Financial and Capital Strategies

We will enhance our corporate value by sustainably expanding returns while keeping capital (equity) efficiency in mind, based on the premise of securing sufficient financial soundness.

Harumi Yano
Executive Vice President

FY2023/3 Results

Consolidated net income for FY2023/3 came in at ¥325 billion, down ¥30 billion compared with the previous fiscal year, when net income hit a record high since the Bank was publicly listed. Despite this downturn, results exceeded the full fiscal year forecast, with an achievement rate of 101.5%.

While foreign currency funding costs related to investments in foreign securities increased due to rising interest rates in the U.S. and Europe, gains on such strategic investment areas as private equity funds that invest in the private equities of companies with growth potential as well as net fees and commissions steadily increased. This in turn led to profits exceeding forecasts.

Turning to the return of profits to shareholders for FY2023/3, JAPAN POST BANK has set its dividend at ¥50 per share. This is in line with plans and reflects achievement of the Bank's full-year earnings forecast. As a result, the dividend payout ratio comes in at 57.5%.

FY2023/3 was the second year of our five-year Medium-term Management Plan. Drawing on results to date, I am confident that the plan is progressing well.

In fiscal 2024/3, the third year of the Medium-term Management Plan, we will strive to steadily secure profits in our market operations, which form the largest source of earnings, in an extremely uncertain market environment. At the same time, we will focus on further strengthening the retail business and building a foundation for the Σ business, which we consider a new growth engine, to establish a highly stable and solid business base.

Working to enhance our corporate value and increase ROE and PBR over the long term, centered on our three business engines

We recognize that the Bank's current PBR (Price Book-value Ratio), which is hovering at approximately 0.4x, is a major challenge for management. Moving forward, JAPAN POST BANK will increase ROE, and in turn PBR, by expanding returns while keeping capital efficiency in mind, based on the premise of securing sufficient financial soundness. As the conduits for these endeavors, we will draw on the three engines. In specific terms, we will reform the retail business, further strengthen market operations, and launch the Σ business.

Currently, the external environment in which JAPAN POST BANK operates remains unstable. Despite this instability, there are signs of a positive nature. This includes an upswing in yen interest rates, and the waning impact of infectious diseases on the retail business. In light of these circumstances, we will take full advantage of the three engines advocated by the Bank, and will work vigorously to promote efforts aimed at strengthening our earnings power and the establishment of new sources of earnings in FY2024/3.

Of the three engines, I will comment later on the Bank's market operations, which are the main driver of earnings. To begin with, I would like to elaborate on our efforts in the retail and Σ businesses.

As far as steps taken to reform the retail business are concerned, steady progress has been made. For example, net fees and commissions increased approximately ¥40 billion over the five-year period from FY2019/3 to FY2023/3 owing largely to growth in commission revenue from ATMs and cashless services.

JAPAN POST BANK's policy is to expand net fees and commissions by realizing complementarity between the physical and digital through retail business innovation. Looking ahead, we will accordingly work to secure revenue sources that extend beyond traditional banking operations, including advertising commissions and brokerage fees, through our new co-creation platform strategy. Moreover, we will make improvements from an efficiency perspective which we believe will help reduce expenses and enhance profitability. In specific terms, we are promoting the installation of terminals that enable self-processing by customers in our directly managed branches and the digitization of administrative work. In addition, service counters, which mainly handle procedures for deposits and remittances, and the liaison departments, which largely sell financial products, at directly managed branches were integrated this fiscal year. This initiative is designed to improve the Bank's structure thereby allowing it to more flexibly promote the retail business. As a result of these efforts, JAPAN POST BANK's OHR for FY2023/3 steadily improved to 67.15%. The Bank has also reduced general and administrative expenses by ¥84.5 billion compared with levels recorded in FY2021/3. In this way, we will promote operational efficiency and reduce general and administrative expenses, while shifting human resources to such enhancement areas as the Corporate Sales Division, which will drive the new corporate banking Σ business, and strengthening investments in priority areas, including strategic IT investments.

The Σ business is positioned as a new pillar of growth for the Bank as a corporate banking business unique to JAPAN POST BANK. It is launched based on the Bank's superior management resources, including its financial strength, human resources, and information. For this reason, we see the pilot period up to September 2024 as critical in the leadup to monetization.

Promoting a capital policy that balances shareholder returns, financial soundness, and growth investments

JAPAN POST BANK will continue to adopt the basic approach of promoting balance between efforts to strengthen shareholder returns and engaging in growth investments, based on the premise of ensuring financial soundness.

While identifying as a domestic standard bank, we manage our capital in line with the criteria of large-scale financial institutions in Japan, taking into consideration such factors as the size of our overseas credit portfolio from the perspective of ensuring financial soundness. Based on this understanding, we have set a common equity tier1 (CET1) capital ratio (based on uniform international standards, excluding unrealized gains on available-for-sale securities) of approximately 10% as the minimum level to be secured in ordinary times, in addition to a capital adequacy ratio (domestic standard) of approximately 10% under our current Medium-term Management Plan. This CET1 ratio was set by taking the 7.5% obtained by adding together the minimum required CET1 ratio of 4.5% to the capital conversion buffer of 2.5%, and an additional buffer of 0.5% with a view to ensuring the Bank's security against the backdrop of a variety of risk scenarios. As of the end of FY2023/3, JAPAN POST BANK achieved a highly sound capital adequacy ratio (domestic standard) of 15.53% and a CET1 ratio of 14.01%.

Financial targets and performance

	Consolidated Basis	FY2023/3 Performance	FY2024/3 Targets
Profitability	**Consolidated net income** (attributable to owners of parent)	¥325.0 billion	¥335.0 billion
	ROE (based on shareholders' equity)	3.44%	3.5%
Efficiency	**OHR** (Basis including gains (losses) on money held in trust)*1	67.15%	67%
	General and administrative expenses (compared with FY2021/3)	¥(84.5) billion	¥(65.0) billion
Soundness	**Capital adequacy ratio** (Domestic standards)	15.53%	Approx. 10% Minimum levels to be secured in ordinary times
	Common equity tier1 (CET1) capital ratio (international standards)*2	14.01%	Approx. 10% Minimum levels to be secured in ordinary times

*1 Keeping in mind that JAPAN POST BANK manages securities that utilize money held in trust of a considerable scope, we have established an OHR target that includes in the denominator operational profit/loss pertaining to money held in trust. Calculated as general and administrative expenses ÷ (net interest income, etc. + net fees and commissions). Net interest income, etc. = Interest income - Interest expenses (including gains (losses) on sales, etc.).
*2 Excluding unrealized gains on available-for-sale securities.

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While the Bank's financial soundness currently exceeds the established level required, its capital adequacy and CET1 ratios are projected to gradually decline up to the end of FY2026/3 owing to such factors as its continued investment in risk assets and the full-scale implementation of the international banking accord, Basel III. In this event, we will conduct stress tests and market analyses while strictly managing our capital adequacy ratio in an appropriate manner to ensure that the minimum ratio of 10% is maintained.

As far as growth investments are concerned, we have continued to secure human resources and strengthen the structure of market-related departments, including the risk management system since implementing the previous Medium-term Management Plan. Against this backdrop, the balances of risk assets and strategic investment areas have expanded to ¥99.4 trillion and ¥10.1 trillion, respectively, as of the end of FY2023/3.

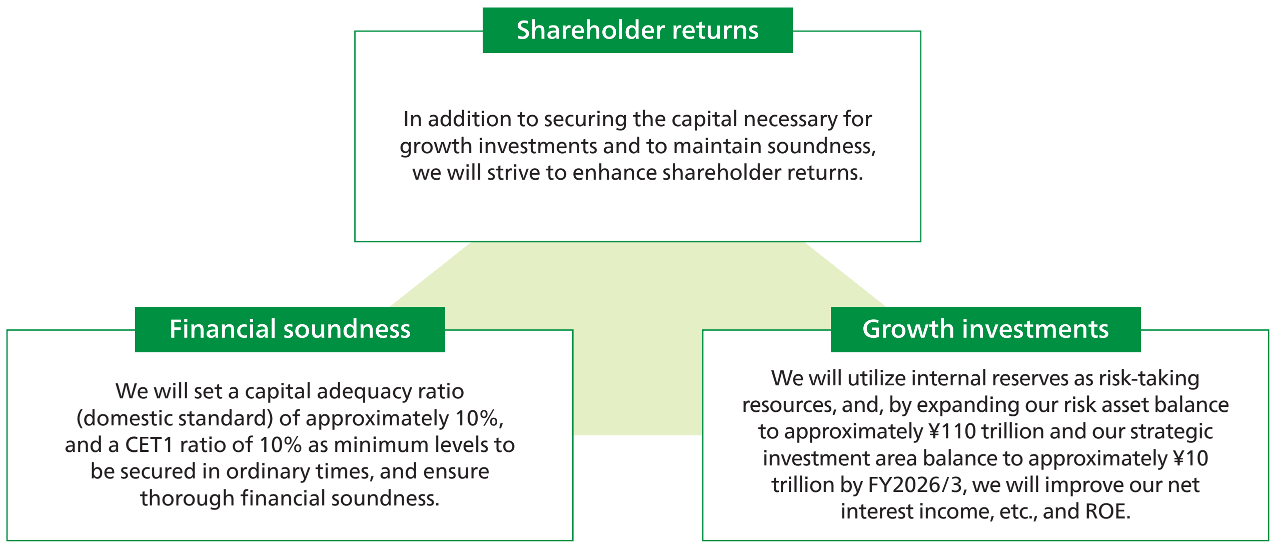
Working to increase dividends through profit growth based on a dividend payout ratio of approximately 50%

As far as its approach toward the payment of dividends is concerned, JAPAN POST BANK switched from a fixed amount or flat payment method to the dividend payout ratio method with the aim of increasing dividends through profit growth from the start of the current Medium-term Management Plan. Our basic approach is to target 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. Guided by this dividend policy, and while taking into consideration trends in business performance, we have set the dividend for FY2023/3 at ¥50 per share for a dividend payout ratio of 57.5%. We also plan to maintain this level and pay a dividend of ¥50 per share for a dividend payout ratio of 54.0% for FY2024/3.

In addition, the Bank purchased a total of ¥150 billion of its own shares between March and April 2023 in a bid to improve capital efficiency, enhance shareholder returns, and mitigate the impact on the supply and demand of its shares attributable to the offer and sale of JAPAN POST BANK stock by JAPAN POST HOLDINGS.

Looking to the future, we will continue to consider additional shareholder return policies, including the repurchase of shares, in light of such factors as future earnings growth, internal reserves, regulatory trends, and the JAPAN POST GROUP's disposal policies.

Basic Capital Policy Thought Process

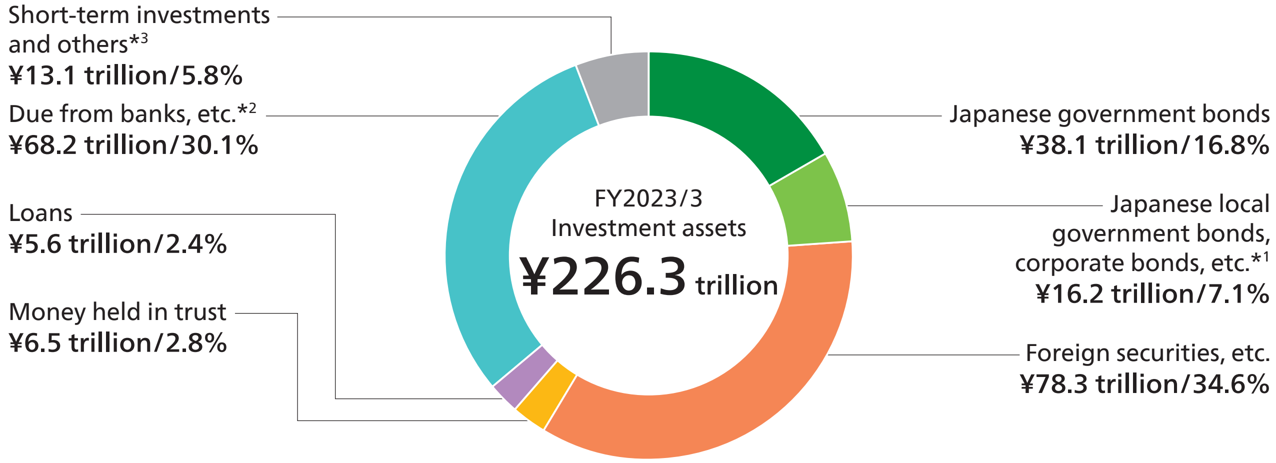


Working to strengthen earnings in the market business, a mainstay earnings driver, based on appropriate risk management

Prior to privatization, deposits entrusted to the Bank by its customers were mainly invested in Japanese government bonds. Following privatization, we have taken steps to shift to a more diversified portfolio with a higher weight on foreign securities and other risk assets based on appropriate risk management in order to enhance profitability. In particular, during the period of the current Medium-term Management Plan, we continue to make selective investments in strategic investment areas, with a focus on private equity and real estate funds. Moreover, in this fiscal year, we will consider securing opportunities for bond investment revenue, including restructuring yen interest rate risk assets, in response to trends in domestic and foreign interest rates.

In order to expand risk assets while maintaining the Bank's financial soundness, it is vital that we secure the necessary capital commensurate with that risk, namely internal reserves. Maximizing the use of internal reserves as a risk-taking resource and building up our balance of risk assets during the period of the current Medium-term Management Plan is an essential step toward improving ROE and placing the Bank on its next phase of growth.

Investment assets (non-consolidated)



*1 "Japanese local government bonds, corporate bonds, etc." consists of Japanese local government bonds, short-term corporate bonds, Japanese corporate bonds and Japanese stocks.
*2 "Due from banks, etc." consists of negotiable certificates of deposit, Bank of Japan deposits and monetary claims bought.
*3 "Short-term investments and others" consists of call loans and receivables under resale agreements, etc.

Undertaking sustainability initiatives that lead to increased corporate value

In order for the Bank to expand on a sustainable basis, the sustainable growth of both society and nature is of critical importance. With this in mind, we recognize that ESG management that aims to increase corporate value while addressing social issues, including the SDGs, through business activities are also of the utmost importance.

Cognizant, for example, of the need to provide financial services in order to realize the basic principle of the SDGs of leaving no one behind, JAPAN POST BANK is working to reform its business model by promoting complementarity between the physical and the digital, including the growth of its digital services, while utilizing its nationwide network of branches. In addition, we are undertaking various ESG-themed investments, including green bonds, to address such environmental issues as climate change and biodiversity.

Moving forward, we will contribute to the realization of a sustainable society by solving a wide range of social issues. At the same time, we will promote sustainability in a bid to achieve sustainable growth while enhancing our corporate value.

Enhancing corporate value through active dialogue with stakeholders

For a bank with a unique business model and strategy that cannot be found in other financial institutions and that provides financial services with the mission of leaving no one behind, we recognize the importance of disclosing information to our shareholders and other stakeholders in a proactive and timely manner to deepen their understanding of the Bank. The insight and observations we gain through dialogue with our stakeholders are invaluable to us.

In addition to briefing sessions for individual investors as well as briefings and interviews with domestic and foreign institutional investors and analysts, we held various events, including briefing sessions for small groups regarding private equity investments in FY2023/3. Based on these initiatives, we are taking definitive steps to reflect the many valuable opinions received in our management.

Looking ahead, we will continue to focus on IR activities, and with the understanding and support of our stakeholders, will work to take on new business challenges in an effort to achieve sustainable growth and increase our corporate value.