

Themed Investors Meeting - ESG Initiatives -  
Summary of Q&A

Q1.

How is Japan Post Bank addressing carbon neutrality?

A1.

Japan Post Bank recognizes climate change as a top risk to the world and is working toward achieving carbon neutrality by 2050. Specifically, as a target KPI for the Medium-term Management Plan (hereinafter "Mid-term Plan"), we are working to reduce CO2 emissions by 46% by FY2030 compared to FY2019.

In addition, we have formulated an ESG Investment Policy and are investing with consideration of various international agreements on environmental issues. As for investments in ESG bonds (such as green bonds and social bonds), Regional Vitalization Funds, the renewable energy sector, and other assets with themes linked to the resolution of social issues (so-called ESG-themed investments), we will work to further promote these investments by setting a new balance target KPI (2 trillion yen) for the Mid-term Plan period. We will also continue to consider engagement with investee companies that have a significant environmental impact.

In the future, we will continue to consider further enhancing the ESG Investment Policy and ESG investments in order to contribute to and fulfill our obligations toward climate change as an institutional investor.

Q2.

What is your approach to "Contributing to Regional Economic Expansion," one of Japan Post Bank's material issues?

A2.

Japan Post Bank has identified the following four priority social issues, including "Reducing environmental impact" and others based on Japan Post Bank's management philosophy and external evaluations.

- Providing "safe and secure" financial services to anyone and everyone throughout Japan
- Contributing to regional economic expansion
- Reducing environmental impact
- Advancement of work style reforms, and sophistication of governance

Of these, we have been working toward "Contributing to Regional Economic Expansion" by establishing a Regional Relations Division this fiscal year and making

other preparations.

The Regional Relations Division consists of about 60 people, including those who also have other roles (40 people excluding those with other roles). The business activities are as follows:

1. Business partnerships with regional financial institutions
2. Investments contributing to regional vitalization
3. Local government loans
4. Sharing and utilizing information on regional development and creation of new business opportunities
5. Matters related to growth investments, etc.

Q3.

How are you working to promote women's participation and advancement in the workplace?

A3.

In order to achieve sustainable growth in an era when the lifestyles of our customers are becoming increasingly diverse and the future is difficult to predict, we believe that it is necessary to be a company with diverse human resources that can flexibly respond to all situations. We recognize that the promotion of diversity and especially the empowerment of women are important management issues for the future of Japan Post Bank.

First of all, Japan Post Bank has a large number of thriving female employees. As of the end of FY2020, female employees accounted for roughly 42% of our employees. This ratio is increasing year by year. In addition, Japan Post Bank has established a support system that exceeds what is legally required, and the return rate for women from childcare leave is nearly 100%. Over 60% of newly hired employees over the last five years have been women.

In addition, we are actively appointing female employees to management positions and are fostering awareness by introducing female managers to serve as role models, using a mentor system to provide support for female employees from senior employees of the same sex, and participating in external networks. Efforts are also being made to improve the working environment by expanding teleworking, reducing working hours, and supporting the active participation of men in childcare.

The ratio of women in managerial positions is increasing year by year, and is 15.7% as of April 2021. In recognition of these efforts, Japan Post Bank stock has also been included in the MSCI Japan Empowering Women Select Index.

Regarding promotion to management positions, we are actively promoting female

employees at all levels of the company and cultivating human resources who will be future candidates for management positions. When selecting candidates for management positions, we are taking positive action to ensure that about half of the candidates are women. However, considering the overall ratio of female employees, we feel there is still room for improvement in the ratio of female managers, and we must work toward achieving this.

For this reason, we have set a target KPI in the Mid-term Plan to increase the ratio of women in managerial positions to 20% within five years. To achieve our goals, we will strive to create a workplace where women can play an even more active role.

Q4.

Can you explain the difficulties you recognize in achieving carbon neutrality by 2050? Please explain these separately for Scope 1 through 3.

A4.

For Scope 1 and 2, we have set a KPI to reduce CO2 emissions by 46% by FY2030 relative to FY2019 levels, in line with the Japanese government's target, with the broader aim of achieving carbon neutrality by 2050. As for the breakdown of Scope 1 and Scope 2, the majority originates from Japan Post Bank facilities such as Data Centers, and the weight originating from company vehicles is not so large. We aim to achieve this goal by first gradually switching our facilities over to renewable energy in the electricity contracts.

We have a total of more than 3,000 four-wheeled and two-wheeled vehicles. Most of the four-wheeled vehicles are light cars, but as electric light cars are not currently available in Japan, we would like to first introduce electric motorcycles on a trial basis to verify their suitability and cost.

Also, at the same time we make effort to reduce CO2 emission, we would like to contribute to regional vitalization by expansion of renewable energy and contribution to technology innovation etc. and the creation of employment through regional project structured which make use of renewable energy by promoting efforts for new investment etc.

Although a target has not yet been set for Scope 3, we plan to start calculating the CO2 emissions of our investee companies in this fiscal year. We will continue to strengthen ESG integration and consider engagement with investee companies that have particularly high CO2 emissions.

Q5.

As you promote CO2 reduction, how do you think this will impact securities management at Japan Post Bank?

A5.

In terms of the impact on securities management, we would like to strengthen ESG integration and consider engagement with investee companies that have particularly high CO2 emissions.

To further promote ESG-themed investments, we have set a balance target KPI of 2 trillion yen. However, simply meeting this target is not the first priority, so we will manage our investments appropriately by taking into account risk/return, the market environment, etc., while striking a balance with ESG.

Q6.

With regard to the reduction of Scope 3, what percentage of all securities held by Japan Post Bank would require divestment or replacement in the portfolio?

A6.

For Scope 3, we are still in the pre-calculation stage, so it is difficult to provide such an estimate of the percentage.

With regard to divestment and portfolio replacement, we do not currently envision divestments in which we sell all of our existing bond holdings in a particular investee solely because of high CO2 emissions. We will consider the establishment of an integration framework that takes ESG factors into greater consideration when selecting investment trusts and other products to purchase. In addition, we expect to first target in-house investees when promoting engagement.

Q7.

What kind of system does Japan Post Bank have to assess the risk of project finance? Is the level of screening guaranteed to be equivalent to that of a general commercial bank with a credit department?

A7.

When screening project finance risks, the front office conducts the initial screening, and then the Risk Management Division conducts further screening and risk management, and the project risks of the investee are taken into account when determining whether or not to invest. When necessary, sub-committees attended by representatives of the relevant departments are convened, and eventually such matters are escalated to the ALM Committee and the Executive Committee.

Q8.

Regarding investments in Regional Vitalization Funds, how do you monitor the

projects in which you have invested? And are you getting the returns you expected?

A8.

Japan Post Bank has invested in 34 Regional Vitalization Funds as of June 30, 2021, and the newly established Regional Relations Division is responsible for monitoring these funds. Specifically, they participate in the investment committees of each fund and monitor the performance of all funds.

As for returns from Regional Vitalization Funds, it takes some time to make a profit. This is called the "J-curve effect," and we are currently in the middle of that process. Rather than making massive profits from investments in Regional Vitalization Funds on their own, we aim to use this as an opportunity to expand regional finance in cooperation with regional financial institutions over the medium to long term.

For one, we are looking to grow our GP business in the future and are currently developing our knowledge of the GP business by building experience in LP investment in Regional Vitalization Funds. We believe that the industrial structure of Japan is likely to change dynamically in the future as digitization progresses and people shift to new lifestyles. We hope to contribute to needs related to business restructuring and revitalization, expected to increase nationwide, with our GP services.

In addition, in an effort to achieve carbon neutrality by 2050 in Japan, we anticipate an increase in capital investment related to renewable energy, as well as an expansion in the need for disaster preparedness infrastructure and the maintenance of aging infrastructure, which will require significant funding from both the public and private sectors. We hope to contribute to the financing of such projects by working with and taking advantage of relationships with regional financial institutions and local governments that have been cultivated through Regional Vitalization Funds.

Q9.

Regarding governance, there were previously issues related to information security and internal rule violation of investment trusts, etc. What was the feedback on these topics from the Board of Directors and Outside Directors? How are you making use of this feedback?

A9.

Japan Post Bank is a corporation with a Nomination Committee and other committees in place, and as such we are subject to investigation and receiving recommendations from the Audit Committee. Regarding the issue of improper use of cashless services, the Audit Committee has conducted governance checks regarding the relevant series of events, and we are taking action based on the results and feedback from these checks.

As an example, in response to the delay in compensation for damages to customers, they noted from the perspective of user protection that it is necessary to ensure awareness of the need to always take full responsibility for the feedback received from customers through to the very end. In response, the Customer Satisfaction Department was established to centrally manage customer feedback that reaches our call centers, branches, etc., and to take responsibility for responding to feedback, from receipt to resolution.

The Board of Directors also pointed out that not only the first-line departments but also the second-line should be involved in the design of new products. The Board of Directors has many independent Outside Directors who are responsible for management. They draw on their expertise in our discussions.

On the other hand, in discussions at the Board of Directors meeting about the issue of internal rule violation of investment trusts, it was pointed out that our internal controls were insufficient. Moreover, it was said that in our shift from being a public company to a private one, we needed to foster an organizational culture that takes the perspectives of ordinary deposit customers into account. As a result, the Service Improvement Committee was established, chaired by the president.

Q10.

The balance goal KPI for ESG-themed investments is 2 trillion yen. How was this set? Compared to your overall assets, and compared to 1.2 trillion yen at the end of FY2020, wouldn't it be better to have a more ambitious target?

A10.

The KPI of 2 trillion yen for ESG-themed investments is based on Japan Post Bank's market size prediction when we formulated the Mid-term Plan. It is the result of discussions on how Japan Post Bank can grow our balances in a way that is not just "greenwashing" and that can be properly managed.

Unlike other banks, Japan Post Bank does not provide bilateral loans to businesses, and ESG-themed investments are primarily in bonds. Compared to loans, bonds have a relatively short redemption period and can be sold during the investment period, so we have set a stock-based target to avoid inflating results through the repeated purchasing, selling, and redemption of bonds. On the other hand, we are aware that other banks typically have cumulative flow-based targets that include, for example, the amount of new investments and loans made, or the amount of bonds and stocks underwritten, or the amount of project finance structured, which are not included in the business of Japan Post Bank.

The KPI was established by comprehensively taking into account factors such as the projected market size of green bonds at the time that the Mid-Term Plan was made, the

risk return forecast, the timing of new investments and redemptions, and the status of the verification system to prevent washing. We recognize that if there is a change in these conditions, there could be upward revisions made.

As a responsible institutional investor, we are committed to growing our balances while contributing to the sound development of the ESG bond market and taking into account medium- to long-term risk and return.

Q11.

Is there any possibility of Japan Post Bank implementing ESG finance?

A11.

We are currently in the process of raising adequate funding, so we have not decided upon implementation at this stage. From the perspective of ALM, we will continue to consider this as a medium- to long-term issue.

End