CHIBA BANK

April 10, 2023 – IR Day
Main Questions and Answers

[The 15th Mid-term Plan]

Q. Please tell us what you consider to be the most challenging issue among those presented in the new mid-term plan as well as leading into the next mid-term plan and beyond.

A. The operational guideline of the new Mid-term Plan, or “Phase 1”, is the evolution of the customer-focused business model. We have to be upstream of the commercial distribution and deliver personalized product proposals at the right time based on the needs of our customers. We feel the biggest challenge going forward is to monetize this steadily as a business. “Phase 2” will be focused on enhancing corporate engagement and in “Phase 3”, we will aim to further increase the number of fans of Chiba Bank.

Q. In order to strengthen one-to-one marketing, the ability of each bank employees must be raised, and they also must be strong as a team. Can you tell us your thoughts on this in terms of the state of your organization and corporate culture?

A. Through one-to-one marketing, we can link customers that already use their accounts to product sales and encourage the 700,000 customers that already have purchased products to use more than one and promote the use of products to the 2 million customers who use their accounts without buying products. For example, we have devised campaigns to increase credit and debit card use rates and strive to deliver well-timed proposals, such as offering asset management services to a borrower who has just paid-off their housing loan, and as a result, we expect to increase gross business profit by 4.5 billion yen.

For in-person sales, we use a data search system to support sales staff so that they can approach customers efficiently. We also take into consideration the best practices of sales branches and horizontally-deploy these ideas while accumulating data. Virtual sales are promoted in collaboration with the departments in charge of each product and the Digital Strategy Division through the use of marketing automation tools. We are cultivating a DX culture at the Bank through DX training, employee dispatch, and active mid-career recruiting as a means to improving our employees’ capabilities.

Q. First of all, could you tell us about the background behind your decision to set the target range of 10.5% to 11.5% for your CET1 ratio? Next, regarding growth investments and shareholder returns, am I correct in understanding that this distribution will be balanced? Finally, what areas of inorganic investment are you currently considering?

A. We have set our goal from 10.5% to 11.5% with a 1% buffer to increase our risk tolerance in the event of increased volatility in the economic environment, while maintaining a level above 10.5%, which is not subject to the Basel regulation's dividend limit.

We will continue to give priority to growth investments as they are fundamentally indispensable for the Bank's sustainable growth. The idea is to maintain appropriate capital adequacy commensurate with growth investments while seeking to return any surplus to shareholders. The dividend payout ratio target is above 35%, with a long-term target of 40%. In addition, the Bank intends implement flexible share buybacks. We have always intended to provide balanced returns, with about 50% invested in growth and 50% in returns.

Finally, with regard to potential inorganic strategies, as we continue to strengthen ties with our partners, we will consider as an option partial investment in and acquisitions of businesses when we seek to determine the effectiveness of capital alliances. There is also a good chance that we may establish a new business subsidiary as a joint venture with our own bank or with a partner company, as we did with Himawari Green Energy Co., Ltd, an energy generation company.

Q. Regarding interest on loans to corporations, can you give us a little more background about your plan for yields to increase while volumes grow at a reasonable rate?

A. In light of the current interest rate conditions influenced by the BOJ's revision of its YCC framework last December , the yen swap rate, which is the benchmark for the base rate of medium- to long-term fixed rate loans,   is expected to riseby 16 basis points, and an increase of about 8 basis points for medium- to long-term fixed rate loans with a 50% pass-through rate. Based on this, we are planning for an increase of about 4 basis points, since variable-rate lending makes up the remaining half of the total corporate loans.

Q. ROE is leveraging multiplied by ROA. Please tell me if you are considering raising leverage to improve ROE.?

A. While leveraging is expected to remain generally flat, our plan is to increase net interest income by increasing loan and securities assets while expanding net fees and commissions, which do not use much risk-weighted assets. In addition, we plan to improve our RORA and ROE through cost-control.

On the other hand, with the introduction of the Bank of Japan's negative interest rate policy and the special interest rate system, the Bank's current account at the Bank of Japan has swelled considerably, increasing to about 3 trillion yen compared to 2 trillion yen under normal circumstances. As a result, this also led to an expansion of total assets, but when the special interest rate system ends and the negative interest rate is removed in the future, our balance at the Bank of Japan will naturally decrease and leveraging will be reduced somewhat.

Q. I would like to ask about YCC and the effect on revenue growth when negative interest rates are lifted. What are your assumptions about the asset and liabilities sides?

A. Our estimate is an increase of 5 billion yen for FY20250 based on our interest rate assumptions that the YCC range will increase from 0.5% to 0.75% during April-June and that YCC and the negative interest rate policy will be lifted during July-September. First, we expect the change or removal of the YCC to spur a rise in long-term interest rates to about 1%. We also estimate that if medium- to long-term interest rates rise, the increase in interest on loans and bills discounted will be about 5 billion yen, and we expect an increase in net interest income of about 2 billion yen due to higher yields on yen-denominated bonds. In the event of a rise in TIBOR, we expect an increase of about 2 billion yen in interest on variable-rate loans. On the other hand, we estimate the negative impact on net interest income due to rising deposit rates to be about 1 billion yen. The total effect of the above items is an increase in net interest income of 7.5 billion yen based on these interest rate assumptions. After the 30% tax deduction, the amount will be about 5 billion yen.

Q. Can you tell us to the extent possible how long it is expected to take to achieve a 40% dividend payout ratio.

A. In the previous mid-term plan, we raised the dividend by about 10 yen, from 18 to 28 yen. In addition, the dividend payout ratio was increased from 28% to 34%. In the new Mid-term Plan, we have expressed our desire to first prioritize ongoing dividend payout increases at a level above 35% and then aim for 40% in the long term. Most mega-banks have a dividend ratio of around 40%, and we have a keen desire to return profits to our shareholders at a level close to that. We cannot say when we will reach our long-term goal of 40%, but we would like to move forward to achieve it as far ahead of schedule as possible.

[DX Strategy]

Q. Regarding the Chibagin app, can you tell us about the current gap between the revenue from users and non-users, and how much that gap will change when the target for FY2025 is achieved?

A. Including digital customers who also make use of internet banking, the number of app users has tripled over the course of the previous Mid-term Plan. Looking at the age groups, 65% of digital customers are of the ages between 10 and 40, while only 39% of non-digital customers are in the same age range. The digital customer base is expanding mainly among younger people. In terms of per-user gross business profit, the amount per digital customer is about 15,000 yen, while that of non-digital customers is only 6,000 yen. As a result, the unit price of digital customers is currently more than double that of non-digital customers.

We will aim to double the number of registered app users to 1.5 million during this Mid-term Plan period. While new digital customers may initially start with lower profitability, because we will continue to expand the lineup of products available through the app, such as new investment trusts and unsecured loans, we plan to improve per-user gross business profit.

Q. In which areas is AI being used? What are the results achieved by utilizing such technology, and in which areas do you want to apply it in the future?

A. We are currently applying AI in the fields of bankruptcy prediction and fraud detection. We are currently exploring how to make better use of it going forward and we believe that it may be possible to utilize AI in the analysis of customer data and human resource data.

Q. What kind of impact do you expect your DX strategy initiatives to have on your future earnings?

A. Regarding DX, in terms of financial products, we are introducing the ability to purchase in investment trusts through our app. Combined with new proposal tools and making contract processes paperless, this will help expand the scope of our products and increase operational efficiency. By doing so, we will be able to secure more time to properly explain our consulting services to customers, which we believe will lead to higher conversion rates. In addition to increasing profits by introducing such products, we plan to introduce a wide range of digital services, such as in-app loans and providing housing loans fully online. Through these digital initiatives, we expect an increase in net income of around 5 billion yen by FY2030. Furthermore, as you stated earlier we expect to generate an increase of 4 billion yen or more in net income from new businesses by FY2030, taking into account personalization strategies, regional ecosystem strategies, and the expansion of cashless, advertising, and Chibagin Market services.

[HR Strategy]

Q. My question is about personnel exchange between the Group companies. Can you explain the intention behind focusing on staff and leader levels for these exchanges, while the number of managers is planned to decrease slightly?

A. In the past, personnel dispatched from the Bank to Group companies were often those who had held positions like department head, deputy department head, or branch manager at the Bank. Generally, Group companies were managed by staff from the Bank, while the employees handling the actual work were permanent employees of said company. With the new Mid-term Plan, we have adopted a unified Group-wide approach to personnel management and are promoting Group personnel exchange as part of our career step support. Furthermore, we are changing the position of division head in our Group companies. We are shifting to a slightly younger manager layer, with more mid-level than veterans, who will gain experience as department heads at Group companies as a way to help both individuals and the organization grow.

Q. What is your impression of the "as is" and "to be" of the qualitative gap sin your human resources? How long do you think it will take to fill these gaps?

A. We believe that there are two major points in the gap between the ideal human resources portfolio and the current situation in this Mid-term Plan. The first point is sales personnel. As of the end of March, we have about 920 sales personnel, but we plan to increase the number of sales personnel at sales branches to 1,020 in the next three years. The challenge is how to train those 100 people. We have implemented a trainee system to train 50 people each in both corporate and retail sales starting in April. This is a measure aimed at increasing the sales force by 100 people, and in the case of corporate sales, we have a training system in which they will spend one year going through six departments at the Head Office and visiting group companies in order to gain practical skills. In the case of retail sales, they will also build experience at the Head Office and Group companies as a means towards improving our consulting proposal capabilities.

The other point is the DX specialists at the Head Office. We are planning to proceed with a three-pronged approach, which includes nurturing talent internally, sending trainees externally, and hiring for specific careers. We plan to fill the human resources gap by aiming to develop 90 employees over the next three years by dispatching trainees externally and we plan to hire about 110 people annually through mid-career recruitment as well as outsourcing.

Q. While number of Bank employee dispatched to Group companies is stated as 73 people, you also indicated that the number of Group employees will decline by 10. What kind of change will see in the overall number of Group company personnel?

A. Starting from this Mid-term Plan, we have switched to a system of unified Group hiring where some employees will be dispatched to Group companies, so the number of dispatched employees will increase. On the other hand, due to a reduction of 70 employees through improvements in efficiency and consolidation of existing businesses and 60 employees that will be redeployed to new businesses, the overall number of Group company personnel will be a net decrease of 10 employees.

Q. Could you tell us about the involvement of young Bank and subsidiary employees in the formulation of this Mid-term Plan?

A. During the formulation of the Mid-term Plan, we organized a committee comprising mid-level and younger employees and gathered their opinions. The younger staff seriously considered and shared their opinions on how to make customer-centered proposals, and this is reflected in the Mid-term Plan. The human resource development policy has also been created by consolidating opinions from among those who will be supporting our organization 10 and 20 years from now, rather than just the management level.