

**Financial Results & Corporate Strategy Meeting
for the Six Months Ended September 30, 2024
Summary of Q & A**

Date & time: Thursday, November 28, 2024, 3:00 to 4:30 p.m.

* The statements have been partially edited for clarity.

<Capital Policy>

Q: Has the recently disclosed market capitalization target of ¥2 trillion been decided following the discussions by the Board of Directors? What is the basis for this figure? Is it achievable? Does it represent a greater awareness of the share price due to a solid earnings outlook, based on the current sales situation?

- A market capitalization of ¥2 trillion, which we have presented as an indicative target at present, has been discussed by the Board of Directors.
- Assuming a cost of capital of 6%, we believe that our stock price should reasonably exceed ¥5,000, as shown on page 6 of the materials. However, the current stock price languishes at around ¥3,000.
- This is because we have not fully gained the market's trust regarding the sustainability of our earnings. Therefore, through the implementation of our growth strategy, leveraging our four strengths, we aim to push down the cost of capital demanded by the market and improve our stock price.
- We believe that the Company is essentially worthy of a market capitalization of several trillion yen. This fiscal year, we feel that promising signs are emerging, with stronger sales capabilities and a rise in employee engagement, in addition to a favorable market environment. We will proceed to launch the Company on its next growth stage.

Q: There seems to be quite a divergence between your estimation of the cost of capital and the market's. A market capitalization of ¥2 trillion implies a PER of around 16 times. Isn't this hurdle a little too high? Also, based on your assessment that the Company's stock price is currently undervalued and that there is substantial potential for an increase in stock price, have you considered the acquisition of treasury stock?

- Our estimated cost of capital of 6% has been calculated based on the CAPM. We believe that the market expects an even higher level of 7-8%. We therefore think it is vital for us to set our criteria for future growth investment, for example, with a consciousness of the 7-8% level.
- At the same time, however, we believe that the Company's stock price is currently underpriced. The acquisition of treasury stock is certainly one option, but we hope to raise the stock price and market capitalization through a range of measures to increase adjusted profit and adjusted ROE, as well as endeavoring to bring about a renewed market recognition of the Company's cost of capital.

Q: Around how much will the implementation of reinsurance amount to annually?

- We intend to implement reinsurance several times over a number of years, on roughly the same scale as in March 2024 (approximately ¥650.0 billion on a policy reserve base).

Q: How do you intend to utilize internal reserves in the Postal Life Insurance Category? Also, given that there has been a decrease in the reserve for price fluctuations for the new category, going forward, how do you plan to control it? In addition, what is your policy on risk-taking, such as the accumulation of return seeking assets, in view of the status of internal reserves in the Postal Life Insurance Category and the new category?

- In the Postal Life Insurance Category, we are still carrying low-return liabilities associated with closed books. The value of liabilities fluctuates due to factors such as interest rates. We monitor this situation and add to or reverse our internal reserves accordingly. We also utilize interest rate swaps and reinsurance to enhance our liability management for the Postal Life Insurance Category.
- In the new category, we are conscious of the current balance of the reserve for price fluctuations, at only around ¥120.0 billion, as an issue. This figure is largely attributable to the effect of neutralizing hedging costs through the reserve for price fluctuations in recent years. To address this issue, we have engaged in appropriate operations, such as reducing the balance of hedged foreign bonds. In addition, we aim to increase the balance of the reserve for price fluctuations by continuing to record excess provisions.

- We expect the total assets associated with closed books in the Postal Life Insurance Category to decrease, while the scale of assets in the new category will also plateau out for the time being. However, regardless of the scale of assets, we anticipate that investment in return seeking assets will proceed within the risk tolerance corresponding to the scale of our capital, and we expect the proportion of return seeking assets within total assets to increase.

<ESR>

Q: What will be the priority management actions if ESR should exceed the maximum appropriate level?

- ESR was 216% at the end of September, and we can expect the implementation of reinsurance to further raise it by several percentage points. Therefore, provided there are no changes in our other assumptions, ESR will soon approach the maximum appropriate level of 220%.
- If it exceeds this level, then we plan to prioritize the implementation of measures to improve capital efficiency and thus lead to enhance corporate value. Specifically, based on the cost of capital demanded by the market, we will consider further risk-taking through investments in return seeking assets and growth investments, as well as the implementation of additional shareholder returns, as appropriate at the time.

<Shareholder Returns >

Q: Is there any scope left to further revise the definition of adjusted profit (the source of shareholder returns) based on factors such as more sophisticated liability management in the Postal Life Insurance Category?

- We have undertaken extensive discussions regarding adjusted profit. With the recent completion of our investment in Daiwa Asset Management, the definition of adjusted profit was amended to add back the amortization of goodwill, which is deducted from net income.
- We will continue to focus on improving shareholder returns by continuously striving to generate profits and also considering revisions to the definition of adjusted profit as necessary.

< **Financial Results** >

Q: Will profits be sustainable through the next fiscal year and beyond?

- Firstly, the upswing in profit for the first half of FY25/3 has been mainly due to strong asset management returns.
- Factors such as a greater-than-anticipated increase in the overall level of dividends on domestic stocks, the depreciation of the yen, the increase in domestic interest rates, and strong sales of lump-sum payment whole life insurance have been behind the increase in positive spread. I should also note that this fiscal year, while we have recorded gains from cancellation of some investment trusts that exceeded the forecast, partly due to the effect of a weaker yen, we consider these to be one-off gains.
- Upon comprehensive consideration of factors such as the sustainability of the upward trend in the level of dividends by domestic companies and the fact that our alternative assets are approaching their revenue collection period, we believe that from next fiscal year onward, we can expect a positive spread no less, and possibly more, than in this fiscal year. However, we will closely assess the situation based on the environment at hand when we formulate the investment plan for next fiscal year.
- We also expect enhanced product appeal, our investment in Daiwa Asset Management, and our continuing cost reduction efforts to effectively boost earnings.

Q: Your earnings guidance feels somewhat conservative. Would you consider revising the way you formulate guidance?

- We believe there is room for reconsideration in the way we announce our earnings guidance.
- We hope to make continuing improvements from the perspective of enhancing our ability to communicate guidance and predictability.

<Asset Management>

Q: Why have gains from cancellation of investment trust exceeded the forecast for this fiscal year? Is it possible that you may continue to realize unrealized gains from the second half onward, in the form of gains from cancellation of investment trust?

- Gains from cancellation of investment trust have been substantially higher than originally forecast this fiscal year as a result of our decision to cancel some investment trusts ahead of schedule in early July, when the depreciation of the yen was at a peak.
- We will proceed to determine whether or not to cancel the trusts we hold based on the investment environment.

Q: Are you considering investing in private credit? What is your policy for strengthening asset management going forward?

- Private credit is a promising business field and we believe it has potential as a future investment target.
- We do not invest in private credit at present, although we may undertake initiatives including entry into this field through our new alliance partner, Daiwa Asset Management.

<Sales>

Q: When will we see the number of policies in force bottom-out and begin to recover? Will you aim to increase the number of policies beyond 20 million?

- The number of new policies had been improving at a moderate pace since we recommenced proactive sales proposals, but it has now doubled thanks to the current revitalization of sales activities.
- We believe that this has increased the certainty that the number of new category policies in force will bottom-out and begin to recover during the current Medium-term Management Plan period.

- By continuing to engage in strengthening our sales capability and ensuring sustainability, we will aim to end the decline in the overall number of individual insurance policies and achieve an upturn during the period of the next Medium-term Management Plan.

<Products>

Q: Do you have any concerns regarding the improvement of products based on rising interest rates?

- New product development is constrained by our ability to launch new products only once or twice each year, because of the need for review under the Insurance Business Act and system revisions. However, the additional restrictions under the Postal Service Privatization Act have been relaxed to require just notification rather than approval.
- The revision of the assumed rate of return is not subject to additional restrictions under the Postal Service Privatization Act, and we believe that there is ample room for revision based on the current trend in domestic interest rates. I should note that for the source of shareholder returns, adjusted profit, we adjust the increased burden of regular policy reserves that arises if the assumed rate of return is set higher than the standard rate.

Q: If you revise the assumed rate of return on lump-sum payment whole life insurance, do you expect that policyholders who joined at the present assumed rate of return are likely to cancel their policies? How would you deal with these cancellations?

- Our lump-sum payment whole life insurance is a product tailored to customers' asset succession needs. Policyholders join, on average, at around 70 years of age, and the duration of liabilities is around 14 years.
- We do not anticipate a high risk of cancellations, as policyholders of this product have joined with asset succession in mind, but we will continue to implement stress tests and verify our assumptions.

<Alliance and Investment>

Q: I understand that, by accounting for your investment in Daiwa Asset Management using the equity method, you will be able to incorporate 20% of its profits. About how much profit do you anticipate from Daiwa Asset Management this fiscal year?

- We completed the payment procedures for our investment in Daiwa Asset Management in October. As you understand, we will proceed to account for its profits corresponding to the equity interest. We are still coordinating with our accounting auditor regarding the amortization of goodwill from the transaction, but we expect the effect on our profit this fiscal year to amount to several hundred million yen.
- Daiwa Asset Management plans to undertake the management of more than ¥1 trillion in our assets over two years, as well as making a full-scale entry into the investment advisory business. This can be expected to lead to a further upswing in profit, which will contribute to the Company's profit.

<Japan Post Holdings' Voting Rights>

Q: What are your thoughts on the proportion of voting rights held by Japan Post Holdings, going forward? ESR is increasing at present; would it be possible to utilize surplus capital to lower its proportion of voting rights?

- We are not in a position to comment on Japan Post Holdings' policy on the future disposal of the Company's shares, and I cannot make any definite statements at this time.

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