

Small Meeting with Outside Directors  
Summary of Q&A (June 9, 2025)

(Present)

Makoto Kaiwa, Outside Director

Risa Aihara, Outside Director

Hiroshi Kawamura, Outside Director

Kenichi Imai, Executive Officer and General Manager of the Investor Relations Department

Akemi Morita, Head of the Board of Directors Office, Corporate Planning Department

Q1.

How do you rate the Bank's current governance and Board of Directors?  
What issues do you think need to be addressed?

A1.

(Director Kaiwa) The Bank's Board of Directors is made up of a wide variety of highly experienced members, with high ratios of outside directors and female directors. The members conduct free and active discussions, each contributing from their respective backgrounds, covering not only statutory agenda items, but also items such as business strategy, capital strategy, compliance systems, and human resource strategies. In this regard, I feel that the Board of Directors is functioning properly.

In particular, discussions started in the previous fiscal year toward the next Medium-term Management Plan, which is to start from next fiscal year. The Board has been engaged in an analysis of the internal and external environment over the medium to long term, looking ahead 10 to 20 years, as well as discussing matters such as a medium- to long-term vision for realizing the Bank's purpose and management philosophy. In the process, the direction has become significantly more concrete with the offering of the Bank's shares by Japan Post Holdings. At this point, I cannot tell details, but during this fiscal year we will thoroughly discuss the specific details with management with the aim of presenting a Medium-term Management Plan that is acceptable to all.

(Director Kawamura) I will answer from the perspective of audits. To realize the Bank's purpose, I think supervision is extremely important, not

only to ensure thorough compliance, but to ensure that business strategies for sustainable growth are executed appropriately while protecting the interests of shareholders. I believe that the Bank's Board of Directors is performing that function adequately. On the other hand, the Audit Committee audits to ensure compliance with rules and conformity with important management policies and so forth, and also provides feedback and advice on future issues to be addressed and the ideal state that the Bank should aim for based on the knowledge and experience of its members. In addition, each member of the Audit Committee visits the front lines every year, including Regional Headquarters, directly operated branches, and post offices in an effort to grasp the actual situation and issues to be addressed. We focus particularly on hearing employees' real opinions while ensuring anonymity, and after sharing the findings with the Board of Directors, we strive to reflect them in future measures.

Important discussion points include taking steps to enhance internal control systems, such as strengthening countermeasures against internal criminal activity and other compliance systems, enhancing the risk management system, including cyber-security measures, and strengthening the crisis management system, as well as promoting human capital management, which will also be important going forward. I believe that further enhancement of the governance system to stay abreast of changes in the internal and external environment is an important point.

To strengthen the risk management system, we coordinate with the Risk Committee and strive to conduct efficient audit activities while avoiding overlap. Based on the findings from the front line visits that I mentioned before, we also conduct discussions toward realizing fulfilling workplaces.

In addition, with the decrease in the ratio of the Bank's shares held by Japan Post Holdings, the appropriate governance structure for the Bank is likely to be an important discussion point that should continue to be examined going forward.

Q2.

Considering the share offering, what kind of form do you think the Bank should be aiming to achieve in the future? Please share your opinion in terms of digital developments and compliance.

A2.

(Director Aihara) Over the past three years, Japan Post Holdings' shareholding ratio of the Bank's stock has decreased to around 50%. As the shareholder base continues to diversify, I believe that outside directors need to be even more mindful of their responsibility to safeguard the interests of minority shareholders. Engagement with investors is also going to become more important.

Japan Post is the most important partner for the Bank's business operations going forward, and the Bank will naturally continue to provide financial services through physical channels such as post offices and ATMs. However, I feel that the importance of digital channels has been increasing exponentially in recent years.

The number of bank accounts registered in the Yucho Bankbook App provided by the Bank has surpassed 13 million, and the Bank aims to expand the number to 16 million by the end of this fiscal year. I believe the Bank can leverage this strength to become a trusted part of customers' daily lives, offering a seamless and inclusive financial platform that is accessible anytime, anywhere, and by anyone.

(Director Kawamura) Management's flexibility level is expected to increase as the share offering progresses, leading to more forays into new businesses. However, maintaining compliance will still be the foundation for the Bank. The Audit Committee will rigorously supervise the initiatives undertaken by the executive side, making every effort to support the Bank's governance system from behind the scenes.

In addition, future initiatives might include, for example, the Bank playing the role of "the most familiar financial platform" for customers by enabling other financial institutions to utilize its infrastructure and digital channels.

Q3. (Additional Question)

The DX movement in the financial industry appears to be extremely fast. Given this environment, what kind of stance do you think the Bank should take?

A3.

(Director Aihara) As you have noted, the DX movement is extremely fast, and from a short-term perspective it requires flexibility, while discussion from a future perspective is also important. For those of the digital native generation, financial services are becoming something that is accessed through an app. In light of this trend, it is also important to think from a science fiction-type perspective, and ask whether banks could be obsolete in the future and whether the concept of money could be entirely transformed. I think that backcasting from such scenarios to consider the potential ways forward for the Bank is an effective approach for an era of major changes.

Currently, the Board of Directors is having preparatory discussions for the next Medium-term Management Plan. The Board has been engaged in discussion with an awareness that to enable a flexible response to major environmental changes, it should promote a transformation if necessary without hesitation and without being bound by existing conventions.

Q4.

In the context of the recent discussion of the revision of the Postal Service Privatization Act, could you share your perspectives on the kind of influence exerted by the parent company's presence on the Bank's management and the protection of minority interests? Also, with the Director and Representative Executive Officer, President & CEO from the parent company, Mr. Hiroya Masuda present on the Board of Directors, how are you ensuring independence?

A4.

(Director Kaiwa) The revision of the Postal Service Privatization Act is a matter of great interest to the Board of Directors; however, the Bank does not have access to any more information than is reported in the media, and I cannot offer specific comments in this regard.

Regarding the status of both the parent and subsidiary being listed companies, each director recognizes that it has an important role to play in protecting the interests of minority shareholders. In particular, given the further diversification of shareholders with the share offering in March this year, we recognize that our role as outside directors has become more important.

With regard to the governance framework, to ensure the independence of

the Bank's decision-making as a listed subsidiary, the Japan Post Group Agreement stipulates that the Bank shall make decisions on its own responsibility, and that Japan Post Holdings is not to interfere with the Bank's decision-making.

Moreover, while it is true that the president of Japan Post Holdings is a director of the Bank and a member of the Nomination Committee and the Compensation Committee, outside directors constitute a majority of the Board of Directors and each committee, and the Nomination Committee and Compensation Committee are also chaired by outside directors. I believe that this has ensured the independence of each governance body in regard to discussions and matters to be decided.

In practice, transactions involving a conflict of interest with Japan Post Holdings require approval by the Board of Directors, and Director Masuda does not participate in those resolutions. He does attend the discussions, but I personally have never made any comments in deference to Japan Post Holdings, and neither have any of the other directors.

Naturally, we apply particular scrutiny to matters that could involve a potential conflict of interest.

Q5. (Additional Question)

Could you give some specific examples where the Board of Directors' opinions were reflected in corporate management?

A5.

(Director Kaiwa) I can provide two examples. In the formulation and revision of the Medium-term Management Plan and the annual management plans for future management strategies, before making a resolution in the Board of Directors, several prior deliberations are conducted so that the resolutions are made only after full discussion. This ensures that the Board of Directors' discussions are reflected in management plans generally.

In addition, with regard to the agency commissions paid by the Bank to Japan Post, since Japan Post's shares are 100% owned by Japan Post Holdings, there is potential for a conflict of interest between the Bank's parent company and minority shareholders. However, before deciding on the method of calculating agency commissions under the current Medium-term Management Plan, the Board of Directors repeatedly deliberated on the

rationality and appropriate level of the commissions. I intend to thoroughly state my opinions on matters including agency commissions in the formulation of the next Medium-term Management Plan as well.

Q6.

What is your opinion on the current cost of shareholders' equity and ROE? How do you find the balance between both the cost of shareholders' equity required as a listed company and the cost of maintaining public value? Also, could you talk about recent discussion by the Board of Directors regarding the cost of shareholders' equity?

A6.

(Director Kaiwa) I will comment on this as I have some experience with an electricity company, which is part of social infrastructure like the Bank.

Regarding the cost of shareholders' equity, the Bank disclosed this for the first time in November 2023, and it is discussed regularly by the Board of Directors. Furthermore, outside directors who participated in the Themed Investors Meeting "ESG Initiatives" held in March 2024 have also shared the perspectives and level of interest of investors in this aspect, and I understand there is an opinion that the Bank's awareness of the cost of shareholders' equity is too low.

Based on my experience in previous roles, I understand that there are various ways to consider the cost of shareholders' equity, and it is not something for which a single answer can be given. The currently disclosed cost of shareholders' equity has been calculated using CAPM, and requires even deeper analysis. I believe that for formulating the next Medium-term Management Plan, it is necessary to discuss our approach to the cost of shareholders' equity from a more high-level perspective in conjunction with the overall direction of management strategy.

To add my own personal opinion, I realize that the thrust of the Tokyo Stock Exchange requirement is management with an awareness of having a return on capital that exceeds the cost of shareholders' equity; I think that it is important not to limit discussion to PBR and ROE, but to have a discussion about which management indicators are appropriate for each business model and to clearly communicate this to investors and gain their understanding. For example, in the electricity business, which I have been involved with for many years, fixed assets make up a significant proportion

of the balance sheet, and it is therefore appropriate to use ROA and ROIC as indicators. For the Bank, RORA is an important management indicator, and I believe it is important to explain this, including the reason why it is appropriate.

Furthermore, at recent Board of Directors meetings, there was an opinion that given the wide variability of the cost of shareholders' equity depending on the method of calculation, the Bank should explain carefully how it intends to increase ROE. With megabanks all disclosing high ROE targets, the Bank also needs to improve ROE. The Bank's business model differs from that of megabanks in that currently a large portion of its revenue comes from net interest income, etc. The Bank has used capital to accumulate a portfolio of risk assets, but going forward, the Bank plans to continue rebuilding its yen interest rate portfolio in response to the normalization of the Bank of Japan's monetary policy, securing stable revenue by purchasing 10-year Japanese government bonds in particular, with the income effect expected to accumulate over the subsequent fiscal years. As we have already announced, we aim to achieve ROE of 5% or higher at an early stage in the next Medium-term Management Plan, but this 5% is only a milestone, and we intend to aim for an even higher level.

The Bank is strongly associated with having a public role to offer universal services, but it is also a listed company that receives capital from external investors. The Board of Directors is well aware that the Bank cannot treat the cost of maintaining this public role as an excuse for not increasing ROE. For example, on one hand, the post office network incurs considerable cost, but it can also be seen as a location for maintaining a connection with regional customers, thereby contributing to maintaining deposits through these touchpoints, which ultimately leads to securing earnings. As a director, I intend to support the Bank so that it can maintain its public role while also increasing corporate value in this way.

#### Q7. (Additional Question)

With interest rates currently rising, unrealized gains and losses are deteriorating, particularly on Japanese government bonds. In addition, it is not impossible that interest rates might fall going forward. In this situation, what kind of initiatives are being discussed for generating sustainable earnings for the Bank overall?

A7.

(Director Kaiwa) The future direction of Japan's policy interest rate is unclear. Unless an extreme situation arises, it is unlikely that we will return to a negative interest rate; however, we should expect phases of decreasing interest rates. Given this situation, it is necessary to cultivate earnings sources other than market business.

One of these is the  $\Sigma$  Business, and this is a frequent topic of discussion by the Board of Directors. The current situation is more difficult than initially expected in terms of building relationships in communities and finding investment targets; however, we have asked management to focus on the quality of the investees rather than the size of the investment balance, and to report thoroughly on cases where targets are not being met as well, instead of only reporting successes. We also recognize the need to increase earnings in the retail business through measures such as expanding new products.

Q8.

How do the outside directors contribute to the discussion around DX strategy for the retail business?

A8.

(Director Aihara) The promotion of digitalization in the retail business is an area that really needs to be addressed, looking at the situation inside and outside the banking industry. Particularly since the COVID-19 pandemic, it feels as though consumers have developed a different sensitivity regarding their way of living and working. In the financial sector, changes in peoples' mindsets regarding lifestyle affect how they use money and interact with financial services. The Bank should therefore consider what kind of services it can provide based on these changes. Recently, an increasing number of consumers are acting based on emotional values. I think the Bank also needs to consider how it can provide services given a consumer mindset in which actions are inspired by emotions.

Considering the Bank's future potential, its approach to the younger generation is important. This means that enhancing and expanding the digital channels is essential. We need to proactively examine new digital technologies, and I have expressed this opinion in the Board of Directors. Moreover, as social media is an important touchpoint for the younger



generation in particular, the Bank should also make effective use of social media platforms and other digital channels.

On the other hand, the Bank also has a large number of customers who are not confident with digital technologies. It is important not to abandon customers who prefer physical channels, but to create systems that enable customers to use either channel according to their situation, such as assisting them to download the Yucho Bankbook App at the counter.

Q9. (Additional Question)

Digitalization is not necessarily limited to the retail banking sector. Could you share your opinions about digital measures outside of retail business?

A9.

(Director Aihara) Digitalization has been progressing for some time internally, as the Bank has worked to streamline its operations. It is also making progress on introducing AI for call centers and routine operations. In the Board of Directors, many are of the opinion that it will be effective for compliance purposes, such as preventing internal misconduct or fraud, and there are some instances where trials have already started.

Promoting digitalization is a key theme under the next Medium-term Management Plan, and I expect that the Board of Directors will also continue to discuss it.

Q10.

Please tell us about the involvement of outside directors in the discussion regarding improper use of non-public financial information (cross-selling incident).

A10.

(Director Kawamura) Both the Board of Directors and the Audit Committee are heavily involved in the prevention of misconduct, and they take time on discussing it.

Unfortunately, however, several misconduct incidents have occurred, mainly at post offices. Furthermore, I regret to say that there was an incident involving the improper use of non-public financial information of our customers at post offices, to which the Bank outsources operations. I apologize sincerely to our customers for causing them unease and worry.

The Audit Committee takes such incidents very seriously, and will consult with each Group company to ensure that a similar incident does not occur again by analyzing the causes and examining the effectiveness of preventive measures and so forth, as well as conducting audits. Reports on the status of progress are also being shared with the Board of Directors.

While rules and manuals are often revised as a measure to prevent the recurrence of misconduct, in this case, the cross-selling incident occurred despite already being prohibited in our rules and manuals. The Bank needs to confirm not only whether there are written prohibitions in rules and manuals, but also the status of compliance with them and their effectiveness. An organization has been established for this purpose, and the Audit Committee and Board of Directors will continue monitoring how properly this system functions.

The majority of the Bank's operations are outsourced to post offices, where they are conducted. How to ensure the effectiveness of recurrence prevention measures, including at the post office, which is a huge sales agent, is a major issue to be addressed going forward.

We will further enhance the audit activities of the Audit Committee in order to rigorously carry out the committee's key function so that it can provide proper support for the Bank's governance system with a view to realizing the Bank's purpose.

Q11.

There have been major fluctuations in the stock market recently. What kind of discussion is taking place in the Board of Directors regarding countermeasures for this?

A11.

(Director Kaiwa) The actions of the Trump Administration in the United State have led to an extremely unstable situation in the stock market. The Board of Directors is naturally aware of share prices, but I believe that management should focus mainly on how to grow the Bank over the medium to long term, rather than being overly concerned with short-term fluctuations. I intend to supervise to ensure that the Bank's initiatives are in line with this.

In any case, the Board of Directors will strive to create appropriate management policies by providing advice to the executive side, even under

uncertain conditions.

Q12.

What do you see as the particular advantages that the Bank has over other banks?

A12.

(Director Kawamura) The Bank has a unique history as it has emerged from a state-owned enterprise, and I recognize that it has a strongly distinctive character compared with other banks in terms of its regional characteristics and customer base. I also recognize that there are some limitations on the Bank's scope of operations.

Even so, the Bank's strengths are the post office network covering every part of Japan, the largest customer base among Japanese banks, and one of the largest stable deposit bases in Japan. I believe it is important to fully leverage these strengths and continue to implement the distinctive management style of Japan Post Bank, which is responsive to customer needs and changes in the social environment.

To put it another way, the Bank is a financial institution that has walked alongside customers and local communities throughout Japan across generations. I believe that people want the Bank to continue to be a presence that is consistent with this role. I also believe that its unchanging attitude of valuing touchpoints and connections with customers is the Bank's greatest asset.

To be even more trusted and relied upon by customers as Japan Post Bank, I believe the Bank should aim to be "the most familiar and trusted bank," contributing to the development of society and local communities. As chair of the Audit Committee, I will make every effort to support the Bank's governance system and increase its corporate value.

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