Q1: Investment Banking revenues remain slow. Do you feel the need to grow your international underwriting business? Equity and bond issuance by Japanese corporates is weaker compared to overseas companies. When do you think you will see Japanese client activity pick up again?

A1: Any expansion of our underwriting business in the US has to also take into account expenses. It might be slightly difficult to get a franchise that is just active in the primary bond market. So our international Investment Banking franchise will focus on certain sectors and products. For instance, by leveraging the Greentech platform we acquired in April this year, we aim to generate new revenue streams by providing advice and financing in the area of ESG, where there is increasing demands from society and growing business opportunities.

In Japan, although bond issuance by Japanese corporates was strong in the first quarter, equity issuance was very slow. While we can’t say how long the impact of coronavirus will continue, we believe demand by corporates to secure capital will grow as the impact on the real economy becomes clearer.

Q2: You normally consider share buybacks in the second quarter. What factors do you take into account to not do so? Do you take into account factors such as the call by global regulators to retain funds internally or CET1 ratio levels?

A2: There is no change to our policy of flexibly conducting share buybacks or our shareholder return policy of a total payout ratio of at least 50 percent. We have been able to control the negative impact of the coronavirus in the first quarter and, because we don’t hold a huge loan book, there is a relatively small possibility of our credit risk spiking.

However, we can’t fully foresee how the external environment will change. So as a market intermediary, we need to keep these risks in mind as we control our capital levels. We have not been directly request by the Fed or ECB to restrict shareholder returns, but we also have to consider such external factors affecting the finance industry.

Our CET1 ratio at the end of June was 15.7 percent, which is fairly high compared to our target of 11 percent. When considering share buybacks, we will take into account various factors such as capital, regulations, the external environment and our share price.

Q3: It looks like costs are down in Retail and Asset Management. Why is that and why have Wholesale costs increased?

A3: In Retail, one-off expenses related to our branch office integration booked last year were not present this quarter. Rental expenses have also come down as a result of the branch integration. Marketing expense are also down, as are business development expenses (travel, etc.) due to coronavirus. So it’s the result of many factors. In Asset Management, business development expenses declined. Wholesale compensation and benefits increased due mainly to bonus provisions.
Q4: As coronavirus abates and travel expenses return, will Retail and Asset Management expenses return to the levels of the fourth quarter?
A4: We are transforming the way we work and our operating model. We are also cutting other costs and we should see benefits from lower rent and transforming our HR system. Costs are also affected by performance, but we expect costs to drop below fourth quarter levels when coronavirus has finished.

Q5: How were Fixed Income revenues in April, May and June? Will revenues remain at those levels from July if the Fed continues with asset purchases?
A5: On a monthly basis, revenues were particularly strong in April and May, while June was fairly normalized. The environment was quite strong as volatility remained elevated, ask/bid spreads were good and the yield curve steepened slightly. We don’t expect revenues to stay at these levels. As the Fed and ECB continue with their massive monetary easing policies, we don’t expect the business environment to deteriorate soon, but the more normalized environment will continue for a while.

Q6: Why did Retail investment trust and bond sales rebound in June? How have sales been since then?
Our sales activities in April and May were primarily non-face-to-face. After the state of emergency ended, we restarted visiting clients after receiving their approval to meet. This led to an increase in sales in June of investment trusts and more complex products that are hard to sell over the phone. While the recent coronavirus situation remains uncertain, we continue to meet with clients who agree to meet and the sales trend in July is similar to June.

Q7: You have a significant contribution from unrealized gains this quarter. Does that affect your decision around dividends?
A7: It depends on how you look at the 71.1 billion yen unrealized gain booked as a result of the Nihonbashi redevelopment project. As a significant part of our results come from unrealized gains or losses, we can’t fully excluded this unrealized gain. The 71.1 billion yen unrealized gain from the Nihonbashi redevelopment project also includes expenses that we will need to pay in the future. We need to take that into account too. That said, there is no change to our dividend payout policy of 30 percent.

Q8: What is the breakdown of client revenues and trading revenues in Fixed Income and Equities?
A8: 50/50 in Fixed Income. 80/20 in Equities.

Q9: You said fourth quarter results were weighed down by 100 billion yen due to coronavirus. How much of that was recovered in the first quarter?
A9: We booked a loss of around 100 billion yen in the fourth quarter due to factors such as ACI, investment securities, etc. Of this, 35 billion yen was loan-related losses attributable to Wholesale. In addition, we reported unrealized losses on trading positions in Wholesale, which we are unable to track as they change quickly. We have sold off some of the loans and can’t accurately track, but about 20 or 30 percent has been recovered. The market rebounded strongly in the first quarter centered on highly liquid assets, while loan positions have been relatively slower to recover.
Q10: So the 20 to 30 percent loss for loan positions. Does that mean you have recovered more in relation to the 100 billion yen from the fourth quarter?
A10: Of the 16.4 billion yen ACI unrealized loss from the fourth quarter, we recovered about 60 percent with a 10.3 billion yen unrealized gain in the first quarter. For the 16.6 billion yen loss on investment securities, we booked a gain of 2.3 billion yen in the first quarter, representing about 14 percent. The 6 billion yen loss on shareholdings held by our banking subsidiary recovered by about 60 percent. As I said, we don't continue to hold all the positions that contributed to the 100 billion yen unrealized loss, so it is hard to say but overall we have recovered about 30 percent.

Q11: Segment Other corporate items booked income before income taxes of 45.1 billion yen. I assume this includes the 71.1 billion yen gain from the Nihonbashi redevelopment project, but what is included in the gap of negative 26 billion yen?
A11: One factor is legal expenses. Another is because internal funding costs stay in corporate items temporarily as there is a time lag between when the USD Libor rate drops and our overall funding costs decline. Costs related to the AT1 bonds issued in June are also included.

Q12: Why did RWA increase but leverage exposure decreased?
A12: We use a moving average to calculate RWA, which meant they remained high in the first quarter. For leverage exposure, we saw a decline predominantly in repos, meaning our balance sheet declined by 2.5 trillion yen from the end of March to 41.5 trillion yen. Leverage exposure also declined because of the temporary measure that allows BOJ deposits to be excluded from the calculation.

Q13: Is it safe to say revenue from Fixed Income positions increased significantly?
A13: Spreads tightened in the first quarter and ask/bid spreads widened while the yield curve steepened, leading to an improved trading environment that we were able to monetize.

Q14: Could Fixed Income revenues normalize?
A14: As our US peers said, the market has normalized from the second half of June into July.

Q15: Will Retail consulting revenue recover while the impact of coronavirus remains? What will the new CIO group do?
A15: Given the restrictions around meeting clients in person, our estate planning and SME M&A businesses were impacted, meaning first quarter consulting revenue was subdued at 1.6 billion yen. We will use VC systems, etc., to conduct virtual sales activities to try and recover from the late start.
The CIO group is a function independent of Retail that will provide advice on how to manage multi-asset portfolios. Asset management for individual clients is quite difficult with just individual stocks. By using the CIO group’s services to create the optimal portfolio balance, we aim to increase recurring revenue assets.

Q16: What is the outlook for revenue/modified RWA and what factors make this KPI change?
A16: Global Markets first quarter revenues were very strong. Our revenue/modified RWA target is around 6 percent, and recent figures were quite high. This KPI should normalize along with the market. We are discussing internally how to boost capital efficiency. We aim to enhance profitability versus RWA.
Q17: RWA adjusted somewhat in the first quarter. Is there room for further efficiency? Are Fixed Income revenues sustainable from the second quarter onwards?

A17: Wholesale total RWA were adjusted in the first quarter through sales, etc. But we are not finished yet and will continue to adjust.

We aren’t overly optimistic about the sustainability of current Fixed Income revenues. But by realigning our business portfolio last April and cutting costs, we have lowered our breakeven point and are starting to see tangible results.