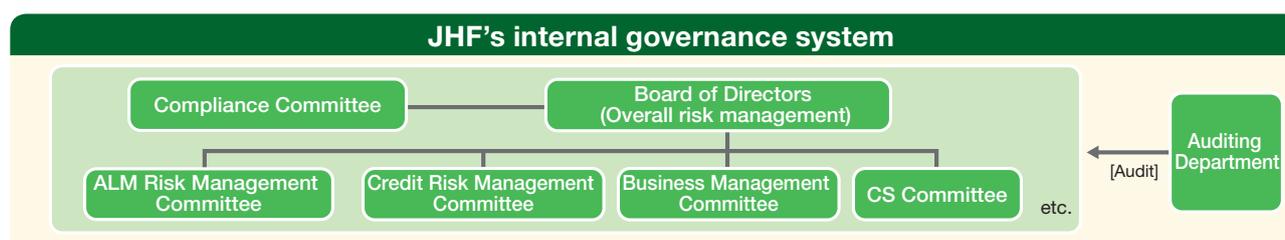
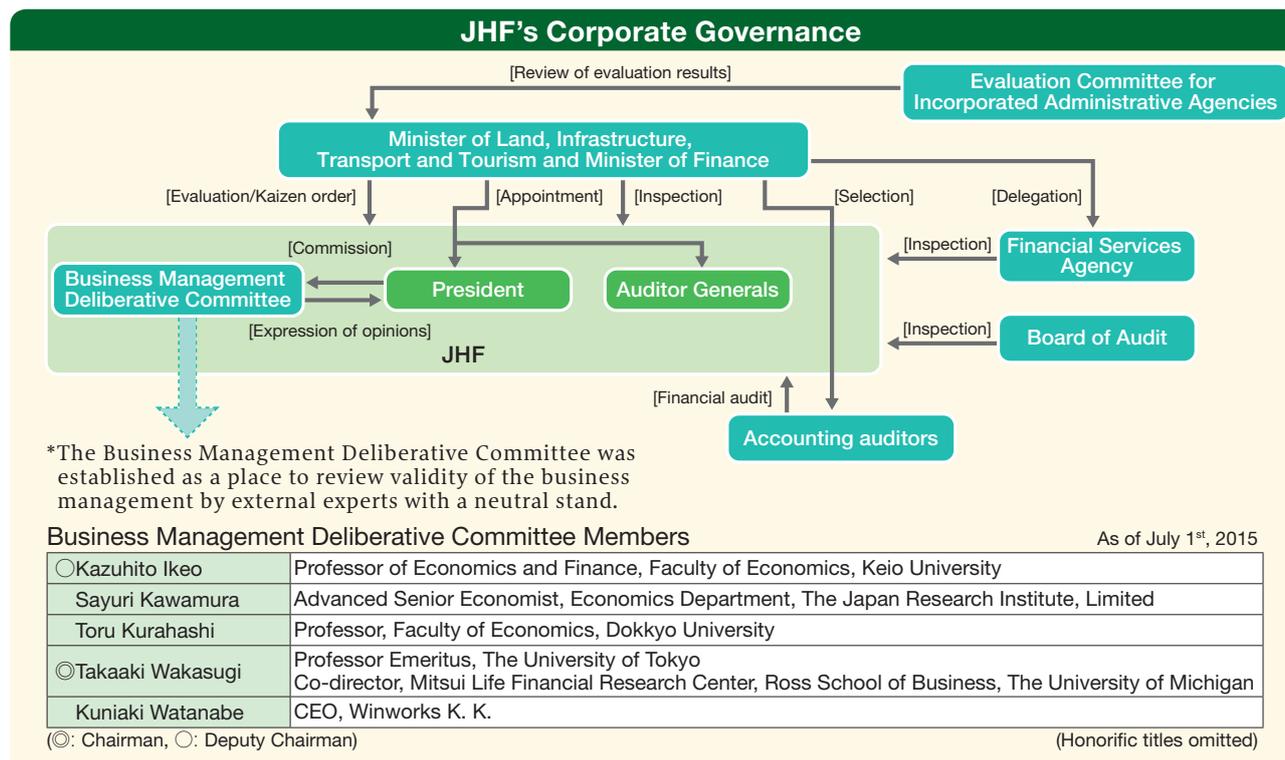


Governance Structure

Recognizing its basic mission and social responsibility as an Incorporated Administrative Agency, JHF places strengthening of corporate governance as a priority of its business management and actively implements activities to ensure sound and proper proceedings of its business with high ethical standards and wisdom under transparent and efficient management based on the Act on General Rules for Independent

Administrative Agency.

Moreover, in order to develop its internal governance system for appropriate business operation, JHF has established the Basic Policy on Internal Governance and promotes appropriate internal governance by the PDCA cycle as well as further sophistication of internal governance by enhancing the governance environment.



Basic Policy on Internal Governance (Summary)

1. System to ensure that execution of tasks by our employees conforms to laws and regulations
2. System for customer management including privacy policies and management and storage of information related to execution of tasks by our employees
3. Regulations related to loss risk management and other systems
4. System to ensure that tasks are effectively executed by our employees
5. Internal audit system to ensure proper business
6. System related to employees assisting the auditor, if requested, and their independence from the President
7. System for employees to report to the auditor and other systems related to report to the auditor
8. Other systems to ensure effective audit by the auditor
9. Establishment of the PDCA cycle for internal governance

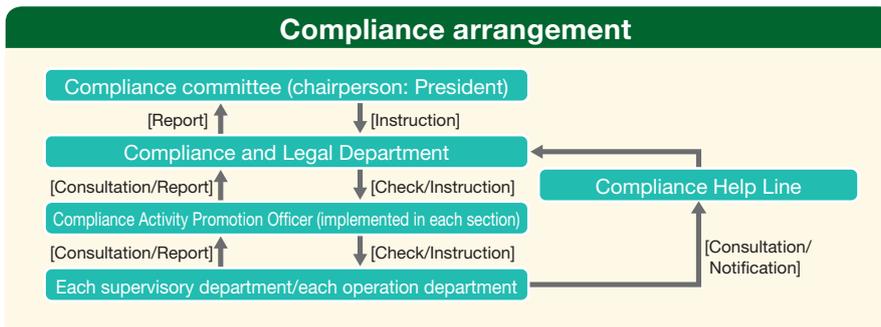
Compliance

Arrangements for compliance

In order to reliably implement compliance, 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 JHF in advance, a compliance help line has been set up in and outside of the Compliance and Legal Department.



JHF provides all executives 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.

Compliance activity

JHF has established the Compliance Charter as basic principles of compliance and developed a compliance manual that provides laws and regulations to comply, rules, social requirements, and matters to be noted pertaining to compliance in order to enhance awareness of compliance among all executives and employees.

As a plan to ensure compliance at JHF, Compliance Program is defined and implemented each fiscal year.

Concrete activities of the Compliance Program include agency-wide e-learning, compliance meetings by individual operational unit (where familiar topics on

compliance are discussed interactively among a few members by case method), and monthly provision of compliance-related information through the in-house LAN. These educational programs help employees understand compliance and autonomously think and act based on their understanding.

In addition, JHF promotes steady compliance activity in the PDCA cycle by quarterly monitoring and examining implementation of the Compliance Program at the Compliance Committee and making necessary modification of the Compliance Program policies.

||||| The Compliance Charter (excerpt) |||||

1. We 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 laws and regulations as well as social norms
 - (2) Proactive and fair disclosure of information
 - (3) Strict information management
 - (4) Confrontation against any anti-social parties
2. We do our utmost to pursue customer confidence and satisfaction.

- (1) Provision of comprehensive housing loan services
- (2) Provision of appropriate and sufficient explanation
- (3) Sincere responses to customer voices
3. We respect unique individuality of each executive and staff member and endeavor to secure a comfortable work environment.
 - (1) Respect for the personality and character of each individual
 - (2) Comfortable work environment



Responses to Anti-social Forces



To reject any relationships with anti-social forces such as organized crime syndicates, JHF has incorporated an item concerning confrontation against any anti-social parties into its compliance charter and established a basic policy, which is available on our website. In addition, regulations and manuals to deal with such anti-social forces have been developed. Through these efforts, JHF has established a system to report and consult immediately and properly to the management and the Compliance and Legal Department, which is the department controlling responses to anti-social forces, when a business with such an anti-so-

cial force or an undue claim from such a force is identified.

JHF also conducts training and other sessions on how to deal with undue claims in cooperation with the police and other relevant institutions.

Incorporating a stipulation on rejection of anti-social forces into business contracts, JHF eliminates any relationships not only with organized crime syndicates but also with any affiliated parties of such organizations that anti-social forces utilize to illegally receive loans.

JHF continues its efforts to reject anti-social forces.

Basic Policy on Anti-Social Forces

1. JHF shall have no relationship with any anti-social forces, and the President, the management, and all the employees shall work together to take an uncompromising stance toward such forces.
2. JHF shall establish a system to reject anti-social forces and educate the management and employees to ensure their knowledge on handling manuals for such forces.
3. JHF shall ensure the safety of the management and employees who handle undue claims from anti-social forces.
4. JHF shall cooperate closely with such external institutes as the police, the National Center for Elimination of Boryokudan, and lawyers.
5. JHF shall take legal actions, both civil and criminal, against undue claims from anti-social forces.
6. JHF shall not accept any "backstage deals" to conceal facts even when undue claims from anti-social forces are based on misbehaviors related to JHF's business activities or involving its employees.
7. JHF shall not provide any funds to anti-social forces.

Risk Management

In order to properly manage its business and gain the understanding and trust of the general public, JHF maintains a system to adequately manage various risks that may arise in its day-to-day operation.

JHF has established risk management regulations including the “Risk Management Basic Rules” that stipulates the purpose of risk management, identifies and defines individual risks, and specifies basic sys-

tems such as risk management system and methods and auditing on the risk management implementation status. Based on these rules, JHF manages risks from a comprehensive point of view by understanding and evaluating various risks as a whole with characteristics of housing loan business as well as operations and characteristics of JHF taken into consideration.

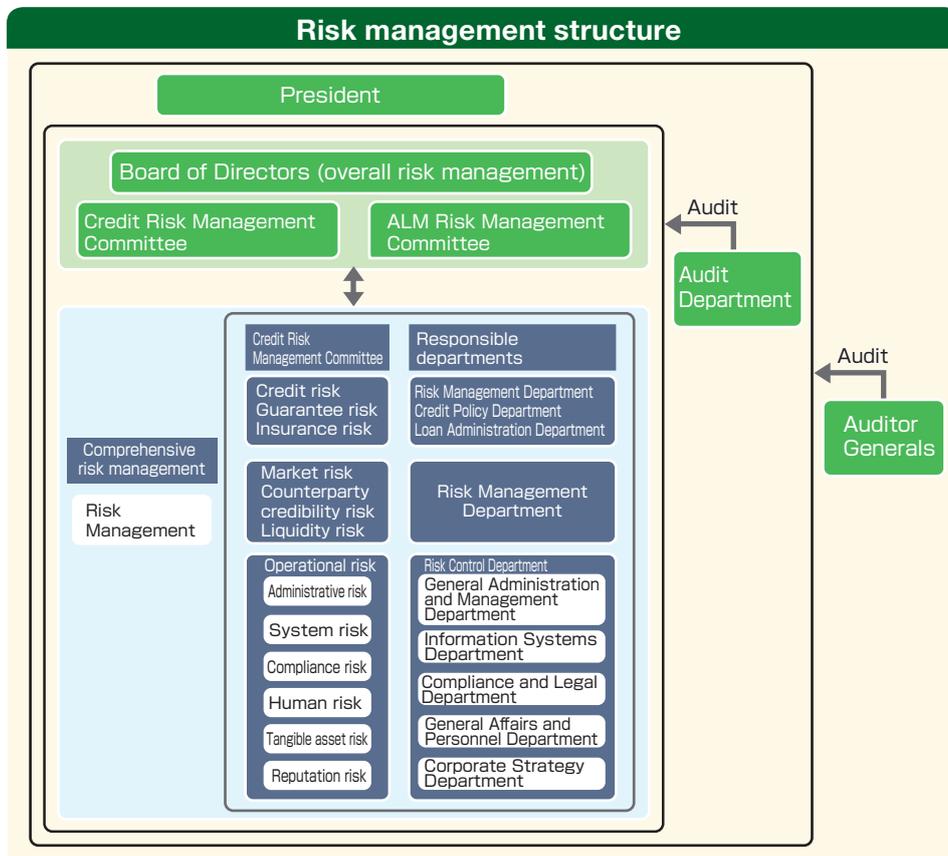
Risk management structure

JHF classifies risks into seven categories: credit risk, guarantee risk, insurance risk, market risk, counterparty credibility risk, liquidity risk, and operational risk. In the event of a notable change in the economy, JHF will define new categories of risk to be managed as necessary.

To properly manage these risks qualitatively and quantitatively, JHF has built a required system by appointing an executive and a department responsible for managing each risk category. In particular, the “Credit Risk Management Committee” was established to manage credit risk, guarantee risk, and insur-

ance risk and the “ALM Risk Management Committee” to manage market risk, counterparty credibility risk, and liquidity risk. These committees monitor status of each risk and deliberate planning and proposals related to management of each risk.

In addition, JHF assigns an executive and a department responsible for comprehensive risk management in order to manage the risks from a comprehensive point of view and maintains a system to understand and evaluate management of the risks as a whole and periodically report the results to the Board of Directors.



Risk categories

Credit risk

This is the risk for JHF to suffer loss in relation to credit that JHF owns due to declined or lost value of an asset caused by deterioration of credibility of the debtor. Since housing loans account for a large part of the JHF assets, JHF properly underwrites credit risk of loans it purchases or originates, and management and self-assessment of loans that it owns, and comprehends, analyzes, and manages the overall credit risk.

Underwriting

JHF has established underwriting criteria and methods and underwrites credit risk of loans it purchases or originates accordingly.

Self-assessment

JHF properly manages credit risk of loan claims that it owns and conducts self-assessment according to the self-assessment criteria established in accordance with the “Financial Inspection Manual” of the Financial Service Agency in order to adequately disclose financial information in a manner conforming to the “Accounting Standards for Incorporated Administrative Agencies.” In concrete terms, JHF calculates necessary reserves for non-performing loans by classifying its assets in accordance with the probability of default and loss severity and applying an expected loss given default ratio calculated based on historical performance.

Credit portfolio management

Using the credit portfolio management system for periodical monitoring, JHF analyzes the utilization status of housing loans, forecasts future loss, and reviews necessary credit risk premium in order to accurately evaluate the overall credit risk of all the debts that it owns and where the risk is. JHF also makes efforts to further enhance risk assessment utilizing the credit portfolio management system to strengthen the credit risk management.

Guarantee risk

This is the risk for JHF to suffer loss due to the difference in occurrence of guarantee accidents from the estimates made at the time of guarantee fee calculation. JHF guarantees MBS in the securitization support business (guarantee program). JHF performs proper underwriting and strives to understand, analyze, and manage the overall guarantee risk.

Insurance risk

This is the risk for JHF to suffer loss due to the difference in occurrence of insurance accidents from the estimates made at the time of insurance premium calculation. JHF extends insurances against non-performing housing loans to private financial institutions. JHF performs proper underwriting and strives to understand, analyze, and manage the overall insurance risk by monitoring with the credit portfolio management system and verifying the sufficiency of reimbursement of unused policy reserve by future cash flow analysis.

Market risk

This is the risk for the net income to fluctuate for a reporting period according to changes in the risk factors such as the interest rate. At JHF whose main assets are mortgages, this type of risk includes prepayment risk, refinance or reinvestment risk, and pipeline risk.

Prepayment risk

This is the risk for reduction of revenues in a period by losing the expected interest income due to increase in the loan prepayment amount resulting from decline of the interest rate. JHF manages this risk by estimating the prepayment amount by the prepayment model and procuring funds combining securitization and bond issuances of various maturities.

Refinance/reinvestment risks

This is the risk for reduction of revenues in a period by increase in the interest paid due to a rise in the funding cost or decrease in the interest income received due to a drop in interest on investment when refinancing or reinvestment is required respectively. JHF manages this risk by utilizing the interest model to estimate the cash flow of assets and debts taking future interest fluctuation into consideration and forecast the periodical net income according to the cash flow, and periodically monitoring risk indexes such as the duration.

Pipeline risk

This is the risk for the net income to fluctuate from certain reporting period due to the interest fluctuating in the period from the decision of the mortgage interest rate to the decision of the funding cost. JHF manages this risk by swapping interests for hedges as necessary.

Counterparty risk

This is the risk for JHF to suffer loss from declined or lost asset values due to deteriorated financial conditions at bond issuers at which surplus funds are invested or counterparties of interest rate swap deals. JHF defines risk management methods of bond issuers and counterparties of interest rate swap deals, and monitors them.

Liquidity risk

This is the risk for JHF not able to raise necessary funds or have to finance at an interest rate significantly higher than the usual in order to secure funds, not being able to trade in the market due to market turmoil, or inevitably making deals at a price significantly more unfavorable than the usual. JHF sets the minimum net line of liquidity assets as a management standard for a measure against liquidity risk, observes this standard in the daily operation, and manages stable financing. Management classifications according to the urgency of fund needs (normal, watch, and crisis) are defined as well as responses required at the time of “watch” and “crisis.” Furthermore, the borrowing limit at the time of emergency is set to secure procurement means, and an action plan for a situation that impacts financing (contingency funding plan) is defined to establish a system for prompt responses when liquidity risk becomes eminent.

Operational risk

This is the risk for JHF to suffer loss due to improper operational processes, personnel activities, or information system, or an external phenomenon. This risk includes administrative risk, system risk, legal risk, human risk, tangible asset risk, and reputation risk. JHF strengthens the operational risk management system by collecting significant risk phenomena to understand the occurrence status, defining measures based on analysis of their causes, self-analyzing risks that exist in internal operations and the control methods to restrain them, and implementing the RCSA (Risk & Control Self-Assessment) to improve the operations based on the self-analysis results. The following are definitions and control methods of main operational risk.

■ Administrative risk

This is the risk for JHF to suffer loss due to negligence, accidents, or fraud by its executives or employees. JHF reduces administrative risk by organizing ad-

ministration work manuals, improving administration work, enhancing crosschecking among staff, providing instructions and training on administrative work, performing internal self-check, and collecting and analyzing information of administrative mistakes and taking preventive measures against their recurrence.

■ System risk

This is the risk for JHF to suffer loss due to a failure, malfunction, defect, or misuse of the information system. JHF reduces system risk by taking measures based on classification according to the importance and risk assessment, developing systems with functions, reliability, and information security taken into consideration, and comprehending and analyzing information of system failures and taking preventive measures against their recurrence. In preparation for serious failures, JHF enforces a crisis management manual and maintains stable operation by taking necessary measures such as duplexing a system, establishing a backup center, and performing emergency drills.

■ Legal risk

This is the risk for JHF to suffer loss due to unlawful acts, inappropriate contracts, or uncertainty in legal matters related to business deals. The Legal Affairs Department performs legal check before establishing internal regulations, concluding contracts, and submitting advertisements to reduce legal risk. JHF also prevents violations of laws and regulations by collecting information on new legislation, amendments etc. and court judgement that may affect the business.

Others

As a measure for overall risk management, JHF carries out lifetime income simulation for the next 35 years (until the housing loans currently held by JHF have been paid in full).

Based on cash flow with future changes in the interest rate taken into consideration, the simulation calculates across multiple risks if losses resulting from the credit risk and the market risk is covered by the interest income.

The simulation also performs a stress test on both risks and an analysis based on a scenario of changes in the business volume to verify its financial resilience.