# Conference Call on
# Financial Results for the Three Months Ended June 30, 2016:
# Summary of Q&A

Date: August 12, 2016, 6:00–6:50 p.m.

* The details have been partially rewritten and revised for easier understanding.

**Products and Earnings**

Q. Was the increase in new policies due to the impact of last-minute demand accompanying the revision of insurance premiums?

- The revision of insurance premiums was announced on June 1, so in part this was likely the manifestation of demand prior to the revision of insurance premiums. However, we also believe that under negative interest rate conditions, insurance products are gaining appeal among the whole of the financial products available.

- For the current first quarter, because the external factor of negative interest rates and the internal factor of the revision of insurance premiums are intertwined, it is unlikely that this trend in the first quarter will simply continue after the second quarter. We believe it will be necessary to judge and evaluate this matter over the full year.

Q. Please indicate the situation of sales promotions for the period from April to July, on a monthly basis.

- We cannot give the details broken down into month. We will explain the situation of the second quarter in the financial results for the first half, which will be disclosed in November.

Q. Why did the annualized premiums from new policies for medical care decrease? Was this due to the influence of the revision of insurance premiums that is effective from August?

- Annualized premiums from new policies for medical care did decrease slightly year on year, but the results were close to the highest levels seen since our privatization.

- This first quarter immediately followed the increase in the limit on the coverage amount for death benefits that have elapsed four years since start of coverage, and therefore we believe that this was the reason for the relatively early manifestation of the needs of death benefits of our existing customers. We will continue to appeal to customers' protection needs, as we have to date, and by focusing on sales of products with medical care riders, we aim to acquire even more medical care riders than in the previous fiscal year.

| |
|---|
| Q. When the standard assumed yield, which is the basis of calculation for policy reserve, is revised in April 2017, will there be any method for revising insurance premiums by pairing elements other than the assumed rate of return, as was done by updating mortality rates in August of this fiscal year? |

- The status of recent mortality rates have already been partially reflected in the August revision of insurance premiums. As we are looking ahead to the revision of the standard assumed yield in April 2017, various scenarios are under discussion assuming further revision of insurance premiums. However, this item touches on our competitive strategy and so we cannot get into the specifics of this here.

| |
|---|
| Q. Commissions paid to Japan Post Co. have increased. Even if results for new policies are on the rise, is this level of payment appropriate? Aren't these fees a little high when considering the value of new business? |

- In regards to commissions, as we have explained since the company became listed, the fee system is in line with the results for new policies and after service activities, and on top of respecting the arm's-length basis, it cannot be set for the advantageous benefit of either the Company or Japan Post Co.

- With regard to whether the level of commissions is appropriate or not, it would be difficult to arrange or change the commission formula based on EV, which fluctuates according to occasional assumptions.

- As a product/sales strategy, we control or stop the sales of products for which no sufficient improvement in profitability is expected even after we make revisions to their insurance premiums or take other measures. In line with expanding our risk assets, if we cooperate with Japan Post Co. in strengthening sales of products with medical care riders, we believe that the current level of fees can be balanced over the long-term.

Q. If Japan Post Bank focuses on the sales of variable annuities denominated in foreign currency, won't variable annuities cannibalize Japan Post Insurance products in the post office channel?

- Since the sales of variable annuities at post offices are mainly meant to target asset management/savings needs, if anything, we believe that the competition between variable annuities and investment trusts will be intensified.

- On the other hand, in the case of our insurance products, we focus on sales that respond to the needs for death and medical care benefits. We believe the increase in new policy results for the first quarter is an indication of customer needs of this type of product. We do not expect to see that variable annuities cannibalize our products.

Q. Please indicate the factors for the ¥5.9 billion decrease year on year, in regards to income before income taxes.

- At the core profit stage, there was a year on year decrease, mainly due to the impact of a decrease of policies in force. There was some impact on ordinary profit from the posting of impairment losses on foreign securities, but this was mostly offset by reversal of reserve for price fluctuations under extraordinary profit, and therefore the level of income before income taxes is close to that initially forecast.

**Investments**

Q. Please indicate the New and Postal Life Insurance categories' exposure of securities and stocks denominated in foreign currency for risk assets.

- In regards to the New and Postal Life Insurance categories, we would like to refrain from making a detailed disclosure here, but the portion of Postal Life Insurance category in domestic stock is higher than that of New category. The ratio of the ¥5.5 trillion in risk assets for the New and Postal Life Insurance categories is 5:5.

Q. Please indicate the factors for the decrease in positive spreads.

- As a seasonal factor, because the posting of stock dividend income in the first quarter is low, the investment return on core profit tends to be comparatively low. There are also market environment factors that include a decrease in interest dividend income from foreign securities due to the continued appreciation of the yen, and a decrease in the interest income, mainly from yen-denominated bonds, due to a decrease of high-yield assets of the past.

- Positive spread in the first quarter was ¥8.7 billion, a decrease year on year (1Q: ¥12.9 billion). However, although average assumed rates of return are decreasing constantly, we expect investment return to gradually recover by the end of the period, and therefore we expect to be able to secure the level of positive spreads at a pace that exceeds the first quarter level.

Q. Is the posting of impairment losses, due to the so-called 15% rule for exchange rates? To what currency did the losses apply?

- The 15% rule was applied to the majority of these losses. As for the currency, it was mainly for the US dollar.

Q. Is it appropriate to assume that impairment losses on securities are 100% covered by the reversal of reserve for price fluctuations? If capital gains are generated, how will this impact the amount of reversal of reserve for price fluctuations?

- As we announced last month, we have posted impairment losses of ¥65.8 billion in the first quarter. On the other hand, following the adjustment of the foreign bonds portfolio and the shuffling of issues in domestic stocks, over ¥30.0 billion in capital gains have been generated. This amount of difference has resulted in ¥35.1 billion in capital losses.

- In regards to the reversal of reserve for price fluctuations, because we carried out the reversal against the net amount of capital gains and losses, the impact to the bottom line of net income is almost neutral.

Q. If the exchange rate recovers over the second quarter onward, we believe the company would decrease the amount of reversal of reserve for price fluctuations. Through this, would net income be immune from impairment on foreign securities?

- Impairment losses on securities will be reevaluated in the second quarter, and because we will consider the reversal of reserve for price fluctuations in response to net capital gains or losses at that point, the impact to the bottom line of net income will be almost neutral.

Q. The reversal amount of reserve for price fluctuations for the New category is nearly twice the amount for the Postal Life Insurance category. Does this mean that impairment losses on securities for the New category were higher?

- We have not disclosed impairment losses broken down into the New and Postal Life Insurance categories. In regards to the reversal of reserve for price fluctuations, because we carry out this reversal against the net amount of capital gains and losses, this will involve not only impairment losses, but also the generation of capital gains.

- Over ¥30.0 billion in capital gains have been generated, but one of the factors of this is due to the adjustment of the foreign bonds portfolio, and this has been mainly generated in the Postal Life Insurance category. Another factor is the shuffling of issues in domestic stocks. This has mainly occurred in the New category.

- Impairment losses have been generated for both the New and Postal Life Insurance categories. However, the amount of reversal of reserve for price fluctuations is calculated based on net capital gains or losses.

Q. In regards to impairment losses on foreign securities for the current fiscal year, you say that the impact to net income will be offset by the reversal of reserve for price fluctuations. Do you plan to continue to increase risk assets? Will increasing risk assets contribute to the improvement of corporate value?

- We basically plan to maintain the same management policy that we have employed to date. For the current fiscal year, we aim to improve investment income by reinforcing our asset management operations through the upgrading of training programs and business alliances, and by expanding the scope of our investment to the alternative and other fields.

- Having weathered the previous fiscal year's rise in volatility of the financial market, we plan to flexibly operate the management policy for this fiscal year. Under current interest rates, yen-denominated interest-bearing assets will be invested minimally and only as necessary, and there is a high probability that we will invest in the risk assets such as hedged foreign bonds.

- In regards to risk assets, these will mainly consist of hedged foreign bonds, but by expanding investment to include stocks and alternatives, from which we can expect the effects of diversification, we would like to secure profit stability across our entire portfolio.

**EV / ESR**

Q. A substantial decline in interest rate causes a significant decrease in EV. Which period should we refer to in terms of interest rates?

- EV is calculated on the basis that the implied forward rate, which is established with the yield curb at the date the projection is made, is realized as the market value yield. When looking at the interest rate assumptions for EV as of the end of June, according to the forward rate, these have dropped significantly. Compared with the end of March, this represents a 73.5bp drop in the forward rate for the twentieth year and a 30.5bp drop in the forward rate for the thirtieth year (see page 16 of the conference call presentation materials).

- In the EV as of the end of March, we disclosed a decrease of ¥418.3 billion as the sensitivity analysis of the 50bp decrease, but, this sensitivity assumed the lower limit of the interest rate to be zero. In addition, in cases where the interest rates have already been a negative, we calculated sensitivity by assuming that the said rates have reached the lower limit. Accordingly, for the 50bp drop in the sensitivity analysis, the forward rate for the thirtieth year was a 21.9bp decrease, and the degree of decrease from the end of March to the end of June exceeded that of the sensitivity analysis to a considerable degree. As a result, there was a decrease of approximately ¥600.0 billion due to factors related to interest rates.

Q. In regards to EV interest rate sensitivity, will there be sensitivity to a parallel shift, for instance, 10pb for all periods?

- We do not calculate sensitivity to a parallel shift. In regards to future disclosures, we will consider this while bearing in mind interest rates and other factors.

Q. What was the approximate value of new business for the first quarter?

- The interest rates applied to the value of new business is generally determined using the interest rate best suited to the new policies obtained during the period. In calculating the annual value of new business for the previous fiscal year, we applied the interest rate as of the end of September.

- EV for the first quarter was not verified by a third party, and no EV report was prepared. Nevertheless, we provisionally calculated the value of new business for internal use by utilizing the interest rate as of the end of March, which gave us a result of approximately ¥10.0 billion.

- However, in light of the fact that the interest rate during the period from April to June differs from that as of the end of March, and that the provisional calculation was not verified by a third party, we do not officially disclose the value of new business as the financial results at this time. We plan to disclose the value of new business for the first half period verified by a third party.

Q. If the risk amount is maintained with that of the end of the previous fiscal year, it is conceivable that current ESR will have decreased to the 110% range. Have your thoughts changed on policies for capital adequacy and buyback?

- Due to the decrease in interest rates, ESR has in fact dropped by a considerable degree, but other than the levels for the end of March and the end of September, there is nothing of a level that we can disclose.

- The company understands that how ESR will be used in capital regulation is a matter to be handled by the relevant authorities hereafter, and therefore towards the revision of capital regulations, which will be introduced from FY2021/3 at the earliest, we will ascertain an appropriate level of capital. Accordingly, we have not set a time-delimited target with regard to ESR, and even if said value falls below 100% momentarily, we have no plans to change the shareholder return policy or investment policy immediately.

- In regards to the buyback policy, we are thinking about this as a part of the shareholder returns. We have not decided on this at this time, but we have not ruled it out as a possibility.

## Disclaimer

The financial results forecasts and other forward-looking statements herein are based on certain assumptions deemed reasonable by Japan Post Insurance at the time of this document's disclosure. Please note that actual results may differ from the forecast figures due to various factors including changes in the assumptions regarding the operating environment.