Securities Finance

ANNUAL REPORT 2019

JAPAN SECURITIES FINANCE CO., LTD.

PROFILE

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

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

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

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

CONTENTS

Financial Highlights ····· 2

Message From The President ····· 4

Business Review ····· 5

Management Policy ····· 10

Our Business Development ····· 13

Our Business Field ····· 14

Corporate Governance ····· 21

Risk Management ····· 30

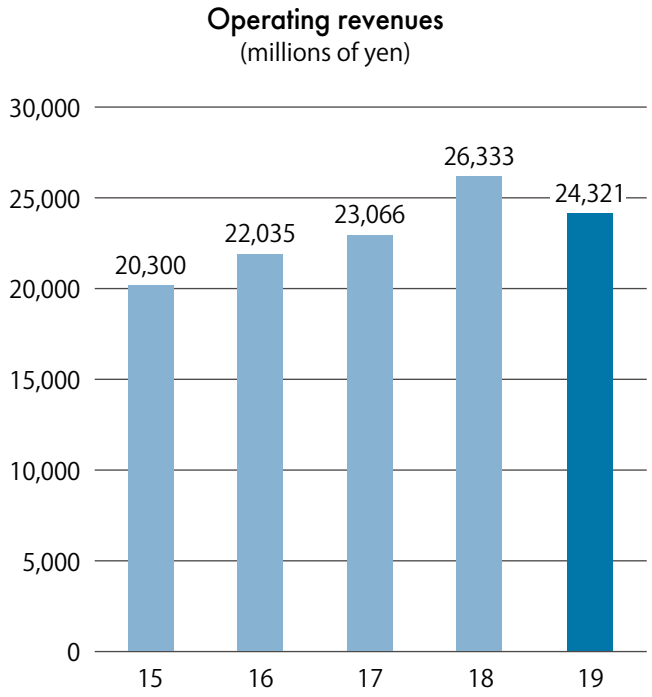
Financial Section ····· 35

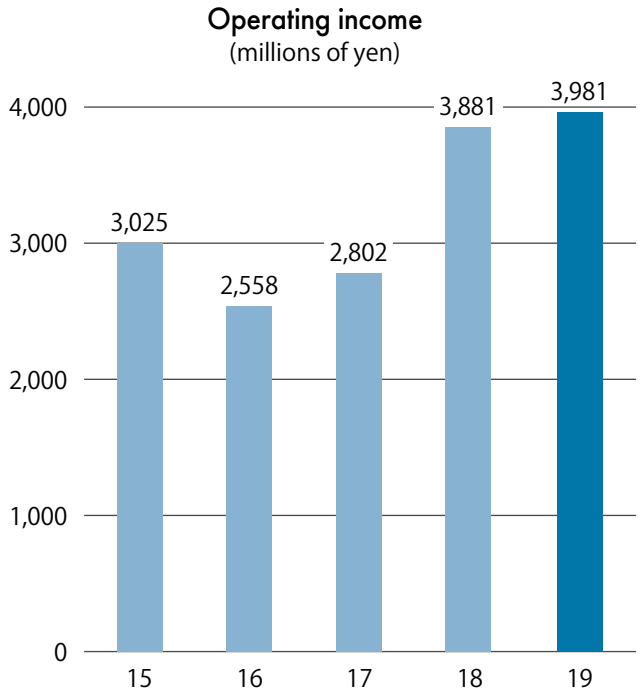
Outline Of JSF Group ····· 75

Corporate Data ····· 76

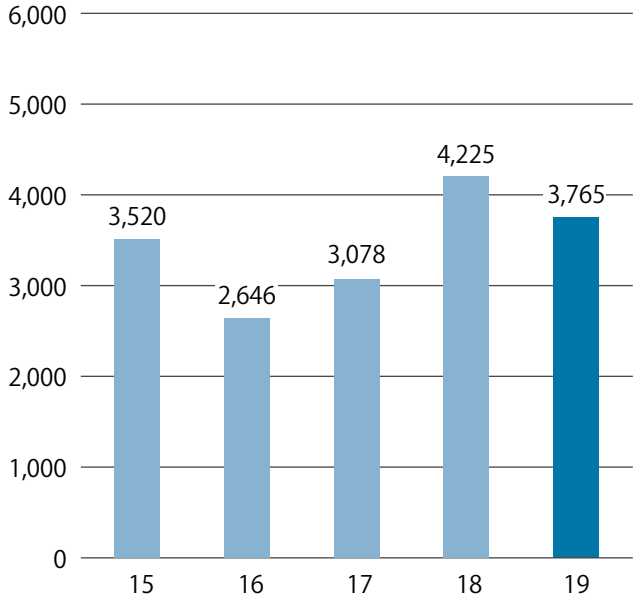
	Millions of yen*					Thousands of U.S. dollars*
	2015	2016	2017	2018	2019	2019
Operating Results:						
Operating revenues	¥ 20,300	¥ 22,035	¥ 23,066	¥ 26,333	¥ **24,321**	$ **219,137**
Operating income	3,025	2,558	2,802	3,881	**3,981**	**35,877**
Net income	3,520	2,646	3,078	4,225	**3,765**	**33,931**
Financial Position:						
Total assets	¥ 3,482,602	¥ 3,249,170	¥ 4,645,051	¥ 4,960,161	¥ **5,291,372**	$ **47,674,313**
Net assets	137,145	142,031	139,712	143,811	**140,793**	**1,268,520**
Shareholders' equity ratio (%)	3.94	4.37	3.01	2.90	**2.66**	**2.66**
Per Share Data:						
Net income	¥ 33.94	¥ 26.90	¥ 31.90	¥ 44.24	¥ **40.02**	$ **0.36**
Net assets	1,373.94	1,467.01	1,452.63	1,518.77	**1,519.30**	**13.68**
Cash dividend	15	16	18	26	**22**	**0.19**

* except per share amount

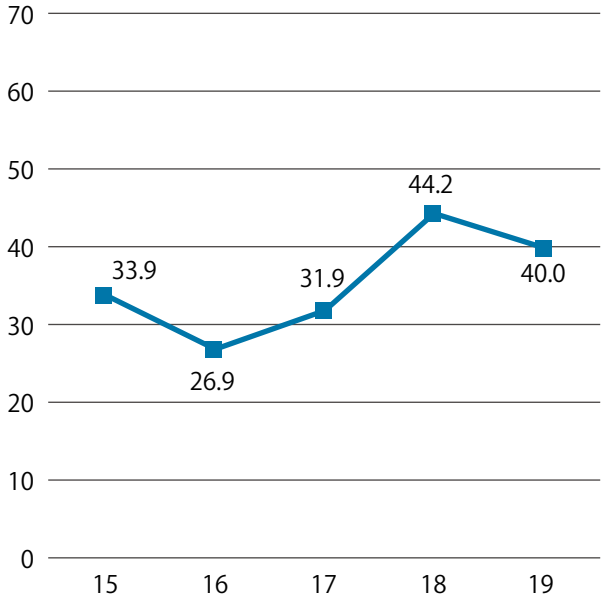




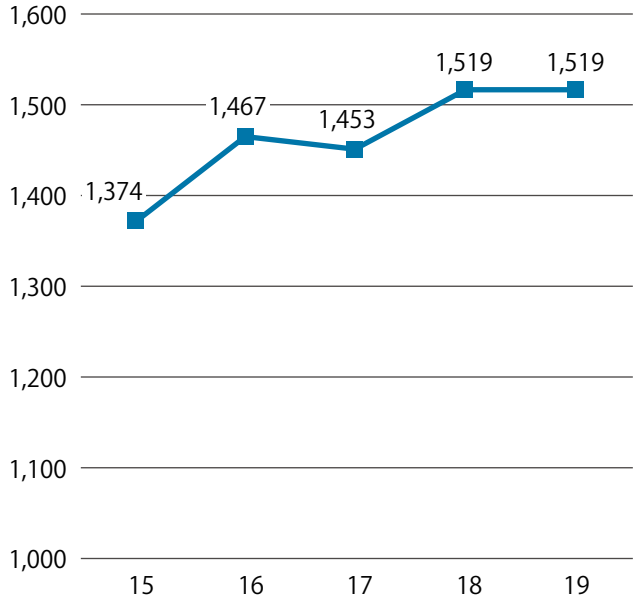
Net income
(millions of yen)



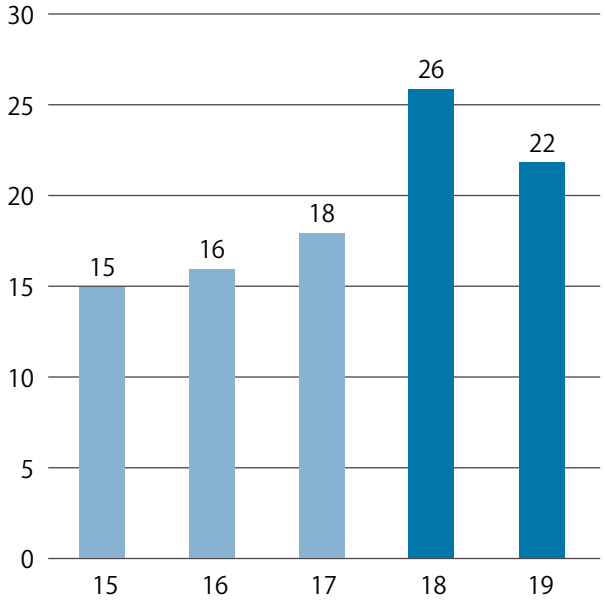
Net income per share
(yen)



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 ¥110.99=U.S.$1 in effect on March 29, 2019.

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

I would like to express my sincere gratitude to you all for your continued support.

Shigeki Kushida
President

I, Shigeki Kushida, was appointed Representative Executive Officer & President, effective June 25, 2019.

In the year ended March 31, 2019, in terms of the breakdown of operating revenues by business, the margin loan business struggled with year-on-year decrease of 27.1%, but initiatives to expand stock and government bond sources and tap new domestic and overseas transaction needs led to high growth in each of the securities lending business with year-on-year increase of 28.7% and the general loan business with year-on-year increase of 35.4%, not to mention the other business (mainly management of government bonds and other securities), too, posting year-on-year increase of 9.3%.

As a result, consolidated operating revenues were 24.3 billion yen (year-on-year decrease of 7.6%), consolidated operating income was 3.9 billion yen (year-on-year increase of 2.6%), consolidated ordinary income was 5.0 billion yen (year-on-year increase of 7.7%) and net income was 3.7 billion yen (year-on-year decrease of 10.9%), securing net income of a level that exceeds the estimate announced at the beginning of the fiscal year (3.1 billion yen) by slightly more than 20%.

For the year ending March 31, 2020, consolidated operating income of 3.6 billion yen (year-on-year decrease of 9.6%), consolidated ordinary income of 4.4 billion yen (year-on-year decrease of 12.8%) and consolidated net income of 3.2 billion yen (year-on-year decrease of 15.0%) are estimated.

On top of the shortening of the stock settlement cycle to T+2 in July 2019, we will work on initiatives such as strengthening earnings power through enhancement of convenience for customers by introducing a new stock lending system and such.
Dividend for the year ending March 31, 2020 is estimated to be 22 yen from the perspective of placing emphasis on stable return of profits to our shareholders based on our policy that “the consolidated payout ratio shall not fall below the 60% level.” With regard to share buybacks, we have set a ceiling of 1 million shares at an acquisition price of up to 700 million yen.

We will continue to aim to ensure rewarding return of profits to our shareholders while taking into account the earnings situation and stock price situation.

We look forward to our shareholders’ continued support of the Group.

Shigeki Kushida
President

BUSINESS REVIEW

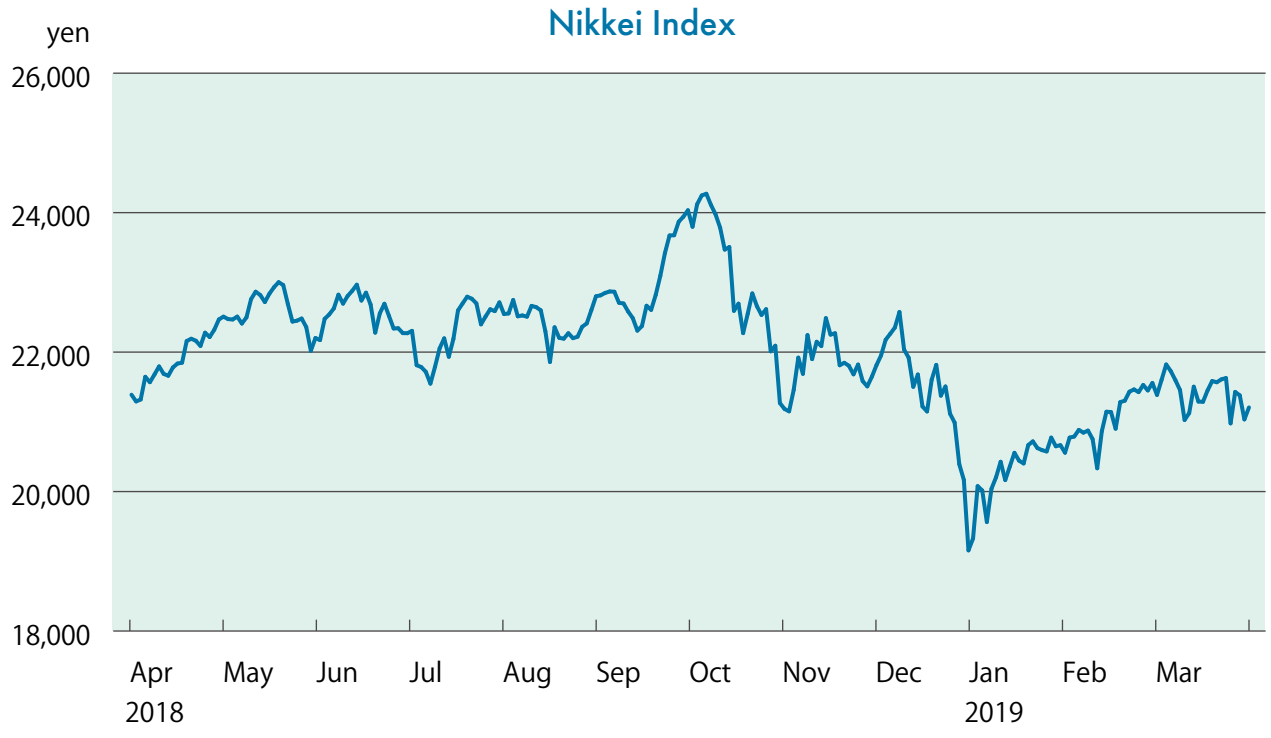
Business Environment

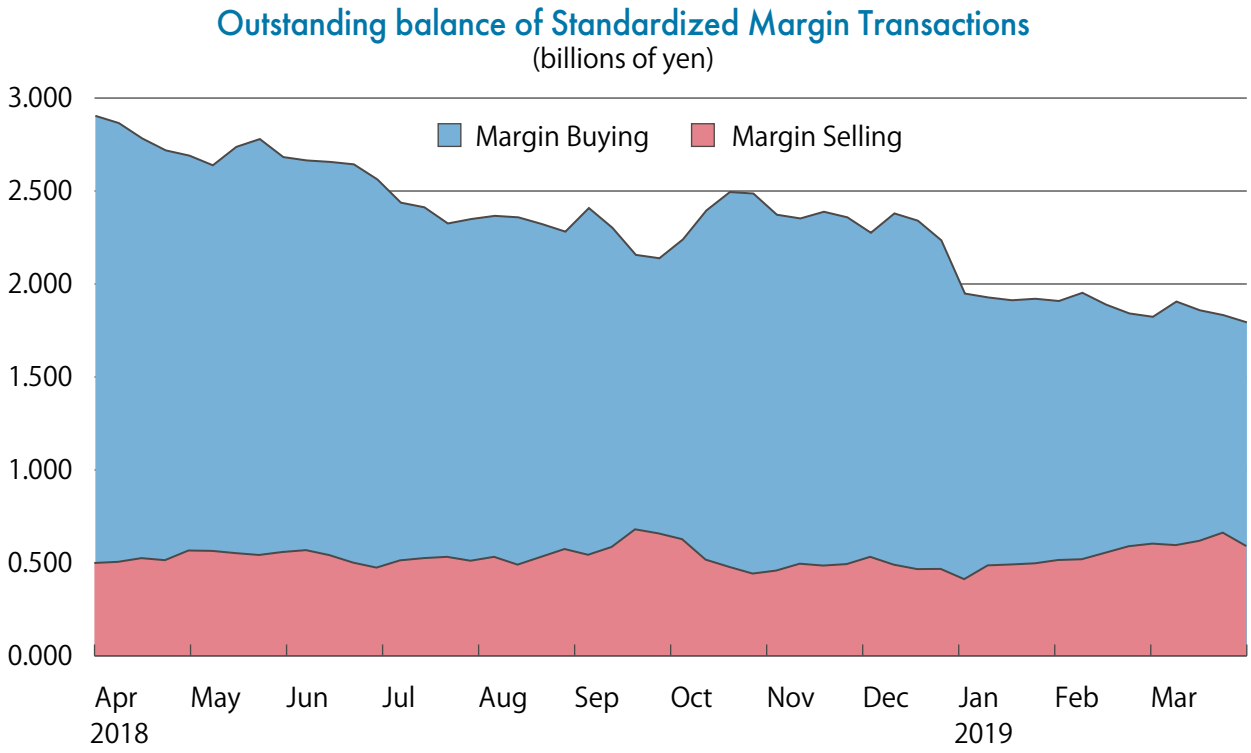
In the year ended March 31, 2019, in terms of the global economy, the United States continued its economic growth through expansion in consumption and employment while Europe came to a standstill toward the second half of the fiscal year amid a widespread sense of uncertainty over the future of trade issues between the United States and China. Meanwhile, the Japanese economy also made moderate recovery through improvement in corporate earnings and the employment and income environment.

As for the equity market, the Nikkei Stock Average (Nikkei 225) started at 21,388 yen at the beginning of the fiscal year and did not fall any lower, due in part to progress in the strong dollar and weak yen amid easing concerns over the trade friction between the United States and China, rising to 24,270 yen—the high for the fiscal year—on October 2. Entering December, deterioration in investor sentiment, due in part to concerns over the trade friction between the United States and China resurfacing, additional interest rate hike by the FRB and partial United States government shutdown, led to it falling below the 20,000-yen level for the first time since September 2017 to 19,155 yen on December 25. After the turn of the new year, on the rebound on the back of developments in trade talks between the United States and China and expectations over the FRB ending the monetary tightening policy, it closed at 21,205 yen to end of the fiscal year.

During this period, the average daily value traded on the First Section of the Tokyo Stock Exchange was 2,855.1 billion yen, a year-on-year decrease of 101.9 billion yen.

Under such circumstances, the outstanding balance of standardized margin buying on the Tokyo market was on a gradual downward trend after peaking in the 2,900-billion-yen range at the beginning of the fiscal year, decreasing to the 2,130-billion-yen range at the end of September. Driven by individual investors buying on dips in the stock price adjustment phase in October





onward, the balance recovered to the 2,480-billion -yen range at the end of October. However, the balance took a downward turn again in November onward. Seeing also profit-taking selling by individual investors in the stock price recovery phase after the turn of the new year and other factors, the balance hit the 1,790-billion-yen range—the low for the fiscal year—at the end of March. Meanwhile, the outstanding balance of standardized margin selling was in the 500-billion-yen range at the beginning of the fiscal year. With new selling increasing as stock prices rose, the balance reached the 680-billion-yen range—the peak for the fiscal year—in late September. With progress in buybacks entering the stock price adjustment phase in October onward, the balance decreased to the 410-billion-yen range—the low for the fiscal year—at the end of December. However, with recovery in stock prices leading to new selling also increasing after the turn of the new year, the balance reached the 590-billion-yen range at the end of March.

Business Results of the JSF Group

Under the described market trends, the outstanding balance of loans in total for the Group (average for the fiscal year) increased by 126.4 billion yen year on year to 796.6 billion yen.

Consolidated operating revenues were 24,321 million yen (year-on-year decrease of 7.6%), due in part to decrease in revenues from fees on lending securities in the margin loan business. On the other hand, consolidated operating expenses were 12,284 million yen (year-on-year decrease of 7.9%), due to decrease in fees on borrowing securities in the margin loan business, and general and administrative expenses were 8,056 million yen (year-on-year decrease of 11.7%).

As a result, consolidated operating income was 3,981 million yen (year-on-year increase of 2.6%). Consolidated ordinary income was 5,046 million yen (year-on-year

increase of 7.7%), due in part to increase in dividend income and expansion of equity in earnings of affiliates. However, net income attributable to owners of the parent was 3,765 million yen (year-on-year decrease of 10.9%), due to elimination of loss brought forward and other factors leading to increase in tax burden.

1) Securities Finance Business

Margin Loan Business

In the margin loan business, operating revenues were 9,661 million yen (year-on-year decrease of 27.1%). The average outstanding balance of margin loans for the fiscal year decreased by 65.9 billion yen year on year to 284.2 billion yen, leading to decrease in revenues from interest on loans. In addition, the average outstanding balance of stock loans for the fiscal year decreased by 104.5 billion yen year on year to 261.6 billion yen, leading to decrease in revenues from lending fees and premium charges on over-lent issues, too.

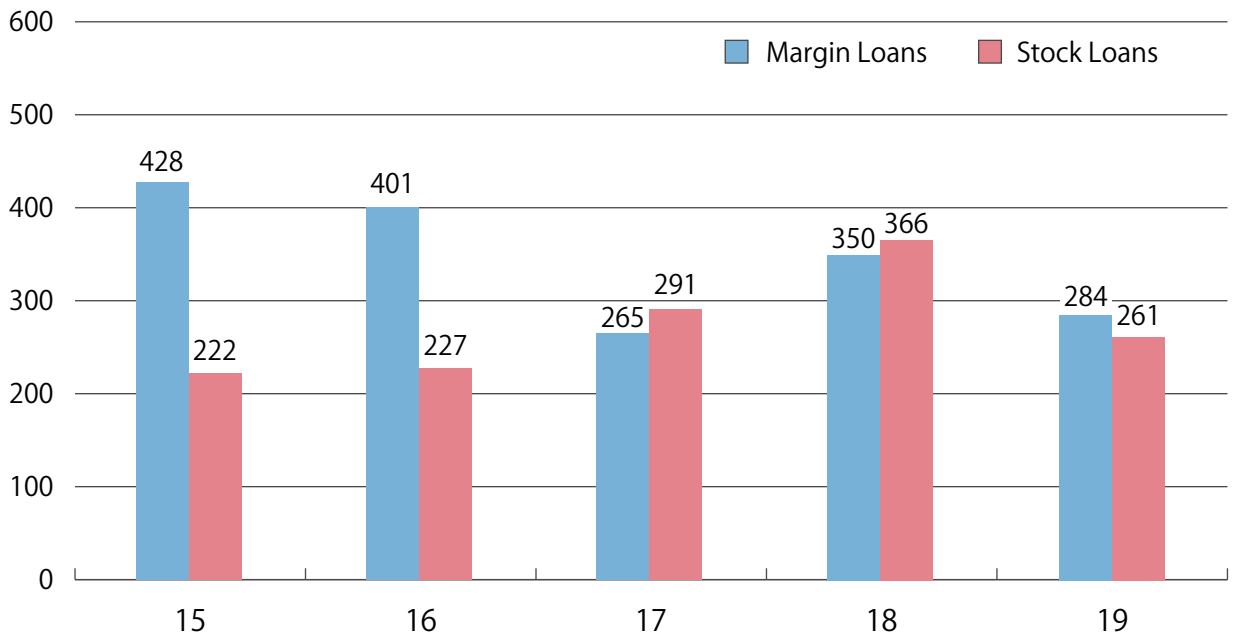
General Loan Business

In the general loan business, operating revenues were 1,242 million yen (year-on-year increase of 35.4%). Loans for financial instrument companies were strong and loans for individuals and general companies exceeded the previous fiscal year, resulting in the average outstanding balance of loans in this business for the fiscal year increasing by 34.8 billion yen to 81.1 billion yen. In addition, there was large increase in use of equity repo transactions (cash-collateral stock borrowing and lending transactions).

Securities Lending Business

In the securities lending business, operating revenues were 6,480 million yen (year-on-year increase of 28.7%). Increase in the outstanding balance of loans and resumption of gensaki transactions (repo transactions) contributed to large increase in revenues in the bond services section. In addition, increase in the outstanding balance of loans and other factors led to securing increase in revenues in the general stock lending section.

Average outstanding balance of Loans for Margin Transactions



Breakdown of JSF Group operating revenues

	2019	2018
	(¥ million)	(¥ million)
Securities Finance Business	20,969	22,487
Loans for margin transactions	9,661	13,253
Interest on loans	1,799	2,225
Interest on collateral money for securities borrowed	708	1,073
Fees on lending securities	6,819	9,481
Bond financing and general loans	1,242	917
Securities lending	6,480	5,035
Stocks	1,517	1,458
Bonds	4,962	3,576
Other business	3,586	3,281
Trust Banking Business	2,467	2,971
Interest on loans	58	89
Trust charges	746	741
Real Estate Leasing Business	884	873
Total Operating Revenues	24,321	26,333

Other Business

In the other business, operating revenues were 3,586 million yen (year-on-year increase of 9.3%). This was attributable to gain on sale of foreign government bond holdings and such decreasing, but posting foreign exchange gains on foreign currency transactions.

2) Trust Banking Business

In the trust banking business, increase in trust charges were offset by decrease in gain on sale of government bond holdings and such, resulting in operating revenues in this business of 2,467 million yen (year-on-year decrease of 17.0%).

3) Real Estate Leasing Business

In the real estate leasing business, operating revenues were 884 million yen (year-on-year increase of 1.3%).

Future Challenges

Going forward, while there are concerns over the prolonged trade friction between the United States and China, heightening geopolitical risks in the Middle East and other impacts, the global economy is expected to recover moderately, mainly in the United States. While the impact of the consumption tax hike scheduled for October 2019 is among factors that need to be watched, the Japanese economy is also expected to continue its moderate recovery through improvement in corporate profits and promotion of various policies by the government.

Meanwhile, with the globalization and development of finance accelerating in the financial and securities markets, the environment in which the Group operates is undergoing major changes, such as the ongoing tightening of international financial regulations and

revision of securities clearing systems.

In light of the described business environment, the Company continued to undertake initiatives under the 5th Mid-Term Management Plan (from fiscal 2017 to fiscal 2019) formulated in March 2017. Along with striving to further enhance the margin loan business, which is core to a securities finance company, such initiatives included working to expand the finance- and securities-related services provided by the Group and tap new domestic and overseas needs. Continuing into the year ending March 31, 2020 (fiscal 2019), which is the final fiscal year of the 5th Mid-Term Management Plan, the Company will address the following challenges in order to enhance the fundamental stability of our business and thereby maintain the trust of markets and investors.

Promoting use of margin transactions and loans for margin transactions

We will engage in dissemination activities targeted at issuer and securities company representatives, promotional activities targeted at investors based overseas and such as a means to promote use of margin transactions and loans for margin transactions, and also focus efforts on initiatives toward the liberalization of margin transactions utilizing a proprietary trading system (PTS).

Addressing the shortening of the stock settlement cycle to T+2

In light of the shortening of the stock settlement cycle to T+2 in July 2019 possibly increasing cases of settlement failure (failure to hand over securities on the settlement date), we will work on enhancing convenience for customers by expanding stock sources, introducing a new stock lending system and such as “a key player in securities market infrastructure.”

Flexibly addressing the diversifying needs of customers

Under the recognition of “proactively addressing the diverse needs of the securities and financial circles,” we will continue to take challenges toward development of investment indicators and other development of new business, in addition to working on greater handling of foreign currency denominated assets, advances in transaction techniques and such, in order to be responsive to the financial and securities markets that are undergoing serious changes with the movements of globalization and tightening of regulations.

Through initiatives like those described above, the Group aims to achieve improved business performance and enhanced corporate value over the medium to long term, and thereby continue to ensure rewarding return of profits to our shareholders.

The continued support and guidance of our shareholders would be greatly appreciated.

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

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

- 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.

- To further enhance JSF's core customer loans 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 the entire Group's base.

- To further improve the efficiency of organizational and business management within the Group in order to flexibly address changes in the business environment.

Management Plan
Fifth Mid-term Management Plan

[Concept]

It has been over three years since JSF merged with the Osaka Securities Finance Company, Ltd. During that time, our group has moved forward with efforts to integrate our activities, organization, and system and to create an efficient, dynamic structure.

At the same time, there have been major changes in the environment in which our company operates. Specifically, along with technological improvements such as the application of artificial intelligence (AI) to products and services, the globalization and development of finance have increased speed and international financial regulations and securities clearing systems have undergone further reviews aimed at stabilizing financial markets. As a result, new financial transaction needs are also emerging.

While bearing in mind the possibility that the current ultra-low interest rates may continue, our Group will work 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 intend to enhance the fundamental stability of our business by proactively addressing new domestic and overseas transaction needs and thereby maintain the trust of markets and investors.

In line with this approach, we have formulated a new medium-term management plan that begins in FY2017.

[Strategies]

i) 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 carefully monitor trends among market participants, promote the use of margin loans, enhance the provision of information relating to margin transactions and margin loans, and expand the range of investors.

ii) Flexibly addressing the needs of domestic and foreign financial instrument companies

We aim to enhance our profit opportunities by proactively addressing the diverse transaction needs of domestic and foreign financial instrument companies, through increasing direct transactions with clients based outside of Japan,

including foreign companies that are already customers of JSF, accepting collateral for foreign securities, etc. Moreover, we aim to expand our securities lending business by proactively addressing new needs and reducing the settlement interval for securities.

iii) Developing new business

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

iv) 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 foreign currency funding methods, in order to support the development of business using foreign currency.

v) Enhancing collaboration with Group companies

We will proactively address diversifying transaction needs by enhancing collaboration with Group companies, especially subsidiaries. Moreover, we will further solidify the revenue base for the Group as a whole through integrated initiatives involving JSF and its subsidiaries.

vi) 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 finance business.

In order to maintain the loan business that is our top priority in the event that a major disaster occurs, we will continue to upgrade our remote backup arrangements while closely monitoring trends in the finance and securities sectors.

vii) Developing an employee-friendly work environment and making the company more dynamic

We will increase the productivity of individual personnel and make the company more dynamic by developing a rewarding and employee-friendly workplace.

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, but also taking account of “dividend on equity ratio”.

[Basic 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.

[Basic 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 return profits to shareholders while taking into account the consolidated dividend on equity ratio (DOE = ratio of the dividend amount to shareholder equity).

[Share Buyback Policy]

With a view to offering even more rewarding returns to

shareholders, we will buy back shares as needed in future while considering the company's financial situation, 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.

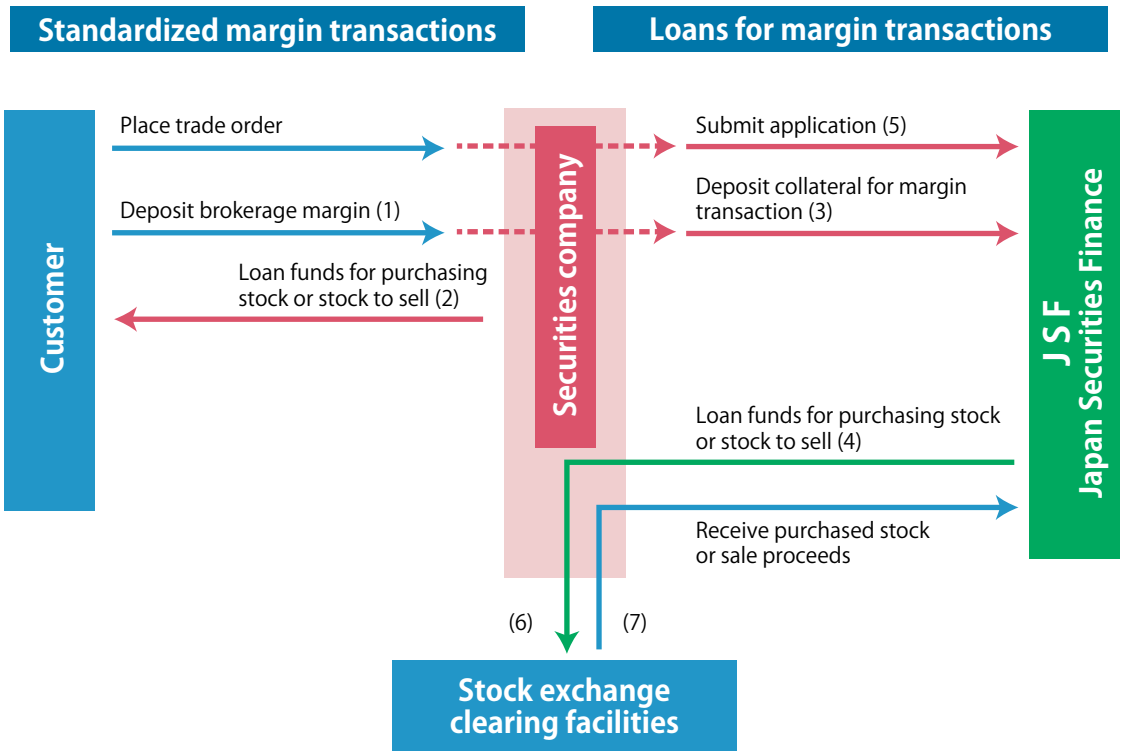
(Note) This is a system of appropriating purchased stock received from buy side as collateral to sell side's stock for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

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.

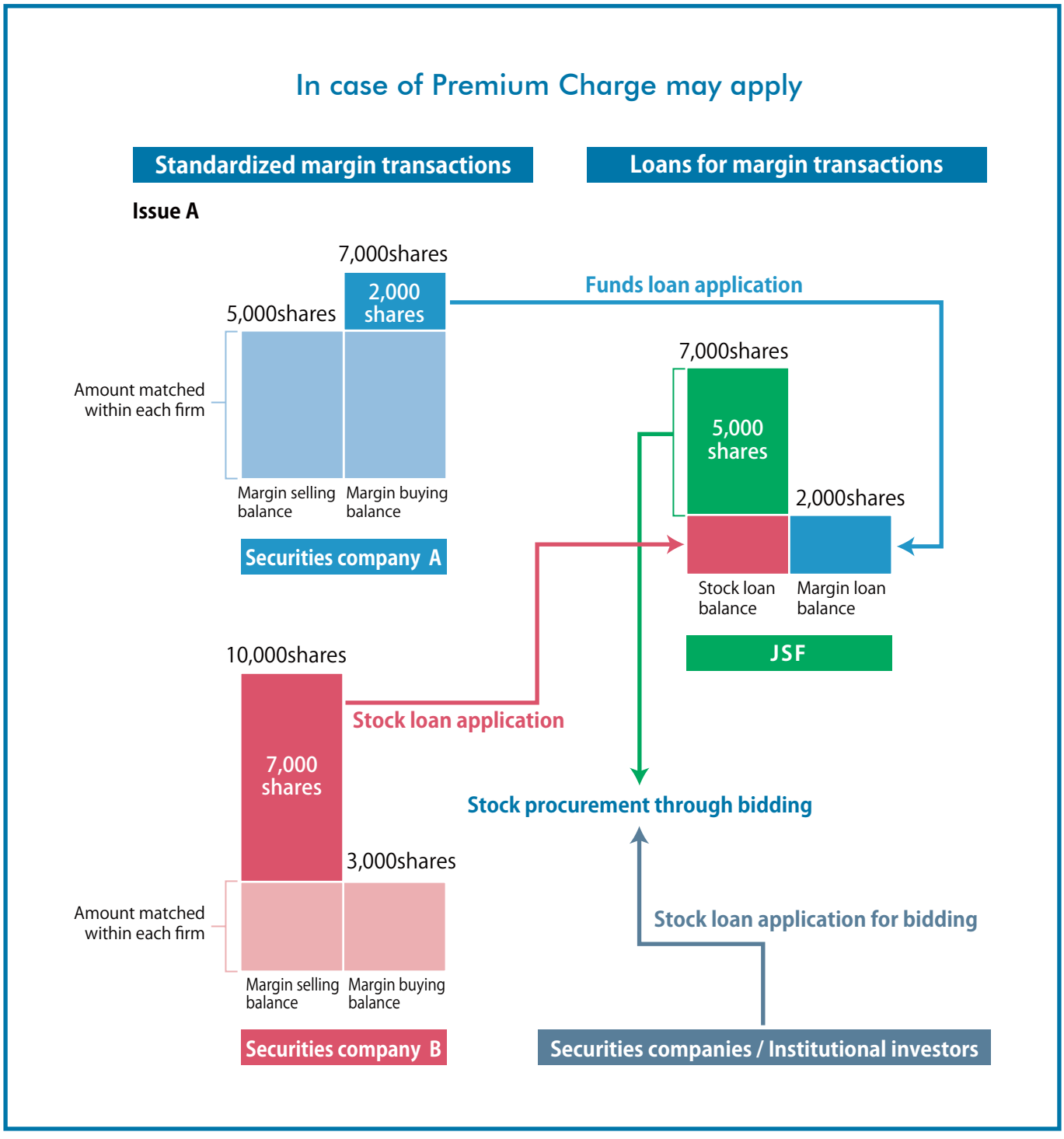
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions (5).To execute the loan, JSF, in place of the securities company, delivers funds or stock to clearing facilities of stock exchanges (6). The stock purchased (collateral stock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

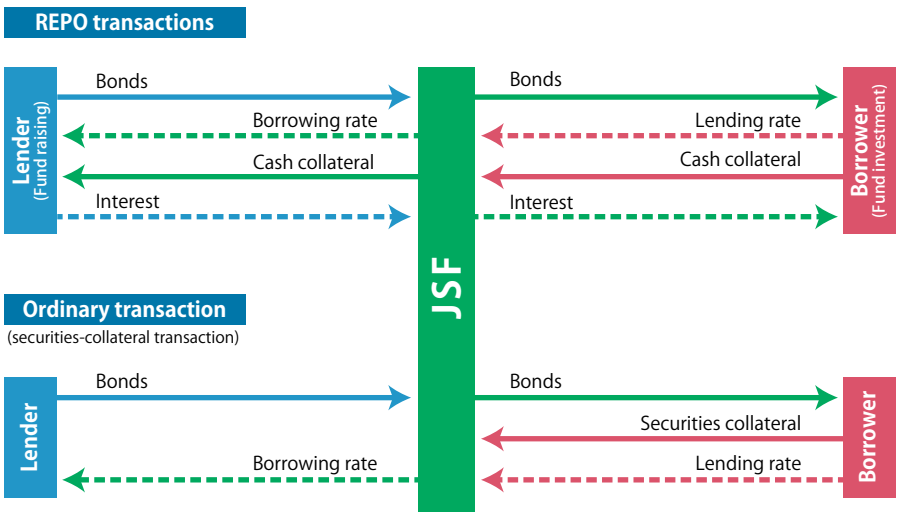
Ordinary bond borrowing and lending transactions

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

Gensaki

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.

Types of bond transactions



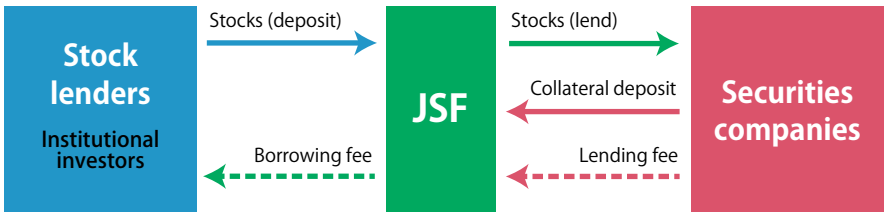
GENERAL STOCK LENDING

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

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

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

Mechanism of stock lending business



LOANS FOR NEGOTIABLE MARGIN TRANSACTIONS

What is Loans for Negotiable Margin Transactions?

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

Conditions of loans

Loanable stock Issues

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

Loan Period

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

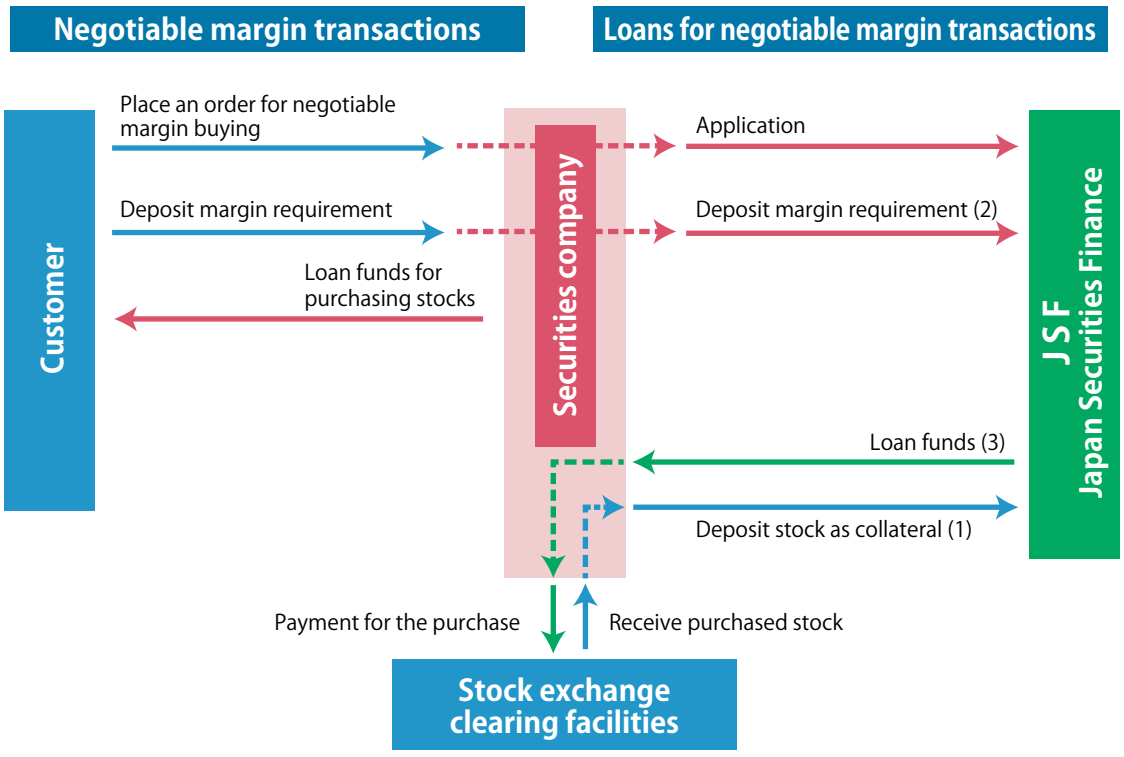
Interest rate

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

Collateral

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

Negotiable margin transactions and Loans for negotiable margin transactions



BOND FINANCING

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

GENERAL LOANS

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

SECURED LOANS ON SECURITIES FOR INDIVIDUAL AND CORPORATE INVESTORS

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.

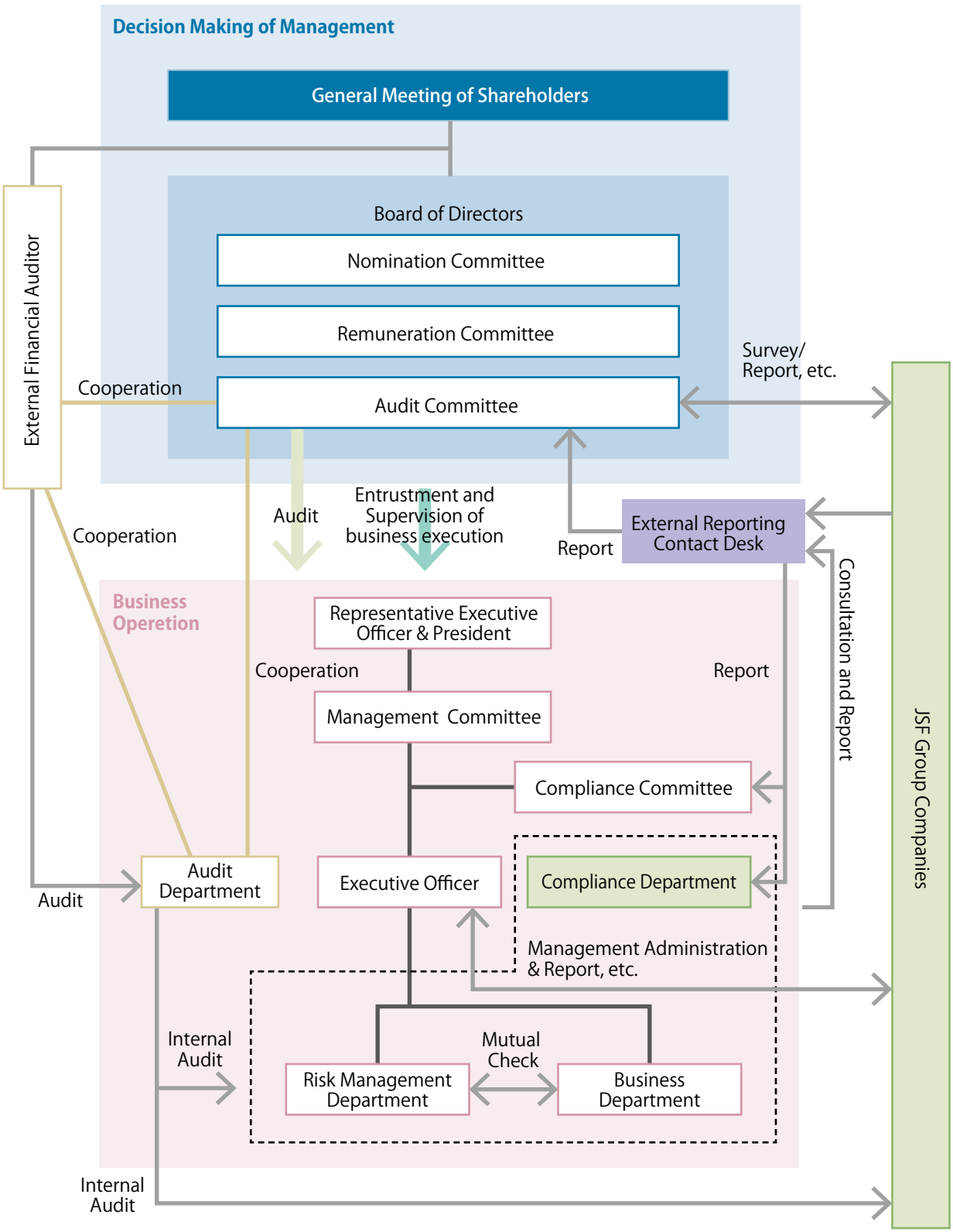
The Audit Committee not only audits the execution of

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.

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.

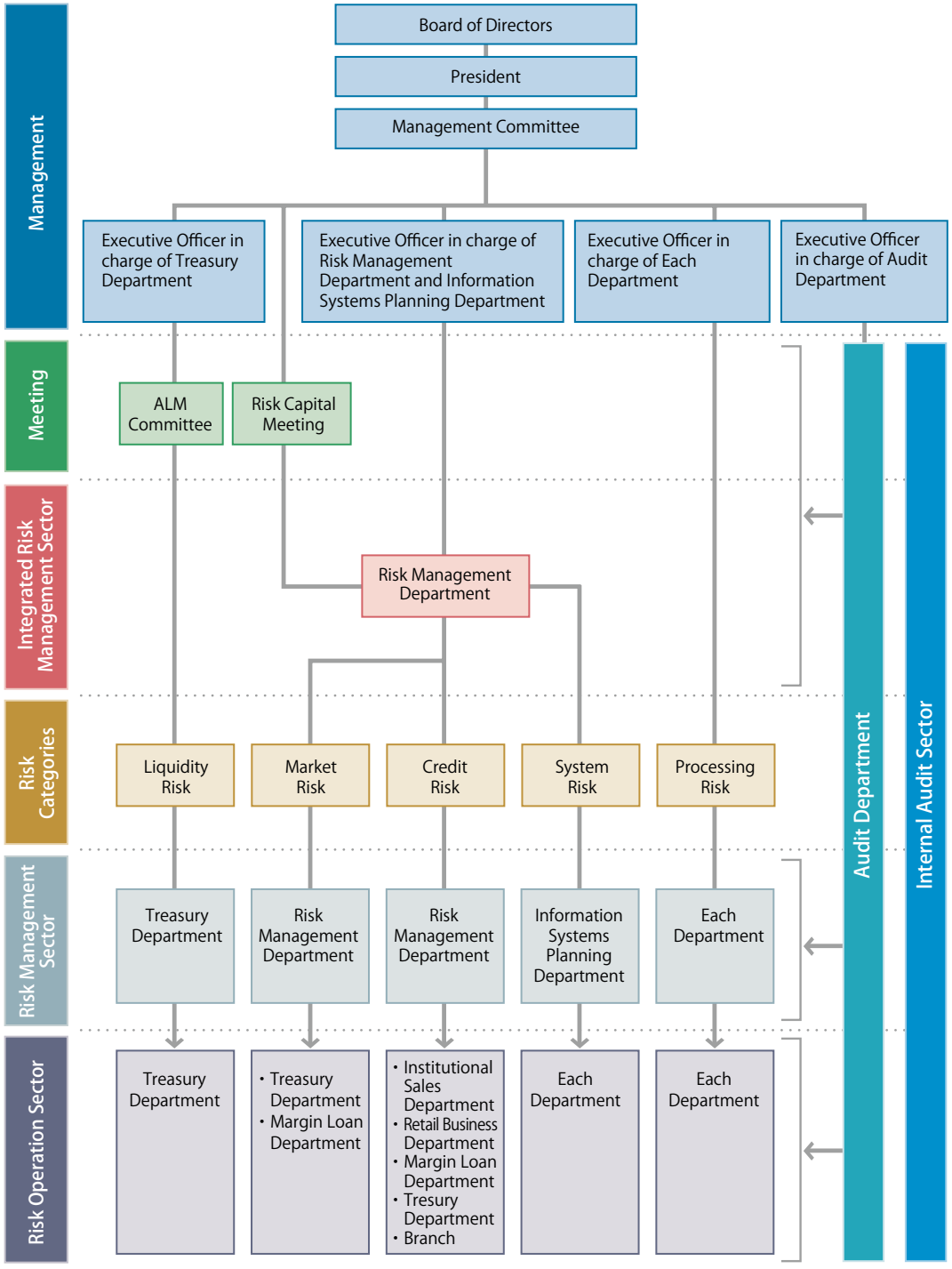
Risk Capital Meeting
The meeting is organized by the officers in charge of the Risk Management Department, Business Development Department, Corporate Planning Department, Treasury Department, Margin Loan Department, Institutional Sales Department and Retail Business Department, managers of the Risk Management 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



Consolidated Financial Statements ····· 36
Consolidated Balance Sheet ····· 36
Consolidated Statement of Income ····· 38
Consolidated Statement of Other Comprehensive Income ····· 38
Consolidated Statement of Changes in Net Assets ····· 39
Consolidated Statement of Cash Flows ····· 40
Notes to Consolidated Financial Statements ····· 41
Independent Auditors' Report ····· 74

CONSOLIDATED BALANCE SHEET

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2019

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2019	2018	2019
Current assets:			
Cash (notes 3 and 15)	¥ 990,670	¥ 777,895	$ 8,925,759
Call loans	100,000	95,000	900,982
Short-term investments (notes 4 and 15)	238,644	60,817	2,150,140
Short-term loans receivable (note 15)	668,894	1,002,931	6,026,615
Receivables under resale agreements	546,543	–	4,924,254
Collateral money for securities borrowed	2,137,590	2,168,170	19,259,303
Other current assets (note 15)	94,802	57,791	854,149
Allowance for doubtful receivables	(736)	(1,118)	(6,631)
Total current assets	4,776,407	4,161,486	43,034,571
Property, plant and equipment:			
Buildings and structures	8,819	8,809	79,457
Tools, furniture and fixtures	1,491	1,583	13,434
Land (note 6)	3,265	3,265	29,417
	13,575	13,657	122,308
Accumulated depreciation	(7,561)	(7,368)	(68,123)
Net property, plant and equipment	6,014	6,289	54,185
Intangible assets, net	3,451	3,884	31,093
Investments and other assets:			
Investments in securities (notes 4, 5 and 15)	505,163	787,232	4,551,428
Other investments and other assets	570	1,948	5,135
Allowance for doubtful receivables	(233)	(678)	(2,099)
Total investments and other assets	505,500	788,502	4,554,464
Total assets	¥ 5,291,372	¥ 4,960,161	$ 47,674,313

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2019	Millions of yen 2018	Thousands of U.S. dollars (note 2) 2019
Current liabilities:			
Call money (notes 7 and 15)	¥ 1,016,460	¥ 771,414	$ 9,158,122
Short-term borrowings and current installments of long-term borrowings (notes 7 and 15)	16,547	15,510	149,085
Commercial paper (note 7)	214,000	459,000	1,928,102
Payables under repurchase agreements	1,453,352	–	13,094,441
Accrued income taxes (note 9)	368	621	3,316
Collateral money received for securities lent	1,563,430	2,505,135	14,086,224
Other current liabilities	850,955	1,040,772	7,666,952
Total current liabilities	5,115,112	4,792,452	46,086,242
Non-current liabilities:			
Long-term borrowings (note 7)	4,000	3,000	36,039
Deferred tax liabilities (note 9)	10,075	9,628	90,774
Deferred tax liabilities for land revaluation (note 6)	74	74	667
Liability for retirement benefits (note 8)	1,381	441	12,442
Other non-current liabilities	19,937	10,755	179,629
Total non-current liabilities	35,467	23,898	319,551
Total liabilities	5,150,579	4,816,350	46,405,793
Stockholders' equity:			
Common stock (note 10): Authorized 200,000,000 shares; issued 100,000,000 shares in 2019 and 2018	10,000	10,000	90,098
Capital surplus (note 10)	11,326	11,326	102,046
Retained earnings (note 11)	109,688	108,588	988,269
Treasury stock, at cost; 7,330,865 shares in 2019 and 5,311,432 shares in 2018	(4,382)	(3,094)	(39,481)
Total stockholders' equity	126,632	126,820	1,140,932
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities (note 4)	29,171	24,484	262,825
Deferred loss on hedges (note 17)	(14,133)	(7,243)	(127,336)
Gain on revaluation of land (note 6)	168	168	1,514
Remeasurements of defined benefit plans (note 8)	(1,045)	(418)	(9,415)
Total accumulated other comprehensive income	14,161	16,991	127,588
Total net assets	140,793	143,811	1,268,520
Commitments and contingencies (note 18)			
Total liabilities and net assets	¥ 5,291,372	¥ 4,960,161	$ 47,674,313

CONSOLIDATED STATEMENT OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (note 2)
	2019	2018	2019
Operating revenues	¥ 24,322	¥ 26,334	$ 219,137
Operating expenses	12,284	13,331	110,677
Operating profit	12,038	13,003	108,460
General and administrative expenses (note 12)	8,056	9,122	72,583
Operating income	3,982	3,881	35,877
Other income (deductions):			
Interest income	229	228	2,063
Dividend income	547	414	4,928
Interest expenses	(0)	(0)	(0)
Equity in earnings of affiliates	248	123	2,235
Gain on bad debt recovered	22	22	198
Loss on sale of investments in securities	(41)	–	(369)
Gain on sale or liquidation of investments in securities	–	132	–
Other, net	19	17	171
	1,024	936	9,226
Income before income taxes and non-controlling interests	5,006	4,817	45,103
Income taxes (note 9):			
Current	842	938	7,586
Deferred	398	(346)	3,586
	1,240	592	11,172
Net income	3,766	4,225	33,931
Net income attributable to non-controlling interests	–	–	–
Net income attributable to owners of parent	¥ 3,766	¥ 4,225	$ 33,931

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2019

	Millions of yen		Thousands of U.S. dollars (note 2)
	2019	2018	2019
Net income	¥ 3,766	¥ 4,225	$ 33,931
Other comprehensive income (loss) arising during the year (note 13):			
Net unrealized gain on other securities (note 4)	4,700	4,837	42,346
Deferred loss on hedges	(6,891)	(2,159)	(62,087)
Remeasurements of defined benefit plans (note 8)	(637)	(9)	(5,739)
Share of other comprehensive loss of affiliates accounted for by the equity method	(2)	(75)	(18)
Total other comprehensive income (loss) arising during the year	(2,830)	2,594	(25,498)
Comprehensive income	¥ 936	¥ 6,819	$ 8,433
Comprehensive income attributable to:			
Owners of parent	¥ 936	¥ 6,819	$ 8,433
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, 2019

Millions of yen

	Stockholders' equity					Accumulated other comprehensive income					
	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, 2017	¥ 10,000	¥ 11,326	¥106,196	¥ (2,207)	¥125,315	¥ 19,737	¥ (5,084)	¥ 168	¥ (424)	¥ 14,397	¥139,712
Changes arising during year:											
Cash dividends			(1,833)		(1,833)						(1,833)
Net income attributable to owners of parent			4,225		4,225						4,225
Purchase of treasury stock				(892)	(892)						(892)
Disposition of treasury stock				5	5						5
Net changes other than stockholders' equity						4,747	(2,159)	–	6	2,594	2,594
Total changes during the year	–	–	2,392	(887)	1,505	4,747	(2,159)	–	6	2,594	4,099
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

Thousands of U.S. dollars

	(note 2)										
	Stockholders' equity					Accumulated other comprehensive income					
	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, 2018	$ 90,098	$ 102,046	$ 978,358	$ (27,876)	$ 1,142,626	$ 220,596	$ (65,258)	$ 1,514	$ (3,766)	$ 153,086	$1,295,712
Changes arising during year:											
Cash dividends			(24,020)		(24,020)						(24,020)
Net income attributable to owners of parent			33,931		33,931						33,931
Purchase of treasury stock				(11,758)	(11,758)						(11,758)
Disposition of treasury stock		(0)		153	153						153
Net changes other than stockholders' equity						42,229	(62,078)	–	(5,649)	(25,498)	(25,498)
Total changes during the year	–	(0)	9,911	(11,605)	(1,694)	42,229	(62,078)	–	(5,649)	(25,498)	(27,192)
Balance at March 31, 2019	$ 90,098	$ 102,046	$ 988,269	$ (39,481)	$ 1,140,932	$ 262,825	$ (127,336)	$ 1,514	$ (9,415)	$ 127,588	$1,268,520

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, 2019

	Millions of yen		Thousands of U.S. dollars (note 2)
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 5,006	¥ 4,817	$ 45,103
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,380	1,364	12,434
Loss on sale/disposal of property, plant and equipment	32	3	288
Gains relating to short-term investments and investments in securities	(441)	(730)	(3,973)
Allowance for doubtful receivables	(827)	384	(7,451)
Increase (decrease) in liabilities for retirement benefits	940	(2,594)	8,469
Interest and dividend income	(9,727)	(9,034)	(87,639)
Interest expenses	2,162	1,260	19,479
Equity in earnings of affiliates	(248)	(123)	(2,235)
(Increase) decrease in short-term loans receivable	334,037	(415,179)	3,009,613
Increase in call loans	(5,000)	(62,000)	(45,049)
Increase in receivables under resale agreements	(546,543)	–	(4,924,254)
(Increase) decrease in collateral money for securities borrowed	30,581	(237,448)	275,529
Increase in call money	245,046	144,515	2,207,821
Increase in short-term borrowings	2,037	1,500	18,353
Increase in payables under repurchase agreements	1,453,352	–	13,094,441
Increase (decrease) in commercial paper	(245,000)	274,000	(2,207,406)
Increase (decrease) in collateral money received for securities lent	(941,705)	12,556	(8,484,593)
Increase in collateral money received for loan transactions	15,809	12,124	142,436
Purchase of short-term investments and investments in securities	(115,870)	(253,811)	(1,043,968)
Proceeds from sale/redemption of short-term investments and investments in securities	235,014	345,217	2,117,434
Other, net	(238,518)	(114,603)	(2,149,004)
Sub total	221,517	(297,782)	1,995,828
Interest and dividend received	9,539	9,101	85,945
Interest paid	(2,108)	(1,128)	(18,993)
Income taxes paid	(2,596)	(706)	(23,389)
Net cash provided by (used in) operating activities	226,352	(290,515)	2,039,391
Cash flows from investing activities:			
Purchase of investments in securities	(10,664)	(8,498)	(96,081)
Proceeds from sale/redemption of investments in securities	2,682	4,520	24,164
Capital expenditures	(44)	(60)	(396)
Purchase of intangible assets	(631)	(408)	(5,685)
Other, net	4	6	36
Net cash used in investing activities	(8,653)	(4,440)	(77,962)
Cash flows from financing activities:			
Dividends paid to stockholders	(2,666)	(1,834)	(24,020)
Purchase of treasury stock	(1,305)	(892)	(11,758)
Other, net	1	–	9
Net cash used in financing activities	(3,970)	(2,726)	(35,769)
Net increase (decrease) in cash and cash equivalents	213,729	(297,681)	1,925,660
Cash and cash equivalents at beginning of year	771,469	1,069,150	6,950,797
Cash and cash equivalents at end of year (note 3)	¥ 985,198	¥ 771,469	$ 8,876,457

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2019

(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

Accounting Standards for Revenue Recognition etc.

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(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.

(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, 2019

(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 29, 2019, which was ¥110.99 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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash	¥ 990,670	¥ 777,895	$ 8,925,759
Time deposits with maturities of over three months	(1,470)	(2,424)	(13,245)
Certificate of deposits with maturities of over three months	(4,002)	(4,002)	(36,057)
Cash and cash equivalents	¥ 985,198	¥ 771,469	$ 8,876,457

(4) Short-term Investments and Investments in Securities

No trading securities were held both as of March 31, 2019 and 2018.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2019 and 2018 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2019				
Government bond securities	¥ 1,514	¥ 244	¥ –	¥ 1,758
	¥ 1,514	¥ 244	¥ –	¥ 1,758
March 31, 2018				
Government bond securities	¥ 1,515	¥ 208	¥ –	¥ 1,723
	¥ 1,515	¥ 208	¥ –	¥ 1,723

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2019				
Government bond securities	$ 13,641	$ 2,198	$ –	$ 15,839
	$ 13,641	$ 2,198	$ –	$ 15,839

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2019 and 2018 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
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
March 31, 2018				
Equity securities	¥ 5,279	¥ 8,511	¥ (49)	¥ 13,741
Bond securities:				
Government bond securities	615,056	25,635	(3)	640,688
Corporate bond securities	145,657	61	(53)	145,665
Other	20,401	274	(502)	20,173
Other securities	4,926	1,348	(19)	6,255
	¥ 791,319	¥ 35,829	¥ (626)	¥ 826,522

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2019				
Equity securities	$ 46,896	$ 73,322	$ (171)	$ 120,047
Bond securities:				
Government bond securities	5,311,028	302,171	(0)	5,613,199
Corporate bond securities	372,944	297	(18)	373,223
Other	281,620	1,045	(8,748)	273,917
Other securities	88,206	11,434	(1,190)	98,450
	$ 6,100,694	$ 388,269	$ (10,127)	$ 6,478,836

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unlisted equity securities	¥ 2,900	¥ 2,900	$ 26,128
Unlisted REITs	14,588	13,012	131,435
Investments in investment limited partnership	897	521	8,081
Beneficial interests	1,050	–	9,460

For the years ended March 31, 2019 and 2018, 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
	2019	2018	2019
Proceeds from sale of other securities	¥ 146,904	¥ 106,429	$ 1,323,579
Gross realized gains	647	1,524	5,829
Gross realized losses	85	219	766

Financial assets received as collateral on which the Company has a right of disposal as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
The fair value of the securities received as collateral	¥ 1,540,709	¥ 2,134,336	$ 13,881,512
Securities lent	178,891	231,482	1,611,776
Collateral provided	232,234	301,250	2,092,386
On hand	1,129,584	1,601,604	10,177,350

Balance sheet amount of securities lent under loan for consumption agreement, etc. as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Short-term investments	¥ 209,335	¥ 35,699	$ 1,886,071
Investments in securities	379,548	555,606	3,419,658

The fair value of the securities borrowed under loan for consumption agreement, etc. as of March 31, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
The fair value of the securities borrowed	¥ 2,816,195	¥ 2,098,145	$ 25,373,412
Securities loaned	2,680,144	2,071,442	24,147,617
Securities pledged as collateral	108,232	–	975,150
On hand	27,819	26,703	250,645

(5) Investments in Affiliates

The aggregate carrying amount of investments in affiliates as of March 31, 2019 and 2018 are ¥3,773 million ($33,994 thousand) and ¥3,578 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, 2019 and 2018 are as follows:

		Millions of yen		Thousands of U.S. dollars	Weighted average rate
March 31, 2019					
Short-term borrowings	¥	16,547	$	149,085	0.982%
Long-term borrowings		4,000		36,039	0.535
Call money		1,016,460		9,158,122	(0.036)
Commercial paper		214,000		1,928,102	(0.001)
	¥	1,251,007	$	11,271,348	
March 31, 2018					
Short-term borrowings	¥	14,510			0.037%
Long-term borrowings		4,000			0.542
Call money		771,414			(0.028)
Commercial paper		459,000			(0.000)
	¥	1,248,924			

(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.

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 and 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, 2019 and 2018 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
	2019	2018	2019
Retirement benefit obligation at beginning of year	¥ 8,798	¥ 8,544	$ 79,268
Service cost	325	315	2,928
Interest cost	26	34	233
Actuarial gains and losses	880	228	7,930
Benefits paid	(340)	(323)	(3,063)
Retirement benefit obligation at end of year	¥ 9,689	¥ 8,798	$ 87,296

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Plan assets at beginning of year	¥ 8,657	¥ 5,748	$ 77,998
Expected return on plan assets	173	142	1,559
Actuarial gains and losses	(83)	252	(749)
Employer contributions	172	100	1,551
Benefits paid	(261)	(250)	(2,352)
Contribution to the retirement benefit trust	–	2,665	–
Plan assets at end of year	¥ 8,658	¥ 8,657	$ 78,007

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Liability for retirement benefits at beginning of year	¥ 160	¥ 146	$ 1,442
Retirement benefit expenses	15	14	135
Benefits paid	(13)	–	(118)
Contributions	(1)	(0)	(8)
Liability for retirement benefits at end of year	¥ 161	¥ 160	$ 1,451

(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
	2019	2018	2019
Funded retirement benefit obligation	¥ 9,689	¥ 8,798	$ 87,296
Plan assets	(8,658)	(8,657)	(78,007)
	1,031	141	9,289
Unfunded retirement benefit obligation	161	160	1,451
Net liability for retirement benefit recognized in consolidated balance sheet	¥ 1,192	¥ 301	$ 10,740
Liability for retirement benefit	¥ 1,192	¥ 301	$ 10,740
Net liability for retirement benefit recognized in consolidated balance sheet	¥ 1,192	¥ 301	$ 10,740

(5) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 325	¥ 315	$ 2,928
Interest cost	27	34	243
Expected return on plan assets	(173)	(142)	(1,560)
Amortization of actuarial gains or losses	53	66	479
Retirement benefit expenses calculated by the simplified method	15	14	135
Retirement benefit expenses	¥ 247	¥ 287	$ 2,225

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial gains or losses	¥ (910)	¥ 90	$ (8,199)
Total	¥ (910)	¥ 90	$ (8,199)

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unamortized actuarial gains or losses	¥ 1,283	¥ 373	$ 11,560
Total	¥ 1,283	¥ 373	$ 11,560

(8) Plan assets

(a) Percentage by major category of plan assets

	2019	2018
Debt securities	48.9%	44.9%
Equity securities	31.1	41.6
General account	11.0	11.1
Other	9.0	2.4
Total	100.0%	100.0%

Plan assets at March 31, 2019 and 2018 include the retirement benefit trust contributed for the years ended March 31, 2019 and 2018 which are both 10% of total plan assets.

(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, 2019 and 2018 are as follows:

	2019	2018
(a) Discount rate	0.2%	0.3%
(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, 2019 and 2018, the amount to be paid by the Company and its consolidated subsidiaries to the defined contribution plans was ¥36 million ($324 thousand) and ¥37 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 and 2018, the liability for retirement benefits related to the plans were ¥42 million ($378 thousand) and ¥42 million which include the lump-sum payments mentioned above, respectively.

(9) Income Taxes

The Company and its consolidated subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 30.9% and 30.6% in 2019 and 2018, respectively.

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, 2019 and 2018 is follows:

	2019	2018
Statutory tax rate	30.6%	30.9%
Equity in gains of affiliates	(1.5)	(0.8)
Expenses not deductible for tax purposes	1.0	1.1
Valuation allowance	(5.1)	(18.2)
Income not credited for tax purposes	(2.3)	(2.0)
Other	2.0	1.3
Effective tax rate	24.8%	12.3%

The above valuation allowance in 2018 includes expired tax loss carryforward.

Significant components of deferred tax assets and liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Accrued business tax	¥ 66	¥ 75	$ 595
Accrued bonuses	205	194	1,847
Liability for retirement benefits (employees)	1,106	840	9,965
Liability for retirement benefits (directors and corporate auditors)	13	13	117
Allowance for doubtful receivables	245	532	2,207
Tax loss carryforward	120	488	1,081
Deferred losses on hedges	7,182	4,199	64,709
Net unrealized loss on other securities	344	175	3,099
Other	314	308	2,829
	9,595	6,824	86,449
Valuation allowance	(3,124)	(2,480)	(28,147)
	6,471	4,344	58,302
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(155)	(155)	(1,396)
Net unrealized gain on other securities	(13,208)	(10,970)	(119,002)
Gain on transfer of investment in an affiliate	(359)	(359)	(3,234)
Gain on evaluation of acquired assets by merger	(580)	(603)	(5,226)
Deferred loss on hedges	(2,204)	(1,866)	(19,858)
Other	(40)	(19)	(360)
	(16,546)	(13,972)	(149,076)
Net deferred tax liabilities	¥ (10,075)	¥ (9,628)	$ (90,774)

The Company applies the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 issued on February 16, 2018, hereinafter the "Partial Amendments to Tax Effect Accounting Standard") from the beginning of the year ended March 31, 2019. Deferred tax assets are shown in the segment of investments and other assets, and deferred tax liabilities are shown in the segment of non-current liabilities. As a result, the Company offset "deferred tax assets" classified as "current assets" of ¥768 million with "deferred tax liabilities" classified as "non-current liabilities" of ¥10,396 million liabilities, and "deferred tax liabilities"

classified as "non-current liabilities" of ¥9,628 million is reported in the consolidated balance sheet at March 31, 2018. The Company offset deferred tax assets and liabilities when the deferred tax assets liabilities are associated with the income taxes levied on the same taxable entity, as a result, total assets decreased by ¥768 million at March 31, 2018.

(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, 2019 and 2018 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, 2018

The following was approved by the general meeting of stockholders held on June 23, 2017.

(a)	Total dividends	¥968 million
(b)	Cash dividends per common share	¥10
(c)	Record date	March 31, 2017
(d)	Effective date	June 26, 2017

The following was approved by the Board of Directors held on November 6, 2017.

(a)	Total dividends	¥865 million
(b)	Cash dividends per common share	¥9
(c)	Record date	September 30, 2017
(d)	Effective date	December 4, 2017

(b) 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 ($14,605 thousand)
(b)	Cash dividends per common share	¥17 ($0.15)
(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 ($9,424 thousand)
(b)	Cash dividends per common share	¥11 ($0.10)
(c)	Record date	September 30, 2018
(e)	Effective date	December 4, 2018

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2019

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

(a)	Total dividends	¥1,027 million ($9,253 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥11 ($0.10)
(d)	Record date	March 31, 2019
(e)	Effective date	June 26, 2019

(12) General and Administrative Expenses

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Salaries	¥ 3,038	¥ 3,073	$ 27,372
Retirement benefit expenses	283	324	2,550
Depreciation	1,380	1,364	12,434

(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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net unrealized gain (loss) on other securities:			
Arising during the year	¥ 7,330	¥ 8,209	$ 66,042
Reclassification adjustment	(562)	(1,304)	(5,064)
Before tax amount	6,768	6,905	60,978
Tax benefit (expense)	(2,068)	(2,068)	(18,632)
Net-of-tax amount	4,700	4,837	42,346
Deferred gain (loss) on hedges:			
Arising during the year	(8,843)	(3,483)	(79,674)
Reclassification adjustment	205	—	1,847
Before tax amount	(8,638)	(3,483)	(77,827)
Tax benefit (expense)	1,747	1,324	15,740
Net-of-tax amount	(6,891)	(2,159)	(62,087)
Remeasurements of defined benefit plans:			
Arising during the year	(963)	24	(8,676)
Reclassification adjustment	53	66	477
Before tax amount	(910)	90	(8,199)
Tax benefit (expense)	273	(99)	2,460
Net-of-tax amount	(637)	(9)	(5,739)
Share of other comprehensive income (loss) of affiliates accounted for by equity method:			
Arising during the year	(21)	128	(189)
Reclassification adjustment	19	(203)	171
	(2)	(75)	(18)
Total other comprehensive income (loss)	¥ (2,830)	¥ 2,594	$ (25,498)

(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, 2019 and 2018 are as follows:

	Yen		U.S. dollars
	2019	2018	2019
Basic net income per share	¥ 40.02	¥ 44.24	$ 0.36

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Net income attributable to owners of parent	¥ 3,766	¥ 4,225	$ 33,931
Net income not applicable to common stockholders	—	—	—
Net income attributable to owners of parent applicable to common stockholders	¥ 3,766	¥ 4,225	$ 33,931

	Number of shares (Thousands)	
	2019	2018
Weighted average number of shares outstanding on which basic net income per share is calculated	94,075	95,494

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, 2019 and 2018 are as follows:

	Yen		U.S. dollars
	2019	2018	2019
Net assets per share	¥ 1,519.30	¥ 1,518.77	$ 13.69

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total net assets	¥ 140,793	¥ 143,811	$ 1,268,520
Amount deducted from total net assets	—	—	—
Net assets applicable to common stockholders	¥ 140,793	¥ 143,811	$ 1,268,520

	Number of shares (Thousands)	
	2019	2018
Number of shares outstanding at end of year on which net assets per share is calculated	92,669	94,688

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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Short-term investments	¥ 19,102	¥ 23,817	$ 172,106
Short-term loans receivable	360,834	415,678	3,251,050
Investments in securities	69,649	167,968	627,525

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Call money	¥ 205,000	¥ 205,000	$ 1,847,013
Short-term borrowings	—	5,000	—

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
	2019	2018	2019
Cash	¥ 25	¥ 25	$ 225
Other current assets	70,515	46,505	635,328
Investments in securities	1,661	1,785	14,965

(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 maintain daytime liquidity.

A consolidated subsidiary, JSFTB is engaged in providing credit services such as loans as banking business and finance and securities activities. JSFTB invests in highly liquid and safe-and-secure securities such as government bonds, 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 and business corporations 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: mainly 1 year). Market risk amount (possible losses) of the Company is ¥9,242 million ($83,269 thousand) as of March 31, 2019.

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 ¥4,674 million ($42,112 thousand) as of March 31, 2019.

(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, 2019 and 2018 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					
	2019			2018		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 990,670	¥ 990,670	¥ —	¥ 777,895	¥ 777,895	¥ —
(2) Call loan *1	99,883	99,883	—	94,893	94,893	—
(3) Trade loans receivable	668,894			1,002,931		
Allowance for doubtful receivables *1	(72)			(256)		
	668,822	668,822	—	1,002,675	1,002,675	—
(4) Receivables under resale agreements *1	546,510	546,510				
(5) Collateral money for securities borrowed *1	2,137,118	2,137,118	—	2,167,416	2,167,416	—
(6) Short-term investments and investments in securities						
Held-to-maturity securities	1,514	1,758	(244)	1,515	1,723	208
Other securities	719,086	719,086	—	826,522	826,522	—
Total	¥ 5,163,603	¥ 5,163,847	¥ (244)	¥ 4,870,916	¥ 4,871,124	¥ 208
Liabilities:						
(1) Call money	¥ 1,016,460	¥ 1,016,460	¥ —	¥ 771,414	¥ 771,414	¥ —
(2) Short-term borrowings	16,547	16,547	—	14,510	14,510	—
(3) Commercial paper	214,000	214,000	—	459,000	459,000	—
(4) Payables under repurchase agreements	1,453,352	1,453,352				
(5) Collateral money received for securities lent	1,563,430	1,563,430	—	2,505,135	2,505,135	—
(6) Long-term borrowings	4,000	4,000	—	4,000	4,000	—
Total	¥ 4,267,789	¥ 4,267,789	¥ —	¥ 3,754,059	¥ 3,754,059	¥ —
Derivative transactions *2	¥ (19,024)	¥ (19,024)	¥ (—)	¥ (8,905)	¥ (8,905)	¥ (—)

	Thousands of U.S. dollars		
	2019		
	Carrying value	Fair value	Differences
Assets:			
(1) Cash	$ 8,925,759	$ 8,925,759	$ —
(2) Call loan *1	899,928	899,928	—
(3) Trade loans receivable	6,026,615		
Allowance for doubtful receivables *1	(649)		
	6,025,966	6,025,966	—
(4) Receivables under resale agreements *1	4,923,957	4,923,957	
(5) Collateral money for securities borrowed *1	19,255,050	19,255,050	—
(6) Short-term investments and investments in securities			
Held-to-maturity securities	13,641	15,839	(2,198)
Other securities	6,478,836	6,478,836	—
Total	$ 46,523,137	$ 46,525,335	$ (2,198)
Liabilities:			
(1) Call money	$ 9,158,122	$ 9,158,122	$ —
(2) Short-term borrowings	149,085	149,085	—
(3) Commercial paper	1,928,102	1,928,102	—
(4) Payables under repurchase agreements	13,094,441	13,094,441	
(5) Collateral money received for securities lent	14,086,224	14,086,224	—
(6) Long-term borrowings	36,039	36,039	—
Total	$ 38,452,013	$ 38,452,013	$ —
Derivative transactions *2	$ (171,403)	$ (171,403)	$ (—)

*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 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
	2019	2018	2019
Unlisted equity securities			
Other securities	¥ 2,900	¥ 2,900	$ 26,128
Investments in affiliates	3,773	3,578	33,994
Unlisted REITs	14,588	13,012	131,435
Investments in investment limited partnership	897	521	8,082
Beneficial interests	1,050	—	9,460

Above securities have no market value and the fair value is extremely difficult to measure, therefore are not included in "Assets: (5) Short-term investments and investments in securities."

<3> Projected future redemption of monetary claim and securities with maturities as of March 31, 2019

	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	¥ 990,670	¥ —	¥ —	¥ —
(2) Call loan	100,000	—	—	—
(3) Trade loans receivable	645,587	23,307	—	—
(4) Receivables under resale agreements	546,543	—	—	—
(5) Collateral money for securities borrowed	2,117,590	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	218,840	80,513	18,000	268,000
Corporate bonds	19,400	21,846	—	—
Other	—	—	27,462	622
Total	¥ 4,638,630	¥ 145,666	¥ 45,462	¥ 270,122

	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	$ 8,925,759	$ —	$ —	$ —
(2) Call loan	900,982	—	—	—
(3) Trade loans receivable	5,816,623	209,992	—	—
(4) Receivables under resale agreements	4,924,254	—	—	—
(5) Collateral money for securities borrowed	19,079,106	180,196	—	—
(6) Short-term investments and investments in securities				
Held-to-maturity securities				
(Government bonds)	—	—	—	13,515
Other securities with maturities				
Bond securities				
Government bonds	1,971,709	725,408	162,177	2,414,632
Corporate bonds	174,791	196,829	—	—
Other	—	—	247,428	5,604
Total	$ 41,793,224	$ 1,312,425	$ 409,605	$ 2,433,751

<4> The annual maturities of the long-term borrowings, lease liabilities and other interest bearing liabilities as of March 31, 2019

	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	¥ 1,016,460	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	16,547	—	—	—	—	—
Commercial paper	214,000	—	—	—	—	—
Payables under repurchase agreements	1,453,352	—	—	—	—	—
Collateral money received for securities lent	1,563,430	—	—	—	—	—
Long-term borrowings	—	1,000	—	—	—	3,000
Total	¥ 4,263,789	¥ 1,000	¥ —	¥ —	¥ —	¥ 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	$ 9,158,122	$ —	$ —	$ —	$ —	$ —
Short-term borrowings	149,085	—	—	—	—	—
Commercial paper	1,928,102	—	—	—	—	—
Payables under repurchase agreements	13,094,441	—	—	—	—	—
Collateral money received for securities lent	14,086,224	—	—	—	—	—
Long-term borrowings	—	9,010	—	—	—	27,029
Total	$ 38,415,974	$ 9,010	$ —	$ —	$ —	$ 27,029

(17) Derivative Financial Instruments

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

Exchange rate derivatives

		Millions of yen			Thousands of U.S. dollars		
	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:						
	Buy:						
	Euro	¥ 5,536	¥ 2	¥ 2	$ 49,878	$ 18	$ 18

The fair value is estimated based on quotes from counterparties.

2. Derivative transactions to which hedge accounting are applied as of March 31, 2019 and 2018 are summarized as follows:

(a) Exchange rate derivatives

			Millions of yen			
			2019		2018	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value	Contract or notional amounts	Fair value
*1	Forward exchange contract: Sell: Euro	Investments in securities	¥ 5,690	¥ 93	¥ 18,548	¥ 231

			Thousands of U.S. dollars	
			2019	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Forward exchange contract: Sell: Euro	Investments in securities	$ 51,266	$ 838

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

(b) Interest rate derivatives

			Millions of yen			
			2019		2018	
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	¥ 294,417	¥ (19,102)	¥ 285,291	¥ (9,136)
*2	Interest rate swaps: Variable rate received for fixed rate	Trade loans	35,262	*3	54,226	*3
	Variable rate paid for variable rate	Long-term borrowings	3,000	*3	3,000	*3

			Thousands of U.S. dollars	
			2019	
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	$ 2,652,644	$ (172,106)
*2	Interest rate swaps:			
	Variable rate received for fixed rate	Trade loans	317,704	*3
	Variable rate paid for variable rate	Long-term borrowings	27,029	*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 the present discounted value.

(c) Bond derivatives

			Millions of yen			
			2019		2018	
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	¥ 1,896	¥ (19)	¥ 1,357	¥ (0)

			Thousands of U.S. dollars	
			2019	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Bond futures: Sell	Investments in securities	$ 17,083	$ (171)

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

(d) Stock derivatives

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

			Thousands of U.S. dollars	
			2019	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Total return swap	Investments in securities	$ 1,090	$ 18

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

(18) Commitments and Contingencies

As of March 31, 2019 and 2018, 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
	2019	2018	2019
Total credit line	¥ 827,808	¥ 789,958	$ 7,458,402
Drawn amount	32,360	32,000	291,558
Undrawn amount	¥ 795,448	¥ 757,958	$ 7,166,844

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, 2019 and 2018 was summarized as follows:

	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

	Thousands of U.S. dollars			
	2019			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	$ 188,936	$ 22,227	$ 7,974	$ 219,137
Intersegment revenues and transfers	9	649	3,514	4,172
Total	$ 188,945	$ 22,876	$ 11,488	$ 223,309
Segment income	$ 32,931	$ 5,532	$ 6,064	$ 44,527
Segment assets	$ 39,458,257	$ 8,412,983	$ 90,675	$ 47,961,915
Others:				
Depreciation and amortization	$ 10,659	$ 703	$ 1,072	$ 12,434
Interest income	2,063	—	108	2,171
Income taxes	8,442	676	2,054	11,172

	Millions of yen			
	2018			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 22,488	¥ 2,972	¥ 874	¥ 26,334
Intersegment revenues and transfers	2	8	394	404
Total	¥ 22,490	¥ 2,980	¥ 1,268	¥ 26,738
Segment income	¥ 3,626	¥ 421	¥ 648	¥ 4,695
Segment assets	¥ 3,853,625	¥ 1,122,363	¥ 9,812	¥ 4,985,800
Others:				
Depreciation and amortization	¥ 1,153	¥ 85	¥ 126	¥ 1,364
Interest income	228	—	11	239
Income taxes	317	55	221	593

Reconciliation between total segment revenues in the table above and revenues in the accompanying consolidated statement of income for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total segment revenues	¥ 24,785	¥ 26,738	$ 223,309
Intersegment revenues	(463)	(404)	(4,172)
Revenues in the accompanying consolidated statement of income	¥ 24,322	¥ 26,334	$ 219,137

Reconciliation between total segment income in the table above and ordinary income for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total segment income	¥ 4,942	¥ 4,695	$ 44,527
Intersegment income	(143)	(132)	(1,288)
Equity in earnings of affiliates	248	123	2,234
Ordinary income	¥ 5,047	¥ 4,686	$ 45,473

Reconciliation between total segment assets in the table above and assets in the consolidated accompanying balance sheet as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total segment assets	¥ 5,323,293	¥ 4,985,800	$ 47,961,915
Intersegment accounts	(8,822)	(2,358)	(79,484)
Intersegment investments	(26,269)	(26,269)	(236,679)
Other	3,170	2,988	28,561
Assets in the accompanying consolidated balance sheet	¥ 5,291,372	¥ 4,960,161	$ 47,674,313

Reconciliation between others in the table above and amounts in the consolidated financial statements as of and for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2019			
Depreciation and amortization	¥ 1,380	¥ 0	¥ 1,380
Interest income	241	(12)	229
Income taxes	1,240	0	1,240
March 31, 2018			
Depreciation and amortization	¥ 1,364	¥ 0	¥ 1,364
Interest income	239	(11)	228
Income taxes	593	(1)	592

	Thousands of U.S. dollars		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2019			
Depreciation and amortization	$ 12,434	$ 0	$ 12,434
Interest income	2,171	(108)	2,063
Income taxes	11,172	0	11,172

Related Information

(a) Information by services

Sales by services for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans for margin transaction	¥ 9,661	¥ 13,254	$ 87,044
Bond lending	4,963	3,577	44,716
Other	9,698	9,503	87,377
	¥ 24,322	¥ 26,334	$ 219,137

(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, 2019 and 2018.

(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, 2019 and 2018.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2019 and 2018.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2019 and 2018.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2019 and 2018.

(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 ¥282 million ($2,541 thousand) and the number of the stocks was 645 thousand shares at March 31, 2019, and ¥262 million and the number of the stocks was 627 thousand shares at March 31, 2018.

(21) Subsequent Event

Acquisition of treasury stocks

The Board of Directors of the Company approved at May 15, 2019 to acquire treasury stocks pursuant to the provisions of Article 165 Paragraph 3 of the Companies Act by replacing the provisions stipulated in Article 156 of the same Act.

1. Reasons for the acquisition of treasury stocks

   The acquisition of treasury stocks is to be conducted in an aim to prepare for flexible capital policies.

2. Details of the acquisition of treasury stocks

   (1) Type of shares to be acquired: Common stocks

   (2) Number of shares to be acquired: 1,000,000 shares (upper limit)

   (3) Total acquisition costs: ¥700 million ($6,307 thousand) (upper limit)

   (4) Acquisition schedule: From May 16, 2019 to March 23, 2020

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Japan Securities Finance Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as of March 31, 2019, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

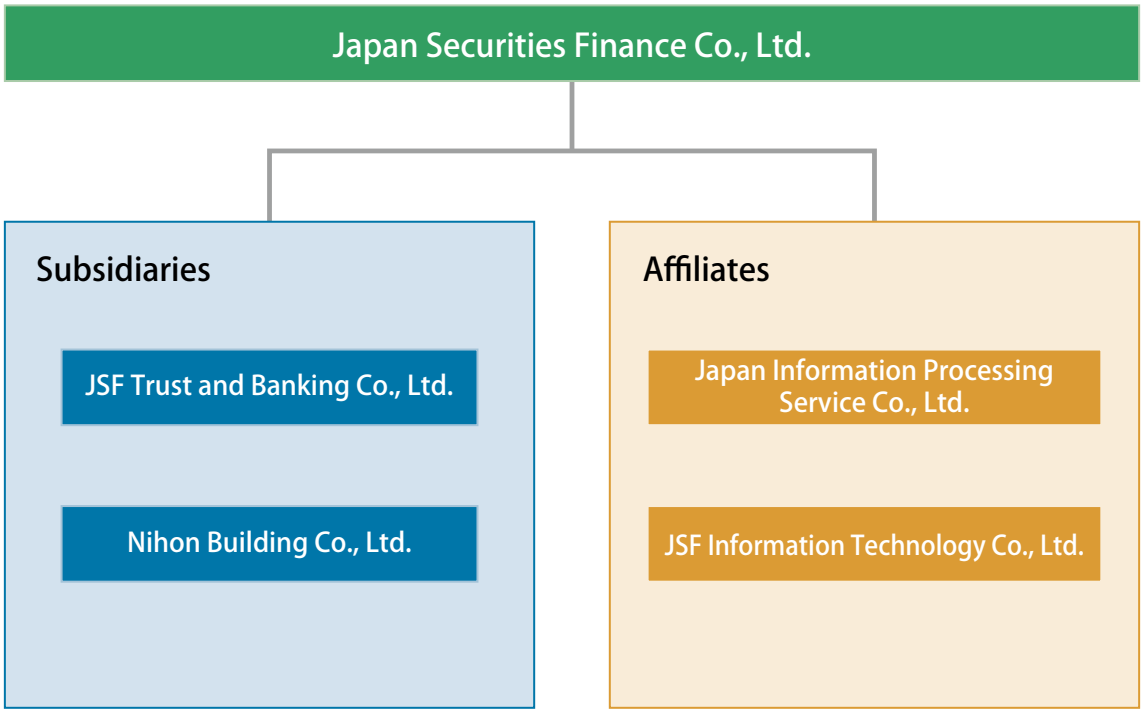
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Japan Securities Finance Co., Ltd. and its consolidated subsidiaries as of March 31, 2019, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

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 26, 2019

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
251

Share Information

Shares outstanding
100,000,000 shares（as of March 31, 2019）

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

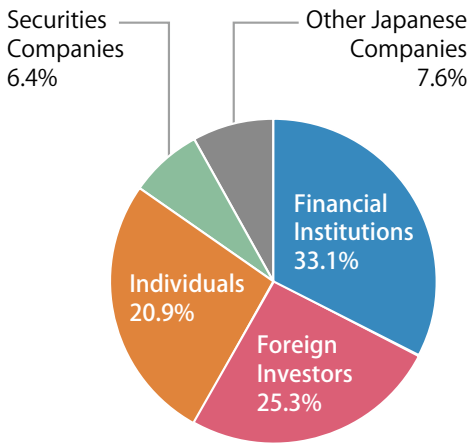
Number of shareholders
12,344（as of March 31, 2019）

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)	6,017	6.44
The Master Trust Bank of Japan, Ltd. (Trust account)	4,671	5.00
Shihon-Shijo Shinko Foundation	4,654	4.98
Japan Trustee Services Bank, Ltd. (Trust account 9)	4,458	4.77
Mizuho Bank, Ltd.	3,536	3.78
Japan Trustee Services Bank, Ltd. (Trust account 4)	2,989	3.20
Northern Trust Co.(AVFC) RE IEDU UCITS Clients Non Lending 15 PCT Treaty Account	2,692	2.88
Northern Trust Co.(AVFC) RE NVI01	2,260	2.42
State Street Bank West Client-Treaty 505234	1,897	2.03
State Street Bank And Trust Company 505019	1,892	2.02

Composition of shareholders
(by number of shares)



Executives

(As of June 25, 2019)

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
	Kazuhiro Maeda
Managing Executive Officer	Yutaka Okada

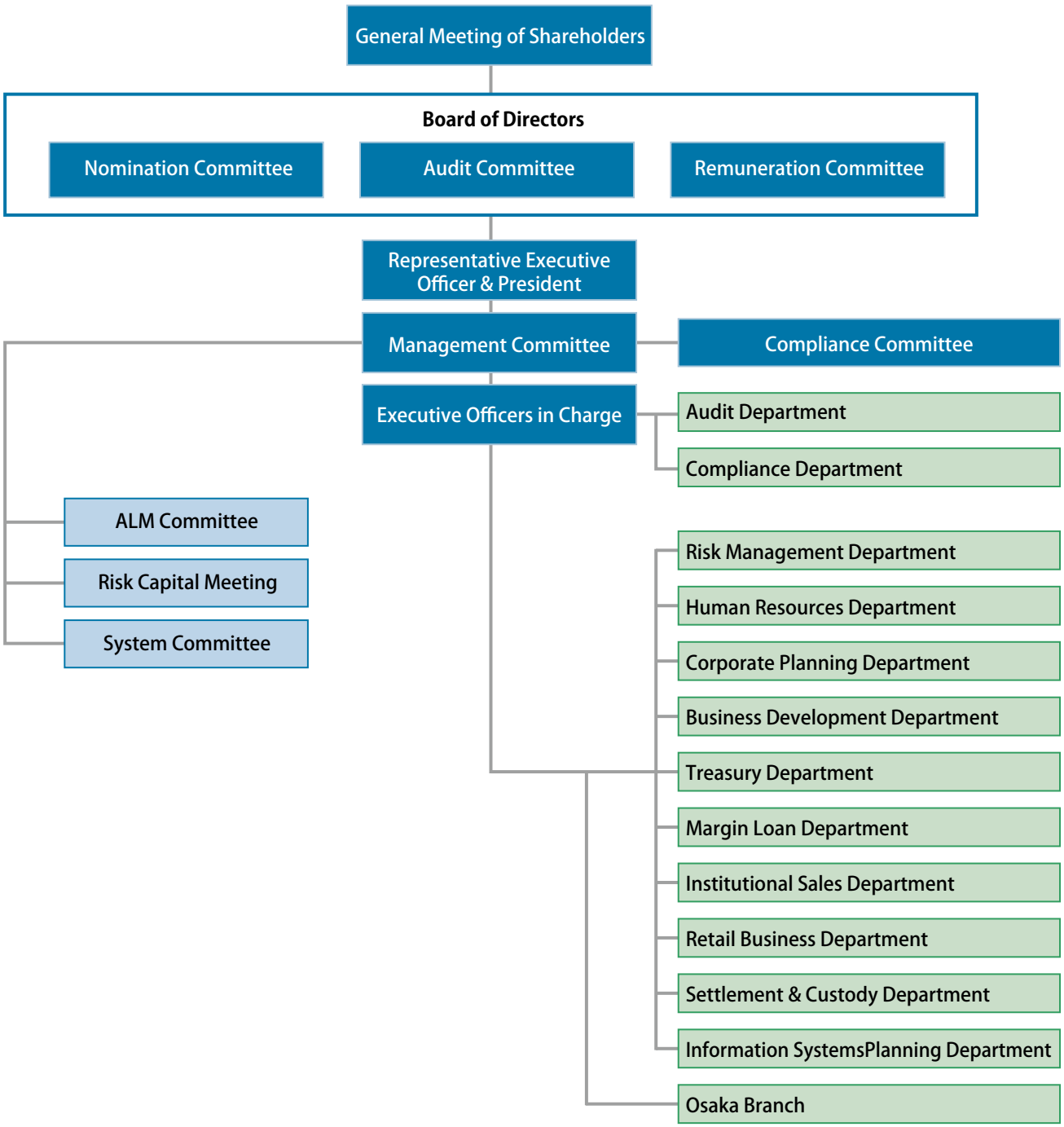
Corporate Officers

Senior Corporate Officer	Yasuhiro Hirama
Corporate Officer	Tetsuya Tawara
	Morikuni Shimoyamada
	Osamu Nishida
	Shinichi Sugiyama

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

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