

Basic Policy on Internal Governance

To realize its management concept, the Japan Housing Finance Agency (“JHF”) establishes the following internal governance systems to secure proper implementation of our business.

1. Systems to ensure all executives and employees implement their business in compliance with laws, rules and regulations.

- (1) Establishment of a compliance charter
 - The President shall establish a compliance charter based on observance of laws, rules, and regulations in order to set codes of conduct to realize JHF’s management philosophy and to enforce business conducts with its basic mission and social responsibility in mind.
- (2) Compliance enforcement system
 - i. The President shall establish and head a Compliance Committee to discuss and decide important compliance matters.
 - ii. The President shall develop rules for compliance and establish a department to oversee compliance as well as appoint an executive officer responsible for developing an agency-wide compliance enforcement system.
 - iii. The President shall create a Compliance Program each fiscal year, make it acknowledged by all employees, and promote systematic measures to establish compliance. The President shall regularly implement an intermediate inspection on how the program is conducted and make revisions if necessary, and also check employees’ awareness of compliance to reflect the results to the Compliance Program.
The President shall also create a compliance manual that sets out specific guidelines for realizing compliance and distribute it to all employees as well as conduct compliance training.
 - iv. The President shall assign a compliance activities enforcement officer in each department to promote compliance activities.
 - v. Executives and employees shall take an uncompromising stance against all forces that threaten social order and safety.
- (3) System for dealing with compliance violations
 - i. The President shall establish a system that enable prompt reporting to the department in charge of compliance when an executive or employee identifies cases that are or may be compliance violations.
 - ii. Aiming at the prevention, early detection and correction of compliance violations, the President shall set up a compliance helpline that allows employees to directly consult with or report to the department in charge of compliance or outside consultation services.
 - iii. When the department in charge of compliance is consulted upon or informed about a case violating compliance, it shall investigate the consultation and the information, discuss the case with the relevant department and take countermeasures.
- (4) Sanction for violations
 - If an executive or employee has violated laws or regulations, disciplinary action shall be taken against that person in accordance with the regulations concerning disciplinary action.
- (5) Internal audit
 - i. The President shall establish Internal Auditing Department that is independent of other departments which reports directly to the President.
 - ii. The Internal Audit Department shall carry out internal audits based on internal audit regulations and report the results to the President.

2. Systems to manage matters related to customer protection and the storage and management of information on executing duties by executives and employees.

- (1) Ensure a system for managing customer protection-related matters
 - i. The President shall establish regulations for explanations to customers and ensure a system for providing customers with proper and adequate explanations and information on JHF products and services.
 - ii. The President shall establish regulations for customer support management and ensure a system for proper and adequate responses to consultations, requests and complaints.
 - iii. The President shall establish regulations for customer information management and ensure a system for proper management of customer information such as preventing leaks of customer information.
- (2) Privacy policy
 - The President shall establish a privacy policy for proper handling of customer information as well as establish information security regulations so that information including customer information are used and managed properly.
- (3) Establishment of document management regulations
 - i. The President shall establish regulations for document management for the storage and management of information by executives and employees in the course of executing their duties.
 - ii. Auditor inspections
 - Auditor shall have access to all documents as necessary.

3. Regulations and other systems for risk management of losses

- (1) Establishment of risk management regulations
 - The President shall establish risk management regulations to manage risks properly.
- (2) Development of risk management systems
 - i. The President shall comprehensively manage risks by identifying the risks inherent to JHF business activities and their specific types and natures.
 - ii. The President shall manage risks categorized as “credit risks”, “guarantee risks”, “insurance risks”, “market risks”, “counterparty risks”, “liquidity risks” and “operational risks” and, as necessary, identify important new categories of risk that should be managed according to their importance.
 - iii. The President shall establish the necessary risk management committees to properly deal with each category of risk.
 - iv. The President shall assign a department in charge of integrated risk management and assign an executive to supervise that work and acts to maintain an organizational and cross-sectional risk management system and identify problems.

v. Board of Directors shall evaluate integrated risk management and the inherent risks in new businesses and products.

- (3) Preparation of emergency measures
 - The President shall take the proper precautionary measures for emergencies such as major impediments and defects, major information leaks, serious losses of trust and disasters. Additionally, the President shall undertake appropriate emergency measures when a disaster or other crisis occurs in order to resume business activities as early as possible.

4. Systems to ensure that executives and employees carry out their work duties effectively

- (1) Mandate administrative authority and decision making rules
 - The President shall establish regulations for organization and document approvals to clarify administrative authority and decision-making rules.
- (2) Establishment of Board of Directors
 - The President shall set up Board of Directors with which to discuss important management matters and contribute to the President’s decision making.
- (3) Setting of performance targets and budgets for each area of business based on the Annual Plan
 - i. The President shall set specific targets, concrete actions, and budgets for each area of business in order to achieve the Annual Plan.
 - ii. In principle, the President shall assign priorities for new product development, system investments and new businesses based on contribution to the achievement of Annual Plan.
 - iii. The President shall undertake efficient allocation of human resources to each department.
 - iv. The executive officers responsible for each department shall determine concrete measures and effective systems for conducting business for their responsible departments within their responsibilities.
- (4) Quarterly management review of the Annual Plan
 - i. The executive officer in charge of the Corporate Strategy Department shall carry out a quarterly internal review of the Annual Plan and report the results to the Board of Directors.
 - ii. The President shall reexamine or set the concrete measures to be taken in individual departments or improve the work systems in the departments based on the results in i) above.
- (5) Appointment of a Chief Information Officer
 - The President shall appoint a Chief Information Officer responsible for general operations in order to optimize JHF business processes and system structures.

5. Internal audit system to ensure appropriate business operations

- (1) Establishment of a department in charge of internal audit
 - The President shall establish a direct internal audit department that is independent of other departments.
- (2) Implementation of internal audit
 - The internal audit department shall implement such audit based on related rules and regulations, and report the results to the President.

6. System for the employees assigned to assist Auditor Generals and their independence from the President

- (1) Assistant Auditor Generals
 - Assistant Auditor Generals will be assigned to support auditory work exclusively.
- (2) Independence of employees assisting Auditor Generals
 - i. Auditor Generals shall be consulted in advance regarding personnel transfers of their assistants.
 - ii. Auditor Generals shall be consulted in advance regarding the consideration of disciplinary action against their assistants.

7. Systems for executives and employees to report to Auditor Generals

- (1) Establish guidelines for auditing inspections
 - i. In order to ensure a smooth audit, executives and employees shall promptly cooperate with Auditor Generals or their assistant when asked to provide the necessary explanations or materials based on auditing inspection guidelines.
 - ii. Auditor Generals shall be able to attend Board Meetings or other important committees to make a suggestion.
 - iii. Executives and employees shall circulate to Auditor Generals any important documents or materials stipulated in the auditing guidelines.
- (2) Reports to Auditor Generals or is the subject of whistle blowing from either internal or external sources.
 - Auditor Generals shall be immediately informed when an employee has violated the law or caused an incident that significantly affects business operations

8. Other systems to ensure effective audits

- (1) Opinion exchanges between the President and Auditor Generals
 - Auditor Generals can exchange opinions with the President at any time.
- (2) Coordination with other auditing organizations
 - i. Auditor Generals will coordinate closely with the internal audit department in order to make use of those department’s internal audits as well as request explanations and reports from the internal department.
 - ii. Auditor Generals will coordinate closely with accounting auditors and actively exchange information as well as request explanations and reports on auditing plans, systems, methods and results from accounting auditors.

9. Establishment of a PDCA cycle in internal control

- (1) The director in charge of the management and planning department shall check on internal control every quarter and report the results.
- (2) Based on the results in (1), the President shall improve the structure on internal control and review the fundamental policy on internal control if necessary.