Securities Finance

ANNUAL REPORT 2018

JAPAN SECURITIES FINANCE CO., LTD.

PROFILE

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

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

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

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

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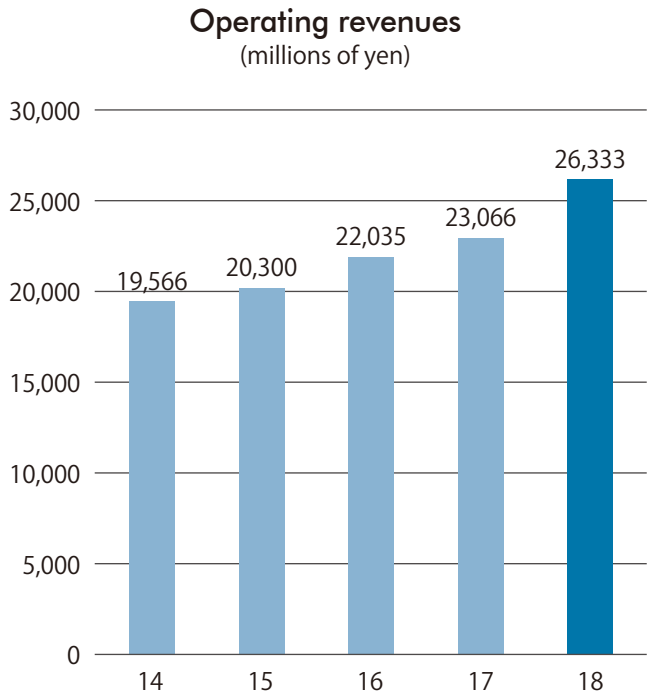
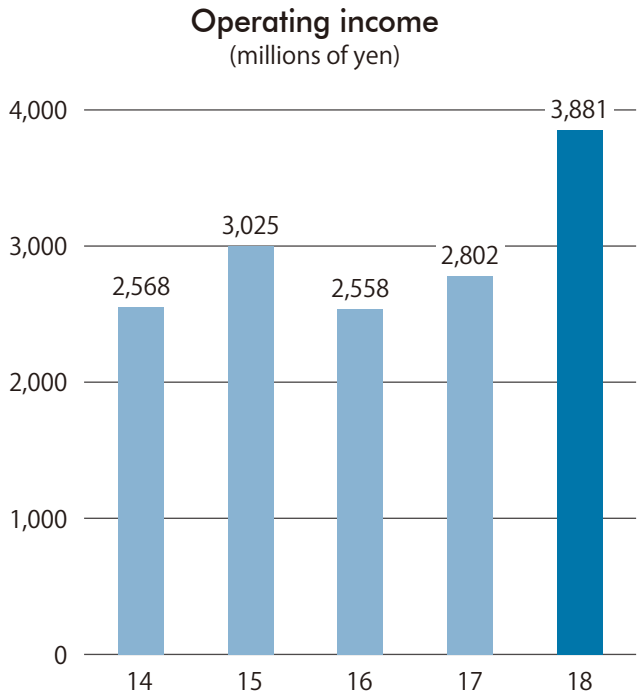
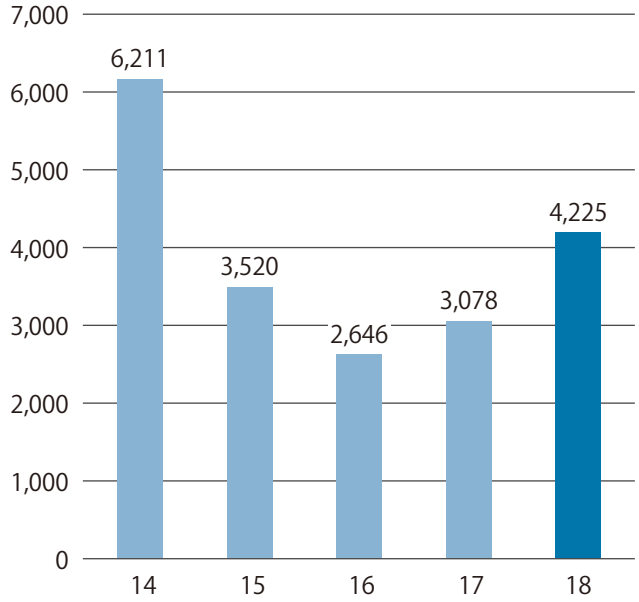
	Millions of yen*					Thousands of U.S. dollars*
	2014	2015	2016	2017	2018	2018
Operating Results:						
Operating revenues	¥ 19,566	¥ 20,300	¥ 22,035	¥ 23,066	¥ **26,333**	$ **247,863**
Operating income	2,568	3,025	2,558	2,802	**3,881**	**36,530**
Net income	6,211	3,520	2,646	3,078	**4,225**	**39,768**
Financial Position:						
Total assets	¥ 3,914,388	¥ 3,482,602	¥ 3,249,170	¥ 4,645,051	¥ **4,960,928**	$ **46,695,482**
Net assets	135,227	137,145	142,031	139,712	**143,811**	**1,353,643**
Shareholders' equity ratio (%)	3.45	3.94	4.37	3.00	**2.90**	**2.90**
Per Share Data:						
Net income	¥ 60.35	¥ 33.94	¥ 26.90	¥ 31.91	¥ **44.25**	$ **0.42**
Net assets	1,260.43	1,373.94	1,467.01	1,452.64	**1,518.78**	**14.30**
Cash dividend	14	15	16	18	**26**	**0.24**

* except per share amount

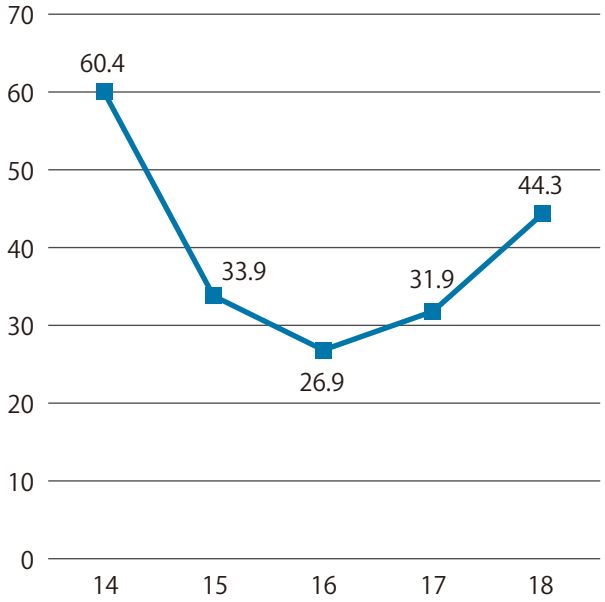




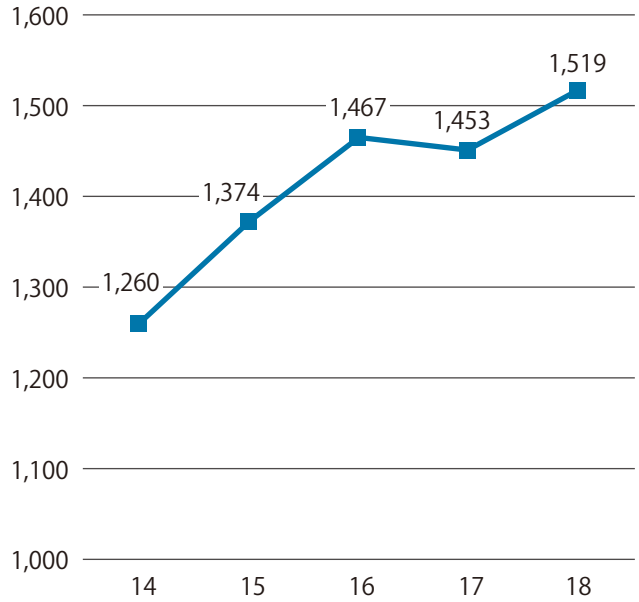
Net income
(millions of yen)



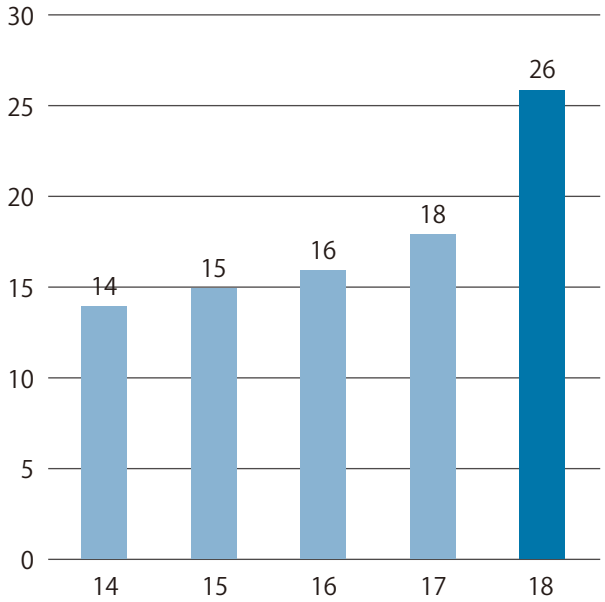
Net income per share
(yen)



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 ¥106.24=U.S.$1 in effect on March 31, 2018.

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

During the fiscal year ended March 2018, with the equity market being very active, especially in 2017, our Margin Loan Business performed strongly, and we also saw a recovery in financing demand from financial instrument companies. Furthermore, as a result of our proactive efforts to flexibly address the needs of domestic and foreign financial instruments business operators, as outlined in our Mid-Term Management Plan, our securities lending business also thrived, including general stock lending transactions and bond lending transactions, resulting in increase in both revenues and earnings.

Eizo Kobayashi
President

The Company is currently striving to successfully implement the various policies outlined in the 5th Mid-Term Management Plan, whose first year was the fiscal year ended March 2017. The entire Group is continuing to work together on management efforts aimed at further strengthening our revenue base and enhancing our corporate value.

Based on our policy that the consolidated payout ratio shall not fall below the 60-percent level, we increased the year-end dividend for fiscal 2017 by 7 yen per share to 17 yen per share (annual dividend per share of 26 yen), taking into account overall earnings conditions. For the fiscal year ending March 2019, assuming that the recent somewhat unpredictable equity market conditions will continue, we forecast a decrease in earnings due to the impact of special factors such as an increase in tax expenses based on tax effect accounting, with the dividend per share expected to be 22 yen. With regard to share buybacks, we have set a ceiling of 1 million shares at an acquisition price of up to 800 million yen.

Going forward, we will continue to implement appropriate shareholder return policies while considering factors such as our share value conditions.

Thank you to all our shareholders for your continued support and guidance.

Eizo Kobayashi

Eizo Kobayashi
President

BUSINESS REVIEW

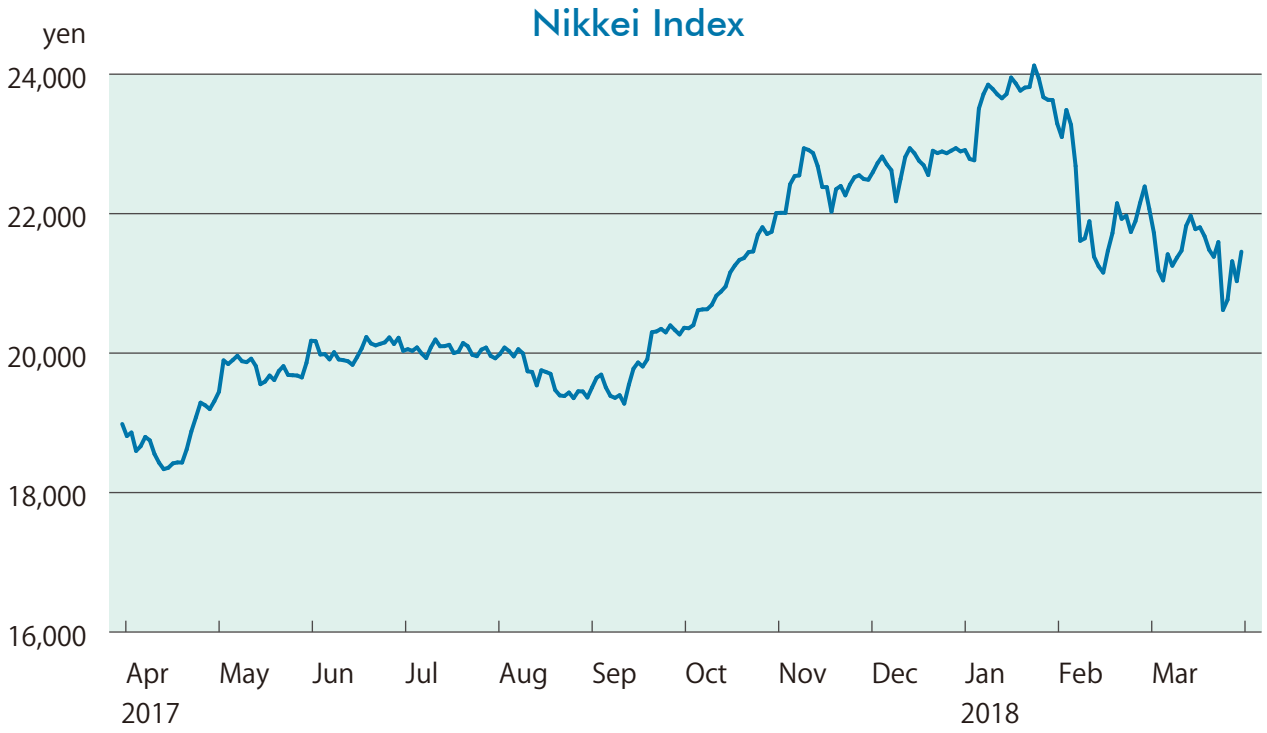
Business Environment

Overall, the global economy continued its gradual recovery trend during fiscal 2017, with the United States maintaining its strong economic recovery and the European economy also remaining stable. The Japanese economy, meanwhile, continued its modest recovery trend thanks to factors such as the hiring environment improving as corporate revenues remained healthy.

As for the equity market, the Nikkei 225 stock average, which started the fiscal year at 18,983 yen, sank to 18,335 yen—its lowest value for the year—on April 14 due to factors such as growing geopolitical risks relating to the North Korea situation. However, due to a favorable response to the French presidential election results, the average recovered in early June, when it reached the 20,000-yen level for the first time in about a year and a half. Subsequently, it hovered around the 20,000-yen level for the most part until October. After that, it increased further due to the rise of the dollar and fall of the yen caused by anticipated additional interest rate hikes in the United States and other factors, soaring to 24,124 yen on January 23—its highest value since November 1991. However, beginning in February, amid concern about the Goldilocks market coming to an end due to rising long-term interest rates in the United States, the Nikkei stock average plummeted as a result of factors such as the continued strong dollar and weak yen and caution among investors in light of President Trump' s protectionist trade policies. In late March, the average temporarily dropped to 20,617 yen, and it stood at 21,454 yen when business closed on the last day of the fiscal year.

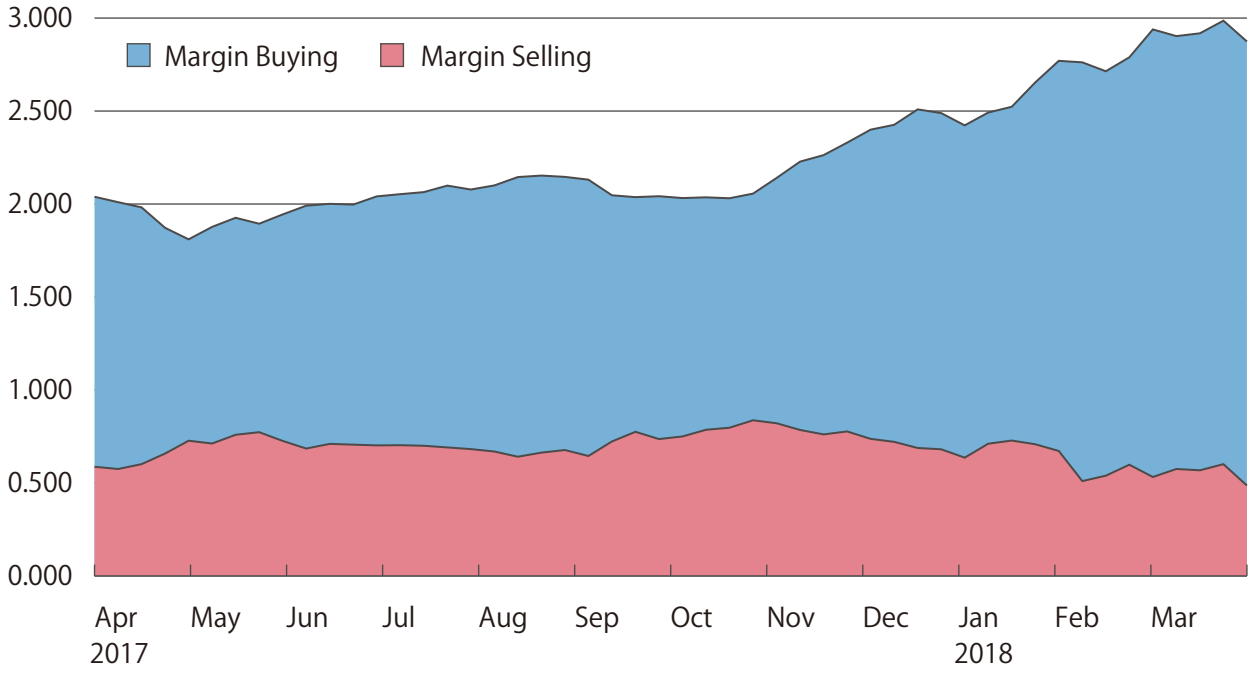
During this period, the average daily value traded on the First Section of the Tokyo Stock Exchange was 2.957 trillion yen, a year-on-year increase of 441.6 billion yen.

Meanwhile, the outstanding balance of standardized margin buying on the Tokyo market trended gradually downward from 2.35 trillion yen at the start of the fiscal year, decreasing to an annual low of around 1.8 trillion yen



Outstanding balance of Standardized Margin Transactions

(billions of yen)



in early May. However, the balance then began to increase, driven by private investors buying on dips as stock prices decreased. Starting in late October, with stock prices trending upward, fresh buying was seen, followed by further buying on dips when stock prices decreased again starting in February. As a result, by late March, the balance had risen to a level of 2.98 trillion yen for the first time in around 10 years, and at year-end it was at a level of 2.87 trillion yen. Meanwhile, the outstanding balance of standardized margin selling, which was at a level of 580 billion yen at the start of the fiscal year, had risen to between 600 billion and 700 billion yen by mid-October, with new selling seen as stock prices trended upward. In late October, the balance increased to an annual peak of 830 billion yen. Subsequently, however, it trended downward due to profit-taking buybacks as share prices declined in February onward. By year-end, it had reached an annual low of 480 billion yen.

Business Results of the JSF Group

Under these market trends, the total value of outstanding loans for the JSF Group (term average) was 670.2 billion yen, a year-on-year increase of 202.9 billion yen.

Consolidated operating revenues were 26,333 million yen (year-on-year increase of 14.2%) due to increased revenue from securities lending fees in the Margin Loan Business. On the other hand, consolidated operating expenses increased to 13,330 million yen (year-on-year increase of 12.1%), due to an increase in securities borrowing .fees in the Margin Loan Business. Moreover, general and administrative expenses amounted to 9,121 million yen (year-on-year increase of 9.0%).

As a result, consolidated operating income was 3,881 million yen (year-on-year increase of 38.5%). Consolidated ordinary income was 4,685 million yen (year-on-year increase of 29.7%), due to an increase in investment income

based on the equity method, while net income attributable to the owners of the parent was 4,225 million yen (year-on-year increase of 37.3%).

1) Securities Finance Business

Loans for Margin Transactions (LMT)

In the Margin Loan Business, the term average for the outstanding balance of loan transactions was 350.1 billion yen, a year-on-year increase of 84.7 billion yen. Income from interest on loans therefore increased. Furthermore, the term average for the outstanding balance of stock loans was 3,661 million yen, representing a year-on-year-increase of 74.7 billion yen, and stock lending fees and premium charges on over-lent issues increased, resulting in the service's operating revenues to be 13,253 million yen (year-on-year increase of 23.6%).

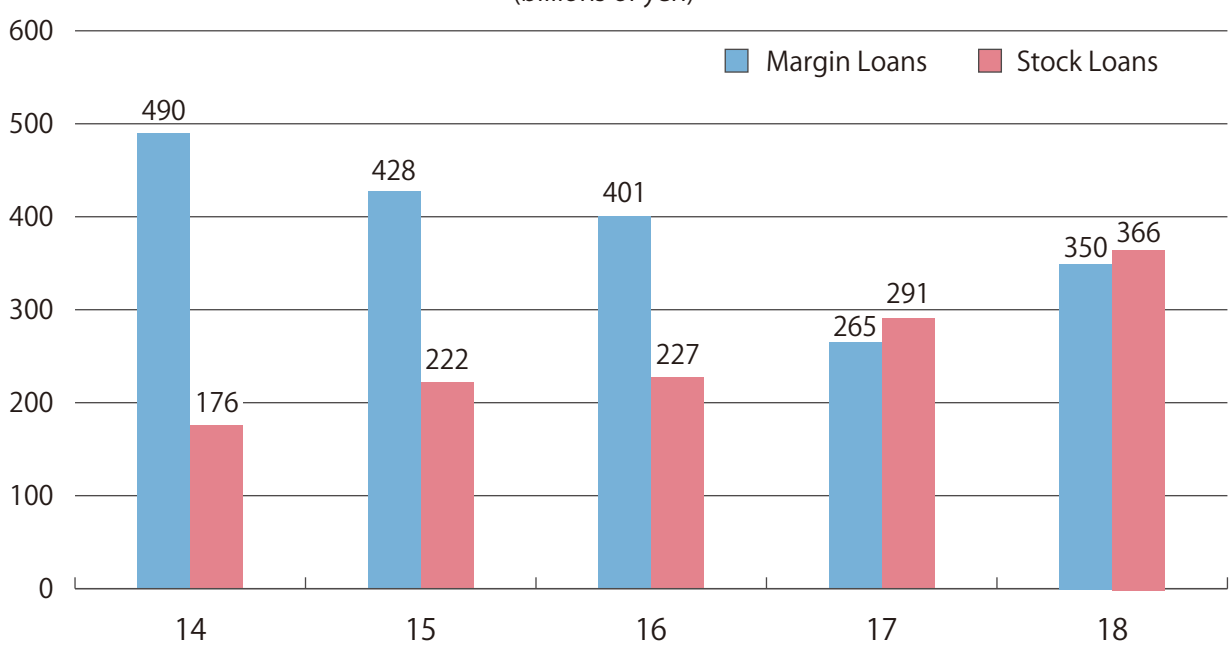
Bond Financing and General Loans

As for bond financing and general loans, both loans for financial instrument companies and loans for private individuals and general companies were sluggish. As a result, the term average for loans in this business was 41.4 billion yen, a year-on-year decrease of 3.4 billion yen. However, due to increased use of REPO (cash-collected stock borrowings and lending transactions) as the equity market recovered, operating revenues for this business were 908 million yen (year-on-year increase of 0.1%).

Securities lending

In the securities lending business, operating revenues for the service were 5,035 million yen (year-on-year increase of 13.1%), thanks to significantly increased revenue from securities lending fees in the general stock lending section resulting from a rise in stock borrowing demand primarily for the purpose of avoiding fails due to increased market turnover, as well as increased revenue in the bond services section due to an increase in outstanding balance of bond lending and other factors.

Average outstanding balance of Loans for Margin Transactions



Breakdown of JSF Group operating revenues

	2018	2017
	(¥ million)	(¥ million)
Securities Finance Business	22,487	19,407
Loans for margin transactions	13,253	10,721
Interest on loans	2,225	1,694
Interest on collateral money for securities borrowed	1,073	887
Fees on lending securities	9,481	7,771
General loans	908	907
Securities lending	5,035	4,453
Stocks	1,458	941
Bonds	3,576	3,512
Other business	3,290	3,325
Trust Banking Business	2,971	2,792
Interest on loans	89	147
Trust charges	741	668
Real Estate Leasing Business	873	865
Total Operating Revenues	26,333	23,066

Other business

Other operating revenues were 3,290 million yen (year-on-year decrease of 1.1%), due to a significant decrease in interest income on government bonds holdings, etc., despite an increase in dividend income on investment trusts and increased gain on sale of government bond holdings.

2) Trust Banking Business

In the trust banking business, revenue from interest on loans decreased due to a decrease in lending rates, but trust fees increased and gain on sale of government bond holdings also increased, resulting in operating revenues of 2.971 billion yen (year-on-year increase of 6.4%).

3) Real Estate Leasing Business

In the real estate leasing business, operating revenues were 873 million yen (year-on-year increase of 0.9%).

Future challenges

While there are concerns about the future of the global economy due to issues such as the rise of protectionist policies, a gradual recovery is anticipated, led by the U.S. It is also expected the Japanese economy will continue its gradual recovery due to a pickup in consumer spending and various policies being promoted by the government, even though there are issues that need to be addressed in the medium to long term, such as the declining birthrate and aging of society.

Meanwhile, with the globalization and development of finance accelerating in financial and securities markets, the environment in which our company operates is undergoing major changes, such as the ongoing tightening of international financial regulations and revision of securities clearing systems.

In March 2017, we released our 5th Mid-Term Management Plan, which aims to strengthen our existing business by leveraging our market neutrality and the expertise we have acquired to date in finance- and securities-related services, while also pursuing efforts to enhance the company's fundamental stability by proactively addressing new domestic and overseas needs with a high level of creditworthiness, thereby maintaining the trust of markets and investors.

The status of key measures being undertaken based on the strategies outlined in the 5th Mid-Term Management Plan is summarized below. Everyone at the company is also working together to develop new business, diversify the management of securities as an efficient use of capital, enhance collaboration with Group companies, develop an employee-friendly work environment, and make the company more dynamic.

Enhancing the Margin Loan Business as part of securities market infrastructure

We have encouraged the use of loan transactions through measures such as promoting it to overseas investors. Moreover, in collaboration with the Tokyo Stock Exchange, we have engaged in activities aimed at securities company representatives and others to promote the margin transaction and loan transaction system, while also enhancing the information we provide about loan transactions via our website.

Flexibly addressing the needs of domestic and foreign financial instrument companies

We have made efforts to strengthen our procurement capabilities in anticipation of increased securities (government bonds and stocks) borrowing demand following the reduction of the settlement interval, as well as increasing direct transactions with clients based outside of Japan and transactions involving foreign securities.

Strengthening business management structure

In addition to enhancing our risk management structure in response to the diversification of securities operations and increased handling of foreign securities, we have taken steps to strengthen our business continuation system in the event of an incident such as a natural disaster in the Kanto region or a cyberattack.

Through initiatives like those described above, our Group is aiming to achieve improved performance in the medium to long term and expand our enterprise value while continuing to ensure a return of profits to our shareholders, for whose ongoing support and guidance we are extremely grateful.

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.

Feature: The President's Commentary

Progress of 5th Mid-Term Management Plan

FThe 7 key strategies outlined in the 5th Mid-Term Management Plan are as follows:

Strategies
◆ Enhancing the Margin Loan Business as part of securities market infrastructure
◆ Flexibly addressing the needs of domestic and foreign financial instrument companies
◆ Developing new business
◆ Diversified management of securities as an efficient use of capital
◆ Enhancing collaboration with group companies
◆ Strengthening business management structure
◆ Developing an employee-friendly work environment and make the company more dynamic

I will discuss the progress we have made on management-related policies.

First, with regard to "enhancing the Margin Loan Business," we are working to expand our securities procurement capabilities. Due to changes in the LMT environment, including the introduction of the double code (stewardship code and corporate governance code) and greater emphasis on the exercising of voting rights, the smooth provision of lending stocks is becoming more difficult, especially at year-end. Given this environment, we believe it is essential that we take proactive steps to offer a full range of options by seeking new borrowers and financing for securities.

In addition, once the reduction of the securities settlement interval scheduled for 2019 is implemented, some experts believe there will be an increase in fails when delivering securities. In this regard, we aim to leverage the securities financing expertise that we have acquired in the Margin Loan Business.

Next, with regard to "flexibly addressing the needs of financial instrument companies," we have been diligently addressing the diverse needs of customers, which had led an increase in transactions. In particular, since control towers for foreign financial institutions in Asia are relocating from Japan to Singapore and Hong Kong, there is a growing need for handling foreign securities and conducting direct transactions with overseas offices, and by expanding our involvement in these kinds of activities, we intend to develop other sources of revenue besides LMT.

At JSF, we are seeking to further strengthen our revenue base through various measures such as these.

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.

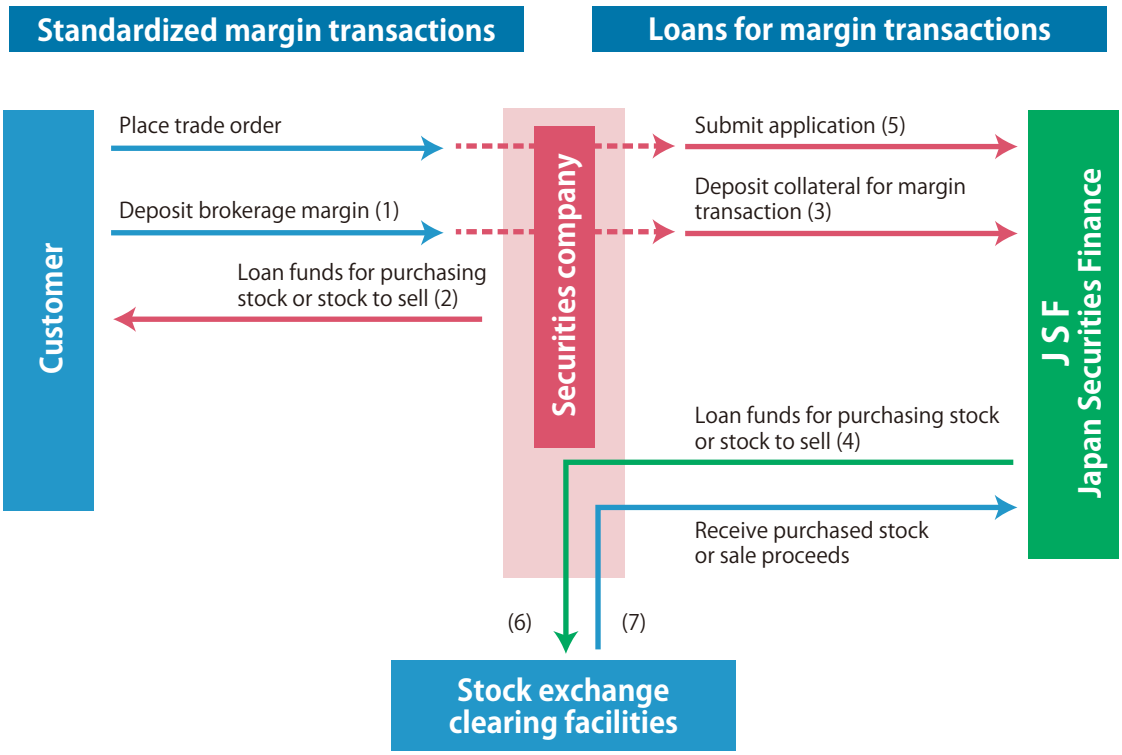
(Note) This is a system of appropriating purchased stock received from buy side as collateral to sell side's stock for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

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.

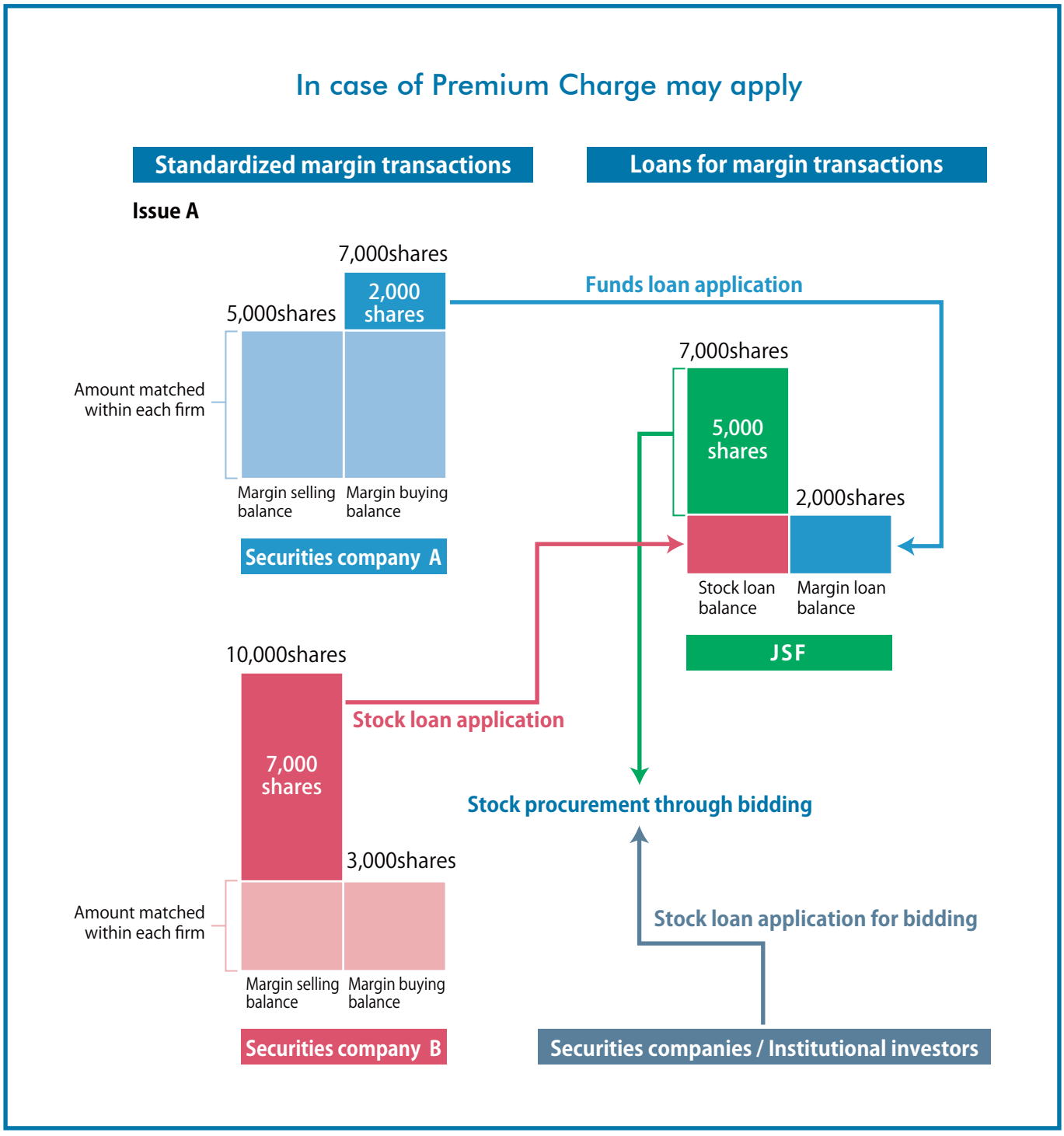
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions (5).To execute the loan, JSF, in place of the securities company, delivers funds or stock to clearing facilities of stock exchanges (6). The stock purchased (collateral stock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

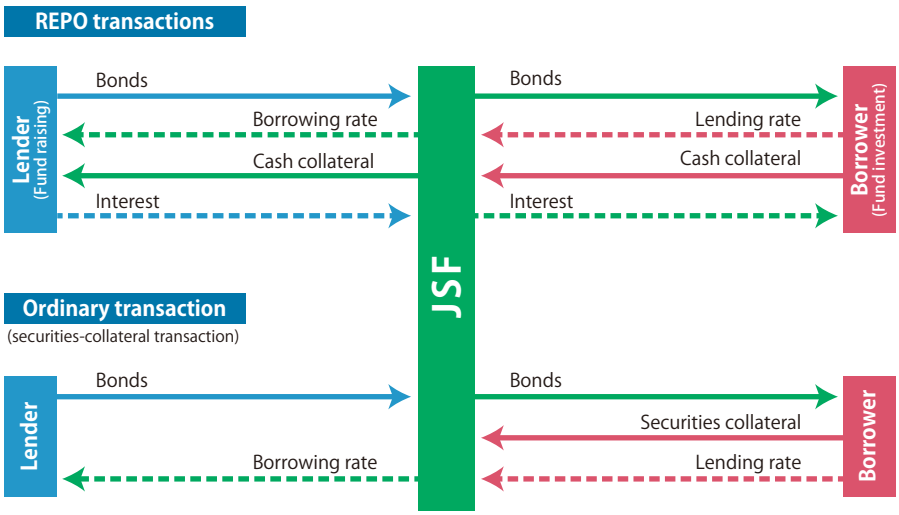
REPO transactions

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.

Types of bond transactions



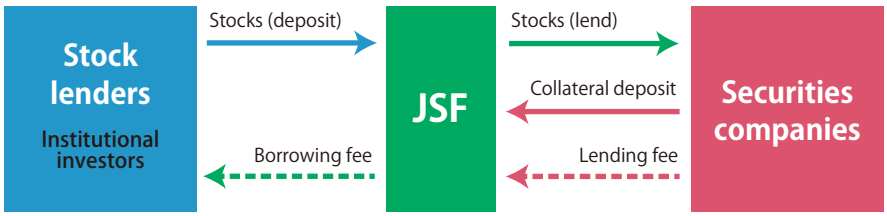
GENERAL STOCK LENDING

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.

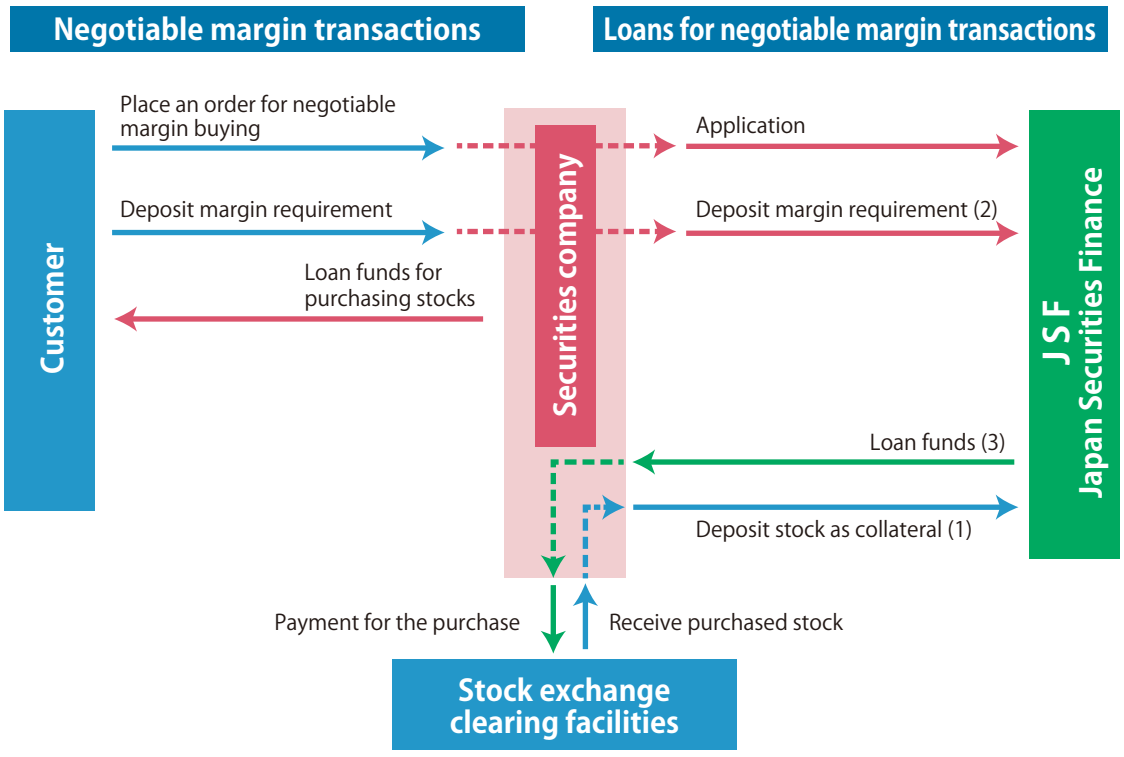
Interest rate

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

BASIC CONCEPT OF CORPORATE GOVERNANCE

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

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

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

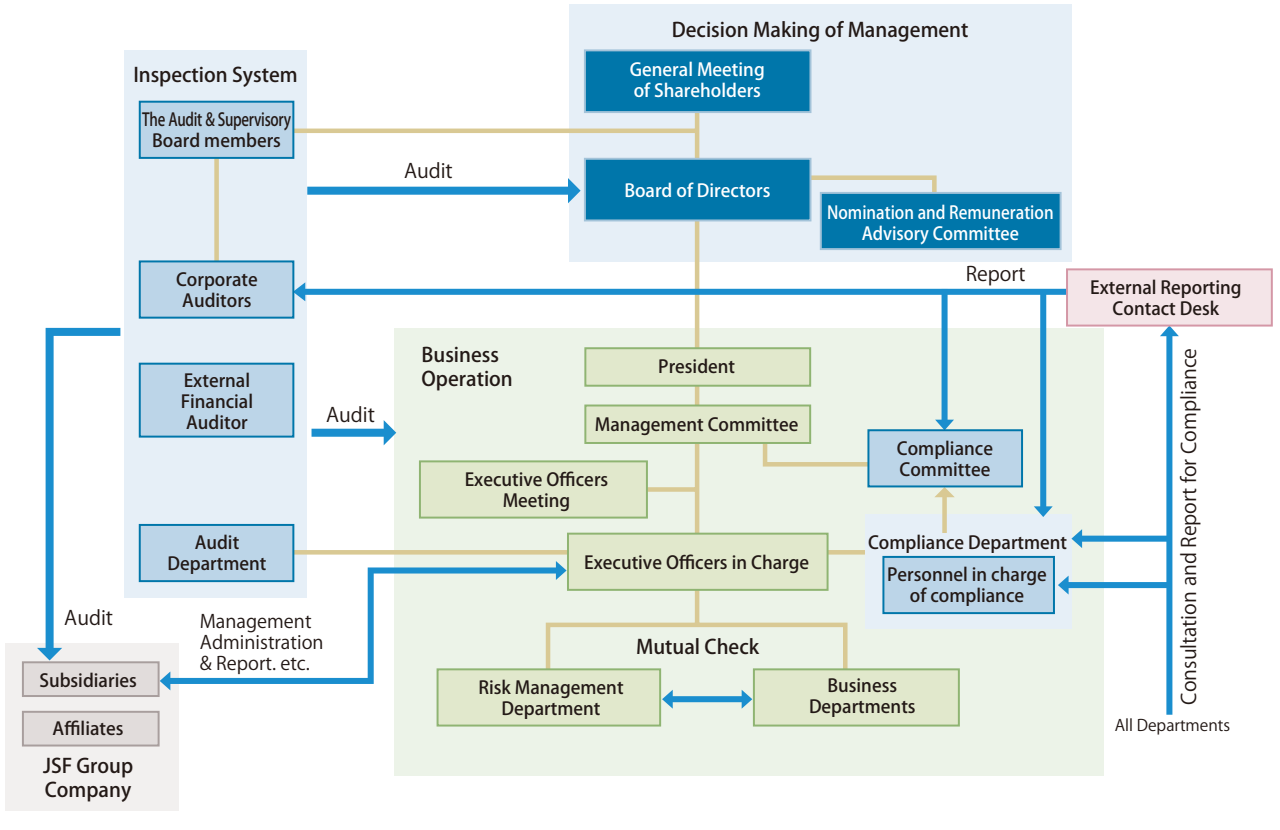
CORPORATE GOVERNANCE STRUCTURE

1. Management Structure

Below is an outline of JSF's management structure.

- The Board of Directors is the decision-making body for all matters related to management policy and the execution of operations, and it appoints executive officers who are charged with the execution of operations in accordance with its decisions.
- Directors are members of the Board of Directors and supervise the company's decision-making and the activities of representative directors. Executive officers execute the

Corporate Governance System Structure



operations of the Company in line with decisions made by the Board of Directors.
- Directors may concurrently serve as executive officers (executive directors).
- Executive officers comprise executive directors and executive officers.
- Executive officers are appointed for a term of 1 year.
- The Company has established a Nomination and Remuneration Advisory Committee in order to reinforce the supervisory functions of the Board of Directors.

2. Organization

To strengthen management supervisory functions, the Company stipulates that three of the ten directors must be outside directors, and outside directors serve as the center of the Board of Directors. In addition, two of the four members on the Audit & Supervisory Board must be outside Audit & Supervisory Board members. The Management Committee and Executive Officers Meeting serve as management-level decision-making bodies.

Below are outlines of these organizations.

1) Board of Directors

The Board of Directors may have up to ten members (including three outside directors).

Meetings of the Board of Directors shall in principle be convened once per month but may be convened at other times as necessary. During fiscal 2017, the Board of Directors met 11(eleven) times.

Positions on the Board of Directors shall consist of the chairperson, vice chairperson, president, executive vice president, senior managing directors, managing directors and directors. The Board of Directors may appoint directors to execute operations (executive directors).

Three outside directors appointed are expected to ensure the appropriateness of company operations and provide objective, neutral, outside supervision of management through advice and comments with a wealth of experience in management and professional knowledge and expertise.

2) Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee investigates such matters as election of candidates for directors, the Audit & Supervisory Board members and executive officers as well as their remunerations, in response to consultations from the Board of Directors, and provides advices and proposals to the Board. A majority of the members of the Nomination and Remuneration Advisory Committee are outside directors and outside auditors.

3) The Audit & Supervisory Board

The Audit & Supervisory Board may have up to four members, of which the majority must be outside Audit & Supervisory Board members.

The Audit & Supervisory Board shall make a decision on the execution of the duties of the Audit & Supervisory Board members and shall discuss the exercise of authority by the Audit & Supervisory Board members. Meetings of the Audit & Supervisory Board are convened from time to time as necessary. During fiscal 2017, the Audit & Supervisory Board met 11(eleven) times.

Two outside members are appointed and are expected to provide supervision based on a wealth of experience and broad knowledge and expertise.

4) Management Committee

The purpose of the Management Committee is to deliberate important matters related to the execution of company operations.

Members of the Management Committee are executive directors. When necessary, directors who are not executive directors and the Audit & Supervisory members may attend meetings of the Management Committee.

The Management Committee is in principle convened once per week. The Management Committee may also meet other times as necessary.

5) Executive Officers Meeting

The purpose of the Executive Officers Meeting is to report on the status of operations.

Members of the Executive Officers Meeting are all executive officers, including executive directors. Directors who are not executive directors and the Audit & Supervisory Board members may also attend the Executive Officers Meeting.

The Executive Officers Meeting is in principle convened once per week. The Executive Officers Meeting may also

meet other times as necessary.

3. Outside directors and outside Audit & Supervisory Board members

The Company has three outside directors and two outside Audit & Supervisory Board members.

The outside directors and outside Audit & Supervisory Board members have no interest in the Company other than owning shares in the Company. There are not now nor have there ever been factors requiring a determination of potential conflict of interest with general shareholders by the Tokyo Stock Exchange.

Outside directors are expected to ensure the appropriateness of company operations and provide objective, neutral, outside supervision of management through advice and comments based on their abundant experience in management and professional knowledge and expertise. They are in an objective position independent of the executive directors and have no potential conflicts of interest with general shareholders.

Outside Audit & Supervisory Board members are expected to provide supervision based on a wealth of experience and broad knowledge and expertise. They have a high degree of independence and no conflicts of interest with general shareholders and are therefore judged to contribute to auditing operations and compliance. They endeavor to mutually coordinate internal audit section etc.

Furthermore, the Company has established the following criteria for independence in appointing outside directors and outside auditors.

4. Status of internal audits and the Audit & Supervisory Board members audits

The internal audit structure consists of Audit Department that is independent of all other business units (approximately ten members).

Its duties are not only the internal audits of compliance with all applicable laws, regulations, contracts etc. It also figures out the management of risks and so forth by rigorous internal audits of the effectiveness and efficiency of operation, the accuracy and reliability of financial and operational information and the assets safeguarding/conservation. Through these activities, Audit Department verifies the appropriateness and effectiveness of internal management system in respect of control and management of risk and other factors in individual business units.

Internal audits, the Audit & Supervisory Board members audits and accounting audits are mutually coordinated. All who are responsible for these audits and internal control may exchange information etc. when necessary for closer coordination.

One of the Audit & Supervisory Board members Toshio Kamiyama is a certified public accountant and certified tax accountant and provides considerable insight on financial and accounting matters.

5. Status of accounting audits

Accounting audits of the Company are performed by certified public accountants Mitsuhiro Fukuda, Wataru Kobayashi and Hidehiro Goto of BDO 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.

6. Policy regarding the remuneration of directors and auditors

The Company has established its policy on the remuneration of directors and the Audit & Supervisory Board members as follows, in accordance with its "Basic Policy on Corporate Governance."

[Remuneration of directors, the Audit & Supervisory Board members and executive officers]

- With a view to enhancing the correlation with the Company's business performance and share value, the remuneration of executive directors and executive officers shall comprise a fixed monthly remuneration, officers' bonuses linked to business performance and share-based remuneration. For the officers' bonuses, an amount determined in accordance with the business performance of each fiscal year shall be paid, with the purpose of clarifying the management's responsibility.
- 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 performances, to the executive directors and executive officers, to whom the Company's shares will be issued

upon their retirement from office in accordance with the points. Outside directors and the Audit & Supervisory Board members shall receive only the fixed monthly remuneration, and the officers' bonuses or the share-based remuneration shall not be provided to them.

- Specific amounts of the remuneration for the directors and executive officers shall be determined by the Board of Directors based on the results of investigations made by the Nomination and Remuneration Advisory Committee. Modifications to the remuneration framework and the remuneration system, etc. shall also be investigated by the Nomination and Remuneration Advisory Committee.

COMPLIANCE SYSTEM

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

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

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

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

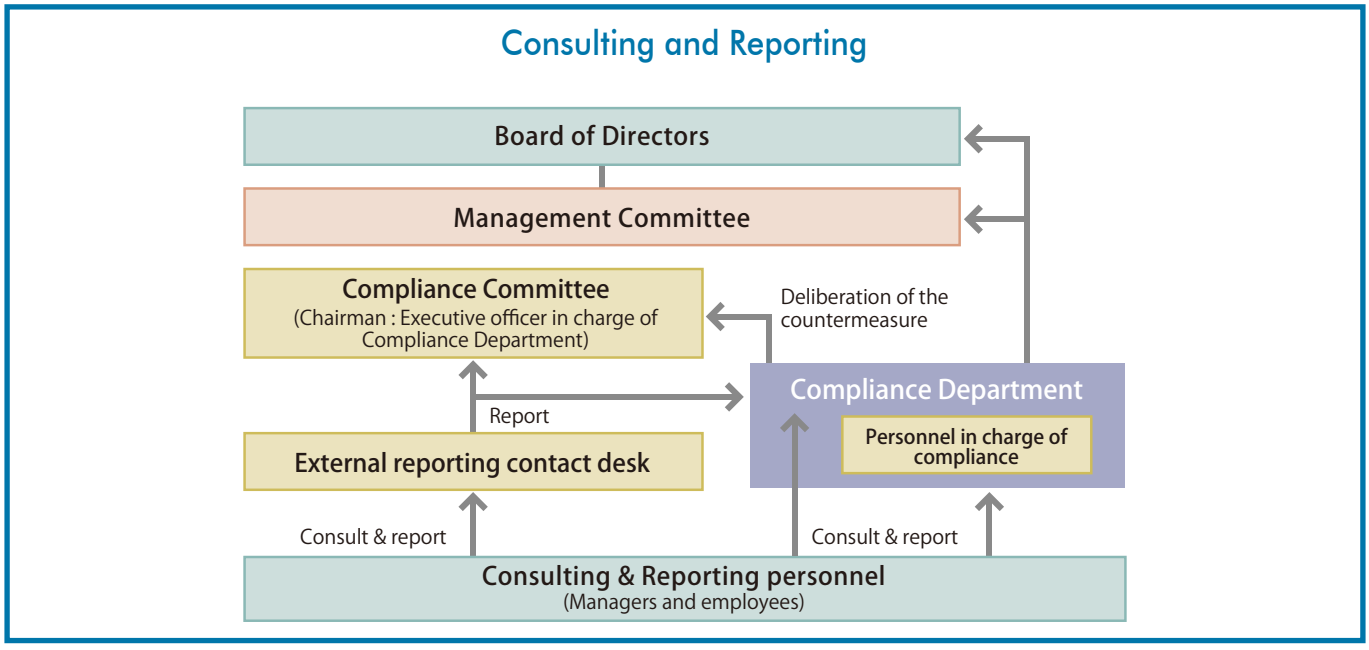
Consulting and reporting system regarding compliance

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

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

BUSINESS CONDUCT GUIDELINES

1) As an institution specializing in securities-related financing, the company recognizes its social responsibility and its public mission. It aims to establish firm trust through sound business operation.
2) The company will comply strictly with relevant rules and regulations. It will conduct its business activities in a fair and reliable manner, in accordance with social norms.
3) In the interests of its shareholders, the company will maximize its communications with a broad spectrum of society and will disclose information on the management of the organization in a fair and positive manner.



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 the Audit & Supervisory Board system as an institution under the Companies Act, and will proactively invite outside directors and outside Audit & Supervisory Board members from a wide range of economic circles including the securities and finance industries, in an effort to establish a system that enables implementation of supervision and audits from multi-faceted viewpoints.

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.

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.

(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, which is positioned by the Company as the decision-making institution on management policies and other issues, deliberates not only the matters designated by laws and regulations or the Articles of Incorporation but also important matters on business management.

In order to enhance business management efficiency and speed up execution of operations, the Board of Directors appoints executive officers to entrust them with execution of operations other than the matters to be deliberated by the Board of Directors.

The executive officers execute operations based on the decisions made by the Board of Directors. Furthermore, a Director may concurrently take office as an executive officer.

The Company has established the Management Committee, which deliberates important matters related to the execution of company operations, and the Executive Officers Meeting where the status of execution of operations is reported, among other purposes.

(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.

(3) The Audit & Supervisory Board and the Audit & Supervisory Board members

In performing their roles and responsibilities such as auditing the execution of the duties of the directors, the Audit & Supervisory Board members and the Audit & Supervisory Board endeavor to make appropriate judgment from their independent and objective standpoint, with their fiduciary duties to the shareholders in mind.

(4) Nomination and Remuneration Advisory Committee

The Company has established the Nomination and Remuneration Advisory Committee in order to reinforce the supervisory functions of the Board of Directors. The Nomination and Remuneration Advisory Committee investigates such matters as election of candidates for directors, the Audit & Supervisory Board members and executive officers as well as their remunerations, in response to consultations from the Board of Directors, and provides advices and proposals to the Board.

A majority of the members of the Nomination and Remuneration Advisory Committee shall be outside directors and outside auditors (hereinafter referred to as the "outside officers").

(5) Candidates for directors, the Audit & Supervisory Board members and executive 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, the Audit & Supervisory Board members 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 officers, the Company shall elect persons who, on top of the above, satisfy the criteria for independence the Company sets forth separately.

Election of candidates for the directors, the Audit & Supervisory Board members and executive officers shall be determined by the Board of Directors based on the results of investigations made by the Nomination and Remuneration Advisory Committee, pursuant to the provisions of laws and regulations.

(6) Remuneration of directors, the Audit & Supervisory Board members and executive officers

With a view to enhancing the correlation with the Company's business performance and share value, the remuneration of executive directors and executive officers shall comprise a fixed monthly remuneration, officers' bonuses linked to the business performance and share-based remuneration. For the officers' bonuses, an amount determined in accordance with the business performance of each fiscal year shall be paid, with the purpose of clarifying the management's responsibility. 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 performances, to the executive directors and executive officers, to whom the Company's shares will be issued upon their retirement from office in accordance with the points.

Outside directors and the Audit & Supervisory Board members shall receive only the fixed monthly remuneration, and the officers' bonuses or the share-based remuneration shall not be provided to them.

Specific amounts of the remuneration for the directors and executive officers shall be determined by the Board of Directors based on the results of investigations made by the Nomination and Remuneration Advisory Committee. Modifications to the remuneration framework and the remuneration system, etc. shall also be investigated by the Nomination and Remuneration Advisory Committee.

(7) 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 Audit & Supervisory Board meeting, a meeting by outside officers 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.

(8) 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.

(9) Support system and training policies for directors and the Audit & Supervisory Board members

In order for the directors and the Audit & Supervisory Board members 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 officers and the management team or coordination with the Audit & Supervisory Board members and the Audit & Supervisory Board, 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.

(10) 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 & Supervisory Board shall establish criteria to appropriately assess the accounting auditor. Moreover, the Audit & Supervisory Board 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 senior members of the management team, auditors 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.

Criteria for Independence of Outside Officers

The Company shall determine that, on top of the criteria for independence set forth by the Tokyo Stock Exchange, a person who falls under any of the following categories is not independent of the Company.

1. A person who currently falls under any of the following (1) through (5)

(1) Principal shareholder

- A person who is a principal shareholder of the Company (a shareholder holding shares that represent at least 10% of the total voting rights) or, if the person is a corporation, etc., its conducting representative

(2) Principal business partner

- A person for whom the Company is a principal customer (a person whose transaction amount with the Company accounts for at least 2% of the person's consolidated operating revenues in the latest fiscal year) or, if the person is a corporation, etc., its conducting representative
- A person who is a principal customer of the Company (a customer with whom the Company conducts business for an amount that accounts for at least 2% of the Company's consolidated operating revenues in the latest fiscal year) or, if the person is a corporation, etc., its conducting representative

(3) Experts, etc.

- Consultant, accountant or legal professional who receives monies or other economic benefits (excluding officers' remunerations) amounting to 10 million yen or more per fiscal year from the Company or, if the person is a corporation, etc., its conducting representative

(4) Donation

- A person who has received donation from the Company for the amount of 10 million or more per fiscal year or, if the person is a corporation, etc., its conducting representative

(5) Close relatives

- A close relative (spouse or a relative within the second degree of kinship) who falls under the categories of (1) through (4) above

2. A person who falls under any of the categories in 1. at any time in the past three years

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.

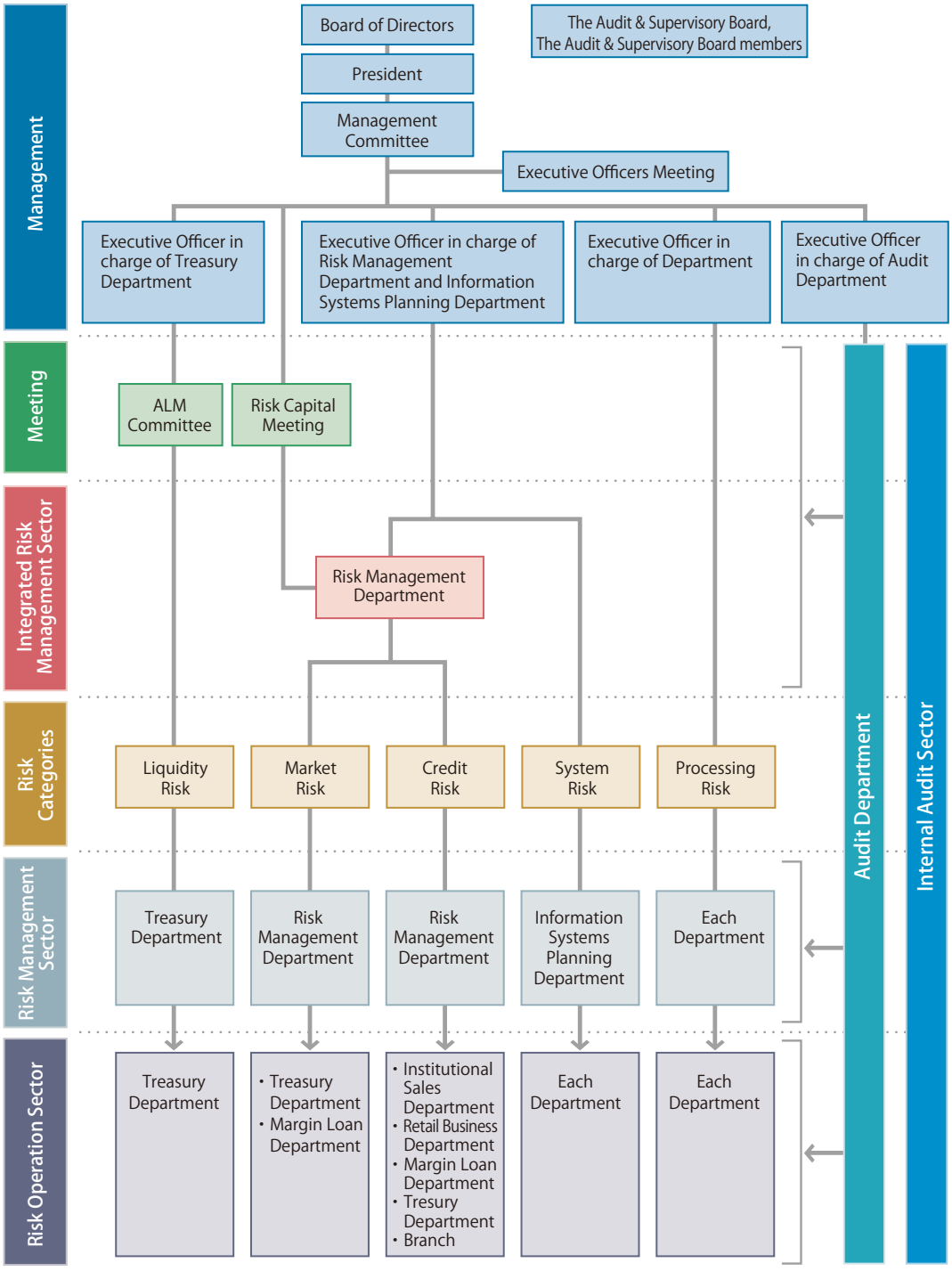
Risk Capital Meeting
The meeting is organized by the officers in charge of the Risk Management Department, Business Development Department, Corporate Planning Department, Treasury Department, Margin Loan Department, Institutional Sales Department and Retail Business Department, managers of the Risk Management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



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CONSOLIDATED BALANCE SHEET

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2018

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2018	2017	2018
Current assets:			
Cash (notes 3 and 15)	¥ 777,895	¥ 1,076,762	$ 7,322,054
Call loans	95,000	33,000	894,202
Short-term investments (notes 4 and 15)	60,817	238,498	572,449
Trade loans receivable (note 15)	1,002,931	587,752	9,440,239
Deferred tax assets (note 9)	768	279	7,229
Collateral money for securities borrowed	2,168,170	1,930,722	20,408,226
Other current assets (note 15)	57,791	75,682	543,966
Allowance for doubtful receivables	(1,118)	(254)	(10,523)
Total current assets	4,162,254	3,942,441	39,177,842
Property, plant and equipment:			
Buildings and structures	8,809	8,796	82,916
Tools, furniture and fixtures	1,583	1,546	14,900
Land (note 6)	3,265	3,265	30,732
	13,657	13,607	128,548
Accumulated depreciation	(7,368)	(6,985)	(69,352)
Net property, plant and equipment	6,289	6,622	59,196
Intangible assets, net	3,884	4,347	36,559
Investments and other assets:			
Investments in securities (notes 4, 5 and 15)	787,232	690,208	7,409,940
Other investments and other assets	1,948	2,592	18,336
Allowance for doubtful receivables	(678)	(1,158)	(6,382)
Total investments and other assets	788,502	691,642	7,421,894
Total assets	¥ 4,960,929	¥ 4,645,052	$ 46,695,491

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (note 2) 2018
Current liabilities:			
Call money (notes 7 and 15)	¥ 771,414	¥ 626,899	$ 7,261,050
Short-term borrowings and current installments of long-term borrowings (notes 7 and 15)	15,510	13,010	145,990
Commercial paper (note 7)	459,000	185,000	4,320,407
Accrued income taxes (note 9)	621	387	5,846
Collateral money received for securities lent	2,505,135	2,492,579	23,579,960
Other current liabilities	1,040,772	1,159,566	9,796,423
Total current liabilities	4,792,452	4,477,441	45,109,676
Non-current liabilities:			
Long-term borrowings (note 7)	3,000	4,000	28,238
Deferred tax liabilities (note 9)	10,396	9,411	97,854
Deferred tax liabilities for land revaluation (note 6)	74	74	696
Liability for retirement benefits (note 8)	441	3,034	4,151
Other non-current liabilities	10,755	11,380	101,233
Total non-current liabilities	24,666	27,899	232,172
Total liabilities	4,817,118	4,505,340	45,341,848
Stockholders' equity:			
Common stock (note 10): Authorized 200,000,000 shares; issued 100,000,000 shares in 2018 and 2017	10,000	10,000	94,127
Capital surplus (note 10)	11,326	11,326	106,608
Retained earnings (note 11)	108,588	106,196	1,022,101
Treasury stock, at cost; 5,311,432 shares in 2018 and 3,821,515 shares in 2017	(3,094)	(2,207)	(29,123)
Total stockholders' equity	126,820	125,315	1,193,713
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities (note 4)	24,484	19,737	230,459
Deferred loss on hedges (note 17)	(7,243)	(5,084)	(68,176)
Gain on revaluation of land (note 6)	168	168	1,581
Remeasurements of defined benefit plans (note 8)	(418)	(424)	(3,934)
Total accumulated other comprehensive income	16,991	14,397	159,930
Total net assets	143,811	139,712	1,353,643
Commitments and contingencies (note 18)			
Total liabilities and net assets	¥ 4,960,929	¥ 4,645,052	$ 46,695,491

CONSOLIDATED STATEMENT OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2018

	Millions of yen		Thousands of U.S. dollars (note 2)
	2018	2017	2018
Operating revenues	¥ 26,334	¥ 23,066	$ 247,873
Operating expenses	13,331	11,893	125,480
Operating profit	13,003	11,173	122,393
General and administrative expenses (note 12)	9,122	8,371	85,863
Operating income	3,881	2,802	36,530
Other income (deductions):			
Interest income	228	230	2,146
Dividend income	414	423	3,897
Interest expenses	(0)	(0)	(0)
Equity in earnings of affiliates	123	93	1,158
Gain on bad debt recovered	22	5	207
Gain on sale or liquidation of investments in securities	132	63	1,242
Loss on disposal of property, plant and equipment	–	(114)	–
Other, net	17	57	160
	936	757	8,810
Income before income taxes and non-controlling interests	4,817	3,559	45,340
Income taxes (note 9):			
Current	938	578	8,829
Deferred	(346)	(97)	(3,257)
	592	481	5,572
Net income	4,225	3,078	39,768
Net income attributable to non-controlling interests	–	–	–
Net income attributable to owners of parent	¥ 4,225	¥ 3,078	$ 39,768

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, 2018

	Millions of yen		Thousands of U.S. (note 2)
	2018	2017	2018
Net income	¥ 4,225	¥ 3,078	$ 39,768
Other comprehensive income (loss) arising during the year (note 13):			
Net unrealized gain (loss) on other securities (note 4)	4,837	(8,097)	45,529
Deferred gain (loss) on hedges (note 17)	(2,159)	4,165	(20,322)
Remeasurements of defined benefit plans (note 8)	(9)	413	(84)
Other comprehensive loss of affiliates accounted for by the equity method	(75)	(28)	(706)
Total other comprehensive income (loss) arising during the year	2,594	(3,547)	24,417
Comprehensive income (loss)	¥ 6,819	¥ (469)	$ 64,185
Comprehensive income (loss) attributable to:			
Owners of parent	¥ 6,819	¥ (469)	$ 64,185
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, 2018

Millions of yen

	Stockholders' equity					Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred loss on hedges	Gain on revaluation of land	Remeasur-ements of defined benefit	Total	Total net assets
	(note 10)	(note 10)	(note 11)			(note 4)	(note 17)	(note 6)	(note 8)		
Balance at March 31, 2016	¥ 10,000	¥ 11,471	¥ 104,669	¥ (2,054)	¥ 124,086	¥ 27,877	¥ (9,248)	¥ 168	¥ (852)	¥ 17,945	¥ 142,031
Changes arising during year:											
Cash dividends			(1,551)		(1,551)						(1,551)
Net income attributable to owners of parent			3,078		3,078						3,078
Purchase of treasury stock				(566)	(566)						(566)
Disposition of treasury stock		(145)		413	268						268
Net changes other than stockholders' equity						(8,140)	4,164	–	428	(3,548)	(3,548)
Total changes during the year	–	(145)	1,527	(153)	1,229	(8,140)	4,164	–	428	(3,548)	(2,319)
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

Thousands of U.S. dollars

(note 2)

	Stockholders' equity					Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred loss on hedges	Gain on revaluation of land	Remeasur-ements of defined benefit plans	Total	Total net assets
Balance at March 31, 2017	$ 94,127	$ 106,608	$ 999,586	$ (20,774)	$ 1,179,547	$ 185,777	$ (47,854)	$ 1,581	$ (3,990)	$ 135,514	$ 1,315,061
Changes arising during year:											
Cash dividends			(17,253)		(17,253)						(17,253)
Net income attributable to owners of parent			39,768		39,768						39,768
Purchase of treasury stock				(8,396)	(8,396)						(8,396)
Disposition of treasury stock				47	47						47
Net changes other than stockholders' equity						44,682	(20,322)	–	56	24,416	24,416
Total changes during the year	–	–	22,515	(8,349)	14,166	44,682	(20,322)	–	56	24,416	38,582
Balance at March 31, 2018	$ 94,127	$ 106,608	$ 1,022,101	$ (29,123)	$ 1,193,713	$ 230,459	$ (68,176)	$ 1,581	$ (3,934)	$ 159,930	$ 1,353,643

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, 2018

	Millions of yen		Thousands of U.S. dollars (note 2)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 4,817	¥ 3,559	$ 45,341
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,364	807	12,839
Loss on sale/disposal of property, plant and equipment	3	115	28
Gains relating to short-term investments and investments in securities	(730)	(88)	(6,871)
Allowance for doubtful receivables	384	(381)	3,614
Decrease in liabilities for retirement benefits	(2,594)	(390)	(24,416)
Interest and dividend income	(9,034)	(8,762)	(85,034)
Interest expenses	1,260	1,217	11,860
Equity in earnings of affiliates	(123)	(93)	(1,158)
Increase in trade loans receivable	(415,179)	(20,004)	(3,907,935)
Increase in call loans	(62,000)	(33,000)	(583,584)
Increase in collateral money for securities borrowed	(237,448)	(905,105)	(2,235,015)
Increase (decrease) in call money	144,515	(94,001)	1,360,269
Increase (decrease) in short-term borrowings	1,500	(185,000)	14,119
Increase in commercial paper	274,000	63,000	2,579,066
Increase in collateral money received for securities lent	12,556	942,926	118,185
Increase in collateral money received for loan transactions	12,124	37,597	114,119
Increase in long-term debt	–	1,000	–
Purchase of short-term investments and investments in securities	(253,811)	(66,169)	(2,389,034)
Proceeds from sale/redemption of short-term investments and investments in securities	345,217	463,347	3,249,407
Other, net	(114,603)	610,387	(1,078,718)
Sub total	(297,782)	810,962	(2,802,918)
Interest and dividend received	9,101	8,917	85,665
Interest paid	(1,128)	(1,150)	(10,618)
Income taxes paid	(706)	(540)	(6,645)
Net cash provided by (used in) operating activities	(290,515)	818,189	(2,734,516)
Cash flows from investing activities:			
Purchase of investments in securities	(8,498)	(11,217)	(79,989)
Proceeds from sale/redemption of investments in securities	4,520	4,403	42,545
Capital expenditures	(60)	(34)	(565)
Purchase of intangible assets	(408)	(661)	(3,840)
Other, net	6	1	57
Net cash used in investing activities	(4,440)	(7,508)	(41,792)
Cash flows from financing activities:			
Dividends paid to stockholders	(1,834)	(1,551)	(17,263)
Purchase of treasury stock	(892)	(566)	(8,396)
Disposition of treasury stock	–	268	–
Other, net	–	(53)	–
Net cash used in financing activities	(2,726)	(1,902)	(25,659)
Net increase (decrease) in cash and cash equivalents	(297,681)	808,779	(2,801,967)
Cash and cash equivalents at beginning of year	1,069,150	260,371	10,063,535
Cash and cash equivalents at end of year (note 3)	¥ 771,469	¥ 1,069,150	$ 7,261,568

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

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

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

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

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 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.

(e) Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is provided principally by the declining-balance method based on the estimated useful lives, except for the buildings acquired on or after April 1, 1998 and the leasehold improvements and structures acquired on or after April 1, 2016, which are depreciated based on the straight-line method.

The estimated useful lives are as follows:

Buildings and structures	3–50 years

(f) Intangible Assets

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

(g) Allowance for Doubtful Receivables

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

(h) Retirement and Severance Benefits

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

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

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

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

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

(i) Leases

All finance lease transactions are capitalized.

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

(j) Income Taxes

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

(k) Directors' Bonus

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

(l) Provision for Share Remuneration Plan

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

(m) Accounting standards issued but not yet applied

1. Accounting 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.

2. Implementation Guidance on Tax Effect Accounting etc.

・Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28 revised by the Accounting Standards Board of Japan on February 16, 2018)

・Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26 finally revised by the Accounting Standards Board of Japan on February 16, 2018)

(1) Overview

ASBJ made the following revisions that were deemed necessary on Implementation Guidance on Tax Effect Accounting, etc. basically following their relevant contents, when Practical Guidelines on Tax Effect Accounting were transferred to the ASBJ from under the control of the Japanese Institute of Certified Public Accountants.

(Major revised accounting treatments)

・Accounting treatment on taxable temporary differences from investments in subsidiaries, etc.in non-consolidated financial statements

・Accounting treatment on recoverability of deferred tax assets in companies that qualifies as Category 1

(2) Planned applicable date

The accounting standards are to be applied from the beginning of the year ending March 31, 2019.

(3) Impact of application of these accounting standards, etc.

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, 2018.

(2) Financial Statement Translation

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate as of March 31, 2018, which was ¥106.24 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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash	¥ 777,895	¥ 1,076,762	$ 7,322,054
Time deposits with maturities of over three months	(2,424)	(3,609)	(22,816)
Certificate of deposits with maturities of over three months	(4,002)	(4,003)	(37,670)
Cash and cash equivalents	¥ 771,469	¥ 1,069,150	$ 7,261,568

(4) Short-term Investments and Investments in Securities

No trading securities were held both as of March 31, 2018 and 2017.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2018				
Government bond securities	¥ 1,515	¥ 208	¥ —	¥ 1,723
	¥ 1,515	¥ 208	¥ —	¥ 1,723
March 31, 2017				
Government bond securities	¥ 1,515	¥ 179	¥ —	¥ 1,694
	¥ 1,515	¥ 179	¥ —	¥ 1,694

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2018				
Government bond securities	$ 14,260	$ 1,958	$ —	$ 16,218
	$ 14,260	$ 1,958	$ —	$ 16,218

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2018 and 2017 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
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
March 31, 2017				
Equity securities	¥ 5,307	¥ 6,574	¥ (57)	¥ 11,824
Bond securities:				
Government bond securities	630,558	24,643	(118)	655,083
Corporate bond securities	197,392	175	(8)	197,559
Other	44,865	23	(3,814)	41,074
Other securities	4,911	919	(39)	5,791
	¥ 883,033	¥ 32,334	¥ (4,036)	¥ 911,331

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2018				
Equity securities	$ 49,689	$ 80,111	$ (461)	$ 129,339
Bond securities:				
Government bond securities	5,789,307	241,293	(28)	6,030,572
Corporate bond securities	1,371,018	575	(499)	1,371,094
Other	192,028	2,579	(4,725)	189,882
Other securities	46,367	12,688	(179)	58,876
	$ 7,448,409	$ 337,246	$ (5,892)	$ 7,779,763

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unlisted equity securities	¥ 2,900	¥ 2,900	$ 27,297
Unlisted REITs	13,012	9,232	122,477
Investments in investment limited partnership	521	130	4,904

For the years ended March 31, 2018 and 2017, 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
	2018	2017	2018
Proceeds from sale of other securities	¥ 106,429	¥ 36,066	$ 1,001,779
Gross realized gains	1,524	1,215	14,345
Gross realized losses	219	619	2,061

For the year ended March 31, 2017, held-to-maturity securities of ¥40,171 million have been reclassified as other securities because there was no reasonable reason to hold the securities until maturity due to introduction of negative interest rate policy. As a result of this reclassification, investments in securities increased by ¥222 million, deferred tax liabilities increased by ¥68 million and net unrealized gain on other securities increased by ¥154 million.

Financial assets received as collateral on which the Company has a right of disposal as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
The fair value of the securities received as collateral	¥ 2,134,336	¥ 1,327,416	$ 20,089,759
Securities lent	231,482	195,192	2,178,859
Collateral provided	301,250	304,572	2,835,561
On hand	1,601,604	827,652	15,075,339

Balance sheet amount of securities lent under loan for consumption agreement, etc. as of March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term investments	¥ 35,699	¥ 64,541	$ 336,022
Investments in securities	555,606	423,620	5,229,725

The fair value of the securities borrowed under loan for consumption agreement, etc. as of March 31, 2018 and 2017 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
The fair value of the securities borrowed	¥ 2,098,145	¥ 2,052,027	$ 19,749,106
Securities loaned	2,071,442	2,017,692	19,497,760
Securities pledged as collateral	—	2,338	—
On hand	26,703	31,997	251,346

(5) Investments in Affiliates

The aggregate carrying amount of investments in affiliates as of March 31, 2018 and 2017 are ¥3,578 million ($33,678 thousand) and ¥3,597 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.

The value of the land as of March 31, 2018 decreased by ¥33 million ($311 thousand) in comparison with the book value of the land after revaluation.

(7) Debt

The composition of debt and the weighted average interest rate on debt as of March 31, 2018 and 2017 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2018			
Short-term borrowings	¥ 14,510	$ 136,578	0.037%
Long-term borrowings	4,000	37,651	0.542
Call money	771,414	7,261,050	(0.028)
Commercial paper	459,000	4,320,407	(0.000)
	¥ 1,248,924	$ 11,755,686	
March 31, 2017			
Short-term borrowings	¥ 13,010		0.031%
Long-term borrowings	4,000		0.542
Call money	626,899		(0.028)
Commercial paper	185,000		(0.000)
	¥ 828,909		

(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.

The Company has established a retirement benefit trust for further fiscal consolidation to cover defined benefit corporate retirement payments and lump-sum retirement payments. The Company has contributed ¥2,665 million ($25,085 thousand) to the trust and as a result liability for retirement benefits was decreased by the same amount.

Defined benefit plans

Followings are the information for the Company's and the consolidated subsidiaries' defined benefit plans as of March 31, 2018 and 2017 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
	2018	2017	2018
Retirement benefit obligation at beginning of year	¥ 8,544	¥ 8,714	$ 80,421
Service cost	315	348	2,965
Interest cost	34	18	320
Actuarial gains and losses	228	(240)	2,146
Benefits paid	(323)	(296)	(3,040)
Retirement benefit obligation at end of year	¥ 8,798	¥ 8,544	$ 82,812

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of year	¥ 5,748	¥ 5,464	$ 54,104
Expected return on plan assets	142	109	1,336
Actuarial gains and losses	252	205	2,372
Employer contributions	100	229	941
Benefits paid	(250)	(259)	(2,353)
Contribution to the retirement benefit trust	2,665	—	25,085
Plan assets at end of year	¥ 8,657	¥ 5,748	$ 81,485

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liability for retirement benefits at beginning of year	¥ 146	¥ 133	$ 1,374
Retirement benefit expenses	14	13	132
Contributions	(0)	(0)	(0)
Liability for retirement benefits at end of year	¥ 160	¥ 146	$ 1,506

(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
	2018	2017	2018
Funded retirement benefit obligation	¥ 8,798	¥ 6,767	$ 82,812
Plan assets	(8,657)	(5,748)	(81,485)
	141	1,019	1,327
Unfunded retirement benefit obligation	160	1,922	1,506
Net liability for retirement benefit recognized in consolidated balance sheet	¥ 301	¥ 2,941	$ 2,833
Liability for retirement benefit	¥ 301	¥ 2,941	$ 2,833
Net liability for retirement benefit recognized in consolidated balance sheet	¥ 301	¥ 2,941	$ 2,833

(5) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 315	¥ 348	$ 2,965
Interest cost	34	18	320
Expected return on plan assets	(142)	(109)	(1,337)
Amortization of actuarial gains or losses	66	150	621
Retirement benefit expenses calculated by the simplified method	14	13	132
Retirement benefit expenses	¥ 287	¥ 420	$ 2,701

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Actuarial gains or losses	¥ 90	¥ 596	$ 847
Total	¥ 90	¥ 596	$ 847

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unamortized actuarial gains or losses	¥ 373	¥ 463	$ 3,511
Total	¥ 373	¥ 463	$ 3,511

(8) Plan assets

(a) Percentage by major category of plan assets

	2018	2017
Debt securities	44.9%	34.8%
Equity securities	41.6	45.6
General account	11.1	17.2
Other	2.4	2.4
Total	100.0%	100.0%

Plan assets at March 31, 2018 include the retirement benefit trust contributed for the year ended March 31, 2018 which is 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, 2018 and 2017 are as follows:

	2018	2017
(a) Discount rate	0.3%	0.4%
(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, 2018 and 2017, the amount to be paid by the Company and its consolidated subsidiaries to the defined contribution plans was ¥37 million ($348 thousand) and ¥36 million, respectively.

Liability for retirement benefits (directors and corporate auditors)

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

As of March 31, 2018 and 2017, the liability for retirement benefits related to the plans were ¥42 million ($395 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% both in 2018 and 2017.

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, 2018 and 2017 is follows:

	2018	2017
Statutory tax rate	30.9%	30.9%
Equity in gains of affiliates	(0.8)	(0.8)
Expenses not deductible for tax purposes	1.1	0.7
Valuation allowance	(18.2)	(17.4)
Income not credited for tax purposes	(2.0)	(2.0)
Other	1.3	2.1
Effective tax rate	12.3%	13.5%

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

Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Accrued business tax	¥ 75	¥ 64	$ 706
Accrued bonuses	194	166	1,826
Liability for retirement benefits (employees)	840	904	7,907
Liability for retirement benefits (directors and corporate auditors)	13	13	122
Allowance for doubtful receivables	532	294	5,008
Tax loss carryforward	488	3,626	4,593
Deferred losses on hedges	4,199	3,807	39,524
Net unrealized loss on other securities	175	1,197	1,647
Other	308	308	2,899
	6,824	10,379	64,232
Valuation allowance	(2,480)	(5,955)	(23,343)
	4,344	4,424	40,889
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(155)	(155)	(1,459)
Net unrealized gain on other securities	(10,970)	(9,877)	(103,257)
Gain on transfer of investment in an affiliate	(359)	(359)	(3,379)
Gain on evaluation of acquired assets by merger	(603)	(603)	(5,676)
Deferred losses on hedges	(1,866)	(2,541)	(17,564)
Other	(19)	(21)	(179)
	(13,972)	(13,556)	(131,514)
Net deferred tax liabilities	¥ (9,628)	¥ (9,132)	$ (90,625)

Net deferred tax assets and liabilities as of March 31, 2018 and 2017 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current assets - Deferred tax assets	¥ 768	¥ 279	$ 7,229
Non-current liabilities - Deferred tax liabilities	(10,396)	(9,411)	(97,854)

(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, 2018 and 2017 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, 2017

The following was approved by the general meeting of stockholders held on June 24, 2016.

(a)	Total dividends	¥775 million
(b)	Cash dividends per common share	¥8
(c)	Record date	March 31, 2016
(d)	Effective date	June 27, 2016

The following was approved by the Board of Directors held on November 7, 2016.

(a)	Total dividends	¥775 million
(b)	Cash dividends per common share	¥8
(c)	Record date	September 30, 2016
(d)	Effective date	December 5, 2016

(b) 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	¥968million($9,111 thousand)
(b)	Cash dividends per common share	¥10 ($0.09)
(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 ($8,142 thousand)
(b)	Cash dividends per common share	¥9 ($0.08)
(c)	Record date	September 30, 2017
(d)	Effective date	December 4, 2017

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2018

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

(a)	Total dividends	¥1,621 million ($15,258 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥17 ($0.16)
(d)	Record date	March 31, 2018
(e)	Effective date	June 25, 2018

(12) General and Administrative Expenses

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Salaries	¥ 3,073	¥ 3,113	$ 28,925
Retirement benefit expenses	324	456	3,050
Depreciation	1,364	807	12,839

(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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized gain (loss) on other securities:			
Arising during the year	¥ 8,209	¥ (10,996)	$ 77,268
Reclassification adjustment	(1,304)	(596)	(12,274)
Before tax amount	6,905	(11,592)	64,994
Tax benefit (expense)	(2,068)	3,495	(19,465)
Net-of-tax amount	4,837	(8,097)	45,529
Deferred gain (loss) on hedges:			
Arising during the year	(3,483)	5,320	(32,784)
Reclassification adjustment	-	-	-
Before tax amount	(3,483)	5,320	(32,784)
Tax benefit (expense)	1,324	(1,155)	12,462
Net-of-tax amount	(2,159)	4,165	(20,322)
Remeasurements of defined benefit plans:			
Arising during the year	24	445	226
Reclassification adjustment	66	150	621
Before tax amount	90	595	847
Tax benefit (expense)	(99)	(182)	(931)
Net-of-tax amount	(9)	413	(84)
Share of other comprehensive income (loss) of affiliates accounted for by equity method:			
Arising during the year	128	53	1,205
Reclassification adjustment	(203)	(81)	(1,911)
	(75)	(28)	(706)
Total other comprehensive income (loss)	¥ 2,594	¥ (3,547)	$ 24,417

(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, 2018 and 2017 are as follows:

	Yen		U.S. dollars
	2018	2017	2018
Basic net income per share	¥ 44.24	¥ 31.91	$ 0.42

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net income attributable to owners of the parent	¥ 4,225	¥ 3,078	$ 39,768
Net income not applicable to common stockholders	—	—	—
Net income attributable to owners of the parent applicable to common stockholders	¥ 4,225	¥ 3,078	$ 39,768

	Number of shares (Thousands)	
	2018	2017
Weighted average number of shares outstanding on which basic net income per share is calculated	95,494	96,481

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, 2018 and 2017 are as follows:

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share	¥ 1,518.77	¥ 1,452.64	$ 14.30

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total net assets	¥ 143,811	¥ 139,712	$ 1,353,643
Amount deducted from total net assets	—	—	—
Net assets applicable to common stockholders	¥ 143,811	¥ 139,712	$ 1,353,643

	Number of shares (Thousands)	
	2018	2017
Number of shares outstanding at end of year on which net assets per share is calculated	94,688	96,178

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, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Short-term investments	¥ 23,817	¥ 171,757	$ 224,181
Trade loans receivable	415,678	160,329	3,912,632
Investments in securities	167,968	129,231	1,581,024

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Call money	¥ 205,000	¥ 232,300	$ 1,929,593
Short-term borrowings	5,000	5,000	47,063

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
	2018	2017	2018
Cash	¥ 25	¥ 25	$ 235
Other current assets	46,505	61,801	437,735
Investments in securities	1,785	1,668	16,802

(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 ¥9,084 million ($85,505thousand) as of March 31, 2018.

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 ¥4,209 million ($39,618 thousand) as of March 31, 2018.

(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, 2018 and 2017 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					
	2018			2017		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 777,895	¥ 777,895	¥ —	¥ 1,076,762	¥ 1,076,762	¥ —
(2) Call loan *1	94,893	94,893	—	32,963	32,963	—
(3) Trade loans receivable	1,002,931			587,752		
Allowance for doubtful receivables *1	(256)			(119)		
	1,002,675	1,002,675	—	587,633	587,633	—
(4) Collateral money for securities borrowed *1	2,167,416	2,167,416	—	1,930,624	1,930,624	—
(5) Short-term investments and investments in securities						
Held-to-maturity securities	1,515	1,723	208	1,515	1,694	179
Other securities	826,522	826,522	—	911,331	911,331	—
Total	¥ 4,870,916	¥ 4,871,124	¥ 208	¥ 4,540,828	¥ 4,541,007	¥ 179
(1) Call money	¥ 771,414	¥ 771,414	¥ —	¥ 626,899	¥ 626,899	¥ —
(2) Short-term borrowings	14,510	14,510	—	13,010	13,010	—
(3) Commercial paper	459,000	459,000	—	185,000	185,000	—
(4) Collateral money received for securities lent	2,505,135	2,505,135	—	2,492,579	2,492,579	—
(5) Long-term borrowings	4,000	4,000	—	4,000	4,000	—
Total	¥ 3,754,059	¥ 3,754,059	¥ —	¥ 3,321,488	¥ 3,321,488	¥ —
Derivative transactions *2	¥ (8,905)	¥ (8,905)	¥ (—)	¥ (9,380)	¥ (9,380)	¥ (—)

	Thousands of U.S. dollars		
	2018		
	Carrying value	Fair value	Differences
Assets:			
(1) Cash	$ 7,322,054	$ 7,322,054	$ —
(2) Call loan *1	893,195	893,195	—
(3) Trade loans receivable	9,440,239		
Allowance for doubtful receivables *1	(2,410)		
	9,437,829	9,437,829	—
(4)Collateral money for securities borrowed *1	20,401,129	20,401,129	—
(5)Short-term investments and investments in securities			
Held-to-maturity securities	14,260	16,218	1,958
Other securities	7,779,763	7,779,763	—
Total	$ 45,848,230	$ 45,850,188	$ 1,958
(1)Call money	$ 7,261,050	$ 7,261,050	$ —
(2)Short-term borrowings	136,578	136,578	—
(3)Commercial paper	4,320,407	4,320,407	—
(4)Collateral money received for securities lent	23,579,960	23,579,960	—

(5) Long-term borrowings	37,651	37,651	—
Total	$ 35,335,646	$ 35,335,646	$ —
Derivative transactions *2	$ (83,820)	$ (83,820)	$ (—)

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

<1> Fair value measurement of financial instruments

Assets:

(1) Cash and (2) Call loan

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

(3) Trade loans receivable

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

(4) Collateral money for securities borrowed

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

(5) 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 and (4) Collateral money received for securities lent

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

(5) 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
	2018	2017	2018
Unlisted equity securities			
Other securities	¥ 2,900	¥ 2,900	$ 27,297
Investments in affiliates	3,578	3,597	33,678
Unlisted REITs	13,012	9,232	122,477
Investments in investment limited partnership	521	130	4,904

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, 2018

	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	¥ 777,895	¥ —	¥ —	¥ —
(2) Call loan	95,000	—	—	—
(3) Trade loans receivable	959,869	43,062	—	—
(4) Collateral money for securities borrowed	2,148,171	20,000	—	—
(5) Short-term investments and investments in securities				
Held-to-maturity securities				
(Government bonds)	—	—	—	1,500
Other securities with maturities				
Bond securities				
Government bonds	39,698	288,999	17,000	265,000
Corporate bonds	20,944	124,424	—	—
Other	—	—	18,548	—
Total	¥ 4,041,577	¥ 476,485	¥ 35,548	¥ 266,500

	Thousands of U.S. dollars			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
(1) Cash	$ 7,322,054	$ —	$ —	$ —
(2) Call loan	894,202	—	—	—
(3) Trade loans receivable	9,034,911	405,327	—	—
(4) Collateral money for securities borrowed	20,219,983	188,253	—	—
(5) Short-term investments and investments in securities				
Held-to-maturity securities				
(Government bonds)	—	—	—	14,119
Other securities with maturities				
Bond securities				
Government bonds	373,663	2,720,247	160,015	2,494,352
Corporate bonds	197,139	1,171,160	—	—
Other	—	—	174,586	—
Total	$ 38,041,952	$ 4,484,987	$ 334,601	$ 2,508,471

<4> The annual maturities of the long-term borrowings, lease liabilities and other interest bearing liabilities as of March 31, 2018

	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	¥ 771,414	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	14,510	—	—	—	—	—
Commercial paper	459,000	—	—	—	—	—
Collateral money received for securities lent	2,505,135	—	—	—	—	—
Long-term borrowings	1,000	—	—	—	—	3,000
Total	¥ 3,751,059	¥ —	¥ —	¥ —	¥ —	¥ 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	$ 7,261,050	$ —	$ —	$ —	$ —	$ —
Short-term borrowings	136,578	—	—	—	—	—
Commercial paper	4,320,407	—	—	—	—	—
Collateral money received for securities lent	23,579,960	—	—	—	—	—
Long-term borrowings	9,413	—	—	—	—	28,238
Total	$ 35,307,408	$ —	$ —	$ —	$ —	$ 28,238

(17) Derivative Financial Instruments

Derivative transactions to which hedge accounting are applied as of March 31, 2018 and 2017 are summarized as follows:

(a) Exchange rate derivatives

			Millions of yen			
			2018		2017	
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	¥ 18,548	¥ 231	¥ 38,744	¥ (446)

			Thousands of U.S. dollars	
			2018	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Forward exchange contract: Sell: Euro	Investments in securities	$ 174,586	$ 2,174

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

(b) Interest rate derivatives

			Millions of yen			
			2018		2017	
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	¥ 285,291	¥ (9,136)	¥ 312,150	¥ (8,934)
*2	Interest rate swaps:					
	Variable rate received for fixed rate	Trade loans	54,226	*3	74,711	*3
	Variable rate paid for variable rate	Long-term borrowings	3,000	*3	3,000	*3

			Thousands of U.S. dollars	
			2018	
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	$ 2,685,345	$ (85,994)
*2	Interest rate swaps:			
	Variable rate received for fixed rate	Trade loans	510,410	*3
	Variable rate paid for variable rate	Long-term borrowings	28,238	*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.

(c) Bond derivatives

			Millions of yen	
			2018	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Bond futures:			
	Sell	Investments in securities	¥ 1,357	¥ (0)

Hedge accounting method	Nature of transaction	Hedged items	Thousands of U.S. dollars 2018 Contract or notional amounts	Fair value
*1	Bond futures: Sell	Investments in securities	$ 12,773	$ (0)

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

(18) Commitments and Contingencies

As of March 31, 2018 and 2017, 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
	2018	2017	2018
Total credit line	¥ 789,958	¥ 744,768	$ 7,435,599
Drawn amount	32,000	15,730	301,205
Undrawn amount	¥ 757,958	¥ 729,038	$ 7,134,394

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, 2018 and 2017 was summarized as follows:

	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	¥ 3,854,296	¥ 1,122,363	¥ 9,829	¥ 4,986,488
Others:				
Depreciation and amortization	¥ 1,153	¥ 85	¥ 126	¥ 1,364
Interest income	228	—	11	239
Income taxes	317	55	221	593

	Thousands of U.S. dollars			
	2018			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	$ 211,672	$ 27,974	$ 8,227	$ 247,873
Intersegment revenues and transfers	19	75	3,709	3,803
Total	$ 211,691	$ 28,049	$ 11,936	$ 251,676
Segment income	$ 34,130	$ 3,963	$ 6,099	$ 44,192
Segment assets	$ 36,279,141	$ 10,564,411	$ 92,517	$ 46,936,069
Others:				
Depreciation and amortization	$ 10,853	$ 800	$ 1,186	$ 12,839
Interest income	2,146	—	104	2,250
Income taxes	2,984	518	2,080	5,582

	Millions of yen			
	2017			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 19,407	¥ 2,793	¥ 866	¥ 23,066
Intersegment revenues and transfers	11	7	392	410
Total	¥ 19,418	¥ 2,800	¥ 1,258	¥ 23,476
Segment income	¥ 2,636	¥ 426	¥ 590	¥ 3,652
Segment assets	¥ 3,417,970	¥ 1,259,394	¥ 9,509	¥ 4,686,873
Others:				
Depreciation and amortization	¥ 544	¥ 114	¥ 140	¥ 798
Interest income	229	—	10	239
Income taxes	184	75	222	481

Reconciliation between total segment revenues in the table above and revenues in the accompanying consolidated statement of income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total segment revenues	¥ 26,738	¥ 23,476	$ 251,676
Intersegment revenues	(404)	(410)	(3,803)
Revenues in the accompanying consolidated statement of income	¥ 26,334	¥ 23,066	$ 247,873

Reconciliation between total segment income in the table above and ordinary income for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total segment income	¥ 4,695	¥ 3,652	$ 44,192
Intersegment income	(132)	(133)	(1,242)
Equity in earnings of affiliates	123	93	1,158
Ordinary income	¥ 4,686	¥ 3,612	$ 44,108

Reconciliation between total segment assets in the table above and assets in the consolidated accompanying balance sheet as of March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total segment assets	¥ 4,986,488	¥ 4,686,873	$ 46,936,069
Intersegment accounts	(2,357)	(18,765)	(22,186)
Intersegment investments	(26,269)	(26,269)	(247,261)
Other	3,067	3,213	28,869
Assets in the accompanying consolidated balance sheet	¥ 4,960,929	¥ 4,645,052	$ 46,695,491

Reconciliation between others in the table above and amounts in the consolidated financial statements as of and for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2018			
Depreciation and amortization	¥ 1,364	¥ 0	¥ 1,364
Interest income	239	(11)	228
Income taxes	593	(1)	592
March 31, 2017			
Depreciation and amortization	¥ 798	¥ 9	¥ 807
Interest income	239	(9)	230
Income taxes	481	(0)	481

	Thousands of U.S. dollars		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2018			
Depreciation and amortization	$ 12,839	$ 0	$ 12,839
Interest income	2,250	(104)	2,146
Income taxes	5,582	(10)	5,572

Related Information

(a) Information by services

Sales by services for the years ended March 31, 2018 and 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans for margin transaction	¥ 13,254	¥ 10,721	$ 124,756
Bond lending	3,577	3,512	33,669
Other	9,503	8,833	89,448
	¥ 26,334	¥ 23,066	$ 247,873

(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, 2018 and 2017.

(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, 2018 and 2017.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2018 and 2017.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2018 and 2017.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2018 and 2017.

(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 ¥262 million ($2,466 thousand) and the number of the stocks was 627 thousand shares at March 31, 2018, and ¥268 million and the number of the stocks was 640 thousand shares at March 31, 2017.

(21) Subsequent Event

Acquisition of treasury stocks

The Board of Directors of the Company approved at May 14, 2018 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: ¥800 million ($7,530 thousand) (upper limit)

   (4) Acquisition schedule: From June 6, 2018 to March 22, 2019

Additional contribution to the "Board Benefit Trust (BBT)"

The Board of Directors of the Company approved at May 14, 2018 to contribute additional money to the "Board Benefit Trust (BBT)" and the Company contributed ¥45 million ($424 thousand) to BBT at May 29, 2018. Because the remuneration for executive officers has been increased, additional money is required for BBT to ensure the availability of funds to acquire the Company's common stock.

BBT acquired 56,000 shares of the Company's common stock by ¥36 million ($339 thousand) during the specified period for acquisition of the Company's common stock from May 29, 2018 to June 5, 2018.

Tel: +81-3-3295-1040
Fax: +81-3-3295-1993
www.bdo-toyo.or.jp

BDO Toyo & Co.
Kandamitoshirocho7,
Chiyoda-ku,Tokyo
101-0053 Japan

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., which comprise the consolidated balance sheet as of March 31, 2018, 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 financial position of Japan Securities Finance Co., Ltd. as of March 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
Our audits 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.

BDO Toyo & Co.
Tokyo, Japan
June 25, 2018

BDO Toyo & Co.

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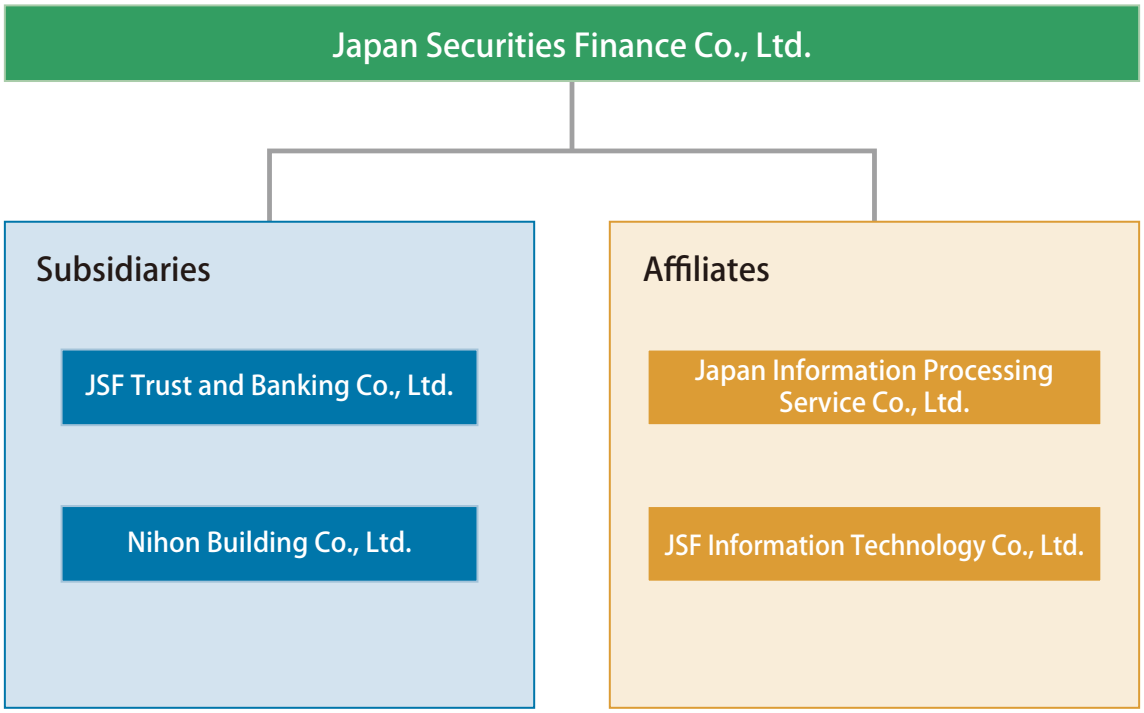


Name	Capital (millions of yen)	Ratio of shareholding	Business overview
Subsidiaries			
JSF Trust and Banking Co., Ltd.	14,000	100	Trust service, Banking services
Nihon Building Co., Ltd.	100	100	Real estate ownership and leasing Real estate trading and brokerage
Affiliates			
Japan Information Processing 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
Eizo Kobayashi

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
252

Share Information

Shares outstanding
100,000,000 shares（as of March 31, 2018）

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

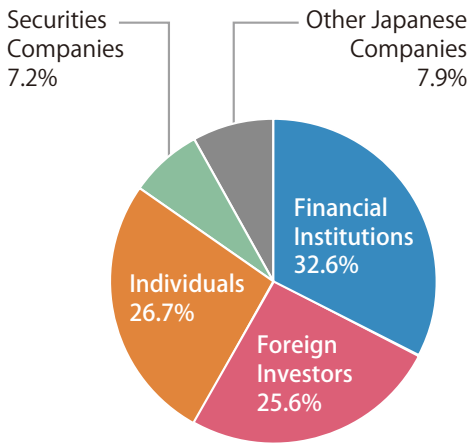
Number of shareholders
13,006（as of March 31, 2018）

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)	6,009	6.30
Japan Trustee Services Bank, Ltd. (Trust account 9)	5,129	5.38
Shihon-Shijo Shinko Foundation	4,810	5.04
The Master Trust Bank of Japan, Ltd. (Trust account)	3,632	3.81
Mizuho Bank, Ltd.	3,536	3.70
Japan Trustee Services Bank, Ltd. (Trust account 4)	3,038	3.18
State Street Bank And Trust Company 505001	2,563	2.68
Northern Trust Co.(AVFC) RE IEDU UCITS Clients Non Lending 15 PCT Treaty Account	2,119	2.22
State Street Bank West Client-Treaty 505234	1,778	1.86
Government of Norway	1,763	1.85

Composition of shareholders
(by number of shares)



Executives

(As of June 22, 2018)

Directors

Chairperson	Minoru Masubuchi *
President	Eizo Kobayashi *
Vice President	Shunichiro Higuchi *
Senior Managing Director	Kenji Fukushima
	Kazuhiro Maeda
Managing Director	Yutaka Okada
Director	Takashi Imai **
	Tetsuo Mae **
	Eiko Shinotsuka **

(* Representative Directors)
(** Outside Directors)

Executive Officers

Chairperson	Minoru Masubuchi
President	Eizo Kobayashi
Vice President	Shunichiro Higuchi
Senior Managing Director	Kenji Fukushima
	Kazuhiro Maeda
Managing Director	Yutaka Okada
Executive Officer	Tetsuya Tawara
	Morikuni Shimoyamada
	Osamu Nishida
	Masaru Fukui

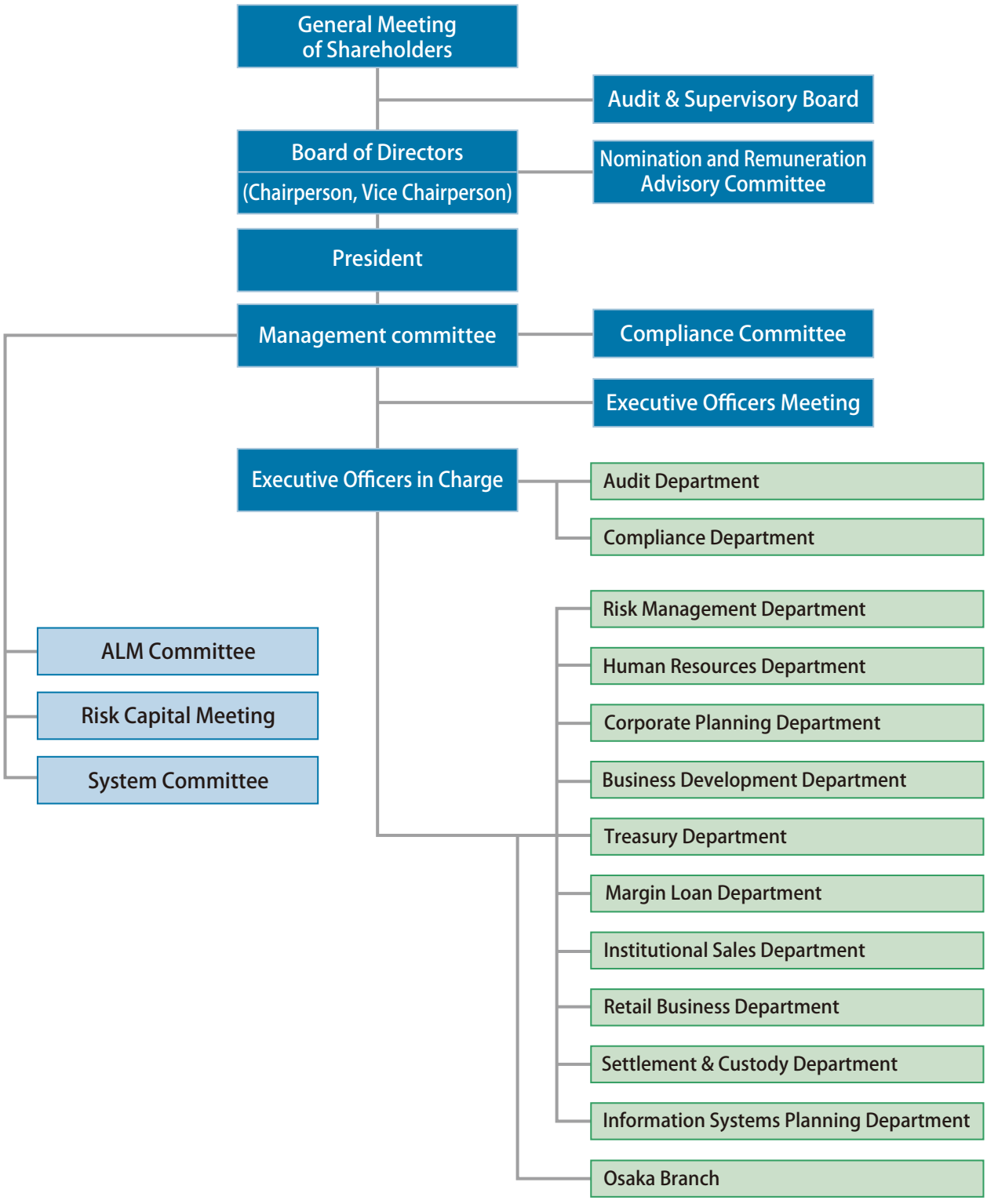
Audit & Supervisory Board Member

Shuuya Iimura *
Yasuhiro Hirama
Toshio Kamiyama *
(* Outside Audit & Supervisory Board Member)

Rating Information

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

ORGANIZATION



JSF

JAPAN SECURITIES FINANCE CO., LTD.

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