CHIBA BANK

November 21, 2023 – FY2023 Interim Financial Results Meeting Main Questions and Answers

[PBR Improvement]

Q. What is the background to the improvement in RORA in both the corporate and retail sectors toward FY2025?

A. The Bank will seek to improve RORA by steadily capturing a rise in interest rates to increase RORA of net interest income, strengthening service transactions without using risk-weighted assets, reducing costs by expanding digital channel transactions, and utilizing data to analyze gross profit per customer and per company. In the retail sector, the Bank will increase the number of digital customers and raise gross profit per customer through personalized proposals, leading to cross-use. During the mid-term plan, the gross profit for the retail sector increased steadily by ¥1.1 billion in the first half-year period compared with the ¥6.0 billion gross profit increase plan.

[Deposit]

Q. The environment differs from that of past interest rate hikes, with the rise of online banks, what do you think about the tracking rate of liquid deposits interest rates?

A. Interest rates on deposits are determined based on market conditions and competitive environments, and we raised the interest rates on 5-year and 10-year time deposits. If the Bank of Japan terminates the negative interest rate policy, it is possible to consider revising the interest rate on savings deposits and short-term time deposits. While the track record was about 40% when the policy rate was raised in 2006-2007, there has been no previous track record of lifting negative interest rates, so we will make decision by considering all available information. The Bank's deposits composition is dominated by highly sticky individual deposits, which account for 73% of total deposits, a high level compared to the megabanks average of 46% and the regional banks average of 67%. While anticipating competition with online banks, we promote one-to-one marketing and cross-use expansion in order to further increase the proportion of deposits held by individuals, who use the Bank deposits as their main.

[Net Fees and Commissions]

Q. What is the number of effective interviews, the status of financial products sales, and the background behind the elimination of the balance target?

A. Although the number of effective interviews have not reached the expected value, it increased significantly from an average of about 500 per day in the first half of the fiscal year to about 900 per day. The closing rate is about 90% and the sales amount is about 50% to 60% compared to the first halfof the fiscal year, but this was due to the fact that we were unfamiliar with the new sales method using the "Okane no Basket", proposal tool introduced in June, and we believe we can catch up in the future. Revenue were higher from the liaison officer and about 80% from the teller compared to the first half. We changed this fiscal year plan from the initial ¥8.0 billion to the same level as the previous fiscal year. From October 2021, the Bank abolished the target for flow revenue from sales commissions and changed it to the target for balance, and we adopted the following as the main targets from the second half: customer satisfaction questionnaire, improvement of the investment profit/loss ratio in Fiduciary Duty, and the number of appointments, interviews, and consulting proposals in the activity volume.

[Securities]

Q. What is the timing and conditions for the transfer of funds from BOJ current accounts to Japanese government bonds?

A. Conditions for considering a transfer are that negative interest rate funding will no longer be available due to the lifting of negative interest rates, and that the macro-add on balance mechanism will be eliminated. If the macro add-on balance mechanism is eliminated, the amount of market funding will be gradually reduced while considering liquidity, and the BOJ's current account balance will be reduced. It is planned to increase yen-denominated bonds by about ¥500.0 billion by the final year of the mid-term plan. While there is an idea that the BOJ's current account could be used as a source of funds for such purchases, we will make a prudent decision taking the amount of risk and valuation gains/losses into account.

[Credit-related Expenses]

Q. What is the background behind the increase in the stress-testing estimate of credit-related expenses from ¥9.6 billion to ¥12.0 billion in FY2024?

A. The increase in the number of industries with deteriorating earnings forecasts in the Bank of Japan's Short-term Economic Survey of Enterprises of recurring profit plans, to which the Bank refers, led to an increase in macro factors. Specifically, the stress impact levels were raised for industries such as wood-related, machinery, information and communications, and electric gas and water supply. In addition to the COVID-19 impact and soaring prices for energy and raw materials, borrowers with human resource shortages are also estimated to be subject to stress-testing. In the first half of the fiscal year, new downgrades was ¥2.7 billion compared to the assumed ¥4.2 billion. Excluding one large borrower, 90% of new downgrades were predicted by stress-testing, so the accuracy of stress-testing is high. However, this is only an estimate at the time of stress, and the possibility is limited that new downgrades of ¥12.0 billion will be recorded next fiscal year.

[Capital Policy]

Q. What is your approach to capital policy and how did you decide on this share buyback?

A. The current mid-term plan aims at a dividend payout ratio of 35% or more and a long-term target of 40%. The target is 10.5% to 11.5% for the CET1 ratio on a Basel III finalization basis excluding unrealized gains/losses on securities. The Bank returns a portion of the profit accumulation in the second half to shareholders through share buybacks. The Board of Directors decided to buy back the Bank’s own shares after a thorough discussion.

Q. In terms of long-term stable holding by individual investors, what is your view on dividend yields?

A. The current dividend yield is 2.5% to 3%. The Bank is strongly aware of this, as previously stated that we would like to aim for a dividend yield of 3%. We would like to determine our dividend policy based on the progress of performance.

[Business Improvement Plan]

Q. In response to the Business Improvement Order, I would like to know from a high-level perspective what kind of company do you as management team intend to transform Chiba Bank into. How this will affect its medium- to long-term growth and the quality of its management.

A. The management approach we aim for is as described in the Purpose and Vision that the Bank set forth in April, and in the “Evolution of the customer-focused business model,” the operational guideline of our mid-term plan. Rather than a product-out sales attitude, the Bank listens to the voices of its customers, propose services tailored to each individual customer and each company in a timely manner, implements a variety of measures in existing and new businesses, finance and non-finance so that customers can feel that the Bank knows them and can provide useful and convenient services. We are confident that the Bank can grow as it strengthens its engagement with customers by encouraging customers who only have accounts to utilize their accounts, use products, and cross-use, and raise the transaction statuswith individual customers, while shifting to digital and using convenient services.

Q. How will the Business Improvement Order and changes in performance management methods affect medium-term profits?

A. In response to the Business Improvement Order, the Bank eliminated the revenue target in October, and adopted an evaluation system that emphasizes fiduciary duty and the volume of activities. The impact on the Bank's overall revenue will be limited, as the first half results of sales commissions in financial product sales were approximately ¥1.6 billion, or about 10% of the net fees and commissions. The retail staff have shifted to provide comprehensive personal consulting services to customers, including residential loans, unsecured loans, and wills and inheritance-related services, rather than being in charge of financial product sales, and we believe that the overall retail sector will be able to cover the negative impact of financial product sales.

Q. Will the problem caused by tha fact that Chibagin Securities is a subsidiary of Chiba Bank be solved? Are you considering a transition to a holding company structure? What is the meaning of having a securities subsidiary?

A. To improve the incentive mechanism, the Bank has completely eliminated incentives related to customer referrals from the Bank to Chibagin Securities and will not actively refer customers during the current mid-term plan. Chibagin Securities focuses on after-sales support for existing customers, works to recover relationships of trust with them, and places top priority on strengthening its management and internal control systems, as well as on enhancing human resources development. During this mid-term plan, we intend to build a self-sustaining business model that aims for sustainable growth without relying on the Bank itself, and will support the Group as a whole.

We are not currently considering the transition to a holding company structure, but is further strengthening its management structure, including the management by the Group Strategy Division newly established in April and the Group CxO. The Bank's policy is to strengthen governance through the same management as that of the holding company. It is the role of regional financial institutions to provide financial and non-financial services that are useful in a variety of situations throughout the region. For this reason, we believe that securities-related services are also important in responding to customer needs. By providing comprehensive financial services across the entire Group, including securities, we support the realization of the Purpose and the affluent lifestyles of our customers.

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