Results for the Fiscal Year Ended March 2021
Summary of Teleconference Q&A (May 14, 2021)

Q1.

Could you give us an idea of what the profit roadmap in the Medium-term Management Plan (hereinafter "Mid-term Plan") will look like leading up to FY2026/3?

A1.

As gaining revenue in strategic investment areas will take a certain amount of time, we have set net income targets of ¥260 billion for FY2022/3 and ¥280 billion or greater for FY2024/3.

Over this five-year period, the first impact we will see will be a decrease in revenue from gains on foreign bond redemptions and Japanese Government Bonds (JGBs). Increases in revenue in strategic investment areas will not amount to very much at this stage, but will materialize in the latter half of the five-year period, mainly from private equity (hereinafter "PE").

Meanwhile, general and administrative expenses are expected to decrease proportionally compared to FY2021/3, with a decrease of approximately ¥25 billion in FY2024/3, and of approximately ¥55 billion in FY2026/3.

In summary, our current net income target is for steady growth from FY2022/3 to FY2024/3, and significant growth from FY2025/3 onward.

Q2.

I would like to know the following about the capital adequacy ratio (domestic standard, hereinafter the same) target in the Mid-term Plan:

1) What is the difference between the capital adequacy ratio and the CET1 (common equity tier 1 capital) ratio (international standard, excluding unrealized gains on available-for-sale securities basis, hereinafter the same)?
2) Is a build-up of risk assets the reason for setting the CET1 ratio target at around 10%?
3) Has the impact of the share buyback from Japan Post Holdings been factored in?

A2.

1) The difference is mostly in that the CET1 ratio uses fair value in the denominator calculation, while the capital adequacy ratio uses book value.

2) That's exactly right. In addition, another factor is the impact of financial regulations. For instance, the gradual increase in the risk weight of equities in the Revisions to the Standardised Approach for credit risk.
3) No decision has been made regarding the share buyback from Japan Post Holdings at this time, so this impact has not been factored in.

Q3.

When comparing the assumptions in the FY2022/3 earnings forecasts with current market conditions, long-term US interest rates are higher than expected. How will this deviation affect revenue?

A3.

If you think of our positions as divided between new investments and existing positions, a rise in long-term US interest rates will be a positive factor for investment income (P/L), as it will increase interest income from new investments such as US Treasury securities, etc. On the other hand, for bonds in our existing positions, rising interest rates will have a negative impact on our unrealized gains/losses (B/S).

However, at this point in time it is difficult to determine which impact will be the greater of the two.

Q4.

From an external perspective, the Mid-term Plan gives the impression of being highly accurate in terms of increasing revenue in strategic investment areas and reducing general and administrative expenses. I would like to hear your comments on this.

Also, if you were to achieve FY2026/3's net income target of ¥350 billion, earnings per share (EPS) would reach roughly ¥100. However, taking into account both this and the target dividend payout ratio of approximately 50%, the dividend per share (DPS) would remain unchanged from the current level of ¥50. Could I have your thoughts on this?

A4.

As you pointed out, we recognize that the plan is based on our reasonably accurate expectation that revenue in strategic investment areas would increase and general and administrative expenses would decrease.

However, as the main source of revenue in strategic investment areas is PE unlisted stocks, we have set a somewhat conservative target and will secure revenue through measures such as careful monitoring.

Specific DPS levels are determined each fiscal year via a resolution from the Board of Directors meeting, so I am unable to comment at this time. However, we will make every effort to achieve our earnings forecasts and secure dividends based on those shown in the dividend policy.

Q5.

How do you plan to utilize unrealized gains on stocks, etc. in the future?

A5.

As a general rule, we do not have plans to utilize unrealized gains, as our basic management policy is to aim to secure stable revenue over the medium and long term without relying on unrealized gains.

However, we do anticipate a certain amount of gains or losses on sales arising from the rebalancing of our portfolio of stocks and other assets, which is something that we do as part of our regular operations.

In some cases, our portfolio management may be more flexible in response to market fluctuations, which thereby may result in the realization of unrealized gains.

Q6.

Why has the balance target for strategic investment areas in the Mid-term Plan been set at around ¥10 trillion this time, despite the fact that the original target of ¥8.5 trillion set in the previous Mid-term Plan was abandoned?

Supposing you were to fail to achieve the ¥10 trillion balance target, this would produce a surplus in your capital adequacy ratio. Could this be a factor in restoring DPS to ¥50?

A6.

In the previous Mid-term Plan we had initially planned to increase hedge funds to a suitable level, but then we changed our investment strategy from a risk/return perspective.

Meanwhile, the target in the current Mid-term Plan is to increase the balance to around ¥10 trillion, mainly in real estate (debt), so this plan is different to the previous plan for the same strategic investment areas.

In the case that we do not achieve this target, we will make an actual decision on whether to build these funds up as internal reserves or use them as funding for growth investments, taking into account the various circumstances as and when the time comes for a decision.

Q7.

When do you think that profit levels will bottom out during the Mid-term Plan?

A7.

Although we have not disclosed specific profit levels for FY2023/3 and FY2025/3, we are aiming to achieve sustainable profit growth from FY2022/3 through FY2026/3.

Q8.

I wonder if it is appropriate to be expanding the strategic investment areas mentioned in the Mid-term Plan. Should you not instead prioritize shareholder returns through share buyback?

A8.

Working on the assumption that we have built up a relatively high level of internal reserves and secured a capital adequacy ratio of 10%, we believe that we will be able to increase our risk assets to a reasonable scale.

Based on this, we believe that in the current environment we should expand into growth investments, and if we see an upswing in profits, we will then consider other measures of delivering shareholder returns.

Q9.

Would it be correct to think of the forecast DPS for FY2022/3 of ¥40 as the bottom during the Mid-term Plan?

A9.

During the Mid-term Plan, our basic policy is to maintain a dividend payout ratio of approximately 50%. However, the target dividend payout ratio will be set between 50 to 60% while keeping in mind the stability and sustainability of dividends, and will aim for an increase in DPS from the initial dividend level forecast for FY2022/3. This is our policy, so we aim to maintain or increase the DPS compared to FY2022/3 forecast, which is ¥40, by increasing profits.

Q10.

I presume that the CET1 ratio will land at around 11% in FY2026/3. What is the actual level?

A10.

Although we cannot provide a specific level, we believe that we ought to secure a level of around 10%, taking into account the balance between internal reserves and investments.

The gradual decline in CET1 ratio is due to increasing our balance of risk assets.

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