Results for the Fiscal Year Ended March 2023
Summary of Presentation (May 17, 2023)

[Introduction]

○ I am Ikeda from Japan Post Bank. Thank you for taking the time out of your busy schedules to participate in our Investors Meeting.

The Investors Meeting presentation deck has already been delivered to you.

○ In today's explanation, I will use this presentation deck to give you a brief overview of the Japan Post Bank's future business development based on a review of the FY2023/3 results, the FY2024/3 earnings forecasts and dividend forecast, and our thoughts on the additional share sales carried out in March. After that, we will take comments and questions from you.

I would like to talk about the current situation of the Bank as much as possible. Thank you.

[About management goals]

○ First, please see page 2 of the presentation deck.

As for the FY2023/3 results, with inflation and other factors already starting to affect earnings, we forecasted that consolidated net income would hit 320.0 billion yen, down 35.0 billion yen on FY2022/3. A year later, we actually booked income of 325.0 billion yen. This represented an achievement rate of 101.5% compared to the plan.

There were negative factors due to changes in the market environment, such as an increase in foreign currency funding costs. However, we fought back through an increase in operating incomes from targeted strategic investment areas and an increase in income from net fees and commissions following a review of fees and commissions.

As a result, the dividend for FY2023/3 was set at 50 yen per share, the same as the original dividend forecast.

○ Foreign currency funding costs remain high, but we will manage our portfolio flexibly by accurately grasping changes in the market environment. As we will discuss later, we will also focus on further strengthening our retail business and establishing the foundation for the Σ business. All this will steadily lead to income.

With this strategy in mind, we forecast net income of 335.0 billion yen for this fiscal year, up 10 billion yen on the last fiscal year, and a dividend of 50 yen per share, unchanged on FY2023/3.

○ From March, financial markets were rocked temporarily by the collapse of some US financial institutions, for example, but the impact on the Bank's financial results has been minimal.

Opinions are divided as to whether market conditions will remain highly volatile or whether things will gradually calm down. As in the past, though, we plan to move stably yet aggressively to secure income by conducting detailed inspections and corrective operations based on our conservative and selective investment plans.

[Appropriate valuation of Japan Post Bank's stocks and main initiatives in the future]

○ The extra share offering in March has led to more shares being traded. We reaffirm that will work harder than ever to actively pursue measures aimed at enhancing corporate value.

For more information, see the bottom half of page 38. We first unveiled our three business engines of Retail Business, Market Business, and New Corporate Banking Business last May. Initiatives are now underway in these areas. The large image presents an overview of these initiatives.

More details are provided on the following pages. We regard the implementation of these measures as the most timely opportunity for the Bank since going public and we will ensure this implementation leads to higher ROE.

The Mid-term Plan sets a ROE target of 3.6% or more. Going forward, we would like to disclose capital costs and set/announce mid- to long-term targets based on capital costs and market evaluations, for example, so we hope you will keep a close eye on our future initiatives.

○ I will only comment on some general areas, starting with Retail Business, the first engine. Please turn to page 39. With regards to retail business, this page describes our efforts to cooperate with various businesses and create a co-creation platform that meets the needs of those businesses by strategically utilizing our Yucho Bankbook App and Personal Financial Management App. We are sowing seeds during the current Mid-term Plan period with the aim of making connections in any small way with the "advertising business field" and we will strive to ensure these seeds bloom during the next Mid-term Plan period from FY2027/3.

○ The second engine is Market Business. Details of our paradigm shift in portfolio up until now is listed on page 43 onwards. Last year, we provided relatively detailed information on private equity funds (PE), but this time we also provide details about the management of our expanding real estate fund portfolio. Please refer to this information.

○ It is impossible to estimate future Bank of Japan (BOJ) policy trends, but page 54 provides a simple summary of the impact of future BOJ monetary policy changes on P/L, assuming also that yen interest rates will rise. You can see how our Bank's P/L will benefit greatly from an increase in yen interest rates.

○ Finally, the third engine is New Corporate Banking Business, called the ∑ business.

○ We are a bank that holds deposits from all over Japan. Because we are such a bank, our vision aims to support the development of local economies while working with regional financial institutions to become a company that is indispensable to regional communities. As such, we have long promoted LP investment in regional revitalization funds while also strengthening cooperation with regional financial institutions by aggregating operational processes and so on.

○ In the ∑ business, we will greatly expand these traditional initiatives and develop new corporate banking business through investment. We will invest equity in local firms through so-called "screw" operations that enhance regional economic development in tandem with various partners, joint ventures and alliances, including with our subsidiary JP Investment. We also want to utilize our nationwide network to systematically "find, develop and search for" dormant businesses and other potential investment target companies.

○ We are also considering whether we can create a new pillar that involves providing management support through brokerage services that expand sales of investee products and services using our Bank network. The initiatives we can announce now are listed on page 59. Some have already been realized as businesses, such as our marketing support for Pie Systems, and we have already had cooperation discussions with several other companies. We want to further expand businesses that can help to revitalize regions and Japan as a whole.

○ The important thing is to execute strategy in a way that lives up to our "nationwide" keyword. Of course, this is premised on business development that keeps in mind cooperation with local financial institutions in each region.

Furthermore, when it comes to tools for "finding, developing, and searching for" potential investment target companies across Japan, we have already incorporated and established the use of voice AI chat at Partner Centers to respond to inquiries from call centers and post offices, and although certain effects have been verified, further improvements will be made going forward and it will be expanded into the "collection and utilization of business information from all corners of Japan."

[The privatization process and prime markets]

○ Earlier, I talked about the sale of our shares. The sale coincided with the collapse of Silicon Valley Bank (SVB) and the problems at Credit Suisse, when financial stocks were being sold in large quantities. At over 1.2 trillion yen, though, it was one of the largest deals in Japan and it has been appraised as a big success. As an issuer, we are very grateful for your constant support and cooperation.

〇 On the other hand, although the “tradable share ratio” (the TSE Prime standard) has improved significantly, as we announced the other day, we slightly missed our target due to the aforementioned sudden changes in market conditions.

〇 Nonetheless, as the Bank CEO, I am very grateful for the strategy that the holding company has taken to PO, and I think it is a major step towards full privatization. I recognize that the mission of our Bank is to continue striving to increase our corporate value.

[Summary]

〇 Today, at a time when our investors have increased due to the additional sale of shares, I presented a simple overview of our management’s ideas and the history of Japan Post Bank.

〇 At our Bank, we believe it is important to shed the perspective of a government-run enterprise in order to conduct business that is focused on customers and the market response. In this sense, we will continue to provide information in an appropriate and frank manner.

At the same time, we will continue to pursue strategies and tactics while taking into account your frank questions and opinions and while considering how our shareholders view the management of Japan Post Bank.

〇 This concludes my introductory briefing.

[Supplement: The impact of US bank failures]

〇 My name is Shinmura. I would like to speak a little about the impact of financial sector turmoil that began in the US at the same time as determination of the selling price of the Bank’s shares.

〇 Firstly, our exposure to financial institutions like SVB is small and the impact on FY2023/3 and future earnings will be limited. Furthermore, we do not invest in AT1 bonds, so there will be no impact in this regard.

〇 Next, we turn to related effects. I have heard the PE sector was hit hard by the SVB collapse. When it comes to our PE investment, though, only a small part of our portfolio is allocated to venture capital, as previously mentioned, so this did not directly impact our holding exposure.

However, we are focusing on whether there will be sufficient substitutions or replacements for the support role that SVB offered to start-ups, for example. Given how much time it may take for sentiments in the PE market to recover, we have formulated a plan that assumes the exit activity will be somewhat delayed this fiscal year.

○ Regarding real estate, we have made a new disclosure from page 50 onward, so please take a look. Like PE, we have been making steady and selective investments since FY2017/3. Furthermore, our investment targets are different from those investee companies that recently became a hot topic in the US. In fact, we have not heard of properties that have been directly impacted by the current situation.

However, though our investments are diversified, a negative impact on the overall market seems inevitable, so we have put together an income plan based on this assumption.

[Supplement: The impact on FY2023/3 and FY2024/3 net ordinary income]

○ Next, I would like to speak about the impact of the surge in overseas interest rates last year. Overseas interest rates rose more than twice as fast as expected last year. However, investment yields are also improving at a faster pace than expected.

○ FY2023/3 net ordinary income vs. the plan is described on page 5. The final result is generally in line with the plan, but the left side of the "Net interest income, etc." illustration shows "foreign bond investment trusts" down by around 190.0 billion yen, with "others" also falling by around 50.0 billion yen, primarily due to in-house funding costs. However, the difference between improved interest rate spreads and increased funding costs stands at 80.0 billion yen, with the remainder negative due to the effects of investing primarily through investment trusts, namely the deterioration of non-revenue dividends and redemption/cancellation gains and losses. Since both these occurred due to the sharp rise in interest rates, they have been covered by gains made from open foreign bond sales when the yen fell on rising rates.

○ Risk factors for the current fiscal year are shown on page 26. We have not included rising yen interest rates on policy revisions. We also assume that inverse yields will continue for over 18 months as overseas short-term rates remain high and operating yields (including credit spreads) remain flat throughout the period. Though the plan is not that conservative when it comes to individual factors, it was put together based on fairly severe assumptions about our overall operations.

○ The earnings forecast for the current fiscal year is shown on page 25. With regard to foreign bond investments, we expect the increase in funding costs to be countered by improving yields. However, we assume base interest rates will remain high, with redemption/cancellation gains and losses thus likely to deteriorate. Based on the aforementioned assumptions, it also seems the in-house situation will deteriorate slightly on the previous period.

○ "Increased funding costs" due to rising overseas interest rates was a keyword of great concern in the last period too, but I can assure you we are operating appropriately based on market trends and we have these costs under control to a certain extent.

[Supplement: The impact of rising yen interest rates]

○ Finally, I would like to talk about domestic interest rates. Regarding yen interest rates, although the BOJ is not expected to change policy any time soon, we do not expect further easing.

○ The impact of rising yen interest rates on gains and losses is explained on page 54. In the previous period, we carried out an operation to reduce our position vis-à-vis 10-year bonds, which were deemed to be too expensive during the period. We have secured a standing fund of around 68 trillion yen in due from banks, etc., mainly BOJ deposits. Furthermore, around 6 trillion yen of our 39-trillion-yen government bond holdings are due for redemption within a year. Short-term bond positions are also large and there is ample room for reinvestment. Given this, you can see how rising yen rates represent an additional upside for our Bank's earnings.

○ Furthermore, it has also been pointed out before that rising yen rates are a macro factor, with any positive impact on Bank income thus lacking substance. However, "Business Progress to Date" on page 34 shows how we have fought the impact of falling yen rates, which is a negative macro factor.

○ The central "Retail Business Earnings" graph shows how we have improved total returns by about 200.0 billion yen by reducing costs and expanding income from fees and commissions. The "Market Business Earnings" graph on the right shows how "yen interest assets' net interest income, etc." has continued to decline from about 930.0 billion yen to fall to less than 1/4. The Bank has also diversified into strategic investment areas like PE, starting from sovereign/credit. As a result, we have built up interest income related to risk assets, with this income doubling compared to FY2016/3. With the support of rising yen interest rates, in future the total income of our Bank will comprise the sum of this "yen interest assets' net interest income, etc." and "risk assets' net interest income, etc." We will continue striving to accumulate and increase this total income.

○ These are the three supplementary points I wanted to discuss.

End

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