May 24, 2022－Financial Results for the FY2021 ended March 31, 2022
Main Questions and Answers

Q. Even in a harsh environment, profit increased and exceeded the plan in the previous fiscal year, and planning to increase profit in the current fiscal year as well are extremely favorable, but are there any risks in management?

A. The Bank's strengths are “strong business base,” “financial soundness and low expense ratio,” and “alliance strategy.” The risk is that these are no longer strengths and it will be unable to draw up a growth strategy. In order to continue sustainable growth in the future, we believe that it is necessary to expand the business into larger markets and explore growth, while also continuing to improve existing operations and take on the challenge of new businesses.

Another risk is that the effects of digital measures may not produce as much as expected. As we dramatically transform into a customer-centric business model, we will increase transaction volumes and lower costs. At the same time, we will promote product cross-selling to expand the gross profit of each customer and, as a result, strive to reduce OHR and increase productivity.

Q. Is there a risk of falling below the ¥60.0 billion of net income forecast for this fiscal year?

A. Rising foreign currency interest rates are cited as a risk, but the percentage of fixed interest rate investments in the U.S. dollar is small and we do not believe they will have a significant impact. If interest rates are expected to rise more than anticipated, losses on foreign bonds may exceed ¥5.0 billion incorporated in the plan. However, we will control profit by compensating with gains on sales of investment trusts and stocks, which have sufficient unrealized gains.

Q. In the next medium-term management plan, is it aiming for further profit growth from the current fiscal year's target of ¥60.0 billion by expanding the contribution of cashless and apps to earnings? Plans for non-consolidated OHR below 50% is high efficient, but is it sustainable in the next medium-term management plan?

A. It is highly certain that the current fiscal year plan of ¥60.0 billion will be achieved, and we believe that the next medium-term management plan will be a plan to increase profits. The apps itself does not directly contribute to earnings, but it becomes an important infrastructure, and by conducting cross-selling to customers, it will lead to an increase in earnings. In net interest income, we expect app loans which begin in February next year. Cooperating with Chibagin Market to make proposals from upstream of life events and commercial channels will also contribute to the promotion of mortgage loans and consumer loans. In the new businesses, we will proceed with the advertising business and the platform business.

As we actively invest in "non-financial services," "ecosystem," and "personalization," which are important to digital banks, and in new businesses, overall non-personnel expenses and total expenses may increase, but OHR can be improved in the future due to the shift to digital transactions, etc.

Q. Please tell us in detail the impact on net interest income of the Bank of Japan's change in monetary policy.

A. In simulations in which yield curve control is ended and negative interest rates are lifted, net interest income is expected to increase by ¥5.0 billion due to ¥1.0 billion decline in the market segment while ¥6.0 billion increase in the customer segment. Estimates exclude the impact of dividends on stocks and investment trusts and special interest with the Bank of Japan. In the customer segment, we forecast an increase of ¥5.7 billion in loans to corporations and ¥0.4 billion in loans to individual. Deposit interest rates are assumed to remain unchanged, and as a result of fundraising expenses increasing only by ¥0.1 billion, net interest income in the customer segment is estimated to increase by ¥6.0 billion on a net basis. In the market segment, profit is expected to increase by ¥0.2 billion due to the rise in the yield on yen-denominated bond reinvestment, while profit is expected to decrease by ¥1.2 billion due to the halving of the balance of current accounts at the Bank of Japan which is caused by the inability to procure negative interest rates, resulting in a net decrease of ¥1.0 billion. This is an estimate when the structure of the balance sheet remains unchanged from the end of March, and we believe that net interest income can be further increased by increasing loans, etc.

Q. What is the impact of the repayment of the interest-free and no-guarantee fee loans on net interest income of yen-denominated loans?

A. The majority of the interest-free and no-guarantee fee loans began repayment as of the end of March, but the average borrowing period is seven and a half years, and the remaining maturity is more than six years. As the outstanding balance gradually declines, we do not expect this to have a significant impact on net interest income. In addition, it is assumed that some borrowings will be transferred to normal borrowings even if the repayment of the interest-free and no-guarantee fee loans begins.

Q. Corporate solutions-related revenue continues to increase, but can it continue? What will become drivers in the future?

A. Corporate solutions-related revenue was ¥12.8 billion, a record high for the 11th consecutive fiscal year, and the forecast for this fiscal year is for a slight increase to ¥13.0 billion. In the previous fiscal year, finance-related revenue increased by ¥0.6 billion to ¥10.3 billion, while non-finance-related revenue increased by ¥0.6 billion to ¥2.4 billion, so the results were well balanced. We plan finance-related forecasts to remain flat in the current fiscal year. However, due to improved origination and invitation capabilities, PFI and project finance projects are expected to be both inside and outside of Chiba Prefecture, and the plan is somewhat conservative. In the non-finance-related business, we will steadily work on the accumulated projects, mainly in M&A and advisory services. Corporate solutions-related revenue is sustainable, and it is fully possible that it will continue to grow.

Q. What do you consider to be an appropriate level of capital? If it is appropriate now, how will the excess capital generated by future profit accumulation be allocated?

A. From the viewpoint of risk management, we consider it necessary to exceed the total capital ratio of 10.5%, which is not subject to dividend restrictions. Although the total capital ratio at the end of March was 12.11%, which was well above that, it was 10.7% excluding unrealized gains on securities of 1.4%, and we believe that the current capital level is appropriate. The total capital ratio under severe stress scenarios, such as a sharp decline in the Nikkei stock average, a rise in yen and foreign currency interest rates, and a slump in the economy, declined by about 3%. However, the total capital ratio is expected to rise by about 1.3% due to the complete implementation of Basel III Finalization, which is almost the same as the necessary level. Therefore, the current capital level is considered appropriate.

In terms of capital allocation, the basic strategy is to balance shareholder returns and investments for growth. In addition to DX and new businesses, we will actively invest in platforms and other areas to grow revenue and profit.

Q. What is your view on shareholder return policy in the future? Are the total return ratio return to its pre-COVID-19 level under normal conditions? Also, will you consider further raising the dividend payout ratio in the next medium-term management plan?

A. We aim for a dividend payout ratio of 35% first, and to achieve even higher levels over the long term. In addition to this, we will actively acquire treasury stock in a flexible manner.

Q. Are there any rivals for the Chibagin Market’s Step2 "Life Event"?

A. We believe that real estate site operators compete. Customers purchasing a home want to know not only real estate information but also all other information, including loan amounts, interest rates, taxes, and local information. However, our competitors provide mainly real estate information, and we believe that the Bank's one-stop service offering everything is highly competitive. We believe that we can differentiate ourselves from our competitors by making proposals based on information from existing mortgage customers while providing them with prior credit to customers who are expected to have needs.

Q. What are your thoughts on entering BaaS business?

A. In BaaS business, we will provide apps as infrastructures, including "ecosystem," "personalization," and "non-financial services," as well as digital marketing of advertising. Partners are expected to include developers, municipalities, hospitals, universities, and other entities. It is expected that a positive cycle will be created in which the engagement of the customers that the partners have will be enhanced and the profits of both parties will be enhanced.

Q. Please explain the system in which the Chairman is the Group CEO and the President is the Group COO once again. Are responses to IR events the role of the CEO?

A. The Chairman /CEO also serve as Chairman of the Board of Directors and is primarily in charge of governance, group company supervise, external relations, and economic organizations. The President / COO is in charge of the overall business execution of the Bank, Banking Association relations, etc., and the system in which roles are divided between the two is functioning effectively. As we both look at operations as executives, both are able to respond to IR events, the President explain, as the chief operating officer of the Bank, the entire banking business at the center.