

Japan Post Bank's Private Equity Strategy and Outlook

June 9, 2022



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Overview of Our Private Equity Investment Program



We started our private equity program in FY2017/3 to diversify our investment portfolio, to produce high returns but with relatively low correlation to other existing asset classes.

Launch Timing and Objective

- ✓ Started investing in FY2017/3
- ✓ To strengthen the investment portfolio and diversify sources of income
- ✓ Make investments with higher expected returns compared to other traditional assets (with lower correlation)

Target Return

- ✓ Net IRR*¹ 8.0%
- ✓ Net TPVI*¹ 1.30x
(TVPI: Total Value to paid in)
*1 After deduction of expenses; Japanese yen basis

Team

Department	Private Equity Investment Department
General Manager	Senior Managing Director Hideya Sadanaga
# of Staff	27 (As of April 1, 2022)* ²

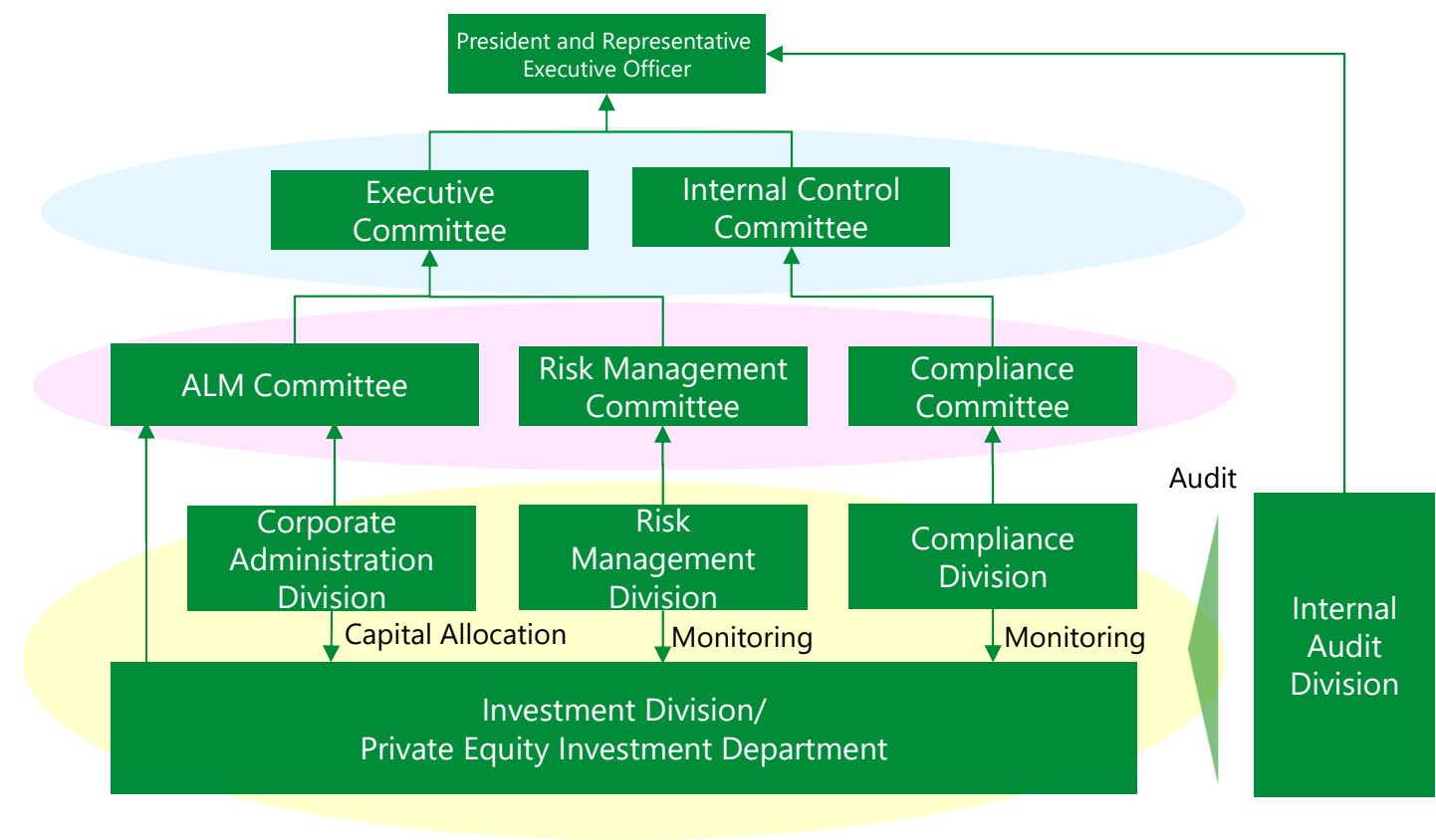
*2 Includes employees with job assignments at affiliated companies

Governance



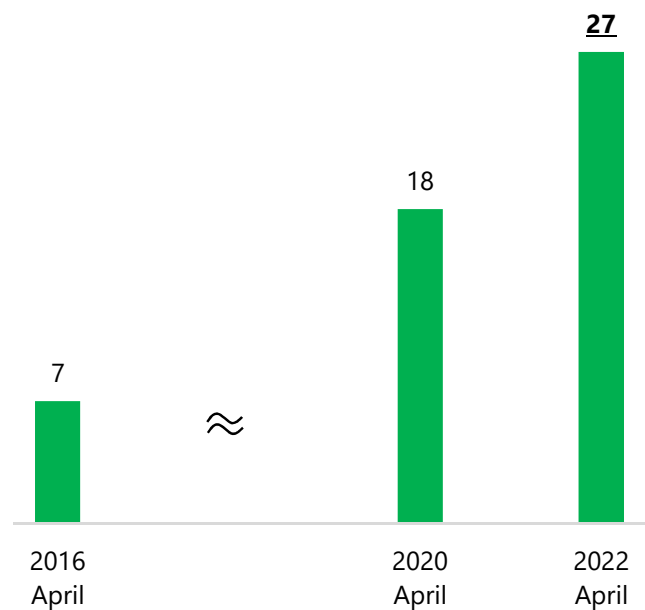
Investment operations are managed with appropriate check and balance functions provided by the Risk Management and Compliance Divisions, respectively.

Investment Organization



Number of Employees in the Private Equity Investment Department

(No. of employees)

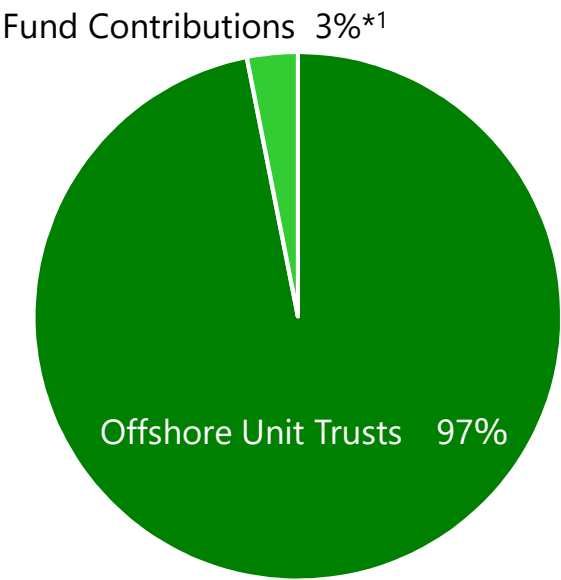


Investment Structure

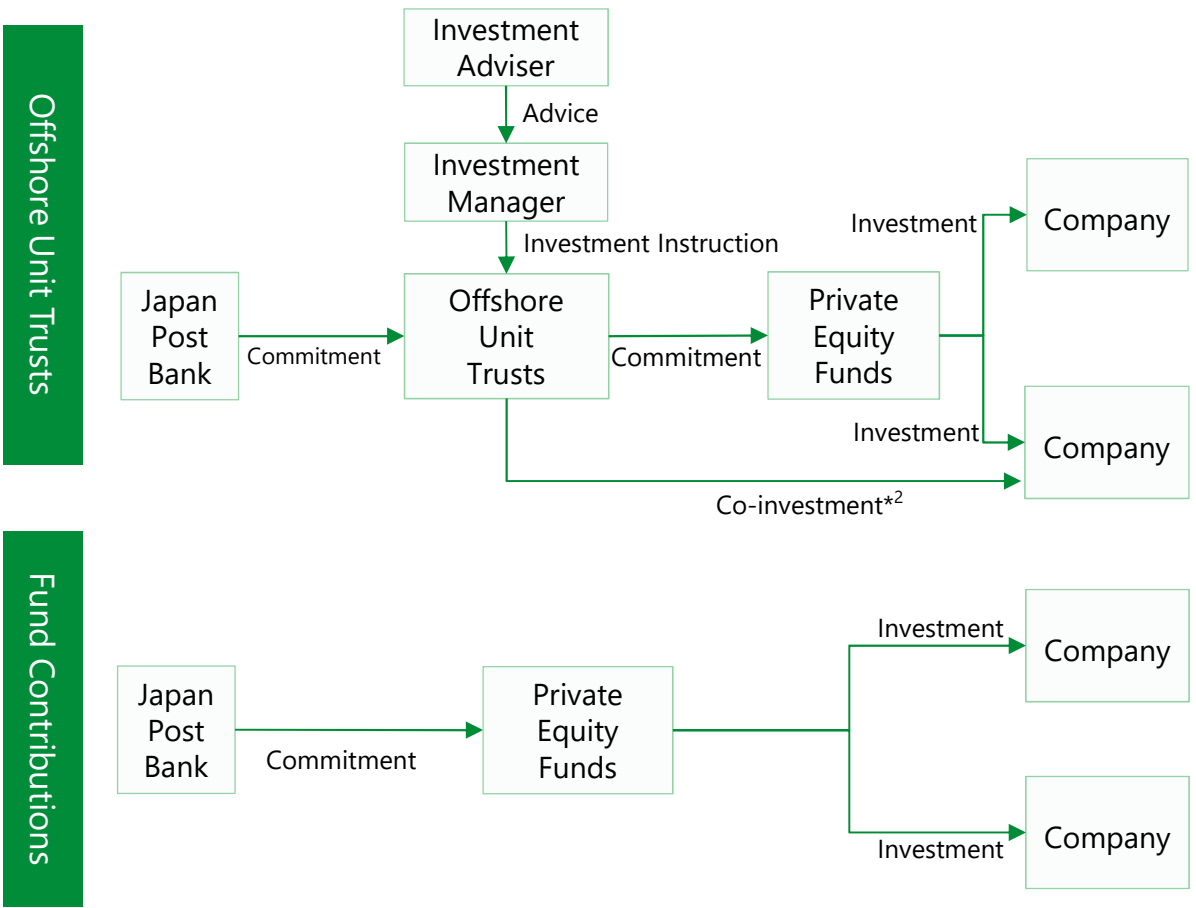
We invest primarily via Offshore Unit Trusts managed by Investment Managers and/or their Investment Advisers/Gatekeepers who have deep experience investing in private equity and who can provide sufficient support functions domestically.

Type of Investments

(By Commitments, as of March 31 2022)



Structure Chart



*1 These figures include funds managed by Japan Post Investment Corporation, our subsidiary.

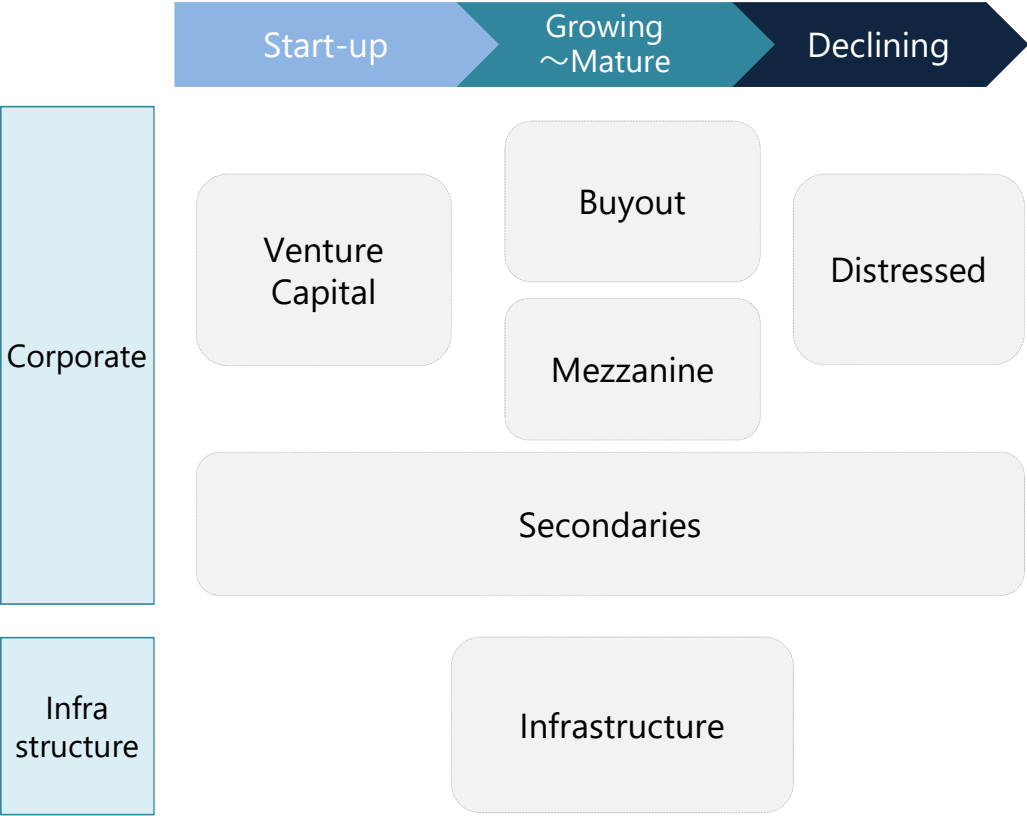
*2 When private equity funds invest in portfolio companies, their LPs may occasionally invest along side them. In such cases the fund manager is the primary driver of business planning and execution.

Strategic Investment Areas



We invest in various investment strategies to create a diversified portfolio, ranging from early stage ventures to investments in mature companies.

Representative Investment Strategies



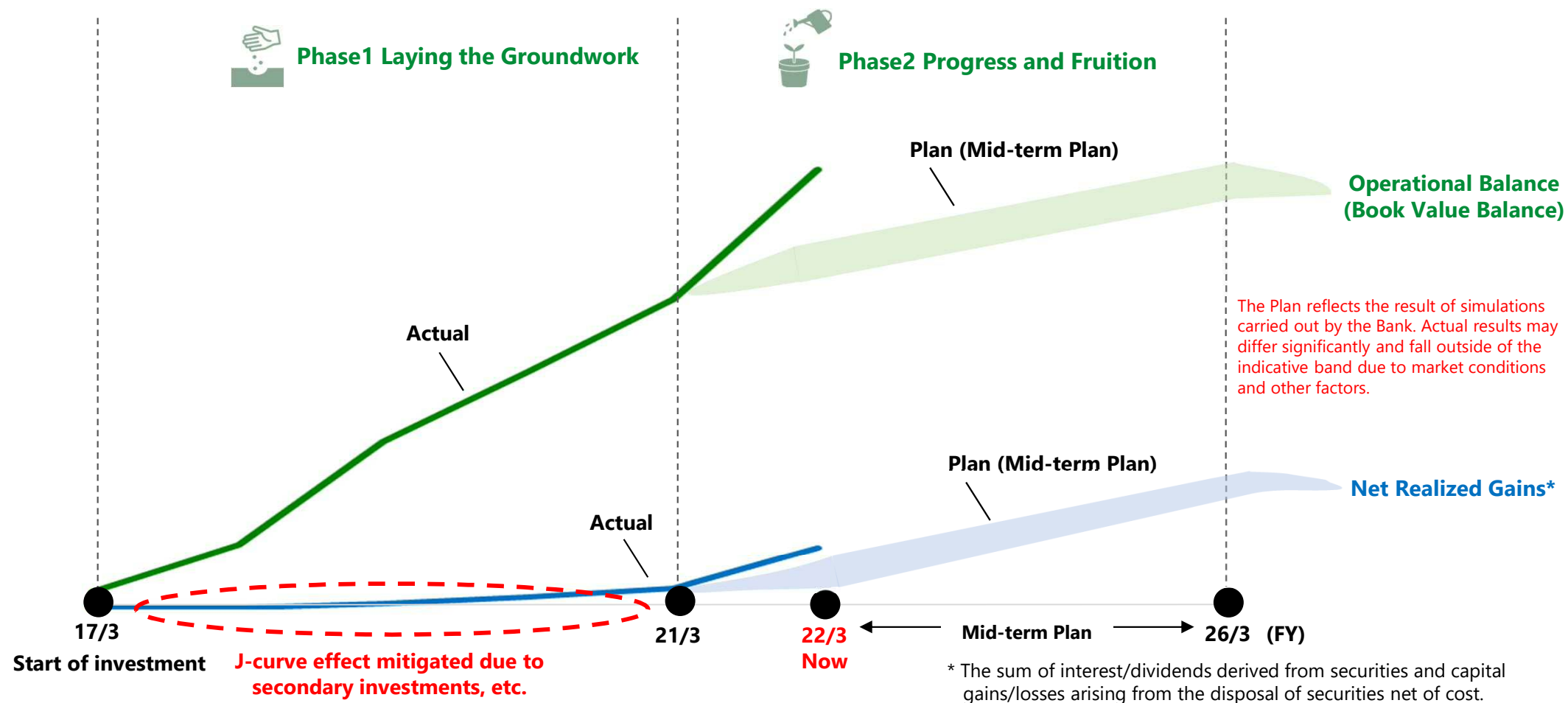
Investment Strategy Characteristic

Investment Strategy	General Objective
Venture Capital	Generate investment returns by investing in companies at the earlier stages of their lifecycle to promote their growth
Buyout	Generate investment returns by investing in companies with growth characteristics or investing in mature companies and improving their value through active business involvement
Mezzanine	Generate investment returns by investing in growing or mature companies via subordinated loans or preferred securities
Distressed	Generate investment returns by investing in companies in distress via discounted security purchases and/or by turnaround of the business
Secondaries	Generate early returns on investments through secondary acquisitions of private equity fund interests
Infra structure	Generate investment returns by investing in entities providing vital infrastructure such as airports, railroads, ports, and power plants

Overview

During the initial phase of portfolio construction, we mitigated the J-curve effect, typically expected from a young private equity portfolio, by focusing on strategies expected to generate early returns such as secondary investments.

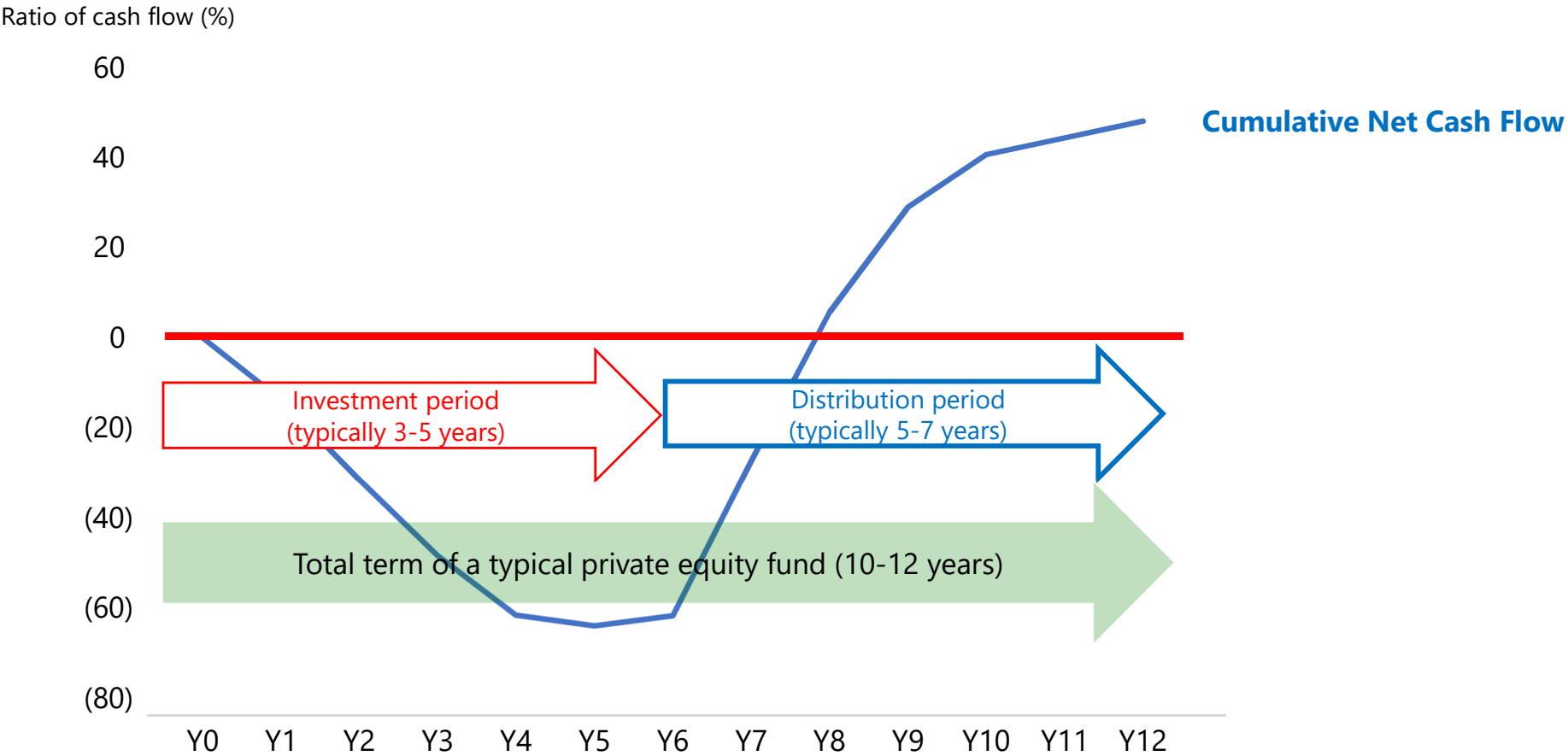
Two Phases



Appendix : J-curve

It typically takes several years for investments in private equity funds to generate returns, while initial fund costs such as costs related to the sourcing and due diligence of potential portfolio companies push investment returns downwards at the early stages of a program (the "J-Curve Effect").

Cash Flow Image

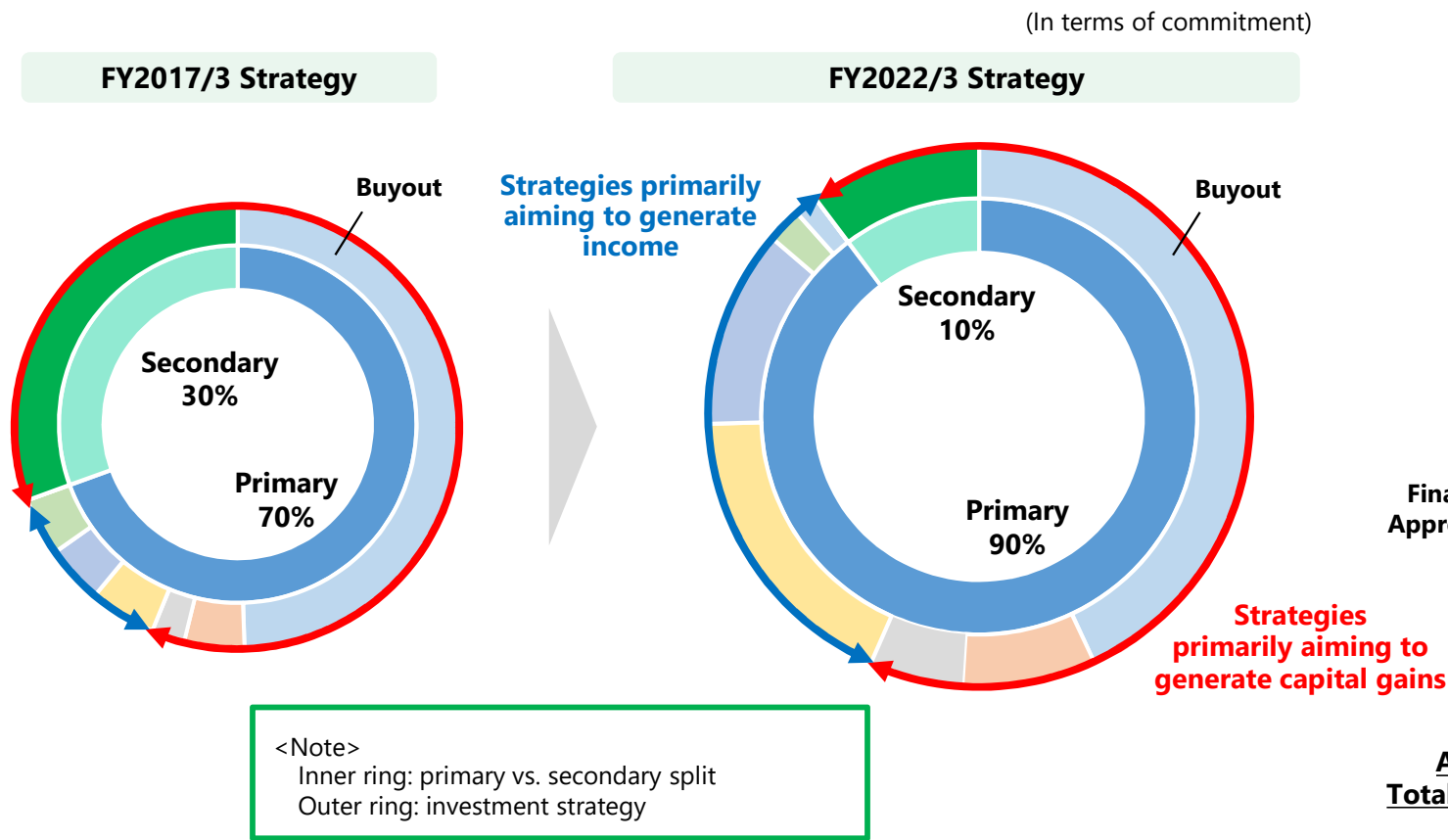


The Portfolio (Strategy/Sector)

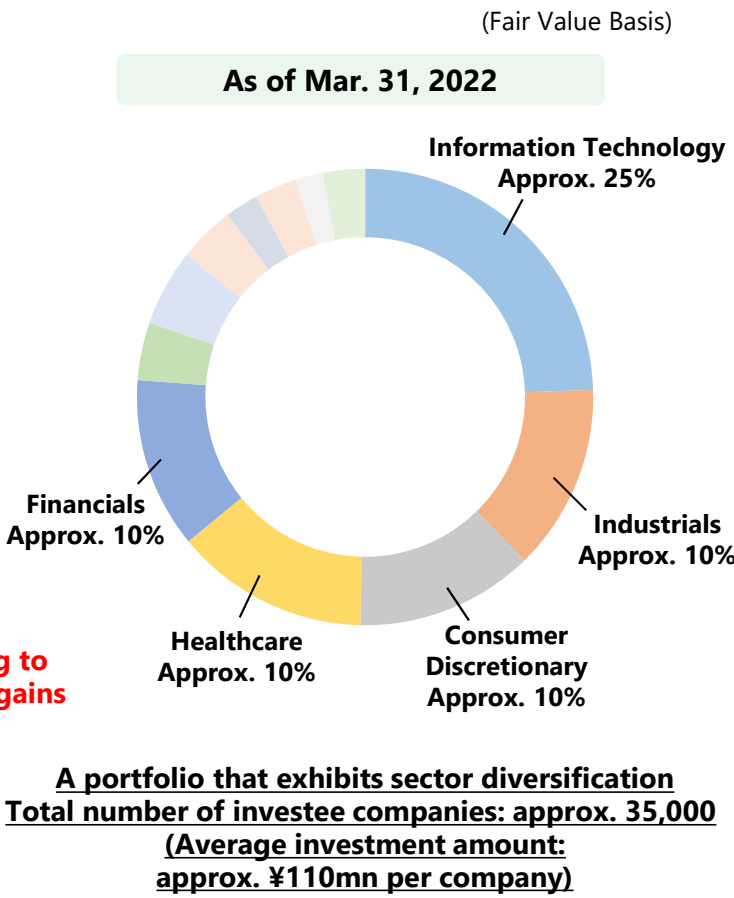
During the initial phase of portfolio construction, we mitigated the J-curve effect typically expected from a young private equity portfolio by focusing on strategies expected to generate early returns such as secondary investments.

At present, while the primary aim is to earn capital gains by predominantly focusing on buyouts, we are also allocating substantially to income strategies*², we are aiming to earn stable interest or dividend income to supplement realizations from our buyout-centric portfolio in case the economy should experience weakness.

Strategy Diversification



Sector Diversification



*1 Strategies aimed at obtaining early return on investment, through secondary acquisitions of private equity fund interests.

*2 Investment strategies focused primarily on generating income, such as infrastructure investments and mezzanine investments.

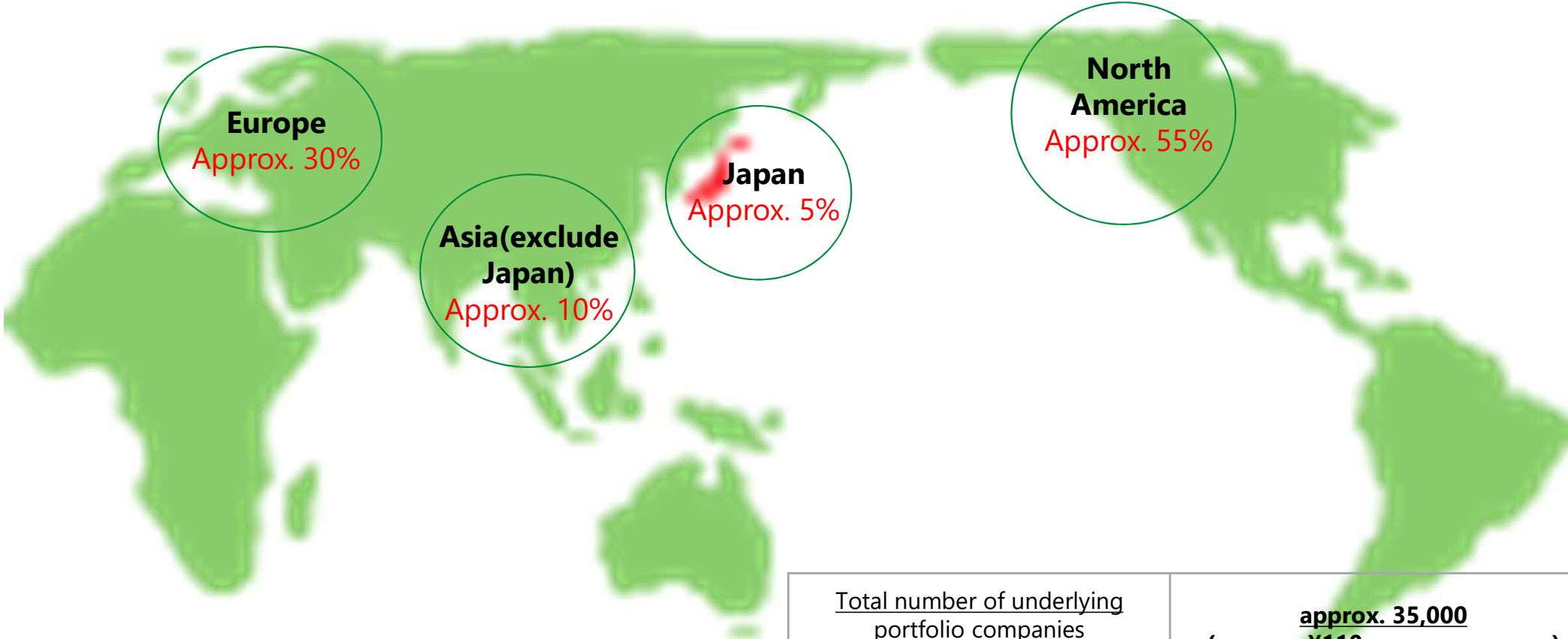
Portfolio Diversification (Geography)



Our portfolio is diversified and consists of approximately 35,000 underlying portfolio companies, the average investment size per company being around ¥110mn.

Diversification by Geography

(Fair Value Basis, as of March 31 2022)



Total number of underlying portfolio companies (Average investment amount)	approx. 35,000 (approx. ¥110mn per company)
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Situation to Date

The current balance stands at ¥3.2tn. The market environment has been generally favorable, and unrealized gains as of March end was approximately ¥1.2tn (before application of tax effect accounting).

We saw a significant increase in value for a portion of our portfolio companies in recent years that has exceeded our expectations, and Net Realized Gains have been above our plan.

Return Target/Actual Results

[Target]

- Net* IRR : 8.0%
- Net* TVPI : 1.30x

(TVPI: Total Value to paid in)

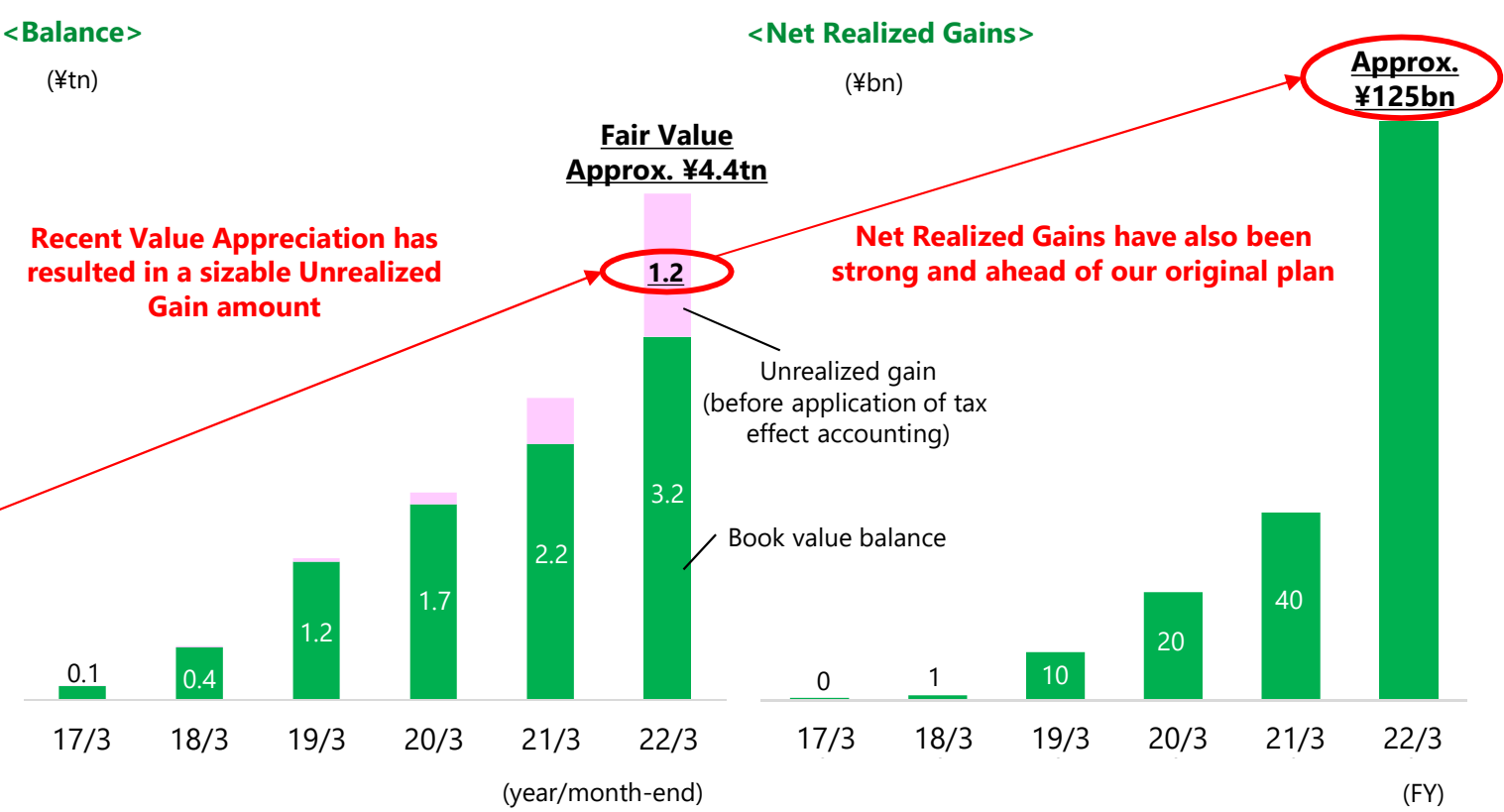
[Actual Results (as of Mar. 31, 2022)]

- Net* IRR : **17.2%**
- Net* TVPI : **1.42x**

* After deduction of expenses; Japanese yen basis

We are currently ahead of our original plan

Status of Balance and Net Realized Gains



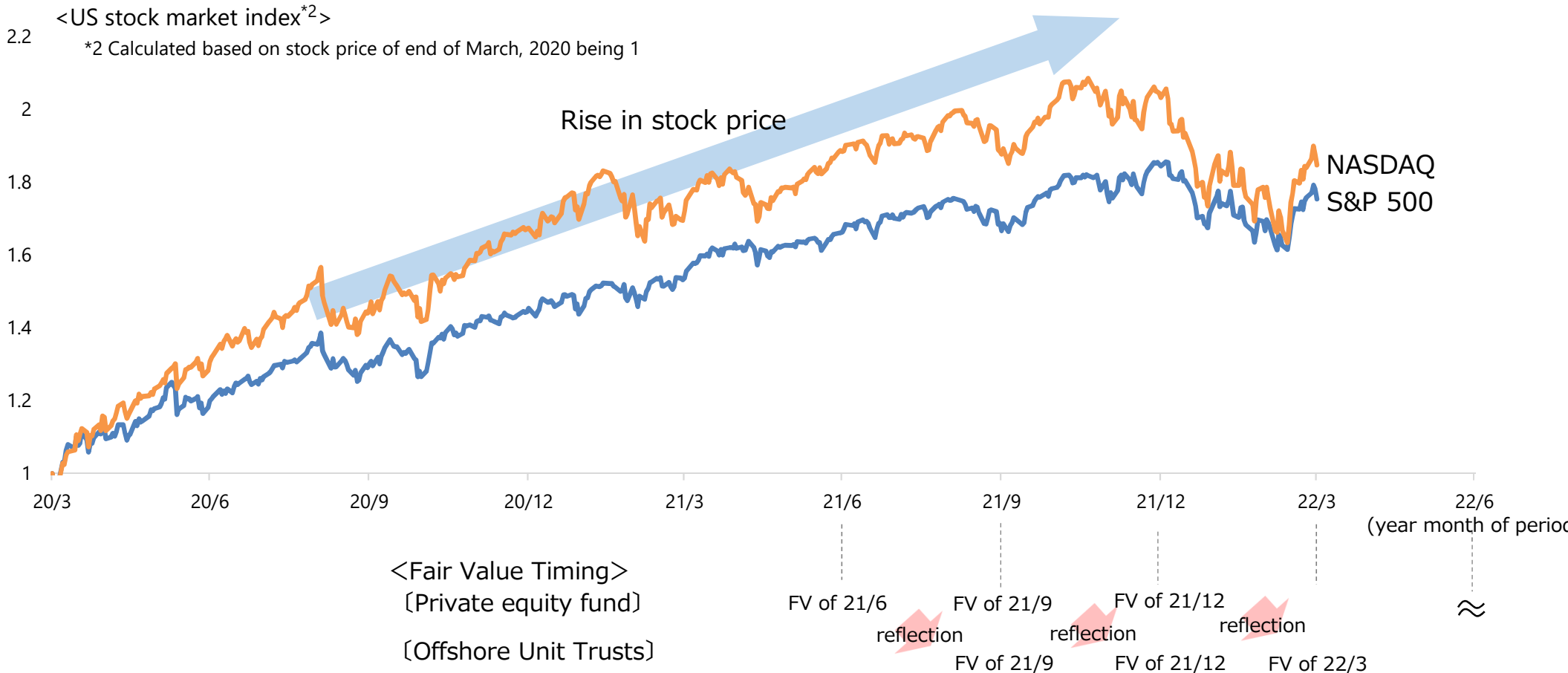
Appendix : How the Fair Value of Private Equity Funds Move

The Fair Value of the Offshore Unit Trusts, the primary investment vehicles through which we invest in private equity funds, are generally calculated based on the valuation reports of these funds from the prior quarter*1.

*1 In case of fund of funds such as secondary fund of funds, valuation used may be based on valuation reports from six months ago.

Typical valuation methodology of Private Equity investments

- ✓ Market Multiple ex) EV/EBITDA multiple
- ✓ Income approach ex) Discount cash flow



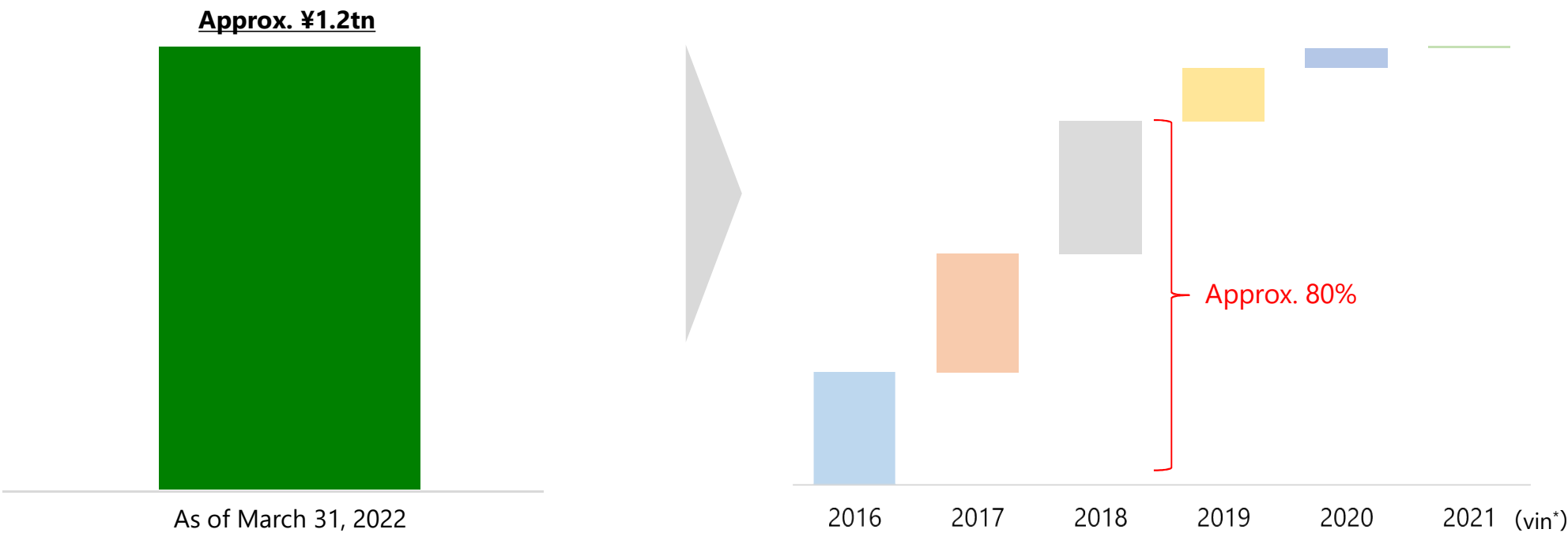
Unrealized Gains (Before Application of Tax Effect Accounting)



Unrealized gains (before application of tax effect accounting) currently stands at ¥1.2tn.
Vintages from 4 to 6 years ago have been the predominant drivers of value.

Unrealized Gains (Before Application of Tax Effect Accounting)

Contribution per Vintage of Offshore Unit Trusts



* Vintage (vin) : Generally in private equity, the year in which a fund started investing or called capital.
For the purpose of this page, vintage reflects the year when Japan Post Bank (either through offshore unit trusts or directly) committed to a private equity fund.

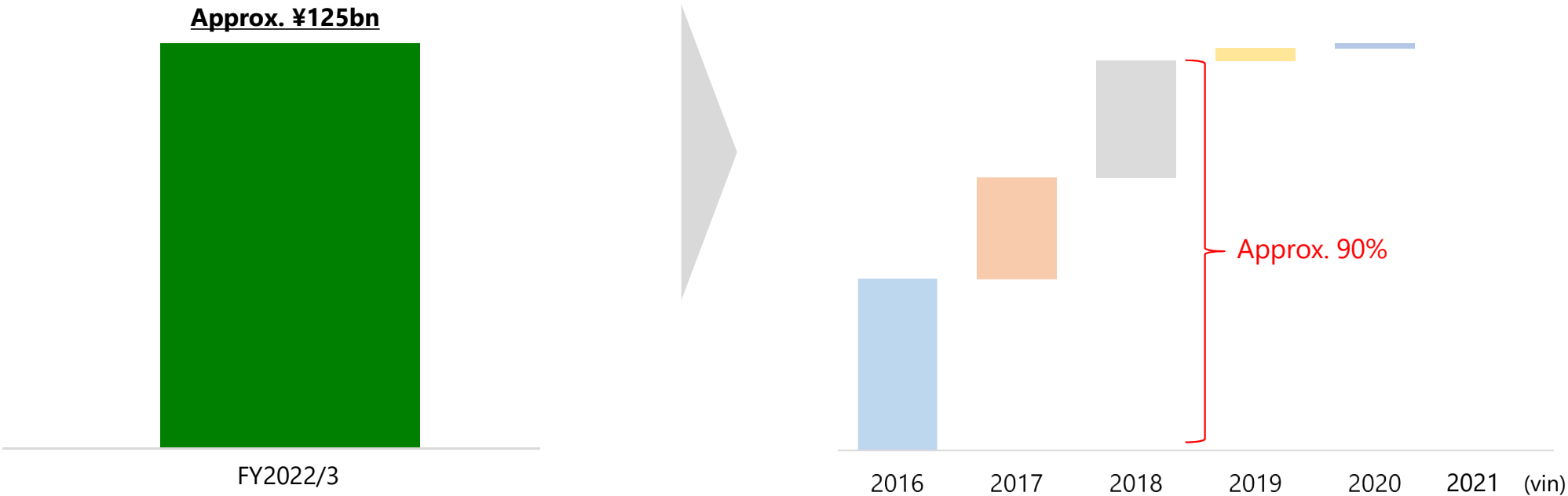
Detail of Net Realized Gains



Net Realized Gains was approximately ¥125bn.
Similar to unrealized gains, vintages from 4 to 6 years ago have been the primary contributors.

Net Realized Gains

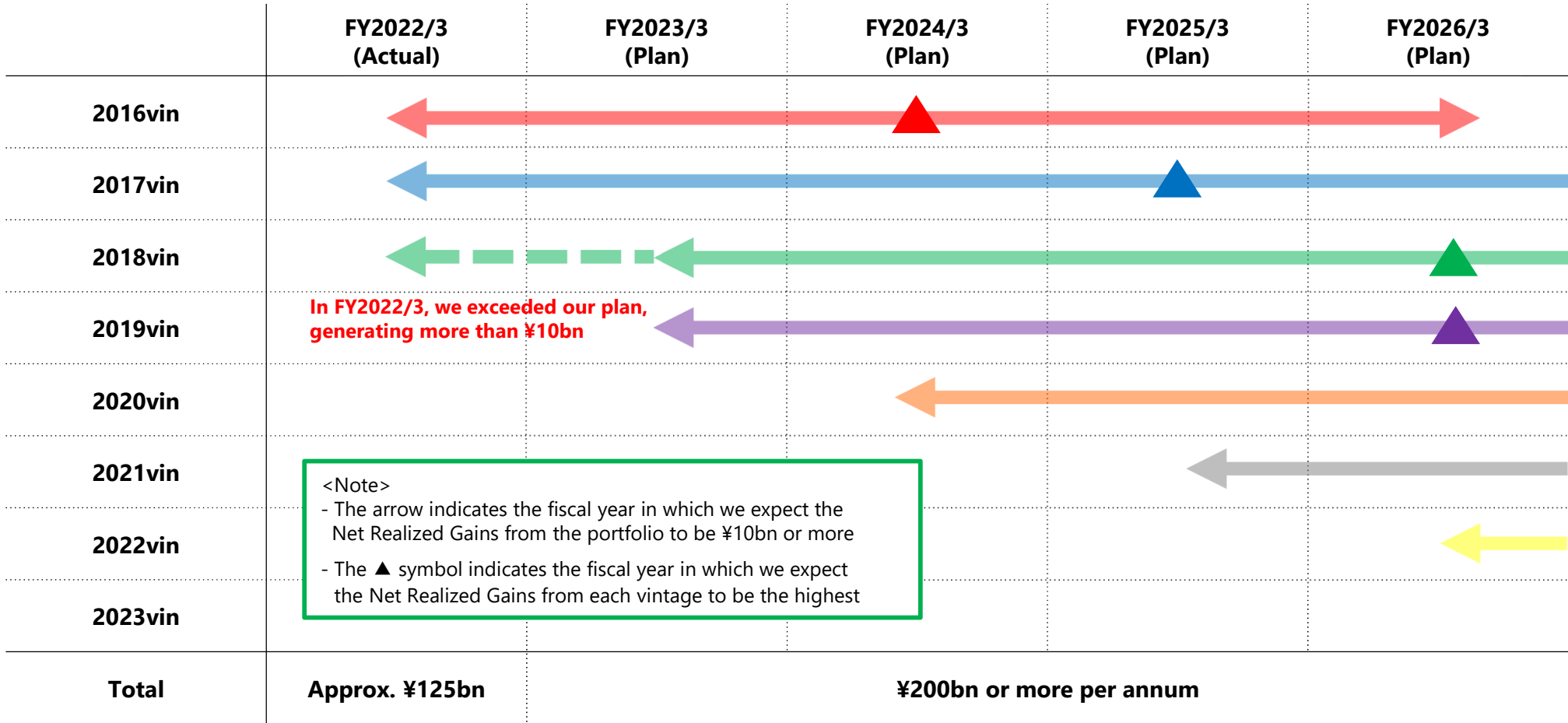
Contribution per Vintage of Offshore Unit Trusts



Schedule of Expected Return by Vintage

Each portfolio that is set up every year (or vintage) is expected to start to monetize after approximately 3 to 5 years.
 Net Realized Gains from the portfolio are expected to peak in approximately 6 to 8 years.

Schedule of Expected Return



Risk Factors That May Affect Future Returns



Risk factors including but not limited to the following will affect future returns.

Content of Risk

Interest Rate Risk

Decline in the value of companies due to rise in interest rates.
(rise in discount rates)

Business Risk

Worse than expected results due to an underperformance in the business

Fund Related Risk

Investment team collapsing for whatever reason

Geopolitical Risk

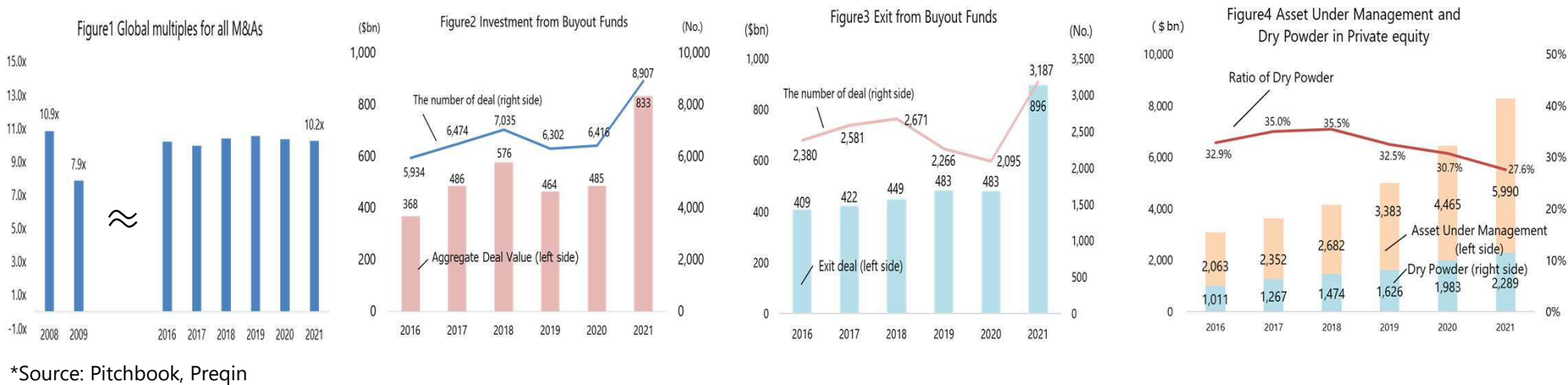
Decline in valuation due to regional conflicts or terrorist attacks, etc. affecting investment appetite and the business.

Current Investment Market

Global multiples for M&As have trended above 10.0x and contributed to a robust level of exits and investment activity both in terms of numbers and investment amount in recent years. Driven by strong private equity fund raising activity, so called dry powder (amount committed but not yet invested) increased in terms of absolute amount, but the ratio of dry powder to invested amount decreased due to strong investment activity.

Risk Appetite Policy

Current Investment Market



Risk Appetite Policy

Invest selectively in private equity funds with outstanding performances, with a mid-to-long term market view

⇒ Increased focus on strategies primarily aiming to generate income (infrastructure and mezzanine, etc.)



ESG considerations are taken into account when setting investment guidelines and selecting Investment Managers, Investment Advisors/Gatekeepers.

ESG Action

Requirements placed upon Managers/Gatekeepers

Gatekeeper

Must be signatory to the United Nations Principles for Responsible Investment



Due Diligence

Must check ESG policy of private equity funds during due diligence

Alignment with International Agreements



Prohibited Investments

- Transactions that may negatively impact wetlands designated under the Ramsar Convention or UNESCO-designated World Heritage Sites
- Transactions violating the Convention on International Trade in Endangered Species of Wild Fauna and Flora (Washington Convention)
- Transactions involving the use of child labor or forced labor

Other Important Sector Considerations



Prohibited Investments

- Funds predominantly focused on exploration and production of oil and gas
- Companies involved in the manufacturing and sales of weapons of mass destruction including cluster bombs
- Projects centered on the construction of new coal-fired power plants*

* May be allowed in accordance with the energy policy of the respective country