Q1: Your dividend payout for the year ended March 2021 and for the first half of the current fiscal year took into account one-off factors. Will you return to your normal dividend policy for the second half of the year?

A1: As you said, we took into account one-off factors a few times in the past. However, our policy of striving to pay dividends using a consolidated payout ratio of 30 percent of each semi-annual consolidated earnings as a key indicator remains unchanged.

Q2: How was Fixed Income and Equities performance in January compared to the third quarter monthly average?

A2: While the environment remains challenging, both Fixed Income and Equities have got off to a good start in January.

Q3: Wholesale expenses were up by 15 billion yen compared to the third quarter last year. I assume some of that is noise due to the weaker yen, but what are the reasons for the increase?

A3: As you said, yen depreciation is one factor. Overall, compensation and benefits is not increasing but we are hiring in growth areas and base salaries rose slightly with the wage increase for bankers. We are enhancing our risk management to ensure we run our businesses properly and this entails some additional expenses. We will continue to stringently manage our cost base while investing in our business and work to achieve our Wholesale KPI of an 80 percent cost income ratio.

Q4: Your share buyback program launched in October with an upper limit of 50 billion yen ended at 39 billion yen. Why didn't you buy back to additional amount given you have surplus capital?

A4: Share buybacks are always an option on the table. We will continue to take a flexible approach taking into account the earnings and regulatory environments and our share price.

Q5: Will you use the left over 10 billion yen or so as an addition for future buybacks?

A5: Although there is not such a definite linkage, we may consider it when calculating our total payout ratio.
Q6: Wholesale had a good quarter with annualized earnings reaching your March 2023 target. What revenue upside do you see as monetary policy normalizes?

A6: As with our peers, the revenue environment for our core product of Rates was challenging in the third quarter. While we expected the environment to normalize from the strong previous year, revenues were unexpectedly below the average level from before that period.

With rates likely to rise this year, the market will look to see where long-term rates end up and we can expect to see an increase in market participants along with higher demand for portfolio rebalancing and hedging. This should result in an improved earnings environment for our Rates business. FX in AEJ is another of our strengths and we expect to see an uptick in activity as differences in monetary policy exit strategies around the world create interest rate differentials. On the other hand, Credit was extremely strong in the third quarter and I wouldn’t be surprised if that normalizes a bit.

In Equities, we don’t conduct business using large balance sheet. Instead, we focus on the top one or two products in the industry. Our business model is one where we can usually take orders in line with any changes to the risk appetite of our clients. We feel that we have been able to monetize such opportunities this year. Of course, risk management is critical to prepare for any sharp movements in market prices.

Q7: Level 3 assets declined with the pandemic but are increasing again. What businesses is this related to and how are you managing risks?

A7: One of the reasons for the increase in Level 3 assets is warehousing loans related to our securitization business centered on the US. These are relatively short-term loans that are taken off our balance sheet over time. We see growth opportunities in Securitized Products. In particular, in comparison to the agency business, recently the anticipation of rate hikes is driving up demand from investors hunting for yield. However, that does not mean we will significantly increase the amount of outstanding loans. We intend to raise efficiency in meeting investor demand while maintaining stringent management of our resources.

Q8: Interest rate volatility has been in the rise lately. Are you allowing the business to use balance sheet relatively freely?

A8: Interest rates moved abnormally from the second quarter and into the first half of the third quarter so we limited our balance sheet usage. Recently, yield curve movements are more natural and we have increased leeway somewhat for balance sheet usage. The market environment remains challenging so it’s not as if we are putting our foot down on the accelerator, but performance in our Rates business hasn’t been bad this month.

Q9: You broke out net inflows of cash and securities for individual investors, but what about a breakdown of recurring revenue assets for individuals?

A9: We can’t comment as we don’t disclose the breakdown of recurring revenue assets.
Q10: You have a March 2023 KGI target of three segment income before income taxes of 320 billion yen. Given the current environment, do you expect to undershoot or overshoot that level next year?

A10: Our Retail business is working hard to shift from a transaction based business model to an asset consulting approach. We will continue with these efforts and aim to grow our revenues while expanding our client franchise.

While Wholesale performance is dependent on the market, if things go smoothly we believe we can deliver solid performance. If Rates, one of our core businesses, can get back on track we may be able to exceed our target.

Q11: What impact will the introduction of FRTB have?

A11: Previously, we advised that the impact of FRTB on our CET 1 ratio would be three to four percent, but we revised that slightly upwards last year. We are keeping a close eye on whether it will be introduced as planned in our fiscal year to March 2023.

Q12: How is the trial of level fees going in Retail? How do you think it will impact revenues after it is fully introduced in April this year?

A12: We are trialing it for some clients at certain branches. It is structured so that fees decline as client assets increase. We still have to finalize the fee structure so it is difficult to calculate the revenue contribution at this stage.

Our aim is to boost the quality of our services for our clients, particularly to increase client satisfaction. More and more clients are introducing their acquaintances to us so we’re seeing a good response. We are also focused on growing our client base and increasing assets per head.

Q13: You reached your 8 percent ROE target on an annualized basis. Can we expect you to achieve 10 percent ahead of schedule? What do you need to do to achieve that?

A13: We are enhancing our efforts in digital, investment, and wealth management and the management team is in constant discussion on this. Investment in digital won’t lead straight away to high ROE, but digital is an area we have to pursue and we are taking the appropriate steps.

For investments, if there is a good opportunity we will consider, including M&A. In areas where we can grow organically such as Investment Banking in the Americas there is strong activity and we are doing what we can as well. Naturally, investment depends on generating revenues to meet the costs. The recent growth in ROE at our US peers is largely due to investment banking, and although we can’t cover all sectors we will take a selective approach.

I think you have a fair understanding of our wealth management business in Japan. In our International Wealth Management business, we have hired new people and clients assets are gradually increasing.
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