Results for the Six Months Ended September 2015
Summary of Q&A

Q1. Your presentation materials state that you will consider additional shareholder return while taking into account developments on regulations, earnings growth and accumulation of retained earnings. What specific kinds of regulations do you have in mind? Also, what will be the timing and methodology for the additional shareholder return initiatives?

A1. We see the following three regulatory trends as having a major impact on the Bank: (1) Stricter regulations over interest rate risk in the banking book; (2) Revision of risk weight for Japanese Government Bonds (JGBs); and (3) Trends in leverage ratio regulations. We will keep a sharp eye out for any tightening of regulations, including the aforementioned three regulatory trends, and address them effectively. We will determine the timing for additional shareholder returns in light of the Bank's financial results and market trends, as well as its responses to the aforementioned regulatory trends. Because current conditions do not warrant additional shareholder return initiatives, we have not considered any specific additional initiatives. If we were to implement such initiatives, we will have several options to choose from.

Q2. Swap costs for currency hedges have been increasing. Have you made any changes in your policy of expanding foreign bond investments in the satellite portfolio?

A2. Although currency hedge costs are increasing at present, the Bank has continued to secure some margins given the comparatively high yields of foreign bonds. The Bank also uses hedging instruments other than swaps. Therefore, we believe that our mid term plan target of increasing the satellite portfolio balance to ¥60 trillion at the end of FY2018/3, is attainable. We will continue to respond according to market trends and other factors.

Q3. Given the critical importance of securities investment to JAPAN POST BANK, I would like you to consider disclosing unrealized gains (losses) on securities.

A3. As of September 30, 2015, unrealized gains (after adjusting for hedges) totaled approximately ¥6 trillion. The components were approximately ¥2 trillion of unrealized gains on held-to-maturity securities, approximately ¥1 trillion of unrealized gains on stocks, approximately ¥1 trillion of unrealized gains on currency, and approximately ¥2 trillion of unrealized gains on others. We intend to consider our approaches to disclosure while listening closely to the requests and opinions of stakeholders.

Q4. How do unrealized gains break down in terms of the base portfolio and the satellite portfolio? How will you realize those unrealized gains?

A4. Of the unrealized gains of approximately ¥6 trillion, approximately ¥2 trillion of unrealized gains on held-to-maturity securities are basically parts of the base portfolio. Of the remaining unrealized gains of approximately ¥4 trillion, around ¥1.4 trillion is related to domestic securities, and most of these securities, with certain exceptions, are parts of the base portfolio. The others are unrealized gains related to stocks and foreign securities, which are parts of the satellite portfolio. Barring any particular change in how we view the markets, our policy is to hold securities to maturity and realize appraisal currency gains upon redemption of securities. Looking at stocks, we could either sell or make additional purchases depending on the outlook for market conditions.

Q5. In the six months ended September 30, 2015, net fees and commissions rose by ¥2.4 billion year on year. What is your assessment of this result? Also, what kinds of issues must you tackle to drive growth in net fees and commissions?

A5. In our view, we made solid progress during the first six-month period of our mid term plan, which seeks to increase net fees and commissions by ¥10 billion by the end of FY2018/3. Meanwhile, we believe there is still growth potential in investment trust operations and certain other areas. Unlike other banks, JAPAN POST BANK does not generate fees and commissions in connection with lending and trading operations. Under such constraints, the Bank plans to focus on generating fee and commission revenues associated with the shift from savings to investment. Eschewing the status quo, we are doing our utmost to drive growth in net fees and commissions.

Q6. President Nagato, based on your management experience at Japanese and foreign financial institutions, what do you think are the strengths and weaknesses of JAPAN POST BANK?

A6. One feature of the Bank is that it does not conduct lending operations. Direct lending can generate relatively large margins. The absence of those margins is one major characteristic of the Bank. Given that it has a limited range of operations, the Bank must relentlessly focus on fields where it is able to freely generate fee and commission revenues and must transform those fields into one of its core future strengths. Moreover, we have strengthened our satellite portfolio investment organization, notably by bringing onboard Executive Vice President Katsunori Sago. I would like to make the Bank one of the world's leading institutional investors and transform this field into another core future strength.

Q7. Under your mid term plan, you aim to increase the satellite portfolio balance to ¥60 trillion at the end of FY2018/3. Does the plan's ¥60 trillion target represent an upper limit? Also, what kinds of factors will constrain or accelerate increases in the satellite portfolio balance?

A7. We do not consider the ¥60 trillion target to be an upper limit. I recognize that progress toward achieving the ¥60 trillion target is already being made ahead of schedule. However, considering factors such as market allocation, supply-demand conditions, and redemptions of securities under management, it will be considerably difficult to continue increasing the satellite portfolio balance at a faster pace than the current one. We would like to more aggressively increase satellite portfolio investments in terms of volume if we have opportunities in future, but at the same time, we are aware of the importance in carefully evaluating investment projects. Accordingly, we believe a considerable amount of time will be needed to increase the satellite portfolio balance.