Results for the Three Months Ended June 30, 2023
Summary of Teleconference Q&A (August 10, 2023)

Q1.

Could you give us a sense of the scale of private equity (PE) revenue and real estate revenue divided between net interest income and non-recurring gains? Also, you said that revenue decreased year on year, so could you tell us your outlook going forward?

A1.

Starting with PE revenue, net interest income was around 30.0 billion yen, and non-recurring gain was around 10.0 billion yen. In real estate revenue, net interest income was around 1.5 billion yen and non-recurring gain was around 2.5 billion yen.

PE revenue was about 40.0 billion yen overall, slightly under our plan, but it has generally been progressing as we envisaged. The reason that the result was lower than planned was mainly that our exit activities were held up by the impact of a fall in stock prices among US technology companies up to the end of last year.

With regard to our PE revenues this fiscal year, the impacts of US financial instability such as the collapse of Silicon Valley Bank in March have abated, and exit activity is showing signs of recovering; however, we recognize that this fiscal year could be tough due to the impact of revenue recognition lag across reporting periods. However, unrealized gains at the end of June 2023 were 1,184.9 billion yen, increasing by around 130.0 billion yen in Q1, while total gains also increased. Therefore, we see this as not so much a case of the investment assets being impaired, but rather of the timing for profit generation being postponed. As such, we don't see any need to change the revenue plan.

Regarding real estate revenue, while it is also necessary to bear in mind the impact of revenue recognition lag across reporting periods, overall revenue was around 4.0 billion yen, which is in line with our expectations, but progress is slightly behind our plan.

The real estate market overall is experiencing something of a downturn in prices at the moment, due to high inflation and interest increases due to monetary tightening by central banks . However, the market now appears to be polarizing, with conditions in the office market deteriorating while demand for industrial applications and rental housing is strong.

The Bank's portfolio is relatively sheltered from the impact of deteriorating real estate market conditions centered on offices in the United States, with a heavy weighting in industrial and rental housing while the allocation for offices is thinner in comparison with the market. Unrealized gains in equity are relatively stable.

On the other hand, we will continue to monitor the debt situation, as we have made some provisions for rating downgrades.

The outlook going forward is for a continued unfavorable situation, despite signs of a recovery in real estate market sentiment. We will monitor the situation, such as the build-up of pressure for a price correction, and adhere to a policy of investing with caution.

Q2.

What is your stance on investing in JGBs going forward, given the revision of monetary policy by the Bank of Japan?

A2.

In July the Bank of Japan revised its yield curve control targets again, but it shows a strong stance on continuing monetary easing, and we do not anticipate an exit from negative interest rates in the near future. That said, depending on the economy and prices, long-term interest rates could effectively be allowed to rise to 1.0%, so there is plenty of room to envisage an upward shift in the yield curve centered on the long-term zone.

If yen long-term interest rates continue to rise, increasing new investment yields and so forth could give rise to improved earnings. On the other hand, a rise in interest rates would temporarily have a negative impact on unrealized gains and losses on Japanese government bonds. However, we have been managing our portfolio with the expectation of policy revision for some time, and the impact would be controlled to some degree.

In any case, we will conduct appropriate portfolio management in response to the changes in the market environment and the nature and scale of changes in the Bank of Japan's monetary policy.

The interest rate level at which we consider investing depends on the environment. However, while the 10-year interest rate is projected at around 50 bps to 100 bps, it is currently at around 60 bps to 65 bps, which we recognize as a level at which investments are certainly worth considering. We will decide on the scale of actual investments by comprehensively considering perspectives such as the interest rate level and outlook, demand and supply, and ALM.

Q3.

Could you please talk about the movements in the fair values of PE funds and real estate, and the Bank's recognition of them? Also, would it be an appropriate assumption to think that increases in the value of PE funds also reflect the yen's depreciation?

A3.

For PE funds, due to the effects of lag across reporting periods, we recognize that the impact of the yen's depreciation was not significant in Q1. Moreover, we have the impression that their values are stable even in US dollar terms.

For real estate, equity has been more or less flat, with unrealized gains of around 0.1 trillion yen. Debt requires monitoring, and we needed to make provisions for certain investments, as I mentioned before, but at this point we do not consider it necessary to change our earnings targets.

We will continue to promote investment in high quality properties while exercising caution.

Q4.

Could you explain the factors behind the decline in the CET1 ratio (excluding unrealized gains on available-for-sale securities)?

A4.

The biggest factor in the decline of the ratio has been the expansion of the denominator, reflecting the expansion of our risk assets on a yen basis following the yen's further depreciation. There are no other factors of particular note at this stage.

Q5.

Have the impacts on profit and loss of sales of stocks as a result of operation for risk controls, etc. and the cancellation of bear investment trusts for hedging stocks been within the expectations of the Bank?

A5.

Sales of stocks were recorded in gains on money held in trust within non-recurring gains, while cancelation of bear investment trusts was recorded as a loss on sale under losses related to stocks. Putting them both together, we realized a gain of around 150.0 billion yen as operations for risk controls. This level is somewhat lower than we planned, but it is within our expected scope.

Q6.

In relation to the Σ Business, is there any new information about general partner investments and limited partner investments? If so, could you please tell us?

A6.

The information we released to the mass media on May 31, 2023 under the heading "Future Business Development of JAPAN POST BANK" is the latest information. We will make further announcements going forward if and when something notable occurs.

Q7.

Revenue from strategic investment areas was lower than planned, and you have recognized a risk that it could also be lower than the forecast in the future. In this situation, given the domestic stock market is performing solidly, was there not an option of lifting earnings more through the operations for risk controls in Q1 in order to increase the certainty of achieving the full-year plan?

A7.

With regard to the strategic investment areas, Q1 revenues were mostly in line with our plan, although slightly lower. Within this, the Bank recorded around 150.0 billion yen in revenue from operations for risk controls. We also conducted additional hedging through bear investment trusts given the current high level of domestic stock prices. We will continue to take initiatives in this area, guided by the idea that it is important to firm up revenues for the future while also emphasizing current performance.

Q8. (Additional question)

Could you tell us the hedging ratio on your current stocks after the additional hedges?

A8.

I'm afraid I have to refrain from going into details on that.

End

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