

Results for the Fiscal Year Ended March 2018  
Summary of Q&A

Q1.

The capital policy is for securing a 50 yen dividend per share for the three years of the current Medium-term Management Plan, but I believe it is possible for the dividend payout ratio to exceed 100% for a year if there are unforeseen circumstances. Even in that case, will the dividend be maintained at 50 yen? In addition, would you please tell us your thoughts on your dividend payment in FY22/3 and beyond.

A1.

Of course, we do not plan for a dividend payout ratio of 90% or 100%, but even if the dividend payout ratio were high, we have created a strategy to secure a 50 yen dividend no matter what it takes.

Regarding FY22/3 and beyond, the three years of the current Medium-term Management Plan will be the toughest, and we believe that risk assets will reach a level that contributes to income in these three years. We are looking forward to four years hence, and the point is to what extent we can build up assets and the types of investment.

Q2.

Would you please tell us your approach to diversification for future investment and in particular towards foreign securities?

A2.

The diversification of portfolio assets is progressing right now, and since it is difficult to reinvest in Japanese Government Bonds (JGBs), the balance of the so-called SP (Satellite Portfolio) has increased in these 3 years.

The future direction will follow the trend to date with further increases in alternative investments that have grown to 1,460 billion yen. We will then further diversify, including extension of the approach to foreign bonds, while monitoring market levels.

Q3.

I understand the policy of securing a 50 yen dividend per share, but conversely, if there is excessive profit, I sense that there could also be expectations for higher dividends. In that context, is there a targeted range for the dividend payout ratio when taking a long-term perspective?

A3.

While nothing has been specifically determined, we have a sense that the dividend payout ratio will be in the order of about 50 to 90%. We acknowledge the need to be prepared that securing a 50 yen dividend regardless of the situation could in some circumstances result in the unfortunate position of having a dividend payout ratio of about 90%. So, we are putting initiatives in place to ensure this does not happen.

Q4.

Regarding the waterfall chart on page 50 of the IR briefing materials, the profit for the strategic investment area is more than 100 billion as far as the chart depicts. I think this probably means high risk, high return. What level of profit increase are you forecasting with this strategic investment? In addition, about what level of probability is there for increased profit in this section? Please tell us about the level of confidence.

A4.

We are thinking of 200 billion yen as a base. In fact, areas where profits have declined are JGBs for 150 to 160 billion yen and investment trust dividends and others for 120 to 130 billion yen. Given this level of decline, we hope to have a level in strategic investments that exceeds 200 billion yen.

Q5.

Regarding the profit level in the Medium-term Management Plan, the plan basically appears to be one of not using unrealized gains, excluding

gains on redemption of foreign bonds. I could understand the thinking that it is not the time to use unrealized gains if the management environment is always going to be difficult. However, if the next three years are going to be more difficult, I think there has probably been an idea of using unrealized gains in these three years so that gains could be generated from the core business four years hence. Would you please give us your thoughts on this?

A5.

Naturally, there are the market conditions, but unrealized gains can be used at any time. However, if unrealized gains are used, they then disappear. The company's top management would prefer to promote more effort in the strategic investment area rather than rely on such profits and has set a strategy that does not need to use such unrealized profits.

Q6.

Concerning the future relationship with Suruga Bank, as you are aware, a FSA inspection is currently taking place. Would you please tell us your thoughts?

A6.

The relationship with Suruga Bank commenced when we decided to provide housing loans (intermediation) 10 years ago and Suruga Bank reached out to us. We have nothing in particular planned as a result of the current issue. We do not believe that at this time there is a situation at Suruga Bank that would point to a fatal problem in Suruga Bank's governance, so we intend to continue our cooperation.

Q7.

Would you please tell us your thinking about deposit limits?

A7.

The deposit limits are not something that has yet been decided and are subject to a Cabinet Ordinance, which will ultimately be decided by the

Cabinet. Therefore, I would like to refrain from strongly expressing my opinions.

Due to the negative interest rates, we are trying to somehow reduce our BOJ deposits. In addition, it is important to cooperate with regional financial institutions in forming regional funds, etc., and we would like to promote this effort. I would hope that the institutional investors could understand the difficult situation facing us.

Q8.

Would you please tell us your plans for increasing the investment trust balance? Which sector in the triangle chart on page 48 of the IR meeting materials do you forecast will grow? In addition, please tell us about the measures to be initiated to achieve this.

A8.

We are taking initiatives with the aim of doubling the current investment trust balance three years from now, at the end of the current Medium-term Management Plan, to 3 trillion yen, growing to 10 trillion yen in 10 years' time.

In addition, we are putting considerable effort into investment trusts for customers without investment experience. The issue is the extent to which we can give customers of post offices nationwide an understanding of asset management. The concept is to explain investment trusts for beginners to customers while utilizing products such as installment NISA to generate long-term holdings.

On the other hand, many of our customers are experienced investors, so we are also implementing initiatives to propose products suitable for this group. We have a total of 127 investment trust products (as of the end of March 2018), which included so-called balanced products and products that specialize in income. We plan to propose these products to customers using strategies aligned with the respective customer groups.

Even in relation to the sales structure, we currently have about 1,400 post offices as investment trusts sales locations with about 18,000 post offices as investment trust sales support locations. In addition, various asset management companies have conducted lectures concerning products, etc. to our customers and our own salespersons and Post

Office staff. We have put considerable effort into how to provide appropriate explanations to customers.

Q9.

Would you please provide comments concerning matters such as the type of management there will be in the Investment Division, the background to the head of the Investment Division stepping down, and how things will be controlled with team management?

A9.

We announced on April 26 that Director and Representative Executive Vice President, Mr. Katsunori Sago, will step down. The background is a private matter for him, so I will refrain from discussing the matter.

In terms of the Investment Division, we have been proceeding with a switch to organizational management for some time and have prepared the structure by increasing numbers and implementing measures such as scouting personnel. Going forward, Senior Managing Executive Officer, Mr. Kunio Tahara, and Senior Managing Director, Mr. Taiichi Hoshino, will be jointly responsible for leading the Investment Division of about 200 employees.

The connection between our bank and Mr. Sago commenced prior to listing, but when improving the portfolio since then we have scouted for personnel based on the idea that professionals are needed, and we have also changed the evaluation system. Together with this, we started taking on so-called business risk by establishing Japan Post Investment Corporation, and we are in the middle of recruiting personnel for this area as well.

In this way, while securing personnel that can confidently take the lead just as Mr. Sago did, we have also proceeded to build a structure, so we do not believe there is any need for concern.

Q10.

The current Medium-term Management Plan looks ahead to 10 years hence. What do you think is the biggest management risk and risk that includes income when looking 10 years into the future?

A10.

Since I believe that at least the current low interest rate environment will continue for a long time, I believe we must increase our risk assets in the equity sector (that other banks do not do) and not the debt sector. In that context, we have proposed cooperation with regional financial institutions such as for regional vitalization funds, so any impediments within the Japanese finance industry and the emergence of various impediments between various regional entities (regional financial institutions, local public bodies, etc.) would be the biggest risk for our business model.

Another thing is that I am currently the president and was the one that created this vision, so it will depend on how long this is sustained. Even if there were to be a change in top management, I would like them to conduct business that is in agreement with this idea. The biggest risk for governance is shifting and changing in midstream.

We spent a lot of time formulating this Medium-term Management Plan. I would like for this to manage to stay in effect for the full 10 years. The biggest risk is to turn into a structure where such assumptions could be overturned.

I do not think that this will happen, but I cannot rule out that something might happen somewhere.

End