Investor Presentation for FY2023

Main Q&A

Q. What is the approach toward profit growth in the new Medium-Term Business Plan ("MTBP") in increasing shareholders value?

A. The new MTBP incorporates the impact of the appreciation of JPY and interest rate cuts in the US but assumes the BOJ policy rate will remain unchanged. We are focused on achieving profit growth through internal initiatives, and the plan assumes net operating profits, excluding the impact from FX fluctuation, to increase by 30%, or ¥500 billion. The increase in the profits attributable to the owners of a parent is limited to ¥100.0 billion, which is significantly affected by the appreciation of JPY. We want to steadily achieve the FY2024 targets and demonstrate results.

Q. What is the background for the decision to make share repurchases up to ¥100.0 billion? Will you maintain the disciplined capital management and ROE management?

A. We will maintain our approach on disciplined capital management and ROE management. The decision was made based on the basic policies for capital allocation, considering the enhancement of shareholder returns, maintaining equity capital, and strategic investments for growth. We executed more than ¥400.0 billion in share repurchases last year and the year before. This time, we also took into account that it is the first year of the new MTBP. We are aware of the extremely high expectations for share repurchases, and will maintain steady communication with the market. Considerable share repurchases will be necessary to achieve the ROE target under the new MTBP. We will make disciplined decisions.
The target range of the CET1 ratio was expanded to 9.5%–10.5%, estimated on a finalized and fully implemented Basel III basis, excluding net unrealized gains. On the other hand, the CET1 ratio under the current Basel III basis with phased floor adjustments is ample at 13.5%. We will also assess this ratio for shareholder returns.

Q. What is your assessment of the CET1 ratio achieved under finalized and implemented Basel III basis, and what is your capital management going forward?

A. The target range for the CET1 ratio was expanded to 9.5%–10.5% to improve transparency, considering there was a period when shareholder returns were not made despite exceeding the upper limit of the target range. We believe a stable capital management is possible within this range. The CET1 ratio, as of March 31, 2024, was within the target range at 10.1%. We don’t think this level is low, so we decided to repurchase shares.

Q. How will you balance the share repurchase and growth investment during the three years of the new MTBP?

A. Between the organic/inorganic growth investment and share repurchases, we expect the ratio of share repurchases to be slightly higher at this point. We will maintain the balance to achieve the ROE target of about 9%. RWA will increase due to organic growth investment, but we intend to steadily reduce low profitability assets and increase high profitability assets to capture growth.

Q. What was the background for setting the target ROE at 9% for the new MTBP?

A. The 7.5% target ROE under the previous MTBP was set as the minimum level to earn positive recognition by the capital market. It was initially viewed as an ambitious target, but we made positive progress, including improved lending spreads and increased commission fees. As a result, ROE improved to 8.1%, excluding the impact of the change of equity method accounting date of MS. The approximately 9% target was set to continue these initiatives and aim higher, with the added perspective of co-creating the growth of the Japanese economy.
The assumption for the interest rate environment incorporates the termination of negative interest rates implemented in March 2024. Our revenue growth will be linked to the future BOJ policy rate hike. However, as this will require a revision of the policy on interest rates to customers, interest rate hikes are not incorporated in the current plan. We also assume the exchange rate in the upper ¥120s range against USD, and weaker JPY will boost revenue. The ROE target in the new MTBP excludes these tailwind factors to present the management’s resolve for growth based on internal initiatives.

Q. The new MTBP aims at a significant increase in net operating profits. What are the specific measures?

A. During the previous MTBP, a growth in net operating profits was achieved despite the sales of MUB, by increasing gross profit and controlling the increase in expenses. We believe the foundation has been established in the past three years by reinforcing the domestic business revenue base and rebuilding the global business portfolio. The new MTBP aims to achieve gross profit growth exceeding the increase in expenses to realize net operating profit growth of ¥500.0 billion. To do this, we must continue to improve the lending spreads and increase commission fees. By region, Asia will remain one of the focus areas.

Q. What was the background for setting the target reduction of equity holdings at ¥350.0 billion? Was it affected by the trend of accelerating reduction in other industries?

A. The initial target under the previous MTBP was ¥300.0 billion, but we ultimately sold ¥539.0 billion. Selling will become increasingly difficult as the reduction makes progress, but we set the target at ¥350.0 billion as the minimum requirement after confirming the status of all pipelines. Further reduction may be considered depending on the trend in other industries, but we will make the decision by reviewing the results for FY2024. We have also set the target of reducing the total amount of domestic listed equity securities and deemed holdings to less than 20% of consolidated net assets during the next MTBP and will try to achieve the target early.

Q. Of the ¥500.0 billion increase in net operating profits, what specific items comprise "Others," which are not part of the growth strategy?

A. It includes a part of BS profitability improvements not included in the seven growth strategies and the Treasury's recovery of profitability.

Q. What do you think is the appropriate level of total number of issued common stock? Will your approach toward shareholder return change corresponding to the change in the total number of stocks?

A. We don't have a specific level in mind as being appropriate regarding the total number of issued common stock. The figure was presented to show the result of our capital management. We believe steady growth of ROE and firm implementation of disciplined capital management is the key.

Q. Of the seven growth strategies, which do you think will achieve results first?

A. Each strategy includes various initiatives, and the timing of achievement of results will differ. For example, in supporting the value chain in green transformation ("GX"), GX-related project financing will have a relatively early revenue impact, but it will take time for the effect of value chain support to materialize. In strengthening the APAC business and platform resilience, we will increase the net operating profits from ¥460.0 billion to ¥600.0 billion. We will enhance recurring revenue to steadily drive revenue while taking time on initiatives in new areas, such as capitalizing on the growth of India and cultivating Asia & digital finance strategy.

Q. What is your view on the current level of PBR?

A. We believe our initiatives on structural reforms and rebuilding the global business portfolio in the past three years have been appreciated. The change in the interest rate environment will be a tailwind for all Japanese financial institutions. Considering the size of our balance sheet, further growth could be expected.

Q. The new MTBP assumes the FF rate to fall to approximately 3%. Is the impact on non-JPY liquidity deposits incorporated in the plan?

A. The MTBP incorporates the impact of the fall in the FF rate on non-JPY liquidity deposits.

Q. What is the assumption for calculating the impact of the rises in JPY interest rates?

A. Annual impact from rises in JPY interest rates assumes that the balance sheet portfolio remains the same and uniformly applies a 15bps parallel shift to the BOJ policy rate and market interest rate from the start of the fiscal year.

Q. Please explain the results of the previous MTBP and the policy for the new MTBP regarding the inorganic growth strategy.

A. We believe a portfolio that can seize the market opportunities in the Asia & digital finance and AM/IS areas has been created with multiple investments.
As we can now steadily achieve over ¥1 trillion in profits, the profits will be appropriately allocated to shareholder returns and growth investment according to the basic policies for capital allocation. Investment decisions are made subject to review to secure sufficient investment returns compared to other options, including share repurchases. We will maintain disciplined operations.

Q. Will the new MTBP convert the policy to increasing RWA?

A. The plan expects a relatively large increase in RWA for JCIB and GCIB, which assumes steady sales of equity holdings and reduction of low profitability assets, replacing them with high profitability assets. During the previous MTBP, we instilled the mechanism of controlling the RWA while pursuing risk- return. Japan will enter a normalized interest rate environment, and we will meet the diversified demand while promoting risk-taking with attention to higher returns.

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