Securities Finance

ANNUAL REPORT 2015

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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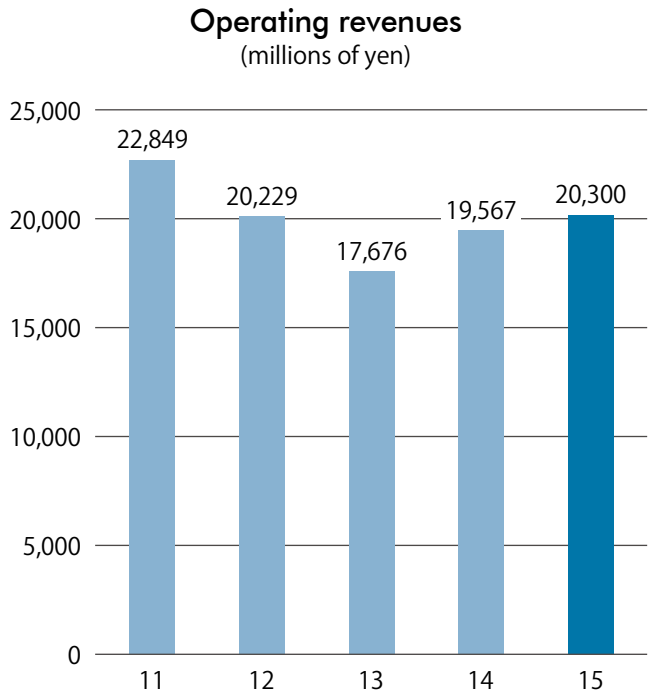
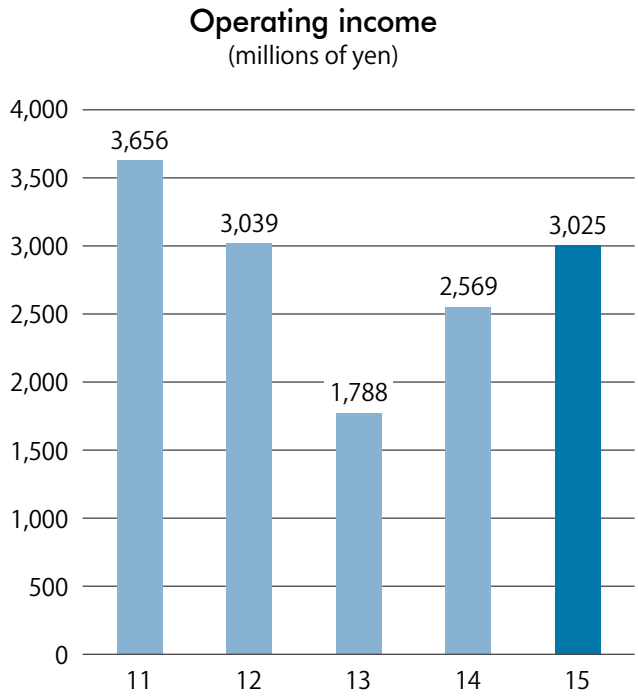
FINANCIAL HIGHLIGHTS

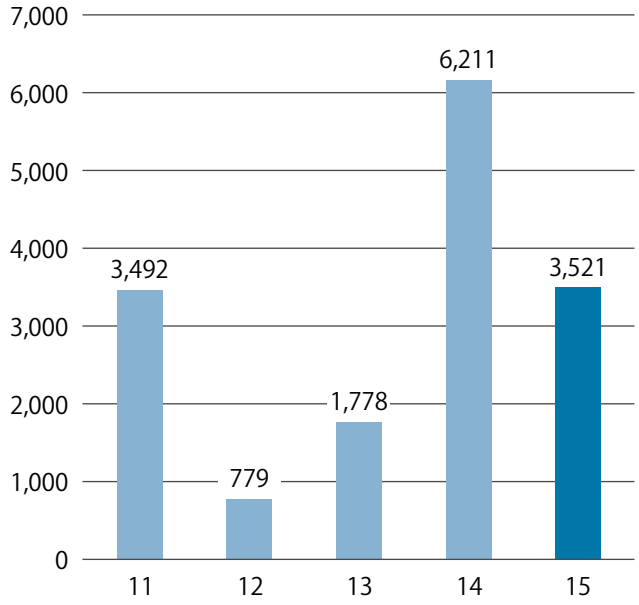
	Millions of yen*					Thousands of U.S. dollars*
	2011	2012	2013	2014	2015	2015
Operating Results:						
Operating revenues	¥ 22,849	¥ 20,229	¥ 17,676	¥ 19,567	¥ **20,300**	$ **168,927**
Operating income	3,656	3,039	1,788	2,569	**3,025**	**25,173**
Net income	3,492	779	1,778	6,211	**3,521**	**29,300**
Financial Position:						
Total assets	¥ 7,078,138	¥ 4,931,286	¥ 3,433,456	¥ 3,914,388	¥ **3,482,602**	$ **28,980,627**
Net assets	114,927	115,547	118,591	135,228	**137,145**	**1,141,258**
Shareholders' equity ratio (%)	1.73	2.56	3.45	3.45	**3.94**	**3.94**
Per Share Data:						
Net income	¥ 37.73	¥ 8.42	¥ 19.10	¥ 60.35	¥ **33.94**	$ **0.28**
Net assets	1,241.67	1,245.83	1,274.67	1,260.43	**1,373.94**	**11.43**
Cash dividend	14	14	14	14	**15**	**0.12**

* except per share amount

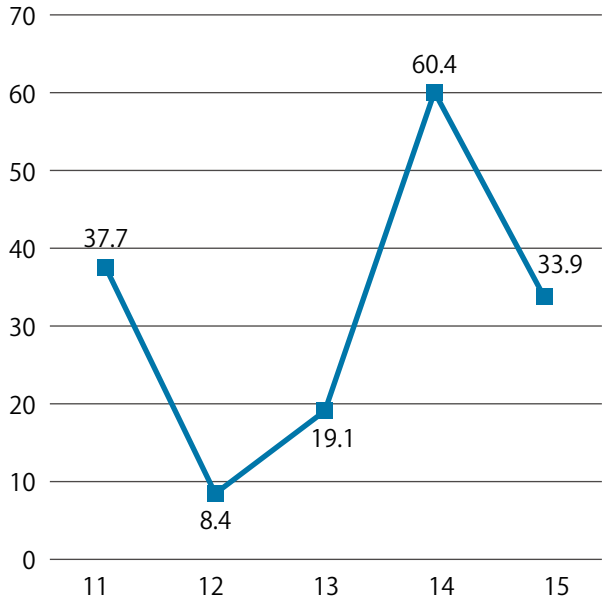




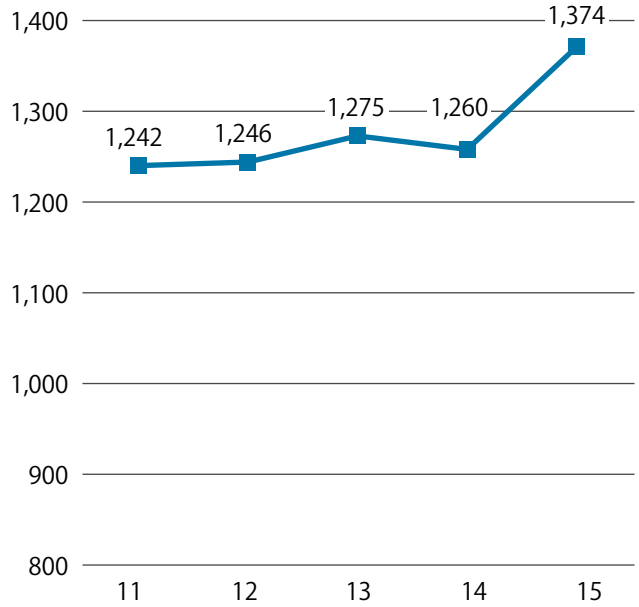
Net income
(millions of yen)



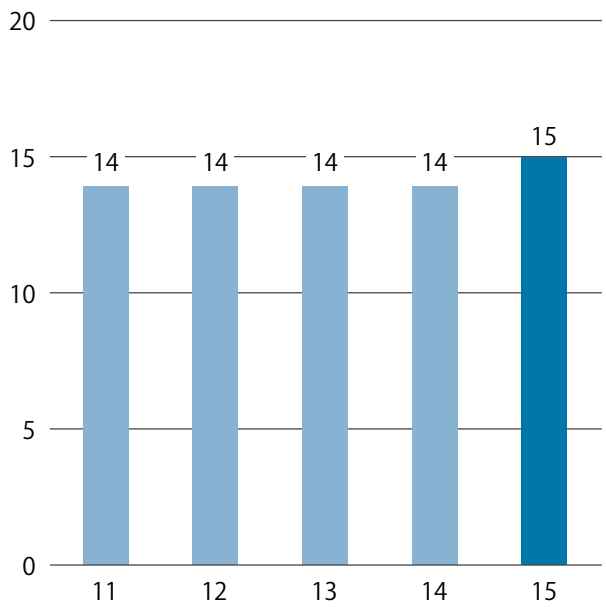
Net income per share
(yen)



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 ¥120.17=U.S.$1 in effect on March 31, 2015.

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

Based on the 4th Mid-Term Management Plan formulated in May 2014, we are striving to establish a robust business and revenue base while streamlining our organization and operations management. With regard to the comprehensive revamp of our core system that is one of the Mid-Term Management Plan's key pillars, development is proceeding on track to meet our aim of launching it at the start of 2017.

As part of this initiative, we intend to raise our dividend payout ratio as well as specifying a policy relating to share buybacks in order to provide an even more rewarding return of profits to our shareholders.

Eizo Kobayashi

Eizo Kobayashi
President

Eizo Kobayashi
President

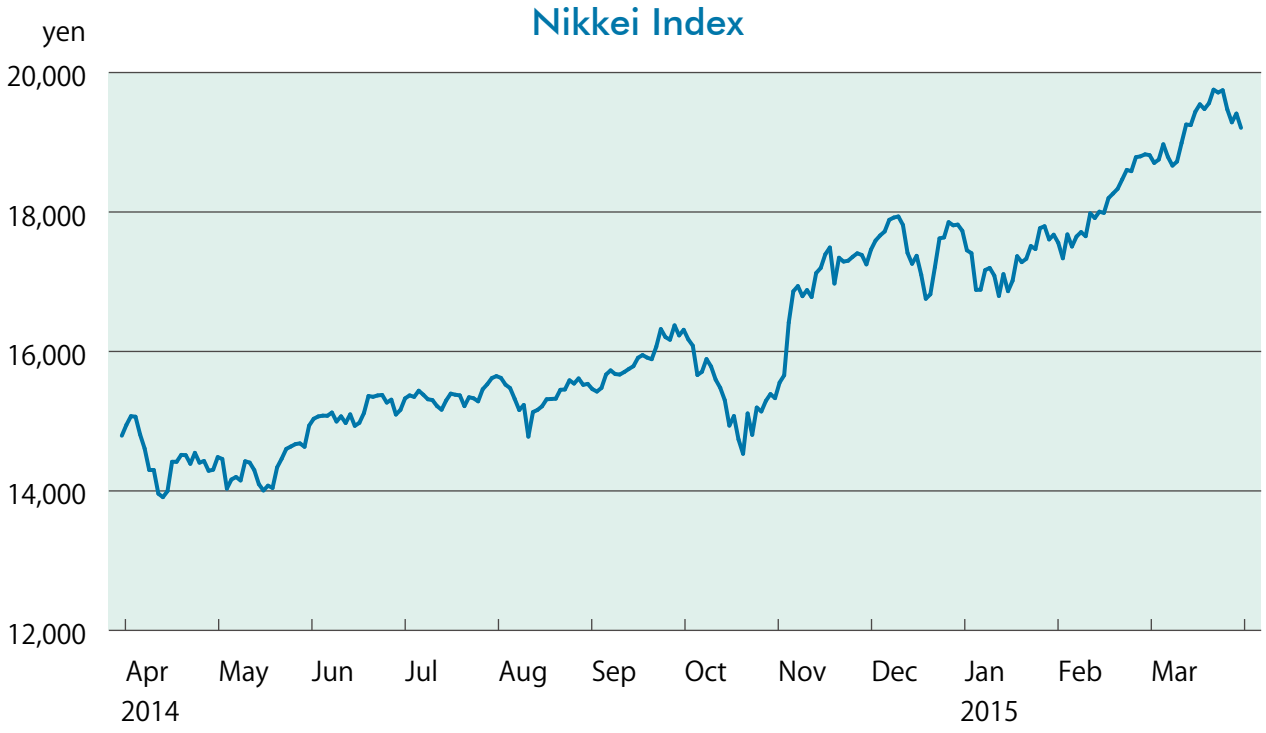
BUSINESS REVIEW

Business Environment

Looking back at Japan's economy during the term, while there was a reaction to the rush demand that occurred before the consumption tax hike, it continued to make a modest recovery. In view of the government's economic policy, monetary easing by the Bank of Japan, the weak yen, and so forth, improvements were seen in corporate earnings and the employment/income environment.

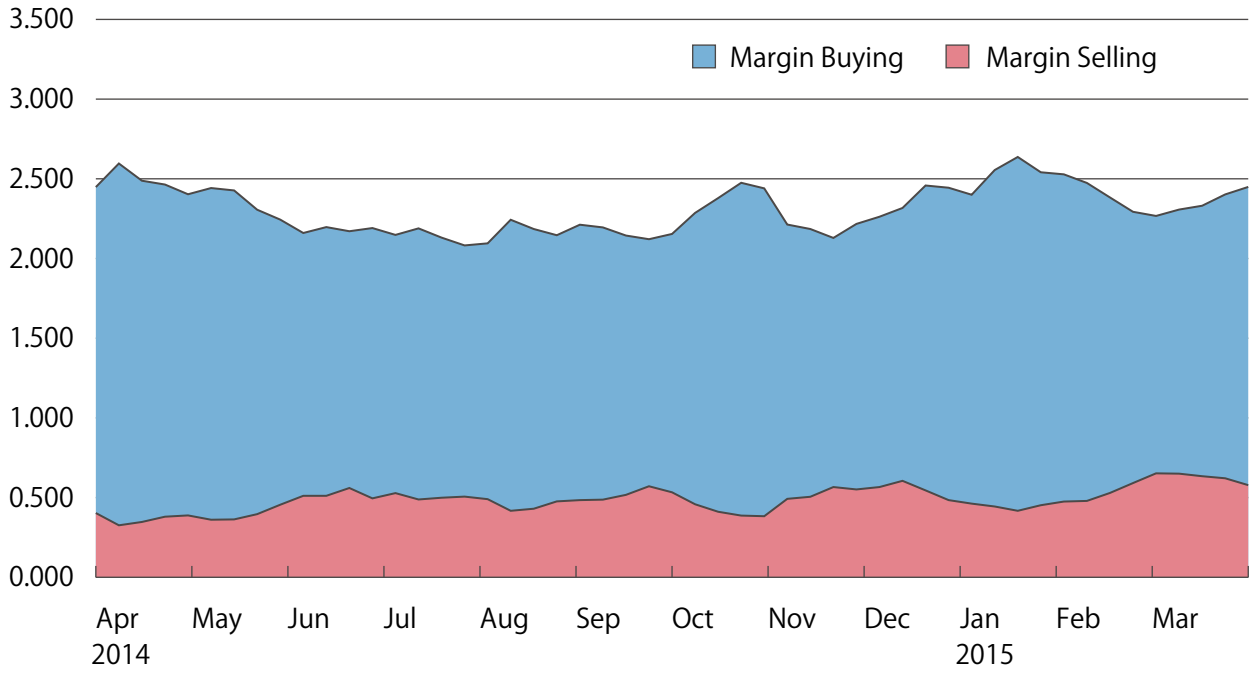
On the equity market, the Nikkei 225 stock average started the term at 14,791 yen, then declined due to decreased expectation of further monetary easing by the Bank of Japan, reaching a term low of 13,910 yen on April 14. Subsequently, the average trended broadly upward due to factors such as a growing sense of expectation in response to a recovery in domestic corporate earnings and government growth strategy, returning to the level of 16,000 yen in September. In October, following uncertainty about the global economy's outlook and a lull in the yen's depreciation, the Nikkei 225 dropped to around 14,500 yen, but it surged again after the Bank of Japan decided to implement additional monetary easing on October 31 and continued to trend upward in light of factors such as increased pressure for depreciation of the yen. From February onward in particular, this upward trend was strengthened by expectations for expansions of corporate earnings and anticipated acquisition of Japanese stocks by domestic public pension funds. The Nikkei 225 reached a term high of 19,754 yen on March 23, and closed the term at 19,206 yen. During this period, the average daily trading volume on the First Section of the Tokyo Stock Exchange was 2.193 billion shares, representing a year-on-year decrease of 740 million shares, while the average daily value traded was 2.1471 trillion yen, representing a decrease of 244.1 billion yen compared to the previous year.

Meanwhile, the outstanding balance of standardized margin buying on the Tokyo market was in the 2.4 trillion yen level at the beginning of the term. By mid-April, it had increased to the 2.5 trillion yen level due to many



Outstanding balance of Standardized Margin Transactions

(billions of yen)



personal investors buying on dips as share prices trended downward. While it subsequently declined to the 2 trillion yen level from late July through early August due to profit-taking selling by personal investors as share prices trended upward, it rebounded to the 2.4 trillion level by mid-October as share prices dropped. It reached a peak for the term in mid-January at the 2.6 trillion yen level before finishing the year at the 2.4 trillion yen level. On the other hand, the outstanding balance of standardized margin selling began the term at around the 300 billion yen level, but trended upward due to new sales as share prices rose, surpassing 600 billion yen for the first time in around five years in early December. It reached a peak for the term in late February, at the 650 billion yen level, then declined gradually to the 570 billion yen level by the end of the term.

Regarding the bond market, the yield on newly issued 10-year Japanese government bonds was 0.614% at the beginning of the term. It trended generally downward due to aggressive purchasing of government bonds by the Bank of Japan, declining to 0.2% by mid-January. Subsequently, it hovered at around 0.4%, ending the term at 0.395%.

Business result of the JSF group

In light of these market trends, the total value of outstanding loans for the JSF group (term average) was 743 billion yen, which is comparable to the previous term.

Consolidated operating revenues were 20,300 million yen (increase of 3.8% year-on-year), due to increased revenue from securities lending fees and the like in the loans for margin transactions business. Meanwhile, consolidated operating expenses were 9,450 million yen (increase of 8.0% year-on-year) due to an increase in securities borrowing fees and the like in the loans for margin transactions business. General and administrative expenses dropped to 7,824 million yen (decrease of 5.2% year-on-year), due to a decrease in leasing fees and building management costs following the relocation of the Osaka branch in March

last year, a decrease in property costs due to a drop in M&A-related costs, and a decrease based on a reversal of allowance for doubtful receivables in line with payments from borrowers to JSF Trust and Banking, a subsidiary of JSF.

As a result, consolidated operating income was 3,025 million yen (increase of 17.8% year-on-year). Consolidated ordinary income was 4,230 million yen (increase of 35.6% year-on-year) due to an additional increase in dividend income from owned shares and the posting of a gain on investment in partnership for JSF Trust and Banking. Consolidated net income was 3,520 million yen (decrease of 43.3% year-on-year) due to the absence of gains arising from negative goodwill in the merger with Osaka Securities Finance Company that was posted in the previous fiscal year.

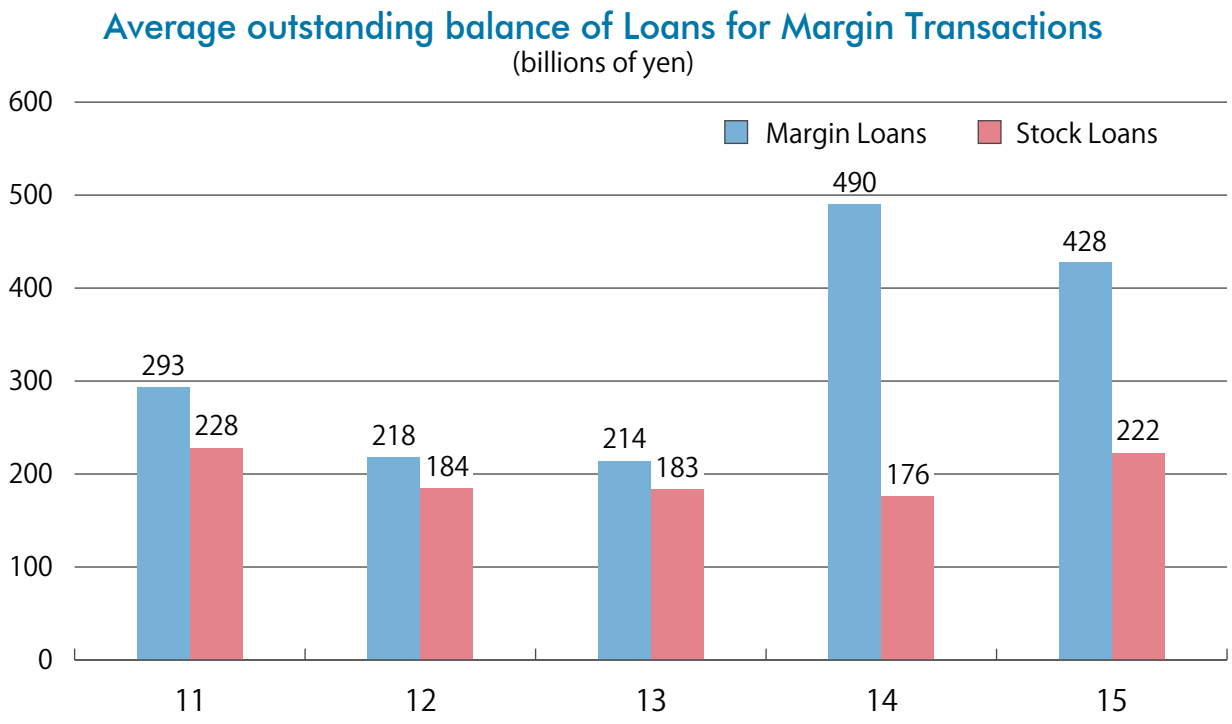
1) Securities finance business

Loans for Margin Transactions

In the loans for margin transactions business, the term average for the outstanding balance of margin loans was 428.3 billion yen, representing a 62.3 billion yen year-on-year decrease. In addition, due to the interest on loans (0.77% to 0.64%) being lowered by the agreed amount on August 6 last year, interest on loans decreased. However, the term average for the outstanding balance of stock loans was 222 billion yen, representing a year-on-year increase of 45.5 billion yen, and premium charges on over-lent issues also increased; the increase in these revenues exceeded the decline in revenues from interest on loans. As a result, operating revenues for this service were 9,667 million yen (increase of 4.6% year-on-year).

Bond financing and General loans

As for bond financing and general loans, the term average of loans was 223.4 billion yen, representing a year-on-year increase of 66.2 billion yen, due to an increase in loans to financial instruments business operators. Furthermore, use of equity repos contributed to operating revenues for this



Breakdown of JSF Group operating revenues

	2015	2014
	(¥ million)	(¥ million)
Securities Finance Business	17,162	16,363
Loans for margin transactions	9,667	9,240
Interest on loans	3,111	4,012
Interest on collateral money for securities borrowed	611	436
Fees on lending securities	5,389	4,132
Bond financing and general loans	2,107	1,959
Securities lending	2,294	2,217
Stocks	784	425
Bonds	1,509	1,791
Other business	3,094	2,946
Trust Banking Business	2,269	2,322
Interest on loans	186	317
Trust charges	545	485
Real Estate Leasing Business	868	880
Total Operating Revenues	20,300	19,566

service of 2,107 million yen (increase of 7.5% year-on-year).

Securities lending

In the securities lending business, although revenues decreased in the bond lending section, revenues from securities lending fees increased in the general stock lending section, due to growing demand for borrowing stock, centering on long-term lending. As a result, operating revenues for this service were 2,294 million yen (increase of 3.5% year-on-year).

Other business

Other operating revenues were 3,094 million yen (increase of 5.0% year-on-year), due to factors such as an increase in interest income on JGB holdings.

2) Trust banking business

In the trust banking business, there were increases in trust charges and interest income on securities holdings, but since the term average loan balance declined by 18.9 billion yen year-on-year to 58.6 billion yen and revenue from interest on loans also declined, the operating revenues from this service were 2,269 million yen (decrease of 2.3% year-on-year).

3) Real estate leasing business

In the real estate leasing business, operating revenues were comparable to the previous term at 868 million yen (decrease of 1.4% year-on-year).

Future challenges

The Japanese economy is expected to continue on a modest recovery trajectory due to government and Bank of Japan initiatives aimed at sustained growth. In the financial and securities markets where we do business, initiatives are being undertaken with the aim of expanding investment

opportunities, such as the establishment of an infrastructure fund market on the Tokyo Stock Exchange and the listing of three Japan Post Group companies anticipated this fall. Further developments are expected as well, such as the planned expansion of Nippon Individual Savings Accounts (NISA).

In May of last year, we formulated our 4th Mid-Term Management Plan. Based on our corporate philosophy, which states that our mission is to contribute to the development of the securities market, this plan espouses management policies including the establishment of social trust, strengthening of our revenue base, and achievement of a stable return of profits for all shareholders. In the loans for margin transactions business, specific measures for enabling these include enhancing our approaches to issuers in order to increase the number of loanable issues, deploying sales representatives in order to expand usage by financial instruments business operators, and enhancing our communications activities aimed at promoting trust and understanding and use of the loans for margin transactions system. In services other than the loans for margin transactions business, we are also working to accurately address customers' diverse needs. Moreover, with early 2017 as a target date, we plan to enhance our system infrastructure by completing revamping our network system, which will further improve customer convenience and business operations stability while reducing costs through streamlining of our business.

Subsidiary JSF Trust and Banking offers tailor-made services as a trust bank to support the operational infrastructures of security companies and other institutions. It focuses on trust services centering on products aimed at the securities industry while striving to provide appropriate banking functions commensurate with its management capacity.

MANAGEMENT POLICY

Basic Management Policy

As an institution specializing in the securities finance business, JSF has a mission, while always keen awareness of our public role, to contribute to the development of the securities market by proactively meeting the diverse needs of securities and financial circles and working to boost the long-term interest of securities market users and participants. Based on this corporate philosophy, our basic management policy in as follows.

(1) Bearing in mind at all times our social responsibilities as a securities finance company, we aim to practice sound business management through the exhaustive implementation of compliance, corporate governance and risk management to establish unshakeable credibility.

(2) We aim to retain robust equity capital to ensure the financial health and stable management society expects of a company that is part of the infrastructure of the securities market, while continuing to comprehensively assess the revenue environment, investment plans, and other factors to provide a stable return of profits to our shareholders.

(3) We aim to work to improve the convenience of the margin loan business while expanding our network of financial instruments companies and enhancing the financial and securities-related services offered by JSF and its Group companies. And further, we aim to solidify the profit base for the JSF Group as a whole through those actions.

(4) We aim to promote further Group organizational and business management efficiency to respond expeditiously to changes in the business environment.

Management Plan

1. Fourth Mid-term Management Plan

In order to improve the convenience of loans for margin transactions, a system that allows applications to be made using the Internet has been installed,

[Concept]

Recent years have seen major changes in the environment in which our company operates. Even as the internationalization of finance and capital markets continues to accelerate, IT systems have been introduced in Japan's market at a rapid pitch and Internet investors are becoming a greater presence. In this transformed environment, the Tokyo Stock Exchange (TSE) and Osaka Securities Exchange (OSE) completed their merger last year, followed this year by the rollout of Nippon Individual Saving Accounts (NISA). With the institutional framework for the new Comprehensive Exchange being put in place, numerous initiatives are underway to promote investment and strengthen the functionality of the securities market. This period has also seen a reassessment of the financial restrictions imposed in response to the Lehman Brothers Shock, giving rise to new financial needs.

With the merger of TSE and OSE, JSF and Osaka Securities Finance Company, Ltd. also merged in July 2013. Following this merger, our company will strive to effectively deploy our post-merger managerial resources to steadily pursue the business strategies laid out below, even as we continue to further strengthen our business management structure. By these and other measures, we will respond to the changing environment and achieve even further growth for our business.

[Business strategies]

i) Expanding the loans for margin transactions business as key infrastructure for the securities market

In light of the integration of the spot market, we aim to redouble our efforts both to accurately assess market needs and to promote the expansion of the investor base and the use of loans for margin transactions by increasing the

number of loanable issues and improving both the system and operation of loans for margin transactions. To this end, we aim to enhance our informational outreach activities to better publicize the systems of margin transactions and loans for margin transaction.

Regarding loans for negotiable margin transactions, we aim to work to accurately identify customer needs and expand the business.

ii) Responding to the diversifying needs of financial instruments companies and other customers

Building on our recent merger, we aim to further strengthen our network of financial instruments companies and other partners, respond proactively to the diversifying needs for funding and securities and work to expand our customer loans business in collaboration with financial instruments companies.

iii) Strengthening system infrastructure

We aim to implement a complete rebuild of the business system (JSF-Net) to achieve an even tighter fusion of business and IT, both to better meet customer needs, to reduce costs resulting from endeavors to improve business efficiency and to achieve more stable business operations through enhanced business continuity planning (BCP) resiliency. Through these efforts, we reinforce our capacity on the system side to support all of our business strategies.

iv) Other business strategies

We aim to further strengthen coordination among our Group companies to respond proactively to diversifying customer needs. We also aim to continue to monitor trends in rapidly developing Asia and other foreign markets in order to seek out and seize new business opportunities. We at the same time aim to improve the efficiency of our fund management under appropriate risk controls.

[Reinforcing business management systems]

i) Enhancing internal controls

We aim to continue to enhance the effectiveness of our compliance and internal auditing to respond more nimbly to the evolving social demands placed on financial institutions.

We aim to work ever harder to improve our risk management in view of the increasingly diverse and complex risks associated with financial business.

ii) Strengthening our business management structure

We aim to enhance the role and functions of our Business Promotion Meetings, and put in place a system to oversee the implementation of business plans to ensure they are executed properly. At the same time, we aim to implement thoroughgoing cost management.

iii) Promoting human resources development

We aim to train the human resources needed to increase our corporate value and make possible the creation of future opportunities for long-term growth.

Shareholder Return Policy

The company considers the long-term, stable return of profits to shareholders to be among its most important management tasks and therefore has a basic guideline of paying dividends according to results after provisioning the capital and internal reserves that it requires as a financial institution.

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 the "dividend on equity ratio".

[Basic Policy]

The company considers the long-term, stable return of profits to shareholders to be among its most important management tasks and therefore has a basic guideline of paying dividends according to results after provisioning the capital and internal reserves that it requires as a financial institution.

[Revision of Shareholder Return Policy]

Going forward, based on this basic policy, we will endeavor to pursue management that focuses on shareholder returns. In conjunction with this, we will change our dividend policy

starting from the fiscal year ending March 2016 and we have also specified a policy relating to share buybacks.

[Basic Dividend Payment Policy]

Our policy is that the consolidated payout ratio, as a standard that reflects our business performance, shall not fall below the 60% level and that we shall return profits to shareholders while taking into account the consolidated dividend on equity ratio (DOE = ratio of the dividend amount to shareholder equity).

[Share Buyback Policy]

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

Services for securities companies and financial institutions

Loans for margin transactions

- **Funds loan** — Loan funds needed to settle standardized margin transactions
- **Stock loan** — Loan stock needed to settle standardized margin transactions

General stock lending — Lending stock needed to settle stock trading

Bond services — Brokerage between borrowers and lenders in bond borrowing and lending market

Loans for negotiable margin transactions — Loan funds needed to settle negotiable margin transactions

Bond financing — Loan funds needed in bond underwriting, trading, etc.

General loans — Loan working funds, etc., to securities companies

Secured loans on securities for individual and corporate investors

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

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

Peripheral services

Securities custody — Custody services for securities owned by institutional investors, etc.

Government bond debt servicing — Designated by the Bank of Japan, repayment services for principal and interest on government bonds

LOANS FOR MARGIN TRANSACTIONS

What is Margin Transactions?

In margin transactions, an investor trades stocks after (1) depositing a certain amount of collateral (margin requirements) with a securities company and (2) borrowing funds for purchasing stock or stock for sale. Margin transactions help investors to expand their trading volumes by enabling them to purchase stock which value is in excess of their available funds, or to sell stock that they do not own. Thus, margin transactions broaden and strengthen stock trading and contribute to the smooth circulation of stocks and the fair stock prices formation.

Margin transactions is used, for example, when an investor considers that the stock price of a certain issue will rise or decline sharply in a short period of time.

- When it is expected that the stock price will rise, an investor borrows funds for purchasing stock from a securities company (margin buying), and if the stock price rises as expected within a term of repayment (6 months), the investor sells the stock, repays the funds borrowed (reversing transaction) and receives the margin. The investor may also receive the stock (actual receipt) by procuring funds separately and depositing it with a securities company.

- Conversely, when it is expected that the stock price will decline, an investor borrows stock from a securities company and sells them (margin selling). If the stock price declines as expected within the term of repayment (6 months), the investor buys back the stock, returns it to a securities company and receives the margin. The investor may also receive the equivalent money to stock sold by procuring stock separately and offering them to a securities company (actual delivery).

Apart from the purpose of obtaining margins as described above, an investor can use margin transactions as a means for hedging. In other words, in the event that, although an investor expects that the stock price in hand may decline, the stock is not to be sold for some reasons, such as that convertible bond is within its convertible period or that it is a publicly-offered stock just purchased, the investor can avoid loss with hedging sale by using margin transactions.

There are two types of margin transactions, standardized margin transactions and negotiable margin transactions. In standardized margin transactions, terms of repayment are determined by stock exchanges, and a securities company can borrow funds for purchasing and stock for sale needed to settle transactions from a securities finance company (loans for margin transactions).
In negotiable margin transactions, which is limited to cases in which a securities company can procure funds and stock to be lent to customers by internal matching (Note) or external procurement without borrowing from a securities finance company, the condition of margin transactions may be decided freely in negotiations between a securities company and its customer.

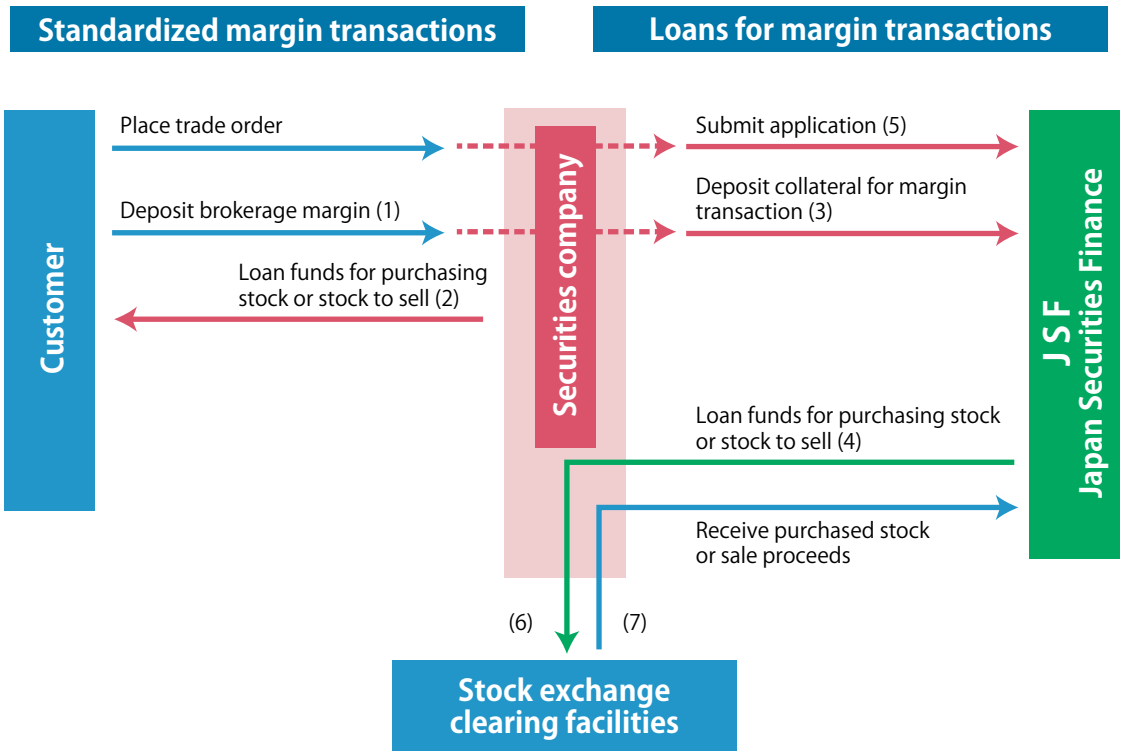
(Note) This is a system of appropriating purchased stock received from buy side as collateral to sell side's stock for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

What is Loans for Margin Transactions?

Loans for margin transactions is a system in which a securities finance company receives a certain amount of margin (margin requirements) from a securities company, who is a general trading participant of stock exchanges (3) and lends funds or stock necessary for margin transactions (4). This is executed through the clearing facilities of stock exchanges. Loans for margin transactions is authorized only for the securities finance companies with a license given by the Prime Minister. We, Japan Securities Finance Co., Ltd. conduct loans for margin transactions through the stock exchange in Tokyo, Sapporo, and Fukuoka.

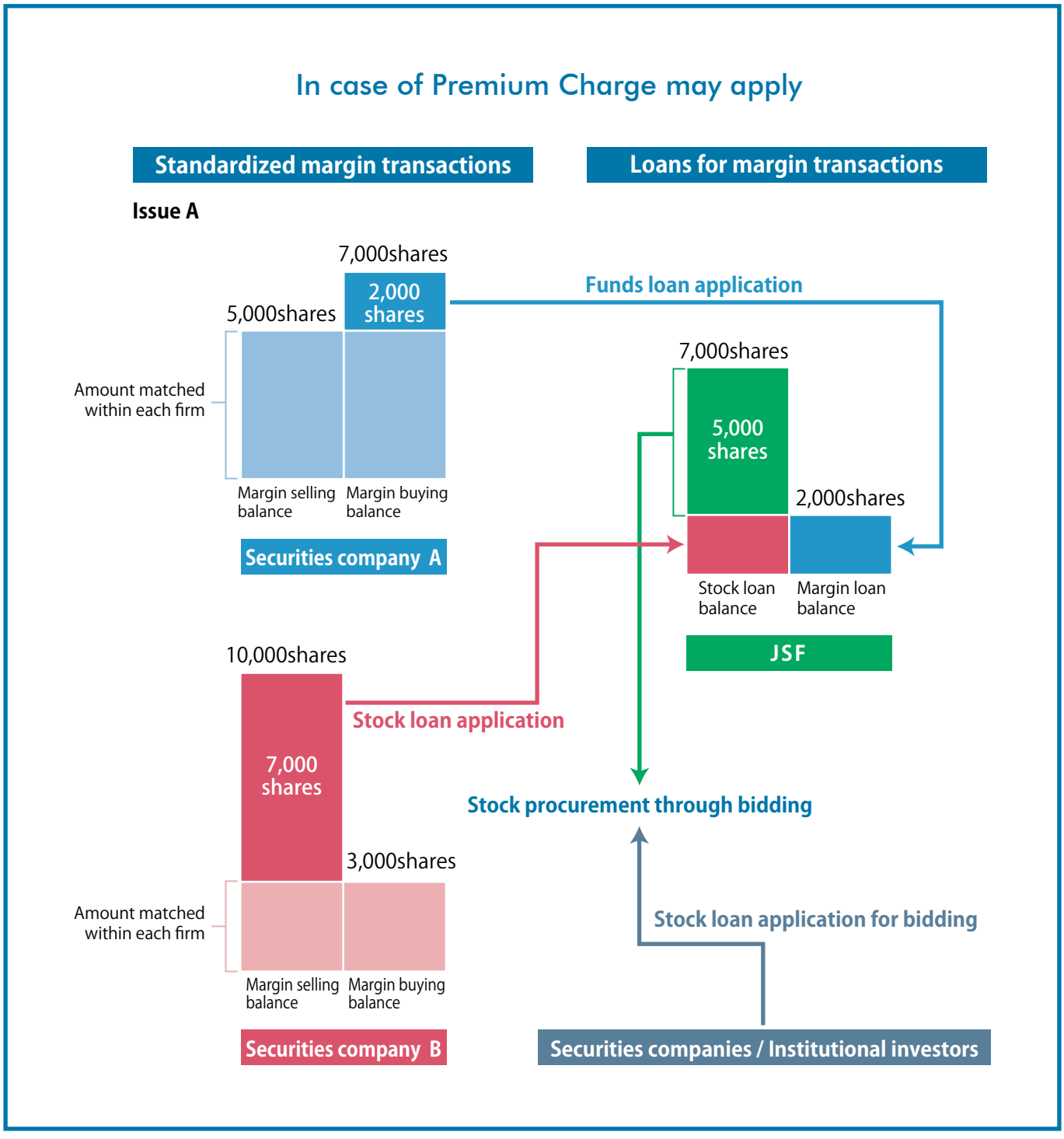
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions (5).To execute the loan, JSF, in place of the securities company, delivers funds or stock to clearing facilities of stock exchanges (6). The stock purchased (collateral stock for loans) or proceeds from sale (collateral money for stock loans) are received by JSF (7), and then each collateral is appropriated.

Standardized margin transactions and Loans for margin transactions



Handling of over-lent issues

JSF usually appropriates stock received as collateral for loans to stock loans. However, should the outstanding stock loans exceed the outstanding loans, it is necessary to procure the stock needed for settlement by bidding with securities companies or institutional investors such as life and non-life insurance companies, banks and other sources. The highest bidding rate becomes the lending rate (Premium Charges) of that issue. This premium charge is applied to all users of standardized margin transactions, and should be collected by all sell sides and paid to all buy sides or successful bidders.



BOND SERVICES

In bond borrowing and lending transactions, a lender lends bonds to a borrower, and after mutually agreed period, the borrower repays the lender with bonds of the same type and quantity. JSF serves as a broker between borrowers and lenders.

The bond borrowing and lending transactions market was established in May 1990 for the purpose of covering bonds sold short, and was followed in April 1996 by the introduction of REPO (cash-collateral bond borrowing and lending transactions). JSF was the first company in Japan to be authorized to offer such brokerage services, because JSF can link securities industries and financial industries on neutral ground and is well versed in handling of bond transactions.

JSF receives applications from both parties and, on their behalf, lends and borrows bonds on the basis of loan agreement. This type of arrangement has several advantages, including helping to form a transaction that matches the needs of both lender and borrower, maintaining high confidentiality of information to ensure the complete privacy of both parities, and transferring all counterparty credit risk to JSF. The arrangement also contributes to creating fair and stable market by publicly disclosing indication via QUICK, Bloomberg, and other information services.

Transaction types

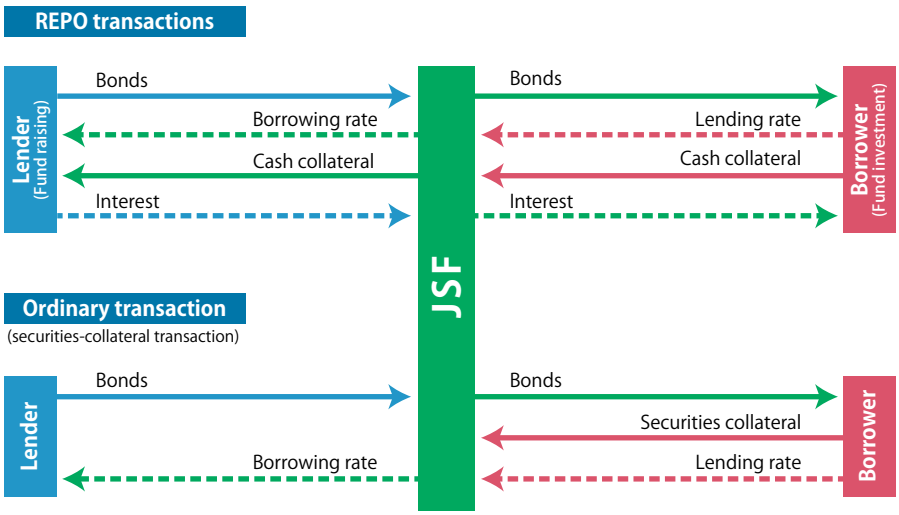
REPO transactions

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

Ordinary bond borrowing and lending transactions

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

Types of bond transactions



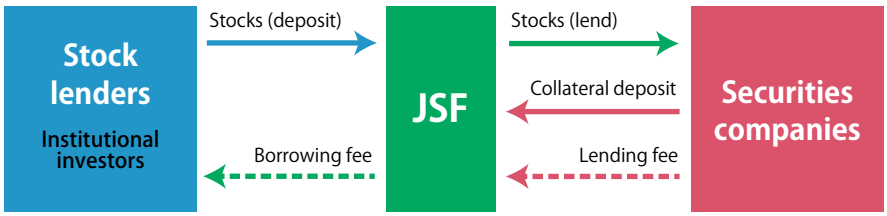
GENERAL STOCK LENDING

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.

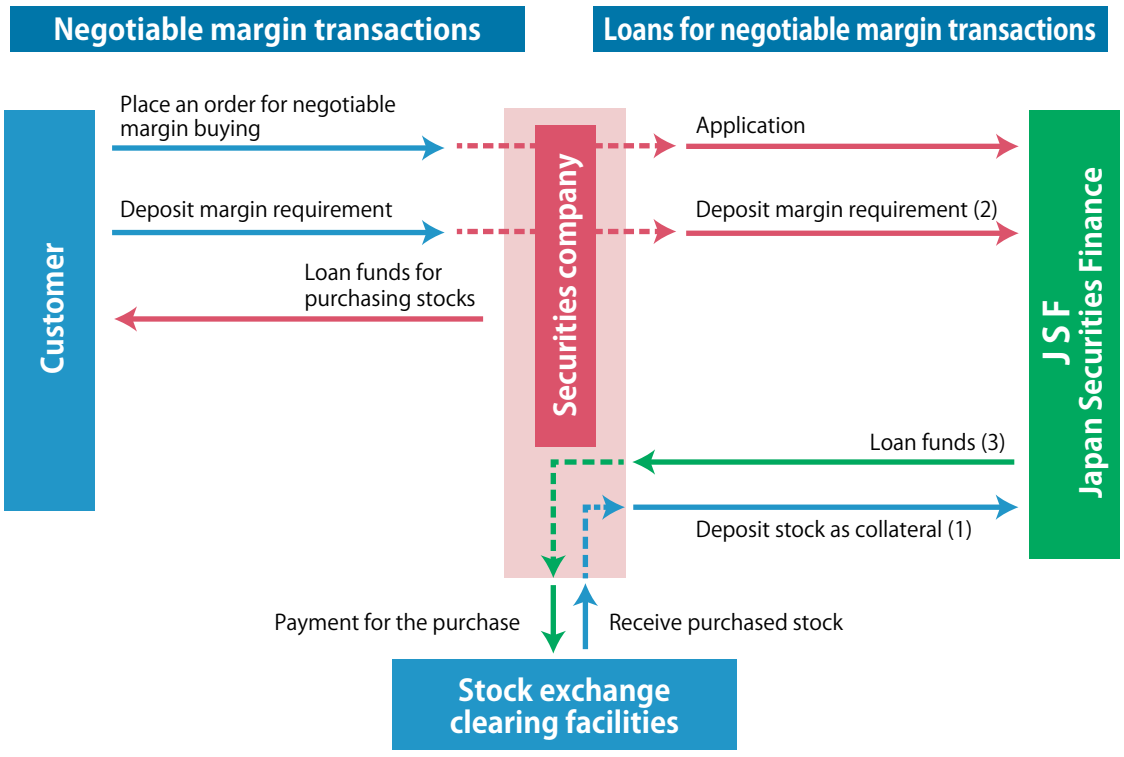
Interest rate

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, and "Safekeeping Deposited Loans" that utilize investment securities deposited with securities companies as capital.

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

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

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

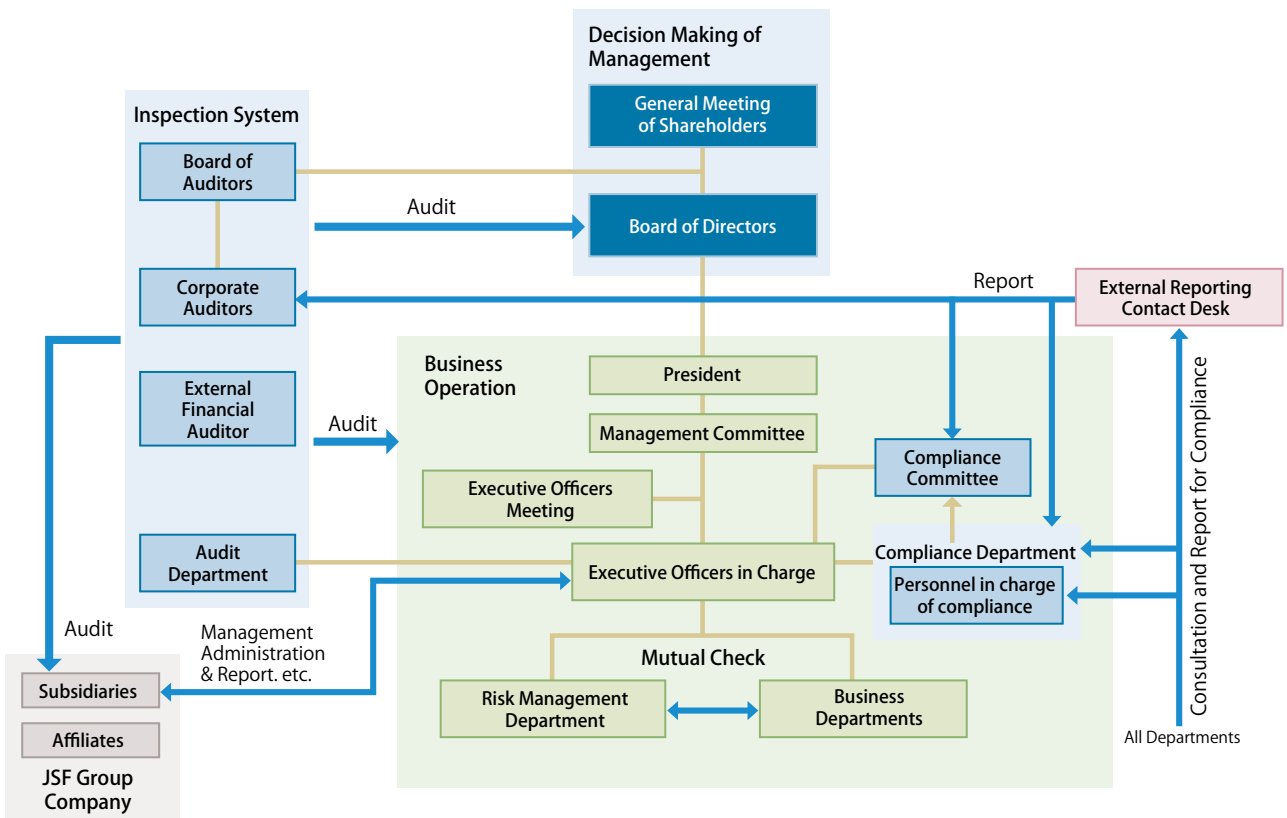
CORPORATE GOVERNANCE STRUCTURE

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

Corporate Governance System Structure



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 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.

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 auditors on the Board of Auditors must be outside auditors. 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 2014, the Board of Directors met ten 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) Board of Auditors

The Board of Auditors may have up to four members, of which the majority must be outside auditors.

The Board of Auditors shall make a decision on the execution of the duties of auditors and shall discuss the exercise of authority by auditors. Meetings of the Board of Auditors are convened from time to time as necessary. During fiscal 2014, the Board of Auditors met ten times.

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

3) 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 auditors 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.

4) 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 auditors 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 auditors

The Company has three outside directors and two outside auditors.

The outside directors and outside auditors 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 auditors 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.

There are no explicit standards or guidelines related to independence in the appointment of outside directors and outside auditors, but appointments are made with reference to the standards of judgment for independence formulated by the Tokyo Stock Exchange in the Securities Listing Rules and other documents, and every effort is made to ensure that there are no conflicts of interest with general shareholders.

4. Status of internal audits and auditor 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, auditor 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.

Auditor 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, Nobuyuki Kobayashi and Hironobu Sakai of BDO Toyo & Co. Accounting audits are assisted by 18 certified public accountants and 6 others, and care is taken to eliminate bias in years of experience.

6. Policy regarding the remuneration of directors and auditors

1) Executive Directors

- With a view to enhancing the correlation between our company's business performance and remuneration, a fixed percentage of monthly remuneration will be devoted to the acquisition of JFS stocks and will contribute each month to the Executive Stock Ownership Program. JSF stocks obtained under this remuneration program will, in principle, be held until retirement.
- Directors' bonuses will be paid only to executive directors as a performance-linked remuneration, in order to emphasize the management's responsibility for each year's business performance.

2) Non- executive directors (including outside directors) and auditors

- They will receive solely their fixed amounts of monthly remuneration, and no director's bonus.

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

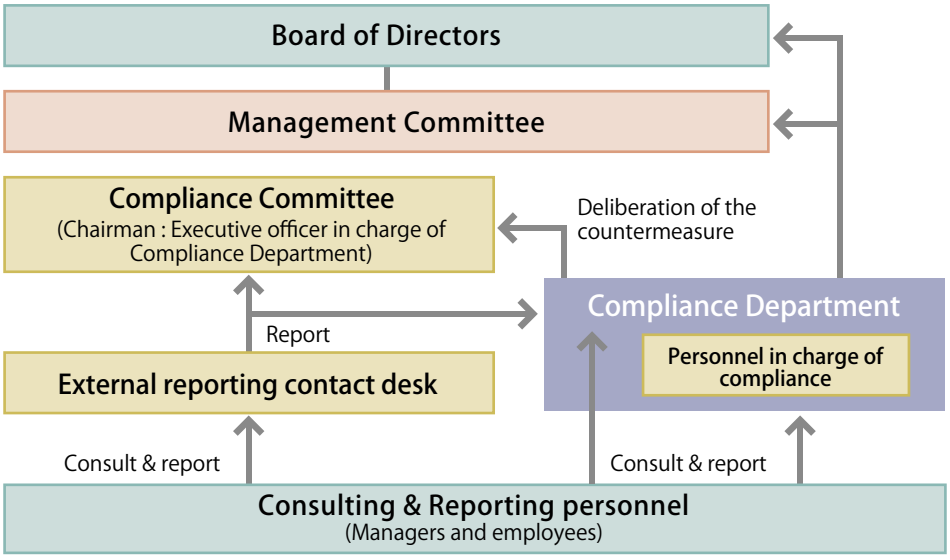
In order to strengthen the compliance system, the company has its external consulting and reporting contact desk by lawyers, in addition to the Compliance Committee, the Compliance Department and personal in charge of compliance.

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.

Consulting and Reporting



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 malfunction of computer systems or due to unauthorized use of computer systems.

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 management of system risks. To ensure stable operation of our computer systems, the department takes preventive measures for occurrence of system failures such as duplicating networks and equipment and so forth. To develop and operate our computer systems safely and effectively, all operation procedures are clarified and our monitoring system is facilitated. In addition, concerning protection of our own information assets (information and information systems), necessary regulations are consolidated and all officers and employees are familiarized with handling of the information assets. Furthermore, to minimize the effects of system failures, measures are taken such as facilitation of various handling manuals, implementation of drills, and so on.

Internal auditing system

In our company, the Audit Department, which is independent from other departments, implements strict internal auditing of overall business operation on management status of each category of risk along with regulatory compliance status and validates the appropriateness and efficacy of our internal control system in each department.

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

This is a meeting to deliberate issues such as allocated amount of risk capital and so forth. The meeting is organized by the managers of the Risk Management Department (chairperson), the Planning Department, the Treasury Department, and all the other business departments concerned.

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.

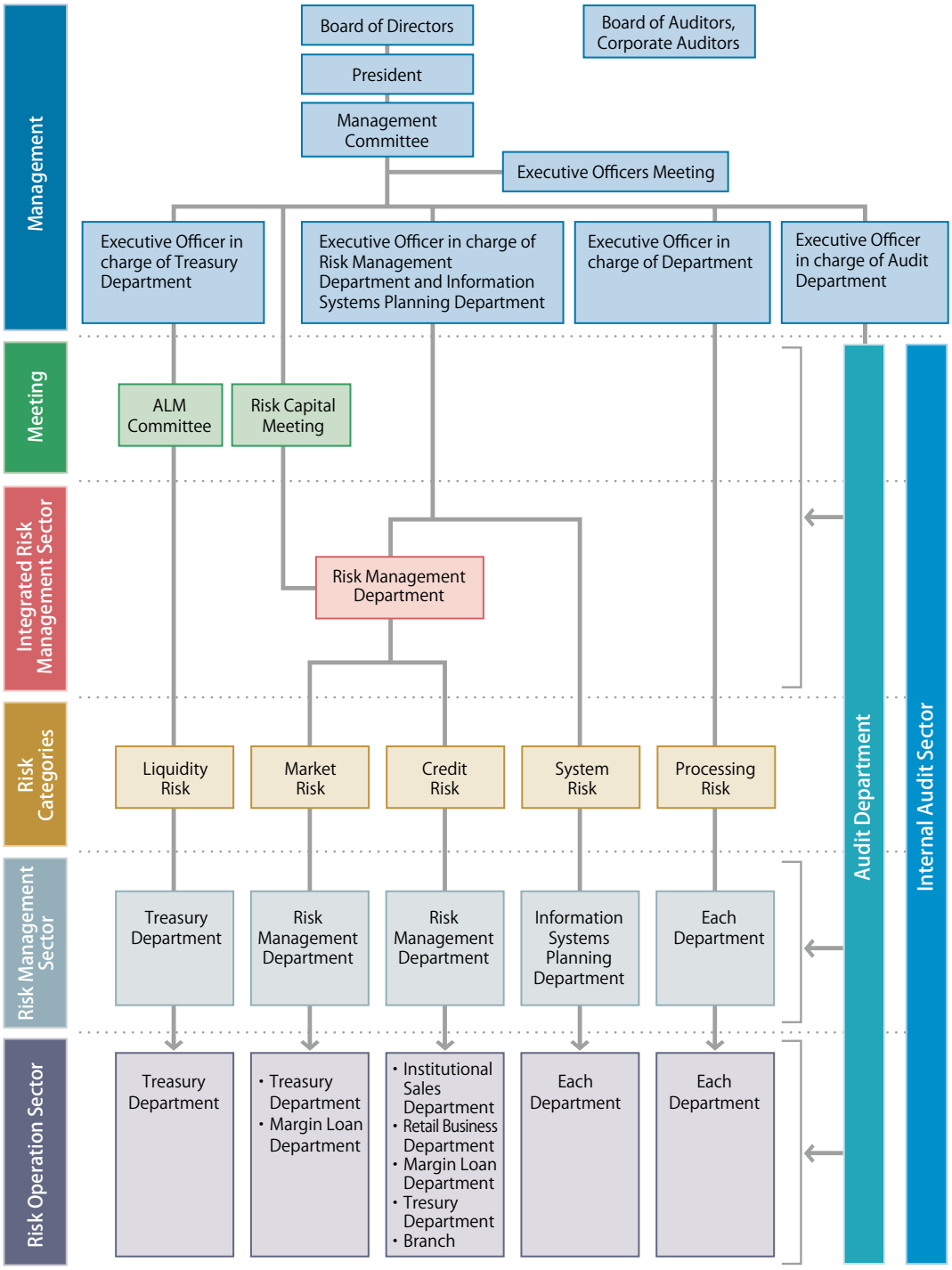
Stress tests

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 such as development of fund management plans and revenue management for assets and liabilities of the company as a whole. The committee is organized by the executive officer in charge of the Treasury Department, and managers of the Treasury Department (chairperson) and all the other department concerned.

Risk Management System



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CONSOLIDATED BALANCE SHEET

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2015

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2015	2014	2015
Current assets:			
Cash (note 3)	¥ 31,792	¥ 93,070	$ 264,559
Short-term investments (notes 4 and 16)	588,814	408,571	4,899,842
Short-term loans receivable (note 16)	883,101	897,825	7,348,764
Deferred tax assets (note 9)	391	525	3,254
Collateral money for securities borrowed	974,974	1,303,155	8,113,289
Other current assets (note 16)	5,686	6,106	47,316
Allowance for doubtful receivables	(340)	(369)	(2,829)
Total current assets	2,484,418	2,708,883	20,674,195
Property, plant and equipment:			
Buildings and structures	8,791	8,790	73,154
Tools, furniture and fixtures	1,356	1,348	11,284
Land (note 6)	3,265	3,265	27,170
Leased assets	370	409	3,079
Construction in progress	333	3	2,771
	14,115	13,815	117,458
Accumulated depreciation	(7,087)	(6,827)	(58,975)
Net property, plant and equipment	7,028	6,988	58,483
Intangible assets, net	2,388	1,054	19,872
Investments and other assets:			
Investments in securities (notes 4, 5 and 16)	987,898	1,196,823	8,220,837
Other investments and other assets	2,663	3,616	22,160
Allowance for doubtful receivables	(1,793)	(2,976)	(14,920)
Total investments and other assets	988,768	1,197,463	8,228,077
Total assets	¥ 3,482,602	¥ 3,914,388	$ 28,980,627

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2015	2014	2015
Current liabilities:			
Call money (notes 7 and 16)	¥ 1,587,000	¥ 1,596,600	$ 13,206,291
Short-term borrowings and current installments of long-term borrowings (notes 7 and 16)	439,510	509,510	3,657,402
Commercial paper (note 7)	440,000	429,000	3,661,480
Accrued income taxes (note 9)	299	132	2,488
Collateral money received for securities lent	788,716	1,185,725	6,563,335
Other current liabilities (note 7)	73,600	46,449	612,466
Total current liabilities	3,329,125	3,767,416	27,703,462
Non-current liabilities:			
Long-term borrowings (note 7)	2,000	3,000	16,643
Deferred tax liabilities (note 9)	7,190	4,059	59,832
Deferred tax liabilities for land revaluation (note 6)	78	86	649
Liabilities for retirement benefits (note 8)	2,589	3,088	21,544
Other non-current liabilities (note 7)	4,475	1,511	37,239
Total non-current liabilities	16,332	11,744	135,907
Total liabilities	3,345,457	3,779,160	27,839,369
Stockholders' equity:			
Common stock (note 10): Authorized 200,000,000 shares; issued 100,000,000 shares in 2015 and 107,307,763 shares in 2014	10,000	10,000	83,216
Additional paid-in capital (note 10)	11,471	16,027	95,456
Retained earnings (note 11)	103,608	101,596	862,179
Treasury stock, at cost; 181,071 shares in 2015 and 20,761 shares in 2014	(114)	(16)	(949)
Total stockholders' equity	124,965	127,607	1,039,902
Accumulated other comprehensive income (losses):			
Net unrealized holding gain on other securities (note 4)	14,787	8,346	123,051
Deferred losses on hedges (note 18)	(2,766)	(598)	(23,018)
Gain on revaluation of land (note 6)	164	156	1,365
Remeasurements of defined benefit plans	(5)	(283)	(42)
Total accumulated other comprehensive income	12,180	7,621	101,356
Total net assets	137,145	135,228	1,141,258
Commitments and contingencies (note 19)			
Total liabilities and net assets	¥ 3,482,602	¥ 3,914,388	$ 28,980,627

CONSOLIDATED STATEMENT OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (note 2)
	2015	2014	2015
Operating revenues	¥ 20,300	¥ 19,567	$ 168,927
Operating expenses	9,450	8,748	78,638
Operating profit	10,850	10,819	90,289
General and administrative expenses (note 12)	7,825	8,250	65,116
Operating income	3,025	2,569	25,173
Other income (deductions):			
Interest income	105	21	874
Dividend income	293	186	2,438
Interest expenses	(0)	(0)	(0)
Equity in earnings of limited partnership	591	32	4,918
Gain (loss) on sale of investments in securities	23	(0)	191
Gain on bad debt recovered	271	–	2,254
Subsidy income	39	–	325
Equity in earnings (losses) of affiliates	(144)	179	(1,198)
Loss on sale/disposal of property, plant and equipment	(7)	(29)	(58)
Gain on negative goodwill	–	4,405	–
Merger related costs	–	(55)	–
Branch removal expenses	–	(526)	–
Retirement benefit expenses	–	(199)	–
Other, net	90	138	749
	1,261	4,152	10,493
Income before income taxes and minority interests	4,286	6,721	35,666
Income taxes (note 9):			
Current	444	255	3,695
Deferred	321	255	2,671
	765	510	6,366
Income before minority interests	3,521	6,211	29,300
Net income	¥ 3,521	¥ 6,211	$ 29,300

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, 2015

	Millions of yen		Thousands of U.S. dollars (note 2)
	2015	2014	2015
Income before minority interests	¥ 3,521	¥ 6,211	$ 29,300
Other comprehensive income (losses) arising during the year :			
Net unrealized holding gain on other securities	6,397	521	53,233
Deferred gain (losses) on hedges	(2,168)	266	(18,041)
Gain on revaluation of land	8	—	66
Remeasurements of defined benefit plans	211	—	1,756
Other comprehensive income (losses) of affiliates for by the equity method	111	(20)	924
Total other comprehensive income arising during the year	4,559	767	37,938
Comprehensive income	¥ 8,080	¥ 6,978	$ 67,238
Comprehensive income attributable to:			
Owners of the parent	¥ 8,080	¥ 6,978	$ 67,238
Minority 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, 2015

Millions of yen

	Stockholders' equity					Accumulated other comprehensive income(losses)					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred losses on hedges	Gain on revaluation of land	Remeasurements of defined benefit plans	Total	Total net assets
	(note 10)	(note 10)	(note 11)			(note 4)		(note 6)			
Balance at March 31, 2013	¥ 10,000	¥ 5,182	¥ 96,787	¥ (515)	¥ 111,454	¥ 7,845	¥ (864)	¥ 156	¥ –	¥ 7,137	¥ 118,591
Changes arising during year:											
Cash dividends			(1,402)		(1,402)						(1,402)
Net income			6,211		6,211						6,211
Increase resulting from merger		10,845			10,845						10,845
Purchase of treasury stock				(5)	(5)						(5)
Disposition of treasury stock				504	504						504
Net changes other than stockholders' equity						501	266		(283)	484	484
Total changes during the year	–	10,845	4,809	499	16,153	501	266	–	(283)	484	16,637
Balance at March 31, 2014	10,000	16,027	101,596	(16)	127,607	8,346	(598)	156	(283)	7,621	135,228
Cumulative effects of changes in accounting policies			64		64						64
Restated balance at March 31, 2014	10,000	16,027	101,660	(16)	127,671	8,346	(598)	156	(283)	7,621	135,292
Changes arising during year:											
Cash dividends			(1,469)		(1,469)						(1,469)
Net income			3,521		3,521						3,521
Change in the scope of equity method			(104)	1	(103)						(103)
Purchase of treasury stock				(4,655)	(4,655)						(4,655)
Retirement of treasury stock		(4,556)		4,556	–						–
Net changes other than stockholders' equity						6,441	(2,168)	8	278	4,559	4,559
Total changes during the year	–	(4,556)	1,948	(98)	(2,706)	6,441	(2,168)	8	278	4,559	1,853
Balance at March 31, 2015	¥ 10,000	¥ 11,471	¥ 103,608	¥ (114)	¥ 124,965	¥ 14,787	¥ (2,766)	¥ 164	¥ (5)	¥ 12,180	¥ 137,145

Thousands of U.S. dollars

(note 2)

	Stockholders' equity					Accumulated other comprehensive income(losses)					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred losses on hedges	Gain on revaluation of land	Remeasurements of defined benefit plans	Total	Total net assets
Balance at March 31, 2014	$ 83,216	$ 133,369	$ 845,436	$ (133)	$ 1,061,888	$ 69,452	$ (4,977)	$ 1,298	$ (2,355)	$ 63,418	$ 1,125,306
Cumulative effects of changes in accounting policies			532		532						532
Restated balance at March 31, 2014	83,216	133,369	845,968	(133)	1,062,420	69,452	(4,977)	1,298	(2,355)	63,418	1,125,838
Changes arising during year:											
Cash dividends			(12,224)		(12,224)						(12,224)
Net income			29,300		29,300						29,300
Change in the scope of equity method			(865)	8	(857)						(857)
Purchase of treasury stock				(38,737)	(38,737)						(38,737)
Retirement of treasury stock		(37,913)		37,913	–						–
Net changes other than stockholders' equity						53,599	(18,041)	67	2,313	37,938	37,938
Total changes during the year	–	(37,913)	16,211	(816)	(22,518)	53,599	(18,041)	67	2,313	37,938	15,420
Balance at March 31, 2015	$ 83,216	$ 95,456	$ 862,179	$ (949)	$ 1,039,902	$ 123,051	$ (23,018)	$ 1,365	$ (42)	$ 101,356	$ 1,141,258

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, 2015

	Millions of yen		Thousands of U.S. dollars (note 2)
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 4,286	¥ 6,721	$ 35,666
Adjustments to reconcile income before income taxes and minority interests to net cash used in operating activities:			
Depreciation and amortization	662	879	5,509
Gain on negative goodwill	–	(4,405)	–
Loss on disposal of property, plant and equipment	8	150	67
Gain relating to short-term investments and investments in securities	(415)	(487)	(3,453)
Allowance for doubtful receivables	(1,212)	(1,307)	(10,086)
Increase (decrease) in liabilities for retirement benefits	(498)	461	(4,144)
Interest and dividend income	(11,313)	(11,730)	(94,142)
Interest expenses	3,461	3,939	28,801
Equity in (earnings) losses of affiliates	144	(179)	1,198
(Increase) decrease in short-term loans	14,724	(141,755)	122,526
(Increase) decrease in collateral money for securities borrowed	328,181	(203,542)	2,730,973
Increase (decrease) in call money	(9,600)	115,000	(79,887)
Decrease in short-term borrowings	(70,000)	(99,700)	(582,508)
Increase in commercial paper	11,000	197,500	91,537
Increase (decrease) in collateral money received for securities lent	(397,009)	202,649	(3,303,728)
Increase (decrease) in collateral money received for loan transactions	14,885	(2,405)	123,866
Decrease in long-term debt	(1,000)	(7,500)	(8,321)
Purchase of short-term investments and investments in securities	(436,419)	(1,708,676)	(3,631,680)
Proceeds from sale/redemption of short-term investments and investments in securities	482,028	1,597,395	4,011,217
Other, net	985	22,597	8,197
Sub total	(67,102)	(34,395)	(558,392)
Interest and dividend received	11,791	11,586	98,119
Interest paid	(3,520)	(3,929)	(29,292)
Income taxes paid	(299)	(503)	(2,488)
Income taxes refunded	140	186	1,165
Net cash used in operating activities	(58,990)	(27,055)	(490,888)
Cash flows from investing activities:			
Proceeds from sale/redemption of investments in securities	120	0	999
Capital expenditures	(443)	(604)	(3,686)
Purchase of intangible assets	(1,676)	(557)	(13,947)
Other, net	913	82	7,597
Net cash used in investing activities	(1,086)	(1,079)	(9,037)
Cash flows from financing activities:			
Dividends paid to stockholders	(1,469)	(1,402)	(12,224)
Purchase of treasury stock	(4,655)	(5)	(38,737)
Other, net	(83)	(203)	(691)
Net cash used in financing activities	(6,207)	(1,610)	(51,652)
Net decrease in cash and cash equivalents	(66,283)	(29,744)	(551,577)
Cash and cash equivalents at beginning of year	93,070	114,258	744,486
Increase in cash and cash equivalents resulting from merger	–	8,556	–
Cash and cash equivalents at end of year (note 3)	¥ 26,787	¥ 93,070	$ 222,909

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. Bond securities classified as "other securities" for which fair value is not available are stated at the amortized cost. Equity securities classified as "other securities" for which fair value is not available are stated at the moving-average cost.

(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, 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.

Liabilities 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 Company has applied ASBJ Statement No. 26 Accounting Standard for Retirement Benefits (released on May 17, 2012, hereinafter the "Standard") and ASBJ Guidance No. 25 Guidance on Accounting Standard for Retirement Benefits (released on March 26, 2015, hereinafter the "Guidance") effective from the year ended March 31, 2015, in accordance with the provisions stated in Paragraph 35 of the Standard and Paragraph 67 of the Guidance.

In applying these accounting standards, the method for attributing projected benefits to periods has been changed from the straight-line basis to the benefit formula basis, and the method for determining the discount rate has been changed from the discount rate based on the residual service period of employees to a single weighted-average discount rate.

According to the transitional treatment provided in Paragraph 37 of the Standard, the effect of changing the method for calculating retirement benefit obligations and service costs was recognized by adjusting retained earnings at the beginning of the year ended March 31, 2015.

As of and for the year ended March 31, 2015, the effect of this change on the consolidated financial statements, net income per share and net assets per share is immaterial.

(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) 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, 2015.

(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, 2015, which was ¥120.17 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, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash	¥ 31,792	¥ 93,070	$ 264,559
Certificate of deposits with maturities of over three months	(5,005)	–	(41,650)
Cash and cash equivalents	¥ 26,787	¥ 93,070	$ 222,909

(4) Short-term Investments and Investments in Securities

No trading securities were held both as of March 31, 2015 and 2014.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2015 and 2014 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2015				
Government bond securities	¥ 40,737	¥ 178	¥ (43)	¥ 40,872
	¥ 40,737	¥ 178	¥ (43)	¥ 40,872
March 31, 2014				
Government bond securities	¥ 39,915	¥ 301	¥ –	¥ 40,216
	¥ 39,915	¥ 301	¥ –	¥ 40,216

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2015				
Government bond securities	$ 338,995	$ 1,481	$ (358)	$ 340,118
	$ 338,995	$ 1,481	$ (358)	$ 340,118

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2015 and 2014 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2015				
Equity securities	¥ 4,595	¥ 7,365	¥ (9)	¥ 11,951
Bond securities:				
Government bond securities	1,370,604	12,825	(383)	1,383,046
Corporate bond securities	98,952	13	(32)	98,933
Other	33,038	1,797	(568)	34,267
Other securities	936	814	–	1,750
	¥ 1,508,125	¥ 22,814	¥ (992)	¥ 1,529,947
March 31, 2014				
Equity securities	¥ 4,595	¥ 4,675	¥ (32)	¥ 9,238
Bond securities:				
Government bond securities	1,402,253	7,774	(7)	1,410,020
Corporate bond securities	138,662	33	(12)	138,683
Other securities	937	435	(0)	1,372
	¥ 1,546,447	¥ 12,917	¥ (51)	¥ 1,559,313

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2015				
Equity securities	$ 38,238	$ 61,288	$ (75)	$ 99,451
Bond securities:				
Government bond securities	11,405,542	106,724	(3,187)	11,509,079
Corporate bond securities	823,433	108	(266)	823,275
Other	274,927	14,954	(4,727)	285,154
Other securities	7,789	6,774	–	14,563
	$ 12,549,929	$ 189,848	$ (8,255)	$ 12,731,522

Securities classified as other securities for which fair value is not available are unlisted equity securities amounting to ¥2,184 million ($18,174 thousand) and ¥2,282 million and unlisted preferred equity securities amounting to ¥200 million ($1,664 thousand) and ¥200 million as of March 31, 2015 and 2014, respectively.

For the years ended March 31, 2015 and 2014, 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
	2015	2014	2015
Proceeds from sale of other securities	¥ 314,609	¥ 813,102	$ 2,618,033
Gross realized gains	433	572	3,603
Gross realized losses	19	85	158

Financial assets received as collateral on which the Company has a right of disposal as of March 31, 2015 and 2014are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
The fair value of the securities as collateral	¥ 2,060,035	¥ 1,591,934	$ 17,142,673
Securities lent	171,352	106,484	1,425,913
Collateral provided	545,873	690,048	4,542,506
On hand	1,342,810	795,461	11,174,253

Balance sheet amount of securities lent under loan for consumption agreement, etc. as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Short-term investments	¥ –	¥ 20,178	$ –
Investments in securities	46,734	52,463	388,899

The fair value of the securities borrowed under loan for consumption agreement, etc. as of March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Securities loaned	¥ 866,956	¥ 1,258,347	$ 7,214,413
Securities pledged as collateral	68,581	51,153	570,700

(5) Investments in Affiliates

The aggregate carrying amount of investments in affiliates as of March 31, 2015 and 2014 are ¥3,643 million ($30,315 thousand) and ¥3,684 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, 2015 decreased by ¥120 million ($999 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, 2015 and 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2015			
Short-term borrowings	¥ 436,510	$ 3,632,437	0.149%
Current portion of long-term borrowings	3,000	24,965	0.530
Current portion of lease liabilities	79	657	—
Long-term borrowings	2,000	16,643	0.902
Lease liabilities	53	441	—
Call money	1,587,000	13,206,291	0.055
Commercial paper	440,000	3,661,480	0.087
	¥ 2,468,642	$ 20,542,914	

March 31, 2014			
Short-term borrowings	¥ 506,510		0.148%
Current portion of long-term borrowings	3,000		0.596
Current portion of lease liabilities	83		—
Long-term borrowings	3,000		0.570
Lease liabilities	133		—
Call money	1,596,600		0.067
Commercial paper	429,000		0.102
	¥ 2,538,326		

(8) Retirement and Severance Benefits

The Company has defined benefit retirement and pension plans, which consist of defined benefit corporate retirement and pension plan and unfunded retirement and severance plan that provide for lump-sum payment of benefits, and a defined contribution plan. 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 one subsidiary has participated in Zenkoku Jutakuchi Kaihatsu Kosei Nenkin Kikin which was established as a multi-employer welfare pension plan. Consolidated subsidiaries adopt the simplified method for calculation of liability for retirement benefits and retirement benefit expenses of lump-sum payment plans. For the multi-employer plan in which one subsidiary has participated, the amount of plan assets attributable to the subsidiary's contribution cannot be reasonably determined, the required contribution to the plan has been accounted for as a defined contribution plan.

Defined benefit plans

Followings are the information for the Company's and the consolidated subsidiaries' defined benefit plans as of March 31, 2015 and for the year 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
	2015	2014	2015
Retirement benefit obligation at beginning of year	¥ 7,541	¥ 6,964	$ 62,753
Cumulative effects of changes in accounting policies	24	–	200
Restated balance at beginning of year	7,565	6,964	62,953
Increase by merger	–	481	–
Service cost	277	213	2,305
Interest cost	83	104	691
Actuarial gains and losses	340	(155)	2,829
Benefits paid	(319)	(265)	(2,655)
Past service costs	–	199	–
Retirement benefit obligation at end of year	¥ 7,946	¥ 7,541	$ 66,123

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Plan assets at beginning of year	¥ 4,646	¥ 3,804	$ 38,662
Increase by merger	–	195	–
Expected return on plan assets	93	81	774
Actuarial gains and losses	624	421	5,192
Employer contributions	410	392	3,412
Benefits paid	(239)	(247)	(1,989)
Plan assets at end of year	¥ 5,534	¥ 4,646	$ 46,051

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Liabilities for retirement benefits at beginning of year	¥ 137	¥ 126	$ 1,140
Retirement benefit expenses	13	12	108
Benefits paid	(23)	–	(191)
Contributions	(0)	(1)	(0)
Liabilities for retirement benefits at end of year	¥ 127	¥ 137	$ 1,057

(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
	2015	2014	2015
Funded retirement benefit obligation	¥ 6,341	¥ 5,917	$ 52,767
Plan assets	(5,534)	(4,646)	(46,052)
	807	1,271	6,715
Unfunded retirement benefit obligation	1,731	1,761	14,405
Net liabilities for retirement benefit recognized in consolidated balance sheet	¥ 2,538	¥ 3,032	$ 21,120
Liabilities for retirement benefit	¥ 2,538	¥ 3,032	$ 21,120
Net liabilities for retirement benefit recognized in consolidated balance sheet	¥ 2,538	¥ 3,032	$ 21,120

(5) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥ 277	¥ 213	$ 2,305
Interest cost	83	104	691
Expected return on plan assets	(93)	(81)	(774)
Amortization of actuarial gains or losses	42	144	350
Amortization of past service costs*	–	199	–
Retirement benefit expenses calculated by the simplified method	13	12	108
Retirement benefit expenses	¥ 322	¥ 591	$ 2,680

* For the year ended March 31, 2014, past service costs occurred when the Company integrated the retirement benefits system of the Company and the Osaka Securities Finance Company Ltd. that is an absorbed company. Past service costs were recorded as other expenses in the accompanying statement of income. The costs include the effect of change from the simplified method to the principle method for calculation of the retirement benefit obligation of the absorbed company at the time of integration.

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Actuarial gains or losses	¥ 326	¥ –	$ 2,713
Total	¥ 326	¥ –	$ 2,713

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unamortized actuarial gains or losses	¥ (34)	¥ 292	$ (283)
Total	¥ (34)	¥ 292	$ (283)

(8) Plan assets

(a) Percentage by major category of plan assets

	2015	2014
Debt securities	26.2%	24.6%
Equity securities	54.2	50.9
General account	16.8	18.0
Other	2.8	6.5
Total	100.0%	100.0%

(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, 2015 and 2014 are as follows:

	2015	2014
(a) Discount rate	0.8%	1.5%
(b) Long-term expected rate of return	2.0%	2.0%
(c) Expected salary increase rate	5.2%	–

Defined contribution plans

For the years ended March 31, 2015 and 2014, the amount to be paid by the consolidated subsidiaries to the defined contribution plans (including the multi-employer welfare pension plan whose contribution has been accounted for as a defined contribution plan) was ¥39 million ($325 thousand) and ¥38 million, respectively.

Followings are the information of the multi-employer plan.

(1) The most recent funded status of the whole multi-employer pension plan as of March 31, 2014 and 2013 was outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Plan assets at fair value	¥ 30,998	¥ 29,442	$ 257,951
Total of benefit obligation under pension funding programs and minimum actuarial reserve	34,214	32,539	284,713
Difference	¥ (3,216)	¥ (3,097)	$ (26,762)

(2) The subsidiary's proportion of the contribution to the aggregate pension contributions in March 2015 and 2014 are 0.33% and 0.31%, respectively.

Liabilities 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, 2015 and 2014, the liabilities for retirement benefits related to the plans were ¥51 million ($424 thousand) and ¥56 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 35.6% and 38.0% in both 2015 and 2014, respectively.

Following the promulgation of the law "Partial Amendment of the Income Tax Act, etc." (Act No.9 of 2015) and "Partial Amendment of the Local Tax Act, etc." (Act No.2 of 2015) on March 31, 2015, the effective statutory tax rate used for the calculation of deferred tax assets and deferred tax liabilities has been revised from the previous rate of 35.6%. The rate of 33.1% has been applied to the temporary differences, expected to be either deductible, taxable or expired in the year beginning on April 1, 2015, while the rate of 32.3% has been applied to the temporary differences, expected to be either deductible, taxable or expired in or after the year beginning on April 1, 2016.

As a result of the change in tax rates, the net amount of deferred tax liabilities decreased by ¥680 million ($5,659 thousand) and income taxes-deferred for the current year increased by ¥64 million ($533 thousand), net unrealized holding gain on other securities increased by ¥720 million ($5,992 thousand), deferred losses on hedges increased by ¥24 million ($200 thousand) and remeasurements of defined benefit plans increased by ¥1 million ($8 thousand), deferred tax liabilities for land revaluation decreased by ¥8 million ($67 thousand) and gain on revaluation of land increased by the same amount.

In addition, due to the revision of the carry-forward system of the net operating losses, the amount of net operating losses that can be deducted has been limited to the equivalent of 65% of taxable income before such deductions from the year beginning on April 1, 2015 through the year beginning on April 1, 2016, while the amount of net operating losses that can be deducted has been limited to the equivalent of 50% of taxable income before such deductions on or after the year beginning on April 1, 2017. As a result of the revision, the amount of deferred tax assets decreased by ¥174 million ($1,448 thousand) and income taxes-deferred for the current year increased by ¥174 million ($1,448 thousand).

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the years ended March 31, 2015 and 2014 is follows:

	2015	2014
Statutory tax rate	35.6%	38.0%
Equity in gains of affiliates	1.2	(1.0)
Expenses not deductible for tax purposes	0.9	0.4
Valuation allowance	(20.6)	(5.1)
Income not credited for tax purposes	(2.4)	(1.3)
Gain from negative goodwill	–	(25.0)
Adjustments of deferred tax assets due to change in statutory tax rate	1.5	0.8
Other	1.6	0.8
Effective tax rate	17.8%	7.6%

Significant components of deferred tax assets and liabilities as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Accrued business tax	¥ 37	¥ 20	$ 308
Accrued bonuses	167	172	1,390
Liabilities for retirement benefits (employees)	837	1,082	6,965
Liabilities for retirement benefits (directors and corporate auditors)	16	20	133
Allowance for doubtful receivables	552	871	4,593
Tax loss carryforward	4,811	6,114	40,035
Deferred losses on hedges	1,706	213	14,196
Net unrealized loss on other securities	307	11	2,555
Other	279	325	2,322
	8,712	8,828	72,497
Valuation allowance	(6,134)	(6,579)	(51,044)
	2,578	2,249	21,453
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(158)	(166)	(1,315)
Net unrealized gain on other securities	(7,304)	(4,512)	(60,780)
Gain on transfer of investment in an affiliate	(367)	(385)	(3,054)
Gain on evaluation of acquired assets by merger	(637)	(702)	(5,301)
Deferred gains on hedges	(889)	–	(7,398)
Other	(22)	(18)	(183)
	(9,377)	(5,783)	(78,031)
Net deferred tax liabilities	¥ (6,799)	¥ (3,534)	$ (56,578)

Net deferred tax assets and liabilities as of March 31, 2015 and 2014 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current assets - Deferred tax assets	¥ 391	¥ 525	$ 3,254
Non-current liabilities - Deferred tax liabilities	(7,190)	(4,059)	(59,832)

(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.

(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 additional paid-in capital and legal reserve are available for appropriations by the resolution of the stockholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheet.

Cash dividends charged to retained earnings for the years ended March 31, 2015 and 2014 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, 2014

The following was approved by the general meeting of stockholders held on June 26, 2013.

(a)	Total dividends	¥651 million
(b)	Cash dividends per common share	¥7
(c)	Record date	March 31, 2013
(d)	Effective date	June 27, 2013

The following was approved by the Board of Directors held on November 11, 2013.

(a)	Total dividends	¥751 million
(b)	Cash dividends per common share	¥7
(c)	Record date	September 30, 2013
(d)	Effective date	December 6, 2013

(b) Dividends paid during the year ended March 31, 2015

The following was approved by the general meeting of stockholders held on June 25, 2014.

(a)	Total dividends	¥751 million ($6,249 thousand)
(b)	Cash dividends per common share	¥7 ($0.06)
(c)	Record date	March 31, 2014
(d)	Effective date	June 26, 2014

The following was approved by the Board of Directors held on November 10, 2014.

(a)	Total dividends	¥718million ($5,975 thousand)
(b)	Cash dividends per common share	¥7 ($0.06)
(c)	Record date	September 30, 2014
(d)	Effective date	December 5, 2014

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2015

The following was approved by the general meeting of stockholders held on June 24, 2015.

(a)	Total dividends	¥799million ($6,649 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥8 ($0.07)
(d)	Record date	March 31, 2015
(e)	Effective date	June 25, 2015

(12) General and Administrative Expenses

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Salaries	¥ 3,215	¥ 3,092	$ 26,754
Retirement benefit expenses	361	430	3,004
Administrative and computer expenses	1,368	1,334	11,384
Depreciation	662	879	5,509

(13) Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (losses) for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net unrealized gain on other securities:			
Arising during the year	¥ 9,336	¥ 1,051	$ 77,690
Reclassification adjustment	(341)	(265)	(2,838)
Before tax amount	8,995	786	74,852
Tax expense	(2,598)	(265)	(21,619)
Net-of-tax amount	6,397	521	53,233
Deferred gain (losses) on hedges:			
Arising during the year	(1,929)	(206)	(16,052)
Reclassification adjustment	–	472	–
Before tax amount	(1,929)	266	(16,052)
Tax benefit /expense	(239)	–	(1,989)
Net-of-tax amount	(2,168)	266	(18,041)
Gain on revaluation of land:			
Tax benefit /expense	8	–	66
Remeasurements of defined benefit plans:			
Arising during the year	285	–	2,372
Reclassification adjustment	41	–	341
Before tax amount	326	–	2,713
Tax benefit /expense	(115)	–	(957)
Net-of-tax amount	211	–	1,756
Share of other comprehensive income (losses) of affiliates accounted for by equity method:			
Arising during the year	98	(21)	816
Reclassification adjustment	13	1	108
	111	(20)	924
Total other comprehensive income	¥ 4,559	¥ 767	$ 37,938

(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, 2015 and 2014 are as follows:

	Yen		U.S. dollars
	2015	2014	2015
Basic net income per share	¥ 33.94	¥ 60.35	$ 0.28

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net income	¥ 3,521	¥ 6,211	$ 29,300
Net income not applicable to common stockholders	–	–	–
Net income applicable to common stockholders	¥ 3,521	¥ 6,211	$ 29,300

	Number of shares (Thousands)	
	2015	2014
Weighted average number of shares outstanding on which basic net income per share is calculated	103,726	102,915

(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, 2015 and 2014 are as follows:

	Yen		U.S. dollars
	2015	2014	2015
Net assets per share	¥ 1,373.94	¥ 1,260,43	$ 11.43

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Total net assets	¥ 137,145	¥ 135,228	$ 1,141,258
Amount deducted from total net assets	–	–	–
Net assets applicable to common stockholders	¥ 137,145	¥ 135,228	$ 1,141,258

	Number of shares (Thousands)	
	2015	2014
Number of shares outstanding at end of year on which net assets per share is calculated	99,819	107,287

(15) Leases

(a) Finance Lease

Finance leases which do not transfer the title of leased assets to the lessee, commenced prior to April 1, 2008 have been accounted for as operating leases. The main assets are the telephone facilities which are included in tools, furniture and fixtures.

(b) Operating Lease

Future minimum lease payments required under noncancellable operating leases as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Future minimum lease payments:			
Within one year	¥ 5	¥ 8	$ 42
Over one year	1	5	8
	¥ 6	¥ 13	$ 50

(16) Pledged Assets

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Short-term investments	¥ 586,013	¥ 383,683	$ 4,876,533
Short-term loans receivable	23,281	22,933	193,734
Investments in securities	812,392	1,085,846	6,760,356

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Call money	¥ 1,302,200	¥ 1,353,000	$ 10,836,315
Short-term borrowings	75,000	191,000	624,116

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
	2015	2014	2015
Other current assets	¥ 501	¥ 514	$ 4,169
Investments in securities	16,742	12,075	139,319

(17) 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, government-backed bonds, local government bonds and public corporation bonds as securities investment activities and usually raises money from call market.

(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. Main financial instrument that JSFTB holds are loans to government and business corporations and securities such as government bonds, government-backed bonds, local government bonds and public corporation 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. Collateral money for securities borrowed is collateral money mainly for repurchase transaction and securities borrowed of loans for margin transactions. Regarding raising money such as call money and short-term borrowings of the Company and JSFTB, the liabilities are exposed to liquidity risks that caused from turmoil in the financial markets or a credit rating down.

JSFTB has entered into interest rate swaps for hedging fixed-rate loans and bonds, and variable-rate 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 ¥16,387 million ($136,365 thousand) as of March 31, 2015.

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 ¥6,205 million ($51,635 thousand) as of March 31, 2015.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments which quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note "(18) Derivative financial instruments" does not represent the market risk of the derivative transactions.

Fair value of financial instruments

The carrying value on the consolidated balance sheet, fair value, and differences as of March 31, 2015 and 2014 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					
	2015			2014		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 31,792	¥ 31,792	¥ –	¥ 93,070	¥ 93,070	¥ –
(2) Trade loans receivable	883,101			897,826		
Allowance for doubtful receivables *1	(195)			(235)		
	882,906	882,905	(1)	897,591	897,630	39
(3) Collateral money for securities borrowed *1	974,861	974,861	–	1,303,020	1,303,020	–
(4) Short-term investments and investments in securities						
Held-to-maturity securities	40,737	40,872	135	39,915	40,216	301
Other securities	1,529,947	1,529,947	–	1,559,313	1,559,313	–
Total	¥ 3,460,243	¥ 3,460,377	¥ 134	¥ 3,892,909	¥ 3,893,249	¥ 340
(1) Call money	¥ 1,587,000	¥ 1,587,000	¥ –	¥ 1,596,600	¥ 1,596,600	¥ –
(2) Short-term borrowings	436,510	436,510	–	506,510	506,510	–
(3) Commercial paper	440,000	440,000	–	429,000	429,000	–
(4) Collateral money received for securities lent	788,716	788,716	–	1,185,726	1,185,726	–
(5) Long-term borrowings *2	5,000	5,000	–	6,000	6,000	–
Total	¥ 3,257,226	¥ 3,257,226	¥ –	¥ 3,723,836	¥ 3,723,836	¥ –
Derivative transactions *3	¥ (3,012)	¥ (3,012)	¥ (–)	¥ (598)	¥ (598)	¥ (–)

	Thousands of U.S. dollars		
	2015		
	Carrying value	Fair value	Differences
Assets:			
(1) Cash	$ 264,559	$ 264,559	$ –
(2) Trade loans receivable	7,348,764		
Allowance for doubtful receivables *1	(1,623)		
	7,347,141	7,347,133	(8)
(3) Collateral money for securities borrowed *1	8,112,349	8,112,349	–
(4) Short-term investments and investments in securities			
Held-to-maturity securities	338,995	340,118	1,123
Other securities	12,731,522	12,731,522	–
Total	$ 28,794,566	$ 28,795,681	$ 1,115
(1) Call money	$ 13,206,291	$ 13,206,291	$ –
(2) Short-term borrowings	3,632,437	3,632,437	–
(3) Commercial paper	3,661,480	3,661,480	–
(4) Collateral money received for securities lent	6,563,335	6,563,335	–
(5) Long-term borrowings *2	41,608	41,608	–
Total	$ 27,105,151	$ 27,105,151	$ –
Derivative transactions *3	$ (25,064)	$ (25,064)	$ (–)

*1 Allowance for doubtful accounts associated with trade loans receivable is deducted. Carrying value of collateral money for securities borrowed is net amount of related allowance for doubtful accounts, because the allowance for doubtful accounts for collateral money for securities borrowed is not material.

*2 Current portion of long-term borrowings are included in 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

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

(2) Trade loans receivable

The fair value of tarde 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.

(3) Collateral money for securities borrowed

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

(4) Short-term investments and investments in securities

The fair value of equity securities and bond securities is calculated by quoted market price. The fair value of government bonds with variable interest rate held by the Company and JSFTB is estimated based on quotes from information venders in accordance with the "Practical Solution on Measurement of Fair Value of Financial Assets" (ASBJ Practical Issue Task Force (PITF) No. 25, October 28, 2008), because based on our determination that their market prices cannot be deemed fair value due to the market situation where the number of transactions is extremely small. The pricing model used by the information vendors is forward pricing model,

and the price determinant variables are the spot rate for Japanese government bonds and the swaption volatility.

The fair value of investment trust is calculated by quoted market price.

Please see note "(4) Short-term Investments and Investments in Securities" for information by category.

Liabilities:

(1) Call money, (2) Short-term borrowings, (3) Commercial paper 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. The fair value of long-term borrowings with fixed interest rate is based on the present value of future cash flows of interest and principal payments discounted using the current borrowing rate for similar borrowings of a comparable maturity.

Derivatives:

Please see note "(18) Derivative Financial Instruments."

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unlisted equity securities			
Other securities	¥ 2,184	¥ 2,282	$ 18,174
Investments in affiliates	3,643	3,684	30,315
Unlisted preferred equity securities	200	200	1,664

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

<3> Projected future redemption of monetary claim and securities with maturities as of March 31, 2015

	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	¥ 31,792	¥ –	¥ –	¥ –
(2) Trade loans receivable	843,614	35,999	3,489	–
(3) Collateral money for securities borrowed	954,974	20,000	–	–
(4) Short-term investments and investments in securities				
Held-to-maturity securities (Government bonds)	–	37,000	3,000	800
Other securities with maturities				
Bond securities				
Government bonds	523,142	661,137	77,000	104,000
Corporate bonds	65,164	33,638	–	–
Other	–	–	29,159	2,704
Total	¥ 2,418,686	¥ 787,774	¥ 112,648	¥ 107,504

	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	$ 264,559	$ –	$ –	$ –
(2) Trade loans receivable	7,020,171	299,567	29,034	–
(3) Collateral money for securities borrowed	7,946,859	166,431	–	–
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
(Government bonds)	–	307,897	24,964	6,657
Other securities with maturities				
Bond securities				
Government bonds	4,353,349	5,501,681	640,759	865,441
Corporate bonds	542,265	279,920	–	–
Other	–	–	242,648	22,501
Total	$ 20,127,203	$ 6,555,496	$ 937,405	$ 894,599

<4> The annual maturities of the long-term borrowings, lease liabilities and other interest bearing liabilities as of March 31, 2015

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Call money	¥ 1,587,000	¥ –	¥ –	¥ –	¥ –	¥ –
Short-term borrowings	436,510	–	–	–	–	–
Commercial paper	440,000	–	–	–	–	–
Collateral money received for securities lent	788,716	–	–	–	–	–
Long-term borrowings *	3,000	–	–	–	–	2,000
Total	¥ 3,255,226	¥ –	¥ –	¥ –	¥ –	¥ 2,000

	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	$ 13,206,291	$ –	$ –	$ –	$ –	$ –
Short-term borrowings	3,632,437	–	–	–	–	–
Commercial paper	3,661,480	–	–	–	–	–
Collateral money received for securities lent	6,563,335	–	–	–	–	–
Long-term borrowings *	24,965	–	–	–	–	16,643
Total	$ 27,088,508	$ –	$ –	$ –	$ –	$ 16,643

* Current portion of long-term borrowings are included in long-term borrowings.

(18) Derivative Financial Instruments

Derivative transactions to which hedge accounting are applied as of March 31, 2015 and 2014 are summarized as follows:

(a) Exchange rate derivatives

			Millions of yen	
			2015	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Forward exchange contract: Sell:			
	U.S. dollars	Investments in securities	¥ 10,515	¥ (274)
	Euro	Investments in securities	21,349	631

			Thousands of U.S. dollars	
			2015	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Forward exchange contract: Sell:			
	U.S. dollars	Investments in securities	$ 87,501	$ (2,280)
	Euro	Investments in securities	177,657	5,251

(b) Interest rate derivatives

			Millions of yen			
			2015		2014	
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	¥ 45,000	¥ (3,349)	¥ 36,000	¥ (583)
	Variable rate received for fixed rate	Trade loans	7,500	(20)	7,500	(15)
*2	Interest rate swaps:					
	Variable rate received for fixed rate	Trade loans	5,056	*3	6,159	*3
	Variable rate paid for variable rate	Long-term borrowings	2,000	*3	–	–

			Thousands of U.S. dollars 2015	
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	$ 374,470	$ (27,869)
	Variable rate received for fixed rate	Trade loans	62,412	(166)
*2	Interest rate swaps:			
	Variable rate received for fixed rate	Trade loans	42,074	*3
	Variable rate paid for variable rate	Long-term borrowings	16,643	*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 of interest rate swaps are estimated based on quotes from counterparties.

(19) Commitments and Contingencies

As of March 31, 2015 and 2014, 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
	2015	2014	2015
Total credit line	¥ 741,813	¥ 692,404	$ 6,173,030
Drawn amount	210,581	158,542	1,752,359
Undrawn amount	¥ 531,232	¥ 533,862	$ 4,420,671

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

(20) 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 minority 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, 2015 and 2014 was summarized as follows:

	Millions of yen			
	2015			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 17,163	¥ 2,269	¥ 868	¥ 20,300
Intersegment revenues and transfers	22	2	396	420
Total	¥ 17,185	¥ 2,271	¥ 1,264	¥ 20,720
Segment income	¥ 2,653	¥ 1,281	¥ 583	¥ 4,517
Segment assets	¥ 2,881,054	¥ 649,730	¥ 8,781	¥ 3,539,565
Others:				
Depreciation and amortization	¥ 387	¥ 101	¥ 165	¥ 653
Interest income	105	–	12	117
Income taxes	457	107	207	771
Increase in property, plant and equipment and intangible assets	1,881	200	37	2,118

	Thousands of U.S. dollars			
	2015			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	$ 142,823	$ 18,881	$ 7,223	$ 168,927
Intersegment revenues and transfers	183	17	3,295	3,495
Total	$ 143,006	$ 18,898	$ 10,518	$ 172,422
Segment income	$ 22,077	$ 10,660	$ 4,851	$ 37,588
Segment assets	$ 23,974,819	$ 5,406,757	$ 73,072	$ 29,454,648
Others:				
Depreciation and amortization	$ 3,220	$ 841	$ 1,373	$ 5,434
Interest income	874	–	100	974
Income taxes	3,803	890	1,723	6,416
Increase in property, plant and equipment and intangible assets	15,653	1,664	308	17,625

	Millions of yen			
	2014			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 16,364	¥ 2,322	¥ 880	¥ 19,566
Intersegment revenues and transfers	28	2	396	426
Total	¥ 16,392	¥ 2,324	¥ 1,276	¥ 19,992
Segment income	¥ 2,374	¥ 175	¥ 503	¥ 3,052
Segment assets	¥ 3,223,899	¥ 726,861	¥ 8,434	¥ 3,959,194
Others:				
Depreciation and amortization	¥ 601	¥ 101	¥ 168	¥ 870
Interest income	21	–	10	31
Income taxes	292	24	194	510
Increase in property, plant and equipment and intangible assets	562	188	411	1,161

Reconciliation between total segment revenues in the table above and revenues in the accompanying consolidated statement of income for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Total segment revenues	¥ 20,720	¥ 19,992	$ 172,422
Intersegment revenues	(420)	(426)	(3,495)
Revenues in the accompanying consolidated statement of income	¥ 20,300	¥ 19,566	$ 168,927

Reconciliation between total segment income in the table above and ordinary income in the consolidated income statement for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Total segment income	¥ 4,517	¥ 3,052	$ 37,588
Intersegment income	(142)	(112)	(1,182)
Equity in earnings (losses) of affiliates	(144)	179	(1,198)
Ordinary income	¥ 4,231	¥ 3,119	$ 35,208

Reconciliation between total segment assets in the table above and assets in the consolidated accompanying balance sheet as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Total segment assets	¥ 3,539,565	¥ 3,959,194	$ 29,454,648
Intersegment accounts	(34,021)	(22,030)	(283,107)
Intersegment investments	(26,269)	(26,269)	(218,599)
Other	3,327	3,493	27,685
Assets in the accompanying consolidated balance sheet	¥ 3,482,602	¥ 3,914,388	$ 28,980,627

Reconciliation between others in the table above and amounts in the consolidated financial statements as of and for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2015			
Depreciation and amortization	¥ 653	¥ 9	¥ 662
Interest income	117	(12)	105
Income taxes	771	(6)	765
Increase in property, plant and equipment and intangible assets	2,118	–	2,118
March 31, 2014			
Depreciation and amortization	¥ 870	¥ 9	¥ 879
Interest income	31	(10)	21
Income taxes	510	(0)	510
Increase in property, plant and equipment and intangible assets	1,161	–	1,161

	Thousands of U.S. dollars		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2015			
Depreciation and amortization	$ 5,434	$ 75	$ 5,509
Interest income	974	(100)	874
Income taxes	6,416	(50)	6,366
Increase in property, plant and equipment and intangible assets	17,625	–	17,625

Related Information

(a) Information by services

Sales by services for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Loans for margin transaction	¥ 9,667	¥ 9,240	$ 80,444
Other	10,633	10,326	88,483
	¥ 20,300	¥ 19,566	$ 168,927

(b) Geographic information

Because there are no revenues from customers outside Japan and no property, plant and equipment located outside Japan, the geographic information is not disclosed for the years ended March 31, 2015 and 2014.

(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, 2015 and 2014.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2015 and 2014.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2015 and 2014.

Negative goodwill incurred by reported segments

The information is not applicable for the year ended March 31, 2015. For the year ended March 31, 2014, gain on negative goodwill of ¥4,405 million was incurred through the acquisition of Osaka Securities Finance Co., Ltd. on July 22, 2013.

(21) Subsequent Event

Acquisition of treasury stocks

The Company acquired 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 in accordance with the resolution of the Board of Directors held on May 11, 2015.

1. Reasons for the acquisition of treasury stocks

The acquisition of treasury stocks was 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: 3,000,000 shares (upper limit)

(3) Total acquisition costs: ¥2,500 million ($20,804 thousand) (upper limit)

(4) Schedule of acquisition date: From May 12, 2015 to March 18, 2016

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, 2015, 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, 2015, 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, 2015

BDO Toyo & Co.

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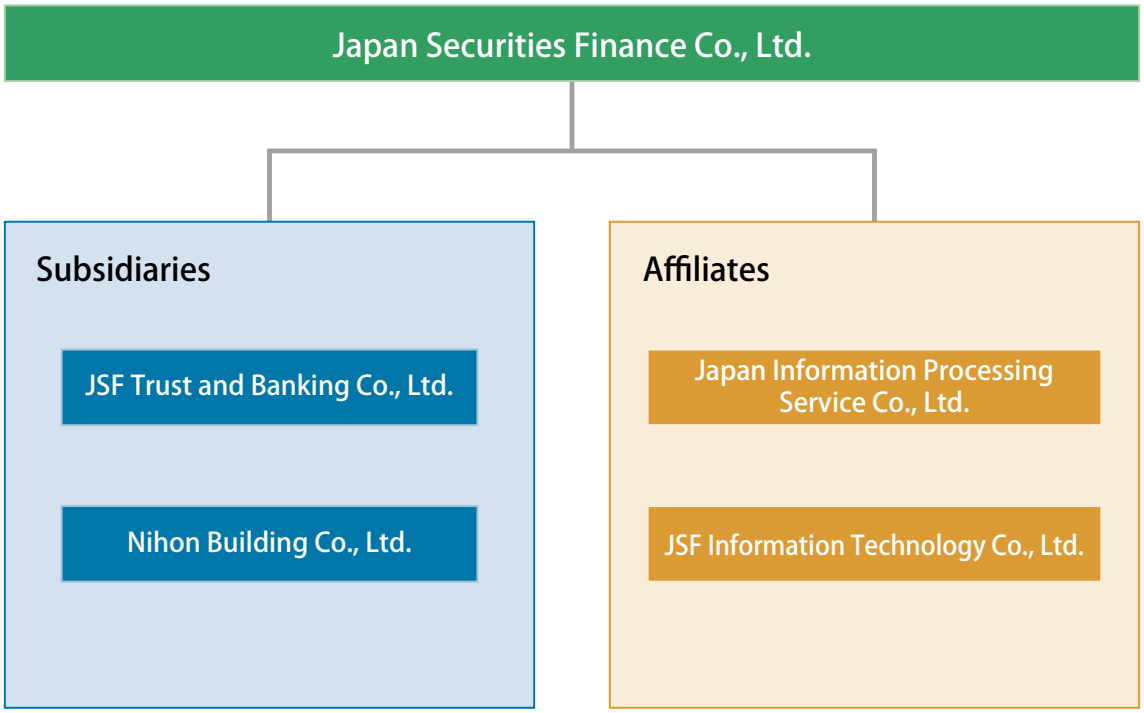


Name	Capital (millions of yen)	Ratio of shareholding	Business overview
Subsidiaries			
JSF Trust and Banking Co., Ltd.	14,000	100	Trust service, Banking services
Nihon Building Co., Ltd.	100	100	Real estate ownership and leasing Real estate trading and brokerage
Affiliates			
Japan Information Processing 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
261

Share Information

Shares outstanding
100,000,000 shares（as of March 31, 2015）

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

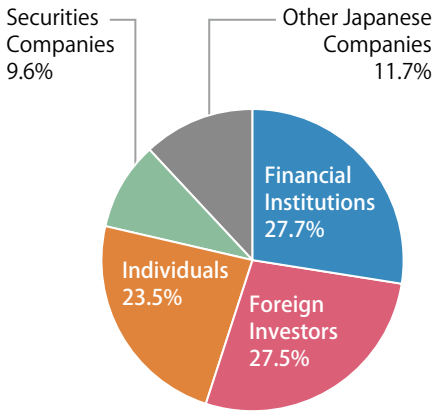
Number of shareholders
14,063（as of March 31, 2015）

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
Northern Trust Co. (AVFC) Re 15Pct Treaty Account	9,571	9.57
Japan Trustee Services Bank, Ltd. (Trust account)	5,702	5.70
Mizuho Bank, Ltd.	4,779	4.77
Shihon-Shijo Shinko Foundation	4,610	4.61
RBC ISB A/C Dub Non Resident-Treaty Rate	4,457	4.45
Japan Trustee Services Bank, Ltd. (Trust account 4)	2,940	2.94
C&I Holdings Co., Ltd.	1,859	1.85
The Master Trust Bank of Japan, Ltd. (Trust account)	1,754	1.75
Sanko Securities Co., Ltd.	1,600	1.60
Japan Secrities Agents, Ltd.	1,460	1.46

Composition of shareholders
(by number of shares)



Board of Directors, Corporate Auditors and Executive Officers (As of June 25, 2015)

Directors

Chairperson	Minoru Masubuchi *
Vice Chariperson	Takao Hotta *
President	Eizo Kobayshi *
Senior Managing Director	Hiroshi Asakura
Managing Director	Yasufumi Oda
	Toshihiro Oritate
	Tomoyoshi Sugaya
Director	Takashi Imai **
	Tetsuo Mae **
	Eiko Shinotsuka **
	(* Representative Directors)
	(** Outside Directors)

Executive Officers

Chairperson	Minoru Masubuchi
Vice Chariperson	Takao Hotta
President	Eizo Kobayashi
Senior Managing Director	Hiroshi Asakura
Managing Director	Yasufumi Oda
	Toshihiro Oritate
	Tomoyoshi Sugaya
Senior Executive Officer	Yutaka Tanaka
Executive Officer	Kenji Fukushima
	Kazuhiro Maeda
	Yasuhiro Hirama
	Teruo Murasawa

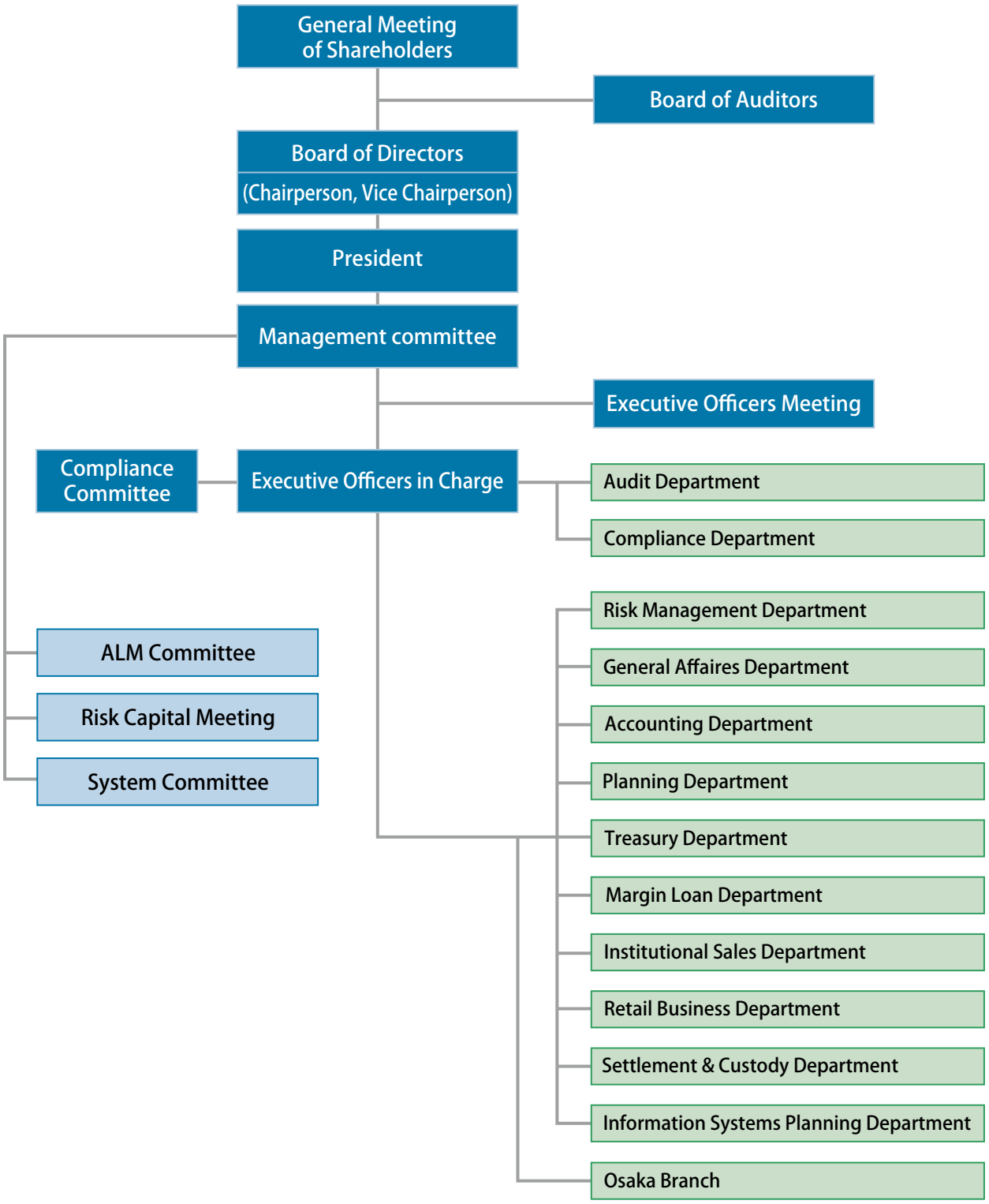
Corporate Auditors

Ushio Mizuno *
Tadahiko Genta
Masayuki Hamada
Toshio Kamiyama *
(* Outside Corporate Auditors)

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