

Results for the Themed Investors Meeting “ESG Initiatives”  
Summary of Q&A (March 21, 2024)

Q1.

Please tell us about your current approach and vision regarding the corporate culture and ESG management in general.

A1.

(Sustainability Management Office, General Manager Tone) Since we believe that organizational culture is extremely important for improving corporate value, we have established the subcommittees I mentioned earlier. At the same time, it is also true that, due to the nature of the banking business and the background in launching our Bank, there is still a culture in our Bank to emphasize certainty and ensure that no mistakes are made, rather than taking on challenges. We are now in the process of raising awareness of this issue at the subcommittees as we feel an urgent need to become a company that creates new value if we are to continue to be the bank of choice for our customers.

(Outside Director Sato) The Bank recognizes that each of the ESG factors is an issue for the Bank, and the Board of Directors is actively discussing how to address each of them. The Board of Directors has a keen interest in having the Bank included in ESG stock indices and also with regard to external evaluations of the Bank, and we have said we are not satisfied with the status quo and would like to see the Bank aim even higher.

Q2.

If I may ask, what were your respective reasons for accepting to serve as an outside director of Japan Post Bank?

A2.

(Outside Director Yamamoto) I believe that the economy develops through competition among private companies and private financial institutions, and I wanted to see the Bank move toward full privatization and contribute to the development of the Japanese economy. But the foremost reason is that I believe my experience can be of help to Japan Post Bank in some way.

(Outside Director Sato) The Bank is an important entity for society, and I have my own perspective as a user of the Bank, so I thought I could contribute to improving the Bank's management. In addition, I assumed the position because I believe it will be a good opportunity to utilize my experience as a person who had been looking on the privatization of Japan Post from the sell-side.

Q3.

What do you see as the strategic HR challenges in strengthening human capital?

A3.

(Managing Executive Officer Tanaka) When I look at the examples of other companies such as their integrated reports that are ahead in this regard, I find that some of them have a systematic HR strategy that is easy for employees to understand and welcome. But our Bank has some ground to cover to reach that point. We would like to discuss a more systematic, narrative HR strategy that will be easy for employees to understand and appreciate.

In addition, although there are a variety of individual issues, we will especially reinforce our efforts to secure human resources in response to the declining birthrate and aging population, create opportunities for senior citizens, and promote active participation by women.

Q4.

Please tell us about your human resource development and career plan measures for when the Bank becomes fully privatized.

A4.

(Human Resources Department, General Manager Yamamoto) We recognize that we need to take a two-sided approach, one from the intangible (soft) side, such as the way each employee thinks about his or her career, and the other from the tangible (hard) side, such as the personnel system and training system. After the Covid-19 pandemic, our work styles have been changing dramatically, and the attitudes of our employees are changing as well. I believe we are reaching the limit of the career path that the company has given us up to now,

which has been a lifetime employment style. Moreover, as the financial industry is seeing an increasing number of entrants from different industries, it is necessary to develop human resources to achieve sustainable growth in this environment. In addition to our human resource development initiatives centered on fostering generalists, we are also focused on fostering specialists for the fields of market operations, ALM/risk management, and cybersecurity.

Firstly, on the intangible side, we are energizing our efforts aimed at making employees strongly aware of their career ownership and drawing up a career vision. Additionally, on the tangible side, the company is supporting employees with their careers through 1-on-1 meetings, the Career Challenge System, and other means. We intend to further accelerate our efforts.

Q5.

From the governance side, what is your assessment of human resource development for not only DX but the AI era as well?

A5.

(Outside Director Sato) All of the directors are especially observant of these issues. The Board of Directors is also deepening discussions on measures related to securing human resources and human resource development, including improvement of employee DX literacy, as well as on the status of implementation of those measures. I myself am speaking to the Board of Directors to communicate the voices of Generation Z, drawing on my experience as a university faculty member.

Q6.

In recent years, shareholder proposals on climate change have been presented to banks as well, and more and more banks are announcing their views on the issue prior to shareholder meetings. What is the status of internal reviews at Japan Post Bank? Also, what is the status of your engagement with your investees?

A6.

(Executive Vice President Yano) To date, the Bank has not received any shareholder proposals related to climate change, but we are pursuing initiatives in various areas related to climate change with a strong cognizance of the issues

in order to promote sustainable management at the Bank. Specifically, we are working to reduce our environmental impact through the two pillars of “net zero GHG emissions by 2050” and “financing to drive decarbonization.”

With respect to GHG emissions, although our own emissions (Scope 1 and 2) are low compared to other industries due to the nature of the banking industry. We have achieved a 51% reduction in GHG emissions compared to FY2019 by renewing our own facilities to use renewable energy and through other means. This shows we are making steady progress toward our goal of achieving net zero GHG emissions by 2050. Regarding Scope 3 emissions from the Bank’s investment and financing portfolio, the absolute amount of Scope 3 emissions will be disclosed by May of this year, and the emissions target for FY2030 will be disclosed as well.

With regard to “Decarbonization through Financial Services”, ESG investment and financing policies are formulated and disclosed for each individual sector, and investments and loans are carried out accordingly. Moreover, we purchase third-party certified green bonds, etc. as a form of ESG-themed investments and finances, giving consideration to medium- to long-term returns. Since we have almost achieved our FY2025 year-end balance target of 4 trillion yen, we plan to revise the target and disclose the new target together with the disclosure of the revised Mid-term Plan in May of this year.

(Sustainability Management Office, General Manager Tone) Emissions from the Bank’s investment and financing portfolio are disclosed on our sustainability website, and we would like to disclose the performance of emission as of March 31, 2023 in May of this year. We will continue to fine tune and disclose these figures on an ongoing basis so that our stakeholders can monitor our progress.

With regard to the status of engagement with investees, although we recognize that we have relatively little influence over issuers since the Bank is a bond investor, we would like to seek effective engagement as part of our responsibilities as an investor, including confirming the decarbonization status of investees and encouraging greater disclosure.

Q7.

At the meetings of the Board of Directors, in the presence of a parent company member, how do you express yourselves from the position of a minority shareholder, and have there been any discussions that have been reflected in

corporate management?

A7.

(Outside Director Sato) Since the additional secondary offering of our shares last March, our shareholder base has become more diversified, which has raised awareness among the Board of Directors that we are representing minority shareholders and are responsible to increase the attractiveness of our shares. Under these circumstances, the Board of Directors is in the process of discussing the shareholder benefit plan and dividend policy. As for an example of how a proposal from an outside director has been reflected in management, when the Board of Directors was of the opinion that “special benefit items unique to Japan Post Bank” should be added to the lineup of products available to the Bank's shareholders through the shareholder benefit program, the Board of Directors suggested to add the donation programs to social welfare organizations.

Q8.

Please tell us about discussions in which recommendations were made by outside directors but not reflected in management, and the details of discussions on revising the Mid-term Plan.

A8.

(Outside Director Yamamoto) The Board of Directors is a collegial body, and it is important that decisions are made after thorough discussions, and we believe that the Bank's Board of Directors is fulfilling this role in all respects.

Regarding revisions to the Mid-term Plan, we are aware that there are issues related to the current disparities in the earning power of each of the three engines of our operations (retail business, market business, and  $\Sigma$  business), but we will continue discussions to ensure that upside factors, such as the explosive growth in the number of Yucho Bankbook App accounts, are reflected in profit improvements.

Q9.

Can you tell us about your human rights initiatives and future due diligence plans?

A9.

(Managing Executive Officer Tanaka) In pursuing our management philosophy of being “the most accessible and trustworthy bank in Japan,” we recognize that respect for human rights is an important social responsibility, and we respect the human rights of all people, including our customers, our employees, and our business partners.

In addition, in order to contribute to the realization of a safe, secure, and prosperous society by promoting respect for human rights through the business and social activities of the Bank and the Japan Post Group, we have established a Human Rights Policy and are strengthening specific initiatives such as holding dialogue with experts and conducting training for officers.

We also engage in human rights due diligence, including identification and assessment of human rights issues, verification of the appropriateness of measures to prevent and mitigate negative impacts, assessment of effectiveness, and engagement with stakeholders, and report the status of these efforts to the Sustainability Committee, the Executive Committee, and the Board of Directors.

We plan to compile and publish a Human Rights Report on our efforts to respect human rights in April 2024.

We will continue to strengthen our endeavors in this area in response to the strong social demand for human rights awareness and respect.

Q10.

In the interim financial results for FY2023 announced last year and in the disclosure material called “Our Action to Implement Management that is Conscious of Cost of Capital and Stock Price,” the Bank indicated a cost of shareholders’ equity of 5%. From the perspective of independent outside directors, what do you think of this level?

A10.

(Outside Director Yamamoto) Based on the materials you have seen and the purpose of your question, I understand that you are aware of the issues regarding our ROE, so I will explain from that perspective. Our first target is to achieve ROE above cost of shareholders' equity of around 5%, but we believe that this is only a passing point to achieve steady profits while responding to changes in monetary policy and other macroeconomic

conditions, and also while managing risk. We will achieve this goal as soon as possible, then consider what comes next.

(Outside Director Sato) There are various methods of calculating the cost of capital, and the Board of Directors has studied multiple scenarios and numbers. There are not simple answer how we recognize the cost of capital, and our Bank's cost of capital could be varied depending on the situation because the policy change about interest rate policy was recently announced from Bank of Japan and the level of the interest rate will be varied accordingly.

(Executive Vice President Yano) As a supplementary note, we calculate cost of shareholders' equity using CAPM (Capital Asset Pricing Model), and that gives us a cost of shareholders' equity of 5% due to the low beta value of our Bank to date. However, we believe this will change depending on the market environment and changes in the beta value going forward.

Q11.

I believe the result of calculating cost of capital by CAPM is just as you say, but as an investor, I am concerned about the actual cost of capital that is factored in by the market, and in that sense, I think 5% is low. My question is, regarding the review of the Mid-term Plan, I believe that the relationship with the parent company may not allow for a candid review, but from the standpoint of outside directors, in what way did you take pains to protect the interests of minority shareholders?

A11.

(Executive Vice President Yano) Before I go any further on the relationship with Japan Post Holdings, I would like to add that Japan Post Holdings plans to reduce total number of its shares in the Bank less than 50% by March 2026 as part of its Medium-term Management Plan, but no specific schedule has been set. In addition, under the Japan Post Group Agreement, the companies of the Japan Post Group have built a structure for generating synergies. The Bank recognizes that the issue of how to continue to get the most out of this group agreement while also protecting minority shareholders will become a major challenge as the percentage of the Bank's shares held by Japan Post Holdings decreases in the future.

(Outside Director Yamamoto) I don't really have the impression as to whether or not we are bound in any way to the parent company. From the standpoint of protecting the interests of minority shareholders, we confirm whether various costs are being shared in accordance with certain rules and whether any conflicts of interest exist.

Q12.

I understand that there is an idea of transferring HR authority to the business divisions in order to improve the linkage between business strategy and HR strategy.

A12.

(Managing Executive Officer Tanaka) We are strongly mindful of the interconnection between the business strategy and human resource strategy, as evidenced by our conscious decision to make the achievement of the current Mid-term Plan and other management strategies a basic premise when we formulated the new HR strategy last year. The Bank will take a flexible approach to the transfer of authority on personnel matters to business divisions, taking into consideration the present situation of our corporate and the external environment and other factors.

Q13.

You mentioned that your risk management is on par with international standard banks, but at the same time, the capital market is demanding that you achieve an ROE that at least exceeds the cost of capital. To what extent have you discussed making risk management more flexible?

A13.

(Outside Director Yamamoto) With risk management, we recognize that there are some very difficult issues, but we are disclosing the CET1 ratio considering the fact that the Bank's business portfolio is susceptible to macroeconomic influences. We are also aware that the CET1 ratio disclosed under the footnote is a slightly high indicator because it is before the application of Basel III endgame capital standards.

Although upside can be expected from rising domestic interest rates and other factors in the future, we believe that the current level of risk-taking is



desirable given the current portfolio under management.

Q14.

Could you share with us any details of discussions at the Nomination Committee and Compensation Committee during the past year?

A.14

(Managing Executive Officer Tanaka) Defining the ideal vision of President and Representative Executive Officer, the Nomination Committee has been holding discussions about once a month on the change of the President and Representative Executive Officer, which was announced on February 28. This conclusion was reached taking into consideration the unique circumstance specific to our Bank as well as the vision we aim to aspire.

We are also aware that the Compensation Committee has been discussing the compensation for directors and executive officers, taking into account the internal and external environments.

(Outside Director Sato) The independent outside directors who have spoken today are not members of the Nomination Committee or Compensation Committee, but we understand that in-depth discussions are taking place.

End

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