Results for the Six Months Ended September 30, 2022
Summary of Teleconference Q&A (November 11, 2022)

Q1.

With respect to overseas net interest income, even taking into consideration factors like interest rate increases, the decrease appeared greater than expected. Were there any special factors behind this?

A1.

Due to the fact that short-term interest rates have shifted rapidly, there is no question that overseas credit spreads and domestic and foreign interest rates have fluctuated more significantly than initially expected. However, we have already addressed this issue to a degree, and we presently believe that we will be able to deal with it.

As to the overseas net interest income decrease you are asking about, one particularly notable factor is increased foreign exchange hedging costs and direct foreign currency funding costs with respect to foreign bond investment trusts. The impact of increased non-revenue dividends stemming from widened credit spreads is also a factor.

On the other hand, increased interest rates and widened credit spreads are a positive for new investments, so they are serving to offset in part the decrease described above.

Q2.

With respect to your full-year earnings forecast, I understand that the Bank believes the business environment of the second half of the year will be less forgiving than that of the first half, based on the scope of interest rate increases and your more reserved estimates for private equity (PE) revenues, among other factors.

The gains from sales of stock subject to risk-weighted asset adjustments as indicated in guidance provided at the start of the fiscal year were not recorded for the first half, but it might be said that the successful sale of these shares during the second half, which is forecast to see major changes in the market environment, might better ensure the successful achievement of the earnings forecast. What are your thoughts on that?

A2.

We has assessed that our business performance for the first half progressed steadily and as planned, but as you have pointed out, we did originally forecast that the market environment would fluctuate more significantly during the second half, and that we could not expect to see as much PE revenue as we did during the first half.

On the other hand, due to increases in long-term interest rates, not only is yield from new investments expected to recover, we are also considering steady advancements of revenues from strategic investment areas, sales of stock subject to risk-weighted asset adjustments, as you noted, and sales of foreign bonds taking advantage of JPY depreciation as in the first half, among other matters, and are striving to achieve our full-year earnings forecast.

Q3.

With respect to the CET1 ratio of 13.36%, unrealized gains on securities have decreased, and in light of the finalization of Basel III, there appears to be an insufficient surplus of capital. The CET1 ratio target is to "approximately 10% as the minimum level to be secured in ordinary times." Is this a level that must be secured, or does it include a buffer to some degree?

A3.

The CET1 ratio was planned on a basis excluding unrealized gains on available-for-sale securities, and as long as unrealized gains are trending positively, the ratio is trending according to plan. As to the 10% approach you touched on, this ratio represents the 7.5% level that the Bank has set as the level that must be secured both as a matter of policy and a matter of managerial intent, plus 2.5% added as a risk buffer in anticipation of unforeseen risks.

Our Mid-term Plan has established this 10% as the minimum level to be secured in ordinary times, and we are directing the management of our business toward efforts to ensure that the ratio does not fall below this level, but the nature of the ratio does not require any additional buffer.

With the levels just described in mind, the Bank will continue our investments in risk assets, actively utilize capital and operate under a management policy that aims to achieve increased revenues and returns to investors.

Q4.

Unrealized gains on PE have decreased compared to the end of June; can you tell us about the current state of PE revenues and their future sustainability?

A4.

Although unrealized gains have decreased compared to the end of June, taking into consideration the volatile conditions of the market for listed stocks, particularly U.S. stocks, the Bank's PE revenues are actually comparatively stable. Unlike listed companies, which are linked to the stock market, in many cases PE investment is valued by the multiples method and DCF method, taking into account the circumstances of the individual investee companies. Therefore, PE is unlikely to experience large market value fluctuations like the market for listed stocks, and changes in the valuation of PE investments tend to be more restrained than fluctuations in the share prices of listed companies in periods of volatility in the share prices of listed companies. Therefore, we do not believe there is presently any issue with sustainability.

Q5. (Further questions)

What are your thoughts regarding future sustainability for overall unrealized gains on available-for-sale securities?

A5.

As of the end of September, we have secured positive unrealized gains overall of ¥59.4bn. The market environment has continually fluctuated since October, and we intend to keep a close eye on the situation.

And although present conditions are not likely to have an immediate impact on securing the amount available for dividends and CET1 ratio target of around 10%, going forward we intend to continue focusing on the market environment while developing a stress-resistant portfolio.

Q6.

With respect to PE revenues, can you go into the results for the first half and your forecasts for the end of the year?

A6.

PE revenues were approximately ¥60bn for the first quarter, approximately ¥90bn for the second quarter, resulting in a total of approximately ¥150bn, which is largely according to plan. There is a 3 to 6 month delay in terms of revenues and balances, and although we are able to get a rough sense of conditions for the end of the year, we do not believe we currently need to adjust our original full-year plan for PE revenues of ¥230bn.

Q7.

What caused unrealized gains on PE investment trusts to decrease in the second quarter compared to the first? Were there independent factors, like rising interest rates and decreased unrealized gains from specific sectors?

A7.

When compared against the first quarter, unrealized gains for PE investment trusts fell by around ¥140bn in the second quarter. At the same time, revenues of ¥90bn were realized at exit, and this is one of the main factors behind the decrease in unrealized gains.

The decrease tends to stand out when looking only at unrealized gains, but when looking at the overall PE balance, including the book value of ¥4tn, this amounts only to a slight fluctuation of tens of billions of yen. Furthermore, given the fact that PE investments are by their nature long-term investments, and are not strongly affected by changes in the market environment, this fluctuation has less to do with a direct impact of rising interest rates, and more to do with the effects of changes in corporate value.

Q8.

What potential can we expect from sales of foreign bonds in light of JPY depreciation? Can we still expect to see abundant sales in the future?

A8.

Since we have an established history of foreign exchange hedging against the bulk of foreign bonds, we cannot say that there is ample room for foreign bonds sales. Therefore, though it is not that we will not be conducting sales in the future, we will not necessarily be selling them aggressively and continuously even with the depreciation of the yen.

Q9.

Recently, yields from new foreign securities investments appear to have increased due to rising interest rates, but can you tell us to what extent yields have increased at present?

A9.

In terms of yield for foreign securities, although it would be difficult to just provide an answer limited to the portion applicable to new investments, the yield for foreign securities overall for the first half of the year is around 1.17%, which is lower when compared year-on-year. The main reason for this is the complex interaction between various factors, particularly investment trust non-revenue dividends, but if we limit our discussion to in-house investments in foreign securities, the recent increase in interest rates has had a positive impact, and yield has increased when compared year-on-year (FY2022/3 1H: approximately 1.6% to FY2023/3 1H approximately 1.9%).

End