CHIBA BANK

May 22, 2024 – Financial Results for FY2023 ended March 2024
Main Questions and Answers

[Management]

Q. What are the risks or blind spots for your bank's management in a favorable environment such as breaking out of deflation, rising interest rates, and increased lending, and what instructions or measures are communicated to branch managers?

A. If we fail to detect significant environmental changes, such as DX (Digital Transformation) and GX (Green Transformation), and cannot provide services that promote these changes in the region, our relevance will diminish and we will face the risk of losing customer preference. We are building a system to gather external and field opinions, to detect changes in customer needs and regional trends. I have communicated three points to branch managers. The first is to thoroughly understand their customers. The second is to thoroughly implement a "bad news first" policy within the organization. The third point is for branch managers to personally develop personnel who think and act on their own. In addition to these points, I have communicated that we will invest in human resources, most important management resources, and will work towards creating an organization where each person can feel their growth.

Q. Following the business improvement order, how have employee awareness, behavior, and culture changed? How do these changes relate to your company's medium- to long-term growth strategy and the enhancement of corporate value?

A. In the process of thoroughly penetrating the Purpose and Vision, rather than focusing on product-out approaches, we are increasingly adopting an attitude of addressing customers' latent needs and life events, leading to also contribute to behavioral changes and cultural transformation. These changes enhanced value-added in face-to-face interactions, improved gross business profit per customer through increased cross-use through digital marketing, and improved ROE through digitalization that improves cost efficiency. By continuing to grow profits, we can make further new and growth investments to enhance the customer experience. By evaluating both internal and external feedback and applying the PDCA cycle, we aim to leverage these improvement measures for the Bank's growth.

[Mid-Term Plan]

Q. Considering upside and downside factors, what do you expect to exceed the consolidated net income target of JPY75 billion projected in the final year of the mid-term plan?

A. The most significant upside factor is net interest income. Even in a scenario 1 where the current interest rate levels are maintained, we expect net interest income to exceed the plan by approximately JPY7 billion by the final year of the mid-term plan. In interest rate scenario 2, where the policy rate reaches 0.5%, we have simulated that net interest income could exceed the plan by more than JPY30 billion. The downside factor is in the net fees and commissions from financial product sales. We had planned for a JPY4.1 billion increase in revenue from financial product sales over the three years of the mid-term plan, but in FY2023, it was negative year-on-year. Although we are currently seeing positive changes, we believe that a full recovery or growth will likely be postponed to the next mid-term plan. The increase in net interest income under the current interest rate levels, should be sufficient to cover the downside impacts from the decrease in fee income and the increase in expenses. If all upside and downside factors occur, we believe it is possible to exceed the net income by over JPY15 billion.

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[Capital Management]

Q. While the CET1 ratio is expected to exceed the target range, could you share your thoughts on the future use of excess capital and on the timeline for achieving the dividend payout ratio, you have mentioned aiming for 40% in the long term.

A. While actively investing in growth, we are also looking to strengthen returns based on our capital situation. We are examining how capital can be used to positively impact ROE by share buyback, increasing risk assets in existing businesses, investing in new business areas, and increasing intangible fixed assets. This time, we announced a JPY4 dividend increase at the beginning of the period, in line with our policy to increase the dividend payout ratio, but we will continue to monitor business progress and profit accumulation, and we will evaluate additional returns accordingly. Regarding the dividend ratio, our five-year dividend growth rate significantly exceeds that of the megabanks, and we aim to approach a 40% dividend ratio during the current mid-term plan period. We have a track record of utilizing capital in new businesses in the electric power business and real estate funds, but we are always considering inorganic investments as well, which we will share specifics as they materialize.

Q. Why do you require a higher capital ratio compared to megabanks?

A. We need to secure a level above 10.5% CET1 ratio to avoid dividend restrictions, since we do not have much Tier 2 capital. We have not replaced Tier 1 with Tier 2 capital, because of the risk of a downgrade in our external credit rating, which has impact on foreign currency funding costs. And the 1% buffer is to account for stress scenarios as a regional financial institution taking risks in specific regions.

Q. Could you please elaborate on how you intend to reduce cross-shareholdings in the future. Also, has the pace of stock sales expanded?

A. In the previous fiscal year, negotiations continued without sanctuary, and the ratio to consolidated net assets decreased to 17.06%. Our negotiations are already underway, and we aim to eventually reduce the ratio to around 15%, and we are also considering disclosing future reduction targets. Regarding gains/losses related to stocks, we plan to execute sales sequentially, based on sales priorities and market trends.

[Lending]

Q. Lending was very strong, but do you think this will continue if policy interest rates are raised?

A. Regarding business loans, we expect the strong demand to continue, primarily driven by strong capital investment needs within the prefecture. There are a number of large-scale projects, including logistics facilities near Narita Airport and a data center in Inzai, and based on discussions with client management, we believe that rising interest rates will not lead to a curbing of capital investment. For Q4 (January to March), the number of residential loan pre-applications exceeded the same period last year by 3.5%, indicating continued strong performance. In Tokyo, the number of applications decreased due to soaring housing prices, but the amount of applications increased. In June, we plan to establish new office as a branch of the Tokyo Loan Center within the newly established Shinjuku West Corporate Banking Office, and by strengthening our network, we aim to capture the housing purchase needs.

[Expenses]

Q. Regarding expenses,the plan for FY2024 already exceeds the level set in the mid-term plan, and do you expect the expansion to continue next year and beyond? Also, do you explain the likelihood of achieving the OHR target of around 45%?

A. The FY2024 plan includes increased strategic investments and increased personnel costs related to human capital, such as wage increases. Regarding wage increases, we believe

that spending is necessary in order to retain a wide range of human resources while motivating them to achieve high levels of productivity. By planning to implement additional cost reduction measures, we aim to control the increase in expenses from this year to the next. We believe the consolidated OHR target of around 45% is achievable by the final year of the mid-term plan even costs are rising, because our top-line gross business profit is increasing.

[Credit-related Expenses]

Q. It seems that new non-performing loans (NPL) are increasing, are there any industry or size-specific trends?

A. The number of bankruptcies and effectively bankrupt companies has increaed, but the amount has decreased, suggesting that smaller companies are the ones going bankrupt. In terms of industries, small construction, restaurants, and retail services are the most common. The accuracy of the stress test is high, as nearly 90% of new NPL in the last fiscal year originated from companies predicted in the stress test. Since activities for solution review meetings have led to a reduction in credit costs, we will continue to approach each client carefully one by one.

Q. If cost-push inflation continues and the policy interest rate rises to 50 basis points , what impact would it have on your credit costs?

A. We have made proactive and preventive provisions of approximately 10 billion yen over the three years of the previous mid-term plan, in the previous fiscal year on a similar scale and we expect that 60% to 70% of this amount will be reversed. Although both the number and amount of new NPL might increase under rising interest rates, we believe the impact on credit-related expenses will be limited due to a stock of about 10 billion yen in proactive and preventive provisions.

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