Securities Finance

ANNUAL REPORT 2014

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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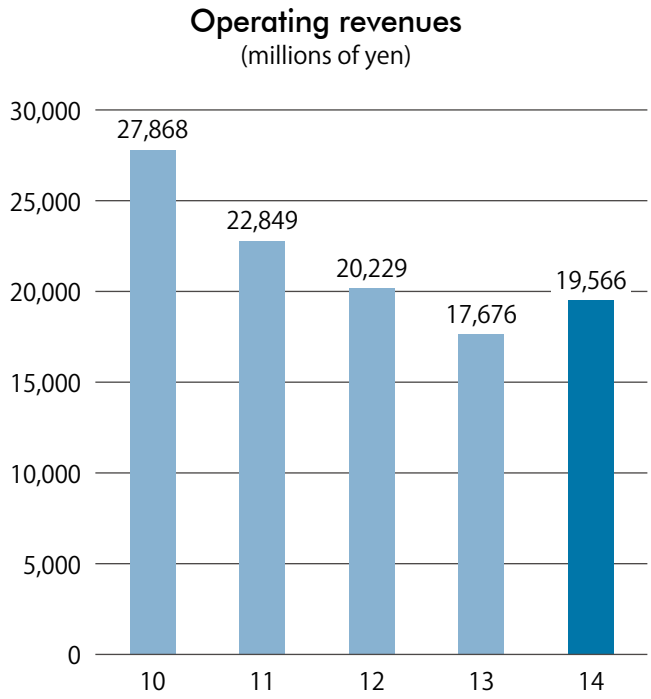
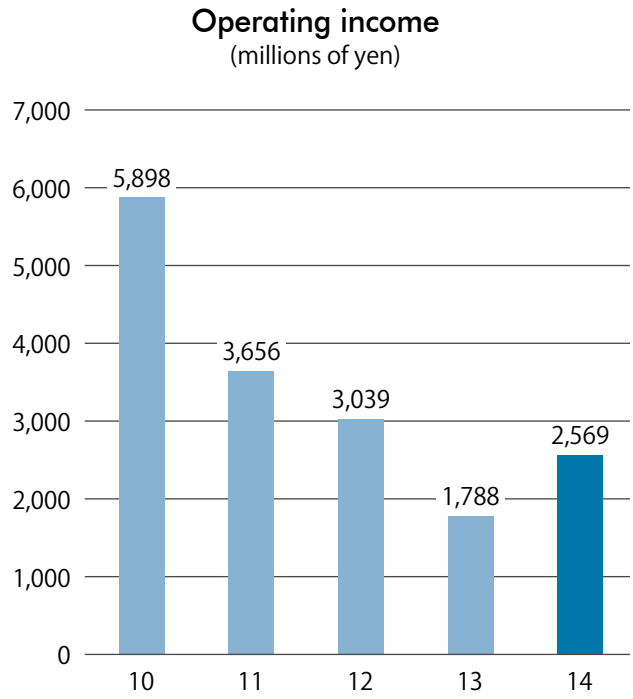
FINANCIAL HIGHLIGHTS

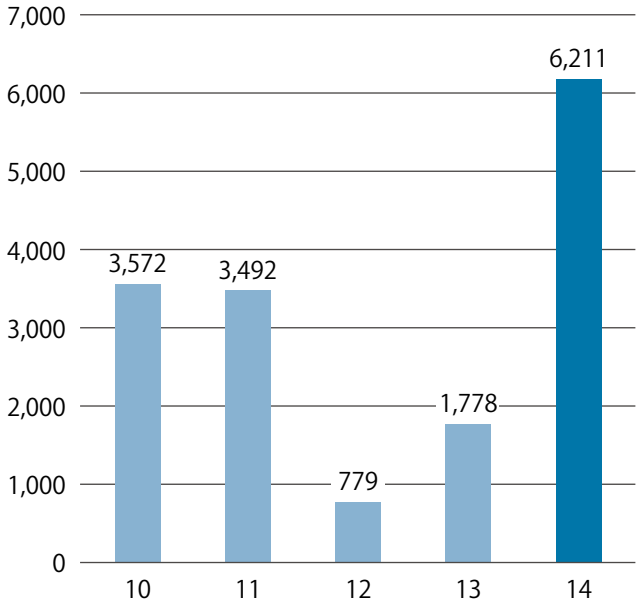
	Millions of yen*					Thousands of U.S. dollars*
	2010	2011	2012	2013	2014	2014
Operating Results:						
Operating revenues	¥ 27,868	¥ 22,849	¥ 20,229	¥ 17,676	¥ **19,566**	$ **190,109**
Operating income	5,898	3,656	3,039	1,788	**2,569**	**24,962**
Net income	3,572	3,492	779	1,778	**6,211**	**60,348**
Financial Position:						
Total assets	¥ 5,479,610	¥ 7,078,138	¥ 4,931,286	¥ 3,433,456	¥ **3,914,388**	$ **38,033,307**
Net assets	112,656	114,927	115,547	118,591	**135,228**	**1,313,914**
Shareholders' equity ratio (%)	2.28	1.73	2.56	3.45	**3.45**	**3.45**
Per Share Data:						
Net income	¥ 38.59	¥ 37.73	¥ 8.42	¥ 19.10	¥ **60.35**	$ **0.59**
Net assets	1,217.12	1,241.67	1,245.83	1,274.67	**1,260.43**	**12.25**
Cash dividend	14	14	14	14	**14**	**0.14**

* except per share amount

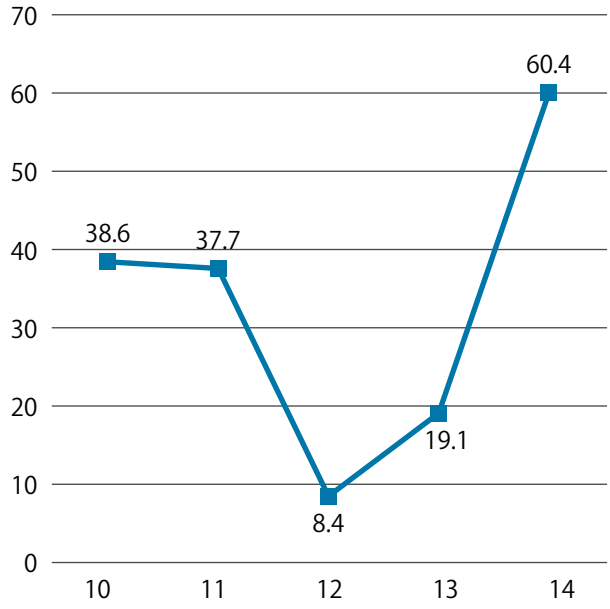




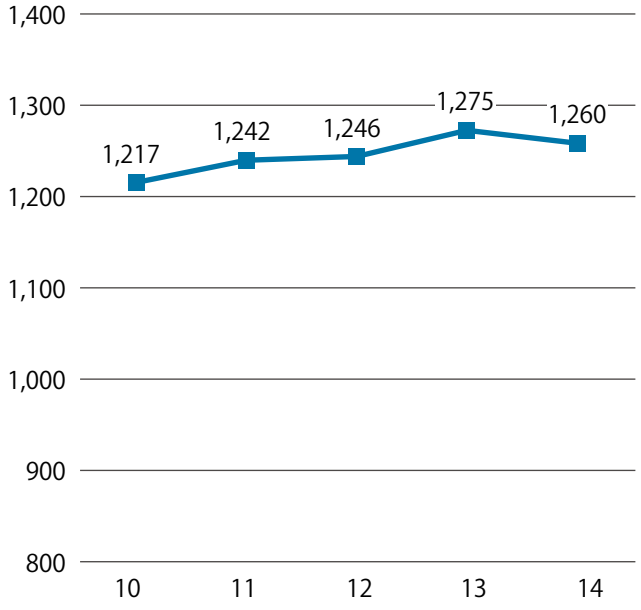
Net income
(millions of yen)



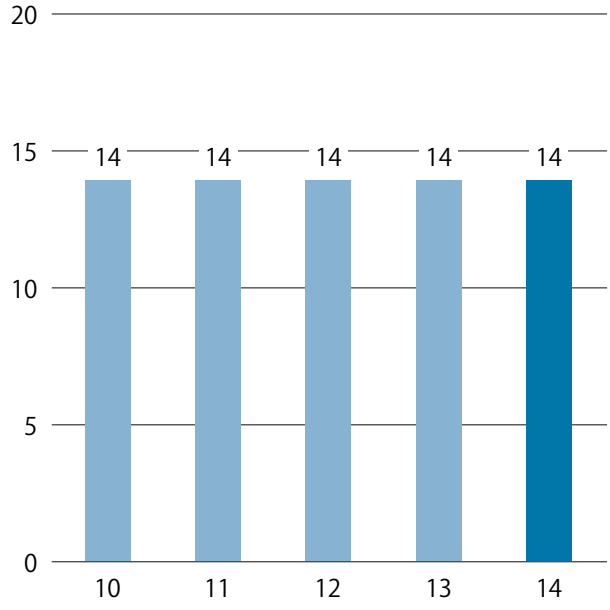
Net income per share
(yen)



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 ¥102.92=U.S.$1 in effect on March 31, 2014.

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

MESSAGE FROM THE PRESIDENT

We have formulated a new 4th Mid-term Management Plan with a view to articulating a new vision of the company after the merger with Osaka Securities Finance Company, Ltd. (OSF) and to utilizing our business resources more effectively.

Under the new management plan, we will execute business strategies such as strengthening our network with financial instruments business operators (FIBOs), expanding our core business "Loans for Margin Transactions," and responding to the diverse needs of funding and securities trading. Additionally, we will strengthen our business management structures. These initiatives will better enable the company to respond to changing environments and further develop its business.

In this, we ask for your continued support and understanding.

Eizo Kobayashi
President

Eizo Kobayashi
President

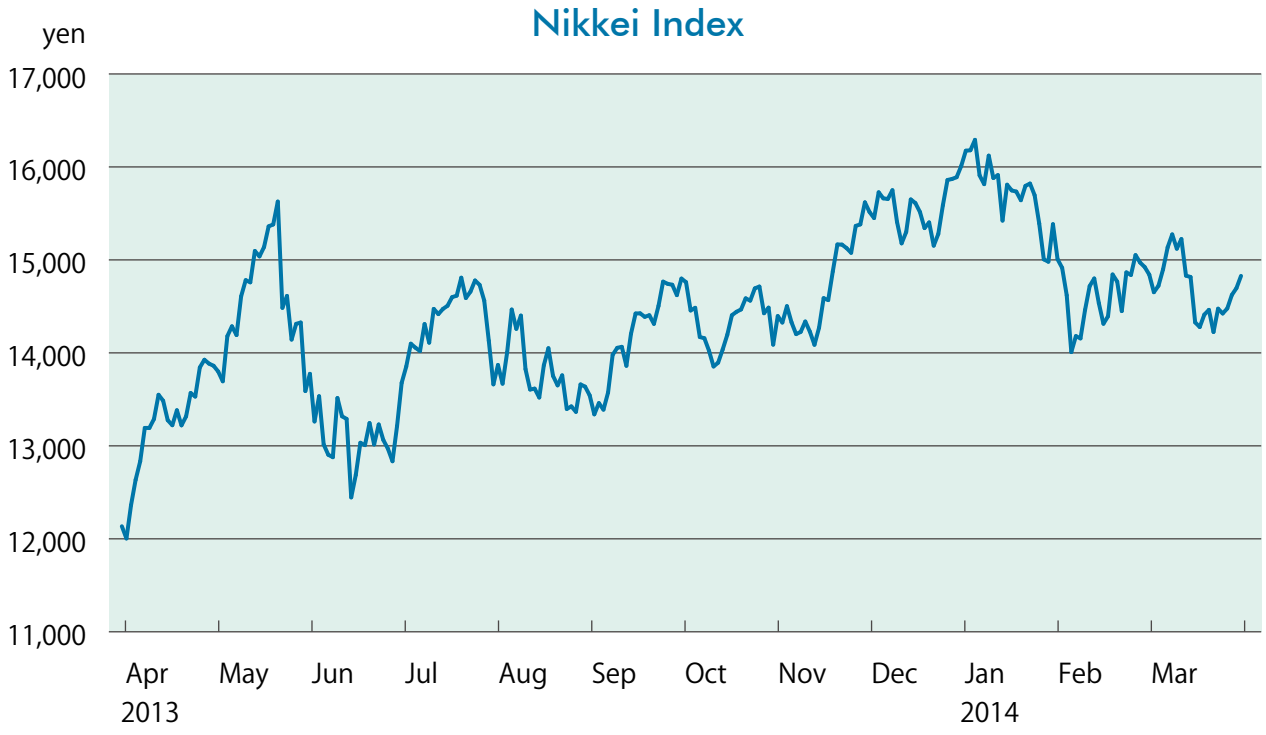
BUSINESS REVIEW

Business Environment

During the term, the Japanese economy enjoyed modest recovery. Aggressive monetary easing by the Bank of Japan combined with expectations for the government's new growth strategy to weaken the yen and cause share prices to rise. Meanwhile, improvements were seen in corporate earnings, jobs and income.

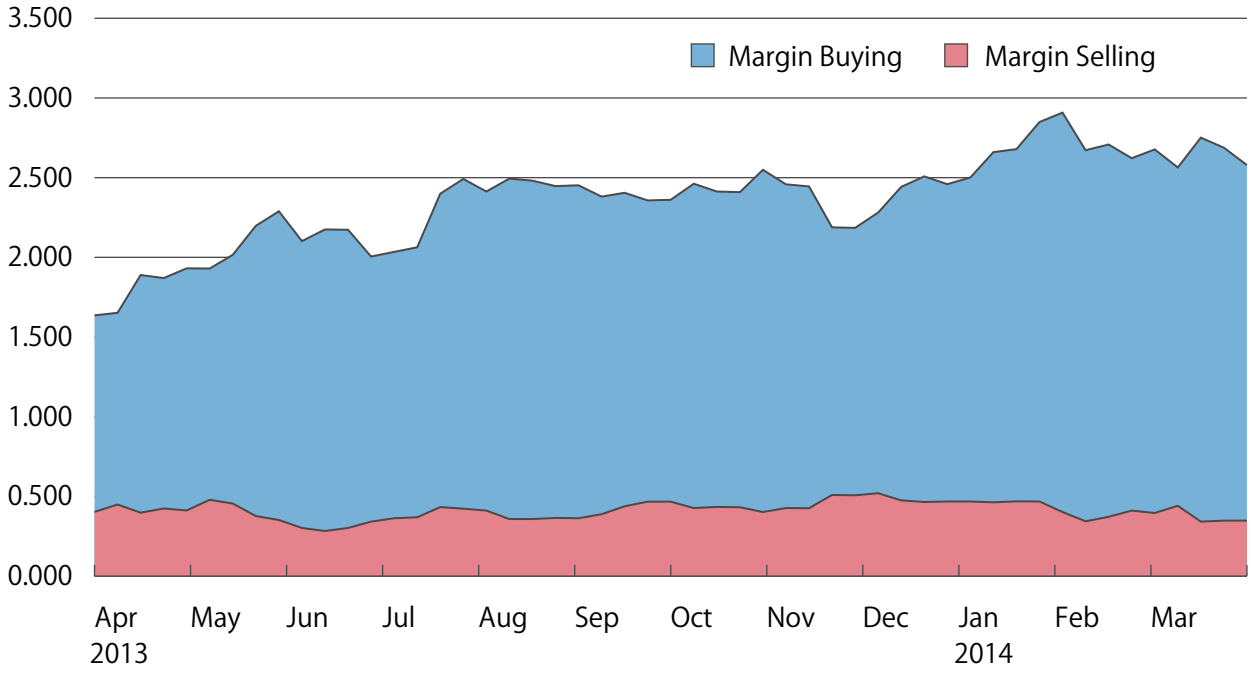
On the equity market, the Nikkei 225 stock average (Nikkei 225) began the term at 12,135 yen, but aggressive monetary easing by the Bank of Japan brought it above 15,000 yen in mid-May. The Nikkei 225 began to decline in late May due to expectations that the United States would reduce its quantitative easing policy. In mid-June, the Nikkei 225 dipped below 13,000 yen, but it soon rebounded in reaction to improved domestic and international economic indicators and the continued depreciation of the yen. By the end of December, the Nikkei 225 reached the term's high of 16,291 yen, led by robust prices on US equity markets. From January onward, the Nikkei 225 began to fall due to concerns about emerging economies and questions about Japan's economic prospects after the increase in the consumption tax. At the end of the term, the Nikkei 225 closed at 14,827 yen. During this period, the average daily trading volume on the First Section of the Tokyo Stock Exchange increased by 748 million shares over the previous term to reach 2,933 million, and the average daily value traded increased by 1,072.2 billion yen to reach 2,391.3 billion yen.

At the beginning of the term, the outstanding balance of standardized margin buying on the Tokyo market was in the 1.6 trillion yen range (was on the order of 1.6 trillion yen?), but an increase in new buying by personal investors brought it above 2 trillion yen in mid-May, and it continued in the 2.4 trillion yen range through mid-July. After that, as share prices rose, the balance peaked above 2.9 trillion yen at the end of January. It then declined to the 2.5 trillion yen level at the end of the term. Conversely, the outstanding balance of standardized margin selling began the term in the 400



Outstanding balance of Standardized Margin Transactions

(billions of yen)



billion yen range, but positions were bought back as share prices turned downwards, and the balance declined to 300 billion yen in mid-June. As share prices turned upwards, new sales by personal investors brought the balance to the term's peak above 520 billion yen in late November. It gradually declined from that level, and at the end of the term was in the 340 billion yen range.

On the bond market, the yields on newly issued 10-year Japanese government bonds began the term at 0.560%. The rapid depreciation of the yen and increase in share prices accelerated selling, and the yield of JGB topped 0.9% in late May. After that, the yield turned downwards due to active JGB purchasing operations by the Bank of Japan, and during the second half remained around 0.65%. At the end of the term, it was 0.640%.

Business results of the JSF group

In this environment, the total value of outstanding loans for the JSF group (term average) was 748.5 billion yen, a year-on-year increase of 364.2 billion yen.

Consolidated operating revenues were 19,566 million yen (increase of 10.7% year-on-year). There were declines in interest income on JGB holdings and profit on JGB sales, but interest on loans from the margin loan business and other operations increased. Consolidated operating expenses came to 8,747 million yen (increase of 6.8% year-on-year) due to an increase in securities borrowing fees, while general and administrative expenses hit 8,249 million yen (increase of 7.2% year-on-year).

As a result, consolidated operating income was 2,568 million yen (increase of 43.7% year-on-year), and consolidated ordinary income, 3,119 million yen (increase of 22.0% year-on-year). Consolidated net income was 6,211 million yen (increase of 249.4%) due to the posting of extraordinary income arising from negative goodwill in the merger with OSF.

1) Securities finance business

Loans for Margin Transactions

In the loans for margin transaction business, the outstanding balance of margin loans rose by 276.4 billion yen over the previous term to reach a term average of 490.6 billion yen. This produced a large increase in interest on loans. The outstanding balance of stock loans was on par with the previous term at a term average of 176.4 billion yen, but stock lending fees increased due to higher premium charges on over-lent issues (issues for which outstanding stock loans exceed outstanding margin loans). This resulted in operating revenues for this service of 9,240 million yen (increase of 39.5% year-on-year).

Bond financing and General loans

As for bond financing and general loans, the term average of loans increased by 101.3 billion yen over the previous term to reach 157.2 billion yen. Factors in the increase included an increase in loans to financial instruments business operators and to individual investors and non-financial companies as a result of the merger with OSF. Higher use of equity repos also contributed to operating revenues for this service of 1,959 million yen (increase of 141.8% year-on-year).

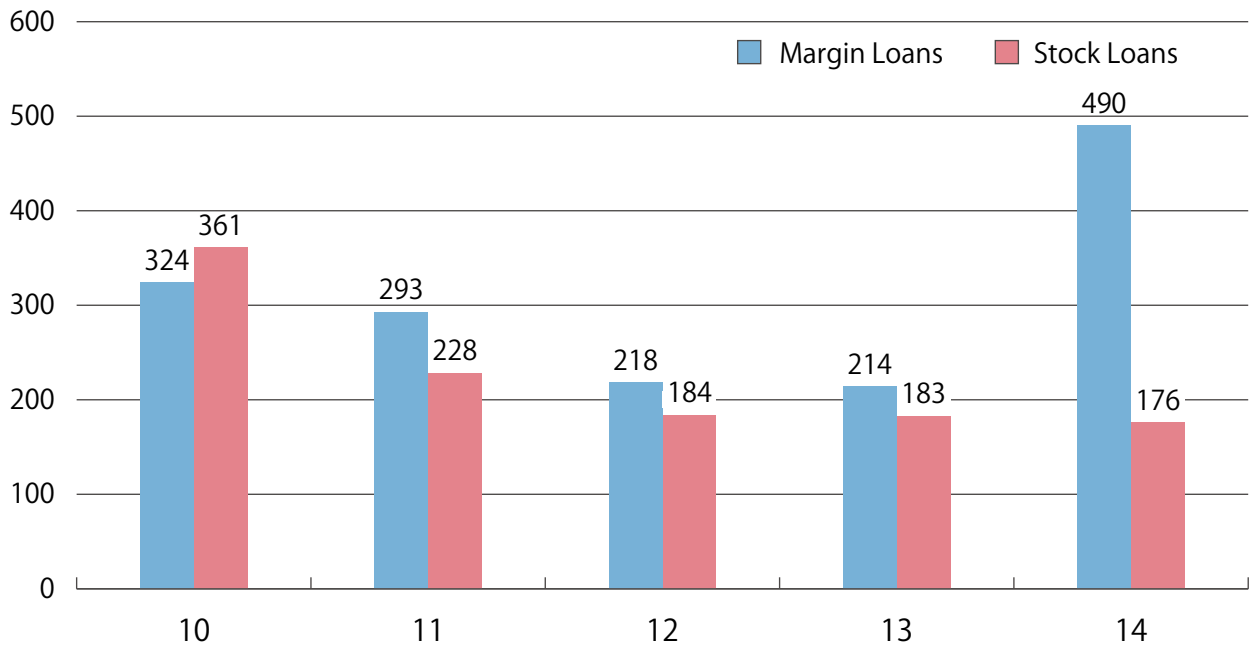
Securities lending

In the securities lending business, securities lending fees increased due to an increase in SC (Special Collateral) repos in the bond lending section and in use of long-term borrowed stock in the general stock lending section. Operating revenues for this service were 2,217 million yen (increase of 19.0% year-on-year).

Other business

"Other" revenues were 2,946 million yen (decline of 38.6% year-on-year) due to declines in interest income on JGB holdings and profits on JGB sales.

Average outstanding balance of Loans for Margin Transactions



Breakdown of JSF Group operating revenues

	2014	2013
	(¥ million)	(¥ million)
Securities Finance Business	16,363	14,093
Loans for margin transactions	9,240	6,625
Interest on loans	4,012	1,760
Interest on collateral money for securities borrowed	436	652
Fees on lending securities	4,132	3,746
Bond financing and general loans	1,959	810
Securities lending	2,217	1,862
Stocks	425	289
Bonds	1,791	1,573
Other business	2,946	4,794
Trust Banking Business	2,322	2,762
Interest on loans	317	590
Trust charges	485	338
Real Estate Leasing Business	880	819
Total Operating Revenues	19,566	17,675

2) Trust banking business

In the trust banking business, there were increases in trust charges and interest income on securities holdings, but the term average of loans declined by 23.4 billion yen year-on-year to 77.6 billion yen, and interest on loans declined as well. Operating revenues from this service were 2,322 million yen (decline of 15.9% year-on-year).

3) Real estate leasing business

In the real estate leasing business, operating revenues increased to 880 million yen (increase of 7.4% year-on-year) due to increases in rents.

Future challenges

While there are concerns about the impact of the April consumption tax hike, we think that the Japanese economy will continue on a modest recovery trajectory due to initiatives for sustained growth by the government and Bank of Japan. We anticipate further developments in the financial and securities markets where we do business as a result of initiatives to encourage investment and strengthen the functions of securities markets, for example, the integration of the cash equity market and derivatives market under the Japan Exchange Group, the introduction of Nippon Individual Savings Accounts (NISAs) in January, and enhancements to the institutional framework of the Comprehensive Exchange.

In July of last year, JSF and OSF merged in response to the integration of the cash equity markets of the Tokyo Stock Exchange and Osaka Securities Exchange. After the merger, for the purpose of utilizing our business resources more effectively, the company formulated a new 4th Mid-Term Management Plan.

The business strategies under the new management

plan emphasize an increase in our network with financial instruments business operators etc., expansion of our core business "Loans for Margin Transactions," response to an increasingly broad range of funding and securities trading needs, enhancement of our computer platforms to more effectively support our strategies, strengthening of coordination among group companies, and more proactive response to the increasingly diverse needs of our customers. In conjunction with this, we will continue to strengthen our business management structures to enable us to better respond to changing environments and further develop our business.

JSF Trust and Banking Co., Ltd., a subsidiary company, offers tailor-made services as a trust bank to support the operational infrastructure of securities companies and other institutions. Its products emphasize trust services for the securities industry, and it endeavors to provide appropriate banking functions commensurate with its 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. Third Mid-term Management Plan

In May 2012, the company formulated the Third Mid-term Management Plan covering the three-year period from 2012 to 2014, and is now involved in the plan's execution. There is one year remaining on the plan, but after the merger with OSF in July of last year, the opportunity was taken to formulate a new medium-term business plan that emphasizes more effective utilization of business resources.

Below is an overview of the achievement of individual strategies in the Third Mid-term Management Plan during FY2012 and FY2013.

[Business Strategies]

i) Improve the convenience of loans for margin transactions

The company redoubled its approaches to issuers to increase the number of loanable issues. These efforts resulted in a steady increase in the number of loanable issues to 2,059 at the end of March 2014, representing stock borrowing contracts with 589 companies. We also endeavored to improve the convenience of this business by introducing systems to enable applications for loans to be submitted through the Internet.

ii) Further expand loans for negotiable margin transactions

We actively visited financial instruments business operators to ascertain their needs, sign new contracts, and expand usage of existing contracts. These efforts resulted in an increase in the average loan balance to 36.2 billion yen in FY2013 from 20.3 billion yen in FY2011.

iii) Respond to diverse funding needs of financial instruments business operators etc.

In June 2012, we launched a new "Stabilizing fund loan" product to address the needs of financial instruments business operators etc. to raise stable medium- and long-term funding. This expanded our profit base and brought new flexibility to our loan formats.

iv) Expand securities lending and borrowing business

In general stock lending business, we emphasized the development of new customers and also the structuring of more flexible trading conditions to improve the convenience of this business. In the bond lending business, we emphasized the development of new customers and approaches to existing customers in an effort to increase balances and expand usage.

v) Enhance securities-related services

We endeavored to enhance securities-related services by improving coordination with JSF Trust and Banking.

[Reinforcing Management Foundations]

i) Improve the effectiveness of business management structure

We implemented programs to ascertain compliance risks and to maintain and improve compliance awareness among executives and employees. We also enhanced internal management structures and implemented self-assessments to maintain and improve the quality of internal auditing. In addition, we made further enhancements to risk management, in order to better equip management structures to deal with increasingly diverse and complex risks.

ii) Strengthen the business structure

We endeavored to strengthen business organizations with an organization-wide effort to ascertain the needs of wholesale customers, and with the establishment of a new Business Promotion Meeting tasked with improving financial and securities-related services.

iii) Improve the efficiency of organizational and business management

We endeavored to bring efficiency gains to our organizations and operations by, for example, increasing personnel exchanges and concurrent service etc. with subsidiaries, and reducing and restraining systems costs.

iv) Support financial and securities education and enhance communication of information

We distributed videos explaining margin transactions and loans for margin transactions through securities company web sites, held joint seminars with the Tokyo Stock Exchange on mechanisms of margin transactions and loans for margin transactions, and engaged in other communications and educational activities. We also signed Memoranda of Understanding (MOUs) with Korea Securities Finance and Kliring Penjaminan Efek Indonesia (the central clearing agency of Indonesia) to improve communications and ties with Asian markets.

2. 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.

Basic Policy on Profit Sharing

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".

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.

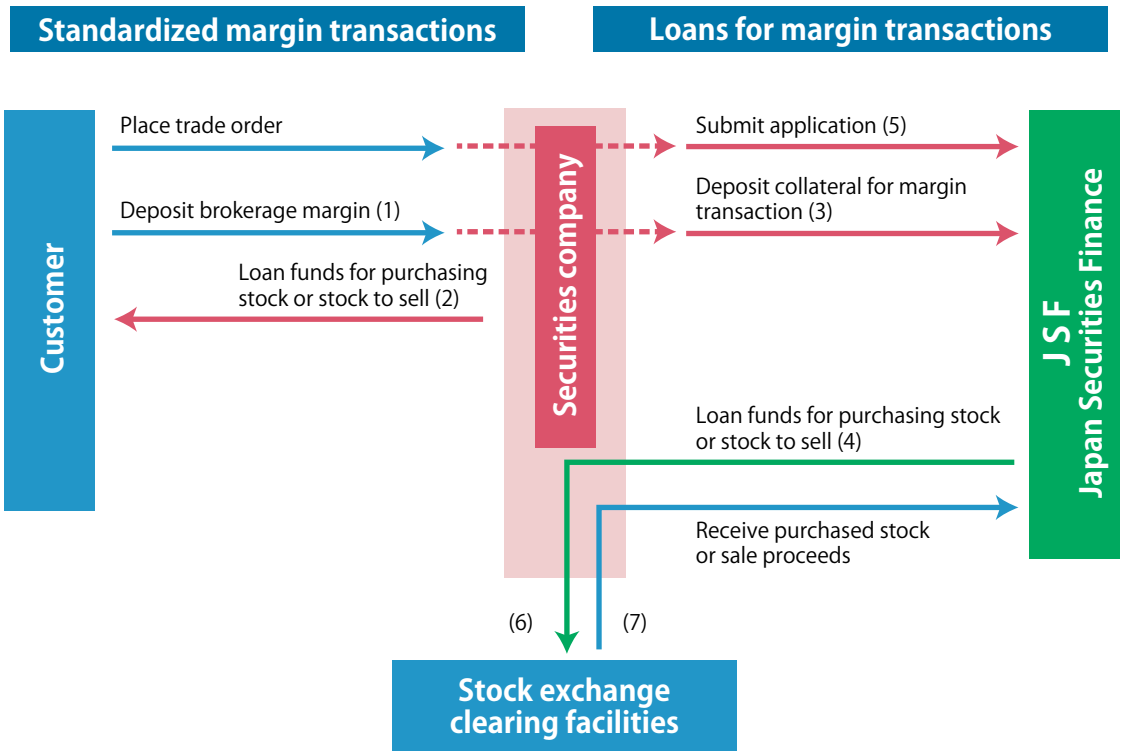
(Note) This is a system of appropriating purchased stock received from buy side as collateral to sell side's stock for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

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.

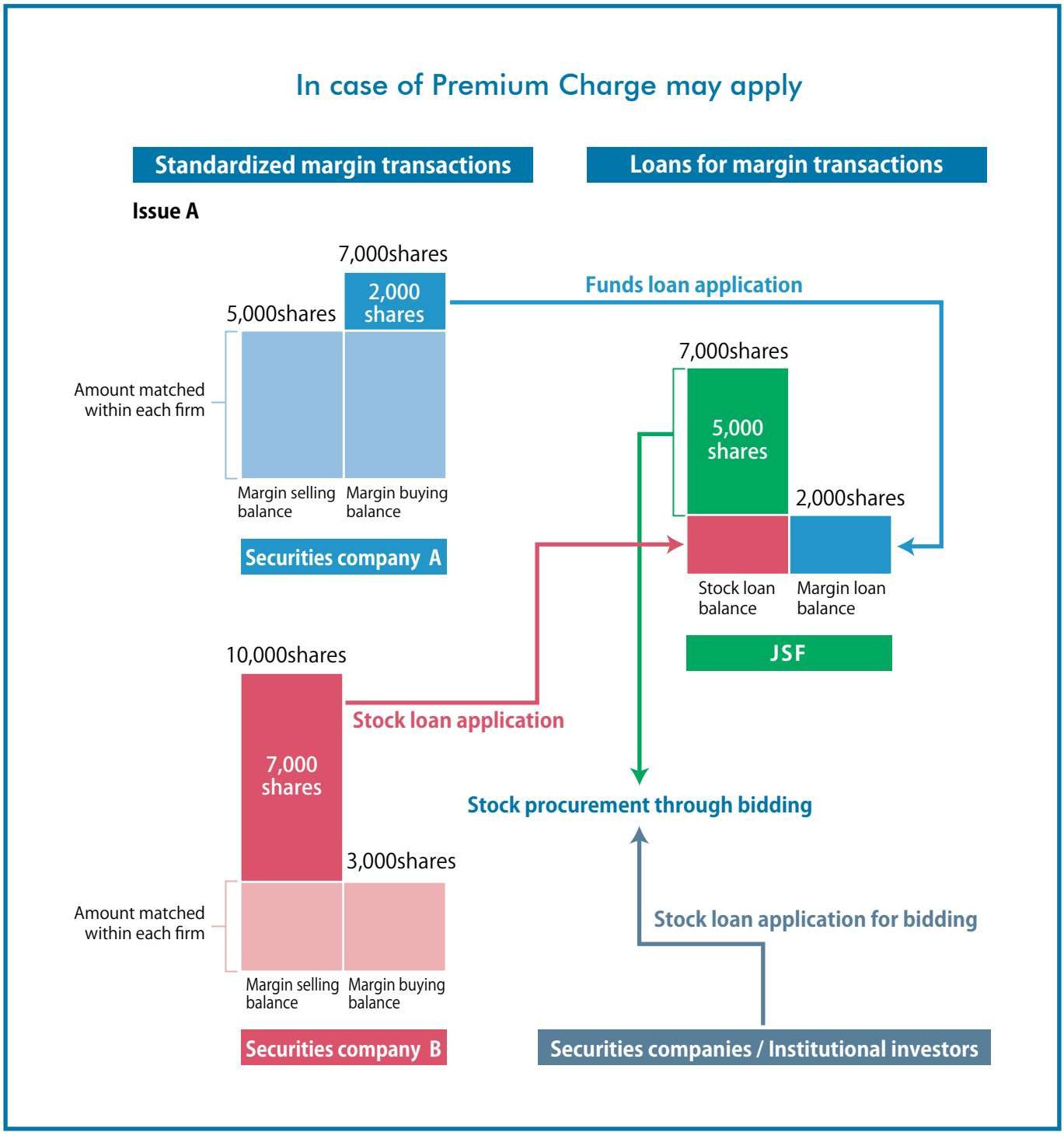
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions (5).To execute the loan, JSF, in place of the securities company, delivers funds or stock to clearing facilities of stock exchanges (6). The stock purchased (collateral stock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

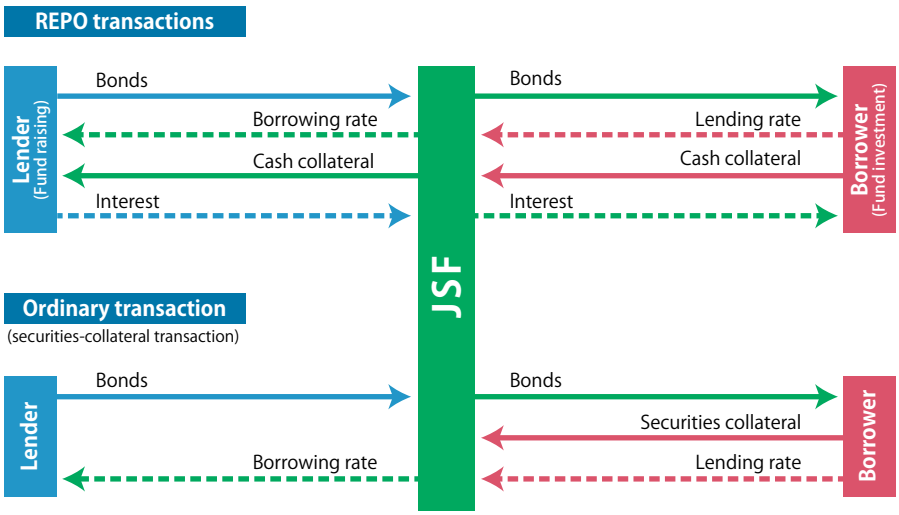
REPO transactions

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



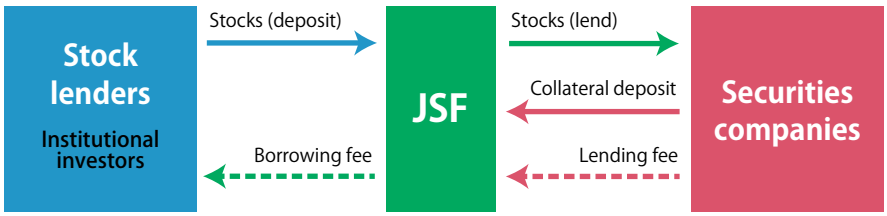
GENERAL STOCK LENDING

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.

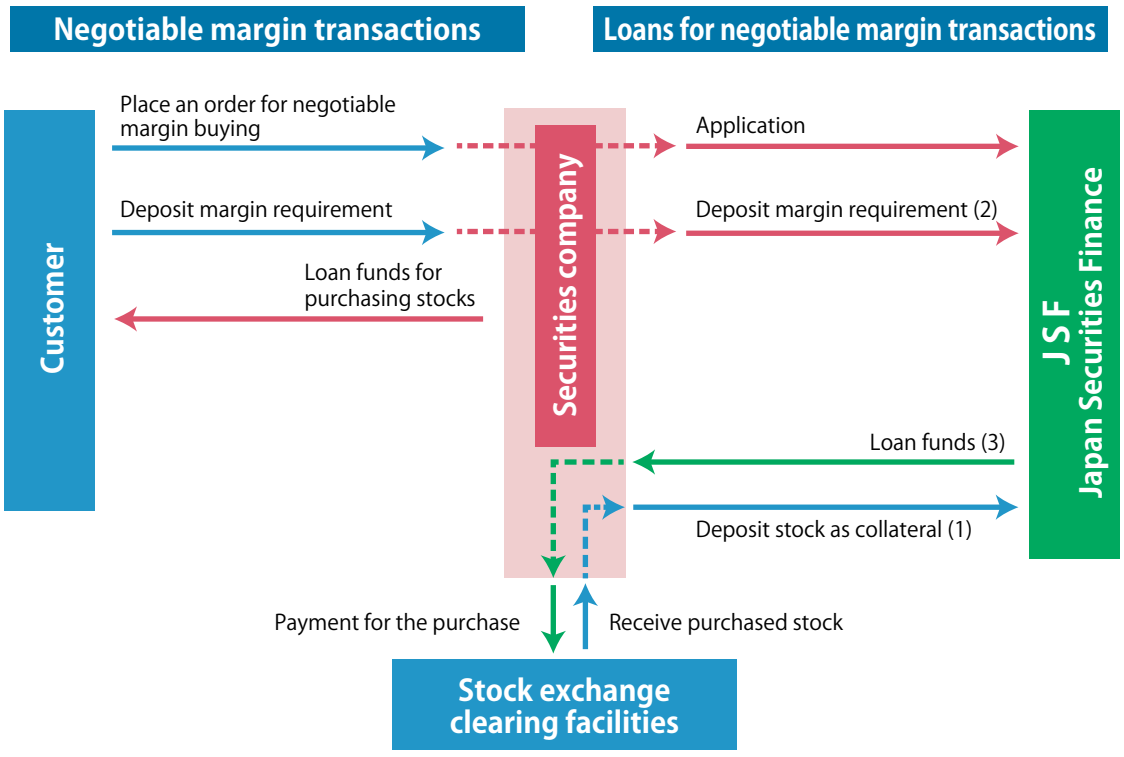
Interest rate

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.

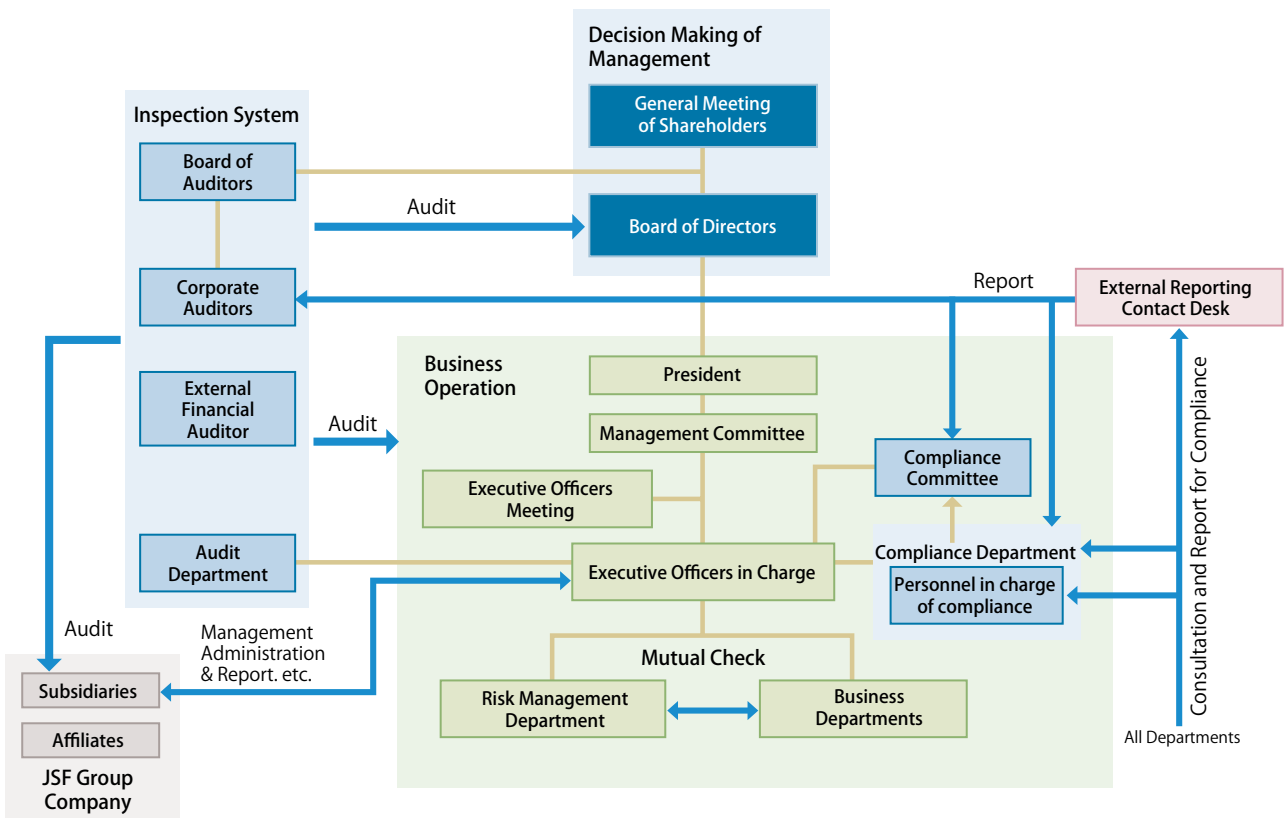
CORPORATE GOVERNANCE STRUCTURE

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 eleven times.

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

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

2) 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 twelve 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 Shigeki Katsuno, Nobuyuki Kobayashi and Hironobu Sakai of BDO Toyo & Co. Accounting audits are assisted by 13 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

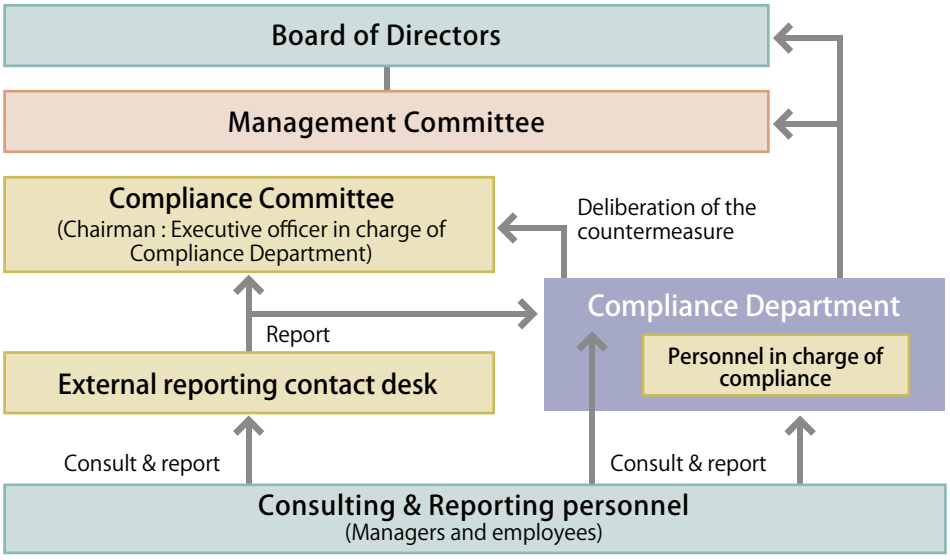
In order to strengthen the compliance system, the company has its external consulting and reporting contact desk by lawyers, in addition to the Compliance Committee, the Compliance Department and personal in charge of compliance.

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 risks are risks to suffer losses caused by fluctuations of values of possessed assets (bonds, stocks) due to fluctuations of various market risk factors such as interest rates and prices of securities.
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.

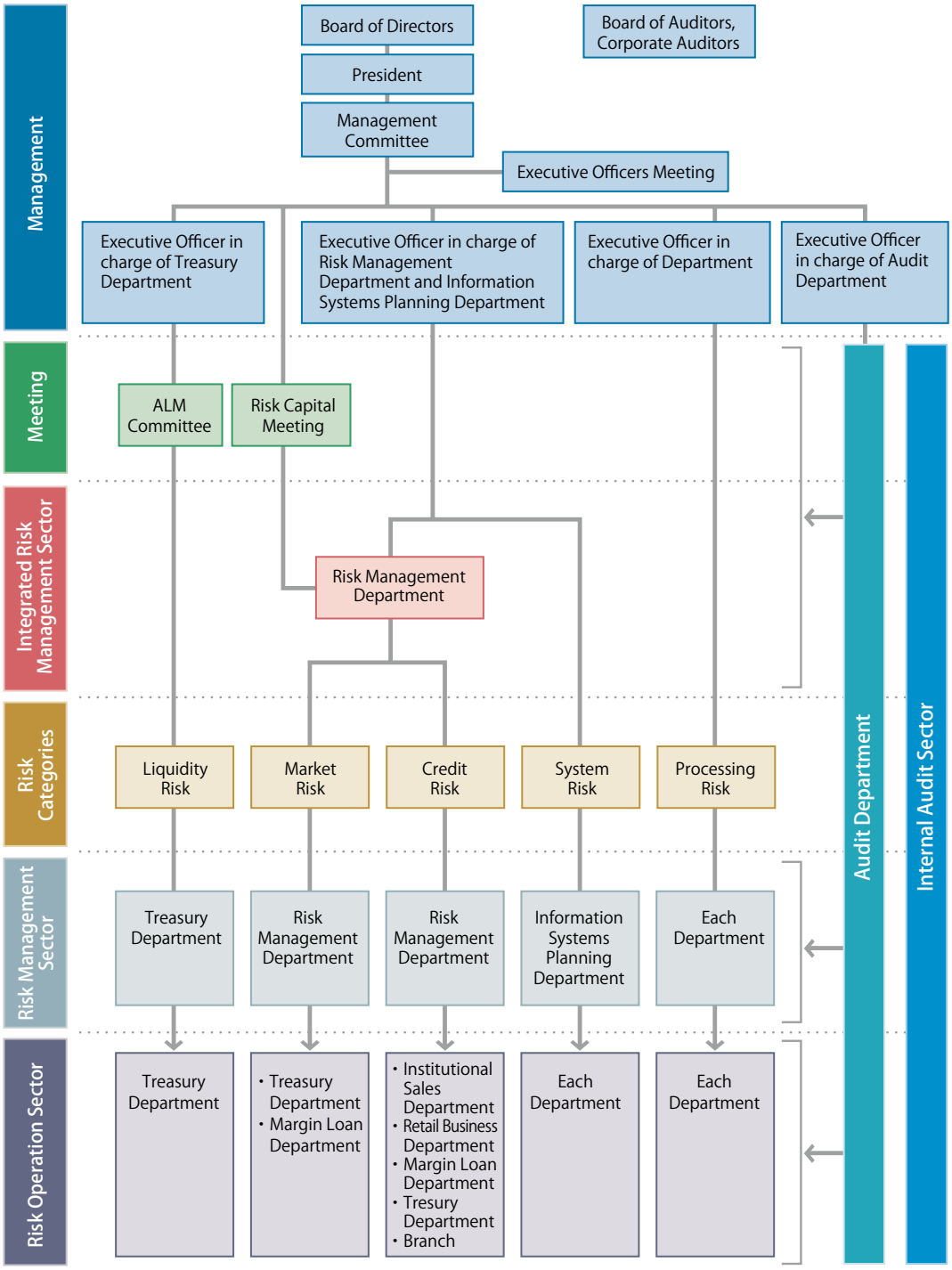
Stress tests

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, 2014

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	2014
Current assets:			
Cash (note 3)	¥ 93,070	¥ 124,256	$ 904,295
Short-term investments (notes 4 and 16)	408,571	945,972	3,969,792
Short-term loans receivable (note 16)	897,825	732,475	8,723,523
Deferred tax assets (note 9)	525	211	5,101
Collateral money for securities borrowed	1,303,155	1,092,112	12,661,825
Other current assets (note 16)	6,106	3,166	59,328
Allowance for doubtful receivables	(369)	(1,221)	(3,586)
Total current assets	2,708,883	2,896,971	26,320,278
Property, plant and equipment:			
Buildings and structures	8,790	8,059	85,406
Tools, furniture and fixtures	1,348	1,374	13,097
Land (note 6)	3,265	3,265	31,724
Leased assets	409	42	3,974
Construction in progress	3	508	29
	13,815	13,248	134,230
Accumulated depreciation	(6,827)	(6,686)	(66,333)
Net property, plant and equipment	6,988	6,562	67,897
Intangible assets, net	1,054	843	10,241
Investments and other assets:			
Investments in securities (notes 4, 5 and 16)	1,196,823	528,600	11,628,673
Other investments and other assets	3,616	1,388	35,134
Allowance for doubtful receivables	(2,976)	(908)	(28,916)
Total investments and other assets	1,197,463	529,080	11,634,891
Total assets	¥ 3,914,388	¥ 3,433,456	$ 38,033,307

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	2014
Current liabilities:			
Call money (notes 7 and 16)	¥ 1,596,600	¥ 1,446,600	$ 15,513,020
Short-term borrowings and current installments of long-term borrowings (notes 7 and 16)	509,510	613,710	4,950,544
Commercial paper (note 7)	429,000	231,500	4,168,286
Accrued income taxes (note 9)	132	222	1,282
Collateral money received for securities lent	1,185,725	983,076	11,520,841
Other current liabilities (note 7)	46,449	32,150	451,312
Total current liabilities	3,767,416	3,307,258	36,605,285
Non-current liabilities:			
Long-term borrowings (note 7)	3,000	–	29,149
Deferred tax liabilities (note 9)	4,059	3,676	39,438
Deferred tax liabilities for land revaluation (note 6)	86	86	836
Liabilities for retirement benefits (note 8)	3,088	2,341	30,004
Other non-current liabilities (note 7)	1,511	1,504	14,681
Total non-current liabilities	11,744	7,607	114,108
Total liabilities	3,779,160	3,314,865	36,719,393
Stockholders' equity:			
Common stock (note 10): Authorized 200,000,000 shares; issued 107,307,763 shares in 2014 and 93,700,000 shares in 2013	10,000	10,000	97,163
Additional paid-in capital (note 10)	16,027	5,182	155,723
Retained earnings (note 11)	101,596	96,787	987,136
Treasury stock, at cost; 20,761 shares in 2014 and 663,905 shares in 2013	(16)	(515)	(156)
Total stockholders' equity	127,607	111,454	1,239,866
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on other securities (note 4)	8,346	7,845	81,092
Deferred losses on hedges(note 18)	(598)	(864)	(5,810)
Gain on revaluation of land (note 6)	156	156	1,516
Remeasurements of defined benefit plans	(283)	–	(2,750)
Total accumulated other comprehensive income	7,621	7,137	74,048
Total net assets	135,228	118,591	1,313,914
Commitments and contingencies (note 19)			
Total liabilities and net assets	¥ 3,914,388	¥ 3,433,456	$ 38,033,307

CONSOLIDATED STATEMENT OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	2014
Operating revenues	¥ 19,566	¥ 17,676	$ 190,109
Operating expenses	8,747	8,194	84,988
Operating profit	10,819	9,482	105,121
General and administrative expenses (note 12)	8,250	7,694	80,159
Operating income	2,569	1,788	24,962
Other income (deductions):			
Interest income	21	4	204
Dividend income	186	105	1,807
Interest expenses	(0)	(0)	(0)
Equity in earnings of affiliates	179	487	1,739
Equity in earnings of limited partnership	32	79	311
Gain on negative goodwill	4,405	–	42,800
Gain (loss) on sale of investments in securities	(0)	47	(0)
Loss on sale/disposal of property, plant and equipment	(29)	(34)	(282)
Merger related costs	(55)	–	(534)
Branch removal expenses	(526)	–	(5,111)
Retirement benefit expenses	(199)	–	(1,933)
Other, net	138	95	1,341
	4,152	783	40,342
Income before income taxes and minority interests	6,721	2,571	65,304
Income taxes (note 9):			
Current	255	593	2,478
Deferred	255	200	2,478
	510	793	4,956
Income before minority interests	6,211	1,778	60,348
Net income	¥ 6,211	¥ 1,778	$ 60,348

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, 2014

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	2014
Income before minority interests	¥ 6,211	¥ 1,778	$ 60,348
Other comprehensive income (loss) arising during the year (note 13):			
Net unrealized holding gain on other securities	521	3,155	5,062
Deferred losses on hedges	266	(864)	2,585
Other comprehensive gain of affiliates accounted for by the equity method	(20)	189	(195)
Total other comprehensive income arising during the year	767	2,480	7,452
Comprehensive income	¥ 6,978	¥ 4,258	$ 67,800
Comprehensive income attributable to:			
Owners of the parent	¥ 6,978	¥ 4,258	$ 67,800
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, 2014

Millions of yen

	Stockholders' equity					Accumulated other comprehensive income					
	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, 2012	¥ 10,000	¥ 5,182	¥ 96,312	¥ (604)	¥ 110,890	¥ 4,501	¥ –	¥ 156	¥ –	¥ 4,657	¥ 115,547
Changes arising during year:											
Cash dividends			(1,303)		(1,303)						(1,303)
Net income			1,778		1,778						1,778
Purchase of treasury stock				(0)	(0)						(0)
Decrease of treasury stock resulting from change in equity of affiliates				(0)	(0)						(0)
Decrease of treasury stock held by affiliates				89	89						89
Net changes other than stockholders' equity						3,344	(864)			2,480	2,480
Total changes during the year	–	–	475	89	564	3,344	(864)	–	–	2,480	3,044
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

Thousands of U.S. dollars
(note 2)

	Stockholders' equity					Accumulated other comprehensive income					
	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, 2013	$ 97,163	$ 50,350	$ 940,410	$ (5,004)	$ 1,082,919	$ 76,224	$ (8,395)	$ 1,516	$ –	$ 69,345	$ 1,152,264
Changes arising during year:											
Cash dividends			(13,622)		(13,622)						(13,622)
Net income			60,348		60,348						60,348
Increase resulting from merger		105,373			105,373						105,373
Purchase of treasury stock				(49)	(49)						(49)
Disposition of treasury stock				4,897	4,897						4,897
Net changes other than stockholders' equity						4,868	2,585		(2,750)	4,703	4,703
Total changes during the year	–	105,373	46,726	4,848	156,947	4,868	2,585	–	(2,750)	4,703	161,650
Balance at March 31, 2014	$ 97,163	$ 155,723	$ 987,136	$ (156)	$ 1,239,866	$ 81,092	$ (5,810)	$ 1,516	$ (2,750)	$ 74,048	$ 1,313,914

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, 2014

	Millions of yen		Thousands of U.S. dollars (note 2)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 6,721	¥ 2,571	$ 65,303
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	879	756	8,541
Gain on negative goodwill	(4,405)	–	(42,800)
Loss on disposal of property, plant and equipment	150	34	1,457
Gain relating to short-term investments and investments in securities	(487)	(1,506)	(4,732)
Allowance for doubtful receivables	(1,307)	306	(12,699)
Decrease in liabilities for retirement benefits	461	(51)	4,479
Interest and dividend income	(11,730)	(9,194)	(113,972)
Interest expenses	3,939	3,817	38,273
Equity in earnings of affiliates	(179)	(487)	(1,739)
Increase in short-term loans	(141,755)	(278,691)	(1,377,332)
(Increase) decrease in collateral money for securities borrowed	(203,542)	34,934	(1,977,672)
Increase in call money	115,000	58,000	1,117,373
Decrease in short-term borrowings	(99,700)	(1,223,000)	(968,714)
Increase in commercial paper	197,500	198,000	1,918,966
Increase (decrease) in collateral money received for securities lent	202,649	(116,940)	1,968,995
Increase (decrease) in collateral money received for loan transactions	(2,405)	7,655	(23,368)
Decrease in long-term debt	(7,500)	(4,000)	(72,872)
Purchase of short-term investments and investments in securities	(1,708,676)	(1,846,274)	(16,601,982)
Proceeds from sale/redemption of short-term investments and investments in securities	1,597,395	3,264,825	15,520,744
Other, net	22,597	10,521	219,559
Sub total	(34,395)	101,276	(334,192)
Interest and dividend received	11,586	10,278	112,573
Interest paid	(3,929)	(4,072)	(38,175)
Income taxes paid	(503)	(795)	(4,887)
Income taxes refunded	186	2	1,807
Net cash provided by (used in) operating activities	(27,055)	106,689	(262,874)
Cash flows from investing activities:			
Purchase of investments in securities	–	(1,201)	–
Proceeds from sale/redemption of investments in securities	0	546	0
Capital expenditures	(604)	(623)	(5,869)
Purchase of intangible assets	(557)	(175)	(5,412)
Other, net	82	222	797
Net cash used in investing activities	(1,079)	(1,231)	(10,484)
Cash flows from financing activities:			
Dividends paid to stockholders	(1,402)	(1,303)	(13,622)
Purchase of treasury stock	(5)	0	(49)
Other, net	(203)	(8)	(1,972)
Net cash used in financing activities	(1,610)	(1,311)	(15,643)
Net increase (decrease) in cash and cash equivalents	(29,744)	104,147	(289,001)
Cash and cash equivalents at beginning of year	114,258	10,111	1,110,163
Increase in cash and cash equivalents resulting from merger	8,556	–	83,133
Cash and cash equivalents at end of year (note 3)	¥ 93,070	¥ 114,258	$ 904,295

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2014

(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.

The difference between the cost and the underlying net assets at the date of investments in subsidiaries or affiliates is allocated to identifiable assets and liabilities based on fair market value at the date of investments.

The unallocated portion of the difference, which is recognized as goodwill, is amortized over 5 years.

(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 applied "Accounting Standard for Retirement Benefits" (ASBJ Standard No. 26 on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 on May 17, 2012) (except for certain provisions described in Section 35 of the standard and in Section 67 of the guidance) from the year ended March 31, 2014. The Company has recorded the amount of retirement benefit obligations after deducting pension plan assets as liabilities for retirement benefits, and unrecognized actuarial differences are recorded as liabilities for retirement benefits.

Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out Section 37 of the accounting standards, the effects of such changes in the year ended March 31, 2014 have been adjusted in remeasurements of defined benefit plans through accumulated other comprehensive income.

As a result, the Company recorded liabilities for retirement benefits of ¥3,032 million ($29,460 thousand) as of March 31, 2014. And accumulated other comprehensive income decreased by ¥283 million ($2,750 thousand). The net assets per share are decreased by ¥2.63 ($ 0.03).

(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.

Finance leases transactions without title transfer for which the starting date for the lease transactions is on or before March 31, 2008 the Company and its domestic consolidated subsidiaries have continued recognize lease payments as expenses with disclosure of certain "as if capitalized" information.

(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) Securities Accounts

From the year ended March 31, 2014, the Company presented the consolidated balance sheet after offsetting securities lent, securities in custody and securities in deposit, and collateral securities deposited, securities borrowed and securities lent opposite account (collectively "securities accounts") which have been recorded as assets and liabilities.

Since merger with Osaka Securities Finance Company Ltd. on July 22, 2013, as a result of the study of the unification of the accounting treatments, the Company has judged that it is more appropriate not to record the securities accounts in order to improve comparability between enterprises.

As a result of this change, comparing with prior presentation, total assets as of March 31, 2013 decreased by ¥742,082 million and there was no impact on income or retained earnings. Comparing with prior presentation, total assets as of March 31, 2014 decreased by ¥988,469 million ($9,604,246 thousand).

(m) 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, 2014.

(n) New Accounting Pronouncements not yet Adopted

On May 17, 2012, the ASBJ issued ASBJ Statement No.26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No.25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 and the other related guidance.

The Company expects to apply the revised accounting standard regarding the amendment of the calculation method for present value of defined benefit obligations and current service costs from the beginning of the fiscal year ending March 31, 2015. Because the provisional treatment is set out in the accounting standard, it is not required to be adopted retroactively.

As a result of the adoption of this revised accounting standard, retained earrings at April 1, 2014 is to be decreased by ¥16 million ($155 thousand).

(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, 2014, which was ¥102.92 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, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash	¥ 93,070	¥ 124,256	$ 904,295
Certificate of deposits with maturities of over three months	—	(9,998)	—
Cash and cash equivalents	¥ 93,070	¥ 114,258	$ 904,295

(4) Short-term Investments and Investments in Securities

No trading securities were held both as of March 31, 2014 and 2013.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2014 and 2013 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2014				
Government bond securities	¥ 39,915	¥ 301	¥ —	¥ 40,216
	¥ 39,915	¥ 301	¥ —	¥ 40,216
March 31, 2013				
Government bond securities	¥ 39,904	¥ 679	¥ —	¥ 40,583
Corporate bond securities	1,943	71	—	2,014
	¥ 41,847	¥ 750	¥ —	¥ 42,597

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2014				
Government bond securities	$ 387,825	$ 2,925	$ —	$ 390,750
	$ 387,825	$ 2,925	$ —	$ 390,750

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2014 and 2013 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
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	—	1,372
	¥ 1,546,447	¥ 12,917	¥ (51)	¥ 1,559,313
March 31, 2013				
Equity securities	¥ 1,301	¥ 3,163	¥ —	¥ 4,464
Bond securities:				
Government bond securities	1,255,159	8,889	23	1,264,025
Corporate bond securities	157,250	34	26	157,258
Other securities	937	285	—	1,222
	¥ 1,414,647	¥ 12,371	¥ 49	¥ 1,426,969

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2014				
Equity securities	$ 44,646	$ 45,424	$ (311)	$ 89,759
Bond securities:				
Government bond securities	13,624,689	75,534	(68)	13,700,155
Corporate bond securities	1,347,280	320	(116)	1,347,484
Other securities	9,104	4,227	—	13,331
	$ 15,025,719	$ 125,505	$ (495)	$ 15,150,729

Securities classified as other securities for which fair value is not available are unlisted equity securities amounting to ¥2,282 million ($22,173 thousand) and ¥2,132 million as of March 31, 2014 and 2013, respectively and unlisted preferred equity securities amounting to ¥200 million ($1,943 thousand) as of March 31, 2014.

For the years ended March 31, 2014 and 2013, 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
	2014	2013	2014
Proceeds from sale of other securities	¥ 813,102	¥ 1,554,198	$ 7,900,330
Gross realized gains	572	1,984	5,558
Gross realized losses	85	478	826

Financial assets received as collateral on which the Company has a right of disposal as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
The fair value of the securities as collateral	¥ 1,591,934	¥ 1,312,604	$ 15,467,684
Securities lent	106,484	110,320	1,034,629
Collateral provided	690,048	593,658	6,704,703
On hand	795,461	608,626	7,728,925

Balance sheet amount of securities lent under loan for consumption agreement, etc. as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term investments	¥ 20,178	¥ 96,838	$ 196,055
Investments in securities	52,463	40,091	509,745

The fair value of the securities borrowed under loan for consumption agreement, etc. as of March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Securities loaned	¥ 1,258,347	¥ 869,401	$ 12,226,457
Securities pledged as collateral	51,153	104,603	497,017

(5) Investments in Affiliates

The aggregate carrying amount of investments in affiliates as of March 31, 2014 and 2013 are ¥3,684 million ($35,795 thousand) and ¥3,624 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, 2014 decreased by ¥142 million ($1,380 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, 2014 and 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2014			
Short-term borrowings	¥ 506,510	$ 4,921,395	0.148%
Current portion of long-term borrowings	3,000	29,149	0.596
Current portion of lease liabilities	83	807	—
Long-term borrowings	3,000	29,149	0.570
Lease liabilities	133	1,292	—
Call money	1,596,600	15,513,020	0.067
Commercial paper	429,000	4,168,286	0.102
	¥ 2,538,326	$ 24,663,098	

March 31, 2013		
Short-term borrowings	¥ 606,210	0.128%
Current portion of long-term borrowings	7,500	0.618
Current portion of lease liabilities	8	—
Lease liabilities	4	—
Call money	1,446,600	0.072
Commercial paper	231,500	0.116
	¥ 2,291,822	

(8) Retirement and Severance Benefits

March 31, 2014

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. 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 liabilities 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.

Followings are the information for the Company's and the consolidated subsidiaries' defined benefit plans as of March 31, 2014 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
Retirement benefit obligation at beginning of year	¥ 6,964	$ 67,664
Increase by merger	481	4,674
Service cost	213	2,070
Interest cost	104	1,010
Actuarial gains and losses	(155)	(1,506)
Benefits paid	(265)	(2,574)
Past service costs	199	1,933
Retirement benefit obligation at end of year	¥ 7,541	$ 73,271

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

	Millions of yen	Thousands of U.S. dollars
Plan assets at beginning of year	¥ 3,804	$ 36,961
Increase by merger	195	1,895
Expected return on plan assets	81	787
Actuarial gains and losses	421	4,090
Employer contributions	392	3,809
Benefits paid	(247)	(2,400)
Plan assets at end of year	¥ 4,646	$ 45,142

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

	Millions of yen	Thousands of U.S. dollars
Liabilities for retirement benefits at beginning of year	¥ 126	$ 1,224
Retirement benefit expenses	12	117
Benefits paid	—	—
Contributions	(1)	(10)
Liabilities for retirement benefits at end of year	¥ 137	$ 1,331

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

	Millions of yen	Thousands of U.S. dollars
Funded retirement benefit obligation	¥ 5,917	$ 57,492
Plan assets	(4,646)	(45,142)
	1,271	12,350
Unfunded retirement benefit obligation	1,761	17,110
Net liabilities for retirement benefit recognized in consolidated balance sheet	¥ 3,032	$ 29,460

	Millions of yen	Thousands of U.S. dollars
Liabilities for retirement benefit	¥ 3,032	$ 29,460
Net liabilities for retirement benefit recognized in consolidated balance sheet	¥ 3,032	$ 29,460

(5) The components of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 213	$ 2,070
Interest cost	104	1,010
Expected return on plan assets	(81)	(787)
Amortization of actuarial gains or losses	144	1,399
Amortization of past service costs*	199	1,933
Retirement benefit expenses calculated by the simplified method	12	117
Retirement benefit expenses	¥ 591	$ 5,742

* 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
Unamortized actuarial gains or losses	¥ 292	$ 2,837
Total	¥ 292	$ 2,837

(7) Plan assets

(a) Percentage by major category of plan assets

Debt securities	24.6%
Equity securities	50.9
General account	18.0
Other	6.5
Total	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.

(8) Basis for calculation of actuarial assumptions

The assumptions used in accounting for the above plans as of March 31, 2014 are as follows:

(a) Discount rate 1.5%

(b) Long-term expected rate of return 2.0%

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 ¥38 million ($369 thousand).

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, 2013 was outlined as follows:

	Millions of yen	Thousands of U.S. dollars
Plan assets at fair value	¥ 29,442	$ 286,067
Benefit obligation under pension funding programs	32,539	316,158
Difference	¥ (3,097)	$ (30,091)

(2) The subsidiary's proportion of the contribution to the aggregate pension contributions in March 2013 are 0.31%.

March 31, 2013

The Company has defined benefit retirement and pension plans, which consist of contract-type 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, which is a noncontributory funded contract-type corporate pension plan. Consolidated subsidiaries have a defined benefit retirement and pension plans, which is an unfunded retirement and severance plan that provide for lump-sum payment of benefits, and a defined contribution plan, which is a noncontributory funded contract-type corporate pension plan. One subsidiary has joined Zenkoku Jutakuchi Kaihatsu Kosei Nenkin Kikin which was established as a multi-employer noncontributory fund. The welfare pension plan consisted of two tiers, the substitution portion of Japanese Welfare Pension Insurance and the corporate portion, and the plan assets of such welfare pension funds cannot be specifically allocated to the individual participants nor to the substitution and corporate portions.

The most recent funded status of the whole welfare pension plan under multi-employer pension plan which was as of March 31, 2012 were outlined as follows:

	Millions of yen
Plan assets at fair value	¥ 25,811
Benefit obligation under pension funding programs	35,411
Difference	¥ (9,600)

The subsidiary's proportion of the contribution to the aggregate pension contributions in March 2012 are 0.34%.

	Millions of yen
Projected benefit obligation	¥ (7,090)
Plan assets at fair value	3,804
Funded status	(3,286)
Unrecognized actuarial loss	1,013
Net amount recognized in the consolidated balance sheet	(2,273)
Prepaid retirement and severance benefits	—
Accrued retirement and severance benefits	¥ (2,273)

Net periodic pension cost for the year ended March 31, 2013 consists of the following components:

	Millions of yen
Service cost	¥ 188
Interest cost	128
Expected return on plan assets	(64)
Amortization of actuarial loss	145
Amortization of prior service cost	—
Net periodic pension cost	¥ 397

For the year ended March 31, 2013, the amount in the table above excludes contributions to the welfare pension fund.

Significant assumptions of pension plans used to determine these amounts in fiscal 2013 are as follows:

	2013
Periodic allocation method for projected benefit	Straight-line
Discount rate	1.5%
Expected rate of return on plan assets	2.0%
Period for amortization of unrecognized actuarial loss	15 years

Prior service cost is recognized in the year incurred.

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, 2014 and 2013, the liabilities for retirement benefits related to the plans were ¥56 million ($544 thousand) and ¥67 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 38.0% in both 2014 and 2013.

Following the promulgation of the law "Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) on March 31, 2014, special reconstruction corporation tax will not be imposed from the consolidated fiscal years beginning on or after April 1, 2014. Accordingly, the effective tax rate applied to the calculation of deferred tax assets and liabilities for temporary differences expected to be resolved in the consolidated fiscal year beginning on or after April 1, 2014, were lowered from 38.0% in the prior fiscal year to 35.6%.

The impact of this tax rate change on income is immaterial.

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, 2014 and 2013 is follows:

	2014	2013
Statutory tax rate	38.0%	38.0%
Equity in gains of affiliates	(1.0)	(7.2)
Expenses not deductible for tax purposes	0.4	0.8
Valuation allowance	(5.1)	0.4
Income not credited for tax purposes	(1.3)	(3.3)
Gain from negative goodwill	(25.0)	—
Adjustments of deferred tax assets due to change in statutory tax rate	0.8	—
Other	0.8	2.2
Effective tax rate	7.6%	30.9%

Significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Accrued business tax	¥ 20	¥ 28	$ 194
Accrued bonuses	172	142	1,671
Liabilities for retirement benefits (employees)	1,082	832	10,513
Liabilities for retirement benefits (directors and corporate auditors)	20	24	194
Allowance for doubtful receivables	871	539	8,463
Tax loss carryforward	6,114	2,804	59,405
Deferred losses on hedges	213	308	2,070
Net unrealized loss on other securities	11	4	107
Other	325	230	3,158
	8,828	4,911	85,775
Valuation allowance	(6,579)	(3,573)	(63,923)
	2,249	1,338	21,852
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(166)	(166)	(1,613)
Net unrealized gain on other securities	(4,512)	(4,239)	(43,840)
Gain on transfer of investment in an affiliate	(385)	(385)	(3,740)
Gain on evaluation of acquired assets by merger	(702)	—	(6,821)
Other	(18)	(13)	(175)
	(5,783)	(4,803)	(56,189)
Net deferred tax liabilities	¥ (3,534)	¥ (3,465)	$ (34,337)

Net deferred tax assets and liabilities as of March 31, 2014 and 2013 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets - Deferred tax assets	¥ 525	¥ 211	$ 5,101
Non-current liabilities - Deferred tax liabilities	(4,059)	(3,676)	(39,438)

(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, 2014 and 2013 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, 2013

The following was approved by the general meeting of stockholders held on June 27, 2012.

(a)	Total dividends	¥651 million
(b)	Cash dividends per common share	¥7
(c)	Record date	March 31, 2012
(d)	Effective date	June 28, 2012

The following was approved by the Board of Directors held on November 12, 2012.

(a)	Total dividends	¥651 million
(b)	Cash dividends per common share	¥7
(c)	Record date	September 30, 2012
(d)	Effective date	December 7, 2012

(b) 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 ($6,325 thousand)
(b)	Cash dividends per common share	¥7 ($0.07)
(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 ($7,297 thousand)
(b)	Cash dividends per common share	¥7 ($0.07)
(c)	Record date	September 30, 2013
(d)	Effective date	December 6, 2013

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2014

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

(a)	Total dividends	¥751 million ($7,297 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥7 ($0.07)
(d)	Record date	March 31, 2014
(e)	Effective date	June 26, 2014

(12) General and Administrative Expenses

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Salaries	¥ 3,092	¥ 2,813	$ 30,043
Retirement benefit expenses	430	401	4,178
Administrative and computer expenses	1,334	1,258	12,962
Depreciation	879	756	8,541

(13) Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net unrealized gain on other securities:			
Arising during the year	¥ 1,051	¥ 5,976	$ 10,212
Reclassification adjustment	(265)	(1,395)	(2,575)
Before tax amount	786	4,581	7,637
Tax expense	(265)	(1,426)	(2,575)
Net-of-tax amount	521	3,155	5,062
Deferred losses on hedges:			
Arising during the year	(206)	(489)	(2,002)
Reclassification adjustment	472	(375)	4,586
Before tax amount	266	(864)	2,584
Tax benefit / expense	–	–	–
Net-of-tax amount	266	(864)	2,584
Share of other comprehensive income (loss) of affiliates accounted for by equity method:			
Arising during the year	(21)	209	(204)
Reclassification adjustment	1	(20)	10
	(20)	189	(194)
Total other comprehensive income	¥ 767	¥ 2,480	$ 7,452

(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, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	2014
Basic net income per share	¥ 60.35	¥ 19.10	$ 0.59

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net income	¥ 6,211	¥ 1,778	$ 60,348
Net income not applicable to common stockholders	–	–	–
Net income applicable to common stockholders	¥ 6,211	¥ 1,778	$ 60,348

	Number of shares (Thousands)	
	2014	2013
Weighted average number of shares outstanding on which basic net income per share is calculated	102,915	93,036

(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, 2014 and 2013 are as follows:

	Yen		U.S. dollars
	2014	2013	2014
Net assets per share	¥ 1,260.43	¥ 1,274.67	$ 12.25

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total net assets	¥ 135,228	¥ 118,591	$ 1,313,914
Amount deducted from total net assets	—	—	—
Net assets applicable to common stockholders	¥ 135,228	¥ 118,591	$ 1,313,914

	Number of shares (Thousands)	
	2014	2013
Number of shares outstanding at end of year on which net assets per share is calculated	107,287	93,036

(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, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Future minimum lease payments:			
Within one year	¥ 8	¥ 8	$ 78
Over one year	5	9	48
	¥ 13	¥ 17	$ 126

(16) Pledged Assets

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term investments	¥ 383,683	¥ 837,356	$ 3,727,973
Short-term loans receivable	22,933	18,800	222,824
Investments in securities	1,085,846	462,392	10,550,389

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Call money	¥ 1,353,000	¥ 1,021,000	$ 13,146,133
Short-term borrowings	191,000	397,500	1,855,810

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
	2014	2013	2014
Other current assets	¥ 514	¥ 500	$ 4,994
Short-term investments	—	5,654	—
Investments in securities	12,075	3,569	117,324

(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: 10-240 days (depending on purposes in holding), confidence interval: 99%, observation period: mainly 1 year). Market risk amount (possible losses) of the Company is ¥20,003 million ($194,355 thousand) as of March 31, 2014.

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¥5,981 million ($58,113 thousand) as of March 31, 2014.

(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, 2014 and 2013 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					
	2014			2013		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 93,070	¥ 93,070	¥ —	¥ 124,256	¥ 124,256	¥ —
(2) Trade loans receivable	897,825			732,475		
Allowance for doubtful receivables *1	(234)			(1,156)		
	897,591	897,630	39	731,319	731,316	(3)
(3) Collateral money for securities borrowed *1	1,303,020	1,303,020	—	1,092,112	1,092,112	—
(4) Short-term investments and investments in securities						
Held-to-maturity securities	39,915	40,216	301	41,847	42,597	750
Other securities	1,559,313	1,559,313	—	1,426,969	1,426,969	—
Total	¥ 3,892,909	¥3,893,249	¥ 340	¥ 3,416,503	¥ 3,417,250	¥ 747
(1) Call money	¥ 1,596,600	¥ 1,596,600	¥ —	¥ 1,446,600	¥ 1,446,600	¥ —
(2) Short-term borrowings	506,510	506,510	—	606,210	606,210	—
(3) Commercial paper	429,000	429,000	—	231,500	231,500	—
(4) Collateral money received for securities lent	1,185,725	1,185,725	—	983,076	983,076	—
(5) Long-term borrowings *2	6,000	6,000	—	7,500	7,500	—
Total	¥ 3,723,835	¥ 3,723,835	¥ —	¥ 3,274,886	¥ 3,274,886	¥ —
Derivative transactions *3	¥ (598)	¥ (598)	¥ (—)	¥ (864)	¥ (864)	¥ (—)

	Thousands of U.S. dollars		
	2014		
	Carrying value	Fair value	Differences
Assets:			
(1) Cash	$ 904,295	$ 904,295	$ —
(2) Trade loans receivable	8,723,523		
Allowance for doubtful receivables *1	(2,274)		
	8,721,249	8,721,628	379
(3) Collateral money for securities borrowed *1	12,660,513	12,660,513	—
(4) Short-term investments and investments in securities			
Held-to-maturity securities	387,825	390,750	2,925
Other securities	15,150,729	15,150,729	—
Total	$ 37,824,611	$ 37,827,915	$ 3,304
(1) Call money	$ 15,513,020	$ 15,513,020	$ —
(2) Short-term borrowings	4,921,395	4,921,395	—
(3) Commercial paper	4,168,286	4,168,286	—
(4) Collateral money received for securities lent	11,520,841	11,520,841	—
(5) Long-term borrowings *2	58,298	58,298	—
Total	$ 36,181,840	$ 36,181,840	$ —
Derivative transactions *3	$ (5,810)	$ (5,810)	$ (—)

*1 Allowance for doubtful accounts associated with trade loans receivable is deducted. Carrying value of collateral money for securities borrowed as of March 31, 2014 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
	2014	2013	2014
Unlisted equity securities			
Other securities	¥ 2,282	¥ 2,132	$ 22,173
Investments in affiliates	3,684	3,624	35,795
Unlisted preferred equity securities	200	—	1,943

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, 2014

	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	¥ 93,070	¥ —	¥ —	¥ —
(2) Trade loans receivable	846,437	47,130	4,259	—
(3) Collateral money for securities borrowed	1,303,155	—	—	—
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
(Government bonds)	—	14,500	25,500	—
Other securities with maturities				
Bond securities				
Government bonds	338,568	779,099	185,000	92,000
Corporate bonds	68,141	69,628	—	—
Total	¥ 2,649,371	¥ 910,357	¥ 214,759	¥ 92,000

	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	$ 904,295	$ —	$ —	$ —
(2) Trade loans receivable	8,224,222	457,929	41,382	—
(3) Collateral money for securities borrowed	12,661,825	—	—	—
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
(Government bonds)	—	140,886	247,765	—
Other securities with maturities				
Bond securities				
Government bonds	3,289,623	7,569,948	1,797,513	893,898
Corporate bonds	662,077	676,525	—	—
Total	$ 25,742,042	$ 8,845,288	$ 2,086,660	$ 893,898

<4> The annual maturities of the long-term borrowings, lease liabilities and other interest bearing liabilities as of March 31, 2014

	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	¥ 1,596,600	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	506,510	—	—	—	—	—
Commercial paper	429,000	—	—	—	—	—
Collateral money received for securities lent	1,185,725	—	—	—	—	—
Long-term borrowings *	3,000	3,000	—	—	—	—
Total	¥ 3,720,835	¥ 3,000	¥ —	¥ —	¥ —	¥ —

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Call money	$ 15,513,020	$ —	$ —	$ —	$ —	$ —
Short-term borrowings	4,921,395	—	—	—	—	—
Commercial paper	4,168,286	—	—	—	—	—
Collateral money received for securities lent	11,520,841	—	—	—	—	—
Long-term borrowings *	29,149	29,149	—	—	—	—
Total	$ 36,152,691	$ 29,149	$ —	$ —	$ —	$ —

* 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, 2014 and 2013 are summarized as follows:

			Millions of yen			
			2014		2013	
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	¥ 36,000	¥ (583)	¥ 32,000	¥ (864)
	Variable rate received for fixed rate	Trade loans	7,500	(15)	—	—
*2	Interest rate swaps:					
	Variable rate received for fixed rate	Trade loans	6,159	*3	7,462	*3
	Variable rate paid for variable rate	Long-term borrowings	—	—	5,500	*3

			Thousands of U.S. dollars	
			2014	
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	$ 349,786	$ (5,654)
	Variable rate received for fixed rate	Trade loans	72,872	(146)
*2	Interest rate swaps:			
	Variable rate received for fixed rate	Trade loans	59,843	*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, 2014 and 2013, 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
	2014	2013	2014
Total credit line	¥ 692,404	¥ 614,595	$ 6,727,594
Drawn amount	158,542	109,173	1,540,439
Undrawn amount	¥ 533,862	¥ 505,422	$ 5,187,155

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

(20) Business Combination

Business combination through stock acquisition

1. Outline of the business combination

The Company acquired all the outstanding shares of Osaka Securities Finance Co., Ltd. ("OSF") on July 22, 2013. Since Tokyo Stock Exchange and Osaka Stock Exchange merged, the Company decided to merge with Osaka Securities Finance Co., Ltd. The Company and OSF agreed that the integrated Company would obtain a big synergy effect by enhancing the convenience of market participants, investors and improving the market effectiveness and integrating two companies' systems.

2. The consolidated statement of income included OSF results from July 22, 2013 to March 31, 2014.

3. Acquisition cost of OSF

	Millions of yen	Thousands of U.S. dollars
Fair value of the Company's stocks issued at acquisition date	¥ 11,349	$ 110,270
Advisery fee, etc.	100	972
Total acquisition cost	¥ 11,449	$ 111,242

4. Share allocation ratio, calculation method and delivered shares

(1) Share allocation ratio

The Company allotted 0.39 shares of the Company for 1 share of OSF.

(2) Calculation method of share allocation ratio

The Company and OSF agreed that each company would select their own independent third party organization for the calculation of the share allocation ratio in order to ensure fairness and validity. The Company selected Mizuho Securities Co., Ltd. and OSF selected Nomura Securities Co., Ltd. as their own third party organization. The Company and OSF agreed and decided the ratio through deliberate negotiation and discussion while using the result of the calculation, considering financial and assets condition, stock price transition for a certain period taking into account the change in economic and financial environment and future business forecasts.

(3) Delivered shares

14,257,763 shares (650,000 shares are delivered from the Company's treasury stocks and the remaining share are newly issued.)

5. Negative goodwill of ¥4,405 million ($42,800 thousand) was incurred because the net assets at fair value at the time of acquisition exceeded the acquisition costs.

6. Amounts of assets and liabilities acquired on the date of the business combination, and the major breakdowns thereof, etc. are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 55,085	$ 535,221
Non-current assets	3,546	34,454
Total assets	¥ 58,631	$ 569,675
Current liabilities	¥ 38,375	$ 372,863
Non-current liabilities	4,401	42,761
Total liabilities	¥ 42,776	$ 415,624

7. Approximate amounts and their calculation method of impact on the consolidated statement of income for the year ended March 31, 2014, assuming that the business combination had been completed at the beginning of the year are as follows:

	Millions of yen	Thousands of U.S. dollars
Operating revenues	¥ 782	$ 7,598
Operating income	(263)	(2,555)
Ordinary income	(162)	(1,574)
Income before income taxes and minority interests	375	3,644

The approximate amounts were the differences between the operating revenues and other income data, assuming that the business combination had been completed at the beginning of the year ended March 31, 2014 and the actual operating revenues and other income data that are recorded in the consolidated statement of income.

The information mentioned above has not been audited by BDO Toyo & Co.

(21) 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, 2014 and 2013 was summarized as follows:

	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	1. 8,434	¥ 3,959,194
Others:				
Depreciation and amortization	¥ 601	¥ 101	¥ 168	¥ 870
Extraordinary income:	4,405	—	6	4,411
Gain on negative goodwill	4,405	—	—	4,405
Extraordinary loss:	794	—	15	809
Merger related costs	55	—	—	55
Branch relocation costs	526	—	—	526
Retirement benefit expenses	199	—	—	199
Income taxes	292	24	194	510
Increase in property, plant and equipment and intangible assets	562	188	411	1,161

	Thousands of U.S. dollars			
	2014			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	$ 158,997	$ 22,561	$ 8,551	$ 190,109
Intersegment revenues and transfers	272	20	3,847	4,139
Total	$ 159,269	$ 22,581	$ 12,398	$ 194,248
Segment income	$ 23,067	$ 1,700	$ 4,887	$ 29,654
Segment assets	$ 31,324,320	$ 7,062,388	$ 81,947	$ 38,468,655
Others:				
Depreciation and amortization	$ 5,840	$ 981	$ 1,632	$ 8,453
Extraordinary income:	42,800	—	59	42,859
Gain on negative goodwill	42,800	—	—	42,800
Extraordinary loss:	7,714	—	146	7,860
Merger related costs	534	—	—	534
Branch relocation costs	5,111	—	—	5,111
Retirement benefit expenses	1,934	—	—	1,934
Income taxes	2,837	233	1,885	4,955
Increase in property, plant and equipment and intangible assets	5,461	1,827	3,993	11,281

	Millions of yen			
	2013			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 14,094	¥ 2,762	¥ 820	¥ 17,676
Intersegment revenues and transfers	60	2	349	411
Total	¥ 14,154	¥ 2,764	¥ 1,169	¥ 18,087
Segment income	¥ 1,560	¥ 176	¥ 442	¥ 2,178
Segment assets	¥ 2,921,288	¥ 591,267	¥ 8,298	¥ 3,520,853
Others:				
Depreciation and amortization	¥ 502	¥ 110	¥ 135	¥ 747
Extraordinary income:	136	—	29	165
Gain from sale of investments in securities	136	—	29	165
Extraordinary loss:	119	—	47	166
Loss from sale of property, plant and equipment	—	—	47	47
Loss from sale of investments in securities	118	—	—	118
Income taxes	552	80	161	793
Increase in property, plant and equipment and intangible assets	257	35	506	798

Reconciliation between total segment revenues in the table above and revenues in the accompanying consolidated statement of income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total segment revenues	¥ 19,992	¥ 18,087	$ 194,248
Intersegment revenues	(426)	(411)	(4,139)
Revenues in the accompanying consolidated statement of income	¥ 19,566	¥ 17,676	$ 190,109

Reconciliation between total segment income in the table above and ordinary income in the consolidated income statement for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total segment income	¥ 3,052	¥ 2,178	$ 29,654
Intersegment income	(112)	(108)	(1,088)
Equity in earnings of affiliates	179	487	1,739
Revenues in the consolidated income statement	¥ 3,119	¥ 2,557	$ 30,305

Reconciliation between total segment assets in the table above and assets in the consolidated accompanying balance sheet as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total segment assets	¥ 3,959,194	¥ 3,520,853	$ 38,468,655
Intersegment accounts	(22,030)	(64,490)	(214,050)
Intersegment investments	(26,269)	(26,269)	(255,237)
Other	3,493	3,362	33,939
Assets in the accompanying consolidated balance sheet	¥ 3,914,388	¥ 3,433,456	$ 38,033,307

Reconciliation between others in the table above and amounts in the consolidated financial statements as of and for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2014			
Depreciation and amortization	¥ 870	¥ 9	¥ 879
Extraordinary income:	4,411	—	4,411
Gain on negative goodwill	4,405	—	4,405
Extraordinary loss:	809	—	809
Merger related costs	55	—	55
Branch relocation costs	526	—	526
Retirement benefit expenses	199	—	199
Income taxes	510	(0)	510
Increase in property, plant and equipment and intangible assets	1,161	—	1,161
March 31, 2013			
Depreciation and amortization	¥ 747	¥ 9	¥ 756
Extraordinary income:	165	—	165
Gain from sale of investments in securities	165	—	165
Extraordinary loss:	166	(14)	152
Loss from sale of property, plant and equipment	47	(14)	33
Loss from sale of investments in securities	118	—	118
Income taxes	793	(0)	793
Increase in property, plant and equipment and intangible assets	798	—	798

	Thousands of U.S. dollars		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2014			
Depreciation and amortization	$ 8,453	$ 88	$ 8,541
Extraordinary income:	42,859	—	42,859
Gain on negative goodwill	42,800	—	42,800
Extraordinary loss:	7,860	—	7,860
Merger related costs	534	—	534
Branch relocation costs	5,111	—	5,111
Retirement benefit expenses	1,934	—	1,934
Income taxes	4,955	(0)	4,955
Increase in property, plant and equipment and intangible assets	11,281	—	11,281

Related Information

(a) Information by services

Sales by services for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Loans for margin transaction	¥ 9,240	¥ 6,626	$ 89,779
Other	10,326	11,050	100,330
	¥ 19,566	¥ 17,676	$ 190,109

(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, 2014 and 2013.

(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, 2014 and 2013.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2014 and 2013.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2014 and 2013.

Negative goodwill incurred by reported segments

For the year ended March 31, 2014, gain on negative goodwill of ¥4,405 million ($42,800thousand) was incurred through the acquisition of Osaka Securities Finance Co., Ltd. on July 22, 2013. The information was not applicable for the year ended March 31, 2013.

(22) Supplemental Cash Flow Information

Assets and liabilities of OSF which was merged in 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 55,085	$ 535,221
Non-current assets	3,546	34,454
Total assets	¥ 58,631	$ 569,675
Current liabilities	¥ 38,375	$ 372,863
Non-current liabilities	4,401	42,761
Total liabilities	¥ 42,776	$ 415,624

Capital surplus increased by merger was ¥10,845 million ($105,373 thousand).

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Kandamitoshirocho7,
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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, 2014, 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, 2014, 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.

BDO Toyo & Co.
Tokyo, Japan
June 26, 2014

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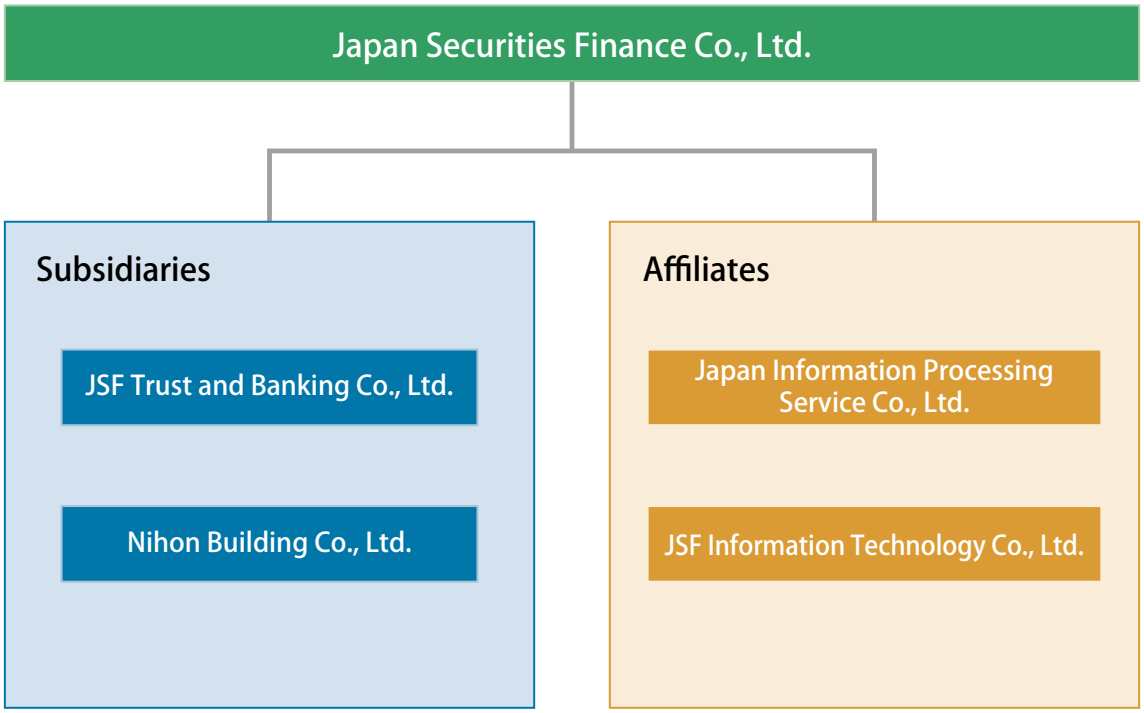


Name	Capital (millions of yen)	Ratio of shareholding	Business overview
Subsidiaries			
JSF Trust and Banking Co., Ltd.	14,000	100	Trust service, Banking services
Nihon Building Co., Ltd.	100	100	Real estate ownership and leasing Real estate trading and brokerage
Affiliates			
Japan Information Processing 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
263

Share Information

Shares outstanding
107,307,763 shares

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

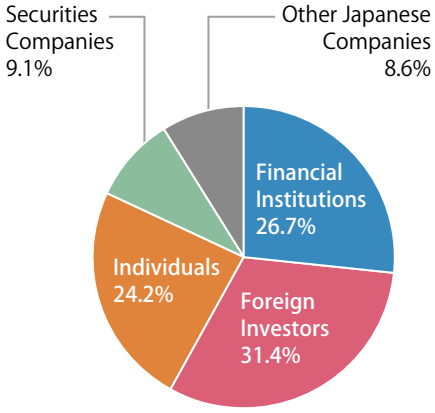
Number of shareholders
15,574（as of March 31, 2014）

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

Major shareholders

	Number of shares held (Thousands)	Ratio of shareholding
Japan Trustee Services Bank, Ltd. (Trust account)	6,852	6.38
Northern Trust Co. (AVFC) Re 15Pct Treaty Account	5,888	5.48
Northern Trust Global Services Limited Re 15Pct Treaty Account (Non Lending)	5,563	5.18
Mizuho Bank, Ltd.	5,221	4.86
RBC ISB A/C Dub Non Resident-Treaty Rate	5,121	4.77
Capital Market Promotion Foundation	4,610	4.29
MSIP Client Securities	3,278	3.05
Japan Trustee Services Bank, Ltd. (Trust account 4)	2,890	2.69
State Street Bank and Trust Company	2,418	2.25
The Master Trust Bank of Japan, Ltd. (Trust account)	2,205	2.05

Composition of shareholders
(by number of shares)



Board of Directors, Corporate Auditors and Executive Officers (As of June 26, 2014)

Directors

Chairperson	Minoru Masubuchi *
Vice Chariperson	Takao Hotta *
President	Eizo Kobayshi *
Senior Managing Director	Hiroshi Asakura
Managing Director	Yasufumi Oda
	Toshihiro Oritate
	Toshihiko Ishide
Director	Takashi Imai **
	Akira Kanno **
	Tetsuo Mae **

(* 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
	Toshihiko Ishide
Senior Executive Officer	Tomoyoshi Sugaya
	Yutaka Tanaka
Executive Officer	Kenji Fukushima
	Kazuhiro Maeda
	Yasuhiro Hirama

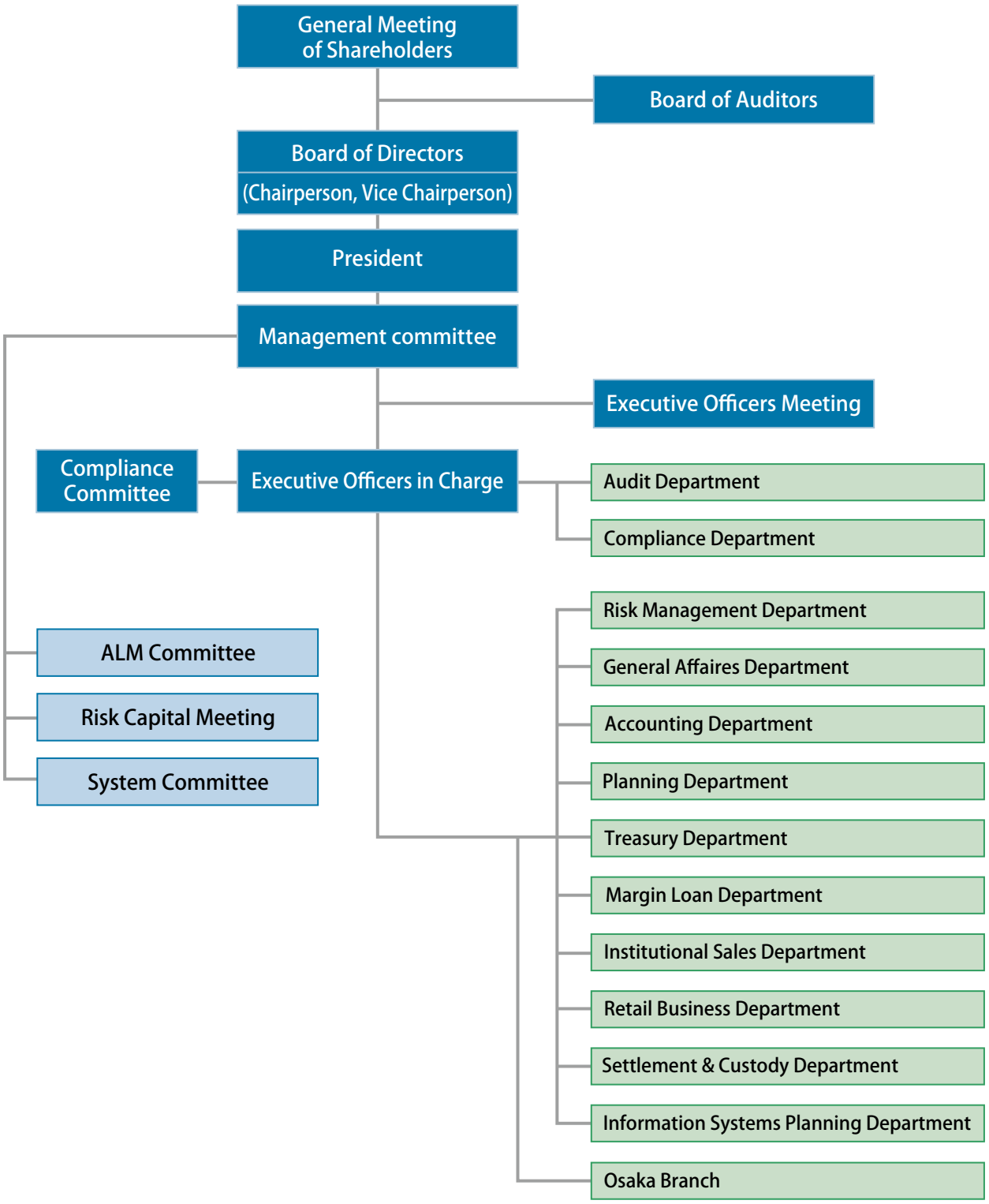
Corporate Auditors

Ushio Mizuno *
Masao Iguchi
Tadahiko Genta
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-1$^+$
Japan Credit Rating Agency (JCR)	AA$^-$	J-1$^+$

ORGANIZATION



JSF

JAPAN SECURITIES FINANCE CO., LTD.

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