

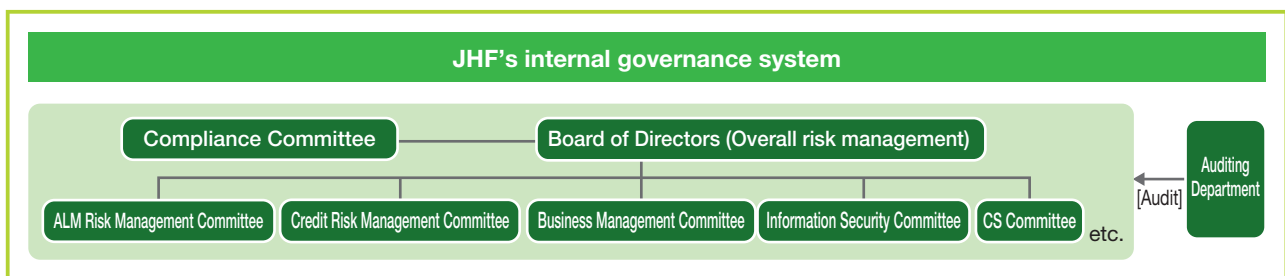
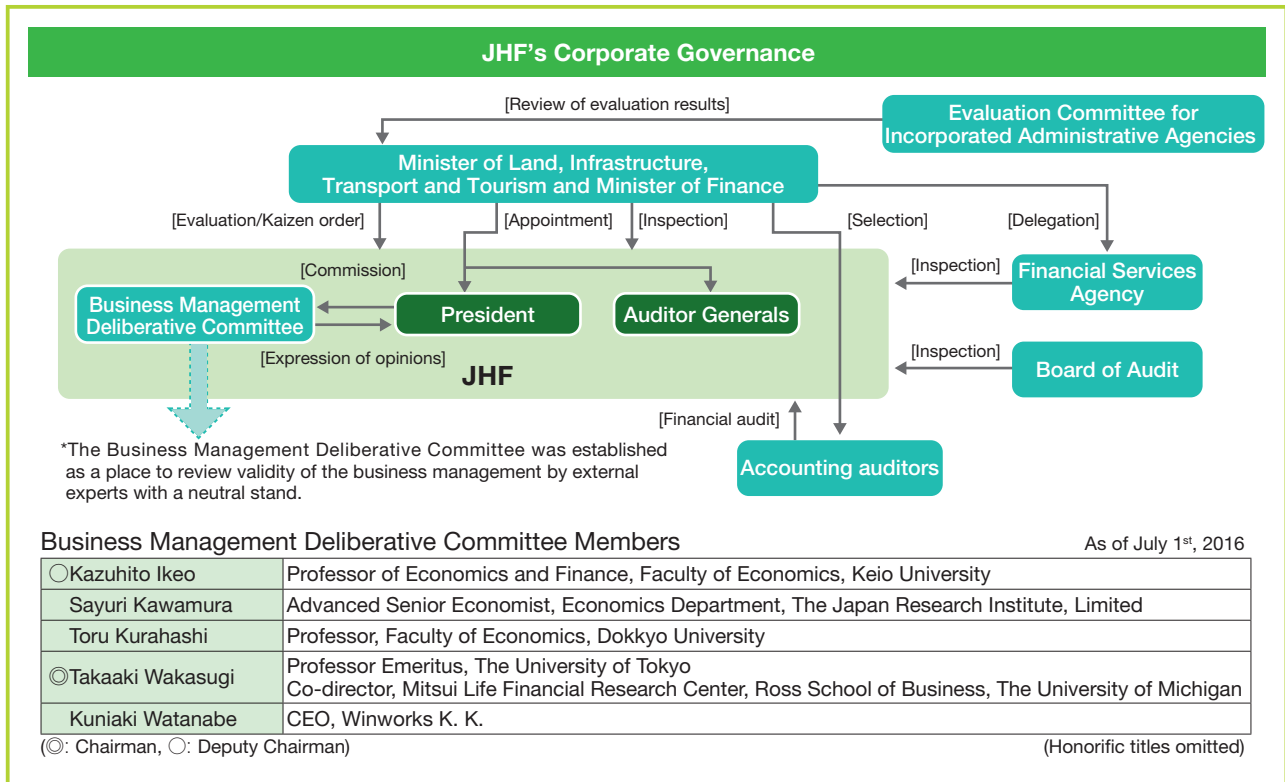
Corporate Governance

Governance Structure

Recognizing its basic mission and social responsibility as an Incorporated Administrative Agency, JHF gives priority to strengthening corporate governance in its business management and actively implements activities to ensure sound and proper conduct of its business with high ethical standards and wisdom under transparent and efficient management based on the Act on General

Rules for Independent Administrative Agency.

Moreover, in order to develop its internal governance system for appropriate business operations, JHF has established the Basic Policy on Internal Governance and promotes appropriate internal governance by the PDCA cycle as well as further sophistication of internal governance by enhancing the governance environment.



Basic Policy on Internal Governance (Overview)

1. System to ensure that execution of tasks by our employees conforms to laws and regulations
2. System for customer management including privacy policies and management and storage of information related to execution of tasks by our employees
3. Regulations related to loss risk management and other systems
4. System to ensure that tasks are effectively executed by our employees
5. Internal audit system to ensure proper business
6. System related to employees assisting the auditor, if requested, and their independence from the President
7. System for employees to report to the auditor and other systems related to report to the auditor
8. Other systems to ensure effective audits by the auditor
9. Establishment of the PDCA cycle for internal governance

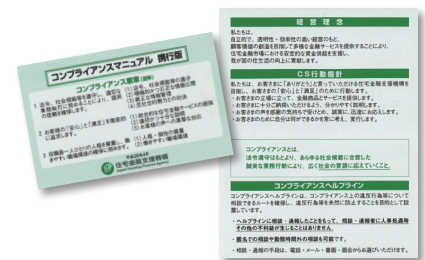
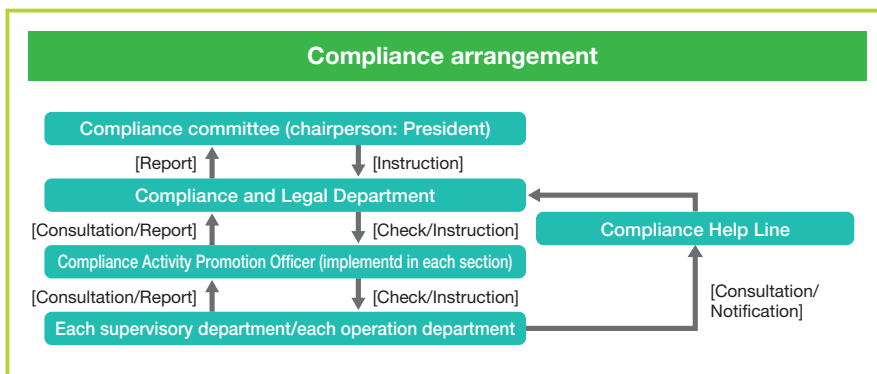
Compliance

Arrangements for compliance

In order to reliably implement compliance, JHF has set up the Compliance Committee (chaired by the President) comprising all directors and managers of departments involved in discussing and deciding important matters related to compliance. In addition, the Compliance and Legal Department has been established as the department for managing compliance, along with which, in

managing the promotion of activities for compliance in each department, a person responsible for compliance is assigned for each department.

Furthermore, for advance prevention of compliance violations at JHF, a compliance help line has been set up in and outside of the Compliance and Legal Department.



JHF provides all executives and staff members with a pocket-size edition of its compliance manual. It will serve to guide them when they look back on actions on their jobs, or when they have difficulty making decisions.

Compliance activities

JHF has established the Compliance Charter as its basic principles of compliance and developed a compliance manual that stipulates the laws and regulations to be complied with, rules, social requirements, and matters to be noted pertaining to compliance in order to enhance awareness of compliance among all executives and employees.

As a plan to ensure compliance at JHF, a Compliance Program is defined and implemented each fiscal year.

Specific activities of the Compliance Program include agency-wide e-learning, compliance meetings by individual operational units (where familiar compliance top-

ics are discussed interactively among a few members by the case method), and monthly dissemination of compliance-related information over the internal LAN. These educational programs help employees understand compliance and to think and act autonomously based on their understanding.

In addition, JHF has steadily promoted compliance activities in the PDCA cycle by quarterly monitoring and examining implementation of the Compliance Program in the Compliance Committee and making necessary modifications of Compliance Program policies.

The Compliance Charter (excerpt)

1. We comply with laws, rules and regulations as well as social norms, and strive to undertake all tasks properly in efforts to ensure public confidence.
 - (1) Compliance with laws and regulations as well as social norms
 - (2) Proactive and fair disclosure of information
 - (3) Strict information management
 - (4) Resistance against all anti-social parties
2. We do our utmost to pursue customer confidence and satisfaction.
 - (1) Provision of comprehensive housing loan services
 - (2) Provision of appropriate and sufficient explanations
 - (3) Sincere responses to customer voices
3. We respect the unique individuality of each executive and staff member and endeavor to secure a comfortable work environment.
 - (1) Respect for the personality and character of each individual
 - (2) Comfortable work environment

Responses to Anti-social Forces

To reject any relationship with anti-social forces such as organized crime syndicates, JHF has incorporated an item concerning resistance against all anti-social parties into its compliance charter and established a basic policy, which is available on our website. In addition, regulations and manuals for dealing with such anti-social forces have been developed. Through these efforts, JHF has established a system for reporting to and consulting immediately and properly with management and the Compliance and Legal Department, which is the department that oversees responses to anti-social forces,

when any business with such anti-social forces or undue claim from such forces is identified.

JHF also conducts training and other sessions on how to handle undue claims in cooperation with the police and other relevant institutions.

Incorporating stipulations on rejection of anti-social forces into business contracts, JHF eliminates any relationship, not only with organized crime syndicates but also with any affiliated parties of such organizations that anti-social forces utilize to illegally receive loans.

JHF continues its efforts to reject anti-social forces.

Basic Policy on Anti-Social Forces

1. JHF shall have no relationship with any anti-social forces, and the President, the management, and all employees shall work together to take an uncompromising stance toward such forces.
2. JHF shall establish a system to reject anti-social forces and educate management and employees to ensure their knowledge of the handling manual for such forces.
3. JHF shall ensure the safety of management and employees who handle undue claims from anti-social forces.
4. JHF shall cooperate closely with such external institutions as the police, the National Center for Elimination of Boryokudan, and lawyers.
5. JHF shall take legal actions, both civil and criminal, against undue claims from anti-social forces.
6. JHF shall accept no “backstage deals” to conceal facts, even when undue claims from anti-social forces are based on irregularities related to JHF’s business activities or involve its employees.
7. JHF shall provide no funds to anti-social forces.

Information Security

JHF has made efforts for information security measures since our establishment, and in FY2015, we further reinforced our information security measures promotion system through the following efforts.

- Establishment of the Information Security Committee for the purpose of deliberation on matters relating to information security, and appropriate maintenance of the level of information security.
- Formulation of the Information Security Measures Promotion Plan as a project for comprehensive promotion of information security measures.
- Re-development of the Information Security Policy based on the “Integrated Standards for Information Security Measures of Government Agencies” after organization of the existing security-related rules and regulations.

Risk Management

In order to properly manage its business and gain the understanding and trust of the general public, JHF maintains a system to adequately manage the various risks that may arise in its day-to-day operations.

JHF has established risk management regulations, including the “Risk Management Basic Rules,” that stipulate the purpose of risk management, identify and define individual risks, and specify basic systems such as the

risk management system and methods and auditing of the status of risk management implementation. Based on these rules, JHF manages risks from a comprehensive point of view by understanding and evaluating the various risks overall that are characteristic of the housing loan business, with the operations and characteristics of JHF taken into consideration as well.

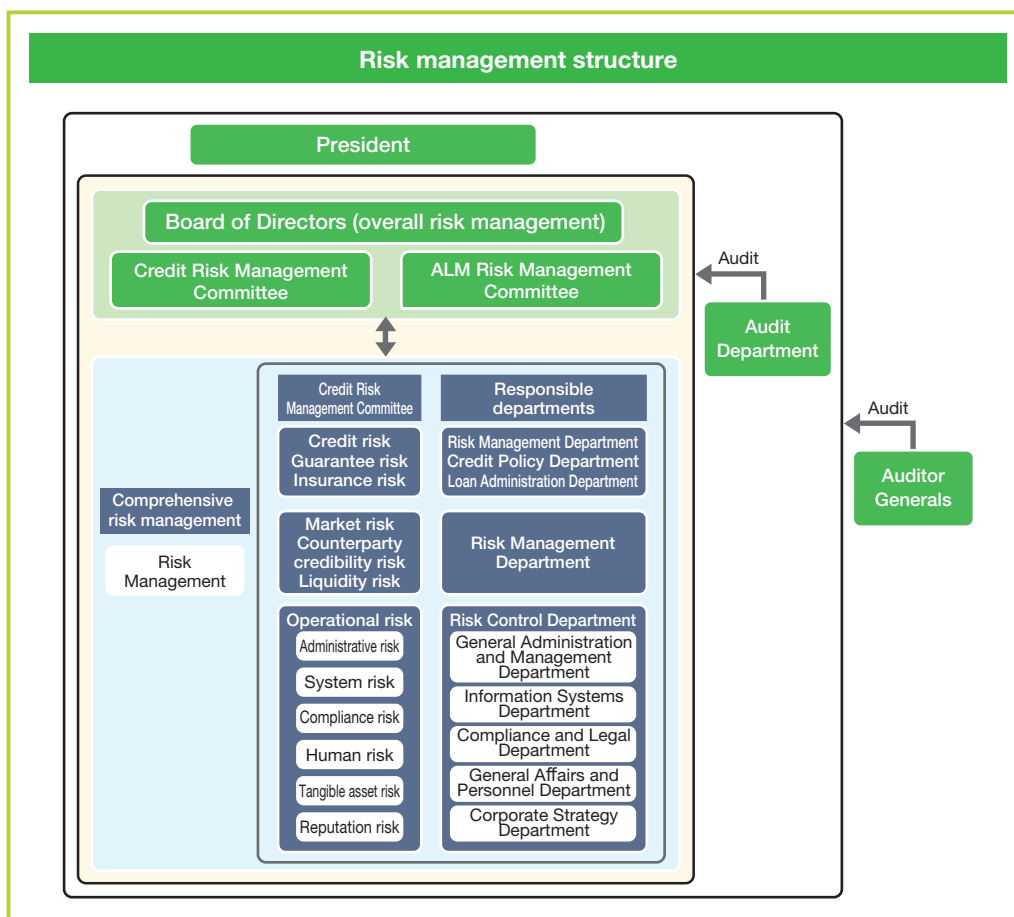
Risk management structure

JHF classifies risks into seven categories: credit risk, guarantee risk, insurance risk, market risk, counterparty credibility risk, liquidity risk, and operational risk. In the event of a significant change in the economy, JHF will define new categories of risk to be managed as necessary.

To properly manage these risks qualitatively and quantitatively, JHF has built the requisite system by appointing an executive and a department responsible for managing each risk category. In particular, the “Credit Risk Management Committee” was established to manage credit risk, guarantee risk, and insurance risk, and

the “ALM Risk Management Committee” was established manage market risk, counterparty credibility risk, and liquidity risk. These committees monitor the status of each risk and deliberate on planning and proposals related to the management of each risk.

In addition, JHF assigns an executive and a department responsible for comprehensive risk management in order to manage the risks from a comprehensive point of view and maintains a system to track and evaluate management of the risks overall and periodically report the results to the Board of Directors.



Risk categories

Credit risk

This is the risk of JHF suffering a loss in relation to credit that JHF owns due to a decline or loss of value of an asset caused by deterioration of the creditworthiness of a debtor. Since housing loans account for a large part of JHF assets, JHF properly underwrites the credit risk of the loans it purchases or originates, and manages and performs self-assessment of the loans that it holds, and tracks, analyzes, and manages overall credit risk.

▶▶ Underwriting

JHF has established underwriting criteria and methods and underwrites the credit risk of loans it purchases or originates accordingly.

▶▶ Self-assessment

JHF properly manages the credit risk of loan claims that it owns and conducts self-assessment according to self-assessment criteria established in accordance with the “Financial Inspection Manual” of the Financial Service Agency in order to adequately disclose financial information in a manner that conforms with the “Accounting Standards for Incorporated Administrative Agencies.” In specific terms, JHF calculates the necessary reserves for non-performing loans by classifying its assets in accordance with the probability of default and loss severity and by applying the expected loss given default ratio calculated based on historical performance.

▶▶ Credit portfolio management

Using the credit portfolio management system for periodical monitoring, JHF analyzes the utilization status of housing loans, forecasts future losses, and reviews the necessary credit risk premium in order to accurately evaluate the overall credit risk of all the debts that it holds and the location of risk. JHF also makes efforts to further enhance risk assessment utilizing the credit portfolio management system to strengthen credit risk management.

Guarantee risk

This is the risk of JHF suffering a loss due to variance in the occurrence of a guarantee incident from the estimate made at the time of the guarantee fee calculation. JHF guarantees MBS in the securitization support business (guarantee program). JHF performs proper underwriting and strives to track, analyze, and manage overall guarantee risk.

Insurance risk

This is the risk of JHF suffering a loss due to variance in the occurrence of an insurance incident from the estimates made at the time of the insurance premium calculation. JHF extends insurance against non-performing housing loans to private financial institutions. JHF performs proper underwriting and strives to track, analyze, and manage overall insurance risk by monitoring with the credit portfolio management system and verifying the sufficiency of reimbursement of the unused policy reserve by future cash flow analysis.

Market risk

This is the risk of Net Income fluctuating for a reporting period according to changes in the risk factors, such as the interest rate. At JHF, whose main assets are mortgages, this type of risk includes prepayment risk, refinance or reinvestment risk, and pipeline risk.

▶▶ Prepayment risk

This is the risk of reduction of revenue for a period by loss of expected interest income due to an increase in the loan prepayment amount resulting from a decline in the interest rate. JHF manages this risk by estimating the prepayment amount by the prepayment model and procuring funds combining securitization and bond issuances of various maturities.

▶▶ Refinance/reinvestment risks

This is the risk for reduction of revenues in a period by an increase in the interest paid due to a rise in the funding cost or decrease in the interest income received due to a drop in interest on investment when either refinancing or reinvestment is required. JHF manages this risk by utilizing the interest model to estimate the cash flow of assets and debts taking future interest fluctuations into consideration and forecasting periodical net income according to cash flow, and periodically monitoring risk indexes such as duration.

▶▶ Pipeline risk

This is the risk of net income fluctuating from a certain reporting period due to the interest fluctuating in the period from the decision on the mortgage interest rate to the decision on funding cost. JHF manages this risk by hedging with interest rate swaps, as necessary.

Counterparty risk

This is the risk of JHF suffering a loss from a decline or loss of asset values due to deterioration in financial conditions at bond issuers at which surplus funds are invested or counterparties to interest rate swap deals. JHF defines the risk management methods of bond issuers and counterparties of interest rate swap deals, and monitors them.

Liquidity risk

This is the risk of JHF being unable to raise necessary funds or being required to finance at an interest rate significantly higher than normal in order to secure funds, or being unable to trade in the market due to market turmoil, or being forced to make deals at prices significantly less favorable than usual. JHF sets the minimum net line of liquidity assets as a management standard for a measure against liquidity risk, observes this standard in daily operations, and manages financing stably. In addition, the credit line in case of emergencies is set to secure means of procurement, and management classifications according to the urgency of funding needs (normal, watch, and crisis) are defined as well as the responses required at times of “watch” and “crisis.” Furthermore, an action plan for a situation that impacts financing (contingency funding plan) is defined to establish a system for prompt response when liquidity risk becomes eminent.

Operational risk

This is the risk of JHF suffering a loss due to improper operational processes, personnel activities, or information systems, or an external phenomenon. This risk includes administrative risk, system risk, legal risk, human risk, tangible asset risk, and reputation risk. JHF strengthens the operational risk management system by noting significant risk phenomena to comprehend the status of occurrence, defining measures based on causal analysis, self-analyzing risks that exist in internal operations and the control methods to constrain them, and implementing RCSA (Risk & Control Self-Assessment) to improve operations based on the results of self analysis. The following are the definitions and control methods of main operational risks.

▶ Administrative risk

This is the risk of JHF suffering a loss due to negligence, accidents, or fraud by its executives or em-

ployees. JHF reduces administrative risk by organizing administration work manuals, improving administrative work, enhancing crosschecking among staff, providing instructions and training on administrative work, performing internal self-checks, and collecting and analyzing information on administrative errors and taking preventive measures against their recurrence.

▶ System risk

This is the risk of JHF suffering a loss due to failure, malfunction, defect, or misuse of information systems. JHF reduces system risk by taking measures based on classifications according to importance and risk assessment, developing systems with functionalities, reliability, and information security taken into consideration, and comprehending and analyzing information on system failures and taking preventive measures against their recurrence. In preparation for serious failures, JHF upgrades its crisis management manual and maintains stable operations by taking necessary measures such as duplexing systems, establishing backup centers, and conducting emergency drills.

▶ Legal risk

This is the risk of JHF suffering a loss due to unlawful acts, inappropriate contracts, or vagueness in legal matters related to business deals. To reduce legal risk, the Legal Affairs Department performs legal checks before establishing internal regulations, concluding contracts, and submitting advertisements. JHF also prevents violations of laws and regulations by collecting information on new legislation, amendments, etc., and court judgments that may affect the business.

Others

As a measure for overall risk management, JHF carries out lifetime income simulations over the following 35 years (until the housing loans currently held by JHF have been paid in full).

Based on cash flow with future changes in interest rates taken into consideration, the simulation calculates across multiple risks if losses resulting from credit risk and market risk are covered by interest income.

The simulation also performs stress tests on both risks and analyses based on business volume change scenarios to verify financial resilience.