Results for the Fiscal Year Ended March 2025
Summary of Q&A (May 21, 2025)

Q1.

Could you explain about the CET1 ratio and capital allocation? On page 34 of the Investors Meeting materials, net unrealized gains (losses) on available-for-sale securities are listed as a factor increasing the CET1 ratio. Could you provide more detail about this factor? The footnote says regarding the CET1 ratio of around 10–11% that, "If the amount temporarily falls below the target level due to an increase in unrealized losses on available-for-sale securities, we will aim to replenish capital to the target level by adjusting assets under management, etc." What kind of operation do you envisage, specifically?

A1.

(Shinmura) The reason that net unrealized gains (losses) on available-for-sale securities is listed as a factor contributing to an increase is that we have factored in a certain degree of decline in U.S. interest rates and formulated our plan using risk factors as of early April, when market volatility was high. In particular, domestic interest rate forecasts at that reference point were significantly lower than the actual rates at the end of March. So in this context, it appears as a factor contributing to an increase.

Moreover, we would like to refrain from answering regarding specific operations in the event that the CET1 ratio temporarily falls below the target level. However, for example, by taking a more prudent approach to investing in risk assets in keeping with the market environment, we could keep the increase in risk assets under control.

Q2. (Additional question)

You have said that it is because a decline in U.S. interest rates had been factored in that you included it as a factor for increasing the CET1 ratio. If the U.S. interest rate had not declined as much as expected, I assume you would be able to maintain the level by slowing the pace of risk asset accumulation, but could you tell me if such a change in investment policy could potentially change the full-year earnings forecasts for FY2025? It seems to me that a change in the pace of risk asset accumulation would not have a major impact on profit and loss. Would that be correct?

A2.

(Shinmura) First, we would like to provide a few words about the Bank's understanding of the CET1 ratio. We recognize that in considering the CET1 ratio, in light of the current market environment, the key area is unrealized gains and losses on Japanese government bonds (hereinafter "JGBs"). If the domestic interest rate continues to rise in the future, unrealized losses will expand, and we could see this weighing on the CET1 ratio. However, the Bank has a strong deposit base of approximately 190 trillion yen, along with over 60 trillion yen in due from banks. If unrealized losses were to increase, we do not currently have any plans to realize them. With regard to the JGBs, we would expect unrealized losses to be attenuated by the roll-down effect.

Furthermore, I will also add that the year-on-year decrease in the CET1 ratio this time reflects a significant impact from the gradual increase in risk weight under the finalized Basel III framework.

In any case, at the end of FY2025, the CET1 ratio is projected to exceed the target level under normal conditions of around 10%.

(Kasama) To answer the part of your question about our full-year earnings forecasts for FY2025, even if the pace of accumulation of risk assets were to be slowed, as you have recognized, the impact on FY2025 earnings would not be significant.

Q3.

Looking from the perspective of the CET1 ratio, assuming the current market environment continues in the future, it seems that the scale of capital surplus is not so large. What do you think about the shareholder return policy under the next Medium-term Management Plan? Would you plan to maintain the dividend payout ratio at about 50% and also consider treasury share buybacks?

A3.

(Kasama) During the current Medium-term Management Plan period, we will maintain our policy for a dividend payout ratio of around 50%, considering the balance between shareholder returns, financial soundness, and growth investment. I would like to refrain from commenting on the content of our next Medium-term Management Plan, but I will say that we want to carefully consider the status of other banks and the expectations of the capital markets when we formulate it.

Q4.

Could you talk about the current status of your private equity (hereinafter "PE") investment and your view on PE going forward? I understand that the Bank considers PE to have large downside risk, albeit dependent on the U.S. tariff problem. Looking at page 4 of the Investors Meeting materials, you have forecasted a year-on-year increase of around 25 billion yen for FY2025, but if the expected returns are not realized because of exits being delayed or other factors, can I assume that you would be able to sufficiently offset the impact by deploying operations for risk controls related to stocks or other measures?

A4.

(Kasama) With regard to the current PE situation, since April it seems as if activities such as exits and M&As have ground to a halt across the entire market. However, the Bank has factored in a certain degree of this situation in FY2025 plan and we will also continue to monitor the situation carefully. Moreover, while I am speaking hypothetically and therefore refrain from discussing specifics, if PE earnings were to deteriorate significantly, we recognize that we have an adequate buffer for this.

Q5.

Could you explain about the easing of restrictions under the Postal Service Privatization Act mentioned on page 9 of the Investors Meeting materials? Your future aim is to be a financial platform, but could you also share your thoughts on what specific functions the Bank currently lacks in order to achieve the desired vision?

A5.

(Kasama) In aiming to be "the most familiar financial platform," we think some important considerations are, for example, increasing opportunities for handing on precious assets to future generations as Japan's population continues to age, and the growing trend of moving private assets from savings into investments. We are strongly focused on this situation so as not to miss the opportunities here.

Q6.

Could you share your assessment of investment performance of foreign securities and so forth? I think you could say that they are not generating as much income as the Bank expected. Could you talk about this along with your investment policy going forward?

A6.

(Kasama) The Bank invests mainly in investment grade (hereinafter "IG") bonds; however, over the past few years, with the tightening of spreads, we have been focusing on quality rather than the balance amount in our investment activities. This approach has been successful, and we have built a resilient portfolio that effectively mitigated the impacts during the market turmoil of April.

As Japan experiences the return of positive interest rates, we have entered a phase where the balance between domestic and overseas investments and their quality have become an even more important focus. In this regard, I think we have managed to conduct investments in foreign securities, etc. in line with our objectives.

Looking ahead, we have established a set investment policy, and we will manage the portfolio flexibly in response to the market environment while monitoring it carefully.

Q7.

Could you explain the positioning of equity investments? Would you agree that with the strengthening of Basel III regulations going forward and the upward trend of domestic interest rates, relatively speaking equities seem likely to become a less important part of the Bank's portfolio? Please explain your position on this, including your investment structure going forward.

A7.

(Kasama) You are correct in recognizing that the risk weight of equities will increase going forward. However, the Bank maintains its view that equities are an important asset class, based on the belief that we continue to focus on having a diversified portfolio. We intend to remain responsive to evolving market conditions in our ongoing investment activities.

Q8.

Could you tell us the medium- to long-term outlook for the balance of risk assets? You have a risk asset balance target of 114 trillion yen as a KPI in your current Medium-term Management Plan, so it appears you are aiming to increase the balance. Do you intend to continue increasing it under the next Medium-term Management Plan and beyond? Or do you intend to maintain the balance and focus on quality?

A8.

(Kasama) We believe that we have been close to achieving our target scale for risk assets.

Therefore, in the next Medium-term Management Plan, we are thinking about asset allocation in the true sense, and we see ourselves entering a phase for increasing the resilience of the investment portfolio.

In any case, our policy is to adjust our investment amounts while carefully monitoring return on risk.

Q9.

Right now, the interest rate is increasing for the superlong-term (30- to 40-year) zone of JGBs. What kind of approach is the Bank taking in this market environment? Could you tell us if there are any aspects that you are considering?

A9.

(Kasama) We have been monitoring the recent interest rate fluctuations in JGBs daily. Generally speaking, from an ALM perspective, a maturity of 30 to 40 years is considered quite long for banks.

I would prefer not to talk about our specific investment strategy, but the Bank is not excluding JGB purchases based on a particular year-limit. Rather, we aim to invest while considering various factors such as interest rate levels, forecasts, and demand and supply.

In the current situation, as we have explained on page 8 of the Investors Meeting materials, we are rebuilding our yen interest rate portfolio, mainly in the 10-year zone.

Q10.

Please explain about the foreign currency interest rate position for taking on risk on page 20 of the Investors Meeting materials. I believe you have scaled back your risk exposure compared to before. Could you explain the background?

A10.

(Shinmura) As you correctly observed, we have reduced our position. By "position," I am referring to our exposure to foreign currency interest rate risk. As we respond flexibly to changes in the market environment and other factors, we recognize that foreign currency interest risk itself has decreased as a result of limiting investments that takes the risk.

Q11.

You have mentioned that from FY2026 onward, you can continue a profit growth trajectory, even without earnings associated with operations for risk controls. Could you tell us what the main earnings drivers will be?

A11.

(Kasama) We believe we have built a risk asset portfolio that consistently generates stable returns. In addition, going forward in an era of positive interest rates, we expect to deliver corresponding earnings from our yen interest rate portfolio as well. For this reason, in terms of our main future earnings drivers, we are thinking of stable earnings from risk assets and earnings expansion from the rebuilding of our yen interest rate portfolio.

Q12.

Could you explain about general and administrative (hereinafter "G&A") expenses on page 13 of the Investors Meeting materials? I understand about the increase in contribution to the Organization for Postal Savings, Postal Life Insurance and Post Office Network, which was announced in the third-quarter financial results teleconference, but could you tell us what other factors there are for increasing G&A expenses? As we enter an age of inflation, can I assume that G&A expenses will undergo a baseline increase even if special factors such as contributions are excluded?

A12.

(Kasama) As the current wave of inflation gradually reaches Japan as well, the Bank is responding vigorously with base salary increases. Moreover, up until now, we have been steadily reducing G&A expenses, mainly around commissions on bank agency services, etc. paid to Japan Post. However, looking at the situation of inflation going forward and the management's desire to reward employees for their hard work through base pay hike, you are right to note that we are entering a phase where we will find it hard to maintain the same pace as before on cutting G&A expenses.

Nevertheless, the Bank is firmly committed to making an effort to reduce what expenses can be reduced going forward.

(Shinmura) Looking at year-on-year comparisons, the increase in FY2025 does appear significant, as you point out.

However, comparing the G&A expense reduction target disclosed in May 2024 with our plan for FY2025, we can see that most of the difference can be explained as the increase in contribution to the Organization for Postal Savings, Postal Life Insurance and Post Office Network.

System expenses shown in the materials are forward-looking investments for the future—we hope you will see that in a way, they are sowing seeds for future earnings.

The next Medium-term Management Plan is really something that we are about to consider from now, but, as you have recognized, we are no longer in an environment where we keep reducing expenses every year as we did in the past. That said, we do intend to continue reducing what we can by our own efforts, and we aim to achieve a reduction in OHR as the end result of significantly increasing our top line.

Q13.

Could you provide a breakdown of the factors behind the 260 billion yen increase in the yen interest rate portfolio on page 4 of the Investors Meeting materials?

A13.

(Shinmura) In the breakdown of the 260 billion yen, a major factor of the increase was due to an increase in interest on our current account deposits following the Bank of Japan’s move to a 50 bps policy interest rate. Other positive factors included an increase in interest income from JGBs associated with the rebuilding of the yen interest rate portfolio, and an improvement in yields on short-term yen interest rate receivable positions. A negative factor was an increase in interest payments on deposits.

Q14.

Could you explain about non-revenue dividends from foreign bond investment trusts? The Bank is promoting investment centered on IG bonds and building a more resilient portfolio, and you have explained that this is why there is no need to factor non-revenue dividends—which are a negative factor for earnings—into your plan.

Can you confirm that you have not changed your position on this in the FY2025 plan, which was formulated during the relatively turbulent market environment in early April? Also, if possible, could you explain what kind of situation would necessitate significant attention to be paid to non-revenue dividends?

A14.

(Kasama) You are generally correct in your assessment regarding the plan. The Bank has been focusing on quality in its investments, so even if we envisage a scenario where credit spreads widen to a degree, we are not currently concerned that non-revenue dividends would be a negative factor for earnings.

We would need to pay considerable attention to non-revenue dividends in situations, at a time where the default rate rises sharply and credit assets themselves are significantly impaired, such as the global financial crisis.

(Shinmura) The Bank has been exercising restraint on high-yield investments, so we are not overly concerned about non-revenue dividends with our current portfolio.

Q15.

Looking at the Future Grand Design Plan on page 9 of the Investors Meeting materials, the easing of restrictions under the Postal Service Privatization Act is opening up various possibilities. What is the time frame for realizing these?

A15.

(Kasama) I would like to refrain from giving specific details at this time, but as the equity stake held by our parent company is expected to fall below 50%, we believe the situation will enable us to develop new business with appropriate timing and speed.

(Shinmura) Page 9 also shows a future image for the retail business, and we believe that business opportunities are also opening up in this sector. In any case, we aim to firmly capture earnings opportunities and increase the level of our offerings in various fields as a financial platform.

Q16. (Additional question)

With various business restructuring and alliances taking place in the financial industry, do you feel any sense of impatience at the Bank?

A16.

(Kasama) Not only in the area of business restructuring, but in general the financial industry is highly competitive, and I feel that it demands speed in particular. I wouldn't say impatience, but we are working with a sense of urgency at all times, not only with regard to these topics, but in whatever we do.

Q17.

Could you please explain the factors for earnings expansion under the next Medium-term Management Plan?

A17.

(Kasama) We believe that there will be a significant effect on earnings from the cumulative expansion of the effects of restructuring our yen interest rate portfolio, which we are actively working on right now.

Q18.

Could you detail the position of the next Medium-term Management Plan on the cost of shareholders' equity and the target ROE? Also, what kind of financial indicators will you present under the next Medium-term Management Plan?

A18.

(Kasama) First of all, I want to start by reiterating over and over that we are not at all satisfied with ROE of 5%. We see it only as a stepping stone.

For the next Medium-term Management Plan, we will take a higher-level perspective on cost of shareholders' equity and our medium- to long-term ROE target and discuss various strategies while giving consideration to case studies of other companies in our industry. Based on this kind of discussion, we will present our targets for the next Medium-term Management Plan, having also included the appropriate financial indicators.

(Shinmura) Under the current Medium-term Management Plan, we have set increasing ROE as a target and the entire company is engaged in a united effort to achieve this. However, the current ROE target is only a stepping stone, and we also consider the Price-to-Book ratio as an issue to be addressed. At present, we see increasing ROE as important, but we are also discussing what indicators are appropriate for further increasing our corporate value for the next Medium-term Management Plan.

Q19.

Your plan for FY2025 has been calculated based on an implied forward rate as of early April, but recently the 10-year JGB yield has increased more than expected. Can I view the gap between the assumed and actual rates simply as an upside factor?

A19.

(Kasama) As you say, where we have purchased JGBs at a higher interest rate than assumed, then the cumulative income increase will work positively on earnings.

Q20.

Are there any specific developments that have started with regard to the Future Grand Design on page 9 of the Investors Meeting materials?

A20.

(Kasama) Page 9 of the Investors Meeting materials is a slide that we have presented for the first time. It shows the Bank's ideas for future business development opportunities, giving consideration also to the period of the next

Medium-term Management Plan. At this stage, I would like to refrain from talking about specific, but we will firmly capture opportunities and be ready to take action at all times.

Q21.

Page 9 of the Investors Meeting materials presents a variety of elements for the Future Grand Design. From a medium- to long-term perspective, which of these businesses have the potential to make a significant contribution to the Bank's top line? Could you tell us what management thinks about this?

A21.

(Kasama) Our vision and direction going forward are as presented in the materials. I would like to refrain from saying more than that at this time, but we are taking positive steps steadily towards the future.

Q22.

In the Investors Meeting materials, with regard to initiatives such as IT investment and use of AI, there seems to be a particular emphasis on the cost-reduction perspective in terms of increasing productivity and efficiency. Could you tell us if there are any initiatives for contributing to earnings?

A22.

(Shinmura) As you have pointed out, with IT investment and AI utilization it is not only increasing efficiency, but also contributing to earnings that is important. There are actually some projects that we are currently working on, but I am unable to divulge specific details as they are related to our strategy.

(Kasama) My personal opinion is that the combination of Yucho Bankbook App and the use of AI has the potential to provide new value to customers. IT investment and AI utilization are fields where everyone has strong expectations, and we will continue to focus on these going forward.

End

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