

Results for the Fiscal Year Ended March 2019
Summary of Q&A

Q1.

As to the status of securitized products exposure, the CLO balance greatly increased from the end of March 2018 to the end of March 2019. Can you tell me whether you will be increasing it in the future or whether you intend to remain the balance at the current level? In addition, please tell me what kinds of risks you feel exist with respect to the CLO.

A1.

As to the current state of the global economy, each country is finding itself cyclically in severe circumstances. We will tackle managing securitized products based on credit cycles, the state of the US economy, and other factors. The original assets of these securitized products are currently almost all in North America, but we are also making investments in Europe to diversify the risk. If the opportunity arises, we intend to invest in securitized products.

Q2.

ATM related commissions are increasing due to the popularization of ATMs in convenience stores. How do you intend to go forward with respect to tie-ups with regional financial institutions, such as by replacing the ATMs of the regional financial institution with Japan Post Bank ATMs? Moreover, can you tell me how you view the competitive relationship with Seven Bank, Ltd.?

A2.

As to funds, we have been cooperating with regional financial institutions since July 2016, and we are participating in 18 funds.

As to ATMs, the price per ATM is increasing. We understand, therefore, that due to the burden on regional financial institutions of purchasing ATMs, regional financial institutions need tie-ups with other entities.

As to our small-type ATMs, the cost of one unit is cheaper than a regular ATM, and we intend to increase the number of small-type ATMs to approximately 6,400 units in the future.

Furthermore, due to costs caused by the issuance of new banknotes, we expect that regional financial institutions will become as efficient as possible and

collaborate on low cost operations. Last fiscal year, The Bank of Kyoto, Ltd. entrusted us with the ATMs outside of Kyoto Prefecture, and The Kagoshima Bank, Ltd. is similarly leaving ATMs in Okinawa Prefecture to us. Observing such strategies of regional financial institutions, we believe that cooperating with regional financial institutions with respect to ATMs will be a significant trend.

Moreover, besides Seven Bank, Ltd., we guess that if mega-banks consolidate their ATMs, they will take part in this field of cooperating with regional financial institutions, but consolidation has mostly completed.

Incidentally, I do not think that cash will completely disappear. In addition to credit cards, we are already issuing prepaid cards and debit cards, and on May 8, we commenced a QR code payment service in which smart phones are used.

Accordingly, our policy now is to go forward with both cash payments and non-cash payments.

Q3.

As to the current state and the prospects of regional banks, the news is pessimistic, such as the decline in population and asset management difficulties. What are President Ikeda's thoughts on the current status of regional banks? In addition, in this context, I think that Japan Post Bank is perhaps, in a broad sense, able to tie-up and cooperate in ways other than just with ATMs and regional revitalization funds. Could you tell me what your approach is to this?

A3.

My own opinion on this is that, as has been mentioned, all regional financial institutions are working extremely hard under current low interest rate conditions. I understand that a great emphasis has been placed on running a low-cost operation, and progress is being made. As to what we will do aside from ATM tie-ups, I think that next will be optimization and consolidation of administrative functions. Our strongest point is that we have Operation Support Centers, and we are thinking of consolidating administrative functions there.

Q4.

In the fiscal year that ended March 31, 2019, special dividends amounted to 80.7 billion yen, and this may have been the factor that decreased income. While currently the credit spread is tightening, for the current fiscal year, what amount are you projecting for special dividends? Furthermore, can you tell me when

dividends that could not be recorded as income will be recorded as income?

A4.

For the fiscal year ending March 31, 2020, we project that special dividends will be approximately 75 billion yen. The credit spread that expanded until the end of December tightened at the end of March 2019; therefore, if this trend continues, I think that the outlook might be slightly conservative. As to special dividends, because the book value will decline, that portion of income can be expected at the time of cancellation.

Q5.

Are you thinking of engaging in any new business if, in the mid-to-long term, the government's proportion of shares held decreases to around one third?

A5.

The Postal Service Privatization Act states that all shares in the bank held by Japan Post Holdings are to be disposed, but there is no time frame. If Japan Post Holdings sells down to half of its shares in the bank, then it will be possible to carry out operations simply by notification without the currently required permission. For us, we believe that if Japan Post Holdings which holds 89% of our shares is to sell down to 50% of all our shares soon, we will be able to take a long-term view of things.

Accordingly, the number one matter is properly completing the mid-term plan. And the next talking point for us is what kind of new business we will push forward after the plan is complete; in other words, what kind of preparations will we make in the context of the current financial environment. We are considering our next business model, and we believe that there must be compatibility with our current business. As to the question of what possible businesses there are, there has been a slight delay in this, but we are currently in the middle of examining establishing a bank account overdraft service, for which we already gained permission at an early stage, and then implementing the shift to digital.

Q6.

To what extent are you considering reducing the capital adequacy ratio?

A6.

In the mid-term plan, the capital adequacy ratio level that should be secured is set at 10%. We anticipate that it will decline to 13%.

Q7.

As to a forecast for the strategic investment area, I think that structurally, up until now, the aim has been for income of 200 billion yen, with a balance target of 8.5 trillion yen and interest at 2% by the last fiscal year of the mid-term plan to compensate for the subsequent reduction in gains on redemption of foreign bonds. As to decreasing the balance forecast to 4 to 5 trillion yen, does this mean that, based on the market conditions, the forecast has been decreased to an income of several tens of billions of yen from interest of approximately 1% on 4 to 5 trillion yen? If the income forecast for the strategic investment area is several tens of billions of yen, I think that remaining one hundred and several tens of billions of yen will be made up for by shifting mainly to foreign bond investment. What kind of amount are you considering?

A7.

As to the forecast for the strategic investment area, it has been decreased from 8.5 trillion yen to 4 to 5 trillion yen, a decrease of approximately 4 trillion yen. On the other hand, the forecast for the balance of risk assets has been increased by 3 trillion yen from 87 trillion yen to approximately 90 trillion yen. The plan is for risk assets to make up the 4-trillion-yen decrease in the strategic investment area and increase the total by 7 trillion yen by adding 3 trillion yen. As to income for the decreased portion of the strategic investment area, we intend to compensate by increasing our risk assets and generating income in other areas.

Q8.

It is expected that, with the post-review calculation method, there will be an increase in agency commission in the fiscal year ending March 31, 2020, compared to the fiscal year ended March 31, 2019. Can you tell me the mid-term forecast? In addition, what is the forecast in the mid-term plan? Will this cause costs to increase?

A8.

In the past, we paid an agency commission to Japan Post. Under the new system,

however, the contribution is paid from an independent administrative agency, and besides of it, we pay the “new” agency commission. The agency commission was paid in accordance with “the amount corresponding to the cost of agency commissions” which is calculated based on the cost of our directly-operated branches. Therefore, we would like to decrease commissions through low-cost operation in our direct branches. The “new” agency commissions for this fiscal year is calculated to be the difference that is subtracted the contribution from “the amount corresponding to the cost.” The contribution each following year is determined by the government. As to the “new” agency commission from the next fiscal year onwards, it is determined by multiplying the change in the rate from a year ago of “the amount” by the agency commissions for the previous year. We intend to reduce the rate as much as possible by efficient operation at our direct branches.

A reduction in agency commission has been assumed in the mid-term plan, but the system change has not. Even after the system change of this time round, we would like to reduce the agency commission by continuing to try to be efficient.

Q9.

As to Yucho Pay, President, you mentioned that cash would remain, but there were great expectations for the field of QR code payments. What kind of expectations do you have with respect to this field in the future? Furthermore, two weeks have passed since the service was launched. Can you provide us with an update on current activities?

A9.

Specifically, we are expecting to reach our membership goal of 10 million people over a three-year period. In addition, currently, there are approximately 10,000 branches of partner companies that use QR codes. At this point in time, membership is approximately just under 70,000 after only three or four days since commencing the service; it is highly regarded. The framework is such that we are compensated if a member of another bank that is linked to our bank by QR code makes a payment at a branch of a partner companies we have founded. Therefore, I think that further increasing the number of partner companies and members over the next one to two years will be crucial.

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