

Major Q&A at the FY3/24 Investors Meeting

Q1. What is the concept of the forecast in FY3/25 and the Medium-Term Management Plan?

A1: When we announced the target of FY 3/24 and the current Medium-Term Management Plan last May, there was a significant uncertainty in the global financial markets, triggered by the collapse of Silicon Valley Bank in the U.S. In retrospect, our initial assumptions, made under such conditions, were quite conservative. As a result, we revised our forecast upward by JPY 100 bn during the fiscal year and exceeded the forecast by JPY 40 bn, which achieved the final year target of three-year plan in the first fiscal year. Our approach was to set targets at levels we should achieve even under a downside scenario and revise them upward if the anticipated risks have not materialized. However, I have come to realize that this approach may have appeared overly conservative to investors and could have been interpreted as a lack of confidence or potential risk factors in our future performance.

The current business environment has turned to be much more positive than expected. Yen depreciation, rising stock prices, and persistently high U.S. interest rates have created a favorable backdrop for our earnings. Investment activities among companies and individuals in Japan are gaining momentum, and the world has finally begun to see Japan's regrowth as the negative interest rate policy was lifted. In light of these circumstances, we decided to set even higher goals and challenge toward them.

Q2. What is the growth driver going forward?

A2: In the Medium-Term Management Plan, we have set an ambitious target to increase net business profit by JPY 320 bn over three years. For FY3/24, net business profit increased by JPY 280 bn. Half of the increase is based on our core earnings growth, and this momentum is continuing into FY3/25.

In Japan, we are seeing strong financial needs from wholesale clients who are increasingly engaging in corporate actions, as well as deal flows in investment banking business. Investment activities among individuals are gaining momentum under favorable stock market, and the wealth management business is showing good progress. CIB business in overseas is also contributing.

In the mid- to long-term, we are steadily expanding our retail customer base through Olive, increasing collaborations with Jefferies and progressing the Multi-Franchise Strategy in Asia. We have also been working to improve ROE through the reallocation of our business portfolio, including the reduction of equity holdings that significantly exceeded our plan and the sale of the U.S. freight car leasing business.

Q3. How is the progress of reducing equity holdings?

A3: We reduced our equity holdings by JPY 134 bn in the first year of the reduction plan, which aims for a total of JPY 200 bn in this Medium-Term Management Plan.

The pace of reduction was greatly accelerated due to more proactive negotiations with clients and a positive shift in clients' attitude driven by the adoption of the Corporate Governance Code. We plan to reduce at least JPY 100 bn in FY3/25, continuing this strong momentum, and hope to achieve the JPY 200 bn target in early FY3/25, ahead of schedule. We will consider a further reduction plan and aim to announce it after reaching the current target, while assessing the impacts from domestic insurance companies announcing the sale of their entire equity holdings and the response of their clients.

Q4. What is the basic capital policy? Are there any changes in the target of growth investment?

A4: Our basic capital policy is to achieve healthy balance among securing financial soundness, enhancing shareholder returns, and investing for growth. As bottom-line profit has been higher than initial assumption of the Medium-Term Management Plan, our excess capital which we can allocate to shareholder returns and/or investment for growth is increasing.

Principal approach for shareholder returns is dividend and a progressive dividend policy with 40% payout ratio remains unchanged. We conduct share buybacks flexibly and announced the program up to JPY 100 bn. Additional purchase will be considered during this fiscal year depending on our capital position, financial progress, stock price, opportunities of investment for growth, etc.

We have not changed the two investment targets; a) “businesses that contribute to building future platforms,” such as Multi-Franchise Strategy in Asia, and b) “businesses that can be expected to promptly contribute to improve our asset and capital efficiency,” such as investment banking business in overseas. We will consider the transactions which align with our strategy and criteria in a disciplined manner.

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