Management's Discussion and Analysis of Financial Condition and Results of Operations (Non-Consolidated)

The following section of this annual report presents management's discussion and analysis of financial condition and results of operations ("MD&A") of JAPAN POST BANK ("we," "us," "our," and similar terms). This MD&A highlights selected information and may not contain all of the information that is important to readers of this annual report. For a more complete description of events, trends, and uncertainties, as well as the capital, liquidity, and credit and market risks affecting us and our operations, readers should refer to other sections in this annual report. This section should be read in conjunction with the financial statements and notes included elsewhere in this annual report.

RESULTS OF OPERATIONS

The following table presents information as to our income, expenses and net income for the fiscal years ended March 31, 2021 and 2020:

	Billions of yen	
	For the fiscal year ended March 31,	
	2021	2020
Interest income	**¥1,198.2**	¥1,318.0
Interest expenses	**241.1**	346.6
Net interest income	**957.1**	971.3
Fees and commissions income	**157.3**	160.5
Fees and commissions expenses	**29.4**	31.6
Net fees and commissions	**127.9**	128.8
Other operating income	**293.6**	212.8
Other operating expenses	**64.4**	4.3
Net other operating income (loss)	**229.2**	208.4
General and administrative expenses	**1,008.0**	1,018.3
Other income	**296.8**	107.8
Other expenses	**210.3**	19.6
Income before income taxes	**392.7**	378.6
Income taxes—current	**124.1**	101.2
Income taxes—deferred	**(11.2)**	4.3
Net income	**¥ 279.8**	¥ 273.0

Fiscal Year Ended March 31, 2021 Compared to Fiscal Year Ended March 31, 2020

Net Interest Income

Interest Income

Our total interest income decreased by ¥119.7 billion, or 9.0%, from ¥1,318.0 billion in the fiscal year ended March 31, 2020 to ¥1,198.2 billion in the fiscal year ended March 31, 2021, mainly due to a decrease in interest and dividends on securities. Our interest and dividends on securities decreased by ¥118.0 billion, or 9.2%, to ¥1,161.8 billion in the fiscal year ended March 31, 2021. This decrease mainly reflected a decrease in interest on Japanese government bonds and foreign securities. Our interest on loans decreased by ¥0.9 billion, or 8.3%, to ¥10.1 billion in the fiscal year ended March 31, 2021, due to a decrease in interest rate.

Interest Expenses

Our total interest expenses decreased by ¥105.4 billion, or 30.4%, from ¥346.6 billion in the fiscal year ended March 31, 2020 to ¥241.1 billion in the fiscal year ended March 31, 2021, mainly due to a decrease in foreign currency funding costs. Interest expenses on deposits decreased by ¥16.7 billion, or 30.4%, to ¥38.3 billion in the fiscal year ended March 31, 2021, due to a decrease in interest rates.

Net Interest Income

Our net interest income calculated by deducting interest expenses from interest income, decreased by ¥14.2 billion, or 1.4%, from ¥971.3 billion in the fiscal year ended March 31, 2020 to ¥957.1 billion in the fiscal year ended March 31, 2021. Our interest rate spread was 0.45% for the fiscal year ended March 31, 2021, a decrease from 0.47% for the fiscal year ended March 31, 2020.

Average Balance of, and Interest, Average Earnings Yield and Average Interest Rate on, Interest-earning Assets and Interest-bearing Liabilities

The following table shows our average asset balances and related interest and average earnings yields of our interest-earning assets for the fiscal years ended March 31, 2021 and 2020. Although we do not have any overseas branches or subsidiaries, since our operations are not divided into reportable segments, we attribute yen-denominated transactions to "domestic" and foreign currency-denominated transactions to "overseas" (except that yen-denominated transactions with non-residents of Japan are included in "overseas") and record income and expenses for each category. Accordingly, the table below shows the average asset balances and interest for "domestic" and "overseas" for the periods indicated:

	Billions of yen, except for percentages					
	For the fiscal year ended March 31,					
	2021			2020		
	Average asset balance(4)	Interest	Average earnings yield	Average asset balance(4)	Interest	Average earnings yield
Interest-earning assets:(1)						
Loans:						
Domestic	**¥ 5,888.5**	**¥ 10.0**	**0.17%**	¥ 4,947.2	¥ 11.0	0.22%
Overseas	**23.7**	**0.1**	**0.52**	10.8	0.0	0.52
Total(2)	**5,912.2**	**10.1**	**0.17**	4,958.0	11.1	0.22
Securities:						
Domestic	**70,330.0**	**410.9**	**0.58**	71,842.6	492.5	0.68
Overseas	**66,938.0**	**750.9**	**1.12**	63,239.8	787.4	1.24
Total(2)	**137,268.1**	**1,161.8**	**0.84**	135,082.5	1,279.9	0.94
Due from banks, etc.:(3)						
Domestic	**56,799.5**	**29.2**	**0.05**	52,928.3	28.8	0.05
Overseas	**—**	**—**	**—**	1.2	0.0	2.35
Total(2)	**56,799.5**	**29.2**	**0.05**	52,929.6	28.9	0.05
Total interest-earning assets:						
Domestic	**204,928.2**	**518.3**	**0.25**	198,026.3	629.0	0.31
Overseas	**67,100.5**	**751.4**	**1.11**	63,366.9	789.4	1.24
Total(2)	**¥210,430.4**	**¥1,198.2**	**0.56%**	¥203,590.0	¥1,318.0	0.64%

Notes: (1) Income earned on money held in trust is included in "other income," and the average balance of money held in trust (¥4,102.1 billion for the fiscal year ended March 31, 2021 and ¥3,129.5 billion for the fiscal year ended March 31, 2020) is excluded from interest-earning assets.
(2) Average asset balance and interest on transactions between "domestic" and "overseas" are offset to calculate totals.
(3) "Due from banks, etc." consists of negotiable certificates of deposit, Bank of Japan deposits, call loans and monetary claims bought.
(4) Average asset balance is calculated on a daily basis.
(5) "Domestic" represents yen-denominated transactions while "overseas" represents foreign currency-denominated transactions (except that yen-denominated transactions with non-residents of Japan are included in "overseas").

The following table shows the average balances and related interest and average interest rates of our interest-bearing liabilities for the fiscal years ended March 31, 2021 and 2020:

	Billions of yen, except for percentages					
	For the fiscal year ended March 31,					
	2021			2020		
	Average liability balance(3)	**Interest**	**Average interest rate**	Average liability balance(3)	Interest	Average interest rate
Interest-bearing liabilities:(1)						
Deposits:						
Domestic	**¥188,043.5**	**¥ 38.3**	**0.02%**	¥183,018.2	¥ 55.0	0.03%
Overseas	**—**	**—**	**—**	—	—	—
Total(2)	**188,043.5**	**38.3**	**0.02**	183,018.2	55.0	0.03
Payables under securities lending transactions:						
Domestic	**155.8**	**0.1**	**0.09**	229.1	0.2	0.10
Overseas	**1,482.3**	**6.7**	**0.45**	2,240.7	49.3	2.20
Total(2)	**1,638.2**	**6.9**	**0.42**	2,469.9	49.6	2.00
Total interest-bearing liabilities:						
Domestic	**197,783.1**	**62.6**	**0.03**	190,695.7	79.3	0.04
Overseas	**67,508.0**	**245.2**	**0.36**	63,324.7	362.3	0.57
Total(2)	**¥203,692.8**	**¥236.3**	**0.11%**	¥196,217.3	¥341.1	0.17%

Notes: (1) Expenses incurred on money held in trust are included in "other expenses," and the average balance corresponding to money held in trust (¥4,102.1 billion for the fiscal year ended March 31, 2021 and ¥3,129.5 billion for the fiscal year ended March 31, 2020) and the interest expenses (¥4.7 billion for the fiscal year ended March 31, 2021 and ¥5.4 billion for the fiscal year ended March 31, 2020) are excluded from interest-bearing liabilities.
(2) Average liability balance and interest on transactions between "domestic" and "overseas" are offset to calculate totals.
(3) Average liability balance is calculated on a daily basis.
(4) "Domestic" represents yen-denominated transactions while "overseas" represents foreign currency-denominated transactions (except that yen-denominated transactions with non-residents of Japan are included in "overseas").

Our average balance of interest-earning assets increased by ¥6,840.3 billion, or 3.3%, from ¥203,590.0 billion in the fiscal year ended March 31, 2020 to ¥210,430.4 billion in the fiscal year ended March 31, 2021. Our average earnings yield on interest-earning assets decreased from 0.64% in the fiscal year ended March 31, 2020 to 0.56% in the fiscal year ended March 31, 2021. As a result, our total interest income on interest-earning assets decreased from ¥1,318.0 billion in the fiscal year ended March 31, 2020 to ¥1,198.2 billion in the fiscal year ended March 31, 2021.

Our average balance of interest-bearing liabilities increased by ¥7,475.5 billion, or 3.8%, from ¥196,217.3 billion in the fiscal year ended March 31, 2020 to ¥203,692.8 billion in the fiscal year ended March 31, 2021. Our average interest rates on interest-bearing liabilities decreased from 0.17% in the fiscal year ended March 31, 2020 to 0.11% in the fiscal year ended March 31, 2021. As a result, our total interest expenses on interest-bearing liabilities decreased from ¥341.1 billion in the fiscal year ended March 31, 2020 to ¥236.3 billion in the fiscal year ended March 31, 2021.

Changes in Interest Income and Expenses Due to Changes in Balance and Interest Rate

The following table shows changes in our interest income allocated between changes in balance and changes in interest rate for the periods indicated:

	Billions of yen		
	For the fiscal year ended March 31, 2021 versus fiscal year ended March 31, 2020 increase (decrease) due to		
	Balance-related change(1)	Interest-related change(1)	Net change
Interest income:			
Loans:			
Domestic	¥ 1.8	¥ (2.8)	¥ (0.9)
Overseas	0.0	0.0	0.0
Total(2)	1.9	(2.8)	(0.9)
Securities:			
Domestic	(10.1)	(71.3)	(81.5)
Overseas	44.3	(80.8)	(36.5)
Total(2)	20.4	(138.5)	(118.0)
Due from banks, etc.:(3)			
Domestic	2.0	(1.6)	0.3
Overseas	(0.0)	—	(0.0)
Total(2)	2.0	(1.7)	0.3
Total interest income:			
Domestic	21.2	(132.0)	(110.7)
Overseas	44.7	(82.7)	(37.9)
Total(2)	¥ 43.1	¥(162.8)	¥(119.7)

Notes: (1) Factors that increase or decrease both balance and interest rate are allocated based on the proportion of the increase or decrease in the balance and interest rate.
(2) Average balance and interest on transactions between "domestic" and "overseas" are offset to calculate totals.
(3) "Due from banks, etc." consists of negotiable certificates of deposit, Bank of Japan deposits, call loans and monetary claims bought.
(4) "Domestic" represents yen-denominated transactions while "overseas" represents foreign currency-denominated transactions (except that yen-denominated transactions with non-residents of Japan are included in "overseas").

The following table shows changes in our interest expenses allocated between changes in balance and changes in interest rate for the periods indicated:

	Billions of yen		
	For the fiscal year ended March 31, 2021 versus fiscal year ended March 31, 2020 increase (decrease) due to		
	Balance-related change(1)	Interest-related change(1)	Net change
Interest expenses:			
Deposits:			
Domestic	**¥ 1.4**	**¥ (18.2)**	**¥ (16.7)**
Overseas	**—**	**—**	**—**
Total(2)	**1.4**	**(18.2)**	**(16.7)**
Payables under securities lending transactions:			
Domestic	**(0.0)**	**(0.0)**	**(0.0)**
Overseas	**(12.7)**	**(29.8)**	**(42.6)**
Total(2)	**(12.7)**	**(29.9)**	**(42.6)**
Total interest expenses:			
Domestic	**2.8**	**(19.6)**	**(16.7)**
Overseas	**22.5**	**(139.6)**	**(117.0)**
Total(2)	**¥ 12.5**	**¥(117.3)**	**¥(104.7)**

Notes: (1) Factors that increase or decrease both balance and interest rate are allocated based on the proportion of the increase or decrease in the balance and interest rate.
(2) Average balance and interest on transactions between "domestic" and "overseas" are offset to calculate totals.
(3) "Domestic" represents yen-denominated transactions while "overseas" represents foreign currency-denominated transactions (except that yen-denominated transactions with non-residents of Japan are included in "overseas").

Our interest income in the fiscal year ended March 31, 2021 decreased by ¥119.7 billion compared to the previous fiscal year primarily due to a decrease in interest income from domestic securities as a result of decreases in both balance of and interest rates on these securities.

Our interest expenses in the fiscal year ended March 31, 2021 decreased by ¥104.7 billion compared to the previous fiscal year primarily due to a decrease in foreign currency funding costs.

Interest Rate Spread

The following table shows our yield on interest-earning assets, interest rates on interest-bearing liabilities and interest rate spread for the periods indicated:

	For the fiscal year ended March 31,	
	2021	2020
Yield on interest-earning assets:		
Domestic	**0.25%**	0.31%
Overseas	**1.11**	1.24
Total	**0.56**	0.64
Interest rate on interest-bearing liabilities:		
Domestic	**0.03**	0.04
Overseas	**0.36**	0.57
Total	**0.11**	0.17
Interest rate spread:		
Domestic	**0.22**	0.27
Overseas	**0.75**	0.67
Total	**0.45%**	0.47%

Note: (1) "Domestic" represents yen-denominated transactions while "overseas" represents foreign currency-denominated transactions (except that yen-denominated transactions with non-residents of Japan are included in "overseas").

Our interest rate spread, for the fiscal year ended March 31, 2021, decreased to 0.45% from 0.47% for the previous fiscal year. This decrease was primarily the result of decreased interest rate spread on domestic assets, reflecting yen interest rates remained at a low level.

Net Fees and Commissions

The following table sets forth our fees and commissions income and expenses for the periods indicated:

	Billions of yen	
	For the fiscal year ended March 31,	
	2021	2020
Fees and commissions income:		
Fees and commissions on domestic and foreign exchanges	**¥ 86.7**	¥ 82.3
Other	**70.6**	78.2
Total	**157.3**	160.5
Fees and commissions expenses:		
Fees and commissions on domestic and foreign exchanges	**5.0**	4.7
Other	**24.3**	26.8
Total	**29.4**	31.6
Net fees and commissions	**¥127.9**	¥128.8

Net fees and commissions decreased by ¥0.9 billion, or 0.7%, from ¥128.8 billion in the fiscal year ended March 31, 2020 to ¥127.9 billion in the fiscal year ended March 31, 2021. Fees and commissions income decreased by ¥3.1 billion, or 1.9%, from ¥160.5 billion in the fiscal year ended March 31, 2020 to ¥157.3 billion in the fiscal year ended March 31, 2021. Fees and commissions expenses decreased by ¥2.2 billion, or 7.0%, from ¥31.6 billion in the fiscal year ended March 31, 2020 to ¥29.4 billion in the fiscal year ended March 31, 2021. The decrease in net fees and commissions was primarily due to a decrease in fees relating to investment trusts.

Net Other Operating Income (Loss)

The following table sets forth our net other operating income (loss) for the periods indicated:

	Billions of yen	
	For the fiscal year ended March 31,	
	2021	2020
Other operating income:		
Gains on foreign exchanges	**¥254.6**	¥202.1
Gains on sales of bonds	**38.5**	10.7
Other	**0.5**	—
Total	**293.6**	212.8
Other operating expenses:		
Losses on sales of bonds	**64.4**	2.6
Other	**—**	1.7
Total	**64.4**	4.3
Net other operating income (loss)	**¥229.2**	¥208.4

Net other operating income was ¥229.2 billion in the fiscal year ended March 31, 2021 as compared to net other operating income of ¥208.4 billion in the fiscal year ended March 31, 2020. This was mainly due to an increase in the gains on foreign exchanges.

General and Administrative Expenses

The following table sets forth a breakdown of our general and administrative expenses for the periods indicated:

	Billions of yen	
	For the fiscal year ended March 31,	
	2021	2020
General and administrative expenses:		
Personnel expenses:		
Salaries and allowances	**¥ 96.0**	¥ 98.6
Others	**21.2**	21.9
Total	**117.2**	120.6
Non-personnel expenses:		
Commissions on bank agency services, etc. paid to JAPAN POST Co., Ltd.	**366.3**	369.7
Contributions paid to the Organization for Postal Savings, Postal Life Insurance and Post Office Network(1)	**237.4**	237.8
Deposit insurance expenses paid to Deposit Insurance Corporation of Japan	**57.4**	59.4
Rent for land, buildings and others	**11.5**	11.9
Expenses on consigned businesses	**67.0**	64.0
Depreciation and amortization	**34.9**	36.1
Communication and transportation expenses	**15.2**	16.8
Maintenance expenses	**13.3**	12.4
IT expenses	**12.9**	16.7
Others	**17.9**	18.9
Total	**834.2**	844.3
Taxes and dues (consumption tax and stamp tax, etc.)	**56.5**	53.3
Total	**¥1,008.0**	¥1,018.3

Note: (1) We make payments of contributions to the Organization for Postal Savings, Postal Life Insurance and Post Office Network in accordance with Article 18-3 of the Act on Organization for Postal Savings, Postal Life Insurance and Post Office Network.

Our general and administrative expenses decreased 1.0% from ¥1,018.3 billion in the fiscal year ended March 31, 2020 to ¥1,008.0 billion in the fiscal year ended March 31, 2021. This decrease was mainly due to a decrease in non-personnel expenses.

Other Income and Expenses

The following table sets forth our other income and expenses for the periods indicated:

	Billions of yen	
	For the fiscal year ended March 31,	
	2021	2020
Other income:		
Gains on sales of stocks and other securities	**¥ 8.6**	¥ 23.1
Gains on money held in trust	**277.0**	75.2
Other	**11.1**	9.4
Total	**296.8**	107.8
Other expenses:		
Losses on sales of stocks and other securities	**197.1**	11.2
Losses on devaluation of stocks and other securities	**—**	0.2
Losses on money held in trust	**4.3**	2.4
Other	**8.8**	5.6
Total	**210.3**	19.6
Net other income (expenses)	**¥ 86.5**	¥ 88.1

Other income increased by ¥189.0 billion, or 175.3%, from ¥107.8 billion in the fiscal year ended March 31, 2020 to ¥296.8 billion in the fiscal year ended March 31, 2021. This increase was primarily due to an increase in gains on money held in trust. Other expenses increased by ¥190.6 billion, or 970.9%, from ¥19.6 billion in the fiscal year ended March 31, 2020 to ¥210.3 billion in the fiscal year ended March 31, 2021. This increase was primarily due to an increase in losses on sales of stocks and other securities. As a result, net other income decreased by ¥1.5 billion, or 1.8%, from ¥88.1 billion in the fiscal year ended March 31, 2020 to ¥86.5 billion in the fiscal year ended March 31, 2021.

Income Taxes

The following table sets forth our income taxes for the periods indicated:

	Billions of yen, except for percentages	
	For the fiscal year ended March 31,	
	2021	2020
Income taxes:		
Current	**¥124.1**	¥101.2
Deferred	**(11.2)**	4.3
Total income taxes	**¥112.9**	¥105.5
Effective income tax rate	**28.7%**	27.8%

Current income taxes increased by ¥22.8 billion, and deferred income taxes decreased by ¥15.5 billion, for the fiscal year ended March 31, 2021, compared to the previous fiscal year. As a result, total income taxes for the fiscal year ended March 31, 2021 increased by ¥7.3 billion compared to the previous fiscal year primarily due to an increase in income before income taxes.

The effective income tax rate was 28.7% for the fiscal year ended March 31, 2021, 1.8 percentage points lower than the effective statutory tax rate of 30.6%. The lower effective income tax rate primarily relates to the effect of nontaxable dividends received.

Net Income

As a result of the foregoing, net income was ¥279.8 billion in the fiscal year ended March 31, 2021 as compared to net income of ¥273.0 billion in the fiscal year ended March 31, 2020.

FINANCIAL CONDITION

Total Assets

As of March 31, 2021, we had total assets of ¥223,847.5 billion, an increase of ¥12,942.3 billion, or 6.1%, as compared to total assets of ¥210,905.1 billion as of March 31, 2020.

Securities Portfolio

Our securities portfolio totaled ¥138,183.2 billion as of March 31, 2021, an increase of ¥2,984.8 billion, or 2.2%, from ¥135,198.4 billion as of March 31, 2020. This increase was mainly due to an increase in other securities of overseas, which mainly consisted of foreign securities.

The following table shows a breakdown of our securities by type of security, as of the dates indicated:

	Billions of yen	
	As of March 31,	
	2021	2020
Domestic:		
Japanese government bonds	**¥ 50,493.4**	¥ 53,636.1
Japanese local government bonds	**5,493.8**	5,986.3
Japanese corporate bonds	**11,014.9**	9,915.2
Japanese stocks	**13.7**	3.2
Other securities	**618.7**	1,687.8
Subtotal	**67,634.7**	71,228.7
Overseas:		
Other securities:	**70,548.5**	63,969.6
Foreign bonds	**23,505.1**	23,706.8
Investment trusts	**47,040.7**	40,261.2
Subtotal	**70,548.5**	63,969.6
Total	**¥138,183.2**	¥135,198.4

Note: (1) “Domestic” represents yen-denominated transactions while “overseas” represents foreign currency-denominated transactions (except that yen-denominated transactions with non-residents of Japan are included in “overseas”).

Our investment securities are classified into the following primary categories:

- Held-to-maturity securities, which are expected to be held to maturity, are reported at amortized cost (using the straight-line method) based on the moving average method. These securities are not reported at fair value.
- Available-for-sale securities are, as a general principle, reported at fair value, determined based upon the average market price of the final month of the fiscal year, etc., for equity securities and at the market price at the balance sheet date for other securities. Net unrealized gains (losses) (including those relating to foreign exchange fluctuations, except where fair value hedge accounting is applicable), net of applicable taxes, are reported in a separate component of net assets.

Held-to-Maturity Securities

The following tables set forth the amounts on the balance sheet and fair values of held-to-maturity securities, and the difference of these amounts, as of the dates indicated:

	Billions of yen				
	As of March 31, 2021				
	Carrying amount	Fair value	Difference	Amount for which fair value exceeds carrying amount	Amount for which fair value does not exceed carrying amount
Japanese government bonds	¥20,576.3	¥20,807.0	¥230.6	¥256.2	¥25.5
Japanese local government bonds	1,891.2	1,892.8	1.6	3.1	1.5
Japanese corporate bonds	2,710.4	2,716.3	5.8	11.6	5.7
Others:	—	—	—	—	—
Foreign bonds	—	—	—	—	—
Total	¥25,178.0	¥25,416.2	¥238.1	¥271.0	¥32.9

	Billions of yen				
	As of March 31, 2020				
	Carrying amount	Fair value	Difference	Amount for which fair value exceeds carrying amount	Amount for which fair value does not exceed carrying amount
Japanese government bonds	¥21,038.1	¥21,513.6	¥475.5	¥475.7	¥0.2
Japanese local government bonds	1,146.7	1,148.4	1.6	2.9	1.3
Japanese corporate bonds	1,985.7	1,999.4	13.6	17.4	3.7
Others:	—	—	—	—	—
Foreign bonds	—	—	—	—	—
Total	¥24,170.7	¥24,661.5	¥490.8	¥496.1	¥5.2

The carrying amount of our held-to-maturity securities as of March 31, 2021 was ¥25,178.0 billion, an increase of ¥1,007.3 billion, or 4.1%, from ¥24,170.7 billion as of March 31, 2020. This increase was primarily due to an increase in the amount of Japanese local government bonds and Japanese corporate bonds.

Available-for-Sale Securities

The following tables set forth the amounts on the balance sheet, acquisition cost and the difference of these amounts for securities whose fair value is available as of the dates indicated:

	Billions of yen				
	As of March 31, 2021				
	Carrying amount	Acquisition cost	Difference	Amount for which carrying amount exceeds acquisition cost	Amount for which carrying amount does not exceed acquisition cost
Japanese stocks	—	—	—	—	—
Japanese government bonds	¥ 29,917.0	¥ 29,374.2	¥ 542.7	¥ 592.8	¥ 50.0
Japanese local government bonds	3,602.5	3,585.3	17.1	17.4	0.2
Japanese corporate bonds	8,304.5	8,266.6	37.8	40.9	3.0
Others:	69,316.7	67,508.1	1,808.6	2,014.5	205.8
Foreign bonds	23,505.1	22,473.7	1,031.3	1,110.5	79.1
Investment trusts	45,384.4	44,608.2	776.2	902.6	126.4
Total	¥111,140.9	¥108,734.4	¥2,406.4	¥2,665.7	¥259.3

Note: (1) Of the difference shown above, ¥173.5 billion is included in the statement of income as gains because of the application of fair value hedge accounting.

	Billions of yen				
	As of March 31, 2020				
	Carrying amount	Acquisition cost	Difference	Amount for which carrying amount exceeds acquisition cost	Amount for which carrying amount does not exceed acquisition cost
Japanese stocks	—	—	—	—	—
Japanese government bonds	¥ 32,597.9	¥ 31,803.7	¥ 794.2	¥ 832.0	¥ 37.8
Japanese local government bonds	4,839.5	4,813.8	25.6	26.6	0.9
Japanese corporate bonds	7,929.4	7,892.2	37.2	46.1	8.8
Others:	64,296.3	65,905.3	(1,609.0)	1,248.9	2,858.0
Foreign bonds	23,706.8	23,277.4	429.4	1,018.1	588.6
Investment trusts	40,208.6	42,249.0	(2,040.4)	228.7	2,269.1
Total	¥109,663.3	¥110,415.1	¥ (751.8)	¥2,153.7	¥2,905.6

Note: (1) Of the difference shown above, ¥308.3 billion is included in the statement of income as losses because of the application of fair value hedge accounting.

The following table sets forth the amount on the balance sheet for securities whose fair value is deemed to be extremely difficult to determine as of the dates indicated:

	Billions of yen	
	As of March 31,	
	2021	2020
Japanese stocks	**¥ 10.5**	¥ 0.0
Investment trusts	**2,206.7**	1,692.3
Investments in partnerships	**34.7**	30.7
Total	**¥2,252.0**	¥1,723.1

Our available-for-sale securities include Japanese stocks, domestic bonds and other securities. Domestic bonds consist of Japanese government bonds, Japanese local government bonds and Japanese corporate bonds. Other securities include foreign bonds and investment trusts.

As of March 31, 2021, the carrying amount of our domestic bonds held as available-for-sale securities was ¥41,824.1 billion, a decrease of ¥3,542.8 billion, or 7.8%, from ¥45,366.9 billion as of March 31, 2020. This decrease was primarily due to a decrease in Japanese government bonds. As of March 31, 2021, the carrying amount of other securities was ¥69,316.7 billion, an increase of ¥5,020.4 billion, or 7.8%, from ¥64,296.3 billion as of March 31, 2020. This increase was due to an increase in our holding of investment trust which are mainly invested in foreign bonds as part of our efforts to promote diversified and sophisticated investments. As of March 31, 2021, the total difference of carrying amount and acquisition cost for available-for-sale securities was ¥2,406.4 billion, an increase of ¥3,158.3 billion from a difference of ¥(751.8) billion as of March 31, 2020. This increase was due to the fact that foreign credit spreads, which had widened sharply at the end of the previous fiscal year, tightened as a result of large-scale economic support measures by governments and central banks, resulting in a recovery in fair value, mainly for investment trusts.

Impairment Losses on Securities

For the fiscal year ended March 31, 2021, no impairment losses were recognized. For the fiscal year ended March 31, 2020, impairment losses amounted to ¥0.0 billion.

Foreign Bonds

The following table sets forth the amount of foreign bonds by currency as of the dates indicated:

	Billions of yen, except for percentages			
	As of March 31,			
	2021		2020	
	Outstanding assets	Percentage	Outstanding assets	Percentage
Japanese yen	**¥ 3,922.7**	**16.6%**	¥ 5,086.4	21.4%
U.S. dollar	**15,474.8**	**65.8**	15,461.9	65.2
Euro	**3,211.6**	**13.6**	2,661.7	11.2
Others	**895.9**	**3.8**	496.7	2.0
Total	**¥23,505.1**	**100.0%**	¥23,706.8	100.0%

As of March 31, 2021, our holdings of U.S. dollar-denominated bonds totaled ¥15,474.8 billion, an increase of ¥12.8 billion, or 0.0%, from ¥15,461.9 billion as of March 31, 2020. As of March 31, 2021, our holdings of Euro-denominated bonds totaled ¥3,211.6 billion, an increase of ¥549.8 billion, or 20.6%, from ¥2,661.7 billion as of March 31, 2020. As of March 31, 2021, our holdings of foreign bonds totaled ¥23,505.1 billion, a decrease of ¥201.7 billion, or 0.8%, from ¥23,706.8 billion, as of March 31, 2020. This decrease was primarily due to a decrease in Japanese yen-denominated bonds.

Scheduled Redemption Amounts of Securities

The following tables below set forth scheduled redemption amounts of securities that have maturities as of the dates indicated:

	Billions of yen						
	As of March 31, 2021						
	One year or less	Over one year to three years	Over three years to five years	Over five years to seven years	Over seven years to ten years	Over ten years	Total
Japanese government bonds	**¥ 8,632.5**	**¥20,089.4**	**¥1,318.5**	**¥4,374.4**	**¥ 4,576.2**	**¥10,502.1**	**¥49,493.3**
Japanese local government bonds	**737.3**	**1,554.7**	**1,416.4**	**775.8**	**962.3**	**—**	**5,446.8**
Japanese corporate bonds	**2,879.0**	**2,408.9**	**1,927.3**	**1,444.9**	**1,039.1**	**1,255.3**	**10,954.8**
Other securities	**2,798.0**	**5,218.3**	**3,979.8**	**3,208.2**	**3,471.4**	**6,536.8**	**25,212.6**
Total	**¥15,047.0**	**¥29,271.4**	**¥8,642.1**	**¥9,803.5**	**¥10,049.2**	**¥18,294.2**	**¥91,107.6**

	Billions of yen						
	As of March 31, 2020						
	One year or less	Over one year to three years	Over three years to five years	Over five years to seven years	Over seven years to ten years	Over ten years	Total
Japanese government bonds	¥ 7,601.3	¥22,327.4	¥ 6,667.2	¥3,327.3	¥ 4,390.6	¥ 8,076.7	¥52,390.7
Japanese local government bonds	1,189.4	1,479.1	1,525.7	691.9	1,035.4	—	5,921.7
Japanese corporate bonds	2,099.1	2,036.3	2,173.5	975.7	1,318.9	1,251.1	9,854.9
Other securities	3,700.5	4,919.3	5,188.7	1,704.9	3,268.5	6,040.0	24,822.2
Total	¥14,590.4	¥30,762.3	¥15,555.2	¥6,699.9	¥10,013.6	¥15,367.9	¥92,989.6

Loans

Unlike other banks in Japan, our lending activities have been limited, primarily due to regulatory restrictions on our lending business. We offer loans secured by deposits, loans secured by Japanese government bonds, loans to central, local and regional government authorities and credit card loans. In addition, in May 2021, we began handling account overdraft lending services and housing loan business for individuals (Flat 35 loans). We also participate in syndicated loans to corporate borrowers, though never as syndicate manager, and acquire corporate loans and others in the secondary market. As of March 31, 2021, our total outstanding loan amount was ¥4,691.7 billion.

As of March 31, 2021, there were no “Loans to bankrupt borrowers,” “Non-accrual delinquent loans,” “Past-due loans for three months or more,” and “Restructured loans.” As of March 31, 2020, there were no “Loans to bankrupt borrowers,” “Past-due loans for three months or more,” and “Restructured loans,” while “Non-accrual delinquent loans” were ¥0.0 billion.

The substantial majority of our loans are made to domestic borrowers. As of March 31, 2021, we had ¥4,666.1 billion in domestic loans and ¥25.5 billion in overseas loans.

The following table shows a breakdown of our loans by industry as of the dates indicated:

	Billions of yen, except for percentages			
	As of March 31,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Domestic (excluding Japan Offshore Market accounts):				
Agriculture, forestry, fisheries, and mining	—	—	—	—
Manufacturing	**¥ 81.6**	**1.7%**	¥ 43.5	0.8%
Utilities, information/communications, and transportation	**137.7**	**2.9**	108.0	2.1
Wholesale and retail	**34.2**	**0.7**	31.1	0.6
Finance and insurance[1]	**739.5**	**15.8**	773.6	15.6
Construction and real estate	**63.1**	**1.3**	12.9	0.2
Services and goods rental/leasing	**84.2**	**1.8**	48.4	0.9
Central and local governments	**3,428.2**	**73.4**	3,782.4	76.5
Others	**97.3**	**2.0**	142.1	2.8
Subtotal	**4,666.1**	**100.0**	4,942.4	100.0
Overseas and Japan Offshore Market accounts:				
Governments	—	—	—	—
Others	**25.5**	**100.0**	19.3	100.0
Subtotal	**25.5**	**100.0**	19.3	100.0
Total	**¥4,691.7**		¥4,961.7	

Notes: (1) Of "Finance and insurance," loans to the Organization for Postal Savings, Postal Life Insurance and Post Office Network were ¥340.5 billion and ¥439.7 billion as of March 31, 2021 and 2020, respectively.
(2) "Domestic" represents loans to residents of Japan, while "overseas" represents loans to non-residents of Japan.

As of March 31, 2021, our loans were ¥4,691.7 billion, or 2.0% of total assets, representing a decrease of ¥270.0 billion, or 5.4%, from March 31, 2020. The decrease in our loans was primarily due to a decrease in the balance of loans to the central and local governments.

The following table shows a breakdown of our loans by maturity:

	Billions of yen						
	As of March 31, 2021						
	One year or less	**More than one year to three years**	**More than three years to five years**	**More than five years to seven years**	**More than seven years to ten years**	**Over ten years**	**Total**
Loans	**¥2,464.3**	**¥695.6**	**¥549.3**	**¥254.4**	**¥386.6**	**¥334.4**	**¥4,684.9**

Money Held in Trust

We did not hold money held in trust for the purpose of held-to-maturity as of March 31, 2021 and 2020. Money held in trust (excluding held-to-maturity purpose) as of March 31, 2021 and 2020 was as follows:

	Billions of yen, except for percentages			
	As of March 31,			
	2021		2020	
	Outstanding assets	Percentage	Outstanding assets	Percentage
Domestic stocks	**¥2,261.7**	**44.2%**	¥1,859.6	43.0%
Domestic bonds	**1,545.1**	**30.2**	1,419.0	32.8
Others	**1,299.1**	**25.4**	1,038.8	24.0
Total	**¥5,106.1**	**100.0%**	¥4,317.5	100.0%

Assets in respect of money held in trust are primarily held in Japanese yen. As of March 31, 2021, our investments in stocks have been mainly through money held in trust, and such investments have been made for the purpose of further promoting diversification and sophistication of our investments.

Sources of Funding and Liquidity

Deposits

Our primary source of funding is from deposits, mainly TEIGAKU deposits and ordinary deposits. The balance of deposits as of March 31, 2021 was ¥189.5 trillion. TEIGAKU deposits can be withdrawn any time six months after the initial deposit. The interest rates on such deposits rise every six months in a staircase pattern, with duration of up to three years. After three years, the interest is compounded using fixed interest rates until the maturity of 10 years. Ordinary deposits are demand deposits designed for day-to-day use and can be used for automatic withdrawals, direct deposits and other settlement transactions. More than 90% of our deposits are from retail customers. All of our deposits are denominated in Japanese yen. As of March 31, 2021, our deposits of ¥189.5 trillion exceeded our securities of ¥138.1 trillion by ¥51.4 trillion, and our security-deposit ratio was 72.8%. These deposits provide us with a source of stable and low-cost funds. We continuously monitor fluctuations in the respective types of deposits from time to time relative to fluctuating market conditions to manage the impact of such fluctuations on our interest rate spread and liquidity.

The following table shows a breakdown of our deposits as of the dates indicated:

	Billions of yen, except for percentages			
	As of March 31,			
	2021		2020	
	Amount	Percentage	Amount	Percentage
Liquid deposits:	**¥101,309.0**	**53.4%**	¥ 87,567.5	47.8%
Transfer deposits	**9,150.1**	**4.8**	7,712.3	4.2
Ordinary deposits, etc.(1)	**91,546.3**	**48.2**	79,346.2	43.3
Savings deposits	**612.5**	**0.3**	508.9	0.2
Fixed-term deposits:	**88,145.6**	**46.4**	95,298.9	52.0
Time deposits	**4,709.2**	**2.4**	5,225.6	2.8
TEIGAKU deposits	**83,436.3**	**44.0**	90,073.2	49.2
Other deposits	**138.8**	**0.0**	138.2	0.0
Subtotal	**189,593.4**	**100.0**	183,004.7	100.0
Negotiable certificates of deposit	**—**	**—**	—	—
Total	**¥189,593.4**	**100.0%**	¥183,004.7	100.0%

Note: (1) Ordinary deposits, etc. = ordinary deposits + special deposits (those equivalent to ordinary savings deposits). Special deposits, which represent deposits received from the Organization for Postal Savings, Postal Life Insurance and Post Office Network ("the Organization"), correspond to Postal Savings Deposits that were passed on to the Organization by Japan Post Corporation. Special deposits (those equivalent to ordinary savings deposits) are the portion of deposits received from the Organization corresponding to time deposits, TEIGAKU deposits, installment deposits, housing installment deposits and education installment deposits that had reached full term and were passed on to the Organization by Japan Post Corporation.

The total balance of deposits as of March 31, 2021 was ¥189,593.4 billion, an increase of ¥6,588.7 billion from ¥183,004.7 billion as of March 31, 2020.

The following table sets forth the balances of our time deposits based on the remaining time to maturity:

	Billions of yen						
	As of March 31, 2021						
	Less than three months	Three months to less than six months	Six months to less than one year	One year to less than two years	Two years to less than three years	Three years or more	Total
Fixed interest rates	**¥1,443.0**	**¥953.5**	**¥1,813.5**	**¥168.0**	**¥165.9**	**¥165.1**	**¥4,709.2**
Floating interest rates	—	—	—	—	—	—	—
Other time deposits	—	—	—	—	—	—	—

The following table sets forth the balances of TEIGAKU deposits based on the remaining time to maturity:

	Billions of yen					
	As of March 31, 2021					
	Less than one year	One year to less than three years	Three years to less than five years	Five years to less than seven years	Seven years or more	Total
TEIGAKU deposits	**¥11,978.4**	**¥10,752.4**	**¥11,523.2**	**¥21,295.4**	**¥27,886.7**	**¥83,436.3**

Note: (1) Figures have been calculated based on the assumption that all deposits will be held to maturity.

Due from Banks and Interbank Funding

Currently, most of our funding, other than deposits, is from short-term borrowings in the interbank market including payables under repurchase agreements and payables under securities lending transactions. Liquidity may also be provided by redemptions of financial assets such as available-for-sale securities, call loans, receivables under resale agreements and receivables under securities borrowing transactions, as well as a reduction of due from banks. We have used and plan to use due from banks, in particular deposits with the Bank of Japan, for funding various investments as opportunities arise from time to time. The balance of due from banks increases or decreases, affected by our funding liquidity and changes in the market environment. The table below shows the outstanding amount of due from banks as of the dates indicated:

	Billions of yen	
	As of March 31,	
	2021	2020
Due from banks	**¥60,464.1**	¥51,330.5

Net Assets

The table below presents information relating to our net assets as of March 31, 2021 and 2020:

	Billions of yen, except for percentages	
	As of March 31,	
	2021	2020
Capital stock	**¥ 3,500.0**	¥ 3,500.0
Capital surplus	**4,296.2**	4,296.2
Retained earnings	**2,749.4**	2,563.3
Treasury stock	**(1,300.8)**	(1,300.8)
Total shareholders' equity	**9,244.8**	9,058.7
Net unrealized gains (losses) on available-for-sale securities	**2,487.7**	256.8
Net deferred gains (losses) on hedges	**(370.4)**	(327.9)
Total valuation and translation adjustments	**2,117.2**	(71.0)
Net assets	**¥11,362.1**	¥ 8,987.6
Net assets as a percentage of total assets	**5.0%**	4.2%

Net assets as of March 31, 2021 was ¥11,362.1 billion, an increase of ¥2,374.4 billion, or 26.4%, compared to March 31, 2020. The increase was primarily due to an increase in total valuation and translation adjustments as a result of market fluctuations.

CAPITAL RESOURCE MANAGEMENT

Capital Adequacy Ratio

As determined under the Banking Act of Japan, our capital adequacy ratio (non-consolidated, domestic standard) as of March 31, 2021 was 15.51%, a decrease of 0.04 percentage points from March 31, 2020.

Total risk-based capital, the numerator of the ratio, was ¥9,024.3 billion, an increase of ¥91.8 billion from ¥8,932.5 billion as of March 31, 2020.

Risk-weighted assets, which correspond to the denominator of the ratio, amounted to ¥58,157.1 billion, representing an increase of ¥749.8 billion from ¥57,407.2 billion as of March 31, 2020.

Capital Adequacy Ratio (Non-Consolidated, Domestic Standard)

	Millions of yen		
	As of March 31,		Y-o-Y change
	2021	2020	
Core Capital: instruments and reserves (A)	**¥ 9,057,656**	¥ 8,965,233	¥ 92,422
Core Capital: regulatory adjustments (B)	**33,294**	32,685	608
Total risk-based capital (A)–(B)=(C)	**9,024,361**	8,932,547	91,813
Total amount of risk-weighted assets (D)	**58,157,118**	57,407,276	749,842
Credit risk-weighted assets	**55,604,917**	54,775,080	829,837
Market risk equivalent / 8%	**—**	—	—
Operational risk equivalent / 8%	**2,552,200**	2,632,196	(79,995)
Capital adequacy ratio (C)/(D) (%)	**15.51**	15.55	(0.04)

Dividends (Consolidated)

Our total dividend payment for the fiscal year ended March 31, 2021 was ¥187.4 billion. The dividend per share was ¥50.00 and the dividend payout ratio was 66.9%.

RISK MANAGEMENT

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 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 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.

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

Note: See page 68 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, 2021, 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

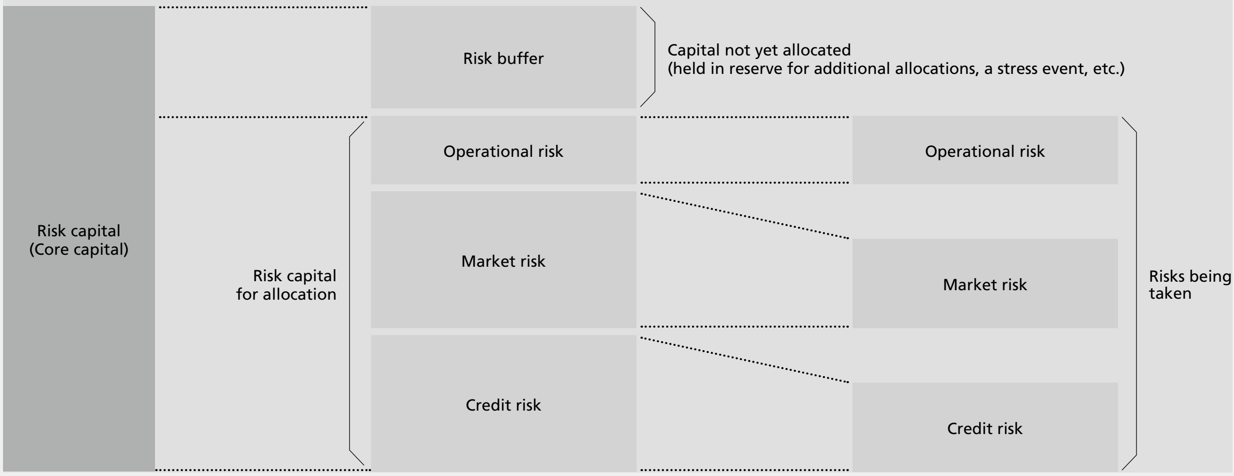
We broadly classify and define risks into five categories: market, market liquidity, funding liquidity, credit, and operational risks. We manage these risks using both quantitative and qualitative approaches.

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



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 term deposits including TEIGAKU 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.

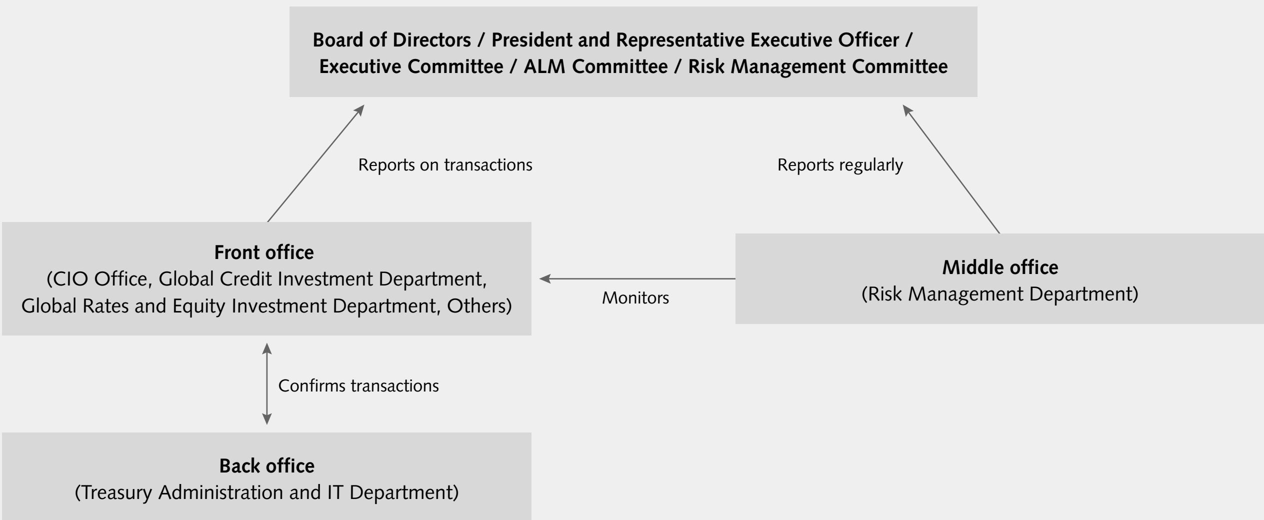
Moreover, we fully recognize the importance of interest rate risk on our business. In addition to monitoring interest rate risk on a daily basis using a 10 basis point value (10BPV) which denotes the change of present value given 10 basis points rise in the interest rates, we have established a framework 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, 2021, our VaR was as follows:

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

VaR (From April 1, 2020 to March 31, 2021)

	Billions of yen			
	Year-end	Maximum	Minimum	Average
Fiscal year ended March 31, 2021	**¥3,689.5**	**¥3,697.2**	**¥2,953.6**	**¥3,371.4**

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

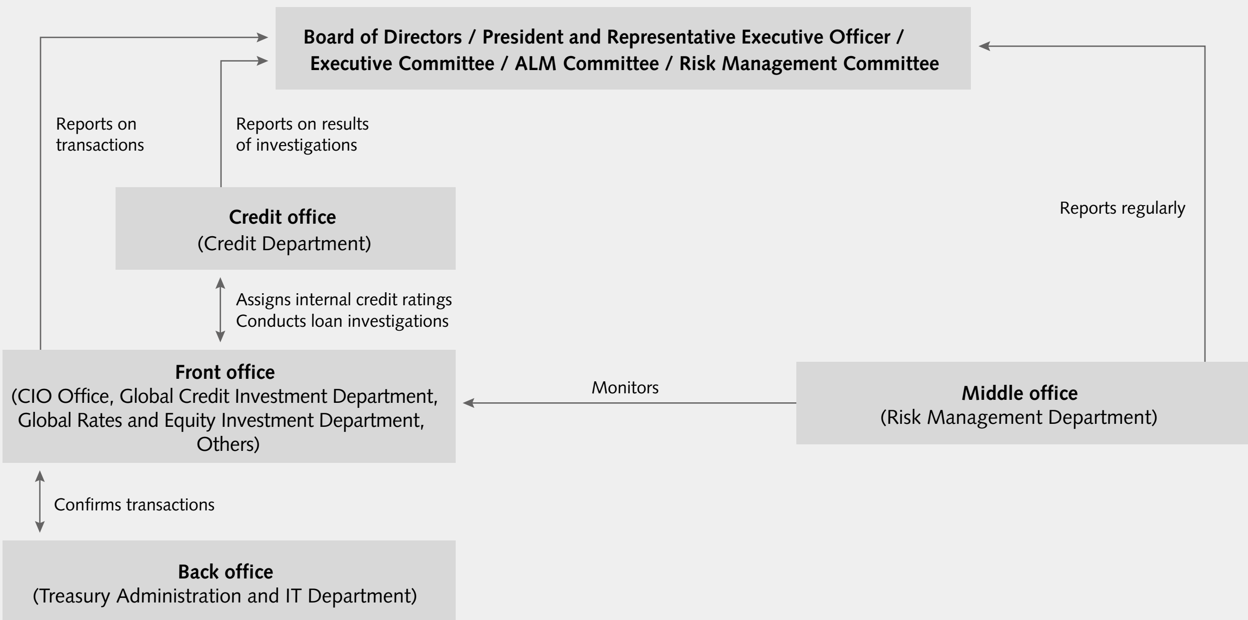
Credit Risk Management System

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.

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.

Credit Risk Management System



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.

Internal Credit Rating System

<table>
<tr><th colspan="2">Grades</th><th>Concept</th><th colspan="2">Category</th></tr>
<tr><td colspan="2">1</td><td>Has highest credit standing and many superior attributes.</td><td colspan="2" rowspan="9">Normal</td></tr>
<tr><td colspan="2">2</td><td>Has exceedingly high credit standing and superior attributes.</td></tr>
<tr><td colspan="2">3</td><td>Has high credit standing and certain superior attributes.</td></tr>
<tr><td rowspan="2">4</td><td>a</td><td rowspan="2">Has sufficient credit standing but requires attention in case of significant changes in the environment.</td></tr>
<tr><td>b</td></tr>
<tr><td rowspan="2">5</td><td>a</td><td rowspan="2">Has no problems with credit standing at this point but has attributes requiring attention in case of changes in the environment.</td></tr>
<tr><td>b</td></tr>
<tr><td rowspan="2">6</td><td>a</td><td rowspan="2">Has no current problems with credit standing but has attributes requiring constant attention.</td></tr>
<tr><td>b</td></tr>
<tr><td colspan="2">7</td><td>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.</td><td colspan="2">Borrowers requiring caution</td></tr>
<tr><td colspan="2">8</td><td>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.</td><td>(Borrowers requiring monitoring)</td><td></td></tr>
<tr><td colspan="2">9</td><td>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.</td><td colspan="2">Doubtful borrowers</td></tr>
<tr><td colspan="2">10</td><td>Is not yet legally bankrupt but is in serious financial difficulty. Deemed to have no prospects for restructuring. Effectively bankrupt.</td><td colspan="2">Substantially bankrupt borrowers</td></tr>
<tr><td colspan="2">11</td><td>Legally bankrupt.</td><td colspan="2">Bankrupt borrowers</td></tr>
</table>

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 reserve for possible loan losses.

Detailed accounting standards for reserve for possible loan losses are as follows.

In accordance with predefined standards for write-offs and reserves, reserve for possible loan losses is 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.

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.