

Fiscal Year 2015 Annual Report

【Transitional Long-term Benefit Reserve】

Federation of National Public Service Personnel Mutual Aid Associations

The Federation of National Public Service Personnel Mutual Aid Associations (“KKR”) hereby publishes the Fiscal Year 2015 Annual Report with regard to the Transitional Long-Term Benefit Reserve pursuant to the provision of Article 35-4 of the National Public Officers Mutual Aid Association Act (“NMA”) applied mutatis mutandis by the provision of Article 49-3 of the Supplemental Provisions for the Partial Revision of the Employees’ Pension Insurance Act for the Consolidation, etc. of Employees’ Pension Schemes.

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Reference:

- (1) Market Conditions & Glossary : See the Annual Report on the Employees’ Pension Insurance Benefit Reserve.
- (2) Definition of Terms: : In this report, deposits to finance the Fiscal Investment and Loan Program (FILP) are referred to as “FILP deposits”; real estates and loan receivables held by KKR in connection with the mutual-aid business operations are referred to as the “Mutual-aid proprietary assets”

1. Rate of Return

The rate of return in Fiscal Year 2015 is as stated below:

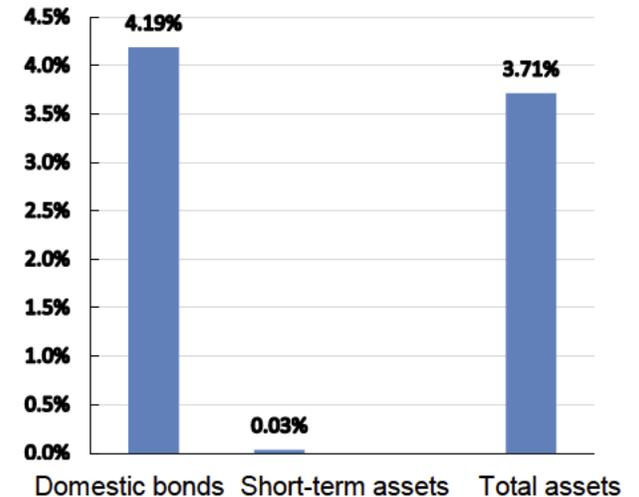
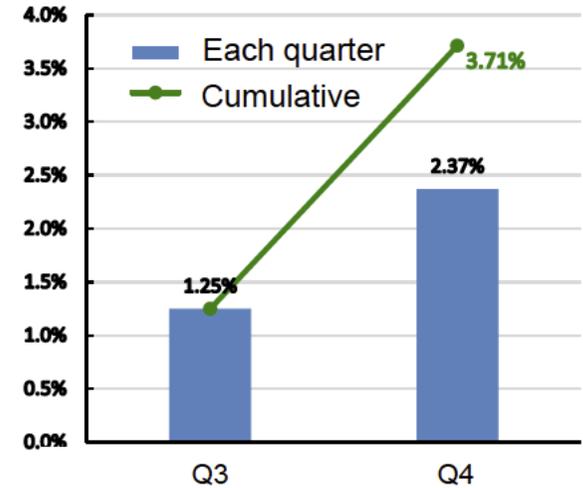
(Unit:%)

	FY 2015				
	Q1	Q2	Q3	Q4	Full-year
Rate of return	/	/	1.25	2.37	3.71
Domestic bonds	/	/	1.35	2.91	4.19
Short-term assets	/	/	0.02	0.02	0.03

Note 1: The rate of return stated above is the rate after October 2015 when the pension schemes were consolidated.

Note 2: The rate of return for Q3 and Q4 are those of the respective quarterly periods. The rate of return for the full-year is that of the latter half of FY 2015.

Note 3: Domestic bonds include FILP deposits and mutual aid proprietary assets.

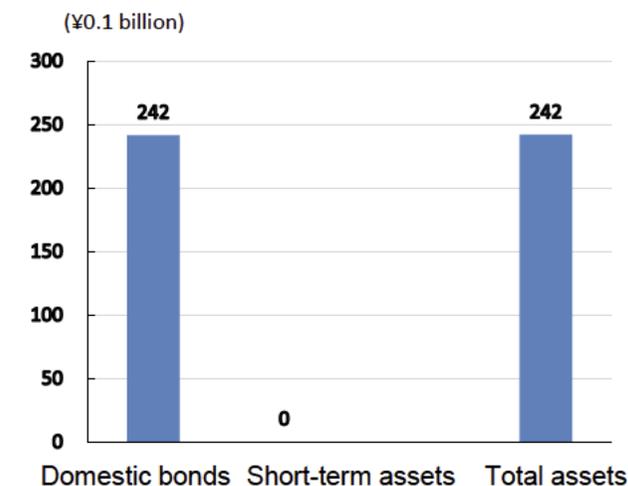
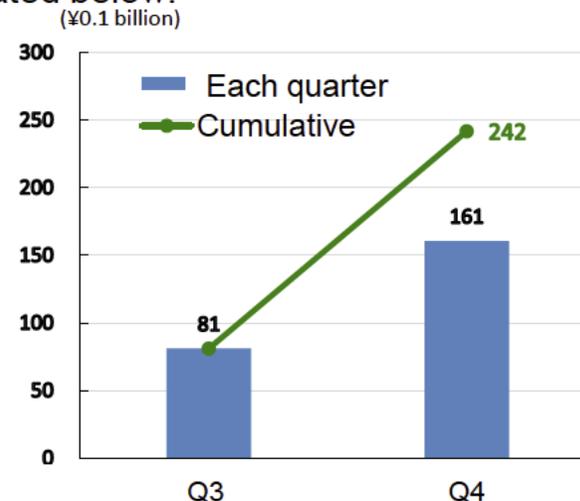


2. Return

The amount of return of the transitional long-term benefit reserve is as stated below:

(Unit: ¥0.1 billion)

	FY 2015				
	Q1	Q2	Q3	Q4	Full-year
Realized return			81	161	242
Domestic bonds			81	161	242
Short-term assets			0	0	0



Note 1: The amount of return stated above is the amount after October 2015 when the pension schemes were consolidated.

Note 2: The amount of return for the full-year is that of the latter half of FY 2015.

Note 3: Due to rounding, the total sum of individual figures may not necessarily add up to the total.

Note 4: Domestic bonds include FILP deposits and mutual aid proprietary assets.

3. Amount of Asset Under Management

The amount of asset under management of the transitional long-term benefit reserve is as set forth below:

(Unit: ¥0.1 billion)

	FY 2015			
	Q1 end	Q2 end	Q3 end	Year-end
Domestic bonds			5,803	5,354
Short-term assets			685	1,218
Total			6,488	6,572

Note1: The asset amount above is the amount after October 2015 when the pension schemes were consolidated.

Note 2: Due to rounding, the total sum of individual figures may not necessarily add up to the total.

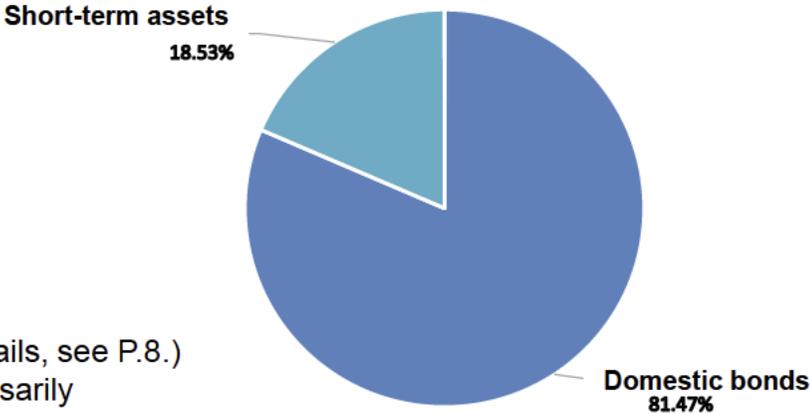
Note 3: Domestic bonds include FILP deposits and mutual aid proprietary assets.

4. Asset Mix

Asset mix of the transitional long-term benefit reserve is as stated below:

(Unit: ¥0.1 billion)

	At the end of FY 2015	
	Asset Amount ¥ (0.1 billion)	Asset Mix
Domestic bonds	5,354	81.47%
Short-term assets	1,218	18.53%
Total	6,572	100.00%



- Note 1: The policy asset mix consists of 100% domestic bonds. (For details, see P.8.)
- Note 2: Due to rounding, the total sum of individual figures may not necessarily add up to the total.
- Note 3: Domestic bonds include FILP deposits and mutual aid proprietary assets.
- Note 4: FILP deposits are evaluated based on book value.

5. Rough Sorting of Pension Reserves in Connection with the Enforcement of the Act on Consolidation of the Employees' Pension Schemes

As of September 30, 2015
Long-term Benefit Reserve (Market value)
¥7.8127 trillion

As of October 1, 2015	
Employees' Pension Insurance Benefit Reserve (Market value)	Transitional Long-term Benefit Reserve (Market value)
¥7.1116 trillion	¥701.1 billion

Reference:

The funding ratio (the rough government funding ratio) of the employees' pension funds prior to consolidation (former employees' pension funds)

- = Estimated amount of the former employees' pension reserve at the end of FY 2014 (¥164.8 trillion)
- ÷ the estimated amount of the former employees' pension funds of the first and second floors (i.e., national of pension and employees' pension) in FY 2015 (¥33.7 trillion)
- = 4.9 years

The amount of rough sorting of the public service personnel mutual-aid pension reserve (Employees' Pension Insurance Benefit Reserve)

- = Estimated amount of expenditures of the first and second floors in FY 2015 (¥1.5 trillion)
- x rough government funding ratio (4.9 years)
- = ¥7.1116 trillion.

6. Policy Asset Mix

(1) Policy Asset Mix

The policy asset mix in the administration and management policy prepared on October 1, 2015 is set forth as follows:

○ Policy asset mix

	Domestic bonds
Asset mix	100%

Note: FILP deposits, mutual-aid proprietary assets and short term assets are included in domestic bonds.

(2) Concept of Preparing the Policy Asset Mix

Since the transitional long-term benefit schemes are closed type of pension scheme and the size of the scheme is expected to shrink at a relatively early stage, assets that produce steady income gain and return of principal, mainly domestic bonds (including FILP deposits), are held as basic assets.

Mutual-aid proprietary assets are assets held by KKR in connection with the mutual-aid business operations, and consist of real estates and loan receivables. These assets are held by the Transitional Long-term Benefit Reserve and the Retirement Pension Benefit Reserve, which are the reserves for national public service personnel.

7. Risk Management

(1) Establishment of the investment Risk Management Committee and enactment of the Investment Risk Management Policy, etc.

In order to properly conduct the investment risk management operations, KKR established the “Investment Risk Management Policy” and the “Investment Risk Management Guidelines” and established the Investment Risk Management Committee, led by the President as a chairperson, as well.

The Investment Risk Management Committee shall hold meetings regularly, or as required, to discuss the quarterly status of the investment risk management, and the details of discussion shall be reported to the Investment Committee comprising external academic experts, as appropriate. By receiving the advices from the Investment Committee, the knowledge of the experts is reflected in the investment risk management operations.

(2) Basic Policy on Investment Risk Management

The basic policy, etc. on the investment risk management with regard to the Transitional Long-term Benefit Reserve is as set forth below:

1) Investment Risks to be Managed

Investment risks to be managed by KKR shall include liquidity risk, credit risk and other risks that KKR assumes in order to shrink of the scale of the Transitional Long-term Benefit Reserve relatively early and to secure the target investment return.

2) Items to be Risk Managed

Major items to be managed upon risk management are as set forth below:

- Deviation from the policy asset mix
- Performance
- Financing status
- Rating and status of concentrated investment

3) Major risk management status

○ Deviation from the policy asset mix

The policy asset mix consists of 100% domestic bonds (including FILP deposits, mutual-aid proprietary assets and short-term assets). The reserve is invested in 100% domestic bonds at the end of FY 2015, and does not deviate from policy asset mix.

○ Performance

The investment return of the Transitional Long-term Benefit Reserve in FY 2015 (for the latter half) was 3.71%, exceeding 0.94% (equivalent to one half of the nominal investment return (target investment return) of 1.88% in FY 2015 assumed in the 2014 actuarial recalculation).

○ Financing status

In light of the prospects for pension financing and status of income and expenditure, the funds necessary for the payment of pension benefits is secured.

○ Rating and status of concentrated investment

KKR manages the credit ratings and concentrated investments in accordance with the standards set forth in the administration and management policy.

8. Governance Structure

◆ Overview of Services Offered by KKR

To contribute to the stability of life and better welfare of national public service personnel, etc. and their bereaved family, as well as to the efficient operation of the duties by the national public service personnel, KKR conducts the services for the following businesses (among the businesses offered by the mutual-aid associations consisting of government employees) pursuant to the provisions of the NMA.

- Employees' Pension Insurance Benefit, Retirement Pension Benefit and Transitional Long-term Benefit businesses
Employees' pension benefits, retirement pension benefits and transitional long-term benefits refer to the various benefits, such as retirement pension, disability pension and bereaved family pension, etc. to be paid in the events of retirement, disability or death of the members of the mutual aid associations.
KKR conducts the decision-making and payment, cost calculation and management of the reserves.
- Welfare Business
KKR mainly offers the services for the following welfare businesses to contribute to the enhancement of the welfare of the members.
 - A. Medical service
 - B. Hotels and lodging service
- Other Businesses
In addition to the businesses provided above, KKR provides services in relation to the business pursuant to the supplementary provisions of the NMA and other laws.

◆ Officers and employees of KKR

There are fourteen (14) officers, including one president, one executive director, five managing directors, four directors, two standing auditors and one auditor, and 11,909 employees, as of the end of March 2016.

(1) Operations Council

1) Establishment of the Operations Council

Operations Council shall be established within KKR for the appropriate operation of the business of KKR pursuant to the NMA.

2) Deliberated matters, etc.

A. amendment of the articles of incorporation, B. preparation and amendment of operational rules and regulations, C. business plan, allocation of budgets and settlement of accounts for each business year, D. disposition of important assets and assumption of material debts, and E. other important matters relating to the operation of the businesses of employees' pension insurance benefits, retirement pension benefits and transitional long-term benefits and the operation of welfare business shall be deliberated at the Operations Council.

The Council also examines and deliberates important matters pertaining to the business of KKR in response to inquiries from the President or submit recommendations to the President on matters deemed necessary by the Council.

3) Members of the Operations Council

Members of the Council shall be appointed (no more than 16) by the President, among the members of the mutual aid associations who have a wide range of knowledge of the business of the associations and KKR, and matters relating to the welfare of the members of the associations, and half of the Council members shall represent the members of the associations.

(2) Investment Management Committee

KKR has established the Investment Management Committee, as an advisory body of the President, for the appropriate management and investment of the employees' pension insurance benefit reserve, retirement pension benefit reserve and traditional long-term benefit reserve. The members of the Committee consist of no more than six external academic experts, and other expert members can be appointed as necessary. The President of KKR commissions the members and other expert members.

The Committee shall hold meetings regularly, and at any time as required, to discuss the business plans, settlement of accounts, quarterly investments and status of risk management as agenda. KKR shall ask for views or seek advice from the Investment Management Committee on important matters with regard to the management and investment of the reserves.

○List of Members of the Investment Management Committee (As of April 1, 2016)

Name	Current Occupation	Remarks
Masaharu Usuki	Professor, Graduate School of Economics / Faculty of Economics, Nagoya City University	
Seki Obata	Associate Professor, Graduate School of Business Administration, Keio University (Keio Business School)	
Keimei Kaizuka	Advisor, POLICY RESEARCH INSTITUTE, Ministry Of Finance, JAPAN, professor emeritus of the University of Tokyo, member of the Japan Academy	Chairperson
Masashi Toshino	Part-time lecturer, Faculty of Commerce, Waseda University	
Hajime Yamazaki	Visiting Researcher, Rakuten Securities Institute of Economic Research	
Yasuhiro Yonezawa	Professor, Waseda Business School (Graduate School of Business and Finance)	Deputy Chairperson

(Titles omitted, in the order of Japanese syllabary)

○ Meetings held by the Investment Management Committee (Since April 2015)

	Date	Agenda
52 nd	June 1, 2015	(1) Investment management status of FY 2014, (2) risk management status (3) verification of policy asset mix, (4) Review status of administration and management policy
53 rd	July 13, 2015	(1) FY 2015 quarterly investment management status, etc., (2) administration and management policy after the consolidation of employees' pension schemes
54 th	August 6, 2015	(1) administration and management policy after the consolidation of employees' pension schemes
55 th	September 9, 2015	(1) FY 2015 quarterly investment management and risk management status (2) Review of expansion of the scope of investments, (3) Code of Conduct
56 th	December 9, 2015	(1) Administration and management policy of the reserve, (2) sorting of the reserves upon the consolidation of employees' pension schemes, (3) FY 2015 quarterly investment management and risk management status, (4) expansion of information disclosure, (5) internal rules on the self-imposed restraint of equity dealings
57 th	March 15, 2016	(1) Verification of policy asset mix, (2) FY 2015 quarterly investment management and Investment risk management status, (3) prospect for investment for FY 2015 and investment management plan for FY 2016
58 th	June 16, 2016	(1) Investment management status of FY 2015, (2) Risk management status (3) Policy asset mix

(3) Policy for Appropriate Administration and Management of the Pension Reserve

KKR shall formulate the administration and management policy to ensure safe and efficient management and investment of the Transitional Long-term Benefit Reserve from a long-term perspective pursuant to the NMA.

KKR formulated the “Administration and Management Policy of the Transitional Long-term Benefit Reserve” (“Administration and Management Policy”) on October 1, 2015, with the approval from the Minister of Finance, and has been conducting the management and investment of the reserves in accordance with the Administration and Management Policy together with relevant laws and regulations.

(4) Competent Minister of the Annual Report and Its Public Disclosure

KKR shall prepare an annual report, pursuant to the NMA, each fiscal year after the closing of accounts, stating the amount of assets of the pension reserve, asset mix, amount of investment return and other matters stipulated in the laws and regulations, and submit the same to the Minister of Finance and disclose it to the public.

(5) Response to Proposals by the Investment Management Committee

1) Proposals from the Investment Management Committee

The current policy asset mix takes over the policy asset mix of the mutual-aid pension reserve that was reviewed in February 2015. Upon the review, in light of the increase of risk assets, KKR received a proposal from the Committee to promote (i) enhancement of risk management and (ii) strengthening of internal control.

2) Response by KKR

In response to these proposals, KKR has strengthened the organizational structure, staffing and IT systems, while enhancing the risk management system and implementing new measures as below:

- A. In order to increase the frequencies of verification of the status of investment and risk management, KKR increased the number of meetings regularly held by the Investment Management Committee, as well as the number of Committee members from 4 to 6.
- B. As a measure to strengthen the organizational structure of Investment Management Department (which includes risk management staff), since FY 2014, KKR has been increasing the number of staff including professional personnel.
- C. KKR has introduced advanced risk management tools and enhanced various risk analysis performance.
- D. In order to strengthen the internal control system, KKR has established a “Risk Management Committee” in April 2015, consisting the President, officers in charge of fund management and of pension financing, etc. The Committee receives explanations on investment risk status from the Risk Management Office (established on April 1, 2015), discusses the matter, and deliberations at the Committee are reported to the Investment Management Committee and their views are heard.
- E. The Risk Management Committee has formulated the “Risk Management Policy” which stipulates the objectives and basic policies of risk management, and “Risk Management Guideline” which identifies the management risks subject to supervision and sets forth the specific viewpoints for management, and has enforced them from April 1, 2016.
- F. In July 2016, KKR increased the number of risk management staff, and established the Risk Management Office, independent from the Investment Management Department. By establishing a newly independent organization, it strengthens the restraining function over the Investment Management Department (responsible for management of funds) and enhances the risk management system.

(6) Internal Governance System within KKR

KKR endeavors to secure appropriate business operations through the following measures.

1) Promotion of Compliance

KKR has formulated the “Compliance Promotion Rules” and established a Compliance Committee (with the President as chairperson and external lawyers as committee members) to discuss important matters on compliance. KKR has also appointed the head of compliance, who is responsible for KKR-wide promotion of compliance, and compliance officer in each department (office) within KKR.

KKR has established the Code of Conduct applicable to all officers and employees and is keeping them all informed, to secure the trust from association members, users and the society.

In addition, KKR has put in place a whistle-blowing system for early detection and correction of misconducts, etc. to contribute to the strengthening of compliance system.

2) Reinforcement of Risk Management

In light of the advancement of risk management methods and diversification of financial instruments that are the subject of investment, KKR makes efforts to review the items to be risk managed as appropriate, and to strengthen the risk management capabilities. In addition, on July 1, 2016, KKR newly established a Risk Management Office, independent from the Investment Management Department, for the furtherance of the restraining function over the fund management operation.

3) Investment Committee

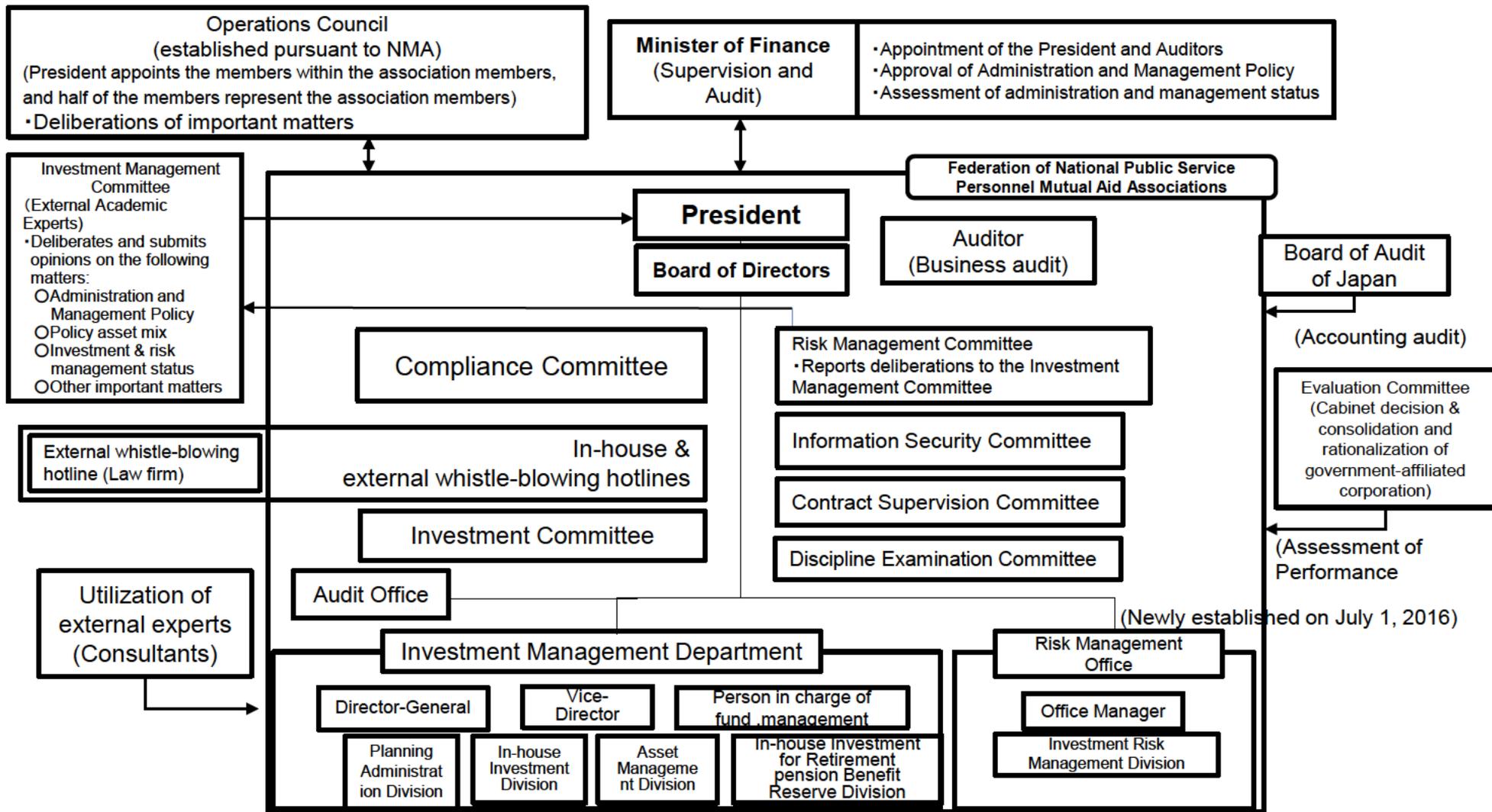
KKR has established an Investment Committee, with the officer in charge of fund management as chairperson, to conduct careful review upon preparing investment plans, etc. of pension reserves.

4) Ensuring Information Security

With the advancement of information-driven operations, KKR has established various internal rules regarding appropriate protection and management of the information system and information data processed by such system in order to ensure information security.

KKR has also established the Information Security Committee and formulated the Information Security Standards. Managers, staff and head of information security have been allocated to each department (office) to prepare and review the Implementation Policies of each department (office) in line with the Information Security Standards and confirm the compliance status of these Implementation Policies.

(7) Conceptual Diagram of Governance Structure, etc. of Administration and Management of Pension Reserve



9. Other

Matters stated in Article 5, Items 6 and 7 of the Ministry Ordinance Concerning Transitional Measures for Long-term Benefits Based on the National Public Officers Mutual Aid Association Act in connection with the Enforcement of the Partial Revision of the Employees' Pension Insurance Act for the Consolidation, etc. of Employees' Pension Schemes and Enforcement of the Partial Revision of the Act on National Public Officers' Retirement Allowance to Review, etc. the Level of Retirement Pension Benefits of Public Officers

- (1) Investment Management Status by Investment Method (includes selection of the counterparty of the investment management contract and investment management status when making investments by the method stipulated in Article 9-3, Paragraph 1, Item 3 (main provision), (b) of the same Item, and Item 4 of the same paragraph of the enforcement ordinance of the NMA) (Item 6)

KKR conducts in-house investment pursuant to the policy asset mix (100% domestic bonds), and such status is as provided in 1 to 4 hereunder.

KKR does not delegate its management authority to external asset managers and does not make investment by the method stipulated in Article 9-3, Paragraph 1, Item 4 of the enforcement ordinance of the NMA.

- (2) Status of Exercising of Voting Rights Relating to Equities by KKR (Item 7)

KKR does not make investment in equities for the Transitional Long-term Benefit Reserve.