Results for the Fiscal Year Ended March 2023
Summary of Q&A (May 17, 2023)

Q1.

I believe the strategic investment areas were originally assumed to be profit growth drivers when the Mid-term Plan was announced, but they are expected to decline in FY2024/3, so are you taking a conservative stance now? Or do you still think the areas will continue to contribute to profits to the degree assumed in the Mid-term Plan?

A1.

(Shinmura) Net realized gains on private equity funds (PE) for FY2023/3 were around 260.0 billion yen, up on the projection of 230.0 billion yen, with unrealized gains of around 1.0 trillion yen secured as of the end of March with no negative impact.

Given the problems of Silicon Valley Bank and other US financial institutions, though, we assume the exit will be delayed in the first half of FY2024/3 and we have actually put out slightly more conservative figures than originally planned. However, we recognize that any exit delay in this period will be added to the next period. In this sense, there will be no change in the composition whereby the overall Mid-term Plan is supported by income from strategic investment areas, particularly PE.

(Ikeda) Actually, most of the PE gains for the first half of this fiscal year is visible. I was worried about H2 income, but we are paying close attention to the financial environment in North America and we have sent managers over there to check the situation in person, for example.

Q2.

I think profits in FY2024/3 will be boosted by the sales of stocks, etc. due to risk adjustment, but depending on the environment, I believe more stocks, etc. will need to be sold in FY2025/3 to protect profit levels. On this point, could you discuss the sustainability of gains from the sales of stocks, etc.

A2.

(Shinmura) We are expanding our investment into equity assets like PE and real estate. In order to adjust these risk assets, we are selling domestic stocks of money trusts and this is yielding a profit.

We manage our capital adequacy using the CET1 ratio excluding unrealized gains, so there are no management concerns. We will strive to secure income this fiscal year too by investing in accordance with the market environment and risk factors.

(Ikeda) There are various ways of thinking about the sales of stocks, but we always carry out operations after exchanging opinions and confirming things with the Investment Division.

Q3.

Please tell us about the status and future of the Yucho Fund Wraps.

A3.

(Ikeda) Unlike investment trusts sold in the past, the Yucho Fund Wraps are products tailored to the age and needs of our customers.

Our three main products in the future will be the Tsumitate NISA, products tailored to the new NISA system, and the Yucho Fund Wraps. The Yucho Fund Wraps are sold only at directly-operated branch offices, but together with post offices, we aim to be number one in Japan when it comes to the Tsumitate NISA.

With regards to sales methods, we have thoroughly conducted customer-oriented sales based on past experiences while studying how to satisfy our customers.

The minimum contract amount for the Yucho Fund Wraps is 3.00 million yen, so we believe the product matches very well with our customers.

Q4.

When considering cost reductions, I think your Bank's premise is to maintain a post office network in line with the direction of the Japan Post Group. However, online integrated services are becoming more common across the whole banking sector, so the transition to digitalization is becoming more acceptable for rural areas and the elderly. Given this, could you talk about your awareness as a bank of the problems involved in reducing expenses?

A4.

(Shinmura) In the Investors Meeting presentation deck on page 34, we explain the results of the efforts conducted during the course of our business up until now. The Mid-term Plan considers the monetization of the Bank's network to be a major challenge alongside how to increase income through market business. So, we have been working very actively to reduce costs.

In addition to reduced personnel expenses, if you look at the presentation deck on page 23, you can see that agency commissions to Japan Post have decreased and then nonpersonnel expenses have also decreased due to streamlining at the Bank's directly-operated branch offices. However, we also talk about human capital, and personnel expenses per employee are increasing, but please be aware that total personnel expenses are decreasing due to a decrease in personnel through digitalization and other productivity improvements.

With regards to digitalization, the Bank's digital strategy is described on page 40 of the presentation deck. We believe it is important for our customers to actually use digital products. To this end, starting with the Yucho Bankbook App and the Personal Financial Management App, we would like to provide services that meet customer needs as a co-creation platform. With regards to the Yucho Bankbook App, we are expanding the number of users at a pace that is exceeding our expectations. We hope the promotion of digitalization will lead to improved efficiency and productivity and thus to cost reductions.

(Ikeda) The Bank is responsible for providing universal services, so the ATMs and post offices are taken as a given in our operations. As such, we recognize that our challenge is how to advance digitalization within these constraints.

Although the number of customers visiting counters has decreased, we intend to promote digitalization in all directly-operated branch offices, planning to introduce Madotab and support languages other than Japanese and English in these offices.. Please understand that our Bank has its own way of operating that is different from other banks.

Q5.

Please discuss the investment strategy for when yen interest rates rise. Page 54 of the presentation deck contains an example of a 10 trillion yen investment from due from banks, etc. into 10-year bonds, but if you did not limit yourself to 10-year bonds and instead shifted the 10 trillion yen into Japanese government bonds, how many years would it take before the investment was completed? If you have an idea at this stage, could you tell us about it?

A5.

(Shinmura) We believe that the timing of additional investments in Japanese government bonds depends on the market environment. In addition, when it comes to which maturity of Japanese government bonds to buy, we will make investments based on where the fair value of Japanese government bonds is. In fact, in the last fiscal year we adjudged that 10-year bonds were too expensive and sold them, though at the same time we also decided that bonds of longer maturities were closer to fair value and bought 20-year bonds, for example.

(Ikeda) Regarding the extent to which additional investment in Japanese government bonds is possible, theoretically there is about 68 trillion yen in due from banks, etc., but even if yen interest rates rise, we would not immediately shift all these funds. Rather, we would have to make decisions about purchase amounts, etc. on a case-by-case basis. Also, we will monitor the market environment when making decisions about the timings of the additional investments you asked about. In fact, we have made a paradigm shift in tandem with the changing market environment. Regarding the shift from due from banks, etc. to Japanese government bonds, we would like to make decisions while exchanging opinions with Investment Division field personnel and while taking into account the market environment.

Q6.

Regarding page 26 of the presentation deck, if the FF rate does not fall in line with your expectations and funding costs do not fall but instead remain at current high levels, is there a way to counter the downswing in income? Increased profits from the sale of stocks, etc. could apply here, but could you tell us your policy if the FF rate does not fall as much as expected? And could you discuss your thinking on dividends in such a scenario? For example, would you keep the dividend even if the sales of stocks, etc. are carried over into FY2025/3 and net income falls to a level exceeding 60% of the dividend payout ratio?

A6.

(Shinmura) The earnings forecast indicates what would happen to our investment activities under certain preconditions. If the situation you described occurs, we believe we would also need to consider changes in other risk factors, such as spreads and exchange rate movements.

In this sense, I think it is difficult to discuss hypotheticals about what we would do if only one individual risk factor changed.

Please understand that even if one risk factor becomes negative, we have a diversified portfolio and thus can respond to various situations and counter using other factors.

Q7.

Please tell us about your achievements in the ∑ business to date and the challenges you have identified so far. Please also comment on the reactions of those regional financial institutions who may become competitors.

A7.

(Ikeda) I would first like to point you to PE in which we first invested in 2016. We planned the investments, with J-curve effect in mind and the funds finally bore fruit in the previous two fiscal years. As this shows, it will take a certain amount of time for the Σ business to achieve results.

The idea of the Σ business first arose during considerations about how to manage around 68 trillion yen of due from banks, etc. We wanted to look not only at overseas countries with currency risks but also at Japan. When investing in Japan, we decided to avoid debt, which would involve competing with regional financial institutions, and instead invest in equity using our experience in this area that we gained overseas.

The response from regional financial institutions was initially a concern, but we have since made LP investments in 45 regional revitalization funds in partnership with 115 regional financial institutions. This is the background so far.

One current issue is that the amount invested in LP investments is not that large, with profits also not at a level that many are expecting. Furthermore, though we have been training staff by dispatching them to asset management companies, for example, we still face challenges in securing human resources.

We believe that it is important to invest funds in the regions as a future strategy. We plan to form joint ventures with other companies and use their capabilities to transfer funds to the regions. We will also invite regional financial institutions to participate in these funds. We have already invested with other financial institutions in Frontier Capital, but we would like to work with other regional financial institutions to increase funding to the regions in terms of equity.

Another strategy is to develop investee-company products targeted for marketing.

We cannot disclose the amount and so on yet, but we have made preliminary adjustments and received support from the relevant parties, so we would like to set a course by the next Mid-term Plan.

Q8.

These results also show that net income is sufficiently secured, and there even seems to be an excess of surplus capital at present. Could you tell us what the conditions are for a dividend increase? I think dividends are also important from a stock price perspective.

A8.

(Shinmura) Regarding dividends, the Bank's basic policy is to use capital to improve income and return dividends to shareholders. We aim to improve DPS within a dividend payout ratio of 50 to 60% by raising earnings levels.

As you pointed out, there is leeway versus the CET1 ratio floor target, but we believe it will ultimately be a positive thing for shareholders if we use capital to invest in risk assets like PE and to raise ROE.

We are aware there are additional methods such as share buybacks, and we actually conducted share buybacks when we sold Bank’s shares. From here on too, we will consider share buybacks depending on future earnings levels, the external environment, and capital policies. However, I would like to reiterate that our basic stance is that we want to return dividends by improving earnings and increasing corporate value, namely improving PBR/ROE.

(Ikeda) I would like to add that at the time of privatization, I think some people envisaged continuous 50-yen dividends. We switched to a dividend payout ratio system three years ago in order to achieve more than 50 yen dividends.

You correctly point out that the CET1 ratio has leeway versus the floor target, but for the purpose of returns, we are currently making investments with relatively high RW, such as the Σ business, credit investments, and PE investments, and we are striving to use capital for dividend increases.

End

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