CHIBA BANK

February 7, 2022－Financial Results for the Third Quarter of FY2021 ending March 31, 2022
Main Questions and Answers

Q. Megabanks make large amount provisions for particular loan customer in the third quarter. Are there the possibility of similar events occurring at Chiba Bank?

A. Within the information we have obtained so far, there is no situation in which large increases in provisions are made for a particular customer. While we have made reasonable provisions to date, we will continue to consider an advanced and wide range of provisions in the future.

Q. What are your thoughts on opportunities and risks to achieve the consolidated profit target of ¥60 billion for the next fiscal year, the final year of the medium-term management plan?

A. The plan for this fiscal year is ¥52 billion, but we are currently in a situation where it is sufficiently possible that it will exceed the announced figures, and it is trending steadily. Regarding the target of ¥60 billion for the next fiscal year, although there are negative factors such as cash-less business, reduction in interbank commissions, and sluggish growth in unsecured loans due to a decline in consumption, the positive factors include the Bank of Japan's special interest, reduction in deposit insurance premiums, net interest income, and expenses. By having strong areas compensate for weak areas, we aim to achieve ¥60 billion.

Q. Please tell us the background behind the announcement of the dividend increase and what the Bank currently considers to be its policy of returning profits to shareholders in the future.

A. There are three reasons why we announced a dividend increase this time. The first point is that we are firmly in sight of its achievement of the target in the current fiscal year and believes that there is a reasonable possibility of an upside. With net interest income remaining strong and credit costs remaining low, we are confident that we will be able to achieve our target, so we have decided to return profits to our shareholders. The second reason is that compared to the disclosed figure of ¥52 billion, the dividend payout ratio would be around 31% under the previous dividend policy, and it may be lower than the 30% that we consider to be the lower limit if the profit reaches a level above the disclosure. We recognize that the current dividend payout ratio is subordinate to that of other banks, and we have decided to increase the dividend because we wanted to secure a level with a little leeway, rather than the barely-there level of 30%. The third is to ensure that investors have the opportunity to buy our shares until late March, the record date for dividends, by presently announcing it.

Although we have not announced a return policy due to the COVID-19, while continuing the objectives and spirit of the previous medium term management plan, we will consider actively returning profits, taking into account the situation of other banks and the total return ratio, including the share buyback which we conducted in the second half of last year.

Q. While Chiba Bank has kept its full-year forecast unchanged amid high progress up to Q3, please tell us about the prospects for a preventive provision for credit costs and a portfolio replacement of foreign currency bonds in line with a rise in U.S. interest rates, etc. assumed in Q4.

A. Regarding the approach to credit costs, as we did in the previous fiscal year, we will make provisions in a wide range and in advance. While credit costs are expected to remain at low levels for the time being, preventive allowances will be considered.

In addition, the Bank's foreign currency-denominated asset management is characterized by holding fixed-rate investments at around 20% in U.S. dollar-denominated asset, thereby restraining interest rate risk. As a result, unrealized gains and losses on foreign bonds have remained positive. While we may incur certain losses as we replace foreign bonds, we do not expect to incur significant losses on sales.

Q. If the deposit insurance premium rate is lowered as reported, will the expenses for the next fiscal year decrease or will the amount of the decrease in expenses due to the reduction be appropriated for something?

A. The insurance premiums paid by the bank at present are around ¥4 billion, and if the premium rate is lowered as reported, expenses will decrease by around ¥2 billion. While the Bank's policy is to actively invest in areas such as DX and SDGs, it expects to reduce expenses as it originally has firmly planned investments in the current medium term plan.

Q. How do you expect SDGs related products to contribute to earnings?

A. Cumulative execution of SDGs Friends Loans to SMEs exceed ¥200 billion, and net interest income is expected to further expand in the future as the balance increases. For SDGs Leaders Loan, which was introduced this time, in addition to net interest income from lending, it is expected to secure fee income related to de-carbon and other consulting. We intend to take the lead in making sustainability-linked loans to large corporations and work together with TSUBASA banks.

Q. Please tell us in more detail the background to the decision to increase dividends rather than acquiring treasury stock this time.

A. Compared to the target of ¥60 billion for the next fiscal year, the current level of dividends is slightly above 30%, and in order to maintain a level that is not subordinated to that of other banks, it is necessary to raise the dividend to the higher ¥20 level. While confirming that profitability is firmly in place one by one, we will raise dividends and compensate for the shortage by flexibly acquiring treasury stock.

Q. If 10-year JGB yields remain at close to 0.25%, how much of the BOJ's current accounts balance of just over ¥3 trillion can be shifted to investments in yen-denominated bonds?

A. As JGB yields are rising, yen-denominated bonds will be one of the candidates to compensate for the decline in the BOJ's current accounts, but the entire amount will not be allocated for the reduction in the current account at the BOJ due to the termination of the COVID-19 Operations at around ¥1 trillion and several hundred billion. We invest with an awareness that yen-denominated bonds, foreign currency bonds, and equity-related securities will be risk parity. Based on this policy, we intend to maintain a balanced portfolio.

Q. What will be the balance of current accounts at the BOJ after the conclusion of the COVID-19 Operations?

A. While we currently have a balance of just over 3 trillion yen, it is expected that ¥1 trillion and several hundred billion will decrease by due to the termination of the COVID-19 Operations, and the balance will be around ¥2 trillion.

Q. When yen interest rates rise in the future, do you expect the level of net income to rise from the current level?

A. In a period of rising interest rates, assets yields tend to rise ahead of liabilities, which is a factor behind the increase in profits. Net interest income also increased when interest rates rose prior to the global financial crisis in 2008.

Q. How many corporate deposits do you have? What is the percentage of the borrowers?

A. Of the 270 thousand corporate depositors, there were 50 thousand borrowers with loans or other credit transactions.

Q. In the third quarter, the pace of increase in net fees and commissions income slowed a little, and in particular, financial products income was slightly weak. Please tell us about the short-term outlook toward the end of the fiscal year and the outlook for the next fiscal year.

A. Looking only at Q3 in three months, financial products income decreased by ¥0.6 billion YoY. In the savings-type level-premium insurance business, income declined mainly due to the decrease in the attractiveness of products in the low interest rate environment. Conversely, the cumulative results up to Q3 were ¥5.6 billion, unchanged from the same period in the previous fiscal year. Even if income related to financial products for the current fiscal year are subordinated to the plan, we would like to achieve the plan for overall income by compensating for them with the strong corporation sector income, etc.

In addition, from a long-term perspective, we are working to shift from a flow-oriented focus to a stock-oriented approach, and the balance of financial products in December has increased by about ¥80 billion compared to March.

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