

Results for the Six Months Ended September 2018  
Summary of Q&A

Q1.

You have stated in your Medium-term Management Plan that your dividend policy is for stable dividends at 50 yen. Are you planning to secure 50 yen in dividends even if the payout ratio rise up to 80% in the future?

A1.

Our basic dividend policy is to secure a 50-yen dividend during the Medium-term Management Plan rather than focus on payout ratio.

Q2.

Recently, megabanks have begun to work together with regard to their ATMs, and I think this movement will increase in the future. What impact will this have on your bank's future strategy? What is your long-term approach for ATMs?

A2.

We basically intend to work with regional financial institutions. Around 20 to 30 percent of our 29,000 ATMs are in urban areas. We think it is important to work together in regional areas and that is why we intend to mainly work with regional banks.

There are currently twelve regional financial institutions offering free of charge the usage of our ATMs, and Aozora Bank has entrusted its entire ATM management to our bank. The Bank of Kyoto has entrusted to us the management of its ATMs located in areas other than Kyoto. These have helped to lower costs in our business.

There are also increasing efforts to work with post offices. The Miyazaki Bank decided to close its sub-branch in Shiiba village, and reached an agreement with Japan Post to install a The Miyazaki Bank ATM next to the post office given the technical difficulties to share ATMs. Japan Post is leasing the location for The Miyazaki Bank's ATM. The move is aimed at responding to the fact that we cannot conduct real estate business as a bank.

As such the path we have taken so far is to proceed mainly with regional financial institutions.

Q3.

With regard to new businesses, it seems that the launch of your overdraft services linked to ordinary deposit accounts is slowing. What is your approach to your overdraft services linked to ordinary deposit accounts?

A3.

We have been proceeding with preparations to begin overdraft services linked to ordinary deposit accounts from around the beginning of next fiscal year, and have received approval for overdraft services linked to ordinary deposit accounts using SDP, which is a wholly-owned subsidiary of Suruga Bank, as a guarantee company. At present, some of Suruga Bank's operations have been suspended. According to an announcement by Suruga Bank, a business improvement plan will be submitted by November-end. We do not know what will happen to the parent company and we need to consider what to do in the worst-case scenario. Although we will try to be on time for next April, this could be delayed depending on the situation.

Q4.

In the information from the Bank of Japan, the central bank appears to be growingly concerned on the adverse effects of negative interest rates than in the past. I think your bank is one of the financial institutions heavily affected by negative interest rates. What kind of communication have you had with the Bank of Japan regarding this?

A4.

At the end of July, the Bank of Japan allowed long-term rates to move upward and downward by around 0.2%. We assume the impact of negative interest rates has been alleviated compared to before. To increase lending leads to decreases in the balance subject to negative interest rates, although you may be aware that lending is not our main business. We have been increasing loans to governments since last year

to reduce the balance subject to negative interest rates.

I spoke with Deputy Governor Mr. Amamiya recently. Although it would be better for us not to have to pay negative interest rates, I am not in a position to judge Bank of Japan policy. Our focus is to decrease the balance subject to negative interest rates within the possible range.

Given the rise in the short-term LIBOR for foreign currencies, our investment options are narrowing. However, we intend to cover up the downside by investing as much as possible in variable interest rate instruments such as direct lending funds and bank loans.

Q5.

Unrealized gains were approximately 3.3 trillion yen at the end of September and have decreased by over 400 billion yen over the past six months. Do you think that this decrease is fine because there is 3.3 trillion yen or the decreasing pace may be a little too fast? Could you also comment on the perceived level of unrealized gains/losses, and the trend we should expect going forward?

A5.

It has certainly decreased compared to FY2018/3-end, but what we are constantly monitoring is not only the amount of realized gains but also our net assets per share. In addition, we are analyzing the increase/decrease of unrealized gains/losses by investigating its reasons, such as whether it is due to the selling of assets, redemption of assets, or fluctuations of the markets, and recognize whether the level is acceptable.

Q6.

In the strategic investment area, could you comment on your impression about increasing investments to the current level, such as whether it has gone better than expected or there have been issues in increasing the amount?

A6.

The strategic investment area increased by 850 billion yen compared to the end of March. Much of this increase has been in hedge funds and

private equity. We plan to keep a close eye on our investments in hedge funds as the conditions vary considerably depending on the market. Meanwhile, we have a variety of referrals concerning private equity, and we would like to increase these in the future. Real estate funds have increased by 300 billion yen since FY2018/3-end. We are focusing on non-recourse loans and CMBS given their high returns. We have announced in our Medium-term Management Plan that we will increase the strategic investment area to a level of 8 trillion yen, but we would like to proceed with the right balance considering such factors as risks.

The response we have felt at present is that we have gotten off to a decent start. We have newly begun investment in direct lending funds, and although it has not made much of a contribution yet, we believe that this will eventually grow.

Q7.

In recent movements with ATMs, financial institutions are decreasing their ATM under management or contracting their ATM operations to third parties. The movement could accelerate outsourcing ATM operations to your bank at a faster than anticipated pace. If that occurs, how much do you think ATM-related fees would increase?

A7.

At present, we have been engaged in negotiations with most banks in Japan. Since some regional financial institutions feel hesitant about ATM partnerships with our bank, we will take our time to slowly accelerate.

Q8.

There have been movements suggesting an increase in deposit limits, and the limit may increase much more than in the past. I think your answer so far has been that there will not be a large impact, but is it your view that there will not be a very large impact even if the increase in the limit is larger than before?

A8.

Raising of deposit limits is subject to a cabinet ordinance, and the

extent of our knowledge is also limited to newspaper coverage. I am sorry, but I would like to refrain from making any comment on this matter.

Q9.

I think an increase in consumption tax would raise costs, affecting performance or operations of your bank. How do you intend to manage this cost?

A9.

We paid just under 20 billion yen in consumption tax for the first half of this fiscal year, and the tax payment will likely increase by around several billion yen per year if consumption tax is raised from 8 to 10%, based on very rough calculations.

Q10.

How do you intend to develop merchants using Yucho Pay? Will this be done by your bank employees, or will it be outsourced?

A10.

Merchants are the most important aspect of this business, and the selection as well as the marketing is handled in-house. I have been visiting major merchants together with Representative Executive Vice President Mr. Tanaka and Senior Managing Executive Officer Mr. Murashima to promote the usage of QR codes. We would like to expand on such efforts. We have a target of how many merchants we would like to reach, but I would like to refrain from commenting further.

End