 billion yen and the bottom-line income will increase by about 1.0 billion yen.

Q. Cost reductions seem to have reached their limit. Could this have a ripple effect on your operational strategy?

A. While the consolidated OHR target for this Mid-term Plan is 45%, our plan is to make strategic investments up-front and increase expenses in order to increase top-line revenue. Of the 2.2-billion-yen year-on-year increase in expenses for FY2023, 1.5 billion yen is from our digital strategy and human capital-related strategic investments, and while our OHR will temporarily increase, these investments are expected to contribute significantly to achieving our target for the final year of the Mid-term Plan. As far as the impact on our operational strategy, loan interest income is determined based on a comprehensive consideration of trading activity, credit conditions, and market conditions, and are separated from cost reductions. While it is desirable to make fees commensurate with costs, we believe it is important not to compromise the convenience of our customers. If we were to conduct a review, we would carefully consider the DX strategy, branch strategy, and other measures while assessing their effectiveness.

[Mid-term Plan]

Q. Which goals do you consider to be the biggest hurdles in the new Mid-term Plan? What measures are you taking to overcome these hurdles?

A. We feel that our goal for financial product sales, which are forecast at 10.5 billion yen, a 4.2 billion increase, is a relatively high hurdle. With respect to the sales of financial products, we shifted our sales structure from a focus on flow to a focus on recurring income starting from October 2021. While the timing of this shift is a factor in the year-on-year decrease in revenue, we are steadily yielding results in terms of the number of customers and balance of investment trust accounts. In order to lower this hurdle, our aim is to allocate resources to digital areas, which will lead to the expansion of the customer base and enrichment of transactions. We also intend to expand the balance of investment trusts and personal annuities and the associated recurring income in order to achieve our goals.

In addition, it has also been quite difficult to make progress as planned with Chibagin Market and On Ad, as well as our advertising business, which will begin full-scale operations in the current fiscal year, and new businesses such as BaaS and Metaverse. Our aim is to develop these businesses with an aim towards future returns.

Q. You have a fairly modest plan regarding gains from the cancelation of investment trusts in the final year of the Mid-term Plan. Is this simply a conservative assumption, or has our management style changed?

A. For investment trust management, we are conscious of taking into account the amount of risk in managing yen and foreign bonds, and our stance of flexibly recording income and capital gains according to market trends remains unchanged. While we recorded a significant amount of capital gains in FY2022, we are now shifting focus to stable and sustainable earning power, giving priority to carry income.

[Improving the P/B ratio]

Q. Regarding the correlation between P/B ratio and ROE, do you think you will be able to maintain the dominance relative to other regional banks going forward? What measures and reforms do you think are necessary to sustainably increase the profit growth rate in the future?

A. The Bank's current P/B ratio is approximately 0.6. The regression line based on the correlation between ROE and P/B ratio shows that the value of P/B ratio based on the Bank's expected ROE shows a premium of 0.2 points. In addition to the advantages of our alliance strategy, a low OHR and the lowest NPL ratio, this analysis shows that the strength of our operating base has been well received by the market. If we divide the P/B ratio into the three components of ROE, cost of capital, and profit growth rate, we recognize that the biggest contributors are 1. the strong expansion of the Bank’s net income and ROE, 2. the steady achievement of our earnings targets, which gives us credibility with investors regarding our profit growth rate, and 3. our efforts to proactively disclose information through our IR activities and the corresponding reduction in the cost of capital. That being said, improving the P/B ratio is a common issue for listed companies in Japan and we will strive to further expand this lead while stepping up our efforts to further improve our ROE, cost of capital, and profit growth rate.

In order to sustainably increase profit growth in the future, we feel that the most important thing is to build an organization that can steadily execute our growth strategy through structural reforms and investment in human capital. In particular, we regard human capital as our most important management resource. Our aim is to invest twice as much in training expenses and double the number of human resource development slots in the new Mid-term Plan. Through this investment in human capital, we hope to achieve sustainable growth by refining our existing business as well as promoting digital strategies and new businesses.

Q. You quantitatively showed us the effect of RORA improvements. I would be interested to know if there is a difference in the effectiveness of RORA improvements depending on the item.

A. We believe that corporate business and new businesses are the most important contributors to RORA improvement. In our corporate business, we will strive to further increase our loan share and corporate service transactions while maintaining our branch network. At the same time, our aim is to form strong customer contact points while leveraging the convenience of the corporate portal and strengthening our consulting function in order to increase Corporate Solutions-related fee income and improve our RORA.

In our new businesses, net fees and commissions will expand as our cashless operations further evolve. The impact of other businesses, such as advertising and local trading companies, on earnings during this Mid-term Plan period will be limited. However, looking ahead to the next Mid-term Plan, we intend to invest more resources and use them as a source to raise RORA in the future.

[Branch Strategy]

Q. Please tell us more about the philosophy of your future branch strategy.

A. We are working to shift corporate transactions to digital spaces, mainly our corporate portal, but corporations have complex needs and if we were to decrease our number of branches, we believe it would lead to a decrease in our ability to understand their needs. We would like to maintain our branch network as much as possible as other banks in the prefecture are rapidly consolidating and streamlining their branches in order to further increase our prefectural market share. Also, branches have become an important contact point regarding Bank app registrations. Tax and public money payments, wire transfers, and cash deposits and withdrawals account for 70% to 80% of regular branch visits. If tax and public money payments, transfers to other banks, etc., are shifted to digital, the balance of branch income and expenditures will also improve. In addition, the further our digital-shift and personalization strategies progress, the more important the role of branches that can provide in-person consultations will become.

Under the new Mid-term Plan, the Bank's business areas were divided into three categories as we strive to optimize our branch network. We intend to make the out-of-prefecture area a growth driver for the Bank by opening new branches in Tokyo and neighboring prefectures. In the growth area, which contains approximately 70% of the Bank's branches, we intend to maintain our full banking branch network while considering changes in the functionality of retail branches. In local development areas where the population is expected to decline, we intend to build a sustainable area sales structure.

[DX Strategy]

Q. While you plan is to increase your customer base from 4 million to 4.2 million, is the 200,000 increase mainly young people? What are your strategies for shifting non-digital customers to digital?

A. Customers who open new accounts tend to be new workers or customers who take out mortgages, and we estimate that approximately 60% are in their teens to their 30s. As part of our strategy to shift existing non-digital customers to digital, we have been talking to customers who visit our branches while implementing in-branch campaigns to advertise the app tax payment function, holding demonstrations at the Innovation Lounge we established in front of Chiba Station, sending DMs, and revising our point system.