Q1: The loss related to market movements is significantly large when you include such items as the Y16.6bn unrealized loss on investments in equity securities held for operating purposes. The US banks also booked credit losses and equity markdowns, but the impact wasn’t enough to put them in the red. Is the sensitivity of your US GAAP based unrealized losses appropriately aligned to market movements?

A1: In the fourth quarter, we booked an unrealized loss on loan-related positions (approximately Y35bn), American Century Investments related gain/loss (-Y16.4bn), and an unrealized gain (loss) on investments in equity securities held for operating purposes (-Y16.6bn). While it is difficult to make a clear distinction on what is related to irregular market movements, and what is not, we also booked an unrealized loss on Securitized Products and other trading inventory as well as an unrealized loss on derivatives that were hit by severe volatility. So in total, the overall impact was around Y100bn.

As to whether the sensitivity under US GAAP is appropriate, unlike the US banks the majority of our loan positions are marked to market. The US banks book under expenses as loan-loss provisions, but because we mark to market, it is booked as negative revenue. We also mark to market investments in equity securities held for operating purposes. All of these were the result of the impact of the March market downturn and were accounted for appropriately.

Q2: Your March Tier 1 capital ratio and CET1 ratio both dropped significantly. While the US banks’ ratios also dropped because of an increase in risk-weighted assets, your drop seems more pronounced. Why is that?

A2: For our risk-weighted assets, loan-related positions are included in the trading book so we use VaR modeling to calculate market risk. Given the size of the recent market moves, credit spreads widened sharply and risk-weighted assets increased. It doesn’t mean our risk position increased. It means we are more susceptible than our peers to the impact of spikes in volatility.

Q3: Is it safe to say that the March-end unrealized losses are one-offs and if you don’t unwind your positions they will recover along with a market recovery? Are unrealized gains a part of why Wholesale revenues were solid in April?

A3: A significant portion is related to the impact from credit spread widening so we expect to see some recovery.

Q4: If volatility eases and credit spreads normalize, will risk-weighted assets roughly return to previous levels?

A4: Due to the nature of VaR and SVaR, the impact of the market dislocation in March will continue for a certain period, but we think it will ease gradually.
Q5: Why did you decide not to do a share buyback?
A5: As previously announced, we bought back a total of Y150bn worth of shares in FY19/20. Including the dividend, our payout ratio was quite high at around 98 percent. Currently, the outlook is uncertain as we are not sure how much the spread of coronavirus will impact the market so we are prioritizing to shore up our financial position. While we decided to forgo setting up a share buyback program at the moment, we will focus on improving shareholder value over the long term.

Q6: You didn’t announce a share buyback for issuing RSUs. Will you announce that once you have more clarity on the end to coronavirus?
A6: It’s not necessary at this time because we have enough treasury stock.

Q7: What is the breakdown between client revenues and trading revenues for Fixed Income and Equities?
A7: Client revenues in both Fixed Income and Equities exceeded 100 percent because of the unrealized losses. Excluding that, Fixed Income booked 80 percent client revenues and 20 percent trading revenues.

Q8: Is the unrealized loss on loan-related positions due to large deals or a lot of small ones?
A8: It is the result of a number of small transactions.

Q9: Your strategy for Wholesale is to shift focus from secondary trading to primary businesses. Will that strategy remain in place after coronavirus? How do you plan to allocate management resources?
A9: As part of the realignment of our business platform announced last April, we said we will focus on businesses where we have a competitive advantage and deemphasize unprofitable businesses. While we booked unrealized losses this quarter, if we hadn’t reduced our international Credit business, the losses could have been much larger. Our Rates and other Macro businesses had a strong quarter so we will maintain our focus on these areas of competitive strength.

The financing business is also a focus area. We will allocate financial resources taking into account comprehensive factors including the amount available to be allocated and our ability to absorb losses.

Q10: There is likely to be increasing demand from corporates to raise funds. Do you see that as an opportunity?
A10: The majority of our loan business is related to M&A transactions. It is possible that there will be increased demand for funds. Looking at the US market, the scale of bond issuance is growing. Some companies will also look to equity and so we see opportunities to support our clients in areas other than just loans.

Q11: Are the losses one off and can we expect to see improvement in April?
A11: In general, yes, but the movement of credit spreads differs slightly depending on the credit rating of individual companies.
Q12: How is your cost reduction program progressing?
A12: Both Wholesale and Retail have completed about 70 percent of the reductions and we are working to reduce the remaining Y40bn by the end of March 2022.

However, with coronavirus, most of our people are working from home and we have to prioritize using IT resources for usual business operations. While the pace of transforming our operating model has slowed a bit, we are able to maintain business operations with most people working from home and we have noticed some new internal issues. This experience will be hugely beneficial for cost cutting and we will move forward with this steadily over the next two years.

Q13: What was the amount of outstanding leverage loans at the end of March?
A13: About Y330bn. We saw a fair increase in drawdowns from clients we provide loans to as they looked to ensure liquidity.

Q14: Is my understanding correct that you provide loans backed by corporate credit? How do you evaluate inherent risk? As credit related indices are recovering, shouldn’t evaluations increase?
A14: As leveraged loans are lending, there will always be risk and they are closely linked to the financial performance of individual companies. As we mark to market, when the financial position of companies we lend to deteriorates, we have to book an unrealized loss. This quarter we booked an unrealized loss of Y35bn, but that can change depending on the creditworthiness of each company.

Q15: What are your views on the impact from the unique environment related to the coronavirus and are you preparing a medium term management plan?
A15: We won’t move forward with exactly the same medium-term plan we were considering pre-corona. Our strength is delivering comprehensive consulting services centered on finance. Demand for these services is increasing, but we will need to change our approach. We are currently discussing this.

Q16: You mentioned that even with work from home Retail revenues remained at around 80 percent in April. Is that the result of your efforts or due to market factors? How long will it take to return to normal operations after coronavirus?
A16: As the market plunged in March, we saw increased client activity, especially among clients whose portfolios have a high sensitivity to equities. In April, there was more diversification across products and we believe it was the result of efforts by our sales staff.

The timetable for returning to normal operations is not clear yet. We expect each prefecture to gradually return to normal. We will follow the guidance of the authorities.

Q17: We estimate Wholesale revenues at around Y160bn – Y170bn. Do you have any guidance on that?
A17: April revenues were good, but we are not sure how long this environment will continue. I will refrain from commenting on specific figures.
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