# Results for the Three Months Ended June 30, 2024
# Summary of Teleconference Q&A (August 9, 2024)

Q1.

As you commented earlier, you didn't incorporate Bank of Japan policy rate hike, especially interest of Bank of Japan demand deposits into your plan. What impact do you think the decision by the Bank of Japan in July to raise the policy interest rate and reduce the amount of Japanese government bonds purchased (hereinafter, "quantitative tightening" or "QT") will have on the Bank's performance?

A1.

Concerning the policy interest rate, we believe that rising interest rates for Bank of Japan demand deposits, improvements in bond investment yields through higher market interest rates, and lower hedge cost in line with a shrinking gap between interest rates in Japan and overseas will lead to an upturn in income.

Rising interest rates for Bank of Japan demand deposits are not incorporated into our FY2025/3 plan, so they will be an upside factor in income going forward.

The impact of shift in market interest rates, with the Implied Forward Rate (IFR) as of March 31st as a key assumption, has been incorporated into plans. However, long-term interest rates at hand have moved to a level exceeding this assumption; we recognize that this point will be a positive one for performance.

The gradual expansion of QT has the potential to make it easier to restructure our yen interest rate portfolio currently in play, since the Bank of Japan's reduced purchasing of Japanese government bonds will increase the amount in bonds the Bank is able to buy. At the same time, we cannot offer anything certain regarding the amount of Japanese government bonds to be purchased at this time since this will be decided with consideration given to demand and supply conditions and interest rate levels.

Either way, we believe that both directions are positive elements for the Bank.

Q2.

Among net interest income, can you talk about the backdrop to income growth in foreign bond investment trusts and factors behind the increase in gains on foreign exchanges in net other operating income?

A2.

There are multiple factors behind the growth in income from foreign bond investment trusts. For example, balances were higher compared to the same period a year earlier, while among dividends, there was a decline in non-revenue dividends, which are not recognized as income.

Moreover, gains on foreign exchange were reported upon redemption of foreign bonds.

Q3.

What is the sustainability of income from foreign bond investment trusts?

The credit spread as of June 30, 2024 tightened compared to the same period a year earlier, and hedge cost is declining; under the current situation, additional declines can be expected.

In this context, while there is a certain amount of fluctuation each quarter, income appears to be sustainable. What are the Bank's thoughts on this?

A3.

In terms of the sustainability of income from foreign bond investment trusts, although we think there will be some quarterly fluctuation, as far as trends go, it is fundamentally as you have stated.

If the market environment as the Bank currently envisions it continues, we think that the Bank can stably raise income.

Whatever the case, we will move ahead with careful investment that emphasizes asset quality.

Q4.

For quarterly fluctuation in the CET1 ratio, when unrealized gains (losses) are negative, I believe the CET1 ratio falls substantially. Should we understand that "the target level of around 10% during normal times" is set with this in mind?

A4.

Where the CET1 ratio is concerned, it was as you understand—because there were unrealized losses on available-for-sale securities this accounting period, the level fell compared to March 31, 2024.

Furthermore, additional factors that caused the level to fall were steady progress in investing in risk assets and the yen's ongoing depreciation.

The plan we formulated incorporates the appearance of a certain degree of unrealized losses under a situation of rising interest rates. Taking this into account, the CET1 ratio is projected to gradually decline to the target level for normal times of around 10-11% toward the end of FY2026/3.

Q5.

Very recently (since the end of July 2024), the market has seen major volatility. What impact will this have on the Bank's income and balance sheets?

A5.

Because securities investment is a core and significant portion of the Bank's earnings, we are keeping a close watch on market volatility.

In our management strategy, we believe we have structured a firm and solid portfolio able to withstand market fluctuations.

To use our hedge strategy as an example, of roughly 90 trillion yen in foreign securities, etc., we hedge approx. 70% to 80% of foreign currency interest rates, and over 90% of currency exchange as part of a strategy in place to withstand market volatility. Since domestic stocks are also hedged to a certain degree, the impact of the yen's recent appreciation and weaker stock prices has been limited.

In any case, we will continue to closely monitor market changes and move ahead with portfolio management.

Q6.

What effect will the U.S. policy interest rate have on the Bank's income?

In previous disclosure materials, it was indicated that your foreign currency interest rate risk position is approx. 15 trillion yen. Are we to understand that income growth will come from multiplying this amount by the extent of the decline in the policy interest rate?

Furthermore, are we to understand that the lowering of the U.S. policy interest rate was not incorporated into your plan?

A6.

The income-raising effect of our foreign currency interest rate risk position is just as you've noted. However, please note that because there is a bit of a time lag before that effect occurs, we believe it will gradually affect income.

As to the point of whether the lowering of the U.S. interest rate was accounted for in our plan, it was incorporated, to a certain extent, in the form of a reduction in foreign currency funding costs.

Q7.

Can you talk about Japanese government bond purchasing? According to the supplementary materials, your balance of bonds with terms of more than 7 years to 10 years rose by roughly 2 trillion yen compared to the end of FY2024/3. Should we expect the balance to amass at the same pace going forward?

A7.

We are pushing ahead with proactive bond purchasing, under the banner of restructuring our yen interest rate portfolio. To the extent that doing so won't negatively impact markets, the thinking is that we want to proactively purchase Japanese government bonds.

Regarding specific purchase amounts, we intend to respond flexibly depending on the amount of Japanese government bonds the Bank of Japan opts to purchase and the market environment.

Q8.

According to "Asset Management Status" on page 7 of the Selected Financial Information briefing material, foreign bonds increased on the order of about 1 trillion yen compared to the end of FY2024/3. Was this in line with plans, or was this the result of altering asset management direction and investing aggressively in response to market environment changes?

A8.

As far as foreign bond investment goes, we haven't particularly changed direction in terms of asset management. We see this as the result of managing agilely after closely monitoring bond issues and other aspects of the market environment.

Q9.

For the cost of deposits, your current plan incorporates to some degree a rise in interest on deposits. Does this also account for the effect of the interest rate hike enacted at the end of July, or is this an additional cost not anticipated in the plan?

A9.

We formulate our plans with the assumption that interest on deposits, which is pegged to market interest rates, will rise. Accordingly, the impact of a rise in interest on deposits from this latest interest rate hike has, to some extent, been accounted for.

Q10.

I just want to confirm your asset management policy with respect to long-term Japanese government bonds. There was an interest rate hike by the Bank of Japan and other factors, so the yield curve, due to rising short-term zone interest rates today, is flattening out a bit. In the event that this flattening of the yield curve progresses further, what kind of operations do you intend to perform?

Moreover, in the event that the Bank purchases Japanese government bonds with term limits beyond the 10-year zone, please tell us the estimated interest rate level, if there is one.

A10.

As was said earlier, the Bank is moving aggressively forward with purchasing long-term Japanese government bonds with a certain yield or higher, under the banner of restructuring our yen interest rate portfolio. Looking ahead, we hope to continue to do such purchasing proactively within a scope that won’t negatively impact markets.

As far as specific purchasing amounts and terms go, we intend to respond flexibly depending on the amount of Japanese government bonds the Bank of Japan opts to purchase and the market environment. However, we have no plans for any particular changes in direction at this time.

Q11.

Regarding income related to strategic investment areas, the result was 69.5 billion yen for the first quarter. While this was an increase over the previous quarter, my impression is that the pace of improvement is slower than anticipated. Do you expect foresee any factors boosting this pace, such as improvements in private equity (PE) income from lower U.S. interest rates? What is the Bank's outlook here going forward?

A11.

We believe the pace of income growth in strategic investment areas is in line with expectations. As for PE, which accounts for a major portion of that income, while the pace of improvement in the first half of this year was slower, that is expected to improve from the second half onward.

Q12.

According to "Trend of Net Interest Income and Interest Rate Spread" on page 3 of the Selected Financial Information briefing material, the net interest margin improved substantially compared to the previous fiscal year. Was the main factor here income from foreign bond investment trusts? Can you tell us what the factors were at play here?

A12.

As you've rightly recognized, the main factor here was indeed income from foreign bond investment trusts.

Q13.

According to "Results of Operations" on page 2 of the Selected Financial Information briefing material, the figure for ROE exceeds 4%. Should we consider that it may be possible to achieve the target of "ROE of 5% or more" that the Bank is aiming for at an early stage in the next Medium-term Management Plan ahead of schedule?

A13.

The figure for ROE as of the first quarter shown is a summary figure calculated as simply around four times net income for the term.

As far as achieving the ROE target ahead of schedule is concerned, while improvement in profit will be important, our understanding is to take this under consideration in light of changes in the market environment, including the domestic and foreign interest rate environments, as well as the related outlook.

End

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