

The FY2014 financial statements for Japan Housing Finance Agency (JHF) were created based on the Article 38 of the Act on General Rules for Independent Administrative Agency and approved by the minister in charge.

Overall Agency

In FY2014, the gross profit of the overall agency was 282.4 billion yen, which was an increase of 36.5 billion yen from FY2013.

In the securitization support account, the gross profit was 78.9 billion yen, an increase by 21.7 billion yen from the previous fiscal year resulting from increase in purchased loans and proper loan management.

In addition, there is a tendency in the credit risk of the securitization support business that it takes more time for cost (loss) to manifest than for profit. In order to prepare for this, the gross profit of this fiscal year is set as reserves of Article 44, Paragraph 1 of Act on General Rules for Independent Administrative Agency.

With the Outstanding Loan Management Account, the gross profit of this fiscal year was 176 billion yen with increase by 10.5 billion yen from the previous year by proper loan management of loans of which outstanding balance decreased by advancement in the collection of loans. By this, the loss brought forward was 108.4 billion yen.

Balance Sheet

(Unit: million yen)

Item	FY2013	FY2014	Item	FY2013	FY2014
(Assets)			(Liabilities)		
Cash and due from banks	324,242	359,245	Borrowings	13,201,740	11,076,683
Cash	2	1	FILP borrowings	13,110,940	10,988,483
Due from banks	179,763	203,979	Borrowings from private institutions	90,800	88,200
Agency deposit entrusted	144,477	155,265	Bonds	14,273,287	14,351,756
Receivable under resale agreement	—	—	Mortgage-backed securities	10,897,390	11,046,213
Money in trust	711,692	766,644	General lien bonds	2,192,100	2,221,100
Securities	2,195,057	1,846,653	Property accumulation saving scheme-tied housing bonds	400,700	345,700
Government bonds	394,908	386,729	Housing land bonds	784,333	739,275
Local government bonds	194,878	185,137	Bond issue premiums (△)	△ 1,236	△ 531
Government guaranteed bonds	151,360	182,241	Insurance policy reserves	64,574	57,083
Corporate bonds	395,894	386,531	Reserve for outstanding claims	304	21
Stock	16	16	Policy reserves	64,271	57,063
Certificates of deposit	1,058,000	706,000	Subsidies reserves	705,852	759,625
Purchased loans	10,981,806	11,639,364	Subsidies payable for emergency measures to facilitate housing finance	450,976	398,494
Loans	15,419,090	13,240,377	Subsidies payable for promotion projects for development of high-quality housings	2,009	113,441
Loans on bills	49,984	44,774	Subsidies payable for emergency measures including loans for recovery from disasters	252,868	247,691
Loan on deed	15,369,107	13,195,603	Other liabilities	543,951	537,931
Other assets	408,127	337,339	Accrued expenses	83,191	68,146
Claims for indemnity	12,069	10,286	Advanced earnings	39,963	37,484
Transferred claims (pension)	91,199	78,772	Financial derivative products	199,652	153,295
Accrued revenues	56,615	49,803	Financial derivative product gain carried forward	10,609	8,846
Financial derivative products	191,304	146,274	Accounts payable	200,212	260,100
Financial derivative product loss carried forward	39,647	33,572	Other liabilities	10,324	10,060
Accrued insurance premiums	375	302	Bonus payment reserves	586	594
Other assets	16,918	18,330	Allowance for retirement benefits	28,499	12,988
Tangible fixed assets	33,258	32,830	Allowance for refund of guarantee fees	17,934	12,747
Buildings	15,616	15,825	Reserves for mortgage transfer registration	3,765	1,464
Accumulated depreciation (△)	△ 4,291	△ 4,758	Guarantee obligation	555,391	483,120
Accumulated impairment loss (△)	—	△ 12	Total liabilities	29,395,580	27,293,992
Lands	19,360	19,360			
Accumulated impairment loss (△)	—	△ 106	(Net assets)		
Construction in process account	488	950	Capital	705,048	711,735
Other tangible fixed assets	3,316	3,521	Government injection monies	705,048	711,735
Accumulated depreciation (△)	△ 1,231	△ 1,948	Capital surplus	△ 151	△ 257
Accumulated impairment loss (△)	—	△ 0	Capital surplus	△ 151	△ 151
Guarantee obligation reversal	555,391	483,120	Accumulated impaired loss not included in profit and loss (△)	—	△ 106
Reserve for possible loan losses (△)	△ 372,276	△ 270,287	Surplus carried forward (or loss carried forward)	157,564	431,318
			Valuation and conversion adjustments	△ 1,653	△ 1,502
			Deferred gains or losses on hedges	△ 1,653	△ 1,502
			Total net assets	860,808	1,141,294
Total assets	30,256,388	28,435,286	Total liabilities and net assets	30,256,388	28,435,286

Income Statement

(Unit: million yen)

Item	FY2013	FY2014
Ordinary income	1,000,897	943,767
Income from asset management	784,672	709,319
Interest on purchased loans	182,015	189,244
Interest on GHLC originated loans	586,674	504,863
Changes on claims for indemnity, etc.	120	104
Interest on transferred claims (pension)	3,461	2,987
Interest and dividends on securities	12,238	12,074
Interest on receivables under repurchase agreement	62	0
Interest on deposits	102	46
Income from underwriting insurance	93,137	92,725
Net insurance premium revenue	1,849	2,061
Reimbursement of unused reserve for outstanding claims	499	283
Reimbursement of unused policy reserve	3,352	7,208
Fee from riders on group credit life insurance	75,165	69,073
Revenue from group credit life insurance	3,625	2,833
Dividends on group credit life insurance	8,648	11,267
Income from service transactions	806	736
Guarantee fee	193	170
Other income from services	613	566
Income from subsidies	76,522	78,859
Subsidies for emergency measures to facilitate housing finance	57,500	53,996
Subsidies for promotion projects for development of high-quality housing	14,487	19,361
Subsidies for emergency measures including loans for recovery from disasters	4,535	5,503
Income from other operating activities	39	48
Contract termination fees	39	48
Other ordinary income	45,720	62,079
Reversal of reserve from possible loan losses	35,674	51,438
Reversal of reserve from refund of guarantee fees	3,619	3,531
Reversal of reserve from mortgage transfer registration	161	—
Income from written-off claims recovered	4,356	4,418
Other ordinary income	1,910	2,692
Ordinary expenses	764,446	682,748
Fund raising expenses	600,201	524,969
Interest on borrowings	376,310	308,715
Interest on bonds	223,593	216,008
Other interest paid	297	246
Insurance underwriting expenses	103,089	96,495
Net insurance paid	4,677	2,784
Group credit insurance premium paid	94,547	90,862
Payment of group credit life insurance claims	3,864	2,849
Service transaction expenses	25,105	24,699
Service expenses	25,105	24,699
Other operating expenses	9,903	8,879
Amortization of bond issuing expenses	5,672	4,521
Financial derivative products expenses	4,231	4,358
Business expenses	24,137	25,542
Business expenses	24,137	25,542
Other ordinary expenses	2,012	2,164
Mortgage transfer registration reserves carried over	—	95
Other ordinary expenses	2,012	2,069
Ordinary income	236,451	261,018
Extraordinary income	336	12,747
Gain on disposal of tangible fixed assets	1	—
Other extraordinary income	335	12,747
Reimbursement from insolvent customers based on restructuring plan	335	730
Profit from return of substitution part of Employees' Pension Funds	—	12,017
Extraordinary losses	63	12
Loss on disposal of tangible fixed assets	63	—
Impairment loss	—	12
Net income	236,724	273,754
Transfer from reserve of previous mid-term target	9,181	8,686
Gross income	245,906	282,440

Cash Flows Statement

(Unit: million yen)

Item	FY2013	FY2014
I . Cash flow from operating activities		
Outlays on the purchase of loans	△ 1,867,994	△ 1,612,291
Loan disbursement	△ 154,259	△ 148,897
Outlays on personnel expenses	△ 10,134	△ 13,539
Outlays on insurance	△ 4,677	△ 2,784
Outlays on group credit life insurance premium	△ 94,907	△ 91,150
Outlays on payment on group credit life insurance claims	△ 3,840	△ 2,888
Other operating outlays	△ 50,676	△ 44,783
Income from collection of purchased loans	845,546	1,004,991
Income from collection of loans	2,751,690	2,288,823
Income from interest on purchased loans	182,197	189,193
Income from interest on loans	594,361	511,536
Loan origination fees and other revenues	124	89
Income from insurance premiums	1,835	2,140
Income from riders on group credit life insurance	72,345	66,677
Income from group credit life insurance	4,088	2,649
Dividends received from group credit life insurance	7,702	8,648
Income from other operations	29,368	27,091
Income from treasury subsidies	14,588	130,869
Income from decrease of money in trust accompanying the repayment of treasury subsidies	0	—
Outlays on the repayment of treasury subsidies	△ 130	△ 2,009
Subtotal	2,317,225	2,314,367
Interest and dividends received	69,660	72,554
Interest paid	△ 681,593	△ 604,971
Cash flow from operating activities	1,705,292	1,781,950
II . Cash flow from investing activities		
Outlays on acquisition of securities (bonds)	△ 474,824	△ 76,359
Income from redemption of securities (bonds)	64,500	70,961
Net change in securities (certificates of deposits) (△ indicates negative amount.)	133,000	352,000
Outlays on acquisition of tangible fixed assets	△ 563	△ 701
Gain on disposal of tangible fixed assets	2,265	—
Net change in receivables under repurchase agreement (△ indicates negative amount.)	34,992	—
Outlays on increase of monetary trusts	—	△ 112,800
Income from decrease of monetary trusts	61,795	59,689
Other income	0	2
Cash flow from investing activities	△ 178,836	292,792
III . Cash flow from financing activities		
Income from long-term borrowings from private institutions	90,800	88,200
Outlays on payment of long-term borrowings from private institutions	△ 110,200	△ 90,800
Income from issuance of bonds (after deducting insurance expense)	1,838,095	1,436,676
Outlays on redemption of bonds	△ 1,484,011	△ 1,357,241
Income from FILP borrowings	67,500	49,500
Outlays on payment of FILP borrowings	△ 2,221,134	△ 2,171,957
Outlays on payment of lease obligation	△ 557	△ 722
Income from government injection monies	34,511	6,689
Outlays for return to the national treasury concerning unnecessary estates	△ 1,227	△ 84
Cash flow from financing activities	△ 1,786,224	△ 2,039,739
IV . Increase (or Decrease) in cash	△ 259,767	35,004
V . Opening balance of cash	584,009	324,242
VI . Closing balance of cash	324,242	359,245

Statement of Administrative Cost Calculations

(Unit: million yen)

Item	FY2013	FY2014
I . Operating expenses		
(1) Expenses recorded in income statement		
Fund raising expenses	600,201	524,969
Insurance underwriting expenses	103,089	96,495
Service transaction expenses	25,105	24,699
Other operating expenses	9,903	8,879
Business expenses	24,137	25,542
Other ordinary expenses	2,012	2,164
Loss on disposal of tangible fixed assets	63	—
Impairment loss	—	12
Subtotal	764,509	682,760
(2) (Deduction) Non-subsidy revenues, etc.		
Income from asset management	△ 784,672	△ 709,319
Income from insurance underwriting	△ 93,137	△ 92,725
Income from service transactions, etc.	△ 806	△ 736
Income from other operating activities	△ 39	△ 48
Other ordinary income	△ 45,720	△ 62,079
Gain on disposal of tangible fixed assets	△ 1	—
Reimbursement from insolvent customers based on restructuring plan	△ 335	△ 730
Profit from return of substitution part of Employees' Pension Funds	—	△ 12,017
Subtotal	△ 924,711	△ 877,655
Total operating expenses	△ 160,202	△ 194,895
II . Impairment loss not recorded in income statement	—	106
III . Differences on removal/sales not recorded in income statement	444	—
IV . Expected increase in retirement benefits not recorded in allowances	△ 11	△ 4
V . Opportunity costs		
Opportunity costs related to items such as central and local government injection monies	4,440	2,837
VI . (Deduction) Payment for corporation tax and return to the national treasury	—	△ 83
VII . Administrative cost	△ 155,328	△ 192,039

Significant Accounting Policies (Overall Agency)

1. Depreciation

A straight line method is applied. The usual live terms of major assets are give below:
 Building: 2 – 50 years
 Other tangible fixed assets: 2 – 43 years
2. Criteria for reporting Reserves
 - (1) Reserves for Possible Loss on Loans

Borrowers are categorized into six groups, normal borrowers, borrowers requiring caution other than those requiring management, borrowers requiring management, borrowers with high probability of default, substantially defaulted borrowers, and borrowers in default, and reserves are recorded as below in order to cover loss on purchased loans and loans:

 - a. For "substantially defaulted borrowers" and "borrowers in default," the difference between the balance of the loan and the expected recoverable amount from the collateral is recorded for each loan.
 - b. For "borrowers with high probability of default," the expected recoverable amount from the collateral is deducted from the balance, and the amount considered necessary out of the remaining amount is recorded.
 - c. For "borrowers requiring management" and "borrowers requiring caution other than those requiring management" concerning loans of which cash flow in collection of loan principle and receipt of interest can be rationally estimated, the difference between the amount of the cash flow discounted by an agreed interest rate and the book value is recorded.
 - d. For loans other than listed above, an amount is recorded based on the expected loss rate calculated by past loan losses during a particular period.
 - (2) Allowance for Bonuses

In order to pay bonuses to directors and employees, the amount of expected bonus payments for the following year that is attributable to the current year is recorded.
 - (3) Allowance for Retirement Benefits

In order to pay retirement benefits to directors and employees, an allowance is recorded based on the retirement benefit obligations and projected pension assets at the end of the particular business year.

For past service liabilities, the amount equally divided in a straight-line method by a set number of years within the average number of working years remaining of directors and employees at the time the liability was generated (10 years) is recorded as expense.

The amount of actual difference equally divided in a straight-line method by a set number of years within the average number of working years remaining of directors and employees at the time the difference is generated (10 years) is recorded as expense starting from the business year following the year the difference is generated.

As October 1, 2014, the Minister of Health, Labour and Welfare approved exemption of returning the previous portion for the substitution part of Employees' Pension Funds. For this, 12,017,271,720 yen was recorded as a special profit from return of substitution part of Employees' Pension Funds.
 - (4) Allowance for Refund of Guarantee Fees

Out of guarantee fees that parties who receive loans that are part of the account for loans for property accumulation saving scheme-tied houses and the outstanding loan management account, as well as those who receive loans related to transferred claims (from pension) described in Notes 1 (2) for the housing loan account, paid when entrusting a guarantee to the Housing Loan Guarantee Corporation on their loans as stipulated by Article 6, Paragraph 1 of the Supplementary Provisions of the Japan Housing Finance Agency Law (Law No. 82 of 2005, hereafter referred to as the JHF Law), the expected amount of refund is recorded in order to cover the necessary expenses for refund of prepaid fees.
 - (5) Reserve for Mortgage Transfer Registration

The estimated cost to cover registration fees for future mortgage transfers of the Government Housing Loan Cooperation (GHLC)-originated loans and purchased loans inherited from GHLC as stipulated by Article 3, Paragraph 1 of the Supplementary Provisions of the JHF Law and transferred claims (from pension) described in Notes 1 (2) is recorded.
3. Criteria for Recording Mandatory Policy Reserves

In order to pay for future liabilities related to insurance relations stipulated by Article 3 of the Home Mortgage Insurance Law (Law No. 63 of 1955), the amount calculated by the method designated by the competent minister in accordance with Article 13 of the Ministerial Ordinance related to the Japan Housing Finance Agency (Ministry of Finance and Ministry of Land, Infrastructure, Transport and Tourist Ministerial Ordinance No. 1 of 2007; hereafter referred to as "the Ministerial Ordinance") ("Calculation method designated by the competent minister based on Article 13 of the Ministerial Ordinance Related to Business Operation and Accounting and Finances of the Japan Housing Finance Agency (Finance No. 245 and National Housing Material No. 30: May 7, 2015)) is recorded.
4. Criteria and Method for Valuing Marketable Securities (including marketable securities invested as trust assets in the money in trust)
 - (1) Securities held to maturity

The amortized cost method (straight-line method) is applied.
 - (2) Other securities

The purchase price is recorded.
5. Method for Valuing Financial Derivative Products (Derivative Transactions)

The market value method is applied.
6. Treatment of Interest Rate Swap Transactions
 - (1) Interest rate swap transactions on the securitization account

For gains and losses from interest rate swaps contracted to hedge the pipeline risk of JHF bonds issued to procure funds needed to purchase mortgages from lenders, the amount calculated by the method designated by the competent minister pursuant to the stipulations of Article 12 of the Ministerial Ordinance ("Method designated by the competent minister based on Article 1a of the Ministerial Ordinance Related to Business Operation and Accounting and Finances of the Japan Housing Finance Agency" (Finance No. 174 and National Housing Material No.122: April 1, 2007)) is recorded as gains from deferred derivative products and losses from deferred derivatives products.
 - (2) Interest rate swap transactions on the housing loan account

Deferred hedge accounting is used to account for interest rate swap transactions contracted to hedge the pipeline risk of JHF bonds issued to procure funds for loans to finance rental housing constructions.

Hedge effectiveness is assessed based on the variation in the amount of hedged objects and hedging instruments.
7. Depreciation of Bond Issue Premiums

Bond issue premiums are amortized using a straight-line method over the maturity of the bond.
8. Method for Recording Opportunity Costs in the Statement of Administrative Cost Calculations

Taking into account the interest on 10-year government bonds at the end of March 2015, 0.400% was applied for calculating the opportunity costs for central government investments and local government investments.
9. Accounting for Leases

Finance leases with a total lease fee of 3 million yen or larger are accounted for as regular purchases. Finance leases with a total lease fee less than 3 million yen are accounted for as normal leases.
10. Accounting for Consumption Tax

The tax inclusive method is applied.

Notes (Overall Agency)

1. Matters Relating to the Balance Sheet

(1) Collateralized assets

Purchased loans and loans are entrusted as collateral for mortgage backed securities.
(Unit: yen)

	Assets entrusted as collateral		Collateral related to liabilities	
	Item	Amount	Item	Amount
Securitization Account	Purchased loans	11,004,854,787,922	MBS	9,137,930,001,425
Housing Loan Account	Loans	26,902,868,936	MBS	30,487,690,229
Outstanding Loan Management Account	Loans	2,037,069,553,206	MBS	1,877,795,278,346
Total		13,068,827,210,064		11,046,212,970,000

(2) Transferred claims (from pension)

Based on Article 7, Paragraph 1, Item 3 of the Supplementary Provisions of the Japan Housing Finance Agency Law (Law No. 82 of 2005; hereafter referred to as the "JHF Law"), the balance of claims transferred from the Welfare and Medical Service Agency is recorded.

(3) Gains and losses from deferred derivative products

Gains and losses on interest rate swaps stipulated by Article 12 of the Ministerial Ordinance Related to Business Operation and Accounting and Finances of Japan Housing Finance Agency (Ministry of Finance and Ministry of Land, Infrastructure and Transportation Ministerial Ordinance No. 1 of 2007).

2. Matters Relating to the Cash Flows Statement

(1) Breakdown of closing balance of cash on the balance sheet by item

Cash and due from bank: 359,245,457,234 yen

Closing balance of cash: 359,245,457,234 yen

(2) Material non-cash transactions

The value of assets and liabilities related to finance leases, which are significant non-cash transactions, newly recorded during FY2014 were both 203,190,457 yen.

(3) Personnel expense expenditures

Outlays for special premium to the Employees' Pension Fund, 121,651,004 yen and outlays for collective contributions for Corporate Pension Fund, 3,360,781,500 yen are recorded as personnel expense expenditures.

3. Matters Relating to Statement of Administrative Cost Calculations

The expected increase in retirement benefits not included in allowances is related to parties succeeded from the central government.

4. Matters Relating to Retirement Benefits

(1) Overview of the retirement benefit plan

The defined-benefit systems include the Employees' Pension Funds plan, Defined-benefit Corporation Pension plan and lump-sum retirement allowance plan. In addition to the defined-benefit systems, there is also an established defined-contribution system.

As of October 1, 2014, the Minister of Health, Labour and Welfare approved exemption of returning the previous portion for the substitution part of Employees' Pension Funds. With this, the system was transferred from the Employees' Pension Funds plan to Defined-benefit Corporation Pension plan and Defined-contribution Pension plan. 12,017,271,720 yen is recorded as a special profit from return of substitution part of the Employees' Pension Funds.

(2) Matters relating to retirement benefit obligations

Category	As of March 31, 2015
Retirement benefit obligation (A)	△30,396,840,841
Pension assets (B)	16,606,452,690
Unfunded retirement benefit obligations (C) = (A) + (B)	△13,790,388,151
Unrecognized prior service obligations (D)	△2,152,202,686
Unrecognized actuarial differences (E)	2,954,253,685
Net amount recorded in balance sheet (F) = (C) + (D) + (E)	△12,988,337,152
Prepaid pension costs (G)	0
Reserve for retirement benefit (F) - (G)	△12,988,337,152

(3) Matters relating to retirement benefit expenses

Category	From April 1, 2014 to March 31, 2015
Service cost	641,109,101
Interest cost	488,082,203
Expected return on plan assets	△308,764,781
Amortization of prior service obligations	△257,403,868
Amortization of actuarial differences	429,891,210
Others	19,202,762
Net pension expenses	1,012,116,627

(Note) Contribution payment amount to the defined-contribution pension is recorded in "Others."

(4) Matters relating to basis for calculating retirement benefit obligations

Category	As of March 31, 2015
a. Discount rate	0.6%
b. Expected rate of return	2.5%
c. Method for attributing the projected benefits to periods of services	Straight-line method
d. Number of years for disposal of past service liabilities	10 years (Past service liabilities equally divided by a set number of years within the average number of working years remaining of directors and employees at the time the liability was generated are recorded as expenses or income.)
e. Amortization of recognized actuarial differences	10 years (Actual differences equally divided by a set number of years within the average number of working years remaining of directors and employees at the time the difference is generated in the fiscal year are recorded as expenses or income in the year following the fiscal year.)

5. Impairment losses on fixed assets

(1) Assets in which impairment is recognized

Impairment of the employee dormitories (buildings and lands) in the table below is recognized in this fiscal year as the likelihood of use has significantly decreased and disposal is planned.

Impairment related to the buildings is recorded to the income statement, and impairment related to the lands is processed as impairment loss out of profit and loss, so it is not recorded in the income statement.

JHF branch	Dormitory	Location	Book value			Impairment	
			Buildings	Lands	Total	Buildings	Lands
1 Head office	Daida Dorm	Setagaya-ku	740,484	155,000,000	155,740,484	0	82,000,000
2 Tokai	Kanda Dorm	Chikusa-ku, Nagoya-shi	4,800,000	65,300,000	70,100,000	11,446,561	14,700,000
3 Kyushu	Nishijin Dorm No. 2	Sawara-ku, Fukuoka-shi	1,000,000	44,000,000	45,000,000	506,726	9,400,000
		Total	6,540,484	264,300,000	270,840,484	11,953,287	106,100,000

(Note 1) Book values above are those at the end of this fiscal year.

(Note 2) Impairment amounts were calculated based on assessments of real estate appraisals measured by the net sale values.

(2) Assets in which impairment is indicated

Indications of impairment of the employee dormitories (buildings and lands) in the table below were recognized since they are to be abolished by the end of FY2016. As regular maintenance is done on these dormitories and they have functions pursuant to their usage, their impairment is not recognized.

JHF branch	Dormitory	Location	Book value		
			Buildings	Lands	Total
1 Kita-Kanto	Kounin Dorm	Maebashi-shi	20,799,308	42,800,000	63,599,308
2 Kita-Kanto	Minami-cho Dorm	Maebashi-shi	52,648,127	51,300,000	103,948,127
3 Kita-Kanto	Minami-cho Dorm No. 2	Maebashi-shi	77,114,985	44,200,000	121,314,985
4 Head office	Wakamatsu Dorm	Shinjuku-ku	155,053,672	485,000,000	640,053,672
5 Head office	Umeoaka	Setagaya-ku	34,802,996	226,000,000	260,802,996
6 Head office	Shoan Dorm	Suginami-ku	22,460,625	202,000,000	224,460,625
7 Head office	Asaka Dorm	Asaka-shi	100,708,807	104,000,000	204,708,807
8 Chugoku	Sanjo Dorm	Nishi-ku, Hiroshima-shi	25,959,007	62,300,000	88,259,007
9 Shikoku	Saaho Dorm	Takamatsu-shi	9,075,000	27,500,000	36,575,000
10 Minami-Kyushu	Suizenji Dorm No. 1	Chuo-ku, Kumamoto-shi	45,055,644	50,000,000	95,055,644
11 Minami-Kyushu	Obiyama Dorm	Chuo-ku, Kumamoto-shi	18,404,558	23,600,000	42,004,558
		Total	562,082,729	1,318,700,000	1,880,782,729

(Note) Book values above are those at the end of this fiscal year as the date of abolishment is not fixed at the last day of the year.

6. Financial Products

(1) Matters relating to the situation of financial products

a. Policy on financial products

To support financing of private financial institutions providing monies required for housing construction, JHF conducts loan claim assignment business as well as lending business for financing construction of disaster recovery buildings to supplement lending by private financial institutions. In order to conduct these businesses, JHF procures funds by issuance of FILP (Fiscal Investment and Loan Program) bonds and borrowings from financial institutions and the FILP.

b. Description of financial products and their risk

The financial assets that JHF holds are mainly mortgages to individuals in Japan, which are exposed to credit risk that is caused by contractual default by borrowers. Most of the mortgages are long-term fixed rate loans, which are exposed to market risk including prepayment risk, refinancing risk, and pipeline risk. The securities held by JHF are mainly bonds, which are held to maturities and exposed to credit risk of the issuers and market risk.

JHF's sources of fundings are FILP bonds and borrowings, which are exposed to liquidity risk that can cause failures in fund raising under certain adverse market conditions.

c. Risk management system relating to financial products

(a) Efforts for risk management

In order to build a systematic, cross-sector risk management system, JHF has designated a specific executive and department to control overall risk management. It has also designated executives and departments that deal with individual risks both quantitatively and qualitatively and committees to support them. Specifically, the Credit Risk Management Committee has been established to manage credit risk and the ALM Risk Management Committee to deal with market risk, liquidity risk, and counterparty credit 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 inclusive risk management in order to manage the risks from a comprehensive point of view and maintains a system to understand and evaluate assessment of individual risks and management of the risks as a whole and periodically report the results to the board of directors. As JHF's overall risk management, financial resilience to both credit risk and asset liability management risk is verified by conducting a lifetime income simulation with both risks taken into consideration in a cross-section way based on the same cash flow scenario incorporating the interest rate scenario and the probability of default scenario.

JHF also set up and implemented Risk Management Basic Manual that stipulates basics including definitions of individual risks, purposes of risk management, and framework and methods of risk management as well as risk management regulations that stipulates risk management framework and methods for individual risks. Individual risks are managed according to these regulations with their characteristics taken into account, and comprehensive risk management to understand and evaluate these individual risks inclusively is implemented.

(b) Credit risk management

In JHF, the section responsible for credit risk management secures independence from the sales promotion department and has an established framework to appropriately conduct purchase loan screening, loan screening, management and servicing of loans retained by JHF, and self-assessment. In order to check and manage credit risk correctly, the agency categorizes holding credits based on their risk profiles, analyzes the attributes of the borrowers contained in the portfolio by category, and estimates the amount of possible future losses and cost of dealing with credit risk.

(c) Market risk management

JHF has established a market risk management department independent from the market department to appropriately manage prepayment risk, refinancing/reinvestment risk, and pipeline risk. JHF manages prepayment risk by estimating prepayment amount utilizing prepayment models and by procuring funds with combination of securitization and issuance of various maturity bonds. Refinancing/reinvestment risk and pipeline risk are managed by estimating the cash flow of assets and debts with future interest fluctuation taken into consideration, forecasting the periodical profit and loss according to the cash flow, and periodically monitoring risk indexes such as the duration.

(d) Liquidity risk management

In JHF, a risk management department, which is independent of the financing management department sets short-term liquidity standards and other financing management indicators to implement monitoring. Administrative categories are also established according to cash management tightness, and actions are predetermined depending on the category. In addition, it secures financing methods such as emergency borrowing facilities and prepares responsive measures to deal with situations that may affect the financing position.

(e) Counterparty credibility risk management

JHF's risk management division, which is independent from the funding management division, sets the counterparty credibility risk management indicators and implement monitoring. The credit risk management methods are established for issuers of bonds held by JHF and the financial institutions that are the counterparties in interest rate swap transactions.

d. Supplementary explanation of the matters relating to mark-to-markets of financial products
Market values of financial products include values based on market prices and rationally calculated values if market prices are not available. As certain preconditions are applied for calculation of these values, the values may change depending on the preconditions.

(2) Matters relating to the mark-to-markets of financial products

The values of major financial products on the balance sheet as of the end of the fiscal year, their market prices, and differences between them are outlined in the table below. The values of products whose market prices are difficult to obtain are not included in the table (refer to Note. 2).

	Book value on the value sheet	Market price	Difference	(Unit: yen)
(1) Cash and due from banks	359,245,457,234	359,245,457,234	0	
(2) Money in trust	766,644,064,162	771,695,207,214	5,051,143,052	
(3) Securities				
Securities held to maturity	1,140,637,225,212	1,188,043,681,714	47,406,456,502	
Other securities	706,000,000,000	706,000,000,000	0	
(4) Purchased loans	11,639,363,830,770			
Reserve for possible loan losses (*1)	△ 54,589,028,095			
	11,584,774,802,675	12,375,316,082,649	790,541,279,974	
(5) Loans	13,240,376,683,440			
Reserve for possible loan losses (*1)	△ 202,676,161,819			
	13,037,700,521,621	14,466,749,798,087	1,429,049,276,466	
(6) Claims for indemnity (*1)	3,846,304,821	3,846,304,821	0	
(7) Transferred claims (from pension) (*1)	77,384,365,286	85,695,453,973	8,311,088,687	
Total assets	27,676,232,741,011	29,956,591,985,692	2,280,359,244,681	
(1) Borrowings	11,076,682,670,000	11,844,541,873,512	767,859,203,512	
(2) Bonds (*2)	14,351,756,153,414	15,130,913,411,696	779,157,258,282	
(3) Accounts payable	260,100,070,000	260,100,070,000	0	
Total liabilities	25,688,538,893,414	27,235,555,355,208	1,547,016,461,794	
Financial derivative products (*3)	(7,021,086,912)	(7,021,086,912)	0	
Total financial derivative products	(7,021,086,912)	(7,021,086,912)	0	

- (*1) Accounts on general and individual reserves for possible loan losses for purchased loans and loans are deducted. Since reverses for possible loan losses for claims for indemnity and transferred claims (from pension) are less important, their values are subtracted directly from the amounts on the balance sheet.
(*2) Since bond issue premiums are less important, the values are subtracted directly from the amounts on the balance sheet.
(*3) The values of financial derivative products listed as assets or liabilities are indicated in bloc. The changes in values of assets or liabilities caused by transactions are indicated on a net basis, and if the sum of them results in negative, the item is indicated in parentheses.

(Note 1) Method of calculating the market price of financial products

Assets

(1) Cash and due from banks

As all dues from banks had no fixed maturity date and the market price was close to the book value, the book value was applied as the market price.

(2) Money in trust

The market price was based on values provided by counterparty financial institutions.

(3) Securities

The market price of bonds was based on market prices including quotation by market makers released by industry groups. As certificates of deposits have a short contract period and their market price was close to the book value, the book value was applied as the market price.

(4) Purchased loans

The future cash flow of purchased loans was estimated in terms of their type, borrowers and maturities. The future cash flow was then discounted at a rate that would be applied to a similar newly purchased mortgage to calculate the market value.

Regarding loans of borrowers in default, substantially defaulted borrowers, and borrowers with high probability of default, as the sum of loan losses was estimated based on an expected recoverable amount from the collaterals, the market price was close to the amount on the balance sheet on the settlement day with the current expected irrecoverable amount subtracted, and this price was applied as the market price.

(5) Loans

The future cash flow of loans was estimated in terms of their type, borrowers, and maturities. The future cash flow was then discounted at a rate that would be applied to a similar newly originated loan to calculate the market price.

Regarding loans of borrowers in default, substantially defaulted borrowers, and borrowers with high probability of default, as the sum of loan losses was estimated based on an expected recoverable amount from the collaterals and guarantees, the market price was close to the amount on the balance sheet on the settlement day with the current expected irrecoverable amount subtracted, and this price was applied as the market price.

As for loans on bills, because the maturities are short and the market value was close to the book value, the book value is applied as the market value.

(6) Claims for indemnity

As the sum of loan losses was estimated based on an expected recoverable amount from the collaterals, the market price was close to the amount on the balance sheet on the settlement day with the current expected irrecoverable amount subtracted, and this price was applied as the market price.

(7) Transferred claims from pension

The future cash flow of transferred claims from pension was estimated in terms of their type, borrowers, and maturities. The future cash flow was then discounted at a rate that would be applied to a similar newly transferred loan to calculate the market price.

Regarding loans of borrowers in default, substantially defaulted borrowers, and borrowers with high probability of default, as the sum of loan losses was estimated based on an expected recoverable amount from the collaterals, the market price was close to the amount on the balance sheet on the settlement day with the current expected irrecoverable amount subtracted, and this price was applied as the market price.

Liabilities

(1) Borrowings

The total amount of principal and interest was discounted at a rate that would be applied to a similar new borrowing to calculate the market price.

Because the contracted term for borrowings at private financial institutions about account for loans for property accumulation saving scheme-tied houses was short and the market price was close to the book value, the book value was applied as the market price.

(2) Bonds

The prices of mortgage-backed securities and general lien bonds were based on market prices including quotation by market makers released by industry groups.

Regarding property accumulation saving scheme-tied housing bonds, the total amount of principle and interest is discounted at a rate that would be applied to a similar new bond issue to calculate the market price.

For housing land bonds, estimated future cash flow was discounted at a rate that would be applied to a similar new bond issue to calculate the market price.

(3) Accounts payable

Because the term when the outstanding payment was unpaid was short and the market price was close to the book value, the book value was applied as the market price.

Financial derivative products

Financial derivative products JHF executes are an interest-rate swap agreement, and the market price was calculated based on the discount present value.

(Note 2) Unlisted stocks (value on the balance sheet: 16,150,000 yen) have no market price, which makes it difficult to estimate their market price. Accordingly, the market price is not required to be disclosed.

7. Securities

(1) Securities held to maturity

(Unit: yen)

Category	Type	Book value on the balance sheet	Market price	Difference
Securities whose market price exceeds the book value on the balance sheet	Government bonds	386,658,083,847	410,872,464,085	24,214,380,238
	Municipal bonds	166,252,605,170	177,079,189,109	10,826,583,939
	Government guaranteed bonds	63,783,933,781	64,894,032,400	1,110,098,619
	Corporate bonds	273,603,122,659	284,946,352,000	11,343,229,341
	Subtotal	890,297,745,457	937,792,037,594	47,494,292,137
Securities whose market price does not exceed the book value on the balance sheet	Government bonds	71,131,296	71,015,000	△ 116,296
	Municipal bonds	18,884,080,200	18,881,736,900	△ 2,343,300
	Government guaranteed bonds	118,456,834,577	118,451,079,700	△ 5,754,877
	Corporate bonds	112,927,433,682	112,847,812,520	△ 79,621,162
	Subtotal	250,339,479,755	250,251,644,120	△ 87,835,635
Total		1,140,637,225,212	1,188,043,681,714	47,406,456,502

(2) Other securities

(Unit: yen)

Category	Type	Book value on the balance sheet	Acquisition cost	Difference
Securities whose book value on the balance sheet does not exceed the acquisition cost	Others	706,000,000,000	706,000,000,000	0

None of the book values on the balance sheet exceeds its acquisition cost.

8. Important Liability Incurring Activities

There is nothing to report.

9. Important Subsequent Events

There is nothing to report.

10. Payment to the National Treasury in Connection with Unnecessary Assets

(1) Outline of assets returned to the national treasury as unnecessary assets

a) Type

Cash and deposits

b) Book value

Cash and deposits: 83,639,158 yen

(2) Cause of becoming unnecessary assets

For the capital executed by FY2013, the assets above were recognized to have become unnecessary for conducting the business without uncertainty considering the future expected business volume.

(3) Method of return to the National Treasury

Payment into the National Treasury was made in accordance with the stipulations of Article 46-2, Paragraph 1 of the Act on General Rules for Independent Administrative Agency (Act No. 103 of 1999).

(4) Amount paid into the National Treasury

83,639,158 yen

(5) Date of return to the National Treasury

February 20, 2015

(6) Amount of reduction in capital

1,700,000 yen