

Summary of Press Conference Announcing Financial Results (May 14, 2021)

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Introduction

- My name is Ikeda, president CEO of Japan Post Bank. Today, in addition to providing an overview of our financial results for FY2021/3, I will review our previous Medium-term Management Plan (hereinafter "Mid-term Plan") and go over points of our new Mid-term Plan covering the next five years.

Overview of Financial Results for FY2021/3

- Please open to Page 1 of the materials. To begin with, regarding financial results for FY2021/3, consolidated net income was ¥280.1 billion, an increase of ¥6.6 billion over the previous fiscal year. Despite a significant drop in first quarter income due to turmoil in the market caused by the spread of COVID-19, markets recovered rapidly in reaction to monetary policy, etc., bringing our achievement rate to 103.7% compared to the full-year earnings forecast we revised upward in November of last year. Note that, as we had announced in November of last year, we set the dividend for FY2021/3 at ¥50 per share.
- Decreases in foreign currency procurement costs and expenses were the main contributors to the increase in income. Unrealized gains/losses, which had deteriorated significantly at the end of the previous fiscal year due to turmoil in the market, were ¥3.0488 trillion after considering hedging, marking a dramatic recovery of approximately ¥3.1 trillion.

Review of the Previous Mid-term Plan

- Please open to Page 2 of the materials. This is a review of the three years of the previous Mid-term Plan. Amidst a harsh environment of on-going negative interest rate policies, the basic idea for the previous Mid-term plan was to look 10 years into the future, lay a foundation, and then build a system for ensuring a net profit of around ¥280 billion. To that end, we formulated the three pillars and promoted the policies listed at the top of the materials.
- The first pillar is that of “Provision of High-quality Customer-oriented Financial Services.” Our efforts to enhance customer services and secure second and third revenue sources resulted in a 32% increase in net fees and commissions in FY2021/3 when compared to FY2018/3, which enabled us to achieve our Mid-term target.

- The second pillar is that of “Funds Flow to Regional Communities.” In addition to financing 32 regional vitalization funds while creating relationships to regional financial institutions, we advanced efforts to revitalize regional economies via ATM partnerships and aggregation of operational processes with regional financial institutions.
- The third pillar is that of “Diversification and Sophistication of Investment Management.” Amidst the harsh environment of on-going negative interest rate policies, we have accelerated a paradigm shift in market management to improve profitability under appropriate risk management.
- Specifically, as of the end of FY2021/3, we had raised our balance of risk assets to ¥91 trillion, within which we raised our balance of strategic investment areas, such as PE and real estate, to ¥4.2 trillion.
Note that, after starting our operation upgrade efforts, we expanded our systems associated with market operations by increasing associated staff by approximately 120 members, for a total staff of approximately 360.
- As described at the bottom of the materials, we have achieved most of our numerical targets. On a three-year cumulative basis, net income exceeded our plans by approximately ¥10 billion. Naturally, we have discovered new issues while tackling these challenges, but I reiterate that we have succeeded in laying a foundation for realizing our goals.

Mid-term Plan (FY2022/3 to FY2026/3)

- Next, please open to Page 3 of the materials. Amidst significant changes in business environment, we decided to formulate a new Mid-term Plan covering the planning period of FY2022/3 to FY2026/3.
- The slogan for this Mid-term Plan is “Deepening Trust, and Taking on the Challenge for Financial Innovations.” Under this slogan, we intend to formulate “Five Key Strategic Points” as a specific strategy, reform our business model, strive for more sustainable business, and more firmly establish our status in Japan.
- Please open to Page 4. Our first key strategy is “Innovating retail business into a new form by realizing complementarity between the physical and the digital.” First, we set a base policy of prioritizing “Safety and Security” in digital services as well based on our reflections on last year's fraudulent use of cashless payment services.
- Specifically, we will prioritize the investment of management resources toward strengthening security measures and systems that will enable us to respond promptly when damages occur.

- In addition, we will expand digital services that can be readily used by all customers, and promote the dissemination of digital services by actively utilizing our post-office network.
- From the perspective of developing new business, we will develop an open, “Co-creation Platform” that actively utilizes our customer base and provides optimized services through collaborations with various business operators, including Rakuten.
- With respect to our businesses for supporting asset building such as investment trusts, after organizing our asset-management product line-up in our face-to-face and digital channels into products suitable for our customer base, we will utilize post-office network to primarily promote cumulate-type investments to our beginner-level investment customers. Although we listed balance goals for investment trusts in our previous Mid-term Plan, since we believe our main roles in this area are to determine how satisfied our customers are and to see how much we are able to broaden the base of asset building, we are trying something new by not listing balance goals in this Mid-term Plan.
- Our second key strategy is “Business reforms and productivity improvement through the active utilization of digital technology.” We will establish self-processing of routine transactions (the Teller Tablet System, etc.), and, in tandem with our expansion of digital channels, we will advance the expansion of options for customer choices in transaction channels and the optimization of branch teller’s work.
- Furthermore, we will reform work at our operation support centers and call center for our customers by automating work operations in a comprehensive manner by combining digital technologies including utilization of AI. We plan for a reduction in overall personnel of 3,000 individuals through work reforms, while increasing personnel in enhancement areas.
- Note that as we have been consciously adjusting hiring since the previous Mid-term Plan period, the reduction in personnel will be achieved through natural reduction.
- Our third key strategy is “Enhancing funds flow to regional communities and the regional relationship functions through various frameworks.” In particular, we will respond to the equity funding (risk money) needs of communities via “Regional Vitalization Funds” “Japan Post Investment Corporation,” and “JPiX, Inc.”
- Most importantly, we have recently been conducting a considerable amount of training in GP tasks via Japan Post Investment Corporation, etc. We aim to be a part of the "Regional Financial Platform” via a comprehensive investment strategy that combines LP and GP.
- We also believe that it is essential part of strategy to respond to financial needs suited to the actual conditions of each region, by utilizing our ATM network and aggregation of operational processes.

- In addition to these efforts, we have newly established “Regional Relations Division” to further promote collaboration with Japanese local governments, regional financial institutions, and the post offices. Centered on this division, we will work to develop new business opportunities by utilizing a wide range of regional information.
- Our fourth key strategy is “Deepening market operations and risk management with an awareness of stress tolerance.” As the low-interest environment continues, we will expand global asset allocations while staying aware of risk-adjusted return. Specifically, we will build up balances of risk assets to approximately ¥110 trillion around the investment grade (IG) area by the end of FY2026/3. For strategic investment areas among risk assets, we will build up balances to approximately ¥10 trillion by selectively advancing investments by the end of FY2026/3 to enhance both the quality and volume of those risk assets.
- Meanwhile, in order to prepare for the occurrence of stress events, we will advance the development of stress-resistant portfolios and deepen our risk management systems such as sophistication of stress tests and monitoring enhancement, etc.
- Our fifth key strategy is “Strengthening the management base to become a more trusted bank.” Based in part on the issues we had dealing with the cases of fraudulent use of cashless payment services last year, all employees will work to realize “customer-oriented business operations,” and work to make Japan Post Bank an even more trusted bank, we will begin to strengthen, and further promote, continuous enhancement of organizational culture reforms and internal control systems.
- “The Service Improvement Committee,” led by the president, will play a central role in strengthening communication within and between organizations and reforming the organizational culture with reflect customer-oriented approach in the organization and employee evaluation system, etc.
- Internal control systems will reinforce various systems, including external collaboration with entities with expertise, while enhancing risk sensitivity and speedily and flexibly responding to change.
- Note that while our investments in core systems will remain at levels exceeding ¥100 billion per year, we will also increase our strategic IT investments to realize new growth by ¥130 billion over the next five years. We will reflect the results of this investment in our ¥350 billion net income plan for FY2026/3.
- Through business activities that incorporate these five key strategies, we will also focus on “ESG Management” designed to resolve social and environmental issues. We will identify and set KPIs for four issues upon which to focus our efforts.

- Page 5 of the materials shows our financial goals for the Mid-term Plan. In terms of profitability, we will promote the five key strategies I mentioned previously with the goal of achieving a consolidated net income of ¥350 billion or greater by FY2026/3.
- In terms of efficiency, we plan to achieve the largest ever decrease in predetermined expenses, including commissions paid to Japan Post Co. Ltd., while reducing general and administrative expenses by a total of ¥55 billion, thus improving OHR from its current 72% to less than 66%.
- To ensure the soundness, we will set a capital adequacy ratio (domestic standard) of approximately 10%, and a CET1(Commo equity tier1 capital) ratio of approximately 10% as minimum levels to be secured in ordinary times. Our earnings plan is a relatively challenging one that utilizes capital to take appropriate risks while ensuring adequate financial soundness.

Earnings Forecasts and Dividend Policy for FY2022/3

- Finally, please open to Page 6. On it, you will find our profit road map for the Mid-term Plan period.
- With respect to performance during FY2022/3, due to reductions in redemption gains from foreign bonds, and profits from Japanese government bonds, we expect profits to drop compared to FY2021/3, resulting in net ordinary income of ¥355 billion and consolidated net income of ¥260 billion.
- After that, we plan to achieve our highest profits in FY2026/3 since we were listed by materializing profit from strategic investment areas due to the J-curve effect, expansion of net fees and commissions, and reductions in G&A expenses.
- We have also established a new shareholder return policy in conjunction with formulating the Mid-term Plan. With respect to dividends, taking into consideration the balance between shareholder returns, financial soundness and growth investments, throughout the term of the Mid-term Plan (FY2022/3 through FY2026/3), the basic policy is to maintain a dividend payout ratio of approximately 50%.
- However, the target dividend payout ratio will be set between 50% and 60% while keeping in mind the stability and sustainability of dividends and we will target increases to dividends per share (DPS) compared to projected dividend levels for FY2022/3.
- Based on the shareholder return policy during the Mid-term Plan, the dividend per share is planned to be ¥40 (dividend payout ratio of 57.6%) for the FY2022/3. While we regret forecasting a decrease in dividends, we will use internal reserves as a source of growth investment with the intent of improving profitability and corporate value to enhance shareholder returns based on increased profits.

- Furthermore, with the goal of enhancing the appeal of investing in our shares and thereby increase the number of our shareholders, it is our intent to implement additional shareholder return policies in anticipation of trends in challenge results.
- The first thing we are examining is providing shareholder benefits. We plan to announce such benefits at another time the minute we get the details ironed out.

Finally

- All of our officers and employees, including myself, will come together in efforts to achieve this Mid-term Plan, even one year ahead of schedule if we can. This concludes my comments, thank you.