Listing of "3 Japan Post Group Companies"

"3 Japan Post Group Companies" are scheduled for listing on the Tokyo Stock Exchange on November 4th. They are the Japan Post Bank, the Japan Post Insurance and their holding company, the Japan Post Holdings. This will be Japan's biggest listing since NTT (Nippon Telegraph and Telephone Public Corporation) in 1987. The amount of initial public offering (IPO) is expected to be around JPY 1.4 trillion and estimated market capitalization of bank, insurance company and holding company are JPY6.5 trillion, JPY1.3 trillion and JPY 6.3 trillion, respectively. This is one of the major topics of the stock market as applications for pre-listing sales were strong due to relatively high dividend yields.

Point 1 Capital raised by the listing will be used as a reconstruction fund for the Great East Japan Earthquake

Japan Post Bank, Japan Post Insurance and Japan Post Holdings will be listed

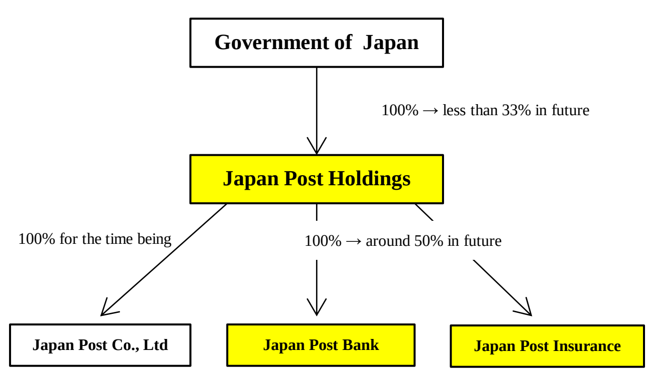
- Japan Post Holdings is a holding company succeeding the traditional Post Office and holds 3 group companies; the postal savings services as the Japan Post Bank, the life insurance services as the Japan Post Insurance and the postal services as the Japan Post. Japan Post owns the nationwide post office network and is entrusted business operations of Japan Post Bank and Japan Post Insurance.
- Japan Post will not participate in the IPO this time. The government's profits gained by Japan Post Holdings' IPO is planned to be used as a reconstruction fund for the Great East Japan Earthquake.

Point 2 Low profitability but high dividend yield

Parent-Child listings have some issues

- If you measure profitability of the operating companies; Japan Post Bank and Japan Post Insurance, using ROE (Return on Equity), it is lower than their peers. Various restrictions on their business operations and cost of maintaining post offices all over the country through payment of consignment expense are the reasons for their lower profitability. There are some criticism of profit transfer between parent and child companies pointing at this unique business structure.
- Dividend yield of Japan Post Office, Japan Post Insurance and Japan Post Holdings based on IPO price are 3.4%, 2.5% and 3.3%, respectively, which are relatively high and attractive considering stable dividend payout.

Shareholding Structure of the Government and Japan Post Group Companies



(Note) 3 companies in yellow-colored box will be listed this time. Percentage indicates shareholding ratio.
(Source) SMAM, based on Japan Post Holdings materials.

Future Outlook

Focus will be on the sales of the remaining stocks held by the government and lifting operational restrictions after the IPO

■ What will be the Government's final shareholding ratio of the 3 Japan Post Group Companies?

The government is planning to sell stocks of Japan Post Holdings to reduce the shareholders' ratio from 100% to little above 33%. Shareholders' ratios of both Japan Post Bank and Japan Post Insurance are scheduled to be reduced gradually down to around 50% from 100% currently held by the Japan Post Holdings.

■ How are the growth potential of the 2 financial companies?

Currently, various operational restrictions are imposed on the 3 Japan Post Group Companies such as Japan Post Bank unanable to provide loans. After the IPO, improvement of profitability is expected through rationalization and lifting of operational restrictions of the Japan Post Bank and the Japan Post Insurance in the long run.

*** Please note that this report is a translation of Japanese report written on October 27th, 2015.**

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