Conference Call on Financial Results

for the Six Months Ended September 30, 2024

Summary of Q&A

Date & Time: Monday, November 14, 2024, 5:45 to 6:30 p.m.
* The statements have been partially edited for clarity.

<Shareholder Returns>

Q: What circumstances led to your decision to acquire treasury stock and why did you set a maximum amount of ¥35.0 billion? Also, will you fund the acquisition of treasury stock through flow (profit) or stock (ESR)?

○ This time, we determined that the additional return of profits to shareholders was necessary based on our shareholder return policy (average total payout ratio in the medium term of 40% to 50%), as profit flow substantially exceeded our forecast.

○ Out of the different ways to implement additional shareholder returns – higher dividends, the acquisition of treasury stock, or a combination of the two – we chose the acquisition of treasury stock based on a consideration of the ¥10 increase in dividend per share already planned this fiscal year, as well as the discounted share price at present.

Q How will the shares held by Japan Post Holdings be treated when acquiring up to ¥35.0 billion in treasury stock? Do you expect to repurchase shares in a way that will not affect its ownership ratio?

○ At present, no decision has yet been made on the method we will use to repurchase the shares, but we intend to maintain Japan Post Holding's ownership ratio at no more than 50% in line with the objectives of the Postal Service Privatization Act.

○ We will disclose the repurchase method as soon as it is decided.

<Revisions to the Financial Results Forecast>

Q Of the factors behind the revision of financial results forecasts presented on page 18, you indicate a negative impact of ¥5.0 billion in core profit attributable to life insurance activities. In other words, excluding the increased burden of regular policy reserves, which has a negative impact of ¥15.0 billion, you expect core profit attributable to life insurance activities to be around ¥10.0 billion higher than initially forecast. What is the reason for this?

○ While the increased burden of regular policy reserves will have a negative impact on core profit attributable to life insurance activities, this will be offset by the positive impact of the increase in expected operating expenses. In addition, operating expenses are expected to increase due to factors such as an increase in sales commissions, leading to a net negative impact of ¥5.0 billion.

Q With the inclusion of profits from Daiwa Asset Management in the future, will the adjustment for the amortization of goodwill be a positive factor for profit next fiscal year?

○ We will record goodwill based on the financial statements of Daiwa Asset Management as of September 30, 2024.

○ Of the ¥22.0 billion in adjustment associated with adjusted profit this fiscal year, shown on page 18, ¥21.4 billion represents the adjustment for policy reserves in the first half of the fiscal year. We expect the burden of regular policy reserves to disappear in the second half. Therefore, you may regard the difference between these two figures (around several hundred million yen) as the adjustment for the amortization of goodwill for the second half.

Q I understand that the upward revision to the adjusted profit forecast is mainly due to the increase in dividends from stocks and alternative assets and the gains from cancellation of investment trust shown on page 18. Given this situation, have any factors emerged pointing to an increase in earning capacity from the next fiscal year onward?

○ The outlook for the next fiscal year onward is dependent on market conditions, but domestic companies are actively paying dividends at present, and we believe it is necessary to base our outlook on this assumption.

○ Regarding alternative assets, some funds paid several years' worth of dividends in the previous fiscal year. Therefore, when we formulated the initial plan for this fiscal year, we forecast a year-on-year decrease in dividends this fiscal year before a subsequent rise in the next fiscal year. However, partly as a result of unanticipated investment exits, we now expect dividends this fiscal year to remain little changed year on year.

○ Looking at the next fiscal year onward, there may be funds that pay additional dividends, as there were in this fiscal year, but we cannot make any definite comments on that at present. We will examine the possibility of a further year-on-year increase in dividends when we formulate the investment plan for the next fiscal year.

○ I should note that we disclosed our forecast for a positive spread (approximately ¥145.0 billion) in the next fiscal year at the Financial Results and Corporate Strategy Meeting held in May this year.

Q The core earning capacity seems to have changed quite considerably compared to six months ago, based on the status of investment and the status of policies in force in the new category. Is this correct?

○ In terms of asset management, we were later than other companies to invest in alternative assets, so they have only begun to contribute to revenue in recent years.

○ Regarding sales, the number of new policies has doubled year on year, and the number of new category policies in force is already at around the same level as at the end of the previous fiscal year. We therefore expect the number of policies in force to bottom out and recover, contributing to adjusted profit in the future.

<Asset Management>

Q Please explain in detail the reasons for better-than-expected results from asset management. Please also tell us the status of investment trusts with the potential to produce gains from cancellation and how you formulate initial plans for alternative assets.

○ The better-than-expected results this fiscal year were mainly due to an increase in the positive spread and an increase in capital gains, specifically gains from cancellation of investment trust. The positive spread was higher than expected mostly because of dividends from stocks and alternative assets. Our original forecast for gains from cancellation of investment trust was around ¥15.0 billion, but we recorded ¥33.7 billion in the 2Q due to earlier-than-planned and additional cancellations given the depreciation of the yen.

○ Unrealized gains on investment trusts are significantly affected by the exchange rate at present. The status of investment trusts with the potential to produce gains corresponds to the balance of investment trusts after the cancellations this time: this corresponds to the ¥0.1 trillion open portion of ¥1.6 trillion in investment trusts and the ¥0.4 trillion open portion of money held in trust, shown on page 28.

○ Regarding the fiscal year outlook for alternative assets, we make realistic plans based on the status of fund investments with assumptions based on our expected rate of return. This fiscal year, dividends from private equity and infrastructure have increased due to unanticipated investment exits.

Q I understand that open foreign bonds of around ¥500.0 billion were the source of the gains from cancellation of investment trust. What is the approximate scale of unrealized profit at present?

○ The unrealized gains (losses) on foreign bonds in money held in trust, shown on page 9, are from open foreign bonds. We have a net unrealized loss on other securities, including the unrealized gain on open foreign bonds.

Q The gains from cancellation of investment trust shown on the conference call materials are ¥33.7 billion, but they are presented as ¥22.9 billion in core profit on the non-consolidated financial report. What is the reason for this difference?

○ We hold some of the investment trusts as money held in trust, and the gains from cancellation of these investment trusts (¥10.8 billion) are recorded under gains on money held in trust.

Q Would it be correct to understand that gains from cancellation of investment trust are not neutralized through the reserve for price fluctuations? Does the same apply to the investment trusts you hold as money held in trust?

○ That is correct. Gains from cancellation of investment trust are not neutralized through the reserve for price fluctuations, including for those held as money held in trust.

Q For alternative assets, there is generally a delay before the generation of revenue. Would it be correct to infer that given the timing of your purchase of return seeking assets, you will enter a phase of increased revenue?

○ We began accumulating alternative assets in FY2017. So far, we have only received limited dividends, but as you infer, the contribution from these investments is gradually increasing. We anticipate that they will continue to build up further next fiscal year and beyond.

Q You have over ¥200.0 billion in unrealized losses on Japanese government bonds. There is a trend among other companies to realize such losses: what is the status of the replacement of assets during the first half of the fiscal year and your policy going forward?

○ A certain proportion of our Japanese government bonds were replaced during the first half. We recorded capital gains of ¥45.0 billion during the first half, but for the full fiscal year, we expect capital gains to be ¥10.0 billion lower than the initial forecast. This is because we expect to record a certain level of losses on sales in the second half due to the additional replacement trading of assets.

<EV and the Value of New Business>

Q What is the full-year outlook for the value of new business?

○ For the full year, we expect a value of approximately ¥60.0 to ¥70.0 billion. This is based on the interest rate assumptions effective as of September 30, 2024.

○ It is somewhat less than the outlook as of the 1Q (¥80.0 billion) due to a moderate decline in interest rates compared to the 1Q.

○ Please be aware of the fact that the value of new business can also change depending on the product portfolio.

Q I would like to ask about EV sensitivity. Why has the negative impact of domestic interest rate hikes grown compared to the end of March 2024?

○ We believe that the sensitivity of EV to domestic interest rate hikes is more muted than before.

○ The degree of fluctuation is greater than at the end of March 2024 because, while overall duration has changed very little, we have not been able to sell as many new policies for level premium products as expected and the duration of liabilities for new category policies has not grown as much as forecast.

Q “Increase in uncertainty of future earnings” of approximately ¥ (45.0) billion, which was presented in the 1Q among the “economic variances” under the Movement Analysis of EV, has been deleted this quarter. What is the reason for this?

○ The uncertainty of future earnings accounted for only around ¥ (15.0) billion of the economic variances this time, substantially less than in the 1Q, so it was omitted. The main cause of the uncertainty of future earnings is the volatility of domestic interest rates.

Q It seems that the “impact from fair value fluctuations of alternative assets,” presented among the “economic variances” under the Movement Analysis of EV, was around ¥ (60.0) billion during the three-month period. Was this due to movements in foreign exchange rates?

○ That is correct. The movement in EV due to the impact from fair value fluctuations of alternative assets was a result of the appreciation of the yen.