Medium-term Management Plan

KEY STRATEGIES 4

Deepening market operations and risk management with an awareness of stress tolerance

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Aiming for a higher degree of balance between profitability and financial soundness

We have been pursuing greater sophistication and diversification of our investment process, including establishing a new profit base through diversified investments, as the investment environment is likely to remain challenging due to continuation of global liquidity surplus and low interest rates.

During the period covered by the Medium-term Management Plan, as we continue to make consistent investment judgements based on a sophisticated risk management system, we will diversify our portfolio by region, industry and other factors and aim to build a robust investment portfolio that can maintain financial soundness even when faced with a volatile market environment in the future.

In order to realize this goal, we will build a more refined investment management system by further expanding and enhancing the systems and know-how we have built thus far, aiming to achieve a high degree of balance between profitability and financial soundness, training specialists and increasing the sophistication of our risk management systems.

Moreover, as a responsible institutional investor, we will contribute to realizing a sustainable society.

Performance in FY2021/3

Amid persistent low yen interest rates and increasing uncertainty about the global economy, we promoted internationally diversified investments based on appropriate risk management in order to ensure stable profits. In addition to accumulating risk assets centered on foreign securities while considering the credit quality, we also selectively made investments in private equity funds (funds that invest in unlisted companies, etc., with growth potential), real estate funds, and other assets which are designated as strategic investment area, in consideration of changes in the market environment. Our balance of risk assets, which had stood at ¥84.8 trillion as of March 31, 2020, increased to ¥91.1 trillion as of March 31, 2021. This included a balance of strategic investments of ¥4.2 trillion.

Amidst a severe business environment where interest rates remain low, we will expand our global

Portfolio Framework

Risk Assets

Credit portfolio | Foreign government bond portfolio
Equity portfolio | Alternative portfolio
Finance portfolio

Yen interest portfolio
(includes the Japanese government bonds portfolio)

In the management of risk assets, we target improved revenue, including through the sale of assets, by managing credit and market risk through internationally diversified investment. Risk asset funding is achieved largely through yen rates portfolio borrowing.

The yen interest portfolio targets stable earnings through the management of interest rate risk via Japanese government bonds investment operations.

Internationally diversified investment ← Foreign currency funding
Internationally diversified investment ← Borrowing from yen interest portfolio (¥) (Internal funding transactions) ← Lending to risk assets (Internal funding transactions)

Japanese government bonds, etc. ← Deposits, etc.
Lending to risk assets (Internal funding transactions) ← Deposits, etc.

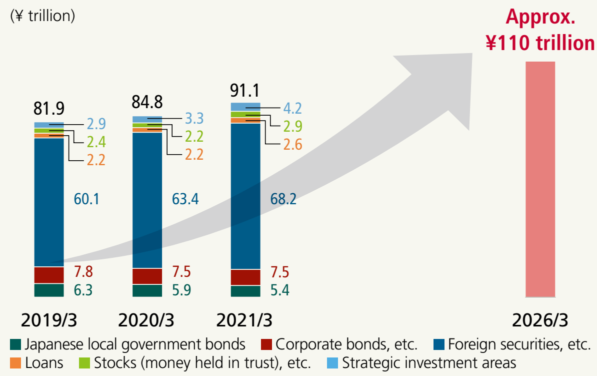
asset allocation based on a “risk appetite framework*,” clarifying the types and levels of risks to be taken, while being conscious of returns against risks and aiming to improve profitability.

Specifically, we will build up the balance of risk assets, mainly in the investment grade (IG) area. In addition, we will selectively invest in strategic investment areas with the aim of increasing the balance among risk assets.

* The framework for business management using risk appetite (the type and total amount of risk that should be accepted for the achievement of business plans based on the distinctiveness of the Bank business model) as a common term within the bank in relation to general risk taking policies including the distribution of capital and the maximization of profits.

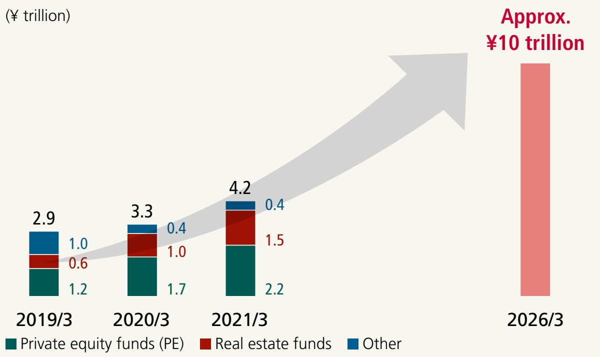
Balance of risk assets

Risk assets: assets other than yen interest rates (JGBs, etc.)



Balance of strategic investment areas (among risk assets)

Strategic investment areas: alternative assets (private equity funds and real estate funds (equity), etc.), real estate funds (debt), direct lending funds and infrastructure debt funds, etc.



As profits from redemptions of foreign bonds and revenues from Japanese government bonds have decreased, there has been a full-scale realization of revenues from strategic investment areas (J-curve effect)

KPI

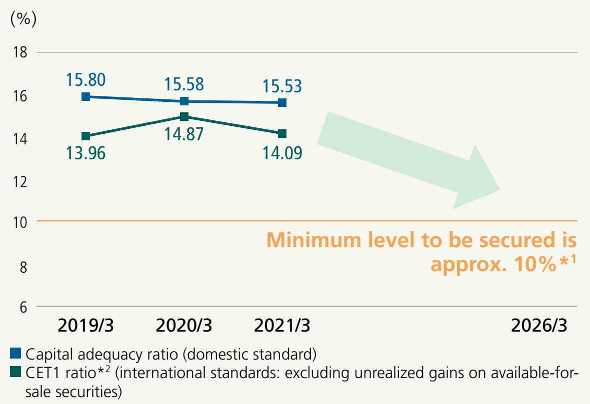
Under the above policy, we are expanding internationally diversified investments with an outlook for a risk asset balance of approximately ¥110 trillion and a strategic investment area balance of approximately ¥10 trillion by FY2026/3.

ACTION Enhancing stress tolerance and deepening risk management

Higher earnings through appropriate risk-taking

In preparation for the occurrence of stress events, we will promote the construction of a stress-resistant portfolio, and make further efforts to deepen our risk management by upgrading stress tests and strengthening monitoring. We will set a capital adequacy ratio (domestic standard) of approximately 10%, and a CET1 ratio of approximately 10%*1 as minimum levels to be secured in ordinary times. We will work to achieve improvements to our earnings by actively utilizing our capital and taking appropriate risks, while ensuring thorough financial soundness.

Trends in capital adequacy ratio and CET1 ratio



Various policies oriented toward the deepening of market operations and risk management

- Developing a stress-resistant portfolio
- Sophistication of stress tests, monitoring enhancement, and enhancement of tail risk capture
- Responding to the finalization of Basel III
- Variegated risk/return analyses
- Sophistication of foreign currency liquidity risk management (includes consideration of diversification of foreign currency acquisition methods)
- Enhancement of expert personnel for market operations and risk management
- Establishing infrastructure necessary to continue operations during crises (remote environments, etc.)

*1 Excluding unrealized gains on available-for-sale securities. The FY2026/3 CET1 ratio is based on full implementation of Basel III.

*2 Although JAPAN POST BANK is a domestic standard bank, we set targets for CET1 ratio, which is an internationally unified standard, while taking into consideration the increased importance of international finance systems, etc., that come along with the proliferation of global asset allocations.