

Our Action to Implement Management that is Conscious of Cost of Capital and Stock Price

November 13, 2023

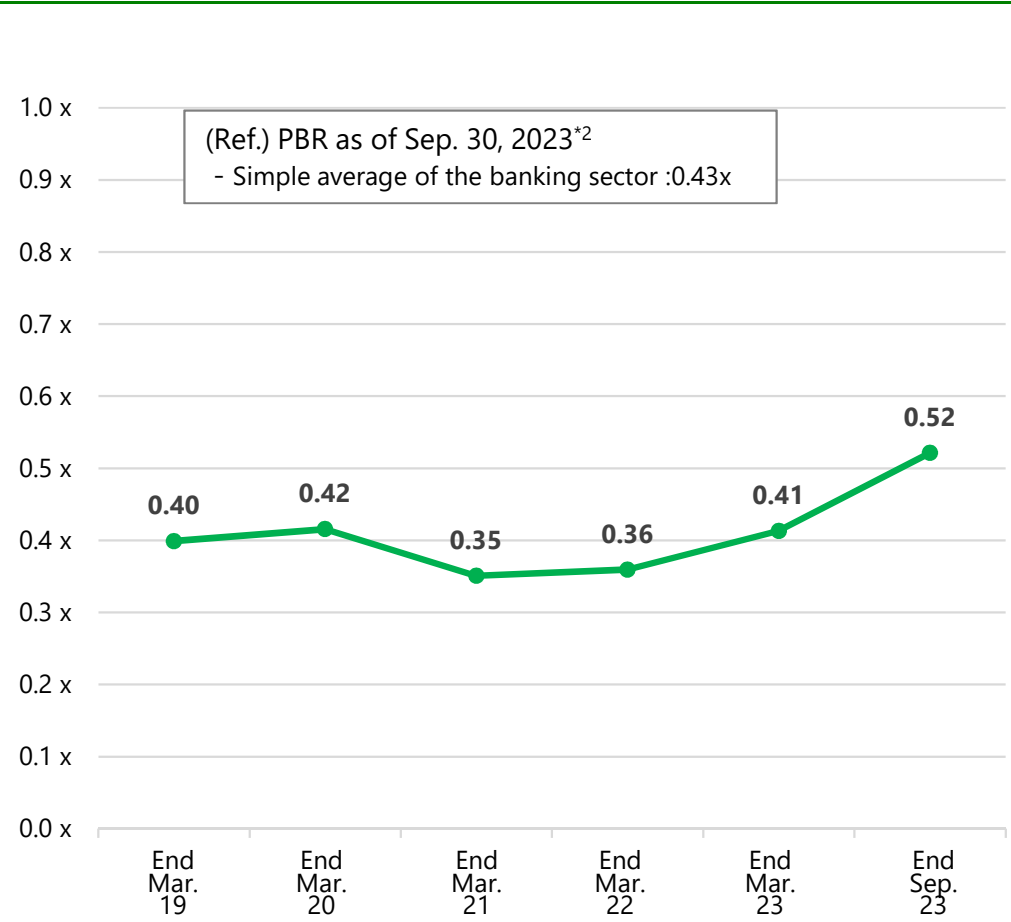


Analysis & Assessment (1)

The Bank's PBR is higher than the banking sector simple average, but lower than 1x.

To achieve a PBR of 1x or higher, ROE must exceed the "cost of shareholders' equity minus expected earnings growth rate" by means of (1) increasing ROE, (2) controlling the cost of shareholders' equity, and (3) increasing the expected earnings growth rate.

PBR Trends*1



*1 Excluding treasury stock.

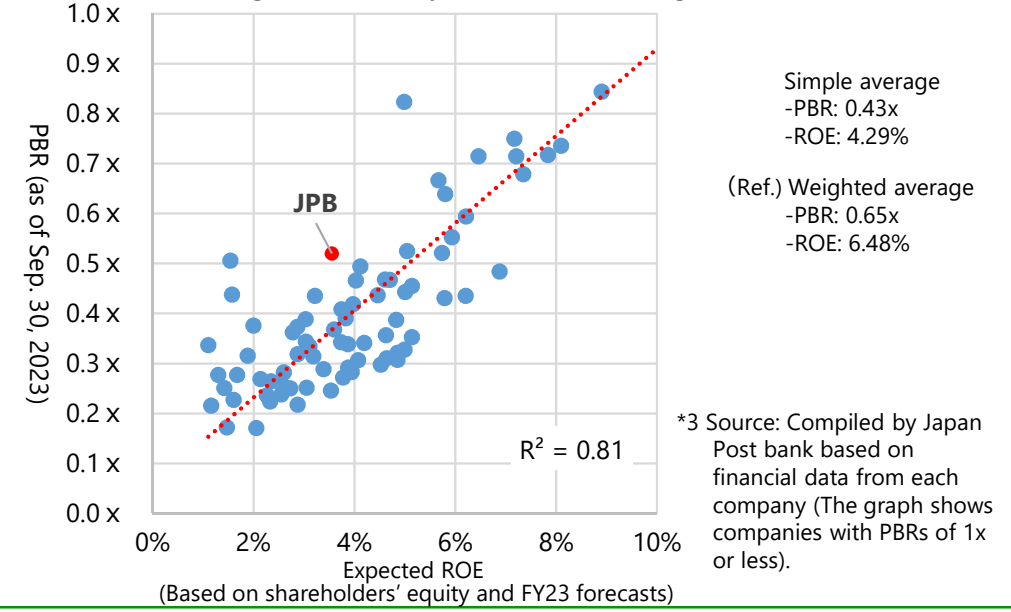
*2 Source: Compiled by Japan Post bank based on financial data from each company (simple average of the banking sector shares included in the TOPIX)

PBR Analysis

$$\begin{aligned}
 \text{PBR} &= \text{ROE} \times \text{PER} \\
 &= \frac{\text{ROE}}{(\text{Cost of Shareholders' Equity} - \text{Expected Earnings Growth Rate})}
 \end{aligned}$$

Theoretically, $\text{ROE} \geq (\text{cost of shareholders' equity} - \text{expected earnings growth rate})$ is required for PBR to be 1x or higher.

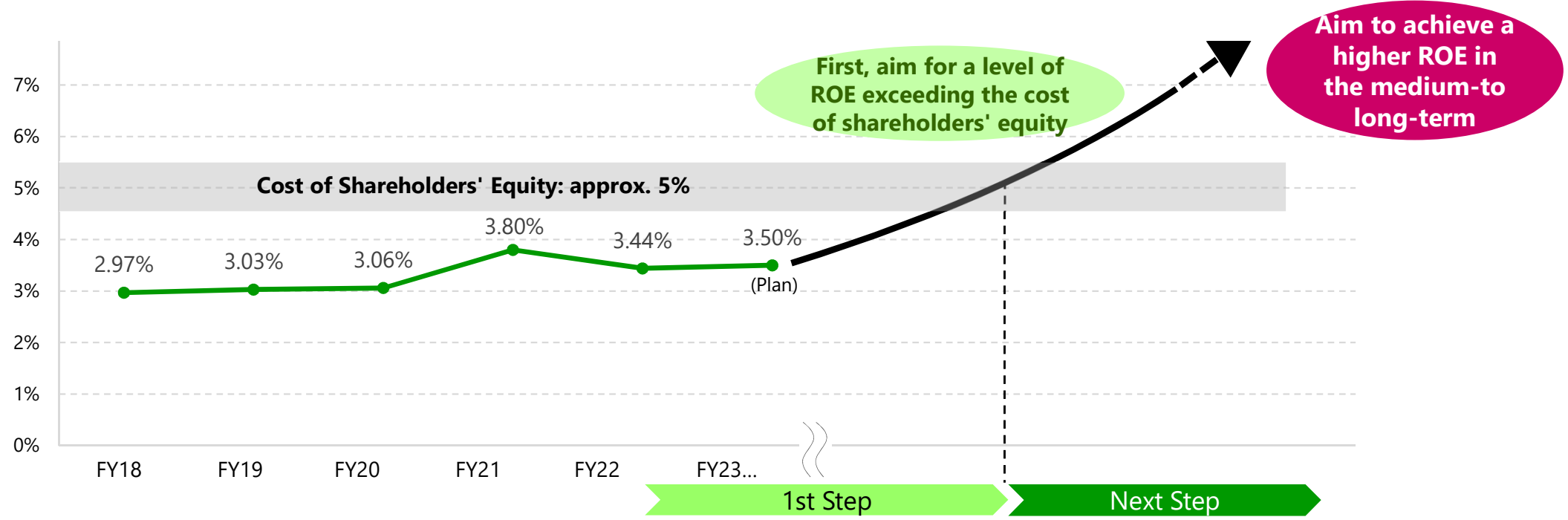
(Ref.) PBR and ROE Regression Analysis for the Banking Sector (TOPIX)*3



Analysis & Assessment (2) / Policies, Goals, and Initiatives Towards Improvement (1)

The Bank's ROE is in the mid-3% range, and has consistently remained below the cost of shareholders' equity (approximately 5%) as calculated using the Capital Asset Pricing Model (CAPM). While complying with business regulations based on the Postal Service Privatization Act and fulfilling our responsibility to provide universal financial services*1, as a 1st step, we will work to achieve ROE that exceeds the cost of shareholders' equity (approximately 5%), and then aim to achieve higher ROE in the medium-to long-term.

Trends in ROE*2 and Roadmap to Achieve Targets



● Efforts to date to improve ROE

- Investment in risk assets increased (net interest income, etc. from risk assets approximately doubled over the past seven years) in a difficult environment where interest income from Japanese government bonds, etc. continues to decline due to persistently low interest rates in Japan.
- Through efforts to enhance the sophistication of the retail business model, increased service revenues by JPY 56.6bn over seven years and reduced operating expenses by JPY 139.2bn.

We are currently considering a revision of the Mid-term Plan (FY2022/3-FY2026/3), and plan to disclose the specific ROE performance targets, achievement timeline, measures, etc. in May 2024, along with the revised Mid-term Plan.

*1 In accordance with laws and regulations, Japan Post Bank pays contributions to the Organization for Postal Savings, Postal Life Insurance and Post Office Network as part of the costs required to maintain the post office network, which are indispensable costs for ensuring the provision of universal financial services (the amount of contributions to be paid in FY2024/3 is JPY 243.6bn).
 *2 Consolidated and shareholders' equity basis

Policies, Goals, and Initiatives Towards Improvement (2)

We will pursue a growth strategy that leverages our unique strengths while reinforcing our management base, aiming to sustainably increase ROE and thereby PBR.
 We plan to disclose the specific measures to increase ROE in May 2024, along with the revised Mid-term Plan.

Growth Strategies	ROE = RORA x financial leverage (inverse of CET1 ratio) → Improve RORA while maximizing use of capital (increase financial leverage)
Market Business	<ul style="list-style-type: none"> ● Improve earnings by restructuring the yen interest-rate portfolio with no risk assets ● Improve earnings by increasing the balance of risk assets and strategic investment areas through the use of capital, and improve RORA by optimizing asset allocation
Retail Business	<ul style="list-style-type: none"> ● Increase earnings by boosting transaction volume and optimizing commissions through realizing complementarity between the physical and the digital ● Pursue business reform and drastic cost cuts through the use of digital technology ● Maintain relationships and a stable deposit base by providing services that meet customer needs
Σ Business	<ul style="list-style-type: none"> ● Promote unique GP Business in JPB appropriate manner by identifying small and medium-sized enterprises with growth potential, providing equity capital through various frameworks, and offering marketing support for investees
Secure Financial Soundness	<ul style="list-style-type: none"> ● Ensure capital adequacy ratio and CET1 ratio (excluding unrealized gains on available-for-sale securities) of approximately 10% in ordinary times
Increase Shareholder Returns	<ul style="list-style-type: none"> ● Aim to increase dividends in line with profit growth, based on a dividend payout ratio of approximately 50% ● Consider share repurchases based on market conditions, internal reserves, etc.
Strengthen the Management Base	<ul style="list-style-type: none"> ● Promote sustainability management and human capital management ● Enhance information disclosure and IR activities ● Practice effective control of major risks ● Curtail earnings volatility
Reduce Business Risk	



Japan Post Bank's Unique Strengths

Largest customer base of any Japanese bank 120 million ordinary deposit accounts	×	Most extensive and stable deposit base in Japan JPY 194tn in deposits, centered on retail banking customers	×	Nationwide network covering every corner of the country Network of approx. 24,000 branches
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