

Financial Statements

The FY2016 financial statements for Japan Housing Finance Agency (JHF) were created based on Article 38 of the Act on General Rules for Independent Administrative Agency and approved by the minister in charge.

Overall Agency

In FY2016, the gross profit of the overall agency was 202.5 billion yen, a decrease of 13.4 billion yen from FY2015.

Major factors in the decrease are the decrease of the outstanding loan balance in the Outstanding Loan Management Account etc. and the decrease of fund management profit due to low interest rates, and some other reasons.

Balance Sheet

(Unit: million yen)

Item	FY2015	FY2016	Item	FY2015	FY2016
(Assets)			(Liabilities)		
Cash and due from banks	670,070	886,811	Borrowings	9,039,633	7,297,941
Cash	2	1	FILP borrowings	8,917,783	7,118,491
Due from banks	476,241	753,350	Borrowings from private institutions	121,850	179,450
Agency deposit entrusted	193,827	133,460	Bonds	15,327,397	16,047,978
Money in trust	679,536	556,721	Mortgage-backed securities	11,701,838	12,124,393
Securities	1,318,849	1,126,409	General lien bonds	2,558,800	2,864,400
Government bonds	209,595	177,419	Property accumulation saving scheme-tied housing bonds	295,600	250,800
Local government bonds	157,981	163,013	Housing land bonds	771,608	808,702
Government guaranteed bonds	62,995	25,910	Bond issue premiums (△)	△ 448	△ 317
Corporate bonds	319,277	282,067	Insurance policy reserves	56,050	53,654
Certificates of deposit	569,000	478,000	Reserve for outstanding claims	13	20
Purchased loans	12,832,281	13,661,582	Policy reserves	56,038	53,634
Loans	11,392,188	9,673,015	Subsidies reserves	672,753	553,946
Loans on bills	57,394	51,006	Subsidies payable for emergency measures to facilitate housing finance	334,784	276,238
Loan on deed	11,334,794	9,622,009	Subsidies payable for promotion projects for development of high-quality housings	104,545	93,007
Other assets	279,133	200,236	Subsidies payable for emergency measures including loans for recovery from disasters	233,424	184,701
Claims for indemnity	9,370	8,319	Other liabilities	509,822	429,129
Transferred claims (pension)	67,665	57,022	Accrued expenses	55,584	44,723
Accrued revenues	43,812	37,542	Advanced earnings	35,933	33,699
Financial derivative products	109,261	55,605	Financial derivative products	114,912	59,220
Financial derivative product loss carried forward	27,396	20,148	Financial derivative product gain carried forward	7,088	5,098
Accrued insurance premiums	351	555	Accounts payable	284,354	275,660
Other assets	21,278	21,044	Other liabilities	11,950	10,731
Tangible fixed assets	32,012	30,380	Bonus payment reserves	623	628
Buildings	16,709	19,143	Allowance for retirement benefits	12,951	12,978
Accumulated depreciation (△)	△ 5,142	△ 5,275	Allowance for refund of guarantee fees	8,535	5,568
Accumulated impairment loss (△)	△ 566	△ 172	Reserves for mortgage transfer registration	731	—
Lands	18,989	16,381	Guarantee obligation	414,227	379,142
Accumulated impairment loss (△)	△ 1,004	△ 111			
Construction in process account	2,051	—	Total liabilities	26,042,721	24,780,964
Other tangible fixed assets	3,329	1,226			
Accumulated depreciation (△)	△ 2,355	△ 812	(Net assets)		
Accumulated impairment loss (△)	△ 1	△ 0	Capital	711,735	708,642
Intangible fixed assets	4,936	6,522	Government injection monies	711,735	708,642
Software	2,186	2,020	Capital surplus	381	381
Software in process account	2,750	4,502	Capital surplus	381	381
Guarantee obligation reversal	414,227	379,142	Surplus carried forward	638,486	831,427
Reserve for possible loan losses (△)	△ 231,258	△ 200,602	Valuation and conversion adjustments	△ 1,350	△ 1,198
			Deferred gains or losses on hedges	△ 1,350	△ 1,198
			Total net assets	1,349,253	1,539,252
Total assets	27,391,974	26,320,216	Total liabilities and net assets	27,391,974	26,320,216

Income Statement

(Unit: million yen)

Item	FY2015	FY2016
Ordinary income	822,071	737,607
Income from asset management	636,919	559,742
Interest on purchased loans	191,342	185,358
Interest on GHLC originated loans	431,563	362,718
Changes on claims for indemnity etc.	74	49
Interest on transferred claims (pension)	2,561	2,168
Interest and dividends on securities	11,345	9,441
Interest on deposits	34	7
Income from underwriting insurance	85,509	84,763
Net insurance premium revenue	1,882	3,224
Reimbursement of unused reserve for outstanding claims	8	—
Reimbursement of unused policy reserve	1,025	2,403
Fee from riders on group credit life insurance	65,138	61,706
Revenue from group credit life insurance	2,932	2,775
Dividends on group credit life insurance	14,523	14,655
Income from service transactions	666	608
Guarantee fee	146	123
Other income from services	520	486
Income from subsidies	86,593	81,533
Subsidies for emergency measures to facilitate housing finance	49,373	40,573
Subsidies for promotion projects for development of high-quality housing	31,131	34,691
Subsidies for emergency measures including loans for recovery from disasters	6,089	6,269
Income from other operating activities	42	36
Contract termination fees	42	36
Other ordinary income	12,342	10,924
Reversal of reserve from possible loan losses	1,593	—
Reversal of reserve from refund of guarantee fees	3,108	2,075
Reversal of reserve from mortgage transfer registration	4	583
Income from written-off claims recovered	3,892	4,046
Other ordinary income	3,745	4,220
Ordinary expenses	612,880	546,165
Fund raising expenses	451,896	380,504
Interest on borrowings	243,576	184,978
Interest on bonds	207,828	194,776
Other interest paid	492	750
Insurance underwriting expenses	92,681	89,118
Net insurance paid	1,821	2,278
Unused reserve for outstanding claims carried over -	—	8
Group credit insurance premium paid	87,852	84,004
Payment of group credit life insurance claims	3,008	2,828
Service transaction expenses	26,573	25,653
Service expenses	26,573	25,653
Other operating expenses	12,334	14,519
Amortization of bond issuing expenses	7,861	9,271
Financial derivative products expenses	4,473	5,248
Business expenses	27,319	31,180
Business expenses	27,319	31,180
Other ordinary expenses	2,078	5,191
Provision for reserve for possible loan losses	—	3,049
Other ordinary expenses	2,078	2,142
Ordinary income	209,191	191,442
Extraordinary income	147	1,885
Income from disposal of tangible fixed assets -	—	1,838
Other extraordinary income	147	47
Reimbursement from insolvent customers based on restructuring plan	147	47
Extraordinary losses	2,170	386
Loss on disposal of tangible fixed assets	599	103
Impairment loss	1,571	283
Net income	207,168	192,941
Transfer from reserve of previous mid-term target	8,770	9,596
Gross income	215,938	202,537

Cash Flows Statement

(Unit: million yen)

Item	FY2015	FY2016
I . Cash flow from operating activities		
Outlays on the purchase of loans	△ 2,320,230	△ 3,209,741
Loan disbursement	△ 185,674	△ 203,313
Outlays on personnel expenses	△ 9,890	△ 10,059
Outlays on insurance	△ 1,821	△ 2,278
Outlays on group credit life insurance premium	△ 87,992	△ 84,364
Outlays on payment on group credit life insurance claims	△ 3,025	△ 2,832
Other operating outlays	△ 46,046	△ 48,571
Income from collection of purchased loans	1,142,993	2,362,689
Income from collection of loans	2,006,242	1,899,313
Income from interest on purchased loans	191,189	185,971
Income from interest on loans	437,258	368,093
Loan origination fees and other revenues	67	54
Income from insurance premiums	1,809	2,960
Income from riders on group credit life insurance	63,673	59,578
Income from group credit life insurance	2,755	2,713
Dividends received from group credit life insurance	11,267	14,523
Income from other operations	24,505	23,685
Income from treasury subsidies	23,800	23,624
Outlays on the repayment of treasury subsidies	△ 25,839	△ 64,040
Subtotal	1,225,039	1,318,004
Interest and dividends received	72,087	56,745
Interest paid	△ 524,548	△ 439,108
Cash flow from operating activities	772,577	935,641
II . Cash flow from investing activities		
Outlays on acquisition of securities (bonds)	△ 36,904	△ 69,425
Income from redemption of securities (bonds)	426,596	170,411
Net change in securities (certificates of deposits) (△ indicates negative amount.)	137,000	91,000
Outlays on acquisition of tangible fixed assets	△ 2,053	△ 1,948
Gain on disposal of tangible fixed assets	310	3,515
Outlays on acquisition of intangible fixed assets	△ 5,197	△ 2,117
Outlays on depositing of term deposit	△ 120,000	△ 99,000
Income from withdrawal of term deposit	50,000	169,000
Outlays on increase of monetary trusts	△ 0	—
Income from decrease of monetary trusts	88,868	124,035
Other income	△ 93	10
Cash flow from investing activities	538,529	385,481
III . Cash flow from financing activities		
Income from long-term borrowings from private institutions	112,700	126,000
Outlays on payment of long-term borrowings from private institutions	△ 79,050	△ 68,400
Income from issuance of bonds (after deducting insurance expense)	2,474,259	2,983,171
Outlays on redemption of bonds	△ 1,506,654	△ 2,271,986
Income from FILP borrowings	39,600	35,000
Outlays on payment of FILP borrowings	△ 2,110,300	△ 1,834,292
Outlays on payment of lease obligation	△ 715	△ 660
Outlays for return to the national treasury concerning unnecessary estates	△ 120	△ 3,214
Cash flow from financing activities	△ 1,070,281	△ 1,034,381
IV . Increase in cash	240,825	286,741
V . Opening balance of cash	359,245	600,070
VI . Closing balance of cash	600,070	886,811

Statement of Administrative Cost Calculations

(Unit: million yen)

Item	FY2015	FY2016
I . Operating expenses		
(1) Expenses recorded in income statement		
Fund raising expenses	451,896	380,504
Insurance underwriting expenses	92,681	89,118
Service transaction expenses	26,573	25,653
Other operating expenses	12,334	14,519
Business expenses	27,319	31,180
Other ordinary expenses	2,078	5,191
Loss on disposal of tangible fixed assets	599	103
Impairment loss	1,571	283
Subtotal	615,050	546,551
(2) (Deduction) Non-subsidy revenues etc.		
Income from asset management	△ 636,919	△ 559,742
Income from insurance underwriting	△ 85,509	△ 84,763
Income from service transactions etc.	△ 666	△ 608
Income from other operating activities	△ 42	△ 36
Other ordinary income	△ 12,342	△ 10,924
Gain on disposal of tangible fixed assets	—	△ 1,838
Reimbursement from insolvent customers based on restructuring plan	△ 147	△ 47
Subtotal	△ 735,625	△ 657,959
Total operating expenses	△ 120,575	△ 111,407
II . Differences on removal/sales not recorded in income statement	△ 532	—
III . Expected increase in retirement benefits not recorded in allowances	6	6
IV . Opportunity costs		
Opportunity costs related to items such as central and local government injection monies	—	461
V . (Deduction) Payment for corporation tax and return to the national treasury	△ 120	△ 120
VI . Administrative cost	△ 121,222	△ 111,061

Significant Accounting Policies (Overall Agency)

- 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.
- Depreciation
 - 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
 - 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.
- Criteria for reporting Reserves
 - 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.
 - 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.
 - 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.
 - 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.

- 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: 2015) is recorded.
- 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.
- Method for Valuing Financial Derivative Products (Derivative Transactions)

The market value method is applied.
- 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: 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.
- Depreciation of Bond Issue Premiums

Bond issue premiums are amortized using a straight-line method over the maturity of the bond.
- 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, with reference to the Japanese government 10-year fixed-rate bond yield as of the end of March 2017, 0.065% was applied.
- 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.
- 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	13,022,585,000,616	MBS	10,754,895,668,380
Housing Loan Account	Loans	17,923,146,189	MBS	19,162,320,969
Outstanding Loan Management Account	Loans	1,474,775,469,064	MBS	1,350,334,856,651
Total		14,515,283,615,869		12,124,392,846,000

(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: 886,811,101,127 yen

Closing balance of cash: 886,811,101,127 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 FY2016 were both 20,360,010 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	31,151,099,914 yen
Service cost	695,687,500
Interest cost	153,391,746
Current term's actuarial difference	△ 61,082,888
Retirement benefit payment	△ 992,979,155
Current term's prior service cost	0
Contribution from participants	0
Closing balance of retirement benefit obligations	30,946,117,117

② Adjustment table for opening balance and closing balance of pension assets	
Opening balance of pension assets	16,535,711,741 yen
Expected return on plan assets	274,265,730
Current term's actuarial difference	△ 19,579,593
Contribution by employer	362,416,220
Retirement benefit payment	△ 518,674,355
Contribution from participants	0
Closing balance of pension assets	16,634,139,743

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	20,151,010,085 yen
Pension assets	△ 16,634,139,743
Unfunded retirement benefit obligations under reserve system	3,516,870,342
Unfunded retirement benefit obligations under non-reserve system	10,795,107,032
Subtotal	14,311,977,374
Unrecognized actuarial difference	△ 2,982,451,235
Unrecognized prior service cost	1,648,351,506
Net asset and liabilities amount recorded on balance sheet	12,977,877,645
Reserve for retirement benefits	12,977,877,645
Prepaid pension costs	0
Net asset and liabilities amount recorded on balance sheet	12,977,877,645

④ Retirement benefit-related income	
Service cost	695,687,500 yen
Interest cost	153,391,746
Expected return on plan assets	△ 274,265,730
Current term's amortization of actuarial differences	540,998,878
Current term's amortization of prior service cost	△ 251,925,590
Extra retirement benefits extraordinarily paid	0
Total	863,886,804

⑤ Primary breakdown of pension assets	
Ratio of primary categories for total pension assets is as follows:	
Bonds	63%
Stock	23%
General account	14%
Cash and deposits	1%
Total	100%

*As the numbers are rounded off, the total is not 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.

⑦ 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 45,767,698 yen.

5. Impairment losses on fixed assets

(1) Assets in which impairment is recognized

Impairment of the employee dormitories 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	Yachiyo Dorm	33,397,000	64,603,000	98,000,000	144,746,202	105,397,000
2	Kyushu	Ozasa Dorm No. 1	0	54,000,000	54,000,000	27,387,411	5,200,000
Total			33,397,000	118,603,000	152,000,000	172,133,613	110,597,000

(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) and the branch office in the table below were recognized since they are to be abolished by the end of FY2020.

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		
			Buildings	Lands	Total
1	Head office	Yatsuo Dorm	178,429,806		279,000,000
2	Hokkaido	Makomanai Dorm	140,594,530		84,400,000
3	Hokkaido	Asabu Dorm	53,542,456		91,700,000
4	Tokai	Ogimachi Dorm	172,532,916		304,000,000
5	Kinki	Nagai Dorm	162,044,937		338,000,000
6	Kinki	Nishinomiya Dorm	155,823,969		283,000,000
7	Hokuriku	Nukashin Dorm 1A	8,861,714		22,700,000
8	Hokuriku	Nukashin Dorm 1B	9,449,421		21,400,000
9	Shikoku	Showa Dorm	35,504,178		57,600,000
10	Shikoku	Miyawaki Dorm	32,999,951		41,300,000
11	Chugoku	Hijiyama Dorm	28,190,523		138,000,000
12	Chugoku	Itsukaichi Dorm	65,480,455		87,910,000
13	Tohoku	Hachiman Dorm No. 3	42,548,478		83,840,000
14	Tohoku	Hachiman Dorm No. 4	83,960,551		64,400,000
15	Kyushu	Suzenji Dorm No. 1	40,976,636		50,000,000
16	Kyushu	Obyama Dorm	16,563,544		23,600,000
17	Kyushu	Nishinji Dorm No. 1	6,412,254		73,700,000
18	Kyushu	Takatori Dorm	15,087,224		165,000,000
19	Kyushu	Ozasa Dorm No. 2	139,239,059		118,000,000
Total			1,388,242,602		2,327,550,000

(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			
		Buildings	Lands	Total	
1	Shikoku	Bancho, Takamatsu-shi	64,934,531	171,000,000	235,934,531
Total			64,934,531	171,000,000	235,934,531

(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 Basic Risk Management Rules 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, 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 credit risk management

JHF's risk management division, which is independent from the funding management division, sets the counterparty credit 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	886,811,101,127	886,811,101,127	0
(2) Money in trust	556,720,763,427	561,940,846,413	5,220,082,986
(3) Securities			
Securities held to maturity	648,409,172,188	693,424,455,530	45,015,283,342
Other securities	478,000,000,000	478,000,000,000	0
(4) Purchased loans	13,661,581,739,495		
Reserve for possible loan losses (*1)	△ 50,702,751,053		
	13,610,878,988,442	14,202,232,929,714	591,353,941,272
(5) Loans	9,673,015,058,324		
Reserve for possible loan losses (*1)	△ 140,323,937,044		
	9,532,691,121,280	10,673,399,674,739	1,140,708,553,459
(6) Claims for indemnity (*1)	2,828,008,387	2,828,008,387	0
(7) Transferred claims (from pension) (*1)	56,074,732,981	62,789,114,418	6,714,381,437
Total assets	25,772,413,887,832	27,561,426,130,328	1,789,012,242,496
(1) Borrowings	7,297,940,718,000	7,712,455,250,386	414,514,532,386
(2) Bonds(*2)	16,047,978,051,972	16,792,446,174,102	744,468,122,130
(3) Accounts payable	275,659,730,000	275,659,730,000	0
Total liabilities	23,621,578,499,972	24,780,561,154,488	1,158,982,654,516
Financial derivative products (*3)	(3,614,836,888)	(3,614,836,888)	0
Total financial derivative products	(3,614,836,888)	(3,614,836,888)	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 en 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) 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 housing 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.

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	177,316,525,176	202,104,617,450	24,788,092,274
	Municipal bonds	150,236,720,841	160,463,994,280	10,227,273,439
	Government guaranteed bonds	25,909,622,021	27,050,850,800	1,141,228,779
	Corporate bonds	234,159,115,006	243,396,699,000	9,237,583,994
	Subtotal	587,621,983,044	633,016,161,530	45,394,178,486
Securities whose market price does not exceed the book value on the balance sheet	Government bonds	102,545,139	92,780,000	△ 9,765,139
	Municipal bonds	12,776,280,360	12,592,840,000	△ 183,440,360
	Government guaranteed bonds	0	0	0
	Corporate bonds	47,908,363,645	47,722,674,000	△ 185,689,645
	Subtotal	60,787,189,144	60,408,294,000	△ 378,895,144
Total		648,409,172,188	693,424,455,530	45,015,283,342

(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	478,000,000,000	478,000,000,000	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: 3,213,641,611 yen

(2) Cause of becoming unnecessary assets

For the capital executed by FY2015, 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

3,213,641,611 yen

(5) Date of return to the National Treasury

March 30, 2017

(6) Amount of reduction in capital

3,093,290,000 yen