

Results for the Six Months Ended September 2021  
Summary of Presentation (November 22, 2021)

**Introduction**

- My name is Ikeda. Today, as well as speaking about our revised full-year earnings forecasts, for which there is particular interest among our investors in terms of 1H results, I would also like to speak about important themes that senior management have tackled since our Medium-term Management Plan (hereinafter "Mid-term Plan") was announced in May, as well as our managerial intention behind those.

**The Earnings Forecasts for FY2022/3**

- Please look at page 20 of the material. As has already been announced, we have revised our full-year earnings forecast upwards by ¥90 billion from the original forecast of ¥260 billion to ¥350 billion. In line with our revised earnings forecasts, we also raised our annual dividends forecast from ¥40 to ¥47 in consideration of our shareholder return policy announced in May of this year. Our forecast dividend payout ratio is 50.3%.
- In our view, in the 1H of this fiscal year, overseas financial trends were relatively comfortable and stable for us and we accurately grasped that financial environment, which enabled us to achieve monetization. Based on these circumstances, the latest market conditions and other factors, we upwardly revised our full-year earnings forecasts.
- At the root of this is the company's improved profitability. As I will explain in detail later in our market investment strategy, with market investments, which is a main revenue source, we have generated revenue from asset investments made over the past five years, such as foreign bond investment trusts and private equity (hereinafter "PE"), which allowed us to realize this upturn.
- Moreover, expense reductions are steadily progressing. In addition to market operations, we believe that we have created a system and framework that is capable of properly securing profits. We also believe that our ability and base profitability are becoming stronger.

- Based on this upwardly revised revenue forecast, we decided to raise our dividend forecast from our original forecast of ¥40 to ¥47. From this fiscal year, for dividends, we have switched our shareholder return policy to using a dividend payout ratio method, and will give our all to making sure we achieve our revised earnings forecasts.
- From the next fiscal year onward, as of now, our earnings forecasts remain unchanged. We will be keeping an eye on the status of our business environment focusing on market, and we believe that stability and sustainability are achievable for dividends too. We will deploy an aggressive strategy to secure profit going forward, which I will describe later.
- We are also considering implementing measures to make additional returns to shareholders based on the status of future profit expansion, repleteness of internal reserves, regulatory trends, and the like, along with our policy to make the holding company's shareholding ratio of our stock no more than 50% as early as possible during the term of the current Mid-term Plan, among other factors.
- When considering additional shareholder returns, it's important to consider from the viewpoint of how much profit should be returned to shareholders in total, while also taking into account a shareholder return policy that's based on dividend payout ratio. On the other hand, from the viewpoint of creating a virtuous cycle of growth and distribution, we are also keeping in mind that, going forward, we will focus on securing, training and investing in human resources.

### **Status of Responses to Important Themes**

- I will now talk about our response to our important themes.
- When speaking about shareholder returns just now, I mentioned that we have switched to the dividend payout ratio method. Stability and sustainability of dividends is very important, and a point that is more important than that in the dividend payout ratio method is how to grow profit.
- Please look at page 25 of the materials. The diagram showing the Mid-term Plan's five-year revenue structure shows measures that we prioritize for improving revenue in the future. As you will see at the top of the page, the banking business is facing headwinds, and that's not only the case for us. We are in the midst of tough challenges. I think it is

now time for us to take a more aggressive strategy.

- One basis for this is the document called "Changes in Interest Rates, etc." that was handed out as supplementary material to you. You'll see from glancing at it that, during the period of the previous Mid-term Plan (FY2019/3-2021/3), Japanese and US interest rates were like headwinds blowing against us. However our circumstances were changed after the pandemic hit in March of last year. Foreign currency funding costs have fallen sharply, and credit spreads have remained stable at a low level.
- We have continued with endurance and patience. We think coronavirus measures for the current world economy are progressing, and that a road to recovery is appearing. Our assumptions concerning the future market environment can be seen page 22.
- On the other hand, the base scenario we have is a gradual rise in foreign currency interest rates. In this outlook, foreign bond investment trusts are expected to bring steady profits, as well as increasing balances.
- The in-house CLO of approximately ¥2 trillion is also steadily producing profit and unrealized gains, although the balance is on the decline due to an increase in early redemptions.

### **Going on the Pursuit of Market Revenue, Pushed by a Gentle Tailwind**

- I will now speak about how to pursue market revenue with this gentle tailwind behind us.
- The +¥340 billion for strategic investment areas, etc., shown in the waterfall chart on page 25 of the material is mainly revenue from PE invested up to FY2020/3, with back up from a strong cash flow generated by real estate funds. I will refrain from stating specific figures due to confidentiality, but we expect our NAV (net asset value) invested in the past to further accumulate. According to current estimates, our view that PE's J-curve effect will appear in earnest in the latter half of our Mid-term Plan has not changed: the PE 2016 vintage is expected to produce the most revenue in FY2024/3 and the PE 2017 vintage is expected to produce the most in FY2025/3.

- Amid this, PE performed extremely well in the 1H of this fiscal year, providing us with additional profits of approximately ¥50 billion. Originally, we focused our investment efforts on PE as the first asset in strategic investment areas, and, at the time of planning, we firmly set the investment ratio based on the market average.
- In contrast, in the 1H results, IPOs, M&As, and the like were strong for some invested-in industries, mainly in the information technology sector, and expectations were greatly exceeded. And we don't expect that our future expected profit will drop. Moreover, the risk weight will increase in the future due to stricter financial regulations, but, from the start, this increased PE risk weight was already factored into our plan. Going forward, we plan to refine and make more sophisticated estimates for outlooks for unrealized gains and profit in next five years for each vintage based on results for the past five-year period.
- To PE revenue in the 2H of the fiscal year, there might be a slight adjustment in view of economic trends. But, we will finally start receiving dividends from PE investment trusts, as a whole, we believe that we can expect returns as planned and continue at cruising speed.
- To our overall strategic investment areas, as shown on page 12 of the material, our investment balance has already exceeded ¥5 trillion. As I just mentioned, for PE, we will keep an eye on future growth in investments in real estate debt, direct lending, infrastructure debt, and the like. Of note is that infrastructure debt includes a large number of environmental impact reduction investments, such as wind power, and we believe that, going forward, those are meaningful investment targets. We also recognize they are products for which expansion and good things can be expected.
- We are expecting, over a somewhat long period, a scenario in which the yield curve for domestic interest rates will break through its current flatlining.
- To summarize, the direction in which we are heading is shown on page 28. And, as shown on page 29, we believe that we have a team line-up that is as good as that of other companies. Across the company, and this is the first time we've shown this, we've built a governance framework that is connected with market operations with the company-wide frameworks shown on page 30.

## **Sowing the Seeds for the Future While Expecting an Upturn in Market Revenue**

- Next, I would like to talk about sowing the seeds for the future while expecting an increase in market revenue.
  
- Please look at page 35 of the material. Regarding the flow of funds to regional communities, together with that flow promoting SDGs and ESG management, for us, I consider that flow to be part of a growth strategy that focuses on the next Mid-term Plan and beyond.
  
- Domestic credit excluding Japanese government bonds now amounts to ¥7 trillion. However, the equity balance, excluding the likes of syndicated loans and local government bonds for which the risk weight is close to zero, which can be said to be the true flow of funds to regional communities, is important. And starting from zero three years back, it has reached a scale of around ¥300 billion.
  
- Looking at statistics for small and medium-sized enterprises, their debt has decreased, and the equity-demand has increased. In contrast, we are sowing the seeds for this business areas, aiming to achieve a J-curve effect after the current Mid-term Plan, akin to the case with overseas. As you can see on page 35, we are creating pipelines for financial institutions, business companies, fund companies, and other entities. Looking to the future, we recognize that this lies at the heart of the Bank's strategy, and to realize this strategy, we newly established a Regional Relations Divisions in April to carry out planning and promotion activities.
  
- The IRR for domestic PE is lower than the IRR for overseas PE, but, with domestic PE, there is no foreign-exchange risk and there is relatively lower financial instability. The risk is higher than that for senior debt, but we are planning to take a certain degree of risk in order to secure medium-to-long-term revenue, while taking into account the risk profile of our entire portfolio. To reiterate, we think of this as a strategy that contributes to regional co-creation.
  
- Our domestic equity investment strategy is centered on LP investments. GP activities still require additional know-how and human resources. Therefore, we are laying the groundwork for the future through active work secondments to other companies.

- As capital for this investment strategy and risk assets, such as overseas investment areas, the Mid-term Plan assumes there are internal reserves amounting to a 50% dividend payout ratio. We want to promote further growth with this strategy.

### **Investment in Retail**

- For retail, as shown in the Mid-term Plan material, we will strategically invest approximately ¥130 billion over a five-year period. In the five-year period before the Mid-term Plan, this amount was approximately ¥50 billion, so our invested amount are planned to increase by approximately 2.5 times. Other than those, we spend just under ¥100 billion annually on renewing and operating our systems that are used on a regular basis. To enable our core systems to operate 24 hours a day and 365 days a year without any irregularities, we conduct inspections with determined steps, and are smoothly advancing management of Japan's largest retail banking system.
- Please look at system management framework on page 32. You can see that this is a pan-company framework—from solid operation of existing systems to new investment—that is centered on people with specialized skills, and with 3-line management properly carried out.
- For information on our retail strategy, please, in particular, look at page 26. As to taking up the challenge of popularizing our Bankbook App with customers in our physical channels, which are the Bank's unique strength, we already, from commencing the Mid-term Plan, have 980,000 of those customers newly using it, as reported as a KPI. We will progressively add banking functions to the app. And, with effectively using our ATM network in mind, in May 2023, we plan to add a function to the app that enables deposits and withdrawals at ATMs with a smartphone.
- In addition to enabling our customers to use Yucho functions on their smartphones, "Branch in Hand", we plan to, as shown on page 27, release our "PFM (Personal Finance Management) App" around summer 2022. And we would like our services in financial and non-financial fields, including services provided by the Japan Post Group, to be connected. In this manner, we will improve value of the customer experience, and we are aiming to increase our revenue-generating opportunities. Although, currently, we cannot provide you with any specific revenue amounts, this is placed as an especially good opportunity to generate revenue in addition to the Mid-term Plan.

- The investment amounts during the Mid-term Plan period on a cash flow basis, including that for retail digital strategy, are as follows: at least approximately ¥50 billion for retail business innovation; approximately ¥35 billion for work reform and optimization; approximately ¥14 billion for security; approximately ¥20 billion for money laundering measures. On the other hand, we expect +¥23 billion for net fees and commissions, listed on page 25 as retail revenue, and +¥94 billion due to the productivity improvement effect. In total, approximately ¥110 billion in earnings is included in the plan.

### Summary

- While facing a headwind, amidst a "cliff in gains of redeeming foreign bonds" situation that has arisen on the flip side of business chances that arose in a strong-yen context, we have kept a revenue-buffer such that revenue is at hand at any time, while striving to secure stock valuation gains by utilizing bear funds that invest in stocks in the Mid-term Plan.
- As I mentioned a moment ago based on the additional page of material, in the context of this situation in which the environment is comfortable for us and our profit was higher than expected, we have adopted a strategy to progress of proactively switching to sowing the seeds for our next plan.
- We believe that developing human resources to support this strategy is our greatest mission. In relation to the Investment Division's overseas investments, we have increased the number of personnel and the number of professionals in this division with personnel from within the company. And we would like to gradually increasing the number of experts amidst our plans to accumulate risk assets of approximately ¥20 trillion.
- To our domestic equity strategy, in order to create a culture that will have affinity with GP business in the future, we are aiming to establish a business model that differs from other banks. We are aiming to mobilize everything by, in addition to seconding young personnel such that they can study, having them study at Japan Post Investment, a Japan Post Bank subsidiary that is a buyout joint GP.

- Since the Bank's establishment, communicating in a humble manner has spread, and that has assisted in making our domestic equity strategy feasible. Needless to say, from the perspective of community-based business, we are mindful that synergy with the entire Japan Post Group is crucial.
  
- By all means, please do share with me your candid questions and opinions about the strategy that lies behind all the items in the Mid-term Plan, about which I have spoken today. I would very much like to hear how the market and our shareholders see this strategy.
  
- This concludes my comments, thank you for listening.

End

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