I have spent one year as the head of JAPAN POST BANK. During that period, I steered the execution of our Medium-Term Management Plan, strongly emphasizing to executives and employees the “do” component of the PDCA (plan, do, check, act) cycle. At the same time, setting aside the Bank’s operations to date, we held repeated deliberations on the Bank’s expected vision, and announced our directions in this regard on March 31, 2017. Going forward, we will devote ourselves to deploying specific strategies and tactics in order to enhance the Bank’s corporate value and realize growth for our stakeholders. I thank you for your continuous support.

July 2017

Leveraging Our Strengths and Aiming to Be a “New Bank”

Norito Ikeda
Director, President and Representative Executive Officer

Keyword

- Performance and Forecasts
- Business Development for Future Growth
- Bolstering Our Business Foundation
Performance and Forecasts

Operating Performance for the Fiscal Year Ended March 31, 2017

Looking back on the economic environment in the fiscal year ended March 31, 2017, the economies of advanced countries continued to grow at a modest pace, particularly in Europe and the United States, while growth deceleration in China and other emerging-market economies showed signs of easing. Buoyed by the recovery in the global economy, the Japanese economy continued to grow modestly, recording positive growth for five consecutive quarters starting from the first quarter of 2016.

In financial and capital markets, domestic long-term interest rates remained around zero percent, as the Bank of Japan maintained its policy of monetary easing. In this environment, following the U.S. presidential election in November 2016, U.S. long-term interest rates rose, foreign exchange markets were characterized by yen depreciation and stock prices rose in Japan and the United States.

For the fiscal year ended March 31, 2017, net income decreased by ¥12.8 billion year on year, to ¥312.2 billion. In the adverse business environment with yen interest rates remained at a low level, we experienced a decrease in net interest income, which accounts for the majority of the Bank’s gross operating profit. While net income decreased year on year, results were buoyed by such factors as an increase in net other operating income. Accordingly, net income exceeded our earnings forecasts of ¥300.0 billion by ¥12.2 billion, or 4.0%, for the fiscal year ended March 31, 2017.

Forecasts for the Fiscal Year Ending March 31, 2018

For the fiscal year ending March 31, 2018, we forecast net ordinary income of ¥490.0 billion and net income of ¥350.0 billion. In the adverse business environment characterized by such factors as persistent extremely low yen interest rates, etc., the Bank expects to ensure stable profits by working to strengthen fee businesses and further promoting sophisticated and diversified investments, etc.

As a result of our general policy to provide for both an annual dividend and an interim dividend from our retained earnings, we set the total dividends per share of common stock of ¥50 (including an interim dividend of ¥25) for the fiscal year ended March 31, 2017. For the fiscal year ending March 31, 2018, we intend to pay total dividends per share of common stock of ¥50 (including an interim dividend of ¥25).
Business Development for Future Growth

**JAPAN POST BANK’s Vision**

Since having assumed the position of Director, President and Representative Executive Officer in April 2016, I have been taking a long-term perspective and searching for an answer to the question of how the Bank should look in its next stage, or 10 years hence. Unfortunately, numerous banks in Japan and overseas have varied and extensive business experience. Unless we are able to demonstrate our own unique presence, I feel a strong sense of danger about the possibility that we could become a “bank adrift,” having the licenses to operate but no distinguishing characteristics. With this in mind, I looked back on the signals that could be discerned from the experience gained during the 10 years since our privatization, and examined our strengths and weaknesses. On that basis, I quickly identified what needed to be addressed internally and externally to achieve sustainable growth as “directions for JAPAN POST BANK” (Grand Design and its business development), and got to the stage of wanting to initiate action. I believe the Bank’s strengths are twofold. First, we have extensive operations covering locations throughout Japan and an extremely large base of account-holding customers. Second, we have in place an unparalleled financial infrastructure (backbone) to support transactions, comprising a nationwide post office network, ATM network and IT system, and back-office operations. Deliberations with the management team on how to leverage these strengths resulted in three pillars for business development: Customer-oriented financial services, Funds flow to regional communities, and Diversification and sophistication of investment management. Under this Grand Design, we are aiming to be a new type of financial institution which does not belong to conventional banks or securities companies by taking advantage of our inherent strengths. I consider it my duty to aggressively drive our operations forward, using the aforementioned three pillars as our core engines for management. Meanwhile, taking into account such factors as the financial situation and the interest rate environment, in March 2017 we filed for regulatory approval on new services, including overdraft services linked to ordinary deposit accounts. At the same time, we withdrew a filing for regulatory approval concerning loans that are determined on the basis of separate negotiation for corporations and loans for individuals that we had made in September 2012. We decided that in order to work toward the new management pillars, we needed to concentrate our management resources—talented personnel, products and capital—and ensure that all our executives and employees are proceeding along the same path.

**Three Pillars for Initiatives We Will Pursue Wholeheartedly**

**Pillar 1  Customer-Oriented Financial Services**

To date, JAPAN POST BANK has provided traditional financial services, such as savings and remittances, throughout Japan. However, in the current low interest-rate environment customers are calling for more sophisticated financial services and looking for greater levels of convenience, like those offered through FinTech (the fusion of financial services and technology). We will respond to these needs with two clear measures:

### Investment Trusts Sales

For the fiscal year ended March 31, (
¥ billion)

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<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tr>
<td>¥ billion</td>
<td>377.0</td>
<td>427.0</td>
<td>544.3</td>
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### Net Assets of Investment Trusts

As of March 31, ($ billion)

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<tr>
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<th>2015</th>
<th>2016</th>
<th>2017</th>
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</thead>
<tbody>
<tr>
<td>¥ billion</td>
<td>1,118.7</td>
<td>1,135.5</td>
<td>1,310.1</td>
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JAPAN POST BANK’s business development relates to locations and regions across Japan. As the Bank’s ongoing existence would be impossible in the absence of regional development, we do our utmost to circulate the deposits resulting from the careful savings of people within communities into their regions. Thus, as our second pillar of business development, we are considering ways to contribute further to the vitalization of regional economies. In the future, we intend to step up our efforts to provide funds to Japanese local governments and for private finance initiatives (PFIs), which involve the use of private-sector funds to invest in public facilities.

As another new fund circulation measure, in July 2016, we invested in “Kyushu Wide Area Reconstruction Assistance Investment Limited Partnership (fund)” in collaboration with regional financial institutions. This fund was established with the aim of restoration and reconstruction after the Kumamoto earthquakes. This was the first example of a collective investment scheme approved by the Commissioner of the Financial Services Agency, based on the Postal Service Privatization Act, in which we were able to participate in investment with the understanding of regional banks.

In November 2016, we decided to make a joint investment in “Hokkaido Growth Companies Support Investment Limited Partnership” and “KFG Regional Enterprise Support Investment...
Limited Partnership,” which were established with the aim of increasing the ability of regional companies to generate earnings.

In April 2017, we also decided to invest in “Chubu / Hokuriku Region Vitalization Investment Limited Partnership” to contribute toward regional economic development in the Chubu / Hokuriku region.

We will continue working proactively to participate in funds that invest in business succession and the entry of local companies into new businesses. However, these moves are based on a philosophy of cultivating investees in collaboration with regional financial institutions (co-work, co-sourcing), and we will endeavor to strengthen communications in this respect.

We currently participate in regional funds as a fund investor (limited partner), but by leveraging the Bank’s characteristic neutrality, as a next stage, we are aiming to manage funds that engage in project selection and investment decisions. We have seconded some of the Bank’s young employees to fund management companies, where they are working to accumulate experience and obtain know-how. Taking a step further, in addition to loans to regional companies (debt) we believe it will be useful to expand our provision of funds that have capital (equity) aspects. We plan to discuss such matters with fund participants and move forward in this area.

From an efficiency perspective, the sharing of operations and ATMs is another strategy that must not be overlooked. To this end, the Bank will strive to collaborate and build alliances with regional financial institutions and cultivate trust-based relationships.

### Pillar 3  Diversification and Sophistication of Investment Management

The Bank engages in asset liability management (ALM) in response to the changing market environment. The Bank’s ALM strategy is based on the two pillars of a “base portfolio” that seeks to secure stable profits by investing mostly in Japanese government bonds, and a “satellite portfolio” that pursues excess returns predominantly through global asset allocation, such as in U.S. government bonds.

Due to persistent historically low yen interest rates, investment gains from the base portfolio are tapering off, and we have aggressively shifted toward global asset allocation. As a result, the satellite portfolio balance increased from ¥61.5 trillion as of March 31, 2016, to ¥70.4 trillion as of March 31, 2017. In the satellite portfolio, we expanded our investment domains into alternative investments, such as private equity funds (investing in unlisted companies), hedge funds, and real estate funds. Also, in addition to our existing methods of hedging interest rate and foreign exchange risks, we have obtained regulatory approval of methods of hedging credit risks. In this way, we are working to construct a portfolio that ensures stable earnings in the long term. Furthermore, we have been employing skilled external personnel as well as proactively cultivating internal human resources to strengthen our investment organization.

#### Trend of Satellite Portfolio Balance

<table>
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<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
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<tbody>
<tr>
<td>Value</td>
<td>48.0 trillion</td>
<td>61.5 trillion</td>
<td>70.4 trillion</td>
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#### Diversification and Sophistication of Investment Strategy

The Bank’s investment mix includes a broad range of asset classes such as Japanese government bonds, listed stocks, and foreign bonds, as well as alternative investments like regional vitalization funds and derivatives. This diversification and sophistication of investment strategy aims to balance risk and return across different market conditions.
Bolstering Our Business Foundation

On April 1, 2017, we established the ATM Planning Department to promote our new ATM strategy. We are already introducing new compact ATMs, a process we began with a gradual rollout at convenience stores operated by FamilyMart, our alliance partner. We are also placing and relocating ATMs in other highly convenient locations.

With an eye to the increase in tourists visiting Japan, these compact ATMs can be operated in 16 languages. One recent highlight was the July 2017 installation of our ATMs within the new headquarters of Shonai Bank, located in the city of Tsuruoka in Yamagata Prefecture. We have also begun installing our ATMs at the branches of other financial institutions throughout Japan. We expect to respond to foreigner use, which is growing within Shonai Bank’s service area.

In July 2017, we also began to gradually replace ZEROBANK ATMs with compact ATMs. These ZEROBANK ATMs were installed by Ogaki Kyoritsu Bank at Circle K, Sunkus and some FamilyMart convenience stores in Gifu and Aichi prefectures. I should add that all our ATMs can be used with cash cards issued by regional banks throughout Japan, as well as by other allied financial institutions. We will continue to expand alliances with regional financial institutions in a variety of fields.

Accelerating Our Expansion of ATM Installations

JAPAN POST BANK’s Board of Directors has 13 members, eight of whom are outside directors. We believe that having the Bank’s management supervised by the Board where outside directors comprise a majority ensures an effective governance function.

The Board can make management decisions, enhancing open-minded and active exchanges of opinion with outside directors who have extensive knowledge in a variety of fields by using the materials eschewing complicated expressions at Board meetings.

Our shareholders consist mainly of Japanese, particularly individuals, who account for roughly 80% of our shares, if we exclude treasury stock and shares held by JAPAN POST HOLDINGS. The remaining 20% of our shareholders are overseas institutional investors. To build long-term relationships with shareholders and investors in Japan, we hold as many face-to-face meetings as can be allowed. Believing in the importance of providing detailed explanations of our businesses and future prospects, we hold briefings for individual investors at various locations around Japan. At these briefing sessions, we field opinions on our strategies as well as numerous requests, such as making branches barrier-free.

We also engage in bilateral communications with overseas investors at regular intervals, as we aim for overseas investors to hold our shares over the long term. We do our best to reflect the valued opinions of these shareholders and investors in our management, in an effort to further increase our corporate value.

Dialogue with Shareholders

Creating Value
We conduct management based on the understanding that compliance is essential to a company’s operations. Among other activities, we work with JAPAN POST to strengthen and enhance the internal control system. Going beyond mere compliance, we endeavor to enhance the awareness of our employees with respect to social norms. We intend to create an environment in which compliance rules are deeply embedded within the organization and where employees check each other.

**Corporate Social Responsibility (CSR) Initiatives**

Looking back in history, it is clear that our mission is to fulfill an important social responsibility. We position as our CSR the roles of fulfilling customers’ requests and society’s needs. To realize these aims, we have established four CSR themes—reliable service, environment, diversity management and education—and we are undertaking initiatives in response to these requirements.

**Human Resource Cultivation**

At JAPAN POST BANK, human resource cultivation goes beyond lectures; we believe hands-on experience in the Bank’s operations is of utmost importance. To move the Bank forward to the next stage, we need to raise each employee’s level of specialization, and it is important for each member to have a field of expertise in which he or she truly stands out. We want employees to understand needs that begin at the customer level, and then gradually build an awareness of how to resolve difficult operations. In the process, employees sometimes get stuck when operations do not progress smoothly, and some efforts end in failure. Many times, superiors have to cover for their juniors’ mistakes. However, the experience of making mistakes leads to the accumulation of expertise and builds confidence, and individual employees grow as the process is repeated. In order to take on the world’s unknowns, I believe the management team plays an important role in cultivating internal communications and boosting motivation and loyalty. By harnessing the strengths of our individual people and bringing our around 13,000 employees into alignment, I am convinced that we can win out, no matter how difficult the competitive environment.

**Supporting Women in the Workforce**

JAPAN POST BANK has set the numerical target of lifting the percentage of women in management employees to 14% or more by April 1, 2021. (The percentage reached 11.5% as of April 1, 2017.) It is our aim that we encourage female employees to actively participate and advance in the workplace. Work Style Reform is essential to promoting support for women in the workplace. Unfortunately, there is a certain number of female employees that do not aspire to becoming managers or give up the chance to advance their careers because conventional working customs make them feel uneasy about maintaining work-life balance. To solve this problem, the Bank as a whole is working to establish a structure that promotes work efficiency and to foster an inclusive corporate culture. However, these efforts are still at the halfway mark. We will strive even more to increase the number of female employees who express the desire to become managers, which in turn will lead to achievement of the target.
I have described a bank that leverages its strengths and outlined our vision for the future. Particularly as these goals are long-term, I consider it is important to set milestones and ensure that we successfully surmount the issues. I recognize that altering the course of our huge organization overnight is impossible, but I sense that we are making gradual and steady forward progress. To build the robust future for JAPAN POST BANK that has been entrusted to us by our customers, shareholders and other stakeholders, we will make an unrelenting management effort. I thank you for your continuous support and understanding.

Norito Ikeda
Director, President and Representative Executive Officer