

Results for the Six Months Ended September 2017  
Summary of Q&A

Q1.

I have two questions on Fintech. The first point is that there is a view that the use of cash will decrease in the long term. What is your view on the deployment of ATMs?

The second point is on the implementation of IT throughout operations. Megabanks are discussing the implementation of IT in relation to branches, but how does your company position IT?

A1.

We are sufficiently aware that the circulation of cash and the usage of ATMs will decrease in Japan, going forward. However, the situation will diverge extremely between urban areas and regional areas, in the latter of which ATM demand will remain. We believe that the bank's mission includes the harmonization of urban and regional areas, so we will seek this harmonization and will adjust the number of ATMs and its cost over five or ten years, while keeping in mind the rapid expansion of smartphone culture. Regional financial institutions also have the needs for coordination with us as the last resort, and we would like them to utilize our ATMs from the perspective of fees & commissions business.

With regard to the implementation of IT, we will promote smartphone-based payments, riding the wave of the smartphone culture mentioned earlier.

Q2.

Could you answer to the extent possible whether it is possible that you will respond in the form of acquiring treasury stocks if Japan Post Holdings would sell shares of Japan Post Bank in the future?

A2.

Recently, newspaper media reported that the Ministry of Finance would conduct the next public offering of Japan Post Holdings (before that of two financial subsidiaries) to reach the target of 4 trillion yen in reconstruction funds, but we do not know if that is true or not, and the same applies to when Japan Post Holdings will conduct the next offering of Japan Post Bank.

Therefore, the bank's capital policy in that case is completely open right now.

Q3.

I have two questions. The first point is that you have increased front office personnel as alternative investment increases in investment type and volume over the past year with regard to the sophistication and diversity of asset management, as shown on pages 13 and 14 of the presentation materials, but could you describe the strengthening of the middle office risk management system?

The second point I would like to ask about is to what extent you will tolerate a decline in the capital adequacy ratio with respect to the gradual decline in the capital adequacy ratio associated with the increase in risk, and whether you intend to increase risk.

A3.

We have a total of approximately 300 personnel in the Investment Division and the Risk Management Division, and around 100 of these are staff members of the Risk Management Division. In our operations as well, we periodically hold ALM Committee Meetings, and make decisions with respect not only for the passion of front offices toward new business, but also considering the opinions of the ALM Division and the Risk Management Division. We never disregard ALM or risk management in any way.

We intend to indicate the guidelines for our capital adequacy ratio in the next medium-term management plan. Of course, we cannot make any profit without taking risks, so we are currently examining to what extent we need to take risks and to what level of return we seek, while giving sufficient consideration to the fact that risk assets will increase if we commence GP operations scheduled in the future and that Basel Capital Accord is supposed to be revised, etc.

Q4.

I have two questions. The first point is that you have significantly increased support post offices for investment trust sales since July, so could you explain how these post offices function, including how much of the role they have performed so far, the specific number of transactions, and the like?

The second point is that I would like you to tell us as much as possible about compact ATMs in FamilyMart, including the specific number of uses of compact ATMs already installed.

A4.

Support post offices for investment trust sales and compact ATMs have only recently commenced, so we are not at a stage where it is appropriate to evaluate numerically. Nevertheless, we would like you to understand that we are laying the seeds for the future.

Let me add one point concerning investment trust sales. In terms of the average holding period, our customers exceed the average of all financial institution counters across Japan (about 3 years) by one year, and focusing only on post office customers, that is further longer by one year. Increasing numbers of post offices to handle or support investment trust sales is aimed at stimulating consumer demand for asset management. At present, the sales amount of investment trust products in our direct branches exceeds post offices by a ratio of around 2:1, and we intend to increase the portion corresponding to this “1” part.

Q5.

I have two questions. The first point is that recently, megabanks have all announced restructuring, downscaling of business and reduction of personnel as rebuilding plans, while regional financial institutions are also accelerating efforts to restructure, in which we can clearly see an increasing sense of urgency concerning bank management, but do you have any comment on these developments?

The second point is to ask whether you feel the current management environment including the market environment has become more difficult compared to when you were appointed as President of the company? Alternatively, do you feel that the environment has improved since you were appointed?

A5.

Megabanks and regional banks are basically based on the business model of a full bank. But I reflected on whether a full bank-oriented management would really benefit the bank in the future, and as President I have decided that we should target a sort of retail investment banking, and specifically, give up the lending business.

Therefore, we have already been on this course and preparing a new medium-term management plan based on that, I think the main point in terms of structural reform is how to respond to the implementation of IT.

I think the issue of personnel will change considerably over five or ten years, along with the implementation of IT.

As I mentioned earlier for reference, the workload has decreased by almost half

and we would like to adjust personnel issues by optimizing new hiring while maintaining skilled personnel. Furthermore, we have already been taking an initiative in improving administrative efficiency, by launching the Image Work Flow (IWF) operational processing, which has already been introduced in two Operation Support Centers in Nagano and Tokushima, and been scheduled to be implemented in all of 11 Operation Support Centers across Japan within the next two years. We intend to simplify administration and shift personnel to more productive tasks.

With regard to the second point, the negative interest rate policy was introduced two months prior to when I was appointed. Indeed it is a very harsh reality, but I think this is a good chance to achieve the business reform in investment management. Alternative investment should be the vanguard of this, and we are currently preparing the next step of expanding new business.

Anyway, I think the implementation of IT and the negative interest rate environment must be a good opportunity for us to conduct structural reform. We have already released the new vision and are currently considering how to specifically roll it out.

Q6.

President Ikeda, with regard to the appropriate number of branches in your view, please tell us to the extent that you can about how many branches and post offices will be required over the next decade, and how they should be reorganized.

A6.

We frequently discuss about the future of our direct branches and post offices with Japan Post Co. and other stakeholders, but we have not reached any particular conclusion as yet. It has also been argued that not only the matter of numbers, but also the matter of respective functions should be discussed.

Of course, so many stakeholders are involved, and we cannot decide everything by ourselves, so please let me withhold any further comment on this issue here and now.

End