Japan Post Group Risk Management

Japan Post Holdings Co., Ltd., as the holding company of the Japan Post Group, recognizes that properly managing risk within the Group is one of management's highest priorities and has formulated a basic policy concerning Group risk management. Based on the shared understanding of this policy among the Group companies, Japan Post Holdings establishes a risk management system for the entire Group. In addition, considering issues related to the solicitation quality of Japan Post Insurance products, we are also enhancing cooperation among the Group companies through countermeasures such as establishing a Group Operational Risk Management Committee.

Japan Post Holdings is committed to preventing the transfer of risk from one Group company to another. Japan Post Holdings is also committed to assuring that the Group's financial companies such as Japan Post Bank Co., Ltd. and Japan Post Insurance Co., Ltd. continue to strengthen their risk management systems as independent financial institutions and implement autonomous risk management.

Note: For details on the "Report on Issues Related to the Solicitation Quality of Japan Post Insurance Products," please see pages 10 to 21.

Group Risk Management Framework

As a basic policy concerning Group risk management, the Japan Post Group has laid down basic principles of risk management and fundamental matters that should be observed by Group companies in implementing risk management, including categories of risks that should be managed by each company. The Japan Post Group performs Group risk management based on this policy.

Directors and Executive Officers of Group companies recognize the importance of risk management and are responsible for notifying employees of risk management policy as well as working to develop and properly operate risk management systems.

In addition, Japan Post Holdings has a Risk Management Department for the purpose of monitoring risk for the entire Japan Post Group. The Risk Management Department receives reports from and has discussions with Group companies on matters related to their risk management, thereby setting up a system to properly identify and monitor risk for the Group as a whole.

In light of issues related to the solicitation quality of Japan Post Insurance products, we are also enhancing coordination between Group companies through measures such as establishing a Group Operational Risk Management Liaison Committee.

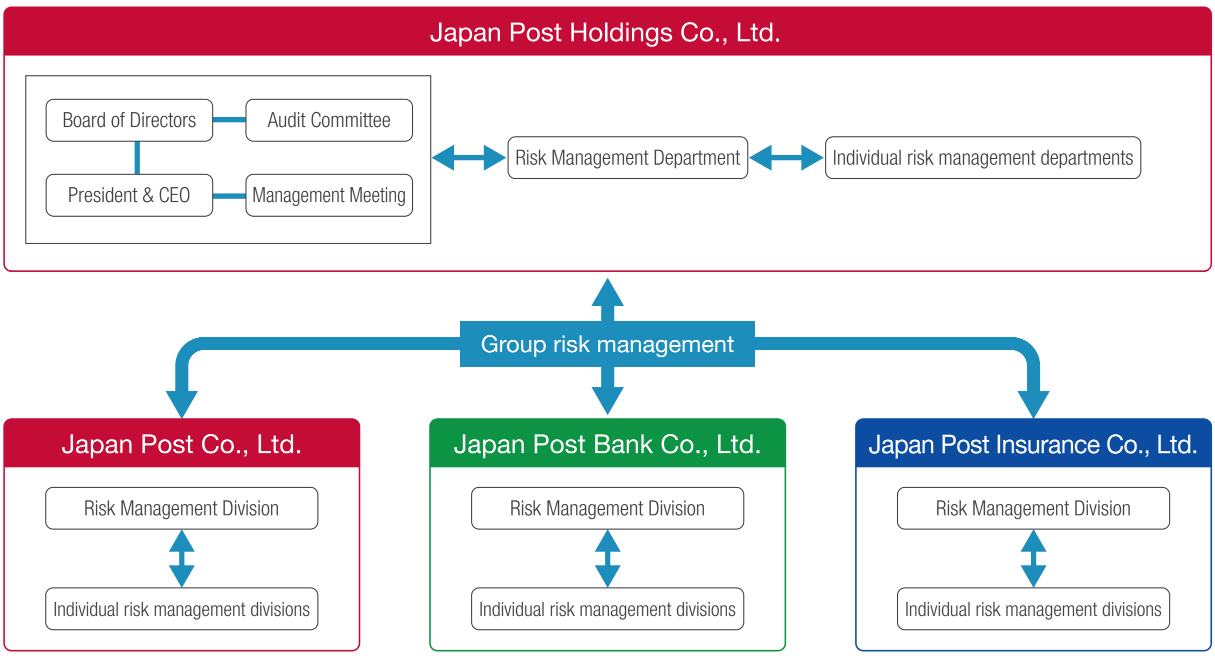
The Executive Officer in charge of risk management periodically submits Group company risk management reports to the Board of Directors and the Management Meeting. The Management Meeting also discusses the Group's risk management policies and risk management systems. In addition, the Board of Directors appropriately supervises Executive Officers who execute business.

The Japan Post Group pays particular attention to preventing any conflicts of interest when determining the authority and responsibility of organizations, executives, and employees who engage in risk management and has a system in place that ensures appropriate checks and balances among these parties.

Japan Post Bank and Japan Post Insurance are exposed to market risk, credit risk, and other types of risk that are unique to the provision of financial services. Each Group company identifies risks to be quantified and then uses VaR (value at risk, a measure of the maximum expected loss that could occur due to events with a certain probability) and other methods to objectively and appropriately measure these risks in a uniform manner.

Japan Post Holdings manages risk by confirming that the amount of risk measured at each of these two companies is suitable in relation to each Group company's equity capital.

Risk Management Framework for the Japan Post Group



Japan Post Holdings also checks the implementation status of stress tests conducted by Group companies to ascertain risks that cannot be determined through normal risk measurement, and reports this to the Board of Directors and the Management Meeting. In addition, Japan Post Holdings and the Japan Post Group follow internal and external financial regulations that include the Basel Capital Accord to carry out management corresponding to the capital adequacy ratio and solvency margin ratio, as well as respond or make disclosures as necessary, such as by submitting reports in response to demands from regulatory authorities.

Operational risk is managed for the business activities of Japan Post, Japan Post Bank, and Japan Post Insurance. Operational risk management is monitored on a regular basis to properly supervise this risk. In addition, actions are taken to enable Group companies to work more closely together to prevent the recurrence of problems and strengthen risk management.

Japan Post Group Risk Management System

Managing risk at Japan Post Group companies is recognized as one of management's highest priorities. After specifying risks associated with each business activity, each Group company has established a management system in accordance with the characteristics of each risk based on the basic policy for Group risk management and manages those risks autonomously. A department responsible for managing risk has been set up in each Group company and a system for checks and balances has been created together with the individual risk management departments.

Risk Categories and Definitions

Risk category	Definition
Insurance underwriting risk	The risk of losses arising due to change in economic conditions or insurance accident occurrence ratios as opposed to the projections made at the time when insurance premiums were set.
Credit risk	The risk of losses arising 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.
Market risk	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 losses resulting from changes in earnings generated from assets and liabilities. There are three material market risks as follows:
1) Interest rate risk	The risk of losses resulting from changes in interest rates. As a result of a mismatch of interest rates on its assets and liabilities and/or timing differences in the maturity thereof, the company may suffer a loss or a decline in profit due to changes in interest rates.
2) Price volatility risk	The risk of declines in the value of assets due to changes in the prices of securities and other financial instruments.
3) Foreign exchange risk	The risk of losses resulting from the difference between assumed and actual foreign exchange rates in the case where the company has a long position or short position on a net basis with regard to its assets and liabilities denominated in foreign currencies.
Asset investment risk	The risk of losses arising from fluctuations in the values of assets or liabilities held (including off-balance-sheet items). Asset investment risk consists of the following credit, market, and real estate investment risks.
1) Credit risk	Same as credit risk above
2) Market risk	Same as market risk above
3) Real estate investment risk	The risk of losses due to decline in profitability of real estate caused by the changes of rental rates, or due to decrease in the value of real estate itself caused by factors such as changes in market conditions.

Risk category	Definition
Liquidity risk	1) Funding-liquidity risk: The risk of losses because a company finds it difficult to secure the necessary funds or is forced to obtain funds at far higher interest rates or the company must unavoidably trade at remarkably lower prices than usual under normal conditions because of a worsening financial condition. 2) Market-liquidity risk: The risk of losses arising due to an inability to conduct market transactions or the need to conduct transactions at far more unfavorable prices because of market turmoil.
Operational risk	The risk of losses resulting from inadequate operation processes, inadequate activities by officers and employees, and inadequate systems or from external events. There are three categories of operational risk that apply to the entire Group: (1) administrative risk, (2) IT system risk, and (3) information assets risk.
1) Administrative risk	The risk of losses resulting 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.
2) IT system risk	The risk of losses because of a breakdown or malfunctioning of computer systems or other computer system inadequacies, or because of improper use of computer systems.
3) Information assets 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.