Securities Finance

ANNUAL REPORT 2020

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.

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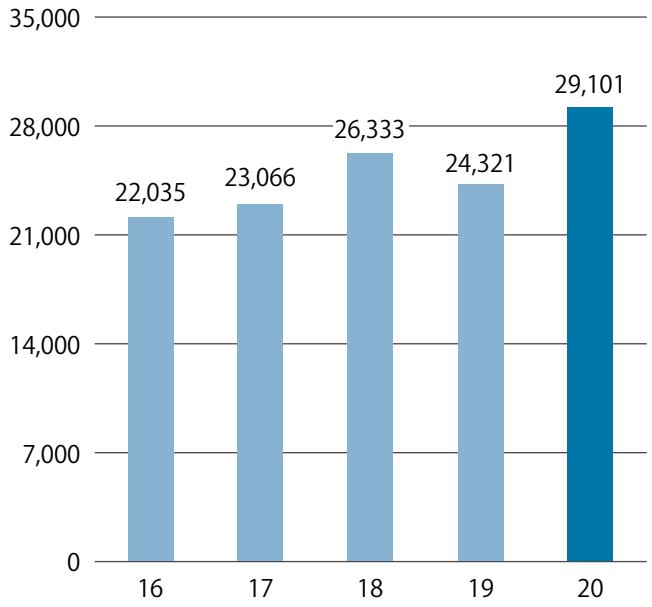
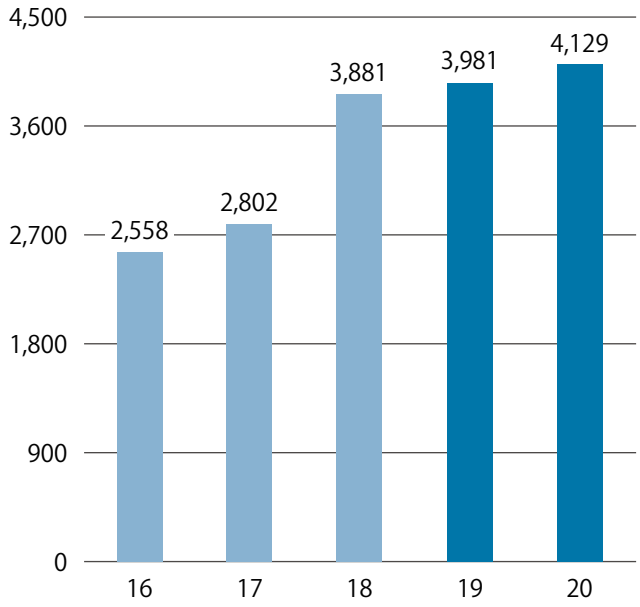
	Millions of yen*					Thousands of U.S. dollars*
	2016	2017	2018	2019	2020	2020
Operating Results:						
Operating revenues	¥ 22,035	¥ 23,066	¥ 26,333	¥ 24,321	¥ **29,101**	$ **267,408**
Operating income	2,558	2,802	3,881	3,981	**4,130**	**37,949**
Net income	2,645	3,078	4,225	3,765	**3,556**	**32,675**
Financial Position:						
Total assets	¥ 3,249,170	¥ 4,645,051	¥ 4,960,928	¥ 5,291,372	¥ **9,814,495**	$ **90,181,889**
Net assets	142,031	139,712	143,811	140,793	**126,687**	**1,164,082**
Shareholders' equity ratio (%)	4.37	3.00	2.90	2.70	**1.29**	**1.29**
Per Share Data:						
Net income	¥ 26.90	¥ 31.91	¥ 44.25	¥ 40.03	¥ **38.47**	$ **0.25**
Net assets	1,467.01	1,452.64	1,518.78	1,519.31	**1,381.22**	**12.69**
Cash dividend	16	18	26	22	**22**	**0.20**

* except per share amount

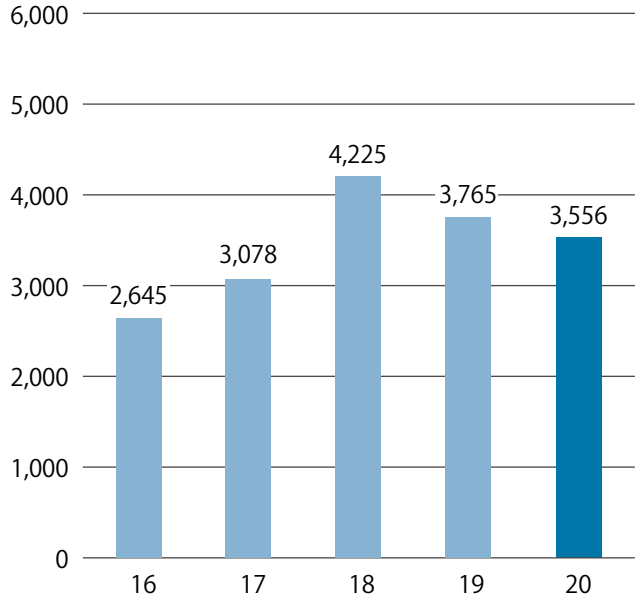
Operating revenues
(millions of yen)



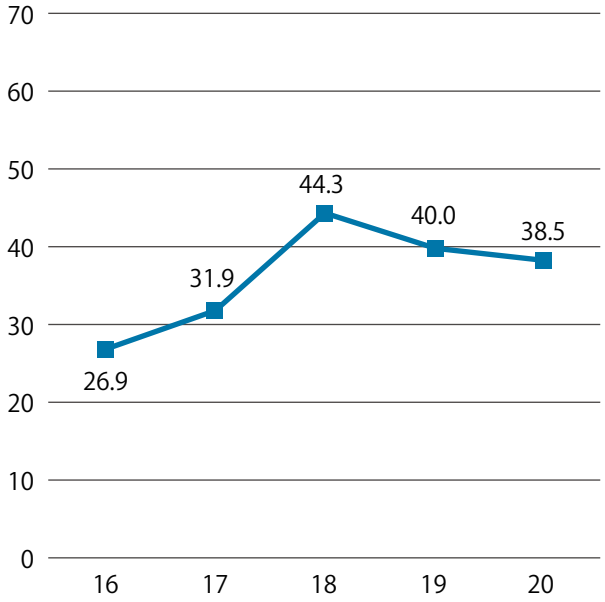
Operating income
(millions of yen)



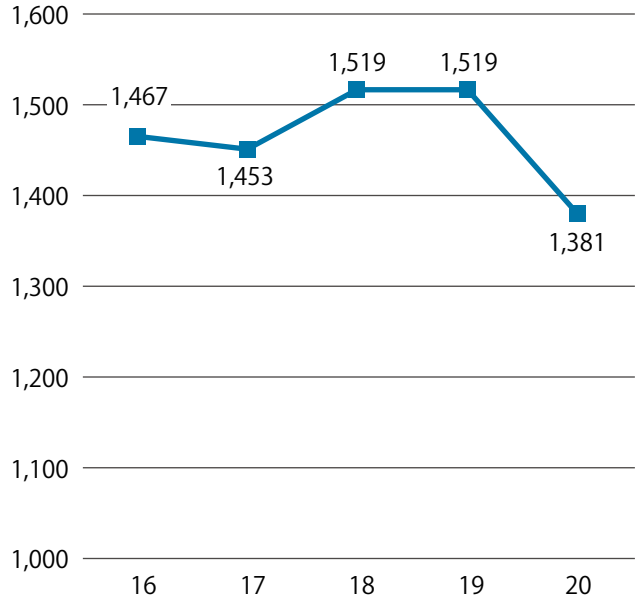
Net income
(millions of yen)



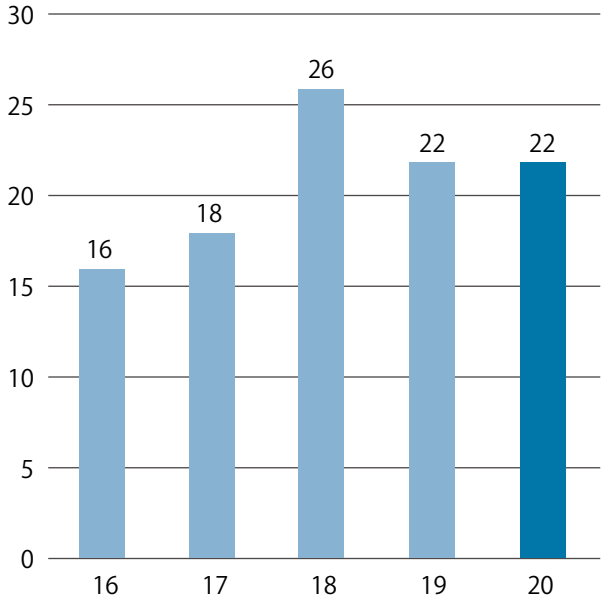
Net income per share
(yen)



Net assets per share
(yen)



Cash dividend per share
(yen)



Note: 1. Yen amounts have been translated into United States dollars, solely for the convenience of the reader, at the rate of ¥108.83=U.S.$1 in effect on March 31, 2020.

2. Net income per share is calculated based on the weighted average number of shares outstanding during each respective year. Net assets per share is calculated based on the number of shares outstanding at the end of each respective year.

3. Shareholders' equity ratio is calculated by using following formula.Total net assets / Total liabilities* and net assets

*except for securities accounts such as Collateral securities deposited

Thank you very much for your continued support.

Shigeki Kushida
President

The fiscal period ended March 2020 (110th period) was the final fiscal year of the Fifth Mid-Term Management Plan, and we continued promoting efforts for strengthening the revenue base. With regard to loan for margin transactions (or margin loan business), while the stock market condition has remained strong since last summer, loan balance was unfavorable as seen in its decrease year on year toward the third quarter, whereas the stock lending balance remained generally strong at a level exceeding that of the previous year. As for loans of funds other than loan transactions, the use of cash- collateral equity borrowing and lending transactions (equity repo transactions) also increased, and the Bond Service Section remained favorable in the Securities Lending Business. In addition, as a result of the increase in revenue of JSF Trust and Banking Co., Ltd., our subsidiary, consolidated operating revenue was 29.1 billion yen (year-on-year increase of 19.7%) and consolidated operating income was 4.1 billion yen (year-on-year increase of 3.7%), both exceeding the results for the previous fiscal period. Consolidated recurring income was 4.8 billion yen (year-on-year decrease of 3.0%) and consolidated net income was 3.5 billion yen (year-on-year decrease of 5.6%), but net income exceeded the estimate at the beginning of the period (3.2 billion yen).

Since January 2020, COVID-19 is becoming rampant across the world. We are conducting measures such as the encouragement of staggered commuting, promotion of telework, and establishment of multiple business bases to continue our businesses centering on Margin Loan to the maximum extent possible, while prioritizing the safety of our employees. In the fiscal period ending March 2021, an unstable situation is expected to continue in the global financial and capital market due to the impact of the spread of COVID-19. Therefore, we expect consolidated operating income to be 3.1 billion yen (year-on-year decrease of 24.9%), consolidated recurring income to be 3.8 billion yen (year-on-year decrease of 22.4%) and consolidated net income to be 2.7 billion yen (year-on-year decrease of 24.1%).

We would like to fulfill our mission as a leader in infrastructure in the securities market through the reinforcement of the business continuity system by also keeping in mind the prolongation of the current situation.

We have set the dividend forecast for the fiscal period ending March 2021 at 22 yen from the viewpoint of focusing on stable return to shareholders under the policy of “maintaining a consolidated dividend payout ratio of no less than around 60%.”

While taking into account the status of revenue and stock price, we will continue to improve the return of profits to our shareholders.

We thank you, our shareholders, for your continued support of JSF Group.

Shigeki Kushida

Shigeki Kushida
President

BUSINESS REVIEW

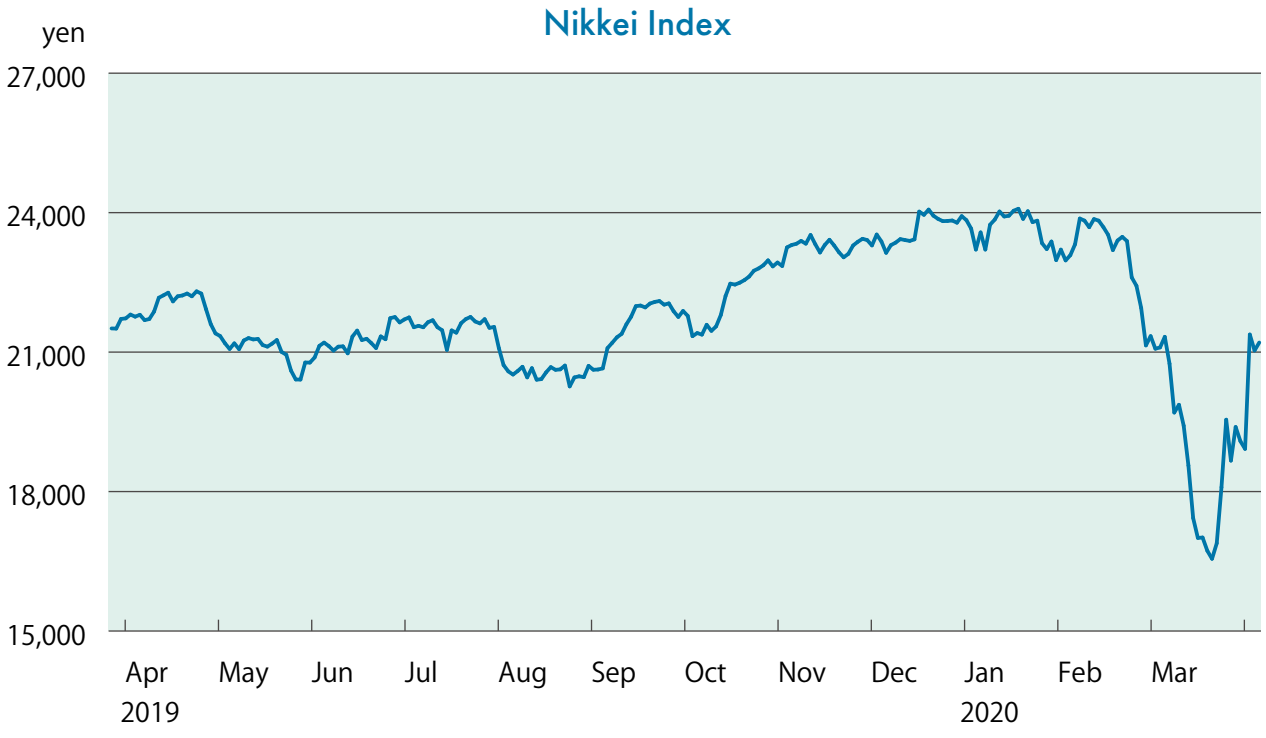
Business environment

As for the economic environment in the current fiscal year, overseas economies have continued to recover, as seen mainly in the U.S., and the Japanese economy also showed a moderate recovery through improvement in corporate revenue and the employment and income environments despite being temporarily impacted by the consumption tax hike. However, domestic and overseas economies have contracted rapidly from the beginning of the year due to the spread of COVID-19.

Looking at the stock market, the Nikkei stock average, which started at 21,509 yen at the beginning of the period, remained stagnant with an upper limit centering on the 21,000-yen range toward summer due to concerns over the U.S.-China trade friction. However, it turned to an increase from September due to the lowering of interest rates by the Federal Reserve Board (FRB) and expectations over progress in U.S.-China trade talks, reaching a period-high level of 24,083 yen on January 20 after the turn of the year. However, it dropped rapidly from late January due to increasing concerns over the outlook of the global economy and the revitalization of movements to convert financial assets into cash against the backdrop of the global spread of COVID-19, falling on March 19 to 16,552 yen, the lowest level since November 2016. After that, it rebounded due to urgent economic measures and monetary easing measures by governments and central banks, and transactions closed at 18,917 yen at the end of the period.

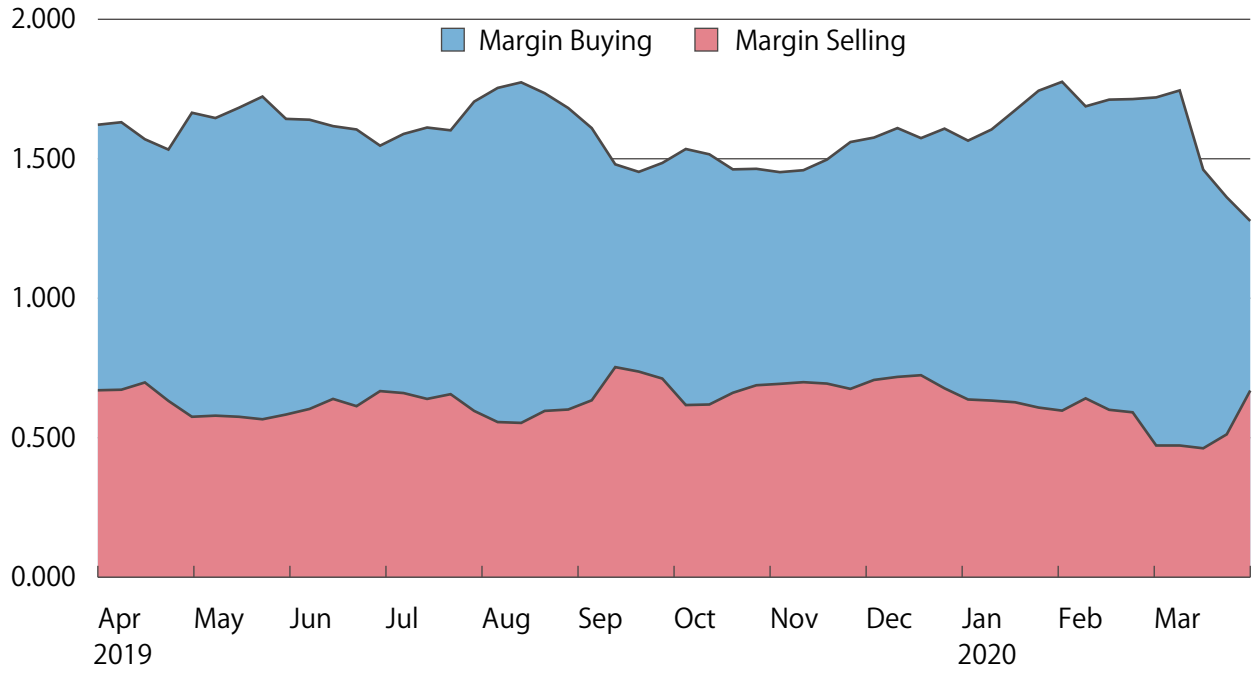
During this period, the average daily value traded on the First Section of the Tokyo Stock Exchange was 2.6097 trillion yen, a year-on-year decrease of 245.3 billion yen.

Looking at the outstanding balance of standardized margin buying on the Tokyo market, the balance, which remained at around 1.6 trillion yen at the beginning of the period, decreased to the 1.4-trillion-yen range in September, but showed a recovery trend together with an increase in stock price after that, and recovered to the 1.7-trillion-yen range in late January. However, liquidation of longs increased due to a significant decrease in stock price after that, and the balance decreased to the 1.27-trillion-yen range, a low



Outstanding balance of Standardized Margin Transactions

(billions of yen)



for the period, at the end of March. On the other hand, the selling balance, which was in the 660-billion-yen range at the beginning of the period, peaked at the 750-billion-yen range in mid-September. However, the balance turned to a decrease from December, falling to the 460-billion-yen range, a low for the period, in mid-March as repurchasing also accelerated due to a sharp drop in stock prices from February. After that, the balance recovered rapidly with the temporary stop in decline in stock price and reached the 660-billion-yen range at the end of March.

Business result of the JSF group

Under these market trends, the total value of outstanding loans for the JSF Group (term average) was 766.4 billion yen, a year-on-year decrease of 30.1 billion yen.

Consolidated operating revenues were 29,101 million yen (year-on-year increase of 19.7%) due to increased revenue from fees on lending securities in the Margin Loan Business and interest on resale agreement in the Securities Loan Business. On the other hand, consolidated operating expenses were 16,835 million yen (year-on-year increase of 37.0%) due to the increase in fees on borrowing securities in the Margin Loan Business and interest on repurchase agreement in the Securities Loan Business, and general administrative expenses were 8,136 million yen (year-on-year increase of 1.0%).

In addition, with the change in the holding category for part of investment stock, consolidated operating income was 4,129 million yen (year-on-year increase of 3.7%) due to the impact of recording dividend income for the said stock not as non-operating revenue but as operating revenue (352 million yen), while consolidated recurring income was 4,894 million yen (year-on-year decrease of 3.0%) and net income attributable to owners of parent was 3,556 million yen (year-on-year decrease of 5.6%).

1) Securities finance business

Loan for Margin Transactions

In the margin loan business, operating revenues totaled 12,517 million yen (year-on-year increase of 29.6%). While period average outstanding balance of margin loans decreased by 64.2 billion yen year on year to 219.9 billion

yen and revenue from interest on loans decreased, period average outstanding balance of stock loan increased by 72.3 billion yen year on year to 333.9 billion yen, and premium charges for over-lent issues also increased in addition to the increase in revenue from lending fees.

Bond financing and General loans

In the general loan business, operating revenues were 1,312 million yen (year-on-year increase of 5.7%). As for loans for financial instruments business operators, the overall results fell below that for the previous period, although demand for funds from some business counterparties were incorporated, and period average outstanding balance of loans in the said business decreased by 8.4 billion yen year on year to 72.6 billion yen as loans for individual and general business corporations also remained weak. Moreover, the use of equity repo transactions increased.

Securities lending

In the securities loan business, operating revenues totaled 7,308 million yen (year-on-year increase of 12.8%). Although revenue from securities lending fees decreased in the General Stock Lending Section, revenue increased significantly in the Bond Service Section mainly due to the growth of balance in *gensaki* transactions, and revenue in the entire business also increased.

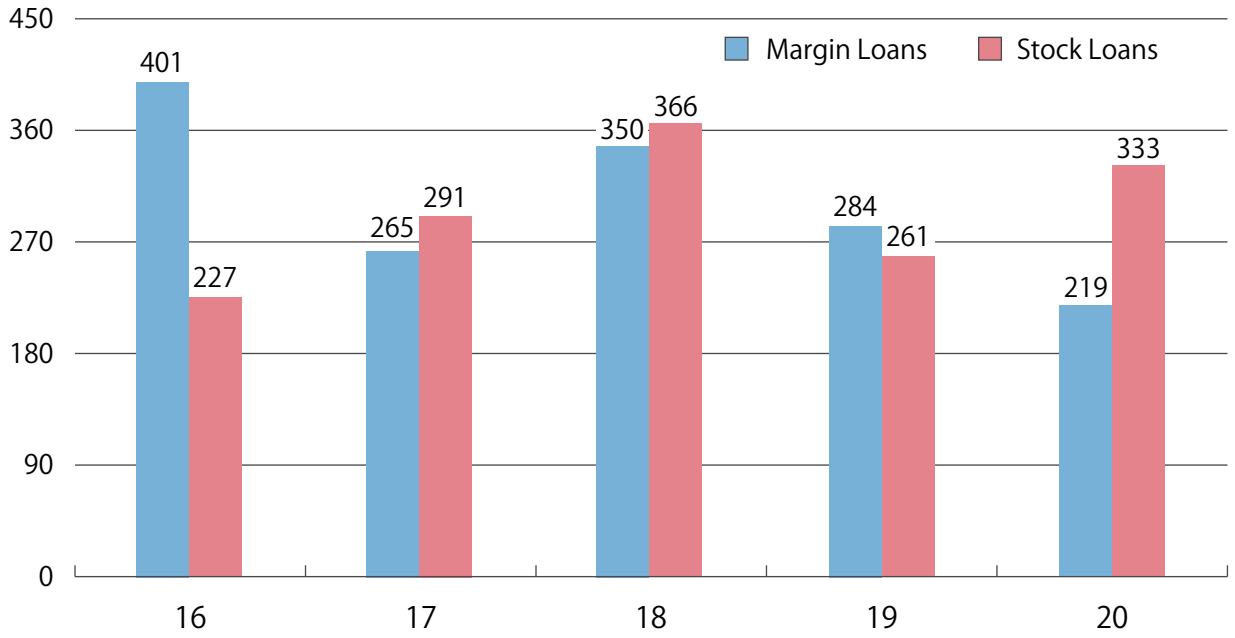
Other business

In other businesses, operating revenues totaled 4,230 million yen (year-on-year increase of 18.0%). Recording of dividend income associated with the change in holding category and increase in distribution income including investment trust contributed to the increase.

2) Trust banking business

In the trust banking business, operating revenues totaled 2,832 million yen (year-on-year increase of 14.8%). Although revenue from interest on loans decreased due to the decline in loan interest rates, trust fee and gain on sale of government bonds held increased.

Average outstanding balance of Loans for Margin Transactions



Breakdown of JSF Group operating revenues

	2020	2019
	(¥ million)	(¥ million)
Securities Finance Business	25,369	20,969
Loans for margin transactions	12,517	9,661
Interest on loans	1,420	1,799
Interest on collateral money for securities borrowed	1,178	708
Fees on lending securities	9,662	6,819
Bond financing and general loans	1,312	1,242
Securities lending	7,308	6,480
Stocks	1,015	1,517
Bonds	6,293	4,962
Other business	4,230	3,586
Trust Banking Business	2,832	2,467
Interest on loans	50	58
Trust charges	784	746
Real Estate Leasing Business	899	884
Total Operating Revenues	29,101	24,321

3) Real estate leasing business

In the real estate leasing business, operating revenues totaled 899 million yen (year-on-year increase of 1.6%).

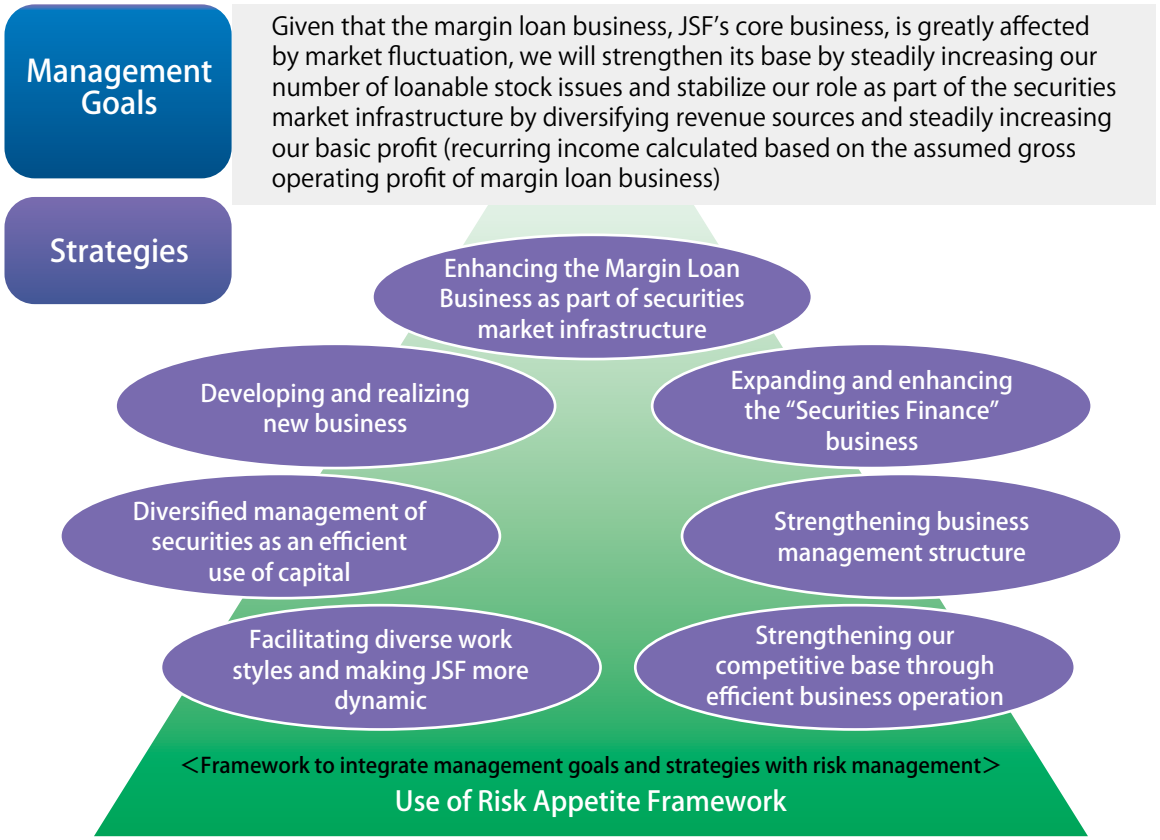
Future challenges

As an institution specializing in securities finance, we have a corporate philosophy of contributing to the development of the securities market by proactively meeting the diverse needs of the securities and financial sectors and enhancing the long-term interests of users, while always maintaining a keen awareness of its public role.

To realize such corporate philosophy, during the Fifth Mid-Term Management Plan (FY 2017 to FY 2019), our Group worked to strengthen our existing business including the margin loan business, our core business, by leveraging the management capabilities and creditworthiness that we have acquired over time in finance and securities business management as well as our market neutrality. At the same time, we worked to reinforce our revenue base by proactively addressing new domestic and overseas transaction needs. In addition, we shifted to a company with a nominating committee, etc. last June, and also made efforts to further strengthen the governance system as a financial institution serving a public role.

Looking at the external environment, while rapid progress in digitalization is seen, transaction needs are becoming diverse with the combination of efforts to reconstruct financial services by utilizing new information technology including artificial intelligence (AI) and the impact of the review of international financial regulations, etc. Furthermore, while the global spread of the impact of COVID-19 has been seen since late January 2020, a sense of uncertainty over the outlook of not only the Japanese economy but also the global economy is increasing rapidly, and further prolongation of an ultra-low-interest-rate environment is expected.

The 6th Mid-term Management Plan (FY2020～FY2022)



In such business environment, we formulated the Sixth Mid-Term Management Plan with a period from FY 2020 to FY 2022. In the new plan, we will strengthen the base of the margin loan business by steadily increasing our number of loanable stock issues and stabilize our role as part of the securities market infrastructure by diversifying revenue sources and steadily increasing our basic profit*. Specifically, we will further push forward the results of the Fifth Mid-Term Management Plan, and make efforts to improve our stock certificate procurement capability by strengthening relations with issuing companies and business counterparties of lending stocks in the loan transaction business and aim to expand the domain of funds and securities transaction business through the diversification of business counterparties, trading methods, and targeted currencies as well as promote strategic business activities through the enhancement of interdivisional cooperation in other "Securities Finance" businesses.

In addition, we decided to newly introduce Risk Appetite Framework (RAF) as a framework to operate business management and risk management in an integrated manner and develop an appropriate management system when it comes to taking risks.

Our Group intends to continue realizing securement of stable revenue and enriched shareholder return through efficient business operation by utilizing the capital we own, including human resources, more effectively, while maintaining the financial soundness and high creditworthiness necessary for an infrastructure in the securities market.

* Basic profit: Recurring income calculated under the assumed outstanding balance of margin loans (assumption of the average over the past three years)

MANAGEMENT POLICY

Corporate Philosophy

As an institution specializing in securities finance, JSF has a mission to contribute to the development of the securities market by proactively meeting the diverse needs of the securities and financial sectors and to enhance the long-term interests of users, while always maintaining a keen awareness of its public role.

Management Principles

(1) To practice sound business management by thoroughly implementing compliance, corporate governance, and risk management under a new governance structure and thereby establish solid credibility, while always maintaining a keen awareness of our social responsibilities as a securities finance company.

(2) To enhance enterprise value while maintaining solid equity capital in order to ensure stability in management and the financial health required of a company that is a key player in securities market infrastructure, to give comprehensive consideration to the earnings environment, investment plans, etc., and to ensure profits are returned to shareholders.

(3) To further enhance JSF's core margin loan business while also striving to expand the finance-and securities-related services provided by JSF and Group companies, develop new business, and to further grow and solidify our base.

(4) To build a quick and efficient business management structure and strengthen our competitive base in order to address changes in the business environment in a flexible manner.

Management Plan
Sixth Mid-term Management Plan

[Concept]

Under the Fifth Mid-Term Management Plan formulated in March 2017, our Group worked to strengthen our existing business by leveraging the management capabilities and creditworthiness that we have acquired over time in finance and securities business management as well as our market neutrality; at the same time, we enhanced the fundamental stability of our business by proactively addressing new domestic and overseas transaction needs. During this time, we also worked to further strengthen our governance structure by transitioning to a company with a nominating committee, etc.

On the other hand, looking at the business environment surrounding our Group, we are still in the midst of drastic change. In other words, as ultra-low interest rates remain and digitalization makes rapid progress, securities companies and other financial institutions are restructuring the financial services business with new technologies for information processing like artificial intelligence (AI). Under such circumstances, combined with the impact of review of international financial regulations and securities clearing systems, new financial transaction needs have emerged and transaction needs have diversified.

Committed to maintaining our financial soundness, required as a key player in the securities market infrastructure, our Group hopes to respond to the trust of the market and investors by using our resources, including human resources, more effectively to further strengthen our margin loan business, a licensed business, and diversify revenue sources, as well as by building a quick and efficient business management structure to enhance our competitiveness.

Based on this, we have formulated a new mid-term management plan beginning in FY2020.

[Management Goals]

Given that the margin loan business, JSF's core business, is greatly affected by market fluctuation, we will strengthen its base by steadily increasing our number of loanable stock issues and stabilize our role as part of the securities market infrastructure by diversifying revenue sources and steadily increasing our basic profit (recurring income calculated based on the assumed gross operating profit of margin loan business)[i]

[i] Assumed gross operating profit of margin loan business: The average gross operating profit of margin loan business over the past three years.

[Strategies]

(1) Enhancing the Margin Loan Business as part of securities market infrastructure

We aim to pursue stable management of our margin loan business and improve profitability by appropriately responding to changes in the stock market environment. Moreover, we aim to monitor trends among market participants carefully, increase our number of lending issues steadily, promote the use of margin loans, enhance the provision of information relating to margin transactions and margin loans, and expand the range of investors.

(2) Expanding and enhancing the "Securities Finance" business

We aim to utilize the financial and securities transaction expertise we have cultivated thus far to handle diverse transactions with domestic and overseas financial instruments businesses in a proactive manner and increase business partners and applicable securities to enhance and expand our "Securities Finance" business, increasing opportunities for profit.

(3) Developing and realizing new business

We will leverage our strengths as a company with a history in the securities finance field, and develop and realize new business based on a long-term perspective in collaboration with Group companies and domestic and foreign partners.

(4) Diversified management of securities as an efficient use of capital

We will secure stable revenues by responding to changes in the external environment and revising our portfolio in a flexible manner while maintaining appropriate risk controls. Moreover, we will move forward with expanding management based on foreign currency-denominated securities such as foreign government bonds and establishing funding methods for foreign currency in order to support the development of business using foreign currency.

(5) Strengthening business management structure

We will proactively address our social obligations and ensure that compliance is positioned as a prerequisite of management in order to achieve our corporate philosophy.

To establish unwavering social trust in our company, we aim to secure the effectiveness of our internal auditing and further enhance our risk management in response to the increasingly diverse and complex risks associated with the finance business.

In order to fulfill our role as part of the securities market infrastructure even in the event that a major disaster occurs, we will continue to upgrade our business continuity system.

(6) Strengthening our competitive base through efficient business operation

As our transaction volume increases and our business becomes more complex, we will review our processes and actively promote the use of digital technologies such as RPA (robotic process automation) to build an efficient business operation structure and strengthen our competitive base.

(7) Facilitating diverse work styles and making JSF more dynamic

As work changes and diversifies with work-style reform, delayed retirement and more, we will increase the productivity of individual personnel and make the company more dynamic by reviewing our employment system and developing a rewarding and employee-friendly workplace.

[Use of Risk Appetite Framework]

We will introduce the risk appetite framework to integrate management of the above goals and strategies with risk management.

Shareholder Return Policy

To enhance enterprise value while maintaining solid equity capital in order to ensure the management stability and financial health required of a company that is a key player in securities market infrastructure, to give comprehensive consideration to the earnings environment, investment plans, etc., and to ensure profits are returned to shareholders.

Our dividend policy is to return profits to shareholders basically in accordance with the "consolidated payout ratio" as a standard that reflect our business performance.

[Basic Policy]

Solid equity capital to secure the financial health and management stability that society demands of the company as the infrastructure of securities market, and provide stable long-term return of profits to shareholders by comprehensively considering revenues environment or investment plan, etc.

Based upon this policy, we will strive to place more importance on shareholders return.

[Dividend Payment Policy]

Our policy is that the consolidated payout ratio, as a standard that reflects our business performance, shall not fall below the 60% level and that we shall strive to provide stable dividends that are not temporarily affected by earnings fluctuations.

[Share Buyback Policy]

With a view to offering even more rewarding returns to shareholders, we will buy back shares as appropriate while comprehensively considering the company's financial situation, equity capital levels, and stock price levels, and so forth.

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

COM - STOCK Loan — A loan aimed at individual investors, for which loan applications are made through the Internet

Business Loan — A large loan aimed at people such as owners of listed companies

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.

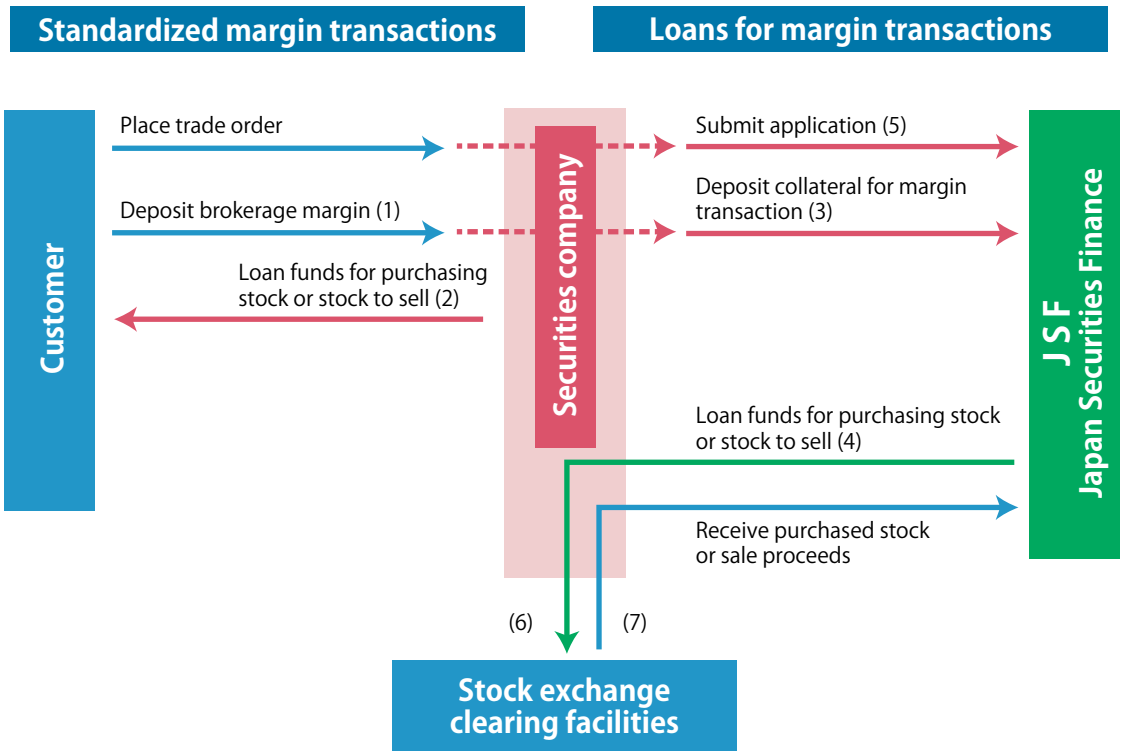
(Note) This is a system of appropriating purchased stock received from buy side as collateral to sell side's stock for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

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.

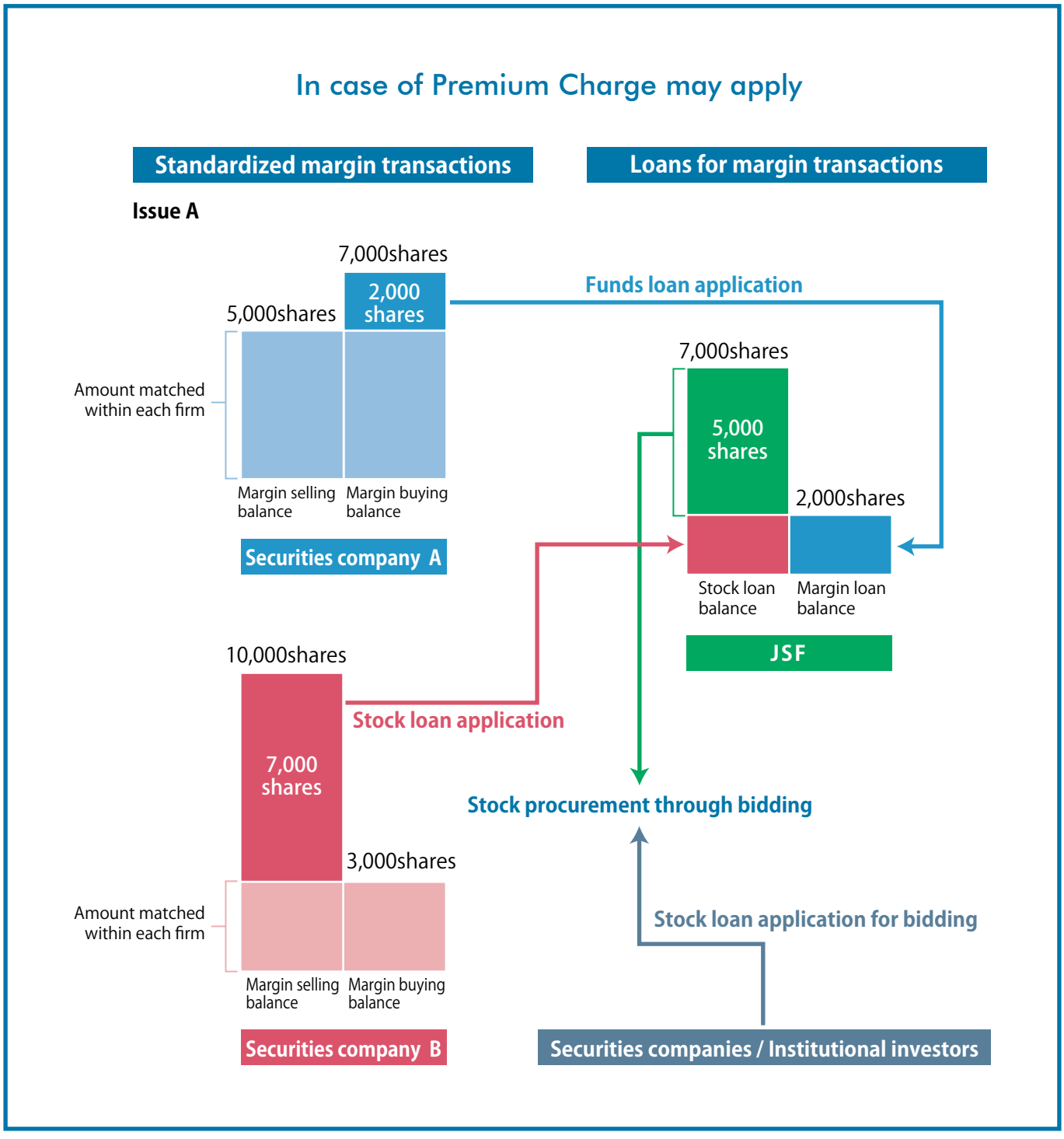
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions (5).To execute the loan, JSF, in place of the securities company, delivers funds or stock to clearing facilities of stock exchanges (6). The stock purchased (collateral stock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

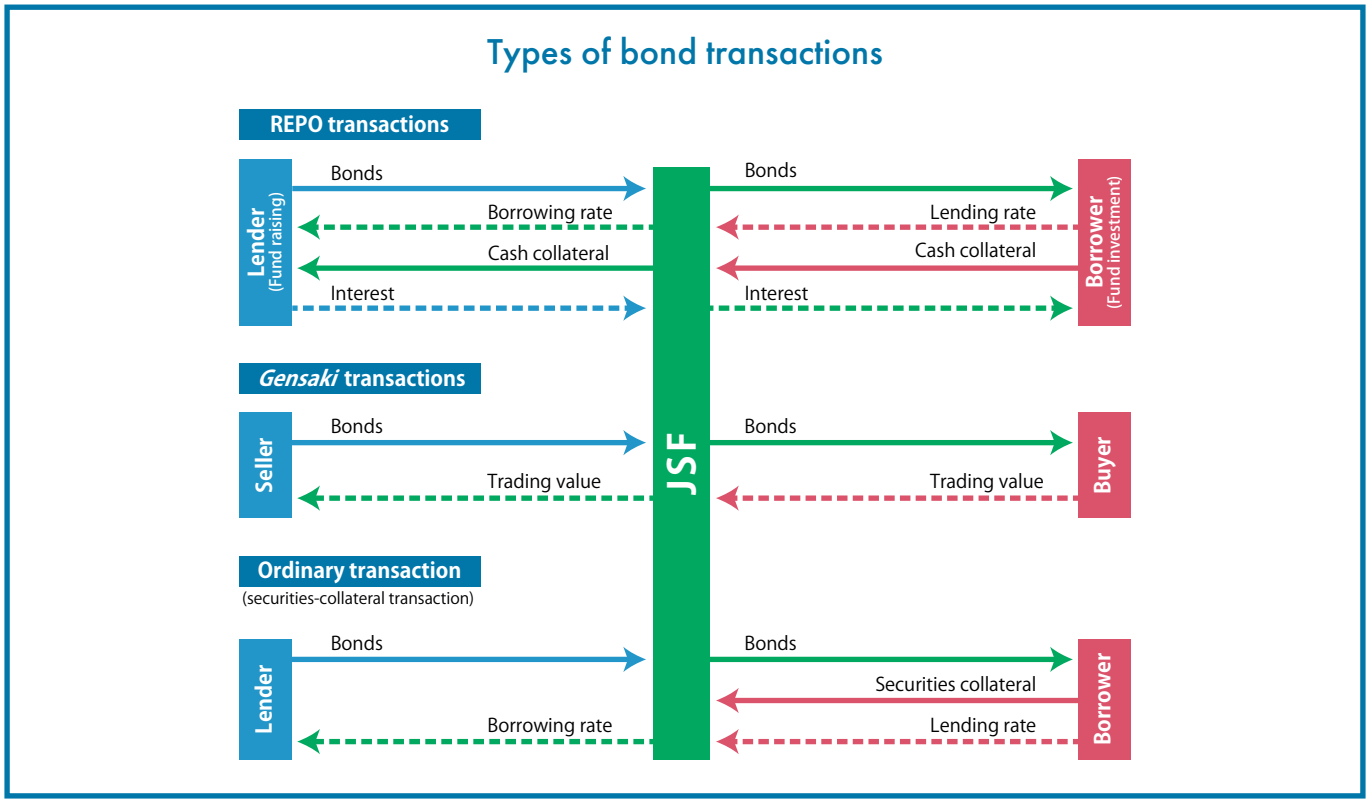
JSF borrows bonds after depositing cash collateral with a lender and then lends bonds after receiving cash collateral from a borrower. This transaction can be either a Special Collateral transaction that specifies an issue or a General Collateral transaction that does not specify an issue.

Gensaki transactions

This transaction involves resale or repurchase of the same type and quantity of bonds, etc., at a prescribed price after a fixed period agreed upon in advance between transacting parties.

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.



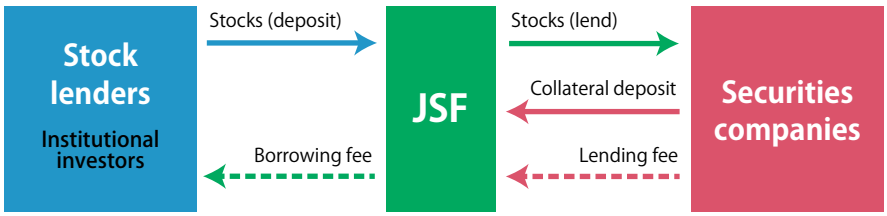
GENERAL STOCK LENDING

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.

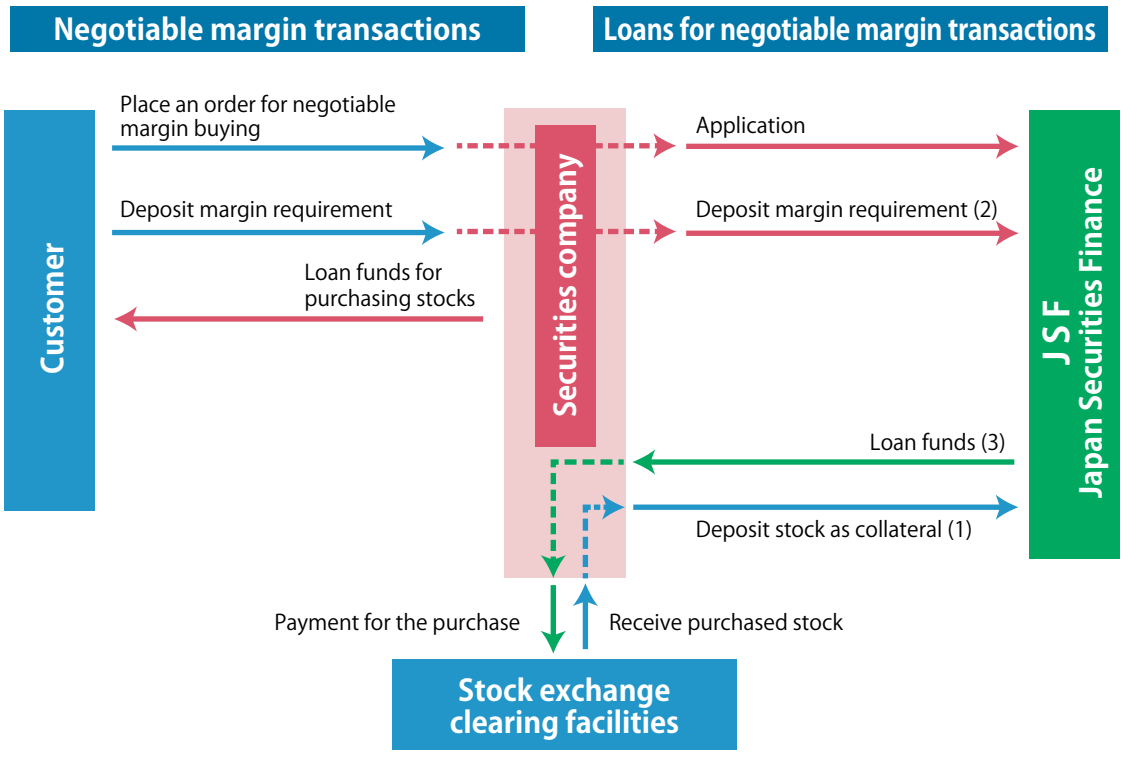
Interest rate

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

We provide loans to individuals and companies for any use, utilizing investment securities for shares, etc. as collateral. We are expanding "COM-STOCK Loans" for individuals, which do not require applicants to come to a branch, "Business Loans" aimed at owners of listed companies.

COM-STOCK Loan

A loan aimed at individual investors, for which loan applications can be made through the Internet, and for which investors do not need to come to a branch. Applications can be made through a special JSF website.

Business loan

A large loan aimed at people such as owners of listed companies.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STRUCTURE

1. Management Structure

With the Basic Policy on Corporate Governance, the Company has adopted "Company with Nominating Committee, etc." as the structure under the Companies Act since June 2019, based on which the Company strives to clarify the separation of supervision and execution of business operations, to further strengthen supervision by mainly outside directors for ensuring the soundness of management, and to realize prompt business execution that responds quickly to change in the business environment.

2. Organization

1) Board of Directors

The Board of Directors not only conducts the decision-making on basic management policy and other matters designated by laws and regulations, as well as important matters on business management, but also supervises the status of execution of duties of directors and executive officers.

In order to enhance efficiency of business management and speed up execution of operations, the Board of Directors delegates the decisions on execution of operations other than the matters to be resolved by the Board of Directors designated by laws and regulations and the Articles of Incorporation to representative executive officers.

The Board of Directors comprises a variety of directors with different expertise, experiences and other qualifications. The Company secures the appropriate number of the Board of Directors members at which the functions of the Board of Directors can be exerted most effectively and efficiently, to the extent designated in the Articles of Incorporation.

Multiple outside directors independent from the Company shall be appointed to constitute the Board of Directors where it is expected that, through their advice and comments based on abundant experience and expert knowledge on business management and other issues, appropriateness of the Company's business operations is secured and business management supervisory functions from external viewpoints are performed in an objective and neutral manner.

In principle, the chairperson of the Board of Directors shall be an outside director.

(Membership)
Director Chairperson Naotaka Obata (Outside Director)
Director Shoko Sugino (Outside Director)
Director Shuya Iimura (Outside Director)
Director Shigeki Kushida
Director Hiroshi Nasuno

2) Three Committees

The Nomination Committee not only determines the content of election of director candidates pursuant to laws and regulations, but also deliberates and determines the content of election and dismissal of directors, executive officers, the policy on election and dismissal of directors and executive officers, and other matters on election and dismissal of directors, executive officers and corporate officers of the Company in general.

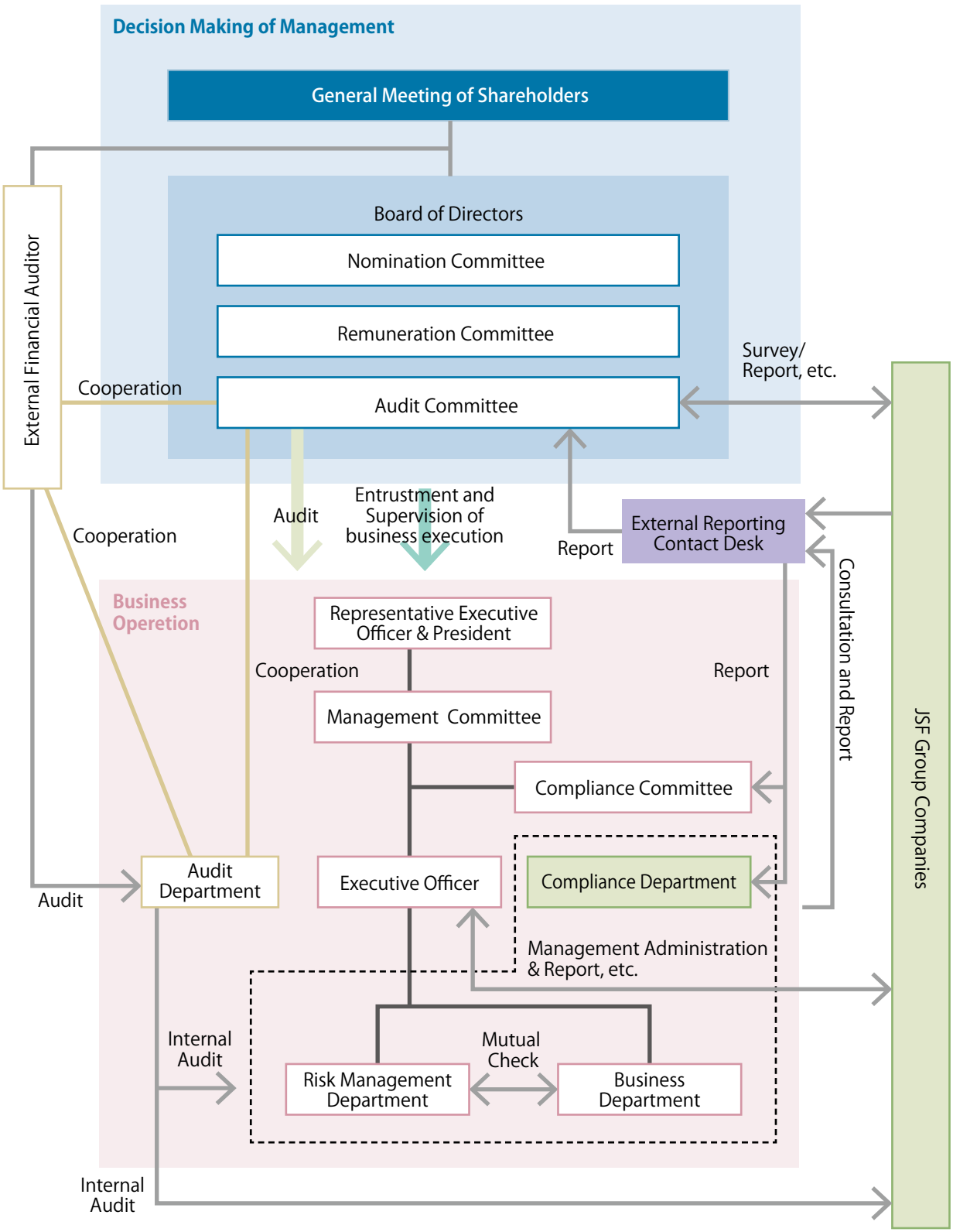
The Audit Committee not only audits the execution of

Committee Membership

	Nomination Committee	Audit Committee	Remuneration Committee
Chairperson	Naotaka Obata	Shuya Iimura	Naotaka Obata
Member	Shoko Sugino	Shoko Sugino	Shoko Sugino
	Shigeki Kushida	Hiroshi Nasuno	Shigeki Kushida

・Naotaka Obata, Shoko Sugino and Shuya Iimura are each outside directors.

Corporate Governance System Structure



duties of directors and executive officers, prepares audit reports and such, but also deliberates and determines the content of proposals on election and dismissal of accounting auditors for submission to the general meeting of shareholders and such.

The Remuneration Committee not only determines the individual amounts of remuneration for directors and executive officers and determines the policy on determination thereof pursuant to laws and regulations, but also deliberates and determines the matters on remuneration for directors and executive officers of the Company in general.

In principle, the chairperson of the Nomination/Audit/Remuneration Committee shall be an outside director.

3) Executive Officers

The representative executive officers and executive officers determine the execution of operations and execute operations so delegated by the Board of Directors based on the segregation of duties and hierarchy of commands designated by the Board of Directors.

The Company has established the Management Committee, which deliberates or determines important matters related to the execution of operations, among other matters.

3. Status of Audit Committee Audits, Internal Audits and Accounting Audits

1) Status of Audit Committee Audits

The Audit Committee comprises two outside directors and one internal director, one of which is appointed as a full-time Audit Committee member (outside director). The duties of the Audit Committee are assisted by the corporate officer in charge.

2) Status of Internal Audits

The internal audit structure consists of the Audit Department (approximately 10 members) that is independent of all other business units. Not only does it perform internal audits of compliance with all applicable laws, regulations, contracts, etc., it also discerns risk management and so forth through rigorous internal audits of the effectiveness and efficiency of operations, the accuracy and reliability of financial and operational information, and the safeguarding/conservation of assets. Through these activities, the Audit Department verifies the appropriateness and effectiveness of the internal management system in respect to control and management of risks and other factors in individual business units.

3) Status of Accounting Audits

Accounting audits of the Company are performed by certified public accountants Wataru Kobayashi, Hidehiro Goto and Nobuyuki Mito of Crowe Toyo & Co. Accounting audits are assisted by 15 certified public accountants and 10 others, and care is taken to eliminate bias in years of experience.

The Company has entered into an agreement limiting liability with four non-executive directors, based on which the amount of liability for damages is limited to the amount provided for in laws and regulations.

[Policy on Determination of Amount of Remuneration or Method of Calculation Thereof]

1. Policy on Determination of Amount of Officers' Remuneration and Such or Method of Calculation Thereof

Remuneration and such for the officers of the Company shall be based on systems and standards in accordance with the directors' and executive officers' roles and expected functions, in order to achieve sustained growth and enhancement of corporate value over the medium to long term based on the corporate philosophy and management policy. Specifically, the individual amounts of the remuneration and such shall be determined by the Remuneration Committee based on the following policy determined by the Remuneration Committee.

1) Directors

With a view to having supervisory functions exerted, directors shall receive only the fixed monthly remuneration (base remuneration), and remuneration linked to the business performance and such shall not be provided to

them.

Individual directors' remuneration shall be determined in accordance with responsibilities as directors, such as whether full-time or part-time and acting as chairperson.

Directors concurrently serving as executive officers shall not receive remuneration as directors.

2) Executive Officers

With a view to enhancing the correlation with the Company's business performance and share value, the remuneration for executive officers shall comprise a fixed monthly remuneration (base remuneration), officers' bonuses linked to business performance and share-based remuneration.

The fixed monthly remuneration (base remuneration) shall be determined in accordance with each executive officer's position.

The officers' bonuses shall be determined in accordance with the business performance of each fiscal year, with the purpose of clarifying the responsibility of management.

As for the share-based remuneration, the Board Benefit Trust (BBT) scheme shall be used to provide points, which are determined in correlation with medium- to long-term business performances, to the executive officers, to whom the Company's shares will be issued upon their retirement from office in accordance with the points.

2. Policy on Determination of Breakdown of Pay of Performance-Based Remuneration and Remuneration and Such Other than Performance-Based Remuneration

Executive officers' remuneration and such shall be based on the following breakdown of pay by type of remuneration in the case of pay based on the business performance serving as the basis.

Base remuneration: 65%
Performance-based remuneration (officers' bonuses): 20%
Performance-based remuneration (share-based remuneration): 15%

3. Policy on Determination of Performance-Based Remuneration

The following shall be the benchmark and such for the performance-based remuneration (officers' bonuses and share-based remuneration) portions of the remuneration and such for the executive officers of the Company.

1) Officers' Bonuses

In the same way that dividend is determined based on the consolidated payout ratio, a certain percentage (approximately 2%) of consolidated net income shall be the total amount of officers' bonuses.

The individual amounts of pay shall be determined in accordance with the executive officers' roles and other factors.

Since the amount of allowance is decided based on the results of the consolidated net income for the said fiscal year, no target value has been set in advance upon the payment of directors' bonuses.

2) Share-Based Remuneration

The number of points serving as the basis shall be determined in accordance with each executive officer's position.

From the number of points serving as the basis, addition shall be made if the average amount of consolidated ordinary income or loss over the past three years including the fiscal year under review is above the basis and subtraction shall be made if below.

The reason for using consolidated ordinary income as the benchmark is enhancing the correlation with the interests of shareholders over the medium to long term by using business performance excluding the effect of infrequently occurring income or loss.

Appendix

Basic Policy on Corporate Governance

The Company has established the Basic Policy on Corporate Governance as follows in order to achieve its sustained growth and enhancement of its corporate value over a medium to long term.

1. Fundamental Views on Corporate Governance

As an institution specializing in the securities finance business, the Company is keenly aware of its public role at all times, and makes it a mission to contribute to the development of the securities market by proactively addressing the diverse needs of the securities and financial circles and working to enhance the long-term interests of the securities market participants and users. Based on this thinking, the Company aims to gain the firm trust of the society through sound business operations.

With this corporate philosophy, the Company has adopted "Company with Nominating Committee, etc." as the structure under the Companies Act, based on which the Company will strive to clarify the separation of supervision and execution of business operations, to further strengthen supervision by mainly outside directors for ensuring the soundness of management, and to realize prompt business execution that responds quickly to change in the business environment.

2. Securing the Rights, Etc. of Shareholders

(1) Securing the rights and equality of shareholders

The Company shall take appropriate measures to effectively secure the rights of its shareholders, and endeavor to establish an environment in which the rights of shareholders are effectively secured.

Moreover, the Company recognizes that every shareholder is equal in accordance with his/her equity interest, and will secure the substantial equality of shareholders

(2) General meeting of shareholders

The Company shall endeavor to set schedules related to the general meeting of shareholders and expand the means for shareholders to execute their voting rights, etc., as provided below, so that a larger number of shareholders can execute their rights at the general meeting of shareholders.

1) Appropriately set the schedules related to the general meeting of shareholders from such viewpoints as enhancement of dialogue with shareholders and provision of accurate information for that purpose.

2) Send and disclose a notice of convocation of the general meeting of shareholders as early as possible in order to secure enough time for shareholders to study the content.

3) Provide information (such as information on the Company's operating results) that is necessary for shareholders to make proper judgments at the general meeting of shareholders on its website and through other means.

4) Establish an environment in which all shareholders including those who do not attend the general meeting of shareholders can exercise their voting rights appropriately, such as utilizing the Electronic Voting Platform for Foreign and Institutional Investors.

In addition, when there are a large number of votes against any of the agendas proposed by the Company at the general meeting of shareholders, the Company shall analyze the reasons and report the analysis results to the Board of Directors as well as investigate necessary responses.

(3) Protecting the rights of shareholders

When implementing the capital policies that may cause changes in the controlling interest or cause a significant share dilution, the Company shall investigate the necessity and rationality of implementing them and secure appropriate procedures so that they should cause no unjust harm to the interests of existing shareholders, and shall appropriately disclose the details of the policies to be implemented.

As for introducing and conducting anti-takeover measures, the Company shall investigate the necessity and rationality of such measures and secure appropriate procedures as well as provide sufficient explanations to the shareholders.

If the Company's shares become subject to a takeover bid, the Company shall appropriately disclose the view of the Board of Directors regarding the takeover bid to the

shareholders. Moreover, the Company shall not unduly preclude the shareholders' rights to sell the Company's shares they own in response to the takeover bid.

(4) Dialogue with shareholders, etc.

The Company shall respond to requests for dialogue from its shareholders and investors (hereinafter referred to as the "shareholders, etc.") to the extent and by the methods considered to be appropriate by the Company.

Policies on establishing a system and implementing measures for promoting constructive dialogues with the shareholders, etc. are as follows:

1) Dialogues with the shareholders, etc. shall be managed by the Corporate Planning Department and supervised by the officer in charge of the Corporate Planning Department.

2) When conducting dialogues with the shareholders, etc., the Corporate Planning Department shall be central in making appropriate coordination with internal departments, including the Business Development Department, and affiliate companies through information exchange and other measures.

3) The Company shall hold operating results briefing sessions on a regular basis, among other measures, in order to enhance the means of dialogues with the shareholders, etc.

4) Opinions, etc. obtained through dialogues with the shareholders shall be reported to the Board of Directors, etc. on a regular basis.

5) Dialogues with the shareholders, etc. shall be conducted in compliance with laws and regulations as well as internal rules, and the insider information shall be managed appropriately.

6) The Company shall endeavor to understand the shareholder structure through shareholder identification surveys and other means in order to promote constructive dialogues with the shareholders, etc.

(5) Strategic shareholdings

The Company may hold the shares of the companies that are considered to be necessary for such purposes as strengthening the business relationship with them, in order to achieve sustained growth and enhancement of its corporate value over the medium to long term.

The Company shall make a report to the Board of Directors regarding the investment efficiency and medium- to long-term economic rationality of strategic shareholdings and verify them.

As a result of our examination, we will reduce such holdings that we determine deficient in necessity.

With regard to the exercise of voting rights of shares the Company holds in strategic shareholdings, the Company shall exercise the rights for all agendas as a rule.

Judgment of approval or disapproval for each agenda shall be made by comprehensively considering such factors as whether the subject will contribute to the medium- to long-term enhancement of the corporate value of the relevant company and common interests of its shareholders, and whether the subject will not lessen the significance of holding the relevant shares by the Company.

In particular, in the event of a serious scandal or a proposal that could significantly damage shareholder value, the Company shall make a careful decision.

(6) Transactions among related parties

When the Company conducts transactions with its officers and principal shareholders, etc., the Company shall submit the matter as agenda to the Board of Directors in advance and have it approved by the Board of Directors so that the relevant transaction will not harm the Company's interests and common interests of the shareholders, except for cases where it is evident that the transaction is conducted under the similar terms and conditions as ordinary transactions in general.

3. Relationship with Stakeholders other than Shareholders

In order to achieve sustained growth and enhancement of its corporate value over medium to long term, the Company shall respect not only the shareholders but also a variety of its stakeholders including customers, officers and employees and local communities, and endeavors to maintain good and smooth relationships with them.

The Company shall establish the "Code of Conduct for Officers and Employees" and make all of its officers

and employees understand that they are to respect the stakeholders' positions.

Moreover, in view of the importance of the issues related to sustainability, the Company shall endeavor to take appropriate measures to address such issues, and work to secure diversity, including promotion of women's active engagement.

4. Information Disclosure

From the perspective of ensuring management transparency, the Company shall endeavor to proactively make fair, timely and appropriate disclosure of management information by using its website and through other means, not limited to information disclosure based on the Companies Act, the Financial Instruments Exchange Act and listing rules of the security exchange, etc.

In making information disclosure, the Company shall work to provide plain and concrete descriptions.

5. Corporate Governance System

(1) Board of Directors and other systems

The Board of Directors not only conducts decision-making on basic management policies and other matters designated by laws and regulations, as well as important matters on business management, but also supervises the status of execution of duties of directors and executive officers.

In order to enhance efficiency of business management and speed up execution of operations, the Board of Directors delegates the decisions on execution of operations other than the matters to be resolved by the Board of Directors designated by laws and regulations and the Articles of Incorporation to representative executive officers.

The representative executive officers and executive officers determine the execution of operations and execute operations so delegated by the Board of Directors based on the segregation of duties and hierarchy of commands designated by the Board of Directors.

The Company will establish the Management Committee, which shall deliberate and determine important matters related to the execution of operations, among other matters.

(2) Board of Directors

The Board of Directors comprises a variety of directors with different expertise, experiences and other qualifications. The Company secures the appropriate number of the Board of Directors members at which the functions of the Board of Directors can be exerted most effectively and efficiently, to the extent designated in the Articles of Incorporation.

Moreover, multiple outside directors independent from the Company shall be appointed to constitute the Board of Directors where it is expected that, through their advices and comments based on abundant experiences and expert knowledge on business management and other issues, appropriateness of the Company's business operations is secured and business management supervisory functions from external viewpoints is performed in an objective and neutral manner.

In principle, the chairperson of the Board of Directors shall be an outside director.

(3) Nomination, Audit and Remuneration Committees

The Nomination Committee not only determines the content of election of director candidates pursuant to laws and regulations, but also deliberates and determines the content of election and dismissal of directors, executive officers and corporate officers, the policy on election and dismissal of executive officers and corporate officers, and other matters on election and dismissal of directors, executive officers and corporate officers of the Company in general.

The Audit Committee not only audits the execution of duties of directors and executive officers, prepares audit reports and such, but also deliberates and determines the content of proposals on election and dismissal of accounting auditors for submission to the general meeting of shareholders and such.

The Remuneration Committee not only determines the individual amounts of remuneration for directors, executive officers and corporate officers and determines the policy on determination thereof, but also deliberates

and determines the matters on remuneration for directors, executive officers and corporate officers of the Company in general.

In principle, the chairperson of the Nomination/Audit/Remuneration Committee shall be an outside director.

(4) Appointment and Dismissal of directors, executive officers and corporate officers

The Company elects persons who are believed to contribute to achieving its sustained growth and enhancement of its corporate value over a medium to long term as candidates for the directors, auditors and executive officers, taking into account their personality, knowledge, capacity and experiences, etc. and with their fiduciary duties to the shareholders in mind.

For the outside directors, the Company shall elect persons who, on top of the above, satisfy the criteria for independence the Company sets forth separately.

In the event of a serious incident resulting in a loss of credibility or substantial damage, or a serious violation of compliance by executives (meaning directors, executive officers and corporate officers; the same shall apply hereinafter), the Nomination Committee shall consider whether or not it is necessary to dismiss the relevant executives.

Election of candidates for executives and dismissal of executives shall be determined pursuant to the provisions of laws and regulations after consideration by the Nomination Committee.

(5) Remuneration of directors, executive officers and corporate officers

With a view to enhancing the correlation with the Company's business performance and share value, the remuneration for executive officers shall comprise a fixed monthly remuneration (base remuneration), officers' bonuses linked to business performance and share-based remuneration. The fixed monthly remuneration (base remuneration) shall be determined in accordance with each executive officer's position. The officers' bonuses shall be determined in accordance with the business performance of each fiscal year, with the purpose of clarifying the responsibilities of management. As for the share-based remuneration, the Board Benefit Trust (BBT) scheme shall be used to provide points, which are determined in correlation with medium-term business performance, to the executive officers, to whom the Company's shares will be issued upon their retirement from office in accordance with the points.

With a view to having supervisory functions exerted, directors (excluding those concurrently serving as executive officers) shall receive only the fixed monthly remuneration (base remuneration), and remuneration linked to the business performance and such shall not be provided to them. Individual directors' remuneration shall be determined in accordance with responsibilities as directors, such as whether full-time or part-time and acting as chairperson. Directors concurrently serving as executive officers shall not receive remuneration as directors.

The remuneration for corporate officers shall be in accordance with that for executive officers.

The individual amounts of the remuneration for the directors, executive officers and corporate officers shall be determined by the Remuneration Committee. Modifications to the remuneration framework and the remuneration system, etc. shall also be determined by the Remuneration Committee.

(6) Operation of the Board of Directors

The agendas and deliberation time of the Board of Directors shall be set in a manner that should allow deliberations necessary and sufficient for deciding on important execution of operations and supervision of execution of operations.

As a rule, materials for the Board of Directors meeting shall be delivered in advance, taking into account the time required for the attendees of the meeting to make prior preparations, in order to help deepen deliberations at the meeting. In addition, prior explanations may be given to them depending on the content of the agendas.

Schedules of holding the Board of Directors meeting and assumed agendas for the meeting shall be determined and notified in advance.

Aside from the Board of Directors meeting and the committees meeting, a meeting by outside directors shall be held periodically to exchange information and share recognitions, so that they can exert functions from their standpoint that is independent from the Company.

(7) Evaluation and assessment of effectiveness of the Board of Directors

The Company shall make self-assessment as to the effectiveness of the Board of Directors once a year, and disclose the outline of the results. Furthermore, the Company shall make appropriate review of the Board of Directors based on the assessment.

(8) Support system and training policies for directors

In order for the directors to effectively perform their roles and responsibilities, related departments and sections of the Company, including the Corporate Planning Division of the Corporate Planning Department that is in charge of the work related to the Board of Directors, shall coordinate with each other to exchange information and conduct other tasks.

When it is necessary to make communications and adjustments between the outside directors and the management team, the secretariat of the Board of Directors shall be central in addressing such matters.

In order for the directors and the Audit & Supervisory Board members to effectively perform their roles and responsibilities, the Company shall set the opportunity to provide them, when they take office, with information regarding the Company's operations, finance, organization and others as well as knowledge on laws and regulations, etc., taking into account the careers and experiences, etc. of the directors or the Audit & Supervisory Board members who are taking office. Moreover, the Company shall provide opportunities, as needed, to continuously update such information or knowledge.

(9) Accounting Auditor

The Company shall understand the responsibilities the accounting auditor owes to the shareholders and investors, and endeavors to secure appropriate audits as stated below.

(1) The Audit Committee shall establish criteria to appropriately assess the accounting auditor. Moreover, the Audit Committee shall check whether the accounting auditor has independence and expertise required for an accounting auditor.
(2) The Company shall endeavor to provide the accounting auditor with an audit environment that should allow high-quality audits, including provision of opportunities to interview directors, executive officers, the Audit Committee and other departments required for auditing and securing sufficient time for conducting audits.

When the accounting auditor points out injustice, flaws or problems, etc., the Company shall accept what is pointed out in earnest and take appropriate measures.

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 have 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.

Method of 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.

Risk Categories

Risk Category	Risk Description
Credit Risk	Credit risks are 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.
Market Risk	Market risk refers to the risk that owned assets (bonds, stocks) or derivative values will fluctuate and losses will be incurred due to fluctuations in various market risk factors such as interest rates, securities prices, and exchange rates.
Liquidity Risk	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.
Processing Risk	Processing risks are risks to suffer losses from failed processing due to negligence, accidents or fraud by officers and employees.
System Risk	System risks are risks to suffer losses due to system defects such as failures or malfunctions, etc., of computer systems or due to unauthorized uses (including cyberattacks) of computer systems, etc.

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. The Risk Management Department, which is independent of risk operation departments, quantifies the risks, monitors risk operation conditions, and report 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.

Credit risk management

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

More precisely, the 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, the 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.

Market risk management

In our company, the 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

In our company, the Treasury Department has jurisdiction over the management of liquidity risks and attempts to diversify procurement methods and to secure stable supplies. 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.

Processing risk management

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

In our company, the Information Systems Planning Department holds jurisdiction over system risks management. To ensure stable operations of our computer systems, the department takes preventive measures against system failures such as duplicating networks and equipment. To develop and operate our computer systems safely and effectively, all of our operation procedures are clear and our monitoring system is facilitated. Moreover, in preparation against the threat of cyberattacks, countermeasures for computer systems and cybersecurity measures have been implemented. In addition, concerning the protection of our own information assets (information and information systems), necessary regulations are consolidated and all officers and employees are familiarized with handling information assets. Furthermore, to minimize the effects of system failures, measures are taken such as the facilitation of various handling manuals, implementation of drills, etc.

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.

Appendix

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 one year.

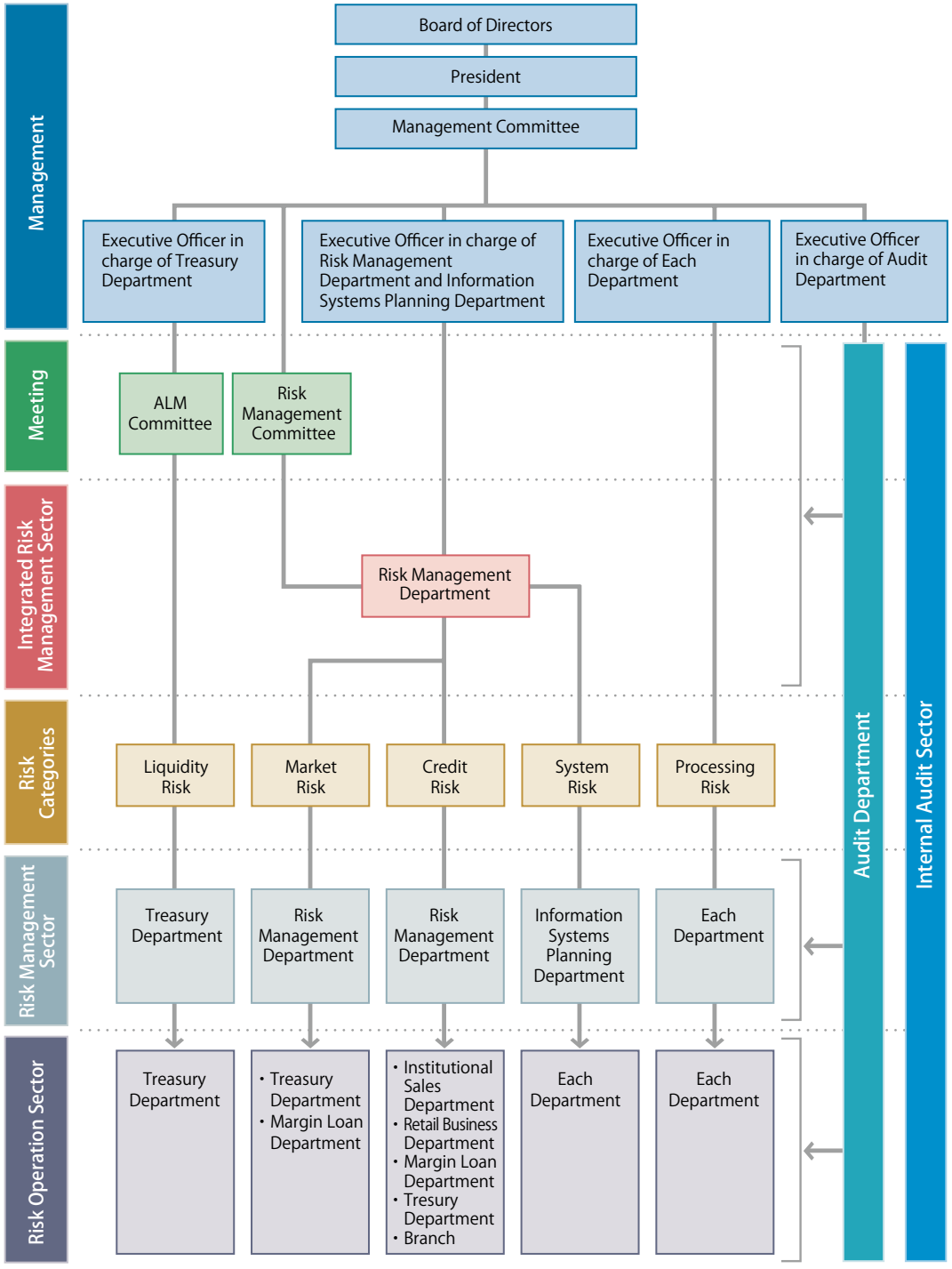
Risk Management Committee
The meeting is organized by the officers in charge of the Risk Management Department, Business Development Department, Corporate Planning Department, Treasury Department, Margin Loan Department, Institutional Sales Department and Retail Business Department, managers of the Risk Management Department, Business Development Department and Corporate Planning Department and, when concerned with the deliberation matters of the meeting, the managers of the Treasury Department, Margin Loan Department, Institutional Sales Department and Retail Business Department. The meeting is supervised by the officer in charge of the Risk Management Department.

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.

ALM Committee
This is a committee to deliberate ALM (asset liability management), such as development of fund procurement and management plans and revenue management, for assets and liabilities of the company as a whole. The committee is organized by the officer in charge of the Treasury Department (serving as chairperson), officers in charge of the concerned departments and managers of respective departments.

Risk Management System



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CONSOLIDATED BALANCE SHEET

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2020

Assets	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars (note 2) 2020
Current assets:			
Cash (notes 3 and 15)	¥ 1,299,936	¥ 990,670	$ 11,944,648
Call loans	75,000	100,000	689,148
Short-term investments (notes 4 and 15)	68,292	238,644	627,511
Short-term loans receivable (note 15)	687,679	668,894	6,318,837
Receivables under resale agreements	2,747,397	546,543	25,244,850
Collateral money for securities borrowed	3,877,827	2,137,590	35,631,967
Other current assets (note 15)	259,806	94,802	2,387,264
Allowance for doubtful receivables	(663)	(736)	(6,092)
Total current assets	9,015,274	4,776,407	82,838,133
Property, plant and equipment:			
Buildings and structures	8,826	8,819	81,099
Tools, furniture and fixtures	1,490	1,491	13,691
Land (note 6)	3,265	3,265	30,001
	13,581	13,575	124,791
Accumulated depreciation	(7,782)	(7,561)	(71,506)
Net property, plant and equipment	5,799	6,014	53,285
Intangible assets, net	2,407	3,451	22,117
Investments and other assets:			
Investments in securities (notes 4, 5 and 15)	790,182	505,163	7,260,700
Other investments and other assets	981	570	9,014
Allowance for doubtful receivables	(148)	(233)	(1,360)
Total investments and other assets	791,015	505,500	7,268,354
Total assets	¥ 9,814,495	¥ 5,291,372	$ 90,181,889

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2020	2019	2020
Current liabilities:			
Call money (notes 7 and 15)	¥ 1,176,796	¥ 1,016,460	$ 10,813,158
Short-term borrowings and current installments of long-term borrowings (note 7)	101,473	16,547	932,399
Commercial paper (note 7)	366,000	214,000	3,363,043
Payables under repurchase agreements	3,923,415	1,453,352	36,050,859
Accrued income taxes (note 9)	663	368	6,092
Collateral money received for securities lent	3,104,029	1,563,430	28,521,814
Other current liabilities	976,215	850,955	8,970,091
Total current liabilities	9,648,591	5,115,112	88,657,456
Non-current liabilities:			
Long-term borrowings (note 7)	3,000	4,000	27,566
Deferred tax liabilities (note 9)	5,464	10,075	50,207
Deferred tax liabilities for land revaluation (note 6)	74	74	680
Liability for retirement benefits (note 8)	1,625	1,381	14,932
Other non-current liabilities	29,054	19,937	266,966
Total non-current liabilities	39,217	35,467	360,351
Total liabilities	9,687,808	5,150,579	89,017,807
Stockholders' equity:			
Common stock (note 10): Authorized 200,000,000 shares; issued 100,000,000 shares in 2020 and 2019	10,000	10,000	91,886
Capital surplus (note 10)	11,326	11,326	104,071
Retained earnings (note 11)	111,193	109,688	1,021,713
Treasury stock, at cost; 8,278,844 shares in 2020 and 7,330,865 shares in 2019	(4,866)	(4,382)	(44,712)
Total stockholders' equity	127,653	126,632	1,172,958
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities (note 4)	20,278	29,171	186,327
Deferred loss on hedges (note 17)	(20,309)	(14,133)	(186,612)
Gain on revaluation of land (note 6)	168	168	1,544
Remeasurements of defined benefit plans (note 8)	(1,103)	(1,045)	(10,135)
Total accumulated other comprehensive income (loss)	(966)	14,161	(8,876)
Total net assets	126,687	140,793	1,164,082
Commitments and contingencies (note 18)			
Total liabilities and net assets	¥ 9,814,495	¥ 5,291,372	$ 90,181,889

CONSOLIDATED STATEMENT OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (note 2)
	2020	2019	2020
Operating revenues	¥ 29,102	¥ 24,322	$ 267,408
Operating expenses	16,835	12,284	154,691
Operating profit	12,267	12,038	112,717
General and administrative expenses (note 12)	8,137	8,056	74,768
Operating income	4,130	3,982	37,949
Other income (deductions):			
Interest income	227	229	2,086
Dividend income	191	547	1,755
Interest expenses	(0)	(0)	(0)
Equity in earnings of affiliates	307	248	2,821
Gain on bad debt recovered	22	22	202
Loss on sale of investments in securities	(37)	–	(340)
Loss on disposal of property, plant and equipment	–	(41)	–
Other, net	18	19	166
	728	1,024	6,690
Income before income taxes and non-controlling interests	4,858	5,006	44,639
Income taxes (note 9):			
Current	1,260	842	11,578
Deferred	42	398	386
	1,302	1,240	11,964
Net income	3,556	3,766	32,675
Net income attributable to non-controlling interests	–	–	–
Net income attributable to owners of parent	¥ 3,556	¥ 3,766	$ 32,675

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (LOSS)

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (note 2)
	2020	2019	2020
Net income	¥ 3,556	¥ 3,766	$ 32,675
Other comprehensive income (loss) arising during the year (note 13):			
Net unrealized gain (loss) on other securities (note 4)	(8,880)	4,700	(81,595)
Deferred loss on hedges	(6,175)	(6,891)	(56,740)
Remeasurements of defined benefit plans (note 8)	(64)	(637)	(588)
Share of other comprehensive loss of affiliates accounted for by the equity method	(8)	(2)	(74)
Total other comprehensive loss arising during the year	(15,127)	(2,830)	(138,997)
Comprehensive income (loss)	¥ (11,571)	¥ 936	$ (106,322)
Comprehensive income (loss) attributable to:			
Owners of parent	¥ (11,571)	¥ 936	$ (106,322)
Non-controlling interests	–	–	–

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

For the year ended March 31, 2020

Millions of yen

	Stockholders' equity					Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred loss on hedges	Gain on revaluation of land	Remeasure-ments of defined benefit plans	Total	Total net assets
	(note 10)	(note 10)	(note 11)			(note 4)	(note 17)	(note 6)	(note 8)		
Balance at March 31, 2018	¥ 10,000	¥ 11,326	¥ 108,588	¥ (3,094)	¥126,820	¥ 24,484	¥ (7,243)	¥ 168	¥ (418)	¥ 16,991	¥143,811
Changes arising during year:											
Cash dividends			(2,666)		(2,666)						(2,666)
Net income attributable to owners of parent			3,766		3,766						3,766
Purchase of treasury stock				(1,305)	(1,305)						(1,305)
Disposition of treasury stock		(0)		17	17						17
Net changes other than stockholders' equity						4,687	(6,890)		(627)	(2,830)	(2,830)
Total changes during the year	–	(0)	1,100	(1,288)	(188)	4,687	(6,890)	–	(627)	(2,830)	(3,018)
Balance at March 31, 2019	10,000	11,326	109,688	(4,382)	126,632	29,171	(14,133)	168	(1,045)	14,161	140,793
Changes arising during year:											
Cash dividends			(2,051)		(2,051)						(2,051)
Net income attributable to owners of parent			3,556		3,556						3,556
Purchase of treasury stock				(507)	(507)						(507)
Disposition of treasury stock		(0)		23	23						23
Net changes other than stockholders' equity						(8,893)	(6,176)		(58)	(15,127)	(15,127)
Total changes during the year	–	(0)	1,505	(484)	1,021	(8,893)	(6,176)	–	(58)	(15,127)	(14,106)
Balance at March 31, 2020	¥ 10,000	¥ 11,326	¥ 111,193	¥ (4,866)	¥127,653	¥ 20,278	¥ (20,309)	¥ 168	¥ (1,103)	¥ (966)	¥126,687

Thousands of U.S. dollars

	(note 2)										
	Stockholders' equity					Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred loss on hedges	Gain on revaluation of land	Remeasure-ments of defined benefit plans	Total	Total net assets
Balance at March 31, 2019	$ 91,886	$ 104,071	$ 1,007,884	$ (40,265)	$ 1,163,576	$ 268,042	$ (129,863)	$ 1,544	$ (9,602)	$ 130,121	$ 1,293,697
Changes arising during year:											
Cash dividends			(18,846)		(18,846)						(18,846)
Net income attributable to owners of parent			32,675		32,675						32,675
Purchase of treasury stock				(4,659)	(4,659)						(4,659)
Disposition of treasury stock		(0)		212	212						212
Net changes other than stockholders' equity						(81,715)	(56,749)		(533)	(138,997)	(138,997)
Total changes during the year	–	(0)	13,829	(4,447)	9,382	(81,715)	(56,749)	–	(533)	(138,997)	(129,615)
Balance at March 31, 2020	$ 91,886	$ 104,071	$ 1,021,713	$ (44,712)	$ 1,172,958	$ 186,327	$ (186,612)	$ 1,544	$ (10,135)	$ (8,876)	$ 1,164,082

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (note 2)
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 4,858	¥ 5,006	$ 44,638
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	1,399	1,380	12,855
Loss on sale/disposal of property, plant and equipment	2	32	18
Gains (losses) relating to short-term investments and investments in securities	214	(441)	1,966
Allowance for doubtful receivables	(159)	(827)	(1,461)
Increase in liabilities for retirement benefits	244	940	2,242
Interest and dividend income	(12,555)	(9,727)	(115,363)
Interest expenses	2,874	2,162	26,408
Equity in earnings of affiliates	(307)	(248)	(2,821)
(Increase) decrease in short-term loans receivable	(18,785)	334,037	(172,609)
(Increase) decrease in call loans	25,000	(5,000)	229,716
Increase in receivables under resale agreements	(2,200,854)	(546,543)	(20,222,861)
(Increase) decrease in collateral money for securities borrowed	(1,740,237)	30,581	(15,990,416)
Increase in call money	160,336	245,046	1,473,270
Increase in short-term borrowings	83,926	2,037	771,166
Increase (decrease) in commercial paper	152,000	(245,000)	1,396,674
Increase in payables under repurchase agreements	2,470,062	1,453,352	22,696,518
Increase (decrease) in collateral money received for securities lent	1,540,599	(941,705)	14,156,014
Increase in collateral money received for loan transactions	3,762	15,809	34,568
Purchase of short-term investments and investments in securities	(467,450)	(115,870)	(4,295,231)
Proceeds from sale/redemption of short-term investments and investments in securities	345,013	235,014	3,170,201
Other, net	(81,813)	(238,518)	(751,750)
Sub total	268,129	221,517	2,463,742
Interest and dividend received	11,847	9,539	108,858
Interest paid	(2,743)	(2,108)	(25,205)
Income taxes paid	(3,727)	(2,596)	(34,246)
Income taxes refunded	1,533	–	14,086
Net cash provided by operating activities	275,039	226,352	2,527,235
Cash flows from investing activities:			
Purchase of investments in securities	(8,863)	(10,664)	(81,439)
Proceeds from sale/redemption of investments in securities	4,329	2,682	39,778
Capital expenditures	(26)	(44)	(239)
Purchase of intangible assets	(235)	(631)	(2,159)
Other, net	1	4	9
Net cash used in investing activities	(4,794)	(8,653)	(44,050)
Cash flows from financing activities:			
Dividends paid to stockholders	(2,051)	(2,666)	(18,846)
Purchase of treasury stock	(507)	(1,305)	(4,659)
Other, net	0	1	0
Net cash used in financing activities	(2,558)	(3,970)	(23,505)
Net increase in cash and cash equivalents	267,687	213,729	2,459,680
Cash and cash equivalents at beginning of year	985,198	771,469	9,052,633
Cash and cash equivalents at end of year (note 3)	¥ 1,252,885	¥ 985,198	$ 11,512,313

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements
Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2020

(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 2 subsidiaries.

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.

(c) Cash and Cash Equivalents

For the purpose of the statement 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. Securities classified as "other securities" for which fair value is not available are stated at the moving-average cost.

Resale/repurchase transactions originate in the Japanese financial markets, and involve the selling/purchasing of commercial paper, certificates of deposit, Japanese government bonds and various other debt securities to/from an institution wishing to make a short-term investment, with the Company agreeing to repurchase/resell them from/to the institution on a specified date at a specified price. Under the "Accounting Standards for Financial Instruments", resale/repurchase transactions are accounted for as financing transactions. Resale/repurchase transactions are carried at their contractual amounts.

(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, except for the buildings acquired on or after April 1, 1998 and the leasehold improvements and structures acquired on or after April 1, 2016, which are depreciated based on the straight-line method.

The estimated useful lives are as follows:

Buildings and structures	3–50 years

(f) Intangible Assets

Intangible assets are carried at cost less accumulated 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.

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

The retirement benefit obligation is attributed to each period by the benefit formula basis.

Actuarial gain or loss is amortized in the subsequent year that it occurs by the declining-balance method within the average remaining years (15 years) of service of the employees.

Consolidated subsidiaries calculate retirement benefit obligation based on a simplified method, which is permitted for small size companies in conformity with the Accounting Standard for Retirement Benefits for calculating retirement benefit liability and retirement benefit expenses.

(i) Leases

All finance lease transactions are capitalized.

Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value.

(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) Provision for Share Remuneration Plan

Provision for share remuneration plan is provided for delivery of the Company's shares to directors and executive officers at an amount of estimated obligation for share remuneration based on the internal rule.

(m) Accounting standards issued but not yet applied

1. Accounting Standard for Revenue Recognition etc.

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and published "Revenue from Contracts with Customers" in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Given that IFRS No. 15 will be applied from the fiscal year starting on or after January 1, 2018 and Topic 606 from the fiscal year starting after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published them together with implementation guidance.

The ASBJ basic policy in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS No. 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS No. 15, and to be adding alternative accounting treatments without losing the comparability if there is an item that we should take into account in practices, etc. that have been conducted in Japan.

(2) Planned applicable date

The accounting standards are to be applied from the beginning of the year ending March 31, 2022.

(3) Impact of application on these accounting standards

The Company is currently evaluating the impact of application of these accounting standards to the consolidated financial statements.

2. Accounting Standard for Fair Value Measurement etc.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) each have established detailed guidance regarding fair value measurements that are nearly identical (IFRS No. 13 in IASB, Topic 820 in FASB). In order to improve the comparability mainly about guidance and disclosures for fair value of financial instruments with such international accounting standards, the Accounting Standards Board of Japan has published "Accounting Standard for Fair Value Measurement "etc.

The basic approach taken by the ASBJ in development of accounting standards for fair value measurement was to adopt generally all principles of IFRS No. 13, from a standpoint of comparability between financial statements of domestic and overseas companies. However, for any item that we should take into account in accounting practices, etc. that have been conducted in Japan, other accounting treatments without impairing comparability shall be determined.

(2) Planned applicable date

The accounting standards are to be applied from the beginning of the year ending March 31, 2022.

(3) Impact of application on these accounting standards

The Company is currently evaluating the impact of application of these accounting standards to the

consolidated financial statements.

3. Accounting Standard for Disclosure of Accounting Estimates

- Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 issued on March 31, 2020)

(1) Overview

In 2003, the International Accounting Standards Board (IASB) issued "Presentation of Financial Statements" (International Accounting Standards 1 (IAS 1)) with paragraph 125 of the standard requiring disclosure regarding key sources of uncertainty in accounting estimates. The ASBJ developed and issued "Accounting Standard for Disclosure of Accounting Estimates" in response to requests to consider requiring similar disclosure under Japanese GAAP as such footnote information is considered extremely useful to users of financial statements.

The basic approach taken by the ASBJ in the development of this Standard was , rather than to expand individual notes, to state the general principle (purpose of disclosure), and then allow the company to make a decision on specific content to be disclosed in light of the purpose of disclosure. In the development, the ASBJ made it its policy to refer to the provisions of paragraph 125 of IAS 1.

(2) Planned applicable date

The accounting standards will be applied from the end of the year ending March 31, 2021.

4. Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

- Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24 issued on March 31, 2020)

(1) Overview

It was recommended that ASBJ would consider improvement of disclosure for the notes to "The accounting policies and methods which has been adopted in the cases where the relevant accounting standards were not clear". In order to respond to the recommendations, the ASBJ made necessary amendments and issued the revised "Accounting Standards for Accounting Policy Disclosures, Accounting Changes and Error Corrections".

In addition, this Standard provides that when the company improves disclosure of the notes for "The accounting policies and methods which has been adopted in the cases where the relevant accounting standards were not clear", it should refer to the provisions of "Note 1-2 of explanatory notes on corporate accounting principles" in order not to effect on accounting practices in the cases where the relevant accounting standards are clear.

(2) Planned applicable date

The accounting standards will be applied from the end of the year ending March 31, 2021.

(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, 2020.

(2) Financial Statement Translation

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate as of March 31, 2020, which was ¥108.83 to U.S. $1. 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 sheet and "Cash and cash equivalents" in the accompanying consolidated statement of cash flows as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash	¥ 1,299,936	¥ 990,670	$ 11,944,648
Time deposits with maturities of over three months	(43,048)	(1,470)	(395,553)
Certificate of deposits with maturities of over three months	(4,003)	(4,002)	(36,782)
Cash and cash equivalents	¥ 1,252,885	¥ 985,198	$ 11,512,313

(4) Short-term Investments and Investments in Securities

No trading securities were held both as of March 31, 2020 and 2019.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2020 and 2019 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2020				
Government bond securities	¥ 1,513	¥ 209	¥ —	¥ 1,722
	¥ 1,513	¥ 209	¥ —	¥ 1,722
March 31, 2019				
Government bond securities	¥ 1,514	¥ 244	¥ —	¥ 1,758
	¥ 1,514	¥ 244	¥ —	¥ 1,758

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2020				
Government bond securities	$ 13,902	$ 1,921	$ —	$ 15,823
	$ 13,902	$ 1,921	$ —	$ 15,823

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2020 and 2019 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2020				
Equity securities	¥ 4,978	¥ 7,468	¥ (269)	¥ 12,177
Bond securities:				
Government bond securities	492,117	28,981	(2,269)	518,829
Corporate bond securities	254,185	7	(574)	253,618
Other	38,491	122	(2,058)	36,555
Other securities	15,621	692	(2,370)	13,943
	¥ 805,392	¥ 37,270	¥ (7,540)	¥ 835,122
March 31, 2019				
Equity securities	¥ 5,205	¥ 8,138	¥ (19)	¥ 13,324
Bond securities:				
Government bond securities	589,471	33,538	(0)	623,009
Corporate bond securities	41,393	33	(2)	41,424
Other	31,257	116	(971)	30,402
Other securities	9,790	1,269	(132)	10,927
	¥ 677,116	¥ 43,094	¥ (1,124)	¥ 719,086

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2020				
Equity securities	$ 45,741	$ 68,621	$ (2,472)	$ 111,890
Bond securities:				
Government bond securities	4,521,887	266,296	(20,849)	4,767,334
Corporate bond securities	2,335,615	64	(5,274)	2,330,405
Other	353,680	1,121	(18,910)	335,891
Other securities	143,536	6,359	(21,777)	128,118
	$ 7,400,459	$ 342,461	$ (69,282)	$ 7,673,638

Securities classified as other securities for which fair value is not available are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unlisted equity securities	¥ 2,038	¥ 2,900	$ 18,726
Unlisted REITs	14,577	14,588	133,943
Investments in investment limited partnership	1,291	897	11,863
Beneficial interests	—	1,050	—

For the years ended March 31, 2020 and 2019, proceeds from sale of other securities, the gross realized gains and the gross realized losses are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Proceeds from sale of other securities	¥ 78,299	¥ 146,904	$ 719,462
Gross realized gains	851	647	7,820
Gross realized losses	396	85	3,639

Financial assets received as collateral on which the Company has a right of disposal as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
The fair value of the securities received as collateral:			
Securities lent	¥ 119,168	¥ 178,891	$ 1,094,992
Collateral provided	169,491	232,234	1,557,392
On hand	1,007,183	1,129,584	9,254,645
	¥ 1,295,842	¥ 1,540,709	$ 11,907,029

Balance sheet amount of securities lent under loan for consumption agreement, etc. as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Short-term investments	¥ 44,081	¥ 209,335	$ 405,045
Investments in securities	346,296	379,548	3,181,990

The fair value of the securities borrowed under loan for consumption agreement, etc. as of March 31, 2020 and 2019 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
The fair value of the securities borrowed:			
Securities loaned	¥ 6,614,961	¥ 2,680,144	$ 60,782,514
Securities pledged as collateral	163,101	108,232	1,498,677
On hand	23,967	27,819	220,224
	¥ 6,802,029	¥ 2,816,195	$ 62,501,415

(5) Investments in Affiliates

The aggregate carrying amount of investments in affiliates as of March 31, 2020 and 2019 are ¥3,934 million ($36,148 thousand) and ¥3,773 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 was reported in a separate component of net assets, net of related taxes, and the related taxes are reported in liabilities as deferred tax liabilities for land revaluation as of March 31, 2002.

(7) Debt

The composition of debt and the weighted average interest rate on debt as of March 31, 2020 and 2019 are as follows:

		Millions of yen		Thousands of U.S. dollars	Weighted average rate
March 31, 2020					
Short-term borrowings	¥	100,473	$	923,210	0.471%
Long-term borrowings		4,000		36,755	0.535
Call money		1,176,796		10,813,158	(0.065)
Commercial paper		366,000		3,363,043	0.001
	¥	1,647,269	$	15,136,166	
March 31, 2019					
Short-term borrowings	¥	16,547			0.982%
Long-term borrowings		4,000			0.535
Call money		1,016,460			(0.036)
Commercial paper		214,000			(0.001)
	¥	1,251,007			

(8) Retirement and Severance Benefits

The Company has defined benefit retirement and pension plans, which consist of a defined benefit corporate retirement and pension plan and an unfunded retirement and severance plan that provide for lump-sum payment of benefits, and a defined contribution plan. The Company has established a retirement benefit trust to cover the defined benefit retirement and pension plans.

Consolidated subsidiaries' main retirement plans are unfunded retirement and severance plans that provide for lump-sum payment of benefits as defined benefit retirement and pension plans. The simplified method has been adopted for the calculation of liability for retirement benefits and retirement benefit expenses for the plans.

Defined benefit plans

Followings are the information for the Company's and the consolidated subsidiaries' defined benefit plans as of March 31, 2020 and 2019 and for the years then ended.

(1) Reconciliation of changes in retirement benefit obligation (the following table excludes certain plans mentioned in (3))

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligation at beginning of year	¥ 9,689	¥ 8,798	$ 89,029
Service cost	355	325	3,262
Interest cost	20	26	184
Actuarial gains and losses	(226)	880	(2,077)
Benefits paid	(367)	(340)	(3,372)
Retirement benefit obligation at end of year	¥ 9,471	¥ 9,689	$ 87,026

(2) Reconciliation of changes in plan assets (the following table excludes certain plans mentioned in (3))

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Plan assets at beginning of year	¥ 8,658	¥ 8,657	$ 79,555
Expected return on plan assets	173	173	1,590
Actuarial gains and losses	(542)	(83)	(4,980)
Employer contributions	186	172	1,709
Benefits paid	(265)	(261)	(2,435)
Plan assets at end of year	¥ 8,210	¥ 8,658	$ 75,439

(3) Reconciliation of changes in liability for retirement benefits whose plans adopted the simplified method

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Liability for retirement benefits at beginning of year	¥ 161	¥ 160	$ 1,479
Retirement benefit expenses	18	15	166
Benefits paid	—	(13)	—
Contributions	(0)	(1)	(0)
Liability for retirement benefits at end of year	¥ 179	¥ 161	$ 1,645

(4) Reconciliation between retirement benefit obligation and plan assets and liability for retirement benefit and asset for retirement benefit recognized in consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligation	¥ 9,471	¥ 9,689	$ 87,026
Plan assets	(8,210)	(8,658)	(75,439)
	1,261	1,031	11,587
Unfunded retirement benefit obligation	179	161	1,645
Net liability for retirement benefit recognized in consolidated balance sheet	¥ 1,440	¥ 1,192	$ 13,232
Liability for retirement benefit	¥ 1,440	¥ 1,192	$ 13,232
Net liability for retirement benefit recognized in consolidated balance sheet	¥ 1,440	¥ 1,192	$ 13,232

(5) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 355	¥ 325	$ 3,262
Interest cost	20	27	184
Expected return on plan assets	(173)	(173)	(1,590)
Amortization of actuarial gains or losses	182	53	1,672
Retirement benefit expenses calculated by the simplified method	18	15	166
Retirement benefit expenses	¥ 402	¥ 247	$ 3,694

(6) Remeasurements of retirement benefit plans before related tax effects

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial gains or losses	¥ (134)	¥ (910)	$ (1,231)
Total	¥ (134)	¥ (910)	$ (1,231)

(7) Accumulated remeasurements of retirement benefit plans before related tax effects

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unamortized actuarial gains or losses	¥ 1,417	¥ 1,283	$ 13,020
Total	¥ 1,417	¥ 1,283	$ 13,020

(8) Plan assets

(a) Percentage by major category of plan assets

	2020	2019
Debt securities	24.9%	48.9%
Equity securities	29.7	31.1
General account	11.4	11.0
Other	34.0	9.0
Total	100.0%	100.0%

Plan assets as of March 31, 2020 and 2019 include the retirement benefit trust contributed for the years ended March 31, 2020 and 2019 which are 10.2% and 10.0% of total plan assets, respectively.

(b) Determination procedure of long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Company considers the current and projected asset allocation, as well as current and future long-term rate of returns for various categories of the plan assets.

(9) Basis for calculation of actuarial assumptions

The assumptions used in accounting for the above plans as of March 31, 2020 and 2019 are as follows:

	2020	2019
(a) Discount rate	0.3%	0.2%
(b) Long-term expected rate of return	2.0%	2.0%
(c) Expected salary increase rate	5.2%	5.2%

Defined contribution plans

For the years ended March 31, 2020 and 2019, the amount to be paid by the Company and its consolidated subsidiaries to the defined contribution plans was ¥36 million ($331 thousand) and ¥36 million, respectively.

Liability for retirement benefits (directors and corporate auditors)

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, 2019, the liability for retirement benefits related to the plans were ¥42 million which include the lump-sum payments mentioned above.

(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 30.6% both in 2020 and 2019.

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and non-controlling interests for the years ended March 31, 2020 and 2019 is follows:

	2020	2019
Statutory tax rate	30.6%	30.6%
Equity in earnings of affiliates	(1.9)	(1.5)
Expenses not deductible for tax purposes	1.1	1.0
Valuation allowance	(2.7)	(5.1)
Income not credited for tax purposes	(2.5)	(2.3)
Other	2.2	2.0
Effective tax rate	26.8%	24.8%

Significant components of deferred tax assets and liabilities as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Accrued business tax	¥ 89	¥ 66	$ 818
Accrued bonuses	152	205	1,397
Liability for retirement benefits (employees)	1,211	1,106	11,128
Liability for retirement benefits (directors and corporate auditors)	—	13	—
Allowance for doubtful receivables	76	245	698
Tax loss carryforward	2	120	18
Deferred loss on hedges	10,415	7,182	95,700
Net unrealized loss on other securities	2,027	344	18,625
Other	265	314	2,435
	14,237	9,595	130,819
Valuation allowance	(4,430)	(3,124)	(40,706)
	9,807	6,471	90,113
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(155)	(155)	(1,424)
Net unrealized gain on other securities	(11,139)	(13,208)	(102,352)
Gain on transfer of investment in an affiliate	(166)	(359)	(1,525)
Gain on evaluation of acquired assets by merger	(580)	(580)	(5,330)
Deferred loss on hedges	(3,172)	(2,204)	(29,147)
Other	(59)	(40)	(542)
	(15,271)	(16,546)	(140,320)
Net deferred tax liabilities	¥ (5,464)	¥ (10,075)	$ (50,207)

(10) Common Stock

Under the Companies Act, 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, which is included in capital surplus.

(11) Retained Earnings and Dividends

The Companies Act 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 Companies Act also provides that capital surplus 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 sheet.

Cash dividends charged to retained earnings for the years ended March 31, 2020 and 2019 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 Companies Act.

(a) Dividends paid during the year ended March 31, 2019

The following was approved by the general meeting of stockholders held on June 22, 2018.

(a)	Total dividends	¥1,621 million
(b)	Cash dividends per common share	¥17
(c)	Record date	March 31, 2018
(d)	Effective date	June 25, 2018

The following was approved by the Board of Directors held on November 5, 2018.

(a)	Total dividends	¥1,046 million
(b)	Cash dividends per common share	¥11
(c)	Record date	September 30, 2018
(d)	Effective date	December 4, 2018

(b) Dividends paid during the year ended March 31, 2020

The following was approved by the general meeting of stockholders held on June 25, 2019.

(a)	Total dividends	¥1,027 million ($9,437 thousand)
(b)	Cash dividends per common share	¥11 ($0.10)
(c)	Record date	March 31, 2019
(d)	Effective date	June 26, 2019

The following was approved by the Board of Directors held on November 11, 2019.

(a)	Total dividends	¥1,024 million ($9,409 thousand)
(b)	Cash dividends per common share	¥11 ($0.10)
(c)	Record date	September 30, 2019
(d)	Effective date	December 6, 2019

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2020

The following was approved by the Board of Directors held on May 18, 2020.

(a)	Total dividends	¥1,016 million ($9,336 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥11 ($0.10)
(d)	Record date	March 31, 2020
(e)	Effective date	June 2, 2020

(12) General and Administrative Expenses

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salaries	¥ 2,945	¥ 3,038	$ 27,061
Retirement benefit expenses	438	283	4,025
Depreciation	1,399	1,380	12,855

(13) Other Comprehensive Income (Loss)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized gain (loss) on other securities:			
Arising during the year	¥ (11,749)	¥ 7,330	$ (107,957)
Reclassification adjustment	(491)	(562)	(4,512)
Before tax amount	(12,240)	6,768	(112,469)
Tax benefit (expense)	3,360	(2,068)	30,874
Net-of-tax amount	(8,880)	4,700	(81,595)
Deferred gain (loss) on hedges:			
Arising during the year	(8,030)	(8,843)	(73,785)
Reclassification adjustment	632	205	5,807
Before tax amount	(7,398)	(8,638)	(67,978)
Tax benefit (expense)	1,223	1,747	11,238
Net-of-tax amount	(6,175)	(6,891)	(56,740)
Remeasurements of defined benefit plans:			
Arising during the year	(316)	(963)	(2,903)
Reclassification adjustment	182	53	1,672
Before tax amount	(134)	(910)	(1,231)
Tax benefit (expense)	70	273	643
Net-of-tax amount	(64)	(637)	(588)
Share of other comprehensive income (loss) of affiliates accounted for by equity method:			
Arising during the year	(28)	(21)	(258)
Reclassification adjustment	20	19	184
	(8)	(2)	(74)
Total other comprehensive income (loss)	¥ (15,127)	¥ (2,830)	$ (138,997)

(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, 2020 and 2019 are as follows:

	Yen		U.S. dollars
	2020	2019	2020
Basic net income per share	¥ 38.47	¥ 40.02	$ 0.35

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net income attributable to owners of parent	¥ 3,556	¥ 3,766	$ 32,675
Net income not applicable to common stockholders	—	—	—
Net income attributable to owners of parent applicable to common stockholders	¥ 3,556	¥ 3,766	$ 32,675

	Number of shares (Thousands)	
	2020	2019
Weighted average number of shares outstanding on which basic net income per share is calculated	92,429	94,075

The Company's own stocks which are held by the trust are included in the treasury stocks which are excluded from the calculation of weighted average number of shares outstanding on which basic net income per share is calculated.

(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 as of March 31, 2020 and 2019 are as follows:

	Yen		U.S. dollars
	2020	2019	2020
Net assets per share	¥ 1,381.22	¥ 1,519.30	$ 12.69

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total net assets	¥ 126,687	¥ 140,793	$ 1,164,082
Amount deducted from total net assets	—	—	—
Net assets applicable to common stockholders	¥ 126,687	¥ 140,793	$ 1,164,082

	Number of shares (Thousands)	
	2020	2019
Number of shares outstanding at end of year on which net assets per share is calculated	91,721	92,669

The Company's own stocks which are held by the trust (BBT) are included in the treasury stocks which are excluded from the calculation of number of shares outstanding at end of year on which net assets per share is calculated.

(15) Pledged Assets

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Short-term investments	¥ 21,011	¥ 19,102	$ 193,063
Short-term loans receivable	440,811	360,834	4,050,455
Investments in securities	322,233	69,649	2,960,884

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Call money	¥ 67,000	¥ 205,000	$ 615,639

In addition to the above, followings are deposited for the Clearing Fund of Japan Securities Clearing Corporation and Japan Government Bond Clearing Corporation, etc.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash	¥ 25	¥ 25	$ 230
Other current assets	188,311	70,515	1,730,323
Investments in securities	—	1,661	—

(16) Financial Instruments

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 are loan services which are money lending or stock loan for settlement of standardized margin transactions. The transaction is strongly effected by security market condition, therefore, the Company raises money flexibly from short-term finance market, primarily from call market. The Company owns securities such as Japanese Government Bonds to manage the funds efficiently.

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, local government bonds, public corporation bonds and government-backed bonds as securities investment activities and usually raises money through a trust account.

(2) Financial instruments and risks

Main financial instrument that the Company holds are trade loans receivable, collateral money for securities borrowed, short-term investments and investments in securities such as government bonds and equity securities. Collateral money for securities borrowed is the collateral for cash-secured bond lending transaction, cash-secured stock lending transaction and securities borrowed of loan on margin transactions. Main financial instrument that JSFTB holds are loans to government, other credit granting and securities such as government bonds, local government bonds, public corporation bonds and government-backed bonds. Trade loans receivable held by the Company and JSFTB are exposed to credit risks that caused from counterparties' default of contract. Securities are exposed to market risks. 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.

The Company has entered into forward exchange contract for hedging currency exchange risk of bonds denominated in foreign currency and interest rate swaps for hedging interest rate risk of fixed-rate bonds. Hedge accounting is applied to the derivatives and the Company regularly monitors the hedge effectiveness whether the relationship between hedging derivatives and hedged assets are appropriate and the currency exchange risk and the interest rate risk of hedged items are offset by hedging derivatives.

JSFTB has entered into interest rate swaps for hedging fixed-rate loans, bonds and borrowings as a part of interest risk control (ALM). Hedge accounting is applied to the derivatives held for ALM purpose, and the Company regularly monitors the hedge effectiveness whether the relationship between hedging derivatives and hedged assets or liabilities are appropriate and the interest rate risk of hedged items are offset by hedging derivatives.

(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.

1) 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.

2) 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.

3) 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.

4) Quantitative information of market risk

The Company calculates VaR of short-term investments and investments in securities by using Delta method (holding period: 10-120 days (depending on purposes in holding), confidence interval: 99%, observation period: 1 year). Market risk amount (possible losses) of the Company is ¥17,749 million ($163,089 thousand) as of March 31, 2020.

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.

5) 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 the management.

6) 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 ¥7,807 million ($71,736 thousand) as of March 31, 2020.

(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.

Fair value of financial instruments

The carrying value on the consolidated balance sheet, fair value, and differences as of March 31, 2020 and 2019 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					
	2020			2019		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 1,299,936	¥ 1,299,936	¥ —	¥ 990,670	¥ 990,670	¥ —
(2) Call loan *1	74,906	74,906	—	99,883	99,883	—
(3) Trade loans receivable	687,679			668,894		
Allowance for doubtful receivables *1	(136)			(72)		
	687,543	687,553	10	668,822	668,822	—
(4) Receivables under resale agreements *1	2,747,329	2,747,329	—	546,510	546,510	—
(5) Collateral money for securities borrowed *1	3,877,538	3,877,538	—	2,137,118	2,137,118	—
(6) Short-term investments and investments in securities						
Held-to-maturity securities	1,513	1,722	209	1,514	1,758	(244)
Other securities	835,122	835,122	—	719,086	719,086	—
Total	¥ 9,523,887	¥ 9,524,106	¥ 219	¥ 5,163,603	¥ 5,163,847	¥ (244)
Liabilities:						
(1) Call money	¥ 1,176,796	¥ 1,176,796	¥ —	¥ 1,016,460	¥ 1,016,460	¥ —
(2) Short-term borrowings	100,473	100,473	—	16,547	16,547	—
(3) Commercial paper	366,000	366,000	—	214,000	214,000	—
(4) Payables under repurchase agreements	3,923,415	3,923,415	—	1,453,352	1,453,352	—
(5) Collateral money received for securities lent	3,104,029	3,104,029	—	1,563,430	1,563,430	—
(6) Long-term borrowings *2	4,000	4,000	—	4,000	4,000	—
Total	¥ 8,674,713	¥ 8,674,713	¥ —	¥ 4,267,789	¥ 4,267,789	¥ —
Derivative transactions *3	¥ (27,613)	¥ (27,613)	¥ (—)	¥ (19,024)	¥ (19,024)	¥ (—)

	Thousands of U.S. dollars		
	2020		
	Carrying value	Fair value	Differences
Assets:			
(1) Cash	$ 11,944,648	$ 11,944,648	$ —
(2) Call loan *1	688,284	688,284	—
(3) Trade loans receivable	6,318,837		
Allowance for doubtful receivables *1	(1,250)		
	6,317,587	6,317,679	92
(4) Receivables under resale agreements *1	25,244,225	25,244,225	—
(5) Collateral money for securities borrowed *1	35,629,312	35,629,312	—
(6) Short-term investments and investments in securities			
Held-to-maturity securities	13,902	15,822	1,920
Other securities	7,673,638	7,673,638	—
Total	$ 87,511,596	$ 87,513,608	$ 2,012
Liabilities:			
(1) Call money	$ 10,813,158	$ 10,813,158	$ —
(2) Short-term borrowings	923,211	923,211	—
(3) Commercial paper	3,363,043	3,363,043	—
(4) Payables under repurchase agreements	36,050,859	36,050,859	—
(5) Collateral money received for securities lent	28,521,814	28,521,814	—
(6) Long-term borrowings *2	36,754	36,754	—
Total	$ 79,708,839	$ 79,708,839	$ —
Derivative transactions *3	$ (253,726)	$ (253,726)	$ (—)

*1 Allowance for doubtful accounts associated with trade loans receivable is deducted. Carrying value of call loan and collateral money for securities borrowed is net amount of related allowance for doubtful accounts, because the allowance for doubtful accounts for these accounts is not material.
*2 Long-term borrowings include current installment of long-term borrowings.
*3 Derivative receivables and payables are on net basis. Items that are net payables are shown in parenthesis.

<1> Fair value measurement of financial instruments
Assets:
(1) Cash and (2) Call loan
The fair value approximates carrying amount because of the short maturity of these instruments.

(3) Trade loans receivable
The fair value of trade loans receivable with variable interest rate approximates carrying amount because the fair value is reflected a fluctuation of interest market in a short period and unless 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.

(4) Receivables under resale agreements and (5) Collateral money for securities borrowed
The fair value approximates carrying amount because of the short maturity of these instruments.

(6) Short-term investments and investments in securities

The fair value of equity securities are calculated by quoted market price and bond securities are calculated by quoted market price or quotes from information venders. The fair value of government bonds with variable interest rate held by the Company 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.

Derivatives:

Please see note "(17) Derivative Financial Instruments."

<2> Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unlisted equity securities			
Other securities	¥ 2,038	¥ 2,900	$ 18,726
Investments in affiliates	3,934	3,773	36,148
Unlisted REITs	14,577	14,588	133,943
Investments in investment limited partnership	1,291	897	11,863
Beneficial interests	—	1,050	—

Above securities have no market value and the fair value is extremely difficult to measure, therefore are not included in "Assets: (6) Short-term investments and investments in securities."

<3> Projected future redemption of monetary claim and securities with maturities as of March 31, 2020

	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	¥ 1,299,936	¥ —	¥ —	¥ —
(2) Call loan	75,000	—	—	—
(3) Trade loans receivable	666,490	21,189	—	—
(4) Receivables under resale agreements	2,747,397	—	—	—
(5) Collateral money for securities borrowed	3,857,827	20,000	—	—
(6) Short-term investments and investments in securities				
Held-to-maturity securities (Government bonds)	—	—	—	1,500
Other securities with maturities				
Bond securities				
Government bonds	48,000	38,670	43,600	356,000
Corporate bonds	20,200	160,501	71,017	—
Other	—	21,463	12,520	—
Total	¥ 8,714,850	¥ 261,823	¥ 127,137	¥ 357,500

	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	$ 11,944,648	$ —	$ —	$ —
(2) Call loan	689,148	—	—	—
(3) Trade loans receivable	6,124,139	194,698	—	—
(4) Receivables under resale agreements	25,244,850	—	—	—
(5) Collateral money for securities borrowed	35,448,194	183,773	—	—
(6) Short-term investments and investments in securities				
Held-to-maturity securities (Government bonds)	—	—	—	13,783
Other securities with maturities				
Bond securities				
Government bonds	441,055	355,325	400,625	3,271,157
Corporate bonds	185,610	1,474,786	652,550	—
Other	—	197,216	115,042	—
Total	$ 80,077,644	$ 2,405,798	$ 1,168,217	$ 3,284,940

<4> The annual maturities of the long-term borrowings, lease liabilities and other interest bearing liabilities as of March 31, 2020

	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 years through five years	Due after five years
Call money	¥ 1,176,796	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	100,473	—	—	—	—	—
Commercial paper	366,000	—	—	—	—	—
Payables under repurchase agreements	3,923,415	—	—	—	—	—
Collateral money received for securities lent	3,104,029	—	—	—	—	—
Long-term borrowings	1,000	—	—	—	—	3,000
Total	¥ 8,671,713	¥ —	¥ —	¥ —	¥ —	¥ 3,000

	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 years through five years	Due after five years
Call money	$ 10,813,158	$ —	$ —	$ —	$ —	$ —
Short-term borrowings	923,211	—	—	—	—	—
Commercial paper	3,363,043	—	—	—	—	—
Payables under repurchase agreements	36,050,859	—	—	—	—	—
Collateral money received for securities lent	28,521,814	—	—	—	—	—
Long-term borrowings	9,189	—	—	—	—	27,566
Total	$ 79,681,274	$ —	$ —	$ —	$ —	$ 27,566

(17) Derivative Financial Instruments

1. Derivative transactions to which hedge accounting are not applied as of March 31, 2020 and 2019 are summarized as follows:

Exchange rate derivatives

		Millions of yen					
		2020			2019		
	Nature of transaction	Contract or notional amounts	Fair value	Gains or losses on valuation	Contract or notional amounts	Fair value	Gains or losses on valuation
Off-market transaction	Forward exchange contract:						
	Sell:						
	U.S. dollars	¥ 22,021	¥ (47)	¥ (47)	¥ —	¥ —	¥ —
	Euro	190	(0)	(0)	—	—	—
	Buy:						
	U.S. dollars	10,747	74	74	5,536	2	2

		Thousands of U.S. dollars		
		2020		
	Nature of transaction	Contract or notional amounts	Fair value	Gains or losses on valuation
Off-market transaction	Forward exchange contract:			
	Sell:			
	U.S. dollars	$ 202,343	$ (432)	$ (432)
	Euro	1,746	(0)	(0)
	Buy:			
	U.S. dollars	98,750	680	680

The fair value is estimated based on quotes from counterparties.

2. Derivative transactions to which hedge accounting are applied as of March 31, 2020 and 2019 are summarized as follows:

(a) Exchange rate derivatives

			Millions of yen	
			2019	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Forward exchange contract:			
	Sell:			
	Euro	Investments in securities	¥ 5,690	¥ 93

*1 Deferred hedge accounting is applied.

The fair value is estimated based on quotes from counterparties.

(b) Interest rate derivatives

			Millions of yen			
			2020		2019	
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	Investments in securities	¥ 627,178	¥ (24,836)	¥ 294,417	¥ (19,102)
*2	Interest rate swaps:					
	Variable rate received for fixed rate	Trade loans	17,508	*3	35,262	*3
	Variable rate paid for variable rate	Long-term borrowings	3,000	*3	3,000	*3

			Thousands of U.S. dollars	
			2020	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Interest rate swaps:			
	Variable rate received for fixed rate	Investments in securities	$ 5,762,915	$ (228,209)
*2	Interest rate swaps:			
	Variable rate received for fixed rate	Trade loans	160,875	*3
	Variable rate paid for variable rate	Long-term borrowings	27,566	*3

*1 Deferred hedge accounting is applied.

*2 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.

*3 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.
The fair value is estimated based on quotes from counterparties or calculated by using discounted present value.

(c) Bond derivatives

			Millions of yen			
			2020		2019	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value	Contract or notional amounts	Fair value
*1	Bond futures: Sell	Investments in securities	¥ 3,477	¥ (27)	¥ 1,896	¥ (19)

			Thousands of U.S. dollars	
			2020	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Bond futures: Sell	Investments in securities	$ 31,949	$ (248)

*1 Deferred hedge accounting is applied.
The fair value is calculated by quoted market price.

(d) Stock derivatives

			Millions of yen	
			2020	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Stock index futures: Sell	Investments in securities	¥ 18,629	¥ (2,778)

			Thousands of U.S. dollars	
			2020	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Stock index futures: Sell	Investments in securities	$ 171,175	$ (25,526)

*1 Deferred hedge accounting is applied.
The fair value is calculated by quoted market price.

			Millions of yen	
			2019	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*2	Total return swap	Investments in securities	¥ 121	¥ 2

*2 Deferred hedge accounting is applied.
The fair value is estimated based on quotes from counterparties.

(18) Commitments and Contingencies

As of March 31, 2020 and 2019, undrawn amount of general loan for securities companies and customers, overdraft loan and loan commitment line are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total credit line	¥ 822,108	¥ 827,808	$ 7,554,057
Drawn amount	33,610	32,360	308,830
Undrawn amount	¥ 788,498	¥ 795,448	$ 7,245,227

Since some of these contracts expire without the rights exercised, the undrawn amount itself does not necessarily affect future cash flows.

(19) Segment Information

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 non-controlling interests. Therefore, ordinary income or loss is operating income or loss plus non-operating income from interest and dividend income and other items less non-operating expenses, such as interest expenses. Intersegment revenue and transfer are based on arms-length transactions.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2020 and 2019 was summarized as follows:

	Millions of yen			
	2020			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 25,370	¥ 2,833	¥ 899	¥ 29,102
Intersegment revenues and transfers	14	113	384	511
Total	¥ 25,384	¥ 2,946	¥ 1,283	¥ 29,613
Segment income	¥ 3,433	¥ 621	¥ 728	¥ 4,782
Segment assets	¥ 8,836,290	¥ 1,065,020	¥ 10,327	¥ 9,911,637
Others:				
Depreciation and amortization	¥ 1,203	¥ 87	¥ 109	¥ 1,399
Interest income	227	—	15	242
Income taxes	943	124	233	1,300

	Thousands of U.S. dollars			
	2020			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	$ 233,116	$ 26,031	$ 8,261	$ 267,408
Intersegment revenues and transfers	129	1,038	3,528	4,695
Total	$ 233,245	$ 27,069	$ 11,789	$ 272,103
Segment income	$ 31,545	$ 5,706	$ 6,689	$ 43,940
Segment assets	$ 81,193,513	$ 9,786,088	$ 94,891	$ 91,074,492
Others:				
Depreciation and amortization	$ 11,054	$ 799	$ 1,002	$ 12,855
Interest income	2,086	—	138	2,224
Income taxes	8,665	1,139	2,141	11,945

	Millions of yen			
	2019			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 20,970	¥ 2,467	¥ 885	¥ 24,322
Intersegment revenues and transfers	1	72	390	463
Total	¥ 20,971	¥ 2,539	¥ 1,275	¥ 24,785
Segment income	¥ 3,655	¥ 614	¥ 673	¥ 4,942
Segment assets	¥ 4,379,472	¥ 933,757	¥ 10,064	¥ 5,323,293
Others:				
Depreciation and amortization	¥ 1,183	¥ 78	¥ 119	¥ 1,380
Interest income	229	—	12	241
Income taxes	937	75	228	1,240

Reconciliation between total segment revenues in the table above and revenues in the accompanying consolidated statement of income for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total segment revenues	¥ 29,613	¥ 24,785	$ 272,103
Intersegment revenues	(511)	(463)	(4,695)
Revenues in the accompanying consolidated statement of income	¥ 29,102	¥ 24,322	$ 267,408

Reconciliation between total segment income in the table above and ordinary income for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total segment income	¥ 4,782	¥ 4,942	$ 43,940
Intersegment income	(194)	(143)	(1,783)
Equity in earnings of affiliates	306	248	2,812
Ordinary income	¥ 4,894	¥ 5,047	$ 44,969

Reconciliation between total segment assets in the table above and assets in the consolidated accompanying balance sheet as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total segment assets	¥ 9,911,637	¥ 5,323,293	$ 91,074,492
Intersegment accounts	(74,344)	(8,822)	(683,121)
Intersegment investments	(26,269)	(26,269)	(241,376)
Other	3,471	3,170	31,894
Assets in the accompanying consolidated balance sheet	¥ 9,814,495	¥ 5,291,372	$ 90,181,889

Reconciliation between others in the table above and amounts in the consolidated financial statements as of and for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2020			
Depreciation and amortization	¥ 1,399	¥ 0	¥ 1,399
Interest income	242	(15)	227
Income taxes	1,300	2	1,302
March 31, 2019			
Depreciation and amortization	¥ 1,380	¥ 0	¥ 1,380
Interest income	241	(12)	229
Income taxes	1,240	0	1,240

	Thousands of U.S. dollars		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2020			
Depreciation and amortization	$ 12,855	$ 0	$ 12,855
Interest income	2,224	(138)	2,086
Income taxes	11,945	19	11,964

Related Information

(a) Information by services

Sales by services for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Loans for margin transaction	¥ 12,518	¥ 9,661	$ 115,024
Bond lending	6,294	4,963	57,833
Other	10,290	9,698	94,551
	¥ 29,102	¥ 24,322	$ 267,408

(b) Geographic information

Because revenues from customers inside Japan are over 90% of revenues in the consolidated statement of income and no property, plant and equipment located outside Japan, the geographic information is not disclosed for the years ended March 31, 2020 and 2019.

(c) Information by major customers

Because no particular third party whose revenues are over 10% of revenues in the consolidated statement of income exists, the information by major customers is not disclosed for the years ended March 31, 2020 and 2019.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2020 and 2019.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2020 and 2019.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2020 and 2019.

(20) Transactions of Delivering the Company's Own Stock to Directors through Trust

The Company has introduced a performance-based share remuneration plan called "Board Benefit Trust (BBT)" in order to further clarify the linkage between remuneration for directors (other than outside directors) and executive officers (collectively "directors") and the performance and share value of the Company, thereby enhancing their awareness of the need to contribute to the efforts to archive improved business performance and greater enterprise value in the medium to long term.

1. Outline of the plan

The Plan is a performance-based share remuneration plan under which the Company's shares will be acquired through a trust using money contributed by the Company and the Company's shares and the money equivalent to the market value of the shares will be delivered by the Trust to directors pursuant to the "Rules for Delivery of Shares to Directors" to be established by the board of directors.

In principle, the Shares, etc. will be delivered when he/she resigns as director.

2. Stock remaining in the trust

In accordance with the "Practical Solution on Transactions of delivering the Company's Own Stock to Employees etc. through Trust (ASBJ Practical Issue Task Force (PITF) No. 30, March 26, 2015)", the Company recorded assets and liabilities of the trust on the Company's balance sheet as assets and liabilities of the Company. The Company recorded own stocks in the trust as treasury stocks under net assets at book value in the trust excluding associated costs. The book value of the own stocks was ¥258 million ($2,371

thousand) and the number of the stocks was 592 thousand shares as of March 31, 2020, and ¥282 million and the number of the stocks was 645 thousand shares as of March 31, 2019.

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Japan Securities Finance Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit Committee

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern using the going concern basis of accounting, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The Audit Committee is responsible for overseeing the execution of the duties of Directors related to designing and operating the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for our opinion.

Crowe

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosure of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

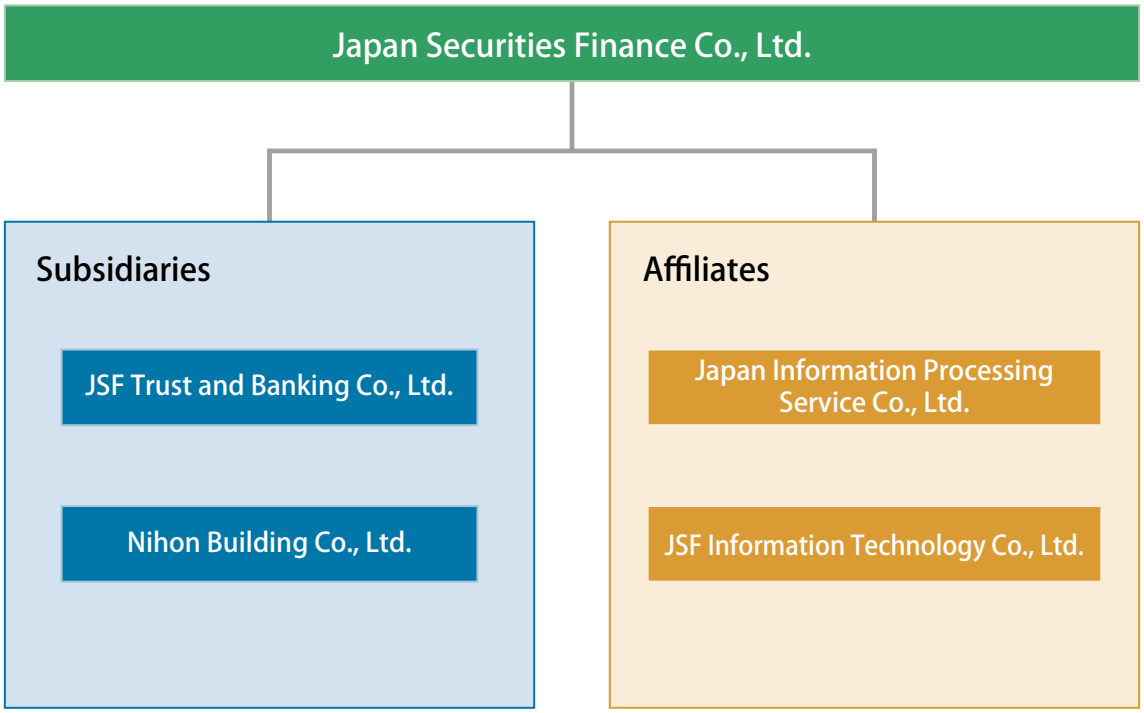
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation
Our audit also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

Crowe Toyo & Co.
Tokyo, Japan
June 24, 2020

Crowe Toyo & Co.



Name	Capital (millions of yen)	Ratio of shareholding	Business overview
Subsidiaries			
JSF Trust and Banking Co., Ltd.	14,000	100	Trust service, Banking services
Nihon Building Co., Ltd.	100	100	Real estate ownership and leasing Real estate trading and brokerage
Affiliates			
Japan Information Processing Service Co., Ltd.	2,460	20.00	Information processing services Software development and sales
JSF Information Technology Co., Ltd.	100	20.75	Information processing services Software development and sales

Establishment
July 1927

President
Shigeki Kushida

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

Capital
¥ 10 billion

Number of employees
245

Share Information

Shares outstanding
100,000,000 shares（as of March 31, 2020）

Stock exchange listing
Tokyo Stock Exchange, 1st section (Code:8511)

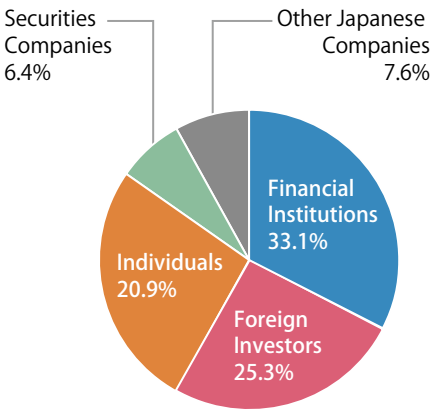
Number of shareholders
12,389（as of March 31, 2020）

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

Major shareholders

	Number of shares held (Thousands)	Ratio of shareholding
Japan Trustee Services Bank, Ltd. (Trust account)	5,555	6.01
Japan Trustee Services Bank, Ltd. (Trust account 9)	4,761	5.15
The Master Trust Bank of Japan, Ltd. (Trust account)	4,725	5.11
Shihon-Shijo Shinko Foundation	4,654	5.04
Mizuho Bank, Ltd.	3,536	3.83
Japan Trustee Services Bank, Ltd. (Trust account 4)	3,013	3.26
State Street London Care Of State Street Bank And Trust, BOSTON SSBTC A/C UK LONDON BRANCH CLIENTS-UNITED KINGDOM	2,442	2.64
Northern Trust Co.(AVFC) RE NVI01	2,170	2.35
State Street Bank And Trust Company 505227	1,893	2.05
State Street Bank West Client-Treaty 505234	1,880	2.03

Composition of shareholders
(by number of shares)



Executives

(As of June 23, 2020)

Directors

Director Chairperson	Naotaka Obata *
Director	Shoko Sugino *
	Shuya Iimura *
	Shigeki Kushida **
	Hiroshi Nasuno
	Yutaka Okada

(* Outside Director)

(** Serves concurrently as Executive Offer)

Executive Officers

Chairperson	Eizo Kobayashi
Representative Executive Officer & President	Shigeki Kushida
Vice President	Shunichiro Higuchi
Senior Managing Executive Officer	Kenji Fukushima
	Kazuo Maeda
Managing Executive Officer	Yutaka Okada

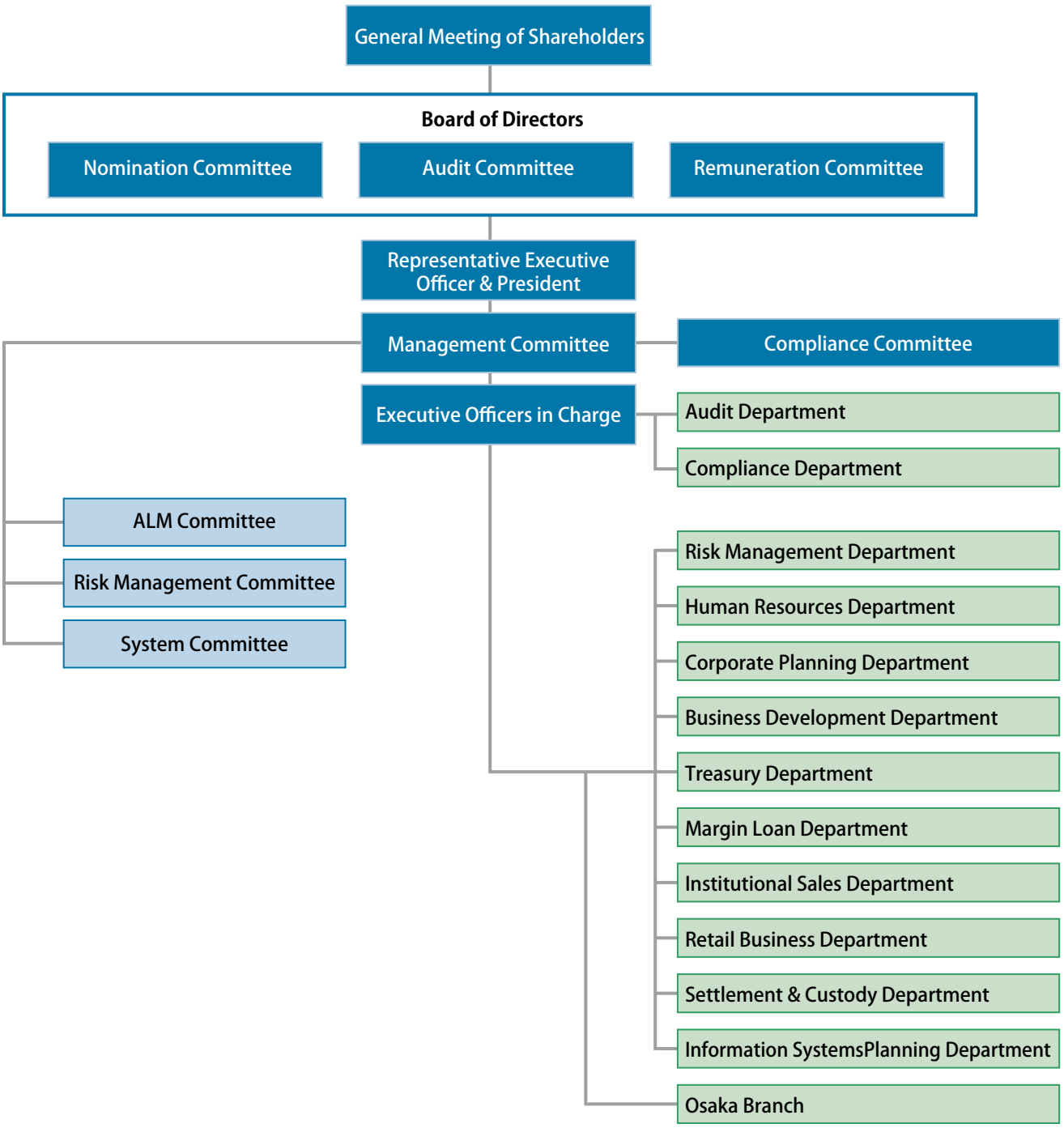
Corporate Officers

Senior Corporate Officer	Yasuhiro Hirama
Corporate Officer	Morikuni Shimoyamada
	Shincihi Sugiyama
	Yutaka Osonoi
	Masaru Sekiguchi

Rating Information

	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