Results for the Nine Months Ended December 31, 2024
Summary of Teleconference Q&A (February 14, 2025)

Q1.

Regarding the contributions paid to the Organization for Postal Savings, Postal Life Insurance and Post Office Network, the "Summary of Approval of the Amount of Contribution for 2025," which was released by the Ministry of Internal Affairs and Communications in January this year, appears to indicate that the amount of contributions for FY2025 will increase by 16.4 billion yen compared to FY2024. Is this understanding correct?

In addition to this contribution, are there any other factors that will increase expenses in FY2025?

A1.

You are correct about the contribution.

As for projected expenses for FY2025, we are in the process of examining them closely, so we would like to refrain from commenting on specific amounts. Please wait for the disclosure scheduled for May 2025.

Q2.

Could you please break down your revenue in strategic investment areas in the first nine months of FY2024 into net interest income and non-recurring gains? For example, how did private equity (PE) perform?

A2.

Regarding PE, net interest income was about 105.0 billion yen and non-recurring gains amounted to about 60.0 billion yen.

As for real estate, net interest income stood at about 13.0 billion yen, and non-recurring gains totaled about 17.0 billion yen.

Q3.

Given the scheduled increase in the contribution amount in FY2025 compared to the previous fiscal year, what are your thoughts on plans for the coming year?

On the negative side, there is the unexpected increase in the contribution amount and a possible rise in foreign currency funding costs due to the persistently high federal funds rate, but on the positive side, there will be an increase in interest on Bank of Japan deposits and a rise in Japanese government bond interest rates. When you compare the positives and negatives, I believe the positives are greater, but what do you think?

A3.

As you are aware, if we look at the increase in the contribution amount and foreign currency funding costs, it will be a negative factor for FY2025, but we recognize that we will need to consider expenses as a whole, including personnel costs, etc.

On the other hand, we believe that another policy rate hike by the Bank of Japan, which was not originally incorporated into the FY2025 plan, and a continued upward trend in the interest rate on 10-year Japanese government bonds would be positive factors.

I think that when you consider the net balance of those factors, it is as you point out. But in any case, the plan for the next fiscal year is under scrutiny right now, so I repeat, we would appreciate it if you could wait for the details to be released in our disclosure scheduled for May 2025.

Q4.

It is recognized that the common equity tier 1 (CET1) capital ratio was 12.88% at the end of December 2024, but since then, the yen interest rate has risen further, so now the CET1 ratio may have declined further.

However, even taking this into account, it is believed that your Bank has a certain amount of surplus capital capacity. Do you plan to use this surplus of capital to return profits to shareholders, for example, through share repurchases?

A4.

We believe that the main reasons for the decline in the CET1 ratio this time are the increased unrealized losses on Japanese government bonds due to the rise in yen interest rates and the increase in risk assets due to the yen's depreciation. However, the current level is well above the normal target level of around 10%, and we do not think that the situation warrants particular concern.

The Bank will consider share repurchases in the same manner as in the past, giving consideration to a number of factors, such as the market environment, business performance, shareholder returns, internal reserves, opportunities for investment in growth, and Japan Post Holdings' policy regarding its shareholding ratio in our Bank.

Q5.

Regarding the progress toward achieving the forecast of 400.0 billion yen in net income attributable to owners of parent, if the achievement rate is 77%, it seems to me that a suitable amount of operations for risk controls on stocks should be implemented in the fourth quarter as well. Does the Bank plan to carry out a certain amount of such operations?

A5.

First of all, our assessment of the third quarter results as a whole is that they are largely in line with our plans, and we have also implemented our operations for risk controls on stocks basically in line with our plans. In the fourth quarter as well, we plan to carry out operations for risk controls to a certain extent.

Q6.

I think the QoQ increase in interest on foreign securities was about 60.0 billion yen. Does this increase fully reflect the effect of the improvement in the yield on the yen short-term interest rate receivables position that the Bank discloses in Investors Meeting materials? Or should we assume that the increase will be reflected in the future, and that as of the fourth quarter, the increase will be even greater when viewed in terms of QoQ?

A6.

The improvement in the yield on the yen short-term interest rate receivables position that you pointed out is manifested as a decrease in foreign currency funding costs incurred when investing in foreign securities, etc. However, there is a time lag in the manifestation of this effect, and we do not think it is fully reflected in the Q3 results. Looking ahead, we expect the improvement trend to continue and the profit momentum to continue.

Q7.

The balance of Japanese government bonds decreased by approximately 2 trillion yen during the period from the end of September 2024 to the end of

December 2024. What were the reasons for this decrease? Can we assume that the main reason was redemptions?

Also, regarding the rebuilding of your yen interest rate portfolio, please let us know if there are any changes in the pace of purchases or the level of interest rates at which you will be purchasing.

A7.

As you are aware, the decrease in the balance of Japanese government bonds was due to the fact that the amount of redemptions was greater than the amount of purchases.

However, the yield on the Japanese government bonds currently being redeemed is at or below 0%, and although the balance will decline, the yield will improve significantly, so we are not particularly concerned about this.

The Bank's investment policy is not to forcibly purchase an amount equal to the redemption amount, but regardless of the redemption amount, to continue to purchase as much as possible without having any negative impact on the market.

We are also making investments in consideration of various conditions, including further increases in yen interest rates, and we believe that the restructuring of the yen interest rate portfolio is progressing well.

Although we have not disclosed specific purchase plans, we will respond flexibly depending on the amount of Japanese government bond purchases by the Bank of Japan and market conditions. Therefore, the balance of Japanese government bonds will not always increase.

Q8. (Additional question)

Regarding the Bank of Japan's monetary policy, the market's expectation of the so-called terminal rate (the final policy interest rate targeted under the Bank of Japan's monetary policy) has also been rising. What is the impact of this on your Bank's Japanese government bond investment policy?

A8.

Although yen interest rates are rising at this time, there has been no particular change in our Bank's investment policy.

With regard to the policy interest rate, the Bank of Japan raised the interest rate to 50 bps at its January 2025 monetary policy meeting, and we are aware that it has shown a willingness to raise the rate further. However, we believe that over the medium term, it is unlikely that the Bank of Japan will raise the interest rate at a pace as rapid as in the United States, given the significant impact it would have on the domestic economy through higher mortgage rates and lending rates for businesses.

As for long-term interest rates, given the macroeconomic environment in Japan, the probability of a rise above 2% is low and the increase is expected to be limited at this time.

Q9.

What is your Bank's assessment of the investment environment for foreign securities, etc.? Although US interest rates remain high at the moment, the yield curve is returning to an upward slope, and I think the market environment in general is favorable for your Bank.

A9.

The US yield curve is currently normalizing, but at the same time, credit spreads are becoming very tight, and we are not optimistic that all market conditions are advantageous for our Bank.

In managing foreign securities, etc., and other investments, we will continue to manage risk appropriately, while taking into account a variety of factors and keeping a close eye on the external environment, so that we can respond to any scenario.

End

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