

August 5, 2024 – Financial Results for the First Three Months of FY2024 ending June 30, 2025 Main Questions and Answers

[Management]

Q. Are there any blind spots in the strong business performance? Looking ahead to the next year or two year, please tell us how you see the risks to the business performance or management?

A. The Bank Group have newly selected “stagnation of sustainable growth due to lack of human resources and human resources capability” as the top risk for the Group this year. Without sufficient human resources, both in terms of quality and quantity, there is a risk that it will become difficult to expand business in the future. To address this human resource risk, we are promoting human capital investment with “human resource development” and “improvement of employee engagement” as key elements. The budget for human capital investment is nearly double that of the previous mid-term plan, and we are promoting human resource development for each specialized area, including corporate, individual, and DX. In terms of “employee engagement,” we are actively seeking the opinions of employees and implementing measures that will lead to job satisfaction for employees. We believe that by enhancing the expertise of employees through human capital investment and maximizing their capabilities through improving engagement, we will be able to improve employees productivity, which will lead to revenue enhancement. Furthermore, we believe that improving the basic strength of the organization will lead to stable earnings posting over the medium to long term.

[Impact of a rise in interest rates]

Q. Please tell us about the outlook for spreads on business loans after the July interest rate hike.

A. Considering that many of the sales staff do not have experience negotiating with customers when market interest rates rise, the Bank informed staff the concept of interest rate management and how to explain it to customers starting last year. We consider that the recent increase in yield on interest income is the result of these efforts to conduct detailed negotiations. We believe it will be possible to secure a sufficient spread through careful dialogue with customers even when interest rates rise in the future.

Q. How do you think a policy interest rate hike will affect interest rates and delinquency rates on existing loans to the real estate rental industry?

A. We will secure a spread by negotiating according to applicable interest rates, such as fixed-rate loans and short-term prime rate linked loans. In addition to the fact that rents are expected to rise under inflation, we do not anticipate a significant impact on the delinquency rate due to the stressed entrance screening process when lending.

[Pure investment shares / Cross-shareholdings]

Q. What is the outlook for the sale of pure investment shares?

A. We intend to proceed with sales while taking into consideration the market environment as well as the impact of expected gains on sales and dividend income on our earnings plan. Although sales are proceeding ahead of the full-year plan, we intend to proceed with sales for the full year in line with the plan at the beginning of the period.

Q. Regarding the sale of shares in the current fiscal year, are you considering only selling shares from pure investment shares?

A. Our policy is to sell shares through dialogue with our business clients, and there is a possibility of selling shares from cross-shareholdings as well as from pure investment shares. Our plan for the current fiscal year is focused on pure investment shares, but it is not necessarily limited to that.

Q. Please tell us about the communication with the authorities regarding the sale of pure investment shares.

A. By identifying the significance of holding pure investment shares and cross-shareholdings, we have reorganized our approach to holding these shares, and we will continue to communicate with the authorities.

[Securities Management]

Q. What is your securities management policy going forward in the face of greater interest rate volatility?

A. With regard to yen-denominated bonds, there is no change in our plan to purchase fix bonds while carefully monitoring the interest rate situation. As for foreign bonds, interest rate levels are moving significantly, and we intend to secure the interest income by promoting investment in bonds with asset swaps.

Q. Please tell us about the risk of increased losses on unrealized losses on yen-denominated bonds when interest rates rise.

A. The Bank manages risk parity and does not take too much of any particular risk. We expect unrealized losses to increase due to the impact of monetary policy, but we will control these and other factors as well.

Q. What is the impact of the decline in the U.S. policy rate?

A. We expect a reduction in the unrealized losses on our foreign bond portfolio, but at this time, we do not anticipate a major impact on our profits.

[Capital policy / Shareholder returns]

Q. With the macro environment moving so dramatically, what are your thoughts on enhancing corporate value, including your shareholder return policy?

A. There is no change in our growth strategy focused on DX and our policy of continuing to solve customers' problems by understanding the needs of clients and individuals. Regarding shareholder returns, we will return profits to shareholders while keeping in mind a future dividend payout ratio of 40%. We announced a 4 yen dividend increase at the beginning of this fiscal year, and we will continue to consider effective utilization of capital and additional returns while monitoring the progress of our business and the accumulation of profits.

Q. With regard to the CET1 ratio, please reiterate your approach to capital utilization, as the excess over the upper end of the target range of 11.5% has increased to approximately 60 basis points.

A. We intend to actively utilize excess capital relative to our target range, first of all as growth investments. Specifically, we are considering increasing risk-weighted assets, investing in new areas such as real estate funds, and making DX and in-organic investments. We will consider these investments while balancing growth investments that will serve as a source of future returns and shareholder returns. In terms of time line, we would like to take action by March 2029 to keep within the range.

Q. With the stock price in adjustment, please tell us whether there is any room to consider securing flexibility in share buybacks or expanding the volume of share buybacks.

A. We are always considering share buybacks and other shareholder returns, but at this point we are not making any major changes to our current policy.

Q. Regarding the target range for the CET1 ratio, if you mean to keep within the range of 10.5% to 11.5% by March 2029, could you consider reviewing the range?

A. We will take it as your opinion and consider it.

[Credit-related expenses]

Q. Credit-related expenses have increased compared to the same period last year. How do you see the accuracy of the stress test and other factors changing? Also, what is the outlook for credit-related expenses in the rising interest rate environment?

A. In 1Q, the number of bankruptcies remained flat YoY, while the number of non-interest and unsecured loan clients decreased. Since COVID-19 factors have decreased and there is no industry bias, we do not consider that macroeconomic factors are causing a large increase in defaults, and we assess that the outlook has been confirmed by stress tests rather than a sudden outbreak. In addition, we believe that the increase in credit costs can be controlled in the future by continuing to provide support ahead of time in response to changes in the business environment of our clients.

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