

# Outline of the Review of Procurement

With regard to procurement of good and services, Japan Housing Finance Agency has terminated direct appointment and moved to a system such as general competitive bidding except those that truly must be negotiated directly, in accordance with the Review Plan for Negotiated Contracts (set in December 2007) and the Incorporated Administrative Agency Rationalization Plan, which was approved by the Cabinet on December 24, 2007.

In addition, based on the Inspection and Review of Contracts by Incorporated Administrative Agencies (approved by the Cabinet on November 17, 2009), JHF newly formulated the Review Plan for Negotiated Contracts (June 2010) considering the results of the inspection and review of contracts by the Contract Surveillance Committee, which includes outside experts. Regarding the general competitive bidding, JHF ensures competitiveness and promotes fairness and transparency.

## 1. Review Plan for Direct Appointment

### (1) Review of non-competitive direct appointment

Regarding non-competitive direct appointments, JHF has moved to a system such as to one based on general competitive bidding for all contractors except those that truly must be a direct appointment based on the Review Plan for Direct Appointments (set in 2007).

The following are the results of the inspection and review of noncompetitive direct appointments made in 2008:

|   | Results of FY 2009  |                      | After review        |                      |
|---|---------------------|----------------------|---------------------|----------------------|
|   | Number of contracts | Amount (1,000 yen)   | Number of contracts | Amount (1,000 yen)   |
| <b>Competitive contracts</b>                | (83%)<br>1,045      | (94%)<br>49,054,414  | (86%)<br>1,088      | (95%)<br>49,655,482  |
| Competitive bidding                         | (24%)<br>304        | (21%)<br>11,177,351  | (28%)<br>356        | (38%)<br>19,875,910  |
| Planned competition, open recruitment, etc. | (59%)<br>741        | (72%)<br>37,877,063  | (58%)<br>732        | (57%)<br>29,779,572  |
| <b>Non-competitive direct appointments</b>  | (17%)<br>213        | (6%)<br>3,253,661    | (14%)<br>170        | (5%)<br>2,652,593    |
| <b>Total</b>                                | (100%)<br>1,258     | (100%)<br>52,308,075 | (100%)<br>1,258     | (100%)<br>52,308,075 |

(Note 1) Post review direct appointments are those that are truly necessary.

(Note 2) The total may differ due to rounding.

(Note 3) The figures in the above table do not include contracts that are continuously made with financial institutions, such as those for the purchase of housing loans, group credit life insurance and interest-rate swaps, as well as consignment contracts for loans for property accumulation saving scheme-tied houses.

### (2) Review of single-bidder bidding

Of competitive contracts made in FY 2008, those for which only one bidder participated in the bidding were inspected and reviewed.

Based on the results, the conditions and procedures of the contracts were amended as outlined below to ensure competitiveness.

(Results of FY 2008)

| Results                                    | Number of contracts | Amount (1,000 yen)  |
|--|---------------------|---------------------|
| <b>Competitive contracts</b>               | 1,045               | 49,054,414          |
| Of which, those with single-bidder bidding | (10%)<br>102        | (34%)<br>16,782,729 |

(Note) The figures (%) in the upper line indicate the percentage of the total competitive contracts.

(Review of contracts with single-bidder bidding)

| Reviewing method  | Number of contracts | Amount (1,000 yen) |
|---|---------------------|--------------------|
| <b>No changes were made for the contract method, (Note 1) but conditions, etc. were amended</b> | (46%)<br>47         | (48%)<br>8,130,719 |
| Changes in specification  | 5                   | 18,899             |
| Changes in requirements for participation   | 20                  | 735,690            |
| Amendment of the notification period  | 33                  | 8,049,247          |
| Other   | 36                  | 7,908,545          |
| <b>Review of the contract method</b>  | (12%)<br>12         | (49%)<br>8,290,988 |
| <b>Other reviews</b>  | (40%)<br>41         | (2%)<br>310,105    |
| <b>Contracts that did not need to be reviewed</b>   | (2%)<br>2           | (0%)<br>50,916     |

(Note 1) The number and amount of contracts may not be the same as the totals of those in the breakdown, as there is a possibility that some of them were reviewed in multiple items.

(Note 2) The total may differ due to rounding.

(Note 3) The figures (%) in the upper line indicate the percentage of contracts with singlebidder bidding in FY 2008.

## 2. Implementation program to achieve the Review Plan for Direct Appointments

### (1) Periodic inspections of contracts by the Contract Surveillance Committee, etc.

Implementation of periodic inspections by the Contract Surveillance Committee, concerning non-competitive direct appointments and contracts that ended up with single-bidder bidding

### (2) Review of non-competitive direct appointments, etc.

Avoidance of non-competitive direct appointments except those that truly must be a direct appointment

### (3) Review of single-bidder bidding

Securement of competitiveness through the efforts outlined below to create an accessible environment in general competitive bidding

① Streamlining of bidding procedures Implementation of electronic bidding to reduce bidding-related clerical burdens

② Review of specification

- Setup of truly necessary bidding requirements according to the business content
- Enabling bid participants to see specification necessary for the maintenance, etc. of existing systems

③ Mitigation of requirements for participation in bidding

- Expansion of bidding qualification grades to all grades for contracts that ended up single-bidder bidding in the past
- Expansion of eligibility to include bidders qualified by government ministers and agencies, in addition to those qualified by JHF

④ Securement of a sufficient notification period, etc.

Securement of sufficient notification/preparation periods according to the term of the contract

⑤ Use of multiple-year contracts

Making use of multiple-year contracts for integrated operation when it is more efficient to make multiple contracts with a single business, such as the lease contract and maintenance contract of copiers, and when the first bidding winner has an advantage in the subsequent bids

⑥ Interview survey from non-participating bidder

Holding of interviews with businesses that did not participate in bidding despite their receipt of bidding documents, etc. to understand the reasons for their nonattendance. The results are reflected in the improvement of procedures for similar bidding as needed.

### (4) Appropriate planned price setting

Setting of appropriate planned prices by collecting a broad range of information on market prices, etc.

(Reference) The outlines of the contracts indicated in Note 3 of the table in section 1 (1) are shown as below.

| Item  | Description   | Contract form   | Contract amount  |
|---|---|---|--|
| <b>Housing loans purchase contract</b>  | Contract of purchasing long-term, fixed housing loans originated by private financial institutions for securitization   | Competitive bidding   | ¥724.7 billion   |
| <b>Group credit life</b>  | insurance contract Insurance contract concluded with insurance companies for the system to repay an outstanding GHLC-originated loan or Flat 35 loan with insurance money when the borrower dies or has severe disability (mutual relief contract with Zenkyoren for JA-related loans)  | Competitive bidding and non-competitive direct appointment (mutual relief contract) | ¥120.3 billion (of which, mutual relief: 4.4 ¥billion)                                 |
| <b>Interest-rate swap contract</b>  | Transaction to hedge interest-rate risk from the time of purchasing a housing loan to the time of deciding conditions for securities with the housing loan as collateral (pipeline risk)  | Competitive bidding   | The concept of "contract money" does not exist as no fees accrue in swap transactions. |
| <b>Consignment contract for loans for property accumulation saving scheme-tied houses</b> | For the consignment of operations for housing funding contracts to financial institutions, operations include everything from the acceptance of loan applications to loan collection, and are related to housing funding contracts for workers or insured people provided by the Employment and Human Resources Development Organizations and the Welfare and Medical Service Agency. | Noncompetitive direct appointments  | ¥355 million   |

# Executive Compensation and Salaries of Employees

## I Executive Compensation

### 1. Fundamental policy on executive compensation

#### ① Linking operation results and FY 2010 executive compensation

Paragraph 3, Article 5 of the Japan Housing Finance Agency Executive Compensation Regulations stipulates that "taking into consideration the evaluation of operation results made by the Performance Assessment Committee, the President can increase or decrease the end-of-term allowance for an executive by up to 10% based on the executive's work performance."

#### ② Revision of standards for executive compensation

President  
Senior Executive Vice President  
Executive Vice President  
Senior Executive Director  
Auditor General

Reduction in monthly salary  
In line with the revision for the remuneration of national civil servants in designated positions, a reduction in the monthly base salary (revision rate:  $\Delta 0.5\%$ ) was implemented.

### 2. Compensation for Directors

| Position                        | Total amount of annual remunerations, etc., for FY 2011 |                        |                       |  | Inauguration and retirement |          | Previous position |
|---------------------------------|---|------------------------|-----------------------|--|-----------------------------|----------|-------------------|
|                                 | Remuneration(salary)                                    | Bonus                  | Other (details)       | Inauguration   | Retirement                  |          |                   |
| President                       | Thousand yen<br>19,729                                  | Thousand yen<br>13,307 | Thousand yen<br>3,722 | Thousand yen<br>2,408<br>293<br>(Regional adjustment)<br>(Commuting allowance) | April 1                     |          | ※                 |
| Senior Executive Vice President | Thousand yen<br>3,378                                   | Thousand yen<br>2,853  | Thousand yen<br>0     | Thousand yen<br>525<br>(Regional adjustment)                                   | January 1                   |          | ◇                 |
| Executive Vice President        | Thousand yen<br>17,863                                  | Thousand yen<br>11,093 | Thousand yen<br>4,571 | Thousand yen<br>2,008<br>191<br>(Regional adjustment)<br>(Commuting allowance) | April 1                     |          | ◇                 |
| Senior Executive Director A     | Thousand yen<br>16,085                                  | Thousand yen<br>10,044 | Thousand yen<br>4,138 | Thousand yen<br>1,818<br>85<br>(Regional adjustment)<br>(Commuting allowance)  | April 1                     |          | ◇                 |
| Senior Executive Director B     | Thousand yen<br>16,286                                  | Thousand yen<br>10,044 | Thousand yen<br>4,138 | Thousand yen<br>1,818<br>286<br>(Regional adjustment)<br>(Commuting allowance) |                             | March 31 |                   |
| Senior Executive Director C     | Thousand yen<br>16,173                                  | Thousand yen<br>10,044 | Thousand yen<br>4,138 | Thousand yen<br>1,818<br>172<br>(Regional adjustment)<br>(Commuting allowance) |                             |          | ◇                 |
| Senior Executive Director D     | Thousand yen<br>15,525                                  | Thousand yen<br>10,046 | Thousand yen<br>3,584 | Thousand yen<br>1,818<br>77<br>(Regional adjustment)<br>(Commuting allowance)  | April 1                     |          | ※                 |
| Senior Executive Director E     | Thousand yen<br>16,224                                  | Thousand yen<br>10,044 | Thousand yen<br>4,138 | Thousand yen<br>1,818<br>224<br>(Regional adjustment)<br>(Commuting allowance) |                             | March 31 | ※                 |
| Auditor General A               | Thousand yen<br>14,609                                  | Thousand yen<br>9,090  | Thousand yen<br>3,745 | Thousand yen<br>1,645<br>129<br>(Regional adjustment)<br>(Commuting allowance) |                             |          |                   |
| Auditor General B               | Thousand yen<br>14,643                                  | Thousand yen<br>9,090  | Thousand yen<br>3,745 | Thousand yen<br>1,645<br>163<br>(Regional adjustment)<br>(Commuting allowance) |                             |          | *                 |
| Auditor General C               | Thousand yen<br>14,046                                  | Thousand yen<br>9,092  | Thousand yen<br>3,183 | Thousand yen<br>1,645<br>126<br>(Regional adjustment)<br>(Commuting allowance) | April 1                     |          | ※                 |

(Notes) 1. The special regional allowance is paid to executives working in areas with high private-sector wages.

2. The following symbols are used in the above table to designate the previous position. Blank column when not applicable.

- Retired civil servant
- \* → Seconded executive (presently an executive at an organization such as an incorporated administrative agency after having retired in order to become an executive at an organization such as an incorporated administrative agency as stipulated under Paragraph 1, Article 8 of the National Civil Servant Retirement Allowance Law (Law No. 182 of 1953)).
- ※ → Retired employee of an organization such as an incorporated administrative agency (retired from an agency covered by the law Concerning Access to Information Held by Incorporated Administrative Agencies (Law No. 140 of 2001)).
- \* ※ → In the case a retired civil servant became an executive after having worked as an employee or executive of an organization such as an incorporated administrative agency

### 3. Retirement allowances paid to executives (directors who resigned during FY 2010 and were paid a retirement allowance)

| Category                        | Total payment         | Length of service at agency |            | Date resigned  | Performance rate | Notes   | Previous position |
|---------------------------------|-----------------------|-----------------------------|------------|----------------|------------------|---|-------------------|
| President                       | Thousand yen<br>6,124 | Year<br>4                   | Month<br>0 | March 31, 2011 | 0.9              | The total payment is an amount when a provisional performance rate (0.9) is applied, and will be decided by a performance rate to be determined at the Performance Assessment Committee for incorporated administrative agencies, which will assess performance in FY 2010. |                   |
| Executive Vice President        | Thousand yen<br>2,557 | Year<br>1                   | Month<br>9 | March 31, 2011 | 1.0              | The total payment is an amount when a provisional performance rate (1.0) is applied, and will be decided by a performance rate to be determined at the Performance Assessment Committee for incorporated administrative agencies, which will assess performance in FY 2010. | *                 |
| Senior Executive Vice President | Thousand yen<br>4,864 | Year<br>4                   | Month<br>0 | March 31, 2011 | 0.9              | The total payment is an amount when a provisional performance rate (0.9) is applied, and will be decided by a performance rate to be determined at the Performance Assessment Committee for incorporated administrative agencies, which will assess performance in FY 2010. | ※                 |
| Senior Executive Director A     | Thousand yen<br>4,263 | Year<br>3                   | Month<br>9 | March 31, 2011 | 0.9              | The total payment is an amount when a provisional performance rate (0.9) is applied, and will be decided by a performance rate to be determined at the Performance Assessment Committee for incorporated administrative agencies, which will assess performance in FY 2010. | *                 |
| Senior Executive Director B     | Thousand yen<br>3,368 | Year<br>2                   | Month<br>8 | March 31, 2011 | 1.0              | The total payment is an amount when a provisional performance rate (1.0) is applied, and will be decided by a performance rate to be determined at the Performance Assessment Committee for incorporated administrative agencies, which will assess performance in FY 2010. | *                 |
| Auditor General C               | Thousand yen<br>4,572 | Year<br>4                   | Month<br>0 | March 31, 2011 | 1.0              | The total payment is an amount when a provisional performance rate (1.0) is applied, and will be decided by a performance rate to be determined at the Performance Assessment Committee for incorporated administrative agencies, which will assess performance in FY 2010. | ※                 |

(Notes) 1. The "Notes" section provides the reasons for the decisions regarding the amount of retirement allowances, including the performance rating by the Performance Assessment Committee.  
2. The following symbols are used in the above table to designate the previous position. Retired civil servant \* , Seconded executive ◇ , Retired employee of an organization such as an incorporated administrative agency ※ , Retired civil servant who retired later from an organization such as an incorporated administrative agency \* ※ , Blank column when not applicable.

## II Salaries of Employees

### 1. Fundamental policy on salaries of employees

#### ① Fundamental policy regarding labor costs management

As stipulated in Paragraph 1, Article 30 of the Law on General Rules on Independent Administrative Institutions (Law No. 103 of 1999 and referred to below as the General Rules Law), JHF creates a plan to achieve the relevant medium-term goals set by the minister of Infrastructure, Land, Transport and Tourism for the period extending from April 1, 2007, through March 31, 2012, and this plan receives the approval of the Minister of Infrastructure, Land, Transport and Tourism. The following is the basic policy on labor costs set in the medium-term plan:

- a. Compared to FY 2006 general management costs of the Government Housing Loan Corporation, the predecessor of JHF, and the Housing Loan Guarantee Corporation, the rights and liabilities of which JHF inherited, general management costs will be reduced by at least 15% by the final year of the mid-term target period.
- b. Based on the Law to Promote the Administrative Reforms in Order to Realize a Simple and Effective Government (Law No. 47 of 2006), labor costs excluding retirement benefits will be reduced by at least 4% between 2007 and the 2010 compared to the FY 2006 labor costs of the Government Housing Loan Corporation, which was the predecessor of JHF, and the Housing Loan Guarantee Corporation, the rights and liabilities of which JHF inherited.

In addition, reform of labor costs will continue through FY2011 based on FY 2006 Basic Policies for Economic and Fiscal Policy, Management and Structural Reform (adopted by the Cabinet on July 7, 2006) and the reform of the salary structure of national civil servants.

#### ② Basic policy on determining the salary of employees

- a. Items taken into consideration when setting salary levels and the rationale for taking those items into consideration

Paragraph 3, Article 63 of the General Rules Law stipulates that employee salary standards must take into consideration the performance of the agency and conform with general social trends, and there was a request from the government (approved by the Cabinet on October 28, 2011) that appropriate salary levels be set in the agency's self-governing and autonomous labor-management relations by considering the agency's business, operation and characteristics and taking necessary measures while monitoring the trend of salary level revision of national civil servants.

- b. Rationale behind the method for reflecting employee skills and work performance in salaries

Paragraph 1, Article 63 of the General Rules Law stipulates that the salary of an employee must take into consideration the employee's work performance; therefore based on JHF's personnel evaluation system, the work performance evaluations are reflected in bonuses and periodic pay raises. As for the overall performance of JHF, an intra-department evaluation system that evaluates each department's contribution to the agency's performance has been introduced, and the results of these evaluations are reflected in bonuses.

#### 〔Details of salaries that reflect efficiency and work performance〕

| Salary items        | Details of the system   |
|---------------------|---|
| Base salary         | <ul style="list-style-type: none"> <li>· Periodic pay raises are determined based on annual work performance evaluations.</li> <li>· Promotions (pay raise accompanying a promotion) are determined based on skill evaluations for a set period of time.</li> </ul> |
| Diligence allowance | <ul style="list-style-type: none"> <li>· The pay rate for the diligence allowance is determined based on the work performance evaluations for a six month period.</li> </ul>  |

- c. Main revisions to the salary system in FY 2011

- Reduction in the maximum amount of allowance for officials above the director level (¥140,000 → ¥139,300)
- Introduction of reviewed personnel and salary systems (sequential implementation in and after 2012)

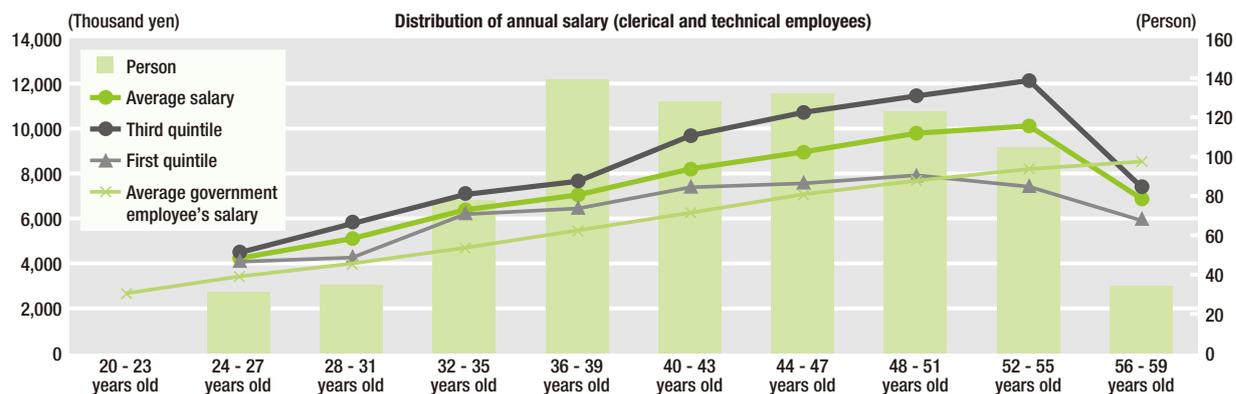
## 2. Employee salaries

### ① Salary by type of work

| Type                | Employees      | Average age | FY 2011 annual salary (average) |                       |                     |                       |
|---------------------|----------------|-------------|---------------------------------|-----------------------|---------------------|-----------------------|
|                     |                |             | Total amount                    | Contract earnings     | Commuting allowance | Bonus                 |
| Full-time employees | Persons<br>806 | Age<br>43.6 | Thousand yen<br>8,254           | Thousand yen<br>6,195 | Thousand yen<br>145 | Thousand yen<br>2,059 |
| Clerical/technical  | Persons<br>805 | Age<br>43.6 | Thousand yen<br>8,257           | Thousand yen<br>6,196 | Thousand yen<br>146 | Thousand yen<br>2,061 |
| Others              | Persons<br>1   | Age<br>—    | Thousand yen<br>—               | Thousand yen<br>—     | Thousand yen<br>—   | Thousand yen<br>—     |

(Notes) 1. "Other" under full-time employees refers to one employee, a telephone operator. Since there are concerns that it would be possible to identify personal information about them, only the number of such employees has been included.  
2. This section has been omitted since overseas employees, fixed-term employees, rehired employees, temporary employees and full-time employees are only involved in the types of work listed above, not research, medicine (hospital doctors and nurses) and education (instructors at technical colleges).

### ② Distribution of annual salary (clerical and technical employees)



(Note) From the annual salary amount in ①, commutation allowances are deducted. The same applies through ⑤ below.

#### (Clerical & technical employees)

| Groups used in distribution | Employees | Average age | Quartile       |                | Average      | Quartile     |              |
|-----------------------------|-----------|-------------|----------------|----------------|--------------|--------------|--------------|
|                             |           |             | First quartile | Third quartile |              |              |              |
| Representative position     | Persons   | Age         | Thousand yen   | Thousand yen   | Thousand yen | Thousand yen | Thousand yen |
| Director at head office     | 130       | 47.9        | 10,230         | 10,430         | 10,430       | 11,103       | 11,103       |
| Clerk at head office        | 40        | 33.0        | 4,184          | 4,610          | 4,610        | 5,057        | 5,057        |

(Note) Given that there is only one staff member corresponding to category-1 staff, since information concerning the subject person can be individually identified, only the number of persons is stated.

### ③ Employee by grade (as of April 1, 2012) (Clerical and technical employees)

| Rank                                 | Total          | First grade       | Second grade                  | Third grade                   | Fourth grade                  | Fifth grade                    | Sixth grade                     |
|--------------------------------------|----------------|-------------------|-------------------------------|-------------------------------|-------------------------------|--------------------------------|---------------------------------|
| Standard position                    |                | Clerk             | Clerk                         | Deputy Manager                | Manager                       | Director in charge             | Managing Director               |
| Employees (percentage)               | Persons<br>805 | Persons<br>—      | Persons<br>71<br>(8.8%)       | Persons<br>93<br>(11.6%)      | Persons<br>363<br>(45.1%)     | Persons<br>233<br>(28.9%)      | Persons<br>44<br>(5.5%)         |
| Age (youngest - oldest)              |                | Age<br>—          | Age<br>46 ~ 24                | Age<br>59 ~ 26                | Age<br>59 ~ 30                | Age<br>59 ~ 38                 | Age<br>57 ~ 47                  |
| Scheduled annual salary (low - high) |                | Thousand yen<br>— | Thousand yen<br>4,375 ~ 2,808 | Thousand yen<br>5,392 ~ 3,157 | Thousand yen<br>7,061 ~ 4,005 | Thousand yen<br>9,216 ~ 5,555  | Thousand yen<br>10,355 ~ 8,052  |
| Annual salary (low - high)           |                | Thousand yen<br>— | Thousand yen<br>5,708 ~ 3,736 | Thousand yen<br>7,086 ~ 4,202 | Thousand yen<br>9,362 ~ 5,347 | Thousand yen<br>12,644 ~ 6,659 | Thousand yen<br>13,958 ~ 10,876 |

(Note) Information only about "standard position" is provided because there is only one staff member in the first grade category, and detailed information could be a personal identifier.

### ④ Bonuses (FY 2011) assessed portion (clerical and technical employees)

| Rank                     |  | Summer bonus (paid in June) | Winter bonus (paid in December) | Total             |
|--------------------------|--|-----------------------------|---------------------------------|-------------------|
| Managing grade employees | Constant payment (year-end bonus)                        | %<br>61.0                   | %<br>63.9                       | %<br>62.5         |
|                          | Evaluation-based payment (diligence allowance) (average) | %<br>39.0                   | %<br>36.1                       | %<br>37.5         |
|                          | Upper - lower  | %<br>100.0 ~ 24.5           | %<br>100.0 ~ 29.8               | %<br>100.0 ~ 28.5 |
| General employees        | Constant payment (year-end bonus)                        | %<br>63.5                   | %<br>66.3                       | %<br>65.0         |
|                          | Evaluation-based payment (diligence allowance) (average) | %<br>36.5                   | %<br>33.7                       | %<br>35.0         |
|                          | Upper - lower  | %<br>100.0 ~ 30.1           | %<br>100.0 ~ 28.1               | %<br>100.0 ~ 30.4 |

### ⑤ Salary level (annual) comparative index between national civil servants and other agencies (clerical and technical employees)

National civil servant comparative index: 125.1

Other agencies comparative index (clerical and technical employees): 118.3

(Note) The National Personnel Agency calculates the index based on the salaries JHF is presently paying and setting to 100 the salary level if JHF's salaries were replaced by the national government's salary level (for the other agencies comparative index, the price level if other administrative agencies were a single agency) and weighing for the age distribution of JHF employees.

# Reference items for the salary level comparative index

## ○ Clerical and technical employees

| Item  | Details   |   |         |             |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
|---|---|---|---------|-------------|-------------------------------|-------------|-------------------------------|-----|-----|----|------|-------|-------------------------|-------|----|------|-------|-------------------------|-------|----|------|-------|-------------------------|-------|----|------|-------|-------------------------|-------|----|------|--------|
| Index   | Comparison with national civil servants 125.1   |   |         |             |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
|   | Reference   | Regional differences 115.5                      |         |             |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
|   |   | Academic history 121.3                          |         |             |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
|   |   | Regional differences and academic history 112.8 |         |             |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
| Quantitative reasons why the salary level is high compared to national civil servants | <p>· JHF, whose predecessor was the Government Housing Loan Corporation, was founded on April 1, 2007, as a financial institution whose core operations are securitization in order to create a new market-based housing financial system and to provide a stable supply of long-term, fixed rate home loans to the private sector.</p> <p>· In order to smoothly and properly conduct the agency's operations, which are centered on securitization, it is necessary to recruit and keep talented personnel with extremely specialized and advanced knowledge of financial techniques and skills in financial operations, and the personnel must be appropriately compensated for their abilities.</p> <p>· On account of this, decisions regarding the agency's salary level, which are covered in II-1-② -a Items taken into consideration when setting salary levels and the rationale for taking those items into consideration, were made also taking into consideration private financial institutions.</p> <p>· The following table, which provides a comparison between JHF and financial institutions with a similar number of employees and offices, shows that the salary levels are in general the same.</p> <p><b>Comparison of average salary (FY 2010)</b></p> <table border="1"> <thead> <tr> <th></th> <th>Employees</th> <th>Offices</th> <th>Average Age</th> <th>Average salary (thousand yen)</th> </tr> </thead> <tbody> <tr> <td>JHF</td> <td>944</td> <td>11</td> <td>42.8</td> <td>8,384</td> </tr> <tr> <td>Financial institution A</td> <td>1,493</td> <td>29</td> <td>39.7</td> <td>7,709</td> </tr> <tr> <td>Financial institution B</td> <td>1,505</td> <td>18</td> <td>40.3</td> <td>7,636</td> </tr> <tr> <td>Financial institution C</td> <td>1,067</td> <td>12</td> <td>37.8</td> <td>7,690</td> </tr> <tr> <td>Financial institution D</td> <td>1,102</td> <td>10</td> <td>38.3</td> <td>10,807</td> </tr> </tbody> </table> <p>(Notes) Data such as average salaries for private institutions were taken from the particular institution's FY 2010 securities reports. Since the average salary for private financial institutions in the securities report include overtime allowances and commuting allowances, the average salary for the agency given in the above table also includes overtime allowances and commuting allowances.</p> <p>· JHF's salary is affected by the fact that the majority of the agency's employees work in major metropolitan areas, and the organization and personnel were centralized in Tokyo to rationalize and improve the efficiency of operations (eliminating the effect of regional differences reduces the national civil servant comparative index to 115.5 from 116.7), the high percentage of employees with at least a college degree (eliminating the effect of higher education reduces the national civil servant comparative index to 121.3 from 121.8; and eliminating the effect of regional differences and higher education reduces the national civil servant comparative index to 112.8 from 114.2), and benefits in order to keep talented employees.</p> <p><b>[Result of the inspection by the competent minister of state]</b><br/>Based on the result of examination in FY 2011, in addition to the measures to be taken in the future, JHF must ensure a steady implementation of salary reduction in accordance with the revision for the remuneration of national civil servants, and must make a substantial improvement on a salary system for executive and employees to gain public understanding and approval.</p> |   |         | Employees   | Offices                       | Average Age | Average salary (thousand yen) | JHF | 944 | 11 | 42.8 | 8,384 | Financial institution A | 1,493 | 29 | 39.7 | 7,709 | Financial institution B | 1,505 | 18 | 40.3 | 7,636 | Financial institution C | 1,067 | 12 | 37.8 | 7,690 | Financial institution D | 1,102 | 10 | 38.3 | 10,807 |
|   |   | Employees                                       | Offices | Average Age | Average salary (thousand yen) |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
| JHF   | 944   | 11  | 42.8    | 8,384       |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
| Financial institution A   | 1,493   | 29  | 39.7    | 7,709       |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
| Financial institution B   | 1,505   | 18  | 40.3    | 7,636       |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
| Financial institution C   | 1,067   | 12  | 37.8    | 7,690       |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
| Financial institution D   | 1,102   | 10  | 38.3    | 10,807      |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
| Verification of the appropriateness of wage levels                                    | <p><b>[National government financial support]</b><br/>National government financial support as percentage of total projected expenditures: 3.1% (national government financial support - ¥321.8 billion; total projected expenditures - ¥10,372.1 billion [FY 2011 budget, after the second supplementation])</p> <p><b>[Examination result]</b><br/>Out of ¥321.8 billion in fiscal spending from the state, ¥222.6 billion were allocated from a supplementary budget to deal with the Basic Policies for Recovery from the Great East Japan Earthquake (approved by the Great East Japan Earthquake Restoration Headquarters on July 29, 2011).<br/>Moreover, among fiscal expenses from the state, an amount of ¥99.2 billion instituted in the original budget for FY 2011 is for subsidy implemented due to income and expenditure mismatches caused by factors such as the discretionary early redemption by loan borrowers in relation to the operations of the Government Housing Loan Corporation (the predecessor of JHF). With regard to subsidies from the state, based on Greater Efficiency and the Improved Operations of the Government Housing Loan Corporation with the Goal of Transforming into an Incorporated Administrative Agency (formulated on July 6, 2005) (in the following, Management Improvement Plan) and the mid-term plan of the agency, they were discontinued by the final year of the first mid-term target period (FY 2011) after necessary amounts were set.</p>   |   |         |             |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |
|   | <p><b>[Accumulated losses]</b><br/>Accumulated loss: ¥249.6 billion (FY 2011)<br/>* Outstanding loan management account: ¥615.8 billion, other accounts: N/A (earned surplus: ¥366.2 billion)</p> <p><b>[Results of the verification]</b><br/>Concerning the outstanding loan management account, based on the Management Improvement Plan and its mid-term plan, JHF used funds raised through securitization of outstanding housing loans to implement advanced redemption of borrowings from the Fiscal Investment and Loan Program, and subsidies from the national government were abolished by the final year (FY 2011) of the first mid-term period after necessary amounts were set.<br/>In other accounts, JHF recorded retained earnings in total.</p>  |   |         |             |                               |             |                               |     |     |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |       |                         |       |    |      |        |

|                       |   |
|-----------------------|---|
| Measures              | <p><b>[Details of measures]</b><br/>1. Efforts by JHF (FY 2006 - FY 2011)<br/>The following efforts have been made to normalize wage levels since the time of the Government Housing Loan Corporation, the predecessor of JHF:</p> <p>(1) Efforts by the Government Housing Loan Corporation (FY 2006)<br/>· Reduce the base salary by 6% on average (this was done for management positions starting in October 2005)<br/>· Hold down average pay raises to 1/2 that of national civil servants (2) Efforts by JHF (2007 - ) (FY 2007)<br/>· Lower base salary 5.03% on average<br/>· Reduce the number of months applied to calculate bonuses by 0.3 months (4.75 months → 4.45 months*)<br/>* Months applied to calculate annual bonus as of April 1, 2007 (FY 2008)<br/>· Lower base salary for operations (employees who transferred from comprehensive work to operations work in FY 2007 and 2008) 5% on average (FY 2009)<br/>· Lower base salary for operational staff (employees who transferred from generalist work to operational work in FY 2009) 5% on average<br/>· Lower monthly base salary and reduced number of months applied to calculate bonuses Lower monthly base salary in accordance with the revision of the remuneration for national civil servants (average revision rate: ▲ 0.24%) and a reduction in the number of months applied to calculate bonuses (▲ 0.35 months (4.50 months → 4.15 months)) (FY 2010)<br/>· Lower base salary for operational staff (employees who transferred from generalist work to operational work in FY 2010) 5% on average<br/>· Terminate guarantee for the current salary for operations (employees who were in a job type which does not require transfers to different areas at the time of the Government Housing Loan Corporation) (5% reduction from March 2007)<br/>· Review payment category for the allowance for above the director level officials (approx. 3% reduction of the total compensation)<br/>· Lower monthly base salary and reduced number of months applied to calculate bonuses Lower monthly base salary in accordance with the revision of the remuneration for national civil servants (average revision rate: ▲ 0.19%) and a reduction in the number of months applied to calculate bonuses (▲ 0.20 months (4.15 months → 3.95 months)) (FY 2011)<br/>· Introduce a retirement system for management positions (for staff members who will turn 55 years or older at the end of FY 2011)<br/>· Lower maximum amount of allowance for officials above the director level<br/>· Introduce personnel and salary systems including a revision of the salary structure (sequential implementation in and after FY 2012)</p> <p>2. Measures to be taken by JHF (FY 2012)<br/>Terminate periodic pay raises of relevant employees in line with the lowering of the maximum rank in the salary table to the 81st rank (FY 2014)<br/>Abolish a current type of work (operational work) and create a new type of work (business career work) (approx. 10% reduction in salary level)</p> <p><b>[Present effect and projected national civil servant comparative index]</b><br/>For FY 2011, the index declined 13.2 percentage points after eliminating the effects of regional differences and higher education (9.9 percentage points if only age is taken into consideration) compared to FY 2005 as a result of efforts to normalize wage levels.<br/>In the future, aiming to reduce the index after eliminating the effects of regional differences and higher education to the national civil servant level, personnel and salary systems including a revision of the salary structure introduced in FY 2011 must be implemented in and after 2012.</p> |
|                       | <p><b>[Projected national civil servant comparative index for FY2012]</b><br/>The national civil servant comparative index: below approx. 125.1<br/>The index after eliminating the effects of regional differences and higher education: below approx. 112.8<br/>(*These are indices projected without taking measures based on the Act on the Salary Revision of National Civil Servants and Interim Special Measures (Law No. 2 of 2012))</p>  |
| Other reference items | <p><b>[Total compensation, including salary, as percentage of total expenditures]</b><br/>0.1% (total compensation, including salary - ¥8 billion; total expenditures - ¥10,372.1 billion (FY 2011))<br/>* The absolute level of total compensation, including salary, as percentage of total expenditures, is small.</p> <p><b>[Percentage of managerial positions]</b><br/>31.4% (clerical and technical service; as of April 1, 2012)<br/>* The percentage of managerial position for the national government: 15.4% (the percentage of Grade 6 or higher national civil servants in the FY 2011 National Civil Servant Survey [National Personnel Agency])<br/>* The promotion of employees to managerial positions in a strict way will be continued.</p>  |
|                       | <p><b>[Percentage of employees with at least a college degree]</b><br/>82.1% (clerical and technical service; as of April 1, 2012)<br/>* For the national government: 52.6% (the percentage of national civil servants in the FY 2011 National Civil Servant Survey [National Personnel Agency] with a college degree whose salary is based on the administrative service salary schedule)<br/>* In order to smoothly and properly conduct the agency's operations, which are centered on securitization and include the operations of the Government Housing Loan Corporation, the predecessor of JHF, it is necessary to recruit talented personnel with extremely specialized and advanced knowledge of financial techniques and skills in financial operations, and most recruits have at least a college degree; therefore, a high percentage of the employees have a high level of education.</p>   |

## III Total Personnel Expenses

| Rank   | Current fiscal year<br>(FY 2011) | Current fiscal year<br>(FY 2010) | Comparative increase<br>△ decrease     | Change compared to figure<br>at the start of the<br>medium △ term plan (FY2008) |
|--|----------------------------------|----------------------------------|--|---|
| <b>Total payments of salary and bonus, etc.</b> (A)              | Thousand yen<br>8,047,255        | Thousand yen<br>8,096,813        | Thousand yen (%)<br>△ 49,558 (△ 0.6)   | Thousand yen (%)<br>△ 835,688 (△ 9.4)   |
| <b>Payment of retirement benefits</b> (B)                        | Thousand yen<br>210,738          | Thousand yen<br>570,141          | Thousand yen (%)<br>△ 359,403 (△ 63.0) | Thousand yen (%)<br>△ 890,506 (△ 80.9)  |
| <b>Salary of non-permanent directors and employees, etc.</b> (C) | Thousand yen<br>963,690          | Thousand yen<br>963,510          | Thousand yen (%)<br>180 (0.0)          | Thousand yen (%)<br>△ 438,555 (△ 31.3)  |
| <b>Welfare expenses</b> (D)                                      | Thousand yen<br>1,183,422        | 千円<br>1,234,694                  | Thousand yen (%)<br>△ 51,272 (△ 4.2)   | Thousand yen (%)<br>△ 259,319 (△ 18.0)  |
| <b>Personnel expenses at the broadest base</b> (A + B + C + D)   | Thousand yen<br>10,405,105       | Thousand yen<br>10,865,158       | Thousand yen (%)<br>△ 460,053 (△ 4.2)  | Thousand yen (%)<br>△ 2,424,068 (△ 18.9)  |

## Reference items for the overall labor costs

- Reason for year-on-year changes in total compensation, including salary, and broadly-defined labor costs
  - The total compensation, including salary, shrank 0.6% or around ¥50 million from the previous year, mainly due to a reduction in the number of employees, and broadly defined labor costs declined 4.2%, or around ¥460 million from the previous year mainly due to a reduction in retirement benefits.
- On Efforts to reduce labor costs based on the Law to Promote the Administrative Reforms in Order to Realize a Simple and Effective Government (Law No. 47 of 2006) and Important Guidelines on Administrative Reform, adopted by the cabinet on December 24, 2005
  - ① Matters related to mid-term labor cost reduction goals
    - Based on the Law, efforts are being made to reduce labor costs (excluding items such as retirement benefits) to the level of national civil servants during the four years from 2007 to 2010 compared to FY 2006 labor costs for the Government Housing Loan Corporation (including labor costs related to the Housing Loan Guarantee Corporation, the rights and liabilities of which were inherited by JHF). The salaries for executives and employees are also undergoing a necessary review based on reforms to the salary structure of national civil servants. In addition, reform of labor costs will continue through FY2011 based on the FY 2006 Basic Policies for Economic and Fiscal Policy, Management and Structural Reform (adopted by the Cabinet on July 7, 2006) and the reform of the salary structure of national civil servants.
  - ② Guidelines regarding reduction targets in the medium-term plan and revisions based on reform of the salary structure of national civil servants
    - Based on the Law to Promote the Administrative Reforms in Order to Realize a Simple and Effective Government (Law No. 47 of 2006), labor costs, excluding items such as retirement benefits, will be reduced by at least 4% during the four years from FY 2007 through FY 2010 compared to FY 2006 labor costs for the Government Housing Loan Corporation, which include labor costs related to the Housing Loan Guarantee Corporation, the rights and liabilities of which were inherited by JHF. The salaries for executives and employees are also undergoing a necessary review based on reforms to the salary structure of national civil servants. In addition, reform of labor costs will continue through FY2011 based on the FY 2006 Basic Policies for Economic and Fiscal Policy, Management and Structural Reform (adopted by the Cabinet on July 7, 2006) and the reform of the salary structure of national civil servants.
  - ③ Progress in reducing labor costs
    - Mainly as a result of efforts to normalize wage levels, such as lowering the number of months used to calculate bonuses, and reducing the number of employees, the percent reduction in labor costs was greater than the target set in the medium-term plan.

### Reform of total labor costs

| Fiscal year  | Reference<br>FY 2007 | FY 2008   | FY 2009   | FY 2010   | FY 2011   | FY 2012   |
|--|----------------------|-----------|-----------|-----------|-----------|-----------|
| <b>Total compensation, including salary (thousand)</b> | 9,755,681            | 8,882,943 | 8,580,740 | 8,384,312 | 8,096,813 | 8,047,255 |
| <b>Percent reduction in labor costs (%)</b>            |                      | △ 8.9     | △ 12.0    | △ 14.1    | △ 17.0    | △ 17.5    |
| <b>(Adjusted) percent reduction in labor costs (%)</b> |                      | △ 9.6     | △ 12.7    | △ 12.4    | △ 13.8    | △ 14.1    |

- (Notes) 1. Since JHF was established on April 1, 2007, FY 2006 is the reference year for labor cost reductions in the overall labor cost reforms.  
 2. FY 2006\* total compensation, including salaries\* is the reference figure for labor cost reductions for JHF medium-term plan and the figure is that for the Government Housing Loan Corporation, which is the predecessor of JHF, and Housing Loan Guarantee Corporation, the rights and liabilities of which JHF inherited.  
 3. \*(Adjusted) percent labor cost reduction\* is the reduction excluding the effect of salary revisions due to the salary gap between private and government. The revisions were made based on a Nationalpersonnel Agency Notification as a result of the Important Guidelines on Administrative Reform, approved by the cabinet on December 24, 2005.

[Result of the inspection by the competent minister of state]

The Law to Promote Administrative Reforms in order to Realize Simple and Efficient Government (Law No. 47 of 2006) stipulates a personnel expense reduction of at least 5.0% in the five years from FY 2006. The FY 2006 Basic Policies for Economic and Fiscal Policy, Management and Structural Reform (adopted by the Cabinet on July 7, 2006) prescribes the continuation of a personnel expense reform until FY 2011. This objective has been already reached by JHF, reflecting appropriate efforts.

## IV History of GHLC and JHF

The following measures have been and will be taken in line with the salary revision of national civil servants based on the Act on the Salary Revision of National Civil Servants and Interim Special Measures (Act No. 2 of 2012).

(Executives)

- The salary payment was lowered at a rate (9.77% of the monthly base salary) from April 2012 in accordance with the salary reduction of national civil servants (until March 2014).
- The monthly base salary was lowered by 0.5% on average in March 2012 in line with the revision for the remuneration of national civil servants (the reduction amount between April 2011 and February 2012 was adjusted with the salary in March 2012).

(Employees)

- Labor negotiations are being held to take measures in accordance with the revision for the remuneration of national civil servant.