August 8, 2022 – Financial Results for the First Quarter of FY2022 ending March 31, 2023
Main Questions and Answers

[Net Interest Income and Net Fees and Commissions Income]

Q. Fees and commissions income of financial products are weak, but can the Bank recover in the future? Please tell us, measures to improve profitability.

A. We are in the process of shifting its focus from flow to stock, and revenue is sluggish for the Group as a whole. There is room for expansion by offering multiple portfolio proposals to customers who hold a certain amount of deposits and do not hold financial product, or to customers who own only one investment trust. In addition, we intend to expand the balance and accumulate revenue through the personalized proposals it will work on in the next medium-term plan.

Q. What is your assessment of the speed to monetize the cashless strategy and what challenges do you face?

A. Despite delays in progress due to the effects of COVID-19 and other factors, the first quarter profit on a non-consolidated basis were ¥0.38 billion, a record high. The number of franchised stores and card members have maintained an increasing trend, and are trending steadily toward this fiscal year's target of ¥1.8 billion. In the franchised store business, the Bank signed contracts with two large companies in March, and plans to have two companies in October. The transaction value is expected to increase significantly. In addition, Musashino Bank entered the franchise business from January, and by expanding it to other TSUBASA banks, we recognize that it is an area that will become a mainstay of profit in the next medium-term plan.

Q. Please tell us the ratio of stock dividends from group companies and listed companies. If there are many dividends from listed companies, will it be an obstacle to eliminating cross-shareholdings?

A. About half of the stock dividend is from within the group. In addition to a slight increase in dividends from subsidiaries, dividends from listed companies also trended upward, resulting in an overall increase. The policy is to systematically reduce strategic shareholdings, and the Bank is steadily eliminating cross-shareholdings while also being conscious of the ratio of such shareholdings to Tier1.

Q. Was the increase in net interest income in the international sector due to the impact of foreign exchange rates?

A. Although the strong performance of foreign currency funds and the booking of gains on the cancellation of investment trusts had a significant impact, it rose ¥2.1 billion from the previous year, due in part to the impact of rising interest rates and an increase in the amount after conversion to yen due to the impact of the weaker yen.

[Securities]

Q. To what extent has unrealized losses on foreign bonds improved recently after taking into account hedging swap? Will additional loss-cutting be required during the current fiscal year in light of future increases in procurement costs?

A. Due to a decline in interest rates and a pick-up in the stock market, the current unrealized gains/losses on foreign bonds and other securities as a whole have improved by around ¥6 billion and ¥30 billion, respectively. In the first quarter, a loss of ¥5 billion was recorded for loss-cutting on foreign bonds. However, there is a possibility that additional loss-cutting on Eurobonds, etc. will be considered, while examining the status of credit costs, etc.

Q. Despite the ¥5 billion loss recorded in the first quarter compared with the ¥5.6 billion simulation for unrealized gains/losses on foreign bonds announced in the financial results briefing in May, why the unrealized losses on foreign bonds has increased?

A. The pace of interest rate hikes was somewhat earlier than expected at the time of the meeting in May, and interest rates rose more than assumed in the simulation. As a result, unrealized losses increased even after hedging was taken into account.

[Credit Cost]

Q. What is the background to the reversal of general allowance for loan losses in the first quarter and the outlook for the future?

A. The first factor behind the reversal was the decline in the cumulative default rate of the DCF method, which is usually reviewed in the first quarter of each year. In the past few years, there has been a transfer of around ¥1 billion, but in this fiscal year it was a reversal of ¥0.7 billion. The second point is the reversal of ¥0.5 million due to the exclusion of the real estate leasing industry from the scope of application of the DCF method. Since the default rate in the real estate leasing industry is extremely low compared to other industries, it is considered appropriate to exclude the industry, and the audit firm is also of the same opinion. Going forward, the default rate of normal borrowers is also on a declining trend, and there is a high possibility of a reversal in the first half of the fiscal year. New downgrades are also at a low level, and the Bank plan total ¥9 billion for credit cost. However, there is a reasonable possibility that these expenses will be low, as was the case last year.

[Capital Policy]

Q. Please tell us the background behind the decision on the announcement of the share buyback this time.

A. We wanted to show confidence in achieving the profit target of ¥60 billion and decided to announce it at this timing. This decision includes the point that the Bank believe that unrealized losses on foreign bonds can be managed sufficiently. Aware of the return policy of the previous medium-term management plan of a total return ratio of 50%, in order to bring it closer to that level, the company decided to pay a total return of ¥10 billion. Going forward, the Bank will first aim for a dividend payout ratio of around 35%, and in the long term it will aim for even higher levels. In the current medium-term plan, we have not announced a clear return policy due to the impact of the COVID-19, but it would like to start the next medium-term plan with a new return policy.

[Next Medium-Term Management Plan]

Q. What are your thoughts on the profit and loss aspect and capital policy for the next medium-term management plan?

A. In terms of capital policy, the Bank intends to present a return ratio and a dividend payout ratio. We also plan to change what had been a bank-centric policy to a policy based on proposals personalized from the customer's perspective. The profit will grow on the basis of ¥60 billion in the current fiscal year. Loans maintain a constant growth rate and expand the fee business. Although interest rate trends are uncertain, the Bank intends to expand earnings by expanding new businesses and real estate funds.

Q. What are the challenges for further profit growth in the next medium-term management plan? Which of the revenue or profit will you focus more on?

A. In the medium to long term, we believe that strengthening digitization and responding to climate change are issues. In addition to financial transactions, digitization provides the latest services through non-finance, such as regional trading companies, as well as regional ecosystems and personalization, including customers that could not be covered in person. We will also work to digitize customers through ICT consulting. In responding to climate change, we will work together to realize a carbon-free society in the prefecture and a sustainable regional economy by promoting the provision of finance and know-how associated with it while sharing issues with customers. With regard to the revenue, negative interest rates are unlikely to be lifted for the time being, and while the yield curve is not rising, it will grow in fee businesses and new businesses. By continuing to firmly manage costs, we intend to increase the profit and achieve well-balanced growth.

Q. Megabanks are undergoing a change in their corporate culture. Please tell us about the corporate culture issues of the Chiba Bank Group and how to respond to them in preparation for the next medium-term management plan.

A. Rather than providing services from the Bank's perspective, we believe it is necessary to thoroughly change the style of providing what customers want at the desired time, volume, and timing. Currently, we are picking up the opinions of customers and staffs and discussing the next medium-term management plan.

[Sustainability]

Q. What is the loan amount corresponding to the 6.3 million tons of CO2 emissions related to SCOPE 3 of investments and loans.

Are listed companies the main focus of this time, and will the remaining approximately 70% be small and medium-sized enterprises, with a certain degree of reduction in emissions? Also, please tell us if there is any bias by sector, etc.

A. Of the ¥7.7 trillion business loans including overseas, less than ¥4.8 trillion are loans other than real estate leasing. Among them, the credit to the borrowers that disclose CO2 emissions becomes ¥1.4 trillion, and the ratio becomes 30.8%. In terms of emissions, the manufacturing industry is large, and in particular, iron and steel, chemicals, and cement are large. Emissions are expected to increase at a reasonable pace for the foreseeable future as listed company-related disclosures proceed. When expanding to small and medium-sized enterprises, the rate of increase is expected to decline significantly.