Results for the Six Months Ended September 2016

Summary of Q&A

Q1. I have two questions. The first one is about the balance sheet on page 11. There has been a trend where investment in JGBs is declining and, instead, funds for investment is being diverted to foreign bonds and money held in trust as well as deposits at the Bank of Japan. Recently, yields on 10-year JGBs have become positive, so, although this is not an operation from the viewpoints of ALM or duration matching, could you tell us whether JAPAN POST BANK intends to buy some amount of 10-year or 20-year JGBs to avoid the Bank of Japan's negative interest rates?

The second question is about ATMs on page 16. I heard that the Bank has already installed a number of ATMs in advance at FamilyMart stores, and I would like to know how you see their utilization rate and profitability.

A1. In regard to the first point, deposits at the Bank of Japan naturally change from time to time, but we have been acquiring some amount of JGBs since before, and currently, we are considering how we should move funds in low-interest rate products to other products. I apologize for not being able to disclose numeric information but we have started acquiring JGBs.

Regarding the second question, we have already installed 500 ATMs at FamilyMart stores. Of course, these were installed by us, so the Bank's customers can use them free of charge. Although it is really difficult to determine their effect on our returns, FamilyMart says that their sales are growing strongly. The remaining 3,000 ATMs will be installed going forward but we haven't decided on a specific strategy yet.

Q2. There are two questions I would like to ask you about. The first one is about how far the Bank will be able to shift funds to the Satellite Portfolio, whether the capital adequacy ratio is a constraint on this, and whether there are other risk indicators involved. Could you please explain how far it will be possible to shift funds to the Satellite Portfolio?

The second point concerns cost reductions. The expense ratio is rather high, and a large part of these expenses consists of commission payments to Japan Post. In regard to this, I am fully aware of the arm's length rule, but does the Bank have room to reduce this portion of expenses? More specifically, I understand that all you can do is reduce costs at direct branches, but will it be possible to reduce these expenses over the medium to long term through cost reductions at direct branches? Also, on this occasion as well, I heard that although the portion of expenses at direct branches has been decreasing, total expenses ultimately ended up increasing. For example, there is an incentive for post offices to steadily build up deposits. However, I think this is a structure where costs tend to rise when deposits accumulate, so it is really difficult to reduce costs. Could you please respond to these points?

A2. Regarding the first point, naturally we have an investment division which is headed by Mr. Sago, a representative director. We look at and manage various constraint factors at the ALM Committee, which includes Mr. Sago, and among these, we discuss about what level of capital adequacy ratio is permissible for us, and also for financial market participants, even though the domestic standard is not so strict, as you pointed out. I cannot mention any numeric information, but of course this is a matter of interest.

In addition, we carry out stress tests looking at stress during the past 10-year observation period. I recognize that our stress tests are based on rather tight stress scenarios and consider this to be another constraint.

The second point is a very tough one to answer. A similar question was asked previously as well, and the overhead ratio (OHR) is high based on our own experience. However, that is partly because it is inevitable in this kind of business. Most of these expenses consist of about 600 billion yen in agency commissions. We are discussing these with Japan Post, which is our agent, but one major trend is that we reflect our own costs required at direct branches to settle the unit cost we pay to Japan Post. Another point you mentioned is incentives for making deposits. Given the movement seen in Japan spurring a shift from savings to sales of asset management products such as investment trusts, we will have to discuss how to deal with agency commissions in regard to this point.

Nevertheless, based on past experience, we recognize that a certain level of deposits is required. I think that our greatest challenge going forward is probably how to balance these two factors. In my opinion, we will have to change incentives for deposits to incentives for so-called asset management products. Of course, this will involve our agent, but we intend to reach this objective as far as possible, and I believe that will unfortunately take some time.

Q3. It seems that raising the limit on deposits has been discussed again by the Financial Services Agency. Deposits did not actually increase greatly when the limit on deposits was raised previously, but whether the limit is raised or not, it now seems they will increase and the Bank will not profit from this. The situation is that money at a time of negative interest rates is building up as deposits at the Bank of Japan. Therefore, as a corporate entity, is it possible that the Bank come up with some way to avoid being too much at the mercy of this political trend?

A3. I understand that such concerns are logical as all the people here are financial experts and involved with finance. For example, the limit on our deposits was raised by 3 million yen from April, but this has also led to an increase in costs.

I share similar concerns as a top executive but we have to accept that it is our destiny as a bank being questioned whether it is better or not to have a limit on deposit or what kind of level it would be appropriate?

We will make efforts to divert funds to asset management products and we intend to adopt a system that increases incentives for the sales of asset management products.

End