April 7, 2020 - Chiba Bank IR Day
Main Questions and Answers

Q. What are the major issues and challenges for realizing the medium term management plan?

A. In addition to the evaluation of business, the review of in-branch operations by concentrating clerical work, and thorough cost reductions that were conducted in the previous medium term management plan, we will shift the base of customer contact to digital through the use of digital technologies and information. We aim to transform into an advanced bank, generating revenue through digital means such as apps and corporate portals. Until now, we have primarily engaged in alliances with financial institutions, but we would also like to realize wide range of cross-industry collaborations. For that, we will implement drastic reforms in areas such as organizational structure and operational procedures.

Q. In terms of the probability of realizing the ambitious plan to increase fees and commissions income, can you really realize the increase in corporate solutions, which you have already focused on?

A. The main pillar of our corporate business is to monetize the evaluation of business as advisory services, which we have been conducting traditionally. We aim to increase profits by converting consulting functions to fees and promoting syndicated loans through the use of collaborations with other banks. We will strengthen corporate transactions by measures including reallocation of 30 employees to reinforce corporate sales in Chiba and Tokyo, 30 in charge of promotion and sales support at headquarters, and 50 in order to acquire know-how through trainees and assignment to external companies.

Q. What is the prospect of an increase in credit costs associated with the spread of COVID-19?

A. For now, credit costs have not been significantly affected. It is difficult to predict a situation in which the global economy is disrupted for six months or one year, but if it settles down in a short term, a V-shaped recovery is expected thanks to some economic measures have been taken by the government. We also consider not having a significant impact on real estate leasing sector and housing loans, as they remain stable and had hardly turned into non-performing loans even after the global financial crisis in the past. In terms of allowances, we will basically follow the practice of the Financial Inspection Manual. The provision with transparency is important and significant policy changes are not considered at this time. In order to continue to provide appropriate support for financing, for example the modification of loans due to a temporary and short-term effect, we may not downgrade uniformly with the first application.

Q. Please tell us about the target level and how to use of capital in the medium term management plan.

A. With the finalization of Basel III, CET1 capital ratio is expected to increase slightly. We intend to maintain the current level, while considering the future impact of the COVID-19 and assessing various situations.

Q. Is there a risk that credit cost ratio will exceed 8 basis points to be assumed for the third year of the medium term management plan? What is the outlook for the impact of the COVID-19 compared to the global financial crisis?

A. As a result of stress tests, the amount of the increase in provisions is estimated to be about 10 billion yen, and the impact is not expected to be as large as in the case of the global financial crisis. At that time, the funds for real estate transactions were rapidly withdrawn and condominium developers and others went bankrupt, but there was not significant impact on loans to real estate leasing sector. Housing loan borrowers also have a solid income base and large increase of allowances for them is not expected. However, there are also cases where employment stability is impaired, so we will strengthen our contact points and respond to consultations.

Q. What are the directions of shareholder returns and how to decide on specific measures?

A. The biggest concern is a depression in stock prices, and we will consider the possibility of capital impairment, such as in the case of an increase in losses on securities portfolio. We have not set numerical targets for shareholder returns, but our basic stance of increasing dividends while reducing the number of shares through share buybacks remains unchanged. We expect to increase the dividend by ¥2 for FY2020/3, and believe that the level can be maintained based on the current earning projections. We will also flexibly consider share buybacks while monitoring our capital conditions.

Q. Please tell us more about the cashless business, targeting a profit increase of ¥3.1 billion.

A. Increase in revenue from existing card business is ¥0.6 billion, revenue from issuance of Visa debit cards is ¥0.4 billion yen, and franchisee business is ¥2.3 billion, which profit is ¥3.1 billion after deducting expenses paid for brands.

We have distributed payment terminals free of charge, and the number of franchise members has been steadily expanding. In addition, debit cards are expected to be used by a wide range of customers without credit risk. We will collaborate with TSUBASA to build various services.

Q. Is the shareholder return ratio calculated on a consolidated basis?

A. Given uncertainties such as the impact of the COVID-19, we have not set numerical targets for shareholder returns, but our basic stance remains unchanged. We are considering the return ratio on a consolidated basis in the medium term management plan.

Q. What is the amount of investment for growth?

A. We will invest a total of ¥13.0 billion in strategic investments, including ¥8.0 billion for customers such as the development of digital and new services, and ¥5.0 billion for the enhancement of internal systems. It should be noted that this does not include investments in stocks or funds, and we will actively seize opportunities while monitoring our capital conditions.

Q. What is Chiba Bank's vision 10 years from now?

A. By leveraging alliances with TSUBASA, Musashino Bank, and Yokohama Bank to provide the latest services. We aim to increase our market share not only in Chiba, but also in Tokyo, and to build an overwhelming presence among regional banks.

Q. How much do you expect to growth in corporate loans in Chiba and Tokyo?

A. The average balance of general loans is expected to increase by about ¥890 billion over three years, of which ¥450 billion in Chiba and ¥440 billion in Tokyo. The plan includes the effects of joint sales with Musashino Bank and Yokohama Bank.

Q. What specific measures will be taken to monetize apps and corporate portals?

A. We are focusing on increasing the number of customers via apps, and the number of downloads has reached approximately 360,000 since the launch of the service in June 2016. We plan to improve user-friendliness and renew its inquiry and transfer functions in next month, and continue to conduct user interviews and demonstration tests to improve functionality. In March of next year, we will make it possible for the majority of daily financial transactions, including investment and loan products, to be easily processed through apps. About the corporate portal, we will implement functions, such as information transmissions including account information and cash flow management, communication via chat, and digitization of the delivery of various documents. In addition to face-to-face sales capabilities, we aim to strengthen non-face-to-face communication.

Q. Please tell us the detail of expenses related to the new headquarters building to be expected to increase by ¥2.5 billion for the final year of the medium term management plan.

A. The total cost of construction of the new headquarters building is about ¥40 billion. If the straight-line method is used for an average depreciation period of about 20 years, depreciation costs will be about ¥2 billion per year. Including attachment works and tax payments after completion, it is expected an increase of about ¥2.5 billion compared with FY2020/3 projection. But we believe that it can be sufficiently covered by measures to boost profitability. The new headquarters building is expected to function as a base for advancing digitalization.

Q. Is there any specific topic for app that has been decided, such as cooperation with the public or healthcare sectors?

A. We have not been decided specifically at this time, as we are at the stage of realizing various forms of organization toward the promotion of use in the region.

Q. How do you think about downside risk relative to the plan while it is difficult to predict the impact of the COVID-19?

A. On the assumption that the negative interest rate is not deepened, as the level of interest rates has not changed significantly, the downward impact on net interest income plan is not expected. Although there are concerns that the effects of the COVID-19 will be prolonged, we think that the positive impact on net interest income from responding to new borrowing needs and the government's economic stimulus measures will offset the downside risks over the next three years. That will not necessarily cause significant damages.

Q. Is there any way to accelerate efficiency such as by further centralizing operations, in response to the spread of the COVID-19? Please tell us if there are new issues that have been identified in the current BCP plan.

A. There is no change in the direction of increasing efficiency by centralizing branch office administration at the headquarters. Large branches and the headquarters staff work with split shift, and we are able to cover that by centralizing the operations. As a lesson learned this time, we will further promote telework and strengthen our flexible work styles.

Q. If the effect of the COVID-19 is prolonged, how much is expected to the negative impact on fee income amid the difficulty of face-to-face sales for both individuals and corporations?

A. We fully respond to customer needs through telework and telephone sales. We also cover the capability for syndicated loans and other solution with a minimum number of employees. We will conduct business so that fee income will not fall sharply.

Q. Even if the capital level is sufficient, the banks have suspended share buybacks in U.S. and dividend payments in Europe in order to support customers' funding. Can I assume that the basic policy on dividends will not change, even if there is a possibility of share buybacks suspension?

A. Even under the stress scenario, we estimate a certain level of profits will be secured. At this time, we do not intend to cut or stop paying dividends. We will consider share buybacks while monitoring the increase in risk assets by responding to borrowing needs and gains/losses on securities portfolio.

End