Securities Finance

ANNUAL REPORT 2013

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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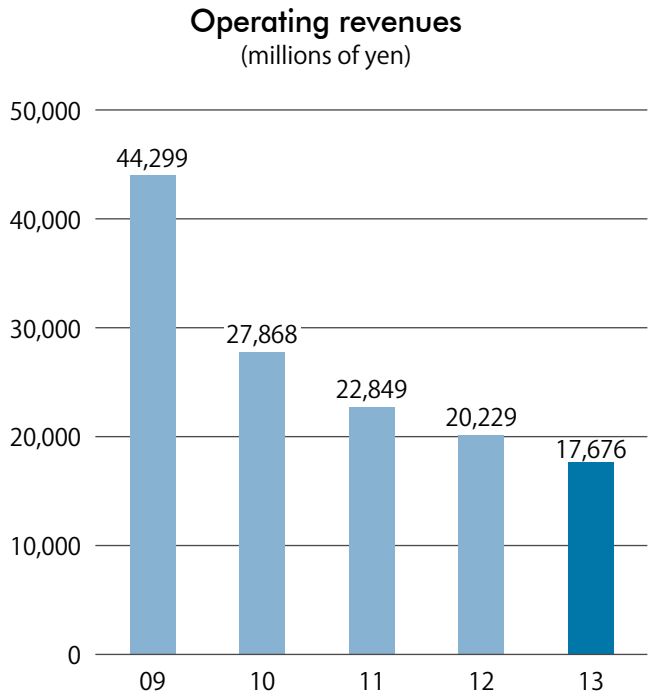
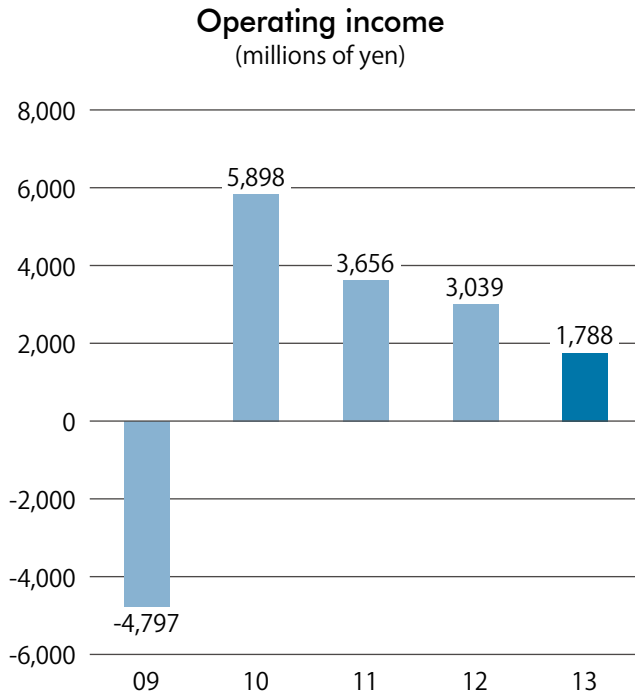
FINANCIAL HIGHLIGHTS

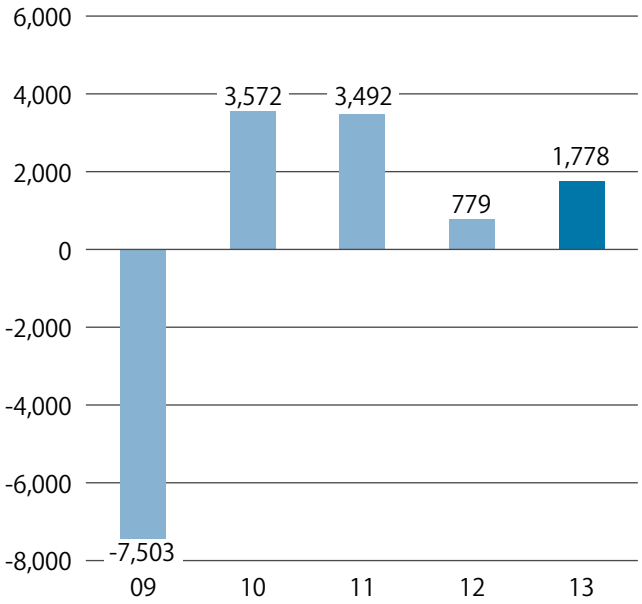
	Millions of yen*					Thousands of U.S. dollars*
	2009	2010	2011	2012	2013	2013
Operating Results:						
Operating revenues	¥ 44,299	¥ 27,868	¥ 22,849	¥ 20,229	¥ **17,676**	$ **187,943**
Operating income	(4,797)	5,898	3,656	3,039	**1,788**	**19,011**
Net income	(7,503)	3,572	3,492	779	**1,778**	**18,905**
Financial Position:						
Total assets	¥ 5,293,277	¥ 5,479,610	¥ 7,078,138	¥ 4,931,286	¥ **4,175,538**	$ **44,397,002**
Net assets	107,232	112,656	114,927	115,547	**118,591**	**1,260,936**
Shareholders' equity ratio (%)	2.27	2.28	1.73	2.56	**3.45**	**3.45**
Per Share Data:						
Net income	¥ (80.33)	¥ 38.59	¥ 37.73	¥ 8.42	¥ **19.10**	$ **0.20**
Net assets	1,158.32	1,217.12	1,241.67	1,245.83	**1,274.67**	**13.55**
Cash dividend	20	14	14	14	**14**	**0.14**

* except per share amount

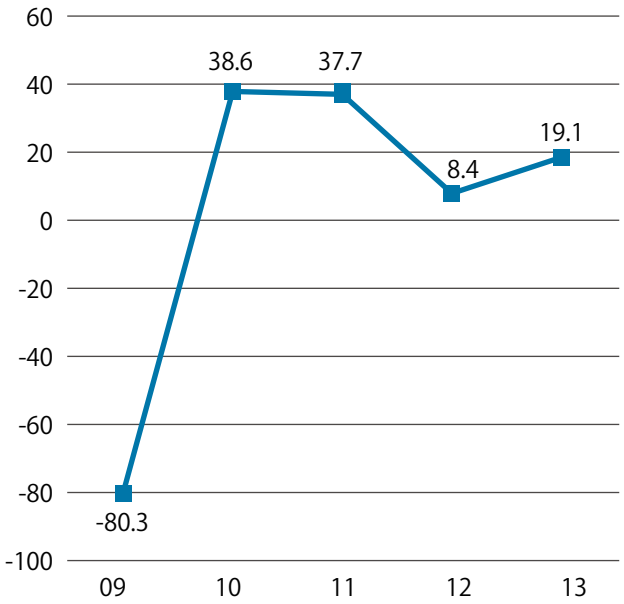




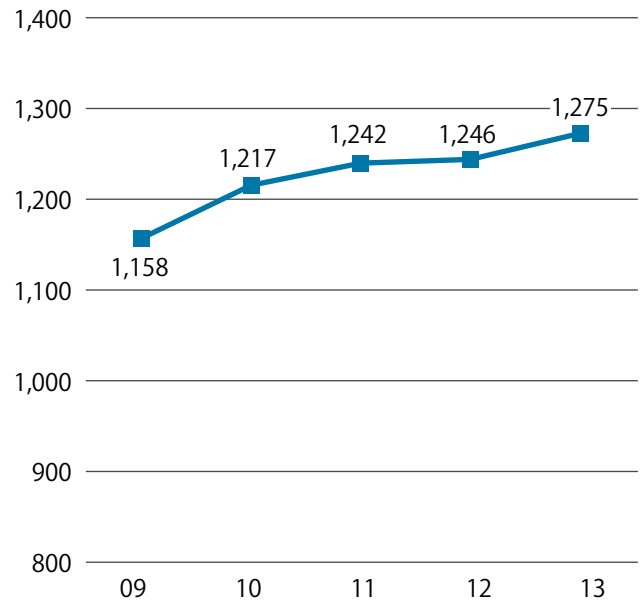
Net income
(millions of yen)



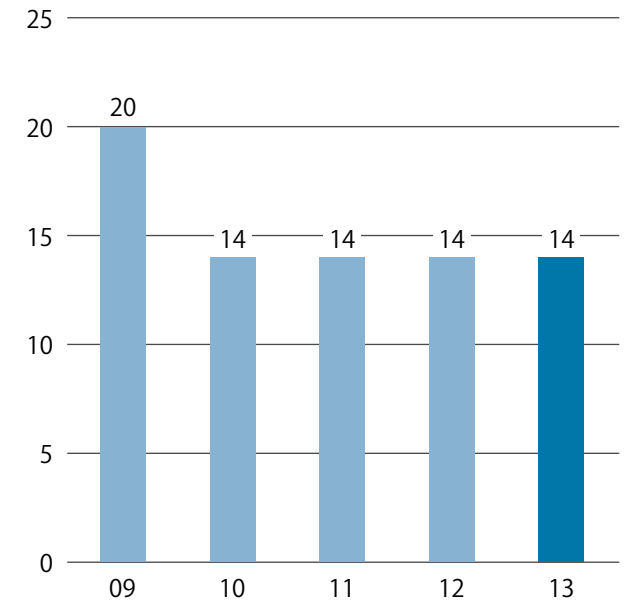
Net income per share
(yen)



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 ¥94.05=U.S.$1 in effect on March 29, 2013.

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

Competition between securities markets around the globe is becoming increasingly competitive due to the rapid advancement and globalization of financial trading. In Japan, the Tokyo Stock Exchange and the Osaka Securities Exchange merged in January of 2013 to form Japan Exchange Group, Inc. In July 2013, spot markets of the two exchanges were also integrated with the aim of enhancing its infrastructure to become more attractive to global investors.

With the merger of the Tokyo Stock Exchange and the Osaka Securities Exchange as background, Japan Securities Finance Co., Ltd. and Osaka Securities Finance Company, Ltd. also merged on July 22, 2013 to start a new as Japan Securities Finance Co., Ltd. (JSF).

In this rapidly evolving securities market, the importance of our contributions toward improvements in liquidity and the formation of fair stock prices has been increasingly heightened since Japan Securities Finance Co., Ltd. launched its margin loan business through the establishment of a margin transaction system as its main business in June 1951.

Eizo Kobayashi
President

Through our active handling to the various needs and changing environments of the securities market, and through improvements to the long-term profits of market participants and users, we aim to continue with our efforts toward the development of the securities market even further.
In this, we ask for your continued support and understanding.

Eizo Kobayashi
President

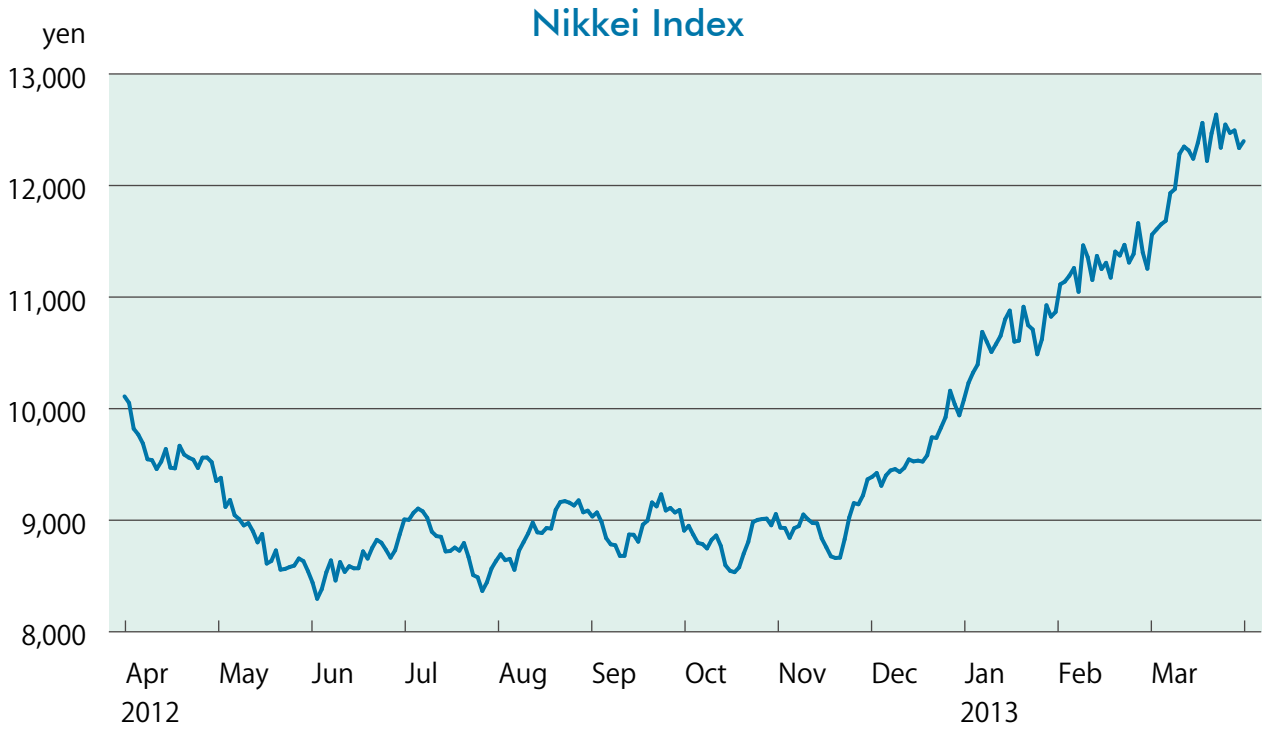
BUSINESS REVIEW

Business Environment

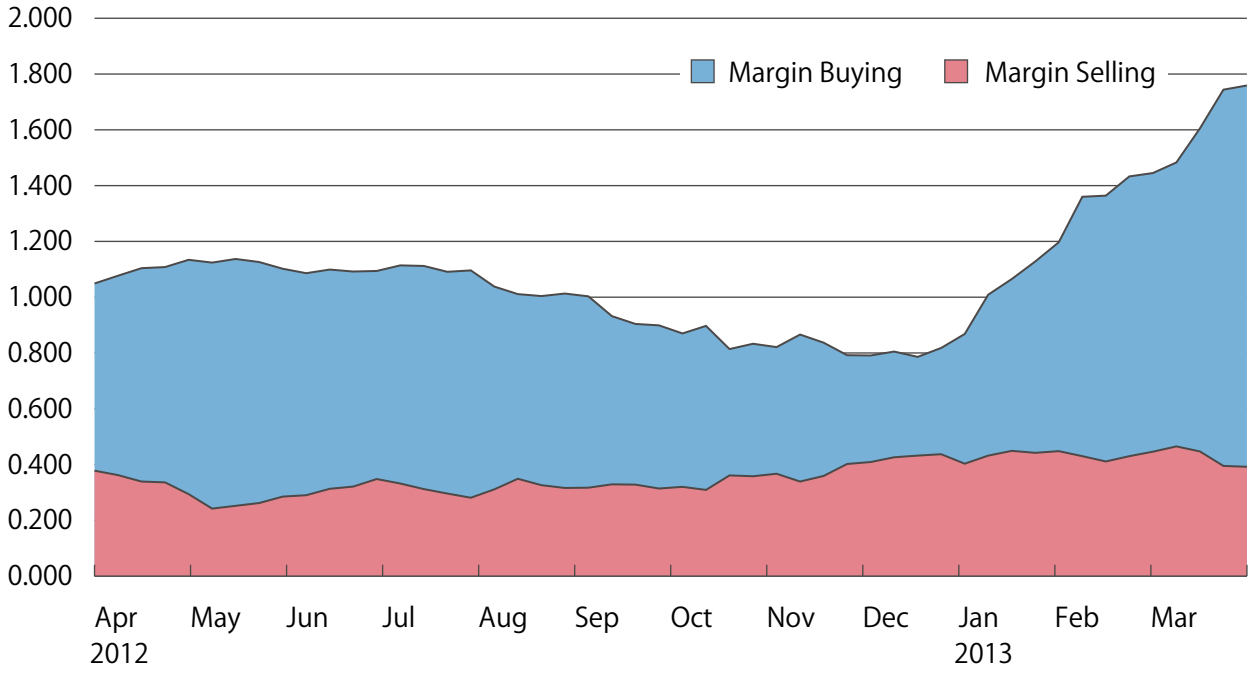
Looking back on the Japanese economy for fiscal 2012 shows that although issues such as the increasingly serious debt problems in Europe and the unwaveringly high yen have kept the business climate difficult, the latter half of the year saw some trends towards recovery due to promising initiatives from the Japanese government and the Bank of Japan aimed at eliminating deflation.

Examining the stock market shows that the Nikkei Index, which began the year at 10,109 yen, dropped due to worries such as the European debt problems, reaching a low for the year of 8,295 yen on June 4. The Nikkei Index then moved so that it was boxed in range around 9,000 yen. However, from mid-November, expectations for large-scale economic policies based on new government powers and hopes for further monetary easing from the Bank of Japan saw a uniform rise, with the Nikkei Index reaching its highest value for the year of 12,635 yen on March 21, and finishing the year at 12,397 yen. During this time, the average trading turnover of the first section of the Tokyo Stock Exchange was 2.185 billion shares, an increase of 319 million shares over the previous year, with trading value for this year reaching 1.319 trillion yen, an increase of 158.2 billion yen over the previous year.

Amidst this, despite initially reaching a level in excess of 1 trillion yen on the Tokyo market, the outstanding balance of standardized margin buying on the Tokyo market began to decline in August reaching a low for the year of around 780 billion yen in mid December. Thereafter, as stock prices became bullish, there was an increase in new buying spurred by expectations of higher prices in the medium-to-long term. Recovery reached the 1 trillion yen mark in the beginning of January, and at the close of the year was at a high for the year of 1.75 trillion yen. Conversely, although the outstanding balance of standardized margin selling for the year moved over the 300 billion yen mark, caution regarding the sharp rise in stock prices from mid-November onwards and an increase in new sales prompted margin



Outstanding balance of Standardized Margin Transactions



sale balances to rise above 400 billion yen, reaching a high of around 460 billion yen at the beginning of March before settling to 390 billion yen at the end of the year.

Next, looking at the bond market, yields on newly issued 10-year Japanese government bonds fell from 0.984% at the start of the year to 0.8% in July due to concerns regarding European debt problems. The yields of JGB proceeded to fall to around 0.7%, sliding further prompted by expectations of additional monetary easing by the Bank of Japan starting in the end of February before finishing the year at 0.56%.

Business results of the JSF group

In this environment, the total value of outstanding loans for the JSF group (the average for the year) was 384.3 billion yen, a year-on-year decline of 38.4 billion yen.

Consolidated operating profit was 17.675 billion yen (12.6% year-on-year decline), since income from sales of CDO (Collateralized Debt Obligation) posted the previous fiscal year for JSF Trust and Banking Co., Ltd., a subsidiary of the JSF group, was not present this year, while interest on Japanese government bonds owned was also down. Operating expenses for the year decreased to 8.193 billion yen (15.0% year-on-year decline) due to a reduction in interest expenses associated with fund raising, while administrative costs were 7.694 billion yen (1.8% year-on-year increase).

Consequently, although consolidated operating income was 1.787 billion yen (41.2% year-on-year decline), recurring income was 2.557 billion yen (7.1% year-on-year increase) brought about by improvements in the performance of equity-method affiliate companies. Furthermore, in addition to a decline in losses on sales (extraordinary losses) of shares in subsidiaries and affiliates incurred due to applications for tender offers booked the previous fiscal year, a reduction in the cost of corporate income taxes, etc. saw net income for the year reach 1.777

billion yen (128.1% year-on-year increase).

1) Securities Finance Business

Loans for Margin Transaction

With regard to loans for margin transaction business, the outstanding balance of margin loans averaged 214.1 billion yen during the year, with outstanding balance of stock loans averaging 183 billion yen, both flat with the previous year. While interest on loans and stock lending fees reached the same level as previous years, premium charges on over-lent issues decreased, with the operating revenues for this business of 6.625 billion yen (1.9% year-on-year decline).

Bond Financing and General Loans

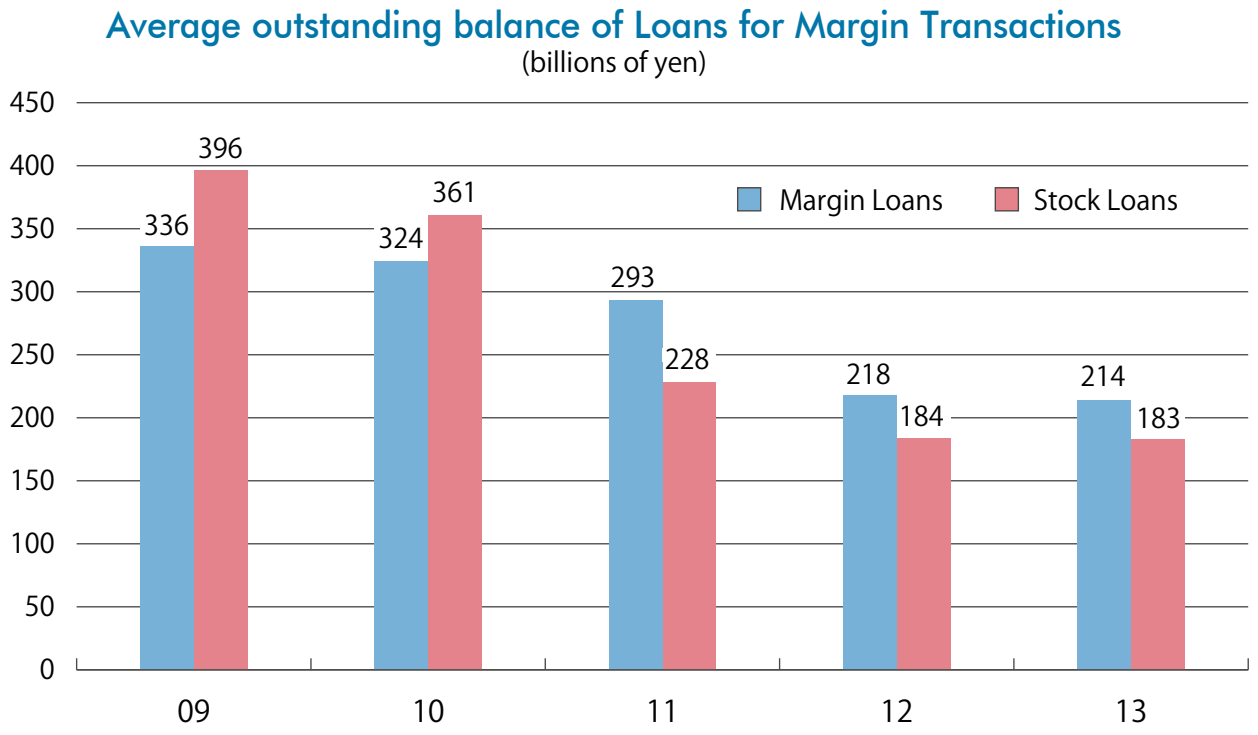
For bond financing and general loans, an increase in general loans to financial instrument brokers has been the primary factor behind an average balance for the year of 55.8 billion yen (of which loans for negotiable margin transactions was 18.4 billion yen), an increase of 4.9 billion yen (out of which loans for negotiable margin transactions decreased by 1.8 billion yen) over the previous year. However, decreased interest on loans caused operating revenue for this business to drop to 810 million yen (2.0% year-on-year decline).

Securities Lending

With regard to securities lending, there was an increase in SC Repos (Special Collateral Repos) contracts concluded by the bond lending section, while the general stock lending section saw an increase in long-term demand for borrowed shares for a broad range of shares, and consequently, operating revenues stood at 1.862 billion yen (9.5% year-on-year increase).

Other Business

In other businesses, interest income from Japanese government bonds held decreased to 4.794 billion yen (18.8% year-on-year decline).



Breakdown of JSF Group operating revenues

	2013	2012
	(¥ million)	(¥ million)
Securities Finance Business	14,093	15,186
Loans for margin transactions	6,625	6,756
Interest on loans	1,760	1,783
Interest on collateral money for securities borrowed	652	639
Fees on lending securities	3,746	3,957
Bond financing and general loans	810	827
Securities lending	1,862	1,701
Stocks	289	219
Bonds	1,573	1,482
Other business	4,794	5,901
Trust Banking Business	2,762	4,224
Interest on loans	590	741
Trust charges	338	300
Real Estate Leasing Business	819	818
Total Operating Revenues	17,675	20,229

2) Trust Banking Business

In the trust banking business, as profit on sale of collateralized debt obligations (CDO) posted the previous fiscal year dropped, operating revenues for this business were 2.762 billion yen (34.6% year-on-year decline).

3) Real Estate Leasing Business

Operating revenue for the real estate leasing business stood at 819 million yen (0.1% year-on-year increase), almost flat with the previous year.

Future Challenges

Hopes with regard to initiatives from the Japanese government and from the Bank of Japan aimed at eliminating deflation were evident in positive signs in the Japanese economy. Further growth can be expected in the financial and security markets in which the JSF group is expanding its operations, prompted by the unification of the spot markets of the Tokyo Stock Exchange and the Osaka Securities Exchange in July this year, and the comprehensive revision of short selling regulations for which implementation is planned in November.

The JSF Group formulated a Third Mid-Term Management Plan in May last year, and, based on the mission as stated in our company philosophy of contributing to the development of the securities industry, set as our management policies the establishment of a position of trust and credibility within society, the maintenance of a robust capital base, and the achievement of long-term stable returns to our shareholders. In fiscal 2012, as concrete measures for implementing these policies, we have worked to improve the convenience of loans for margin transactions and to meet the diverse capital requirements of the financial instruments companies, installing a system that allows applications for loans for margin transactions to be made

using the Internet, and implementing stable funding systems that allow stabilization funds to be procured in the medium-to-long term, as required by Basel III. Further, in fiscal 2013, the second year of the management plan, we will focus our efforts on business strategies including these measures, and will continue to work to strengthen our management base, improving the effectiveness of our business management structure and strengthening our sales structures. Note that although merger with the Osaka Securities Finance Company, Ltd. was achieved in July this year, we will not alter our existing corporate philosophy or management policies, and accordingly, we aim to achieve synergies quickly through the creation of new business strategies and through the pursuit of system integration based on the unification.

JSF Trust and Banking Co., Ltd., a subsidiary company, serves as a trust bank supporting operation infrastructure of securities companies and other institutions while providing in-depth services not available at megabanks to meet the needs of our customers. This company will work to grow its businesses based on management policies that will demonstrate banking functions commensurate with managerial 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 industry by proactively meeting the diverse needs of securities and financial circles and working to boost the long-term interests of securities market users and participants. Based on this corporate philosophy, our basic management policy is as follows.

(1) While maintaining a keen awareness of our influence on securities markets and investors and other social responsibilities, implement exhaustive compliance, corporate governance and risk management, and establish solid credibility through sound business operations.

(2) Retain solid equity capital to secure the financial health and management stability that society demands of the company as a firm engaged in the margin loan business, which constitutes part of securities market infrastructure, and provide stable and long-term return of profits to shareholders by comprehensively considering revenues environment or investment plan, etc.

(3) Improve the convenience in the margin loan business, strive to expand finance and securities-related services to be offered by Japan Securities Finance and its Group companies, and further solidify the profit base of JSF Group.

(4) Strive to further improve the efficiency of organizational and business management in the Group so that we can cope with changes in the business environment expeditiously.

1. Third Mid-Term Management Plan (FY2012-FY2014)

Moving forward from the results of the Second Mid-Term Management Plan, JSF devised the following strategies for the Third Mid-Term Management Plan, in accordance with the basic management policy above.

[Concept]

The initiatives to strengthen the functions of financial and capital markets in order to aid the Rebirth of Japan, such as business combination of Tokyo Stock Exchange Group and Osaka Securities Exchange and the development of institutional framework pertaining to the establishment of Comprehensive Exchange, are now under way. In these circumstances, in order to contribute to the revitalization of securities markets, we will strive to improve the convenience of finance and securities-related services provided by JSF Group, including the margin loan business, which constitutes part of securities market infrastructure, and thereby enlarge these business. During a period when financial businesses are becoming increasingly globalized and sophisticated, we will also respond proactively to diverse needs, irrespective of the frameworks of existing business.

Moreover, we will strive to strengthen our business management systems still further in order to improve our social trust, a prerequisite to the promotion of the above-mentioned activities.

[Business Strategies]

i) Improve the Convenience of Loans for Margin Transactions

Improve the convenience of Loans for Margin Transactions by increasing the number of loanable issues and further promoting systematic and operational improvements.

ii) Further Expand Loans for Negotiable Margin Transactions

Aim to expand loans for negotiable margin transactions by accurately identifying customers' needs for, and flexibly

respond to, loans needed to settle negotiable margin transactions.

iii) Respond to Diverse Funding Needs of Financial Instruments Companies, etc.

Respond proactively to diverse funding needs in order to increase loans to financial instruments companies, etc.

iv) Expand Securities Lending and Borrowing Business

Strive to expand the securities lending and borrowing business by addressing new needs and responding appropriately to changes in the environment, such as the reform of Japan's securities settlement systems.

v) Enhance Securities-Related Services

Strive to enhance securities-related services by strengthening our relationship with Group companies and examine the collaboration with Group companies' affiliates in order to proactively respond to diverse customers' needs.

[Reinforcing Management Foundations]

i) Improve the Effectiveness of Business Management Structure

While fully accepting our social responsibility as a institution specializing in the securities finance business, improve the effectiveness of compliance and internal audit in order to establish a well-founded social trust through sound business management. In addition, in view of the increasingly diverse and complicated risks associated with financial business, implement further improvement to the risk management system so as to secure stable business management and financial strength.

ii) Strengthen Business Structure

Establish "Business Promotion Meeting" designated for identifying customers' needs cross-organizationally and improving financial and securities-related services.

iii) Improve the Efficiency of Organizational and Business Management

Strive to improve the management mobility and cost control by improving the efficiency of organizational and business management.

iv) Support Financial and Securities Education and Enhance Communication of Information

Support financial and securities education and aggressively communicate information about the systems of Standardized Margin Transactions and Loans for Margin Transactions.

2. Achievements during this year

i) Improve the convenience of loans for margin transactions

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, and has been in operation since January 2013. Additionally, as a result of strengthening our approaches towards issuing companies, etc. and expanding our loanable issues, we had 1,708 margin trading issues at the end of March 2013 (an increase of 25 issues over March 2012), and stock borrowing contracts are increasing steadily, with contracts now concluded with 406 companies (an increase of 12 companies for the year).

ii) Respond to the diverse funding needs of financial instruments companies, etc.

In order to comply with the procurement needs for medium-to-long term stable funding required by Basel III, we implemented "Stabilizing fund loan" from June 2012, worked to expand new revenue bases, and also attempted to extend loans by making our existing loan format flexible.

iii) Expand securities lending and borrowing business

In general securities lending operations, we have concentrated on finding new clients, and worked to improve convenience through measures such as making business conditions more flexible. Furthermore, with regard to our bond lending business, we have sought out new clients and

worked to build up existing ones, endeavoring to expand the growth and use of balances.

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

In addition to providing videos explaining margin transactions and loans for margin transactions on securities company web pages, we held seminars in cooperation with the Tokyo Stock Exchange at TSE IR Festa 2013 in February this year, working to improve awareness campaigns and the transmission of information.

Basic Policy on Profit Sharing

The JSF Group's basic dividend payment policy is to return profits to shareholders, with a consolidated dividend payout ratio of around 40% as a standard, and by reflecting business performance as well as taking account of dividend on equity (DOE) on a consolidated basis.

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.

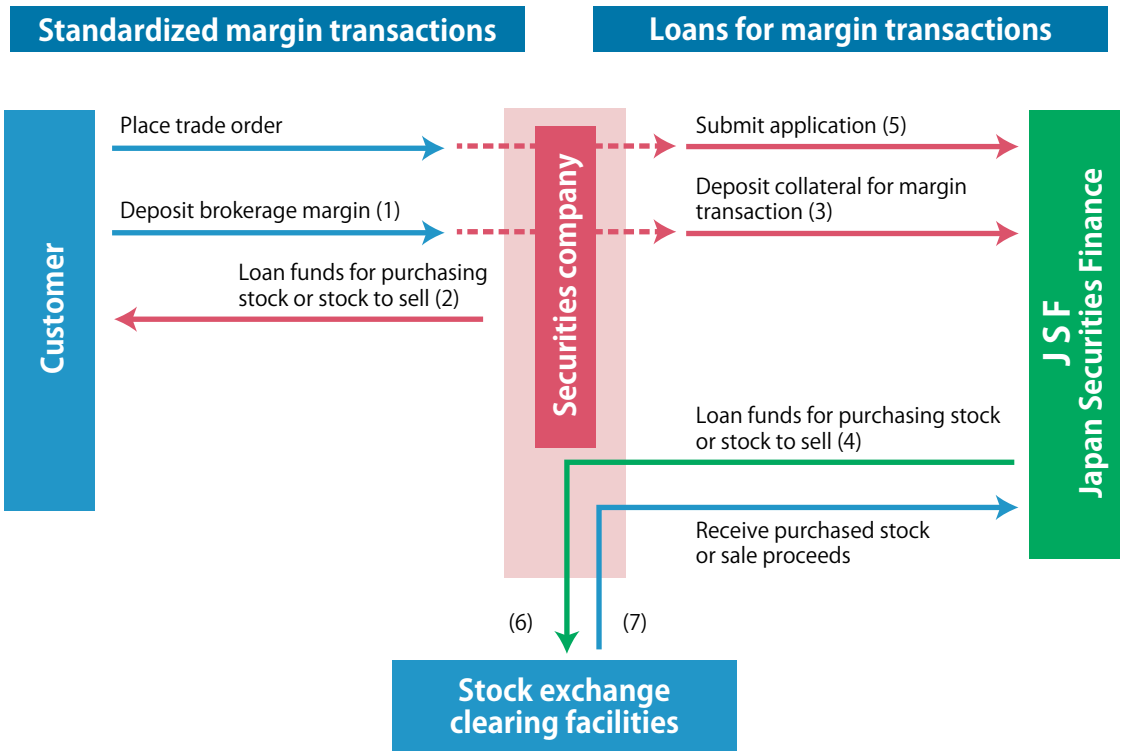
(Note) This is a system of appropriating purchased stock received from buy side as collateral to sell side's stock for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

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.

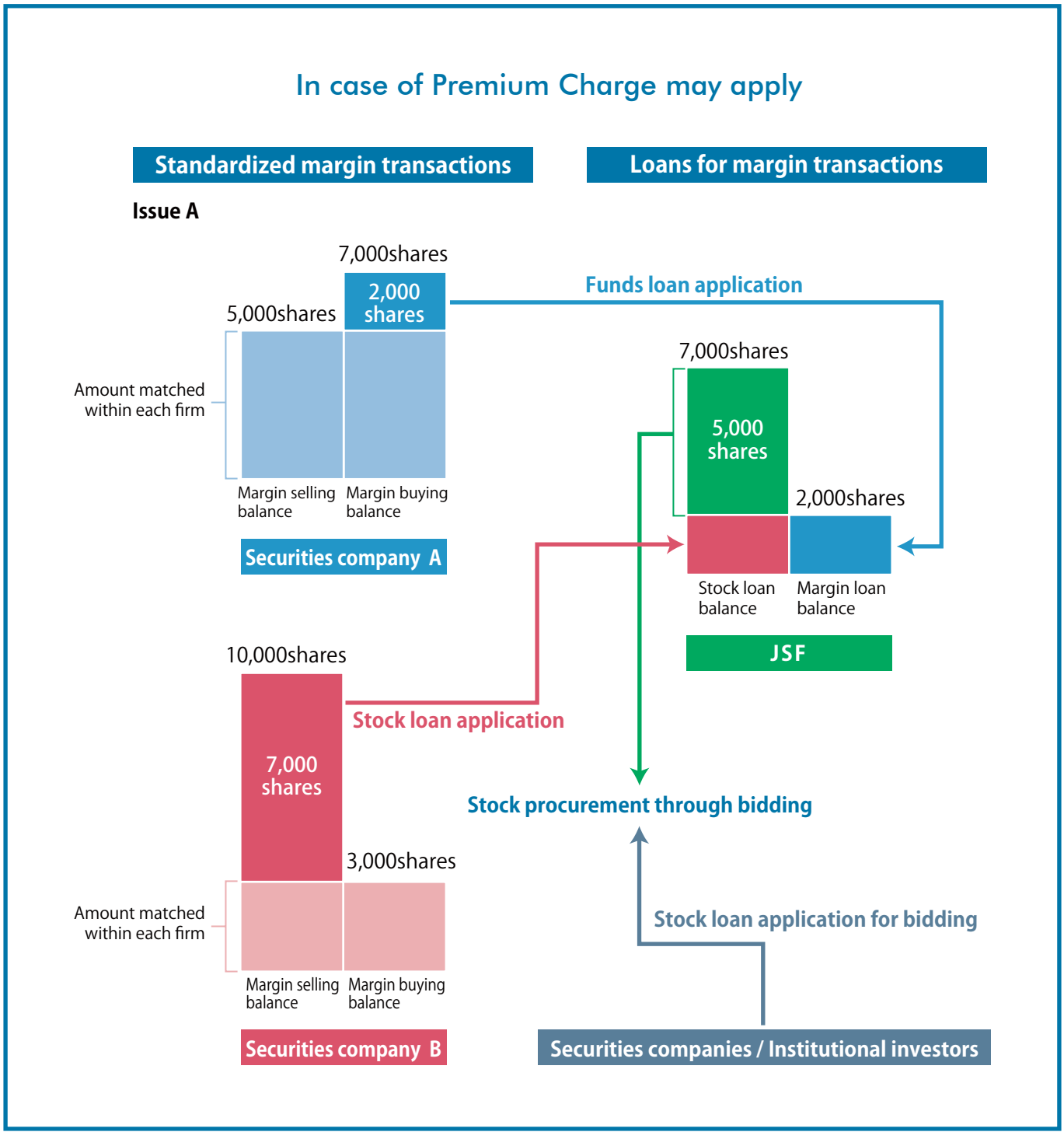
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions (5).To execute the loan, JSF, in place of the securities company, delivers funds or stock to clearing facilities of stock exchanges (6). The stock purchased (collateral stock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

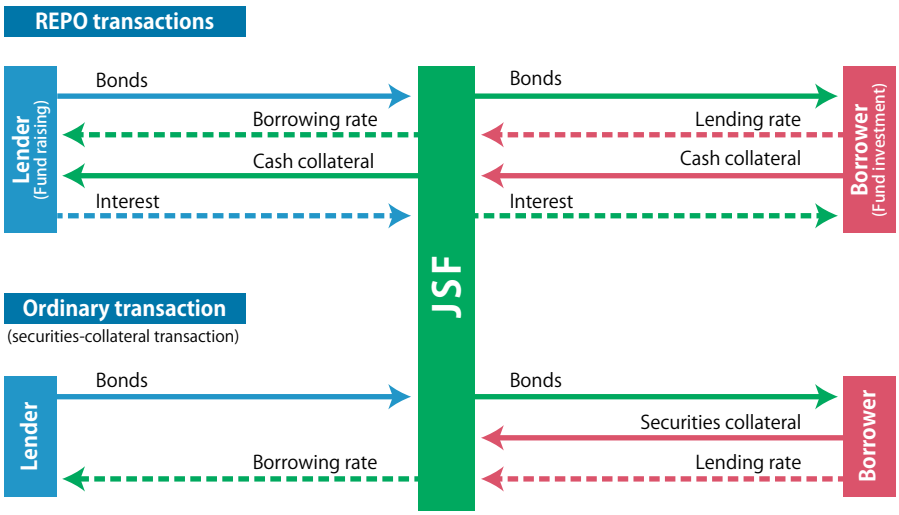
REPO transactions

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



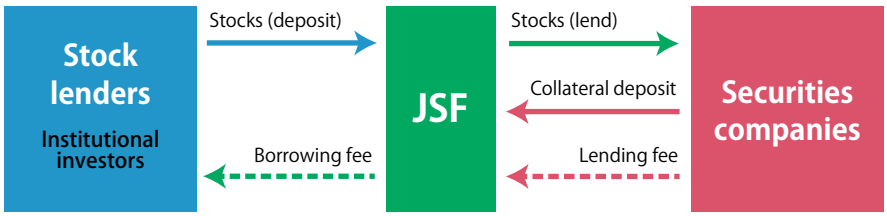
GENERAL STOCK LENDING

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.

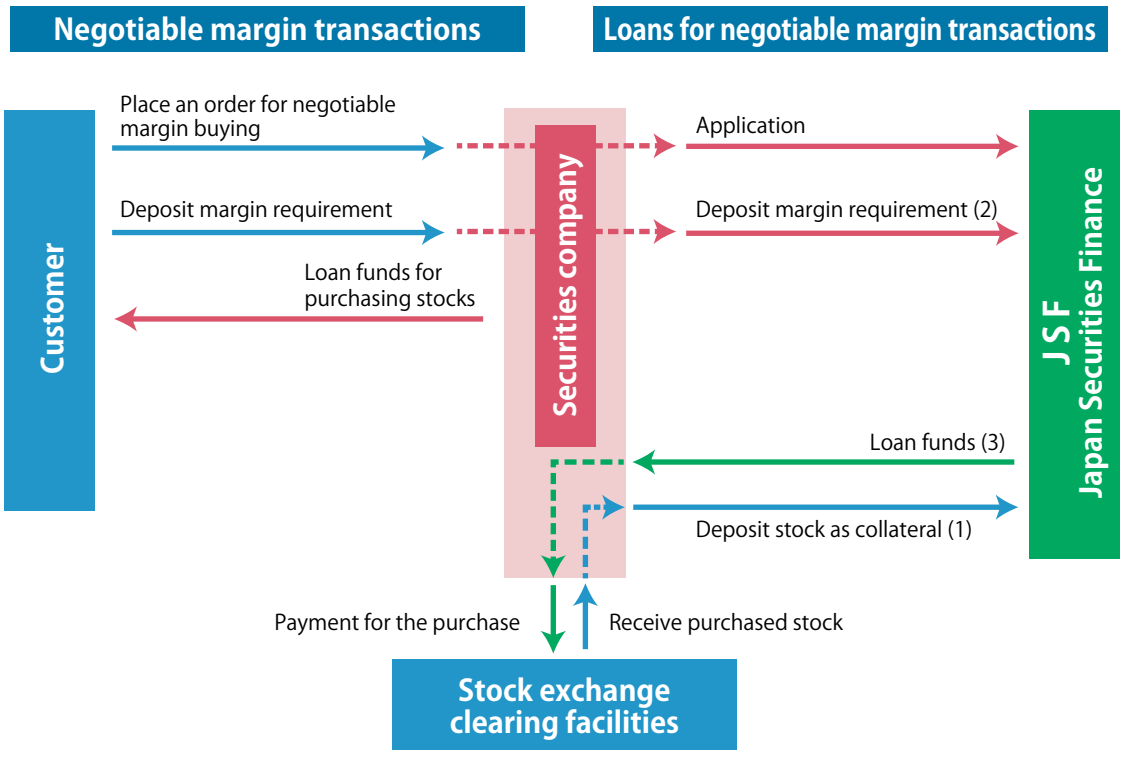
Interest rate

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.

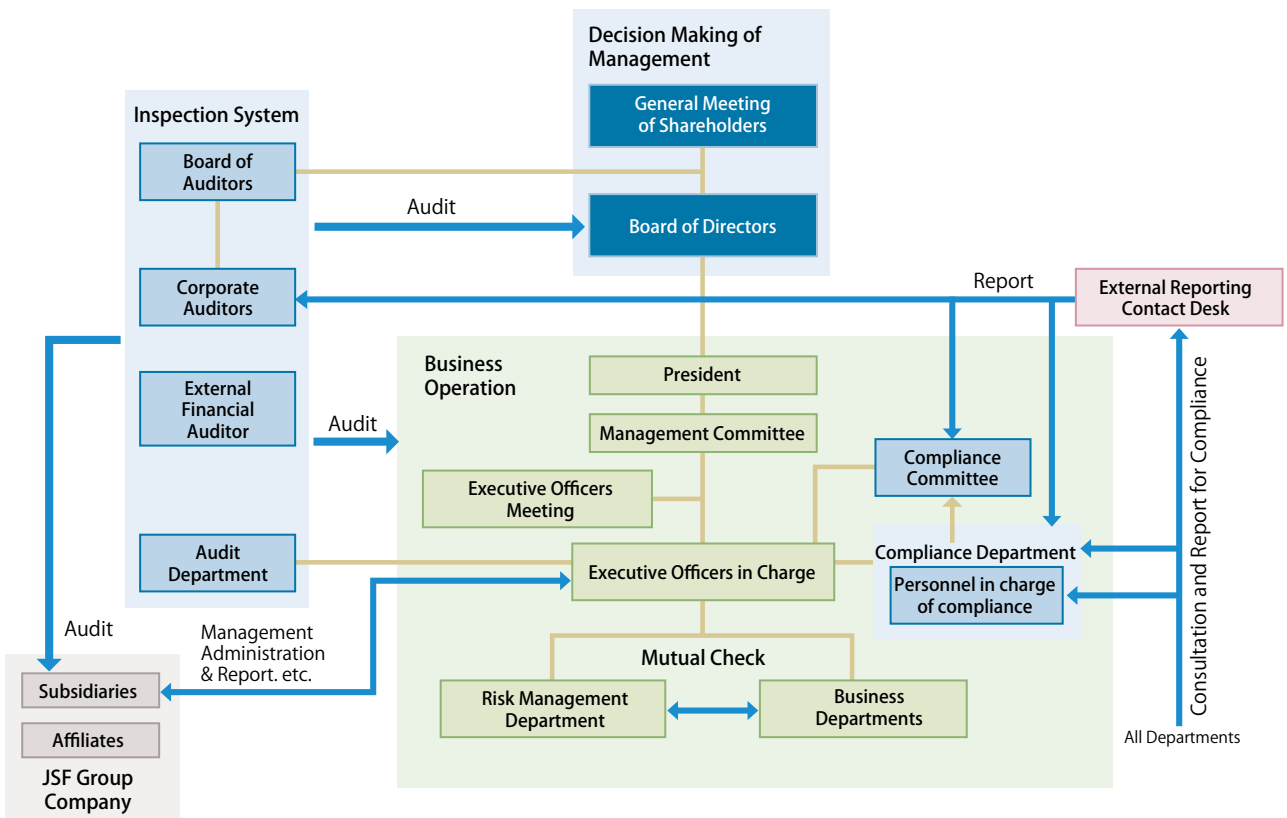
CORPORATE GOVERNANCE STRUCTURE

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 nine directors must be outside directors, and outside directors serve as the center of the Board of Directors. In addition, two of the three 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 2012, the Board of Directors met twelve 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 2012, the Board of Auditors met eleven 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 16 certified public accountants and 4 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

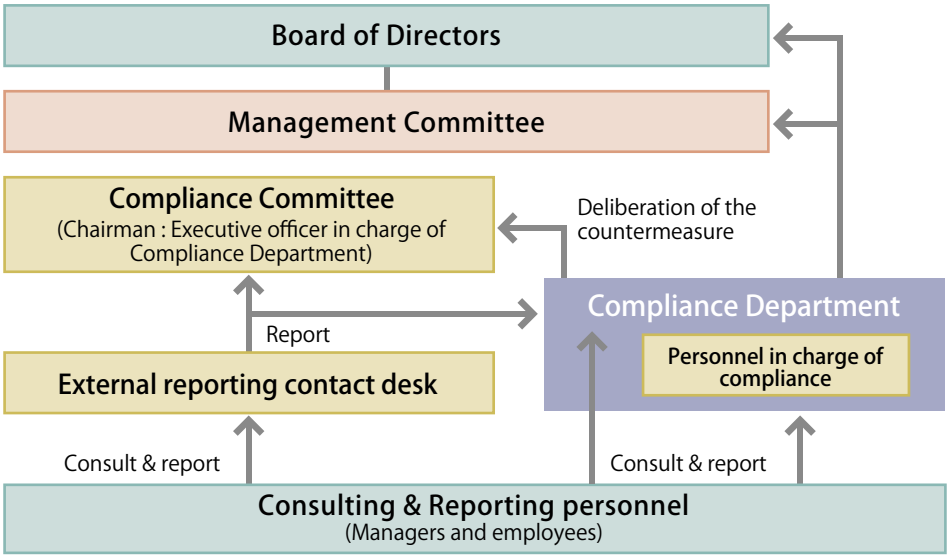
In order to strengthen the compliance system, the company has its external consulting and reporting contact desk by lawyers, in addition to the Compliance Committee, the Compliance Department and personal in charge of compliance.

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.

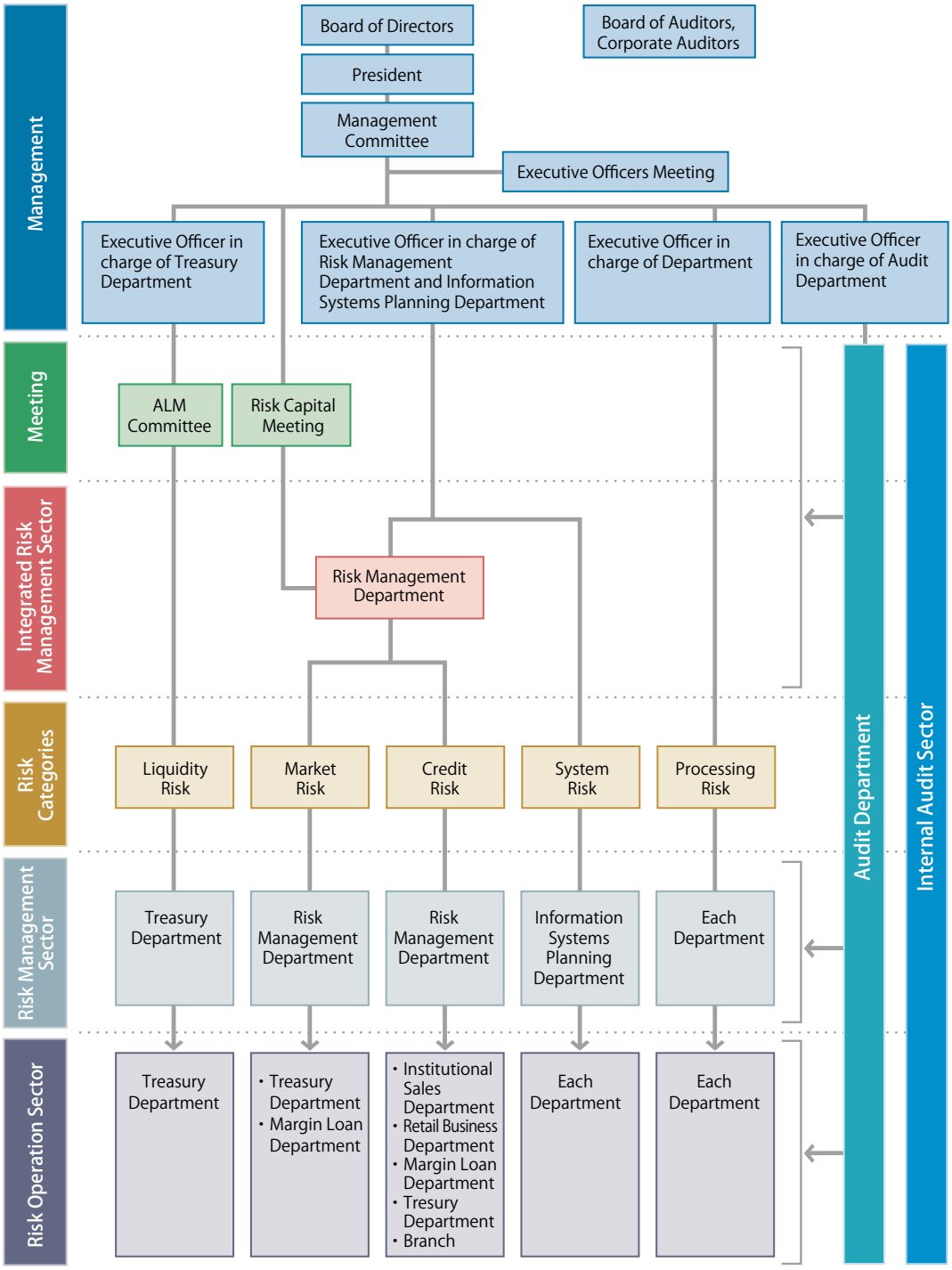
Stress tests

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, 2013

Assets	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars (note 2) 2013
Current assets:			
Cash (note 3)	¥ 124,256	¥ 20,108	$ 1,321,169
Short-term investments (notes 4 and 16)	945,972	1,934,130	10,058,182
Short-term loans receivable (note 16)	732,475	453,784	7,788,145
Securities lent	347,149	260,080	3,691,111
Securities in custody (note 16)	2,141	31,380	22,764
Securities in deposit (note 16)	392,792	134,969	4,176,417
Deferred tax assets (note 9)	211	402	2,244
Collateral money for securities borrowed (note 16)	1,092,112	1,127,047	11,612,036
Other current assets (note 16)	3,166	4,191	33,663
Allowance for doubtful receivables	(1,221)	(802)	(12,982)
Total current assets	3,639,053	3,965,289	38,692,749
Property, plant and equipment:			
Buildings and structures	8,059	8,083	85,688
Tools, furniture and fixtures	1,374	1,288	14,609
Land	3,265	3,305	34,716
Leased assets	42	42	447
Construction in progress	508	102	5,401
	13,248	12,820	140,861
Accumulated depreciation	(6,686)	(6,430)	(71,090)
Net property, plant and equipment	6,562	6,390	69,771
Intangible assets, net	843	1,033	8,963
Investments and other assets:			
Investments in securities (notes 4, 5 and 16)	528,600	957,911	5,620,415
Other investments and other assets	1,388	1,684	14,758
Allowance for doubtful receivables	(908)	(1,021)	(9,654)
Total investments and other assets	529,080	958,574	5,625,519
Total assets	¥ 4,175,538	¥ 4,931,286	$ 44,397,002

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2013	2012	2013
Current liabilities:			
Call money (notes 7 and 16)	¥ 1,446,600	¥ 1,388,600	$ 15,381,180
Short-term borrowings and current installments of long-term borrowings (notes 7 and 16)	613,710	1,833,210	6,525,359
Commercial paper (note 7)	231,500	33,500	2,461,457
Accrued income taxes (note 9)	222	399	2,360
Collateral money received for securities lent	983,076	1,100,016	10,452,695
Collateral securities deposited	502,323	241,035	5,341,021
Securities borrowed (note 16)	203,821	184,390	2,167,156
Securities lent opposite account	35,938	1,004	382,116
Other current liabilities (note 7)	32,150	20,707	341,839
Total current liabilities	4,049,340	4,802,861	43,055,183
Non-current liabilities:			
Long-term borrowings (note 7)	–	7,500	–
Deferred tax liabilities (note 9)	3,676	2,241	39,086
Deferred tax liabilities for land revaluation (note 6)	86	86	914
Liabilities for retirement and severance benefits (note 8)	2,341	2,391	24,891
Other non-current liabilities (note 7)	1,504	660	15,992
Total non-current liabilities	7,607	12,878	80,883
Total liabilities	4,056,947	4,815,739	43,136,066
Stockholders' equity:			
Common stock (note 10): Authorized 200,000,000 shares; issued 93,700,000 shares in 2013 and 2012	10,000	10,000	106,327
Additional paid-in capital (note 10)	5,182	5,182	55,098
Retained earnings (note 11)	96,787	96,312	1,029,102
Treasury stock, at cost; 652,926 shares in 2013 and 651,858 shares in 2012	(515)	(604)	(5,476)
Total stockholders' equity	111,454	110,890	1,185,051
Accumulated other comprehensive income:			
Net unrealized holding gain on other securities (note 4)	7,845	4,501	83,413
Deferred losses on hedges	(864)	–	(9,187)
Gain on revaluation of land (note 6)	156	156	1,659
Total accumulated other comprehensive income	7,137	4,657	75,885
Total net assets	118,591	115,547	1,260,936
Commitments and contingencies (note 19)			
Total liabilities and net assets	¥ 4,175,538	¥ 4,931,286	$ 44,397,002

CONSOLIDATED STATEMENT OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (note 2)
	2013	2012	2013
Operating revenues	¥ 17,676	¥ 20,229	$ 187,943
Operating expenses	8,194	9,635	87,124
Operating profit	9,482	10,594	100,819
General and administrative expenses (note 12)	7,694	7,555	81,808
Operating income	1,788	3,039	19,011
Other income (deductions):			
Interest income	4	6	43
Dividend income	105	121	1,117
Interest expenses	(0)	(1)	(0)
Equity in earnings (losses) of affiliates	487	(869)	5,178
Equity in earnings of limited partnership	79	–	840
Gain (loss) on sale of investments in securities	47	(409)	500
Loss on sale/disposal of property, plant and equipment	(34)	(2)	(362)
Loss on devaluation of investments in securities	–	(41)	–
Other, net	95	90	1,010
	783	(1,105)	8,326
Income before income taxes	2,571	1,934	27,337
Income taxes (note 9):			
Current	593	816	6,305
Deferred	200	339	2,127
	793	1,155	8,432
Income before minority interests	1,778	779	18,905
Net income	¥ 1,778	¥ 779	$ 18,905

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, 2013

	Millions of yen		Thousands of U.S. dollars (note 2)
	2013	2012	2013
Income before minority interests	¥ 1,778	¥ 779	$ 18,905
Other comprehensive income (loss) arising during the year (note 13):			
Net unrealized holding gain on other securities	3,155	843	33,546
Deferred losses on hedges	(864)	–	(9,187)
Gain on revaluation of land	–	12	–
Other comprehensive gain of affiliates accounted for by the equity method	189	229	2,010
Total other comprehensive income arising during the year	2,480	1,084	26,369
Comprehensive income	¥ 4,258	¥ 1,863	$ 45,274
Comprehensive income attributable to:			
Owners of the parent	¥ 4,258	¥ 1,863	$ 45,274
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, 2013

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	Total	Total net assets
	(note 10)	(note 10)	(note 11)			(note 4)		(note 6)		
Balance at March 31, 2011	¥ 10,000	¥ 5,182	¥ 96,836	¥ (664)	¥ 111,354	¥ 3,430	¥ –	¥ 143	¥ 3,573	¥ 114,927
Changes arising during year:										
Cash dividends			(1,303)		(1,303)					(1,303)
Net income			779		779					779
Purchase of treasury stock				(0)	(0)					(0)
Decrease of treasury stock resulting from change in equity of affiliates				60	60					60
Net changes other than stockholders' equity						1,071		13	1,084	1,084
Total changes during the year	–	–	(524)	60	(464)	1,071	–	13	1,084	620
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

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	Total	Total net assets
Balance at March 31, 2012	$ 106,327	$ 55,098	$ 1,024,051	$ (6,422)	$ 1,179,054	$ 47,857	$ –	$ 1,659	$ 49,516	$ 1,228,570
Changes arising during year:										
Cash dividends			(13,854)		(13,854)					(13,854)
Net income			18,905		18,905					18,905
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				946	946					946
Net changes other than stockholders' equity						35,556	(9,187)	–	26,369	26,369
Total changes during the year	–	–	5,051	946	5,997	35,556	(9,187)	–	26,369	32,366
Balance at March 31, 2013	$ 106,327	$ 55,098	$ 1,029,102	$ (5,476)	$ 1,185,051	$ 83,413	$ (9,187)	$ 1,659	$ 75,885	$ 1,260,936

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, 2013

	Millions of yen		Thousands of U.S. dollars (note 2)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes	¥ 2,571	¥ 1,934	$ 27,337
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	756	722	8,038
Loss on disposal of property, plant and equipment	34	2	362
Gain relating to short-term investments and investments in securities	(1,506)	(1,445)	(16,013)
Allowance for doubtful receivables	306	(386)	3,254
Decrease in liabilities for retirement and severance benefits	(51)	(23)	(542)
Interest and dividend income	(9,194)	(11,900)	(97,757)
Interest expenses	3,817	5,089	40,585
Equity in (earnings) losses of affiliates	(487)	869	(5,178)
(Increase) decrease in short-term loans receivable	(278,691)	115,109	(2,963,222)
Decrease in collateral money for securities borrowed	34,934	389,540	371,441
Increase in call money	58,000	124,300	616,693
Decrease in short-term borrowings	(1,223,000)	(2,202,800)	(13,003,721)
Increase in commercial paper	198,000	26,000	2,105,263
Decrease in collateral money received for securities lent	(116,940)	(65,920)	(1,243,381)
Increase (decrease) in collateral money received for loan transactions	7,655	(2,094)	81,393
Decrease in long-term debt	(4,000)	(27,000)	(42,531)
Purchase of short-term investments and investments in securities	(1,846,274)	(2,763,253)	(19,630,771)
Proceeds from sale/redemption of short-term investments and investments in securities	3,264,825	4,371,766	34,713,716
Other, net	10,521	(823)	111,866
Sub total	101,276	(40,313)	1,076,832
Interest and dividend received	10,278	12,038	109,282
Interest paid	(4,072)	(5,472)	(43,296)
Income taxes paid	(795)	(554)	(8,453)
Income taxes refunded	2	48	21
Net cash provided by (used in) operating activities	106,689	(34,253)	1,134,386
Cash flows from investing activities:			
Purchase of investments in securities	(1,201)	–	(12,770)
Proceeds from sale/redemption of investments in securities	546	1,668	5,805
Capital expenditures	(623)	(203)	(6,624)
Purchase of intangible assets	(175)	(269)	(1,861)
Other, net	222	78	2,361
Net cash provided by (used in) investing activities	(1,231)	1,274	(13,089)
Cash flows from financing activities:			
Dividends paid to stockholders	(1,303)	(1,303)	(13,854)
Purchase of treasury stock	(0)	(0)	(0)
Other, net	(8)	(7)	(85)
Net cash used in financing activities	(1,311)	(1,310)	(13,939)
Net increase (decrease) in cash and cash equivalents	104,147	(34,289)	1,107,358
Cash and cash equivalents at beginning of year	10,111	44,400	107,506
Cash and cash equivalents at end of year (note 3)	¥ 114,258	¥ 10,111	$ 1,214,864

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

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

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

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

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 2 subsidiaries.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Investments in affiliates are accounted for by the equity method.

On January 1, 2013, JBIS Holdings, Inc. which was accounted for by the equity method was merged with Japan Information Processing Service Co., Ltd., a subsidiary of JBIS Holdings, Inc. which is the surviving company and is also 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

In accordance with the amendment of the Corporation Tax Act, effective from the year ended March 31, 2013, the Company and its consolidated subsidiaries have changed their depreciation method for property plant and equipment acquired on or after April 1, 2012. The effect of this change is immaterial.

(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.

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

(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) 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, 2013.

(m) 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.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss is to be recognized within net assets (accumulated other comprehensive income), net of related taxes, and the deficit or surplus is to be recognized as a liability or asset. The revised accounting standards allow the choice of the method of attributing expected benefit to periods between the straight-line basis and the benefit formula basis, and amend the discount rate estimation.

The Company expects to apply the revised accounting standards from the year ending March 31, 2014. However, the method of attributing expected benefit to periods is to be applied from the year beginning on April 1, 2014. Because the revised accounting standards allowed to be applied in stages, the standards are not to be applied retrospectively to the financial statements in prior periods.

The Company is in the process of measuring the effects of applying the revised accounting standards.

(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 at March 29, 2013, which was ¥94.05 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, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash	¥ 124,256	¥ 20,108	$ 1,321,169
Certificate of deposits with maturities of over three months	(9,998)	(9,997)	(106,305)
Cash and cash equivalents	¥ 114,258	¥ 10,111	$ 1,214,864

(4) Short-term Investments and Investments in Securities

No trading securities were held both at March 31, 2013 and 2012.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2013 and 2012 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2013				
Government bond securities	¥ 39,904	¥ 679	¥ —	¥ 40,583
Corporate bond securities	1,943	71	—	2,014
	¥ 41,847	¥ 750	¥ —	¥ 42,597
March 31, 2012				
Government bond securities	¥ 39,893	¥ 1,094	¥ —	¥ 40,987
Corporate bond securities	4,332	110	—	4,442
	¥ 44,225	¥ 1,204	¥ —	¥ 45,429

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2013				
Government bond securities	$ 424,285	$ 7,220	$ —	$ 431,505
Corporate bond securities	20,659	755	—	21,414
	$ 444,944	$ 7,975	$ —	$ 452,919

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2013 and 2012 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
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
March 31, 2012				
Equity securities	¥ 1,247	¥ 502	¥ 103	¥ 1,646
Bond securities:				
Government bond securities	2,613,296	7,510	49	2,620,757
Corporate bond securities	220,158	45	77	220,126
Other securities	106	7	12	101
	¥ 2,834,807	¥ 8,064	¥ 241	¥ 2,842,630

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2013				
Equity securities	$ 13,833	$ 33,631	$ —	$ 47,464
Bond securities:				
Government bond securities	13,345,657	94,514	245	13,439,926
Corporate bond securities	1,671,983	361	276	1,672,068
Other securities	9,963	3,030	—	12,993
	$ 15,041,436	$ 131,536	$ 521	$ 15,172,451

Securities classified as other securities for which fair value is not available are unlisted equity securities amounting to ¥2,132 million ($22,669 thousand) and ¥2,314 million as of March 31, 2013 and 2012, respectively.

For the years ended March 31, 2013 and 2012, 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
	2013	2012	2013
Proceeds from sale of other securities	¥ 1,554,198	¥ 2,188,192	$ 16,525,231
Gross realized gains	1,984	2,228	21,095
Gross realized losses	478	381	5,082

Balance sheet amount of securities lent under loan for consumption agreement, etc. as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Short-term investments	¥ 96,838	¥ 107,090	$ 1,029,644
Investments in securities	40,091	59,748	426,273

The fair value of the securities borrowed under loan for consumption agreement, etc. as of March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Securities loaned	¥ 869,401	¥ 820,534	$ 9,244,030
Securities pledged as collateral	104,603	273,652	1,112,206
Securities on hand	230,860	72,876	2,454,652

(5) Investments in Affiliates

The aggregate carrying amount of investments in affiliates as of March 31, 2013 and 2012 are ¥3,624 million ($38,533 thousand) and ¥2,872 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 at March 31, 2002.

The value of the land at March 31, 2013 decreased by ¥142 million ($1,510 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, 2013 and 2012 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2013			
Short-term borrowings	¥ 606,210	$ 6,445,614	0.128%
Current portion of long-term borrowings	7,500	79,745	0.618
Current portion of lease liabilities	8	85	—
Long-term borrowings	—	—	—
Lease liabilities	4	42	—
Call money	1,446,600	15,381,180	0.072
Commercial paper	231,500	2,461,457	0.116
	¥ 2,291,822	$ 24,368,123	

March 31, 2012		
Short-term borrowings	¥ 1,829,210	0.113%
Current portion of long-term borrowings	4,000	0.703
Current portion of lease liabilities	8	—
Long-term borrowings	7,500	0.663
Lease liabilities	12	—
Call money	1,388,600	0.077
Commercial paper	33,500	0.113
	¥ 3,262,830	

(8) Retirement and Severance Benefits

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.

At March 31, 2013 and 2012, the most recent funded status of the whole welfare pension plan under multi-employer pension plan which was at March 31, 2012 and 2011, respectively were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Plan assets at fair value (1)	¥ 25,811	¥ 26,610	$ 274,439
Benefit obligation under pension funding programs (2)	35,411	35,176	376,512
(1) - (2)	¥ (9,600)	¥ (8,566)	$ (102,073)

The subsidiary's proportion of the contribution to the aggregate pension contributions in March 2012 and 2011 are 0.34% and 0.32%, respectively.

The funded status of the pension plans at March 31, 2013 and 2012 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥ (7,090)	¥ (6,539)	$ (75,386)
Plan assets at fair value	3,804	3,218	40,447
Funded status	(3,286)	(3,321)	(34,939)
Unrecognized actuarial loss	1,013	1,020	10,771
Net amount recognized in the consolidated balance sheet	(2,273)	(2,301)	(24,168)
Prepaid retirement and severance benefits	—	—	
Accrued retirement and severance benefits	¥ (2,273)	¥ (2,301)	$ (24,168)

Net periodic pension cost for the years ended March 31, 2013 and 2012 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥ 188	¥ 187	$ 1,999
Interest cost	128	129	1,361
Expected return on plan assets	(64)	(61)	(681)
Amortization of actuarial loss	145	167	1,542
Amortization of prior service cost	—	14	—
Net periodic pension cost	¥ 397	¥ 436	$ 4,221

For the years ended March 31, 2013 and 2012, 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 and 2012 are as follows:

	2013	2012
Periodic allocation method for projected benefit	Straight-line	Straight-line
Discount rate	1.5%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Period for amortization of unrecognized actuarial loss	15 years	15 years

Prior service cost is recognized in the year incurred.

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, 2013 and 2012, the liabilities for retirement and severance benefits related to the plans were ¥67million ($712 thousand) and ¥89 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% and 40.7% in 2013 and 2012, respectively.

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, 2013 and 2012 is follows:

	2013	2012
Statutory tax rate	38.0%	40.7%
Equity in (gains) losses of affiliates	(7.2)	18.3
Loss on sales of associated companies stocks	—	27.0
Expenses not deductible for tax purposes	0.8	1.1
Valuation allowance	0.4	(28.5)
Income not credited for tax purposes	(3.3)	(3.4)
Adjustments of deferred tax assets due to change in statutory tax rate	—	4.0
Other	2.2	0.5
Effective tax rate	30.9%	59.7%

Significant components of deferred tax assets and liabilities at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued business tax	¥ 28	¥ 41	$ 298
Accrued bonuses	142	156	1,510
Liabilities for retirement and severance benefits (employees)	832	850	8,846
Liabilities for retirement and severance benefits (directors and corporate auditors)	24	32	255
Allowance for doubtful receivables	539	512	5,731
Tax loss carryforward	2,804	2,980	29,814
Deferred losses on hedges	308	—	3,275
Net unrealized loss on other securities	4	249	43
Other	230	218	2,445
	4,911	5,038	52,217
Valuation allowance	(3,573)	(3,459)	(37,990)
	1,338	1,579	14,227
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(166)	(166)	(1,765)
Net unrealized gain on other securities	(4,239)	(2,853)	(45,072)
Gain on transfer of investment in an affiliate	(385)	(385)	(4,094)
Other	(13)	(14)	(138)
	(4,803)	(3,418)	(51,069)
Net deferred tax liabilities	¥ (3,465)	¥ (1,839)	$ (36,842)

Net deferred tax assets and liabilities as of March 31, 2013 and 2012 are reflected in the accompanying consolidated balance sheet under the following captions:

		Millions of yen		Thousands of U.S. dollars
		2013	2012	2013
Current assets	－Deferred tax assets	¥ 211	¥ 402	$ 2,244
Non-current liabilities	－Deferred tax liabilities	(3,676)	(2,241)	(39,086)

(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, 2013 and 2012 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, 2012

The following was approved by the general meeting of stockholders held on June 24, 2011.

(a)	Total dividends	¥651 million
(b)	Cash dividends per common share	¥7
(c)	Record date	March 31, 2011
(d)	Effective date	June 27, 2011

The following was approved by the Board of Directors held on November 7, 2011.

(a)	Total dividends	¥651 million
(b)	Cash dividends per common share	¥7
(c)	Record date	September 30, 2011
(d)	Effective date	December 9, 2011

(b) 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 ($6,922 thousand)
(b)	Cash dividends per common share	¥7 ($0.07)
(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 ($6,922 thousand)
(b)	Cash dividends per common share	¥7 ($0.07)
(c)	Record date	September 30, 2012
(d)	Effective date	December 7, 2012

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2013

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

(a) Total dividends	¥651 million ($6,922 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥7 ($0.07)
(d) Record date	March 31, 2013
(e) Effective date	June 27, 2013

(12) General and Administrative Expenses

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Salaries	¥ 2,813	¥ 2,837	$ 29,910
Pension cost	401	439	4,264
Administrative and computer expenses	1,258	1,335	13,376
Depreciation	756	722	8,038

(13) Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive loss for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized gain on other securities:			
Arising during the year	¥ 5,976	¥ 443	$ 63,541
Reclassification adjustment	(1,395)	(120)	(14,833)
Before tax amount	4,581	323	48,708
Tax benefit	(1,426)	520	(15,162)
Net-of-tax amount	3,155	843	33,546
Deferred losses on hedges			
Arising during the year	(489)	—	(5,200)
Reclassification adjustment	(375)	—	(3,987)
Before tax amount	(864)	—	(9,187)
Tax benefit (expense)	—	—	—
Net-of-tax amount	(864)	—	(9,187)
Surplus on land revaluation:			
Tax benefit	—	12	—
Share of other comprehensive loss of affiliates accounted for by equity method:			
Arising during the year	209	224	2,222
Reclassification adjustment	(20)	5	(212)
	189	229	2,010
Total other comprehensive income	¥ 2,480	¥ 1,084	$ 26,369

(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, 2013 and 2012 are as follows:

	Yen		U.S. dollars
	2013	2012	2013
Basic net income per share	¥ 19.10	¥ 8.42	$ 0.20

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net income	¥ 1,778	¥ 779	$ 18,905
Net income not applicable to common stockholders	—	—	—
Net income applicable to common stockholders	¥ 1,778	¥ 779	$ 18,905

	Number of shares (Thousands)	
	2013	2012
Weighted average number of shares outstanding on which basic net income per share is calculated	93,036	92,558

(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 at March 31, 2013 and 2012 are as follows:

	Yen		U.S. dollars
	2013	2012	2013
Net assets per share	¥ 1,274.67	¥ 1,245.83	$ 13.55

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total net assets	¥ 118,591	¥ 115,547	$ 1,260,936
Amount deducted from total net assets	—	—	—
Net assets applicable to common stockholders	¥ 118,591	¥ 115,547	$ 1,260,936

	Number of shares (Thousands)	
	2013	2012
Number of shares outstanding at end of year on which net assets per share is calculated	93,036	92,746

(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, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Future minimum lease payments:			
Within one year	¥ 8	¥ 2	$ 85
Over one year	9	2	96
	¥ 17	¥ 4	$ 181

(16) Pledged Assets

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Short-term investments	¥ 837,356	¥ 1,855,313	$ 8,903,307
Short-term loans receivable	18,800	12,917	199,894
Securities in custody	2,000	31,000	21,265
Securities in deposit	301,529	96,018	3,206,050
Collateral money for securities borrowed	106,559	152,816	1,133,004
Investments in securities	462,392	850,592	4,916,449
Securities received as collateral for securities loans for margin transactions, etc.	292,129	224,238	3,106,103

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Call money	¥ 1,021,000	¥ 1,108,100	$ 10,855,928
Short-term borrowings	397,500	1,545,500	4,226,475
Securities borrowed	106,559	152,816	1,133,004

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
	2013	2012	2013
Other current assets	¥ 500	¥ 500	$ 5,316
Short-term investments	5,654	—	60,117
Investments in securities	3,569	5,463	37,948

(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 short-term loans, 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. Loans 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 ¥7,945 million ($84,476 thousand) at March 31, 2013.

Because VaR is a statistical estimate of market risk amount at a particular probability using past market movement data, VaR may not capture the risk during radical market movements that are extreme in nature.

5) Liquidity risk

The Treasury Department of the Company seeks to diversify financing channels and to secure stable financing sources. For sound cash flow management, the Company develops cash flow forecast, understands the amount can be raised or future liquidity and also understands dates of a large payment concentration, the Company has a system to report to the management with daily cash flow status. The Company tries to hold enough liquidity, for example, to possess a certain amount of government bonds, makes a contingency plan and builds a company-wide emergency response system against contingencies. Liquidity stress tests are performed monthly for ascertaining whether consolidated liquidity held by the Company and JSFTB is adequate. At the "ALM Committee" held in every quarter, the Company develops cash flow forecast based on estimates of loans outstanding, studies policies for ALM (Asset Liability Management) such as revenue management for assets and liabilities of the Company and the Company has a system to report to the management.

6) Subsidiary's risk control system

JSFTB basic policy of risk management is approved at the Board of Directors, and various rules for risk management according to the basic policy are established for concrete risk management method or system, and the Risk Management Department controls the risks totally. The Risk Management Department measures and monitors the risk quantity, collects and analyzes information and reports the risk condition to the management for maintaining the proper risk management.

JSFTB calculates market risk amount for all market transactions. Interest rate risk amount which is a major risk variable is calculated by VaR (Delta method; holding period: 1 year, confidence interval: 99%, observation period: 5 years). JSFTB market risk amount is ¥6,242 million ($66,369 thousand) at March 31, 2013.

(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, 2013 and 2012 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

	March 31, 2013			March 31, 2012		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 124,256	¥ 124,256	¥ —	¥ 20,108	¥ 20,108	¥ —
(2) Short-term loans receivable	732,475			453,784		
Allowance for doubtful receivables *1	(1,156)			(634)		
	731,319	731,316	(3)	453,150	453,135	(15)
(3) Collateral money for securities borrowed	1,092,112	1,092,112	—	1,127,047	1,127,047	—
(4) Short-term investments and investments in securities						
Held-to-maturity securities	41,847	42,597	750	44,225	45,429	1,204
Other securities	1,426,969	1,426,969	—	2,842,630	2,842,630	—
Investments in affiliates	—	—	—	2,423	2,001	(422)
Total	¥ 3,416,503	¥ 3,417,250	¥ 747	¥ 4,489,583	¥ 4,490,350	¥ 767
Liabilities:						
(1) Call money	¥ 1,446,600	¥ 1,446,600	¥ —	¥ 1,388,600	¥ 1,388,600	¥ —
(2) Short-term borrowings	606,210	606,210	—	1,829,210	1,829,210	—
(3) Commercial paper	231,500	231,500	—	33,500	33,500	—
(4) Collateral money received for securities lent	983,076	983,076	—	1,100,016	1,100,016	—
(5) Long-term borrowings *2	7,500	7,500	—	11,500	11,512	12
Total	¥ 3,274,886	¥ 3,274,886	¥ —	¥ 4,362,826	¥ 4,362,838	¥ 12
Derivative transactions *3	¥ (864)	¥ (864)	¥ (—)	¥ —	¥ —	¥ —

	Thousands of U.S. dollars		
	March 31, 2013		
	Carrying value	Fair value	Differences
Assets:			
(1) Cash	$ 1,321,169	$ 1,321,169	$ —
(2) Short-term loans receivable	7,788,145		
Allowance for doubtful receivables *1	(12,291)		
	7,775,854	7,775,822	(32)
(3) Collateral money for securities borrowed	11,612,036	11,612,036	—
(4) Short-term investments and investments in securities			
Held-to-maturity securities	444,944	452,919	7,975
Other securities	15,172,451	15,172,451	—
Investments in affiliates	—	—	—
Total	$ 36,326,454	$ 36,334,397	$ 7,943
(1) Call money	$ 15,381,180	$ 15,381,180	$ —
(2) Short-term borrowings	6,445,614	6,445,614	—
(3) Commercial paper	2,461,457	2,461,457	—
(4) Collateral money received for securities lent	10,452,695	10,452,695	—
(5) Long-term borrowings *2	79,745	79,745	—
Total	$ 34,820,691	$ 34,820,691	$ —
Derivative transactions *3	$ (9,187)	$ (9,187)	$ (—)

*1 Allowance for doubtful accounts associated with short-term loans receivable is deducted.

*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) Short-term loans receivable

The fair value of short-term 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
	2013	2012	2013
Unlisted equity securities			
Other securities	¥ 2,132	¥ 2,314	$ 22,669
Investments in affiliates	3,624	448	38,533

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 at March 31, 2013

	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	¥ 124,256	¥ —	¥ —	¥ —
(2) Short-term loans receivable	686,893	40,363	5,219	—
(3) Collateral money for securities borrowed	1,092,112	—	—	—
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
Bond securities				
Government bonds	—	—	40,000	—
Corporate bonds	—	—	2,000	—
Other	—	—	—	—
Other securities with maturities				
Bond securities				
Government bonds	816,787	198,344	187,000	50,000
Corporate bonds	127,389	29,019	—	—
Other	—	—	—	—
Other	—	—	—	—
Total	¥ 2,847,437	¥ 267,726	¥ 234,219	¥ 50,000

	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	$ 1,321,169	$ —	$ —	$ —
(2) Short-term loans receivable	7,303,487	429,165	55,492	—
(3) Collateral money for securities borrowed	11,612,036	—	—	—
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
Bond securities				
Government bonds	—	—	425,306	—
Corporate bonds	—	—	21,265	—
Other	—	—	—	—
Other securities with maturities				
Bond securities				
Government bonds	8,684,604	2,108,921	1,988,304	531,632
Corporate bonds	1,354,482	308,549	—	—
Other	—	—	—	—
Other	—	—	—	—
Total	$ 30,275,778	$ 2,846,635	$ 2,490,367	$ 531,632

<4> The annual maturities of the long-term borrowings, lease liabilities and other interest bearing liabilities at March 31, 2013

	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	¥ 1,446,600	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	606,210	—	—	—	—	—
Commercial paper	231,500	—	—	—	—	—
Collateral money received for securities lent	983,076	—	—	—	—	—
Lease liabilities	8	3	—	—	—	—
Long-term borrowings	7,500	—	—	—	—	—
Total	¥ 3,274,894	¥ 3	¥ —	¥ —	¥ —	¥ —

	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	$ 15,381,180	$ —	$ —	$ —	$ —	$ —
Short-term borrowings	6,445,614	—	—	—	—	—
Commercial paper	2,461,457	—	—	—	—	—
Collateral money received for securities lent	10,452,695	—	—	—	—	—
Lease liabilities	85	32	—	—	—	—
Long-term borrowings *	79,745	—	—	—	—	—
Total	$ 34,820,776	$ 32	$ —	$ —	$ —	$ —

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

(18) Derivative Financial Instruments

Derivative transactions to which hedge accounting are applied at March 31, 2013 and 2012 are summarized as follows:

			Millions of yen			
			2013		2012	
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	¥ 32,000	31,136	¥ —	—
*2	Interest rate swaps:					
	Variable rate received for fixed rate	Short-term loans	7,462	*3	15,735	*3
	Variable rate paid for variable rate	Long-term borrowings	5,500	*3	6,500	*3
	Variable rate received for fixed rate	Short-term investments	—	—	2,400	*3
	Fixed rate paid for variable rate	Call money	—	—	100,000	*3

			Thousands of U.S. dollars	
			2013	
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	$ 340,245	331,058
*2	Interest rate swaps:			
	Variable rate received for fixed rate	Short-term loans	79,341	*3
	Variable rate paid for variable rate	Long-term borrowings	58,480	*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, 2013 and 2012, undrawn amount of general loan for securities companies and customers and overdraft loan are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total credit line	¥ 614,595	¥ 592,785	$ 6,534,769
Drawn amount	(109,173)	(81,377)	(1,160,798)
Undrawn amount	¥ 505,422	¥ 511,408	$ 5,373,971

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

(20) Balances and Transactions with Related Party

The condensed financial information for the year ended March 31, 2012 of JBIS Holdings, Inc. which was the significant affiliate accounted for by the equity method was as follows:

	Millions of yen
	2012
Total current assets	¥ 15,942
Total non-current assets	18,406
Total current liabilities	13,211
Total non-current liabilities	6,437
Total net assets	14,701
Sales	35,195
Loss before income taxes	(1,812)
Net loss	(2,599)

(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 year ended March 31, 2013 and 2012 was summarized as follows:

	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	¥ 3,663,370	¥ 591,267	¥ 8,298	¥ 4,262,935
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

	Thousands of U.S. dollars			
	2013			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	$ 149,856	$ 29,368	$ 8,719	$ 187,943
Intersegment revenues and transfers	638	21	3,711	4,370
Total	$ 150,494	$ 29,389	$ 12,430	$ 192,313
Segment income	$ 16,587	$ 1,871	$ 4,700	$ 23,158
Segment assets	$ 38,951,303	$ 6,286,730	$ 88,230	$ 45,326,263
Others:				
Depreciation and amortization	$ 5,338	$ 1,170	$ 1,435	$ 7,943
Extraordinary income:	1,446	—	308	1,754
Gain from sale of investments in securities	1,446	—	308	1,754
Extraordinary loss:	1,265	—	500	1,765
Loss from sale of property, plant and equipment	—	—	500	500
Loss from sale of investments in securities	1,255	—	—	1,255
Income taxes	5,869	851	1,712	8,432
Increase in property, plant and equipment and intangible assets	2,733	372	5,380	8,485

	Millions of yen			
	2012			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 15,186	¥ 4,225	¥ 819	¥ 20,230
Intersegment revenues and transfers	90	3	340	433
Total	¥ 15,276	¥ 4,228	¥ 1,159	¥ 20,663
Segment income	¥ 1,391	¥ 1,635	¥ 338	¥ 3,364
Segment assets	¥ 4,090,811	¥ 909,432	¥ 7,852	¥ 5,008,095
Others:				
Depreciation and amortization	¥ 476	¥ 90	¥ 155	¥ 721
Extraordinary income:	925	—	2	927
Gain from sale of associated companies stocks	925	—	—	925
Extraordinary loss:	44	—	55	99
Loss from sale of investments securities	—	—	50	50
Loss from sale of associated companies stock	—	—	5	5
Devaluation loss on investments securities	42	—	—	42
Income taxes	1,044	95	76	1,215
Investments on affiliates accounted for by the equity method	624	—	—	624

Reconciliation between total segment revenues in the table above and revenues in the accompanying consolidated statement of income for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total segment revenues	¥ 18,087	¥ 20,663	$ 192,313
Intersegment revenues	(411)	(433)	(4,370)
Revenues in the accompanying consolidated statement of income	¥ 17,676	¥ 20,230	$ 187,943

Reconciliation between total segment income in the table above and ordinary income in the consolidated income statement for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total segment income	¥ 2,178	¥ 3,364	$ 23,158
Intersegment income	(108)	(108)	(1,148)
Equity in earnings (losses) of affiliates	487	(869)	5,178
Revenues in the consolidated income statement	¥ 2,557	¥ 2,387	$ 27,188

Reconciliation between total segment assets in the table above and assets in the consolidated accompanying balance sheet at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total segment assets	¥ 4,262,935	¥ 5,008,095	$ 45,326,263
Intersegment accounts	(64,490)	(53,130)	(685,699)
Intersegment investments	(26,269)	(26,269)	(279,309)
Other	3,362	2,590	35,747
Assets in the accompanying consolidated balance sheet	¥ 4,175,538	¥ 4,931,286	$ 44,397,002

Reconciliation between others in the table above and amounts in the consolidated financial statements as of and for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		
	Segment total	Adjustments	Amounts in the consolidated financial statements
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
March 31, 2012			
Depreciation and amortization	¥ 721	¥ 1	¥ 722
Extraordinary income:	927	(925)	2
Gain from sale of investments in securities	2	—	2
Extraordinary loss:	99	355	454
Loss from sale of property, plant and equipment	—	—	—
Loss from sale of investments in securities	50	—	50
Income taxes	1,215	(60)	1,155
Increase in property, plant and equipment and intangible assets	472	—	472

	Thousands of U.S. dollars		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2013			
Depreciation and amortization	$ 7,943	$ 95	$ 8,038
Extraordinary income:	1,754	—	1,754
Gain from sale of investments in securities	1,754	—	1,754
Extraordinary loss:	1,765	(149)	1,616
Loss from sale of property, plant and equipment	500	(149)	351
Loss from sale of investments in securities	1,255	—	1,255
Income taxes	8,432	(0)	8,432
Increase in property, plant and equipment and intangible assets	8,485	—	8,485

Related Information

(a) Information by services

Sales by services for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Loans for margin transaction	¥ 6,626	¥ 6,756	$ 70,452
Other	11,050	13,473	117,491
	¥ 17,676	¥ 20,229	$ 187,943

(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, 2013 and 2012.

(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, 2013 and 2012.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2013 and 2012.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2013 and 2012.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2013 and 2012.

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BDO Toyo & Co.
Kandamitoshirocho7,
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101-0053 Japan

Independent Auditors' 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, 2013, 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, 2013, 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 27, 2013

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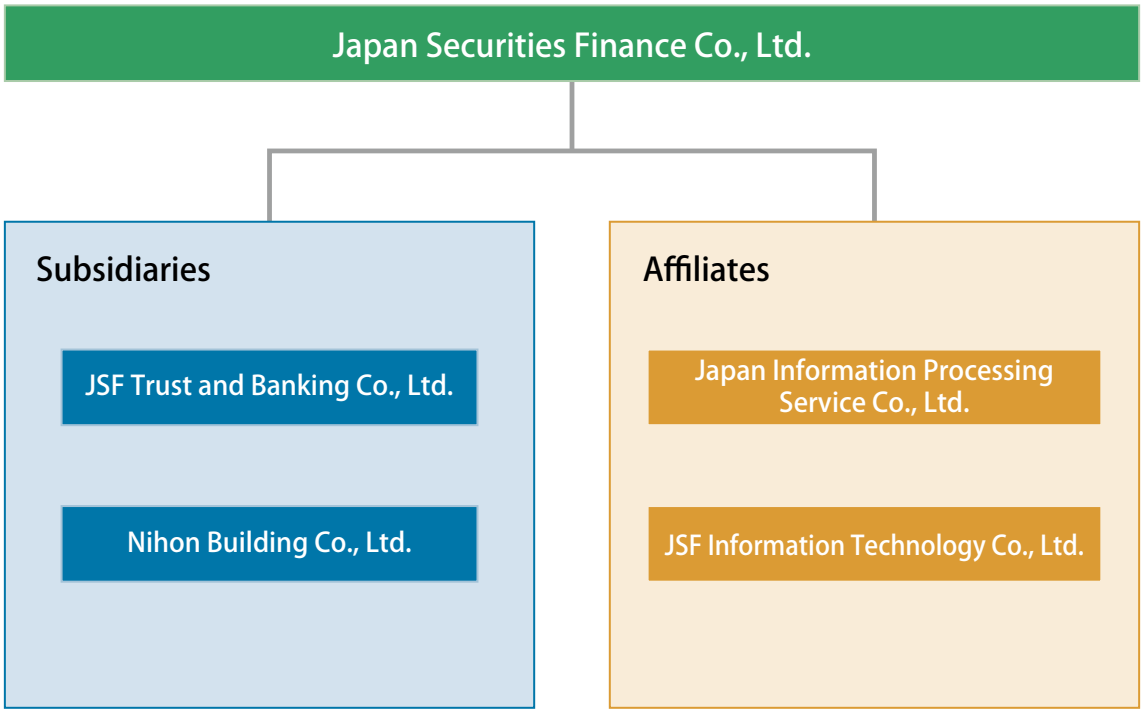


Name	Capital (millions of yen)	Ratio of shareholding	Business overview
Subsidiaries			
JSF Trust and Banking Co., Ltd.	14,000	100	Trust service, Banking services
Nihon Building Co., Ltd.	100	100	Real estate ownership and leasing Real estate trading and brokerage
Affiliates			
Japan Information Processing 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
262 (as of July 22, 2013)

Share Information

Shares outstanding
93,700,000 shares (as of March 31, 2013)
107,307,763 shares (as of July 22, 2013*)
* after the merger with OSF

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

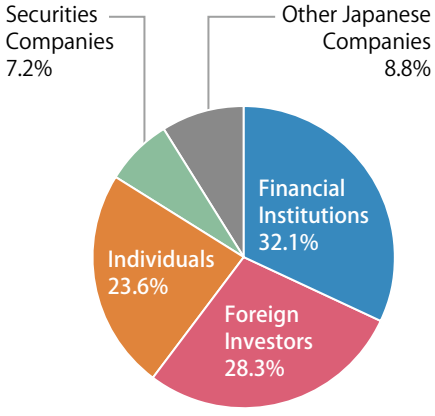
Number of shareholders
9,649

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)	9,277	9.90
Northern Trust Global Services Ltd. Re Norwegian Clients Account	5,703	6.08
Shihon-Shijo Shinko Foundation	4,531	4.83
Mizuho Corporate Bank, Ltd.	4,374	4.66
Northern Trust Co AVFC Re Northern Trust Guernsey Irish Clients	4,370	4.66
The Master Trust Bank of Japan, Ltd. (Trust account)	4,233	4.50
Japan Trustee Services Bank, Ltd. (Trust account 4)	2,886	3.08
State Street Bank and Trust Company	2,081	2.22
RBC ISB A/C Dub Non Resident/Domestic Rate	1,775	1.89
Japan Securities Agents, Ltd.	1,460	1.55

Composition of shareholders
(by number of shares)



Board of Directors, Corporate Auditors and Executive Officers (As of July 22, 2013)

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 **
	Hiroshi Koshida **
	(* 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
	Ichiro Kasahara
Executive Officer	Kenji Fukushima
	Kazuhiro Maeda
	Yasuhiro Hirama

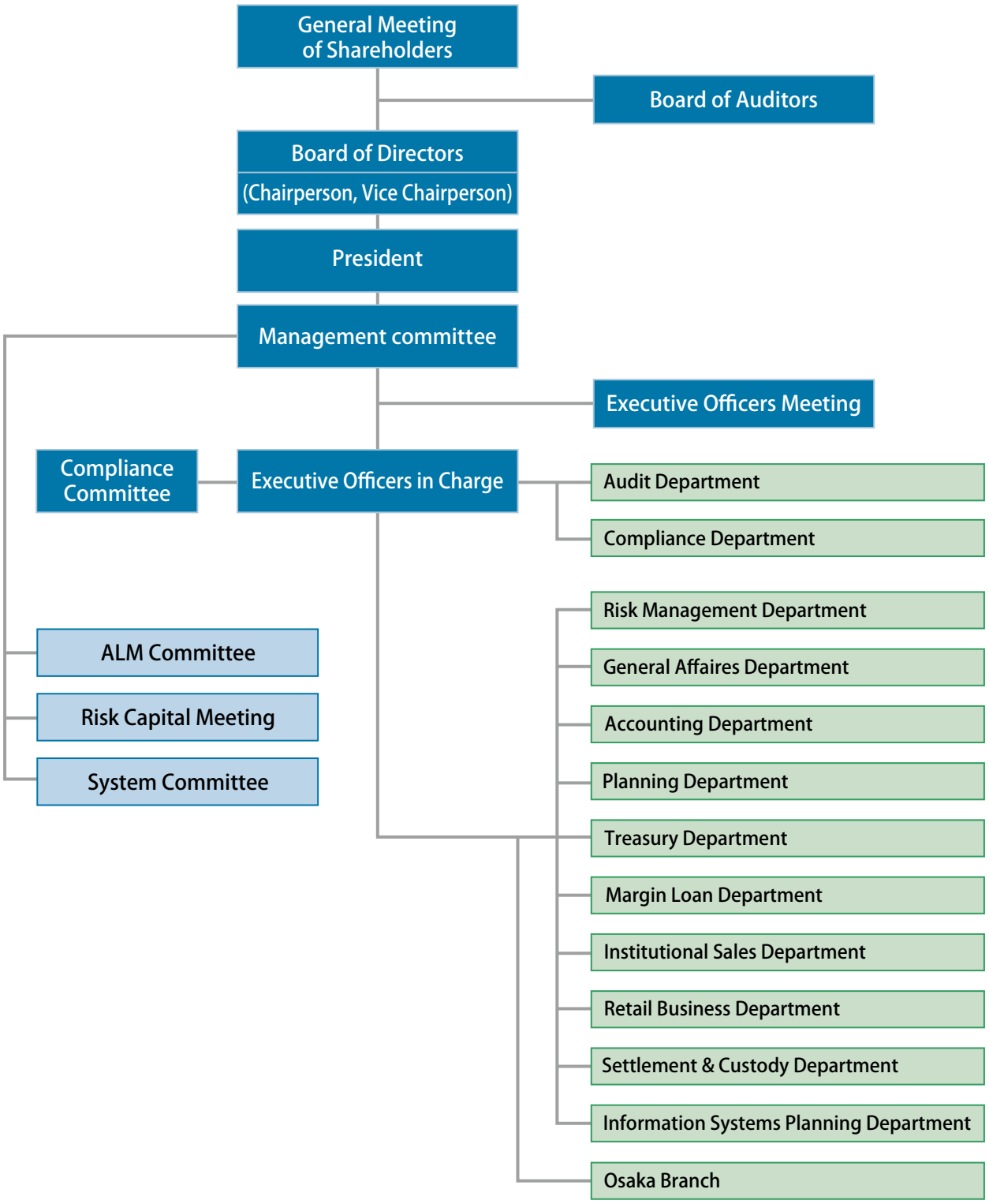
Corporate Auditors

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



JAPAN SECURITIES FINANCE CO., LTD.
1-2-10 Nihonbashi-Kayabacho, Chuo-ku, Tokyo, 103-0025