Message from the Executive Officer in Charge of the Market Division

Constructing a securities portfolio that generates consistently stable returns



Director and Managing Executive Officer
Haruyuki Kakutani

Review of business performance

Stabilization of revenue for the term

Nanto Bank's basic policy in its market operations is to secure stable, sustainable returns from a medium-to-long-term perspective, with deposit trends and other funding conditions considered.

Currently, the interest rate environment is undergoing significant changes in line with the Bank of Japan's normalization of monetary policy, creating conditions in which an improvement in market investment yields can be expected. At the same time, however, managing interest rate risk has become more important than ever, as fluctuations in valuation gains and losses—particularly for yen-denominated bonds—have become more pronounced.

Under these circumstances, the Bank continues to focus primarily on yen-denominated bonds and on building a ladder-type portfolio based on the assumption of holding securities to maturity. Based on market outlooks derived from economic and inflation trends, moreover, the Bank aims to secure stable returns even during periods of rising interest rates by broadly diversifying its investment horizons and timing, while appropriately managing the overall portfolio risk.

Improving our portfolio quality

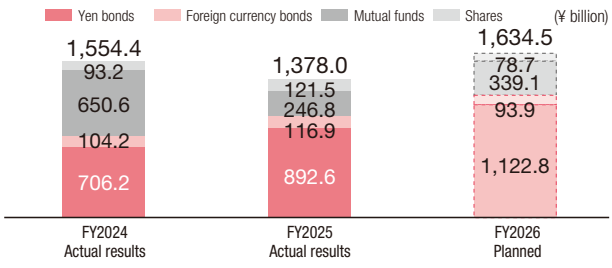
Our other efforts to secure stable returns include improving the quality of our portfolio from a risk-return perspective. We are taking advantage of today's rising interest rate environment to restructure our securities portfolio by replacing low-yielding assets and reviewing our outsourced investment strategies.

We are optimizing our asset allocation while leveraging capital gains and other sources of returns, moreover, to enhance our future income flows and strengthen our earnings base simultaneously.

We are also pursuing enhanced diversification of our portfolio, meanwhile, by varying our revenue sources and spreading risk through an appropriate combination of yen-denominated bonds with foreign-currency bonds, equities, J-REITs, and other assets.

Going forward, we will maintain our efforts to assess changes in market conditions accurately while pursuing a balance between profitability and financial soundness. Constructing a portfolio that generates consistently stable returns will contribute positively to strengthening the Group's earnings base.

■Securities portfolio (ending balance)



■Market Division revenue

