Results for the Nine Months Ended December 31, 2021

Summary of Teleconference Q&A (February 14, 2022)

Q1.

There have been changes in the business environment since the interim financial results were published. Please explain the impact of those changed on business results for the next fiscal year and beyond. What is your outlook on the recent widening of credit spreads, the rise in dollar funding costs, and the negative impact of the fall in U.S. growth stocks on the valuation gains of private equity (hereinafter "PE")? How are you considering forecasts for the next fiscal year?

A1.

Credit spreads have widened slightly as of the end of January 2022, but this is having both positive and negative effects on profits. In the long term, this will lead to higher investment yields and be a positive development, but in the short term, it may lead to an increase in non-revenue dividends. Therefore, we will change our investment behavior by looking at our current portfolio and credit spreads to determine whether the impact is more positive or negative.

The rise in dollar funding costs associated with rising U.S. short-term interest rates does place pressure on profits and has recognized as a negative influence on earnings for the next fiscal year.

We are internally studying the impact of the fall in U.S. growth stocks on valuation gains of PE in the next fiscal year and thereafter, based on stock market conditions, inflation, and other economic factors. We will not issue any statement at this time regarding the quantitative impact or our direction with respect to these developments.

Q2.

What positive impact on profits do you expect from the reduction in deposit insurance expenses? And is this impact incorporated into the plan for next fiscal year?

A2.

We will refrain from stating any specific sums at this time, but we expect to incorporate a certain level of impact into our plan for the next fiscal year and beyond.

Q3.

How are profits in strategic investment areas, particularly PE profits, up through 3Q? Please specify figures, such as the range and level of improvement on a year-on-year basis.

A3.

With respect to profits in strategic investment areas for 3Q, earnings from assets other than PE is growing proportionally.

On the other hand, due to special factors unique to this year's 3Q, PE profits were only in the low billions of yen, compared to approximately ¥70 billion in 1H of the year. Comparing YoY, it can be said that earnings have been kept at a steady level, but as you know, it looks small compared to 1H of the fiscal year.

The special factors referred to here include the fact that the amount of dividends has recently increased, and with the asset management company's adjustments to operating cost and dividend calculation timings, dividend amounts have reduced in this period specifically. These factors were incorporated into the revised plan announced in November 2021, so it can be said that things are proceeding in line with the plan.

Q4.

(With respect to Q3.) Despite the special factors, my understanding is that profits in strategic investment areas as a whole increased by about ¥100 billion YoY. Is that correct?

A4.

That's exactly right.

Q5.

(With respect to Q3.) There were special factors on the asset management company's side that included changes to cost calculation methods and calculation period of dividends. Should we not expect similar changes from the asset management company side in the future?

A5.

At this time, no further changes are anticipated in cost calculation methods or dividend calculation periods. Unless there is a substantial change in the situation from next fiscal year onward, profits and expenses are expected on a quarter-by-quarter basis.

Q6.

In 3Q, it appears that the company is engaged in replacement trading with the aim of improving its portfolio in conjunction with the rise in long-term interest rates in the U.S.. Do you anticipate actively engaging in replacement trading in 4Q as well, as long as you do not fall below earnings forecasts?

My understanding is that there will be a three-month lag in the effects of the rise in U.S. short-term interest rates on dollar funding costs. Is that correct?

A6.

As you know, a rise in U.S. short-term interest rates will lead to an increase in dollar funding costs and put pressure on profits.

On the other hand, from a medium- to long-term perspective, the rise in interest rates creating a normal yield curve are fundamentally positive developments for the bank. While keeping an eye on the situation, we also expect to carry out replacement trading for the existing portfolio in a way that does not put excessive pressure on profits.

Q7.

Domestic long-term interest rates have also been rising slightly recently. Would you consider shifting the large balances of the Bank of Japan deposits subjected to negative interest rates to JGBs?

A7.

Of course, the large balances subjected to negative interest rates are negative in terms of profitability, so although we are keeping an eye on interest rate forecasts and market conditions, we expect to flexibly branch out to JGBs to some extent.

End

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