

Results for the Six Months Ended September 2020
Summary of Q&A

Q1.

You previously explained that, during the term of your next medium-term management plan, you intend to reduce OHR by drastically reducing the number of teller employees in your directly-operated branches, thereby reducing the agency commissions paid to Japan Post, but could you explain your future projections regarding personnel, agency commissions and OHR?

A1.

Our intention is to reduce our personnel by around 1,000 people over the next few years. Through this personnel reduction, in addition to reducing Japan Post Bank's personnel expenses, theoretically we expect to reduce agency commissions by several ten billion yen. We would like to take some time to reduce agency commissions while keeping up discussions with Japan Post.

Our OHR is presently around 75%, but I personally would like to reduce OHR to 70% or less. However, in order to present this to you as a “plan,” we would need to carefully go over our calculations and then begin implementing and achieving that plan. As such, I would prefer not to elaborate any further on my answers at this time.

Q2.

With respect to direct handling of Flat 35, which you put forward as a new form of business, you explained that “due to limitations imposed by the Postal Service Privatization Act, we will need to deliberate before we begin direct handling,” but can you explain for us, as best you can, to what extent you are able to realize this handling now, and what the time frame for this process will be?

A2.

Although it will take some time, we are moving forward on our adjustments to Flat 35 with the competent authorities, and would like to begin having specific discussions, or even entering the procedures stage, around the start of the new year.

Q3.

President Ikeda, you explained at a previous results briefing that you can tolerate a dividend payout ratio of up to around 90%. Is this still the case, or still nearly the case, even now? Could you elaborate on this, even if it's just your personal opinion?

A3.

I have previously noted that, during our present medium-term management plan, we would like to offer dividends of 50 yen, and with that in mind we wanted to pay out dividends with a dividend payout ratio of up to around 90%. This is true.

Japan Post Bank's current dividend payout ratio is around 70%, but it is our understanding that many financial institutions have dividend payout ratios of between 30% and 40%, going up to around 50% at the highest. On the other hand, given the present environment, including the effects of COVID-19, we believe that restoring our financial strength to a healthier state is quite crucial.

As such, in our next medium-term management plan, we have developed forecasts for our profit levels, which include countermeasures to issues such as declining gains on redemptions of foreign bonds, and, based on these forecasts, would like to take our time to deliberate whether it is appropriate to keep our dividend per share at our present levels.

Another issue is the secondary offering of Japan Post Bank stock by Japan Post Holdings, our parent company. According to President Masuda's explanation during the results briefing the other day, he would like to effectuate the early disposal of up to around 50% of the stock for the two financial subsidiaries.

Our intention is to contemplate our dividend policies while keeping events like these in mind, and staying aware of the financial soundness and stock price of Japan Post Bank. Although I cannot yet speak in realistic terms what our dividend payout ratio will be, this remains a major homework assignment for me.

Q4.

We understand that, as a responsive measure against declining gains on redemptions of foreign bonds, you may be utilizing things like the unrealized gains on stocks in money held in trust in order to shore up lost earnings, but how much do you believe you will need to shore up?

Even if you can only give us your personal thoughts on the matter, could you elaborate on whether you believe it is best for you to completely shore up the losses or first set a goal to shore up just enough losses so that you are able to pay out dividends?

A4.

Our thoughts are that, first, we would like to address the declining gains on redemptions of foreign bonds via measures to expand other earnings or reduce general and administrative expenses, such as by reviewing our operations to the greatest extent possible and considering how much we can reduce OHR.

Depending on the circumstances, it is possible that we may utilize the unrealized gains on stocks, but in any case we believe that will happen in the next stage.

Q5.

With respect to dividends under your next medium-term management plan, you gave us two explanations: “putting greater focus on ensuring the soundness of our financial strength under a changing environment, including the effects of COVID-19,” and “considering our stock price.”

During your announcement of results for the full year, you gave us some bottom-line guidance that the dividend payout ratio may exceed 90% and left your dividend forecasts undetermined. However, in terms of ensuring financial soundness, one could imagine more sustainable dividends, while on the other hand you could say that the 50 yen dividend amount has worked to sustain the stock price thus far.

Considering the balance up to now, is it reasonable for us to believe that you are now placing even greater emphasis on sound financial strength in order to maintain sustainability?

A5.

When it comes to dividends, we are perfectly aware of the fact that our shareholders buy Japan Post Bank stock expecting to receive the 50 yen dividend. But, at the same time, financial stability is also crucial. Additionally, Japan Post Holdings currently retains roughly 90% of Japan Post Bank's stock, and we will be considering that as a factor in our decision-making going forward as well.

To your question, you asked what our thinking regarding dividends was with respect to the next medium-term management plan. At present, we cannot say which factor we will be focusing on more, but we intend to consider our options while taking in the various opinions of our shareholders and market participants.

Of course, many of our investors are expecting the 50 yen dividends from Japan Post Bank, while others expect us to grow our stock price by bolstering our internal reserves. Our intention is to deliberate on exactly what balance we should maintain on this front going forward.

Q6.

As part of your next medium-term management plan, you explained the investment policies regarding various products as forms of investment and risk management. Compared to the pace in the past, can we assume that your policy will be to increase private equity, restart crossover investments, increase IG and decrease HY?

I don't believe that your earnings in private equity over the past three years have grown quite as much as you had initially anticipated. In order to further build on your earnings over the next three years, will you need to put greater emphasis in private equity in particular while also focusing your investments around the products mentioned earlier?

A6.

We have proceeded with investments in private equity over the past three years aware of the fact that we would not be seeing earnings immediately due to the J-curve effect, but our present balance is approximately two trillion yen. Although the effects of COVID-19 have delayed our expected returns somewhat, we were able to confirm that our way of thinking about returns was correct.

Considering that private equity prices were not immediately effected even during the major market fluctuation we experienced in March, at a fundamental level we intend to increase private equity in order to ensure greater robustness and balance in our portfolio and take advantage of private equity's aforementioned resistance to price changes.

In light of this way of thinking, we are now advancing our investments in private equity and real estate. We also think it would be a good idea to increase our investments in these areas somewhat for the sake of balancing our portfolio. Of course, since these are private assets from overseas, we will need to proceed fully aware of the risks from a foreign currency liquidity perspective.

Therefore, as we work on one hand to shore up the lost earnings due to reduced gains on redemptions of foreign bonds, we will move forward while balancing our portfolio, which will require incredibly careful operations on our part.

Given our experience seeing the HY spread levels rise above 1,000bp during the market fluctuation in March, we will need to pay very close attention to this area as well. It will take some time for the COVID-19 crisis to end completely and for things to stabilize, and our intention is to keep that reality in mind as we manage our portfolio.

Q7.

Despite the approximate decrease of 200 billion yen in gains on redemptions of foreign bonds you can expect to see for next year onward, taking into account the expected appropriation of 80 billion yen in non-revenue dividends for this year and that the impact of loss-cutting in foreign securities investment trusts will decrease going forward, one might think these facts could cover a large portion of the decline in gains on redemptions of foreign bonds,

Your full-year earnings forecast for net income attributable to owners of parent for this year is 270 billion yen, but should it be possible for you to secure net income of around 200 billion yen for the next year onward as well without going overboard? If so, you should be able to realize 50 yen dividends without worrying too much about the soundness of your financial strength.

Based on the fact that you have plenty of measures available to respond to decreases in gains on redemptions of foreign bonds, can you explain what levels of earnings you believe we can expect to see for next year and onward?

A7.

As you noted, we plan to respond to the decline in gains on redemptions of foreign bonds via a variety of methods, such as building up foreign securities, engaging with Strategic Investment Areas and placing a particular focus on private equity. And, although we cannot share them with you today, we are developing countermeasures that include specific numerical figures. If our efforts to build up earnings through these measures come up short, we also plan to potentially utilize unrealized gains on stocks.

On the other hand, there is also the problem of exactly what scope of investment we should make in the digitalization being considered as part of our next medium-term management plan. Although we have, of course, calculated the amounts we expect at the present time to invest, most of these costs will not go toward massive initial investments, but will rather involve running costs we will need to expend each term, such as monitoring costs. We will need to ensure sound financial strength as we make these investments, while also being aware of the Japan Post Bank stock price levels, and our intention is to properly balance these various elements as we go forward.

Q8.

The Japan Post Group's "Basic Approach to the Group Medium-term Management Plan (2021-2025)" indicated that Japan Post Holdings aims to dispose of up to around 50% of its equity interests in the two financial subsidiaries as early as possible. Does Japan Post Bank's next medium-term management plan include some plans regarding these additional stock offerings of up to 50%?

A8.

At present I have nothing to add to what President Masuda said the other day, and we haven't been given any further details such as when the offerings period would be. So we have not yet incorporated the stock offerings in our plans.

Q9.

(Building on the previous question,) you indicated that additional offerings of Japan Post Bank's stocks by Japan Post Holdings have not been included in your next medium-term management plan. Looking at this fact another way, if the ownership ratio of your parent company, Japan Post Holdings, decreases as a result of this additional stock offering, would you be able to engage in even more involved new business than the new business you indicated at the start you were considering as part of your next medium-term management plan?

A9.

Fundamentally speaking, unless Japan Post Holding's stock ownership ratio falls to 50% or less, we cannot transition from an approval system to a notification system for new business. We have a hard time imagining that the stock holding ratio will fall to 50% all at once, nor do we think we'll just be able to do what we please right away.

However, we do have a number of new business strategies ready to go and we plan to steadily put them into action after regular consultations with the relevant financial services authorities to confirm what procedures we may need to follow in accordance with the Postal Service Privatization Act.

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