Risk Management

We place a high priority on risk management and are taking steps to refine our sophisticated framework for risk management, including the identification and control of the risks associated with our operational activities.
Our basic policy is to appropriately manage risks in view of our management strategies and risk characteristics and most effectively utilize our capital. By doing so, we are able to increase enterprise value while maintaining sound finances and appropriate operations.

Risk Categories and Definitions

We define our risks and classify them into the following categories, and manage these risks based on the unique characteristics of each type of risk.

Risk Category	Risk Definition
Market risk	Market risk is the risk of loss resulting from changes in the value of assets and liabilities (including off-balance sheet assets and liabilities) due to fluctuations in risk factors such as interest rates, foreign exchange rates and stock prices and the risk of loss resulting from changes in earnings generated from assets and liabilities.
Market liquidity risk	Market liquidity risk is the risk that a financial institution will incur losses because it is unable to conduct market transactions or is forced to conduct transactions at far more unfavorable prices than under normal conditions due to a market crisis and the like.
Funding liquidity risk	Funding liquidity risk is the risk that a financial institution will incur losses because it finds it difficult to secure the necessary funds or is forced to obtain funds at far higher interest rates than under normal conditions due to a mismatch between the maturities of assets and liabilities or an unexpected outflow of funds.
Credit risk	Credit risk is the risk that a financial institution will incur losses from the decline or elimination of the value of assets (including off-balance sheet assets) due to deterioration in the financial condition of an entity to which credit is provided.
Operational risk	Operational risk is the risk of loss resulting from inadequate operation processes, inadequate activities by officers and employees and inadequate systems or from external events.

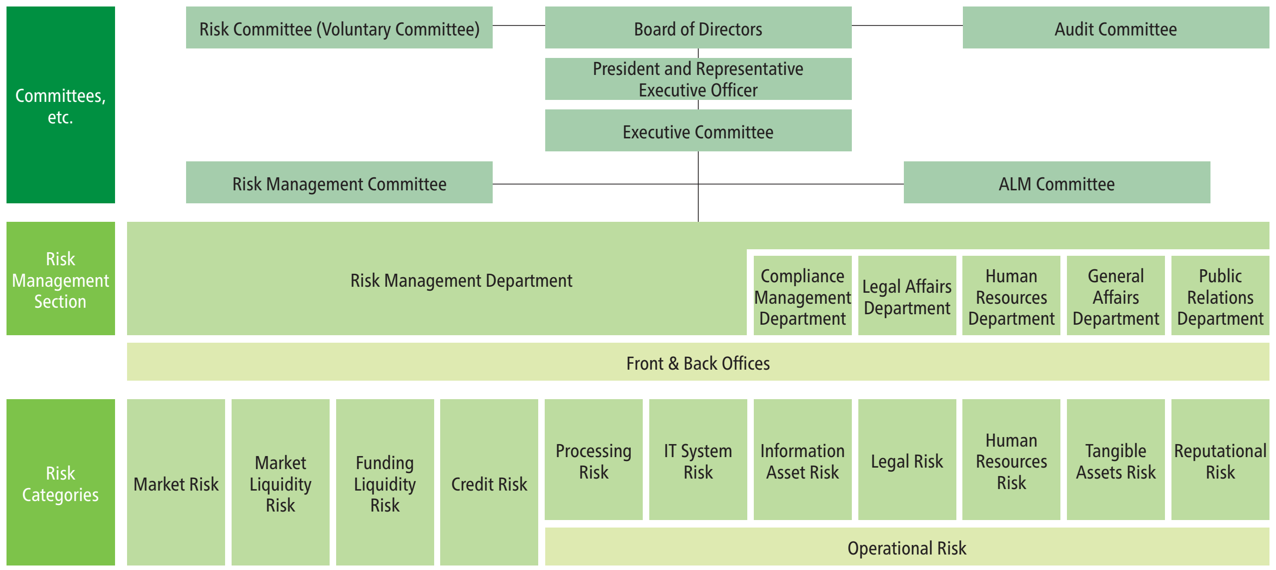
Risk Management System

The Bank has identified certain risk categories outlined in the table below. Various entities have been established to manage each risk category. In addition, we have put in place the Risk Management Department, which is responsible for monitoring each risk category in an integrated manner in order to ensure the effectiveness of our comprehensive risk management. The Risk Management Department operates independently from other departments.

We have established special advisory committees to the Executive Committee to handle risk management responsibilities: the Risk Management Committee and the ALM Committee. These advisory committees submit risk management reports based on risk characteristics and hold discussions about risk management policies and systems. Meanwhile, officers in charge of the Risk Management sections also report on such matters as the status of risk management to the Board of Directors, the Audit Committee and the Risk Committee on a periodic and as-needed basis.

Prior to launching new products, services, or businesses, we assess potential risks and select appropriate methods to measure risks.

Risk Management System (As of July 1, 2023)



Integrated Risk Management

We broadly classify and define risks into five categories and manage risk by using both quantitative and qualitative approaches.

In our quantitative approach, we have introduced integrated risk management that quantifies and controls risk. Specifically, we establish in advance a total amount of equity capital that is available to take on risk, or risk capital. Risk capital is then allocated to each business (allocation of risk capital) in accordance with the type of expected risk and nature of the business activities. To quantify market risk and credit risk and control risk exposure, we use value at risk ("VaR") techniques. VaR is a statistical method used to compute the maximum expected loss based on assets and liabilities held at given probabilities and for given periods of time. In addition, we perform stress tests based on multiple stress scenarios that assume deterioration in macroeconomic conditions to assess the impact on our financial condition and capital adequacy ratio, for the purpose of verifying the appropriateness of business plans from the forward-looking standpoint of business sustainability.

Performing Stress Tests

Flow	Overview
1 Designing Scenarios	• Consider stress events that should be reflected in the scenarios, based on risks taken into account by market participants such as international organizations, national authorities and financial institutions and their economic outlooks. • Draft multiple scenarios based on the probability and impact of stress events.
2 Determine Scenarios	• Hold preliminary discussion regarding scenarios with the relevant departments. • Determine the scenarios after consultation in the ALM Committee.
3 Estimate Impact	• Estimate the amount of impact on capital adequacy ratio, unrealized gains/losses on securities, net interest income and risk exposure under each scenario.
4 Report to Board of Directors	• Based on these estimates, verify the appropriateness of business plans in terms of business sustainability. • Report the results of verification to the Board of Directors.

In our qualitative approach, which is used in conjunction with the quantitative methodology, we assess the nature of the risks. For instance, for operational risk we have established a plan, do, check, action ("PDCA") cycle that recognizes, evaluates, manages, and mitigates risk across our business activities.

Subject to the total amount of allocated capital approved by the Board of Directors, the allocation of risk capital is determined by the President and Representative Executive Officer following discussions in the ALM Committee and the Executive Committee.

Related pages
The Risk Capital Allocation chart is on page 91.

Risk Management

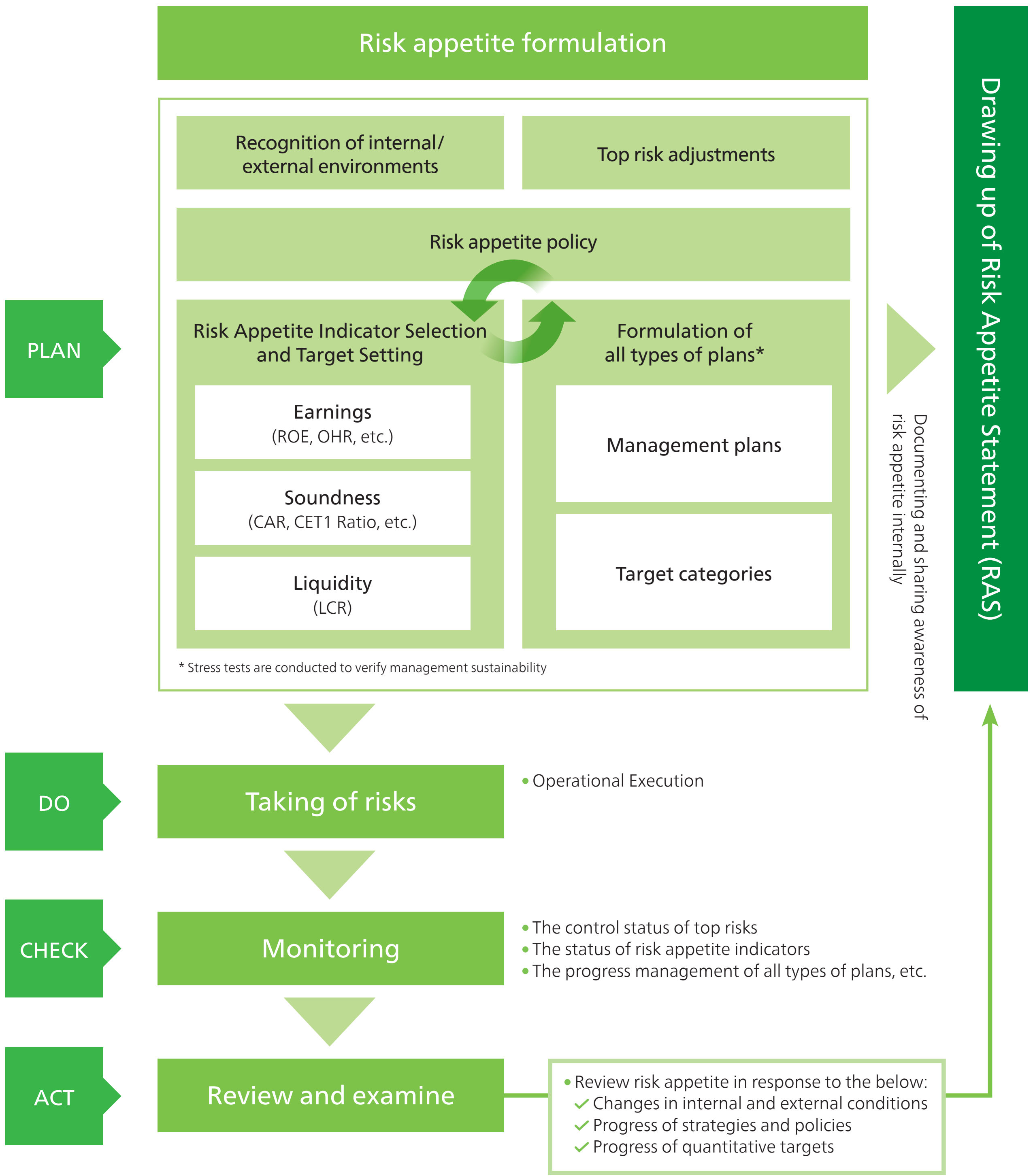
Risk Appetite Framework*

The Bank introduced a Risk Appetite Framework (RAF) to ensure profitability over the medium to long term and financial soundness. Based on the RAF, risk appetite policies and indicators as well as top risks are discussed in conjunction with the formulation of management plans.

* A business management framework used as common language between banks pertaining to all aspects of risk-taking policies, including the capital distribution and profit maximization of risk appetites (the type and total quantity of risks a company should willingly take on to fulfil its business plans after taking into account the unique aspects of the company's own business model).

Risk Appetite Framework Management Process

Words in parentheses are the main risk appetite indicators



Selecting Top Risks

Within the RAF framework, JAPAN POST BANK selects the top risks that we recognize as potentially having a particularly significant impact on our business, performance, and financial position. These risks are selected following deliberation by the Board of Directors and Executive Committee and in consideration of their degree of impact and probability.

Moreover, we reflect the actions we take against the selected risks in our management plans, and take additional action as necessary following regular checks of the control status.

	Top risk	Main measures
Financial Risks	Market/Credit/Liquidity Risk, etc. Stronger Financial Regulations	• Continuation of Portfolio risk tolerance enhancements • More advanced stress tests and stronger monitoring • Enhancement of expert human resources for market operations and risk management • Improve management systems from the standpoint of being an internationally active bank
Non-Financial Risks	Cyberattacks	• Implement and establish cyber-security action plans, and continue measures against phishing fraud, etc.
	System Disruptions	• Support for renewals of core systems • Stable systems operation-oriented appropriate management resource distribution
	Major Disasters, Pandemics	• Strengthening of facilities and equipment • Establishment of remote work environments
	Delayed Response to DX, Productivity Improvements, etc.	• Steady advancement of DX as set forth in the Mid-term Plan
	Incidence of Compliance Violations	• Using past examples of the Bank and examples from other companies' scandals to develop recurrence prevention measures, and ensure measures to prevent personal information leaks and losses are more thorough
	Insufficient Customer-oriented Business Operations	• Quality controls for customer-oriented business operations • Improved second-line*[1] functions • Deeper discussions in Special Committees • Double tracking of information transmission, etc.
	Deficiencies in Preparations Against Money Laundering / Terrorism Financing and Proliferation Financing	• Money laundering response structure establishment, etc. • Joint AML*[2] / CFT*[3] organization participation
	Inhibited Execution of Strategies due to Insufficient Human Resources	• Promoting human capital strategy and human capital investment linked to management strategy
	Climate Change Risks, etc.	• Advanced measures corresponding to changes in the outside environment, implemented monitoring, and provided disclosures as appropriate based on the basic sustainability policy

*1 Management divisions such as the Risk Management and Compliance Division, etc.
*2 "Anti-money Laundering" abbreviation. Referring to money laundering prevention.
*3 "Combating the Financing of Terrorism" abbreviation. Referring to terrorism funding prevention measures.