Results for the Six Months Ended September 30, 2024
Summary of Teleconference Q&A (November 14, 2024)

Q1.

You have revised your full-year earnings forecast for FY2024. Could you provide a breakdown of the additional 31.0 billion yen in your revised forecast for net interest income, etc.?

A1.

Details can be found in our disclosure planned for release on November 18, but the main factor for the increase was our yen interest rate portfolio.

This is mainly due to our expectation of an increase in interest from our deposits with the Bank of Japan after it changed its interest rate policy.

For other assets we have made slight revisions to reflect the current market status.

Q2.

Could you please break down your revenue in strategic investment areas in the first half of FY2024 into net interest income and non-recurring gains? For example, how did private equity (PE) perform?

A2.

In PE, we recorded net interest income of around 75.0 billion yen and non-recurring gains of around 40.0 billion yen.

In real estate, we recorded net interest income of around 7.0 billion yen and non-recurring gains of around 15.0 billion yen.

Q3.

Looking at page 14 of the presentation materials “Selected Financial Information for the Six Months Ended September 30, 2024”, the upward revision in earnings forecast appears to have been prepared using the Implied Forward Rate (IFR) at the end of September 2024. What do you think about the current market environment compared with the end of September 2024?

A3.

Comparing the IFR at the end of September 2024 with the current situation, Japanese government bond yields are slightly higher than anticipated, and proceeding with investment if possible would be favorable for us.

On the other hand, credit spreads continue to tighten, while the dollar funding cost is also slightly higher than anticipated. The situation varies for each factor.

In any case, we will continue to monitor market conditions while responding flexibly.

Q4.

You have revised your full-year earnings forecast for FY2024 upward to 400.0 billion yen. Can we expect a further upswing in FY2025 as well?

A4.

Net interest income, etc. accounts for the majority of the Bank's income, so our earnings fluctuate significantly depending on market conditions and monetary policy in each country.

For FY2025, given the large number of unknown variables, such as trends in monetary policy in Japan and the United States, we have confined our revision for full-year earnings and dividend forecasts to FY2024.

For our full-year earnings and dividend forecasts for FY2025, we will continue to carefully monitor factors that impact the Bank's earnings, such as market conditions and trends in monetary policy in Japan and the United States, and disclose any necessary revisions when we announce the financial results at the end of FY2024.

Q5.

Looking at interest on foreign securities, there appears to be a slight slowdown in QoQ performance. Has there been a change in momentum? What is the Bank's view on this?

A5.

With regard to interest on foreign securities, there is a timing difference in recognition of income and expenditures, which causes a certain amount of discrepancy in each quarter. For the first half, the results have progressed more or less as we expected, and we do not see any change in the upward momentum.

Q6.

Looking at page 9 of the presentation materials, we can see that the Common Equity Tier 1 (CET1) capital ratio has improved since the end of June 2024. What kinds of factors are driving this improvement?

Also, has there been any discussion regarding changing the dividend payout ratio following the improvement of the CET1 ratio?

A6.

The CET1 ratio has improved compared with the end of June 2024, as you have observed.

This was mainly attributable to 1) an increase in the numerator due to a steady accumulation of profits, and 2) a contraction in the denominator—the Bank's risk assets—due to the appreciation of the yen compared with the end of June 2024.

Furthermore, for shareholder returns under the current Medium-Term Management Plan, we have set a basic dividend payout ratio of around 50%, giving consideration to balancing shareholder returns, financial soundness, and growth investment. Our recent dividend increase was decided in line with this basic policy of a dividend payout ratio of around 50%.

Q7.

What are the results of operations for risk controls on stocks at the end of the first half? Could you also give a comparison with your original forecast?

A7.

Gain from sales of stocks associated with operations for risk controls on stocks in the first half was around 180.0 billion yen, which was somewhat less than our original forecast.

Q8.

Looking at page 7 of the presentation materials, the balance of Japanese government bonds increased by approximately 900.0 billion yen from the end of FY2023. Could you provide some additional information on the status of progress on the restructuring your yen interest rate portfolio?

A8.

Our policy for restructuring our yen interest rate portfolio continues to be one of aggressive investment to an extent that does not cause a negative impact on the market.

In FY2024, we are conducting purchases of Japanese government bonds in line with this policy. However, a substantial quantity of Japanese government bonds have also been redeemed, so that the resulting balance increased by just around 900.0 billion yen.

Furthermore, while the interest rate on the redeemed Japanese government bonds is extremely low, those that we are newly investing in are expected to provide more interest income. So we expect the impact on earnings to be greater than the increase in the balance.

Q9.

In the explanation on page 3 of the presentation materials, you explained that PE performance is also solid. I believe that the current high interest rates in the United States have a negative impact on PE earnings. Could you talk about the current status of PE and the Bank's outlook for the second half?

A9.

There is a certain amount of timing discrepancy in regard to realizing revenue on PE. Therefore, we have some degree of certainty in our outlook for future earnings. Taking this into account, we believe they are performing steadily.

Q10.

Currently, short-term interest rates in the United States are rising, and the market situation is now worse than at the end of September 2024 in terms of its effect on the Bank's business performance. Could you please tell us what impact persistently high short-term US interest rates would have on the Bank's earnings?

A10.

The US macroeconomic climate currently has a firm undertone, and although the interest rate continues on a downward trend, we recognize that the timing could be delayed somewhat. In terms of the impact on the Bank, a reduction in short-term US interest rate contributes to a reduction in the spread between domestic and overseas interest rates, and improves the dollar funding cost. Therefore, the delay would have something of a negative impact. However, we see the continuation of the interest rate decline trend over the medium to long term as an upside factor for our earnings.

Q11.

Looking at domestic and overseas net interest income, I can see that the domestic side has progressed more than forecast. How do you evaluate the overseas performance?

Could you tell us the Bank's view of progress on profits, along with an evaluation of the overall progress for the first half?

A11.

For the first half, net interest income, etc., net fees and commissions, and general and administrative expenses were all more favorable than our original forecast, with improvements in a wide range of fields visible in a solid performance. We think that this shows the results of the Bank's initiatives to date. Going forward, we will continue aiming to grow profits, with a corresponding increase in dividends.

Regarding the overseas side, as I mentioned in the answer to the previous question, in terms of the first half, we consider it to be more or less in line with our expectations.

End

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