May 21, 2020 - Financial Results for FY2019 Ended March 2020
Main Questions and Answers

Q. What is your view of the medium-to long-term impact of COVID19 on the business model of banks? How about the downside (activity decline) and upside (re-exercise of financial functions, new corporate solutions, etc.)?

A. On the downside, we expect that face-to-face sales opportunities will decline, but we will cover the impact by utilizing non-face-to-face channels and responding to digitalization. In addition, based on the results of shift work and telework, discussions on work styles and branch network will be developed, which will lead to further improvements in efficiency and productivity.

On the upside, we feel that the significance of our presence as a regional financial institution has been reaffirmed, accepting more than 5,500 consultations on COVID19-related loans, and we expect net interest income to increase due to the loan growth. Not only providing funding support, we will also take advantage of advisory and business succession support opportunities as thoroughly understanding customers' actual conditions and rebuilding their businesses, to increase fees and commissions income.

The policy of the current mid-term management plan is to aim at providing higher level services from the customer's perspective, and based on this, we will promote reforms from the conventional business model of banks.

Q. How much the probability is there that the stress scenario of consolidated profit of ¥30 billion will be realized and when will it be recovered? Is it possible to achieve the mid-term target of ¥60 billion?

A. The probability that consolidated profit will fall to around ¥30 billion will not be high at present, unless the bankruptcy of a particular large enterprise spills over to the market and customers, and financial institutions are in a panic situation.

Even in such a situation, we will steadily realize the profit target of ¥60 billion three years later by promoting digitization, deepening our existing initiatives from the customers' perspective, and reforming ourselves.

Q. What is the profitability of COVID19-related loans each by the Bank and with guarantee by the Association. For example, does the bank secure a reasonable profit margin because of the interest subsidy provided while an interest-free for borrowers in fact?

A. Loans by the Bank are mainly for large corporations, and their spreads and credit risk are low.

Looking at interest-free financing facilities of Chiba Prefecture, the interest of loans with guarantee by the Associations is more than 1%. Because of the large amount of long-term funds, we believe that net interest income has a positive effect for a long-term.

Q. Under the stress-testing of net credit costs, what happens to the realization of profits and losses? For example, what conditions do you have, such as how long the business suspension request continues?

A. We estimate conservatively, based on industry and customer surveys, industries with large impact are roughly classified into three categories, and are ranked down according to the degree of influence. When the impact prolongs and loan modifications are repeated, we will make the provision of allowances according to the case by case of customers' actual situation.

Q. Other regional banks anticipate an increase in net credit costs and allowances for the impact of COVID19, while Chiba Bank does not incorporate this into its plans. What is the relative difference? Is there a possibility that net credit costs may increase as the results of stress testing materialize in part?

A. In addition to the conservative estimates made at the outset, new downgrades have recently settled down. In corporate loans, new downgrades to potentially bankrupt debtors were 32 cases and the increase of allowances was limited to ¥150 million from April up to the present. In consumer loans, the increase of downgrades, delinquencies, or representation has not been seen as a result of loan modifications. We have made a precautionary reserve of about ¥2 billion in 4Q of the previous fiscal year, and we think it is adequate at this point.

The increase of allowances under the stress scenario is estimated to be about ¥10 billion. However, a sharp increase in net credit costs can be prevented through funding and loan modifications, with the support measures by governments.

At the time of the global financial crisis, there was a sharp increase in the number of bankruptcies in the highly leveraged real estate trading sector. However, this is not the case. Many of our loans, such as housing loans and real estate leasing sector, have a minimal impact of COVID19. We also diversify risks of SME transactions and thoroughly understand customers' actual conditions through the evaluation of businesses.

Q. Fees and commissions income plan for the current fiscal year is strong. How likely is it to be realized?

A. We plan ¥25 billion, an increase of ¥2.3 billion year on year, of which ¥1.1 billion for financial product sales and ¥1.6 billion for corporate solutions. In the second half of FY2019, sales amount and fees and commissions income of investment trusts rebounded, and syndicated loans utilizing the alliances and partnership remained robust. There is room for further growth through meticulous proposal-based sales from the customer's perspective.

Even if financial product sales decline due to the impact of COVID19, it will be supported by stock-base income such as investment trust fees and insurance continuation fees. Finance-related income of corporate solutions is also expected to increase due to the loan growth.

The plan will be achievable if economic activities normalize by around summer.

Q. Can I understand that CIVID19-related loans by the Bank are mainly for large corporations and have low credit risk, and there is no credit risk in financing facilities with the Association because loans are guaranteed?

A. Loans by the Bank are mainly for large corporations, and we believe that credit risk is small. Loans with the Association are 100% guaranteed or 80% guaranteed, but both have low risk. We respond to customers with a thorough understanding their actual situation through the evaluation of business, and control credit risk so that it does not increase.

Q. Is there any change in the investment policy of market operations, following unrealized gains declined at the end of March due to market turmoil?

A. Unrealized gains have improved from the end of March. As for investments in foreign currencies, careful measures are taken in consideration of the funding risk. We will consider purchasing more mutual funds when stock prices decline, but our stance of investing cautiously while diversifying risks remains unchanged.

Q. Cashless income is the largest increase in the mid-term management plan, but was flat in FY2019. What strategies will Chiba Bank take to achieve the earnings plan?

A. We began the cashless service for merchants in October last year, and acquired approximately 3,000 franchised stores in the second half of FY2019. We will acquire small and medium-sized member stores by leveraging relationships with customers mainly in the prefecture, and also accumulate profits by providing new services.

In the card business, we plan to issue TSUBASA Visa debit cards during the first half of FY2020. We will work with TSUBASA banks to study ways to expand its services, with the aim of increasing the utilization rate. We will promote debit cards without credit widely to customers, including when opening new accounts. We have a large market share in the prefecture and a broad customer base, so we have a good chance of achieving our plan.

Q. What are the strengths and challenges that Chiba Bank has seen through the alliances with Musashino Bank and Bank of Yokohama? Are the collaboration speeds for the Chiba-Yokohama Partnership sufficiently fast?

A. Our strengths are overwhelming market share in the prefecture and the number of customers who recognize us as a main bank, overseas network, and inheritance and cashless businesses which are operated ourselves. There are also some issues that we want to refer to Bank of Yokohama, such as fee business for personal customers and efforts to utilize database.

Regarding the Chiba-Yokohama Partnership, the first year results exceeded the plan mainly in fees and commissions income of corporate solutions, and we have confidence. In the second year, we will continue to implement new measures speedily focusing on sales.

Q. To what extent do you anticipate upward pressure on risk-weighted assets by supporting customers' funding? What are the necessary conditions for considering share buybacks?

A. Up to now, COVID19-related loans have been made for ¥240 billion, compared to ¥420 billion for applications. Assuming that it will be executed at around ¥500 billion by the end of June and the balance at the end of the fiscal year will be maintained, the increase in risk-weighted assets is expected to be around ¥270 billion.

The question is whether economic activities will normalize by around summer, but we intend to resume share buybacks as soon as possible while checking the progress in earning results.

Q. Looking at the results in April, it seems that net interest income is expected to increase and fees and commissions income to decrease. Are there room for offsetting a downturn in fees and commissions income with a reduction of expenses or an upside in gains related to bonds?

A. Assuming the state of applications for COVID19-related loans, net interest income is expected to be upwardly revised by around ¥1 billion. Fees and commissions income will be supported by stock-base income, such as investment trust fees and insurance continuation fees, even if financial product sales decline. Finance-related income of corporate solutions is also expected to increase due to the loan growth.

Although we do not plan to rely on gains related to bonds, we currently has unrealized gains of around ¥9.5 billion on bonds, and it is possible that we will realize gains while replacing them. Expenses can be prioritized from those contributing to revenue enhancement, such as digitization, while repairs can be postponed and restrained depending on the situation.

Q. Are there needs to take a broader view of "influential" industries in stress testing and to make more conservative adjustments?

A. We incorporate a wide range of possible impacts at the present time. If the economy enters a financial crisis in the future, we will be reviewed, but at present it is within the range of the estimates.

Q. Net credit costs in April were small, but how much will it affect through the year? Corporate customers that were sound may also record large credit costs due to a sharp deterioration in business conditions. Is it underestimated unless such cases are included in stress-testing?

A. The increase of allowances up to the present time is limited to around ¥150 million. The new downgrades are conservatively estimated at ¥10 billion, and the sudden effects are also taken into account to some extent. In order to grasp such signs at an early stage, we carry out a thorough understanding of customers' actual situation through the evaluation of business.

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