Results for the Six Months Ended September 2024
Summary of Q&A (November 19, 2024)

Q1.

Could you explain how we should interpret the yen interest rate simulation on page 6 of the IR Presentation? Looking at the materials, the curve shape changes from end of March 2026 onward. Is there some factor behind this change?

Moreover, how should we interpret the figures for FY2030 single-year income? Specifically, what is the baseline for these increases?

A1.

(Kasama) Please consider these figures to be the amount of increase in income for that fiscal year. For example, in the case of "(1) Rising interest rate scenario," the increase is 850.0 billion yen compared to the single-year income for FY2024.

This graph gives an indication of how much the income effect from investment in JGBs will accumulate in subsequent fiscal years, based on certain assumptions presented. Please note that the horizontal axis of the graph is designed with two different intervals, with one from the end of March 2025 to the end of March 2026 and the other from the end of March 2026 to the end of March 2031, as shown.

Q2.

Looking at the QoQ performance of interest on foreign securities, the amount has decreased in Q2. You have now announced an upward revision of your full-year forecasts, so I would like to know your outlook for interest on foreign securities in FY2024 H2.

A2.

(Kasama) With regard to foreign securities, particularly with some of those that we have invested in through asset management companies, there can be some temporary fluctuation in revenue when compared QoQ, due to the market environment and other factors.

While there may be differences in the profit level each quarter, as shown on pages 32 and 33 of the IR Presentation, the figure is rising both compared to the forecast and year on year. We do not think there has been any change in the momentum of revenue increase.

Q3. (Additional question)

Can we take it that third-quarter interest on foreign securities will increase compared to this quarter?

A3.

(Shinmura) I would like to refrain from giving a forecast here regarding the increase or decrease for the third quarter, but looking through the full fiscal year, at the present, we consider the result to be better than our initial plan.

Q4.

On page 7 of the IR Presentation, it appears that the purchasing pace for 10-year bonds has slowed from Q1. Is the restructuring of the yen interest rate portfolio proceeding without any problems?

A4.

(Kasama) As you have observed, when comparing the 10-year bonds QoQ, their balance has been increasing at a slower pace in Q2 than in Q1.

This is because the interest on 10-year bonds was lower than we expected. For this reason, taking into consideration the appeal of the investment, we purchased JGBs with maturities longer than 10 years, such as those with a remaining period of around 12 years, and this has had an impact. Therefore, we do not think that there is a problem with the progress.

We will continue to strategically restructure our yen interest rate portfolio based on market conditions and interest rate outlook.

Q5.

Regarding the deposit balance, fixed-term deposits have decreased by around 2 trillion yen QoQ. What kind of factors are behind this? Please explain your approach to deposits, along with your thinking about determining interest on deposits.

A5.

(Kasama) As with other banks, Japan Post Bank is undergoing a full-fledged deposit interest raising phase for the first time in several decades. We recognize that the short-term result is that TEIGAKU deposits are decreasing while time deposits are increasing, but we do not think that there is an outflow of deposits from the Bank. Regarding interest on deposits, we consider it important to respond appropriately while also giving consideration to trends at other banks.

As an initiative regarding deposits, we aim to take an approach that is closely matched to customers' lifestyles as a familiar bank. For example, we are providing basic services through the spread of our mainstay Yucho Bankbook App.

(Shinmura) From a perspective of the overall deposit balance, I believe that the phase of belt-tightening due to the COVID-19 pandemic is now over, and the trend now is for people to withdraw their money and spend it.

Also, since interest rates are now rising again, we have seen deposits being used to purchase JGBs for individuals, and so forth. We have not seen deposits flowing out from Japan Post Bank to other banks at this stage.

Q6.

Looking at the breakdown of factors in the upwardly revised full-year forecasts for FY2024 on page 4 of the IR Presentation, the forecast for private equity (PE) has been revised downward.

The forecast as of May 2024 was for increasing income from PE through to FY2025. Is there currently a change to this forecast? Could you also explain the reason for the downward revision of the forecast for this fiscal year?

A6.

(Kasama) For PE, we have revised our plan for realized gains for the fiscal year downward as you have noted. On the other hand, we have unrealized gains of around 1.1 trillion yen, and we have continued to maintain a high level of total returns, so the valuation of our PE funds themselves has not fallen.

Essentially, we are in a situation of not having exited as planned, so another way of looking at this is that there is a build-up of funds awaiting exit.

There was a slight slowdown in PE exits prior to the U.S. presidential election, but there are reports that exit activity will increase in volume and intensity under the incoming President Trump, and Japan Post Bank is awaiting this with anticipation.

Q7.

Regarding gains from sales of stocks as a result of risk adjustment operations, etc., could you tell us if there has been any change to the previous forecast of almost none for FY2025?

A7.

Currently the forecast is unchanged

Q8.

Regarding capital allocation on page 60 of the IR Presentation, I take it that the reason for the upward revision of the full-year forecast this time reflects an increased potential for accumulating net income. Also, I believe it is possible that the shift from risk assets to JGBs may accelerate given the increase in the policy interest rate in Japan and other factors. In that case, I believe Japan Post Bank would generate more surplus of capital than initially expected. Could you tell us how that surplus of capital would be used?

A8.

(Kasama) The basic approach in our dividend policy is unchanged. We aim to maintain a dividend payout ratio of around 50%, and use the remaining portion to fund growth investments, giving consideration to a balance between shareholder returns, financial soundness, and growth investment.

However, we of course recognize that the environment surrounding Japan Post Bank is changing from day to day, so we will consider various factors, while carefully observing the actions of other banks and keeping in mind what our shareholders and investors require from us.

Q9.

Looking at pages 11 and 32 of the IR Presentation, PE income has progressed more or less in line with the forecast for the first half, but the full-year forecast has been lowered, so I expect that the forecast for FY2024 H2 has been revised downward. Could you please explain the background to this decision?

A9.

(Kasama) There is a time lag of about half a year for recording PE income, so the income generated in FY2024 H1 will be reflected in the statement of income for FY2024 H2.

To repeat what I said before, after reflecting that exit activity in H1 was at a lower level than we initially expected, our forecast for FY2024 H2 was adjusted downward from our initial forecast.

Q10.

On page 5 of the IR Presentation, you say that you plan to announce the ROE target for FY2025 in May 2025. On the slide, it appears that the value is slightly below 5%. Can we assume that to be the case?

A10.

(Shinmura) We have revised our full-year forecast for FY2024 upward and in tandem we have also revised our FY2024 ROE target upward to 4% or higher. Meanwhile, for our plan for FY2025, we intend to aim for even higher results than FY2024, but we would like to present specific figures in May of next year.

Q11.

In terms of ROE, other major banks have lifted their sights to the 8–10% range, partly with gains on the sale of cross shareholdings. Major regional banks are generally also looking at around 8%. Is the Japan Post Bank taking note of these financial targets and ROE levels at other banks?

A11.

(Kasama) Japan Post Bank has set a target for ROE of 5% or higher, but that does not mean that we consider 5% to be sufficient. Naturally, we believe we must aim for a higher result.

Moreover, we are of course aware of the levels of other banks' ROE targets, and we will continue to promote management of the Bank taking into consideration the surrounding environment.

Q12.

Please share your thoughts on the impact of Mr. Trump's appointment as the new president in the United States. The yen interest rate is expected to rise due to the steepening of U.S. interest rates and policies for weakening the U.S. dollar, but it seems that all of these would work in Japan Post Bank's favor. Could you tell us if any of the scenarios envisaged by the Bank could have a negative impact on the Bank?

A12.

(Kasama) As you have noted, a scenario in which the U.S. yield curve steepens and the yen interest rate rises would have a substantially positive impact on Japan Post Bank.

Risk scenarios include, for example, the reacceleration of inflation in the United States, but even in this scenario, it is likely that yen interest rates would rise and the credit spread trend would remain stable. Therefore, it would not necessarily be a negative scenario for the Bank.

In other areas, some have raised concerns recently regarding private debt. Since banks became unable to hold the risks that they have traditionally held due to regulatory reasons, non-banks have stepped in to shoulder these risks, which is replacing bank loans in a sense. Therefore, we believe that in a healthy economy, there will be no particular problems with private debt. The Bank's exposure to private debt is limited and is managed conservatively.

Looking ahead, we will work to diversify our portfolio while handling private debt appropriately.

Q13.

Japan Post Bank has stated its aim to achieve ROE of 5% or higher, above the cost of shareholders' capital, early into the next medium-term management plan. Is this a target that would be achievable under the (1) rising interest rate scenario in the simulation on page 6 of the IR Presentation, or do you think it would be sufficiently achievable even under economic conditions such as the (2) flat interest rate scenario? Please tell us the Bank's position on this.

A13.

(Kasama) As I have said before, we do not consider ROE of 5% to be sufficient. We intend to continue working to increase it further.

Regarding the interest rate scenarios on page 6 of the presentation that you asked about, even in the event of (3) declining interest rate scenario, for example, we intend to pursue ROE of 5% in the future.

Q14.

Japan Post Bank had been in an environment of super-low yen interest rates, and, up until now, has come up with ways to earn excess returns through the expansion of strategic investment areas, and so forth. The current market environment is becoming one in which returns from interest can be expected. Could you tell us as much as you can about the possibility for changes in your future investment policy and risk appetite?

A14.

(Kasama) As you have noted, up until now we have promoted increased sophistication and diversification of our asset management as well as diversification of our portfolio, including investment into strategic investment areas.

This portfolio diversification was sparked by low interest rates, but even today when a certain level of return from interest can be expected, we have a real sense of robustness due to diversification.

With regard to our risk appetite going forward, we aim to build an ideal portfolio, envisaging returns from each product while taking interest rate levels and so forth into account.

Q15.

Looking at page 5 of the IR Presentation, can we take it as an expression of confidence among Japan Post Bank management regarding the Bank's performance, that the current market environment is providing a tailwind, that net income for FY2025 is expected to be around 450.0 billion yen, and that the Bank is capable of achieving ROE of 5% in the first year of the next medium-term management plan?

A15.

(Kasama) As you say, my personal view is that the current market environment is favorable for Japan Post Bank, and that it is an environment that will make it easier for Japan Post Bank to achieve ROE of 5%, which it is targeting for an early stage of the next medium-term management plan, at an earlier stage. However, at this point, I will refrain from discussing the specific timing for achieving this target, and the level of net income for FY2025.

(Shinmura) Our net income target for FY2025 is “400.0 billion yen or higher,” so at this stage we cannot provide a specific level.

Please think of page 5 of the IR Presentation as an expression of Japan Post Bank’s determination to use the current favorable market environment to aim for even higher net income and ROE by investing and increasing income.

Q16.

The CET1 ratio forecast for the end of FY2025 is around 10–11%, whereas the ratio at the FY2024 H1 financial result was 13.53%, which provides a buffer of around 250 bps. Can we assume the possibility of flexible share repurchases of a corresponding scale?

A16.

(Kasama) We are currently examining the potential for share repurchases, taking into account the market environment, the status of performance and internal reserves, growth investment opportunities, and Japan Post Holdings’ shareholding ratio of Japan Post Bank’s stock. Since Japan Post Holdings has a stated goal of reducing its shareholding ratio to 50% or lower by FY2025, we recognize the need to think carefully about share repurchases, as they would have the effect of increasing Japan Post Holdings’ shareholding ratio.

Q17.

Could you please tell us your outlook for general and administrative expenses going forward? Looking at agency commissions to Japan Post Co., Ltd. in particular, based on the current system and framework, can we take it that you are expecting a continued decrease in these commissions? It looks as though you have revised your full-year forecast for FY2024 upward on factors such as an increase in net interest income due to changes in the market environment, etc. If you were able, in addition, to continue reducing general and administrative expenses, for example bringing the OHR to 50% or lower, that would make the Bank an extremely attractive enterprise. What do you think?

A17.

(Shinmura) We are steadily reducing agency commissions to Japan Post Co., Ltd. under the current medium-term management plan based on a system for reducing them in step with decreases in expenses and increases in efficiency at Japan Post Bank.

However, the environment has changed compared to when the current plan was formulated, particularly with regard to personnel expenses. Looking ahead, while we expect to reduce regular expenses, we also see that necessary expenses must be incurred for investment in human capital.

Of course, if we incur expenses, then we also consider it necessary to increase our top line to compensate. We will continue to control expenses rigorously going forward.

Q18.

With regard to the Co-creation Platform strategy on page 8 of the IR Presentation, could you please tell us the status of contact from potential partner firms?

Also, could you tell us if any issues have arisen in promoting this strategy in relation to the so-called cross-selling problem that was identified at Japan Post Co., Ltd.?

And finally, could you please give us any indication of your projected scale of future income, if you have one?

A18.

(Kasama) Under the Co-creation Platform strategy, Japan Post Bank will take the lead in promoting products and services of its partner companies. Our understanding is that no issues have arisen due to the recent cross-selling problem.

We are unable to disclose anything about our partner companies, but we have received inquiries from various companies, and we are steadily making progress with the Co-creation Platform strategy.

(Shinmura) Our idea is to build a new platform that merges physical and digital channels, while taking sufficient care over the use of information, such as personal information. We have not changed this policy.

With regard to future income, we do not have any specific figures that we can provide at this stage; however, we are thinking to monetize the platform in the medium to long term.

Currently retail business accounts for around 10% of Japan Post Bank's revenue, while market operations account for about 90%. Over the medium to long term we would like to change this ratio.

As we carry out this Co-creation Platform strategy, we aim to further increase the stickiness of deposits, which are the funding side, and also to further expand earnings from market operations.

(Kasama) To add to that, we are not only focused on earnings with the Co-creation Platform strategy. As we promote the strategy, we believe that we will see substantial secondary effects such as increasing Japan Post Bank's brand value, recognition, and convenience. So we view this as an important initiative from this perspective as well.

Q19.

Please explain about risk management for your securities portfolio. What kind of risk management are you putting in place as you restructure the yen interest rate portfolio?

A19.

(Kasama) We manage portfolio risk by conducing various simulations, such as stress testing. We have tested a variety of different scenarios, and in all of them, a rise in interest rate basically resulted in an overall positive result for Japan Post Bank. Our management has understood this well.

(Shinmura) If I can add to that from the perspective of unrealized gains and losses, in our current program of new JGB purchases, we are purchasing the majority of these with the intention of holding them to maturity, so they will not have a direct impact on unrealized gains and losses on available-for-sale securities.

As you have pointed out, we are currently aggressively taking yen interest rate risk; however, since the amount of yen interest rate risk was effectively neutral or negative up until the previous fiscal year, the amount of risk currently, approximately one year on from the start of restructuring the yen interest rate portfolio, is still small, and we believe that it will not be an issue for the time being if we continue purchasing risk assets going forward.

Q20.

In the mass retail segment, since interest rates are now rising again, other banks are investing in this segment with an eye to its business potential, and

Japan Post Bank has also articulated various strategies. Could you tell us about your current understanding of the situation in this segment, including opportunities and issues?

A20.

(Kasama) Japan Post Bank has extremely high business potential in the retail segment. One of the sources of this potential is our bankbook app, which provides a point of contact with ordinary deposit customers.

Japan Post Bank has around 120 million deposit accounts, which is about the same as the Japanese population, so we believe that we already have a point of contact with ordinary deposit customers.

We have been considering how we can stimulate activity in these accounts. We aim to increase Japan Post Bank's brand value as "the most familiar and trusted bank" through various approaches, including efforts to expand users of the bankbook app.

On the other hand, one of our issues is a common issue for the whole of Japan: the declining birth rate and aging population. Amid a declining birth rate, I believe that the issues we should focus on going forward are how we should approach young customers and how to capture inheritance funds and other funds.

Q21.

Could you please explain your thinking regarding the upward revision of the full-year forecast? I think the main reason for the upward revision this time is the increase in yen interest following the interest rate hike by the Bank of Japan. However, I believe another approach could have been to use the extra yen interest income to preserve unrealized gains on stocks and leave the full-year forecast unchanged at 365.0 billion yen.

Given this, was it that you decided to revise the earnings forecast upward while staying close to the plan for carrying out risk adjustment operations for Japanese stocks? Please explain the significance of this decision to Japan Post Bank and the message that you want to convey. For example, were you expected to conduct an upward revision as a member of the Japan Post Group?

A21.

(Kasama) We conducted the risk adjustment operations for stocks in part with the intention of reducing risk assets in preparation for future tightening of financial regulations. We made the plan at the start of the fiscal year from this perspective, and our policy has not changed. Furthermore, we do not consider any parties other than Japan Post Bank to have been involved in this decision.

Q22.

Looking at the organizational structure of the Investment Division, it seems that there has been a change in the structure of the Equity Investment Department. My personal impression is that you are going to strengthen equity investment operations. Could you please explain your approach to equity investment operations going forward?

A22.

(Kasama) As you have noted, we have strengthened our equity investment operation structure. The newly appointed head of the Equity Investment Department was previously an individual stock analyst, and we would like to utilize her experience at Japan Post Bank.

We think that equity investment is an area where we should strengthen investment in individual stocks going forward.

As we have stated previously, Japan Post Bank plans to continue to focus on having a diversified portfolio. We will therefore put the necessary people in place to manage the overall portfolio, and we will continue to strengthen the overall Investment Division.

End

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