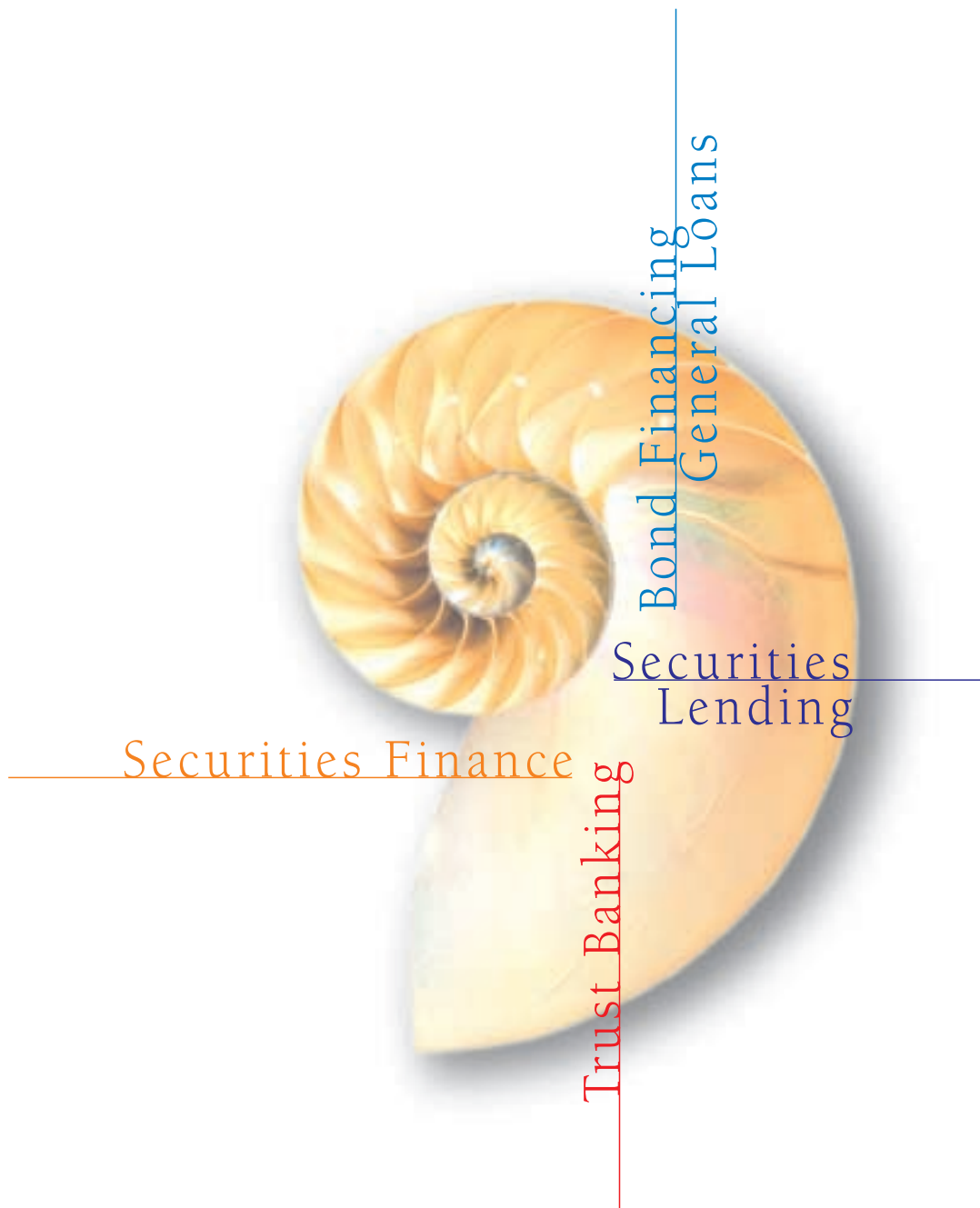


# ANNUAL REPORT 2003



Bond Financing  
General Loans

Securities  
Lending

Securities Finance

Trust Banking

## 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 Securities 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	1
A Message from the President	2
Business Review	4
Outline of the Corporate Group	7
Financial Section	8
Board of Directors and Corporate Auditors	22
Corporate Data	23
Business Outline	24
Organization	25

# Financial Highlights

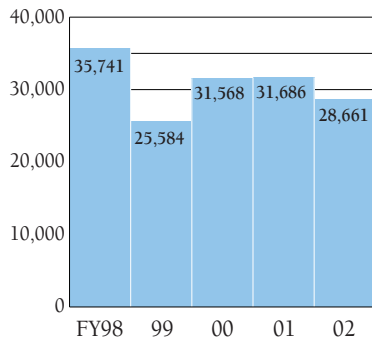
Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries March 31, 2003, 2002, 2001, 2000 and 1999

## Consolidated financial results

		FY1998 (Apr. 1, 1998 – Mar. 31, 1999)	FY1999 (Apr. 1, 1999 – Mar. 31, 2000)	FY2000 (Apr. 1, 2000 – Mar. 31, 2001)	FY2001 (Apr. 1, 2001 – Mar. 31, 2002)	FY2002 (Apr. 1, 2002 – Mar. 31, 2003)
Operating revenue	¥ mil.	35,741	25,584	31,568	31,686	28,661
Net income	¥ mil.	1,940	3,326	2,837	2,989	1,746
Total assets	¥ bil.	4,247.6	6,343.1	8,257.6	6,878.3	4,031.3
Shareholders' equity	¥ bil.	113.1	116.7	118.5	117.1	118.3
Net income per share	¥	15.98	28.12	24.17	26.75	15.86
Net shareholders' equity per share	¥	956.76	986.86	1,045.03	1,089.27	1,169.05

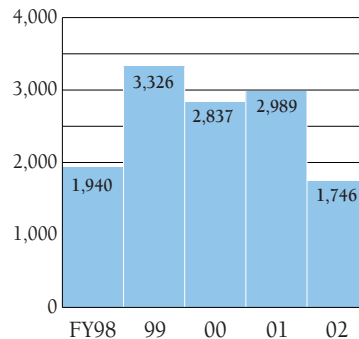
**Operating revenue**

(Millions of yen)



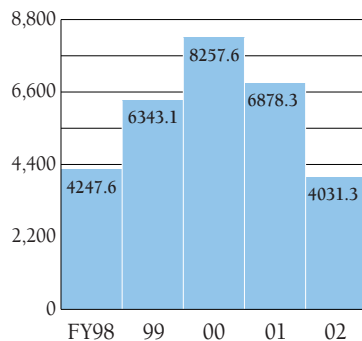
**Net income**

(Millions of yen)



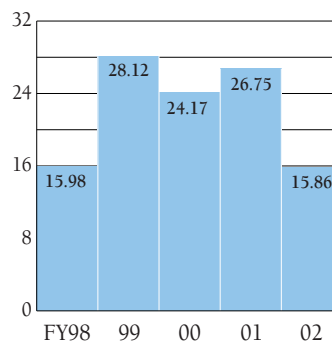
**Total assets**

(Billions of yen)



**Net income per share**

(Yen)



## A Message from the President



Kunio Kojima, President

*It is my sincere hope that this Annual Report for fiscal 2002 (April 2002-March 31, 2003) will be of use to shareholders, investors and other supporters of the Japan Securities Finance Company.*

### 1. Review of Fiscal 2002

#### **Business environment**

In the stock market, the Tokyo Stock Price Index (TOPIX), which started the fiscal year at 1,053, rose temporarily, with expectations for the recovery of the domestic economy. However, the index recorded a downward trend since the summer, due to a decline in US stock prices and the deterioration of supply and demand conditions, caused by companies' unwinding of cross-shareholdings. From January, concern about increasing tension in world affairs sent TOPIX to its lowest figure in the post-bubble period. The index fell below 800 in March for the first time in about 19 years and ended the fiscal year at 788.

The outstanding balance of standardized margin buying in the Tokyo market grew from about ¥1.1 trillion at the beginning of the fiscal year to ¥1.4 trillion by June, but

gradually retreated to the ¥800 billion level by the end of the fiscal year as stock market conditions continued to weaken. The outstanding balance of standardized margin selling fell from approximately ¥800 billion at the beginning of the fiscal year to the ¥500 billion level at the end of the year, due mainly to the influence of the enhanced regulations on margin selling that became effective in September.

#### **Business results**

Loans for margin transactions remained at a low level, influenced by a slump in the outstanding balance of standardized margin buying, and kai-gensaki transactions fell significantly, due to the absence of bidding for Japanese government bond repurchase agreements (gensaki) by the Ministry of Finance, following an active year in fiscal 2001. As a result, total loans receivable averaged ¥563.5 billion during fiscal 2002, roughly half the fiscal 2001 average. As regards the turnover of securities lending businesses, the lending of stock certificates outside the loans for margin transactions business (general stock lending) held firm, despite a significant decline in bond lending. Operating income increased because of introducing new fees on stock loans and higher government bond investment revenue, but consolidated net income fell 40% due to significant losses on valuation and from the sale of bank stocks, which were a source of serious concern. Detailed results for fiscal 2002 are to be found in "Business Review" below.

### 2. Outlook of Fiscal 2003

#### **Earnings outlook**

The future of the Japanese economy remains uncertain. While there are favorable factors such as recovery in corporate earnings, it will take some time before consumer sentiment improves, in view of the continuing employment adjustment pressure. There are also concerns that unstable economies in the US, Asia and elsewhere will adversely

affect exports, which are currently favorable. Stock markets are expected to remain weak in the near term, with no quick recovery being anticipated.

In this environment, although the potential for further decline is limited, both margin buying and selling are expected to remain low, and we forecast a decline in JSF's loans and stock loans for margin transactions. The securities lending business is expected to remain at a level similar to that of the previous year. As the book value of stockholdings was lowered by recognizing securities valuation losses in the previous fiscal year, we see no significant risk in going forward with respect to our securities holdings.

### **Strategy**

Studies are in progress on reforms to the securities settlement system, including the reduction of settlement period (T+1) and introducing a book-entry securities system. Meanwhile, the restructuring of an online system, which JSF has been developing for the past two years, is now in the final testing stage, with a scheduled launch by the end of the year. We intend to use this system to respond more quickly and effectively to a variety of changes in financial and securities markets, as well as to new market needs that may be generated by those changes.

JSF acquired 5,556 thousand shares of treasury stock in fiscal 2002 and has established a framework to acquire an additional 6,000 thousand shares (¥3 billion) in fiscal 2003. The number of shares outstanding has been reduced to 101 million, but with the moderate amount of leeway that we have in equity capital because of the extremely undervalued stock price, we will continue to improve shareholder value by purchasing treasury stock.

In the securities financing business, as the Japan Securities Dealers Association is considering the introduction of standardized margin transactions with a view to revitalizing the JASDAQ over-the-counter trading market, JSF is

making preparations in its core loans for margin transactions business to facilitate these efforts by handling loans for margin transactions in the JASDAQ market.

In the general loans business, in addition to lending to securities companies and individual investors, JSF will also work aggressively to provide loans to general corporations.

JSF Trust and Banking Co., Ltd. provides high-quality services with full use of its capacity as a trust bank in the securities market, including the "segregated money of customers in trust" and "securities in trusts." The company is looking to a further expansion of its trust assets.

In the information processing services segment, JSF will work to increase orders by concentrating management resources in areas where it can demonstrate superiority, including systems development for the securities and finance industries, and will focus on outsourcing services.

Although economic conditions and the securities and financial environment are expected to remain unfavorable, we will respond in timely and appropriate fashion to the various needs of the securities and financial industries, with JSF playing a central role in consolidating the member companies of its group as a specialized financial institution in the securities market.

I would be most grateful for your continuing support as we continue to do our utmost to ensure a very successful future for JSF.



Kunio Kojima  
President  
August 2003

## Business Review

Consolidated operating revenue declined by 9.5% from the previous year to ¥28,661 million in fiscal 2002, due mainly to reduced fees on lending securities in loans for margin transactions. Consolidated operating costs dropped by 26.6% from the previous year to ¥15,747 million, as a result of reduced fees on borrowing securities in loans for margin transactions and a decline in interest paid, thanks to lower money market interest rates.

Consequently, consolidated operating income grew 108.2% to ¥4,806 million. The increases are mainly attributable to the fees on lending securities of ¥13,576 million (down ¥2,771 million from the previous fiscal year) being significantly higher than those on borrowing securities of ¥11,229 million (down ¥4,786 million from the previous fiscal year) mainly as a result of introducing new fees on stock loans for loans transactions in May 2002.

Other losses totaled ¥1,344 million as a result of losses on the sale, devaluation of investment securities and other factors, due to the decline in the stock market. Consequently, consolidated net income fell 41.6% to ¥1,746 million.

### Breakdown of JSF group operating revenue

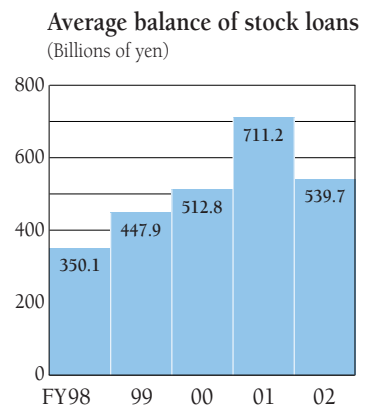
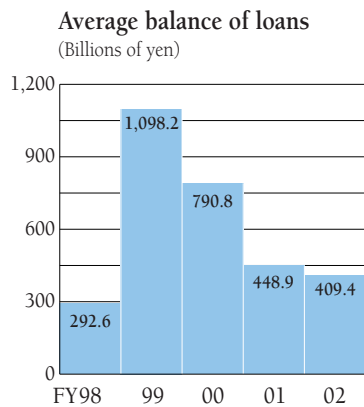
	Fiscal 2002 April 1, 2002 – March 31, 2003	Fiscal 2001 April 1, 2001 – March 31, 2002
	Amount (¥ million)	Amount (¥ million)
Securities financing segment	25,296	28,093
Loans for margin transactions business	16,681	20,568
Interest on loans	2,535	2,887
Interest on collateral money for securities borrowed	1,520	2,416
Fees on lending securities	12,402	15,087
Bond financing and general loans business	1,239	1,533
Interest on bond financing	34	32
Interest on general loans	1,205	1,501
Securities lending business	1,409	1,952
Stocks	638	797
Bonds	771	1,155
Fees on lending securities	533	452
Interest on collateral money for securities borrowed	233	702
Trust banking business	3,122	1,670
Trust charges	207	189
Real estate leasing business	981	938
Other	1,864	1,432
Information processing services segment	3,365	3,593
Fees on information services	3,084	3,269
Fees on machinery leasing	215	252
Other	66	72
<b>Total operating revenue</b>	<b>28,661</b>	<b>31,686</b>

## 1. Securities financing

Operating revenue in the securities financing division fell 10.0% from the previous fiscal year to ¥25,296 million.

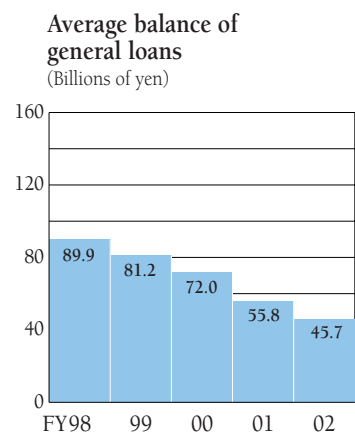
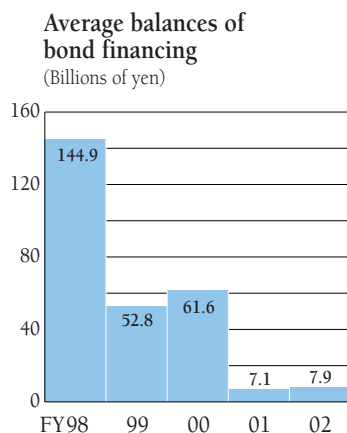
### Loans for margin transactions

Revenue from interest on loans decreased. This is due to a decline in the average balance of loans for margin transactions of ¥39.4 billion from the previous year to ¥409.4 billion, which resulted from the decreased outstanding balance of standardized margin buying and from interest rates on loans reaching record lows during the fiscal year. Despite the introduction of new fees on stock loans, fees on lending securities also decreased, by a decline in the average balance of stock loans for margin transaction of ¥171.5 billion to ¥539.7 billion, which reflected the reduced balance of margin selling. As a result, operating revenue in this business fell 18.9% from the previous fiscal year to ¥16,681 million.



### Bond financing and general loans

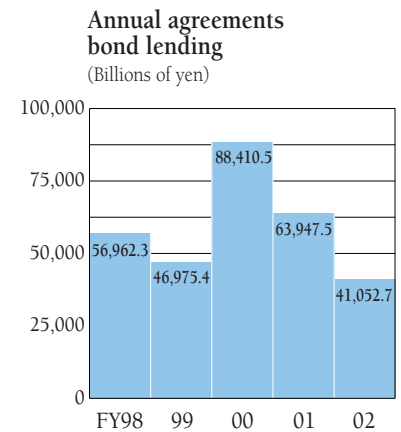
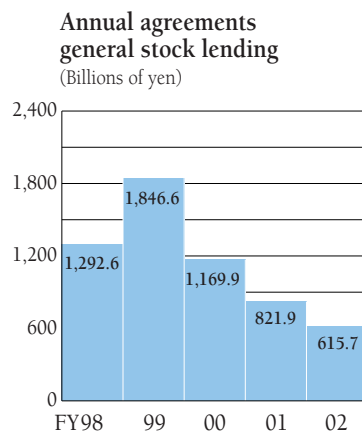
With the slumping stock market, demand for funds from securities companies and individual investors did not increase during the year. The average balances of loans for securities companies and individual investors were ¥7.9 billion and ¥45.7 billion respectively. Operating revenue from this operation fell 19.2% from the previous fiscal year to ¥1,239 million.



## Securities lending

Stock lending volume increased significantly with favorable growth of “offer bid stock lending brokerage transactions” (electronic matching of stock borrowing and lending on screen), which the company launched in February 2002. Nevertheless, revenue declined as a result of the reduced lending unit, which forms the basis for calculating lending fees.

As the Bank of Japan continued to make an ample supply of funds available, the amount of bond lending and borrowing contracts also declined, due to lackluster demand for raising funds through bond lending and borrowing. Consequently, operating revenue in the securities lending business fell 27.8% from the previous fiscal year to ¥1,409 million.



## Trust banking business

Efforts to expand financing and to boost short-term investment resulted in strong performance in fund management operations and increased trust fees. Gains on sales of government bonds contributed to significant revenue growth, and operating revenue in the trust banking business jumped 87.0% from the previous year to ¥3,122 million.

## Other business

Other revenue amounted to ¥1,864 million, up 30.2% from the previous year, mainly from interest income on government bond holdings.

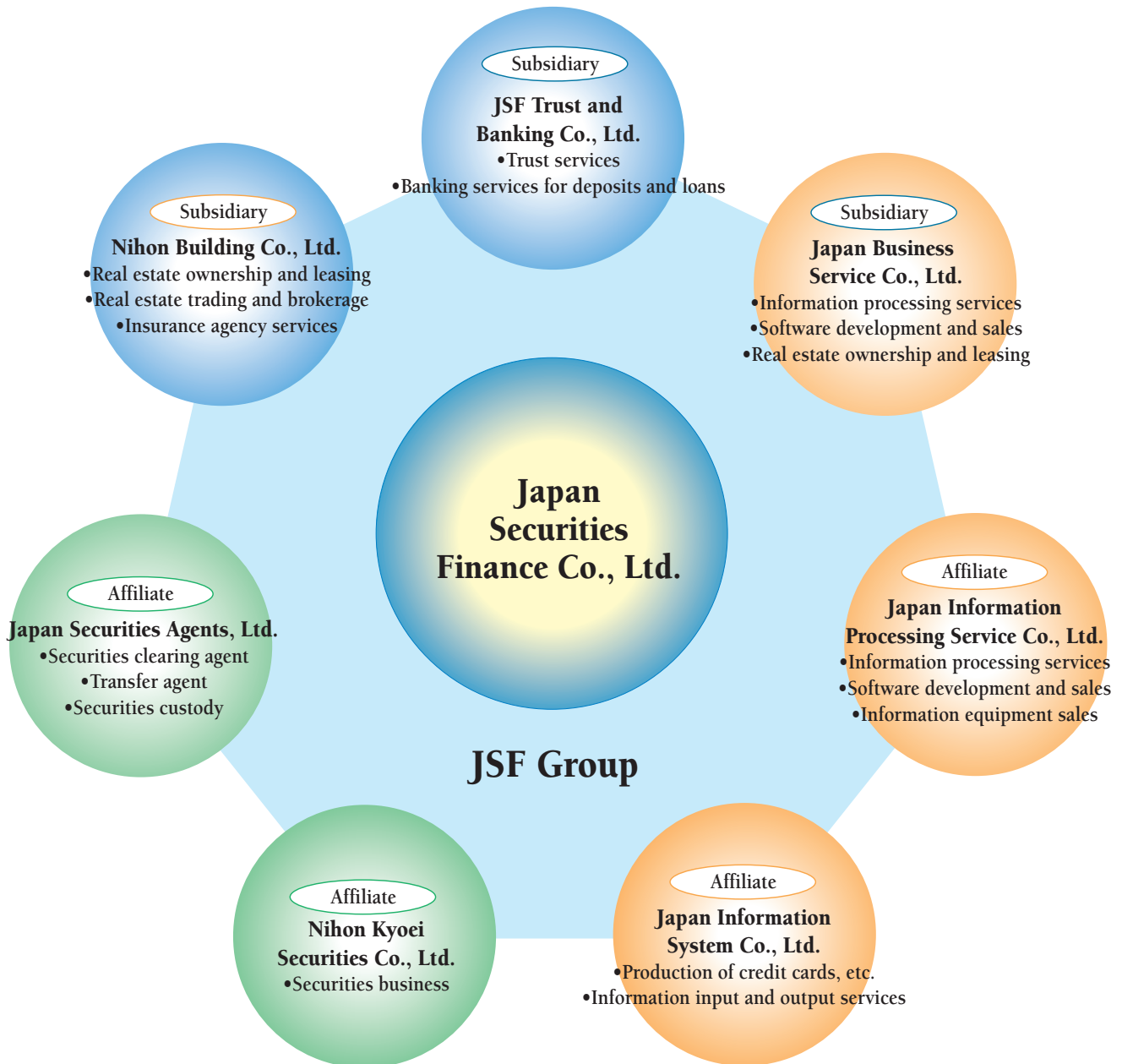
## 2. Information processing services

In the information processing segment, although securities and other system development business performed well, a decline in orders for system operations services and data entries caused operating revenue to decline by 6.3% from the previous fiscal year to ¥3,365 million.



# Outline of the Corporate Group

- Securities Finance Business
- Information Processing Business
- Other Business



Financial Section

## Consolidated Balance Sheets

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries March 31, 2003 and 2002

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2003
<b>Current assets:</b>			
Cash (note 3)	¥ 23,699	¥ 22,014	\$ 197,163
Call loans	300,000	291,400	2,495,840
Short-term investments (notes 4 and 15)	997,259	606,781	8,296,664
Short-term loans receivable (note 15)	645,762	920,928	5,372,396
Securities lent	493,340	2,250,093	4,104,326
Securities in custody (note 15)	83,171	162,972	691,939
Securities in deposit (note 15)	108,413	602,237	901,939
Deferred income taxes (note 9)	448	248	3,727
Collateral money for securities borrowed (note 15)	782,894	1,717,328	6,513,261
Other current assets (note 15)	21,626	2,348	179,917
Less allowance for doubtful receivables	606	914	5,042
Total current assets	3,456,006	6,575,435	28,752,130
<b>Property, plant and equipment:</b>			
Buildings and structures	7,227	6,930	60,125
Machinery, equipment and vehicles	5	8	42
Tools, furniture and fixtures	2,746	2,922	22,845
Land	3,130	3,130	26,040
Construction in progress	34	–	282
	13,142	12,990	109,334
Less accumulated depreciation	6,236	5,985	51,880
Net property, plant and equipment	6,906	7,005	57,454
<b>Intangible assets, net</b>	<b>4,193</b>	<b>1,599</b>	<b>34,884</b>
<b>Investments and other assets:</b>			
Investments in securities (notes 4, 5 and 15)	563,362	290,317	4,686,872
Deferred income taxes (note 9)	179	1,263	1,489
Deferred income taxes for land revaluation (note 6)	9	9	75
Other investments and other assets	794	2,770	6,605
Less allowance for doubtful receivables	110	89	915
Total investments and other assets	564,234	294,270	4,694,126
<b>Total assets</b>	<b>¥4,031,339</b>	<b>¥6,878,309</b>	<b>\$33,538,594</b>

See accompanying notes to consolidated financial statements.

<b>Liabilities and Stockholders' Equity</b>	Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2003
<b>Current liabilities:</b>			
Call money (notes 7 and 15)	¥ 918,500	¥ 768,000	\$ 7,641,431
Bills sold (notes 7 and 15)	297,500	201,300	2,475,041
Short-term borrowings (notes 7 and 15)	674,820	577,651	5,614,143
Commercial paper (note 7)	85,100	53,000	707,987
Borrowings on Gensaki transaction (notes 7 and 15)	246,637	–	2,051,888
Accrued income taxes (note 9)	1,080	577	8,985
Collateral money received for securities lent (note 15)	893,461	2,070,995	7,433,120
Collateral securities deposited	332,139	1,008,677	2,763,220
Securities borrowed (note 15)	352,785	1,908,625	2,934,983
Other current liabilities (note 7)	105,143	165,354	874,734
Total current liabilities	3,907,165	6,754,179	32,505,532
<b>Non-current liabilities:</b>			
Deferred income taxes (note 9)	1,107	–	9,210
Liabilities for retirement and severance benefits (note 8)	4,025	4,389	33,486
Other non-current liabilities	680	2,638	5,657
Total non-current liabilities	5,812	7,027	48,353
Total liabilities	3,912,977	6,761,206	32,553,885
<b>Stockholders' equity:</b>			
Common stock (note 11):	10,000	10,000	83,195
Authorized 154,301,000 shares; issued and outstanding 101,810,000 shares in 2003 and 107,509,000 in 2002			
Additional paid-in capital (note 11)	5,182	5,182	43,112
Retained earnings (note 12)	99,494	100,847	827,737
Loss on revaluation of land (note 6)	(13)	(13)	(108)
Net unrealized gain on other securities (note 4)	3,895	1,088	32,404
Treasury stock	(196)	(1)	(1,631)
Total stockholders' equity	118,362	117,103	984,709
<b>Commitments and contingencies (note 16)</b>			
Total liabilities and stockholders' equity	¥4,031,339	¥6,878,309	\$33,358,594

## Consolidated Statements of Income

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2003
<b>Operating revenue</b>	<b>¥28,661</b>	¥31,686	<b>\$238,444</b>
<b>Operating costs</b>	<b>15,747</b>	21,465	<b>131,007</b>
Gross profit	12,914	10,221	107,437
<b>General and administrative expenses (note 10)</b>	<b>8,108</b>	7,913	<b>67,454</b>
Operating income	4,806	2,308	39,983
<b>Other income (deductions):</b>			
Interest income	209	268	1,739
Dividend income	60	60	499
Interest expenses	(8)	(11)	(67)
Equity in earnings (losses) of affiliates	(460)	1,050	(3,827)
Reversal of allowance for doubtful receivables	281	999	2,338
Loss on sale of investments in securities (note 4)	(336)	(332)	(2,795)
Loss on devaluation of investments in securities (note 4)	(1,183)	—	(9,842)
Other, net	93	32	774
	(1,344)	2,066	(11,181)
Income before income taxes	3,462	4,374	28,802
<b>Income taxes (note 9):</b>			
Current	1,787	1,407	14,867
Deferred	(71)	(22)	(591)
	1,716	1,385	14,276
Net income	<b>¥ 1,746</b>	¥ 2,989	<b>\$ 14,526</b>

	Yen		U.S. dollars (note 2)
	2003	2002	2003
<b>Per share of common stock:</b>			
Net income—basic (note 13)	<b>¥15.86</b>	¥26.75	<b>\$0.13</b>
Cash dividends applicable to the year (note 12)	<b>7.00</b>	7.00	<b>0.06</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Stockholders' Equity

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (note 2)
	2003	2002	2003
<b>Common stock (note 11):</b>			
Balance at beginning of year	<b>¥ 10,000</b>	¥ 10,000	<b>\$ 83,195</b>
Balance at end of year	<b>10,000</b>	10,000	<b>83,195</b>
<b>Additional paid-in capital (note 11):</b>			
Balance at beginning of year	<b>5,182</b>	5,182	<b>43,112</b>
Balance at end of year	<b>5,182</b>	5,182	<b>43,112</b>
<b>Retained earnings (note 12):</b>			
Balance at beginning of year	<b>100,847</b>	101,268	<b>838,993</b>
Cash dividends	(752)	(794)	(6,256)
Bonuses to directors and corporate auditors	(95)	(99)	(791)
Net income	1,746	2,989	14,526
Retirement of treasury stock	(2,252)	(2,517)	(18,735)
Balance at end of year	<b>99,494</b>	100,847	<b>827,737</b>
<b>Loss on revaluation of land at end of year (note 6)</b>	<b>(13)</b>	(13)	<b>(108)</b>
<b>Net unrealized gain on other securities at end of year (note 4)</b>	<b>3,895</b>	1,088	<b>32,404</b>
<b>Treasury stock at end of year</b>	<b>(196)</b>	(1)	<b>(1,631)</b>
Total stockholders' equity at end of year	<b>¥118,362</b>	¥117,103	<b>\$984,709</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries March 31, 2003 and 2002

	Millions of yen		Thousands of
	2003	2002	U.S. dollars (note 2)
			2003
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 3,462	¥ 4,374	\$ 28,802
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	882	757	7,338
Losses relating to short-term investments and investments in securities	512	455	4,260
Allowance for doubtful receivables	(286)	(1,016)	(2,379)
Increase (decrease) in liabilities for retirement and severance benefits	(363)	109	(3,020)
Interest and dividend income	(9,072)	(10,506)	(75,474)
Interest expenses	949	1,654	7,895
Equity in (earnings) losses of affiliates	460	(1,050)	3,827
Decrease in short-term loans receivable	275,166	401,076	2,289,235
(Increase) decrease in call loans	(8,600)	43,600	(71,547)
Decrease in collateral money for securities borrowed	934,434	694,407	7,773,993
Increase (decrease) in call money	150,500	(182,100)	1,252,080
Increase (decrease) in bills sold	96,200	(182,000)	800,333
Increase in short-term borrowings	97,169	134,635	808,394
Increase (decrease) in borrowings on Gensaki transaction	246,637	(40,772)	2,051,888
Increase (decrease) in commercial paper	32,100	(128,500)	267,055
Decrease in collateral money received for securities lent	(1,177,534)	(379,342)	(9,796,456)
Increase in collateral money received for loan transactions	1,391	4,588	11,572
Purchase of short-term investments	(4,934,365)	(1,586,374)	(41,051,290)
Proceeds from sale/redemption of short-term investments	4,273,582	1,233,716	35,553,927
Other, net	22,514	(1,689)	187,304
Sub total	5,738	6,022	47,737
Interest and dividend received	8,531	11,686	70,973
Interest paid	(960)	(2,062)	(7,987)
Income taxes paid	(1,213)	(2,057)	(10,091)
Net cash provided by operating activities	12,096	13,589	100,632
<b>Cash flows from investing activities:</b>			
Purchase of investments in securities	(4,695)	(820)	(39,060)
Proceeds from sale/redemption of investments in securities	825	5,194	6,864
Capital expenditures	(435)	(1,877)	(3,619)
Purchase of intangible assets	(3,103)	(980)	(25,815)
Other, net	11	(35)	91
Net cash provided by (used in) investing activities	(7,397)	1,482	(61,539)
<b>Cash flows from financing activities:</b>			
Dividends paid to stockholders	(752)	(794)	(6,256)
Purchase of common stock for retirement	(2,252)	(2,517)	(18,735)
Other, net	1	(11)	8
Net cash used in financing activities	(3,003)	(3,322)	(24,983)
Net increase in cash and cash equivalents	1,696	11,749	14,110
Cash and cash equivalents at beginning of year	21,976	10,227	182,828
Cash and cash equivalents at end of year (note 3)	¥ 23,672	¥ 21,976	\$ 196,938

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Income

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries March 31, 2003 and 2002

## (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 Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material 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 (3 subsidiaries for 2003 and 2002).

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 another 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 excess of cost over the underlying net assets at the dates of investments in subsidiaries is being 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" 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 stockholders' equity. Realized gains or losses on the other securities are determined by the moving average method.

### (e) Inventories

Inventories are stated at cost. Cost is determined principally by the specific identification method.

### (f) Property, Plant and Equipment

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

The estimated useful lives are as follows:

Buildings and structures 3–50 years

### (g) Intangible Assets

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 the rates based on the estimated useful lives of the respective assets.

### (h) 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.

### (i) Retirement and Severance Benefits

The Company and its consolidated subsidiaries have contributory and noncontributory pension plans to provide retirement and severance benefits to 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.

### (j) Leases

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases.

### (k) Income Taxes

The Accounting Standards for Deferred Income Taxes require that deferred income taxes 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.

### (l) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the stockholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation. (See note 12)

### (m) Data per Common Share

Net income per share is computed on the basis of the weighted average number of shares of common stock outstanding during the respective years. (See note 13)

Cash dividends per share are computed based on dividends actually paid during the year.

### (n) Reclassifications

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2002 have been made to conform to the 2003 presentation.

## (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, 2003 have been translated into United States dollars at the rate of ¥120.20=U.S.\$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2003. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

## (3) CASH AND CASH EQUIVALENTS

A reconciliation of the cash and cash equivalents of consolidated balance sheets and that of consolidated statements of cash flows at March 31, 2003 and 2002 is follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash	¥23,699	¥22,014	\$197,163
Time deposits that have maturities of over three months when acquired	(27)	(38)	(225)
Cash and cash equivalents	¥23,672	¥21,976	\$196,938

## (4) SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Balance sheet amount and changes in fair value of trading securities as of and for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Balance sheet amount	¥ -	¥52,595	\$ -
Changes in fair value	¥ -	¥ 25	\$ -

Balance sheet amount, fair value and gross unrealized gain and loss of held-to-maturity securities with fair value as of March 31, 2003 and 2002 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
<b>March 31, 2003</b>				
Government bond securities	¥ 15	¥ -	¥ -	¥ 15
Corporate bond securities	608	1	5	604
Other debt securities	-	-	-	-
	¥ 623	¥ 1	¥ 5	¥ 619
<b>March 31, 2002</b>				
Government bond securities	¥281,897	¥589	¥ 13	¥282,473
Corporate bond securities	60,682	20	609	60,093
Other debt securities	-	-	-	-
	¥342,579	¥609	¥622	¥342,566

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
<b>March 31, 2003</b>				
Government bond securities	\$ 125	\$-	\$ -	\$ 125
Corporate bond securities	5,058	8	41	5,025
Other debt securities	-	-	-	-
	<b>\$5,183</b>	<b>\$8</b>	<b>\$41</b>	<b>\$5,150</b>

Acquisition cost, balance sheet amount and gross unrealized gain and gross unrealized loss of other securities with fair value as of March 31, 2003 and 2002 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<b>March 31, 2003</b>				
Equity securities	¥ 5,480	¥ 307	¥ 139	¥ 5,648
Bond securities:				
Government bond securities	1,320,080	5,585	262	1,325,403
Corporate bond securities	215,541	331	68	215,804
Other debt securities	-	-	-	-
Other securities	22	-	-	22
	<b>¥1,541,123</b>	<b>¥6,223</b>	<b>¥ 469</b>	<b>¥1,546,877</b>

March 31, 2002				
Equity securities	¥ 3,353	¥ 522	¥ 722	¥ 3,153
Bond securities:				
Government bond securities	467,918	1,127	19	469,026
Corporate bond securities	16,224	-	80	16,144
Other debt securities	-	-	-	-
Other securities	-	-	-	-
	<b>¥ 487,495</b>	<b>¥1,649</b>	<b>¥ 821</b>	<b>¥ 488,323</b>

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<b>March 31, 2003</b>				
Equity securities	\$ 45,591	\$ 2,554	\$1,157	\$ 46,988
Bond securities:				
Government bond securities	10,982,363	46,464	2,180	11,026,647
Corporate bond securities	1,793,186	2,754	565	1,795,375
Other debt securities	-	-	-	-
Other securities	183	-	-	183
	<b>\$12,821,323</b>	<b>\$51,772</b>	<b>\$3,902</b>	<b>\$12,869,193</b>

It is not practicable to estimate the fair value of securities as of March 31, 2003 and 2002 described bellow because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Unlisted equity securities	¥334	¥118	\$2,779

Projected future redemption of other securities with maturities and held-to-maturity securities at March 31, 2003 are summarized as follows:

	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
Debt securities:				
Government bond securities	¥819,477	¥372,702	¥123,372	¥9,866
Corporate bond securities	177,782	36,374	2,256	-
Other debt securities	-	-	-	-
	<b>¥997,259</b>	<b>¥409,076</b>	<b>¥125,628</b>	<b>¥9,866</b>



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
Debt securities:				
Government bond securities	\$6,817,612	\$3,100,682	\$1,026,389	\$82,080
Corporate bond securities	1,479,052	302,613	18,769	—
Other debt securities	—	—	—	—
	\$8,296,664	\$3,403,295	\$1,045,158	\$82,080

For the years ended March 31, 2003 and 2002, proceeds from sale of other securities are ¥1,653,057 million (\$13,752,554 thousand) and ¥45,855 million, the gross realized gains are ¥1,378 million (\$11,464 thousand) and ¥120 million, and the gross realized losses are ¥707 million (\$5,882 thousand) and ¥341 million, respectively.

### (5) INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates as of March 31, 2003 and 2002 is ¥12,788 million (\$106,389 thousand) and ¥13,484 million, respectively.

### (6) LAND REVALUATION

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

The book value of the land of ¥978 million before the revaluation was revaluated at ¥956 million at March 31, 2002. The value of the land at March 31, 2003 decreased by ¥106 million (\$882 thousand) in comparison with the book value of the land after the revaluation.

### (7) SHORT-TERM DEBT

The composition of short-term debt and the weighted average interest rate on short-term debt at March 31, 2003 and 2002 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
<b>March 31, 2003</b>			
Short-term borrowings	¥ 674,820	\$ 5,614,143	0.121%
Call money	918,500	7,641,431	0.019
Bills sold	297,500	2,475,042	0.010
Commercial paper	85,100	707,987	0.032
Borrowings on Gensaki transaction	246,637	2,051,888	0.004
Other	4,202	34,958	1.375
	¥2,226,759	\$18,525,449	
	Millions of yen		Weighted average rate
<b>March 31, 2002</b>			
Short-term borrowings	¥ 577,651		0.183%
Call money	768,000		0.013
Bills sold	201,300		0.001
Commercial paper	53,000		0.142
Borrowings on Gensaki transaction	—		—
Other	5,202		1.375
	¥1,605,153		

### (8) RETIREMENT AND SEVERANCE BENEFITS

The Company and consolidated subsidiaries have defined benefit retirement and pension plans, which consist of unfunded retirement and severance plans that provide for lump-sum payment of benefits, tax qualified noncontributory pension plans and contributory benefit plans provided under the Welfare Pension Insurance Law of Japan.

The funded status of the pension plans at March 31, 2003 and 2002 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligation	¥(7,215)	¥(6,652)	\$(60,025)
Plan assets at fair value	2,682	2,820	22,313
Funded status	(4,533)	(3,832)	(37,712)
Unrecognized actuarial loss	1,177	428	9,792
Amount recognized in the consolidated balance sheets	(3,356)	(3,404)	(27,920)
Prepaid retirement and severance benefits	42	20	350
Accrued retirement and severance benefits	¥(3,398)	¥(3,424)	\$(28,270)

Net periodic pension cost for the years ended March 31, 2003 and 2002 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥238	¥244	\$1,980
Interest cost	196	193	1,631
Expected return on plan assets	(50)	(64)	(416)
Amortization of actuarial loss	63	36	524
Net periodic pension cost	¥447	¥409	\$3,719

Significant assumptions of pension plans used to determine these amounts in fiscal 2003 and 2002 are as follows:

	2003	2002
Periodic allocation method for projected benefit	<b>Straight-line</b>	Straight-line
Discount rate	<b>Mainly 2.5%</b>	Mainly 3.0%
Expected rate of return on plan assets	<b>Mainly 2.0%</b>	Mainly 2.5%
Period for amortization of unrecognized actuarial loss	<b>Mainly 15 years</b>	Mainly 15 years

Plan assets of the welfare pension fund at March 31, 2003 and 2002 are estimated to be ¥3,352 million (\$27,887 thousand) and ¥3,397 million, respectively.

Directors and corporate auditors are not covered by the plans described above. For such persons, the Company and its certain subsidiaries have unfunded defined benefit pension plans. Under the plans, directors and corporate auditors are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the Company. The Company provides for the amount of the vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet dates. As of March 31, 2003 and 2002, the liabilities for retirement and severance benefits related to the plans were ¥627 million (\$5,216 thousand) and ¥965 million, respectively.

## (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 42.1% in 2003 and 2002.

Amendments to Japanese tax regulations were enacted on March 31, 2003. As a result of these amendments, the normal income tax rate is to be reduced from approximately 42.1% to 40.7% effective from the Company's fiscal year beginning April 1, 2004. Deferred income tax assets and liabilities as of March 31, 2003 which expected to be eliminated after April 1, 2004 were revaluated at a rate of 40.7%. The effect of the income tax rate reduction on net deferred tax assets as of March 31, 2003, which amounted to ¥55 million (\$458 thousand), was charged to income.

A reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the years ended March 31, 2003 and 2002 is follows:

	2003	2002
Statutory tax rate	42.1%	42.1%
Equity in losses (gains) of affiliates	5.6	(10.1)
Expenses not deductible for tax purposes	0.3	0.4
Income not credited for tax purposes	(0.4)	—
Effect of change in the tax rate	1.4	—
Other	0.6	(0.7)
Effective tax rate	49.6%	31.7%

Significant components of deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Deferred tax assets:</b>			
Accrued business tax	¥ 108	¥ 59	\$ 898
Accrued bonuses	238	196	1,980
Liabilities for retirement and severance benefits (employees)	1,159	1,163	9,642
Liabilities for retirement and severance benefits (directors and corporate auditors)	255	406	2,121
Unrealized profit on sale of inventories eliminated on consolidation	91	346	757
Other	371	237	3,087
	2,222	2,407	18,485
<b>Deferred tax liabilities:</b>			
Gain on evaluation of subsidiaries' assets and liabilities	(182)	(189)	(1,514)
Net unrealized gain on other securities	(2,513)	(694)	(20,907)
Other	(7)	(13)	(58)
	(2,702)	(896)	(22,479)
Net deferred tax assets (liabilities)	¥ (480)	¥1,511	\$ (3,994)

Net deferred tax assets and liabilities as of March 31, 2003 and 2002 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Current assets—Deferred income taxes	¥ 448	¥ 248	\$ 3,727
Investments and other assets—Deferred income taxes	179	1,263	1,489
Non-current liabilities—Other non-current liabilities	(1,107)	—	(9,210)

#### (10) GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Salaries	¥3,030	¥2,854	\$25,208
Pension cost	420	391	3,494
Provision for retirement and severance benefits (directors and corporate auditors)	175	202	1,456
Administrative and computer expenses	1,149	1,154	9,559
Depreciation	864	740	7,188

#### (11) COMMON STOCK

Under the Commercial Code of Japan, at least 50% of the issue price of new shares is required to be designated as stated common stock. The actual portion to be designated as stated common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amount designated as stated common stock are credited to additional paid-in capital.

## (12) RETAINED EARNINGS AND DIVIDENDS

The Commercial Code of Japan provides that an amount equal to at least 10% of appropriations paid in cash be appropriated as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equal 25% of common stock. This legal reserve and additional paid-in capital may be used to reduce a deficit by approval at the meeting of stockholders or may be transferred to stated common stock by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains equal to or exceeds 25% of stated common stock, they are available for distributions by approval at the meeting of stockholders.

Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Commercial Code of Japan.

In accordance with the Commercial Code of Japan, proposed appropriations of retained earnings have not been reflected in the financial statements at the end of each fiscal year. The proposed appropriation of retained earnings at March 31, 2003 was cash dividends of ¥712 million (\$5,923 thousand).

## (13) NET INCOME PER SHARE INFORMATION

Reconciliation of the numbers and the amounts used in the basic net income per share computations for the year ended March 31, 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
Net income	¥1,746	\$14,526
Net income not applicable to common stockholders:		
Directors' and corporate auditors' bonuses	(76)	(632)
Net income applicable to common stockholders	¥1,670	\$13,894
		Number of shares (Thousands)
Weighted average number of shares on which basic net income per share is calculated		105,251

## (14) LEASES

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases under accounting principles generally accepted in Japan.

Certain key information about such lease contracts of the Company and its consolidated subsidiaries for the years ended March 31, 2003 and 2002 are as follows:

### (a) Lessee

(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
	2003	2002	2003
Furniture and fixtures:			
Acquisition cost	¥ 487	¥177	\$ 4,051
Accumulated depreciation	(145)	(59)	(1,206)
Net book value	¥ 342	¥118	\$ 2,845

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

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease expense	¥ 83	¥ 42	\$ 691
Future minimum lease payments:			
Within one year	¥119	¥ 42	\$ 990
Over one year	223	77	1,855
	¥342	¥119	\$2,845

(b) Lessor

(i) Acquisition cost, accumulated depreciation and net book value of leasing assets:

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Furniture and fixtures	Others	Total	Furniture and fixtures	Others	Total	Furniture and fixtures	Others	Total
Acquisition cost	¥ 485	¥ 81	¥ 566	¥ 736	¥ 91	¥ 827	\$ 4,035	\$ 674	\$ 4,709
Accumulated depreciation	(274)	(32)	(306)	(418)	(25)	(443)	(2,280)	(266)	(2,546)
Net carrying amount	¥ 211	¥ 49	¥ 260	¥ 318	¥ 66	¥ 384	\$ 1,755	\$ 408	\$ 2,163

(ii) Lease income, depreciation and future minimum lease payments including interest income:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease income	¥195	¥234	\$1,622
Depreciation	116	119	965
Future minimum lease payments:			
Within one year	¥132	¥188	\$1,098
Over one year	159	256	1,323
	¥291	¥444	\$2,421

(15) PLEDGED ASSETS

The carrying value and classification of assets owned by the Company that have been pledged to counterparties at March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Sources of collateral</b>			
Call money	¥703,500	¥ 587,000	\$5,852,745
Bills sold	297,500	201,300	2,475,042
Borrowings on Gensaki transaction	246,637	–	2,051,888
Collateral money received for securities lent	2,000	–	16,639
Short-term borrowings	–	28,668	–
Securities borrowed	173,328	1,656,548	1,441,997
<b>Uses of collateral</b>			
Short-term investments	¥889,842	¥ 510,606	\$7,403,012
Short-term loans receivable	237,736	–	1,977,837
Securities in custody	50,800	105,600	442,629
Securities in deposit	42,443	435,216	353,103
Collateral money for securities borrowed	173,328	1,717,328	1,441,997
Other current assets	3,999	–	33,270
Investments in securities	482,717	192,830	4,015,948

In addition to the above, securities received as collateral for loans receivable amounting to ¥303,599 million (\$2,525,782 thousand) and ¥314,449 million were deposited as guarantee at March 31, 2003 and 2002, respectively.

The fair value of the securities received as collateral for cash-collateral bond borrowing and lending transaction and securities borrowed under loan for consumption agreement at March 31, 2003 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Securities loaned	¥696,934	¥1,856,880	\$5,798,120
Securities pledged as collateral	236,156	111,354	1,964,692
Securities on hand	32,646	18,311	271,597

In addition, the fair value of the securities received for loans on Gensaki transaction at March 31, 2002 was ¥327,254 million.

## (16) COMMITMENTS AND CONTINGENCIES

As of March 31, 2003 and 2002, undrawn amount of revolving loan for securities companies, revolving loan for customers, and overdraft loan are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Total revolving credit line	¥556,818	¥549,700	\$4,632,429
Drawn amount	(30,639)	(33,190)	(254,900)
Undrawn amount	¥526,179	¥516,510	\$4,377,529

## (17) SEGMENT INFORMATION

### (a) Industry Segments

Operations by business group are summarized as follows:

	Millions of yen				
	2003				
	Securities finance	Information processing service	Total	Elimination/corporate	Consolidated
Revenue from outside customers	¥ 25,296	¥3,365	¥ 28,661	¥ -	¥ 28,661
Inter-segment revenue	17	107	124	(124)	-
	25,313	3,472	28,785	(124)	28,661
Operating expenses	20,485	3,489	23,974	(119)	23,855
Operating income	¥ 4,828	¥ (17)	¥ 4,811	¥ (5)	¥ 4,806
Assets	¥4,029,100	¥2,268	¥4,031,368	¥ (29)	¥4,031,339
Depreciation and amortization	647	237	884	(2)	882
Capital expenditures	3,314	60	3,374	(5)	3,369
	2002				
	Securities finance	Information processing service	Total	Elimination/corporate	Consolidated
Revenue from outside customers	¥ 28,093	¥3,593	¥ 31,686	¥ -	¥ 31,686
Inter-segment revenue	17	127	144	(144)	-
	28,110	3,720	31,830	(144)	31,686
Operating expenses	25,794	3,718	29,512	(134)	29,378
Operating income	¥ 2,316	¥ 2	¥ 2,318	¥ (10)	¥ 2,308
Assets	¥6,875,630	¥2,697	¥6,878,327	¥ (18)	¥6,878,309
Depreciation and amortization	514	243	757	-	757
Capital expenditures	2,513	344	2,857	-	2,857
	Thousand of U.S. dollars				
	2003				
	Securities finance	Information processing service	Total	Elimination/corporate	Consolidated
Revenue from outside customers	\$ 210,449	\$27,995	\$ 238,444	\$ -	\$ 238,444
Inter-segment revenue	142	890	1,032	(1,032)	-
	210,591	28,885	239,476	(1,032)	238,444
Operating expenses	170,424	29,027	199,451	(990)	198,461
Operating income	\$ 40,167	\$ (142)	\$ 40,025	\$ (42)	\$39,983
Assets	\$33,519,967	\$18,868	\$33,538,835	\$ (241)	\$33,538,594
Depreciation and amortization	5,383	1,972	7,355	(17)	7,338
Capital expenditures	27,571	499	28,070	(42)	28,028

Notes: 1. Business segments reflect the actual business contents.

2. Major revenues of each business segment

Securities finance segment: Interest income on loans, securities lending fees, etc.

Data processing service segment: service fees for computer processing

3. All of the assets are allocated to both segments.

### (b) Geographic Segments

The Company does not have any overseas subsidiaries for the years ended March 31, 2003 and 2002.

### (c) Overseas Sales

Not applicable.

## Independent Auditors' Report

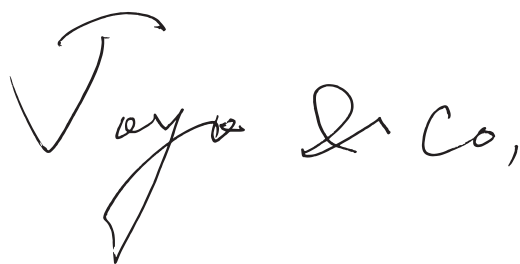
To the Stockholders and Board of Directors of  
Japan Securities Finance Co., Ltd.

We have audited the accompanying consolidated balance sheets of Japan Securities Finance Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and related consolidated statements of income, stockholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan and, accordingly, our audits included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. 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, 2003 and 2002, 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, 2003 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.

A handwritten signature in black ink, appearing to read "Toyo & Co.", with a large, stylized flourish above the first few letters.

Toyo & Co.  
Tokyo, Japan  
June 25, 2003

See Note 1(a) to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Japan Securities Finance Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

## Board of Directors and Corporate Auditors

### *Directors*

#### *President*

Kunio Kojima

#### *Executive Vice President*

Tetsuya Hiraoka

#### *Senior Managing Director*

Tasuku Horiguchi

#### *Managing Directors*

Hisao Harada

Yoshiyuki Kazama

### *Directors*

Sadamu Shimomura

Akira Onoda

Junji Kato

Takashi Imai\*

Masashi Suzuki\*

Akira Kanno\*

\*Outside Directors

### *Corporate Auditors*

Koji Takahashi\*

Munetaka Tada

Yasukuni Watanabe\*

Toshio Kamiyama\*

\*Outside Corporate Auditors



## 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

#### Branch offices

##### *Sapporo Branch*

4-5 Minami Ichijo Nishi, Chuo-ku, Sapporo 060-0061  
Tel: +81-11-241-1291

##### *Fukuoka Branch*

2-14-2 Tenjin, Chuo-ku, Fukuoka, 810-0001  
Tel: +81-92-741-1861

#### Web site

<http://www.jsf.co.jp>

#### Stock exchange listing

Tokyo Stock Exchange, 1st Section

#### Shares outstanding

101,810,000 shares (as of March 31, 2003)

#### Number of shareholders

8,822 shareholders (as of March 31, 2003)

#### Transfer agent

Japan Securities Agents, Ltd.

1-2-4 Nihonbashi-Kayabacho, Chuo-ku, Tokyo 103-8202  
Tel: +81-3-3668-9211

#### Rating Information

	Long-term Rating	Short-term Rating
Standard and Poor's (S&P)	A-	A-2
Moody's	A3	P-2
Rating and Investment Information, Inc. (R&I)	AA-	a-1+
Japan Credit Rating Agency (JCR)	AA-	J-1+

### Major Business Activities

JSF is licensed by the Prime Minister, in accordance with the Securities and Exchange Law, as a financial institution specializing in securities-related financing. Its principal business operations are outlined below

#### Loans for margin transactions

This refers to the lending of the funds and securities needed to settle standardized margin transactions through the clearing facilities of the exchange securities markets provided in the Tokyo, Sapporo and Fukuoka Stock Exchanges or through the clearing facility of the over-the-counter securities market provided by Japan Securities Dealers Association.

#### Bond financing

This refers to the lending of funds required by securities companies for underwriting and trading, et cetera, and of funds needed by other investors, by accepting bond collateral, with the aim of contributing to smoother circulation in the bond market.

#### General loans

This refers to the lending of the working funds required by securities companies for advances to customers and delivery funds in stock trading, et cetera, and of funds required by other investors, with securities as collateral.

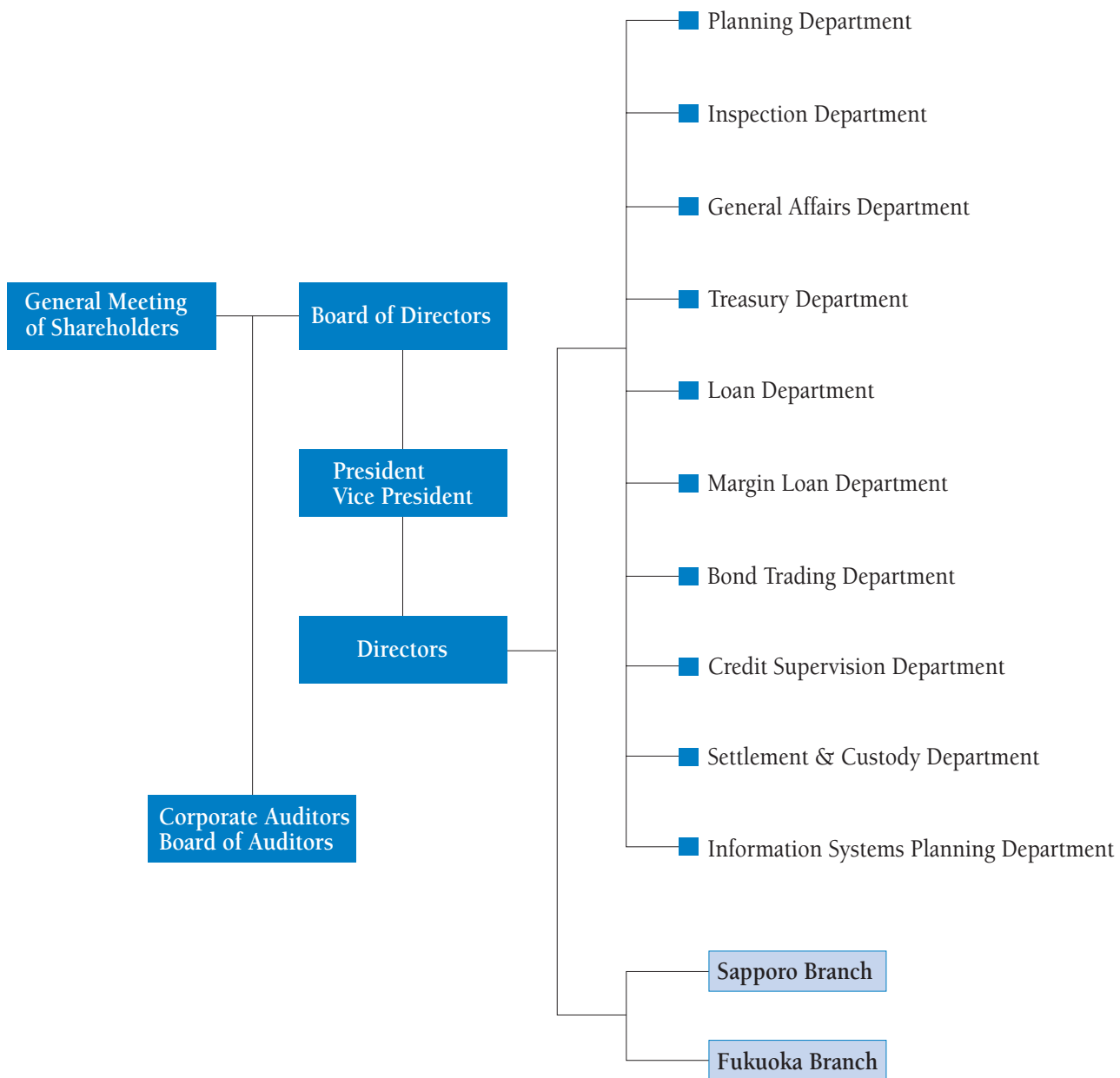
#### Bond lending and borrowing brokerage and transactions of gensaki, et cetera.

In bond lending and borrowing transactions, JSF receives applications from both lenders and borrowers (securities company, bank, or others) and lends and borrows bonds on the basis of a lending and borrowing contract. JSF serves as broker between two parties in both transactions. In gensaki transactions, JSF buys and sells treasury bills and financing bills and transfers and purchases government bonds, with reverse repurchase and repurchase agreements.

#### General stock lending

This refers to the lending of stocks required to settle trades, et cetera, mainly to securities companies.

# Organization





JAPAN SECURITIES FINANCE CO., LTD.

1-2-10 Nihonbashi-Kayabacho, Chuo-ku, Tokyo, 103-0025