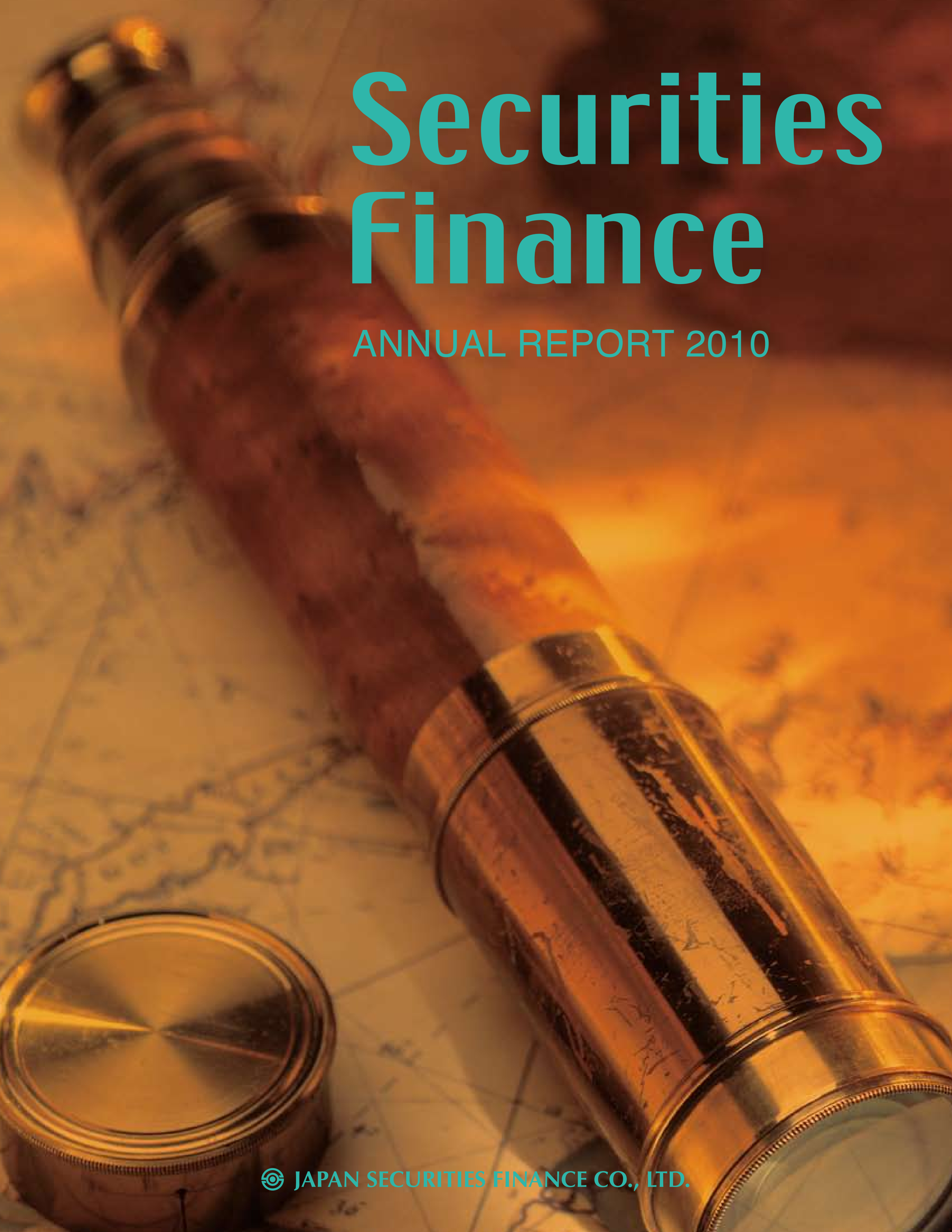


Securities Finance

ANNUAL REPORT 2010

JAPAN SECURITIES FINANCE CO., LTD.

PROFILE

Growing in step with the securities industry and supporting its future development

In June 1951, Japan Securities Finance Co., Ltd. (JSF) launched its loaning operations, dealing with funds and stock certificates needed by securities companies for delivery and settlement of margin transactions.

This margin loan business can be transacted solely by securities finance companies licensed in accordance with the Financial Instruments and Exchange Law.

As Japan's largest securities finance company designated by the Tokyo, Sapporo, and Fukuoka Stock Exchanges, JSF is contributing significantly to improving the fairness of stock price formation and liquidity of stocks in the secondary equity markets.

CONTENTS

FINANCIAL HIGHLIGHTS

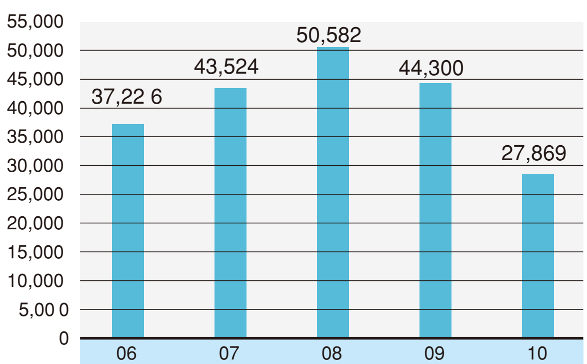
Japan Securities Finance Co.,Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2010 (April 1, 2009 - March 31, 2010)	2009 (April 1, 2008 - March 31, 2009)	2010 (April 1, 2009 - March 31, 2010)
Consolidated financial results			
Operating revenues	¥ 27,869	¥ 44,300	$ 299,538
Net income (loss)	3,572	(7,503)	38,392
Net assets (period end)	112,657	107,233	1,210,845

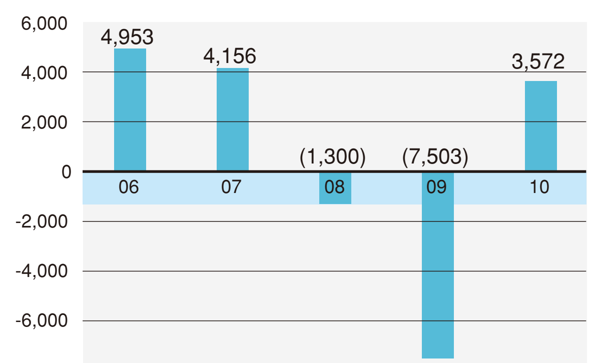
	Yen		U.S. dollars
	2010	2009	2010
Amounts per share			
Net income (loss)	¥ 38.59	¥ (80,33)	$ 0.41
Net assets	1,217.12	1,158.32	13.08

Note:U.S. dollar amounts in this annual report are translated from Japanese Yen, for convenience only, at the rate of ¥ 93.04=US$1, the approximate exchange rate at March 31, 2010.

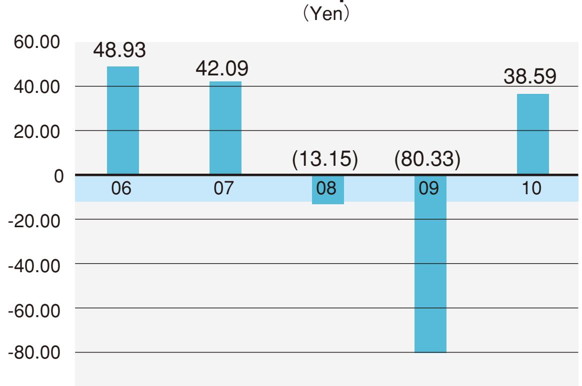
Operating revenues
(Millions of yen)



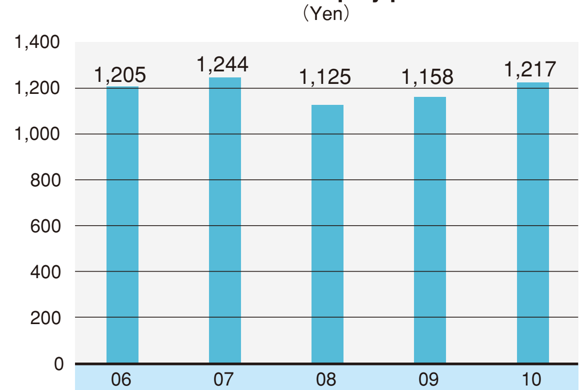
Net income
(Millions of yen)



Net income per share
(Yen)



Shareholders' equity per share
(Yen)



MESSAGE FROM THE PRESIDENT

Minoru Masubuchi
President

It is my sincere hope that the Annual Report 2010 for the fiscal year ended March 31, 2010 will be of use to shareholders, investors and other supporters of Japan Securities Finance Co., Ltd.

BUSINESS REVIEW

Business Environment

During the fiscal year under review, although business conditions in the Japanese economy showed a sign of recovery thanks to the improved global economy and favorable effects of various economic policies, it still remained stagnant as seen in the worsening employment conditions.

On the stock market, the Tokyo Stock Price Index (TOPIX) started the fiscal year at 793 points and in general terms, remained strong against a backdrop of worldwide high stock prices, rising to 975 points in late August. However, because of the appreciation of the yen and of concern about the worsening demand and supply balance occasioned by a spate of capital increase by major Japanese companies, the market then fell back to 811 points in later November. Thereafter, the launch of anti-deflation measures, implemented jointly by the government and the Bank of Japan towards the end of the year, produced an upward market trend. Thanks to the additional monetary policy implemented by the Bank of Japan and to expectations of a boost in business performance in March occasioned by a weaker yen, the TOPIX rose almost without fluctuation and closed the fiscal year at 978 points.

The average daily trading volume on the First Section of the Tokyo Stock Exchange was 2,127 million shares, up 98 million shares from the previous fiscal year. The average daily trading value fell 456.6 billion yen to 1,420.4 billion yen.

The outstanding balance of standardized margin buying on the Tokyo market increased from over 600 billion yen in early April, to over 1,000 billion yen in mid-June, for the first time since October 2008. This was due mainly to fresh margin buying by individual investors in expectation of business recovery. It maintained its steady performance, even when stock prices declined, increasing to over 1,300 billion yen from mid-October and through November. However, it decreased thereafter to close the year at 1,100 billion yen, partially because of increased sell-back by individual investors to lock in profits in the phase of rising stock prices from December. Meanwhile, the outstanding balance of standardized margin selling remained at around 600 to 700 billion yen until September, when it declined as a result of active buy-back in the phase of declining stock prices from October, subsequently remaining at around 400 to 500 billion yen.

Turning to the bond markets, the yield on newly-issued 10-year Japanese government bonds (JGBs) started the fiscal year at 1.339% and rose sharply to high of 1.4% due to rising concern about increasing JGB issues. In June, it rose to over 1.555% due to the anticipation of a sudden emergence of rate rises in the USA by the year end. However, it then fluctuated within a narrow range between around 1.3% and 1.4%, influenced on the one hand by expectations of prolonged monetary easing and on the other hand by concern about the issuance of more government bonds, closing the fiscal year at 1.390 %.

Business Results of the JSF Group

Under these circumstances, the total value of outstanding loans extended by JSF Group companies during the fiscal year averaged 601.1 billion yen, down 205.6 billion yen from the previous year.

The consolidated operating revenues declined 37.1% year-on-year to 27,868 million yen because of a decrease of interest on loans for margin transactions and a decline of interest on collateral money for securities borrowed in bond lending.

The consolidated operating expenses were also down 64.7% to 13,319 million yen occasioned by a dramatic decline of funds procurement costs and disappearance of devaluation losses on securities at JSF Trust and Banking Co., Ltd., a subsidiary of JSF. General and administrative expenses declined 24.2% to 8,650 million yen mainly as credit costs decreased.

As a result of these developments, JSF Group posted consolidated operating profits of 5,479 million yen because JSF Trust and Banking Co., Ltd., moved from deficits that have continued for two consecutive years to record surpluses. However, its recurring profits totaled 5,182 million yen including equity method investment losses of 916 million yen (non-operating costs) as a result of the losses posted by the equity method affiliate, JBIS Holdings, Inc., while the net profit was 3,572 million yen.

OUTLOOK FOR NEXT FISCAL YEAR

Earnings Outlook

Since the business performance of the JSF Group's principal activity, security finance, is greatly influenced by the trends in, for example, stock prices and interest rates, we do not prepare our earnings outlook. However, estimates and certain other figures are published to disclose the outlook in a manner that is appropriate to the business category of our Group.

MANAGEMENT POLICY

Basic Management Policy

As an institution specializing in the securities finance business, JSF has a mission, while always maintaining a keen awareness of our public role, to contribute to the development of the securities industry by proactively meeting the diverse needs of securities and financial circles and working to boost the long-term interests of securities market users and participants. Based on this corporate philosophy, our basic management policy is as follows.

(1) While maintaining a keen awareness of our influence on securities markets and investors and other social responsibilities, implement exhaustive through sound business operations.
(2) Retain solid equity capital to secure the financial health and management stability that society demands of the company as a firm engaged in the margin loan business, which constitutes part of securities market infrastructure, and provide stable and long-term return of profits to shareholders by comprehensively considering revenues environment or investment plans, etc.
(3) Advance systematic and operational improvements to strengthen competitiveness in the margin loan business, strive to expand securities-related services by Japan Securities Finance and its Group companies, and further solidify the profit base of JSF Group.

Basic Policy on Profit Sharing

JSF regards the stable and long-term return on its profits to its shareholders as an important priority. The company follows a basic dividend payments policy, with a view to strengthen its capital base and its internal reserves, taking account of its business performance.

As a standard which reflects a business performance, JSF has established a dividend policy under which the company returns on its profits so that the dividend payout ratio (non-consolidated) is about 40%.

In conformity with our fundamental policy of setting the dividend payout ratio on a non-consolidated basis at about 40%, JSF will take account both of dividend payout ratio and dividend on equity (DOE) on a consolidated basis.

Management Strategy

1. Mid-term Management Plan (FY2009-FY2011)

We are now striving based on the Mid-Term Management Plan formulated in May 2009. This 3-year plan from fiscal 2009 till 2011 is outlined as follows:

[Business Strategies]

i) Increase the Number of Loanable Issues
Increase the number of loanable issues to improve the convenience of margin loan and strengthen competitiveness.

ii) Increase the Use of Loans for Negotiable Margin Transactions
Work to improve the use of loans for negotiable margin transactions to increase the outstanding balance and a market share of loans for negotiable margin transactions.

iii) Respond to Diverse Funding Needs of Securities Companies, Etc.
Implement new financing with flexible lending methods and conditions in order to increase loans to securities companies, etc.

iv) Increase Securities Lending Business Revenues
Aim to expand revenues by developing new customers to increase the outstanding balance of securities lending, introducing more flexible

general stock lending transaction formats, and expanding transaction methods in the bond lending business.

[Reinforcing Management Foundations]

i) Improve Business Management System

While strongly recognizing our social responsibility as an institution specializing in the securities finance business, boost and ensure the awareness of compliance by officers and employees, and work further to strengthen internal audit functions. Also, strengthen risk management to secure management stability and financial health as the risk accompanying a financial business becomes more diverse and complex.

ii) Upgrade Business Continuity Plan

Work to improve the business continuity plan during large-scale disasters and other unexpected contingencies to maintain the function of margin loan business, which constitutes part of securities market infrastructure.

iii) Build Up Effective Organization and Advance Human Resources Development Strategy

Build up a lean and effective organization that can respond flexibly to changes in the external environment such as the reorganization of existing stock exchanges or the expansion of PTS (proprietary trading system) markets. Advance the training of personnel with high levels of expertise, and work to utilize human resources effectively via personnel exchanges among JSF Group companies.

iv) Reinforce Funds Procurement Foundation

Reinforce the funds procurement foundation and otherwise strengthen the ability to raise funds for the stable supply of low-interest funds to securities markets and to make the company's finances more secure.

v) Strengthen Group Company Ties

Actively strengthen ties among JSF Group companies in fields where synergies can be expected, for the provision of more replete securities-related services by JSF Group as a whole.

2. Achievements during this year

(1) Increase the number of loanable issues

By promoting the selection of loanable issues mainly from foreign ETF as, twenty new issues were chosen as loanable issues. Consequently, the total number of loanable issues increased by one to 1,716 loanable issues at the end of March 2010.

Also, we are striving to expand the range of loanable issues by upgrading the full-time stock borrowing team to an independent division (Margin Loan Support Division) in June of last year. It is taking a more positive approach to stock issuance companies and conducting promotional business activities to deepen their understanding about margin loan.

(2) Increase the Use of Loans for Negotiable Margin Transactions

As a result of various measures taken to increase the use of Loans for Negotiable Margin Transactions, such as promotional activities to existing customers, the average outstanding balance of loans for negotiable margin transactions during the fiscal year increased 2.8 billion yen from the previous year to 17.1 billion yen.

(3) Expand trust business at JSF Trust and Banking Co., Ltd.
The number of main settlors of customers' segregated money trust increased to 110 from one in the previous year. By viewing increasing needs for protecting margin in the trust account in foreign exchange margin trading as an opportunity, business with FX traders was promoted. As a result, the number of traders acting as settlors of foreign exchange margin trusts increased by 16 from the previous year to 39.

(4) Improve Business Management System
As part of our scheme to improve the efficiency of risk management at JFS Banking and Trust Co., Ltd., and to strengthen JSF's governance, we have established a system for sharing customer information held at JSF Trust & Banking Co., Ltd. JSF also sent employees to JSF Trust & Banking Co., Ltd., where they work as a staff in the risk management department. These have successfully improved Group's risk management system.

(5) Upgrade Business Continuity Plan
A backup system to ensure business continuity in a time of large-scale disaster, such as earthquake, was constructed and launched in January of this year.

(6) Build Up Efficient Organization
From the standpoint for improving business efficiency, Sapporo and Fukuoka branches were closed on March 31 of this year, with their business having been transferred to Head Office. JSF's business is now conducted only in Head office.

Future Challenges (Strategy)

Within the JSF Group's current management environment, the economy is bottoming out. But in view of the very serious influence exerted by global recession, and of other concerns, such as progressive deflation and the severe employment situation, it is difficult to have optimistic predict how economic conditions will evolve. It has to be expected that the JSF Group, whose business centers upon the financial and securities markets, will have to operate under difficult conditions for some time.

In JSF's second Mid-Term Management Plan, formulated in May of last year, we have reiterated our company's determination to play a public role and to accomplish our mission of contributing to the development of securities markets. We have identified the following key management policies: gaining the trust of society, retaining the solid equity capital that the society demands of the company as a provider of securities market infrastructure, and solidifying the profit base of the JSF Group.

In fiscal 2010, the second year of the second Mid-Term Management Plan, JSF will take concrete measures to achieve the Plan by strengthening competitiveness in the margin loan business with the increased number of loanable issues, promoting loans for negotiable margin transaction and responding to diverse needs of securities companies. We also strive to further boost the awareness of compliance and improve business continuity system in a time of disaster.

Among the JSF's Group companies, our consolidated subsidiary, JSF Trust and Banking Co., Ltd., which has returned a surplus, will continue its exercise of solid business management. Our equity method affiliate, JBIS Holdings, Inc., which has posted a significant loss during the fiscal year, will formulate a new mid-term management plan and will strive to stabilize and strengthen its profit base under our close supervision.

Minoru Masubuchi
President

Services for securities companies and financial institutions

Loans for margin transactions

- **Funds loan**: Loan funds needed to settle standardized margin transactions
- **Stock loan**: Loan stock needed to settle standardized margin transactions

General stock lending

- Lending stock needed to settle stock trading

Bond services

- Brokerage between borrowers and lenders in bond borrowing and lending market

Loans for negotiable margin transactions

- Loan funds needed to settle negotiable margin transactions

Bond financing

- Loan funds needed in bond underwriting, trading, etc.

General loans

- Loan working funds, etc., to securities companies

Secured loans on securities for individual and corporate investors

Bond financing

General loans

- **Direct loans**: Direct loans to customer
- **Safekeeping deposited loans**: Loans on securities in safekeeping account, within credit line set before

Peripheral services

Securities custody

- Custody services for securities owned by institutional investors, etc.

Government bond debt servicing

- Designated by the Bank of Japan, repayment services for principal and interest on government bonds

LOANS FOR MARGIN TRANSACTIONS

What is Margin Transactions?

In margin transactions, an investor trades stocks after (1) depositing a certain amount of collateral (margin requirements) with a securities company and (2) borrowing funds for purchasing stock or stock for sale. Margin transactions help investors to expand their trading volumes by enabling them to purchase stock which value is in excess of their available funds, or to sell stock that they do not own. Thus, margin transactions broaden and strengthen stock trading and contribute to the smooth circulation of stocks and the fair stock prices formation.

Margin transactions is used, for example, when an investor considers that the stock price of a certain issue will rise or decline sharply in a short period of time.

・When it is expected that the stock price will rise, an investor borrows funds for purchasing stock from a securities company (margin buying), and if the stock price rises as expected within a term of repayment (6 months), the investor sells the stock, repays the funds borrowed (reversing transaction) and receives the margin. The investor may also receive the stock (actual receipt) by procuring funds separately and depositing it with a securities company.

・Conversely, when it is expected that the stock price will decline, an investor borrows stock from a securities company and sells them (margin selling). If the stock price declines as expected within the term of repayment (6 months), the investor buys back the stock, returns it to a securities company and receives the margin. The investor may also receive the equivalent money to stock sold by procuring stock separately and offering them to a securities company (actual delivery).

Apart from the purpose of obtaining margins as described above, an investor can use margin transactions as a means for hedging. In other words, in the event that, although an investor expects that the stock price in hand may decline, the stock is not to be sold for some reasons, such as that convertible bond is within its convertible period or that it is a publicly-offered stock just purchased, the investor can avoid loss with hedging sale by using margin transactions.

There are two types of margin transactions, standardized margin transactions and negotiable margin transactions. In standardized margin transactions, terms of repayment are determined by stock exchanges, and a securities company can borrow funds for purchasing and stock for sale needed to settle transactions from a securities finance company (loans for margin transactions).
In negotiable margin transactions, which is limited to cases in which a securities company can procure funds and stock to be lent to customers by internal matching (Note) or external procurement without borrowing from a securities finance company, the condition of margin transactions may be decided freely in negotiations between a securities company and its customer.

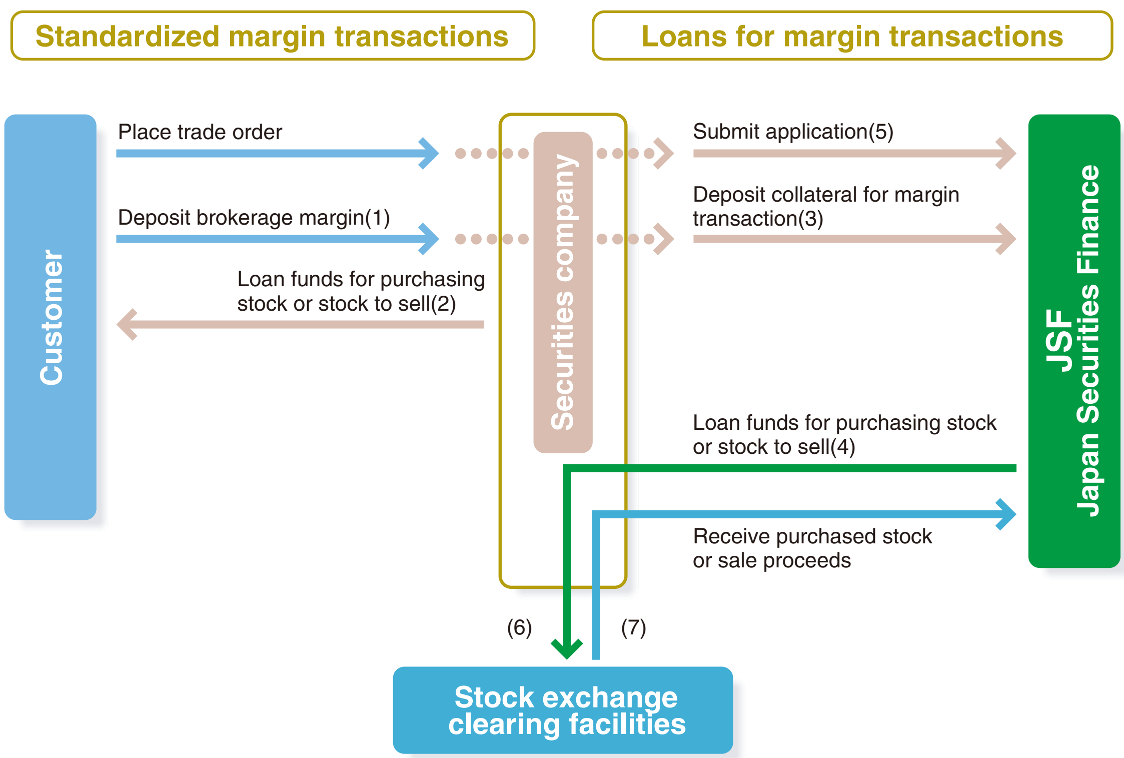
(Note) This is a system of appropriating purchased stock received from buy side as collateral to sell side's stock for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

What is Loans for Margin Transactions?

Loans for margin transactions is a system in which a securities finance company receives a certain amount of margin (margin requirements) from a securities company, who is a general trading participant of stock exchanges (3) and lends funds or stock necessary for margin transactions (4). This is executed through the clearing facilities of stock exchanges. Loans for margin transactions is authorized only for the securities finance companies with a license given by the Prime Minister. We, Japan Securities Finance Co., Ltd. conduct loans for margin transactions through the stock exchange in Tokyo, Sapporo, and Fukuoka.

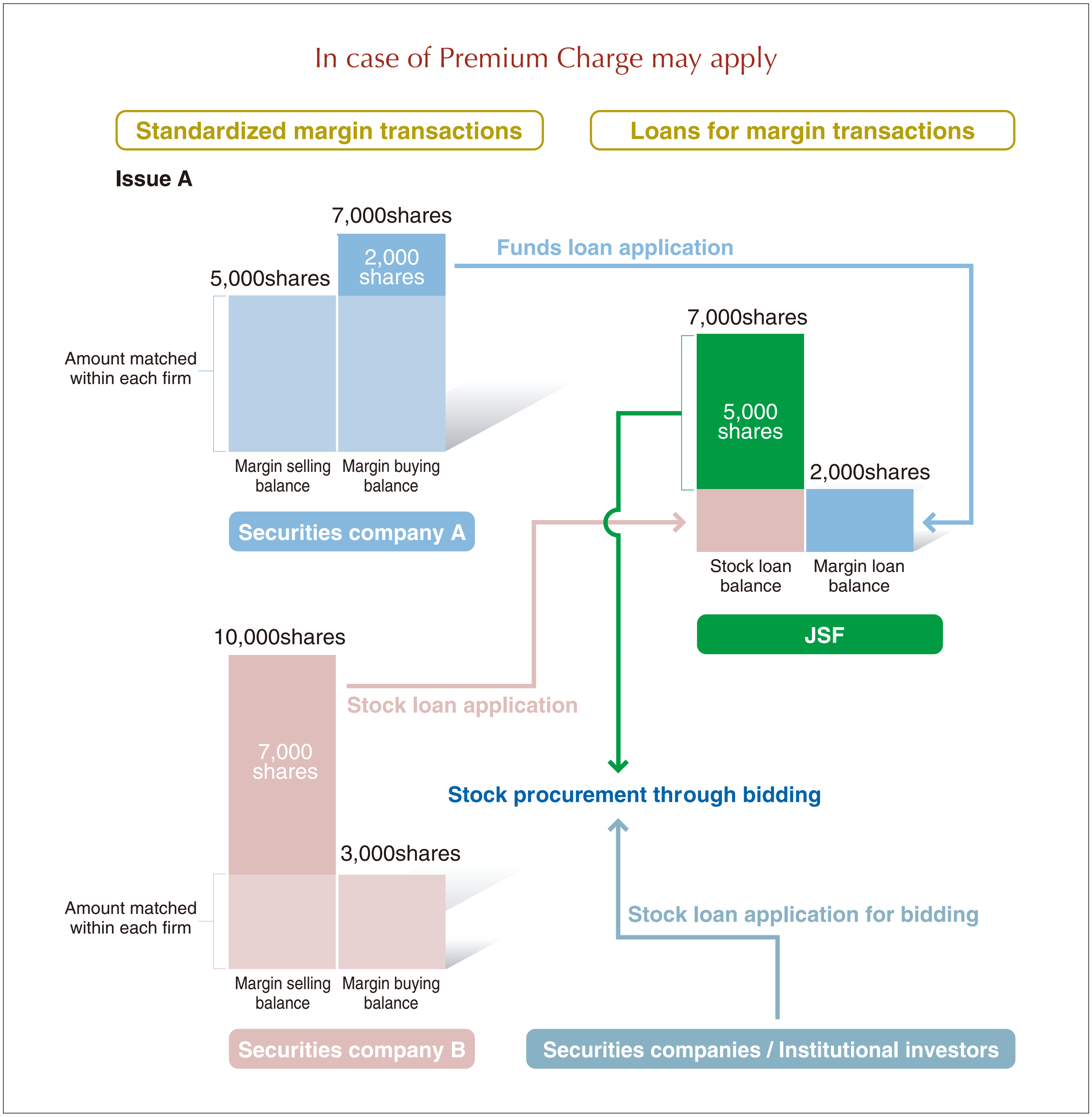
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions (5).To execute the loan, JSF, in place of the securities company, delivers funds or stock to clearing facilities of stock exchanges (6). The stock purchased (collateral stock for loans) or proceeds from sale (collateral money for stock loans) are received by JSF (7), and then each collateral is appropriated.

Standardized margin transactions and Loans for margin transactions



Handling of over-lent issues

JSF usually appropriates stock received as collateral for loans to stock loans. However, should the outstanding stock loans exceed the outstanding loans, it is necessary to procure the stock needed for settlement by bidding with securities companies or institutional investors such as life and non-life insurance companies, banks and other sources. The highest bidding rate becomes the lending rate (Premium Charges) of that issue. This premium charge is applied to all users of standardized margin transactions, and should be collected by all sell sides and paid to all buy sides or successful bidders.



BOND SERVICES

In bond borrowing and lending transactions, a lender lends bonds to a borrower, and after mutually agreed period, the borrower repays the lender with bonds of the same type and quantity. JSF serves as a broker between borrowers and lenders.

The bond borrowing and lending transactions market was established in May 1990 for the purpose of covering bonds sold short, and was followed in April 1996 by the introduction of REPO (cash-collateral bond borrowing and lending transactions). JSF was the first company in Japan to be authorized to offer such brokerage services, because JSF can link securities industries and financial industries on neutral ground and is well versed in handling of bond transactions.

JSF receives applications from both parties and, on their behalf, lends and borrows bonds on the basis of loan agreement. This type of arrangement has several advantages, including helping to form a transaction that matches the needs of both lender and borrower, maintaining high confidentiality of information to ensure the complete privacy of both parities, and transferring all counterparty credit risk to JSF. The arrangement also contributes to creating fair and stable market by publicly disclosing indication via QUICK, Bloomberg, and other information services.

Transaction types

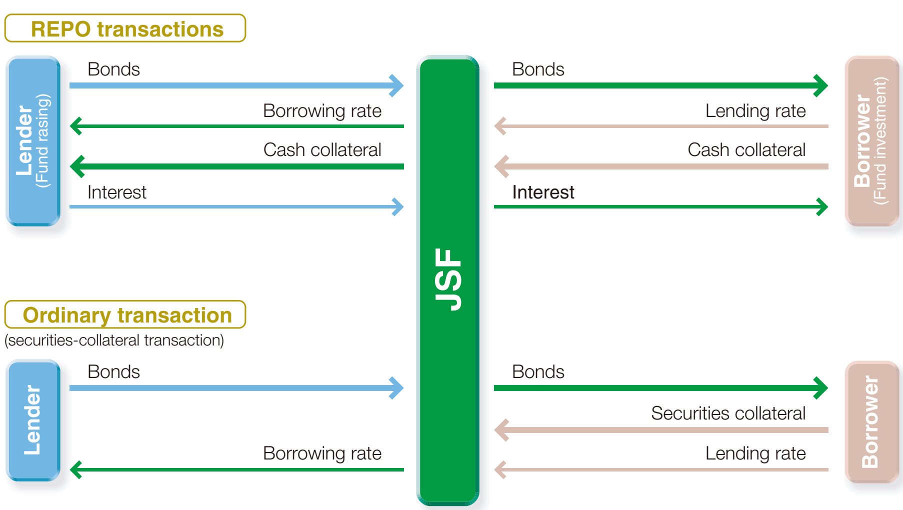
REPO transactions

JSF borrows bonds after depositing cash collateral with a lender and then lends bonds after receiving cash collateral from a borrower. This transaction can be either a Special Collateral transaction that specifies an issue or a General Collateral transaction that does not specify an issue.

Ordinary bond borrowing and lending transactions

JSF, in principle, borrows bonds without collateral from a lender and then lends bonds after receiving collateral from a borrower.

Types of bond transactions



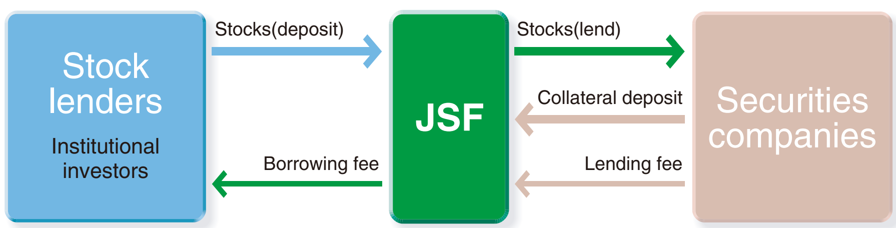
GENERAL STOCK LENDING

This business lends stock needed to settle trades to securities companies. A securities company would use General Stock Lending when it has no stock on hand, for the purpose of hedge sale of convertible bonds or arbitrage transactions with spots and futures, and so forth. JSF has done its utmost to increase the number of eligible issues and shares for brokerage services since the business was launched in 1977.

In February 2002, we implemented offer-bid borrowing and lending transactions (e Stock Lending) by expanding the online network that is linked with securities companies, so as to include institutional investors, such as life and non-life insurance companies.

JSF procures stock for lending from institutional investors such as life and non-life insurance companies. JSF also receives stock in advance for quick stock lending.

Mechanism of stock lending business



LOANS FOR NEGOTIABLE MARGIN TRANSACTIONS

What is Loans for Negotiable Margin Transactions?

Loans for negotiable margin transactions is a system which lends the necessary funds for securities companies to purchase stocks in negotiable margin transactions on behalf of its customer (3), receiving stock purchased (1) and certain margin requirement (2) as collateral for loans

Conditions of loans

Loanable stock Issues

In principle, loanable stock issues are those listed on stock exchange. (However, they can be limited to those we admit available.) Newly listed stocks can be accepted from the 1st day of its listing.

Loan Period

In principle, the due date of loan is the day following the lending date, but it can be extended to the deferment deadline for repayment of negotiable margin transactions for securities companies.

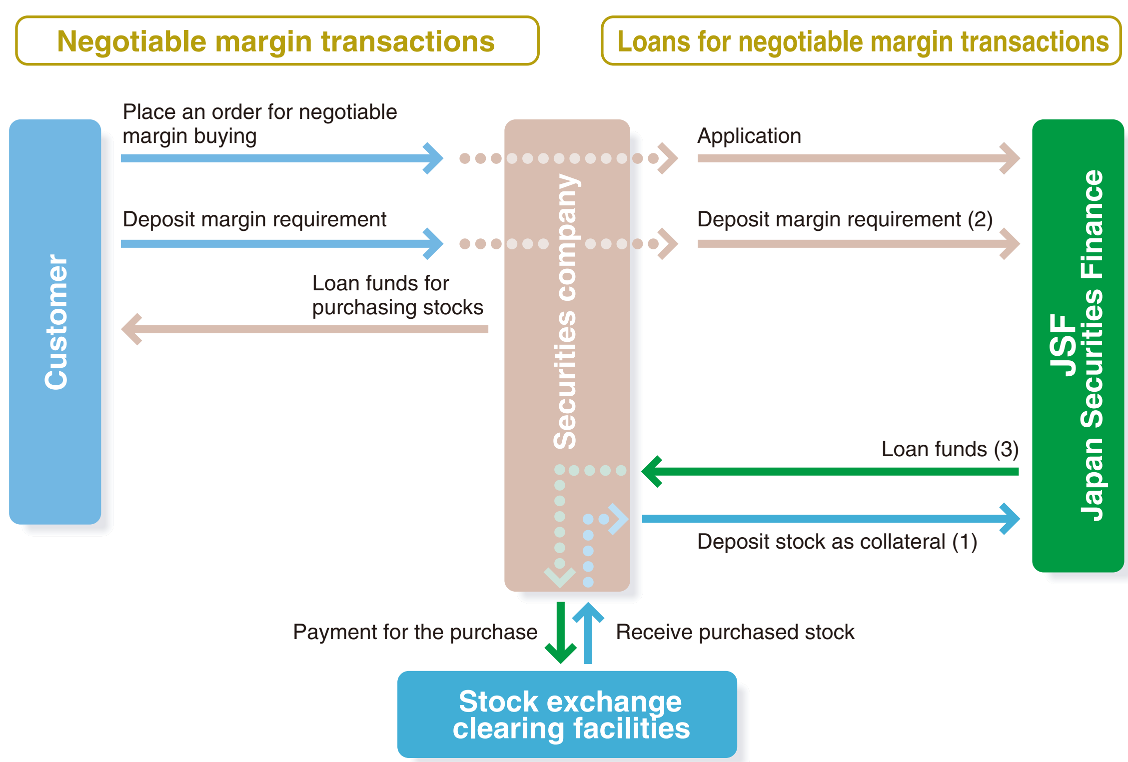
Interest rate

The interest rate on loans is determined individually between JSF and securities companies.

Collateral

JSF receive stock purchased in negotiable margin transactions and certain margin requirement as collateral for loans. Margin requirement can be substituted by a certain ratio of cash or by securities.

Negotiable margin transactions and Loans for negotiable margin transactions



BOND FINANCING

The aim of bond financing is to contribute to smooth underwriting, circulation and fair price formation in bond markets. This business offers low-interest loans by using government and other bonds as collateral to provide funds required by securities companies in bond operations.

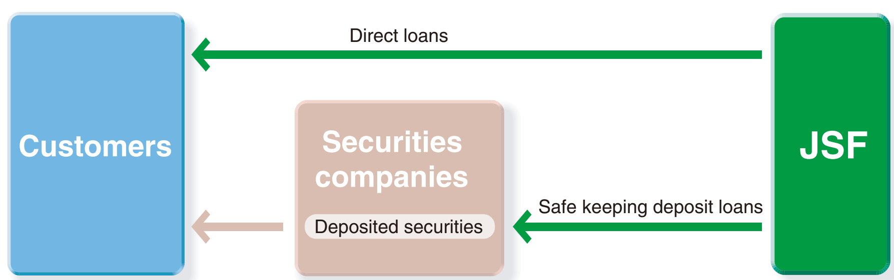
GENERAL LOANS

This business loans working funds required by securities companies by using stocks, bonds, and other securities as collateral, and aims to respond quickly and flexibly to the needs of securities companies.

SECURED LOANS ON SECURITIES FOR INDIVIDUAL AND CORPORATE INVESTORS

JSF provides individual investors with direct loans keeping securities as collateral, mediated loans and safe keeping deposit loans. JSF provides corporate investors, separately, with loans secured by securities.

Secured loans on securities for individual



CORPORATE GOVERNANCE

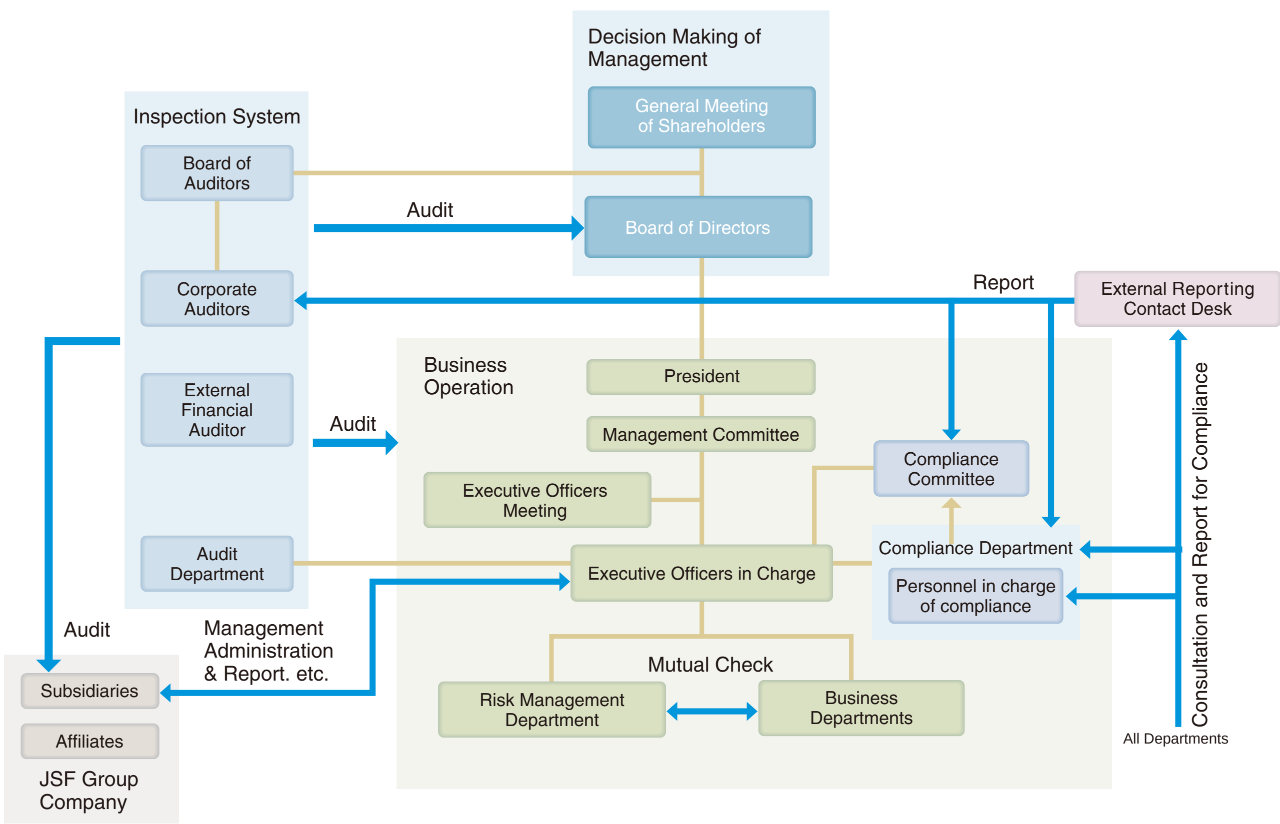
BASIC CONCEPT OF CORPORATE GOVERNANCE

As an institution specializing in the securities finance business, Japan Securities Finance has a mission, while always maintaining a keen awareness of our public role, to contribute to the development of the securities industry by proactively meeting the diverse needs of securities and financial circles and working to boost the long-term interests of securities markets users and participants. The company believes gaining the firm trust of society through sound business operations is our most important management directive.

- Establishment of compliance system
- Establishment and implementation of risk management policies
- Active invitation of outside directors (three directors, two auditors)
- Attendance of corporate auditors at internal meetings and instigation of necessary checks
- Internal audit by the Audit Department, which is independent from other departments

Furthermore, from the perspective of ensuring management transparency, we are committed to making active and timely disclosure of management information that goes beyond legal requirements via our website.

Corporate Governance System Structure



COMPLIANCE SYSTEM

The following details our compliance system and consulting and reporting system in regard to compliance.

The company's compliance system centers on our Board of Directors, the Management Committee, the Compliance Committee and the Compliance Department.The situation regarding internal compliance is constantly studied by the Compliance Department and the results are regularly reported to the Board of Directors and the Management Committee.

The Compliance Committee deliberates important matters concerning compliance. The Compliance Department makes all possible efforts to promote and thoroughly establish compliance through such measures as urging managers and employees alike to take faithful and honest actions based on clear ethical standards.

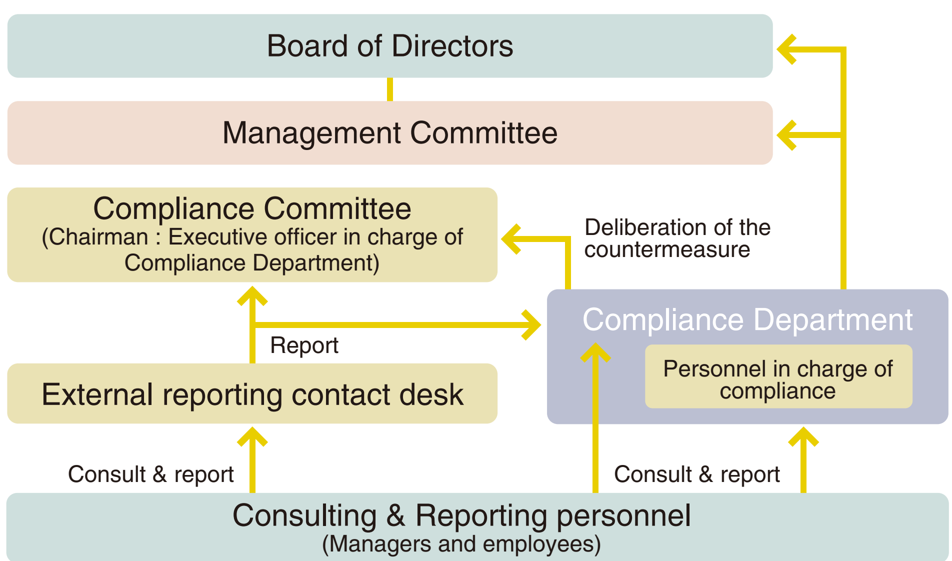
In addition, the company takes the initiative in the promotion of the establishment and strengthening of overall group compliance system.

Consulting and reporting system regarding compliance

In order to strengthen the compliance system, the company has its external consulting and reporting contact desk by lawyers, in addition to the Compliance Committee, the Compliance Department and personnel in charge of compliance.

This external consulting and reporting contact desk guarantees the complete anonymity of any person consulting or reporting matters regarding the company, thereby reducing the psychological burden on those persons and making consulting and reporting easier.

Consulting and Reporting



BUSINESS CONDUCT GUIDELINES

i) As an institution specializing in securities-related financing, the company recognizes its social responsibility and its public mission. It aims to establish firm trust through sound business operation.

ii) The company will comply strictly with relevant rules and regulations. It will conduct its business activities in a fair and reliable manner, in accordance with social norms.

iii) In the interests of its shareholders, the company will maximize its communications with a broad spectrum of society and will disclose information on the management of the organization in a fair and positive manner.

RISK MANAGEMENT

Basic Policies in Risk Management

With environmental changes such as financial deregulation and globalization as well as striking advances in information technologies, risks which financial institutions face have become diversified and more complicated. Accordingly, risk management has become more important in the management of financial institutions than ever before.

In this situation, in order to increase profitability while maintaining sound management, we have positioned risk management at the highest priority and has established basic policies in risk management at our Board of Directors.

More precisely, we have established basic policies for risk management: "Keeping all employees informed of company's emphasis on risk management", "Proper management of each category of risk", "Promotion of integrated risk management", "Establishing a system of mutual checks and balances", and so forth.

Methods for Risk Management

We classify expected risks broadly into 5 categories and then set these categories as management objectives: credit risks, market risks, liquidity risks, processing risks, and system risks. Among these categories, for credit risks and market risks, we are striving to secure profits while quantitatively grasping the risks and controlling them within proper levels as feasible for our management vitality (integrated risk management).

On the other hand, for liquidity risks, processing risks and system risks, we are taking preventive measures against occurrences of these risks by executing proper management according to risk characteristics.

INTEGRATED RISK MANAGEMENT

Integrated risk management is a method to quantify various risks with unified methodology and to manage the total amount of risks within the realm of management vitality. For credit risks and market risks, after allocating risk capital to each risk operation department by risk category within the realm of our own capital, we quantify risks with the methodology of Value at Risk (VaR) and manage the calculated volume of risks within the range of that allocated risk capital. With corresponding to Basel Ⅱ regulation enforced in March 2008, operational risks, which consists of processing risks and system risks, is measured by basic method and we allocate risk capital amounts on it.

Allocated amounts of risk capital are determined as final at the Management Committee, with prior deliberation at regular "Risk Capital Meeting" in every March.

Each risk operation department controls the risks within the realm of the allocated risk capital. Risk Management Department, which is independent of risk operation departments, quantifies the risks, monitors risk operation conditions, and reports to board members.

In case a possible rise for a risk may exceed the allocated amount of the risk capital, an extraordinary "Risk Capital Meeting" will be held to deliberate responses to the case and then consult the Management Committee

Risk Capital

Risk capital is capital necessary to cover losses caused by risks generated from business operation.

Value at Risk (VaR)

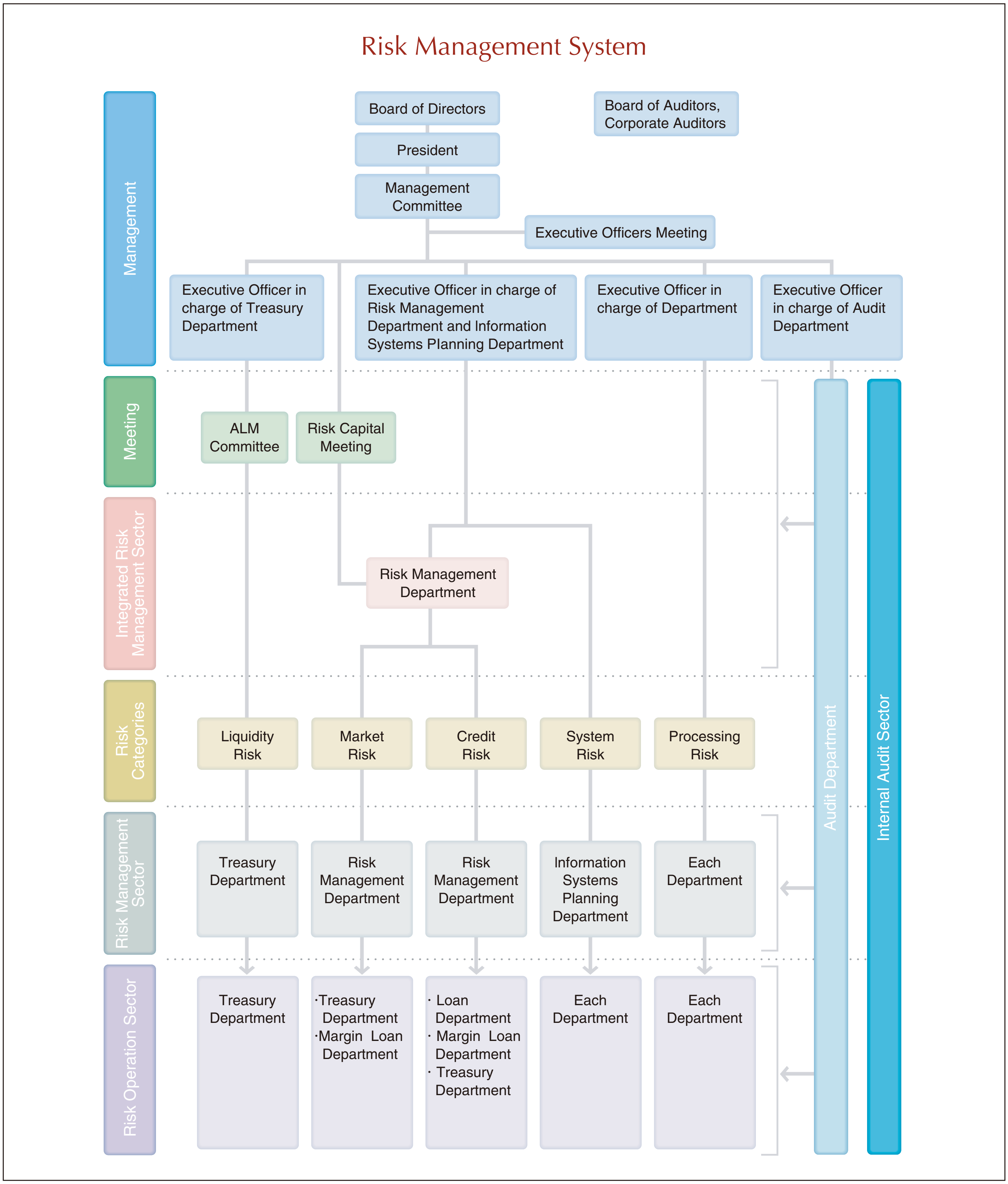
VaR is the maximum expected loss on an asset calculated with a certain period (holding period) and a certain probability (confidence level). This is calculated based on data in the past with statistical method. In our company, VaR is calculated based on confidence level of 99% and holding period of 1 year.

Risk Capital Meeting

This is a meeting to deliberate issues such as allocated amount of risk capital and so forth. The meeting is organized by the managers of Risk Management Department (chairperson), Planning Department, Treasury Department, and all the other business departments concerned.

Management Committee

This is a committee to deliberate important matters concerning business execution. The committee is organized by directors who serve as the executive officers concurrently.



CREDIT RISK MANAGEMENT

Credit risks are the risks to suffer losses by decreasing or losing the values of the assets due to credit events such as deterioration in the financial standing of counterparty.

We try to sustain and improve the soundness of the assets by strictly managing overall credit risks.

More precisely, Risk Management Department assesses credit risks according to in-house ratings, and quantifies and manages credit risks using a default rate for each in-house rating. Furthermore, to complement management by quantification, we implement stress tests. On the other hand, for credit control, Risk Management Department screens client companies and loan transactions and sets the amounts for transaction limitation for each client, while business operation department manages the said amounts for transaction limitation. In addition, each department implements rigid self-assessment of those assets for which they hold jurisdiction.

Additionally, for each loan transaction, as a general rule, we take adequate collateral. By implementing a daily marking to the market of the relevant collaterals, we suppress occurrences of impaired loans. In a case where a borrower falls into bankruptcy, by selling off collateral securities and so forth, we collect receivables in an expeditious manner.

In-house Rating System

We introduced a rating system which segmentalizes credit ratings of client companies into 6 ranks, based on ratings by external credit rating agencies, quantitative assessment of financial standing, obligor classifications used in self-assessment, and so forth. With this system, we assess the levels of credit risks properly, quantify credit risks, and set up amount for transaction limitation.

Stress Tests

Since VaR is statistical estimated figure, it cannot include possible losses, which can be caused by extreme market fluctuation such as Black Monday or economic crisis (stress event). In this situation, to be prepared for unforeseeable circumstances, we implement stress tests to calculate amount of losses in a case of occurrence of stress event based on data in the past or on hypothetical scenarios and assess the soundness of our financial management.

MARKET RISK MANAGEMENT

Market risks are risks to suffer losses caused by fluctuations of values of possessed assets (bonds, stocks) due to fluctuations of various market risk factors such as interest rates and prices of securities.

In our company, Risk Management Department quantifies and manages market risks, and to complement management by quantification, it implements stress tests. Furthermore, to validate the reliability of the market risk quantification model we are adapting, we are also implementing back testing to compare the calculated VaR with the portfolio-fixed virtual profit and loss.

LIQUIDITY RISK MANAGEMENT

Liquidity risks are risks to suffer losses caused by failures of raising necessary funds or by procurement of funds with unusually high interest rates or risks caused by halt of transactions due to market disruptions or by forced transactions with unusually unfavorable prices.

In our company, the Treasury Department has jurisdiction over the management of liquidity risks and attempts to diversify procurement methods and to secure stable suppliers. As for cash flow management, while we are implementing development of cash flow projection, grasping the amount which can be procured or liquidity of assets, and paying attention to concentrated settlement dates for large capital, we have a system to report to our management with daily cash flow status. Furthermore, to be prepared for unforeseeable circumstances, we take measures to supplement liquidity such as possessing a certain amount of government bonds with high liquidity.

In addition, at the "ALM Committee" held in every quarter, we develop cash flow projection based on forecasts of loans outstanding, deliberate policies for ALM (Asset Liability Management) such as revenue management for assets and liabilities of the company as a whole and thus report to the Management Committee.

ALM Committee

This is a committee to deliberate ALM such as development of fund management plans and revenue management for assets and liabilities of the company as a whole. The committee is organized by the executive officer in charge of Treasury Department, and managers of Treasury Department (chairperson) and all the other departments concerned.

PROCESSING RISK MANAGEMENT

Processing risks are risks to suffer losses from failed processing due to negligence, accidents or fraud by officers and employees.

In our company, each department has jurisdiction over the management of processing risks. To lessen processing risks, through facilitation of regulations and manuals and also through trainings, all employees are familiarized with proper handling of operational work. In addition, by ensuring that each department implements its own voluntary inspection on a regular basis, we endeavor to prevent occurrence of accidents and improve our business processing system.

SYSTEM RISK MANAGEMENT

System risks are risks to suffer losses due to system defects such as failures or malfunction of computer systems or due to unauthorized use of computer systems.

In our company, the Information Systems Planning Department holds jurisdiction over management of system risks. To ensure stable operation of our computer systems, the department takes preventive measures for occurrence of system failures such as duplicating networks and equipment and so forth. To develop and operate our computer systems safely and effectively, all operation procedures are clarified and our monitoring system is facilitated. In addition, concerning protection of our own information assets (information and information systems), necessary regulations are consolidated and all officers and employees are familiarized with handling of the information assets. Furthermore, to minimize the effects of system failures, measures are taken such as facilitation of various handling manuals, implementation of drills, and so on.

INTERNAL AUDITING SYSTEM

In our company, the Audit Department, which is independent from other departments, implements strict internal auditing of overall business operation on management status of each category of risk along with regulatory compliance status and validates the appropriateness and efficacy of our internal control system in each department.

The consolidated operating revenues declined 37.1% year-on-year to 27,868 million yen because of a decrease of interest on loans for margin transactions and a decline of interest on collateral money for securities borrowed in bond lending.

The consolidated operating expenses were also down 64.7% to 13,319 million yen occasioned by a dramatic decline of funds procurement costs and disappearance of devaluation losses on securities at JSF Trust and Banking Co., Ltd., a subsidiary of JSF. General and administrative expenses declined 24.2% to 8,650 million yen mainly as credit costs decreased.

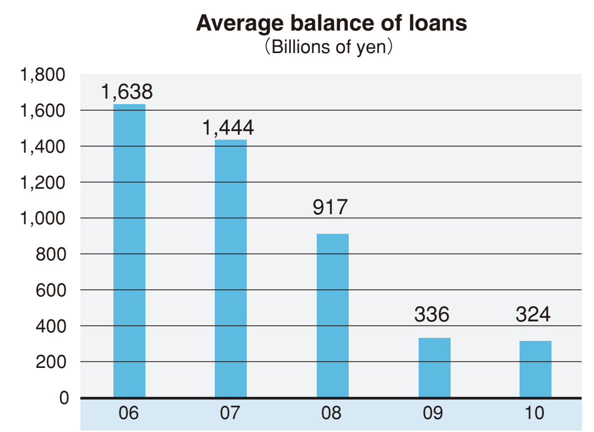
As a result of these developments, JSF Group posted consolidated operating profits of 5,479 million yen because JSF Trust and Banking Co., Ltd., moved from deficits that have continued for two consecutive years to record surpluses. However, its recurring profits totaled 5,182 million yen including equity method investment losses of 916 million yen (non-operating costs) as a result of the losses posted by the equity method affiliate, JBIS Holdings, Inc., while the net profit was 3,572 million yen.

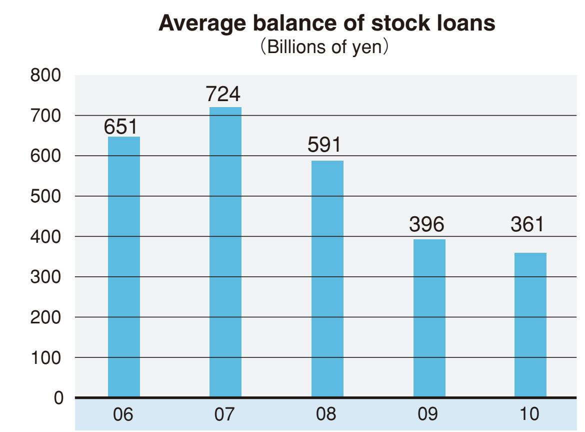
Breakdown of JSF group operating revenues

	2010 (April 1, 2009 - March 31, 2010) Amount (¥ million)	2009 (April 1, 2008 - March 31, 2009) Amount (¥ million)
Loans for margin transactions	12,954	19,638
Interest on loans	3,324	3,899
Interest on collateral money for securities borrowed	1,774	1,992
Fees on lending securities	7,337	13,278
Bond financing and general loans	1,234	1,275
Securities lending	1,454	4,848
Stocks	308	462
Bonds	1,146	4,386
Trust banking	6,016	8,780
Interest on loans	1,330	3,348
Trust charges	249	209
Real estate leasing	1,026	1,091
Other business	5,181	8,664
Total operating revenues	27,868	44,299

Loans for Margin Transaction

In the margin loan business, the average outstanding balance of loans for margin transactions during the fiscal year declined 12.1 billion yen year-on-year to 324.2 billion yen and loan rates declined, resulting in a drop of interest on loan. As the average outstanding balance of stock loans for margin transactions during the fiscal year decreased by 34.7 billion yen to 361.3 billion yen, the lending fees on lending stocks also declined from the previous year. Moreover, because the premium charges on over-lent issues were halved, the fees on lending securities declined from the previous year. As a result, the overall operating revenues of margin loan business totaled 12,954 million yen, down 34.0% from the previous fiscal year.



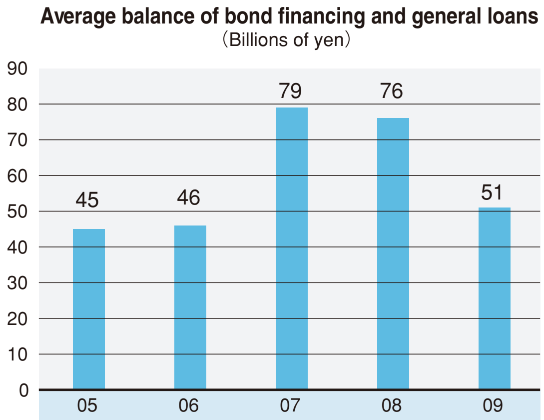


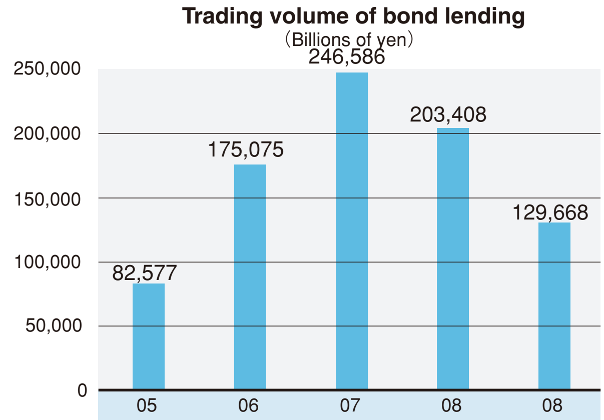
Bond Financing and General Loans business

In the bond financing and general loans business, although the outstanding balance of loans for negotiable margin transaction increased, the outstanding balance of loans to individuals and non-financial companies and of general loans to financial instruments business operators declined from the previous year. As a result, the average outstanding balance of bond financing and general loans during the fiscal year declined 5 billion yen to 46.8 billion yen (including 17.1 billion yen in loans for negotiable margin transactions). However, thanks to the contributions made throughout the year by equity repo transactions that had been made during the latter half of the previous year, the operating revenue of the bond financing and general loans business declined 3.2% but could be virtually maintained at the level of the previous year, namely 1,234 million yen.

Securities Lending Business

In the securities lending business, the interest on collateral money for securities borrowed decreased due to declined transaction rate following the reduction of policy rate in the bonds department, while the demand for stock borrowing to avoid fails in delivery declined in the general stock lending department. As a result, the operating revenues of the securities lending business were down 70.0% to 1,454 million yen.





Trust Banking Business

In the trust banking business, the average outstanding loan balance during the fiscal year declined 195.5 billion yen to 215.3 billion yen due to reduced loans for the government and declined lending rate following the reduction of policy rate. Consequently, the operating revenues declined 31.5% to 6,016 million yen.

Other Business

In other businesses, revenues declined 40.2% to 5,181 million yen, mostly due to decreasing coupon income on JGBs.

CONSOLIDATED BALANCE SHEETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2010 and 2009

Assets	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars(note 2) 2010
Current assets:			
Cash (note 3)	¥ 18,006	¥ 2,957	$ 193,530
Call loans	–	7,000	–
Short-term investments (notes 4 and 16)	2,811,226	2,697,283	30,215,241
Short-term loans receivable (note 16)	655,567	503,071	7,046,077
Securities lent	309,934	460,437	3,331,191
Securities in custody (note 16)	36,622	23,000	393,616
Securities in deposit (note 16)	193,850	94,263	2,083,512
Deferred tax assets (note 10)	936	537	10,060
Collateral money for securities borrowed (note 16)	815,374	1,042,223	8,763,693
Other current assets (note 16)	3,089	33,382	33,201
Allowance for doubtful receivables	(2,086)	(2,820)	(22,421)
Total current assets	4,842,518	4,861,333	52,047,700
Property, plant and equipment:			
Buildings and structures	8,012	7,996	86,113
Tools, furniture and fixtures	1,264	1,350	13,586
Land	3,316	3,316	35,641
Leased assets	27	27	290
Construction in progress	–	112	–
	12,619	12,801	135,630
Accumulated depreciation	(5,964)	(5,836)	(64,102)
Net property, plant and equipment	6,655	6,965	71,528
Intangible assets, net	1,479	1,612	15,896
Investments and other assets:			
Investments in securities (notes 4, 5 and 16)	627,313	422,115	6,742,401
Deferred tax assets (note 10)	–	107	–
Other investments and other assets	3,665	1,928	39,392
Allowance for doubtful receivables	(2,020)	(782)	(21,711)
Total investments and other assets	628,958	423,368	6,760,082
Total assets	¥ 5,479,610	¥ 5,293,278	$ 58,895,206

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars(note 2) 2010
Current liabilities:			
Call money (notes 8 and 16)	¥ 1,344,300	¥ 1,387,800	$ 14,448,624
Short-term borrowings (notes 8 and 16)	2,443,810	1,676,310	26,266,230
Commercial paper (note 8)	27,500	15,000	295,572
Payables under repurchase agreements(notes 8 and 16)	86,193	637,882	926,408
Accrued income taxes (note 10)	1,074	103	11,543
Collateral money received for securities lent	824,159	791,540	8,858,115
Collateral securities deposited	328,756	244,307	3,533,491
Securities borrowed (note 16)	208,377	332,260	2,239,650
Securities lent opposite account	3,273	1,134	35,178
Other current liabilities (note 8)	45,100	47,144	484,737
Total current liabilities	5,312,542	5,133,480	57,099,548
Non-current liabilities:			
Long-term borrowings (notes 8 and 16)	48,500	48,500	521,281
Deferred tax liabilities (note 10)	2,499	505	26,860
Deferred tax liabilities for land revaluation (note 7)	99	99	1,064
Liabilities for retirement and severance benefits (note 9)	2,416	2,585	25,967
Other non-current liabilities (note 8)	897	876	9,641
Total non-current liabilities	54,411	52,565	584,813
Total liabilities	5,366,953	5,186,045	57,684,361
Stockholders' equity:			
Common stock (note 11):	10,000	10,000	107,481
Authorized 200,000,000 shares;issued 93,700,000 shares in 2010 and 2009			
Additional paid-in capital (note 11)	5,182	5,182	55,697
Retained earnings (note 12)	94,646	92,472	1,017,261
Treasury stock, at cost; 649,190 shares in 2010 and 646,977 shares in 2009	(663)	(649)	(7,126)
Total Stockholders' equity	109,165	107,005	1,173,313
Valuation and translation adjustments:			
Net unrealized gain on other securities (note 4)	3,349	85	35,995
Gain on revaluation of land (note 7)	143	143	1,537
Total valuation and translation adjustments	3,492	228	37,532
Total net assets	112,657	107,233	1,210,845
Commitments and contingencies (note 19)			
Total liabilities and net assets	¥ 5,479,610	¥ 5,293,278	$ 58,895,206

CONSOLIDATED STATEMENTS OF OPERATIONS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars(note 2)
	2010	2009	2010
Operating revenues	¥ 27,869	¥ 44,300	$ 299,538
Operating expenses	13,320	37,690	143,164
Operating profit	14,549	6,610	156,374
General and administrative expenses (note 13)	8,651	11,407	92,982
Operating income (loss)	5,898	(4,797)	63,392
Other income (deductions):			
Interest income	12	9	129
Dividend income	125	173	1,344
Interest expenses	(1)	(1)	(11)
Equity in losses of affiliates	(916)	(951)	(9.845)
Loss on devaluation of investments in securities	–	(487)	–
Impairment loss (note 6)	–	(210)	–
Loss on change in equity	(0)	(0)	(0)
Other, net	23	33	247
	(757)	(1,434)	(8,136)
Income (loss) before income taxes	5,141	(6,231)	55,256
Income taxes (note 10):			
Current	1,787	1,646	19,207
Deferred	(218)	(374)	(2,343)
	1,569	1,272	16,864
Net income (loss)	¥ 3,572	¥ (7,503)	$ 38,392

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen								
	Stockholders' equity					Valuation and translation adjustments			
	Common stock (note 11)	Additional paid-in capital (note 11)	Retained earnings (note 12)	Treasury stock	Total	Net unrealized loss on other securities (note 4)	Gain on revaluation of land (note 7)	Total	Total net assets
Balance at March 31, 2008	¥ 10,000	¥ 5,182	¥ 106,874	¥ (440)	¥ 121,616	¥ (10,455)	¥ 143	¥ (10,312)	¥ 111,304
Changes arising during year:									
Cash dividends			(2,222)		(2,222)				(2,222)
Net loss			(7,503)		(7,503)				(7,503)
Purchase of treasury stock				(4,886)	(4,886)				(4,886)
Retirement of treasury stock			(4,677)	4,677	–				–
Net changes other than stockholders' equity						10,540		10,540	10,540
Total changes during the year	–	–	(14,402)	(209)	(14,611)	10,540	–	10,540	(4,071)
Balance at March 31, 2009	10,000	5,182	92,472	(649)	107,005	85	143	228	107,233
Changes arising during year:									
Cash dividends			(1,582)		(1,582)				(1,582)
Net income			3,572		3,572				3,572
Change in scope of the equity method			184		184				184
Purchase of treasury stock				(1)	(1)				(1)
Increase of treasury stock resulting from change in equity of affiliates				(13)	(13)				(13)
Net changes other than stockholders' equity						3,264		3,264	3,264
Total changes during the year	–	–	2,174	(14)	2,160	3,264	–	3,264	5,424
Balance at March 31, 2010	¥ 10,000	¥ 5,182	¥ 94,646	¥ (663)	¥ 109,165	¥ 3,349	¥ 143	¥ 3,492	¥ 112,657

	Thousands of U.S. dollars (note 2)								
	Stockholders' equity					Valuation and translation adjustments			
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized loss on other securities	Gain on revaluation of land	Total	Total net assets
Balance at March 31, 2009	$ 107,481	$ 55.697	$ 993,895	$ (6,976)	$ 1,150,097	$ 9,143	$ 1,537	$ 2,450	$ 1,152,547
Changes arising during year:									
Cash dividends			(17,003)		(17,003)				(17,003)
Net income			38,392		38,392				38,392
Change in scope of the equity method			1,977		1,977				1,977
Purchase of treasury stock				(11)	(11)				(11)
Increase of treasury stock resulting from change in equity of affiliates				(139)	(139)				(139)
Net changes other than stockholders' equity						35,082		35,082	35,082
Total changes during the year	–	–	23,366	(150)	23,216	35,082	–	35,082	58,298
Balance at March 31, 2010	$ 107,481	$ 5,182	$ 1,017,261	$ (7,126)	$ 1,173,313	$ 35,995	$ 1,537	$ 37,532	$ 1,210,845

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2010 and 2009

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars(note 2) 2010
Cash flows from operating activities:			
Income (loss) before income taxes	¥ 5,141	¥ (6,231)	$ 55,256
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:			
Depreciation and amortization	1,019	1,644	10,952
Impairment loss	–	210	–
(Gains) losses relating to short-term investments and investments in securities	(1,154)	7,867	(12,403)
Allowance for doubtful receivables	503	2,721	5,406
Decrease in liabilities for retirement and severance benefits	(169)	(172)	(1,816)
Interest and dividend income	(16,960)	(27,126)	(182,287)
Interest expenses	5,362	15,939	57,631
Equity in losses of affiliates	916	951	9,845
Loss on change in equity	–	0	–
(Increase) decrease in short-term loans receivable	(152,497)	628,314	(1,639,048)
Decrease in call loans	7,000	17,000	75,236
(Increase) decrease in collateral money for securities borrowed	226,849	(141,716)	2,438,188
Decrease in call money	(43,500)	(469,800)	(467,541)
Increase in short-term borrowings	767,500	781,400	8,249,140
Increase (decrease) in payables under repurchase agreements	(551,689)	295,939	(5,929,589)
Increase (decrease) in commercial paper	12,500	(53,000)	134,351
Increase (decrease) in collateral money received for securities lent	32,619	(237,560)	350,591
Increase (decrease) in collateral money received for loan transactions	(6,720)	6,007	(72,227)
Purchase of short-term investments and investments in securities	(8,653,394)	(8,804,956)	(93,007,244)
Proceeds from sale/redemption of short-term investments and investments in securities	8,372,674	7,997,059	89,990,047
Other, net	656	(16,282)	7,051
Sub total	6,656	(1,792)	71,539
Interest and dividend received	16,924	27,185	181,900
Interest paid	(5,504)	(16,389)	(59,157)
Income taxes paid	(826)	(2,928)	(8,878)
Income taxes refunded	194	103	2,085
Net cash provided by operating activities	17,444	6,179	187,489
Cash flows from investing activities:			
Purchase of investments in securities	(14)	(45)	(150)
Capital expenditures	(245)	(255)	(2,633)
Purchase of intangible assets	(385)	(347)	(4,138)
Other, net	(163)	(93)	(1,752)
Net cash used in investing activities	(807)	(740)	(8,673)
Cash flows from financing activities:			
Dividends paid to stockholders	(1,582)	(2,222)	(17,003)
Purchase of treasury stock	(1)	(4,885)	(11)
Other, net	(5)	(4)	(54)
Net cash used in financing activities	(1,588)	(7,111)	(17,068)
Net increase(decrease) in cash and cash equivalents	15,049	(1,672)	161,748
Cash and cash equivalents at beginning of year	2,957	4,629	31,782
Cash and cash equivalents at end of year (note 3)	¥ 18,006	¥ 2,957	$ 193,530

See accompanying notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presenting Consolidated Financial Statements

Japan Securities Finance Co., Ltd. (the Company) and its consolidated subsidiaries maintain their books of account and prepare their financial statements in conformity with financial accounting standards of Japan.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (2 subsidiaries both for 2010 and 2009).

All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in affiliates are accounted for by the equity method.

The Accounting Standards for Consolidation require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the parent company or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and a company over which the parent company and/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method.

The difference between the cost and the underlying net assets at the date of investments in subsidiaries or affiliates is allocated to identifiable assets and liabilities based on fair market value at the date of investments.

The unallocated portion of the difference, which is recognized as goodwill or negative goodwill, is amortized over 5 years.

(c) Cash and Cash Equivalents

For the purpose of the statements of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

(d) Short-term Investments and Investments in Securities

Under the Accounting Standards for Financial Instruments, securities are classified into four categories – "trading securities," "held-to-maturity securities," "investments in affiliates" and "other securities." Securities classified as "trading securities" are stated at fair value and unrealized gains or losses are recorded in the consolidated statement of income. Securities classified as "held-to-maturity securities" are stated at amortized cost. Securities classified as "other securities" with fair value are stated at fair value and unrealized gains or losses, net of related taxes, are excluded from earnings and recorded in a separate component of net assets. Realized gains or losses on the other securities are determined by the moving average method. Bond securities classified as "other securities" for which fair value is not available are stated at the amortized cost. Equity securities classified as "other securities" for which fair value is not available are stated at the moving-average cost.

Floating rate Japanese government bonds held by the Company and certain consolidated subsidiaries were previously evaluated based on their market prices. Based on our determination that their market prices cannot be deemed fair value due to the market situation where the number of transactions is extremely small, such bonds have been valued based on reasonable estimates which are obtained from information vendors in accordance with the "Practical Solution on Measurement of Fair Value of Financial Assets" (ASBJ Practical Issue Task Force (PITF) No. 25, October 28, 2008). The pricing model used by the information vendors is forward pricing model, and the price determinant variables are the spot rate for Japanese government bonds and the swaption volatility.

(e)Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is provided principally by the declining-balance method based on the estimated useful lives.

The estimated useful lives are as follows:

Buildings and structures 3–50 years

(f) Intangible Assets

Intangible assets are carried at cost less amortization. Software development expenses are deferred and amortized by the straight-line method over estimated useful lives (5 years). Intangible assets other than software are deferred and amortized by the straight-line method at rates based on the estimated useful lives of the respective assets.

(g) Allowance for Doubtful Receivables

An allowance for doubtful receivables is provided at an amount of uncollectible receivables based on historical loss ratios and an amount that takes into consideration the possibility of specific liabilities.

(h) Retirement and Severance Benefits

The Company and its consolidated subsidiaries have retirement benefit plans covering substantially all employees.

Under the Accounting Standards for Retirement and Severance Benefits, provisions have been made in the accompanying consolidated financial statements based on the present value of the projected future retirement and severance benefits attributable to employee services rendered by the end of the year, less amounts funded under contributory and noncontributory pension plans.

From the year ended March 31, 2010, the Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part3)" (ASBJ Statement No. 19, July 31, 2008) and the Accounting Standard is to remove the treatment, which provides that a company may use the discount rate determined taking into consideration fluctuations in the yield of bonds over a certain period, and the Company is required to use the discount rate at the each year end. There was no effect on income for the year ended March 31, 2010.

(i) Leases

Financial lease transactions without title transfer were formerly accounted for as operating leases. On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the former accounting standard for lease transactions issued on June 17, 1993, and ASBJ Guidance No.16, "Guidance on Accounting Standard for Lease Transactions," which revised the former guidance issued on January 18, 1994. From the year ended March 31, 2009, the Company adopted the revised accounting standards. The revised accounting standards require that all finance lease transactions shall be capitalized. Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value. Regarding finance leases transactions without title transfer for which the starting date for the lease transactions is prior to the initial fiscal year in which these new accounting standards apply, the Company and its domestic consolidated subsidiaries have continued recognize lease payments as expenses.

The effect of this change on operating loss and loss before income taxes is immaterial.

(j) Income Taxes

The Accounting Standards for Deferred Income Taxes require that deferred income taxes should be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(k) Directors' Bonus

Directors' bonuses are accounted for as an expense when such bonuses are accrued.

(l) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used as of and for the year ended March 31, 2010.

(2) FINANCIAL STATEMENT TRANSLATION

The consolidated financial statements are expressed in Japanese yen. However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 2010 have been translated into United States dollars at the rate of ¥93.04=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2010. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

(3) CASH AND CASH EQUIVALENTS

A reconciliation between "Cash" in the accompanying consolidated balance sheets and "Cash and cash equivalents" in the accompanying consolidated statements of cash flows as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash	¥ 18,006	¥ 2,957	$ 193,530
Cash and cash equivalents	¥ 18,006	¥ 2,957	$ 193,530

(4) SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

No trading securities were held as of March 31, 2010 and 2009.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2010 and 2009 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2010				
Government bond securities	¥ 39,884	¥ 1,193	¥ —	¥ 41,077
Corporate bond securities	7,011	189	—	7,200
Other securities	22,332	302	—	22,634
	¥ 69,227	¥ 1,684	¥ —	¥ 70,911
March 31, 2009				
Government bond securities	¥ 39,873	¥ 232	¥ —	¥ 40,105
Corporate bond securities	11,000	2	183	10,819
Other securities	22,939	4	110	22,833
	¥ 73,812	¥ 238	¥ 293	¥ 73,757

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2010				
Government bond securities	$ 428,675	$ 12,823	$ —	$ 441,498
Corporate bond securities	75,355	2,031	—	77,386
Other securities	240,026	3,246	—	243,272
	$ 744,056	$ 18,100	$ —	$ 762,156

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2010 and 2009 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2010				
Equity securities	¥ 1,557	¥ 999	¥ 13	¥ 2,543
Bond securities:				
Government bond securities	3,041,858	6,908	227	3,048,539
Corporate bond securities	306,057	291	91	306,257
Other securities	3,612	8	10	3,610
	¥ 3,353,084	¥ 8,206	¥ 341	¥ 3,360,949
March 31, 2009				
Equity securities	¥ 1,556	¥ 828	¥ 11	¥ 2,373
Bond securities:				
Government bond securities	2,898,808	3,867	1,515	2,901,160
Corporate bond securities	128,970	251	46	129,175
Other securities	3,770	4	13	3,761
	¥ 3,033,104	¥ 4,950	¥ 1,585	¥ 3,036,469

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2010				
Equity securities	$ 16,735	$ 10.737	$ 140	$ 27,332
Bond securities:				
Government bond securities	32,694,088	74,248	2,440	32,765,896
Corporate bond securities	3,289,521	3,127	978	3,291,670
Other securities	38,822	86	107	38,801
	$36,039,166	$ 88,198	$ 3,665	$36,123,699

The Company recognized impairment losses on other securities with fair value of ¥6,064 million for the year ended March 31, 2009

Securities classified as other securities for which fair value is not available are unlisted equity securities amounting to ¥2,314 million ($24,871 thousand) and ¥2,314 million as of March 31, 2010 and 2009, respectively.

For the years ended March 31, 2010 and 2009, proceeds from sale of other securities are ¥3,179,442 million ($34,172,850 thousand) and ¥3,762,993 million, the gross realized gains are ¥1,216 million ($13,070 thousand) and ¥807 million, and the gross realized losses are ¥3 million ($32 thousand) and ¥2,242 million, respectively.

On December 31, 2008, floating rate Japanese government bonds, Euro-Yen bonds and corporate bonds held by certain consolidated subsidiaries which were previously classified as other securities were reclassified as held-to-maturity securities in accordance with "Tentative Solution on Reclassification of debt Securities" (ASBJ Practical Issue Task Force (PITF) No. 26, December 5, 2008). The subsidiaries have been experiencing difficulty in selling the debt securities at the fair value for a certain period of time because of an extreme diminishment of the market liquidity of the securities due to an unexpected and significant change in the market environment.

Reclassified amount from other securities to held-to-maturity securities as at March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		
	Fair value	Balance sheet amount	Net unrealized loss on other securities
March 31, 2010			
Government bond securities	¥ 41,062	¥ 39,869	¥ 463
Corporate bond securities	2,063	1,911	268
Other securities	22,634	22,332	616
	¥ 65,759	¥ 64,112	¥ 1,347
March 31, 2009			
Government bond securities	¥ 40,090	¥ 39,858	¥ 513
Corporate bond securities	1,902	1,900	301
Other securities	22,833	22,939	1,049
	¥ 64,825	¥ 64,697	¥ 1,863

	Thousands of U.S. dollars		
	Fair value	Balance sheet amount	Net unrealized loss on other securities
March 31, 2010			
Government bond securities	$ 441,337	$ 428,515	$ 4,976
Corporate bond securities	22,173	20,539	2,881
Other securities	243,272	240,026	6,621
	$ 706,782	$ 689,080	$ 14,478

(5) INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates as of March 31, 2010 and 2009 are ¥6,049 million ($65,015 thousand) and ¥6,803 million, respectively.

(6) IMPAIRMENT OF LONG-LIVED ASSETS

For the year ended March 31, 2009, a subsidiary reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

Location	Usage	Classification
Chuo-ku, Tokyo	Dealing system	Other assets

The dealing system was written down to a recoverable amount and the amount was recognized as impairment loss of ¥210 million because the division which used the dealing system was closed.

(7) LAND REVALUATION

As of March 31, 2002, the Company revaluated its land at fair value, pursuant to the Enforcement Ordinance for the Law Concerning Land Revaluation and its amendments (the “Law”). According to the Law, net unrealized gain is reported in a separate component of net assets, net of related taxes, and the related deferred tax liabilities are reported in liabilities as deferred tax liabilities for land revaluation.

(8) DEBT

The composition of debt and the weighted average interest rate on debt as of March 31, 2010 and 2009 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2010			
Short-term borrowings	¥ 2,443,810	$ 26,266,230	0.113%
Current portion of lease liabilities	5	54	—
Long-term borrowings	48,500	521,281	0.706
Lease liabilities	15	161	—
Call money	1,344,300	14,448,624	0.085
Commercial paper	27,500	295,572	0.111
Payables under repurchase agreements	86,193	926,408	0.109
	¥ 3,950,323	$ 42,458,330	

	Millions of yen	Weighted average rate
March 31, 2009		
Short-term borrowings	¥ 1,673,810	0.250%
Current portion of long-term borrowings	2,500	0.756
Current portion of lease liabilities	5	—
Long-term borrowings	48,500	0.951
Lease liabilities	20	—
Call money	1,387,800	0.098
Commercial paper	15,000	0.250
Payables under repurchase agreements	637,882	0.205
	¥ 3,765,517	

(9) RETIREMENT AND SEVERANCE BENEFITS

The Company has defined benefit retirement and pension plans, which consist of contract-type defined benefit corporate retirement and pension plan and unfunded retirement and severance plan that provide for lump-sum payment of benefits, and a defined contribution plan, which is a noncontributory funded contract-type corporate pension plan. On August 1, 2009, the Company converted its tax qualified noncontributory pension plan into a contract-type defined benefit corporate retirement and pension plan. With respect to this transfer, the Company adopted "Accounting for Transfers among Retirement Benefit Plans" (Financial Accounting Standard Implementation Guidance No. 1). The effect of this transfer on income was immaterial.

One subsidiary has joined Zenkoku Jutakuchi Kaihatsu Kosei Nenkin Kikin which was established as a multi-employer noncontributory fund. The welfare pension plan consisted of two tiers, the substitution portion of Japanese Welfare Pension Insurance and the corporate portion, and the plan assets of such welfare pension funds cannot be specifically allocated to the individual participants nor to the substitution and corporate portions.

According to the "Partial Amendments to Accounting Standard for Retirement Benefits Part 2" (Accounting Standards Board of Japan Statement No.14, issued on May 15, 2007), the most recent funded status of the pension plans and the ratio of the company to the entire plans, and the supplementary description are required to be disclosed for corporate pensions under multi-employer pension plans under which the required contribution is recognized as the net pension cost, unless they are insignificant.

Funded status of the whole welfare pension plan at March 31, 2009 and 2008 was outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Plan assets at fair value (1)	¥ 24,190	¥ 31,483	$ 259,996
Benefit obligation under pension funding programs (2)	38,361	37,939	412,307
(1) - (2)	¥ (14,171)	¥ (6,456)	$(152,311)

The subsidiary's proportion of the contribution to the aggregate pension contributions in both March 2009 and 2008 are 0.32%

The funded status of the pension plans as of March 31, 2010 and 2009 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥ (6,511)	¥ (6,305)	$ (69,981)
Plan assets at fair value	2,964	2,548	31,857
Funded status	(3,547)	(3,757)	(38,124)
Unrecognized actuarial loss	1,235	1,449	13,274
Net amount recognized in the consolidated balance sheets	(2,312)	(2,308)	(24,850)
Prepaid retirement and severance benefits	—	—	—
Accrued retirement and severance benefits	¥ (2,312)	¥ (2,308)	$ (24,850)

Net periodic pension cost for the years ended March 31, 2010 and 2009 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 172	¥ 163	$ 1,849
Interest cost	124	123	1,333
Expected return on plan assets	(51)	(61)	(548)
Amortization of actuarial loss	206	129	2,214
Amortization of prior service cost	11	—	118
Additional retirement benefits	36	—	387
Net periodic pension cost	¥ 498	¥ 354	$ 5,353

Significant assumptions of pension plans used to determine these amounts in fiscal 2010 and 2009 are as follows:

	2010	2009
Periodic allocation method for projected benefit	Straight-line	Straight-line
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Period for amortization of unrecognized prior service cost	Immediately amortized	—
Period for amortization of unrecognized actuarial loss	15 years	15 years

Directors and corporate auditors are not covered by the plans described above. The Company and consolidated subsidiaries have abolished retirement benefit system for directors and corporate auditors. Directors and corporate auditors were entitled to lump-sum payment up to the date of the abolishment when they leave the Company or subsidiaries.

At the general meeting of stockholders of the subsidiary held on June 29, 2009, abolishment of retirement benefit system for directors and corporate auditors of the subsidiary was approved, and directors and corporate auditors were entitled to lump-sum payment up to the date of the abolishment when they leave the subsidiary. At the Board of Directors of the other subsidiary held on June 27, 2008, abolishment of retirement benefit system for directors and corporate auditors of the subsidiary was approved, and directors and corporate auditors were entitled to lump-sum payment up to the date of the abolishment when they leave the subsidiary.

As of March 31, 2010 and 2009, the liabilities for retirement and severance benefits related to the plans were ¥104 million ($1,118 thousand) and ¥277 million which include the lump-sum payments mentioned above, respectively.

(10) INCOME TAXES

The Company and its consolidated subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 40.7% in 2010 and 2009.

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the year ended March 31, 2010 is follows:

	2010
Statutory tax rate	40.7%
Equity in losses of affiliates	7.3
Expenses not deductible for tax purposes	0.5
Valuation allowance	(17.8)
Income not credited for tax purposes	(2.3)
Other	2.1
Effective tax rate	30.5%

The reconciliation for the year ended March 31, 2009 is not subject to disclosure because loss before income taxes are recorded.

Significant components of deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Accrued business tax	¥ 89	¥ 28	$ 957
Accrued bonuses	167	176	1,795
Liabilities for retirement and severance benefits (employees)	937	933	10,071
Liabilities for retirement and severance benefits (directors and corporate auditors)	42	113	451
Allowance for doubtful receivables	1,269	1,210	13,639
Tax loss carryforward	4,538	–	48,775
Net unrealized loss on other securities	64	620	688
Loss on devaluation of investments in securities	–	275	–
Other	328	218	3,525
	7,434	3,573	79,901
Valuation allowance	(5,235)	(1,037)	(56,266)
	2,199	2,536	23,635
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(182)	(182)	(1,956)
Net unrealized gain on other securities	(3,155)	(1,791)	(33,910)
Gain on transfer of investments in an affiliate	(422)	(422)	(4,536)
Other	(3)	(2)	(32)
	(3,762)	(2,397)	(40,434)
Net deferred tax assets (liabilities)	¥ (1,563)	¥ 139	$ (16,799)

Net deferred tax assets and liabilities as of March 31, 2010 and 2009 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Current assets - Deferred tax assets	¥ 936	¥ 537	$ 10,060
Investments and other assets - Deferred tax assets	–	107	–
Non-current liabilities - Deferred tax liabilities	(2,499)	(505)	(26,859)

(11) COMMON STOCK

Under the Corporation Law of Japan, the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital.

(12) RETAINED EARNINGS AND DIVIDENDS

The Corporation Law of Japan provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Corporation Law also provides that additional paid-in capital and legal reserve are available for appropriations by the resolution of the stockholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

Cash dividends charged to retained earnings for the years ended March 31, 2010 and 2009 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Corporation Law.

(a) Dividends paid during the year ended March 31, 2009

The following was approved by the general meeting of stockholders held on June 26, 2008.

(a) Total dividends	¥ 1,292 million
(b) Cash dividends per common share	¥ 13
(c) Record date	March 31, 2008
(d) Effective date	June 27, 2008

The following was approved by the Board of Directors held on October 31, 2008.

(a) Total dividends	¥ 931 million
(b) Cash dividends per common share	¥ 10
(c) Record date	September 30, 2008
(d) Effective date	December 5, 2008

(b) Dividends paid during the year ended March 31, 2010

The following was approved by the general meeting of stockholders held on June 26, 2009.

(a) Total dividends	¥ 931 million ($10,006 thousand)
(b) Cash dividends per common share	¥ 10 ($ 0.11)
(c) Record date	March 31, 2009
(d) Effective date	June 29, 2009

The following was approved by the Board of Directors held on November 9, 2009

(a) Total dividends	¥ 651 million ($6,997 thousand)
(b) Cash dividends per common share	¥ 7 ($0.08)
(c) Record date	September 30, 2009
(d) Effective date	December 4, 2009

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2010

The following was approved by the general meeting of stockholders held on June 25, 2010.

(a) Total dividends	¥ 651 million ($6,997 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥ 7 ($0.08)
(d) Record date	March 31, 2010
(e) Effective date	June 28, 2010

(13) GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Salaries	¥ 2,974	¥ 2,986	$ 31,965
Pension cost	502	358	5,396
Provision for retirement and severance benefits (directors and corporate auditors)	3	38	32
Administrative and computer expenses	1,342	1,168	14,424
Depreciation	1,019	1,644	10,952

(14) PER SHARE INFORMATION

(a) Net Income (Loss) per Share

Basic net income (loss) per share, and reconciliation of the numbers and the amounts used in the basic net income (loss) per share computations for the years ended March 31, 2010 and 2009 are as follows:

	Yen		U.S. dollars
	2010	2009	2010
Basic net income (loss) per share	¥ 38.59	¥ (80.33)	$ 0.41

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net income (loss)	¥ 3,572	¥ (7,503)	$ 38,392
Net income (loss) not applicable to common stockholders	—	—	—
Net income (loss) applicable to common stockholders	¥ 3,572	¥ (7,503)	$ 38,392

	Number of shares(Thousands)	
	2010	2009
Weighted average number of shares outstanding on which basic net income (loss) per share is calculated	92,561	93,405

(b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations at March 31, 2010 and 2009 are as follows:

	Yen		U.S. dollars
	2010	2009	2010
Net assets per share	¥ 1,217.12	¥ 1,158.32	$ 13.08

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Total net assets	¥ 112,657	¥ 107,233	$ 1,210,845
Amounts deducted from total net assets	—	—	—
Net assets applicable to common stockholders	¥ 112,657	¥ 107,233	$ 1,210,845

	Number of shares(Thousands)	
	2010	2009
Number of shares outstandings at end of year on which net assets per share is calculated	92,559	92,575

(15) LEASES

Certain key information about finance lease contracts of the Company and its consolidated subsidiaries for the years ended March 31, 2010 and 2009 are as follows, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

(i) Acquisition cost, accumulated depreciation and net book value of leased assets, if they had been capitalized:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Furniture and fixtures:			
Acquisition cost	¥ 29	¥ 45	$ 312
Accumulated depreciation	(20)	(29)	(215)
Net book value	¥ 9	¥ 16	$ 97

(ii) Lease expense and future minimum lease payments including interest expense:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease expense	¥ 6	¥ 7	$ 64
Future minimum lease payments:			
Within one year	¥ 4	¥ 6	$ 43
Over one year	5	10	54
	¥ 9	¥ 16	$ 97

(16) PLEDGED ASSETS

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Short-term investments	¥ 2,795,410	¥ 2,649,403	$ 30,045,249
Short-term loans receivable	167,799	80,000	1,803,515
Securities in custody	36,000	23,000	386,930
Securities in deposit	131,963	65,352	1,418,347
Collateral money for securities borrowed	170,161	307,434	1,828,902
Investments in securities	521,145	359,390	5,601,301
Securities received as collateral for securities loans for margin transactions, etc.	319,059	287,578	3,429,267

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Call money	¥ 1,267,300	¥ 1,202,900	$ 13,621,023
Short-term borrowings	1,635,300	1,103,300	17,576,311
Payables under repurchase agreements	86,193	451,260	926,408
Securities borrowed	170,161	307,434	1,828,902
Long-term borrowings	10,000	10,000	107,481

In addition to the above, short-term investments of ¥2,999 million ($32,233 thousand), other current assets of ¥500 million ($5,374 thousand) and investments in securities of ¥2,106 million ($22,635 thousand) are deposited for the Clearing Fund of Japan Securities Clearing Corporation and Japan Government Bond Clearing Corporation, etc. at March 31, 2010.

In addition to the above, other current assets of ¥500 million and investments in securities of ¥9,820 million are deposited for the Clearing Fund of Japan Securities Clearing Corporation and Japan Government Bond Clearing Corporation etc. at March 31, 2009.

The fair value of the securities received as collateral for bond borrowing and lending transaction with cash collateral and securities borrowed under loan for consumption agreement as of March 31, 2010 and 2009 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Securities loaned	¥ 628,671	¥ 584,778	$ 6,756,997
Securities pledged as collateral	183,354	428,974	1,970,701
Securities on hand	46,862	50,205	503,676

(17) FINANCIAL INSTRUMENTS

"Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, March 10, 2008) and its "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19 Guidance, March 10, 2008) were applied for the year ended March 31, 2010.

Conditions of Financial instruments

(1) Management policy

The Company and a consolidated subsidiary, JSF Trust and Banking Co., Ltd. ("JSFTB") are engaged in mainly handling financial instruments. The Company's business is loan activities, centering on loans for margin transactions. The loans for margin transaction is loan activities to loan money or stocks for settlement of standardized margin transactions. The transaction is strongly effected by security market condition, therefore the Company raise money flexibly from short-term finance market, primarily from call market. The Company owns securities such as Japanese Government Bonds to maintain daytime liquidity.

A consolidated subsidiary, JSFTB is engaged in credit activities such as loans as banking business and money and securities activities. For business and money and securities activities, JSFTB invested in highly liquid and safe-and-secure securities such as government bonds, government-backed bonds, local government bonds and public corporation bonds. JSFTB usually raise money from call market.

(2) Financial instruments and risks

Main financial instrument that the Company holds are short-term loans, collateral money for securities borrowed, securities and investments in securities such as government bonds and equity securities. Main financial instrument that JSFTB holds are loans to government and business corporations and securities such as government bonds, government-backed bonds, local government bonds and public corporation bonds. Loans held by the Company and JSFTB are exposed to credit risks that caused from counterparties' default of contract. Securities are exposed to market risks. Collateral money for securities borrowed is collateral money mainly for repurchase transaction and securities borrowed of loans for margin transactions. Regarding raising money such as call money and short-term borrowings of the Company and JSFTB, the liabilities are exposed to liquidity risks that caused from turmoil in the financial markets or a credit rating down.

JSFTB has entered into interest rate swaps for hedging purposes and the difference in amounts to be paid or received on interest rate swaps is recognized over the life of the agreements as an adjustment to interest expense when certain criteria are met.

(3) Financial instruments risk management

The Company places risk management as top priority of management. Basic policy of risk management is approved at the Board of Directors, and various rules for risk management according to the basic policy are established for concrete risk management method or system. The Company improves a system for being reported by JSFTB concerning JSFTB's risk management.

i) Integrated risk management

The Company quantizes the risk by Value at Risk (VaR) approach after allocating risk capital within equity, and controls the quantized risk within the allocated risk capital. Each business operation department controls a risk within the allocated risk capital, risk management department that is independent from each operational section quantizes the risk, monitors the risk management and reports to the management.

ii) Credit risk

The Company manages all of the credit risk strictly to maintain sound assets quality. The Risk Management Department evaluates credit risks according to the in-house rating and quantizes and controls the credit risk using the default rate by each in-house rating category. Stress tests are also performed for compensating the quantization control. The Risk Management Department evaluates customers or loans, and sets up the credit limits, while business operation department monitors the credit limit. Assets owned by business operation departments are assessed by themselves strictly. The Company receives collateral securities for each loan and revaluates the securities daily to mitigate the collectability issues, and the Company collects the claims quickly through sale of the collaterals when the customer bankrupts.

iii) Market risk

The Risk Management Department quantizes and controls market risks, and performs stress tests to compensate the quantization control. Back-testing which is the test compared calculated VaR and estimated profit or loss by using the fixed portfolio is performed to test the reliability of the Company's market risk quantization model.

iv) Liquidity risk

The Treasury Department of the Company seeks to diversify financing channels and to secure stable financing sources. For sound cash flow management, the Company develops cash flow forecast, understands the amount can be raised or future liquidity and also understands dates of a large payment concentration, the Company has a system to report to our management with daily cash flow status. The Company tries to hold enough liquidity, for example, to possess a certain amount of government bonds, makes a contingency plan and builds a company-wide emergency response system against contingencies. At the "ALM Committee" held in every quarter, the Company develops cash flow forecast based on estimates of loans outstanding, studies policies for ALM (Asset Liability Management) such as revenue management for assets and liabilities of the Company and the Company has a system to report to our management.

v) Subsidiary's risk control system

JSFTB basic policy of risk management is approved at the Board of Directors, and various rules for risk management according to the basic policy are established for concrete risk management method or system, and the Risk Management Department controls the risks totally. The Risk Management Department measures and monitor the risk quantity, collects and analyzes information and reports the risk condition to management for maintaining the proper risk management.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments which quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note (18) Derivatives does not represent the market risk of the derivative transactions.

(5) Concentration of credit risk

At March 31, 2010, 56% of short-term loans receivable are loans receivable from financial instruments firms.

Fair value of financial instruments

The carrying amounts on the consolidated balance sheets, fair value, and differences as of March 31, 2010 are as follows.

Financial instruments, of which it is extremely difficult to measure the fair value, are not included. (Please see "<2> Financial instruments of which the fair value is extremely difficult to measure")

March 31, 2010	Millions of yen			Thousands of U.S. dollars		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 18,006	¥ 18,006	¥ —	$ 193,530	$ 193,530	$ —
(2) Short-term loans receivable	655,567			7,046,077		
Allowance for doubtful receivables (*1)	(1,915)			(20,583)		
	653,652	653,652	—	7,025,494	7,025,494	—
(3) Collateral money for securities borrowed	815,374	815,374	—	8,763,693	8,763,693	—
(4) Short-term investments and investments in securities (*2)						
Held-to-maturity securities	69,227	70,911	1,684	744,056	762,156	18,100
Other securities	3,360,544	3,360,544	—	36,119,347	36,119,347	—
Total	¥ 4,916,803	¥ 4,918,487	¥ 1,684	$52,846,120	$52,864,220	$ 18,100

Liabilities:						
(1) Call money	¥ 1,344,300	¥ 1,344,300	¥ —	$14,448,624	$14,448,624	$ —
(2) Short-term loans receivable	2,443,810	2,443,810	—	26,266,230	26,266,230	—
(3) Commercial paper	27,500	27,500	—	295,572	295,572	—
(4) Payables under repurchase agreements	86,193	86,193	—	926,408	926,408	—
(5) Collateral money received for securities lent	824,159	824,159	—	8,858,115	8,858,115	—
(6) Long-term bollowings	48,500	48,531	31	521,281	521,614	333
Total	¥ 4,774,462	¥ 4,774,493	¥ 31	$51,316,230	$51,316,563	$ 333

*1 Allowance for doubtful accounts associated with short-term loans receivable-trade are deducted.

*2 Other than the above, the Company held affiliates company stocks, their carrying value are ¥5,694 million ($61,199 thousand), fair value are ¥3,385 million ($36,382 thousand) and differences are ¥2,309 million ($24,817 thousand)

<1> Fair value measurement of financial instruments

Assets:

(1) Cash

The carrying amount approximates fair value because of the short maturity of these instruments.

(2) Short-term loans receivable

The carrying amount of short-term loans receivable with variable interest rate approximates fair value because the fair value is reflected the fluctuation of interest market in a short period and credit status of the borrower does not change so much from when the Company lent. Allowance for doubtful receivables are estimated based on collectable amounts by collaterals and guarantee and thus the fair value approximates the carrying amount minus allowance for doubtful receivables amounts. Therefore, the fair value is based on the carrying amount minus allowance for doubtful receivables amounts.

(3) Collateral money for securities borrowed

The carrying amount approximates fair value because of the short maturity of these instruments.

(4) Short-term investments and investments in securities

The fair value of equity securities and bond securities is calculated by quoted market price. The fair value of government bonds with variable interest rate is estimated based on quotes from information venders. The fair value of investment trust is calculated by quoted market price. Please see note "(4) Short-term Investments and Investments in Securities" for information by category.

Liabilities:

(1) Call money, (2) Short-term borrowings, (3) Commercial paper, (4) Payables under repurchase agreements and (5) Collateral money received for securities lent

The carrying amount approximates fair value because of the short maturity of these instruments.

(6) Long-term borrowings

The carrying amount of long-term borrowings with variable interest rate approximates fair value because the fair value is reflected the fluctuation of interest market in a short period and credit status of the Company does not change so much from when the Company borrowed. The fair value of long-term borrowings with fixed interest rate is based on the present value of future cash flows of interest and principal payments discounted using the current borrowing rate for similar borrowings of a comparable maturity.

<2> Unlisted stocks of ¥2,314 million ($24,871 thousand) have no market value, therefore are not included in "Assets: (4) Short-term investments and investments in securities - other securities."

<3> Projected future redemption of monetary claim and securities with maturities

	Millions of yen			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash	¥ 18,006	¥ –	¥ –	¥ –
(2) Short-term loans receivable	589,071	61,908	4,589	–
(3) Collateral money for securities bollowed	815,374	–	–	–
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
Bond securities				
Government bonds	15	–	37,000	3,000
Corporate bond	–	5,100	2,000	–
Other	3,400	17,500	2,000	–
Other securities with maturities				
Bond securities				
Government bonds	2,570,591	220,312	163,000	87,000
Corporate bond	235,561	68,257	–	–
Other	–	–	–	–
Other	–	406	3,101	–
Total	¥ 4,232,018	¥ 373,483	¥ 211,690	¥ 90,000

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash	$ 193,530	$ –	$ –	$ –
(2) Short-term loans receivable	6,331,374	665,391	49,323	–
(3) Collateral money for securities bollowed	8,763,693	–	–	–
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
Bond securities				
Government bonds	161	–	397,678	32,244
Corporate bond	–	54,815	21,496	–
Other	36,543	188,091	21,496	–
Other securities with maturities				
Bond securities				
Government bonds	27,628,880	2,367,928	1,751,935	935,082
Corporate bond	2,531,825	733,631	–	–
Other	–	–	–	–
Other	–	4,364	33,330	–
Total	$45,486,006	$ 4,014,220	$ 2,275,258	$ 967,326

<4> The annual maturities of the long-term borrowings, lease liabilities and other interest bearing liabilities

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four year through five years	Due after five years
Call money	¥ 1,344,300	¥ –	¥ –	¥ –	¥ –	¥ –
Short-term borrowings	2,443,810	–	–	–	–	–
Commercial paper	27,500	–	–	–	–	–
Payables under repurchase agreements	86,193	–	–	–	–	–
Collateral money received for securities lent	824,159	–	–	–	–	–
Lease liabilities	5	5	5	5	1	–
Long-term borrowings	–	17,000	24,000	7,500	–	–
Total	¥ 4,725,967	¥ 17,005	¥ 24,005	¥ 7,505	¥ 1	¥ –

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four year through five years	Due after five years
Call money	$14,448,624	$ –	$ –	$ –	$ –	$ –
Short-term borrowings	26,266,229	–	–	–	–	–
Commercial paper	295,572	–	–	–	–	–
Payables under repurchase agreements	926,408	–	–	–	–	–
Collateral money received for securities lent	8,858,115	–	–	–	–	–
Lease liabilities	54	54	54	54	11	–
Long-term borrowings	–	182,717	257,954	80,610	–	–
Total	$50,795,002	$ 182,771	$ 258,008	$ 80,664	$ 11	$ –

(18) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative transactions to which hedge accounting are applied at March 31, 2010 are summarized as follows:

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen: Contract or notional amounts	Millions of yen: Fair value	Thousands of U.S. dollars: Contract or notional amounts	Thousands of U.S. dollars: Fair value
*1	Interest rate swaps:					
	Variable rate received for fixed rate	Short-term loans	¥ 17,666	*2	$ 189,875	*2
	Variable rate received for fixed rate	Investments in securities	5,100	*2	54,815	*2
	Fixed rate paid for variable rate	Call money	250,000	*2	2,687,017	*2
	Variable rate paid for variable rate	Long-term borrowings	11,500	*2	123,603	*2
	Total		¥ 284,266		$ 3,055,310	

*1 The difference in amounts to be paid or received on interest rate swaps is recognized over the life of the agreements as an adjustment to interest expense.
*2 For the assets and liabilities for which interest rate swap contracts are used to hedge the interest rate fluctuations, fair value of derivative financial instrument is included in fair value of the respective assets and liabilities as hedged items.

(19) COMMITMENTS AND CONTINGENCIES

As of March 31, 2010 and 2009, undrawn amount of general loan for securities companies and customers and overdraft loan are as follows:

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Total credit line	¥ 556,523	¥ 584,936	$ 5,981,546
Drawn amount	(36,617)	(35,965)	(393,562)
Undrawn amount	¥ 519,906	¥ 548,971	$ 5,587,984

(20) BALANCES AND TRANSACTIONS WITH RELATED PARTY

The condensed financial information of all affiliates accounted for by equity method, including the significant affiliate, JBIS Holdings, Inc. are as follows:

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Total current assets	¥ 16,646	¥ 21,102	$ 178,912
Total non-current assets	21,149	41,896	227,311
Total current liabilities	8,285	13,239	89,048
Total non-current liabilities	10,789	8,074	115,961
Total net assets	18,715	41,674	201,150
Sales	40,532	44,050	435,641
Income (loss) before income taxes	(1,357)	118	(14,585)
Net loss	(1,988)	(554)	(21,367)

(21) SEGMENT INFORMATION

(a) Industry segments

The Company has categorized its business into a single industry segment, securities finance business.

(b) Geographic segments

The Company does not have any overseas subsidiaries for the years ended March 31, 2010 and 2009.

(c) Overseas sales

Not applicable.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Japan Securities Finance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Japan Securities Finance Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and related consolidated statements of operations, changes in net assets and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Japan Securities Finance Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

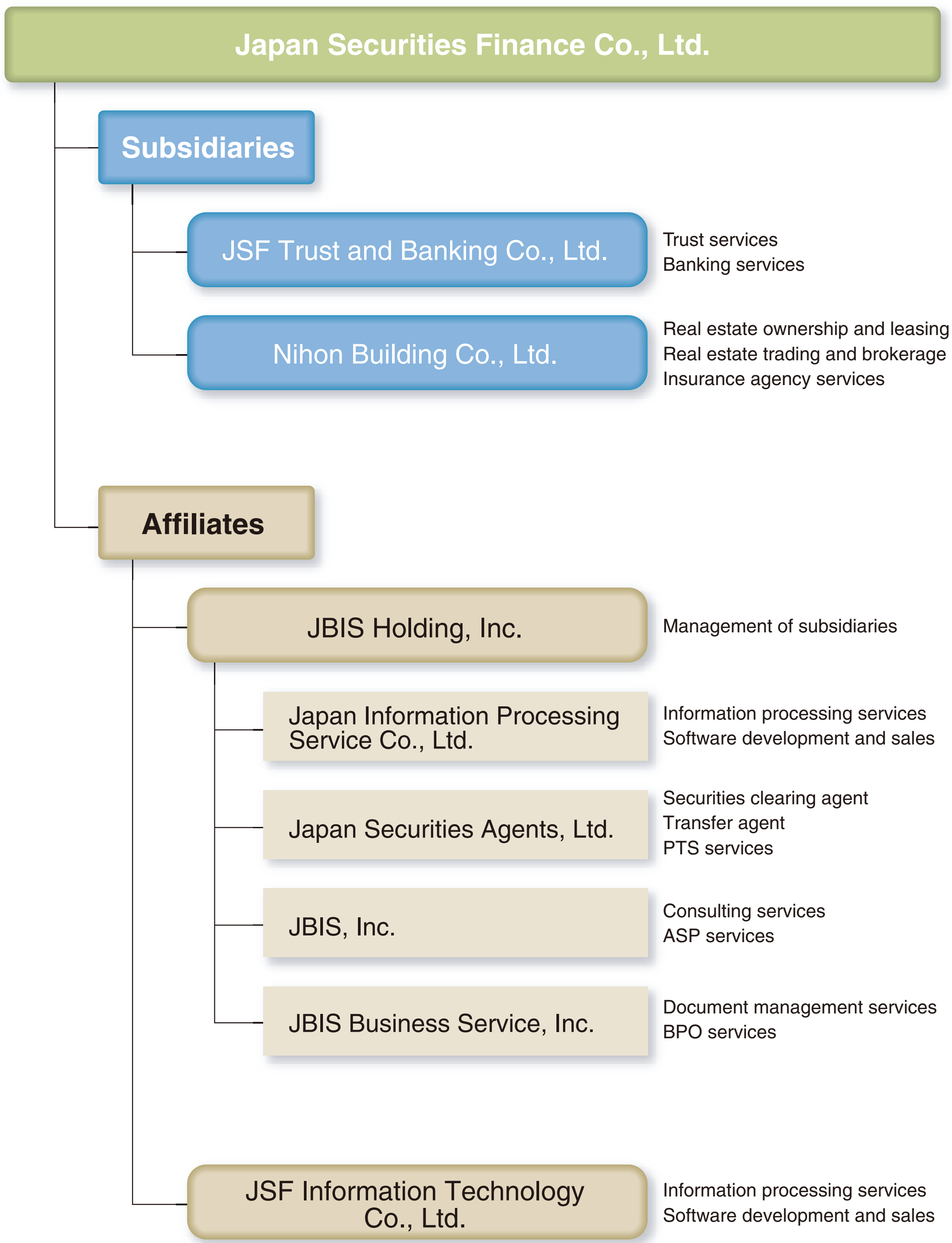
The accompanying consolidated financial statements as of and for the year ended March 31, 2010 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis described in Note 2 to the consolidated financial statements.

Toyo Horwath

Toyo Horwath
Tokyo, Japan
June 28, 2010

OUTLINE OF THE CORPORATE GROUP

(As of March 31, 2010)



CORPORATE DATA

JAPAN SECURITIES FINANCE CO., LTD.

Address
1-2-10 Nihonbashi-Kayabacho, Chuo-ku, Tokyo 103-0025
Tel:+81-3-3666-3184 Fax:+81-3-3666-1403

Established
July 1927

Capital
¥ 10 billion

Web site
http://www.jsf.co.jp

Stock exchange listing
Tokyo Stock Exchange, 1st Section

Shares outstanding
93,700,000 shares (as of March 31, 2010)

Number of shareholders
8,983 shareholders (as of March 31, 2010)

Transfer agent
Japan Securities Agents, Ltd.
1-2-4 Nihonbashi-Kayabacho, Chuo-ku, Tokyo 103-8202
Tel: +81-3-3668-9211

Board of Directors and Corporate Auditors
(As of June 25, 2010)

Directors

President	Minoru Masubuchi *
Executive Vice President	Hiromitsu Matsuda *
Senior Managing Director	Eizo Kobayashi *
	Yasuhisa Hashimoto
Managing Director	Hiroshi Nasuno
	Hiroshi Asakura
Directors	Takashi Imai **
	Akira Kanno **
	Hiroshi Koshida **

(* Representative Directors)
(** Outside Directors)

Corporate Auditors

Shigeru Awashima
Ushio Mizuno *
Toshio Kamiyama *
(* Outside Corporate Auditors)

Executive Officers

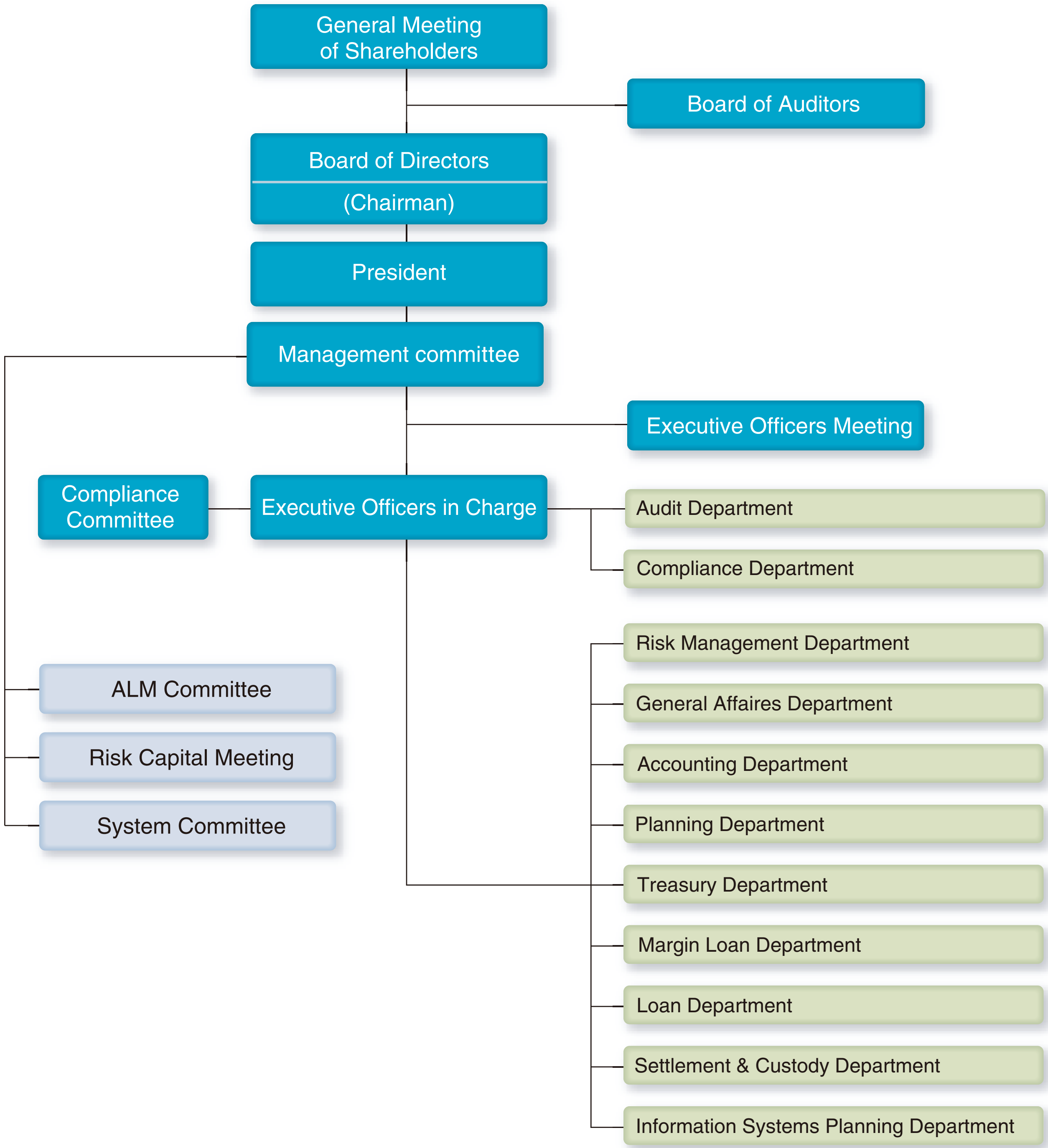
President	Minoru Masubuchi
Executive Vice President	Hiromitsu Matsuda
Senior Managing Director	Eizo Kobayashi
	Yasuhisa Hashimoto
Managing Director	Hiroshi Nasuno
	Hiroshi Asakura
Senior Executive Officers	Teiichi Takatori
Executive Officers	Masao Iguchi
	Tomoyoshi Sugaya
	Toshihiko Ishide
	Ichiro Kasahara

Rating Information

(As of the end of July, 2010)

	Long-term Rating	Short-term Rating
Standard and Poor's (S&P)	A	A-1
Rating and Investment Information, Inc. (R&I)	AA$^-$	a-1$^+$
Japan Credit Rating Agency (JCR)	AA$^-$	J-1$^+$

ORGANIZATION



JSF

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