# Results for the Fiscal Year Ended March 2022
# Summary of Q&A (May 19, 2022)

Q1.

Some have expressed the opinion that your earnings forecast for FY2023/3 is somewhat conservative, but what your thoughts on this?

Also, given your shareholder return policy of the stability and sustainability of dividends, and the fact that you set dividends for FY2022/3 and FY2023/3 at ¥50, does this indicate management's intention to maintain dividends of ¥50 or net income of at least ¥310bn throughout the term of the present Medium-term Management Plan (hereinafter "Mid-term Plan")?

A1.

(Ikeda) Although we gave careful consideration to ongoing conditions such as the situation in Ukraine and increased dollar funding costs associated with rising interest rates in the U.S., as Japan Post Bank's income levels have been increasing, we determined that these factors would not be enough to significantly decrease our earnings, so we settled on dividends of ¥50. The Board of Directors engaged in various discussions regarding this dividend amount, but all directors eventually agreed to the amount after taking into consideration our increased earning power.

If we strictly apply a dividend payout ratio of 50%, we will require a net income of around ¥370bn for a ¥50 dividend. At present, we expect a decrease in earnings of around 10% this fiscal year, but our intention is to maintain a ¥50 dividend in accordance with our dividend policy.

As you are aware, the dividend payout ratios of many financial institutions is limited to between 30% and 40%. We did consider the idea of changing our dividend payout ratio to a similar level in order to build up our internal reserves, but we ultimately decided on a 50% to 60% dividend payout ratio in our Mid-term Plan announced during the last fiscal year, in order to give back to our shareholders.

Q2.

The shareholder return policy in your current Mid-term Plan indicates that you will strive to increase dividends per share from the initial dividend forecast level of FY2022/3, and it is my understanding that this policy as not yet been revised. On the other hand, many other major Japanese banks appear to have set forth dividend policies that aim for incremental dividends or that strive for increases, and at the very least avoid decreases.

In light of your bank's profitability, do you have any plan or intention to change your dividend policy from seeking to increase dividends per share from the initial dividend forecast level of FY2022/3 to a policy of incremental dividends?

And can you provide any commentary on the share buybacks you are performing as part of your shareholder return framework while you advance your investment into risk assets?

A2.

(Ikeda) During the term of our previous Mid-term Plan, we maintained the policy of securing ¥50 dividends despite having just implemented various measures in anticipation for the future, such as launching investments into strategic investment areas in order to prepare for increased funding costs, etc.

And the current Mid-term Plan marks the first time we have changed to a way of thinking based on dividend payout ratio. We elected to first strive for a dividend payout ratio of between 50% and 60%, eliminate the definite dividends of the previous Mid-term Plan, and return a solid half of our revenue to our shareholders. Of course, we have not clearly specified "incremental" dividends, but as a fundamental matter we are not contemplating reductions to dividends, and would like to increase dividends by improving our revenues.

With respect to shareholder returns, we conducted various internal discussions and calculations regarding the resumption of interim dividends and the method and scope of share buybacks, but we ultimately decided to give back to our shareholders by focusing primarily on dividends. Of course, we also anticipate that share buybacks may be another method of providing returns to our shareholders, and will be considering that option while examining our external environment and capital reserves.

Q3.

Thanks to the results of your bank's investments in foreign bonds investment trusts and other areas, you have managed to achieve the highest revenues since you were listed. Meanwhile, however, I understand that some regional financial institutions have recorded significant negatives due to failures in market investments. In addition, there appear to be a number of institutions that have experienced increased credit costs, due in part to the impact of COVID-19, and we are left with the impression that these regional financial institutions are experiencing heavier burdens.

You have indicated that you consider partnerships with these regional financial institutions to be your "third engine," but if, going forward, these institutions begin experiencing true difficulties, it seems possible that this third engine may not work out very well.

President Ikeda, what are your thoughts regarding the current management environment of regional financial institutions, and what their situations may look like in the future?

A3.

(Ikeda) Although I find it rather difficult to comment on the situations of other financial institutions at this time, we are very much aware of the fact that each regional financial institution is experiencing severe difficulties. With that said, however, we continue to believe that a major strength of these institutions is their customer bases, which include corporations.

Given this reality, we are always engaged in efforts to create various different pipelines between our bank and these regional financial institutions. One such effort is to create funds with each of these regional financial institutions, and help circulate funds within a community.

We are also working on efforts to form ATM partnerships and aggregate the operational processes of tax and public money collections.

Additionally, the majority of Japan Post Bank's fund investments are large-scale market investments, while many regional financial institutions' fund investments continue to principally be in loans, with market investments largely being supplemental, so the sense of scale we operate under is quite different. The same can be said about the scale of personnel involved in investments. My personal hope is that, as we continue to work in tandem with regional financial institutions going forward, we can develop the sort of relationships where personnel of Japan Post Bank interact with personnel of our regional financial institution partners in respect to market investments.

Q4.

(Further questions)

Is it possible that your bank may start investing funds on behalf of the regional financial institutions?

A4.

(Ikeda) While I am aware that some financial institutions are engaged in such initiatives, our hope is to establish friendly, understanding relationships with our regional financial institution partners in advance of efforts to make investments together or having them entrust their investments to us.

Q5.

On page 2 of the Japan Post Bank Symposium presentation deck, there were references to a "digital bank" and "restructuring of yen interest rates portfolios" applicable to FY2027/3 and onward. With respect to this point:

(1) Do you anticipate that your bank will be creating a digital bank independently and from scratch?

(2) As for the restructuring of yen interest rates portfolios, can you please tell us if there is a sense as to what interest rate levels would result in a shift away from Bank of Japan deposits to Japanese Government Bonds?

A5.

(Ikeda) The Japan Post Group's policy regarding "(1) digital banks" is to integrate the physical with the digital. This means that, while we will maintain our physical channels in the form of our 24,000 post offices across Japan, we will seek out new business opportunities in the digital arena.

First, Japan Post Bank will advance implementation of digital functions in our physical channels. The implementation of our teller tablet system is a good example, but this system was first introduced at our directly operated branches as an advance measure, and eventually we hope to expand the system to our post offices as well. The fact that we have bases of operation in the form of our post offices is the very reason why we are able to engage in digitization efforts.

As for the bankbook app we are currently promoting, we hope to ultimately evolve the app into a PFM (Personal Finance Management) app, and then develop a Co-creation Platform using the app as a starting point. We intend to carefully explain these services at our physical branches as well. While shrinking branch networks and shifting to digital capabilities may be one option, our vision is to achieve digitization while maintaining our branch network, and we have no intention of becoming exclusively digital.

As for the restructuring of yen interest rates portfolios mentioned in part (2), of the ¥200tn in the Japan Post Bank portfolio, roughly ¥100tn are in yen interest rates risk assets, while another ¥100tn are in risk assets, so, theoretically speaking, an increase in yen interest rates would be a positive for our revenues. As you are aware, if yen interest rates increase even slightly while we have large quantities of assets deposited as deposits with the Bank of Japan, our situation will change quite drastically.

However, as these are matters that are ultimately dependent on financial policies, although we will continue to monitor them, we have not presently factored them into our plans as a major source of revenue.

Q6.

Earlier you mentioned that you considered interim dividends; can you tell us why you chose not to resume them?

A6.

(Ikeda) I personally would have liked to resume interim dividends, and I know other directors felt the same way.

On the other hand, in light of the lessons we learned two years ago during the tumultuous early stages of the COVID-19 pandemic when our unrealized gains hit rock bottom, after taking into consideration the worst possible scenarios that may result from the situation in Ukraine and major increases to US interest rates, among other factors, we in management ultimately reached the conclusion that we need to afford ourselves a little more leeway in our finances.

Q7.

In what sort of situations do you engage in share buybacks? For example, is it possible that your bank may engage in share buybacks in tandem with Japan Post Holdings' sale of your bank's shares, or the disclosure of your progress in terms of your written plans to meet the level of continued listing requirements of the TSE's Prime Market (by the end of June 2023)?

A7

(Ikeda) First, the Postal Service Privatization Act stipulates a major precondition in the form of total sale of Japan Post Bank's shares. To this point, Japan Post Holdings has announced that it would reduce its shareholding ratio of Japan Post Bank shares to 50% or less within the term of the current Mid-term Plan. Furthermore, we are of course aware of the fact that we have yet to achieve a "tradable share ratio of 35%," one of the continued listing requirements for the Prime Market.

Given the circumstances, we cannot comment on when the sale may happen, but we believe that our role is to strive for expanded profits and improved corporate value, and to create an environment that makes it easier to sell Japan Post Bank shares.

With the environment being the way that it is, we cannot go into detail on share buybacks, in part for strategic purposes, but it is naturally one of the actions we are considering.

Q8.

It is my understanding that you are planning for around ¥230bn in Private Equity (hereinafter “PE”) revenue for this fiscal year, but given the current interest rate environment, I feel that it may be necessary to expand PE revenues somewhat during the next fiscal year. If that happens, then it seems likely that PE revenue will begin to decrease in around 3 years, but what is your outlook for the sustainability of PE revenue going forward?

If, hypothetically, there comes a time when PE revenues decrease, will you be able to cover those decreases using the next growth drivers, like the Regional Vitalization Funds?

A8.

(Shinmura) We were told that our explanations regarding PE were difficult to understand, so this time we included a somewhat detailed description in the Investors Meeting presentation deck starting on page 38.

We are also aware of the fact that there may be those who have concerns about the strength of our portfolio, such as the decline of Nasdaq and US tech share prices causing potential decreases in unrealized gains.

On page 40 of the Investors Meeting presentation deck, you can find our strategies at the start of PE investment, as well as our current strategies and portfolio compositions. When we first began investments, we put emphasis on secondary investments that would result in faster profits in order to mitigate the J-curve effect. Then, as we were in the process of building up balances, we increased the primary weight and also became aware of income gains. If you look at the FY2022/3 strategy in the center, you can see that we are working to advance a strategy to acquire income gains of a significant proportion, or, in other words, to achieve a stable cash flow.

Please note our current portfolio on the right side: we are invested in a number of disparate sectors, such as “Information Technology,” "Industrials," "Consumer Discretionary," "Healthcare," and "Financials." In addition to this sector diversification, we have also established a portfolio that is invested in a total of 35,000 companies, with an average investment amount of around ¥100mm per company, which is a level of portfolio diversity rarely seen even at the global level.

On page 41 of the presentation deck, we have indicated when the investments made in each fiscal year will become revenue using arrows, and marked the fiscal year where our returns will reach their peak with a triangle. As you can see, we will see successive peaks corresponding to the timing of investment, so from FY2024/3 onward the returns we can acquire from each vintage will build up, and ultimately reach a state where we can expect at least ¥200bn in returns each year.

Furthermore, although we have heard many people express their concerns regarding the recent downturn in the market, but taking into account differences between listed and unlisted companies, and the degree of diversification in Japan Post Bank's portfolios, we don't expect to see an especially significant impact. Although we cannot say anything with certainty at this point, when it comes to fluctuations in the market and our bank's awareness of PE revenue, since Japan Post Bank will only be receiving a report after the information has first passed through the investment trust from the PE fund, there will be a delay of approximately 3 months in each case. However, we directly spoke with the PE fund regarding conditions at the end of March, among other factors, and have come to understand that the impact has not been as significant as a shift in the market as a whole.

Furthermore, as you pointed out, although we expect that PE revenue will decrease somewhat gradually once the current Mid-term Plan ends, our current intention is to secure revenue by covering the decrease with future investment strategies, while also utilizing the "third engine" Ikeda mentioned a moment ago, and decreasing general and administrative expenses even further.

(Ikeda) Our Investment Division is staffed by several hundred staff members, and the 30 or so staff in the Division's PE Investment Department are currently managing the ¥3.2tn balance of PE investments. We are aware that monitoring is critical when it comes to PE, and we are exercising extreme caution in this area, maintaining regular communication with the mother funds and the investment funds.

I'm sure there are those who are worried about Nasdaq trends and other factors, but I would like to assure you that our bank takes the subject of monitoring very seriously.

Q9.

The PE investment strategy pie chart in on page 40 of the Investors Meeting presentation deck contains a legend for "buyout," but nothing else; what are the other items?

A9.

(Shinmura) We did not include the other items in order to avoid revealing strategy details, but they indicate a number of different strategies, such as "Ventures," "Infrastructure," and "Mezzanine investments."

Q10.

I had some questions regarding PE investments:

(1) The FY2022/3 net IRR of 17.2%, net TVPI (Total Value to Paid in) of 1.42x, appears to be much higher than the original targets, but what are your thoughts on these numbers?

(2) For starters, we previously received guidance that PE revenue in the final year of the Mid-term Plan (FY2026/3) would be around ¥350bn, but taking that fact into consideration, as well as the fact that profitability is higher than anticipated, balances are expanding steadily, and revenue peaks for each vintage will be concentrated between FY2024/3 and FY2026/3, doesn't a PE revenue of ¥200bn for a single fiscal year seem too conservative?

(3) With respect to the above matters, how certain is the path leading to the FY2026/3 PE revenue (around ¥350bn) indicated in the Mid-term Plan?

A10.

(Shinmura) Starting with part (1), this gets a bit technical, but as we first introduce the secondary strategy, I think we can say the IRR is somewhat higher than we anticipated.

As for (2) and (3), the presentation deck notes that PE revenue will reach at least ¥200bn (per fiscal year), but we currently expect that revenues will reach levels that exceed the figures indicated in the Mid-term Plan.

(Ikeda) With respect to PE, from the very beginning we have been carefully making investments while paying close attention to the scope, liquidity, and condition of the market. Going forward we will continue to closely monitor market conditions and make careful investments, so in that sense you could say that our plans are somewhat conservative.

Q11.

Regarding the relationship between revenue forecasts and US interest rate hikes, how many rate hikes do you anticipate will occur in FY2023/3 and FY2024/3 respectively?

Furthermore, how much of a negative impact on revenue do you anticipate the rate hikes will have?

A11.

(Shinmura) Our assumptions regarding interest rates are described on page 27 of the Investors Meeting presentation deck, but our fundamental plan regarding short-term interest rates were developed in the IFR at the end of March 2022. Discussing how things will play out up through FY2024/3 would be difficult, but for FY2023/3 at the very least, we presume that short-term interest rates will rise to around 3%, and that dollar funding costs will also increase.

Furthermore, page 28 of the presentation deck provides a brief overview of the portions of our portfolio that will be affected by interest rate fluctuations. If you take a look, you can see that, of the approximately ¥75tn circled in red, approximately ¥20tn are sensitive to foreign currency interest rates. This also includes the euro, so the dollar will have an impact on approximately two-thirds of the ¥20tn. The assumptions described on page 27 indicate that dollar funding costs will increase by roughly 2% over the course of one year, but even when taking the average, our calculations show an increase of 1% over a year.

Credit spreads are also expected to widen if quantitative tightening (QT) is to occur in the future. During the financial shock caused by the COVID-19 pandemic in March of 2020, we experienced particularly strong credit spread widening and resulting increases to non-revenue dividends, but in response to these events, we enhanced the durability of our portfolio, particularly with respect to the HY area, by shortening durations, and taking other similar measures.

On the other hand, due to problems with yield and other issues, we have increased our more long-term investments in the IG area. As we have taken on interest rate risks in addition to credit spreads, we expect that a certain amount of non-revenue dividends will arise. However, as we have previously explained, non-revenue dividends will always be returned unless defaulted on at the time of cancellation or redemption, so even if they result in short-term losses, there is little cause for concern in the long term.

Going into more detail on revenues, if you go to page 26 of the presentation deck, you can find a new page we created called "Capital Investment Targets." With respect to the numerator, we will be building up profits with a dividend payout ratio of around 50%, but in terms of the risk-weighted assets in the denominator, the impact of strengthening regulations will also be significant in addition to increases in risk-weighted assets due to our buildup of risk assets to ¥110tn. The current risk weight associated with stocks is 100% regardless of whether they apply to listed or unlisted companies, but we expect that the finalization of Basel III will raise this to 250% at a base level, while some unlisted company stock may rise to 400%.

As a form of risk-weighted asset adjustment, we have hedged the majority of the listed stocks owned by Japan Post Bank, but with respect to these stocks, we will reduced the balance in the name of capital efficiency, and we anticipate that this will result in unrealized gains being recorded as profits in part.

(Ikeda) As Shinmura just noted, by hedging a majority of listed stocks with bear-type funds, we have secured an appropriate amount of fixed unrealized gains. Of course, we are doing this for risk-weighted asset adjustment purposes, and will be examining the circumstances as they play out, but this is one reason why I am being somewhat bullish.

Also, to add to the previous explanation, we learned many, many things as we advanced our PE investments. Up to now, our principal objective was to earn revenue from an LP standpoint, but when we considered what our role might be based on the presumption that we would not conduct financing, we ultimately decided to conduct domestic GP. I believe that the role of a bank after it provides funding is to determine how to industrialize the product realized from the funding.

Q12.

(Regarding A6.) Looking at your bank's balance sheet, the balance has changed due to a variety of factors, such as eliminating treasury stock amounting to roughly ¥1.3tn as of the end of FY2022/3, and adjusting other capital surplus. Our understanding of these adjustments is that they can be performed after share buybacks, so share buybacks themselves can be conducted in a comparatively flexible manner, is that correct?

A12.

(Shinmura) As we have said before, we will give flexible consideration to share buybacks, but as a fundamental matter, the Japan Post Bank's shareholder return policy prioritizes giving returns to shareholders in the form of dividends. It is with this in mind that we will be considering share buybacks as appropriate, in light of factors like those described earlier: the Prime Market problem, Japan Post Holdings' sale of Japan Post Bank shares, and our surrounding environment

Q13.

Given the fact that unrealized gains have decreased recently due to rising US interest rates and widening credit spreads, has there been any changes to the original policy of "focusing on CET1 ratio that excludes unrealized gains on available-for-sale securities?" Is it possible that you focus on a "CET1 ratio on a basis that includes unrealized gains on available-for-sale securities?"

A13.

(Shinmura) We have previously explained that we seek to maintain a 10% CET1 ratio that excludes unrealized gains on available-for-sale securities.

Although I will be repeating myself, on page 26 of the Investors Meeting presentation deck we have newly described our capital investment targets. We set this CET1 ratio by taking the 7.5% obtained by adding together the Minimum required CET1 ratio of 4.5% to the Capital conservation buffer of 2.5%, and an Additional buffer of 0.5%, added together based on our desire to achieve capital management of a similar level to large-scale financial institutions in Japan, and considering a level that would allow Japan Post Bank to secure itself in the stress tests the bank conducts as part of its risk management efforts.

This has been our approach in the past, and nothing has changed.

Q14.

How would you evaluate your landing with respect to your CET1 ratio in FY2022/3?

Although your investments in risk assets advanced to a certain degree in FY2022/3, your CET1 ratio (excluding unrealized gains on available-for-sale securities) increased compared to the end of FY2021/3. One might say that, at this pace, your CET1 ratio will not decrease during the term of your Mid-term Plan despite conducting strategic investments. What are your thoughts on this?

Also, given the difference between the minimum level of 10% and the current level of 14%, there appears to be a ¥2tn to ¥3tn allowance in your capital. What are your thoughts on this?

A14.

(Shinmura) Just as you pointed out, when comparing CET1 ratios between FY2021/3 and FY2022/3, it is true that our CET1 ratio excluding unrealized gains on available-for-sale securities increased slightly. In that sense, I would say that our FY2022/3 landing was quite stable.

With respect to any allowance in capital, I would like you to take a look at page 26 of the presentation deck. Although there is no quantitative description of the increase in the denominator, we expect certain impact of investment in risk assets and the finalization of Basel III. Based on our current investment plan, we have estimated our final CET1 ratio levels in the event Basel III is finalized, based on various scenarios that include stress conditions, and while these estimates have allowed us to conclude that our investment plan is appropriate, we cannot say there is a large capital surplus in this case. Therefore, we believe it would be difficult for us, as we prioritize building up profit, to prioritize share buybacks conducted in a manner that would reduce our investment capabilities first.

(Ikeda) As for your point that there is a surplus in capital that could be used to conduct share buybacks, Japan Post Bank intends to prioritize securing funding for dividends first and foremost. While there does appear to be some surplus capital, we cannot risk losing funding for dividends by allowing our unrealized gains to hit rock bottom again, just as they did two years ago during the economic shock of the initial stages of the COVID-19 pandemic, and we've taken this point into consideration as well in conducting our capital investment.

Q15.

Hypothetically speaking, if the yen interest rate rose by 1%, can you provide us with quantitative supplemental information as to how much of a positive impact this would have on net interest income?

A15.

(Shinmura) Although we have made no disclosures in terms of sensitivity, as set forth in the assumptions for our earnings forecast on page 27 of the presentation deck, we developed our plan for FY2023/3 based on the assumption that interest rates would increase gradually over time in line with the IFR from the end of March 2022. While we assume that interest rates will rise, we have also assumed that the trend toward decreases in interest income from high-yield Japanese government bonds in which we have invested in the past will not stop.

As you have pointed out, we would like to buy JGBs at an appropriate interest rate level if possible, but our considerations will also need to include policy developments at the Bank of Japan, so providing a quantitative numerical outlook is difficult at this time.

End