Results for the Fiscal Year Ended March, 2022
Summary of Teleconference Q&A (May 13, 2022)

Q1.

To what extent have the unrealized gains on private equity ("PE") decreased since the end of September?

In addition, what are the figures for PE revenue in the FY2022/3 results and the FY2023/3 plan?

A1.

We have not yet announced the unrealized gains on PE for the end of September, so I would like to refrain from answering this question. Qualitatively, the figure has been quite positive over the past year. This was partly due to the J-curve effect, that is, the timing at which the investment at the start of the PE investment was rapidly monetized. The unrealized gain increased significantly in FY2022/3, particularly due to the strong small- and mid-cap markets in U.S.

PE revenue for FY2022/3 was upward of ¥125bn, and we expect to see an increase of around ¥100.0bn in FY2023/3.

Q2.

The FY2023/3 earnings forecast for net fees and commissions showed an increase of around ¥14.0bn, a significant increase compared to past years. Please could you comment on this in more detail and provide a breakdown?

A2.

As you have pointed out, we expect net fees and commissions to increase by approximately ¥14.0bn. Most of this is due to the January 2022 fee revisions for various services. In FY2022/3, profits also increased by ¥2.6bn in ATM-related commissions, and we are aware that this impact has been significant. In addition, we have established a new coin handling fees, which is also recorded in the "Others".

In addition to the fee revisions, business efforts such as the recently announced introduction of the Yucho Fund wraps (a discretionary investment contract services) are naturally included for FY2023/3, but the impact of the aforementioned fee revisions is a substantial part of the expected increase in income.

Q3.

PE unrealized gains at the end of March 2022 were approximately ¥1.3tn. Thinking that you gave the guidance at the time of the FY2022/3 1H financial results of "¥3tn in PE balance and a 1.5x investment ratio," does that mean that unrealized gains decreased from ¥1.5tn to ¥1.3tn over the six months?

A3.

The "1.5x investment ratio" mentioned in the guidance at FY2022/3 1H financial results was an explanation relating to PE invested relatively early, or in other words, mature vintage, and in terms of gross versus net terms, it referred to the gross portion. In other words, the overall PE investment ratio was not necessarily 1.5x.

However, the estimate disclosed in this time is based on the net investment ratio, and it is clear that PE unrealized gains have increased from the middle to the end of the fiscal year.

Q4.

How much will the increase in dollar funding costs associated with the recent rise in U.S. interest rates impact the decline in earnings this fiscal year? If possible, please explain the impact and also say a little bit about the balance of short-term currency hedges, etc.

A4.

Of the positions in foreign securities, etc. (approx. ¥75tn), around ¥20tn of positions are exposed to fluctuations in foreign interest rates. The impact of the recent rise in U.S. short-term interest rates is estimated to be around ¥140.0bn to ¥150.0bn, as this includes currency that is unaffected, such as the euro.

Q5.

With regard to the approach to PE unrealized gains, do you experience any lag in reporting from management companies when determining the fair value (NAV) of PE? I would like to confirm the extent of the delayed effect of things like the recent fall in the Nasdaq.

A5.

Each PE fund reports to the mother funds, and then reports to the Bank, so there is a gap of about three months respectively. There may also be a reporting lag of up to six months.

Q6.

(With respect to A4.) Am I correct in understanding that of the factors causing the change in net interest income, etc. in the FY2023/3 earnings forecast, the impact of the increase in foreign currency funding costs is around YoY ¥(150.0)bn? What other factors specifically are causing the change?

A6.

Yes, the impact of the increase in foreign currency funding costs mentioned previously (around YoY ¥(150.0)bn) is included in the factors causing the increase in net interest income, etc. in the FY2023/3 earnings forecast.

By asset class, foreign bonds investment trusts also amount to around ¥(150.0)bn. This is due to a significant increase in profits in FY2022/3 as a result of tightening credit spreads, as opposed to FY2021/3 in which we were greatly affected by non-revenue dividends due to market fluctuations caused by COVID-19, and we expect a decrease this fiscal year.

Strategic investment areas are approximately +¥112.0bn. Most of this is due to PE revenue (approximately +¥100.0bn). In addition, factors such as changes in JGBs, etc. (around ¥(60.0)bn) and foreign bond redemptions gains, etc. (around ¥(10.0)bn) are estimated to total around ¥(90.0)bn for net interest income, etc.

Q7.

At the end of FY2022/3, overall unrealized gains (losses) were ¥1.2tn. How much have unrealized gains decreased recently, due to the impact of rising U.S. interest rates, etc.?

A7.

I am aware that the recent widening of credit spreads and the rise in U.S. interest rates are negative factors against unrealized gains, however, I would like to refrain from responding with specific figures.

Q8. (Further questions)

In addition to this, there are unrealized gains of around ¥1.2tn for PE investment trusts. Considering the lag mentioned in question 5, would it be correct to assume that recent unrealized gains are decreasing on a considerable scale?

A8.

Even considering the lag, PE has a stable portfolio structure, including debt assets, etc., and we do not believe that recent unrealized gains are decreasing significantly.

Q9.

Please comment on the conservativeness of the FY2023/3 earnings forecast. While rising U.S. interest rates are expected to increase dollar funding costs, widening credit spreads will be a long-term factor in margin expansion, and domestic interest rates are also above 0%, which likely means there is no need to deposit with the BoJ at negative interest rates.

Based on factors such as the change in net interest income, etc. in FY2023/3, would you say the earnings forecast is fairly conservative, or fair to some extent?

A9.

With regard to net interest income, etc., we assume that we will enter the second half with a reverse yield in dollar funding costs against the 5-year UST rate as per the assumptions in p.27 of the financial results, and the earnings stated in the plan assume that the market will follow those assumptions.

Credit spreads have recently expanded further than the assumptions we indicated, and it is possible to take advantage of wide spreads, so we are anticipating a solid plan. On the other hand, the expansion of credit spreads also affects non-revenue dividends, so a balance of short- and long-term disadvantages must be taken into account.

Although the yen interest rate has recently risen slightly, we do not expect a significant rise. Hypothetically, if the yen interest rate did rise significantly, we believe there would be a possibility of an improvement in future income.

Taking these points into account, I would say the plan reflects the current situation, rather than being conservative.

Q10.

With regard to PE revenue, a certain amount of revenue can already be expected in FY2023/3 due to the lag. Can we assume a significant increase in profits compared to the past, even given this lag?

A10.

As you have pointed out, we expect a more significant increase in PE revenue this fiscal year than when we formulated the Mid-term Plan. After reviewing the assumptions in the Mid-term Plan based on FY2022/3 results, we expect a significant increase in earnings, including currently predictable earnings.

As mentioned in A5., there is a three to six month lag in the identification of PE revenue, so although we can make some forecasts for the first half of FY2023/3, the plan is somewhat conservative in the second half, taking into account the external environment.

Q11.

What is the breakdown of the balance of major creditworthy assets (IG, bank loans, etc.) among foreign securities, etc.?

A11.

The majority are IG corporate bonds held in house totaling approximately ¥16tn. The breakdown of investment trust holdings is around ¥29tn in the IG area and around ¥12tn in the HY area. Bank loans make up a small amount and are included in this HY area.

Q12.

From the above explanation, it sounds like there are many positive factors that will increase the net interest income, etc. plan for FY2023/3. Although U.S. dollar funding costs are expected to increase with the recent U.S. interest rates rise, is it correct to assume that earnings can be maintained without taking advantage of any unrealized gains in stocks?

A12.

Under a framework of appropriately regulated capital management and economic capital management, we have been striving to maximize total return for the portfolio as a whole. As a result, we have secured considerable unrealized gains while using hedging methods for some stocks.

In the future, given the planned increase in risk weights due to the strengthening of Basel III regulations, we recognize that in addition to the portfolio adjustment operations we have implemented previously, there is a need to reduce some of our stocks holdings in order to limit the increase in equity credit risk-weighted assets.

As a result of this adjustment to credit risk-weighted assets, we have incorporated into our FY2023/3 plan the fact that we will realize a portion of the unrealized gains on shares. However, I will refrain from making any statements about the anticipated scale of sales and profits from sales at present, as these are likely to fluctuate due to market trends and other factors.

Q13. (Further questions)

Does a sale of shares for limiting credit risk-weighted assets mean a sale from the portion of the fund other than the unrealized gains solidified by the hedging of the bear fund?

A13.

As financial regulations are strengthened, risk weights will increase for the total equity assets held regardless of hedging, so we plan to sell appropriately while keeping an eye on the overall balance.

Q14.

What is the intended time frame (first half/second half) for recording FY2023/3 PE revenue (approximately ¥220.0bn)?

A14.

We plan to record much of it in the first half of the fiscal year, where we can currently predict the revenue to a certain extent.

End

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