Results for the Nine Months Ended December 31, 2023
Summary of Teleconference Q&A (February 14, 2024)

Q1.

Please provide details on the disclosure material presented today. (Reference: Real Estate Non-Recourse Loans: Current North American Office Loans). In particular, please tell us about the status of the Bank's loans for U.S. office properties, including the trend of the loan-to-value (LTV) ratio going forward.

A1.

First, non-recourse loans (NRLs) account for about 1% of the Bank's total assets under management. Real estate investments are outsourced to asset managers who have established sophisticated management systems, and undergo appropriate periodic management through those entrusted management partners. The Bank's strategy for real estate investment is to pursue diversification and invest selectively in high-quality, high-occupancy properties, with the main focus on earning income from rental revenue.

Regarding the real estate market, the market is deteriorating especially for offices due to inflation, monetary tightening by the central bank, and other factors, but demand for industrial use properties and rentals is strong, giving the impression that the market is becoming more polarized.

Although the general sentiment in the U.S. office market remains unfavorable, we do not expect a further significant increase in the LTV ratio at this time, partly because we are selectively investing in high-quality properties.

Q2.

Regarding JGBs, there is the impression that the balance is increasing even though it seems a good number of redemptions were carried out in Q3. What is the trend for outstanding balances of JGBs by remaining maturity in Q3 and the outlook for the future?

A2.

The Bank has strategically limited its investment in the 10-year zone under the negative interest rate policy, but is in the process of rebuilding its yen interest rate portfolio following the recent shift in the Bank of Japan's monetary policy stance.

In this environment, in Q3, we built up the balance of JGBs with over 10 years remaining to maturity (to approximately 19.7 trillion yen, up about 0.4 trillion yen q/q) and that of JGBs with over 7 years but not more than 10 years remaining to maturity (to approximately 3.2 trillion yen, up about 1.6 trillion yen q/q), so we have been able to continue to steadily purchase JGBs.

As you have identified, actual purchases amounted to more than the increase in the outstanding balance owing to redemptions and other impacts of the lapse of maturity period.

The Bank plans to exercise a flexible approach to JGB purchases going forward, taking into account interest rate levels and other market conditions.

Q3.

The interest rate spread has improved q/q. What are the reasons for this improvement? Could you also comment on the outlook for the future based on the monetary policies in Japan and the U.S.?

A3.

We believe the q/q improvement in the interest rate spread is attributable to an increase in dividends from foreign securities, especially investment trusts. In Japan, while we are increasing JGB purchases, the redemption of previously purchased high-yield JGBs has slowed down, leading to an improvement in the interest rate spread.

With regard to domestic monetary policy, if long-term interest rates rise, we expect the purchase of high-yield JGBs will lead to an improvement in the interest rate spread, and if short-term interest rates rise, the interest rate spread on foreign securities will improve on a decrease in hedging costs.

In addition, if short-term U.S. interest rates decline, we similarly expect the interest rate spread on foreign securities to improve because of hedging costs, due to the narrowing of the difference between domestic and foreign interest rates.

Q4. (Additional question)

Is it fair to say that the deterioration in the interest rate spread has bottomed out and that you are feeling a certain degree of confidence regarding the Bank's Q3 results?

A4.

Yes, that would be an accurate interpretation.

Q5.

You mentioned that the main reason for the increase in the CET1 ratio was the improvement in unrealized losses on available-for-sale securities. Please share with us your thoughts regarding margin on capital.

A5.

Since we will continue to invest in risk assets based on our basic policy of diversification, the CET1 ratio is expected to gradually decline to around 10%, and we would like to consider margin on capital while taking these factors into account.

Q6. (Additional question)

If domestic interest rates rise in the future and investment in JGBs increases, wouldn't it be that the balance of risk assets probably won't rise as much as previously planned?

A6.

Regarding the restructuring of the yen interest rate portfolio, we intend to first allocate due from banks, etc. to JGBs, so we do not believe that an increase in investment in JGBs will immediately lead to a decrease in investment in risk assets.

Q7.

Regarding gains/losses in strategic investment areas, please explain the factors that contributed to the strong performance in Q3 compared to H1, and the breakdown of earnings from private equity (PE) and real estate investments (in terms of net interest income and non-recurring gains (losses)).

A7.

In the case of PE revenue, net interest income was approximately 78.0 billion yen and non-recurring gains (losses) were approximately 39.0 billion yen. As for real estate investment, net interest income was approximately 7.0 billion yen, and non-recurring gains (losses) were approximately 13.0 billion yen.

Regarding PE, the environment up to Q2 of this fiscal year was such that exits were difficult to orchestrate, but then conditions began to improve from Q3 onward. That improvement is considered a factor behind the growth of both net interest income and non-recurring gains (losses).

As for real estate investments, the provisioning of reserves in Q2 was a cause of the deterioration in non-recurring gains (losses), while in Q3, almost no additional provisions were made, and this is considered to have led to the increase in income.

Q8.

Is it correct that the review of the Mid-term Plan will be announced in May 2024? Also, please tell us how the content of current discussions has changed in response to underlying developments in the market environment.

Considering that net interest income (Overseas) has been improving (growing from approximately 108.8 billion yen in Q1 to 111.2 billion yen in Q2, and further to 143.2 billion yen in Q3), it is hoped that the discussions are changing to take on a more optimistic outlook. Could you please provide some insight on the situation?

A8.

The release of the review of the Mid-term Plan is definitely scheduled for May 2024.

In preparation for the announcement, we are discussing the plan internally from various perspectives, taking into account the current market environment and the Bank's business performance.

However, at this stage, we would like to refrain from discussing the details of the discussions and agenda items, and would be happy to talk about them when they are released in May.

Q9.

Please tell us a little more about the real estate data described in the disclosure material provided for our reference.

The document shows that the balance of NRLs for North American office properties is approximately 300 billion yen, and accumulated reserves for possible loan losses are approximately 9.8 billion yen. Looking at these figures alone, the reserve ratio would work out to about 3%, but can you tell us what the actual reserve ratio is?

Also, I believe there are other banks in Japan, the U.S., and elsewhere that have built up reserves such that they have slightly higher reserve ratios, but what is your understanding of how the Bank's North American office NRLs compare with other banks in Japan and elsewhere?

Furthermore, with conditions in the North American office market still unstable, in general, does the Bank estimate earnings based on a worst-case scenario? For example, a reserve ratio of 20% against an outstanding loan balance of 300 billion yen?

A9.

We would like to refrain from responding to your specific question about the reserve ratio.

We would also like to refrain from commenting on comparisons with other banks, but we recognize that, at present, the detrimental impact on the value of the real estate in which we invest is limited because we are pursuing diversification in building our portfolio, and as such, the percentage of loans for U.S. office properties is quite low, and we also carefully select high-quality properties with high occupancy rates.

With regard to real estate investments, owing to the highly individualized nature of each property, while there is a possibility that allowances will need to be made for some properties in due course, we believe that a significant increase in the LTV ratio can be avoided in the future due in part to the conservative valuation by our entrusted management partners. We do not anticipate any extreme deterioration in asset values that would result in making large allowances.

In any case, we are aware that the overall sentiment remains unfavorable in the real estate market, particularly in the North American office market, and we will invest cautiously while closely monitoring the situation.

Q10. (Additional question)

Would it be correct to understand that the accumulated reserves of approximately 9.8 billion yen are intended to cover potential losses on all of the approximately 300 billion yen in North American office loans?

A10.

Yes, that would be correct.

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; market risks, market liquidity risks, credit risks and operational risks (such as risks relating to Japan Post Bank's IT systems, Japan Post Bank's reputation, natural disasters, litigation and violations of applicable laws or regulations); risks relating to Environmental, Social and Governance, or ESG, factors including climate change; risks related to business strategy and management planning; risks related to the expansion of the scope of operations; risks related to the business environment; risks related to Japan Post Bank's relationship with JAPAN POST HOLDINGS Co., Ltd. and JAPAN POST Co., Ltd.; 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.