Results for the Six Months Ended September 2022
Summary of Q&A (November 16, 2022)

Q1.

Although unrealized gains on available-for-sale securities as of the end of September 2022 were significantly lower than those as of the end of March 2022, this has no impact on the capital adequacy ratio since the Bank uses the domestic standard. In addition, although you set the target CET1 ratio on a basis excluding unrealized gains on available-for-sale securities, and the decrease in unrealized gains may not have a direct impact, we believe you also track the CET1 ratio on a basis that includes unrealized gains for internal management purposes.

In these circumstances, has the decrease in unrealized gains had an impact on risk appetite and future investment policies?

A1.

(Ikeda) Although it is not possible to make a general comparison due to accounting issues, we recognize that the rate of decrease in unrealized gains on available-for-sale securities at the Bank is comparable to that of other banks, such as megabanks, in their 1H financial results. Although unrealized gains have certainly decreased compared to the end of March 2022, we are discussing measures internally and checking the situation daily, taking into account the situation during the COVID-19 shock in March 2020, when unrealized gains became negative in the past. Although they may also be dependent on the market environment, we have various measures for this fiscal year. Please understand that we are currently not at a stage where we can talk about next year, including the market outlook.

In any case, the market environment has a positive aspect for the Bank in that interest rates will decline due to the slowdown in U.S. inflation, which will reduce foreign currency funding costs, and we intend to take appropriate measures while taking into account our 3Q results.

(Shinmura) As indicated in page 11 of the Investors Meeting presentation deck, we have assumed a certain increase in interest rates from the beginning of this fiscal year, and have taken interest rate risk in a controlled manner. Rather than taking interest rate risk directly, in many cases the Bank takes interest rate risk incidentally as it takes credit risks. Amidst the major changes in the market environment, unrealized gains were supported by unrealized gains of private equity (hereinafter "PE"), and we believe that these factors were significant.

On the other hand, we think that how we take interest rate risks will become a subsequent theme in the future.

As you have pointed out, we set the target CET1 ratio on a basis excluding unrealized gains on available-for-sale securities, and we do not change our investment policy only with the level of unrealized gains in mind. However, in the HY area, where the volatility of the spread is relatively large, we have taken measures such as curbing current investments in consideration of the impact on the P/L due to the decrease in unrealized gains (losses) and the resulting increase in non-revenue dividends.

In regard to your question, I hope you understand that a decrease in unrealized gains does not have a direct impact on our investment policy, but we are making timely adjustments to how we should invest based on the current environment.

Q2.

Looking at the 1H financial results of banks as a whole, including megabanks, the market operations divisions were generally weak, while the customer divisions, particularly corporate lending businesses, were strong. In this regard, I think the Bank's financial results differed a little, but are the traditional commercial and corporate businesses in the banking industry sustainable, or have they only been strong temporarily due to inflation and the depreciation of the yen? Please let us have President Ikeda's opinion on this.

Also, do you think that the Σ Business will close the gap with other banks in terms of corporate businesses that the Bank has not yet started?

A2.

(Ikeda) At first, I would like to refrain from answering the first question about the sustainability of corporate business in the banking industry. Next, please allow me to explain the Σ Business.

As you know, there is a precondition that the Bank not perform bilateral lending operations, and it is necessary to proceed along a narrow path. In this context, we plan to focus on GP business through the Σ Business.

Since FY2017/3, we have been promoting PE and real estate investments, but these investments are subject to exchange rate and liquidity risks. Investments in Japan, comparatively, tend not to be affected by exchange rate risks, and, because our funds are gathered from regions all over Japan, they return to those regions in a sense. Therefore, we will also put efforts into domestic investment in the future in order to contribute to regional development.

However, when we start this business, we naturally do not necessarily have sufficient knowledge, and we cannot engage directly in corporate lending transactions as mentioned earlier, so we will cooperate with regional financial institutions, and plan to operate at GP companies, mainly through our subsidiary, Japan Post Investment Corporation. Previously, we have made LP investments, but the idea is to fund GP companies and promote them while overseas market businesses are performing well.

Another key point of the Σ Business is the information strategy of collecting information from all over the country and using this information for business. With this in mind, the Bank is developing its employees at various locations.

In big-picture terms, the basic idea of the Σ Business is to unite with regional financial institutions to support Japanese regional industries.

I think these are not businesses that will generate profits in the short term and will take some time, i.e., a 10-year term, but we will also work towards achieving our target figures.

(Shinmura) We believe that Japan and Japanese businesses still have strength, and in addition, that there are areas where the Bank can certainly support them, and we would like to work together with regional financial institutions to boost them. In other words, the Bank has very high expectations for the growth potential of Japan's corporate businesses, and one answer to these expectations is the Σ Business.

Q3.

Regarding PE, while unrealized gains did not decrease, we believe it is more important whether or not the environment is such that an exit is possible. What is your outlook for the exit environment as global recession fears continue?

A3.

(Shinmura) The current status of PE and other information is posted on and after page 37 of the presentation deck. PE unrealized gains increased by approximately ¥20bn compared to the end of March. While the financial markets are undergoing significant volatility, the Bank is steadily building up a portfolio of selective, diversified investments that does not pose a significant concern.

Please refer to page 40 of the presentation deck for the status of exits. The figures for FY2023/3 are up to September, so we need to increase the figures by 4/3-fold. However, we understand that the figures have decreased somewhat compared to the average fiscal year, not to mention the previous year, which was exceptionally strong.

At the same time, we are aware that earnings for this fiscal year have progressed steadily as the 2016- and 2017-year vintage exits have gradually gained momentum.

In terms of medium-term recession concerns, the recent sharp increase in the Fed's interest rate in a short period of time can be seen as the creation of room to maneuver downward in the future, and we believe that it has provided some relief for the Bank's PE and credit investments.

(Ikeda) We understand that the number of IPOs in the United States is decreasing. In this situation, we have exchanged opinions with our investment management company and have taken appropriate measures such as increasing the percentage of investment in strategies that earn income gains since last year.

Q4.

Regarding page 6 of the presentation deck, what caused foreign bond investment trust income to be ¥93bn lower than planned?

A4.

(Shinmura) This was not a major decline, and was caused by foreign currency funding costs and non-revenue dividends exceeding the plan. Although this is unavoidable due to the investment trust scheme, the situation involves a mixture of factors: the cost portion (which concerns the distribution source) and the portion of that distribution source that could not be booked as income for this period (which concerns things like non-revenue dividends).

The same phenomenon was observed during the COVID-19 shock in March 2020, but the situation is different from that at that time. At that time, there were many instances of cutting the losses on HY bonds in investment trusts that occurred due to successive downgrades, but the lessons learned at the time have led to our management of HY bonds currently being fairly conservative. Some HY bonds feature high yields by increasing the number of relatively high-rated crossover and short-duration operations, so in the medium- to long-term, we do not consider there to be a large hole opening up, although there will actually be a deferral of profits.

In the current financial results, there was a greater market fluctuation than expected, and the profits of foreign bond investment trusts decreased, however, I hope you will understand that this fluctuation was utilized, and the decrease was mostly offset by sale of foreign bonds, etc.

(Ikeda) The Bank applies interest rate and currency hedges as needed, but their costs are inevitable.

Currently, we have set the stock and exchange rate appetites flat on page 34 of the presentation deck, and we wish to generate some profit in this area, and will be researching it in the future.

Q5.

If unrealized gains on available-for-sale securities were to turn negative, is there a possibility of a change in the dividend policy?

A5.

(Shinmura) For our part, we have changed to a dividend payout ratio method starting with the current Mid-term Plan. Our basic idea is to increase profits by investing in growth, etc., and to increase returns accordingly.

Although unrealized gains have decreased significantly at present, we do not believe that the change is substantial enough to change our dividend policy, considering the level of retained earnings and CET1 ratio.

Q6.

You are going ahead with lead GP operations in the Σ Business. What is the impact on risk-weighted assets?

With the current situation of building up the PE balance and the CET1 ratio falling toward the 10% minimum that should be secured in ordinary times, can the balance of lead GP investments be built up on the same scale as PE balance?

A6.

(Ikeda) While we are willing to aggressively push for lead GP operations, since there are not so many potential partner GP companies, we believe that it will be difficult to build up a domestic balance on the same scale as PE.

Regarding RW, this is a stock, so the current RW is 100%, but in the future, it will be 250%.

Q7.

(Further questions) What are the advantages for regional financial institutions of partnering with the Bank in the Σ Business?

A7

(Ikeda) To date, we have participated in 41 Regional Vitalization Funds and have worked with regional financial institutions to promote investment. However, only a few banks conduct GP operations on their own, and the majority of investments are LP investments. In this sense, we have received many requests that we conduct GP operations whether ourselves or with them.

Also, there are high expectations for the Bank in terms of human resources. As a rule of thumb, this kind of GP business requires gathering together a number of people with about five years of experience, and I understand that none of the regional banks have been able to do so easily. We will also be working with other GP companies, including JP Investment, so we have a lot of human resources there. I believe that these human resources can be used for other regional banks in the future.

We also envision early-stage ventures as investment targets, but we believe that the basic idea is to hedge risk with several banks rather than having a monopoly as one company.

Based on the above, I believe that there will be benefits to regional financial institutions as well.

Q8.

Regarding the Σ Business, what are the advantages of partnering with the Bank, given that megabanks and Aozora Bank are also in this field? Please tell us about the need to partner with the Bank and the competitiveness of the Bank.

Also, considering RORA on page 34 of the presentation deck, what level of profitability will you pursue for the Σ Business?

A8.

(Ikeda) While megabanks and other banks are downsizing or withdrawing their branches, we believe that the nationwide presence of our branches and our ability to gather information from every corner of the country is an advantage over other banks.

Also, as I mentioned earlier, early-stage ventures are quite high-risk in terms of investment targets, and we believe there is a need in terms of risk hedging.

(Shinmura) As shown on page 34 of the presentation deck, overseas PE has a general IRR of about 10~15%, while RORA is about 5%. If the general IRR for domestic PE in the Σ Business were to be about half of that, if we were to do a simple calculation, RORA would be at about the 2.5% level in the medium- to long-term. I cannot say for certain, but I hope you get a general image of how it is.

Q9.

Assuming that the Bank of Japan lifts negative interest rates and the yield on 10-year Japanese government bonds stabilizes at or above 0.5%, does this mean that you will increase investment in Japanese government bonds through transfers of due from banks, etc.?

You have been expanding your overseas investments increasingly over the past several years. In the above case, do you intend to slow down the pace of overseas investments and increase the ratio of yen-denominated assets?

A9.

(Shinmura) As for the current investment situation, we are investing with interest rate risk in mind, in case some major shock occurs due to lifting of negative interest rates or the yield curve control.

In such a situation, if there is a change from current policy and the yield curve were to normalize, we fully expect that assets will be shifted to yen-denominated assets, except for the portion that must be held as Bank of Japan deposits.

We are aware that the Bank's investment to date has been in sovereigns, corporate bonds (from IG to HY), and alternative assets, rather than solely in Japanese government bonds, in order to diversify the Bank's investment portfolio, rather than promote investment overseas as such, so we do not expect to stop diversifying even when domestic interest rates return.

At least in the current Mid-term Plan, the Bank is moving forward with plans to build up risk assets to ¥110tn, so the Bank is not considering a major change in policy at this time. At this point, we are considering investing in yen-denominated assets as an additional option.

Q10.

The Bank's dividend payout ratio is currently around 50%. Considering the difficult market environment expected in the coming year, what are your thoughts on dividend stability?

A10.

(Shinmura) As stated in our approach to capital management on page 26 of the presentation deck, "keeping in mind the stability and sustainability of dividends," the Bank places great importance on stability and sustainability when considering dividends. At the time of adopting the dividend payout ratio method starting with the current Mid-term Plan, the Bank's approach to dividends is to increase dividends by increasing profits, and to emphasize stability and sustainability even when the market fluctuates.

Therefore, we believe it is most desirable to be able to increase dividends from the current ¥50 to ¥50 or more, while basically maintaining a dividend payout ratio of about 50% in principle, based on profit growth.

Q11.

(Further questions) The initial dividend forecast level for FY2022/3 was ¥40, but in light of the statement in the shareholder return policy, does this mean that the Bank mentions that it will never go below ¥40?

A11.

(Fukushima) As you have pointed out, when the Bank announced the current Mid-term Plan, our dividend forecast for FY2022/3 was ¥40, so we are aiming to increase the dividend from ¥40. The dividend was changed to ¥47 and then to ¥50, and we hope you understand that our policy after this change is to take into account stability and sustainability.

Therefore, with respect to the changed dividend, aiming for an increase from ¥40, the policy is to consider dividends in the range of 50-60%, although the dividend payout ratio method is based on annual profits, and in principle at approximately 50%, while giving due consideration to the stability and sustainability of dividends from the management perspective.

Q12.

The current Mid-term Plan announces that the Japan Post Group policy is “to aim to reduce Japan Post Holdings’ shareholding ratio to 50% or less as early as possible during the Mid-term Plan,” but is the situation difficult to achieve in the first half of the Mid-term Plan?

Does this mean that Japan Post Bank will not insist on this in the first half, and will focus on managing foreign bonds and getting the Σ Business going in earnest, and will not necessarily take actions such as share buybacks to reduce Japan Post Holdings’ shareholding ratio?

A12.

(Ikeda) Although the final decision will be made by Japan Post Holdings, there is no change in the Japan Post Group policy of "aiming to reduce Japan Post Holdings’ shareholding ratio in the Bank to less than 50% as early as possible during the period of the Mid-term Plan." The Bank will strive to create an environment that enables Japan Post Holdings to reduce its shareholding ratio in Japan Post Bank, and will consider additional shareholder return policies, including share buybacks, in light of the above-mentioned Japan Post Group policy.

Q13.

What are the Bank's thoughts on the number of secondary offerings?

A13.

(Ikeda) I will refrain from giving a response as Japan Post Bank, as this is a decision for Japan Post Holdings to make regarding secondary offerings.

Q14.

You mentioned that the Σ Business will take about 10 years, but could it be done on a slightly faster timeframe?

A14.

(Ikeda) We are considering speeding up the process, but since the Σ Business is the third engine of the Bank's future, we have decided to give it 10 years, which means that we will take our time to make sure that it is done right. Although we have surplus capital, there are difficulties in terms of securing human resources to take charge of the investment. Therefore, we are planning to start the Σ Business in earnest from the next Mid-term Plan.

Q15.

The number of registered accounts for the Bankbook App has been steadily increasing, but have you been able to gain customers that will lead to future fee income? Will it have a useful impact on future revenues or costs? How would you evaluate the Bankbook App?

A15.

(Shinmura) We aim to develop the Bankbook App as infrastructure by increasing the number of the Bankbook App users during the period of the current Mid-term Plan and monetize it as a retail business in the next Mid-term Plan.

As you have pointed out, the Bankbook App itself currently does not have a notable competitive advantage over the apps of other banks. As you will see on page 32 of the presentation deck, we believe that the most important thing is to shift customers to digital through the app. While the Bankbook App is currently being used mainly by younger customers, Japan Post Group as a whole is in the process of providing apps to customers of all generations with the aim of building a Co-creation Platform.

As a first step, we have set the number of registered accounts for Yucho Bankbook App as a KPI, and the number of registered accounts has been growing steadily. We believe that our approach is not wrong at this point.

(Ikeda) In addition to the expectation of the revenue we just mentioned, we believe that the enhancement and increased use of digital channels will also contribute to the efficiency of teller operations.

End

[Disclaimer]

This document is written solely for the purpose of disclosing relevant information regarding JAPAN POST BANK Co., Ltd. (“Japan Post Bank”) and its consolidated subsidiaries (the “Japan Post Bank Group”). This document does not constitute an offer to sell or the solicitation of an offer to buy any securities in the United States, Japan or any other jurisdiction.

This presentation contains forward-looking statements including forecasts, targets and plans of the Japan Post Bank Group. These statements are based on estimates at the time in light of the information currently available to Japan Post Bank. The statements and assumptions may prove to be incorrect and may not be realized in the future.

Any uncertainties, risks and other factors that may cause such a situation to arise include, but are not limited to, risks related to the effectiveness of risk management policies and procedures; risks related to business strategy and management planning such as market risk, market liquidity risk, credit risk and operational risk; risks related to the expansion of the scope of operations; risks related to the business environment; situation of the spread of COVID-19; risks related to domestic and overseas monetary policies; and other various risks. Please also see the Securities Report and the latest quarterly financial report for material facts that Japan Post Bank recognizes as potentially affecting the Japan Post Bank Group’s actual results, performance or financial position. The Japan Post Bank Group’s actual results, performance or financial position may be materially different from those expressed or implied by such forward-looking statements.

The statements in this document are current as of the date of the document or the date otherwise specified, and Japan Post Bank has no obligation or intent to keep this information up to date.

The information concerning companies or parties other than the Japan Post Bank Group and the Japan Post Group is based on publicly available and other information as cited, and Japan Post Bank has neither independently verified the accuracy and appropriateness of, nor makes any warranties with respect to, such information. The information of the document may be revised without prior notice.