

Income Statement

(Unit: million yen)

Item	FY2014	FY2015
Ordinary income	943,767	822,071
Income from asset management	709,319	636,919
Interest on purchased loans	189,244	191,342
Interest on GHLC originated loans	504,863	431,563
Changes on claims for indemnity, etc.	104	74
Interest on transferred claims (pension)	2,987	2,561
Interest and dividends on securities	12,074	11,345
Interest on receivables under repurchase agreement	0	—
Interest on deposits	46	34
Income from underwriting insurance	92,725	85,509
Net insurance premium revenue	2,061	1,882
Reimbursement of unused reserve for outstanding claims	283	8
Reimbursement of unused policy reserve	7,208	1,025
Fee from riders on group credit life insurance	69,073	65,138
Revenue from group credit life insurance	2,833	2,932
Dividends on group credit life insurance	11,267	14,523
Income from service transactions	736	666
Guarantee fee	170	146
Other income from services	566	520
Income from subsidies	78,859	86,593
Subsidies for emergency measures to facilitate housing finance	53,996	49,373
Subsidies for promotion projects for development of high-quality housing	19,361	31,131
Subsidies for emergency measures including loans for recovery from disasters	5,503	6,089
Income from other operating activities	48	42
Contract termination fees	48	42
Other ordinary income	62,079	12,342
Reversal of reserve from possible loan losses	51,438	1,593
Reversal of reserve from refund of guarantee fees	3,531	3,108
Reversal of reserve from mortgage transfer registration	—	4
Income from written-off claims recovered	4,418	3,892
Other ordinary income	2,692	3,745
Ordinary expenses	682,748	612,880
Fund raising expenses	524,969	451,896
Interest on borrowings	308,715	243,576
Interest on bonds	216,008	207,828
Other interest paid	246	492
Insurance underwriting expenses	96,495	92,681
Net insurance paid	2,784	1,821
Group credit insurance premium paid	90,862	87,852
Payment of group credit life insurance claims	2,849	3,008
Service transaction expenses	24,699	26,573
Service expenses	24,699	26,573
Other operating expenses	8,879	12,334
Amortization of bond issuing expenses	4,521	7,861
Financial derivative products expenses	4,358	4,473
Business expenses	25,542	27,319
Business expenses	25,542	27,319
Other ordinary expenses	2,164	2,078
Mortgage transfer registration reserves carried over	95	—
Other ordinary expenses	2,069	2,078
Ordinary income	261,018	209,191
Extraordinary income	12,747	147
Other extraordinary income	12,747	147
Reimbursement from insolvent customers based on restructuring plan	730	147
Profit from return of substitution part of Employees' Pension Funds	12,017	—
Extraordinary losses	12	2,170
Loss on disposal of tangible fixed assets	—	599
Impairment loss	12	1,571
Net income	273,754	207,168
Transfer from reserve of previous mid-term target	8,686	8,770
Gross income	282,440	215,938

Cash Flows Statement

(Unit: million yen)

Item	FY2014	FY2015
I . Cash flow from operating activities		
Outlays on the purchase of loans	△ 1,612,291	△ 2,320,230
Loan disbursement	△ 148,897	△ 185,674
Outlays on personnel expenses	△ 13,539	△ 9,890
Outlays on insurance	△ 2,784	△ 1,821
Outlays on group credit life insurance premium	△ 91,150	△ 87,992
Outlays on payment on group credit life insurance claims	△ 2,888	△ 3,025
Other operating outlays	△ 44,783	△ 46,046
Income from collection of purchased loans	1,004,991	1,142,993
Income from collection of loans	2,288,823	2,006,242
Income from interest on purchased loans	189,193	191,189
Income from interest on loans	511,536	437,258
Loan origination fees and other revenues	89	67
Income from insurance premiums	2,140	1,809
Income from riders on group credit life insurance	66,677	63,673
Income from group credit life insurance	2,649	2,755
Dividends received from group credit life insurance	8,648	11,267
Income from other operations	27,091	24,505
Income from treasury subsidies	130,869	23,800
Outlays on the repayment of treasury subsidies	△ 2,009	△ 25,839
Subtotal	2,314,367	1,225,039
Interest and dividends received	72,554	72,087
Interest paid	△ 604,971	△ 524,548
Cash flow from operating activities	1,781,950	772,577
II . Cash flow from investing activities		
Outlays on acquisition of securities (bonds)	△ 76,359	△ 36,904
Income from redemption of securities (bonds)	70,961	426,596
Net change in securities (certificates of deposits) (△ indicates negative amount.)	352,000	137,000
Outlays on acquisition of tangible fixed assets	△ 701	△ 2,053
Gain on disposal of tangible fixed assets	—	310
Outlays on acquisition of intangible fixed assets	—	△ 5,197
Outlays on depositing of term deposit	—	△ 120,000
Income from withdrawal of term deposit	—	50,000
Outlays on increase of monetary trusts	△ 112,800	△ 0
Income from decrease of monetary trusts	59,689	88,868
Other income	2	△ 93
Cash flow from investing activities	292,792	538,529
III . Cash flow from financing activities		
Income from long-term borrowings from private institutions	88,200	112,700
Outlays on payment of long-term borrowings from private institutions	△ 90,800	△ 79,050
Income from issuance of bonds (after deducting insurance expense)	1,436,676	2,474,259
Outlays on redemption of bonds	△ 1,357,241	△ 1,506,654
Income from FILP borrowings	49,500	39,600
Outlays on payment of FILP borrowings	△ 2,171,957	△ 2,110,300
Outlays on payment of lease obligation	△ 722	△ 715
Income from government injection monies	6,689	0
Outlays for return to the national treasury concerning unnecessary estates	△ 84	△ 120
Cash flow from financing activities	△ 2,039,739	△ 1,070,281
IV . Increase (or Decrease) in cash	35,004	240,825
V . Opening balance of cash	324,242	359,245
VI . Closing balance of cash	359,245	600,070

Statement of Administrative Cost Calculations

(Unit: million yen)

Item	FY2014	FY2015
I . Operating expenses		
(1) Expenses recorded in income statement		
Fund raising expenses	524,969	451,896
Insurance underwriting expenses	96,495	92,681
Service transaction expenses	24,699	26,573
Other operating expenses	8,879	12,334
Business expenses	25,542	27,319
Other ordinary expenses	2,164	2,078
Loss on disposal of tangible fixed assets	—	599
Impairment loss	12	1,571
Subtotal	682,760	615,050
(2) (Deduction) Non-subsidy revenues, etc.		
Income from asset management	△ 709,319	△ 636,919
Income from insurance underwriting	△ 92,725	△ 85,509
Income from service transactions, etc.	△ 736	△ 666
Income from other operating activities	△ 48	△ 42
Other ordinary income	△ 62,079	△ 12,342
Gain on disposal of tangible fixed assets	—	—
Reimbursement from insolvent customers based on restructuring plan	△ 730	△ 147
Profit from return of substitution part of Employees' Pension Funds	△ 12,017	0
Subtotal	△ 877,655	△ 735,625
Total operating expenses	△ 194,895	△ 120,575
II . Impairment loss not recorded in income statement	106	0
III . Differences on removal/sales not recorded in income statement	—	△ 532
IV . Expected increase in retirement benefits not recorded in allowances	△ 4	6
V . Opportunity costs		
Opportunity costs related to items such as central and local government injection monies	2,837	0
VI . (Deduction) Payment for corporation tax and return to the national treasury	△ 83	△ 120
VII . Administrative cost	△ 192,039	△ 121,222

Significant Accounting Policies (Overall Agency)

1. Application of Accounting Standards, etc. for Incorporated Administrative Agency after revision

A From this fiscal year, JHF has applied the Accounting Standard for Incorporated Administrative Agency after revision and the Annotations of Accounting Standard for Incorporated Administrative Agency (revised on January 27, 2015), and the Q&A about Accounting Standard for Incorporated Administrative Agency and the Annotations of Accounting Standard for Incorporated Administrative Agency (Final revision in February 2016) (the "Incorporated Administrative Agency Accounting Standards, etc.") in preparation of financial statements.

However, concerning the provisions of No. 43 (Annotation 39) of the Accounting Standard for Incorporated Administrative Agency, since transitional measures are applied pursuant to Article 8 of the Supplementary Provisions of the Act for Partial Revision of Act on General Rules for Incorporated Administrative Agencies (Act No. 66 of 2014), until the completion of transitional measures, segment information is disclosed in accordance with the ongoing segment categories.

2. Depreciation

(1) Tangible fixed assets

Straight line method is applied.
The usual life terms of major assets are given below:
Building: 2 – 50 years
Other tangible fixed assets: 2 – 43 years

(2) Intangible fixed assets

Straight line method is applied.
For software used internally at the Agency, this is based on usable years (5 years) internally at the Agency.

3. 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:

- 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.
- 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.
- 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.
- 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 retirement benefit obligations and projected pension assets at the end of the particular business year. In calculation of retirement benefit obligations, concerning the method of having the projected retirement benefit amount be attributed to the period until the end of this fiscal year, a straight-line method is applied.

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

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

(Change of Accounting Policy)

From this fiscal year, JHF has applied Accounting Standard for Incorporated Administrative Agency after revision and so forth, and changed the method of determining the discount rate from the method of determination based on the number of years approximation of the average number of working years remaining for employees to the method of using the single weighted average discount rate reflecting the projected period for payment of retirement benefits and the amount for each projected period for payment.

This change does not affect financial statements.

(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 (GHLCO)-originated loans and purchased loans inherited from GHLCO 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.

4. 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.

5. Criteria and Method for Valuing Marketable Securities (including marketable securities invested as trust assets in the money in trust)

- Securities held to maturity
The amortized cost method (straight-line method) is applied.

- Other securities
The purchase price is recorded.

6. Method for Valuing Financial Derivative Products (Derivative Transactions)

The market value method is applied.

7. Treatment of Interest Rate Swap Transactions

- 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 12 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.

- 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.

8. Depreciation of Bond Issue Premiums

Bond issue premiums are amortized using a straight-line method over the maturity of the bond.

9. Method for Recording Opportunity Costs in the Statement of Administrative Cost Calculations

For calculating the opportunity costs to central government investments and local government investments, in accordance with the "Concerning Handling of Calculation of Opportunity Costs in the Statement of Administrative Cost Calculations in FY2015 Financial Statements upon the Introduction of "Quantitative and Qualitative Monetary Easing with Negative Interest Rates" (Matters to be Noted)" the business communication as of April 1, 2016 (Administrative Management Bureau, Ministry of Internal Affairs and Communications, Public Accounting Office, Legal Division, Budget Bureau, Ministry of Finance), 0.00% was applied.

10. 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.

11. 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	12,180,075,673,777	MBS	10,068,403,780,990
Housing Loan Account	Loans	22,308,371,037	MBS	24,988,093,235
Outstanding Loan Management Account	Loans	1,748,943,933,591	MBS	1,608,445,850,775
Total		13,951,327,978,405		11,701,837,725,000

(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: 670,070,373,641 yen

Term deposit: \triangle 70,000,000,000 yen

Closing balance of cash: 600,070,373,641 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 FY2015 were both 8,341,680 yen.

3. Matters Relating to Statement of Administrative Cost Calculations

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

4. Matters Relating to Retirement Benefits

(1) Overview of the retirement benefit plan

JHF has adopted the Corporate Pension Fund plan and lump-sum retirement allowance plan as the defined-benefit system and the Defined-contribution Pension plan as the defined-contribution system. Although JHF has adopted the multi-employer plan for its Corporate Pension Fund plan, since the amount of pension assets can be reasonably calculated based on the ratio of the retirement benefit obligations, related notes are stated and included in the notes on defined-benefit systems below.

Under the Corporate Pension Fund plan (reserve system), pensions are paid based on remuneration and salaries to directors and employees, and their years of service. Under the lump-sum retirement allowance plan (non-reserve system), lump-sum moneys are paid based on remuneration and salaries to directors and employees as retirement allowances, and reserves for retirement benefits and net pension expenses are calculated based on the simplified method for directors and on the basic method for employees.

Note that the Minister of Health, Labour and Welfare has approved exemption from returning the previous portion for the substitution part of Employees' Pension Funds on October 1, 2014. With this, JHF abolished its Employees' Pension Funds plan as of October 1, 2014 and transferred the system to a Defined-benefit Corporation Pension plan and Defined-contribution Pension plan.

(2) Defined-benefit system

① Reconciliation of opening balance and closing balance of retirement benefit obligations	
Opening balance of retirement benefit obligations	30,396,840,841 yen
Service cost	737,076,300
Interest cost	182,328,791
Current term's actuarial difference	701,906,517
Retirement benefit payment	\triangle 867,052,535
Current term's prior service cost	0
Contribution from participants	0
Closing balance of retirement benefit obligations	31,151,099,914
② Adjustment table for opening balance and closing balance of pension assets	
Opening balance of pension assets	16,606,452,690 yen
Expected return on plan assets	415,161,317
Current term's actuarial difference	\triangle 345,092,211
Contribution by employer	360,368,680
Retirement benefit payment	\triangle 501,178,735
Contribution from participants	0
Closing balance of pension assets	16,535,711,741
③ Adjustment table of retirement benefit obligations and pension assets, and reserve for retirement benefit and prepaid pension cost recorded on the balance sheet	
Retirement benefit obligations under reserve system	20,387,262,116 yen
Pension assets	\triangle 16,535,711,741
Unfunded retirement benefit obligations under reserve system	3,851,550,375
Unfunded retirement benefit obligations under non-reserve system	10,763,837,798
Subtotal	14,615,388,173
Unrecognized actuarial difference	\triangle 3,564,953,408
Unrecognized prior service cost	1,900,277,096
Net asset and liabilities amount recorded on balance sheet	12,950,711,861
Reserve for retirement benefits	12,950,711,861
Prepaid pension costs	0
Net asset and liabilities amount recorded on balance sheet	12,950,711,861
④ Retirement benefit-related income	
Service cost	737,076,300 yen
Interest cost	182,328,791
Expected return on plan assets	\triangle 415,161,317
Current term's amortization of actuarial differences	610,699,723
Current term's amortization of prior service cost	\triangle 251,925,590
Extra retirement benefits extraordinarily paid	0
Total	863,017,907
⑤ Primary breakdown of pension assets	
Ratio of primary categories for total pension assets is as follows:	
Bonds	39%
Stock	12%
General account	8%
Cash and deposits	41%
Total	100%
⑥ Method of configuration of ratio of long-term expected return on assets	
In order to decide on the ratio of long-term expected return on pension assets, the distribution of current and predicted pension assets and the ratio of long-term return expected currently and in the future from a variety of assets that compose pension assets are taken into account.	

① Calculation basis for actuarial calculations

Major calculation basis for actuarial calculation at closing of fiscal year

Discount rate	0.6%
Ratio of long-term expected return on plan assets	2.5%

(Note) Amount of a lump sum payment for directors processed by simple method is included

(3) Defined-contribution system

Amount required to be contributed to defined-contribution system is 45,647,500 yen.

5. Impairment losses on fixed assets

(1) Assets in which impairment is recognized

Impairment of the employee dormitories and branch offices in the table below is recognized in this fiscal year as the likelihood of use has significantly decreased and disposal is planned.

As buildings and land pertain to the profit and loss calculation, the amount of impairment is recorded in the income statement.

<Dormitory>

JHF branch	Dormitory	Location	Book value			Impairment	
			Buildings	Lands	Total	Buildings	Lands
1	Head office Wakamatsu Dorm	Shinjuku-ku	42,787,000	422,213,000	465,000,000	105,961,671	62,787,000
2	Head office Umegaoka Dorm	Setagaya-ku	0	178,000,000	178,000,000	33,562,351	50,000,000
3	Head office Shonan Dorm	Suginami-ku	0	168,000,000	168,000,000	21,332,965	34,000,000
4	Head office Asaka Dorm	Asaka-shi	22,686,000	51,714,000	74,400,000	74,615,088	52,286,000
5	Chugoku Sanjo Dorm	Nishi-ku, Hiroshima-shi	0	39,700,000	39,700,000	24,753,840	22,600,000
6	Shikoku Saiho Dorm	Takamatsu-shi	0	11,400,000	11,400,000	8,572,567	16,100,000
7	Kita-Kanto Kouun Dorm	Maebashi-shi	0	31,700,000	31,700,000	19,731,524	11,100,000
8	Kita-Kanto Minami-cho Dorm	Maebashi-shi	0	31,200,000	31,200,000	50,179,889	20,100,000
9	Kita-Kanto Minami-cho Dorm No. 2	Maebashi-shi	12,864,000	16,136,000	29,000,000	61,064,965	28,064,000
Total			78,337,000	948,063,000	1,026,400,000	399,774,860	297,037,000

(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.

<JHF branch>

JHF branch	Location	Book value			Impairment	
		Buildings	Lands	Total	Buildings	Lands
1	Kita-Kanto Chiyoda-cho, Maebashi-shi	0	41,100,000	41,100,000	58,196,904	109,900,000
2	Kyushu Chuo-ku, Fukuoka-shi	0	403,000,000	403,000,000	108,630,466	597,000,000
Total		0	444,100,000	444,100,000	166,827,370	706,900,000

(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.

<Dormitory>

JHF branch	Dormitory	Location	Book value			Impairment	
			Buildings	Lands	Total	Buildings	Lands
1	Kyushu Suizenji Dorm No.1	Chuo-ku, Kumamoto-shi	43,016,140	50,000,000	93,016,140		
2	Kyushu Obiyama Dorm	Chuo-ku, Kumamoto-shi	17,484,051	23,600,000	41,084,051		
Total			60,500,191	73,600,000	134,100,191		

(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.

<JHF branch>

JHF branch	Location	Book value			Impairment	
		Buildings	Lands	Total	Buildings	Lands
1	Kyushu Chuo-ku, Kumamoto-shi	97,826,474	212,000,000	309,826,474		
Total		97,826,474	212,000,000	309,826,474		

(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 costs 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, refinance/reinvestment risk, and pipeline risk.

JHF manages prepayment risk by estimating prepayment amount utilizing prepayment models and by procuring funds with combination of housing loan 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 fluctuations taken into consideration, forecasting the periodical profit and loss according to the cash flow, and periodically monitoring risk indexes such as the duration.

Note that pipeline risks are managed by interest swap transactions for the purpose of hedging and so forth, when necessary.

(d) Liquidity risk management

In JHF, a risk management department, which is independent of the financing management department sets management indicators for financing of liquidity assets, etc. to implement monitoring. In addition, it secures fundraising methods such as emergency borrowing facilities, and also has established administrative categories according to cash management tightness, thereby the actions are predetermined depending on the category.

(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).

(Unit: yen)

	Book value on the value sheet	Market price	Difference
(1) Cash and due from banks	670,070,373,641	670,070,373,641	0
(2) Money in trust	679,536,069,302	686,667,258,669	7,131,189,367
(3) Securities			
Securities held to maturity	749,848,739,411	805,603,001,985	55,754,262,574
Other securities	569,000,000,000	569,000,000,000	0
(4) Purchased loans	12,832,280,940,445		
Reserve for possible loan losses (*1)	△ 53,041,456,706		
	12,779,239,483,739	13,470,001,307,409	690,761,823,670
(5) Loans	11,392,188,342,505		
Reserve for possible loan losses (*1)	△ 166,991,439,140		
	11,225,196,903,365	12,435,328,186,369	1,210,131,283,004
(6) Claims for indemnity (*1)	3,229,447,141	3,229,447,141	0
(7) Transferred claims (from pension) (*1)	66,540,965,287	73,077,179,092	6,536,213,805
Total assets	26,742,661,981,886	28,712,976,754,306	1,970,314,772,420
(1) Borrowings	9,039,633,044,000	9,612,019,287,331	572,386,243,331
(2) Bonds(*2)	15,327,396,820,089	16,413,296,749,802	1,085,899,929,713
(3) Accounts payable	284,354,410,000	284,354,410,000	0
Total liabilities	24,651,384,274,089	26,309,670,447,133	1,658,286,173,044
Financial derivative products (*3)	(5,651,483,349)	(5,651,483,349)	0
Total financial derivative products	(5,651,483,349)	(5,651,483,349)	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 on 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	209,594,766,757	239,089,284,865	29,494,518,108
	Municipal bonds	157,981,296,054	170,438,170,720	12,456,874,666
	Government guaranteed bonds	45,495,242,552	46,897,018,400	1,401,775,848
	Corporate bonds	309,476,086,270	321,877,278,000	12,401,191,730
	Subtotal	722,547,391,633	778,301,751,985	55,754,360,352
Securities whose market price does not exceed the book value on the balance sheet	Government bonds	0	0	0
	Municipal bonds	0	0	0
	Government guaranteed bonds	17,500,000,000	17,500,000,000	0
	Corporate bonds	9,801,347,778	9,801,250,000	△ 97,778
	Subtotal	27,301,347,778	27,301,250,000	△ 97,778
Total		749,848,739,411	805,603,001,985	55,754,262,574

(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	569,000,000,000	569,000,000,000	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: 120,436,869 yen

(2) Cause of becoming unnecessary assets

For the capital executed by FY2014, 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

120,436,869 yen

(5) Date of return to the National Treasury

February 29, 2016

(6) Amount of reduction in capital

0 yen