

Results for the Three Months Ended June 30, 2022
Summary of Teleconference Q&A (Aug. 10, 2022)

Q1.

According to the full-year plan disclosed in May, net interest income, etc. will be down ¥93 billion year-on-year (YoY). But how was 1Q?

Please also tell us about YoY PE revenue.

A1.

1Q net interest income, etc. was down around ¥63 billion YoY, due in part to particularly strong performance in 1Q last year. Of this, PE revenue was up ¥50 billion YoY.

Q2.(With respect to A1.)

What was the actual amount of PE revenue for 1Q?

A2.

Approximately ¥60 billion.

Q3.

The CET1 (Common Equity Tier1 capital ratio) as of the end of June 2022 was 13.3%, down 1%pt from the end of March 2022, mainly owing to the application of fair valuations of PE. However, I'm wondering if it has fallen too low relative to the floor target of 10%? I would be interested to know the Bank's assessment of this, including whether the previous assessment was conservative.

A3.

We have long expected the CET1 ratio to fall gradually to the floor target of around 10% due to investment in risk assets and the impact of reinforcement of financial regulations, and we do not judge our capital capacity only based on the 14% level at the end of March 2022. The CET1 ratio did decrease to 13.3% this time, but we view this as a gradual process of falling toward around 10%.

Q4.(With respect to A3.)

What about the capacity for additional shareholder returns, such as share buybacks?

A4.

So far the CET1 ratio has been progressing as expected. There is no change to our existing policy, which we stated last November, that we would consider additional shareholder return policies, including share buybacks, based on the Bank's profit and capital situation, trends in capital adequacy regulations, and the policies of Japan Post Holdings' Mid-term plan.

Q5.

What was the revenue for all Strategic Investment Areas in 1Q? In particular, PE net realized gains are recorded separately as net interest income and non-recurring gains/losses. How much was each of these, respectively?

A5.

Revenue for all Strategic Investment Areas in 1Q was approximately ¥80 billion. Of PE net realized gains (approximately ¥60 billion), approximately two-thirds were recorded as net interest income and the remainder were recorded as non-recurring gains/losses.

Q6.

Regarding PE net realized gains, I recognize that an environment that would allow for an exit is important. What is your outlook regarding the market environment for PE from 2Q onward?

A6.

Considering the deteriorating global market environment, the market environment in terms of M&A, IPOs, etc. is not as favorable as it was before.

Predicting the future outlook is difficult. However, exits are not likely to stop, and we will continue to invest in quality assets in order to generate revenue.

Q7.

What is the currency hedge ratio for foreign securities as a whole? Has this been changing flexibly in response to market fluctuations?

And how much impact do non-currency-hedged bonds have on unrealized gains/losses?

A7.

The currency hedge ratio is over 95%. We have not made any significant changes to the currency hedge ratio in response to market fluctuations.

There is no significant impact on unrealized gains/losses, due in part to the extremely high hedge ratio.

Q8. (With respect to A7.)

I think that the Bank's unrealized gains/losses at the end of June did not fall as much as expected, compared to other banks. Although the unhedged portion is only a few percent, would it be fair to say that foreign exchange rates did have some impact on your unrealized gains/losses, due to the large scale of the investments?

A8.

Unrealized gains/losses derived from foreign exchange rates have increased compared to at the end of March. So in that sense, you could say this has had a positive effect.

I will refrain from evaluating unrealized gains/losses here. However, you could say that at the end of June they were impacted—investment trusts in particular—by rising interest rates and widening credit spreads, as the new Accounting Standard for Fair Value Measurement applied to these financial results, and they included approximately ¥1.4 trillion of unrealized gains/losses on PE investments.

Adding to this, we are aware that the situation is improving as of the end of July.

End

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