

2nd Engine: Market Business



Hideki Nakao
Managing Executive Officer



Masato Tamaki
Senior Managing Executive Officer

Business Mission

As one of the largest institutional investors in Japan, JAPAN POST BANK will work to both realize sound and profitable investments, and contribute to the realization of a sustainable society.

Main Business

We use the deposits entrusted to us by our customers as resources to invest in securities, etc., in domestic and overseas financial markets.

MARKET BUSINESS

Strategy Outline

Business Strengths

- One of the largest financial bases in Japan, resourced by highly stable individual deposits, etc.
- High level of financial soundness
- Specialized human resources (in-house training/ external recruitment)

Business Environment

- Domestic low interest rate environment ongoing, possibility of a shift in Bank of Japan's monetary policy
- Monetary tightening by the U.S. and European central banks in response to high inflation, growing concerns about a recession
- Growing uncertainties about financial systems in the U.S. and Europe
- Growing demands for a sustainable society, such as measures against climate change

Basic Policies

- Strengthening of portfolio's stress tolerance and improvement of return relative to risk
- Further reinforcing risk management
- Implementation of investments based on ESG investment policy
- Recruitment/training of market specialized human resources

Value Creation



Customers

- Stable management of entrusted deposits



Shareholders/Investors

- Securing of stable core revenue



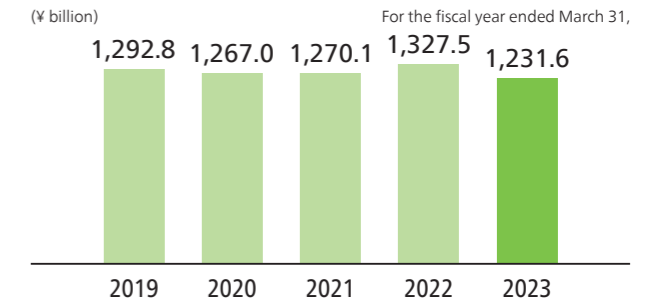
Environment

- Contributions to realization of a sustainable society through ESG investments

FY2023/3 Performance

The actual results for FY2023/3 net interest income, etc., which are mainly equivalent to market business revenues, were ¥1,231.6 billion. Earnings from strategic investment areas such as private equity funds steadily increased by approximately ¥146 billion year on year, but overall net interest income, etc., decreased by ¥95.9 billion from the previous fiscal year due to the increase in foreign currency funding costs brought about by the rise in overseas interest rates.

Net interest income, etc. (Consolidated)



FY2023/3 Results and Future Initiatives

Further deepening market operations —Continuation of investments to risk assets and restructuring of yen interest rate portfolio—

We are working to increase the balance of risk assets (assets other than yen interest rate [Japanese government bonds, etc.]) to strengthen the stress tolerance of our portfolio and improve return relative to risk. Among its risk assets, the Bank is focusing in particular on investments such as private equity funds, which are positioned as strategic investment areas.

In FY2023/3, we expanded our balances mainly of overseas credit assets (corporate bonds, etc.) in the

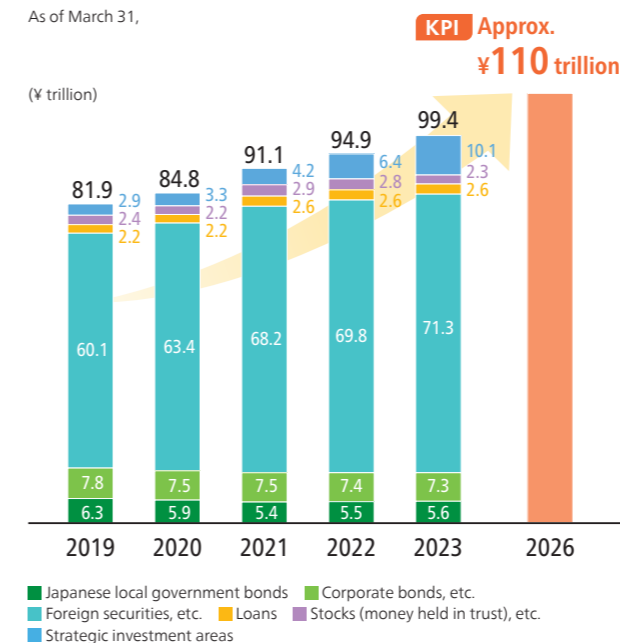
investment grade area, and the balance of risk assets had increased to ¥99.4 trillion as of the end of FY2023/3. The Bank has built up the balance to ¥10.1 trillion in the area of strategic investments through selective investment in quality deals.

In addition to expanding the balance of our risk assets, going forward we will continue to selectively invest in quality funds from a medium- to long-term perspective in the strategic investment areas.

In anticipation of the possibility that domestic interest rates, which have remained low for a long time, may start to rise again, we will also flexibly rebuild our yen interest rate portfolio.

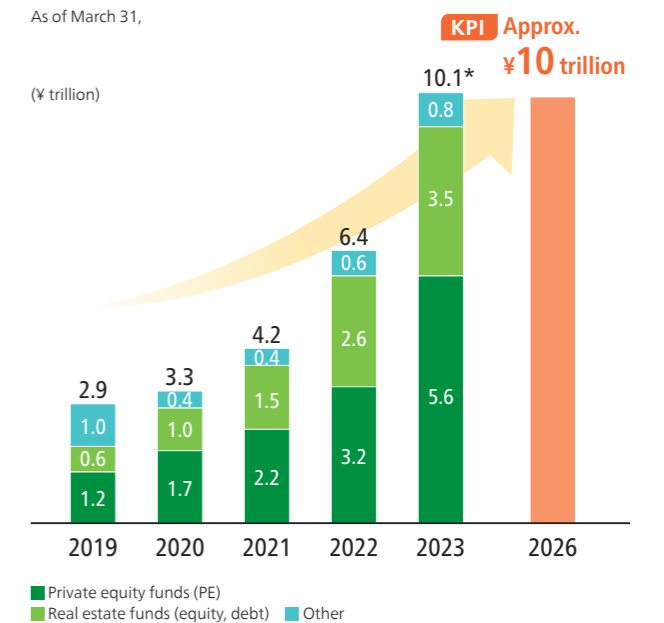
Balance of risk assets

As of March 31,



Balance of strategic investment areas (among risk assets)

As of March 31,



Strategic investment areas: private equity funds, real estate funds (equity, debt), direct lending funds, infrastructure debt funds, etc.

* Following application of the Implementation Guidance on Accounting Standard for Fair Value Measurement (revised in 2021), from FY2023/3 the balance of private equity funds and real estate funds will, with the exception of some assets, be based on market value.

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Further reinforcing risk management

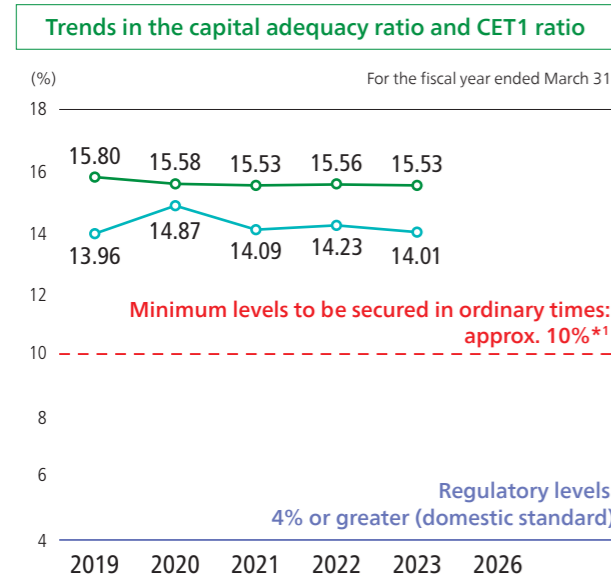
Under the current Medium-term Management Plan, in addition to capital adequacy ratio (domestic standard), the Bank has set and manages the minimum target level common equity tier1 (CET1) capital ratio (internationally unified standard, excluding valuation gains on available-for-sale securities)* of approximately 10% as the minimum level to be secured in ordinary times. We are also steadily promoting more advanced stress tests and stronger monitoring to further reinforce risk management.

As of the end of March 2023, the capital adequacy ratio (domestic standard) was 15.53% and the CET1 ratio was 14.01%, exceeding the minimum target level (approximately 10%) that should be secured in ordinary times.

We will also proceed with the putting in place of a compliance system in response to the full implementation of Basel III.

* Although a domestic standard bank, JAPAN POST BANK sets and manages targets for the CET1 ratio, which is an internationally unified standard, while taking into consideration such factors as the increased importance of international finance systems that come along with the proliferation of global asset allocations.

For more details on risk management, please see pages 78 and 90.



○ Capital adequacy ratio (domestic standard)
○ CET1 ratio*² (international standards/excluding unrealized gains on available-for-sale securities)

*¹ FY2026/3 based on full implementation of Basel III.
*² Some calculation items simply calculated

Status of ESG investment and financing

JAPAN POST BANK put in place the ESG Investment and Financing Policy. Guided by this policy, the Bank is undertaking investments that take into consideration environmental and other issues as well as such factors as various international agreements.

In addition to appropriately managing climate change risks, JAPAN POST BANK is engaging in initiatives that expand new opportunities brought about through climate change, specifically financing for renewable energy and other businesses and increasing its investments in green bonds, etc.

As of March 31, 2023, the balance of ESG-themed investments* had increased to ¥3.2 trillion, and we were making steady progress toward achieving the target amount (¥4 trillion) for the ESG-themed investment balance set under the current Medium-term Management Plan. In the years to come, we will continue to promote ESG investment and financing while contributing to the realization of a more sustainable society.

* ESG bonds (green bonds, social bonds, sustainability bonds, etc.), loans to the renewable energy sector, and regional vitalization funds, etc.

Recruitment/training of market specialized human resources

In addition to promoting the expansion of human resources in market-related departments to both strengthen the market business system, including risk management, and develop the infrastructure, we are actively recruiting and training market specialized human resources.

Specifically, in addition to appointing investment division officers from outside and continuously hiring human resources specializing in the market, including risk management, we are implementing, on an ongoing basis, basic and applied training programs conducted by professionals for our younger human resources.

VOICE Market human resources who play active roles

To contribute to stable earnings

Having joined JAPAN POST BANK as a new graduate working in a general service job in 2013, I was transferred to the Global Fund Investment Department (currently the Global Credit Investment Department following a departmental integration) in 2018. After my transfer, I was involved in the launch of a new investment strategy called direct lending fund investments and have been working hard to get its operational management on track.

Positioned as one of the Bank's strategic investment areas, direct lending is an investment in which the funds make loans directly to medium-sized companies in the United States and Europe. Currently working as the investment team's group leader, from now on I would like to further enhance expertise as a team through human resource development and contribute to the acquisition of stable earnings.



Takayuki Nakamura
Global Credit Investment Department



Nao Sakakibara
Real Estate Investment Department

Steadily bringing about portfolio growth

In 2018, I had been moved to JAPAN POST BANK as one of a number of professional human resources in the Investment Division. Utilizing the skills I have cultivated up to now in my career, I am currently in charge of overseas real estate debt management. From the launch of the management program to the present time, I have been aiming to create an organization in which the front and middle offices grow together. I believe that sharing and discussing market information and investment products with young employees and related departments will lead to the development of specialized human resources. In the years to come, I would like to steadily bring about the growth of our portfolio while sincerely facing the challenges of a rapidly changing market.

Building up self-improvement, contributing to market operations

Having joined JAPAN POST BANK as a new graduate working in a general service job in 2018, since 2020 I have been involved in the planning and management of the bank's asset management portfolio, which is the largest in Japan, in the ALM Planning Department, to which I am currently assigned. Specifically, I am utilizing the optimization method for the calculation of efficient investment asset allocations, and based on this, formulating plans for future BS, PL, and risk amounts and working on budget management. In addition to receiving training from overseas financial institutions and via the OJT system, after having been assigned to the ALM Planning Department I have worked to improve my market-related skills while gaining qualifications. Going forward, I will continue to be involved in market operations such as asset liability management at the Bank while making additional self-improvement efforts.



Kengo Suzuki
ALM Planning Department

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Special Feature

An operational structure that brings together investment professionals with advanced expertise and knowledge.



The Bank's Investment Division comprises of eight departments and one office. The eight departments either specialize in directing investments in a certain asset class or in providing support functions that enable the Bank's investment program to operate smoothly. The Managing Directors who lead the departments are seasoned specialists in each of their respective fields, all of whom report to the CIO who is the dedicated executive officer in charge of the Division.

Hideki Nakao
Managing Executive Officer

Rates and FX Investment Department (11 people)



We invest mainly in Japanese and foreign government bonds. Through appropriate control of interest rate and foreign exchange risks, we are promoting the maximization of JAPAN POST BANK's income and strengthening the durability of its portfolio.

Managing Director:
Taro Matsuura
Main career: MUFG Bank

Equity Investment Department (Nine people)



We mainly manage listed stocks utilizing money held in trust and investment trusts. As a stock investor, we possess a high level of expertise that enables us to play an active role globally, while promoting improvements in JAPAN POST BANK's income.

Executive Managing Director:
David Sancho Shimizu
Main career: Mizuho Securities

Global Credit Investment Department (58 people)



Executive Managing Director:
Kazutoshi Rokushima
Main career: Deutsche Securities

By maximizing the use of in-house and outsourced operation resources, we are promoting global credit investment. By securing stable earnings, we are contributing to the Bank's profitability and soundness.



Executive Managing Director:
Shunsuke Sone
Main career: Mizuho Securities

Private Equity Investment Department (25 people)



We are also striving to contribute to society through our investment activities and the construction of a private equity investment portfolio that produces excellent returns relative to risk over the long term.

Executive Managing Director:
Hideya Sadanaga
Main career: Nippon Life

Real Estate Investment Department (18 people)



Executive Managing Director:
Kazunari Yaguchi
Main career: Development Bank of Japan

Expecting to contribute to JAPAN POST BANK's stable earnings in the future, we are promoting investments (equity and debt investments) in commercial real estate around the world for which outsourced management is utilized.



Managing Director:
Hiroyuki Tanaka
Main career: Phoenix Property Investors

CIO Office (45 people)



Managing Director:
Tatsuo Ichikawa
Main career: Morgan Stanley MUFG Securities

We undertake the planning and management of the Divisions' operations, including the formulation of investment allocation policies and the monitoring of overall performance. We also provide IT support for market-related operations, as well as position management and quantitative analysis of the portfolio and investments.

Treasury Department (20 people)



Managing Director:
Kazuhiro Adachi
Main career: Mizuho Bank

We undertake the overall cash management of JAPAN POST BANK, including the funding of yen and foreign currencies. We also manage the foreign currency liquidity risk appropriately, which is becoming increasingly important, and contribute to ensuring the soundness of management.

Treasury Administration Department (55 people)



Managing Director:
Mari Ishikawa
Main career: HSBC Securities

As the support hub of the investment division, we play a pivotal role as the driving force, ensuring seamless securities and funds settlement, expert asset management, and precise financial reporting. Our unwavering commitment in effective control and enhanced productivity empowers us to deliver essential, efficient operational excellence in investment management.

Interview with Management



Takayuki Kasama
Director and Representative Executive Vice President

In November 2015, Takayuki Kasama was appointed Managing Director of the Bank's Investment Division. Since then, he has held management positions in the Bank's Investment Division. From June 20, 2023, he has held the position of Director and Representative Executive Vice President of the Bank.

Q1. Looking back on the current Medium-term Management Plan, please tell us about your reactions and initiatives.

In the two years since the start of the current Medium-term Management Plan (FY2022/3 through FY2026/3), as the global economy reversed from the COVID-19 crisis, the conduct of monetary policy, particularly in developed countries, changed significantly, but uncertainties about the future cannot be said to have been dispelled. In the midst of such a difficult investment environment, JAPAN POST BANK has been accumulating balances of risk assets with consideration given to credit quality and of strategic investment areas through selective investment in quality funds. I believe that we have made steady progress in sowing seeds in fields that are expected to become core revenue sources for the future.

Q2. What kinds of areas will you be focusing on in the coming years?

While continuing to work on increasing the sophistication and diversification of operations, which we have been addressing, and paying close attention to markets that change from moment to moment, we will strive to further reinforce market operations and risk management with an awareness of stress tolerance. We will also secure opportunities for bond investment profits by appropriately

ascertaining domestic and overseas interest rate trends and outlooks and, in the medium to long term, pursue optimal internationally diversified investments, including JPY fixed income assets.

Q3. How have you been promoting the maintenance of the operational system and the development of specialized human resources?

As a paradigm shift in investment under the prolonged domestic low interest rate environment, in promoting diversification of investment targets, regions, and strategies, we have made steady progress after confirming that an adequate risk management system is in place. In expanding our investment assets, we have created a professional group by recruiting mid-career external experts with extensive management experience in each asset class, including alternative asset classes such as private equity and real estate, and appointed internal human resources to specialist positions. We have also introduced a new performance-linked compensation system and worked to improve our competitiveness in securing specialized human resources. We will work to position the securing and strengthening of specialized human resources as a pressing issue.

Q4. What do you think about the mission of the Bank's investment operations?

JAPAN POST BANK's market operations are a business that uses as its resources the deposits entrusted by each and every customer and that are thus proof of trust. While managing risk in an appropriate manner, I believe that our mission is to conduct portfolio management that can secure stable earnings, which in turn contributes to improvements in shareholder value.

As one of the world's largest institutional investors, we will also make constant efforts to enhance our investment and risk management capabilities.

Q5. In what ways are you using your career experience and knowledge at JAPAN POST BANK?

Throughout my career in the financial markets, I have experienced both the sell side and the buy side and been witness to financial crises and market turmoil of various magnitudes. I have been drawing on these invaluable experiences in the Bank's market operations, starting with our rapid responses to emergencies, such as financial crises, and efforts to foresee their signs and risks.