CHIBA BANK

November 21, 2022 –
Financial Results for the First Half of FY2022 ending March 31, 2023
Main Questions and Answers

[Management]

Q. What is your view of the business environment for the time being, such as economic and monetary policy? Based on this, how do you think about management stance and readiness, investment opportunities, and downside risks?

A. The domestic economy is expected to continue picking up in both manufacturing and non-manufacturing. Inflation is expected to decline from next year, but the outlook is uncertain. With regard to monetary policy, the Bank of Japan may revise its policy from the middle of next year, and we believes that the U.S. will begin to lower interest rates from 2024 onward. As for the credit cycle, although it is expected that the number of corporate bankruptcies, which had been restrained through financial support for the COVID-19, will increase, credit costs are estimated to remain at a certain level even under stress. We do not anticipate a major impact on financial results.

In terms of management stance in response to these business conditions, we will first focus on solving the issues of regional communities at the center of our "raison d'etre" and aim for a medium-to long-term vision. In light of this, we will approach it with backcasting and consider specific investments and measures. With regard to management preparedness, the deepening of the risk appetite framework has resulted in appropriate risk-taking relative to equity. In addition, the Board of Directors selects risks that are important to business operations as top risks, and has established a system that enables the Bank to control risks and respond flexibly when risks emerge. Downside risks include a sharp increase in credit costs, a decline in asset prices, and the spillover of the slowdown in overseas economies to the domestic economy, the expansion of geopolitical risks, and increases in resource and food prices.

[Net Interest Income]

Q. Is the rise in foreign currency interest rates a factor behind the decline in net interest income from the 1H result of ¥72.3 billion to the 2H plan of ¥63.5 billion?

A. The main reasons for the difference between the first and second half are the tendency for dividends of listed companies to be biased toward the first half and the lump-sum recording of subsidiary dividends in the first quarter. International net interest income accounts for about 6 percent of total net interest income, and the impact of the rise in foreign currency interest rates is considered to be limited.

Q. Are interest rates on new fixed loans rising with yen interest rates rising in medium-term zone?

A. The Bank's base rate applicable to fixed rate loans refers to the swap rate. New contracted interest rates in the first half were 5bp year-on-year and 2bp higher than three years ago, which we believe will continue to contribute to the expansion of net interest income.

[Securities]

Q. What is the outlook for loss-cut on foreign bonds?

A. In regards to fixed bonds denominated in U.S. dollars, while we sold ¥38.6 billion, mainly for negative spread issues and purchased a total of ¥47.6 billion during a period of rising interest rates in the first half of the fiscal year. As a result, the yield at the end of September rose to the latter half of the 2% range. In the second half of the fiscal year also, we are moving forward with the replacement while expecting a loss cut of ¥5.0 billion, and the yield has risen to around 3%. Euro-denominated bonds have been reduced to less than half of the amount outstanding since the end of March. Going forward, we plan to improve spreads as it seeks to replace its portfolio.

[Capital Policy]

Q. How do you think about the appropriate CET1 ratio? What do you think of the current level? Also, will you not replace equity from Tier1 to Tier2?

A. To maintain stable dividends, we need to secure a total equity ratio of 10.5%, and CET1 needs to be maintained at the same level. In the combined stress scenario, CET1 ratio excluding unrealized gains/losses on securities is expected to decline by about 1 point, so the current 11.6% that can maintain stable dividends even under stress is considered to be at an appropriate level. Capital replacement from Tier1 to Tier2 poses a risk of downgrading external ratings. Since the Bank mainly procures foreign currency in the market, a downgrade could have a significant impact on interest rates on funding.

[Next Medium-Term Management Plan]

Q. What are your current views on results and capital policies for the next medium-term plan?

A. In terms of results, the Bank will maintain the pace of increase in loans and raise the revenue by expanding fees and commissions while enhancing non-financial services. It will also further improve the convenience of its digital platform, increase transactions, lower costs, and improve gross profit per customer. As a results, we would like to create a virtuous cycle in which OHR is further reduced and productivity is increased. In addition to the key strategies of the current medium-term management plan, such as DX and new businesses,we will actively invest in platforms and other initiatives to further expand our revenue and profit. In terms of the capital policy, we are considering establishing a quantitative return policy in the next medium-term plan, and its policy is to allocate profit in a balanced manner through growth and shareholder returns.

Q. Will ROE improvement be sustainable in the next medium-term management plan? What is your policy for reduction of cross-shareholdings?

A. Core net business income has been on an increasing trend and are expected to reach a record high this fiscal year. In the next medium-term plan, while expenses are expected to increase due to aggressive investment, we believe that the expansion of the revenue can increase core net business income and improve ROE.

Cross-shareholdings have been restrained at a low level relative to the city banks, and decreased by half from 16.2 percent in 2014. We intend to continue to reduce the number of such companies, and in addition to business relationships, we will examine the economic rationality of such companies and gradually reduce the cross-shareholdings that are not recognized as significant.

[Alliance Strategy]

Q. What is the aim of the partnership with Sony Bank? Are there possibilities for capital alliances?

A. While our regional bank and Sony Bank, which specializes in online banking, have very different areas of strength, we share the same basic strategy of DX. In addition to complementing each other, we believe that we can create new value together and generate synergies. The two banks will cooperate with each other with the aim of transforming the customer experience, including non-financial, by utilizing the latest digital technologies and devices. At present, we have not decided on mutual investment or business integration.

[New Business]

Q. What are the chances of winning with regard to On Ad business style?

A. In light of the recent trend toward customer-oriented business management, there is a need to obtain specialized consulting from a third-party perspective. We believe that On Ad will function well as a business model that satisfies this need, and we are currently experimenting with a variety of ways to do so.

[System]

Q. How do you view the future trend of regional bank systems sharing and cloud adoption? Also, what are your thoughts on Chiba Bank's policy for systemic measures and the future development of TSUBASA alliance?

A. From the standpoint of efficiency, we believe that the trend toward collaboration, openness, and cloud will continue. In the future, we believe that the most differentiated factor will be a mechanism to link services for customers, which is a competitive area, with in-house data. In TSUBASA alliance, the speed of decision-making and realization is fast and the flexibility is high, because various kinds of collaboration are advanced using the "touch the finger" method. The next renewal of the core system is scheduled for around 2030, but we would like to proceed with a wide range of examinations without limiting it to a specific vendor or system, and realize both system stable operation and efficiency.