Results for the Fiscal Year Ended March 2024
Summary of Q&A (May 21, 2024)

Q1.

As a new president, what kind of company would you like to make Japan Post Bank into? In responding, could you also please touch on your Bank's position in the financial system and its unique strengths, assets, and challenges?

A1.

(Kasama) A company's corporate culture is important. We believe that a company in which employees enjoy their work and go about it with optimism and energy will eventually lead to an increase in corporate value. Recognizing that the Bank is a vertically structured organization that lacks cooperation between departments, we have been working to strengthen "horizontal" communication through the Service Improvement Committee and other means for years. We will continue to make the organization more open and improve communication, vertically through departments and horizontally through the use of committees, to create an organization where people can communicate productively.

Q2.

As shown on page 4 of the Investors Meeting materials, I see that net fees and commissions decreased (-3 billion yen), while general and administrative expenses increased (+8 billion yen). I understand that your company's earnings structure is greatly affected by the external environment of interest rates in Japan and the U.S. What are some of the self-reliant efforts inherent to the Bank that can improve valuation and are not dependent on the external environment? Also, is the Bank considering entering into new businesses?

A2.

(Kasama) Although we expect a decrease in net fees and commissions in the plan for FY2025/3 due to changes implemented for additional fees for using cash for payment services and other transactions, we will continue with our efforts to improve the situation.

As for areas other than the Retail Business where an improvement in earnings can be expected, we note, for example, the investment activities of

Japan Post Investment Corporation (JPIC).

(Shinmura) The roadmap for the profit plan is presented on page 31 of the materials, and it shows that net fees and commissions are expected to be positive in FY2025/3 and FY2026/3 combined.

As for general and administrative expenses, please understand that we will achieve the revised Medium-term Management Plan (hereinafter Mid-term Plan) target to reduce expenses by 69 billion yen and be incurring additional costs as strategic investments for the future.

Q3.

If your Bank is embarking on new ventures, could you tell us about the blue oceans that are expected to generate revenue? If there are any such markets that you are considering, please share the details with us.

A3.

(Kasama) We are diligently reviewing new measures internally, and are working on those that are currently feasible to implement. In addition, we have been actively engaged in new businesses through subsidiaries and affiliates such as JPIC and Japan Post Bank Capital Partners (JPCP), the latter of which was established today.

Q4.

Regarding the FY2025/3 plan, please tell us about the upside and downside prospects of the profit plan. I believe the upside is that interest rates on JGBs may rise, while the downside is that U.S. interest rates may remain higher than expected and PE revenues may decline.

A4.

(Kasama) As you have pointed out, a higher-than-expected rise of the 10-year JGB yield could prove an upside to earnings, but we believe that an increase in short-term interest rates could have a more significant upside impact.

As for downside factors, as you understand, we believe that a delay in interest rate cuts in the U.S. will be one of those.

PE investments have been increasing on a total return basis, which is the sum of realized and unrealized gains (losses), and although realized gains declined in FY2024/3, unrealized gains have been increasing. This is a matter of when exits are achieved. We believe that the exit environment has improved more this fiscal year compared to the previous fiscal year.

(Shinmura) In general, we recognize that there are more upside factors than downside factors.

Q5.

There is talk of a financial institution increasing their capital due to growing unrealized losses on U.S. Treasury bonds, but I understand that there is no need to do so at your Bank due to skillful management. Looking back on your Bank's operations, please tell us what you judge to have gone well. I would also like to know if you think the actions of these other companies will have any impact on your Bank's future management strategy.

A5.

(Kasama) If I may talk from the perspective of our investment approach and how it has been successful, on page 6, for example, you can see that the balance of JGBs with more than 7 years but less than 10 years remaining to maturity decreased markedly from FY2023/3 to FY2024/3. This was the result of our anticipatory assessment of the BOJ's policy interest rate trend and other factors, and our flexible implementation of divestment. There are other examples, but I think the important thing is to always think about what we should do to protect the Bank's portfolio.

Another major advantage of the Bank's large size is its ability to diversify its investments. For instance, there are cases in which some assets generate lower-than-expected income, but other assets may make up for this. We believe that investing in a variety of assets has resulted in lower risk, and that this approach has worked well over the past few years.

Q6.

The holding company has declared it will reduce its shareholding ratio in the Bank to 50% by end of FY2026/3. The deadline is approaching. If the holding company's shareholding is actually reduced to less than 50%, what sort of things will the Bank be able to do? If there are any new operations under consideration or equity story you could share with us, please do so.

A6.

(Kasama) We believe it has a significant impact that a decrease in the holding company's shareholding ratio in the Bank to less than 50%.

For example, when launching a new business, approval is currently required from the Commissioner of the Financial Services Agency and the Minister for Internal Affairs and Communications. If the holding company's shareholding ratio is 50% or less, such approval is not required and only notification is required, and thus it greatly shortens the process to implementation.

The financial markets are especially fast-moving, and speed is important, so we believe that being able to act quickly when we want to make a move will make a big difference.

Q7. (Additional question)

In the Σ Business, for example, it is thought that the Bank's relationships with regional financial institutions will become a major point in question. Will there be any changes if the holding company's shareholding ratio is reduced to 50% or less?

A7.

(Kasama) In terms of the Bank's relationships with regional financial institutions, we do not believe a decrease in the holding company's shareholding ratio to 50% or less will make a significant difference. In the Σ Business, our concept is to work closely with regional financial institutions, and we do not intend to undertake operations alone. To revitalize local businesses, the Bank will make equity investments, and hopes that regional financial institutions will also participate, either through loans or equity investments, and collaborate with us in promoting this business.

Q8.

What is your stance on investment in JGBs as you move forward with the shift from due from banks, etc. to JGBs? Do you intend to invest flexibly, timing the investments depending on future interest rate trends, or do you intend to continue to invest a certain amount if interest rates remain at current levels?

A8.

(Kasama) We are promoting a shift of investment from due from banks, etc. to JGBs, but considering the large balance of due from banks, etc. and the amount of JGBs issued, we expect it will take time to rebuild our yen interest rate portfolio. Given these circumstances, we think it makes sense to continue to invest in 10-year bonds to a certain extent at current interest rate levels. We also see this as one form of investment diversification, as I answered earlier, and that it will serve as a way to diversify the timing of investment.

Q9.

Looking at the organizational structure of the Investment Division as of April 2024 on page 72, I believe there have been changes to the framework of the Equity Investment Department.

The department has a two-person leadership structure, under General Manager Yamamoto and Executive Managing Director Shimizu who is responsible for planning. Please tell us what role each of them fulfills and their respective missions. Is the change in structure partly due to the strong stock market since the beginning of the year?

A9.

(Kasama) As you pointed out, we changed the framework of the Equity Investment Department.

We believe that the current general manager of the Equity Investment Department, who is also the head of the CIO Office, will be able to monitor the overall market as well as the movements of the stock market. We expect him to lead the Equity Investment Department together with Mr. Shimizu, who have extensive experience in equity investment.

I, myself, am aware that market participants are paying more attention to the Japanese stock market than ever before, and I would like to seize the opportunities that exist now.

Q10.

As Japan ushers in a world with positive interest rates, please tell us about any other business activities, other than market operations, that your bank is pursuing or would like to pursue in the future.

A10.

(Kasama) In a world of positive interest rates, we see more opportunities than ever to transform the Retail Business.

For example, regarding our target for the number of NISA accounts, which we have set as a KPI, we believe that we will be able to achieve an increase in the number of accounts. We are expecting various other effects, and would like to share the results with you in the future.

Q11.

In the revised Mid-term Plan, the Bank has set a target to achieve net income of 400 billion yen or more in FY2026/3, on expectations of the restructuring of the yen interest rate portfolio, lower overseas short-term interest rates, a recovery in the PE exit environment, and other factors.

Beyond that, will the Bank need some other growth driver to achieve net income of 500 billion yen or more? Or do you think it is possible for the Bank to achieve profits of 500 billion yen or more on an extension of the current strategy?

A11.

(Kasama) We believe we can achieve profits of 500 billion yen or more by extending the current strategy.

Q12.

A look at the waterfall chart of earnings forecasts for FY2025/3 on page 4 clearly shows that the profit growth is expected to come from credit assets, foreign government bonds, etc.

Please tell us whether you see this as largely due to improved credit spreads or lower foreign currency funding costs.

A12.

(Kasama) At present, we expect to see an improvement in earnings mainly from credit assets and foreign government bonds, on anticipation of a decline in foreign currency funding costs, as the U.S. is expected to cut interest rates at some point in the year.

Q13.

Following the Bank of Japan's lifting of its negative interest rate policy in March 2024, Japan Post Bank raised its deposit interest rates, albeit cautiously. I am aware that this is not limited to your Bank, and that basically all banks are doing the same. Please let us know if you have noticed anything new amid this trend in terms of depositor behaviors, the loan-to-deposit spread, etc.

A13.

(Kasama) The Bank has a retail deposit ratio of over 90%, so I hope you understand that it is difficult to make simple comparisons with other banks where corporate deposits account for a large portion of their deposits.

With this understanding, from the perspective of our Bank's deposits, we saw the slight decline in the deposit balance at the end of FY2024/3 compared to FY2023/3. This is due in part to the end to COVID-19 subsidies which contributed to the deposit growth for years.

Also, as you have pointed out, we raised the deposit interest rate this past April. From what we understand, we do not believe that there has been any outflow of funds to other banks.

However, we are aware that more customers than expected are switching from ordinary deposits to fixed-term deposits within the Bank. As this may indicate that our customers are sensitive to interest rates, we will continue to monitor the situation closely and take the best possible measures for our customers and the Bank.

Q14.

What is the outlook for the CET1 ratio? I think the expectation is for a level of around 10-11% in the future under the fully phased-in final Basel III framework. In this forecast, please provide details on the extent of the impact you expect from stricter regulations.

A14.

(Kasama) With regard to the impact of tighter regulations, we expect to take various measure in response to regulatory actions, such as by increasing the risk weighting of equities in the future.

However, we would like to refrain from disclosing a detailed breakdown of those measures at this stage.

Q15. (Additional question)

I understand that a factor behind the projection for a decline of the CET1 ratio is the assumption that the balance of risk assets will expand. With current yen interest rates on the rise, will further expansion of the risk asset balance improve profitability, and is this a truly necessary initiative? Please let us know your thoughts.

A15.

(Kasama) Underlying our investment policy is the idea of diversification. In the revised Mid-term Plan, we have come up with a plan to increase the balance of risk assets to 114 trillion yen.

However, this does not necessarily mean that the policy of expanding risk assets will be continued in the next Mid-term Plan.

We recognize that up until now, we have been in a phase of building up the balance of risk assets in consideration of the market environment and the state of the Bank's assets, but we believe that from the next Mid-term Plan onwards we will be in a phase of carefully examining our asset allocation. We believe that more sophisticated investment management will be required.

Q16.

The Bank is aiming for ROE of 5% or higher in the early stage of the next Mid-term Plan. With other major banks pursuing ROE of around 10%, please tell us what level of ROE you think Japan Post Bank should ultimately aim for as a publicly listed company and bank.

A16.

(Kasama) I would like to refrain from giving an answer as to what specific level we are aiming for.

As stated in the review of the current Mid-term Plan, we would like to first achieve ROE of 5% or higher at the earliest possible stage of the next Mid-term Plan.

However, we understand that 5% is a stepping stone for the Bank and that our shareholders and investors expect a higher level. We believe it is essential to aim for further improvement in ROE, and we intend to continue our efforts in this regard.

(Shinmura) I would like to add that we are not satisfied with the 5% ROE level. The target is only an indication of what we are able to show in this review of the Mid-term Plan.

I believe that in your comment you are implying that the ROE target level is insufficient compared to other banks, but our business model is different from other banks, as we have unique costs, such as our responsibility to provide universal services.

Hence, I don't believe we can simply make a side-by-side comparison.

On the other hand, we believe that our strengths, such as our nationwide network, are very unique to Japan Post Bank. We would like to raise the level of returns by monetizing these strengths, and we will continue to review the next Mid-term Plan so that we can present a level of return that meets expectations.

Q17.

Regarding the CET1 ratio, while it is expected to be around 10-11% in FY2026/3, the final year of the current Mid-term Plan, the target level in normal times is set at around 10%.

Would it be correct to understand that the difference between the two figures is ascribable to a plan for repurchasing shares? Please explain this as best as possible.

A17.

(Shinmura) Based on the assumption that we will promote investments for growth under the current market environment, and considering the impact of regulations, we expect the CET1 ratio will be around 10-11% at the end of FY2026/3.

In that sense, we could say that this provides some margin, albeit limited, over the target level of 10% in normal times, and we do not at all deny the possibility of a share repurchase program.

However, in terms of shareholder returns, our priority, as we have indicated in our materials, is to increase dividends from the level originally forecast for FY2025/3.

We will continue to aim to enhance shareholder returns through medium- and long-term profit growth on the back of our corporate efforts.

Q18.

In considering increasing dividends, have there been any discussions about changing the dividend policy and raising the dividend payout ratio to around 60%, from the current payout ratio of around 50%?

Looking from the outside, we can assume that diversification is on track, and that the ongoing restructuring of the yen interest rate portfolio will make earnings more stable. Therefore, I wonder if there could be an argument for increasing the dividend payout ratio.

A18.

(Kasama) The dividend payout ratio of around 50% is a dividend policy that we have had since the beginning of the current Mid-term Plan and it is based on our intent to strike a balance between shareholder return, financial soundness, and investment for growth, as well as to strike a balance between aggressive and defensive measures.

At this stage, we are not discussing revising the policy, but we have gained a certain degree of confidence in it after seeing our FY2024/3 results and changes in the environment surrounding our Bank.

For this reason, we have decided to increase dividends for the first time since the Bank's listing. We are aware of the high expectations of our shareholders, and we will continue our efforts to increase dividends in line with profit growth.

Q19.

What is the picture of the Bank's sensitivity to domestic and overseas interest rates? On page 8 of the materials, it is stated that the breakdown of approximately 90 trillion yen in foreign securities includes about 50 trillion yen in a short-term yen interest rate receivables position and about 15 trillion yen in a foreign currency interest rate position for taking on risk. Would it be correct to understand that there is some overlap between the two positions?

A19.

(Kasama) Basically, yes, your understanding is correct.

(Imai) If I may add a few words, I'd like to note that while we use a variety of hedging methods with our foreign securities investments, we have presented here a general picture of what they are.

This indicates that the anticipated changes in the market environment are likely to be a boon for the Bank, as it has a position of about 50 trillion yen on which it will benefit from a rise in short-term yen interest rates and a position of about 15 trillion yen on which it will benefit from a decrease in foreign currency funding costs accompanying lower short-term interest rates overseas.

Q20.

On page 48, the IT investment plan included in the revised Mid-term Plan states, "Looking 10 years ahead, commence studies on a future vision of a sustainable system for responding to changes in the social and business environments." At this stage, what sort of vision for the future does the Bank have? For example, are you considering adopting open system platforms? It would be appreciated if you could provide more color if possible.

A20.

(Kasama) Our bank has about 120 million accounts, so the number of remittances is huge and the load on the system is considerable. We are confident in the strength of our system, including the robust network and processing speed, because we have built a system that can sufficiently handle such a heavy load.

We are currently discussing the future of the system, but I would like to refrain from going into specifics.

However, what I can say is that we have allocated 675 billion yen for IT investment over the five years of the current Mid-term Plan, with an eye towards the future, and we are moving forward with discussions on the construction of a system that can respond to changes in the business environment and the changes and diversification of our customers.

End

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