

Financial Statements

The FY2017 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 FY2017, the gross profit of the overall agency was 196.2 billion yen, and decreased of 6.3 billion yen from FY2016.

This is primarily due to the factors for the decrease resulting from the decrease in outstanding loans in the Outstanding Loans Management Account, and the like, predominating over the factors for the increase resulting from the increase of outstanding purchased loans in the Securitization Support Account, and the like.

Balance Sheet

(Unit: million yen)

Item	FY2016	FY2017	Item	FY2016	FY2017
(Assets)			(Liabilities)		
Cash and due from banks	886,811	840,034	Borrowings	7,297,941	5,892,620
Cash	1	1	FILP borrowings	7,118,491	5,628,970
Due from banks	753,350	754,631	Borrowings from private institutions	179,450	263,650
Agency deposit entrusted	133,460	85,402	Bonds	16,047,978	17,017,056
Money in trust	556,721	243,380	Mortgage-backed securities	12,124,393	12,742,035
Securities	1,126,409	1,043,360	General lien bonds	2,864,400	3,214,200
Government bonds	177,419	175,285	Property accumulation saving scheme-tied housing bonds	250,800	211,600
Local government bonds	163,013	164,382	Housing land bonds	808,702	849,439
Government guaranteed bonds	25,910	21,768	Bond issue premiums (△)	△ 317	△ 218
Corporate bonds	282,067	214,925	Insurance policy reserves	53,654	47,561
Certificates of deposit	478,000	467,000	Reserve for outstanding claims	20	22
Purchased loans	13,661,582	14,797,926	Policy reserves	53,634	47,539
Loans	9,673,015	8,472,315	Subsidies reserves	553,946	408,156
Loans on bills	51,006	43,979	Subsidies payable for emergency measures to facilitate housing finance	276,238	187,022
Loan on deed	9,622,009	8,428,336	Subsidies payable for promotion projects for development of high-quality housings	93,007	79,462
Other assets	200,236	151,472	Subsidies payable for emergency measures including loans for recovery from disasters	184,701	141,672
Claims for indemnity	8,319	7,082	Other liabilities	429,129	350,100
Transferred claims (pension)	57,022	48,531	Accrued expenses	44,723	39,629
Accrued revenues	37,542	34,160	Advanced earnings	33,699	30,762
Financial derivative products	55,605	27,902	Financial derivative products	59,220	29,801
Financial derivative product loss carried forward	20,148	16,151	Financial derivative product gain carried forward	5,098	4,031
Accrued insurance premiums	555	784	Accounts payable	275,660	234,195
Other assets	21,044	16,861	Other liabilities	10,731	11,682
Tangible fixed assets	30,380	29,655	Bonus payment reserves	628	648
Buildings	19,143	18,844	Allowance for retirement benefits	12,978	12,210
Accumulated depreciation (△)	△ 5,275	△ 5,866	Allowance for refund of guarantee fees	5,568	3,773
Accumulated impairment loss (△)	△ 172	△ 3	Guarantee obligation	379,142	457,421
Lands	16,381	16,128			
Accumulated impairment loss (△)	△ 111	△ 55	Total liabilities	24,780,964	24,189,545
Other tangible fixed assets	1,226	1,146			
Accumulated depreciation (△)	△ 812	△ 541	(Net assets)		
Accumulated impairment loss (△)	△ 0	△ 0	Capital	708,642	701,475
Intangible fixed assets	6,522	11,576	Government injection monies	708,642	701,475
Software	2,020	11,168	Capital surplus	381	381
Software in process account	4,502	408	Capital surplus	381	381
Guarantee obligation reversal	379,142	457,421	Surplus carried forward	831,427	973,932
Reserve for possible loan losses (△)	△ 200,602	△ 182,853	Valuation and conversion adjustments	△ 1,198	△ 1,047
			Deferred gains or losses on hedges	△ 1,198	△ 1,047
			Total net assets	1,539,252	1,674,742
Total assets	26,320,216	25,864,287	Total liabilities and net assets	26,320,216	25,864,287

Income Statement

(Unit: million yen)

Item	FY2016	FY2017
Ordinary income	737,607	668,486
Income from asset management	559,742	502,182
Interest on purchased loans	185,358	183,534
Interest on GHLC originated loans	362,718	308,550
Changes on claims for indemnity etc.	49	104
Interest on transferred claims (pension)	2,168	1,830
Interest and dividends on securities	9,441	8,157
Interest on deposits	7	8
Income from underwriting insurance	84,763	82,925
Net insurance premium revenue	3,224	4,507
Reimbursement of unused policy reserve	2,403	6,095
Fee from riders on group credit life insurance	61,706	58,829
Revenue from group credit life insurance	2,775	2,674
Dividends on group credit life insurance	14,655	10,820
Income from service transactions	608	519
Guarantee fee	123	103
Other income from services	486	415
Income from subsidies	81,533	75,435
Subsidies for emergency measures to facilitate housing finance	40,573	33,266
Subsidies for promotion projects for development of high-quality housing	34,691	36,275
Subsidies for emergency measures including loans for recovery from disasters	6,269	5,893
Income from other operating activities	36	40
Contract termination fees	36	40
Other ordinary income	10,924	7,385
Reversal of reserve from refund of guarantee fees	2,075	1,338
Reversal of reserve from mortgage transfer registration	583	—
Income from written-off claims recovered	4,046	4,475
Other ordinary income	4,220	1,573
Ordinary expenses	546,165	481,626
Fund raising expenses	380,504	321,494
Interest on borrowings	184,978	143,361
Interest on bonds	194,776	177,523
Other interest paid	750	611
Insurance underwriting expenses	89,118	78,948
Net insurance paid	2,278	1,163
Unused reserve for outstanding claims carried over	8	2
Group credit insurance premium paid	84,004	75,119
Payment of group credit life insurance claims	2,828	2,664
Service transaction expenses	25,653	24,668
Service expenses	25,653	24,668
Other operating expenses	14,519	11,196
Amortization of bond issuing expenses	9,271	8,262
Financial derivative products expenses	5,248	2,934
Business expenses	31,180	35,426
Business expenses	31,180	35,426
Other ordinary expenses	5,191	9,894
Provision for reserve for possible loan losses	3,049	8,603
Other ordinary expenses	2,142	1,291
Ordinary income	191,442	186,859
Extraordinary income	1,885	453
Income from disposal of tangible fixed assets	1,838	125
Other extraordinary income	47	328
Reimbursement from insolvent customers based on restructuring plan	47	201
Gain on transfer of the substitutional portion of the Employee Pension Fund	—	128
Extraordinary losses	386	108
Loss on disposal of tangible fixed assets	103	51
Impairment loss	283	57
Net income	192,941	187,205
Transfer from reserve of previous mid-term target	9,596	9,023
Gross income	202,537	196,227

Cash Flows Statement

(Unit: million yen)

Item	FY2016	FY2017
I . Cash flow from operating activities		
Outlays on the purchase of loans	△ 3,209,741	△ 2,557,080
Loan disbursement	△ 203,313	△ 198,659
Outlays on personnel expenses	△ 10,059	△ 9,980
Outlays on insurance	△ 2,278	△ 1,163
Outlays on group credit life insurance premium	△ 84,364	△ 75,767
Outlays on payment on group credit life insurance claims	△ 2,832	△ 2,672
Other operating outlays	△ 48,571	△ 48,244
Income from collection of purchased loans	2,362,689	1,371,291
Income from collection of loans	1,899,313	1,382,165
Income from interest on purchased loans	185,971	182,799
Income from interest on loans	368,093	312,537
Loan origination fees and other revenues	54	0
Income from insurance premiums	2,960	4,272
Income from riders on group credit life insurance	59,578	55,956
Income from group credit life insurance	2,713	2,702
Dividends received from group credit life insurance	14,523	14,655
Income from other operations	23,685	18,943
Income from treasury subsidies	23,624	25,310
Outlays on the repayment of treasury subsidies	△ 64,040	△ 98,711
Subtotal	1,318,004	378,353
Interest and dividends received	56,745	37,307
Interest paid	△ 439,108	△ 356,886
Payment to national treasury paid	—	△ 44,700
Cash flow from operating activities	935,641	14,073
II . Cash flow from investing activities		
Outlays on acquisition of securities (bonds)	△ 69,425	△ 29,719
Income from redemption of securities (bonds)	170,411	101,400
Net change in securities (certificates of deposits) (△ indicates negative amount.)	91,000	11,000
Outlays on acquisition of tangible fixed assets	△ 1,948	△ 78
Gain on disposal of tangible fixed assets	3,515	267
Outlays on acquisition of intangible fixed assets	△ 2,117	△ 6,140
Outlays on depositing of term deposit	△ 99,000	—
Income from withdrawal of term deposit	169,000	—
Income from decrease of monetary trusts	124,035	314,500
Other expenses	—	△ 7
Other income	10	—
Cash flow from investing activities	385,481	391,223
III . Cash flow from financing activities		
Income from long-term borrowings from private institutions	126,000	142,400
Outlays on payment of long-term borrowings from private institutions	△ 68,400	△ 58,200
Income from issuance of bonds (after deducting insurance expense)	2,983,171	2,665,424
Outlays on redemption of bonds	△ 2,271,986	△ 1,704,707
Income from FILP borrowings	35,000	39,500
Outlays on payment of FILP borrowings	△ 1,834,292	△ 1,529,020
Outlays on payment of lease obligation	△ 660	△ 184
Outlays for return to the national treasury concerning unnecessary estates	△ 3,214	△ 7,286
Cash flow from financing activities	△ 1,034,381	△ 452,074
IV . Increase in cash (or decrease)	286,741	△ 46,777
V . Opening balance of cash	600,070	886,811
VI . Closing balance of cash	886,811	840,034

Statement of Administrative Cost Calculations

(Unit: million yen)

Item	FY2016	FY2017
I . Operating expenses		
(1) Expenses recorded in income statement		
Fund raising expenses	380,504	321,494
Insurance underwriting expenses	89,118	78,948
Service transaction expenses	25,653	24,668
Other operating expenses	14,519	11,196
Business expenses	31,180	35,426
Other ordinary expenses	5,191	9,894
Loss on disposal of tangible fixed assets	103	51
Impairment loss	283	57
Subtotal	546,551	481,734
(2) (Deduction) Non-subsidy revenues etc.		
Income from asset management	△ 559,742	△ 502,182
Income from insurance underwriting	△ 84,763	△ 82,925
Income from service transactions etc.	△ 608	△ 519
Income from other operating activities	△ 36	△ 40
Other ordinary income	△ 10,924	△ 7,385
Gain on disposal of tangible fixed assets	△ 1,838	△ 125
Reimbursement from insolvent customers based on restructuring plan	△ 47	△ 201
Gain on transfer of substitutional portion of the Employees' Pension Fund	—	△ 128
Subtotal	△ 657,959	△ 593,504
Total operating expenses	△ 111,407	△ 111,770
II . Expected increase in retirement benefits not recorded in allowances	6	6
III . Opportunity costs		
Opportunity costs related to items such as central and local government injection monies	461	316
IV . (Deduction) Payment for corporation tax and return to the national treasury	△ 120	△ 120
V . Administrative cost	△ 111,061	△ 111,568

Significant Accounting Policies (Overall Agency)

- 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), 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), and Insurance relations stipulated by Article 20, paragraph 2 of the Act to Promote the Supply of Rental Housing for People Who Require Consideration in Securing Housing (Law No. 112 of 2007), the amount calculated by the method designated by the competent minister in accordance with Article 13 of the Ministerial Ordinance Related to 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 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 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 2018, 0.045% 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	14,171,854,148,046	MBS	11,560,125,599,221
Housing Loan Account	Loans	15,547,951,237	MBS	16,235,321,959
Outstanding Loan Management Account	Loans	1,282,855,775,610	MBS	1,165,674,499,820
Total		15,470,257,874,893		12,742,035,421,000

(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: 840,033,705,693 yen
Closing balance of cash: 840,033,705,693 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 FY2017 were both 323,568,219 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, and completed repayment to the government on September 22, 2017. With this, JHF recorded the balance between the amount paid and the minimum liability reserve, 127,650,380 yen, in extraordinary income, as gain on transfer of substitutional portion of the Employees' Pension Fund.

(2) Defined-benefit system

① Reconciliation of opening balance and closing balance of retirement benefit obligations	
Opening balance of retirement benefit obligations	30,946,117,117 yen
Service cost	737,814,300
Interest cost	146,290,456
Current term's actuarial difference	125,945,218
Retirement benefit payment	△ 1,727,588,582
Current term's prior service cost	1,342,335,514
Contribution from participants	0
Decrease as a result of return of a substitutional portion of the Employee Pension Fund	△ 6,678,099,037
Closing balance of retirement benefit obligations	24,892,814,986
② Adjustment table for opening balance and closing balance of pension assets	
Opening balance of pension assets	16,634,139,743 yen
Expected return on plan assets	252,092,277
Current term's actuarial difference	173,742,937
Contribution by employer	360,294,880
Retirement benefit payment	△ 531,101,482
Contribution from participants	0
Decrease as a result of return of a substitutional portion of the Employee Pension Fund	△ 6,550,448,657
Closing balance of pension assets	10,338,719,698
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	13,367,742,602 yen
Pension assets	△ 10,338,719,698
Unfunded retirement benefit obligations under reserve system	3,029,022,904
Unfunded retirement benefit obligations under non-reserve system	11,525,072,384
Subtotal	14,554,095,288
Unrecognized actuarial difference	△ 2,397,804,973
Unrecognized prior service cost	54,090,402
Net asset and liabilities amount recorded on balance sheet	12,210,380,717
Reserve for retirement benefits	12,210,380,717
Prepaid pension costs	0
Net asset and liabilities amount recorded on balance sheet	12,210,380,717
④ Retirement benefit-related income	
Service cost	737,814,300 yen
Interest cost	146,290,456
Expected return on plan assets	△ 252,092,277
Current term's amortization of actuarial differences	536,848,543
Current term's amortization of prior service cost	△ 251,925,590
Extra retirement benefits extraordinarily paid	0
Total	916,935,432
Gain on transfer of a substitutional portion of the Employee Pension Fund	△ 127,650,380
⑤ Primary breakdown of pension assets	
Ratio of primary categories for total pension assets is as follows:	
Bonds	62%
Stock	24%
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 45,227,053 yen.

5. Impairment losses on fixed assets

(1) Assets in which impairment is recognized

Impairment of the employee dormitories and the branch office 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>

(Unit: yen)

JHF branch	Dormitory	Location	Book value			Impairment	
			Buildings	Lands	Total	Buildings	Lands
1 Hokkaido	Makomanai Dorm	Minami-ku, Sapporo-shi	135,469,861	64,300,000	199,769,861	0	20,100,000
2 Hokkaido	Asou Dorm	Kita-ku, Sapporo-shi	50,148,661	91,700,000	141,848,661	0	0
3 Tokai	Oogimachi Dorm	Melto-ku, Nagoya-shi	164,438,619	304,000,000	468,438,619	0	0
4 Kinki	Nagai Dorm	Sumiyoshi-ku, Osaka-shi	155,631,184	333,000,000	488,631,184	0	5,000,000
5 Kinki	Nishinomiya Dorm	Nishinomiya-shi	151,591,128	283,000,000	434,591,128	0	0
6 Hokuriku	Nukashin Dorm 1A	Kanazawa-shi	7,760,000	16,800,000	24,560,000	223,164	5,900,000
7 Hokuriku	Nukashin Dorm 1B	Kanazawa-shi	8,731,572	15,800,000	24,531,572	0	5,600,000
		Total	673,771,025	1,108,600,000	1,782,371,025	223,164	36,600,000

<JHF Branch>

(Unit: yen)

JHF branch	Location	Book value			Impairment	
		Buildings	Lands	Total	Buildings	Lands
1 Shikoku	Bancho, Takamatsu-shi	58,100,000	153,000,000	211,100,000	2,623,057	18,000,000
	Total	58,100,000	153,000,000	211,100,000	2,623,057	18,000,000

(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 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>

(Unit: yen)

JHF branch	Dormitory	Location	Book value		
			Buildings	Lands	Total
1 Head office	Yatsu Dorm	Narashino-shi	171,170,868		279,000,000
2 Shikoku	Showa Dorm	Takamatsu-shi	33,972,736		57,600,000
3 Shikoku	Miyawaki Dorm	Takamatsu-shi	31,807,877		41,300,000
4 Chugoku	Hijiyama Dorm	Minami-ku, Hiroshima-shi	26,210,177		138,000,000
5 Chugoku	Itsuokaichi Dorm	Saeki-ku, Hiroshima-shi	62,763,107		87,910,000
6 Tohoku	Hachiman Dorm No. 3	Aoba-ku, Sendai-shi	40,094,890		83,840,000
7 Tohoku	Hachiman Dorm No. 4	Aoba-ku, Sendai-shi	81,446,398		64,400,000
8 Kyushu	Suzenji Dorm No. 1	Chuo-ku, Kumamoto-shi	38,937,132		50,000,000
9 Kyushu	Nishijin Dorm No. 1	Sawara-ku, Fukuoka-shi	5,821,525		73,700,000
10 Kyushu	Takatori Dorm	Sawara-ku, Fukuoka-shi	13,880,865		165,000,000
11 Kyushu	Ozasa Dorm No. 2	Chuo-ku, Fukuoka-shi	134,235,414		118,000,000
		Total	640,241,989		1,158,750,000

(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.

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 the 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 the 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, the 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.

(Unit: yen)

	Book value on the value sheet	Market price	Difference
(1) Cash and due from banks	840,033,705,693	840,033,705,693	0
(2) Money in trust	243,380,425,238	247,352,011,655	3,971,586,417
(3) Securities			
Securities held to maturity	576,360,182,177	615,120,670,365	38,760,488,188
Other securities	467,000,000,000	467,000,000,000	0
(4) Purchased loans	14,797,925,994,206		
Reserve for possible loan losses (Note1)	△ 50,295,904,588		
	14,747,630,089,618	14,910,482,570,326	162,852,480,708
(5) Loans	8,472,315,301,139		
Reserve for possible loan losses (Note1)	△ 124,248,187,966		
	8,348,067,113,173	9,358,763,498,309	1,010,696,385,136
(6) Claims for indemnity (Note1)	2,200,764,453	2,200,764,453	0
(7) Transferred claims (from pension) (Note1)	47,716,881,545	53,230,213,515	5,513,331,970
Total assets	25,272,389,161,897	26,494,183,434,316	1,221,794,272,419
(1) Borrowings	5,892,620,268,000	6,168,040,263,818	275,419,995,818
(2) Bonds (Note2)	17,017,056,309,261	17,701,250,174,221	684,193,864,960
(3) Accounts payable	234,195,190,000	234,195,190,000	0
Total liabilities	23,143,871,767,261	24,103,485,628,039	959,613,860,778
Financial derivative products (Note3)	(1,899,000,861)	(1,899,000,861)	0
Total financial derivative products	(1,899,000,861)	(1,899,000,861)	0

(Note1) 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.

(Note2) Since bond issue premiums are less important, the values are subtracted directly from the amounts on the balance sheet.

(Note3) 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) 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.

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	175,182,815,454	197,543,638,305	22,360,822,851
	Municipal bonds	150,995,860,455	159,872,578,060	8,876,717,605
	Government guaranteed bonds	21,767,694,370	22,777,929,000	1,010,234,630
	Corporate bonds	151,706,594,380	158,506,563,000	6,799,968,620
	Subtotal	499,652,964,659	538,700,708,365	39,047,743,706
Securities whose market price does not exceed the book value on the balance sheet	Government bonds	102,412,826	95,780,000	△ 6,632,826
	Municipal bonds	13,386,274,050	13,255,912,000	△ 130,362,050
	Government guaranteed bonds	0	0	0
	Corporate bonds	63,218,530,642	63,068,270,000	△ 150,260,642
	Subtotal	76,707,217,518	76,419,962,000	△ 287,255,518
Total		576,360,182,177	615,120,670,365	38,760,488,188

(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	467,000,000,000	467,000,000,000	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: 7,286,443,864 yen

(2) Cause of becoming unnecessary assets

For the capital executed by FY2016, 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

7,286,443,864 yen

(5) Date of return to the National Treasury

March 29, 2018

(6) Amount of reduction in capital

7,166,580,000 yen