Results for the Six Months Ended September 2019
Summary of Q&A

Q1.

With regard to the future outlook for income, how will you cover the cliff in gains on redemption of foreign bonds in the fiscal year ending March 2022?

A1.

This is a topic that will be considered in the next Medium-term Management Plan, but we are considering a variety of tactics concerning the cliff in gains on redemption of foreign bonds. For example, we would like to consider a variety of ways to cover up the downside, such as utilization of unrealized gains on available-for-sale securities.

Q2.

One conceivable approach to account management fees is to charge fees on unused accounts. What is your approach?

A2.

Please understand that it is difficult to take the lead on this because we must consider relationships with other banks.

However, our basic approach is that we will proceed without eliminating anything from the available options, and we are considering what we can do including fees on unused accounts using passbooks.

Q3.

Do you envisage net interest income of the Overseas undergoing a positive change year-on-year following an anticipated improvement in foreign denominated interest expenses from the recent market environment?

Furthermore, am I correct in my understanding that interest expenses in the Domestic will decrease once the impact of the campaign for TEIGAKU deposits runs its course next fiscal year and the fiscal year after next?

A3.

During this fiscal year, we would like to make progress in offsetting the drop in the Domestic as much as possible by expanding the Overseas, centered on interest on foreign securities. Marked improvements can be seen in hedging costs and non-revenue dividends of foreign investment trusts when comparing those of the second half of the fiscal year ended March 2019 with the first half of this fiscal year.

Interest expenses in the Domestic Division have improved by 23.3 billion yen year-on-year, but this is mainly due to a decrease in interest on deposits. The decrease due to the impact of TEIGAKU deposits that you pointed out is expected to slow down partially due to the timing of maturity.

Q4.

ATM-related fees such as net fees and commissions have continued to increase since the start of this fiscal year. Is this due to an increase in the number of ATMs or an increase in the number of daily transactions per ATM?

A4.

As installations of ATMs increase, they are still in the launch phase and I am unable to disclose the number of daily transactions per ATM, but the general view is that it is taking time for revenues to become established.

The ATMs installed in Family Mart stores have cost benefits over other ATMs.

In addition, some regional financial institutions have commented that ATM maintenance costs present difficulties. At present, the regional financial institutions with which we have partnered in making the Japan Post Bank's ATMs free have entrusted other regions to the Japan Post Bank, such as outside of Kyoto prefecture for the Bank of Kyoto, and Okinawa prefecture for the Kagoshima Bank, but this is a tactic for encouraging use of Japan Post Bank's ATMs, and partnerships are increasing.

Also, the ATM Business Department was launched last year to centrally manage all ATM business, and total revenue and expenditure including costs are improving. In addition, we are also making progress in the removal of high-cost ATMs and are ascertaining positive and negative results in revenues.

Q5.

How will the inappropriate handling of investment trusts for elderly customers affect revenues, etc. in the future?

A5.

As of the present, we have not lowered the target of a net increase of 3.4 trillion yen in AUM of investment trusts that we specified in the Medium-term Management Plan. Japan Post is refraining from sales, and we expect to come to a temporary standstill for the next six months, but will conduct sales thereafter to ensure there is no negative change.

Q6.

Based on the present conditions, I believe the foreign currency funding expenses will rise in the second half of the fiscal year. Could you provide a sense of scale in terms of the amount?

A6.

I cannot generalize because foreign currency funding expenses depend on market conditions, but in terms of sense of scale, the hedged portion of short-term cross-currency swaps will be a slightly more than 40 trillion yen out of some 60 trillion yen in in-house foreign bonds and foreign investment trusts combined. Based on certain assumptions, given that approximately 60 percent of this amount is also subject to interest rate hedging, it is possible to calculate a rough estimate of the scale of short-term cross-currency swaps at approximately 40 trillion yen x 40% x the decrease in the policy rate.

In addition, we also hedge 5 to 6 trillion yen by repo-transactions, and this also needs to be taken into consideration in terms of scale.

And also, we have to take into account the spillover from US short-term interest rate to Japanese short-term interest rate, and the impact of decline of US long-term interest rate on our investment yield.

Q7.

If other banks implement account management fees, will you be able to avoid following suit and delay implementation?

A7.

It would be necessary to secure the understanding of 24,000 post office, and we will not introduce fees immediately even if other banks do. However, we are considering what we can do including charging fees on unused accounts using passbooks.

Q8.

Assuming that market conditions are constant and that the trust period is three to five years, am I correct in my understanding that the unrealized gains on investment trusts shown on page 24 of the briefing materials for the results will come out as gains on cancellation during this period?

A8.

We cannot say a definite amount will be generated. For example, in case the trust period is five years, we conduct operations while monitoring individual conditions, such as considering whether to continue holding the trust or canceling it, taking into consideration the pros and cons at times such as when there is one year remaining.

Q9.

Broadly speaking, as we enter the final phase of low interest rates and the credit cycle on a global level, you lowered your target of strategic investment from 8.5 trillion yen to 4 to 5 trillion yen in May. How much of this will be covered by other investment assets?

Dividends of 50 yen per share are your strength, but what is President's view on dividends given the significant downward pressure on core net operating profit? I would like to hear your view again at the halfway mark of the Medium-term Management Plan.

A9.

As you are aware, there will be a high degree of uncertainty concerning revenues from the next Medium-term Management Plan onwards. We need to consider this carefully and it is difficult to make a definitive comment at this time. On the other hand, as a management, I *want* to continue paying a 50-yen dividend. To do so, however, we believe it will be difficult to generate dividend resources unless we take steps to decrease agency commissions paid to Japan Post.

Furthermore, we would like to cover the portion of investment assets where the target balance for strategic investment areas was lowered by increasing investment over and above that amount in traditional assets centered on credit.

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