

February 8, 2021 - Small Meeting After the Third Quarter of FY2020 ending March 31, 2021
Main Questions and Answers

Q. What kind of ideas did you based the announcement of the dividend increase at the timing of the announcement of financial results for the third quarter on? Please tell us what you think about shareholder return policy in the future, including share buyback.

A. As the probability of achieving full-year consolidated profit target of JPY48.5 billion has increased, we announced an increase in dividend at this timing. If we announce it in February, not in March or at the fiscal year end, we have a certain period until the record date for shareholders at the end of March. Therefore, we chose February. We chose to increase the dividend instead of share buyback to improve the dividend payout ratio and the dividend yield, which were slightly lower than other banks. With regard to shareholder return, we will decide its policy reflecting the progress of the business and the accumulation of risk assets on the whole. During the state of emergency, we believe that what we have to do as a top priority is support cash flow of the customers and smooth supply of funding to the customers. As it is necessary to have a certain level of capital and accumulate capital, we would like to consider shareholder return waiting for a recovery of the regional economy and taking into account the progress of our business results and the outlook.

Q. Is it possible to make preventive allowance in the fourth quarter and accumulate credit costs for the next fiscal year in this fiscal year. If so, do you have a prospect that credit costs will decrease in the next fiscal year?

A. The estimate of total of net transfer to general allowance for loan losses and new downgrades for next fiscal year is JPY9.4 billion, which is within the range of JPY10.0 billion expected for the current fiscal year. Even credit costs is expected amount of JPY8.0 billion for the full year, its only amounted to JPY4.6 billion at the end of the third quarter. New downgrades were JPY4.4 billion, which is less than half of the full-year plan of JPY9.2 billion. Currently, new downgrades in the fourth quarter are very low amounts, so it is extremely likely that it will be within the expected JPY4.8 billion in three months. In response to the state of emergency, the impact of COVID-19 on each industry is estimated each time. In addition, a customer survey is also conducted on a monthly basis to simulate the impact of COVID-19. Based on these results, there is a possibility that preventive allowance will be considered. It is not currently assumed that the credit costs for the next fiscal year will increase significantly. In fact, in the previous fiscal year, we recorded preventive allowance by about JPY2 billion in the fourth quarter and we think that it is connected to reducing credit costs this fiscal year.

A. What are your views on the sustainability of the large syndicated loan-related fee?

Q. In this fiscal year, we have arranged two large syndicated loans for biomass power plant projects. With having been strengthening our efforts as an arranger of PFI from the past, we believe that we have accumulated know-how from the past and improved our composition ability. In addition, with the cooperation of the alliance banks, we believe that the ability to invite financial institutions has improved considerably. As the arranging ability and inviting ability have improved, we are now naturally able to approach large-scale project finance. Now, we have a list of multiple potential projects, so we believe that there is a certain degree of sustainability for the next fiscal year and beyond. Furthermore, the government has made an international promise to reduce greenhouse gas emissions to zero by 2050. With this, we think that the introduction of renewable energies, such as solar power, wind power, and biomass, will probably be promoted further in the future. It is expected that large-scale projects such as renewable energy and PFI will continue in the future, and we will also approach projects while expanding the base.

Q. How do you see the factors behind the higher and lower results compared to the target in the medium term management plan at this point? Especially regarding revenue, how are you looking at the upside and downside possibility from the target?

A. We believe that both net interest income and net fees and commissions will be higher. Although net interest income is already moving in the upside direction at this point, the maximum amount of interest-free loan frame with the guarantee of Association has been expanded from JPY40 million to JPY60 million in February and we think that we can increase loan amount and net interest income more. Net interest income increase by the volume increase is more than net interest income decrease by interest rate decrease which is about three basis points, excluding the loan to Ministry of Finance. So net interest income is higher than the plan. Mortgages are also strong. One of the factors is increasing the needs to move to rural areas by introducing of teleworking. As an initiative of Chiba-Yokohama Partnership, we held seminar on migration with the cooperation of Minami-boso City in Chiba Prefecture and Miura City in Kanagawa Prefecture. We received applications from a large number of people because more and more people are thinking about second houses or emigration. The number of mortgages pre-applications has been increasing significantly, compared to last year and we think that the amount of loan execution will increase. We think that not only corporate loans but also mortgages loan will cause net interest income to significant exceed the medium term management plan.

As for net fees and commissions income, although cashless business is slightly sluggish compared to the plan, we believe that it will definitely grow in the future. Sales of financial products of the first quarter were also sluggish at around minus JPY0.5 billion compared with the corresponding period of previous fiscal year, because we could not visit customers during the state of emergency from April to May. However, the cumulative total up to the third quarter has already returned to the same level as the corresponding period of previous fiscal year and we think that the full-year result will probably exceed that of the previous fiscal year. As corporate solutions related are extremely favorable, although we plan to increase net fees and commissions income from JPY23.0 billion to JPY30.0 billion during the medium term management plan, which is a bullish plan, we think it is at a level that can be achieved.

As for expenses, the increase in costs for the new headquarters building is within expectations. In addition, it was explained that expenses would be decreased by JPY3.3 billion during the medium term management plan when we announcing the plan, and expense reduction is also progressing more than expected. We think both revenue and expense reduction are progressing steady, and we believe that the medium term management plan is now proceeding as expected.

Q. How do you think of the revenue boosts by the deregulation of the scope of business and the population inflow to Chiba Prefecture through remote work.

A. We think that the deregulation of the scope of business will create business opportunities for us. As we hold aim of digging deeper into existing businesses and actively taking on the challenge of new businesses in the medium term management plan, we believe that the development of new businesses will be the key to sustainable growth in the future and we would like to comprehensively consider the possibilities of business subject to deregulation. In addition to the regional trading companies already under consideration, we will discuss data analysis, marketing, advertising, etc. in the business model of the regional trading companies. We will also consider such as the utilization of information by centralizing information, which is one of the moonshot goals, data business and advertising business through data accumulation and utilization, business development like information bank, sales

of apps and IT systems, registration-type temporary staffing and hands-on support for revitalization support companies and start-up companies utilizing bank's former employees resources. We will continue to consider those, so that it would help increasing revenue during current medium term management period, and we would like to make it the center of the next medium term management plan.

As for new business, we would like to make full use of the alliance strategy. We will continue to consider whether it can establish platforms for all kinds of business mainly through TSUBASA alliance, etc. As for the population inflow, the number of mortgages pre-applications has been increasing significantly, compared to last year and we think that the amount of loan execution will increase. It is believed that it will contribute to revenue.

Q. What are the strategies and progress of the cashless business so far?

A. Regarding the franchised stores' number of the franchisee business, our target is to increase the number of franchised stores by 20,000 by March 2024. The actual result for this fiscal year is 5,794 stores by the end of December, compared to the year-end target of 8,134 stores, with 71% progress rate. Most recently, from October to December, we have acquired about 500 stores. The pace of acquisition has slowed down a little, but we are strengthening sales activities toward the end of the current fiscal year as same as in the previous fiscal year. Immediately after the start of the franchisee business, we focused on acquiring new stores that did not introduce franchisees, but we also strength shift activities to existing customers. Sales representatives are getting used to sales activities, through talk scripts and role playing. As we are focusing not only on acquiring new customers, but also on shifting activities from now, and we are strength sales activities toward the end of the current fiscal year, we will come close to the target of this fiscal year. Regarding the transaction volume of franchised stores, our target is JPY15.4 billion in this fiscal year. As the transaction volume of JPY1.2 billion in a single month of December is JPY14.4 billion on an annual basis, the annualized volume has increased to a level close to the target. Regarding the revenue of the franchisee business, compared to the target of JPY136 million in this fiscal year, progress is being made at a pace of around JPY0.1 billion on an annualized basis for single month revenue. It is a little behind, but we think that the pace is good for the beginning. In the future, we will take measures, such as adding payment brands and expanding the product appeal, in order to catch up the target. Regarding the addition of payment brands, we will make a direct contract with unsupported QR codes and electronic money. Regarding the expansion of merchandise, we would like to proceed with the recurring business, which continuously charges such as rent, ticket vending machines, Web-type cash register, EC payment including regional trading companies, and the introduction in local public bodies. We have newly started the credit card settlement service for corporate transactions, BtoB settlement, in December and it will contribute to the transaction volume after January. As for the card business, we started handling "TSUBASA Visa Debit Card" in October last year. Compared to the target of 60,000 in this fiscal year, the number has been steady at 50,000 in three months. The transaction volume is also progressing steadily and the settlement unit price is also robust at JPY6,000, JPY, which is 1,800 higher than originally planned.

Q. As for the total amount of net transfer to general allowance for loan losses and new downgrades, if the calculation result for the next fiscal year is JPY9.4 billion compared to the expected amount of JPY10.0 billion for the current fiscal year, will credit costs be less than JPY8.0 billion of the current fiscal year.

A. In the case of credit costs, there are other factors, such as recoveries of written-off claims, impact of the rank-up and the rank-down, etc. We cannot give a definitive answer. For example, recoveries of written-off claims have decreased by JPY0.7 billion compared with the corresponding period of previous fiscal year. There is a background

to the fact that the court proceedings did not proceed due to COVID-19. Therefore, we do not know how the movement of other factors excluding recoveries of written-off claims and new dangerous in the next fiscal year. However, as a whole, we think it is possible credit cost will be less than this fiscal year's amount.

Q. How do you think the market expectation of the dividend increase and share buyback for the next fiscal year?

A. We announced the dividend increase of JPY 2 per share at this time and our stock price has been rising. I feel that the market has appreciated us. Regarding dividends, we will consider what it should be and how much it aims to achieve. With regard to share buyback, we are fully aware of the high level of interest in the conditions and timing of resumption in the future and is expected to do so. Going forward, we will consider the balance between dividend increases and share buyback. While capital efficiency is also important, it also feels the need to increase dividend payout ratios and dividend yields, which have remained somewhat low compared to competitors. At the meeting for individual shareholders, we have been receiving requests to increase the dividend payout ratio and dividend yield in questionnaires, so this time we answered their expectations. In terms of share buyback, the floor amount of risk asset will be revised when the Basel III Finalization occurs, so we will consider returning policy to shareholders while keeping in mind not only dividend, but also capital efficiency.

Q. Chibagin Leasing's profit has doubled compared to last year. Please tell us what kind of efforts you have made.

A. The decrease in credit costs was about JPY0.2 billion, and the remaining JPY0.1 billion is increase in balance due to sales effort, etc. As a result, the total increase in profit was JPY0.3 billion. Chibagin Leasing mainly leases to customers of the bank who have loans. Currently, we are leasing about 10,000 vehicles and other equipment, etc. Compared to the bank's share of loans in Chiba Prefecture, which is around 40%, the share of Chibagin Leasing in the prefecture is low, and we believe that there is still plenty of room for growth

Q. About 20% of the current balance sheet is cash and deposits. How will this move in the future? Do you think that the increase in deposits will decrease in borrowing demand, and the volume of loans will not grow much in the future?

A. Deposits increased by about JPY1 trillion, 8.6% compared with the corresponding period of previous fiscal year. We think that this is mainly due to the Special Cash Payments by the government. We transferred them to approximately 2.4 million households out of the approximately 2.8 million households in Chiba Prefecture. In addition to that, we also transferred benefits for single person, single mothers and other individuals to 0.4 million to 0.5 million households. Regarding corporate customers, deposits increased due to the fixed-sum stipend. And the Bank of Japan deposits increased by about JPY 1.2 trillion, with accumulating double the macro-added against the debt of JPY600 billion regarding COVID-19. In addition to the loans with guarantee of the Association, we think that the funding needs of the original corporate loans such as capital investments have fully returned, and there is no concern at present about a decline in borrowing demand or in net interest income. Mortgages are also very strong. Deposits have steadily expanded on the balance sheet, but on the other hand, we are successfully managing it.

End