November 22, 2024 –
Financial Results for the Six Months of FY2024 ending March 2025
Main Questions and Answers

[Management]

Q. Please explain the main upside and downside for future performance from next fiscal year onward, both in terms of macro business environment factors and management efforts and structural reform initiatives.

A. The first upside to macro business environment factors is rising interest rates. The second is the strong demand for capital investment in Chiba Prefecture. Capital investment appetite is very strong, with the prefecture +26.6% (surveyed by the Chiba Economic Center), exceeding the national average +8.8%, and from April to September, the Bank's executed loans for capital investments increased in terms of both the number of cases, by about 10%, and the total amount executed, by about 23%. The third point is corporate renewal. In an environment where a certain number of businesses will inevitably exit the market as part of this renewal process due to rising prices and wages, coupled with a genuine labor shortage, businesses will need sustainable growth models that can withstand wage increases, and the importance of corporate solutions will increase. The first downside is an increase in loan-loss provisions and credit-related expenses associated with corporate renewal. The second downside factor is the increase in expenses due to rising wages and inflation. For personnel expenses, we aim to absorb these higher costs by expanding net business income per employee. As for non-personnel expenses, we intend to thoroughly assess the effects of these investments while adhering to the expense reduction plans outlined in our medium-term plan. The third point is regional revitalization challenges arising from population decline. In the regional revitalization areas, our approach is to position them as funding bases, keeping costs under control by area-based branch systems and lightweight branch models while maintaining our network as much as possible. The first upside to management efforts and structural reform initiatives is our digital strategy. Increasing the number of registered app users to 1.5 million will result in lowering the cost per transaction and enhancing productivity and organizational efficiency. Additionally, with a TOB for EDGE Technology, we will enables us to deliver more advanced solutions to corporations and municipalities through AI. DX and AI will be progressed through trial initiatives, and we would like to aim to roll it out across the entire alliance. Personalized "One to One" marketing have gradually become more accurate to our predictions for customers. Through dispatching staff to Google's AI training programs and receiving personnel from EDGE Technology, we will further advance our AI initiatives of business operations. The second is our trust and inheritance business. Within the next year and a half, the assets under management from testamentary trusts will exceed 1 trillion yen and we are entering a phase where we can actively develop business opportunities in real estate and financial assets held at other banks. Finally, as for cashless transactions, shopping transaction volume is increasing by about 100.0 billion yen annually, and if we reach 1 trillion yen at the end of the next fiscal year, this would contribute around 6.0billion yen in revenue. Next, the area of focus for the downside we need to closely monitor going forward are our group companies. For our sales-related group companies, in the next medium-term plan, we aim to thoroughly review existing businesses and prepare for challenges in new business areas. In particular, Chibagin Securities is in the process of examining its business model, with the aim of achieving a turnaround. While pursuing upside opportunities, we will maintain a strong awareness of risks and address them accordingly, with the overarching goal of enhancing corporate value.

[Credit-related expenses]

Q. Please explain the conservativeness and adequacy of the planned credit-related expenses for the second half, also the outlook and direction of general loan-loss provisions from next fiscal year onward.

A. The planned new downgrade amount for the second half is set at 7.6 billion yen. This plan is based on a review of individual borrowers' situations, of which approximately 2 to 3 billion yen can be considered conservatively allocated. General loan-loss provisions is planned based on the new downgrade plan, and since our provision rates are calculated based on a three-year average, with the increase in provision rates, net provision amounts for general loan-loss reserves are also expected to rise. However the increase will be limited to around 10% compared to this fiscal year's planned amount. Considering the trends in new downgrades from the first half of the year, we are strengthening credit management rigor by utilizing transaction data, including data from other banks, and through data utilization, we aim to improve our ability to predict and suppress new downgrades with high accuracy.

Q. Could you explain in detail what specific expansions were made to the scope of the stress test? Also,with the refinement of the stress test, is there a possibility that the credit cost plan could become more conservative compared to previous plans?

A. AI scores and bankruptcy prediction values have been added to the criteria for Solution Review Meetings as the basis of selecting the scope of stress test, and we also plan to incorporate AI-based credit ratings as part of the selection criteria. If the stress test forecast remains similar to last year's, we are now considering a more conservative figure of 13.0 billion yen. The increase is envisioned to be offset by an increase in gains from stock sales

[Pure investment shares]

Q. Please tell us about the specific pace of reduction and the criteria for determining which to sell.

A. The amount needed to meet the reduction target can be sold at any time. As for criteria for determining which stocks to sell, we use economic rationality such as market yield, TSR, and RORA. In addition, we will advance the measures while continuing to engage in discussions to address any potential concerns related to their capital strategies.

Q. Would it be correct to assume that there are no constraints from a negotiation standpoint in completing this five-year plan?

A. There are essentially no restrictions on the amount needed to meet the reduction target, as it can be sold at any time. However, it's necessary to proceed with follow an agreed-upon schedule for sales.

[Capital policy]

Q. Despite the upward revision for this fiscal year, could you explain why a dividend increase was not implemented? could you share your perspective on the timeline for achieving the long-term target of a 40% payout ratio?

A. Due to factors the increase in credit-related expenses during the first half of the fiscal year, we revisit the dividend, along with other considerations, after reviewing third quarters results. As for the timeline to achieve a 40% payout ratio, we are striving to achieve this as soon as possible.

Q. Could you comment on the concept of shareholder return and appropriate capital levels and how much buffer would be necessary for future growth investments?

A. In the first half of the fiscal year, we implemended in the private real estate fund for World Business Garden, renewable energy projects through Himawari Green Energy, and the TOB for EDGE Technology as growth investments. Moreover, share buybacks accounted for 0.12% of CET1 usage, for a total of 0.25%. In the future, we have identified four potential actions: further accumulation of risk assets, strategic system investments leading to intangible fixed assets, inorganic investments, and shareholder returns. Regarding the accumulation of risk assets, we are currently reviewing our RAF (Risk Appetite Framework) and we plan to conduct further verification while keeping the CET1 range as well.

Q. I believe that you should proceed with the cancellation of treasury shares. Could you explain why this has not been done?

A. Some companies in other industries have even higher ratios, and globally, some U.S. banks hold approximately 20%. Treasury shares could also be used for growth investments, and we believe there is value in retaining a certain amount. While we are aware of concerns about holding large amounts of treasury shares, we believe that now may not be the right time for cancellation it given the current share price level.

[Loans]

Q. Regarding the loan growth rate. Please tell us about the background behind the growth of branches outside Chiba Prefecture compared to branches within the prefecture.

A. General loans—especially those for medium-sized and small businesses— are showing strong growth across the board of within Chiba Prefecture stands at approximately 3.3%, while outside the prefecture it is around 7.7%. According to the expectations in the medium-term plan of the 12 trillion yen in total loans, the 8 trillion yen within the prefecture is growing at around 3%, while the 4 trillion yen outside the prefecture is growing at approximately 6%. While the absolute increase in loan amounts is about the same, the growth rate appears lower for prefectural loans due to the larger base.

[Net fees and commisions]

Q. Many regional banks struggle to grow in personal service revenues, but do you think a shift in strategy—something different from conventional approaches—is needed?

A. In the retail business, we define key products as housing loans, unsecured loans. For these, we focus on the gross profit generated per customer and how customers use our accounts and products. Overall gross profit in the retail segment increased by 2.5 billion yen in the past year and a half. When viewed as a category encompassing all retail products, we consider this to be a stable and steady trend. In addition, investment trust sales increased an approximately 36% YoY with 55% coming from non-face-to-face channels, indicating a recovery in sales activity. By leveraging digital touchpoints and accumulating and utilizing various data from transactions, we aim to strengthen personalized proposals tailored to each individual. We believe that increasing customer loyalty through such efforts is crucial.

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