Results for the Fiscal Year Ended March 31, 2025
Summary of Teleconference Q&A (May 15, 2025)

Q1.

Regarding the earnings forecasts for FY2025, please provide a few more details about the factors behind the projected increase or decrease from FY2024.

A1.

For details, please wait for the investors meeting materials scheduled for release on May 20. However, we can provide some information about several underlying factors.

The most significant factor is the continuous and multilayered accumulation of income from the restructuring of the yen interest rate portfolio (hereinafter referred to as “PF”), as we have already reported in our materials and elsewhere.

In addition, there are a variety of other positive factors, such as the credit PF and private equity (hereinafter referred to as “PE”). These factors will be expected to offset the significant year-on-year decline in gains from the sale of shares associated with operations for risk controls.

Q2.

To what extent have you incorporated the impact of the U.S. policy on tariffs into your FY2025 earnings forecasts? Also, please tell us about your investment policy for the PF based on this.

A2.

As you pointed out, we also believe that market fluctuations caused by tariffs and other U.S. policies pose the greatest risk of changing our earnings forecasts for FY2025. As the global market turmoil occurred at the beginning of April, we formed our forecasts based on the market environment in early April, rather than at the end of March.

For example, while our outlook for PE was optimistic until the beginning of April following the inauguration of President Trump, we later incorporated a somewhat cautious view due to the subsequent turmoil, and to a certain extent took into account the economic slowdown in the U.S. and other countries, as well as sluggish corporate activities. However, since the Bank does not export goods or provide corporate loans, we are unlikely to be directly affected by the tariff policies.

Regarding the future investment policy for the PF, the Bank has traditionally hedged most of its exposure to foreign exchange and foreign interest rate risks, and regarding foreign securities, etc., we have reduced investments in high-yield (HY) areas and are focusing on investment grade (IG) bonds.

In addition, we have taken a more prudent investment stance in strategic investment areas such as PE and real estate, such as by selectively investing only in high-quality products. As such, we believe we have risks under control.

Q3.

Regarding the assumptions used for your FY2025 earnings forecasts, you stated that you used the implied forward rate (IFR) as of early April in order to factor in, to a certain degree, the turmoil in the financial markets caused by President Trump's announcement of his tariff policy. Please tell us whether you expect the Bank of Japan to raise its policy interest rate and, if so, whether you anticipate higher interest rates on BOJ demand deposits and your customers' deposits. In the past, you were somewhat conservative in your forecasts, not factoring in prospects of a policy interest rate hike, but factoring in expectations of deposit interest rate hikes, etc. How about this time?

A3.

Our FY2025 earnings forecasts do not reflect the prospect of either an additional hike in the Bank of Japan's policy interest rate or increases in deposit interest rates.

Q4.

Regarding deposit funding costs, the Bank raised deposit interest rates again in March 2025, but the increase in interest payments appears to be modest relative to the increase in deposit interest rates. Can you provide some factors for this? Also, it is understood that unlike other banks, your Bank is not promoting any offer of higher interest rates on deposits. Do you have any concerns of an outflow of deposits to online banks and other banks?

A4.

The Bank is comfortable with the pace of increase in interest expenses. While interest rates on ordinary deposits are reflected immediately, interest rates on fixed-term deposits, such as TEIGAKU deposits, do not reflect revisions until a new deposit is opened to transfer funds or an existing deposit is renewed. We believe there is some impact of this.

While we are not conducting any marketing campaign for higher deposit interest rates, we have revised deposit interest rates to the same levels as other banks, and we have been reaching out to customers who visit our branches, and communicating with other customers, such as by airing TV commercials and posting advertisements on social media since the end of January this year.

We believe it is possible to retain deposits by setting interest rates at levels comparable to those of other banks, given our nationwide network of over 20,000 post offices, our customer base of 120 million accounts, and the fact that the majority of deposits are within the limits of deposit insurance system.

Q5.

Regarding interest on foreign securities, the amount recorded for the fourth quarter was approximately 310.0 billion yen, which was flat on a QoQ basis, so it seems the impact of lower hedging costs arising from changes in domestic and foreign interest rates has yet to manifest. What do you think?

A5.

As you are aware, the impact of the change in U.S. and Japanese monetary policies will become evident with respect to interest on foreign securities, derived from lower hedging costs, but it will take some time before the effect becomes apparent owing to the hedging method used.

We expect this effect to materialize in the future and further increase interest on foreign securities.

Q6.

I understand that the CET1 ratio has been declining due to an expansion in unrealized losses on securities. Do you have any concerns that the continuing downward trend will result in insufficient surplus of capital for future growth investments and shareholder returns?

A6.

The decrease in the CET1 ratio is mainly attributable to the expansion in unrealized losses on JGBs, which the Bank has already factored into its plans. In addition, the gradual increase in risk weight under the finalized Basel Ⅲ framework following the change of fiscal year has also contributed to the decline in the CET1 ratio. Therefore, we expect this will not bring about any change in investment policy at this stage.

With regard to capital policy, we consider it fundamental to base our shareholder return policy on a dividend payout ratio, taking into consideration the balance between shareholder return, financial soundness, and investment for growth, and we are now forecasting an increase in dividends in line with the increase in profits.

We will consider the shareholder return policy in the next Medium-Term Management Plan from various perspectives, including our stance on share buybacks. In any case, we do not see that the decrease in the CET1 ratio for FY2024 has reduced our surplus of capital that is available for use in providing shareholder returns, etc.

Q7. (Additional Question)

It is thought that the increase in unrealized losses on JGBs is not temporary and will continue. Is it safe to presume that there will be continued downward pressure on the CET1 ratio going forward?

A7.

In terms of unrealized gains (losses), there is no doubt that higher yen interest rates have a negative impact. However, we expect the CET1 ratio to exceed the normal target level of around 10% at the end of FY2025 as a result of various factors, including an increase in cumulative earnings from additional investments in JGBs and a reduction in unrealized losses due to the roll-down effect.

At this point, we do not expect the CET1 ratio to continue to decline in the future, as we believe that profits will continue to increase significantly going forward.

Q8.

Regarding general and administrative expenses for FY2025, what factors, other than the increase in contributions paid to the Organization for Postal Savings, Postal Life Insurance and Post Office Network mentioned in the third quarter teleconference in February of this year, are expected to cause the YoY increase?

A8.

The details of the increase in general and administrative expenses for FY2025 are included in the investor meeting materials to be disclosed on May 20. In addition to the contributions, the increase in IT system investment and expenses and the increase in personnel cost are the main reasons for the rise in general and administrative expenses for FY2025.

Although such expenses are slightly higher compared to FY2024, even in the current environment of inflation and rising wages, the level is close to the target set in the Medium-Term Management Plan (a decrease of 69.0 billion yen compared to FY2020). Whatever the case, we intend to control our expenses under proper management.

Q9.

Please allow me to confirm the plan for the increase in the balance of risk assets for FY2025. The KPI for the balance of risk assets at the end of FY2025 remains unchanged at 114 trillion yen. Will it be possible to increase the balance from 107.9 trillion yen at the end of FY2024 to 114 trillion yen within FY2025? Please tell us your outlook for this along with that for the balance of strategic investment areas.

A9.

Our KPIs remain unchanged for the balance of both risk assets and strategic investment areas. With regard to risk assets, including in strategic investment areas, we are managing the PF with a greater awareness of strengthening our downside resistance by more thoroughly assessing changes in market conditions, which remain uncertain, as well as valuations. For example, we are adjusting the amount of investment in credit assets in consideration of market conditions and risk-return factors, such as by reducing investment in such assets due to the tightening of credit spreads in FY2024.

We will continue not to focus purely on balances, but to intend to carefully invest selectively in high-quality products and accumulate high-quality assets.

End

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