Risk Management (Details)

Advances in financial globalization and information technology have led to rapid growth in the diversity and complexity of banking operations, making risk management at financial institutions increasingly important. 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.
The authorities and responsibilities of organizational entities and of directors and employees involved in risk management are assigned so that conflicts of interest do not arise. In addition, we have established a system that provides for appropriate cross-checks.

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.
Processing risk	Processing risk is the risk of a financial institution incurring a loss from the neglect by officers and employees to conduct administrative work properly, accidents caused by them and violation of Laws conducted by them in the course of the administrative work process. The management of events that constitute processing risk also includes matters relating to administrative work that occur as a result of external impropriety.
IT system risk	IT system risk is the risk that a financial institution will incur loss because of a breakdown or malfunctioning of computer systems or other computer system inadequacies, or because of improper use of computer systems.
Information asset risk	The risk of losses arising from the loss, falsification, inappropriate use, or external leakage of information due to IT system damage or inappropriate processing.
Legal risk	The risk of losses arising from compensation for damages, penalties, or surcharges, or a decline in customer trust, due to an inability to rigorously comply with laws (including laws, ordinances, internal regulations, and processing procedures, etc.).
Human resources risk	The risk of losses arising from discriminatory acts in human resources administration.
Tangible assets risk	The risk of losses arising from damages to tangible assets resulting from natural disasters or other events.
Reputational risk	The risk of losses arising from the spread among the public, or a certain segment of the public, of false information about us, causing a loss of the Bank's credibility, damage to our image, and as a result, a loss of customers or fund-raising counterparties, or causing a worsening of transaction conditions.

Risk Management System

The Bank has identified certain risk categories. Various departments 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 Asset Liability Management (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 reports 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.

Note: See page 78 for a diagram of the risk management system.

Compliance with Basel Regulations

The Basel Committee on Banking Supervision has developed the Basel III global regulatory framework to ensure more resilient banks, including regulations for capital adequacy ratio, leverage ratio and liquidity. We have taken an appropriate response based on domestic standards.

Under Basel regulations, banks are required to conform to Pillar 1 (minimum requirements) including minimum capital requirements, Pillar 2 (Supervisory Review Process), which examines the adequacy of risk-based capital required for our banking business by the management of major risks including those not covered in Pillar 1, such as interest rate risk in the banking book, and credit concentration risks, and Pillar 3 (market discipline), which improve the effectiveness of market discipline through sufficient disclosures.

As of March 31, 2023, our capital adequacy ratio was 15.53% (consolidated), above the regulatory level (4%, domestic standard).

In calculating our capital adequacy ratio, we have adopted the Standardized Approach for credit risk-weighted assets, and the Basic Indicator Approach for operational risk equivalent. We have adopted the special exemption from inclusion for the calculation of market risk equivalent.

Integrated Risk Management

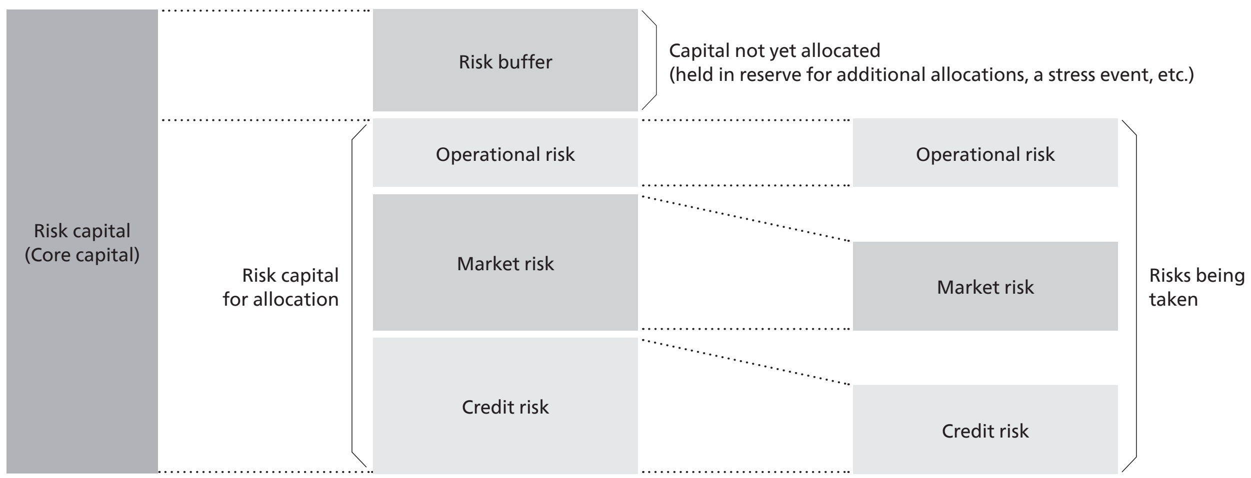
We broadly classify and define risks into five categories: market, market liquidity, funding liquidity, credit, and operational risks. We manage these risks using both quantitative and qualitative approaches.

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.

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.

Risk Capital Allocation



Risk Management (Details)

Market Risk Management / Market Liquidity Risk Management

Market Risk Management System

We manage market risk in a way that reflects the characteristics of our assets, which are principally marketable securities, and our liabilities, which are principally deposits. Through the following methods, we aim to achieve a stable income flow while appropriately controlling market risk.

We use the VaR statistical method to quantify market risk. We adjust our market risk frameworks and loss limits in order to ensure that market risk does not exceed risk capital allocated for this purpose. We conduct risk monitoring and management on an on going basis, and also carry out stress testing to account for extreme market fluctuations that might exceed our statistical estimates.

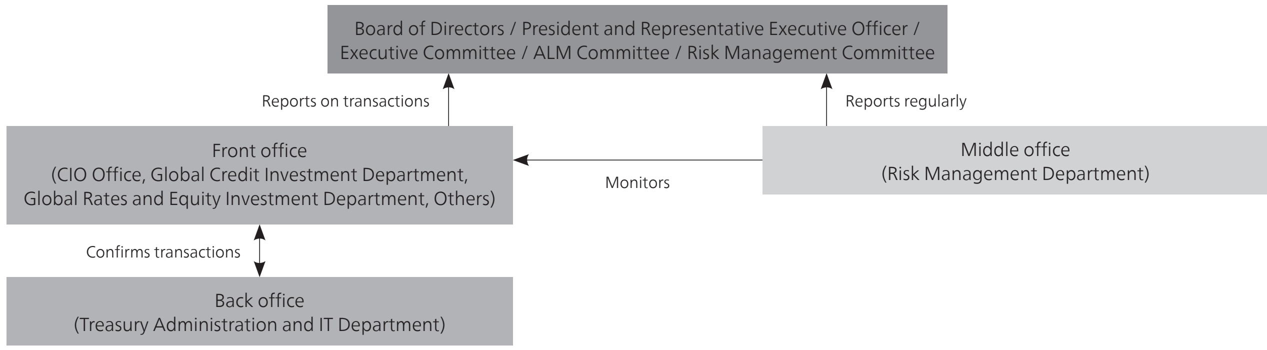
Moreover, we fully recognize the importance of interest rate risk on our business. In addition to monitoring interest rate risk on a daily basis using a 10 basis point value (10BPV) which denotes the change of present value given 10 basis points rise in the interest rates, we have established a framework to grasp interest rate risk in a multifaceted and proper manner. This included profit and loss simulations based on a variety of scenarios.

As far as the management of 10BPV is concerned, we not only make changes to the balances of assets and liabilities as well as the structure of maturities, but also employ such hedging methods as interest rate swaps.

To provide a system of cross checks and balances in market risk management, we have set up the Risk Management Department as a "middle office" that is independent from our front and back offices. Matters concerning the establishment and operation of a market risk management system and implementation of market risk management are decided through discussions in the Risk Management Committee, the ALM Committee and the Executive Committee.

Daily reports concerning our VaR, market risk limits and loss limits are made directly to management, allowing management to respond rapidly to developments. Risk analyses based on backtesting and stress testing are conducted regularly with reports made to the Executive Committee.

Market Risk Management System



Market Risk Measurement Model

Our VaR risk management model measures market risk based on a historical simulation method. The VaR model is based on a one-tailed confidence interval of 99%, a holding period of 240 business days (i.e., one year), and an observation period of 1,200 business days (i.e., five years).

To measure market risk relating to liquid deposits, the Bank has applied an internal model to allocate the estimated balance and termination dates of liquid deposits that have remained on deposit in the Bank for a long term without being withdrawn (so-called "core deposits") and calculates the interest rate risk amount for them. Market risk relating to TEIGAKU deposits is calculated based on an estimated future cash flow model.

Stress Tests

VaR models statistically calculate maximum losses at a certain probability, based on historical data. Accordingly, VaR models do not appropriately measure risks in the event of extreme market fluctuations or in the event that historical assumptions do not hold. We periodically perform stress tests to shed light on risks associated with an unexpected worsening in factors unique to our portfolio as well as events in the past that regular risk assessments failed to identify. The findings are reported to the Executive Committee.

Market Liquidity Risk Management

Our basic approach to market liquidity risk management is to monitor portfolio assets and market conditions so that we are able to take appropriate actions in line with market liquidity conditions. The Risk Management Department monitors market liquidity risk as well as market risk.

Market Risk Exposure

In the fiscal year ended March 31, 2023, our VaR was as follows:

Currently, we are engaged only in banking operations. We do not conduct trading operations.

VaR (From April 1, 2022 to March 31, 2023)

(Billions of yen)

	Year-end	Maximum	Minimum	Average
FY2023/3	4,722.6	4,934.9	3,491.5	4,125.3

Note: JAPAN POST BANK has revised its market value at risk (VaR) method more in line with the Bank's position from FY2023/3.

Funding Liquidity Risk Management

Our basic approach to funding liquidity risk management is to closely monitor our funding conditions and take timely and appropriate actions when necessary. In addition, we maintain appropriate liquidity reserves in preparation for unexpected fund outflows.

The Risk Management Department, which was originally established to manage funding liquidity risk, conducts monitoring and analysis of funding liquidity risk.

In managing funding liquidity risk, we establish, monitor, and manage funding liquidity indicators to ensure stable liquidity management.

In accordance with funding liquidity and fund-raising trends, we have categorized risk into three stages: "normal," "concerned," and "emergency." We have determined the principal measures we will take in the event that funding liquidity risk reaches the "concerned" or "emergency" stages.

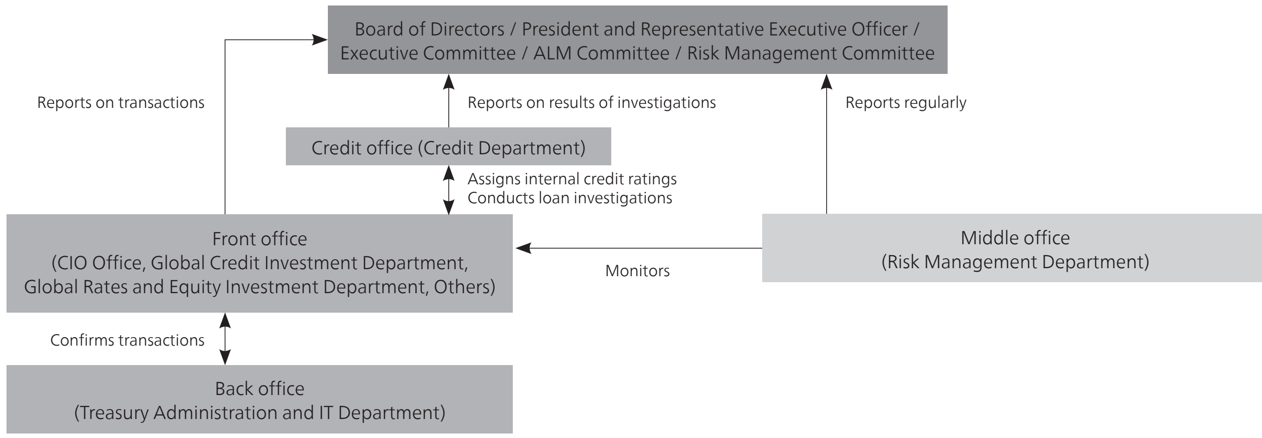
Credit Risk Management

Credit Risk Management System

The Risk Management Department provides a system of cross checks and balances in credit risk management, as a "middle office" that is independent from our front and back offices. The Risk Management Department oversees credit risk management, including credit risk measurement, credit concentration risk management, and the internal rating system. Matters concerning our credit risk management system are decided through regular discussions at the Executive Committee, the Risk Management Committee and the ALM Committee.

We use the VaR statistical method to quantify credit risk. We monitor our credit risk limit amounts on an ongoing basis in order to ensure that VaR does not exceed allocated risk capital. We also carry out stress testing to consider the possibility of credit risk due to large-scale economic fluctuations outside those in the VaR model. In addition, we set exposure limits for individual companies, corporate groups, countries and regions while engaging in a variety of activities including the monitoring and management of credit risk in order to control the concentration of credit.

Credit Risk Management System



Risk Management (Details)

We manage our credit risk using an internal credit rating system. Our Credit Department handles all credit investigations and assigns internal credit ratings to borrowers. In addition, it monitors borrowers.

Basic Principles of the Credit Code

The credit code establishes the basic philosophy and action guidelines for all our officers and employees to follow in the conduct of sound and proper credit business operations. The credit code has basic principles focusing on public welfare, soundness and profitability.

Measuring Credit Risk

To measure our credit risk amount (VaR), we use a model which adopts the Monte Carlo method using a one-tailed confidence interval of 99% and holding period of one year.

Stress Tests

VaR is a measurement of credit risk calculated using statistics based on certain probabilities derived from default rates and other data. It is therefore inadequate to measure any risks arising from a deterioration in creditworthiness caused by large-scale economic fluctuations. We periodically perform stress tests to shed light on risks associated with an unexpected worsening in factors unique to our portfolio as well as events in the past that regular risk assessments failed to identify. The findings are reported to the Executive Committee.

Internal Credit Ratings

Internal credit ratings are used for various purposes such as in credit policies in daily credit management, credit risk measurement, appropriate pricing, management of the credit portfolio, initial self-assessments, and in making preparations related to write-offs and reserves. Accordingly, in accordance with their credit rating, borrowers are classified into the following 14 categories.

Self-assessments, Write-Offs, and Reserves

One key aspect of our credit risk management system is conducting self-assessments to classify our assets, based on degree of risk, by estimating the risk of non-recovery or loss in value. These self-assessments are the preparatory work for appropriate accounting treatment, including write-offs and reserves for possible loan losses. Detailed accounting standards for reserves for possible loan losses are as follows.

In accordance with predefined standards for write-offs and reserves, reserves for possible loan losses are provided for, as described below, in accordance with borrower categories stipulated in "Practical Guidance for Checking Internal Controls for Self-Assessments of Assets by Banks and Other Financial Institutions and for Audits of Loans Written Off and Loan Loss Allowance Provisions" (Japanese Institute of Certified Public Accountants, Special Committee for Audits of Banks, etc., Report No. 4). Operational divisions conduct assessments of all loans in accordance with our standards for loan self-assessments. The results of those assessments are audited by the Internal Audit Planning Department, which is independent from operational divisions. The reserve is provided for in accordance with those assessments.

- Loans to borrowers classified as normal or requiring caution are divided into groups, and the expected loss amount for each classification is reserved based on the data provided by credit rating agencies.
- For loans to doubtful borrowers, we subtract from the loan balance both the estimated collectible amount from collateral and the estimated collectible amount from guarantees. We then make a provision at an amount equal to a portion of the resulting amount, based on our judgment.
- For loans to bankrupt borrowers and loans to substantially bankrupt borrowers, we subtract from the loan balance both the estimated collectible amount from collateral and the estimated collectible amount from guarantees. We then make a provision at an amount equal to the entire resulting amount.

Internal Credit Rating System

Grades		Concept	Category
1		Has highest credit standing and many superior attributes.	Normal
2		Has exceedingly high credit standing and superior attributes.	
3		Has high credit standing and certain superior attributes.	
4	a	Has sufficient credit standing but requires attention in case of significant changes in the environment.	
	b		
5	a	Has no problems with credit standing at this point but has attributes requiring attention in case of changes in the environment.	
	b		
6	a	Has no current problems with credit standing but has attributes requiring constant attention.	
	b		
7		Has problems with loan conditions, such as by seeking interest rate reductions or rescheduling. Has problems with performance, such as overdue payments of principal or interest. Also has attributes requiring attention to management in the future, such as weak or unstable results or financial problems.	Borrowers requiring caution
8		Payment of principal or interest is past due three months or more calculated from the day following the scheduled payment date. Or, to facilitate the recovery of the loan, loan provisions have been eased to assist in the restructuring of the borrower or otherwise assisting the borrower. The borrower has fallen into business difficulties.	(Borrowers requiring monitoring)
9		Is not currently in bankruptcy but is having management problems. Progress with management improvement plan is not exceptional, and there is a high probability of bankruptcy in the future.	Doubtful borrowers
10		Is not yet legally bankrupt but is in serious financial difficulty. Deemed to have no prospects for restructuring. Effectively bankrupt.	Substantially bankrupt borrowers
11		Legally bankrupt.	Bankrupt borrowers

Asset Classifications

Asset Category	Description
Unclassified (Type I)	Not classified as type II, III, or IV and deemed to have no problems in regard to recovery risk or damage to asset value.
Type II	Above-ordinary level of recovery risk due to failure to meet contractual obligations or to doubts about credit-related issues, etc.
Type III	Final recovery or asset value is very doubtful. There is a high risk of incurring a loss but it is difficult to rationally calculate the amount of that loss.
Type IV	Assessed as unrecoverable or worthless.

Management of Individual Borrowers

We regularly monitor borrowers' loan repayment status, financial conditions, and other matters that affect credit standing in order to respond to the credit risks of borrowers in a timely and appropriate manner. We also more closely monitor certain borrowers depending on their business condition, such as borrowers subject to possible credit rating downgrades or experiencing sharp drop in stock price.

Operational Risk Management

Operational risk is the risk that losses will be incurred due to inadequate or failed internal processes, people and systems, or due to external events. We classify operational risk into seven categories: processing, IT system, information assets, legal, human resources, tangible assets, and reputational risks. Operational risk is managed in an integrated manner, by the Risk Management Department.

We identify, assess, control, monitor, and mitigate risk for each risk category to manage operational risk and to maintain the soundness of our operations.

The risk management process identifies risks associated with business operations and assesses these risks based on the occurrence frequency, and the degree of their impact on operations. Through the implementation of Risk & Control Self-Assessment ("RCSA"), operational risks and the control effectiveness for mitigating these risks are regularly assessed and examined. RCSA points out areas that require improvement and aspects of our risk management activities that need to be reinforced. Based on the results, we form improvement plans, establish measures to further mitigate risk exposure, and take the required actions.

We maintain an operational risk reporting system, which reports the occurrence of issues such as operational incidents and systemic issues. We analyze the contents of these reports to determine the causes of these incidents and problems and identify trends. This process yields fundamental data for formulating and executing effective countermeasures.