Results for the Six Months Ended September 2023
Summary of Q&A (November 16, 2023)

Q1.

Could you please talk about your investment strategy for JGB? Specifically, according to page 11 of the Investors Meeting materials, it seems that your strategy until now has been to increase holdings of JGBs with terms of over 10 years in stages with the purpose of holding them to maturity, and that going forward you also plan to actively accumulate bonds with maturities inside 10 years. Do I understand this correctly?

A1.

(Shinmura) Up until now, Japan Post Bank has invested primarily in 10-year bonds, but the information on page 11 is intended to show our intention to steadily buy going forward, while discerning the scale that we can purchase. With regard to the terms, at this point in time 10-year bonds would have a high priority we think, considering the current environment and valuation.

Q2.

On page 12 of the materials, you show the changes in the share of JGB holdings and the JGB issuance plan. Can we assume that the reason for presenting this information is to indicate that Japan Post Bank could acquire a share of around 10% going forward due to a shift from BOJ deposits?

A2.

(Shinmura) Having communicated our reversal and expansion plans up to that point, we present the information on page 12 as an answer to the question of whether it is feasible from a market perspective. Frankly speaking, we believe that Japan Post Bank currently has capacity to purchase JGBs. In addition, Japan Post Bank is mainly investing in bonds, and we recognize that its appetite for this is strong compared with other financial institutions.

(Ikeda) Regarding JGBs, Japan Post Bank previously held a share of around 20%, and during the negative interest rate policy we diversified our investments outside of JGBs, which caused our share to drop. However, going forward we will utilize around 63 trillion yen in due from banks, etc. to restructure our yen interest-rate portfolio.

Q3. (Additional question)

Considering the level of stickiness of core deposits presented on pages 13 and 14, do you consider there to be no issue regarding the interest rate risk in the banking book (IRRBB)?

A3.

(Shinmura) Regarding the interest rate risk in the banking book, Japan Post Bank's IRRBB is shown in the disclosure report* as about 8% at the end of FY2023/3, which we recognize as being well inside the regulation level of 20% for domestic banks.

While also considering interest rate risk exposure in the liability side, we will steadily promote purchases of JGBs going forward.

Q4.

With regard to foreign bond investment trusts, there was a comment that income was higher than planned. Could you please give an update on their current situation and the short-term outlook? In particular, do you expect this income to increase further in the second half?

A4.

(Shinmura) Information about income from foreign bond investment trusts exceeding the plan is presented on page 23 of the materials. Although there has been a delay in strategic investment areas, foreign bond investment trusts have been significantly higher than the plan, basically due to an increase in income gain.

While funding costs remain high, we have invested for three- to four-year duration, and we are therefore gradually shifting to new bonds, which are higher yielding than older bonds.

While yields on new investments are improving, funding costs are within the anticipated range, so we currently have a situation in which yields are steadily improving.

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*https://www.jp-bank.japanpost.jp/ir/financial/pdf/2023m_document.pdf (only in Japanese)

Q5.

On page 15 of the materials, it appears that you plan to revise your Mid-term Plan KPI of a strategic investment balance of 10 trillion yen for FY2026/3. If you are anticipating an environment in which sufficient returns can be expected from JGB investments, would that not make it unnecessary to increase the balance in strategic investment areas?

If you do not increase the balance of strategic investment areas, then you could avoid a decrease in the CET1 ratio, creating additional capability for share buybacks and so forth. Is it only from a perspective of diversifying investment that you will continue to increase the balance of strategic investment areas? I would like to hear your thoughts on this.

A5.

(Shinmura) With regard to strategic investment areas, we established a policy of aiming for a balance of 10 trillion yen when we formulated the current Mid-term Plan, and we have steadily increased it. Now the current balance has surpassed 11 trillion yen, partly due to a revision of accounting standard and an increase in fair values.

We intend to release a detailed plan in May 2024, but we are discussing this internally, with the policy of committing to the market and continuing to invest without greatly increasing the balance compared to other assets, and accepting that there will be a certain amount of upturn.

Ultimately, we will consider our mix of assets comprising JGBs, which are zero risk assets, and risk assets based on our management plan of maintaining a CET1 ratio of 10% or higher.

(Ikeda) Regarding private equity (PE) funds, at this point in time, our policy is to analyze carefully and proceed investments as with our current plan.

Q6.

If there are specific measures for achieving ROE of 5% that you can share at this time, please tell us. The timing for achieving it is not determined yet, but on page 4 of the materials, it seems you are aiming to achieve ROE of 5% in FY2026/3. Is that right?

A6.

(Shinmura) To achieve ROE of 5%, we will reduce costs and steadily increase net fees and commissions, while also restructuring net interest income, etc., specifically the yen interest-rate portfolio. Through these measures we aim to approach ROE of 5% at an early stage. We won't comment on the specific timing for achieving it at this point.

(Ikeda) I consider the ultimate responsibility for decisions on achievement of ROE of 5% to be mine. I think that increasing ROE requires measures to increase revenue, and we are focused solely on increasing revenue. On the other hand, I also think it is important to make reasonable returns to shareholders; however, at this point I cannot tell you more than that.

Q7.

Regarding JGB investment regulations, I believe that Japan Post Bank is subject to obligations to retain a certain level of safe assets under the Postal Service Privatization Act. Because of that, I understand that the law takes IRRBB into account. Therefore, can we take it that compared to other banks, you are more inclined to acquire yen interest risk? It appears that in practice you are allowed to exceed 20% on the IRRBB significance test. Is that correct?

A7

(Shinmura) As you point out, we have obligations to retain safe assets. However, we do not consider that Japan Post Bank receives any kind of special treatment in terms of capital adequacy standards. IRRBB is the second pillar of the capital adequacy standards; it is not the first (minimum required capital adequacy ratio). Going forward, we consider it important to continue to communicate properly with the relevant authorities.

Q8.

Japan Post Bank seems to have foresight. It started overseas investment just before the depreciation of the yen, it has invested in strategic investment areas since 2016, and since 2021 its returns from PE and real estate have really stepped up. Now, Japan Post Bank is about to restructure its yen interest-rate portfolio. Could you tell us the secret of this foresight and swift decision-making?

A8.

(Ikeda) Thank you. Up until the Bank of Japan introduced negative interest rates in 2016, we were able to earn profits by holding JGBs, but that world changed.

We are under certain restrictions, including application of the Postal Service Privatization Act. Under these circumstances, discussing internally again and again, we have invested in PE and real estate funds to increase earnings. In addition, Japan Post Bank has also been actively engaged in the new corporate banking business, Σ Business with the goal of stimulating regional economies, and we hope you will take note of these initiatives going forward.

(Shinmura) There is a sense of urgency underlying our initiatives, an awareness that if we do the same as other banks, we won't be able to keep up with them, and I think that has been the motivation for our actions.

Q9.

If you restructure the yen interest-rate portfolio going forward, I think you can expect profits to increase. When do you think this restructuring will have a significant impact on your profit and loss statement?

A9.

(Shinmura) The yen interest rate on 10-year bonds has jumped up from the low levels of the past few years to 0.77% as of the end of September.

However, the redemption of high-return JGBs that we invested in in the past is due this year and next year, so we expect the impact on our profit and loss statement to take a little time.

Yen interest rate rise has a positive impact not only on JGB investments but also on foreign security investment. As shown on page 14 of the materials, around 50 trillion yen of our foreign securities is a yen short-term interest receivables position, so if the short-term yen interest rate were to rise by 10 bps, for example, we can estimate an increase in revenue of 50 billion yen per year. We recognize that both the investment and return environments have considerable positive factors for the future.

We envisage these positive factors emerging a little over one year from now.

(Ikeda) People tend to focus on the rise in the yen interest rate, but we are also carefully controlling risks and steadily expanding our risk assets, and we would like you to factor in that we intend to continue this initiative going forward.

Q10.

Could you explain the background to setting the cost of shareholders' equity at 5%?

A10.

(Shinmura) We were able to confirm the cost of shareholders' equity is roughly around 5% after calculating it in a standard way.

That's why we have presented it as about 5%. With equity of around 10 trillion yen, this 5% means that we need to generate profit of around 500 billion yen. We realize that this is not an easy number to achieve. However, we have set that as our target for Japan Post Bank going forward.

Q11.

Do you have any updates on the Σ Business?

A11.

(Ikeda) We will inform you later if there is any progress, so please wait for it.

Q12.

Generally, some are expecting demand for funds from Japanese corporations to remain strong for some time. Is Japan Post Bank considering yen credit investments? Also, in an environment of rising yen interest rates, will your investments mainly be in JGBs?

A12.

(Shinmura) We recognize that yen credit investments are included in the context of diversifying investments, and we plan to examine them through various discussions as we proceed with investment in JGBs.

Q13.

The Yucho Bankbook App had 8.91 million accounts as of the end of September 2023. How does Japan Post Bank rate this result? Given the scale of Japan Post Bank's customer base, some are saying that it should be aiming for 50 million accounts. What do you think about that?

A13.

(Shinmura) For the bankbook app we are aiming for 10 million accounts by the end of FY2026/3, the final year of our current Mid-term Plan. So internally we are highly pleased with the current state of progress and discussing raising the target KPI.

Moreover, the app is used mainly by the digitally savvy customers in their 20s and 30s, and we recognize that it is mainly used for basic banking functions. We will look at expanding the usage, including among older demographics, with the aim of developing it into a co-creation platform.

Q14.

At this presentation meeting, I realize that you have indicated your intention to increase your purchases of JGBs. Around how much of the amount shown in the JGB Issuance Plan for FY2024/3 do you expect to be able to purchase?

A14.

(Shinmura) We think it is necessary to take a well balanced approach to investing, taking into consideration demand and supply, interest rate level, and redemption of existing bonds. We are currently making steady purchases, and we intend to keep buying.

(Ikeda) Just to add to that, our intention to increase JGBs is as you have indicated.

Q15.

I understand that when the BOJ cancels its zero-interest rate policy in the future, interest will also begin to accrue on deposits. If other banks were to pay an interest of 0.1% on deposits, can we assume that you would follow suit under your current direction?

A15.

(Shinmura) We would need to consider various factors with regard to lifting deposit interest rates, so please understand that it is difficult to give a specific answer. To add one point regarding the impact on earnings, for example, Japan Post Bank's yen short-term interest receivables position is around 50 trillion yen, and we think this would sufficiently offset the impact of an increase in deposit interest rates to a certain extent.

(Ikeda) We recognize that other banks are increasing deposit interest rates. Japan Post Bank does not intend to lag behind the others; however, at this point I will refrain from saying more than that.

Q16.

What kind of time span will be needed for restructuring the yen interest-rate portfolio? For example, it would take an extremely long time to increase the balance to Japan Post Bank's 2007 balance of JGB's of just under 200 trillion yen. Considering a monetary policy operation perspective, such as the IRRBB, rather than targeting a scale of 200 trillion yen, are we correct in imagining that the government bond portfolio is to be restructured to a certain level over a four- to five-year period?

A16.

(Shinmura) Japan Post Bank fully recognizes the importance of diversifying investments in the difficult economic environment that we have been facing. We are certainly not targeting a level of 200 trillion yen that we had at that time, when the focus was solely on JGBs. Therefore, rather than reducing risk assets and shifting to JGBs, we will prioritize shifting our BOJ deposits, which currently do not generate returns, successively to JGBs.

Details are being examined in conjunction with the revision of the Mid-term Plan. We aim to quickly establish a portfolio that will enable us to aim for ROE of at least 5%, and to do that we recognize that we need to restructure our yen interest-rate portfolio to a certain extent.

Q17.

With regard to the ROE target, you are aiming for around 5%, above the cost of shareholders' equity; however, for the medium term, is it possible to aim for a higher target, such as 10% or more? Could you please share as much as possible regarding your vision for the Next Step for ROE presented on page 4 of the materials?

A17.

(Shinmura) ROE is likely to increase as we make progress on restructuring the yen interest-rate portfolio. However, our next target after exceeding 5% will depend in part on market conditions, so I will refrain from giving an answer.

(Ikeda) I understand the main thrust of your question to be that you understand what we are aiming for, but you would like to know when we will achieve it by. At this point, we cannot say when it will be achieved, but this is an important point, and we will consult with the Board of Directors and provide an answer as soon as we can.

Q18.

Is it correct to understand that the financial regulation to pay attention to with regard to JGB investments is IRRBB?

A18.

(Shinmura) As you point out, IRRBB is the second pillar, and Japan Post Bank is mindful of this regulation.

Q19.

Could you please tell us your thoughts regarding unrealized losses on JGB investments? Is it correct to assume that you do not worry about them because your basic policy is to hold them until redemption at maturity?

A19.

(Shinmura) The main cause of unrealized losses currently is JGBs. However, we basically invest in these with the assumption of holding them until maturity. Japan Post Bank recognizes that it has the strength and capital to hold them until redemption on maturity. Therefore, we generally do not have significant concerns regarding unrealized losses on bonds that are held to maturity. However, I should add that, of course, we do not completely ignore unrealized losses in management.

(Ikeda) If unrealized losses increase, it can lead to a deterioration of the CET1 ratio, so naturally we are mindful of them. We manage our capital adequacy as we invest.

End

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