

Message from the President

Evolving our business model to become a unique bank that is indispensable to the community



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Our vision

Perhaps because of my regional bank background, I am often told that “JAPAN POST BANK’s Ikeda has a deep commitment to the community.” Despite this great honor, I recognize that aspirations and passion alone will not make our community prosper. In order to fully contribute to the local community, I believe that the Bank must establish its own business model and implement innovative strategies as a private company. With that in mind, I would like to share with you my true thoughts in this year’s Annual Report.

In FY2023/3, the Bank initiated steps to launch the new corporate Σ business as a third growth engine following its retail and market businesses. Accordingly, we are now in a position to outline details of our overall business model and growth strategy that are expected to support the continuous improvement of our corporate value. I recognize that the Bank has encountered difficulties in providing its stakeholders with a convincing explanation of its aspirations and direction. With the addition of the new Σ business, I believe these difficulties have been addressed.

Recognizing that our mainstay banking business and approach to the local community were the two factors that drove our decision to privatize, I have worked diligently to identify our overarching vision. I am also acutely aware that stakeholders expect us to differ from other private banks and play a unique role that complements the financial functions of Japan. This basic understanding underpinned the establishment of the Σ business as a new undertaking. In this instance, I will explain why the Σ business is critical to the Bank’s development while elaborating on the background that led to its launch.

P28
 1st Engine: Retail Business



P32
 2nd Engine: Market Business

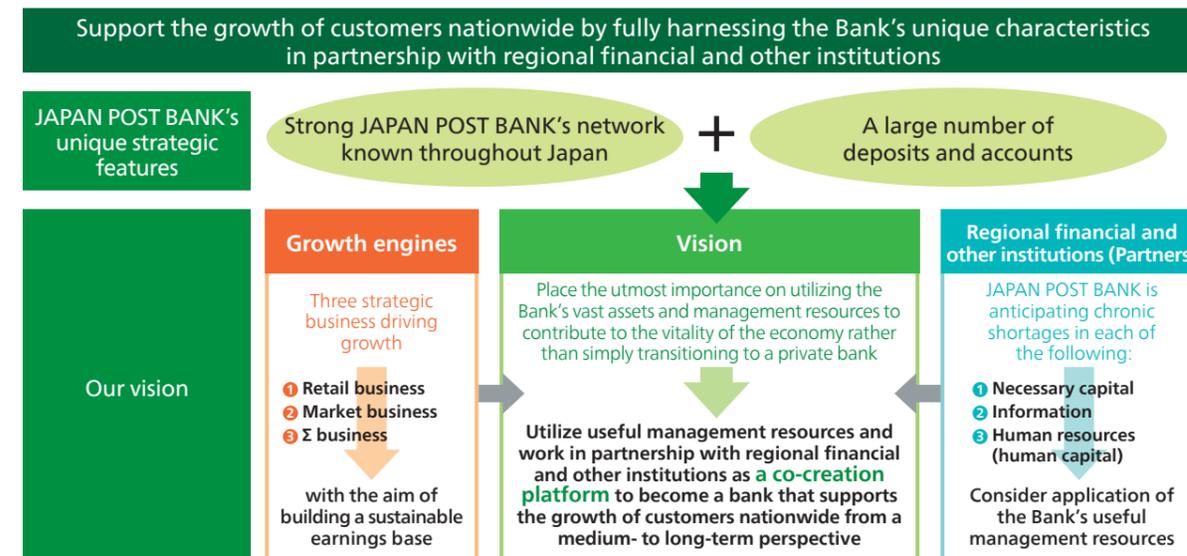


P38
 3rd Engine: Σ Business (Regional Vitalization)



P20
 Business Model

Our vision



New corporate business challenges that extend beyond the banking sector

Since its privatization in 2007, JAPAN POST BANK has promoted a paradigm shift in its market management, moving away from its dependence on investment in Japanese government bonds. As a result, the percentage of such risk assets as foreign corporate bonds in the investment grade area in the Bank’s portfolio has been expanding. The balance of risk assets in the strategic investments area, including private equity funds and real estate funds has also increased in recent years. Meanwhile, the balance of such assets as deposits due from banks stood at ¥68 trillion as of the end of March 2023. The issue at hand is how to shift these funds to investment products, while keeping an eye on future changes in the Bank of Japan’s monetary policy. If we continue to expand our risk assets, including foreign securities, the risk of fluctuation in overseas financial markets will increase. Based on the aforementioned, it is imperative that we manage this risk appropriately while diversifying the assets in which we invest. At the same time, we must expand profits from domestic operations to ensure stable profits. Having said this, simply expecting a change in domestic monetary policy and once again focusing on investments in Japanese government bonds is inconsistent with the purpose of privatization.

Message from the President

After careful deliberation on how to increase our investments, loans, and performing assets, we decided to avoid the already saturated loan and credit markets and to become a pioneer of the equity business, a niche sector in Japan.

We provide funds to businesses that contribute to society's development while taking risks together with partners whose philosophy is to create new value and serve society.

As a bank that is restricted in its business by regulations that other financial institutions do not face, we believe this is an effective way to expand our assets under management. For that reason, we decided to take on the challenge of a new corporate-banking business that goes beyond the traditional one.

Producing “sleeping businesses” in the community

Most Japanese financial institutions focus on the safety and growth potential of their investments. While acknowledging this trend in Japan's financial sector, it is important to recognize the significance of expanding opportunities for entrepreneurs to raise funds. In light of the aforementioned, I recognize the critical need to create an environment in which many unicorn companies can emerge in Japan.

Over the nearly six years since the Bank entered the private equity investment market, I gained considerable experience through actual investment activities. One thing that I have come to realize is that a large number of the sponsor companies that boldly take risks and provide equity capital in Japan are owner-operated funds. In my mind, the thought of us breaking this barrier as a unique bank has become increasingly pronounced each passing year.

In metropolitan areas where the fund business is well developed, it is relatively easy for entrepreneurs and business operators to raise funds because there are many investors and risks can be shared. On the other hand, in rural areas, business operators are forced to rely on loans from banks when procuring funds. Regional financial institutions tend to take a cautious approach to lending so that they do not necessarily meet the growing capital needs of start-up companies.

Having witnessed these situations, I continually explored the possibility of businesses that could combine the loans from regional financial institutions with the Bank's equity funds. If we can produce the “sleeping businesses” in this manner, we will not only support the growth of many businesses, including start-ups, but also create new profits.

I assume there are many operators in each region that are unable to grow their businesses due to difficulties in the procurement of finance. In light of these circumstances, the Bank's participation as a new provider of funds, in cooperation with regional financial institutions, will undoubtedly lead to the revitalization of rural areas. The crux of the launch of the Σ business therefore lies in efforts to uncover as-yet-unknown businesses and to provide equity funds and support them through collaboration.

The whole Bank initiating steps toward a common goal

During the discussion of launching the Σ business, there were concerns within the Bank, questioning why JAPAN POST BANK would enter the niche business of providing equity funds to the domestic market in earnest. There was a deep-seated latent desire that the Bank should continue its existing path and play it safe, rather than make drastic changes to its business model. However, I was convinced that if we continue taking this safe path, the Bank would gradually be abandoned by society in 10 or 20 years. So, the first step was to gain sympathy within the Bank and to be on the same page that the “ Σ business” is essential to our future.

To persuade these doubters, one initiative was a SWOT analysis. A SWOT analysis helped highlight the Bank's strengths (S): a nationwide information gathering network; weaknesses (W): limited ability to extend credit, mainly securities; opportunities (O): in niche businesses against the backdrop of a low interest rate environment followed by a prolonged period of deflation; and threats (T): market competition with regional financial institutions, low domestic interest rates, and new entry into the financial business from companies of other industries.

Applying this analysis to our growth scenario, we will leverage our nationwide information gathering network to identify business opportunities in niche markets and create value in cooperation with regional financial institutions. Through these means, we will improve our ability to examine credit. In this sense, the Σ business is the principal growth engine that JAPAN POST BANK needs, and is not an out-of-the-box initiative.

These thoughts and my volition are summarized in the publication, “Commitment to the Σ business”, released in May 2022. We also produced “the Σ business Booklet” to instill the significance of this business in our employees. During this process, we are coming to see the gradual change of mindsets throughout the Bank, and to our delight, we are starting to reach a stage of the Bank uniting behind the Σ business banner.

Moreover, we are obtaining the understanding and support of the Σ business from the Bank's outside directors, who provide an objective perspective and possess specialized expertise. Also, reactions outside the Bank, which was our main concern, turned out to be positive and supportive.

The condition to start the Σ business is now in place and we've reached the point of just keep moving forward.

Overcoming challenges and making the Σ business a success

The biggest challenge we are facing is our lack of experience in venture investment in Japan. As a matter of course, the lack of experience is a common impediment that all companies face when developing new businesses. Only after overcoming this challenge, will we achieve growth. To address any difficulties, we start by working with investment firms and funds to steadily accumulate experience. If we compare the Σ business to a marine vessel, these investment firms and funds serve as a screw that propels forward movement. If we can attract other business operators and achieve our goals, the Bank will naturally gain investment experience and our investment skills will become more sophisticated.

At the same time, we will provide more and more opportunities for young employees to gain real investment experience and develop investment professionals. Of course, generating profits requires a certain amount of time. We see this as an up-front investment and for the most the price of admission. As far as the promotion of human capital management is concerned, we eagerly plan to undertake investments. Against this backdrop, we must significantly improve our ability to gather information from our branches and other local business locations. The Σ business will start by uncovering (sourcing) businesses that lie dormant in each region. For this reason, we recognize the need to remain finely attuned and sensitive to business operator information hidden in each region, collaborating with regional financial and other institutions. Our goal then is to develop this on a national scale and make the most of this competitive advantage.

I am convinced that if we overcome the aforementioned challenges, the Σ business will steadily expand. In any case, we will widen the scope of our activities and increase our support of business operators who possess unique concepts, ambition, and passion. As a result, we can build a large portfolio. We will adopt a challenging approach to attract entrepreneurs and secure success through the Σ business that breaks the barriers of outdated ways.

In addition, we plan to upgrade and expand our support from a marketing perspective by encouraging business operators to utilize our co-creation platform, which includes our branch network.

Assuming that the private equity market in Japan will grow to the level of Europe and the United States, we recognize the need to accumulate our Σ business assets up to ¥1 trillion in the future. I strongly believe that only with this scale of funding can we make a significant contribution to the development of society and the region, which we have identified as our purpose (raison d'être).

Strengthening human capital and reforming the Bank's organizational culture

As previously mentioned, it is vital that the Bank further invest in human capital if it is to realize its vision. Diversity management is becoming especially important in this context. As the structure of society changes, people's lifestyles vary significantly and their needs for financial services also diversify. As a financial institution that has maintained a nationwide financial infrastructure since its establishment in 1875, no single region has a disproportionate hold over the makeup of the Bank's total workforce. At the same time, JAPAN POST BANK boasts a high percentage of female employees, which is a bedrock of diversity. Looking ahead, I recognize the important need to put in place an environment in which the Bank's diverse human resources can play an active role and demonstrate leadership. In the context of this diversity, we will work to realize a multi-faceted and sustainable society

 P44
Human capital
management



 P48
Diversity Management

Message from the President

by providing services tailored to the attributes of each region. This in turn will lead to the creation of new value, social change, and innovation.

Based on this understanding, we will help put in place an environment that embraces diverse attributes and sensitivities. At the same time, we will make the Bank a place where each and every employee can work autonomously and independently, develop his or her career, and experience a sense of wellbeing. In recent years, we have fostered a culture in which employees themselves voluntarily support the next generation of employees. I am pleased to see that dialogue, through various means, including online seminars for employees on childcare leave and the introduction of role models for working mothers and fathers in the Bank's internal newsletter, has led to the reform of the Bank's culture and awareness, which is the foundation of Diversity, Equity & Inclusion (DE&I). As far as the empowerment of women is concerned, despite receiving high praise from sources outside the Bank, the percentage of women in managerial positions is still only 17.5% (as of April 1, 2023). Given the Bank's female employee ratio, we aim to bring the percentage of women in managerial positions to at least 20% by April 1, 2026, and more than 30% going forward. Building on these endeavors, we will work to ensure and pursue fairness, also recognizing the structural challenges of our society.

JAPAN POST BANK is now working vigorously to reform its organizational culture. On this matter, I feel that the Bank must address such issues as vertical blockages and departmental walls. The key to resolving each of these issues is to promptly share information. As part of this effort, the Bank's management team shares and confirms customer complaints, opinions submitted through the President's Direct-line Opinion Box, and information from other Group companies on a weekly basis. Through these and other means, the Bank has put in place a rapid response system. While these steady efforts have improved communication between the Bank's regional offices and headquarters, we are now facing the difficult task of breaking down the barriers that impede constructive communication within our head office. The practice of exchanging thick documents containing large volumes of information is also a detriment to substantive discussions. Here, I will take the lead in implementing a full-fledged reform of the Bank's corporate culture by resolving each of these issues.

Meanwhile, various employees appear in this Annual Report showcasing their duties and work. I am confident this will illustrate the diversity of the Bank's human resources.

JAPAN POST BANK's responsibility is to support the environment, which is the foundation of people's lives

Revisiting the Bank's *raison d'être* of aiming for the happiness of our customers and employees, and contributing to the development of society and the region, we have identified four materialities, or key issues that JAPAN POST BANK needs to prioritize, based on its strengths and business characteristics, management philosophy, and business activities. With this in mind, we make daily efforts through our business activities to reduce environmental impact, which is one of the materialities, in a bid to solve the problem of climate change. As part of these endeavors, we announced details of the JAPAN POST BANK Net Zero GHG Emissions Declaration, with 2050 as our target, in March 2022.

For JAPAN POST BANK, which has offices all over Japan and many customers ranging from small children to the elderly, climate change is an important issue that shakes it to the foundation. Joining with customers and society, all of the Bank's officers and employees will think about various sustainability issues from their respective positions and work tenaciously on how to reduce the Bank's and the world's GHG emissions, to mitigate the impacts of climate change, and identify what can be done through business activities to address climate change.

Increasing the sophistication of corporate governance in the leadup to full privatization

JAPAN POST HOLDINGS Co., Ltd., JAPAN POST BANK's parent company, recently conducted an offering and sale of the Bank's stock. As a result, the stake of the Bank's shares held by JAPAN POST HOLDINGS, which was approximately 89% before the offering, was approximately 60.6% after the offering (as of the end of March 2023). With this initiative, the Bank is one step closer to full privatization.



P55
Yucho Life in-house
WEB newsletter

P56
Communication with
Customers

P54
President's Direct-line
Opinion Box

P22
Materiality

P61
Environment:
Metrics and Targets

P77
Concerning the JAPAN
POST GROUP Agreement

Currently, JAPAN POST BANK is working actively to further strengthen governance as required by the Tokyo Stock Exchange's Prime Market, on which the Bank is listed. To that end, the Bank established the Risk Committee that serves as an advisory body to the Board of Directors in FY2023/3. This committee is responsible for deliberating on the risks associated with market operations and IT systems, including cybersecurity. Moreover, the Bank is reviewing operations of the Board of Directors in order to activate strategic discussions.

In May 2023, the Bank's operating systems were extensively upgraded for the first time in approximately 10 years. For this major system renewal, a Bank-wide promotion meeting was set up under the direct control of top management, with renewal work proceeding as a Bank-wide project with advice from a third-party organization. The Board of Directors and Risk Committee have also identified relevant risks and taken appropriate countermeasures, while obtaining drawing on the objective opinions and specialized expertise of outside directors and others. As a result, there were no major issues and we have taken positive steps to upgrade the operating systems that will support the Bank in the future. Taking the aforementioned into consideration, we believe that the smooth progress of such an important project is proof of our efforts to upgrade our governance structure.

Looking ahead, we will continue to build a sophisticated corporate governance system befitting a bank listed on the Prime Market.

Pursuing a unique business model

Consolidated net income for FY2023/3 came in at ¥325 billion, down ¥30 billion compared with the previous fiscal year, when net income hit a record high since the Bank was publicly listed. Despite this downturn, results exceeded the full fiscal year forecast, with an achievement rate of 101.5%. Regrettably, the Bank's price book-value ratio (PBR) is currently below 1x. I believe that one reason for this is that investors have doubts about the Bank's growth potential, future prospects, and profitability. That is why, in my message this year, I have tried to explain the growth story of the Bank's efforts to generate sustainable profit in a way that is easy to understand. JAPAN POST BANK's business is subject to regulations that do not apply to other financial institutions. Nevertheless, I do not see these regulations as subjecting the Bank to follow a narrow path. Quite the contrary, these regulations give us the ability to look at new niche markets and opening up opportunities in new fields. I am convinced that the way forward is to consider finance from a broader perspective and pursue a unique business model rather than remain fixed in a traditional banking business model.

Moving forward, we will continue to reflect on the significance of our purpose, namely our aim for the happiness of customers and employees and efforts to contribute to the development of society and the region. Based also on our management philosophy of becoming the most accessible and trustworthy bank in Japan guided by the needs and expectations of our customers, we will work to become a unique bank that is indispensable to the community and essential among financial institutions.



P69
Committee Overview

P8
Financial and
Capital Strategies



P12
A Story of Value Creation