Results for the Six Months Ended September 30, 2023
Summary of Teleconference Q&A (November 13, 2023)

Q1.

Regarding private equity (PE) and real estate investments, could you please provide a breakdown of revenues (by net interest income and non-recurring gains/losses). Also, what is your perception of the current investment environment?

A1.

In the case of PE revenue, net interest income was approximately 50.0 billion yen and non-recurring gains were approximately 20.0 billion yen. As for real estate investments, net interest income was approximately 4.0 billion yen, and non-recurring gains were approximately 1.5 billion yen.

Although PE revenue is slightly below our plan, this is mainly due to the delay in exit activities caused by the decline in the stock prices of US technology companies, and it is within the expected range.

In addition, considering the fact that unrealized gains at the end of September 2023 amounted to just over 1.2 trillion yen, representing an increase from the end of March, we assess the situation to indicate that it is taking longer for profits to manifest, rather than that investment assets are in a critical state.

Exit activities are showing signs of recovery. Therefore, we do not consider it necessary to change our income plan.

Real estate revenue is also slightly lower than planned. This is mainly due to provisions made for rating downgrades on debt related to US office buildings.

Moreover, the Bank has been making cautious and selective investments, and the slowdown in investment progress due to the current deterioration in commercial real estate sentiment has also contributed to the lower-than-expected level of revenue. However, income revenue in terms of local currency is growing steadily and we do not see any major concerns with our holdings.

Although there are signs of recovery in some parts of the real estate market, the overall market sentiment remains unfavorable. As such, we intend to invest cautiously, keeping a close eye on the situation, such as the increasing pressures for a price correction.

Q2.

Has there been any change to your JGB investment policy since the Bank of Japan modified its monetary policy?

A2.

Under the current Mid-term Plan, we are promoting diversification and dispersion of our investment portfolio, including investment in foreign securities, but from the outset, we assumed a certain degree of investment in JGBs as well.

Although yen interest rates are rising due to the Bank of Japan's recent policy revision, we will seize opportunities to invest JGBs while conducting appropriate risk management.

Although we cannot state with certainty the level or scale of purchases, as such decisions will depend on the market environment, we would like to make investments with the aim of securing stable income while taking into consideration interest rate levels, supply and demand, and other factors.

Q3.

The CET1 ratio declined further from Q1. What are your thoughts regarding margin on capital? With regard to share offerings in the future, for example, what is your perception of the impact of current unrealized losses when considering the scale of additional shareholder returns, including share buybacks?

A3.

The gradual decrease in the CET1 ratio due to increased investment in risk assets is in line with our plan, and we see the recent decrease as being within the expected range.

Regarding share buybacks, there is no change in the Bank's policy of considering additional share repurchases as necessary based on the existing dividend policy of emphasizing dividends with a target dividend payout ratio of approximately 50-60%, while giving consideration to the balance between shareholder returns, financial soundness, and growth investments.

Q4.

Would it be fair to interpret the statement on page 2 of today's disclosure materials, “Our Action to Implement Management that is Conscious of Cost of Capital and Stock Price,” as an indication of the company's desire to achieve ROE of 5% in the relatively near future? Could you please share as much as you can at this time?

A4.

We regret to inform you that we are unable to provide an explanation regarding this material at this time. More details will be discussed at the Investors Meeting on November 16.

Q5. (Additional question)

Would it be accurate to say that the company is intent on improving ROE?

A5.

Yes, that would be the correct perception.

Q6.

As of end-September 2023, the unrealized gains/losses figure for available-for-sale securities turned negative, and it is believed this is due to unrealized losses on JGBs.

With domestic interest rates on the rise, it seems unlikely that unrealized losses on JGBs will improve. If this situation of unrealized losses on JGBs as well as unrealized losses on available-for-sale securities continues, will it have a negative impact on the Bank's dividend policy and dividend payout ratio of 50% to 60%? Please kindly share any internal discussion on this matter at this time.

A6.

You are right to point out that one of the reasons for the turn to unrealized losses on our available-for-sale securities is the increase in unrealized losses on JGBs due to the rise in domestic interest rates. However, a rise in domestic interest rates may have some benefits for the Bank in that it will lead to higher yields on new investments.

In addition, the Bank has a huge retail customer base and stable funds generated from its nationwide network, which is the largest physical branch network of any Japanese bank, and we are confident that we have the financial soundness to hold JGBs until maturity.

Therefore, the risk of the unrealized losses being realized and having an adverse impact on PL is limited, and it is our opinion at this time that it will not have a negative impact on our dividend policy.

Q7.

With regard to risk-control operations, it appears as though gains of approximately 150 billion yen were recorded in both Q1 and Q2. Would it be correct to assume that this pace is expected to continue throughout FY2024/3, which would result in gains of approximately 600 billion yen for the fiscal year?

A7.

The Bank is systematically implementing risk-control operations to reduce credit risk-weighted assets in anticipation of a tightening of financial regulations in the future. Currently, this policy remains unchanged, and we will continue to systematically carry out such operations.

Q8.

Regarding the agency commissions paid to Japan Post, the amount seems to have decreased from Q1 to Q2. Please tell us if there has been a change in the handling of this in any way. Also, would it be appropriate to assume that this decrease will continue at a similar pace in the second half of the fiscal year?

A8.

There has been no particular change in the handling of the agency commissions paid to Japan Post in Q2, compared to Q1. We recognize that the amount of agency commissions will basically remain stable, even if there will be some ups and downs in proportion to the business volume of our outsourcing partner Japan Post.

Q9.

Please explain about the use of due from banks, etc., which have decreased. Why was the increase in JGBs small compared to the increase in foreign bonds and investment trusts? Does this mean the Bank believes it is better to invest in foreign bonds and investment trusts, paying high hedging costs, even though yen interest rates are now on the rise?

Or is it that progress could not be made with JGB purchases from a feasibility standpoint, resulting in a flow of funds into foreign bonds and investment trusts?

A9.

As you pointed out, hedging costs have remained high. However, as we have experienced various economic changes and shocks, we have learned the importance of diversification of investment assets, and we believe that it is not advisable to concentrate on only certain investment assets. Furthermore, in foreign securities, we have also adopted a strategy of acquiring credit risk and have been able to offset the impact of hedging costs to a significant degree. We will continue to flexibly manage our portfolio in response to changes in the economic environment, etc., and as a major pillar of our investment activities, we would like to continue to build a portfolio of widely distributed assets.

Q10. (Additional question)

Given the supply and demand environment, does this mean that it is difficult to accumulate more JGBs?

A10.

When investing in JGBs, we believe it is necessary to balance the investment in consideration of supply and demand, interest rate levels, redemption of existing bonds, etc. Other details on this matter will be explained at the Investors Meeting for FY2024/3 H1 to be held on November 16.

End

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