

Results for the Nine Months Ended December 31, 2022  
Summary of Teleconference Q&A (February 14, 2023)

Q1.

Could you give us a breakdown of strategic investment area revenue, including the Q3 results? Also, how does it compare against the Plan and how do you evaluate the Q3 results?

A1.

The cumulative amount of strategic investment area revenue through Q3 was around 270 billion yen. Of that, the majority comprised private equity (PE) funds, which was over 210 billion yen, and real-estate funds, which was over 40 billion yen. The remaining was revenue from direct lending funds and infrastructure debt funds, etc.

Regarding how we evaluate the Q3 results, we have previously stated that we planned for PE revenue of around 230 billion yen this fiscal year. As revenue has already topped 210 billion yen in Q3, you could say PE is currently performing better than planned. Real estate funds are also performing better than planned.

Q2.

The total unrealized gains/losses figure for securities was -400.6 billion yen. Can you give us a breakdown by factor, such as domestic interest rates, foreign exchange or stocks?

Also, regarding the unrealized losses on JGBs, if you hold them until maturity, then you don't need to worry about unrealized losses. Furthermore, it is difficult to imagine yen funding costs becoming a negative spread, so we don't think there is much to worry about here. Do you agree?

A2.

The breakdown by factor is as follows: Approximately -1.1 trillion yen due to domestic interest rates; approximately -1.7 trillion yen due to foreign currency interest rates, etc.; approximately +0.1 trillion yen due to foreign exchange; and approximately +2.2 trillion yen due to stocks. Out of that, PE is approximately +1.1 trillion yen and 'Other' (real estate

funds, etc.) are approximately +0.2 trillion yen.

With regards to unrealized gains/losses of around -1.1 trillion yen due to domestic interest rates, as you stated, given both the latest yen funding costs and our basic policy of holding until maturity, we think this situation is manageable. As for overall unrealized gains/losses due to overseas interest rates, foreign exchange, and stocks, etc., we think this situation is also manageable at present.

Q3.

Given the BOJ's policy adjustments in December 2022, what are your thoughts on your JGB management policy going forward, especially the possibility of increasing the balance?

A3.

As disclosed in the Q3 supplementary material (1), while anticipating changes in the domestic and overseas market environment, we have worked to improve profitability by limiting our holdings of 10-year JGBs while increasing our holdings of super-long-term bonds, which have seen rising yields as a result of not being directly constrained by YCC. We will continue to monitor the impact of market fluctuations on our portfolio while holding internal discussions about how to move flexibly to capture profit opportunities and avoid risk.

As for our management policy going forward, we will continue to invest in super-long-term bonds and we will consider new additional investments including mid-to-long term bonds, while gauging expected changes in monetary policy. We think profits will increase significantly in years to come as we increase our holdings of high-yield bonds through these new investments.

We are also securing a certain amount of short-term JGBs in preparation for monetary policy changes.

Q4.

PE revenue is increasing steadily, but could you talk about the outlook going forward? Though unrealized gains have been falling recently, we think in the end exits will be important.

A4.

The majority of our PE portfolio comprises non-listed companies whose stock price movements are more subdued compared to the stock prices of listed companies. We also diversify our investments. Furthermore, we can broadly gauge expected revenues this fiscal year from the structure of PE investment trusts and we think that the target of 230 billion yen in this fiscal year's PE revenue plan is achievable.

Q5.

The unrealized gains/losses figure for securities was negative (-400.6 billion yen). Will this impact your capital policies or dividend policies?

Also, will the impact of these unrealized losses mean that from the next fiscal year onwards, you will not be able to proactively sell stocks when adjusting risk assets?

A5.

If the unrealized gains/losses figure is negative, this will be factored into the calculation of the distributable amount and the CET1 ratio. This is not having a big impact at present. Furthermore, the figure became positive at the end of January, so we will continue to monitor market conditions going forward.

Also, while we won't be commenting on the outlook for the next fiscal year onwards, we do think we have been able to manage unrealized gains/losses to a certain extent recently. To reiterate, we will monitor market conditions when considering our capital policy and how to accumulate profits from next fiscal year onwards.

Q6. (Additional question)

Please share your thoughts on JGB evaluation losses ahead of YCC changes. How big would the losses have to be in order to become a problem? Do you have some kind of threshold number?

A6.

We will refrain from commenting on the specific numerical impact of YCC changes on JGBs and on the thresholds, etc. for determining whether to take action. We will also refrain from commenting on whether such thresholds exists or not. As they become bigger, unrealized losses can also impact the CET1 ratio. While bearing this in mind, we will take action as needed based on market movements.

End

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