Building a Portfolio That Ensures Stable Yields

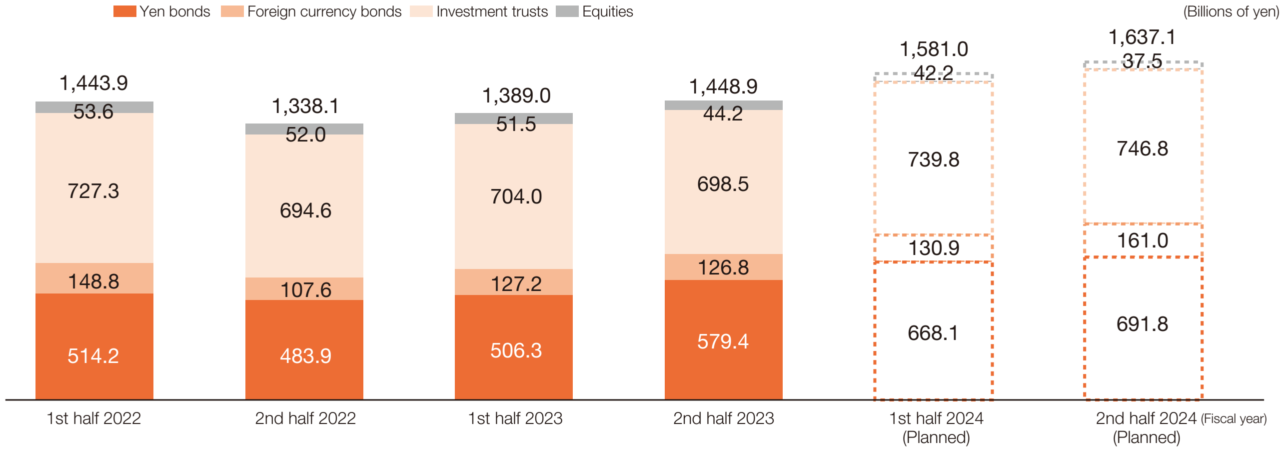
■Basic policy

We will focus on stabilizing our periodic earnings and generating unrealized profits by investing in assets that can produce highly reliable earnings and diversifying our sources of earnings.

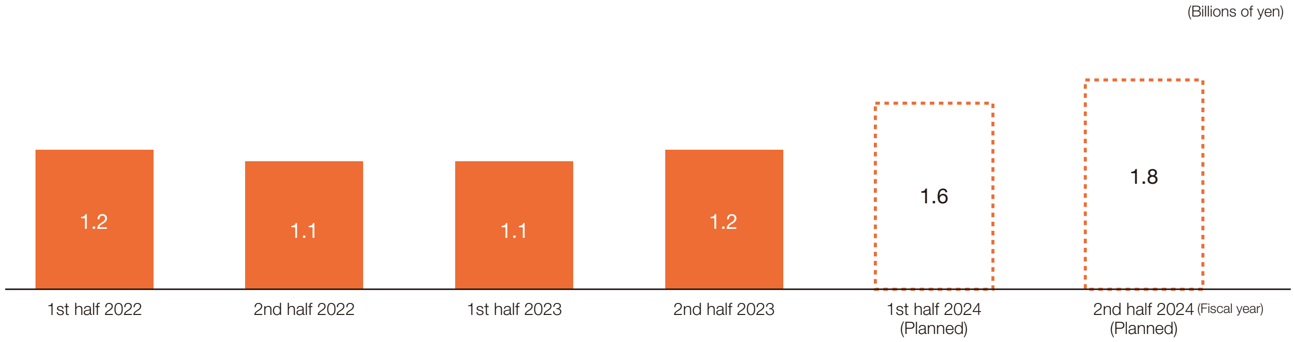
<Major measures for FY2024>

(1) Restructuring our bond portfolio ➡ Secure income by building a laddered portfolio of yen-denominated bonds.
(2) Rebalancing mutual funds ➡ Stabilize income over time by replacing performance-distribution mutual funds.

■Securities Portfolio (ending balance)



■Income (interest on yen-denominated bonds)



VOICE

To compensate for the decline in interest income due to the prolonged formerly prevailing low interest rate environment, we have worked to diversify our sources of income while drawing on outside expertise and resources. As a result, we have increased the number of performance-distributed assets whose interest income fluctuates according to investment performance, creating a portfolio whose term income is subject to impact from changes in the market environment.

Under these circumstances, the Bank of Japan's revision of its large-scale monetary-easing policy has brought about a "world with interest rates," with a resulting increase in the attractiveness of yen-denominated bonds as investment instruments that can be expected to provide reliable, stable interest income until maturity. We are promoting the replacement of yen-denominated assets with yen-denominated bonds from a medium- to long-term perspective in order to stabilize earnings in the market segment.

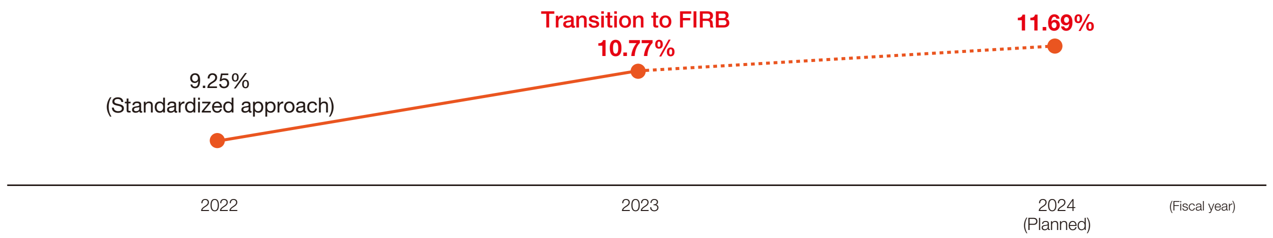
Although investing in yen-denominated bonds during a period of rising interest rates brings with it a risk of deterioration in valuation gains/losses and shrinkage of margins, we intend to build a sound portfolio with diversified "assets," "regions," and "times" through extensive diversification of the investment periods and terms as well as through incorporation of domestic stocks and overseas assets, which can be expected to move differently from yen-denominated bonds.

In future, we will continue to work toward further stabilizing our earnings by carefully monitoring the ever-changing market environment, including economic conditions, monetary policy, and geopolitical risks.

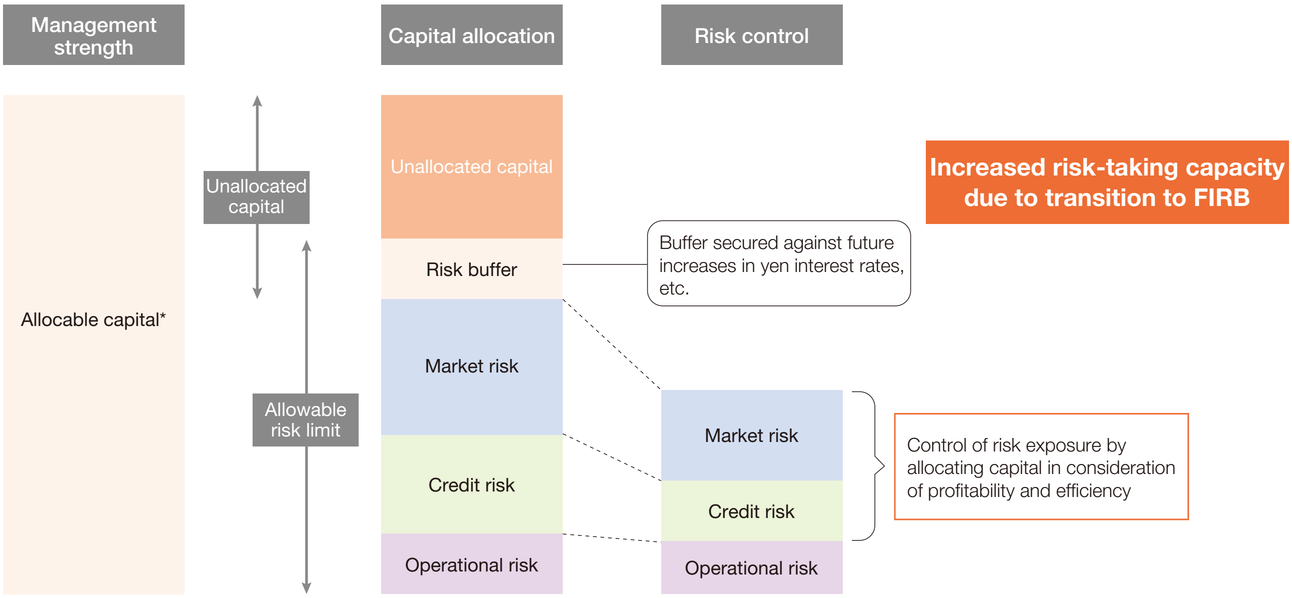
General Manager, Market Management Dept.
Hideya Nagahama

Appropriate, flexible risk control

Capital adequacy ratio (consolidated)



Capital allocation to ensure soundness and risk control



*Distributable equity capital includes unrealized gains on securities.

VOICE

With the approval of the Financial Services Agency, we switched to the Fundamental Internal Ratings Based Approach (FIRB) for measuring credit risk and began applying it in the calculation of our capital adequacy ratio as of March 31, 2024. We will continue our active efforts to contribute to sustainable development of the region by taking advantage of this added capacity.

In addition, the environment surrounding financial institutions is set to change drastically as the long-running monetary easing policy reaches a turning point. The Bank employs stress tests and other measures to perform multifaceted scrutiny of the impact of future interest rate hikes on its management. It also conducts appropriate capital management to respond to anticipated risks, such as by installing buffers to protect against the risk of interest rate hikes at the time of capital allocation.

We expect earning opportunities to expand as interest rates rise, and we plan to further improve our earning capacity by engaging in aggressive risk-taking. On the other hand, we expect valuation gains and losses on yen-denominated bonds to deteriorate, and we are responding with flexible risk control measures in order to improve our profitability and soundness. We intend to continue these efforts to enhance profitability and soundness through appropriate application of flexible risk control.

General Manager, Risk Management Department
Masanori Koyanagi