Financial and Capital Strategies

Aiming to enhance corporate value through sustained ROE growth

We will steadily implement the Medium-term Management Plan and work to enhance corporate value with improved ROE as the key driver.

Makoto Shinmura
Senior Managing Executive Officer

Review of the first three years of the Medium-term Management Plan (FY2021 to FY2025)

Three years have passed since we first launched the Medium-term Management Plan in FY2021, during which time the financial conditions in Japan and abroad have changed significantly. In response to rising inflation triggered by the recovery from COVID-19, countries around the world have broadly increased policy rates.

In Japan, however, currency depreciation and resulting price hikes along with a trend toward improving corporate earnings and wage growth have raised the prospect of a world with positive interest rates, including adjustments to financial policies for the first time in years.

Amid these major changes in financial conditions, JAPAN POST BANK has been steadily investing in foreign securities and private equity funds while properly managing the various risks such as interest rate, foreign exchange, credit, and other types of risks. Moreover, in FY2023, we were one of the first banks to begin the move away from the low-profitable BOJ deposit, etc. into Japanese government bonds which have seen significant yield improvements.

On the other hand, we have also made IT investments in the digital field. From it, we have steadily reduced general and administrative expenses through improved operational efficiency using digital technologies while at the same time ensuring steady revenue from market operations. This approach has in turn allowed us to achieve a consolidated net income of 356.1 billion yen during FY2023, the third year of the Medium-term Management Plan, which was our strongest performance since first listing on the stock exchange. This outcome has allowed us to achieve our financial targets for net income, ROE, OHR, and other indicators two years ahead of schedule.

Moreover, after many years of holding our dividend at 50 yen per share, we were able to increase it to 51 yen per share in FY2023 for the first time since the Bank was listed on the stock exchange. Although this increase was relatively small, we believe it was a major step toward the future for us to adopt the dividend payout ratio method and aspiring to increase returns to our shareholders in line with revenue growth.

Status of achieving financial targets and revisions

	FY2023 Actual	FY2023 Targets (before revision)	FY2024 Target	FY2025 Targets (after revision)	FY2025 Targets (before revision)
Net income*1	¥356.1 billion	¥280.0 billion or more	¥365.0 billion or more	¥400.0 billion or more	¥350.0 billion or more
ROE*1	3.74%	3.0% or more	3.77% or more	4.0% or more	3.6% or more
OHR*1	65.39%	72% or less	65% or less	62% or less	66% or less
CET1 (Common Equity Tier 1 Capital) ratio (International standards)*1*2	13.23%	Approximately 10% (Target level in normal times)	Approximately 10% (Target level in normal times)	Approximately 10%*3 (Target level in normal times)	Approximately 10%*3 (Target level in normal times)

*1 Consolidated basis; ROE is based on shareholders' equity; OHR includes gains (losses) from money held in trust, etc.
*2 Excluding unrealized gains on available-for-sale securities.
*3 Basel III endgame fully applied basis.

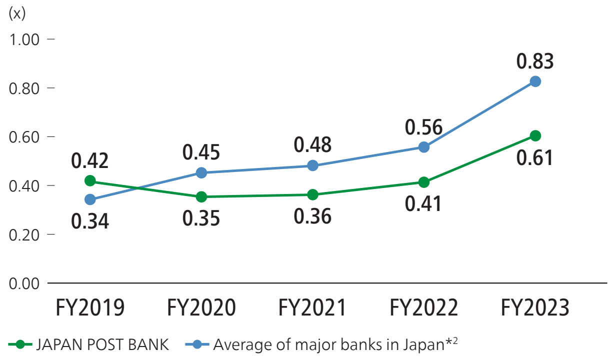
Toward further growth in corporate value

The revision of the Medium-term Management Plan (FY2021 through FY2025)

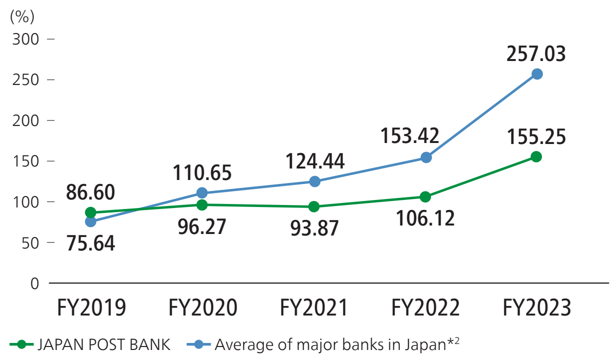
Although we have achieved the targets for the first three years under the Medium-term Management Plan ahead of schedule, we are faced with recent changes in the external environment and the need to implement management that is conscious of cost of capital and stock price as a member company of the Prime Market. In light of this, we recognize that our management improvements intended to enhance corporate value are still a work in progress. As a typical indicator of market value, the Bank's price book-value ratio (PBR) stood at 0.61 x (as of March 31, 2024), far below a factor of 1x. Similarly, total shareholder returns (TSR) also stood at a lower level than other major banks.

We believe that the major factor behind these shortcomings was the fact that our ROE has continually trended below 5%, the cost of shareholders' equity as recognized by the Bank. With two years left, we therefore revised the Medium-term Management Plan with the goal of significantly improving ROE.

Price book ratio (PBR)*1 (Consolidated)



Total shareholder returns (TSR)

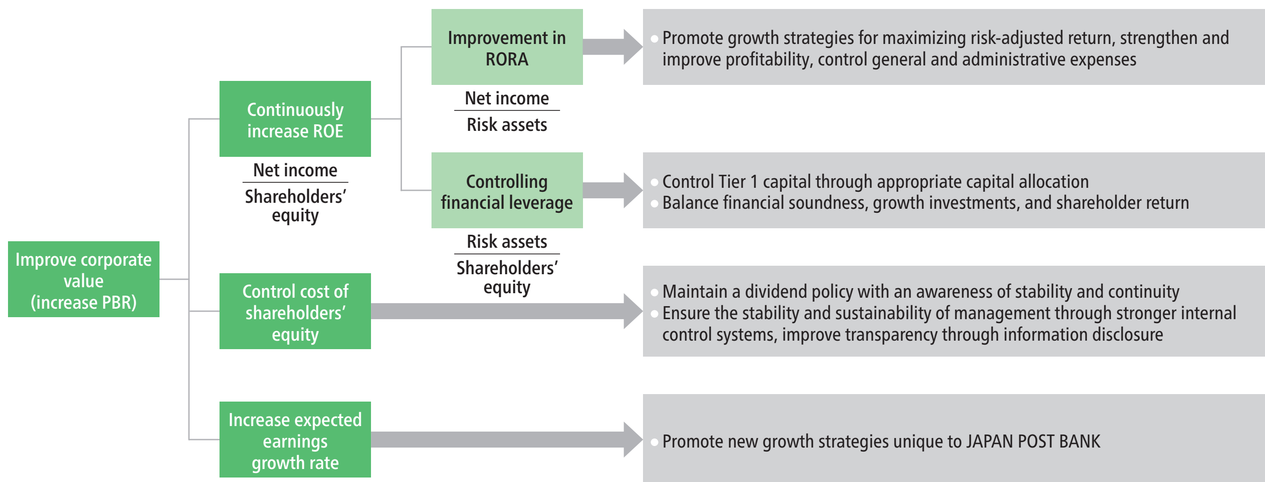


*1 Calculated based on the share price as of the end of each fiscal year and net assets per share.
*2 Simple average for the Mitsubishi UFJ Financial Group, Mizuho Financial Group, and SUMITOMO MITSUI FINANCIAL GROUP.

Factor breakdown for improving corporate value (Logic tree)

JAPAN POST BANK has considered improvements to PBR by breaking these into three drivers, namely continuously increasing ROE, controlling the cost of shareholders' equity, and increasing the expected earnings growth rate. Moreover, by considering ROE improvements under the two categories of Return on Risk Asset (RORA) improvement and financial leverage control, we will connect this approach to specific strategies for improving PBR. Among these, we believe the most important driver is improving ROE. The Bank strives to strengthen profitability by implementing growth strategies and to control general and administrative

Factor breakdown for PBR improvement (Logic tree)



expenses intended to maximize RORA as the return against acquired risk (risk assets). In addition, we will manage Tier 1 capital through appropriate capital allocation. Through these initiatives, we aim to sustainably improve ROE.

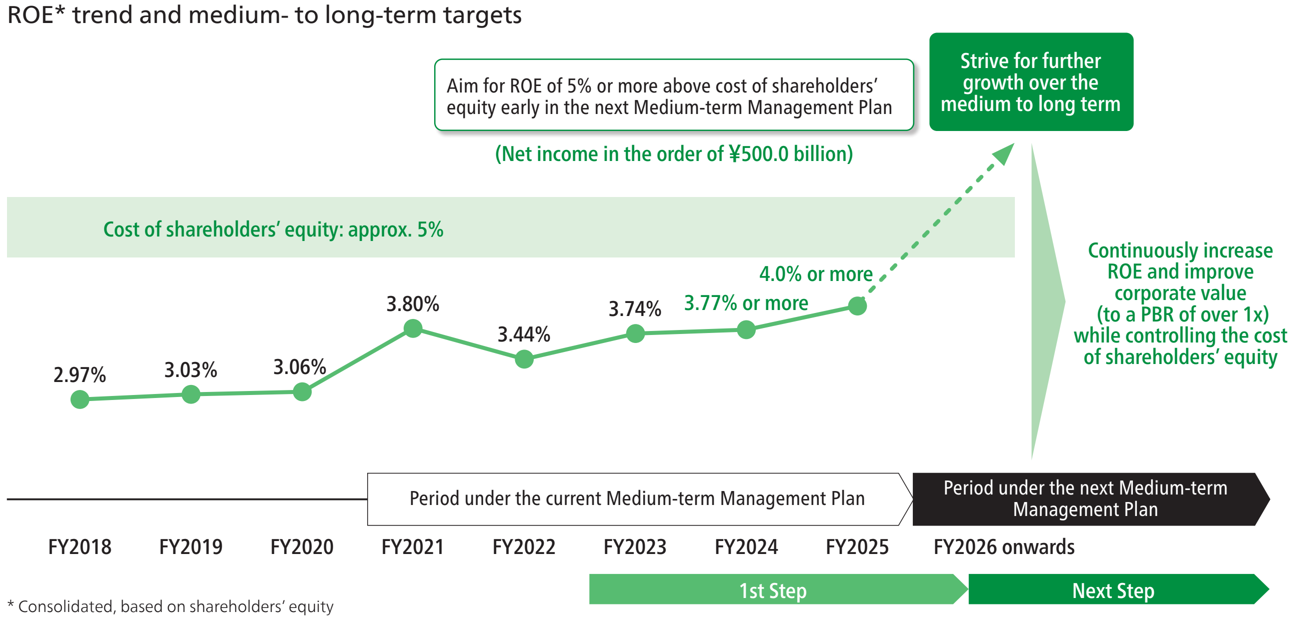
Specifically, our goal is to achieve ROE of more than 4% by March 2026 and 5%, exceeding the cost of shareholders' equity, at an early stage during the next Medium-term Management Plan (from FY2026). However, this is only the first step, and we aim to further improve ROE over the medium to long term in order to jump to the next stage.

JAPAN POST BANK will work to control the cost of shareholders' equity. Specifically, we will strive to maintain a dividend policy with an awareness of stability and continuity through stronger internal control systems. Moreover, we will enhance transparency through information disclosure.

Going forward, we will work to improve the expected earnings growth rate through new growth strategies that are unique to the Bank, including the Σ Business.

Through these strategies, we will lift the Bank's PBR and enhance corporate value.

ROE* trend and medium- to long-term targets



* Consolidated, based on shareholders' equity

Promoting growth strategies to maximize risk-adjusted return

Initiatives for strengthening profitability and acquiring new growth opportunities

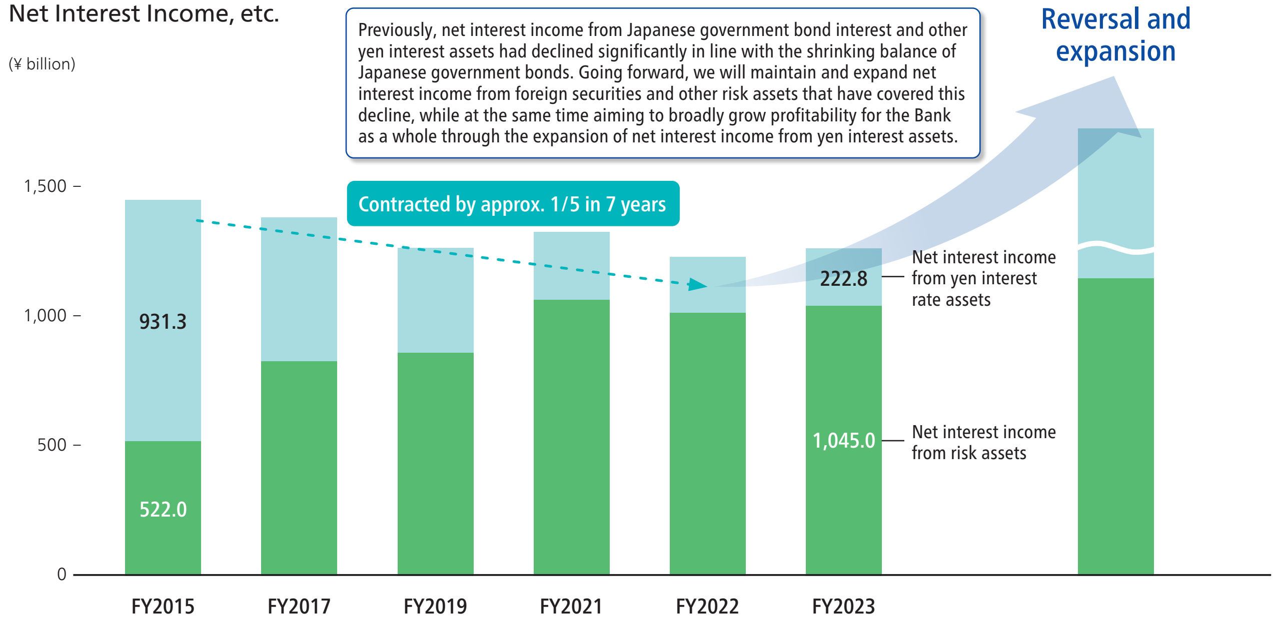
As part of the Markets Business, which supports the Bank's revenue, we will increase the investments into Japanese Government Bonds as the domestic interest rates rise due to the revision of the Bank of Japan's monetary policy. We will also build an optimal investment portfolio that includes foreign securities investments as well as alternative investments such as private equity in order to maximize our revenue.

Meanwhile, the 190 trillion yen investment capital for the Markets Business comes primarily from the 120 million retail deposit accounts collected through the nationwide post office and our branch network (Retail Business). As part of the Retail Business, digital tools like the Yucho Bankbook App, a basic mobile banking app, will serve as a major strength. With more than 10 million registered accounts already, the Yucho Bankbook App has enhanced convenience for our customers while at the same time becoming an important customer channel (digital channel). Likewise, we are collaborating with other companies within the Group and our partners as part of a so-called platform business, which through this digital channel delivers information on a diverse range of products and services that exceed the bounds of a bank. And we intend to connect these products and services to generate fee income for the Bank.

Moreover, we will promote complementarity between the physical and digital channels through digital channels, including efforts to attract customers to post offices around Japan, and develop new revenue opportunities.

We will also steadily advance toward future profitability for our domestic private equity investment services (Σ Business), which was launched as part of a corporate business for creating futures for societies and local communities through investment.

Net Interest Income, etc.



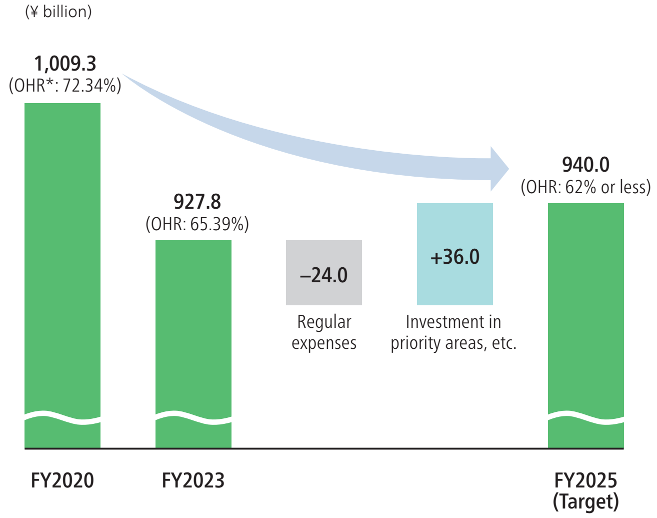
Note: Consolidated, management accounting basis (FY2015: non-consolidated, management accounting basis). "Risk assets" consist of Japanese local government bonds, corporate bonds, loans, stocks (money held in trust), foreign securities, and strategic investment areas, etc. Yen interest assets and risk assets include income and expenses related to internal fund transactions among portfolios.

Controlling general and administrative expenses

Another key point regarding efforts to sustainably increase ROE is controlling general and administrative expenses. In this regard, we will continue reducing regular expenses as we advance investments into key areas, such as enhancing function to apps, promoting DX, engaging in AML/CFT/CPF* activities, strengthening cyber security, improving employee compensation, and increasing the number of employees in enhancement areas. As part of the revised Medium-term Management Plan, we have also updated efficiency-related financial targets (OHR) to improved figures.

* Anti-money laundering, countering the financing of terrorism, counter proliferation financing

Controlling general and administrative expenses (general and administrative expense trends) (consolidated)



* Including gains (losses) from money held in trust, etc.

Comparison of general and administrative expenses and OHR before and after revision (consolidated)

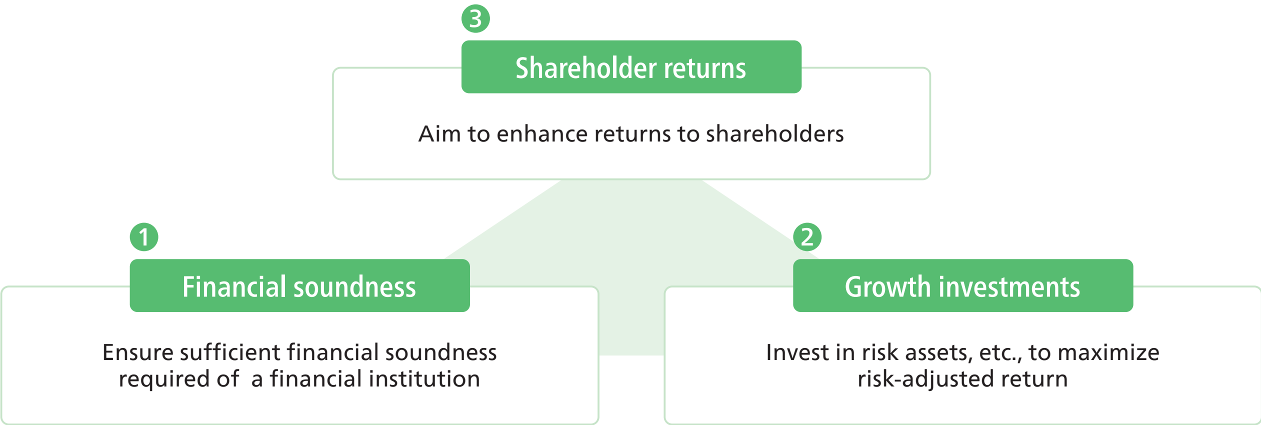
	FY2025 Targets (before revision)	FY2025 Targets (after revision)	
OHR (expense ratio) including gains (losses) from money held in trust, etc.*	66% or less	62% or less	Improvement
General and administrative expenses (compared to FY2020)	−¥55.0 billion	−¥69.0 billion	Improvement

* Considering that Japan Post Bank manages securities by using money held in trust of a considerable scope, the OHR is set as an indicator that includes investment gains (losses) related to money held in trust in the denominator. Calculated as general and administrative expenses ÷ (net interest income, etc. + net fees and commissions). Net interest income, etc. = Interest income - Interest expenses (including gains (losses) on sales etc.).

Controlling Tier 1 capital through appropriate capital allocation

Basic approach

The Bank's capital policy is founded on a basic approach comprised of three parts, namely maintaining sufficient capital adequacy and ensuring financial soundness, strengthening profitability through growth investments that leverage capital, and aiming for greater shareholder returns.



Maintaining bolstered capital adequacy

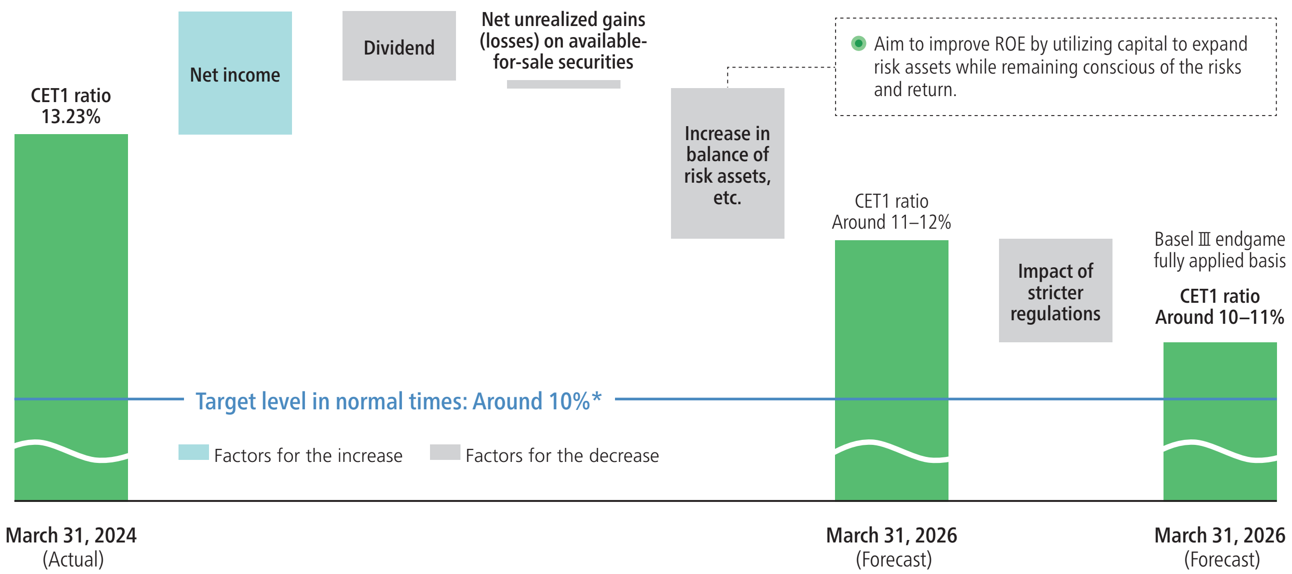
Despite our position as a domestic standard bank (statutory capital adequacy ratio of 4% or more), JAPAN POST BANK maintains an extensive scope of risk assets as a result of foreign securities, private equity funds, and other securities management services, and therefore aims for the same level of capital management as major financial institutions in Japan. As such, we verify our capital adequacy based on the CET1 ratio (international standard). Currently, we have set a target level in normal times for this ratio of around 10%, and currently maintain a certain degree of cushion at 13.23% as of March 31, 2024.

Leveraging capital for stronger profitability

—Ongoing investments that achieve a high risk-adjusted return—

During the period covered by the Medium-term Management Plan, our policy is to keep a close eye on RORA while aiming to increase ROE through efforts to expand risk assets that connect to a greater risk-adjusted return. Meanwhile, in light of the impacts of Basel III and other new, stronger financial regulations, we will leverage capital with a good degree of balance.

CET1 ratio forecast (capital allocation) (consolidated)



* Excluding unrealized gains on available-for-sale securities. In light of the finalization of Basel III regulations (full implementation) at the end of FY2028, the goal is to secure capital requirements equivalent to a fully applied basis from the end of FY2025 onward. 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. Although the Bank is a domestic bank (required to maintain a capital adequacy ratio of 4% or more), due to the size of its overseas credit exposure and other factors, the Bank has set a target CET1 ratio of approximately 10% in normal times, based on the idea of aiming for the same level of capital management as large domestic financial institutions.

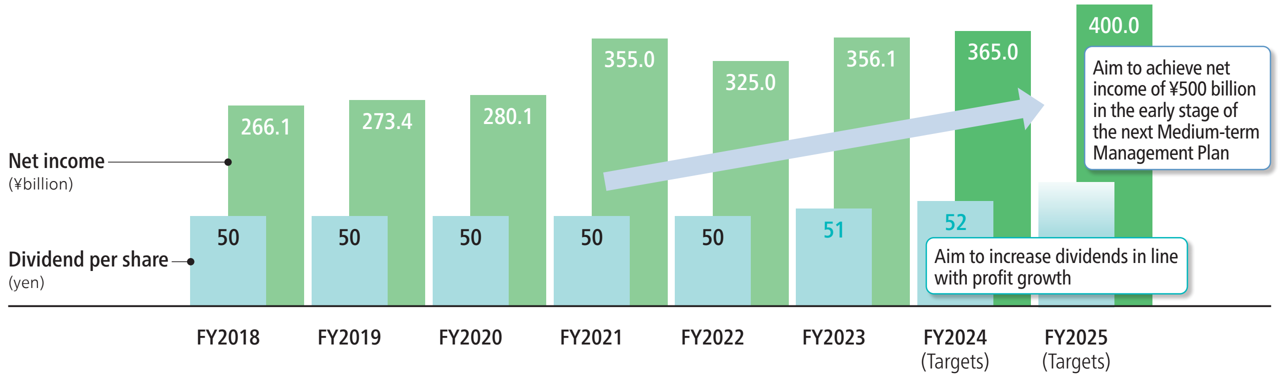
Enhancing shareholder returns

Shareholder returns are one of the most pressing themes for our capital policy. Based on the basic policy illustrated earlier, dividends will serve as the foundation upon which we strive to bolster shareholder returns. When we launched the current Medium-term Management Plan, we shifted from the fixed payout method to the dividend payout ratio method. This move was made for the express purpose of expanding dividends through greater revenue.

Specifically, considering the balance between financial soundness and investments for growth, we established a policy for a dividend payout ratio of approximately 50%. Moreover, we seek to increase the dividend per share from the level of the annual dividends forecast for FY2024.

In addition, we will consider share repurchases based on market conditions, business performance, retained earnings, opportunities for investment in growth, and the Japan Post Group's policy for holding the Bank's shares. During March through April 2023 in which Japan Post Holdings Co., Ltd. executed the sale of our Bank shares, we repurchased a total of 150 billion yen of shares.

Trends in net income and the dividend per share (consolidated)



Controlling the cost of shareholders' equity

Basic approach

According to the Capital Asset Pricing Model (CAPM) method, the cost of shareholders' equity of the Bank has been calculated at around 5%, but we see this as just a reference. We believe it is more important for us to manage the business in a stable and transparent way in order to better control the cost of capital while continuing to have dialogues with our investors.

With the additional aim to maintain a dividend policy that considers stability, continuity, and growth potential, for this purpose we will strengthen internal control systems that control risk, promote human capital management, and strengthen other aspects of the management base. At the same time, we intend to engage in appropriate information disclosure, including IR activities.

Connecting to enhanced corporate value through repeated dialogue with stakeholders

The offer and sale of shares of the Bank in March 2023 significantly expanded the number of the Bank's shareholders. Having served as just a convenient bank around the corner, we are now being recognized also as an investment target.

Meanwhile, JAPAN POST BANK is unable to directly lend to corporate customers because regulations have placed restrictions on some of its operations. And in some respects, these restrictions have made the details of our operations slightly more difficult to understand than those of other banks. The Bank therefore believes the most important action we can take is clearly disclose our strategies and business details, such as this Annual Report.

In FY2023, we held briefings and interviews with a broad range of interested parties, including individual investors, domestic and foreign institutional investors, and analysts, and held briefings focused narrowly on themes such as real estate investing or ESG initiatives. Our outside directors also took the stage as part of a new attempt to communicate about the Bank from a perspective that differs from management.

For more than just the fact that transparent, proactive disclosures help reduce the cost of capital, we intend to share our aspirations, our approach to expanding upon our strengths, our thoughts on methods for solving problems, and other topics with our shareholders and other stakeholders, to faithfully acknowledge the realizations and teachings that can be acquired from the opinions we receive, and to fully reflect these in management.

Based on the revised Medium-term Management Plan, the Bank will apply the higher ROE achieved through steady revenue growth as the leading driver for engaging in sustainable management that seeks to balance enhanced corporate value with solutions to society's challenges. I would therefore like to humbly ask for your great understanding and support as our stakeholders.