April 8, 2024 – IR Day
Main Questions and Answers

[Growth Strategy]

Q. What is the meaning or message in choosing "Growth Strategy" as the theme of IR Day?

A. In the changing business environment caused by the lifting of negative interest rates in March, we believe that once again communicating to investors the Bank Group's strengths, growth potential through business expansion into non-financial services, and strategic thinking will lead to an increase in the Bank's PER and P/B ratio. We also wanted to explain that our growth potential has been increasing due to the 0.5% surplus in the CET1 ratio that is expected to be generated by the implementation of the Basel III finalization. There has been no change to our traditional management strategy of emphasizing ROE and OHR.

Q. Please tell us about the policy for the allocation of surplus capital and the assumption of the investment effect in the next mid-term plan.

A. As for capital policy, the policy to keep the CET1 ratio, excluding the unrealized gains/losses on securities, in the range of 10.5% to 11.5% remains unchanged. Even if shareholder return are continued based on the mid-term plan, the ratio in FY3/29 is expected to exceed the range. Therefore, the Bank plans to promote growth investment such as strategic system investment, real estate funds, renewable energy related investment, and in-organic investment, and return the excess capital after making these growth investments.

As for the investment effect, the total of strategic system investment and expenses is planned to be about 20 billion yen in the three years of the current mid-term plan, with an average payout period of 3.4 years and the 5-year ROI of 141%.

Q. What are your thoughts on the future trend of the BOJ's current account balance and investment in yen-denominated bonds?

A. The Bank currently expects the BOJ's current account balance to remain at the same level as in the previous fiscal year, ¥4 trillion. The increase in revenues under the simulation of an interest rate rise is conservatively estimated. Funding from the call market is now possible at lower rates than expected after the end of the negative interest rate, so the BOJ's current account could be increased from 4 trillion yen.

The Bank plans to purchase 350 billion yen of yen bonds in the first half and 600 billion yen in the full year, mainly 5- and 7-year fixed-rate bonds, to take advantage of rising interest rates. After taking redemptions into account, the balance will increase by more than 500 billion yen, which is expected to contribute about 1.5 billion yen to net interest income for the current fiscal year.

Q. Please tell us your thoughts on improving ROE and expecting profit growth amid the anticipated rise in capital costs due to the rise in the risk-free rate.

A. We will improve its ROE by improving cost and asset efficiency through aggressively investing in in-organic businesses and further promoting DX as a means of reform, in addition to further enhancing our strengths, developing existing businesses and taking on the challenge of new businesses as a growth strategy. We will also increase the number of customers and increase the gross profit per customer and per company by improving the customer experience. By explaining the stability of these businesses and lowering β, the sensitivity to the market portfolio, we aim to reduce the capital costs and improve the PER.

Q. Is there downside risk in the BOJ's current account, etc. in the simulation of an interest rate rise?

A. The BOJ's funds-supplying operation, which serves as the procurement side for the BOJ's current account, have already been factored into the simulation, although funding costs may gradually increase as the maturity of the four-year funding period arrives. There are no downside risks assumed for call financing and loans and deposits.

Q. Regarding the outlook for credit costs, is there any impact from rising interest rates?

A. In the stress scenario, credit costs in the final year of the mid-term plan are estimated to be 3 billion yen under scenario 1 and 5.5 billion yen under scenario 2. However, there is a reasonable possibility that the stress scenario will not materialize because real estate-related loans, which account for 7 trillion yen of the approximately 12 trillion yen in loans, are subject to an entrance screening based on the assumption that interest rates will rise to around 4%. In addition, the Bank will curb the occurrence of credit costs by providing accompanying support to regional businesses, including Solution Review Meeting.

Q. The target CET1 ratio based on B/S at the end of December was 11.98%, exceeding the range. How long should CET1 ratio return to within the range? Also, is there a possibility of inorganic investment at a scale that would keep CET1 ratio within the range?

A. The Bank hopes to keep CET1 ratio within the range by March 2029, when the final implementation of Basel III finalization will be complete. While focusing on business expansion through growth investment, the Bank will also return profits to our shareholders. While focusing on business expansion through growth investments, we will also promote returns to shareholders. Rather than putting off the return of capital, we will consider the possibility of returning more than the 4-yen dividend increase implemented for three consecutive years and the 10 billion yen share buyback implemented for two consecutive years, while monitoring the progress and status of the business going forward. In-organic investment will be pursued more aggressively than before, and specific projects are under consideration.

Q. If the policy interest rate rises, the BOJ's current account is extremely advantageous in terms of risk weight, liquidity, price fluctuation risk, and other factors. Could a strategy be adopted to earn interest margin by depositing funds in the BOJ's current account instead of purchasing JGBs or lending mortgages?

A. As a regional financial institution, the Bank's approach is based on the concept of investing funds collected from the region to the region. Funds that cannot be invested locally are allocated to the BOJ's current account and bond purchases. On the funding side, the BOJ's current account is collateralized by BOJ operations, and call funding is also subject to certain limits due to the existence of counterparties, although we would like to increase it if it is economically rational.

Q. In order to raise market expectations, it is important to strengthen the policy of shareholder returning. What do you think about this?

A. The Bank intends to raise its dividend payout ratio above 35% and to 40% in the long term, and hopes to achieve a dividend yield of 3% as soon as possible. We also have a track record of a total shareholder return ratio of 50%. Although we have not achieved a dividend yield of 3% due to the rising stock price, we would like to consider taking another step to demonstrate a higher level of return.

[DX Strategy]

Q. What is the status of DX for subsidiaries other than the Bank, and what is your policy for the future?

A. DX for subsidiaries is a little later than the Bank, and this is a challenge. In particular, there was a lot of demand for infrastructure development, and first of all, the human resources system used by the Bank was introduced to all group companies. We will continue to develop infrastructure in the digital field.

Q. It may be difficult for banks to grasp customers' life events in a timely manner.

A. It is possible to obtain a precise understanding of customers who have multiple transactions with Chiba Bank. For example, we can identify customers who may be considering purchasing a house based on their family structure and the ratio of house rent to annual income. The Chibagin App also enables us to understand the preferences of customers and make proposals in the most appropriate manner. We would like to create a customer experience in which customers feel as if “I have received information from Chiba Bank just when I was interested.”

Q. What is a needs rank model?

A. The model is based on an analysis of what other transactions are being conducted by customers who use the relevant services. Using this model, the Bank will approach customers who match the model. At present, models have been created for four products: housing loans, renovation loans, education loans, and testamentary trusts. The joint business plan with Google Cloud is working to serve more personalized advertisements to customers, and we believe it will show results in the future.

Q. What is the expected cost reduction effect in the retail sector due to the increased penetration of app?

A. In addition to reducing the cost of counter personnel in branches, it is possible to improve the convenience of customers. Especially, the allocation of back-office personnel has been greatly changed. Rather than reducing the number of branches, we would like to reduce costs by reducing the weight of branches.

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