

# Corporate Governance

## Internal governance

JHF declares a fundamental policy of internal governance for the development of the internal governance system as a way to ensure proper proceedings of its business. It will continue examining the development of internal governance system and will revise the policy if necessary.

### JHF internal governance policy (essence)

1. Establish a system that ensures all executive and staff members undertake their jobs in compliance with the laws, rules and regulations.
2. Establish a system that protects our customers and matters on recording and management of information related to execution of business by executive and staff members.
3. Establish internal regulations and other systems concerning the management of risk of incurring loss.
4. Establish a system that ensures all executive and staff members undertake their jobs efficiently.
5. Establish a system regarding assistants, if any, for auditors and their independence from the governor.
6. Establish a system for executive and staff members to report to the auditors and a system for other reports to the auditors.
7. Establish a system that ensures auditors undertake their jobs effectively.

As an independent administrative agency, the JHF undertakes operations with an awareness of its basic mission and social responsibility, and with knowledge of high ethical views. For this reason, reinforcement of corporate governance matters is positioned as an important management issue.

More specifically, positioning of the Board Meeting and other committees, as well as their roles, basic regulations and others are made clear and operations conducted accordingly. In addition, a compliance charter is prescribed for more thorough compliance subsumed in corporate ethics.

Systems have also been built that enable management of the various risks that arise in the course of business.

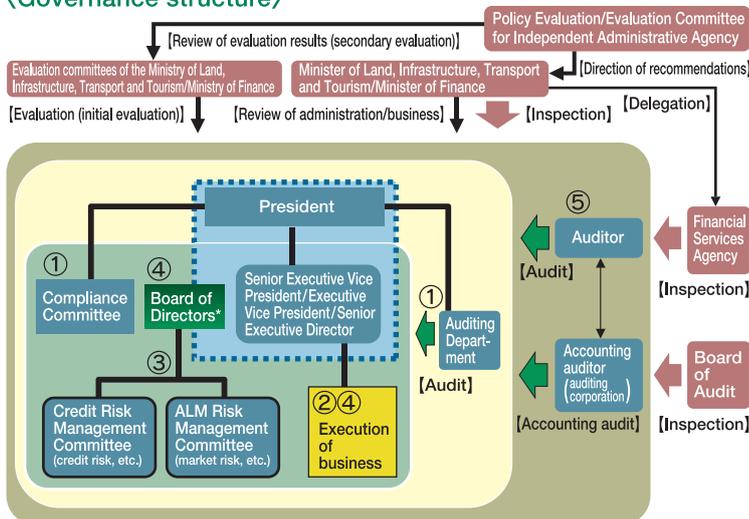
In the Audit Department independent from other sections, on-the-spot audits of the head office and

branches are conducted periodically, to ensure fair and appropriate work operation in accordance with laws, regulations and the like.

Further, given the increasing importance of corporate governance, Auditors investigate the followings: situations of deepening and diffusion of the management concept, management policy and compliance; the JHF's business risk control arrangements and overall risk management; screening and decision making processes in the Board Meeting and other committees; and preparation and operation of the corporate governance system.

The business results of the JHF are to be evaluated by the Evaluation Committee for Independent Administrative Agency.

### 〈Governance structure〉



\* The Board of Directors consists of the President, Senior Executive Vice President, Acting President, Directors and Auditors.

- ① System to ensure compliance with laws, etc. by undertaking all jobs properly  
Establishment of a compliance charter, improvement of the compliance promotion system, implementation of internal audit, etc.
- ② Management system for customer protection and storage/management system for information related to the undertaking of jobs  
Improvement of the management system for customer protection, establishment of rules on information security, document management, etc.
- ③ System to manage the risk of loss  
Improvement of the risk management system, including identification of risks and establishment of risk management committees, improvement of emergency measures, etc.
- ④ System to ensure the efficiency of job execution  
Development of rules on administrative authority and decision making, establishment of the Board of Directors, quarterly inspection of annual plans, establishment of a CIO, etc.
- ⑤ System to ensure the independence of employees working under auditors, cooperation with auditors, coordination with the Internal Auditing Department and accounting auditor, etc.

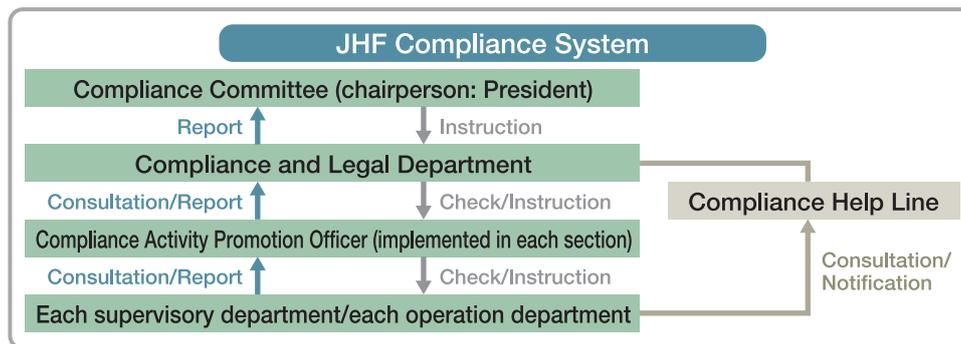
# Compliance

## Arrangements for compliance

In order to reliably implement compliance, the JHF has set up the Compliance Committee (chairperson is President) comprising of all directors and managers of departments involved in discussing and deciding important matters related to compliance. In addition, the Compliance and Legal Department has been established as the department managing compliance, along with

which, in managing the promotion of activities for compliance in each department, a person responsible for compliance is assigned for every department.

Furthermore, in order to prevent violating compliance in the JHF in advance, a compliance help line has been set up in and outside the Compliance and Legal Department.



JHF provides all executive and staff members with a pocket-size edition of its compliance manual. It will serve to guide them when they look back on actions on their jobs, or when they have difficulty making decisions.

## Fostering awareness of compliance

The JHF has laid down the Compliance Charter as a basic principle of compliance.

The JHF is also making every effort to enhance awareness of compliance among staff; we have developed a compliance manual organizing the laws, regulations, rules and social requirements pertaining to

compliance for distribution to all directors and employees, and we also carry out a compliance program for implementing a plan for compliance every fiscal year to provide education and training for all directors and employees on a regular basis, and offer information on compliance through the Intranet.

### The Compliance Charter

1. We will comply with laws, rules and regulations as well as social norms, and attempt to undertake all jobs properly in a bid to ensure public confidence.
  - (1) Compliance with applicable laws, rules and regulations as well as socially established good standards of behavior
  - (2) Disclosure of information with willingness and impartiality
  - (3) Protection of information in a manner that prevents any leakage
  - (4) Confrontation against any anti-social parties
2. We will do our utmost to pursue customer confidence and satisfaction.
  - (1) Extending comprehensive housing loan services
  - (2) Providing information required to improve the housing environment
  - (3) Explaining matters to customers until they are satisfied
  - (4) Responding to customers in good faith
3. We will respect the personality of each and every executive and staff member and endeavor to secure workplace where he or she can comfortably work.
  - (1) Respect for the personality and character of each individual
  - (2) Set up of a workplace that can facilitate day-to-day jobs

## Risk Management

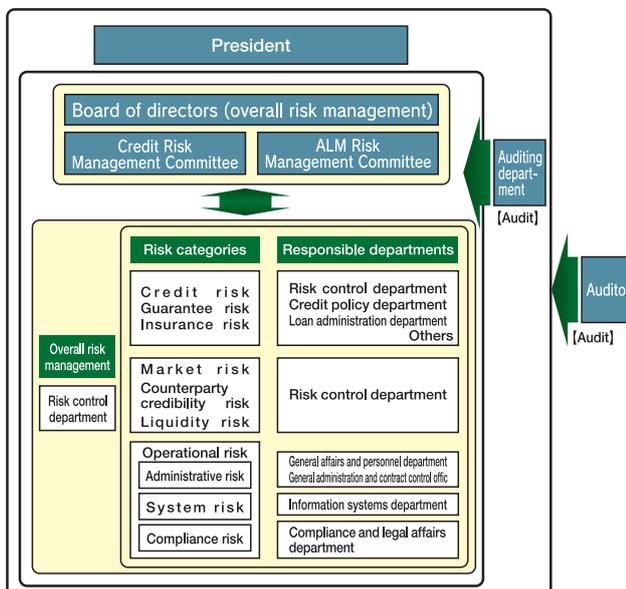
In order to properly manage business and gain the understanding and trust of the general public, JHF is maintaining its system that manages various risks that arise in day-to-day business.

Toward this end, JHF has set up and implemented the Risk Management Manual and the Risk Management Implementing Procedures. The manual stipulates the purpose of risk management, identified and defines individual risks, specifies the risk management framework and methods, and mandates risk management auditing. The implementing procedures spell out specific methods applicable to the management of individual risks. The manual and the procedures require JHF to manage those risks based on an in-depth understanding of their properties. JHF is also required to manage all risks comprehensively and keep them under evaluation of possible effects on its business and social status.

### Risk management system

JHF classifies risks into seven categories: credit risks, guarantee risks, insurance risks, market risks, counterparty credibility risks, liquidity risks, and operational risks. In the event of a notable change in the economy, JHF may define new categories of risks that should be managed in addition to those in the conventional categories. To manage these risks both in quantity and in quality, JHF has appointed an executive and a department to deal with each category of risks, and runs a committee to support them. For example, the credit risk management committee examines credit risks, guarantee risks and insurance risks. In parallel, the ALM risk management committee deals with market risks, counterparty credibility risks and liquidity risks. Each committee monitors risks in its territory and discusses plans and proposals concerning the management of those risks. JHF holds a specific executive and department responsible for the total management of all categories of risks. The executive and department follow and evaluate the assessment and management of individual risks and report to the board of executives regularly.

#### 〈Risk management flow〉



### Credit risk

This is a risk that can cause losses to JHF with JHF-held asset values depreciating or vanishing due to a decline in the credibility of debtors. Long-term housing loans account for a large part of the JHF assets. JHF recognizes that buying debts or extending credit can affect its business negatively in the long term. To avoid such risks, JHF checks, analyzes and manages credit risks when it buys debts or extend credit, and when it manage debts owed to it.

#### ● Examination of actual and potential debtors

JHF examines debtors when it considers buying their debts and scrutinizes potential debtors when it plans to extend credit, in accordance with the internal checking criteria and procedures.

#### ● Internal asset auditing

JHF manages credit risks resulting from credit it has extended and discloses balance sheets according to the government accounting criteria. Against this backdrop, JHF audits its assets based on its self-audit procedures that comply with the Finance Inspection Manual of the Financial Services Agency. JHF classifies its assets in accordance with the possibility of loans ending up unpaid and of property values falling. It subsequently calculates necessary reserves for non-performing loans by using an expected loss ratio based on past records.

#### ● Credit extension portfolio management

JHF evaluates the overall risk resulting from all debts owed to it and locates individual risks accurately. To this end, it monitors the debts by what it calls the credit extension portfolio management system. Starting with its findings, JHF analyzes housing loan statistics, estimates probable losses in the future, and rethinks required credit risk premiums. To strengthen its management of credit risk, JHF explores ways to quantify the overall risk in the credit extension portfolio management system.

## Guarantee risk

Guarantee risk is a risk that can cause unexpected losses to JHF since the occurrence of guarantee accidents goes beyond expectations that constitutes the basis of the calculation of guarantee fees. JHF extends guarantees for debts as part of its assistance with the securitization of debts. When doing so, however, JHF examines applications meticulously in an attempt to grasp, analyze and manage the overall guarantee risk.

## Insurance risk

Insurance risk is a risk that can cause unexpected losses to JHF since the occurrence of insurance accidents goes beyond expectations that constitutes the basis of the calculation of guarantee fees. JHF extends insurance against non-performing housing loans. When doing so, however, JHF examines applications meticulously and monitors the debts in the credit extension portfolio management system so as to grasp, analyze and manage the overall guarantee risk systematically.

## Market risk

Market risk is a risk that can cause losses to JHF due to financial ups and downs attributable to fluctuations in interest rates and other volatile factors. Since housing loans are its major assets, JHF is faced with prepayment risk and refunding risk.

### ● Prepayment risk

Prepayment risk is a risk that can reduce revenues from loan repayment interest rates due to an increase in repayments prior to deadlines. This can happen when interest rates are cut. JHF estimates an increase in repayments based on established prepayment models, securitizes the debts, and issues bonds spanning varying periods.

### ● Refunding risk

Refunding risk is a risk that can reduce revenues from loan repayment interest rates due to an increase in rates on borrowings. JHF focuses its attention on cash flow gaps between assets and liabilities and monitors duration and other risk indicators so as to properly manage risk.

### ● Pipeline risk

Pipeline risk is a risk that can change profits and losses due to a shift in interest rates between the buying of housing loans and the issuing of bonds. JHF exercises interest rate swaps that are limited to the purpose of hedging risks in its assistance with debt securitization.

## Reference

The following is the duration of securitization assistance accounts and outstanding credit management accounts as of the end of FY 2009.

- Securitization assistance accounts: (assets) 7.29 years and (liabilities) 7.16 years
- Outstanding credit management accounts: (assets) 5.99 years and (liabilities) 4.83 years

## Counterparty credibility risk

Counterparty credibility risk is a risk that can cause losses to JHF when asset values of a counterparty, in which JHF invests excess money, drop or are lost. This can happen when the party runs into financial difficulties. When investing excess cash, however, JHF customarily attempts to select government bonds, municipal bonds, and government-guaranteed bonds for the sake of safety. As to currency interest-rate swap transactions, JHF checks price ranges of the relevant currencies in an effort to keep such transactions under control.

## Liquidity risk

Liquidity risk is a risk that can cause losses to the JHF due to uncertain liquidity of funds. This happens when the JHF cannot secure funds because of financial difficulties, or when it is compelled to pay interest at far higher rates than usual simply to secure funds. It also happens when the JHF cannot stay on the market that is in turmoil, or when it has no choice but to continue business that imposes far unfavorable prices than normal. The JHF has set up short-term liquidity standards and other cash management indicators and is monitoring it regularly. In addition, the JHF has established an adequate management system against liquidity crisis by securing financing measures such as emergency borrowing facilities, as well as a contingency funding plan to deal with situations that may adversely affect our liquidity positioning.

## Operational risk

Operational risk is a risk that can cause losses to the JHF due to improper business processes, misconduct of any executive or staff member, a faulty information system and/or exogenous events, and includes administrative risk, system risk and compliance risk. The JHF collects realized risk events to understand the circumstances causing such risk events, analyzes the causes to formulate countermeasures and implements Risk & Control Self-Assessment (RCSA: self-assessment of risk inherent in operation and control against the risk for better operation), thereby strengthening the management system against operational risk. In addition, the JHF tries to measure the degree of

operational risk in numeric terms in accordance with a fundamental method specified in the Basel II criteria of the self-owned equity ratio.

### ● **Administrative risk**

Administrative risk is a risk that can cause losses to JHF when any executive or staff member fails to do his job as expected, causes an accident, or commits wrongdoing. To reduce the risk, JHF is revising its office work manual, improving office work, enhancing crosschecking between staff members, and educating them about better office work. Other efforts include organizing training sessions for staff members, encouraging voluntary inspections of office work, collecting and analyzing information on mistaken office work, and setting up countermeasures. Further, by discussing such efforts in the JHF's office work monitoring committee, it attempts to secure proper office work handling.

### ● **System risk**

System risk is a risk that can cause losses to JHF due to a failure, malfunction, defect or misuse of the information system. JHF classifies system risk according to the degree of significance and evaluates

each category to set up preventative measures. It also analyzes the efficacy of the developed countermeasures, explores a more secure system based on the information security regulations, checks and analyzes system failures and gets countermeasures into action. In preparation for serious failures, JHF enforces the crisis control manual, runs a backup center and organizes accident response drills.

### ● **Compliance risk**

Compliance risk is a risk that can cause losses to JHF due to unlawful acts, inappropriate contracts, and uncertainty of legal matters related to business deals. JHF strengthens internal regulations, scrutinizes draft contracts, and gets the legal affairs department to check the contents of all advertisements it plans to post. All these efforts aim to decrease compliance risk. The same department provides the executives with information on the enforcement and abolishment of the law and regulations, and court decisions that can affect JHF business. This course of action aims to prevent anyone in JHF from violating any law, rules and regulations.

# Business Continuity Plan

The Business Continuity Plan (BCP) aims to sustain the continuation of priority operations even if we suffer from damages caused by a major disaster. At worst, even if such priority operations are suspended, we can contain the damage to the minimum by investing management resources based on previously analyzed business-influence rates and restoration priorities and by building a system for the early resumption of business.

From a public standpoint and to prevent a decline in service quality to the people, the JHF formulated its Business Continuity Plan in 2008 under the assumption of an inland earthquake hitting the Tokyo Metropolitan Region, aiming at the early resumption of important operations despite disaster-caused damages.

## 《Outline of the JHF Business Continuity Plan》

### **[Basic policies]**

The JHF continues the operations from 1) to 3) outlined below while ensuring the safety of the lives of visitors, employees, etc. and preventing a secondary disaster, such as fires.

- 1) Operations whose suspension causes delay in legal procedures/contract fulfillment, resulting in a significant negative impact on business
- 2) Operations whose suspension has a significant negative impact on our customers and counterparties (housing-loan users, housing businesses, financial institutions, investors)
- 3) Operations whose suspension has a significant negative impact on our financials.

### **[Priority operations that should be continued]**

The JHF's operations that should be continued preferentially are selected based on the estimated magnitude of the impact due to operational suspension (ranges from "minor" to "remarkably large") at regular intervals in accordance with time sequence of a possible disaster.

### **[Execution framework for business continuity]**

In the event of a large scale disaster or emergency, a Disaster Headquarters shall be established immediately.

The disaster headquarters shall immediately determine policies for the deployment of human and physical resources and operational management to continue or restore priority operations.

### **[Education, training and review of the plan]**

Briefing sessions for disaster headquarters personnel and desktop training regarding the establishment of the headquarters, operational training and priority operations are implemented to enhance the awareness among the employees to share the importance of business continuity even in ordinary business activities.

In addition, the JHF enhances its business continuity capacity by making a lasting improvement using the PDCA cycle to clarify problems through training, examine the problems, improve them and then renew the plan.

# Privacy Policy

Recognizing the importance of protecting and adequately managing individuals' information in a highly-networked information society, JHF is aggressively and honestly making a commitment to comply with the Law on Protection of Personal Information Held by Incorporated Administrative Agencies (Law No. 59 of 2003) and other regulations as well as protect individuals' rights and welfare according to the privacy policy as follows:

## Appropriate acquisition of personal information

The JHF appropriately acquires information related to customers without using unfair means or by fraud.

## Purpose of using personal information

The JHF does not use any personal information in its possession beyond its stated purpose and limited to applications necessary for business operations.

## Measures for security control

The JHF takes necessary and appropriate measures for security control of personal information in its possession, including the prevention of leakage, loss or damage, and the appropriate management of other personal information.

## Duties of directors and employees

Those who are mentioned in (1) and (2) below shall not tell others about any matters regarding personal information gained through the operation of the JHF without permission, nor use such information for unreasonable purposes.

- (1) Directors and employees of the JHF or those who have engaged in such work.
- (2) Those who are or have been engaged in handling personal information under contract with the JHF.

## Selecting and supervising consignees

When the JHF contracts out all or part of the operations handling of personal information, it develops criteria for judging whether consignees take adequate measures and the system was organized to ensure the security of personal information, and contracts out the consignees who meet the criteria. JHF also supervises the consignees if they are abiding by the consignment contract.

## Restriction of provision of personal information to the third parties

The JHF does not provide private information to third parties except in specific cases.

## Developing and disclosing the private information file registry

For the private information the JHF has on file, a private information file registry is developed according to the provisions of the Law on Protection of Personal Information Held by Incorporated

## Disclosure, revision and stopping the use of private information

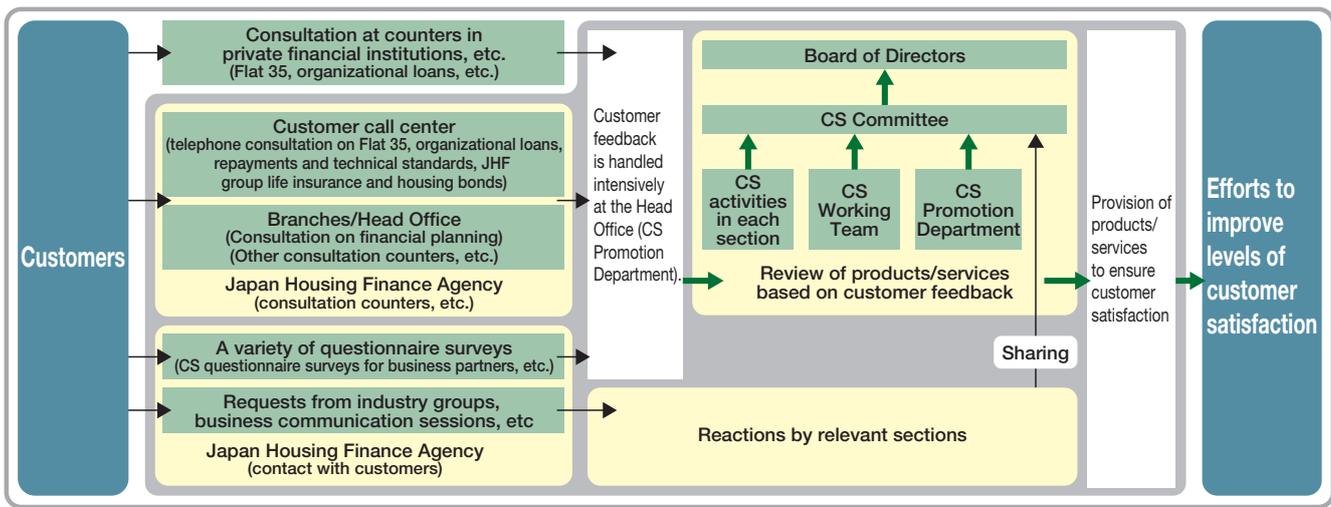
When a request is made to disclose, revise or stop the use of private information the JHF possesses, the JHF responds promptly unless there are particular reasons to do otherwise, after confirming that the person who made the requests is identical to our customer.

# CS promotion

## CS promotion system

In an effort to promote customer satisfaction (CS), the JHF runs a CS committee, made up of executives and relevant managers, as well as a CS working group, represented by young members engaged in CS activities across sectional boundaries. Further, it appoints a person in charge of CS activities in each section.

Feedback from customers collected through telephone counseling is analyzed intensively at the CS Promotion Department before being answered by the relevant section or reflected in service improvements and product development. CS promotion is implemented to provide products and services that ensure customer satisfaction.



## CS action guidelines

JHF establishes and implements CS action guidelines for CS advancement as a code of conduct for each individual.

We aim to make JHF an organization that is appreciated by all its customers, and act in an attempt to win their confidence and satisfaction.

We offer financial products and services that best suit each individual customer need.

We provide comprehensive explanations to our customers so that they are completely satisfied.

We respond to our customer promptly in good faith, taking all their voices gratefully.

We always ask ourselves what we can do for our customers and act on it.

## Efforts toward CS improvements

### (1) Implementation of CS questionnaire surveys

In addition to customer feedback collected through telephone consultation, the JHF conducts CS questionnaire surveys of private financial/inspection institutions to which the JHF contracts out operations to collect comments and requests on the JHF's services, employees' manners, etc.

The results of the surveys are co-owned across the JHF through CS training for all employees and feedback to related sections, and agency-wide efforts are made to resolve problems causing significant customer dissatisfactions. For example, we received a complaint about differences among employees regarding manners, the JHF established unified rules on business manners

such as the first response (telling name) on the telephone conversations and how to handle customers at counters, and checks employees' achievement status on a regular basis to improve their manners.

### (2) Efforts to raise employees' awareness of CS

The management continuously sends messages on CS improvements to all employees to enhance their awareness, and information on CS activities in respective sections is co-owned with all staff on the intranet.

These efforts help to enhance the CS awareness of employees at branch offices who have direct contact with customers as well as employees at the head office.

## Disclosure

### Information disclosure

The JHF accepts requests for information disclosure under the Law on Protection of Personal Information Held by Incorporated Administrative Agencies (Law No. 140 of 2001) at the window of the information disclosure and private information protection set at the Headquarters and branches across Japan. In compliance with the purpose of that law, the JHF is making a further commitment to the promotion of disclosure. In order to obtain the understanding of the people, the JHF discloses the details of its business, financial status, etc., as follows:

Materials	Place and manner of disclosure	Time of disclosure (scheduled)
Financial statements (statements of assets and liabilities, statements of profits and losses, documents on the dealing of profits and losses, documents on the calculation of cash flow, documents on the calculation of administrative service costs and relevant appendixes) 【Documents concerning the Housing Loan Agency】 Financial statements (income statement, balance sheet, inventory) Accompanying detailed statements Financial statements of administrative cost account (administrative cost account, balance sheet on GAAP base, income statement on GAAP base, cash flow statement, statement of appropriation of retained earning on GAAP base, accompanying detailed statements)	<ul style="list-style-type: none"> <li>• Published in the Official Gazette.</li> <li>• Always prepared at each branch<sup>(*)</sup></li> </ul>	July August
Report of settlements of accounts	• Always prepared at each branch <sup>(*)</sup>	August
Comments of the auditor and accounting auditor on the financial statements and final accounts reports 【Documents concerning the Housing Loan Agency】 Comments of the auditor on the financial statements and final accounts reports	• Always prepared at each branch <sup>(*)</sup>	August
Report on activities 【Documents concerning the Housing Loan Agency】 Report on activities	• Always prepared at each branch <sup>(*)</sup>	August
Business report	• Always prepared at each branch	August
Disclosure booklet (this document)	• Always prepared at each branch	August
Criteria for the payment of salaries and retirement benefits for directors and employees	• Always prepared at each branch	At every revision (modification)
Rules concerning the style of contracts	• Always prepared at each branch	At every revision (modification)
Method of calculating usage fees, commissions and other charges collected when applicable by law	• Always prepared at each branch	At every revision (modification)
Report on the evaluation of business	• Always prepared at each branch	September
Report on the evaluation of policies	• Always prepared at each branch	–
Report on the latest audit by the Board of Audit	• Always prepared at each branch	December
Issues related to associated organizations (what is stipulated in item 3, paragraph 1, article 22 of the law (Law Concerning Disclosure of Information Owned by Independent Organizations, Law No. 140 of 2001), the names of organizations, activities and relation with JHF, and significant business transactions with JHF, and the names and titles of the person who serve both JHF and any such agency as executives)	• Always prepared at each branch	August
Details of business, performance, outline of organization, state of finance, etc.	• Website ( <a href="http://www.jhf.go.jp">http://www.jhf.go.jp</a> )	At every revision (modification)

Documents marked with <sup>(\*)</sup> are compiled into single-volume booklets that go on sale at bookstores (with the exclusion of documents concerning the calculation of HLC administrative cost, the HLC final accounts reports, and the statements of auditors on such reports).