Results for the Six Months Ended September 2023
Summary of Presentation (November 16, 2023)

[Introduction]

○ Hello everyone. I am Norito Ikeda, President of Japan Post Bank. Thank you for taking the time out of your busy schedules to attend our Investors Meeting today.

I believe you have received a copy of the Investors Meeting presentation deck.

○ In today's briefing, with the use of this presentation deck, I will review the results for the six months ended September 2023, and then provide a brief overview of Japan Post Bank's business development going forward. My explanation will include a financial outlook and dividend forecast for the full fiscal year through March 2024, the roadmap for increasing corporate value, and what we intend to work toward to achieve those targets.

I would like to speak about the Bank's current situation as much as possible.I thank you for your interest and attention.

[Results for the Six Months Ended September 2023]

○ First, please take a look at page 3 of the presentation deck.

As for management's perception of the Bank's performance in the first half, we believe the results came in generally within our expectations, although there were some trends that differed slightly from our projections, such as high policy interest rates and short-term interest rates overseas and delays in private equity (PE) exits during the past six months. Net income for the first half was 182.1 billion yen, which is a solid achievement and one that represents a progress rate of over 54% toward our full-year earnings forecast.

○ Worth noting in particular is that we were able to record better-than-planned results in all areas, including net interest income, etc., the retail business, and productivity enhancements. It shows that the management's effectiveness is improving in a wide range of areas. Since the results are broadly on schedule, we are not contemplating any changes to the annual plan or dividends at this time.

Regarding the results, I would like to go over three topics related to net interest income, etc. in particular.

○ First, let's look at the difference between domestic and foreign interest rates and foreign currency funding costs. In the US and other foreign countries, with inflation remaining high, the central banks have been pursuing high interest rate policies and that is continuing to drive up long-term interest rates.

A rise in long-term interest rates is positive for us because it increases the income from the bonds in which the Bank has invested.Meanwhile, the widening gap between domestic and foreign short-term interest rates will lead to higher foreign exchange hedging costs for the Bank, but as you know, the high interest rate policies overseas are also reaching their peak. Therefore, we do not see this as a major concern at this time, although we are keeping a close eye on market trends. In fact, among H1 results, the performance of foreign bond investment trusts was better than expected. As a matter of course, we will flexibly manage the portfolio by accurately grasping changes in the market environment. I will take some time later to talk about the interest rate situation in Japan.

○ Next, I'd like to explain about alternative investments. First, with regard to private equity (PE), the market environment has changed dramatically, such as with the collapse of Silicon Valley Bank in March. In May, we commented on the Bank's PE activities, stating that the amount of investment allocated to venture capital was small and that the Bank was focusing on high-quality PE, but that the recovery of the PE market sentiment as a whole was slow and that the Bank was keeping a close watch on market trends. As expected, exit activities have been delayed within our portfolio as well, and during the first half of this fiscal year, the gains realized from exits were significantly lower than in the same period last year. However, this does not mean that the value of those investee companies has diminished. The Bank recognizes that the PE market is not collapsing, but rather that exits are just lagging behind, and the PE market is looking for the right time to exit. In this sense, we are convinced that the Bank's strategy of investing in high-quality PE was the right one, and we plan to continue to invest in it as a source of earnings growth.

○ With regard to real estate investments, as we stated in our disclosure material regarding the details of the Bank's real estate investments, which was released earlier in June this year, the Bank is focusing on selectively investing in high-quality properties in line with a long-term value growth theme. Or in other words, what we call our core strategy. That said, since we invest in a large number of properties, we cannot avoid the possibility of being affected to a certain degree by overall real estate market conditions. Therefore, although we have made a small provision for our non-recourse loans for office buildings in North America, we believe that the impact of market trends on the Bank's overall real estate investments is manageable. This is not something that warrants a policy change in our strategy.

○ Finally, I will go over risk control operations. Although the results include sizable gains on the sales of stocks for risk control operations, we see this as largely in line with our original plan. As for the Bank's domestic stock investments, we have taken measures to safeguard the majority of our unrealized gains through the use of bear funds, which we started doing in 2018 and have gradually expanded.

○ We adjust the hedge ratio as needed, so we are not concerned that we will lose unrealized gains by recording large gains on the sales of stocks, or that we will not be able to achieve our earnings forecasts if the stock market slumps. At this point, I'd like to comment about the unrealized gains in the Bank's portfolio. The Bank's assets under management are mainly categorized as bonds and stocks. We are not concerned about bonds, as we will stay with our holdings and we expect interest rates overseas to decline going forward. On the other hand, regarding stocks, the portfolio is mostly composed of foreign unlisted stocks (PE), the balance of which has been expanding since FY2017/3, and domestic listed stocks. While we are recording solid unrealized gains on PE, we are also safeguarding unrealized gains on listed stocks as well in this way. We have steadily recorded unrealized gains on both PE and domestic listed stocks, and based on this experience in stock investment, we intend to expand investment in unlisted domestic stocks through our Σ Business in the future and broaden the scope of our stock investments.

[About the Roadmap to Increase Corporate Value]

○ Next, I will talk about our roadmap for increasing corporate value. Please refer to page 4 of the presentation deck. At the last briefing, I mentioned that we were trying to be more proactive than ever in implementing measures to enhance our corporate value, as more of our shares were being traded and the number of shareholders had increased as a result of the secondary offering of shares that we conducted in March. I talked about this in the context of three growth engines.

In today's presentation, I will talk about our current understanding of corporate value creation and the measures we are taking to increase it.

○ It is our understanding at this time that the Bank's ROE has been trending around 3.5-3.8% since FY2022/3. Meanwhile, the Bank's cost of shareholders' equity, calculated based on the general CAPM formula, is approximately 5%. We recognize that the Bank's ROE has consistently remained lower than the cost of shareholders' equity, and as a result, the Bank's stock price is currently trading at a P/B ratio of around 0.5x. We are not satisfied with our current ROE situation, even after deducting the essential costs the Bank incurs to ensure universal financial services.

○ As we stated in our ROE improvement plan as of May, our basic approach is to expand R (net income). And, as we have indicated in the past, the Bank has taken various measures to increase income. Specifically, we believe profits are on a stable upward trend owing to our steady efforts toward: (1) portfolio diversification and dispersion in a low interest rate environment, (2) expansion of net fees and commissions, and (3) reduction of expenses. We believe it is important to persevere with these initiatives to ensure stable profit growth. To achieve this, we will first aim to achieve an ROE that is higher than the 5% cost of shareholders' equity. And we will strive to achieve a further increase over the medium to long term.

○ We are currently reviewing our Mid-term Plan. We hope to disclose our reviewed Mid-term Plan in May next year, after finalizing some revisions. At that time, we will go over specific ROE target levels, timing of attainment, implementation of initiatives, etc. Although the environment surrounding the Bank has already improved as a result of the Bank of Japan's monetary policy tweaks, we believe that the low level of domestic interest rates, which had been a strong countercurrent against the Bank, and the high level of policy interest rates overseas are both about to end, and we are currently considering how to factor this into our plans in a variety of scenarios. Please watch for releases in the near term.

○ But for today, I would like to explain one of those measures, the restructuring of the yen interest-rate portfolio. The reference material for this can be found on page 5 of the presentation deck.

We have reduced our holdings of JGBs over the past 10 years in an environment of low and negative interest rates in Japan. Accordingly, yen interest rate income has declined. During that time, we expanded our assets in strategic investment areas, such as overseas credit assets, and, since 2016, PE and real estate investments. We recognize that the decline in yen interest income brought about by the decrease in the balance of JGBs has been nicely balanced by the income from risk assets, including strategic investment areas.

○ That environment is finally changing. Long-term interest rates have finally started turning upward since the Bank of Japan revised some of its interest rate operations in December last year, July this year, and again at the end of October.

○ Going forward, the Bank will aim to rebuild its yen interest-rate portfolio by gradually investing the cash and due from banks that the Bank has been holding as standby funds for investment, which currently amounts to 63 trillion yen, with the aim of reversing and expanding the balance of JGB holdings, yen interest-rate portfolio income, and total net interest income, etc.

Looking at the current figures, which are presented in red in the table on the left side, the JGB balance clearly reversed at the end of September, and you can see that the Bank is steadily shifting course.

[Summary]

○ Lastly, please take a look at page 10 of the presentation deck.

To put this situation into perspective, let's look at it over a slightly longer timespan. An IPO was conducted for the Bank in November 2015, and just a little more than three months later, in January 2016, the Bank of Japan adopted a negative interest rate policy. There is no denying that, in general, the financial environment had a severe impact on the Bank's profitability for about seven years until the Bank of Japan shifted its policy stance to adopt the current yield curve control (YCC) policy.

Furthermore, the Bank held to a conservative position, psychologically, due to certain restrictions on asset management imposed by the additional regulations of the Postal Service Privatization Act.

○ Ever since its days as a government-run enterprise, the Bank has built up its earnings from the assets and JGBs entrusted to it. But over the past seven years or so, the Bank has been working to establish a new business style, through a process we call paradigm shift, while accepting and working with the constraints of the restrictions.

○ Currently, JGBs are, of course, the cornerstone of our investment strategy, but going forward, we will promote investment in foreign bonds, our alternative portfolio, listed stocks, and, as part of our Σ Business, domestic unlisted equities. We will also invest about 130 billion yen during this Mid-term Plan, focusing on the priority objectives of improving customer trust and productivity in the retail business. During the previous Mid-term Plan, this spending amounted to 50 billion yen, so we will more than double our investment. We are currently in the process of investing with an emphasis on further solidifying the trust of our customers, and, on the financial front, we are improving the overall effectiveness of our income from financial fees and costs. With the Bank now on this trajectory, taken together with the Bank's financial soundness and shareholder returns, we strongly believe we are "riding the rising tide of increasing corporate value."

○ The number of floating shares also increased after the March secondary share offering, and the number of shareholders and investors increased significantly.

As I commented at the May meeting, I believe it is essential for the Bank to shed the government business mindset and conduct business with an attentiveness to customer and market reactions, and I am also keenly aware of the importance of corporate value creation and communication with the market. We will carry on with information disclosures in a candid and appropriate manner.

At the same time, we will continue to advance our strategies and actions, while welcoming your frank opinions and questions, and bearing in mind how our shareholders perceive Japan Post Bank's management. As I mentioned earlier, we are currently reviewing our current Mid-term Plan and would like to refine our management policy based on your input.

○ This concludes my opening remarks for this Investors Meeting. Thank you very much.

End

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