Results for the Fiscal Year Ended March 2021
Summary of Presentation / Summary of Q&A

1. Summary of Presentation

At the investors meeting on May 21, we supplementary explained, in addition to the comments at the press conference on May 14 (Note), a review of the previous Medium-term Management plan (hereinafter “Mid-term Plan”) and efforts for 5 key strategic points of the new Mid-term Plan (Retail business innovations, Enhancing funds flow to regional communities and the regional relationship functions, Deepening market operations and risk management, and Strengthening the management base, especially IT investment plan.)

(Note) Summary of Press Conference Announcing Financial Results are disclosed on the Japan Post Bank web site.

[URL] https://www.jp-bank.japanpost.jp/en/ir/information/pdf/kessan210514.pdf

2. Summary of Q&A

Q1.

Why did you change from a policy of “securing a ¥50 dividend per share (hereinafter “DPS”)” to one involving a “dividend payout ratio of 50%?”

A1.

Even as the market environment remains opaque, we determined that we would strive to secure financial soundness, utilize internal reserves as risk-taking resources, and, in order to maintain sustainable revenue improvements and corporate value enhancements, set a dividend payout ratio of approximately 50%.

Regarding the background for the policy change, I would like to be more specific, and divide my explanations for why into two: (1) why we changed our focus on DPS to a dividend payout ratio and (2) why we established a dividend payout ratio level of 50%.

(1) The policy was changed because, as a result of pursuing global asset allocations, our market investment model has begun changing to a focus on risk assets, and, as the market remains significantly opaque, both the upsides and downsides of revenue volatility have grown more and more significant. Rather than promising a defined

dividend amount, we believe that, under present circumstances, it's more appropriate to pay dividends in line with revenues.

(2) In order to secure financial soundness going forward and ensure sustainable revenues through risk-taking, we need to shore up our internal reserves. Due to expansions in risk assets, our capital adequacy ratio and CET1 (Common equity tier1 capital) ratio are both expected to approach the levels to be secured within the Mid-term plan period, and in order to realize sustainable growth, we believe that we will need to steadily build up our internal reserves.

Our basic policy is to keep our dividend payout ratio at around 50%, but, keeping in mind the stability and sustainability of dividends, we are targeting a dividend payout ratio range of between 50% and 60% and we intend to increase our DPS levels from those set with the initial dividends forecast for FY2022/3.

Q2.

In your Mid-term plan, you indicate plans to significantly expand your income from strategic investment areas, etc., but how feasible do you think this will be to realize?

A2.

The main cause for the increase will be revenues from private equity (hereinafter "PE"). Generally speaking, since revenues that can be secured from PE can be easily affected by increases or decreases in the corporate value of PE investment targets, as well as the timing of sales and other matters, PE revenues tend to be less certain when compared to debt-based investment products. With that said, when it comes to our revenue plan calculations, our assumptions have been quite conservative to keep things safe, as we have taken into consideration past results and the perspectives of current PE investors, among other factors, when it comes to investment ratios and the timing of sales of investee companies.

Even in light of these conservative assumptions, the revenue targets for strategic investment areas we just disclosed, combined with other products, are +¥340 billion within 5 years, which we believe to be a highly achievable plan.

Of course, going forward, in addition to making selective investments into superior funds, our policy will involve us spreading our investments across various regions and industries and carefully building up our balance.

Q3.

When you say, “expanding digital services that put safety and security first, and can be readily used by all customers,” what do you mean, specifically?

A3.

As we expand our digital services, given our mission of “providing ‘reliable and thorough’ financial services ‘safely and securely’ to anyone and everyone throughout Japan,” we believe that it is important to put safety and security first as we provide digital services that are usable to the broadest possible base of customers.

Therefore, we do not intend to limit ourselves to continuous improvements to UI/UX that all of our customers can easily use, and providing support through our post-office network and are, for example, considering introducing personal verification methods when registering on the app for our customers with hearing loss that involve SMS-based verification in addition to our present method of phone-based verification.

Further, we are looking at the following 3 diversification strategies for our digital services.

(1) Prioritizing safety and security over convenience, and developing digital services that all of our customers can easily use
(2) Utilizing our 24,000 post-office network to disseminate digital services by providing intimate support for digital services and guiding users in navigating digital services
(3) Utilizing our customer base of 120 million accounts, the largest in Japan, to expand the bankbook app, and working to deploy services centered around the bankbook app that coordinate with various business operators

Q4.

Is your utilization of unrealized gains such as those in stocks being incorporated in your plans? If not, why not?

A4.

As a general rule, we do not incorporate the use of unrealized gains in its plans, as our basic management policy is to aim to secure stable revenue over the medium and long term without relying on unrealized gains.

However, we do anticipate a certain amount of gains or losses on sales arising from the rebalancing of our portfolio of stocks and other assets, which is something that we do as part of our regular operations.

In addition, it may be possible to ultimately manifest unrealized gains, as we have done before, by ensuring a more flexible portfolio management that responds to fluctuations in the market.

Q5.

Despite your revenue for FY2022/3 being ¥260 billion, which is not a serious reduction from the present result, why did you still significantly reduce your DPS from ¥50 to ¥40?

A5.

Our reasons for changing to a dividend payout ratio basis are as described in A1, but, based on this change, and our FY2022/3 net income forecast of ¥260 billion, we set our DPS forecast to ¥40, and our dividend payout ratio forecast to 57.6%.

I think some people may want to point out that 3 years ago in FY2019/3 we paid out dividends of ¥50 at a net income of ¥260 billion. During the previous Mid-term Plan period (FY2019/3 through FY2021/3), our forecast was that the super low interest rate environment was going to continue due to the Bank of Japan's "quantitative and qualitative monetary easing with negative interest rates" policy, and we therefore lowered the profit forecast levels compared to the plan before the previous Mid-term Plan (FY2019/3: ¥260 billion, FY2020/3: ¥270 billion, FY2021/3: ¥280 billion).

However, since we had solidified foreign bond redemption gains during the previous Mid-term Plan period, revenue was highly predictable, and although the capital adequacy ratio had dropped, it maintained at a high level, and capital retained a high margin.

It was due to this high predictability of revenues, high margin on capital, and continuity of DPS from the plan before the previous Mid-term Plan that we set a dividend of ¥50 in FY2019/3 based on a consolidated net income of ¥266.1 billion (dividend payout ratio of 70.4%).

Meanwhile, we altered our dividend policies for our present Mid-term Plan based on the fact that our continued building on our balance of risk assets while the market environment remains significantly opaque is increasing both the upsides and downsides of revenue volatility, and on the fact that, since our capital adequacy ratio is expected to reach the levels to be secured during the Mid-term Plan period, we must steadily build-up our internal reserves.

Although it is regrettable that our forecast saw a reduction in dividends, we will strive for thorough shareholder returns through the expansion of medium-to-long-term income via our corporate efforts.

As a supplementary matter, I would also like to note that, if we presume FY2022/3's earnings and dividends forecasts, our internal reserves will amount to just over ¥100 billion in a year, and, taking this into consideration with the target 10% in capital adequacy ratio, we will be able to build up roughly ¥1 trillion in assets with a 100% risk weight.

Q6.

Share buybacks could be thought of as one potential option for raising DPS, but what are your thoughts about balancing such buybacks with expansions to strategic investment areas, and applying capital toward growth investments, as well as your thoughts regarding the Reorganizing the Market Segments problem at the TSE?

A6.

Our Mid-term Plan notes that we will also consider implementing additional shareholder return policies. These policies will include share buybacks, but while our balance of Japanese government bonds and due from banks, etc. remains at approximately ¥100 trillion, we would first like to prioritize expansion of investments in risk assets and growth investments.

Q7.

If the shareholding ratio of Japan Post Holdings drops to 50% or lower, what are the advantages of such a situation for Japanese Post Bank? Further, if the shareholding ratio drops, can we expect to see further collaborations with local banks?

A7.

With our shift from an approval system to a notification system, we believe that it will be possible to increase the speed of our efforts, allowing us to engage in new business efforts much more smoothly.

Please note that, with respect to collaborations with local banks, we do not believe that we will be able to realize positive relationships just through reductions to the shareholding ratio, our intention is to establish cooperative relationships in QR code payment through Yucho Pay, etc., that will realize specific, mutual benefits.

Q8.

Japan Post Holdings has announced share sales to be conducted within the next 5 years. Based on capital reforms, including the most recent reductions in dividends, it would seem that sales conducted over multiple instances are more likely than share buybacks, but what are your thoughts on this?

A8.

This is related to the discussion around reforms to TSE's market segments, and while I believe it's somewhat soon to talk about feasibility, in any case, it is Japan Post Holdings that will be making decisions regarding sales, and it would not be appropriate for us to make any categorical assertions on the matter.

Q9.

Your forecasts suggest that by increasing risk assets your CET1 ratio will be reduced to around 10% at the second half of the Mid-term Plan period, but even with added risk assets your ROE will only increase from 3% to 3.6%. How much would your ROE decrease if you do not increase risk assets? In addition, EPS, ROE, and DPS would improve significantly if you avoided adding risk assets, conducted share buybacks with current share prices, and reduced your CET1 ratio, but what are your thoughts in this area?

A9.

Our intention at present is to increase returns to shareholders through a comprehensive approach to shareholder returns, which include dividends, achieved through increased revenues brought about by overcoming various external environmental factors resulting in forecasts that decrease dividends, through the application of internal reserves toward growth investments. As for the issue of market segments reforms at TSE, we will advance our considerations on how to address the issue while also keeping an eye on improvements to revenue.

I'm sure that most financial institutions share the same concerns regarding how much ROE can be improved through expansions to investments while interest rates remain low, but just a moment ago I noted that if our internal reserves build up to over ¥100 billion on an annual basis, investments of approximately ¥1 trillion would become possible. For example, if these were IG bonds, you would see a yield of around 0.5%, and for original principal of around ¥100 billion, you could expect to see returns of around 5%. Furthermore, when it comes to PEs, we envision investments with IRRs of 5% or 10%, but even if, in the future, the risk weight for these becomes 250% due to the finalization of Basel III, investments of ¥400 billion will be possible, and with an IRR of 10%, the returns would amount to ¥40 billion.

Therefore, rather than focus on share buybacks, we would like to respond by expanding basis IG revenues and PE revenues, which would then lead to improved overall revenues and ROE, thereby increasing our corporate value.

Q10.

Please tell us about PE investment results at GP. Going forward, will it be possible to invest at a pace equal to or faster than in the past until FY2026/3?

A10.

To begin, we started our subsidiary, Japan Post Investment Corporation as something of an antecedent to GP work. At present, Japan Post Investment Corporation has built up investments reaching a scope of nearly ¥100 billion.

Furthermore, although this does not qualify as GP, in December 2020, we made investments in the Japan Platform of Industrial Transformation, Inc. (hereinafter "JPiX"). These investments also reached the ¥100 billion level, and were started as an endeavor whereby we would also provide half the investment. Although JPiX is an LP, since we also qualify as an anchor investor for half the amount, it is possible to judge investments as being close to a GP.

The Regional Vitalization Funds have established collaborations and pipelines with regional financial institutions, and have built up a total of 34 investments. Furthermore, although our goal is to have 50 investments in the future, we set the goal with the intention that we would develop ties with superior regional banks in each prefecture in Japan.

Also, although this will divert us somewhat from the topic of GPs, we believe PFIs will be a key point in future flows of funds to regional communities. We have seen a recent increase in projects in this area as well, and believe they will be significant investments in the future.

Q11.

Regarding your target of 10 million accounts registered in the bankbook app, this seems like a very large goal in light of the fact that you only have around 2.8 million accounts registered at present. What policies do you have planned for this area?

Furthermore, based on coordination with the Group platform app, and the fact that there are approximately 120 million ordinary deposit accounts at the Bank, doesn’t this figure of 10 million registered accounts fall short of levels required to advance dissemination of digital services? Although these may still be realistic targets, can you tell us just how far you plan to advance digital services?

A11.

With respect to the bankbook app, it was only released just last year toward the end of February, and I feel that we have seen a far greater number of registrations than expected in light of the app’s short lifespan so far. Recently, we have also seen increases of registrations that will take us over the 3 million account level. Taking these conditions into consideration, we believe that 10 million account registrations is a perfectly achievable target.

Please note that we do not envision moving forward with a singular focus on digital capabilities, neither do we think it will be sufficient to transition all customers over to digital services and simply have our customers use them. Our strengths lie in our physical channels in the form of 24,000 post offices, and we certainly have many customers who use these post offices. We intend to evolve our digital services and digital capabilities in a manner that lets both digital and physical capabilities provide each other with mutual support appropriate to a particular situation, while developing convenient channels that are both safe and secure.

Furthermore, in the next stage we would like to connect our digital services to our household accounting app as well.

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