

May 22, 2019 – Financial Results for FY2018 ended March 2019

Main Questions and Answers

- Q. With respect to loans for leasing properties constructed by the Leoplace, it is safe to consider this as low risk since the borrowers are largely wealthy?
- A. They are mainly wealthy, and we have verified that the properties are in good locations through on-site inspections. At this point in time, there are no particular concerns about credit risk.
- Q. There are calls for you to buy back shares, and we would like you to pay attention to market expectations and share price trends, and be flexible about the timing.
- A. The current medium-term plan calls for a return to shareholders of 50%, and we will continue to be flexible in considering share buybacks.
- Q. I'd like to ask about the outlook for fees and commissions income. Corporate solutions in particular are continuing to do well, and syndicated loans are running at a fairly high level. Can you keep this up?
- A. Going forward, we will continue to take advantage of the alliances to drive business in areas like syndicated loans. We will also grow earnings by being reliable in areas like advisory services, staffing, and cashless payments.
- Q. How are you offering solutions to corporations like those only have deposit accounts?
- A. We are building relationships with those other than loan customers in a variety of ways. For example, I serve as chairman of the Chiba Association of Corporate Executives and president of the Chiba Chamber of Commerce and Industry, and in these roles I have many contacts with customers. The branches list up the main prospects so that they don't fall through the cracks.
- Q. We have been told that the impact of the TSUBASA Alliance exceeds a cumulative 10.0 billion yen at Chiba Bank alone, but how big is the cost reduction for a single year?
- A. Last year, the combined impact of the top line increase and the cost reduction was on the order of about 3.0 billion yen.
- Q. Shiga Bank has just joined to the TSUBASA Alliance. What kinds of financial institutions can participate? The depth of cooperation—such as the degree of system sharing—among the participating banks varies, so how are you communicating?
- A. It originally started out as a collection of regional banks that are IBM users, and collaborating in subsystems led to collaborating in the mainframe system. We are also working together in areas other than systems where the banks have needs, such as in inheritance-related services. The bank presidents meet every three months to facilitate communication among them, and they also exchange information about regional economic trends with the presidents of their think tanks.

Q. What form do you see the platform concept taking in the future?

A. We would like to examine ways of consolidating back office work and new business areas, including the possibility of jointly establishing a subsidiary. A joint investment company has been established under the Chiba-Musashino Alliance and it has a well-functioning organization. The board of directors meets every three months to discuss matters, with the presidents of both banks serving as its co-representatives. We are still considering the details, but we hope to hammer out the specifics as soon as possible.

Q. The target for this fiscal year is 51.0 billion yen. This is short of the current medium-term plan goal. Can you talk about the outlook for the future? If you are aiming for 60.0 billion yen over the medium to longer term, what will be the earnings driver?

A. We will be drafting the next medium-term plan with a view to reaching 60.0 billion yen. Along with reducing costs by streamlining operations, we will grow earnings by proactively taking advantage of alliances to cultivate new business areas such as card payments.

Q. As the topline target for the cashless payments business is 4.0 billion yen, what are the numbers for overhead and net business income?

A. We think that overhead will be about 1.0 billion yen and the contribution to earnings will be about 3.0 billion yen. The payment terminals will be distributed to partners free of charge, and initially it will be rolled out mainly to participating merchants in Chiba Prefecture. We are also planning to issue the TSUBASA brand Visa card, and we hope to boost usage through a variety of programs. We will establish a card business unit in June in order to oversee this area as a whole and propel it forward.

Q. I'd like to ask about the outlook for profit growth. Last fiscal year, the number came in at 50.4 billion yen versus the target of 54.5 billion yen, and this year the target is roughly unchanged at 51.0 billion yen, so it seems like there's a loss of momentum. Core profit looks solid, and it seems that you are conservatively estimating capital markets earnings and credit costs, but is there any concern that these could go even lower?

A. We haven't taken unreasonable measures to generate profits out of the capital markets area, and there aren't any problems with our foreign bond holdings. When it comes to credit costs, there are no more reversals that have been seen so far, and last year there were write-offs for large borrowers. Going forward, we will continue to rigorously enforce strict credit management to keep down credit costs. Both of these targets are conservative, so we don't expect to fall short.

Q. Will the TSUBASA Alliance continue to expand? As the business environment for regional banks goes tougher, how do you think realignment will go?

A. I think that we will continue to collaborate in a variety of areas and also take new steps, such as building platforms. We would welcome the participation of financial institutions that are in agreement with our initiatives.

- Q. Credit costs outweighed initial projections at many of the regional banks, and then do you think that the tide is turning? Could it have been partly due to preemptively addressing the repeal of the financial inspection manual?
- A. Last year it was discovered that some companies had been doctoring earnings, so weaknesses became apparent at some borrowers. Because of this temporary cluster of cases, credit costs were higher than the projection. However, we don't believe that this situation will persist for long.
- Q. According to Concordia Financial Group's medium-term plan, it has established an allowance of 50.0 billion yen for strategic investments. Do you have any similar plans for boosting the level of profits through capital subscriptions?
- A. We want to think about this through the framework of the alliances. If there is a good potential investment, we will consider it in a positive light.
- Q. Specifically what sorts of cost reductions do you expect to see from the Mito Corporate Banking Office to be jointly established with Toho Bank?
- A. We will rent office space from Toho Bank, thereby it will be possible to lower costs significantly compared to building a new branch property.
- Q. Is there a possibility of establishing shared locations with neighboring financial institutions?
- A. At present, we're not considering this. Given Chiba Prefecture's population and the size of its economy, it's been said that multiple financial institutions should be able to survive. However, we will examine in this as necessary, depending on future demographics.
- Q. What is the likelihood that the cost of anti-money laundering measures will increase for the TSUBASA Alliance as whole?
- A. We are planning to introduce a rating system, but we aim to reduce costs by jointly developing this with the TSUBASA banks. We will increase awareness of anti-money laundering measures with the mutual cooperation.
- Q. When it comes to cashless payments, will the bank be taking initiatives in distributing payment terminals and issuing debit cards?
- A. The plan is that this will be handled by the bank.
- Q. You are expecting credit costs of 0.9 billion yen in the second half of this fiscal year, which is a very low figure. Are you expecting a large amount reversal?
- A. For accounting reasons, a larger figure was posted in the first half due to effects of historical loan-loss result rates, but we expect this to come back in the second half.

End