Financial Results & Corporate Strategy Meeting
for the Six Months Ended September 30, 2022
Summary of Q & A

Date & time: Friday, November 25, 2022, 1:30 to 3:00 p.m.

* The statements have been partially edited for clarity.

<Financial Results>

Q:	You have addressed the impact of COVID-19 and capital losses by the contingency reserves and price fluctuation reserves. Is there a possibility that, as a result of this response, you may have to increase the amounts provided for these reserves from next fiscal year onward to restore the level of internal reserve?

○ No decision has yet been made regarding specific plans for the next fiscal year onward. No policy change is anticipated at present.

<Sales>

Q:	How is the level of the number of proposals compared to before the solicitation quality issues?

○ Although simple comparisons are not possible, the number of proposals has declined compared to before the solicitation quality issues.

Q:	The number of proposals seems small compared to the number of interviews. What is the main reason for this?

○ While the number of interviews has increased as a result of our policy coverage confirmation activities, this has not led to the stimulation of needs of customers or proposals.

○ We are progressively taking measures such as the revision of solicitation processes, training, and team operations under the customer assignment system, to enable those engaged in solicitation to move smoothly from interviews to proposals. We anticipate putting these into action over a period of several months. Through these measures, we will create pathways from interviews to proposals.

Q:	Is the decrease in policy cancellations simply due to the decline in policies in force overall, or the result of some measures you have taken?

○ Reflecting on our solicitation quality issues, we have sought to improve sales by focusing on continuing contracts. We recognize this has led to the decrease in policy surrender and lapse. As a consequence, while the growth has been slow in the number of new policies, the gap between the plan and results of net increase is gradually narrowing.

Q: What steps will you take if it takes longer than expected to achieve a net increase in life insurance?

○ We do not recognize the current status as the true capability, and there is still room for improvement. By establishing the new Japan Post Insurance Sales System, as well as addressing the issues that have only become clear since our shift to the new system, and creating environments where we can demonstrate our intrinsic strength in sales, we aim to achieve the targets of the Medium-Term Management Plan.

○ The Japan Post Group's Medium-Term Management Plan is planned to be reviewed over the next fiscal year, the third year of the plan. We may also undertake a review of Japan Post Insurance's Medium-Term Management Plan based on the latest conditions.

Q: Is there any update on the pace of recovery and the levels you target based on your roadmap to recovery in new policy sales?

○ Members of senior management and others are engaging in dialogue with our consultants aimed at restoring sales capabilities. Some differences persist in employees' engagement to sales, but overall they are more positive than in the last fiscal year.

○ We will continue to engage in revising solicitation processes and measures such as team operations under the customer assignment system, while we make steady efforts to approach existing customers for the rest of this fiscal year. Additionally, we will endeavor to approach non-subscribers and young and middle-aged customers by collaborating with corporate sales, coordinating with post offices, promoting DX, and developing new products among other initiatives, while also promoting our organizational and personnel reforms.

Q: Have you conducted a quantitative analysis of the extent to which growth in new policy sales has fallen short of the original plan?

○ Regarding the new policies in this period, due to the delays in the progress of the retail channel at both the Retail Service Division and post office counters, the progress is around 40% of the levels we anticipated in terms of insurance premiums.

○ In the retail channel, approximately 90% of new policies have been added with new medical riders. In about half of these cases, the customer has purchased insurance with a rider benefit amount that exceeds the basic insurance amount. However, as the decrease in the basic insurance amount has been greater than expected, the insurance premium per policy have declined more than anticipated.

○ We see the difference in progress by region is largely attributable to the degree of how actively the Retail Service Division in each region engages in sales.

<Products and Services>

Q:	Regarding the revision of products, what are your plans for April 2023?

○ We will announce our next new product at an appropriate time.

○ We are proceeding with the consideration of ways to expand products that meet protection needs for elderly and middle-aged customers, in light of the age of 100-year life, and research products that will contribute to extend healthy life expectancy, as outlined in the Medium-Term Management Plan.

○ At the same time, we will progressively strengthen our customer base by providing products and services that connect generations, starting from life events, such as educational endowment insurance, nursing care and inheritance issues.

Q:	Regarding the non-insurance services shown on page 15, doesn't the introduction of new services risk blurring the focus on your main business of providing insurance? Please explain your motivation for considering and implementing these services and the effect you expect them to have.

○ While the insurance business remains our core business, we recognize that to make our customers happy, we cannot limit ourselves to providing our existing insurance services.

○ By providing services that support our customers at various events throughout their lives, we expect to win the further trust of customers, leading to the expansion of our core insurance business.

<Medium-Term Management Plan>

Q: You explained that you aim to secure a profit through the final fiscal year of the Medium-Term Management Plan by cost reductions, despite a decline in policies in force. With policies in force decreasing at a faster pace than anticipated, is a back-up plan needed to cover the impact of this decline? Or are there any unexpected positive factors that would boost profits?

○ Our basic approach is to bring the decrease in policies in force back towards our expectations. We will consider measures such as new products to accomplish this. At the same time, we will proceed with initiatives such as back-office efficiency improvements and the transfer of human resource to production departments.

<Asset Management>

Q: You plan to double the amount of alternative investments during the term of the Medium-Term Management Plan. Has there been any change in this policy in view of the current situation regarding hedging costs and PE?

○ The balance of alternative investments has increased by approximately ¥380.0 billion this fiscal year. However, this figure includes the effect of a weaker yen and the change in accounting standards. On a cash basis, the increase was around the level we anticipated.

○ Some of our PE investments are coming due for exit from the next fiscal year onward, and we expect the book value of the balance to settle at around the level forecast under the Medium-Term Management Plan.

Q: Do you plan to continue to sell hedged foreign-currency-denominated bonds from the second half onward?

○ Our policy regarding investment in hedged foreign-currency-denominated bonds is as stated on page 20. During the first half of the fiscal year, we sold a certain amount of these bonds, changing our plan from the start of the fiscal year (which was to maintain a steady balance) given the rising hedging costs.

○ We expect hedging costs to continue to increase in the second half, as the foreign exchange forward contracts we purchased when hedging costs were low will be rolled over into new contracts, and we will continue to sell hedged foreign-currency-denominated bonds. We had kept the duration of our foreign-currency-denominated bond portfolio quite short, at around five years. We will extend this duration as we reduce the portfolio balance, by selling down bonds with short remaining maturity.

Q:	Rising interest rates are often perceived in terms of negative factors such as the emergence of unrealized losses and increasing hedging costs. On the other hand, however, can we regard higher interest rates as effectively boosting profit margins?

〇 As you say, higher interest rates can boost profit margins in the medium term.

〇 However, not all assets can be replaced in a short period of time. Moreover, it is also true that hedged foreign-currency-denominated bonds make a significant contribution to income across the entire industry, and it is unclear to what extent this contribution can be covered through increases in the interest rates for yen-denominated bonds at present.

<EV>

Q:	With the decline in policies in force progressing at a faster pace than expected, what will be the effect of the changes in the structure of operating expenses associated with sales reorganization from April 2022?

〇 The decline in policies in force has been faster than anticipated due to a lack of growth in the new policies. This has led to a slightly increasing trend in unit cost. However, profitability is picking up, with an increase in annualized premiums for medical care due to the launch of a new medical rider in April.

〇 Regarding the changes in the structure of operating expenses associated with sales reorganization, the upfront increase in personnel expenses for consultants will be gradually offset by the decrease in commissions over several years. At present, although partially reflecting the increase in operating expenses, the calculation of EV assumes the structure of operating expenses before reorganization. From March 31, 2023, the assumptions will be changed to account for the structure of operating expenses under the new sales system.

〇 If the changes in the structure of operating expenses were reflected in the assumptions for the calculation of EV then it is possible that they may have a negative impact, considering the present status of policies in force.

Q:	What volume of policies is needed to achieve a value of new business of zero?

〇 That depends on the product portfolio, but a trial calculation based on certain assumptions and the structure of operating expenses after reorganization shows that new policy sales of two to three times last fiscal year's results will enable us to achieve a positive value of new business.

Q:	Is there no change in the target level of RoEV?

○ Regarding the prospects about EV, we will refrain from commenting at present. Our portfolio has changed more than anticipated, and while the increase in sales of the new medical rider has been positive for the EV outlook, the failure to attain new policies is a negative factor.

<Shareholder Return>

Q:	What is your policy regarding the dividends for next fiscal year? Are there any other conditions that need to be met for an increase in dividends, apart from the ones already indicated?

○ Shareholder returns are determined based on net income. Net income of this fiscal year has been generally in line with our expectations and, at present, we plan to implement shareholder return in accordance with the policy originally indicated.

○ No decision has been made for the next fiscal year onward. We will determine upon consideration of factors such as policies in force and the level of achievement of the Medium-Term Management Plan, in addition to future earnings and financial soundness.

Q:	Is there a chance you might consider the acquisition of treasury stock next fiscal year as well, if net income exceeds your expectations this fiscal year?

○ If net income this fiscal year exceeds expectations, we will consider shareholder return in light of an average total payout ratio of 40% to 50% in the medium term, which we have already indicated as our shareholder return policies. At present, however, there are no revisions on our consolidated financial results forecasts.

○ In order to continue to maintain the ratio of voting rights of Japan Post Holdings at 50% or less, it is necessary to acquire stock from both Japan Post Holdings and general shareholders. Therefore, we intend to conduct the share repurchase at an amount above a certain level.

Q:	Regarding shareholder return, what are your expectations for the total amount of dividends?

○ Although we are aware of the decrease in the total amount of dividends due to the share repurchase in the past, no decision has been made on the level of total amount of dividends at present.

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