

2 Management Efforts



1. Management Policy	28
(1) JAPAN POST MANAGEMENT PHILOSOPHY	28
(2) THE JAPAN POST CHARTER	28
(3) JAPAN POST'S DECLARATION ON THE ENVIRONMENT	29
(4) MANAGEMENT VISION	29
2. Compliance Efforts	30
(1) ESTABLISHMENT OF COMPLIANCE POLICIES.....	30
(2) CREATING A SYSTEM FOR COMPLIANCE PROMOTION	31
3. Risk Management Efforts	32
(1) BASIC CONCEPT ON RISK MANAGEMENT	32
(2) RISK MANAGEMENT IN POSTAL BUSINESS	33
(3) RISK MANAGEMENT IN POSTAL SAVINGS BUSINESS	34
(4) RISK MANAGEMENT IN POSTAL LIFE INSURANCE BUSINESS	38

2 Management Efforts

1. Management Policy

1. Japan Post Management Philosophy

We at Japan Post...

- ... will strive as professionals to provide every customer with exceptional service.
- ... promise to contribute to the enrichment of people's lifestyles and the community, providing "joy of interaction" and "power to move forward with ease."
- ... create new value and continue to grow, while reinforcing the foundation of trust that supports us.

2. The Japan Post Charter

1. Japan Post places customer trust at the heart of all our business activities. We will rigorously observe all relevant laws and codes of conduct, act in a fair manner at all times, and fulfill the missions and responsibilities of a public corporation, while taking care not to act in any way that might damage trust in Japan Post.
2. In order to offer services that will provide a high level of satisfaction to our customers throughout the nation, and to ensure that we deliver them in a friendly and trustworthy manner, Japan Post will constantly and creatively seek ways to benefit its customers.
3. We will work to maintain close contact with the public and with local communities. By actively disclosing management information in an appropriate way, Japan Post will continue striving to be an open organization on which people can rely.
4. We fully recognize the significance of personal customer details that come into our possession in the course of our work, and Japan Post will continue to rigorously safeguard the privacy of customer information.
5. Japan Post will aim to form partnerships with local communities that contribute to their welfare and provide them with appropriate services.
6. Japan Post will continue to firmly confront unreasonable demand and antisocial forces that threaten the order and safety of civil society.
7. Looking to the future, Japan Post will actively promote environmental conservation, so as to help pass on a more pleasant world to the next generation.
8. Taking a global perspective, Japan Post will extend its activities into the world at large and actively cooperate with the international community.
9. Japan Post will continue to emphasize financial safety and security, using sound and astute fund management methods while taking into consideration both the public interest and the influence we exert on the market.
10. Japan Post aims to be an organization that is a pleasure to work for, in which all employees can take pride and can envisage bright prospects for the future.

3. Japan Post's Declaration on the Environment

PRINCIPLES

Japan Post shall carry out its business activities in an environmentally friendly manner, with a network that provides services throughout the country, so as to conserve the local natural environment and to pass on to future generations the irreplaceable global environment.

POLICIES

1. Japan Post shall comply with all laws, regulations, and ordinances as well as related agreements pertaining to the environment, and shall further carry out activities to reduce environmental destruction and strive to prevent environmental pollution.
2. Japan Post shall set environmental goals and targets and systematically achieve them, and endeavor to improve continuously its environmental management system by building a framework for periodic review of these goals.
3. Japan Post shall endeavor to conserve the global environment in its business activities, by engaging actively in saving resources and energy and by recycling used materials.
4. Japan Post shall take an active approach to create a recycling-oriented society, utilizing environmentally-friendly products and other means.
5. Japan Post shall endeavor to encourage public awareness of environmental issues, by making related information widely available and by promoting educational activities.
6. Japan Post shall support and take an active part in various environmental protection programs in local communities through its post offices that are members of their communities.
7. Japan Post shall enhance its employees' understanding and awareness of these environmental policies and make the policies available widely to the public.

Enacted on April 1, 2003
Amended on April 27, 2005

4. Management Vision

"Macco Service"
Straightforward
Customer Oriented Service

Japan Post will deliver better and more attractive services to all customers nationwide, and will always wholeheartedly strive to serve its customers from their perspective to satisfy them.

Creating a Sound Management
Foundation

Introducing private-sector management tools, Japan Post will make each of its sectors (Postal Services, Postal Savings and Postal Life Insurance) profitable and self-financing, to realize the sound management of the Company as whole.

Providing a Satisfying Working
Environment

Japan Post will establish systems to evaluate staff performance in a fair and transparent manner, and will foster a climate in which each employee is encouraged to contribute wide and deep opinions freely, regardless of rank or place of work.

2. Compliance Efforts

Japan Post believes that compliance is one of its most important management issues and is striving to ensure observance. It strives to put compliance into practice in daily work to gain the trust of its customers and of society.

“Compliance” does not simply refer to observance of laws, regulations and rules. All Japan Post executives and employees, as a matter of course, observe such laws and also strove to practice ethical behavior and social mores as well as act in an equitable manner.

Japan Post establish compliance policies and a system to ensure compliance throughout the Company. Further, it strove to inculcate awareness of compliance issues through conferences and trainings.

1. Establishment of Compliance Policies

Japan Post established the compliance policies outlined below:

(1) Japan Post Basic Compliance Policy

The Basic Compliance Policy established the basic components to promote compliance, based on the Japan Post Management Philosophy and the Japan Post charter.

(2) Guidelines for Provision of Products and Services

The basic stance on providing products and services at post offices was established based on (1).

(3) Japan Post Compliance Program

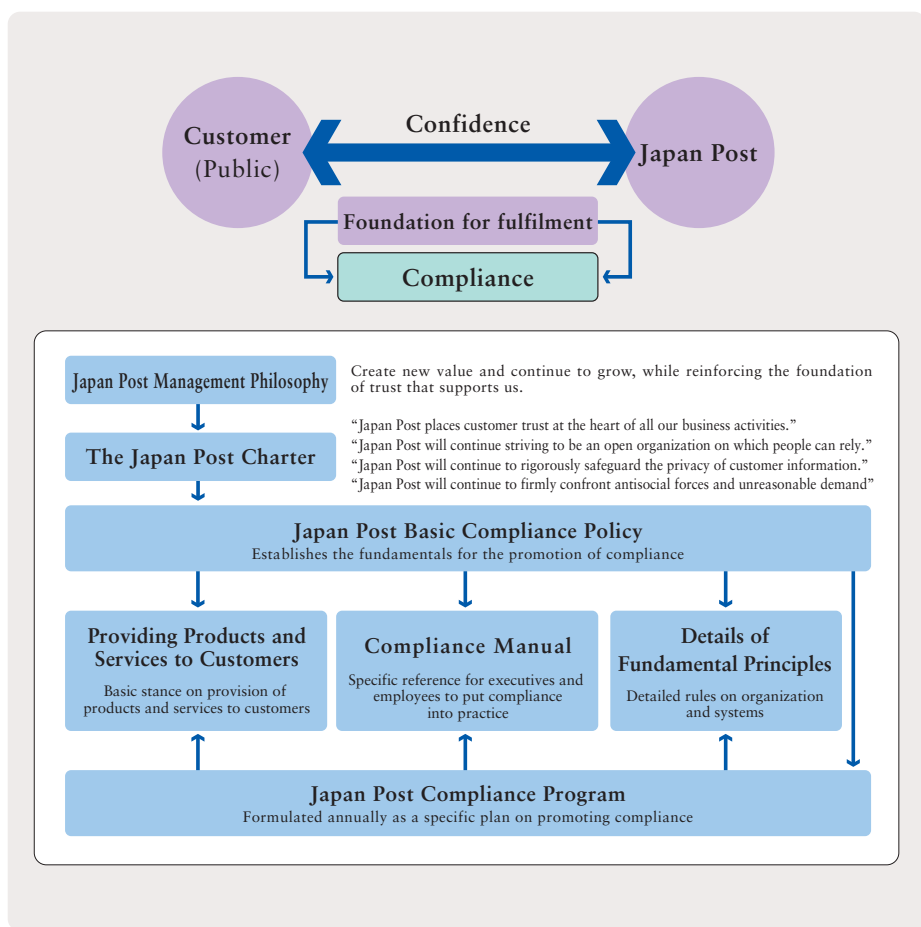
The Compliance Program established specific plans to promote compliance and was formulated annually according to (1).

(4) Compliance Manual

The Compliance Manual was served based on (1) as specific guidelines so that executives and employees practiced compliance. The manual was distributed to all executives and employees.

In addition to the above Compliance Manual for all executives and employees, Japan Post also formulated and distributed a “Compliance Manual (for employees engaged in investment trusts operations),” a “Compliance Manual (for employees in the insurance area),” a “Compliance Manual (for employees in the Policyholder Welfare Facilities)” and a “Compliance Manual (for employees in the Japan Post Hospitals).”

■ System of compliance principles



■ Guidelines for provision of products and services

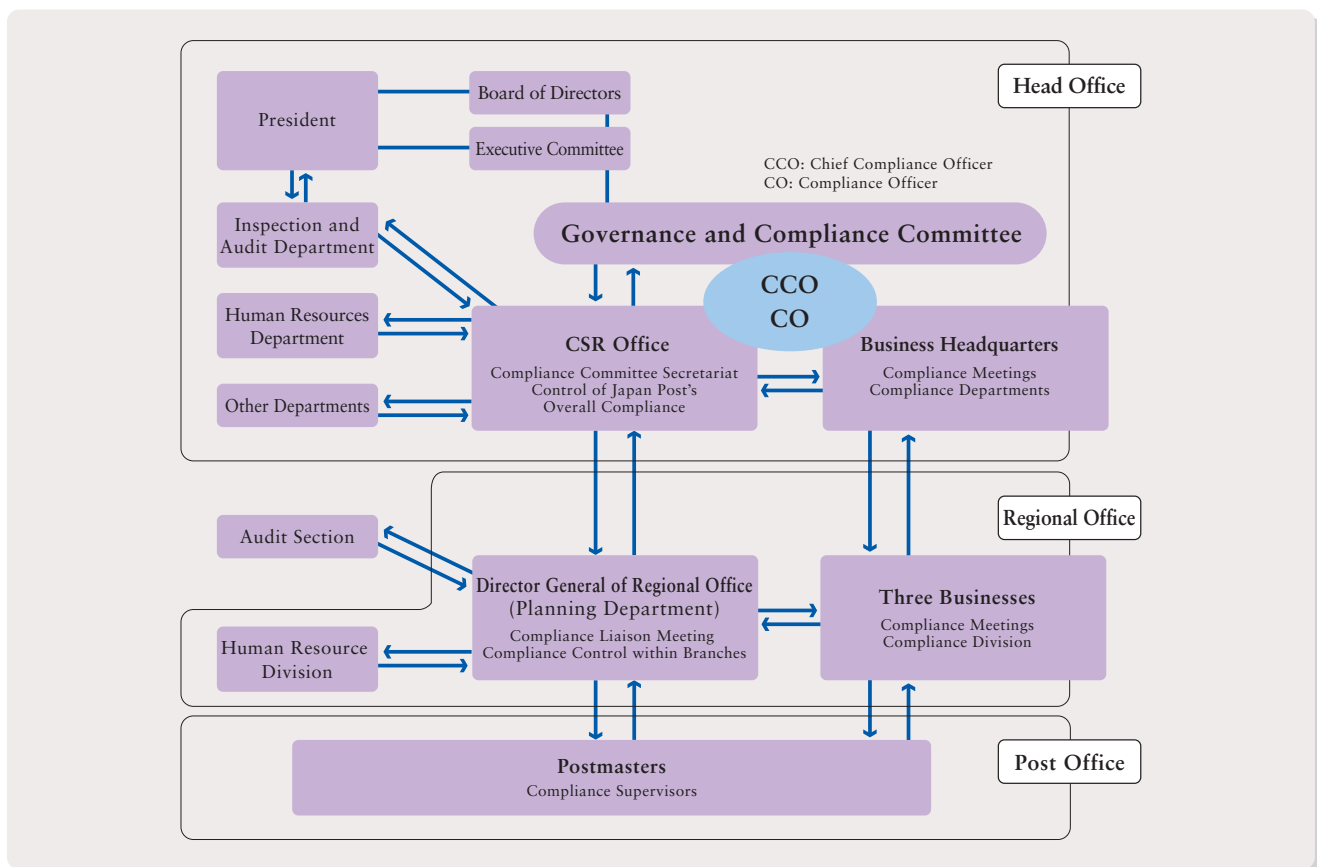
At Japan Post, we shall observe all relevant laws and regulations and endeavor to provide products and services in an appropriate manner, as detailed below, on the basis of the Japan Post Charter.

1. We shall seek to meet customer needs by providing products and services in an appropriate manner.
2. We shall endeavor to provide information that leads to an adequate understanding of the content of goods and services so that customers are able to make their own choices.
3. We shall not give out uncertain or untrue information, or otherwise provide misleading explanations to our customers.
4. We shall strive to provide explanations concerning our products and services at times and locations that do not pose an inconvenience to our customers.
5. We shall strictly maintain the confidentiality of customer information in the course of providing our products and services.
6. As training to facilitate the provision of goods and services is enhanced in a fair manner, each individual shall also endeavor to acquire required knowledge.

2. Creating a System for Compliance Promotion

The Japan Post Governance and Compliance Committee was established at the Company's Head office as a system to promote compliance based on the Japan Post Basic Compliance Policy. A Chief Compliance Officer (CCO) was appointed to take responsibility for controlling the promotion of compliance measures throughout Japan Post. Compliance Officers (CO) were also appointed at the headquarters' CSR Office and the three business headquarters to take responsibility for controlling the promotion of compliance efforts, and a compliance supervisor was appointed in each organization.

■ Compliance promotion system chart



3. Risk Management Efforts

1. Basic Concept on Risk Management

Japan Post ran the Postal Business, Postal Savings and Postal Life Insurance – three distinct businesses that each faced different risks.

In order to ensure sound management and earn customer trust, Japan Post prioritized risk management as one of its most important management issues. The Board of Directors established the Japan Post's Basic Principles on Risk Management to serve as the company-wide policies that guided Japan Post's risk management efforts.

Japan Post's Risk Management System

Japan Post established a Postal Business Headquarters in charge of the Postal Business, a Postal Savings Headquarters in charge of the Postal Savings, and a Postal Life Insurance Headquarters in charge of the Postal Life Insurance Businesses. Separate departments were set up to take charge of overlapping operations, such as human resources and accounting. Based on Japan Post's Basic Principles on Risk Management, risk management supervisors were appointed to develop methods appropriate to the features of their operations for risk management.

In particular, an Integrated Risk Management Department was established in the Postal Savings Headquarters and the Postal Life Insurance Headquarters as a risk management department whose role was to conduct integrated risk management for their respective businesses. Additionally, a Risk Management Committee was set up to discuss risk management issues. These steps were intended to enhance the risk management system.

The Internal Monitoring Department regularly monitored the effectiveness and validity of the risk management functions of these Headquarters.

2. Risk Management in Postal Business

The Postal Business strove to prevent accidents and irregularities to ensure that important letters and parcels customers entrusted were delivered safely. To this end, Japan Post established a reporting system and it endeavored to ensure a speedy solution in case of an accident.

(1) RISK MANAGEMENT SYSTEM

Japan Post secured a system of checks and balances within the Postal Business Headquarters, while all divisions and offices within the headquarters managed risks involved in the operations of which they were in charge.

The general manager of the Operations Supervision Division was responsible for comprehensive coordination, such as drawing up of risk management conditions at the Postal Business Headquarters.

(2) RISK MANAGEMENT METHODS

In order to manage risks effectively according to the characteristic of this business, the Postal Service acted in accordance with the Postal Service Basic Policy for Risk Management, which stipulated the basic functions of the management system.

All divisions and offices within the Postal Business Headquarters ascertained the risks involved in the operations of which they were in charge, evaluated these risks, and devised necessary countermeasures based on their assessment.

The general manager of the Operations Supervision Division requested reports on risk management conditions in all divisions and offices as needed to ensure the appropriateness and effectiveness of risk management. After examining the results, the general manager provided guidance on improvements as necessary.

■ Management classification of risks involved in postal service

Risk	Definition
Operation risk	Risk of incurring loss due to improper handling of business operations, negligence in the performance of work by employees or accidents, unlawful actions, etc. caused by employees
Computer system risk	System risks resulting in losses due to failure of information systems, unauthorized use of them, and the like

3. Risk Management in Postal Savings Business

(1) BASIC CONCEPTS ON RISK MANAGEMENT

Japan Post recognized that coping with risks arising from operational management is an important governance issue in postal savings business, and worked to establish risk management systems.

These systems roughly classified risks into “corporate value fluctuation risks,” which were evaluated for the purpose of maintaining sound management, and “operational risks (note) (market risk, liquidity risk, computer system risk and operation risk),” which were managed with the intention of maintaining reliability.

Note: In the Postal Savings Business, Japan Post regards market and liquidity risks as operational risks, given the management type of a public corporation, and manages the risks by focusing on conformity to rules. Hence, the operational risks described in this document differ from those that are generally used.

Japan Post also strove to establish a risk management structure appropriate to the diverse and complex nature of its operations as a financial institution as it moved towards the split-up and privatization in October 2007.

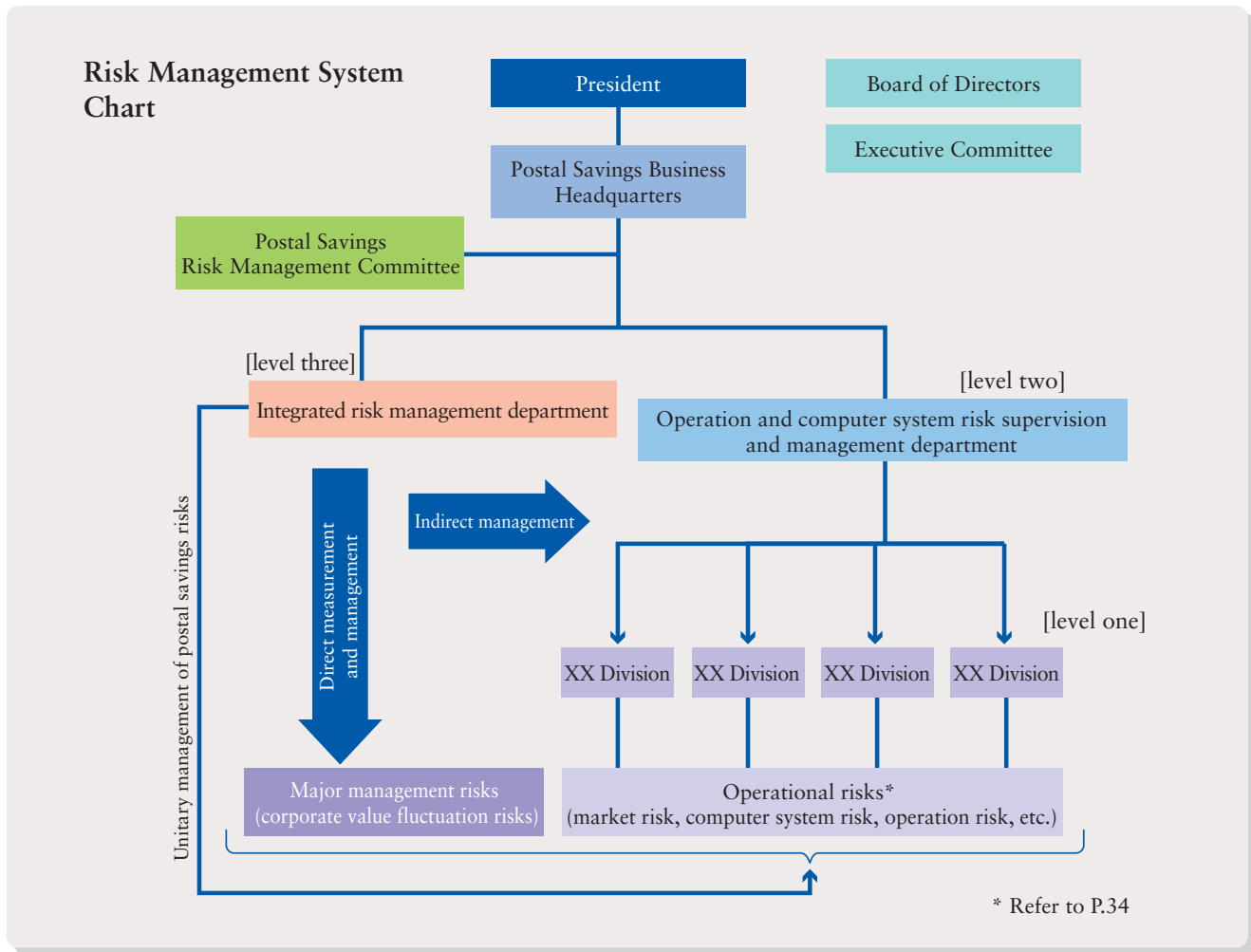
(2) RISK MANAGEMENT IN POSTAL SAVINGS BUSINESS

Postal Savings is a financial institution which provides financial service essential to individuals' daily lives and is available at about 24,100 post offices across Japan. Its distinctive characteristics distinguish it from other financial institutions.

The Postal Savings risk management system made the best use of managerial resources, and was based on the concept of “simple and efficient risk management”. The system took into consideration the balance between the effectiveness of risk management and the efficiency of operation.

Specifically, the Integrated Risk Management Department used quantitative, probabilistic methods to directly measure and managed risks affecting sound management. The Postal Savings Business organization was divided for convenience into front (The front was further divided with the level one having jurisdiction over all operations and establishing management relations with the level two which was responsible for risk management conditions) and middle. The integrated middle (level three) indirectly exercised authority over the management system of the level one and level two. Furthermore, the organization relating to the Postal Savings Business was arranged so that in principle conflicts of interest were divided organizationally and by positions of responsibility. It was an organizational structure that provided mutual checks and balances from the standpoint of risk management.

The risk management in the Postal Savings Business was regularly discussed at the Postal Savings Risk Management Committee under the control of the Director General of the Postal Savings Business Headquarters.



1 Highlights

2 Management Efforts

3 About Japan Post

4 Data

ROLES OF EACH LEVEL UNDER THE THREE-LEVEL MANAGEMENT SYSTEM

- **Front (level one management)**
Self-management of risks by departments in charge
- **Middle (level two management)**
Management by departments responsible for supervising and managing each risk
- **Integrated Middle (level three management)**
Management by independent integrated risk management departments

(3) SPECIFIC METHOD OF RISK MANAGEMENT

SUSTAIN SOUND MANAGEMENT

Postal Savings' assets primarily consist of securities, such as government bonds, except for fiscal loan deposits (with a deposit period of seven years at a fixed interest rate), which were deposited before fiscal 2001 when full-scale autonomous investment of Postal Savings funds started. Meanwhile, liabilities chiefly consist of Teigaku Savings (with maximum deposit duration of 10 years, fixed rates and withdrawal permitted after six months).

The primary risks resulting from Postal Savings' assets and liabilities were that customers transferred their deposits to new Teigaku Savings when interest rates rose, resulting in a mismatch between the interest period of Teigaku savings and asset holdings. This created the risk of future volatility in profits and losses, and the risk that interest rate volatility would change the value of asset holdings such as Japanese government bonds. These were crucial risks for management, and the two risks were managed together as corporate value fluctuation risks.

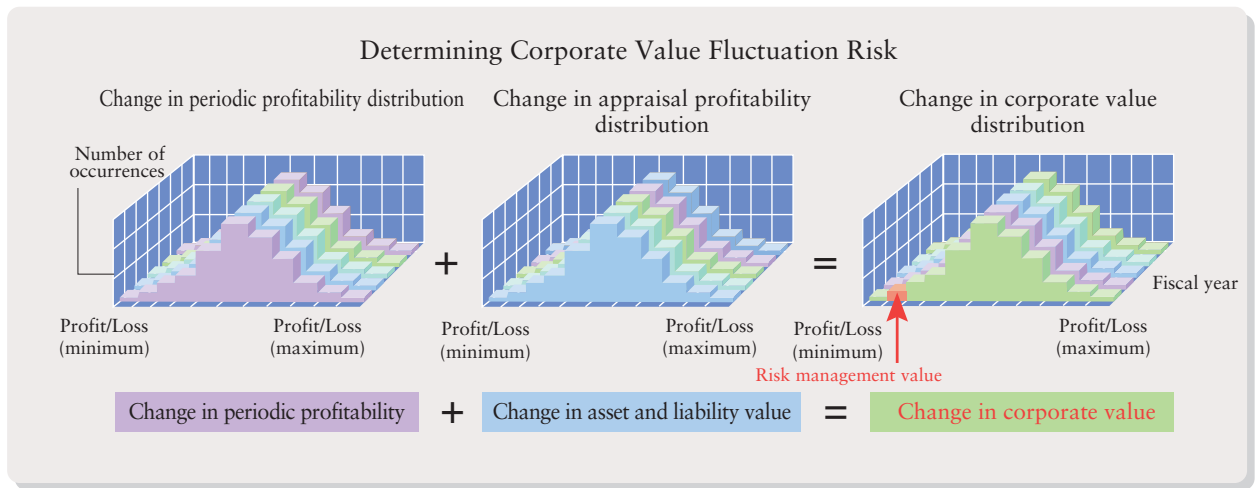
Measuring Corporate Value Fluctuation Risk

Company Earnings and Value at Risk (CEVaR), a method devised by expanding Earnings at Risk (EaR) that takes into account changes in periodic profits and losses, is adopted to measure corporate value fluctuation risk. When making actual measurements, we use the Postal Savings' risk management model that measures CEVaR in practical terms.

Specifically, future assets and liabilities are calculated based on scenarios generated from 10,000 randomly generated interest rates, exchange rates and share prices. Simulating fluctuations in periodic profits and losses and asset values enables Japan Post to gain a quantitative and probabilistic understanding of corporate value fluctuation risk from the profit and loss distribution. The corporation manages its risks by ensuring that 95% of "CEVaR (based on the balance sheet)" (the 9,500th value starting from positive values) among the 10,000 simulation results will not become a deficit.

Postal Savings is also carrying out stress tests using particular scenarios as assumptions that have various effects on management to ensure that a thorough risk management strategy is in place.

Note: "CEVaR (based on the balance sheet)" is the sum of the "difference in assets and liabilities at establishment," "retained earnings (or losses)," and "differences in valuation losses on other securities" (corresponding to capital in the balance sheet of the financial statements)



MAINTAIN CONFIDENCE

The “operational risks,” which consisted of market risk, liquidity risk, computer system risk and operation risk (please refer to P.34), were managed mainly by conforming to various rules. Japan Post identified risks using a risk evaluation sheet for every operation process, understanding the causes of the risks and the current risk management system. Risk maps were used to measure the frequency with which a given risk occurs and the extent of its impact was categorized.

In particular, Japan Post strove to reduce risks categorized as “risks that needs to be managed” by setting up management systems that went beyond the previous operations management.

Furthermore, Japan Post managed market and liquidity risks by limiting them depending on their nature. This was done by determining the amount of risk fluctuation and the relevant maximum value, while selecting business partners in accordance with internal rating standards.

Market Risk

The risk of loss due to improper management or management standards relating to market transactions (procurement, investment, and investment consignment) and ALM operations was categorized and managed as market risk.

Specific risk management is as follows:

○ALM risk management

ALM risk was managed by setting management standards for the maturities allocation of new investment funds and the amount of fluctuation in postal savings for fund procurement, in order to ensure compliance with standards set in ALM policy.

○Credit risk management

When investing in domestic bonds, foreign bonds, and short-term investments, credit risk was managed by setting criteria for the type of financial instruments able to be bought, the maximum amount able to be held for each issuing body, and sales criteria, using rates based on internal rating standards.

○Management of investment consignment risk

The risk associated with investment consignment (single-managed money trust, etc.) was managed by using internal rating standards to set consignee standards and the maximum tracking error.

Liquidity Risk

This is a type of risk that could result in losses due to difficulties in securing the necessary funds for fund settlements and not being able to repay savings deposits because of improper management or management standards for financing and fund arrangements. These risks were classified as “liquidity risks” and managed accordingly by setting criteria to ensure that the necessary funds for fund settlements were secured for postal savings funds, postal transfer funds, and savings surplus.

Computer System Risk

This type of risk results in losses due to failures of computer systems, unauthorized use of the systems, and the like, because of improper management or management standards for planning, developing, and operating such systems, consigning systems, and security. These risks were classified as “computer system risks” and managed accordingly.

Operation Risk

This type of risk results in losses due to improper management or management standards for administration work and administration consignment. These risks were classified as “operation risks” and managed accordingly.

4. Risk Management in Postal Life Insurance Business

The Postal Life Insurance Service was entrusted with the important funds contributed by the customers in order to provide means of financial security and offer assistance for policyholders in the event of an emergency.

As the economic climate and other management environment factors for Postal Life Insurance are changing a great deal, appropriate risk management has become even more important to maintain sound business management in the future and so that customers may benefit from Kampo products and services with a safe confidence.

In consideration of such a situation, the Postal Life Insurance Service recognized effective risk management in accordance with risk characteristics as an important management issue, and managed risks in accordance with the “Postal Life Insurance Basic Policy for Risk Management”, which stipulated basic functions, including the management system and management methods.

(1) RISK MANAGEMENT SYSTEM

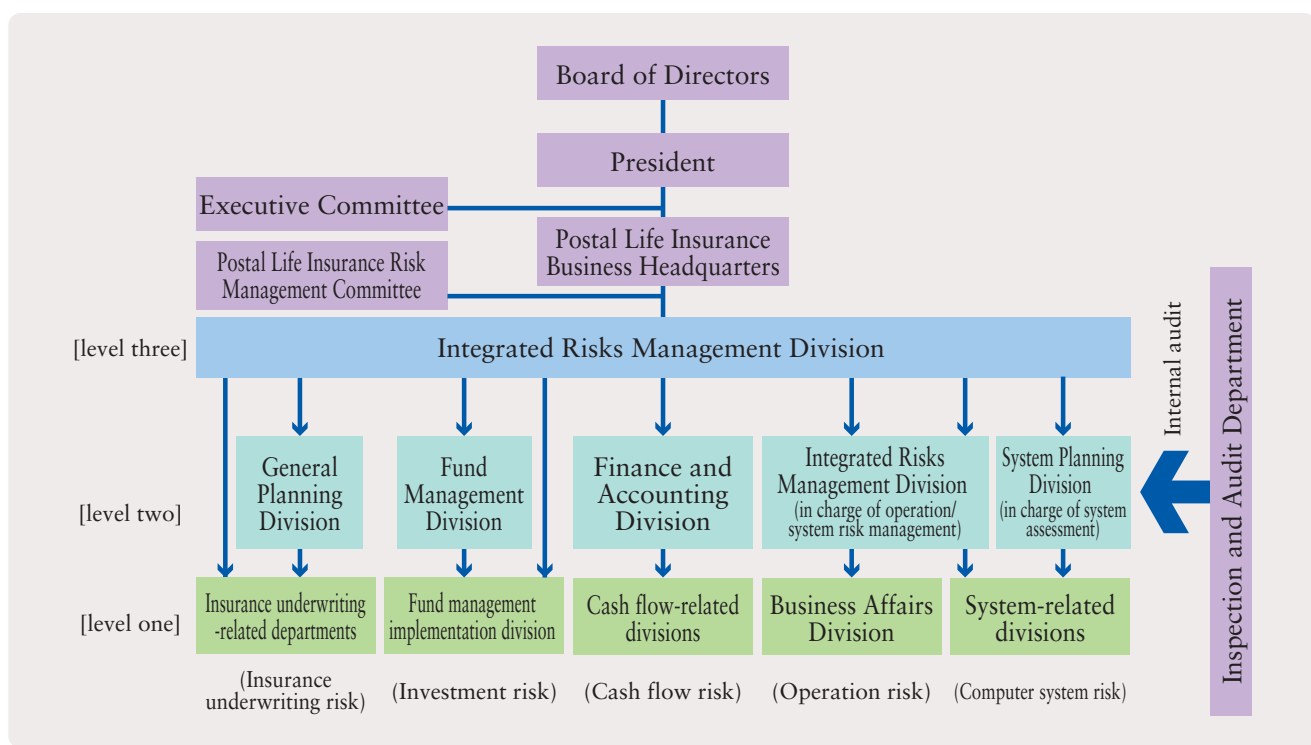
The Postal Life Insurance Business comprehensively identified its business risks and managed them based on their degree of importance.

- (1) The Business Affairs Division was divided into the Service Division (level one), which pursued profits, and the Business Planning Division (level two), which provided support and management, and these two divisions worked together to manage risks through a system of checks and balances.
- (2) The Integrated Risk Management Division (level three) was established to be independent of the Business Affairs Division and managed risk in a unified and comprehensive manner. (Responsibilities were partially separated such that the Integrated Risks Management Division (in charge of operation/system risk management) carried out level two functions for operation risk, while the Integrated Risks Management Division (in charge of operation/system risk management) and the System Planning Division (in charge of system assessment) carried out level two functions for computer system risk.)

This multi-layered risk management system ensured sound business management.

Risk-related matters were reported and discussed monthly at the Postal Life Insurance Risk Management Committee, comprising senior officials of the Postal Life Insurance Business. In addition, the risk management status was regularly reported to the Board of Directors and the Executive Committee.

This risk management system was audited by the Inspection and Audit Department, independent of the Postal Life Insurance Business, to further enhance the internal check function through check of the appropriateness and effectiveness of the system.



(2) TYPES AND CONTENT OF MAJOR RISKS

The Postal Life Insurance Business classified and defined the types and content of risks it faced as shown below, established management systems and regulations in accordance with risk characteristics, and implemented various efforts for proper risk management.

Risk	Definition
Insurance underwriting risk	Risk that profits will deteriorate due to deviation from incidence rates of insured events, investment returns and business expenses at the time of setting the insurance premiums
Investment risk	Risk of fluctuations in investment returns or assessed amounts of assets (including off-balance sheet assets) due to changes in the market environment
Cash flow risk	Risk of shortages of available cash due to sudden deterioration in financing resulting from increases in policy cancellations
Operation risk	Risk of incurring loss due to incidents, unlawful actions or negligence in the performance of work by executives or employees
Computer system risk	System risks resulting in losses due to failures of information systems, unauthorized use of them, and the like

(3) EFFORTS TO ADDRESS VARIOUS TYPES OF RISK

(1) Insurance Underwriting Risk

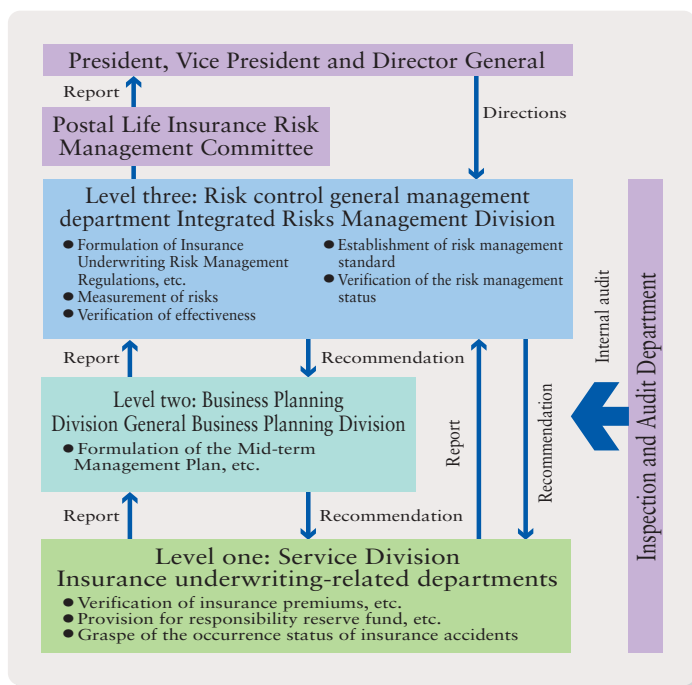
Life insurance contracts commit the Postal Life Insurance Service to contracts that cover the customer's risk of death, illness and injury for long periods of several decades. This means that, when underwriting insurance contracts, Japan Post needs to accurately ascertain the types of risk that might occur and manage them accordingly.

With regard to the management of insurance underwriting risk, while reporting and recommendation systems between the levels were maintained, the Service Division, or level one, implemented self-management on activities such as verification of insurance premiums, provision for responsibility reserve fund and other activities, and graspe of the occurrence states of insurance accidents, while the Business Planning Division, or level two, had a structure to discuss, as necessary, reviews of insurance premiums and the Mid-term Management Plan based on reports from level one.

The Integrated Risk Management Division, or level three, measured risks based on the insured event occurrence rate, market trends, business expenses, etc. verified and reported the risk management status at level two to the Postal Life Insurance Risk Management Committee.

Thus, Japan Post managed insurance underwriting risks by maintaining mutual check functions between each department through a multi-layered risk management and by properly setting insurance premiums and putting aside necessary reserve funds.

Management system for insurance underwriting risk



(2) Investment Risk

Japan Post focused on the safety and certainty in managing the funds entrusted by the customers under life insurance contracts to provide for payment of insurance money in the future. However, the risks of incurring unexpected losses due to changes in the market environment cannot be denied. In the Postal Life Insurance Business, Japan Post paid maximum attention to the management of investment risk so that customers were able to utilize postal insurance without anxiety.

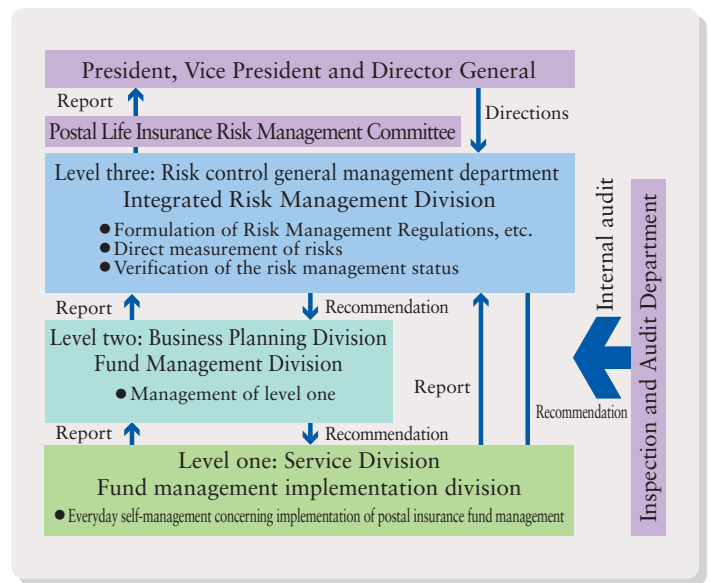
With regard to organizational systems, Japan Post believed that mutual checks between divisions were important. As for the risk management system for Postal Life Insurance, Japan Post adopted a multi-layered risk management system, comprising the Service Division, or level one, the Business Planning Division, or level two, and the Integrated Risks Management Division, or level three, which is independent of level one and level two. The Service Division conducted everyday self-management concerning the implementation of management of postal life insurance funds, while the Business Planning Division managed progress in the management plan based on the reports from level one. The Integrated Risks Management Division directly measured risks, verified and reported the risk management status of level one and level two to the Postal Life Insurance Risk Management Committee. Thus, risks were rigorously managed.

Japan Post classified investment risks into market risks, credit risks, and market liquidity risks, and managed them accordingly. Some Kampo funds were entrusted to investment banks and investment consultants, and the Postal Life Insurance Service also ascertained the investment risk of these entrusted funds and managed the investment risk in a unified manner.

Japan Post engaged in derivatives trading, which could make a large amount of transactions with less capital and could also result in unexpected losses, as means for hedging only but not for speculative dealings.

Japan Post engaged in derivatives trading, which could make a large amount of transactions with less capital and could also result in unexpected losses, as means for hedging only but not for speculative dealings.

Management system for investment risk

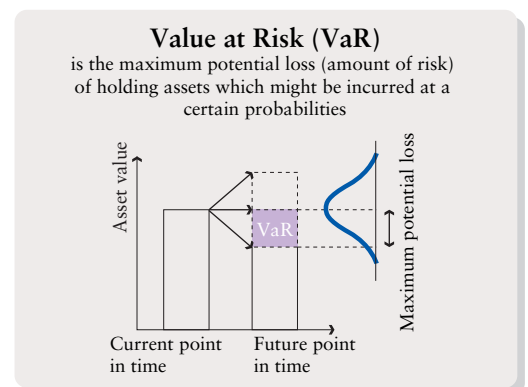


1) Market Risk

Market risk is the risk of fluctuations in asset valuation amounts or investment returns due to changes in interest rates, stock prices and foreign exchange rates.

As for managing market risk, Japan Post used the Value at Risk (VaR) model to control market risk from different investments, such as stocks and bonds, utilizing standardized indices in order to make market risk confined within certain limits.

While VaR can easily be utilized to grasp risks in an integrated way, it merely indicates risk amount under ordinary market environment, which is a disadvantage of VaR. To supplement this disadvantage, Japan Post formulated harsh market environments, including unexpectedly sharp declines in quotations, and simulated the amount of losses (through implementation of stress tests), thereby recognizing risks that could not be grasped by VaR.



(Reference) Estimated amount of risks (sensitivities) from market fluctuations (interest rates, share prices, foreign exchange)

End of September 2007

Factor	Asset	Balance	Sensitivity	
Interest rates	Bonds held to maturity	30 trillion yen	+ 0.1%	(- 187.0 billion yen)
	Bonds to cover premium reserves	45 trillion yen	+ 0.1%	(- 235.0 billion yen)
	Other (balance sheet)	10 trillion yen	+ 0.1%	- 39.0 billion yen
Foreign exchange	Foreign currency-denominated bonds (balance sheet)	4 trillion yen	10 yen appreciation	- 353.0 billion yen
Share prices	Domestic stocks (balance sheet)	2 trillion yen	- 1,000 yen	- 173.0 billion yen

Note 1: Bonds held to maturity and bonds to cover premium reserves are not evaluated at market value and are not reflected on the balance sheet.

Note 2: The balance and sensitivity of figures of the "Interest rates-other" include foreign currency-denominated bonds.

Note 3: Sensitivity of the "Foreign exchange" is calculated on the assumption that all currencies fluctuate at the same rate as the US dollar.

Note 4: Sensitivity of the "Share prices-domestic stocks" indicates the loss posted in case of the Nikkei Average fall below 1,000 yen.

2) Credit Risk

Credit risk is the risk of fluctuations in asset valuation amounts or investment returns due to the deterioration of debtors' financial situations.

The Postal Life Insurance Business mainly managed bonds, deposits, etc., since it was allowed to extend loans only to regional public organizations under the Japan Postal Public Corporation Law. When managing credit risks, Japan Post set standards for unqualified debtors, referring to the ratings graded by ratings agencies, and also set credit lines for each debtor.

Japan Post figured out the risk represented by debtors, adding up each individual company's bonds, deposits, and stocks, so that credit risk was not concentrated on a particular company and Japan Post would not be at risk of huge losses.

3) Market Liquidity Risk

Market liquidity risk is the risk of fluctuations in asset valuation amounts or investment returns due to unavoidable transactions at remarkably disadvantageous prices, or not being able to perform transactions in the market due to deterioration of market situations.

As for managing market liquidity risk, Japan Post set limits for issue holdings to manage risk in accordance with an analysis of the market's trading conditions. This ensured a certain degree of market liquidity.

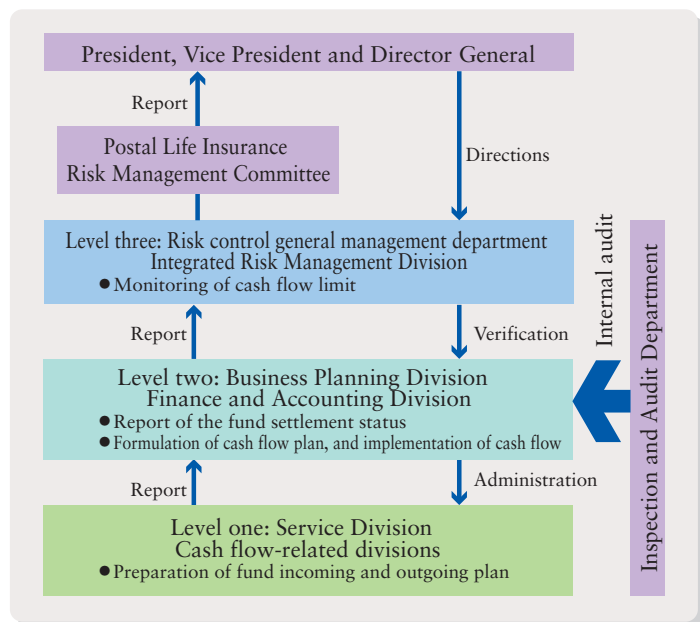
(3) Cash Flow Risk

For the management of the life insurance business, it is necessary to receive and pay funds from and to customers and business partners, including payment of claims, etc. and investment of funds. If fund settlements are jeopardized at the time of receiving and paying funds, it could cause inconvenience to the persons concerned, and could also make it impossible for Japan Post to operate the business itself.

Consequently, Postal Life Insurance set reserve amounts for incoming and outgoing insurance premiums and claims and incoming and outgoing investment funds for the fund management in the Postal Life Insurance Business, so that such incoming and outgoing of funds would not be hindered. Securing these reserves ensured an appropriate management of cash flow risk.

To manage this risk, Postal Life Insurance defined classifications according to the tightness of financing, and it set, managed, and monitored the reserve limits for each of these classifications so that no impediments occurred to fund management.

Management system for cash flow risk

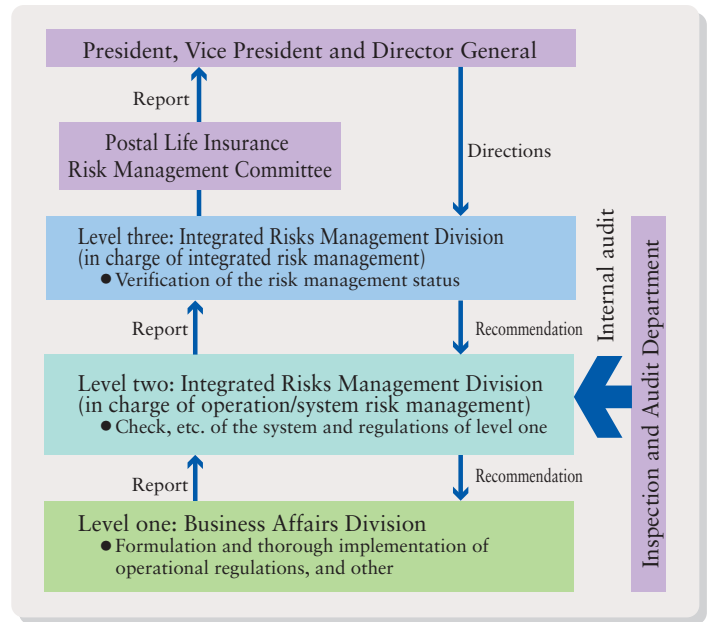


(4) Operation Risk

If accidents in handling business operations, etc. occur, Japan Post would not only have inconvenienced customers, but would also have lost their trust in Postal Life Insurance. Under such circumstances, the Business Affairs Division, or level one, ascertained incidents that have occurred in the past or that could be accrued, and established office regulations to ensure appropriate business transactions, and also strove to raise awareness and educate employees. In addition, the Integrated Risks Management Division (in charge of operation/system risk management), or level two, examined the operation risk management system of level one and conducted surveys as necessary in cases where accidents may have occurred. This system worked as mutual checks and balances.

The Integrated Risks Management Division (in charge of integrated risk management), or level three, verified the effectiveness of risk management, and, together with level two, regularly reported the management status of operation risks to the Postal Life Insurance Risk Management Committee.

Management system for operation risk



(5) Computer System Risk

A large part of business operations is dependent on information systems and in case that the system were to go down or other major trouble were to occur, Japan Post could make it inconvenience to customers and could also lost their trust in postal life insurance in the same way as if operation risks were revealed. For this reason, Japan Post set up two main computer centers with electronic computing systems, each in eastern and western Japan, and formulated a manual with guidelines on responding to severe interruptions in our computing system. Thus Japan Post established a structure enabling a quick response to computer system risks.

Furthermore, Japan Post carried out a variety of security measures and strove to thoroughly secure information assets, based on the Japan Post Policy on Information Security.

At the same time, the Integrated Risks Management Division (in charge of operation/system risk management) and the System Planning Division (in charge of system assessment), which were level two, verified whether system management was properly implemented by system-related divisions, or level one, and strove to reduce computer system risks using a system of checks and balances.

The Integrated Risk Management Division (in charge of integrated risk management), or level three, verified the effectiveness of risk management and, jointly with level two regularly reported the management status of computer system risks to the Postal Life Insurance Risk Management Committee.

Management system for computer system risk

