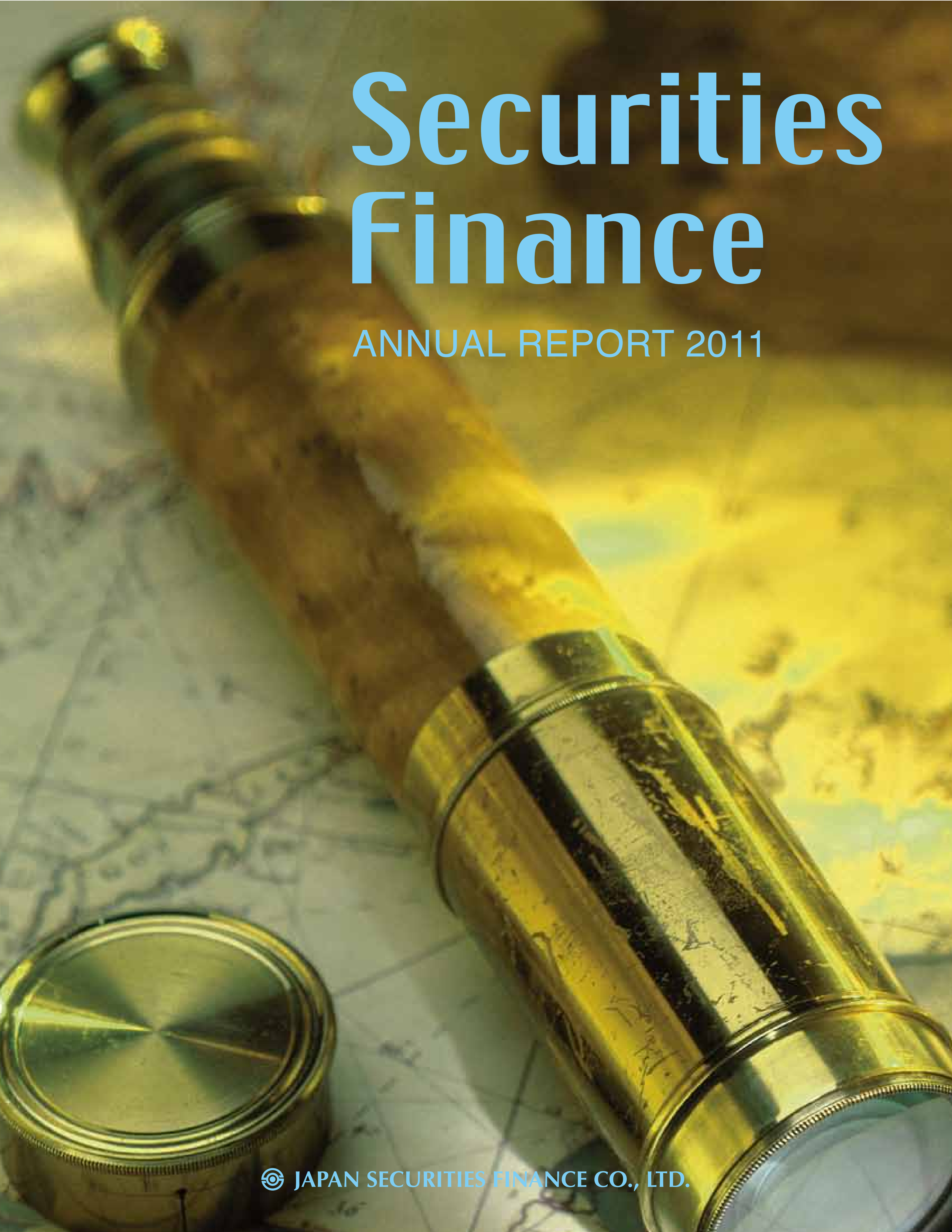
Securities Finance

ANNUAL REPORT 2011



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

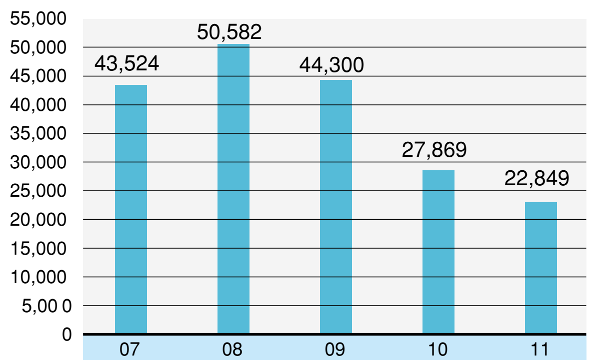
Japan Securities Finance Co.,Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2011 (April 1, 2010 - March 31, 2011)	2010 (April 1, 2009 - March 31, 2010)	2011 (April 1, 2010 - March 31, 2011)
Consolidated financial results			
Operating revenues	¥ 22,849	¥ 27,869	$ 274,793
Net income	3,492	3,572	41,996
Net assets (period end)	114,927	112,657	1,382,165

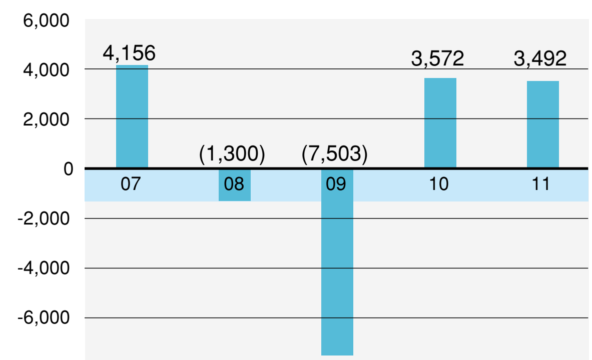
	Yen		U.S. dollars
	2011	2010	2011
Amounts per share			
Net income	¥ 37.73	¥ 38.59	$ 0.45
Net assets	1,241.67	1,217.12	14.93

Note:U.S. dollar amounts in this annual report are translated from Japanese Yen, for convenience only, at the rate of ¥ 83.15=US$1, the approximate exchange rate at March 31, 2011.

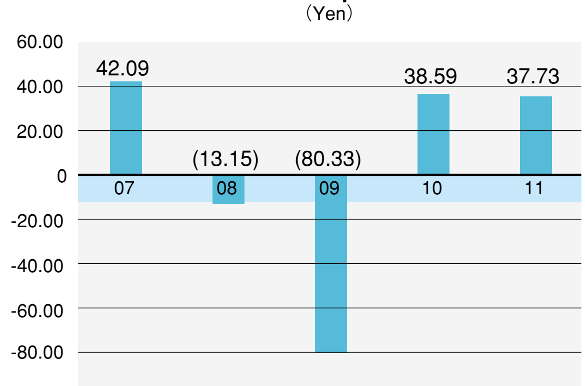
Operating revenues
(Millions of yen)



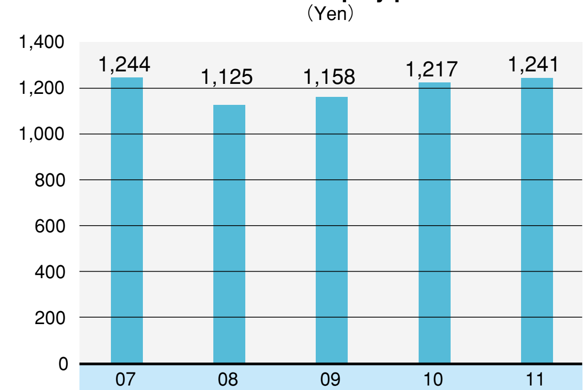
Net income
(Millions of yen)



Net income per share
(Yen)



Shareholders' equity per share
(Yen)



Minoru Masubuchi
President

It is my sincere hope that the Annual Report 2011 for the fiscal year ended March 31, 2011 will be of use to shareholders, investors and other supporters of Japan Securities Finance Co., Ltd.

BUSINESS REVIEW

Business Environment

There were signs of recovery in the Japanese economy in fiscal 2010 from improved business performance, but the outlook suddenly became unclear with growing concerns regarding restrictions on corporate production activities following the Great East Japan Earthquake.

On the stock market, the Nikkei Index started the fiscal year at 11,244 yen, but fell below 9,000 yen in late August with emerging financial uncertainty over worsening government fiscal balance in Europe and a possible downturn in Japanese corporate profits from the appreciation of the yen. The market rebounded to above 10,000 yen in mid-November in response to reports of government yen-selling intervention on the foreign exchange market, the implementation of a comprehensive monetary easing policy by the Bank of Japan, improvement in U.S. economic indices, and the abatement of further yen appreciation risk. With the March 11, 2011 earthquake and increasingly severe conditions at the Fukushima Daiichi Nuclear Power Station, however, domestic and foreign investors turned clearly risk averse, and the Nikkei plunged to 8,605 yen in mid-March, posting a low for the fiscal year. While stock prices then recovered on a correction, the Nikkei closed the fiscal year at 9,755 yen.

The average daily trading volume on the First Section of the Tokyo Stock Exchange was 2,043 million shares, down 84 million shares from the previous fiscal year, while the average daily trading value fell 16.8 billion yen to 1,403.6 billion yen.

The outstanding balance of standardized margin buying on the Tokyo market rose from over 1,000 billion yen at the start of the fiscal year to surpass 1,600 billion yen at the end of June with greater investment capacity from individual investors, recovering the level posted prior to the "Lehman Shock." The balance then contracted to below 900 billion yen in mid-November on a selloff as the market correction tone grew stronger, but subsequently rebounded along with stock prices to over 1,300 billion yen in mid-March.

With the sharp drop in share prices following the Great East Japan Earthquake, however, many individual investors were forced to sell their shares once again. The outstanding balance of standardized margin buying suddenly contracted, and closed the fiscal year at over 1,100 billion yen.

Meanwhile, the outstanding balance of standardized margin selling, which started the year over 500 billion yen, gradually fell and dropped below 300 billion yen in August on buy-backs to lock in profits, and subsequently generally remained between 300 billion yen and over 500 billion yen.

Turning to the bond markets, the yield on newly-issued 10-year Japanese government bonds (JGBs) started the fiscal year at 1.353%, and dropped below the one percent line in early August on the appreciation of the yen and decline in stock prices under the uncertain outlook for the global economy. The yield fell further to 0.835% in early October, posting the lowest level in seven years, but then began rising as shares held firm on expectations of a recovery in the U.S. economy, and closed the fiscal year at 1.249%.

Business Results of the JSF Group

Under these circumstances, the total value of outstanding loans extended by JSF Group companies during fiscal 2010 averaged 657.4 billion yen, up 56.3 billion yen from the previous fiscal year.

Consolidated operating revenues fell 18.0% year-on-year to 22,848 million yen because of a decrease in fees on lending securities for margin transactions. Consolidated operating expenses were also down 15.0% to 11,327 million yen because of a decrease in fees on borrowing securities for margin transactions. General and administrative expenses decreased 9.1% to 7,865 million yen.

As a result of these developments, consolidated operating profits declined 38.0% to 3,655 million yen, while recurring profits were down 35.4% to 3,345 million yen. Net income, however, remained around the prior year's level, slipping 2.2% to 3,492 million yen, with the posting of a 1,292 million yen extraordinary profit on reversal of allowance for doubtful receivables at consolidated subsidiary JSF Trust and Banking Co., Ltd.

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 compliance, corporate governance and risk management, and establish solid social credibility 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

The JSF Group's basic dividend payment policy is to return profits to shareholders, with a consolidated dividend payout ratio of around 40% as a standard, and by reflecting business performance as well as taking account of 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
A total of 56 new issues were selected as loanable issues, as a result of persistent efforts including the expansion of the margin loan support section and approaches to issuing companies and major stockholders in collaboration with the Tokyo Stock Exchange.

As a result, although 98 issues were removed as loanable issues with the cessation of loans for the JASDAQ Securities Exchange, the number of loanable issues at the end of the fiscal year was 1,645 issues, a decline of 71 issues from the previous year.

(2) Increase the use of loans for negotiable margin transactions
By striving to grasp the needs of existing customers, the average outstanding balance of loans for negotiable margin transactions rose by 1.3 billion yen in fiscal 2010 to 18.4 billion yen.

(3) Expand the trust business at JSF Trust and Banking Co., Ltd.
As a result of the promotion of sales to FX brokers and CFD brokers continued from the previous fiscal year, the number of companies acting as settlors of foreign exchange margin trusts increased by three from the previous year to 42, while the number acting as a settlor of CFD margin trusts increased by eight to 16.

(4) Improve the emergency business continuity structure
The business continuity plan was completely revised, and JSF instituted a Basic Policy on Business Continuity in September 2010. The Company also established backup offices and prepared infrastructure and systems.

(5) Advance the human resources development strategy
JSF is working to expand and improve our training system as well as personnel exchanges with outside organs and JSF Group companies.

Future Challenges (Strategy)

With the great decline in production activities because of the damages to production facilities suffered in the Great East Japan Earthquake and the impact of projected electricity rationing this summer, the conditions surrounding the Japanese economy continue to warrant careful monitoring. In this context, the conditions for the JSF Group, which conducts business on finance and securities markets, are projected to remain harsh for some time.

Fiscal 2011 (ending March 31, 2012) is the final year of the JSF Group's second Mid-term Management Plan formulated in May 2009. Under our corporate philosophy "to contribute to the development of the securities industry while always maintaining a keen awareness of our public role as an institution specializing in the securities finance business," which we have upheld ever since our founding, in fiscal 2011 JSF will continue focusing on the four main business strategy pillars of the plan which are increase the number of loanable issues, increase the use of loans for negotiable margin transactions, respond to the diverse funding needs of securities companies, and increase securities lending business revenues.

In efforts to improve the emergency business continuity structure, our business continuity plan was completely revised and announced as a Basic Policy on Business Continuity in September 2010. With the fundamental understanding expressed by this plan that JSF must maintain business operations during disasters whenever possible to fulfill our mission of providing margin loans as part of the securities market infrastructure, JSF will continue working to upgrade our business continuity structure, establish an Electricity Conservation Headquarters to deal with electric power shortages this summer, prepare response plans, confirm their effectiveness, and otherwise reinforce our overall approach to ensuring business continuity.

At affiliated companies, our subsidiary JSF Trust and Banking Co., Ltd. will continue to exercise solid business management. Our equity method affiliate JBIS Holdings Inc. is efficiently concentrating management resources under the April 2011 Group reorganization, and will strive to stabilize and strengthen its profit base under continued close supervision.

Minoru Masubuchi

Minoru Masubuchi
President

OUR BUSINESS DEVELOPMENT

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.

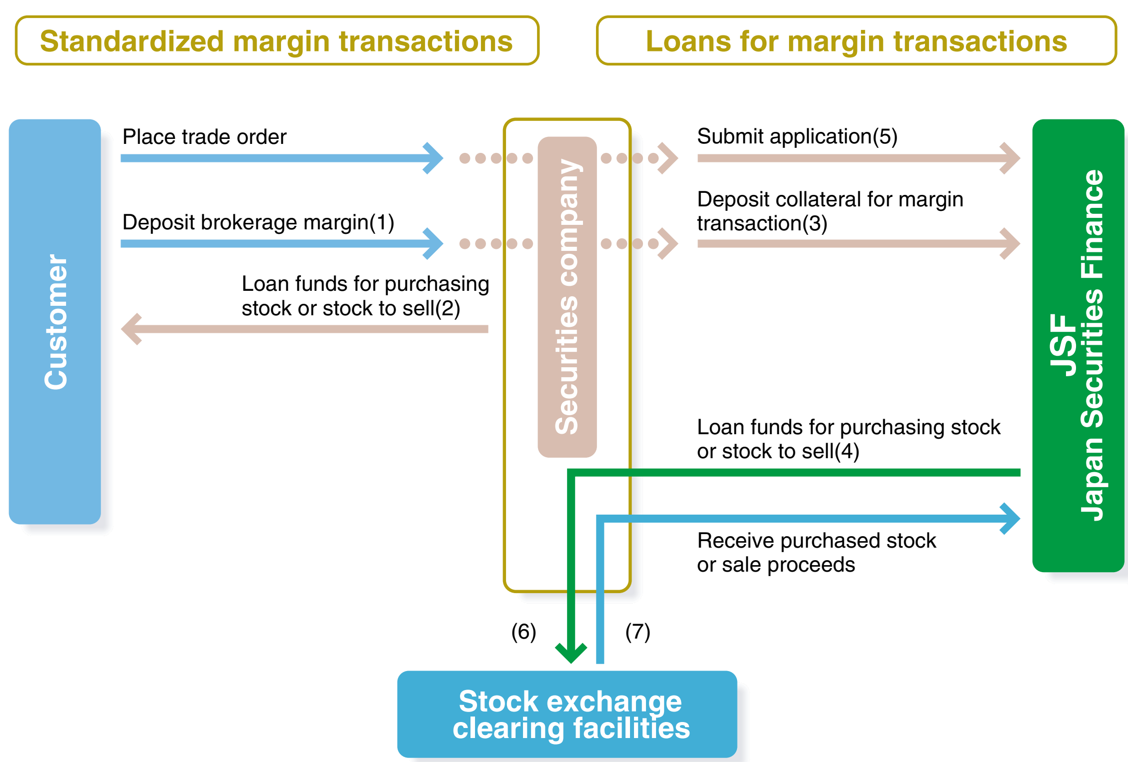
(Note) This is a system of appropriating purchased stock received from buy side as collateral to sell side's stock for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

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.

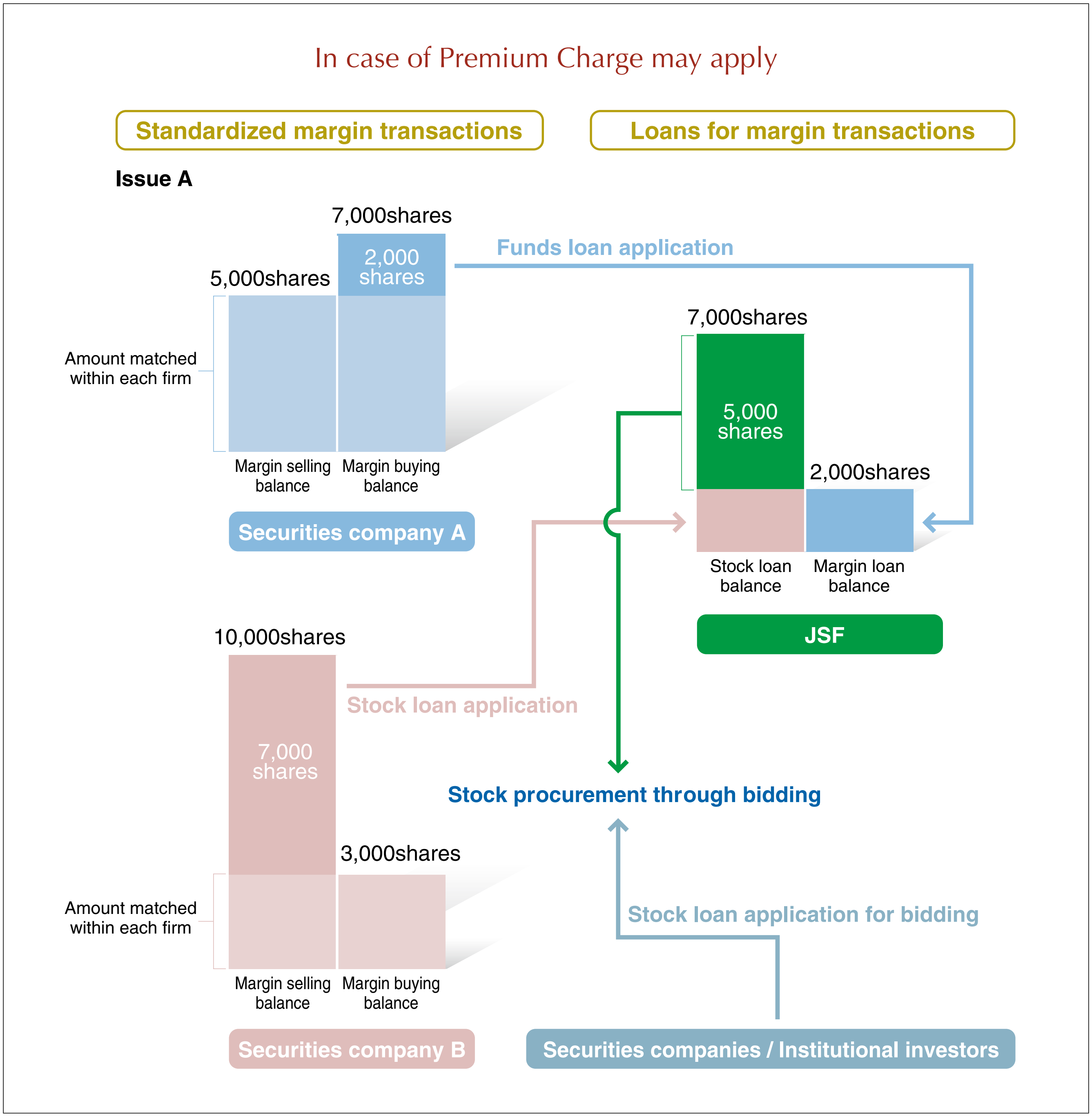
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions (5).To execute the loan, JSF, in place of the securities company, delivers funds or stock to clearing facilities of stock exchanges (6). The stock purchased (collateral stock 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

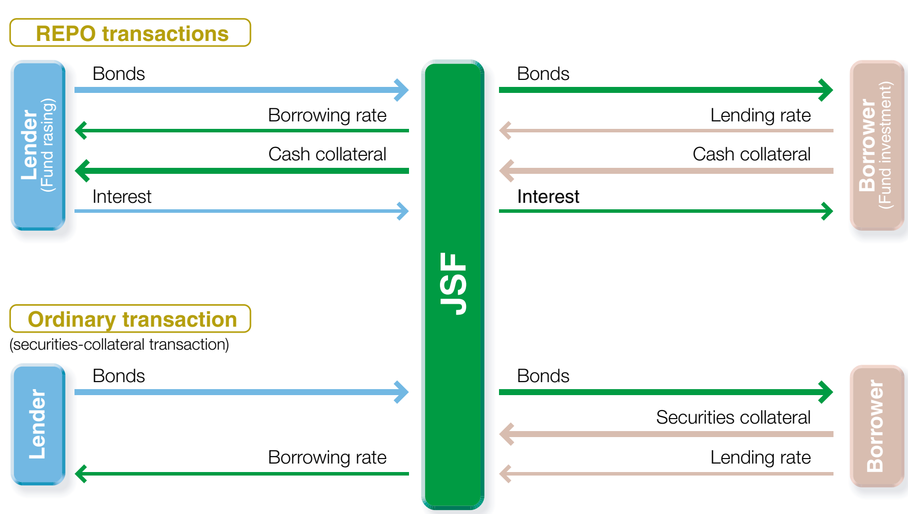
REPO transactions

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



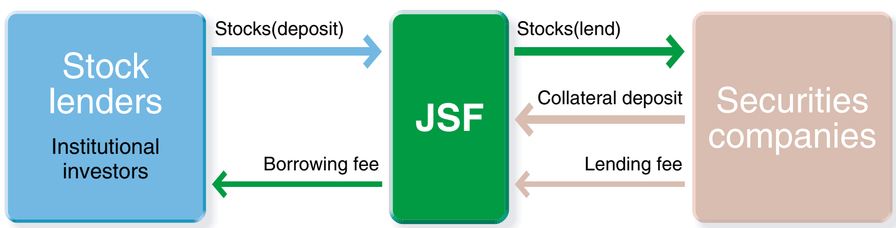
GENERAL STOCK LENDING

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.

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.

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.

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.

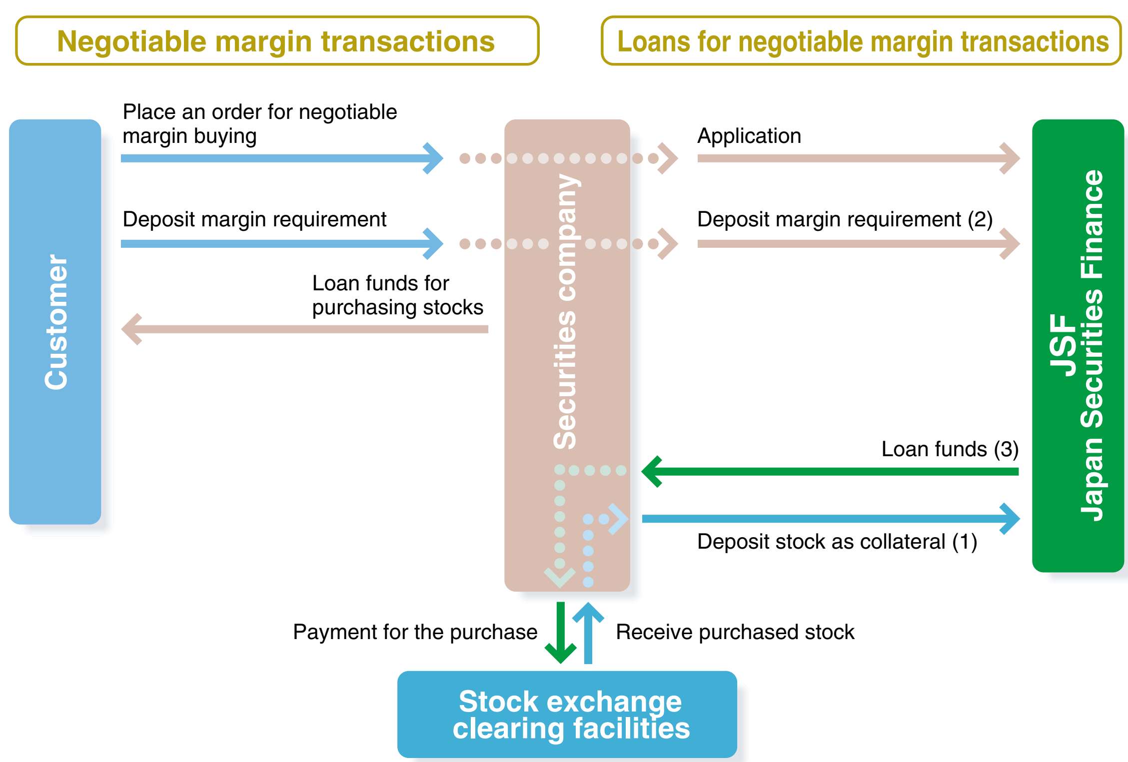
Interest rate

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.

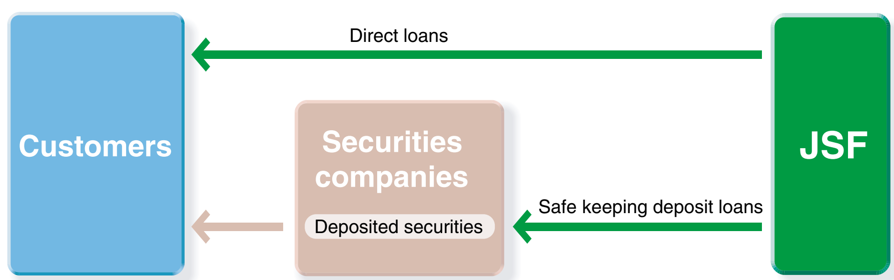
GENERAL LOANS

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

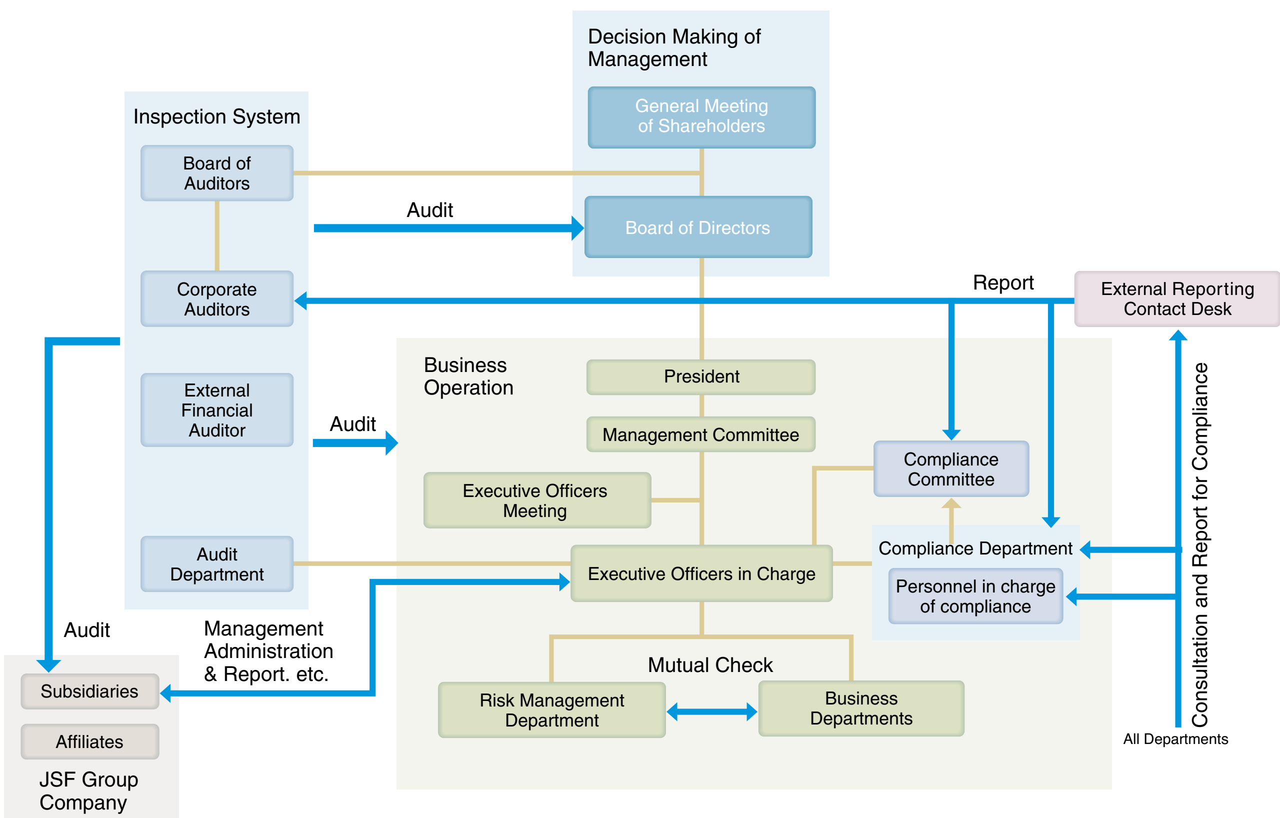
BASIC CONCEPT OF CORPORATE GOVERNANCE

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.

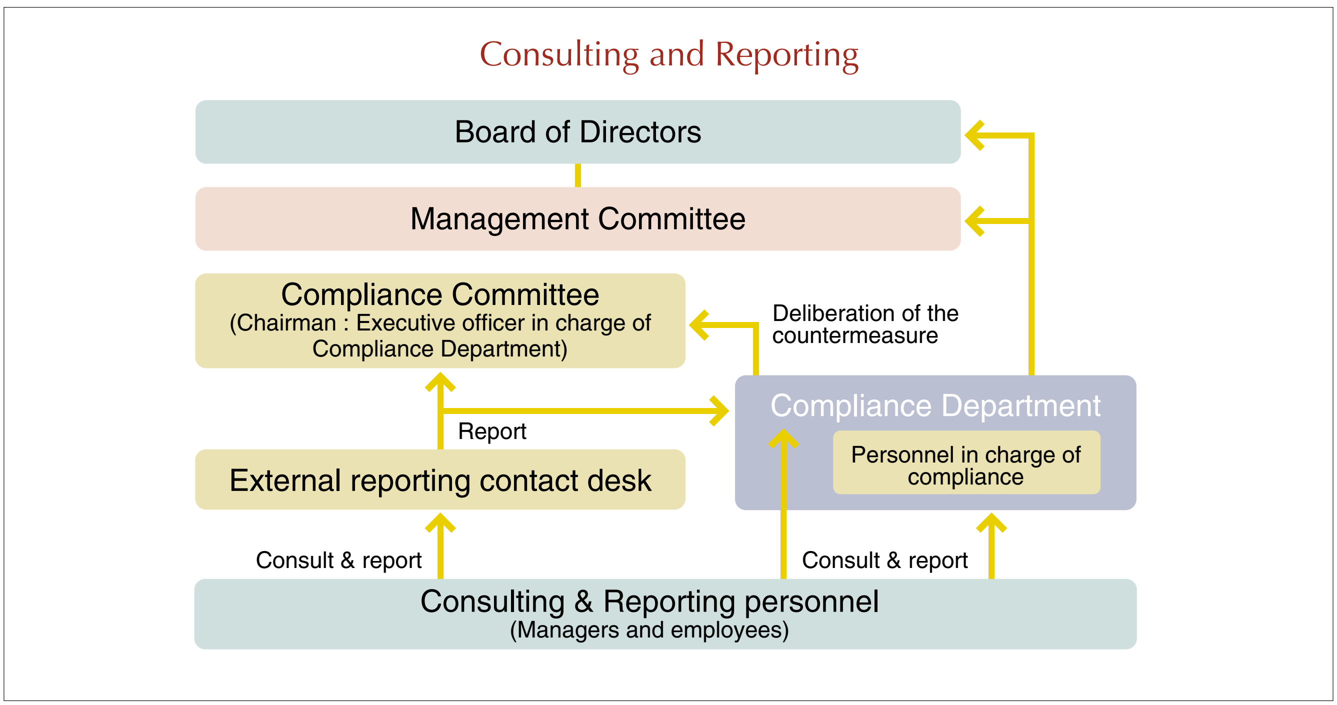
The Compliance Committee deliberates important matters concerning compliance. The Compliance Department makes all possible efforts to promote and thoroughly establish compliance through such measures as urging managers and employees alike to take faithful and honest actions based on clear ethical standards.

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.



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)

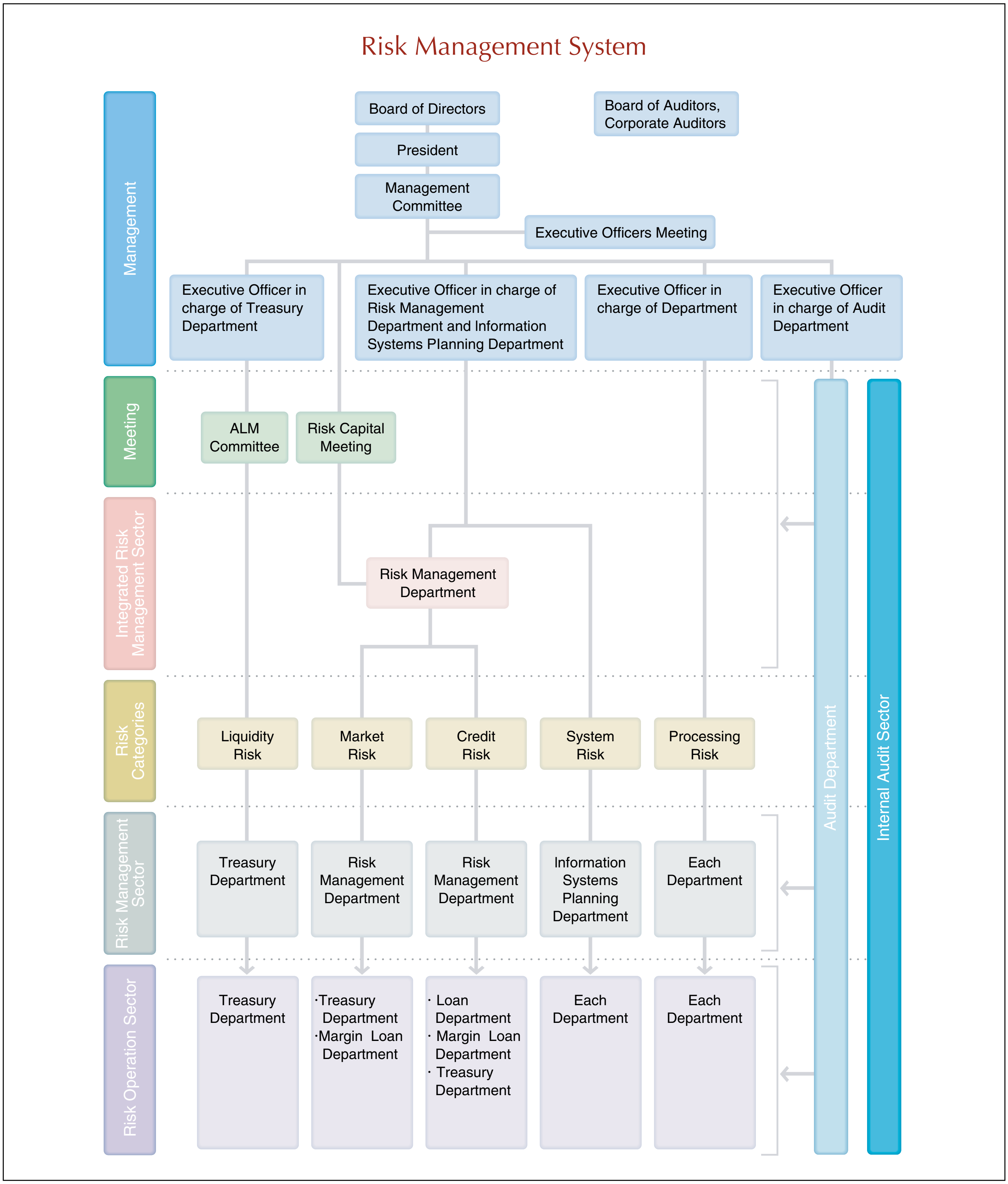
VaR is the maximum expected loss on an asset calculated with a certain period (holding period) and a certain probability (confidence level). This is calculated based on data in the past with statistical method. In our company, VaR is calculated based on confidence level of 99% and holding period of 1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

Consolidated operating revenues fell 18.0% year-on-year to 22,848 million yen because of a decrease in fees on lending securities for margin transactions. Consolidated operating expenses were also down 15.0% to 11,327 million yen because of a decrease in fees on borrowing securities for margin transactions. General and administrative expenses decreased 9.1% to 7,865 million yen.

As a result of these developments, consolidated operating profits declined 38.0% to 3,655 million yen, while recurring profits were down 35.4% to 3,345 million yen. Net income, however, remained around the prior year's level, slipping 2.2% to 3,492 million yen, with the posting of a 1,292 million yen extraordinary profit on reversal of allowance for doubtful receivables at consolidated subsidiary JSF Trust and Banking Co., Ltd.

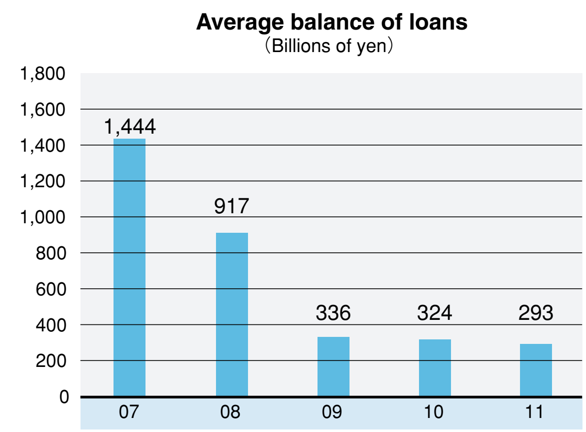
Breakdown of JSF group operating revenues

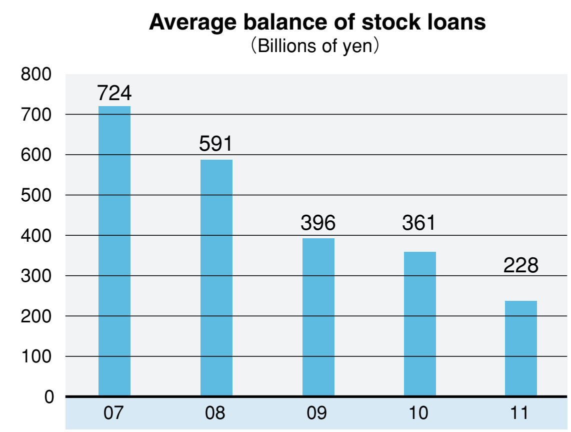
	2011 (April 1, 2010 - March 31, 2011) Amount (¥ million)	2010 (April 1, 2009 - March 31, 2010) Amount (¥ million)
Securities finance business	17,558	20,817
Loans for margin transactions	8,922	12,954
Interest on loans	2,809	3,324
Interest on collateral money for securities borrowed	826	1,774
Fees on lending securities	4,807	7,337
Bond financing and general loans	1,047	1,234
Securities lending	1,754	1,454
Stocks	331	308
Bonds	1,422	1,146
Other business	5,834	5,174
Trust banking business	4,360	6,016
Interest on Loans	1,079	1,330
Trust charges	308	249
Real estate leasing business	930	1,034
Total operating revenues	22,848	27,868

SECURITIES FINANCE BUSINESS

Loans for Margin Transaction Business

In the margin loans business, interest on loans declined as the average outstanding balance of loans for margin transactions dropped 30.7 billion yen year-on-year to 293.4 billion yen and loan rates were lowered in late November. Lending fees on lending stocks also decreased as the average outstanding balance of stock loans for margin transactions fell 133.3 billion yen to 228.0 billion yen. Fees on lending securities were down as well with lower premium charges on over-lent issues. As a result, operating revenues in the loans for margin transactions business fell 31.1% to 8,922 million yen.



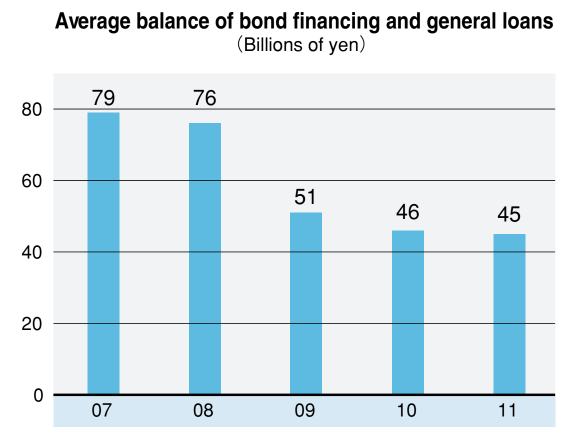


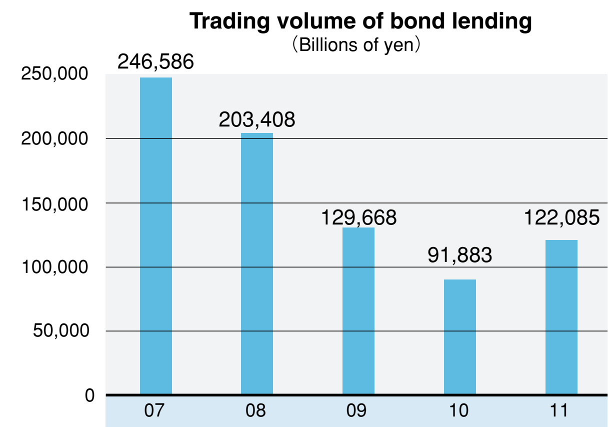
Bond Financing and General Loans Business

In the bond financing and general loans business, while the outstanding balances of loans for negotiable margin transactions and of general loans to financial instruments brokers rose slightly from the previous fiscal year, the balances of loans to individuals and to non-financial companies decreased, reducing the total average outstanding balance of bond financing and general loans by 1.0 billion yen to 45.8 billion yen (including 18.4 billion yen in loans for negotiable margin transactions). Equity repo transactions were also down. As a result, operating revenues in the bond financing and general loans business fell 15.2% to 1,047 million yen.

Securities Lending Business

In the securities lending business, special collateral repo transaction contracts (transaction specifying an issue) increased in the bonds department, centered on new issues with a tight supply-demand balance, while the demand for stock borrowing to avert late delivery rose in the general stock lending department. As a result, operating revenues in the securities lending business rose 20.6% to 1,754 million yen.





Other Business

In other businesses revenues rose 12.8% to 5,834 million, mainly on revenue from sales of JGBs held by the Company.

TRUST BANKING BUSINESS

In the trust banking business, the average outstanding loan balance during the fiscal year rose 88.4 billion yen to 303.7 billion yen due to increased loans to the government. However, loan interest income declined because of a reduction in lending rates, and interest income on owned securities also decreased. As a result, operating revenues in the trust banking business fell 27.5% to 4,360 million yen.

REAL ESTATE LEASING BUSINESS

In the real estate leasing business, performance worsened on lower rents and occupancy ratios. As a result, operating revenues in the real estate leasing business declined 10.1% to 930 million yen.

CONSOLIDATED BALANCE SHEETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2011 and 2010

Assets	Millions of yen		Thousands of U.S. dollars(note 2)
	2011	2010	2011
Current assets:			
Cash (note 3)	¥ 44,400	¥ 18,006	$ 533,975
Short-term investments (notes 4 and 16)	3,126,871	2,811,226	37,605,183
Short-term loans receivable (note 16)	568,893	655,567	6,841,768
Securities lent	197,942	309,934	2,380,541
Securities in custody (note 16)	37,191	36,622	447,276
Securities in deposit (note 16)	190,417	193,850	2,290,042
Deferred tax assets (note 9)	681	936	8,190
Collateral money for securities borrowed (note 16)	1,516,586	815,374	18,239,158
Other current assets (note 16)	4,153	3,089	49,946
Allowance for doubtful receivables	(1,393)	(2,086)	(16,753)
Total current assets	5,685,741	4,842,518	68,379,326
Property, plant and equipment:			
Buildings and structures	8,045	8,012	96,753
Tools, furniture and fixtures	1,256	1,264	15,105
Land	3,305	3,316	39,748
Leased assets	42	27	505
	12,648	12,619	152,111
Accumulated depreciation	(6,120)	(5,964)	(73,602)
Net property, plant and equipment	6,528	6,655	78,509
Intangible assets, net	1,118	1,479	13,446
Investments and other assets:			
Investments in securities (notes 4, 5 and 16)	1,383,842	627,313	16,642,718
Other investments and other assets	1,725	3,665	20,746
Allowance for doubtful receivables	(816)	(2,020)	(9,814)
Total investments and other assets	1,384,751	628,958	16,653,650
Total assets	¥ 7,078,138	¥ 5,479,610	$ 85,124,931

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars(note 2) 2011
Current liabilities:			
Call money (notes 7 and 16)	¥ 1,264,300	¥ 1,344,300	$ 15,205,051
Short-term borrowings and current installments of long-term borrowings (notes 7 and 16)	4,049,010	2,443,810	48,695,250
Commercial paper (note 7)	7,500	27,500	90,198
Payables under repurchase agreements (notes 7 and 16)	–	86,193	–
Accrued income taxes (note 9)	130	1,074	1,563
Collateral money received for securities lent	1,165,937	824,159	14,022,093
Collateral securities deposited	305,084	328,756	3,669,080
Securities borrowed (note 16)	119,020	208,377	1,431,389
Securities lent opposite account	1,445	3,273	17,378
Other current liabilities (note 7)	23,385	45,100	281,239
Total current liabilities	6,935,811	5,312,542	83,413,241
Non-current liabilities:			
Long-term borrowings (notes 7 and 16)	21,500	48,500	258,569
Deferred tax liabilities (note 9)	2,701	2,499	32,483
Deferred tax liabilities for land revaluation (note 6)	99	99	1,191
Liabilities for retirement and severance benefits (note 8)	2,414	2,416	29,032
Other non-current liabilities (note 7)	686	897	8,250
Total non-current liabilities	27,400	54,411	329,525
Total liabilities	6,963,211	5,366,953	83,742,766
Stockholders' equity:			
Common stock (note 10):	10,000	10,000	120,265
Authorized 200,000,000 shares; issued 93,700,000 shares in 2011 and 2010			
Additional paid-in capital (note 10)	5,182	5,182	62,321
Retained earnings (note 11)	96,836	94,646	1,164,594
Treasury stock, at cost; 651,000 shares in 2011 and 649,190 shares in 2010	(664)	(663)	(7,986)
Total Stockholders' equity	111,354	109,165	1,339,194
Accumulated other comprehensive income:			
Net unrealized gain on other securities (note 4)	3,430	3,349	41,251
Gain on revaluation of land (note 6)	143	143	1,720
Total accumulated other comprehensive income	3,573	3,492	42,971
Total net assets	114,927	112,657	1,382,165
Commitments and contingencies (note 19)			
Total liabilities and net assets	¥ 7,078,138	¥ 5,479,610	$ 85,124,931

CONSOLIDATED STATEMENTS OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars(note 2)
	2011	2010	2011
Operating revenues	¥ 22,849	¥ 27,869	$ 274,793
Operating expenses	11,328	13,320	136,236
Operating profit	11,521	14,549	138,557
General and administrative expenses (note 12)	7,865	8,651	94,588
Operating income	3,656	5,898	43,969
Other income (deductions):			
Interest income	9	12	108
Dividend income	109	125	1,311
Interest expenses	(1)	(1)	(12)
Equity in losses of affiliates	(484)	(916)	(5,821)
Reversal of allowance for doubtful receivables	1,292	–	15,538
Loss on change in equity	–	(0)	–
Other, net	15	23	180
	940	(757)	11,304
Income before income taxes	4,596	5,141	55,273
Income taxes (note 9) :			
Current	885	1,787	10,643
Deferred	219	(218)	2,634
	1,104	1,569	13,277
Net income	¥ 3,492	¥ 3,572	$ 41,996

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars(note 2)
	2011	2011
Income before minority interests	¥ 3,492	$ 41,996
Other comprehensive income (loss) arising during the year:		
Net unrealized holding gain on other securities	176	2,117
Other comprehensive loss of affiliates accounted for by the equity method	(94)	(1,130)
Total other comprehensive income arising during the year	82	987
Comprehensive income	¥ 3,574	$ 42,983
Comprehensive income attributable to:		
Owners of the parent	3,574	42,983
Minority interests	–	–

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2011 and 2010

	Millions of yen								
	Stockholders' equity					Accumulated other comprehensive income			
	Common stock (note 10)	Additional paid-in capital (note 10)	Retained earnings (note 11)	Treasury stock	Total	Net unrealized gain on other securities (note 4)	Gain on revaluation of land (note 7)	Total	Total net assets
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
Changes arising during year:									
Cash dividends			(1,302)		(1,302)				(1,302)
Net income			3,492		3,492				3,492
Purchase of treasury stock				(1)	(1)				(1)
Net changes other than stockholders' equity						81		81	81
Total changes during the year	–	–	2,190	(1)	2,189	81	–	81	2,270
Balance at March 31, 2011	¥ 10,000	¥ 5,182	¥ 96,836	¥ (664)	¥ 111,354	¥ 3,430	¥ 143	¥ 3,573	¥ 114,927

	Thousands of U.S. dollars (note 2)								
	Stockholders' equity					Accumulated other comprehensive income			
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Gain on revaluation of land	Total	Total net assets
Balance at March 31, 2010	$ 120,265	$ 62,321	$ 1,138,256	$ (7,974)	$ 1,312,868	$ 40,277	$ 1,720	$ 41,997	$ 1,354,865
Changes arising during year:									
Cash dividends			(15,658)		(15,658)				(15,658)
Net income			41,996		41,996				41,996
Purchase of treasury stock				(12)	(12)				(12)
Net changes other than stockholders' equity						974		974	974
Total changes during the year	–	–	26,338	(12)	26,326	974	–	974	27,300
Balance at March 31, 2011	$ 120,265	$ 62,321	$ 1,164,594	$ (7,986)	$ 1,339,194	$ 41,251	$ 1,720	$ 42,971	$ 1,382,165

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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars(note 2)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes	¥ 4,596	¥ 5,141	$ 55,274
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	867	1,019	10,427
(Gains) losses relating to short-term investments and investments in securities	(1,257)	(1,154)	(15,117)
Allowance for doubtful receivables	(1,897)	503	(22,814)
Decrease in liabilities for retirement and severance benefits	(1)	(169)	(12)
Interest and dividend income	(13,872)	(16,960)	(166,831)
Interest expenses	5,769	5,362	69,381
Equity in losses of affiliates	484	916	5,821
(Increase) decrease in short-term loans receivable	86,674	(152,497)	1,042,381
Decrease in call loans	–	7,000	–
(Increase) decrease in collateral money for securities borrowed	(701,213)	226,849	(8,433,109)
Decrease in call money	(80,000)	(43,500)	(962,117)
Increase in short-term borrowings	1,588,200	767,500	19,100,421
Decrease in payables under repurchase agreements	(86,193)	(551,689)	(1,036,597)
Increase (decrease) in commercial paper	(20,000)	12,500	(240,529)
Increase in collateral money received for securities lent	341,778	32,619	4,110,379
Decrease in collateral money received for loan transactions	(2,087)	(6,720)	(25,099)
Decrease in long-term debt	(10,000)	–	(120,265)
Purchase of short-term investments and investments in securities	(8,127,408)	(8,653,394)	(97,743,933)
Proceeds from sale/redemption of short-term investments and investments in securities	7,028,420	8,372,674	84,526,999
Other, net	9,626	656	115,767
Sub total	22,486	6,656	270,427
Interest and dividend received	13,013	16,924	156,500
Interest paid	(5,578)	(5,504)	(67,084)
Income taxes paid	(1,862)	(826)	(22,393)
Income taxes refunded	–	194	–
Net cash provided by operating activities	28,059	17,444	337,450
Cash flows from investing activities:			
Purchase of investments in securities	–	(14)	–
Capital expenditures	(260)	(245)	(3,127)
Purchase of intangible assets	(109)	(385)	(1,311)
Other, net	16	(163)	193
Net cash used in investing activities	(353)	(807)	(4,245)
Cash flows from financing activities:			
Dividends paid to stockholders	(1,303)	(1,582)	(15,671)
Purchase of treasury stock	(1)	(1)	(12)
Other, net	(8)	(5)	(96)
Net cash used in financing activities	(1,312)	(1,588)	(15,779)
Net increase in cash and cash equivalents	26,394	(15,049)	317,426
Cash and cash equivalents at beginning of year	18,006	2,957	216,549
Cash and cash equivalents at end of year (note 3)	¥ 44,400	¥ 18,006	$ 533,975

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 2011 and 2010).

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. At March 31 , 2010 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

All finance lease transactions are capitalized and 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. Finance leases transactions without title transfer for which the starting date for the lease transactions is on or before March 31, 2008 the Company and its domestic consolidated subsidiaries have continued recognize lease payments as expenses with disclosure of certain "as if capitalized" information.

(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) Asset retirement obligations

From the year ended March 31, 2011, the Company adopted "the Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18, March 31, 2008) and "the Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21, March 31, 2008). The Standard and the Guidance require that a company should recognize an asset retirement obligation which is a statutory or similar obligation with regard to the removal of assets as a liability. An asset retirement obligation is recognized as a liability at the time that the asset is incurred by its acquisition, construction, development or ordinary use. When an asset retirement obligation is recognized as a liability, the asset retirement cost corresponding to it is included in the cost of the relevant asset by the same amount.

The effect of this change on income taxes is immaterial.

(m) Presentation of comprehensive income

From the year ended March 31, 2011, the Company adopted "the Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, June 30, 2010) and "the Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, Revised on June 30, 2010). Comprehensive income is the change in net assets that is recognized in an entity's financial statements for a period, other than those changes resulting from direct transactions with equity holders in the entity's net assets. Other comprehensive income is a portion of comprehensive income that is not included in net income for the period or minority interest's share in it.

Comprehensive income is required to be presented in either of, (a) a format composed of the statement of income that presents net income and the statement of comprehensive income that presents calculation of comprehensive income (two-statement format), or (b) a format using one statement (statement of income and comprehensive income) that presents net income and comprehensive income (one-statement format).

The Company presents comprehensive income in two-statement format.

(n) 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, 2011.

(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, 2011 have been translated into United States dollars at the rate of ¥83.15=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2011. 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

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, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash	¥ 44,400	¥ 18,006	$ 533,975
Cash and cash equivalents	¥ 44,400	¥ 18,006	$ 533,975

(4) SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

No trading securities were held both at March 31, 2011 and 2010.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2011 and 2010 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2011				
Government bond securities	¥ 39,881	¥ 1,378	¥ —	¥ 41,259
Corporate bond securities	7,022	158	—	7,180
Other securities	19,307	115	—	19,422
	¥ 66,210	¥ 1,651	¥ —	¥ 67,861
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

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2011				
Government bond securities	$ 429,627	$ 16,572	$ —	$ 496,199
Corporate bond securities	84,450	1,900	—	86,350
Other securities	232,195	1,383	—	233,578
	$ 796,272	$ 19,855	$ —	$ 816,127

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2011 and 2010 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2011				
Equity securities	¥ 1,556	¥ 509	¥ 108	¥ 1,957
Bond securities:				
Government bond securities	4,066,957	8,411	818	4,074,550
Corporate bond securities	360,089	4	222	359,871
Other securities	511	11	8	514
	¥ 4,429,113	¥ 8,935	¥ 1,156	¥ 4,436,892
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

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2011				
Equity securities	$ 18,713	$ 6,122	$ 1,299	$ 23,536
Bond securities:				
Government bond securities	48,911,088	101,155	9,838	49,002,405
Corporate bond securities	4,330,595	48	2,670	4,327,973
Other securities	6,146	132	96	6,182
	$ 53,266,542	$ 107,457	$ 13,903	$ 53,360,096

Securities classified as other securities for which fair value is not available are unlisted equity securities amounting to ¥2,314 million ($27,829 thousand) and ¥2,314 million as of March 31, 2011 and 2010, respectively.

For the years ended March 31, 2011 and 2010, proceeds from sale of other securities are ¥3,627,721 million ($43,628,635 thousand) and ¥3,179,442 million, the gross realized gains are ¥1,695 million ($20,385 thousand) and ¥1,216 million, and the gross realized losses are ¥233 million ($2,802 thousand) and ¥3 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 had 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.

As at March 31, 2010 reclassified amount from other securities to held-to-maturity securities on December 31, 2008 were summarized as follows:

	Millions of yen		
	Fair value	Balance sheet amount	Net unrealized loss on other securities
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

(5) INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates as of March 31, 2011 and 2010 are ¥5,297 million ($63,704 thousand) and ¥6,049 million, respectively.

(6) LAND REVALUATION

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 taxes are reported in liabilities as deferred taxliabilities for land reva luation at March 31, 2002.

The value of the land at March 31, 2011 decreased by ¥91 million ($1,094 thousand) in comparison with the book value of the land after revolution.

(7) DEBT

The composition of debt and the weighted average interest rate on debt as of March 31, 2011 and 2010 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2011			
Short-term borrowings	¥ 4,032,010	$ 48,490,800	0.105%
Current portion of long-term borrowings	17,000	204,450	0.574
Current portion of lease liabilities	8	96	—
Long-term borrowings	21,500	258,569	0.643
Lease liabilities	19	229	—
Call money	1,264,300	15,205,051	0.080
Commercial paper	7,500	90,198	0.124
	¥ 5,342,337	$ 64,249,393	

	Millions of yen	Weighted average rate
March 31, 2010		
Short-term borrowings	¥ 2,443,810	0.113%
Current portion of lease liabilities	5	—
Long-term borrowings	48,500	0.706
Lease liabilities	15	—
Call money	1,344,300	0.085
Commercial paper	27,500	0.111
Payables under repurchase agreements	86,193	0.109
	¥ 3,950,323	

(8) 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, 2010 and 2009 was outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Plan assets at fair value (1)	¥ 27,349	¥ 24,190	$ 328,912
Benefit obligation under pension funding programs (2)	33,748	38,361	405,869
(1) - (2)	¥ (6,399)	¥ (14,171)	$ (76,957)

The subsidiary's proportion of the contribution to the aggregate pension contributions in March 2010 and 2009 are 0.4% and 0.32%, respectively

The funded status of the pension plans as of March 31, 2011 and 2010 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	¥ (6,537)	¥ (6,511)	$ (78,617)
Plan assets at fair value	3,039	2,964	36,548
Funded status	(3,498)	(3,547)	(42,069)
Unrecognized actuarial loss	1,173	1,235	14,107
Net amount recognized in the consolidated balance sheets	(2,325)	(2,312)	(27,962)
Prepaid retirement and severance benefits	—	—	—
Accrued retirement and severance benefits	¥ (2,325)	¥ (2,312)	$ (27,962)

Net periodic pension cost for the years ended March 31, 2011 and 2010 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost	¥ 193	¥ 172	$ 2,321
Interest cost	128	124	1,539
Expected return on plan assets	(59)	(51)	(709)
Amortization of actuarial loss	175	206	2,105
Amortization of prior service cost	—	11	—
Additional retirement benefits	—	36	—
Net periodic pension cost	¥ 437	¥ 498	$ 5,256

For the years ended March 31, 2011 and 2010 , the amount in the table above excludes contributions to the welfare pension fund.

Significant assumptions of pension plans used to determine these amounts in fiscal 2011 and 2010 are as follows:

	2011	2010
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 all consolidated subsidiaries had 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.

As of March 31, 2011 and 2010, the liabilities for retirement and severance benefits related to the plans were ¥89 million ($1,070 thousand) and ¥104 million which include the lump-sum payments mentioned above, respectively.

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.

(9) 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 2011 and 2010.

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, 2011 and 2010 is follows:

	2011	2010
Statutory tax rate	40.7%	40.7%
Equity in losses of affiliates	4.3	7.3
Expenses not deductible for tax purposes	0.5	0.5
Valuation allowance	(21.2)	(17.8)
Income not credited for tax purposes	(2.7)	(2.3)
Other	2.4	2.1
Effective tax rate	24.0%	30.5%

Significant components of deferred tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued business tax	¥ 36	¥ 89	$ 433
Accrued bonuses	169	167	2,033
Liabilities for retirement and severance benefits (employees)	945	937	11,365
Liabilities for retirement and severance benefits (directors and corporate auditors)	37	42	445
Allowance for doubtful receivables	651	1,269	7,829
Tax loss carryforward	4,233	4,538	50,908
Net unrealized loss on other securities	793	502	9,537
Other	225	328	2,706
	7,089	7,872	85,256
Valuation allowance	(4,770)	(5,673)	(57,366)
	2,319	2,199	27,890
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(182)	(182)	(2,189)
Net unrealized gain on other securities	(3,613)	(3,155)	(43,452)
Gain on transfer of investments in an affiliate	(437)	(422)	(5,255)
Other	(107)	(3)	(1,287)
	(4,339)	(3,762)	(52,183)
Net deferred tax liabilities	¥ (2,020)	¥ (1,563)	$ (24,293)

Net deferred tax assets and liabilities as of March 31, 2011 and 2010 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current assets - Deferred tax assets	¥ 681	¥ 935	$ 8,190
Non-current liabilities			
- Deferred tax liabilities	(2,701)	(2,499)	(32,483)

(10) 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.

(11) 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, 2011 and 2010 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, 2010

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

(a) Total dividends	¥ 931 million
(b) Cash dividends per common share	¥ 10
(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
(b) Cash dividends per common share	¥ 7
(c) Record date	September 30, 2009
(d) Effective date	December 4, 2009

(b) Dividends paid during the year ended March 31, 2011

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

(a) Total dividends	¥ 651 million ($7,829 thousand)
(b) Cash dividends per common share	¥ 7 ($0.08)
(c) Record date	March 31, 2010
(d) Effective date	June 28, 2010

The following was approved by the Board of Directors held on November 8, 2010

(a) Total dividends	¥ 651 million ($7,829 thousand)
(b) Cash dividends per common share	¥ 7 ($0.08)
(c) Record date	September 30, 2010
(d) Effective date	December 10, 2010

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2011

The following was approved by the general meeting of stockholders held on June 24, 2011.

(a) Total dividends	¥ 651 million ($7,829 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥ 7 ($0.08)
(d) Record date	March 31, 2011
(e) Effective date	June 27, 2011

(12) GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Salaries	¥ 2,903	¥ 2,974	$ 34,913
Pension cost	441	502	5,304
Provision for retirement and severance benefits (directors and corporate auditors)	–	3	–
Administrative and computer expenses	1,356	1,342	16,308
Depreciation	867	1,019	10,427

(13) COMPREHENSIVE INCOME

(a) Comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
Comprehensive income attributable to:	
Owners of parent	¥ 6,836
Minority interests	–
Total comprehensive income	¥ 6,836

(b) Other comprehensive income for the year ended March 31, 2010 was consisted of as follows:

	Millions of yen
Net unrealized gain on other securities	¥ 3,106
Gain on revaluation of land	–
Other comprehensive income of affiliates accounted for by the equity method	158
Total other comprehensive income	¥ 3,264

(14) PER SHARE INFORMATION

(a) Net Income per Share

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2011 and 2010 are as follows:

	Yen		U.S. dollars
	2011	2010	2011
Basic net income per share	¥ 37.73	¥ 38.59	$ 0.45

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Net income	¥ 3,492	¥ 3,572	$ 41,996
Net income not applicable to common stockholders	—	—	—
Net income applicable to common stockholders	¥ 3,492	¥ 3,572	$ 41,996

	Number of shares(Thousands)	
	2011	2010
Weighted average number of shares outstanding on which basic net income per share is calculated	92,558	92,561

(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, 2011 and 2010 are as follows:

	Yen		U.S. dollars
	2011	2010	2011
Net assets per share	¥ 1,241.67	¥ 1,217.12	$ 14.93

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Total net assets	¥ 114,927	¥ 112,657	$ 1,382,165
Amounts deducted from total net assets	—	—	—
Net assets applicable to common stockholders	¥ 114,927	¥ 112,657	$ 1,382,165

	Number of shares(Thousands)	
	2011	2010
Number of shares outstandings at end of year on which net assets per share is calculated	92,557	92,559

(15) LEASES

Certain key information about finance lease contracts of the Company and its consolidated subsidiaries for the years ended March 31, 2011 and 2010 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
	2011	2010	2011
Furniture and fixtures:			
Acquisition cost	¥ 26	¥ 29	$ 313
Accumulated depreciation	(21)	(20)	(253)
Net book value	¥ 5	¥ 9	$ 60

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Lease expense	¥ 5	¥ 6	$ 60
Future minimum lease payments:			
Within one year	¥ 4	¥ 4	$ 48
Over one year	1	5	12
	¥ 5	¥ 9	$ 60

(16) PLEDGED ASSETS

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Short-term investments	¥ 3,060,390	¥ 2,795,410	$ 36,805,652
Short-term loans receivable	123,115	167,799	1,480,637
Securities in custody	31,000	36,000	372,820
Securities in deposit	145,441	131,963	1,749,140
Collateral money for securities borrowed	81,139	170,161	975,815
Investments in securities	1,137,226	521,145	13,676,801
Securities received as collateral for securities loans for margin transactions, etc.	282,846	319,059	3,401,636

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Call money	¥ 1,138,100	¥ 1,267,300	$ 13,687,312
Short-term borrowings	3,348,500	1,635,300	40,270,595
Payables under repurchase agreements	–	86,193	–
Securities borrowed	81,139	170,161	975,815
Long-term borrowings	–	10,000	–

In addition to the above, other current assets of ¥500 million ($6,013 thousand) and investments in securities of ¥8,725 million ($104,931 thousand) are deposited for the Clearing Fund of Japan Securities Clearing Corporation and Japan Government Bond Clearing Corporation, etc. at March 31, 2011.

In addition to the above, short-term investments of ¥2,999 million, other current assets of ¥500 million and investments in securities of ¥2,106 million were deposited for the Clearing Fund of Japan Securities Clearing Corporation and Japan Government Bond Clearing Corporation etc. at March 31, 2010.

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, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Securities loaned	¥ 779,460	¥ 628,671	$ 9,374,143
Securities pledged as collateral	716,879	183,354	8,621,515
Securities on hand	63,376	46,862	762,189

(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") mainly deal in financial instruments. The Company is engaged in providing loan services, mainly loans for margin transactions. The loans for margin transaction is loan services which is money lending or stocks loan 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 providing credit services such as loans as banking business and finance and securities activities. JSFTB invests in highly liquid and safe-and-secure securities such as government bonds, government-backed bonds, local government bonds and public corporation bonds as securities investment activities and 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, short-term investments 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 short-term and medium-term 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 regularly receives a report from JSFTB concerning its risk management.

i) Integrated risk management

The Company quantizes the risk by Value at Risk (VaR) approach after allocating risk capital within equity capital, and controls the quantized risk amount 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 and improve 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) Quantitative information of market risk

The Company calculates VaR of short-term investments and investments in securities by using Delta method (holding period: 10-240 days (depending on purposes in holding), confidence interval: 99%, observation period: mainly 1 year). Market risk amount (possible losses) of the Company is ¥10,949 million ($131,678 thousand) at March 31, 2011.

Because VaR is a statistical estimate of market risk amount at a particular probability using past market movement data, VaR may not capture the risk during radical market movements that are extreme in nature.

v) 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 the 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. Liquidity stress tests are performed monthly for ascertaining whether consolidated liquidity held by the Company and JSFTB is adequate. 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.

vi) 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 monitors the risk quantity, collects and analyzes information and reports the risk condition to the management for maintaining the proper risk management.
JSFTB calculates market risk amount for all market transactions. Interest rate risk amount which is a major risk variable is calculated by VaR(Delta method; holding period: 1 year, confidence interval: 99%, observation period: 5 years). JSFTB market risk amount is ¥3,641 million ($43,788 thousand) at March 31, 2011.

(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 financial instruments"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 value on the consolidated balance sheets, fair value, and differences as of March 31, 2011 and 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")

	Millions of yen					
	March 31, 2011			March 31, 2010		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 44,400	¥ 44,400	¥ —	¥ 18,006	¥ 18,006	¥ —
(2) Short-term loans receivable	568,893			655,567		
Allowance for doubtful receivables (*1)	(1,096)			(1,915)		
	567,797	567,797	—	653,652	653,652	—
(3) Collateral money for securities borrowed	1,516,586	1,516,586	—	815,374	815,374	—
(4) Short-term investments and investments in securities (*2)						
Held-to-maturity securities	66,210	67,861	1,651	69,227	70,911	1,684
Other securities	4,436,892	4,436,892	—	3,360,544	3,360,544	—
Investments in affiliates	4,893	3,053	(1,840)	—	—	—
Total	¥ 6,636,778	¥ 6,636,589	¥ (189)	¥ 4,916,803	¥ 4,918,487	¥ 1,684
Liabilities:						
(1) Call money	¥ 1,264,300	¥ 1,264,300	¥ —	¥ 1,344,300	¥ 1,344,300	¥ —
(2) Short-term loans borrowings	4,032,010	4,032,010	—	2,443,810	2,443,810	—
(3) Commercial paper	7,500	7,500	—	27,500	27,500	—
(4) Payables under repurchase agreements	—	—	—	86,193	86,193	—
(5) Collateral money received for securities lent	1,165,937	1,165,937	—	824,159	824,159	—
(6) Long-term bollowings (*3)	38,500	38,523	23	48,500	48,531	31
Total	¥ 6,508,247	¥ 6,508,270	¥ 23	¥ 4,774,462	¥ 4,774,493	¥ 31

	Thousands of U.S. dollars		
	March 31, 2011		
	Carrying value	Fair value	Differences
Assets:			
(1) Cash	$ 533,975	$ 533,975	$ —
(2) Short-term loans receivable	6,841,768		
Allowance for doubtful receivables (*1)	(13,181)		
	6,828,587	6,828,587	—
(3) Collateral money for securities borrowed	18,239,158	18,239,158	—
(4) Short-term investments and investments in securities			
Held-to-maturity securities	796,272	816,127	19,855
Other securities	53,360,096	53,360,096	—
Investments in affiliates	58,845	36,717	(22,128)
Total	$79,816,933	$79,814,660	$ (2,273)
Liabilities:			
(1) Call money	$15,205,051	$15,205,051	$ —
(2) Short-term loans borrowings	48,490,800	48,490,800	—
(3) Commercial paper	90,198	90,198	—
(4) Payables under repurchase agreements	—	—	—
(5) Collateral money received for securities lent	14,022,093	14,022,093	—
(6) Long-term bollowings (*3)	463,019	463,295	277
Total	$78,271,161	$78,271,437	$ 277

*1 Allowance for doubtful accounts associated with short-term loans receivable-trade are deducted.
*2 Other than the above, the Company held investments in affiliates , their carrying value are ¥5,694 million, fair value are ¥3,385 million and differences are ¥2,309 million at March 31, 2010. At March 31, 2011, investments in affiliates are shown in the table above.
*3 Current portion of long-term borrowings are included in long-term borrowings.

<1> Fair value measurement of financial instruments

Assets:

(1) Cash

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

(2) Short-term loans receivable

The fair value of short-term loans receivable with variable interest rate approximates carrying amount 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.

(3) Collateral money for securities borrowed

The fair value approximates carrying amount 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 held by the Company and JSFTB is estimated based on quotes from information venders 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), because 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. 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.

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

(6) Long-term borrowings

The fair value of long-term borrowings with variable interest rate approximates carrying amount because the fair value is reflected a fluctuation of interest market in a short period and credit status of the Company does not change very 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> Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unlisted equity securities			
Other securities	¥ 2,314	¥ 2,314	$ 27,829
Investments in affiliates	404	–	4,859

Above securities have no market value and the fair value is extremely difficult to measure, therefore are not included in “Assets : (4) Short-term investments and investments securities.”

<3> Projected future redemption of monetary claim and securities with maturities at March 31, 2011

	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	¥ 44,400	¥ –	¥ –	¥ –
(2) Short-term loans receivable	493,450	65,716	9,727	–
(3) Collateral money for securities bollowed	1,516,586	–	–	–
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
Bond securities				
Government bonds	–	–	40,000	–
Corporate bond	2,700	2,400	2,000	–
Other	17,500	–	2,000	–
Other securities with maturities				
Bond securities				
Government bonds	2,827,139	981,897	239,000	14,000
Corporate bond	275,135	82,406	–	–
Other	–	–	–	–
Other	–	406	–	–
Total	¥ 5,176,910	¥ 1,132,825	¥ 292,727	¥ 14,000

	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	$ 533,975	$ –	$ –	$ –
(2) Short-term loans receivable	5,934,456	790,331	116,981	–
(3) Collateral money for securities bollowed	18,239,158	–	–	–
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
Bond securities				
Government bonds	–	–	481,058	–
Corporate bond	32,471	28,864	24,053	–
Other	210,463	–	24,053	–
Other securities with maturities				
Bond securities				
Government bonds	34,000,469	11,808,743	2,874,324	168,370
Corporate bond	3,308,900	991,052	–	–
Other	–	–	–	–
Other	–	4,483	–	–
Total	$62,259,892	$13,623,873	$ 3,520,469	$ 168,370

<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	¥ 1,264,300	¥ –	¥ –	¥ –	¥ –	¥ –
Short-term borrowings	4,032,010	–	–	–	–	–
Commercial paper	7,500	–	–	–	–	–
Collateral money received for securities lent	1,165,937	–	–	–	–	–
Lease liabilities	8	8	8	4	–	–
Long-term borrowings	17,000	14,000	7,500	–	–	–
Total	¥ 6,486,755	¥ 14,008	¥ 75,08	¥ 4	¥ –	¥ –

	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	$15,205,051	$ –	$ –	$ –	$ –	$ –
Short-term borrowings	48,490,800	–	–	–	–	–
Commercial paper	90,198	–	–	–	–	–
Collateral money received for securities lent	14,022,093	–	–	–	–	–
Lease liabilities	96	96	96	48	–	–
Long-term borrowings	204,450	168,371	90,199	–	–	–
Total	$78,012,688	$ 168,467	$ 90,295	$ 48	$ –	$ –

(18) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative transactions to which hedge accounting are applied at March 31, 2011 and 2010 are summarized as follows:

			Millions of yen			
			2011		2010	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value	Contract or notional amounts	Fair value
*1	Interest rate swaps:					
	Variable rate received for fixed rate	Short-term investments	¥ 2,700	*2	–	–
	Variable rate received for fixed rate	Short-term loans	12,729	*2	¥ 17,666	*2
	Variable rate received for fixed rate	Investments in securities	2,400	*2	5,100	*2
	Fixed rate paid for variable rate	Call money	249,600	*2	250,000	*2
	Variable rate paid for variable rate	Long-term borrowings	11,500	*2	11,500	*2
	Total		¥ 278,929		¥ 284,266	

Hedge accounting method	Nature of transaction	Hedged items	Thousands of U.S. dollars 2011 Contract or notional amounts	Thousands of U.S. dollars 2011 Fair value
*1	Interest rate swaps:			
	Variable rate received for fixed rate	Short-term investments	$ 32,471	*2
	Variable rate received for fixed rate	Short-term loans	153,085	*2
	Variable rate received for fixed rate	Investments in securities	28,864	*2
	Fixed rate paid for variable rate	Call money	3,001,804	*2
	Variable rate paid for variable rate	Long-term borrowings	138,304	*2
	Total		$ 3,354,528	

*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, 2011 and 2010, undrawn amount of general loan for securities companies and customers and overdraft loan are as follows:

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars 2011
Total credit line	¥ 534,240	¥ 556,523	$ 6,425,015
Drawn amount	(25,945)	(36,617)	(312,026)
Undrawn amount	¥ 508,295	¥ 519,906	$ 6,112,989

(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 2011	Millions of yen 2010	Thousands of U.S. dollars 2011
Total current assets	¥ 15,599	¥ 16,646	$ 187,601
Total non-current assets	18,764	21,149	225,664
Total current liabilities	9,133	8,285	109,838
Total non-current liabilities	7,913	10789	95,165
Total net assets	17,318	18,715	208,274
Sales	37,708	40,532	453,494
Income (loss) before income taxes	263	(1,357)	3,163
Net loss	(619)	(1,988)	(7,444)

(21) SEGMENT INFORMATION

March 31, 2011

From the year ended March 31, 2011, the Company applied "the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17, March 27, 2009) and "the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20, March 21, 2008).

The Standard and the Guidance adopt the management approach. Disclosures about segments of an enterprise and related information should provide proper information on the nature of various business activities in which it engages and the economic environments in which it operates.

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results.

"Securities finance business" conducted by the Company, "Trust banking business" conducted by JSF Trust and Banking Co., Ltd. and "Real estate leasing business" conducted by Nihon Building Co., Ltd. are the Company's reported segments. JSF Trust and Banking Co., Ltd. and Nihon Building Co., Ltd. are consolidated subsidiaries of the Company.

"Securities finance business" is engaged in providing loan services, which are loans for margin transaction, bond financing and general loans, bond lending and stock lending. "Trust banking business" is engaged in providing trust services such as securities trust and banking services such as deposit or loan. "Real estate leasing business" is mainly engaged in providing services for leasing and managing real estate owned by JSF Group.

Segment revenues, income, assets, liabilities and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements. Segment income is calculated based on "Keijo-soneki." Under accounting principles generally accepted in Japan, an ordinary income or loss, "Keijo-soneki" should be disclosed in the income statement. The ordinary income or loss is an income or loss figure with certain adjustments, which are categorized as extraordinary items in accordance with accounting principles generally accepted in Japan, made to income or loss before income taxes and minority interests. Intersegment revenue and transfer are based on arms-length transactions.

The reported segment information for the Company and its consolidated subsidiaries for the year ended March 31, 2011 was summarized as follows:

	Millions of yen			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 17,558	¥ 4,360	¥ 930	¥ 22,848
Intersegment revenues and transfers	81	54	341	476
Total	¥ 17,639	¥ 4,414	¥ 1,271	¥ 23,324
Segment income	¥ 2,553	¥ 1,117	¥ 414	¥ 4,084
Segment assets	¥ 5,229,779	¥ 2,041,916	¥ 7,737	¥ 7,279,432
Others:				
Depreciation and amortization	¥ 600	¥ 94	¥ 172	¥ 866
Extraordinary income	33	1,261	7	1,301
Reversal of allowance for doubtful receivables included in the above extraordinary income	32	1,257	7	1,296
Income taxes	940	(14)	167	1,093

	Thousands of U.S. dollars			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	$ 211,161	$ 52,435	$ 11,185	$ 274,781
Intersegment revenues and transfers	974	649	4,101	5,724
Total	$ 212,135	$ 53,084	$ 15,286	$ 280,505
Segment income	$ 30,703	$ 13,434	$ 4,979	$ 49,116
Segment assets	$ 62,895,719	$ 24,557,017	$ 93,049	$ 87,545,785
Others:				
Depreciation and amortization	$ 7,216	$ 1,130	$ 2,069	$ 10,415
Extraordinary income	397	15,165	84	15,646
Reversal of allowance for doubtful receivables included in the above extraordinary income	385	15,117	84	15,586
Income taxes	11,305	(168)	2,008	13,145

The reported segment information for the year ended March 31,2010 which are restated to conform to the segmentation for the year ended March 31, 2011 are as follows:

	Millions of yen			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 20,818	¥ 6,017	¥ 1,034	¥ 27,869
Intersegment revenues and transfers	123	2	366	491
Total	¥ 20,941	¥ 6,019	¥ 1,400	¥ 28,360
Segment income	¥ 4,013	¥ 1,671	¥ 557	¥ 6,241
Segment assets	¥ 3,963,085	¥ 1,621,253	¥ 8,131	¥ 5,592,469
Others:				
Depreciation and amortization	¥ 763	¥ 70	¥ 185	¥ 1,018
Extraordinary income	105	–	–	105
Reversal of allowance for doubtful receivables included in the above extraordinary income	105	–	–	105
Income taxes	1,573	(233)	228	1,568

Reconciliation between total segment revenues in the table above and revenues in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Total segment revenues	¥ 23,324	¥ 28,360	$ 280,505
Intersegment revenues	(475)	(491)	(5,712)
Revenues in the accompanying consolidated statements of income	22,849	27,869	274,793

Reconciliation between total segment income in the table above and ordinary income in the consolidated income statements for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Total segment income	¥ 4,084	¥ 6,241	$ 49,116
Intersegment income	(254)	(143)	(3,054)
Equity in losses of affiliates	(484)	(916)	(5,821)
Revenues in the consolidated income statements	¥ 3,346	¥ 5,182	$ 40,241

Reconciliation between total segment assets in the table above and assets in the consolidated accompanying balance sheets at March 31, 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Total segment assets	¥ 7,279,432	¥ 5,592,469	$87,545,785
Intersegment accounts	(179,483)	(91,782)	(2,158,545)
Intersegment investments	(26,269)	(26,269)	(315,923)
Other	4,458	5,192	53,614
Assets in the accompanying consolidated balance sheets	¥ 7,078,138	¥ 5,479,610	$85,124,931

Reconciliation between others in the table above and amounts in the consolidated financial statements as of and for the years ended March 31, 2011 and 2010 are as follows:

	Millions of yen		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2011			
Depreciation and amortization	¥ 866	¥ 1	¥ 867
Extraordinary income	1,301	(4)	1,297
Reversal of allowance for doubtful receivables included in the above extraordinary income	1,296	(4)	1,292
Income taxes	1,093	11	1,104
March 31, 2010			
Depreciation and amortization	¥ 1,018	¥ 1	¥ 1,019
Extraordinary income	105	(105)	–
Reversal of allowance for doubtful receivables included in the above extraordinary income	105	(105)	–
Income taxes	1,568	1	1,569

	Thousands of U.S. dollars		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2011			
Depreciation and amortization	$ 10,415	$ 12	$ 10,427
Extraordinary income	15,646	(48)	15,598
Reversal of allowance for doubtful receivables included in the above extraordinary income	15,586	(48)	15,538
Income taxes	13,145	132	13,277

Related Information

(a) Information by services

Sales by services for the year ended March 31, 2011 are as follows:

	Millions of yen	Thousands of U.S. dollars
Loans for margin transactions	¥ 8,923	$ 107,312
Other	13,926	167,481
	¥ 22,849	$ 274,793

(b) Geographic information

Because there are no revenues from customers outside Japan and no property, plant and equipment located outside Japan, the geographic information is not disclosed for the year ended March 31, 2011.

(c) Information by major customers

Because no particular third party whose revenues are over 10% of revenues in the consolidated statements of income exists, the information by major customers is not disclosed for the year ended March 31, 2011.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the year ended March 31, 2011.

Goodwill by reported segments

The information is not applicable for the year ended March 31, 2011.

Negative goodwill incurred by reported segments

The information is not applicable for the year ended March 31, 2011.

March 31, 2010

(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.

(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, 2011 and 2010, and related consolidated statements of income, changes in net assets and cash flows for the years then ended, and related consolidated statement of comprehensive income for the year ended March, 31 2011, all expressed in Japanese yen. These consolidated 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, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

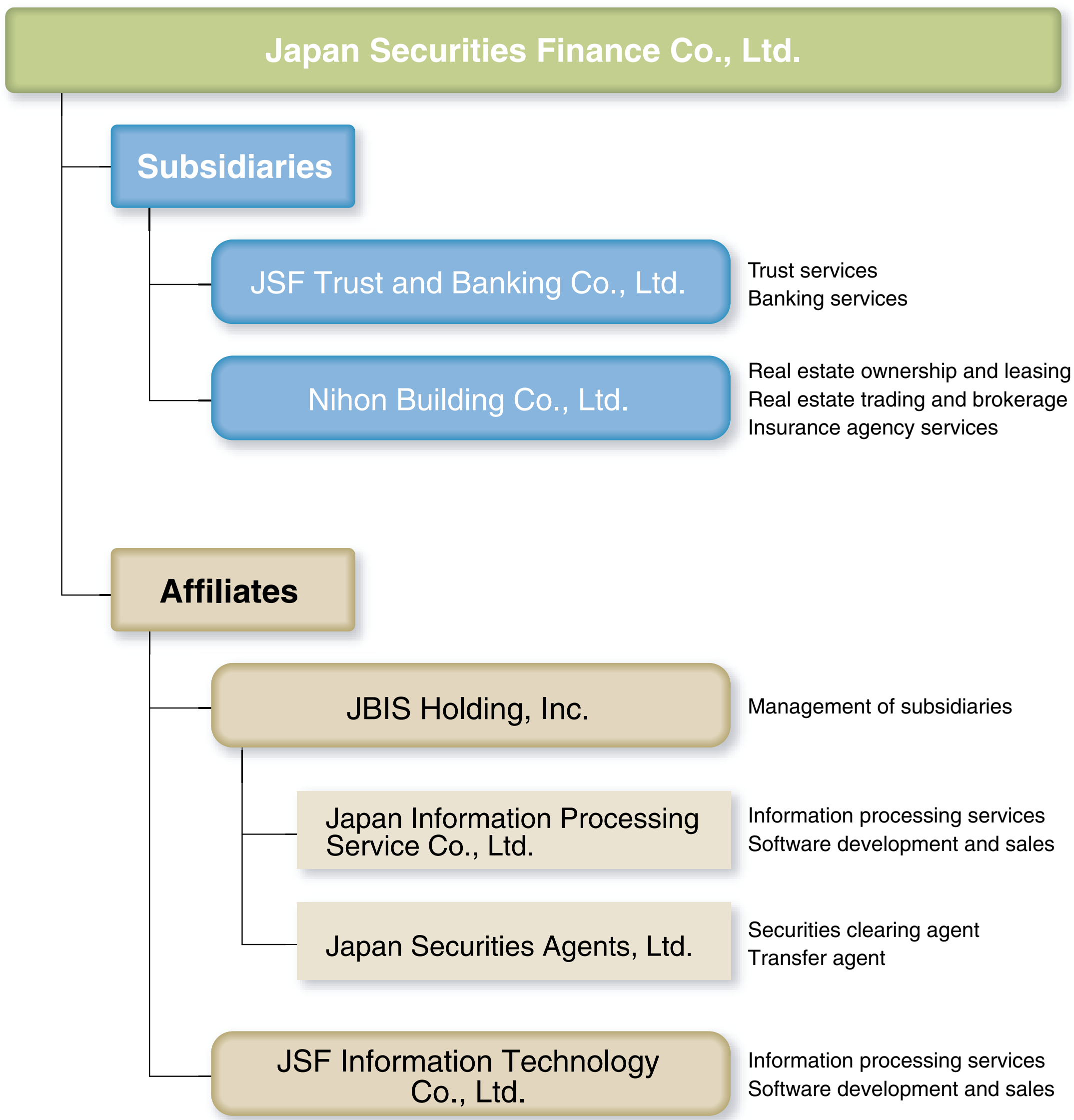
The accompanying consolidated financial statements as of and for the year ended March 31, 2011 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis described in Note 2 to the consolidated financial statements.

BDO Toyo & Co.

BDO Toyo & Co
Tokyo, Japan
June 27, 2011

OUTLINE OF THE CORPORATE GROUP

(As of April 1, 2011)



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, 2011)

Number of shareholders
8,794 shareholders (as of March 31, 2011)

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 24, 2011)

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

Ushio Mizuno *
Masao Iguchi
Toshio Kamiyama *
(* Outside Corporate Auditors)

Executive Officers

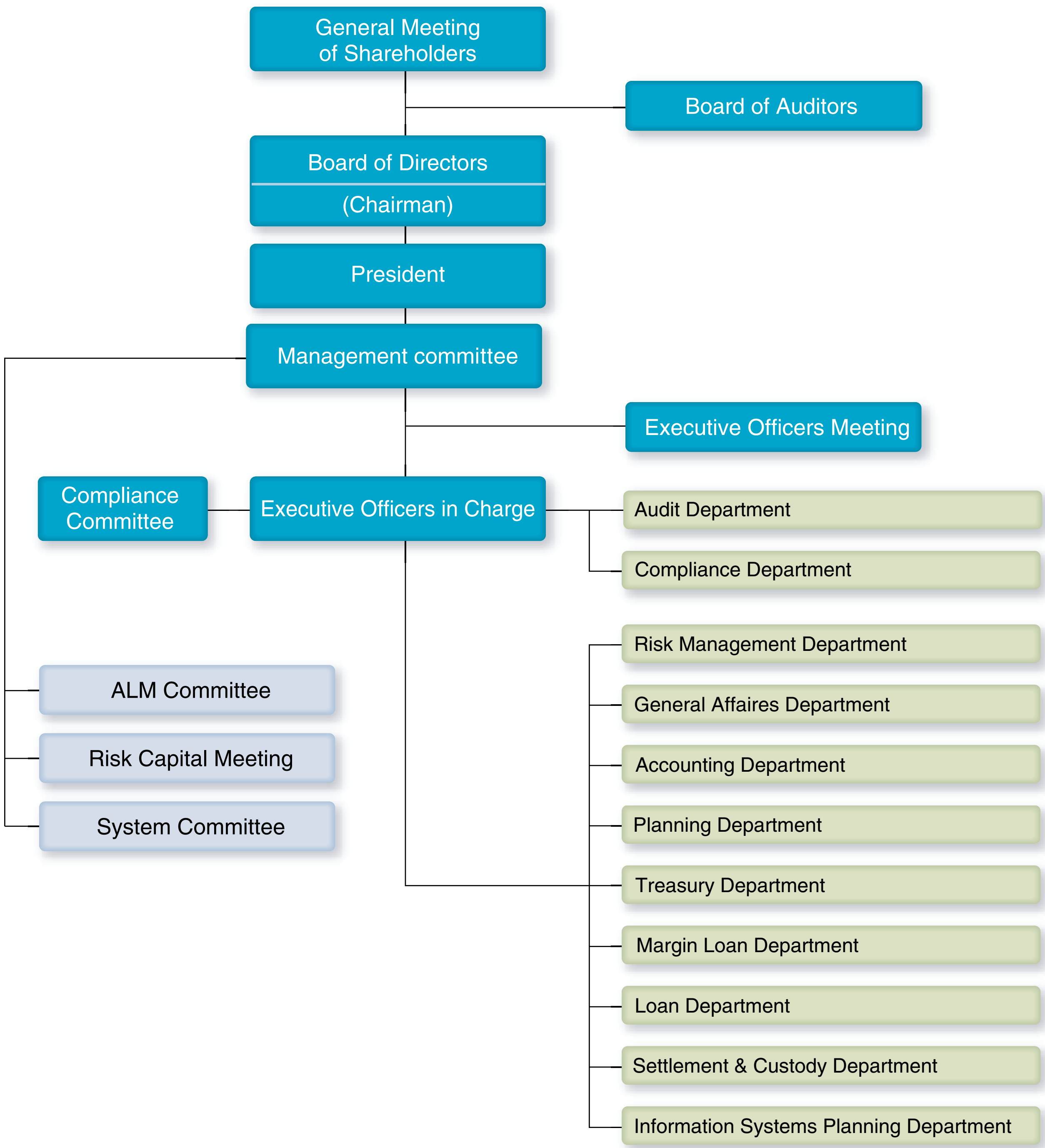
President	Minoru Masubuchi
Executive Vice President	Hiromitsu Matsuda
Senior Managing Director	Eizo Kobayashi
	Yasuhisa Hashimoto
Managing Director	Hiroshi Nasuno
	Hiroshi Asakura
Executive Officers	Tomoyoshi Sugaya
	Toshihiko Ishide
	Ichiro Kasahara
	Kenji Fukushima
	Kazuhiro Maeda

Rating Information

(As of the end of July, 2011)

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

ORGANIZATION



JSF

JAPAN SECURITIES FINANCE CO., LTD.
1-2-10 Nihonbashi-Kayabacho, Chuo-ku, Tokyo, 103-0025

Printed in Japan