

JAPAN SECURITIES FINANCE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements

March 31, 2021

Consolidated Balance Sheet

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2021

Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2021	2020	2021
Current assets:			
Cash (notes 3 and 15)	¥ 1,421,557	¥ 1,299,936	\$ 12,840,367
Call loans	2,500	75,000	22,582
Short-term investments (notes 4 and 15)	42,967	68,292	388,104
Short-term loans receivable (note 15)	1,116,353	687,679	10,083,579
Receivables under resale agreements	3,001,857	2,747,397	27,114,597
Collateral money for securities borrowed	5,325,571	3,877,827	48,103,794
Other current assets (note 15)	255,388	259,806	2,306,818
Allowance for doubtful receivables	(693)	(663)	(6,260)
Total current assets	11,165,500	9,015,274	100,853,581
Property, plant and equipment:			
Buildings and structures	8,836	8,826	79,813
Tools, furniture and fixtures	1,499	1,490	13,540
Land (note 6)	3,265	3,265	29,491
Construction in progress	73	–	659
	13,673	13,581	123,503
Accumulated depreciation	(7,945)	(7,782)	(71,764)
Net property, plant and equipment	5,728	5,799	51,739
Intangible assets, net	1,750	2,407	15,807
Investments and other assets:			
Investments in securities (notes 4, 5 and 15)	935,345	790,182	8,448,604
Other investments and other assets	28,014	981	253,040
Allowance for doubtful receivables	(107)	(148)	(966)
Total investments and other assets	963,252	791,015	8,700,678
Total assets	¥ 12,136,230	¥ 9,814,495	\$ 109,621,805

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (note 2)
	2021	2020	2021
Current liabilities:			
Call money (notes 7 and 15)	¥ 1,706,600	¥ 1,176,796	\$ 15,415,048
Short-term borrowings and current installments of long-term borrowings (note 7)	137,594	101,473	1,242,833
Commercial paper (note 7)	613,000	366,000	5,536,989
Payables under repurchase agreements	4,191,809	3,923,415	37,862,966
Accrued income taxes (note 9)	991	663	8,951
Collateral money received for securities lent	4,028,703	3,104,029	36,389,694
Borrowed money from trust account	1,143,462	869,488	10,328,444
Other current liabilities	150,092	106,727	1,355,722
Total current liabilities	11,972,251	9,648,591	108,140,647
Non-current liabilities:			
Long-term borrowings (note 7)	3,000	3,000	27,098
Deferred tax liabilities (note 9)	8,499	5,464	76,768
Deferred tax liabilities for land revaluation (note 6)	74	74	668
Liability for retirement benefits (note 8)	355	1,625	3,207
Other non-current liabilities	16,884	29,054	152,506
Total non-current liabilities	28,812	39,217	260,247
Total liabilities	12,001,063	9,687,808	108,400,894
Stockholders' equity:			
Common stock (note 10):	10,000	10,000	90,326
Authorized 200,000,000 shares; issued 96,000,000 shares in 2021 and 100,000,000 shares in 2020			
Capital surplus (note 10)	8,879	11,326	80,201
Retained earnings (note 11)	113,133	111,193	1,021,886
Treasury stock, at cost; 4,252,111 shares in 2021 and 8,278,844 shares in 2020	(2,407)	(4,866)	(21,742)
Total stockholders' equity	129,605	127,653	1,170,671
Accumulated other comprehensive income (loss):			
Net unrealized gain on other securities (note 4)	22,432	20,278	202,620
Deferred loss on hedges (note 17)	(16,978)	(20,309)	(153,356)
Gain on revaluation of land (note 6)	168	168	1,518
Remeasurements of defined benefit plans (note 8)	(60)	(1,103)	(542)
Total accumulated other comprehensive income (loss)	5,562	(966)	50,240
Total net assets	135,167	126,687	1,220,911
Commitments and contingencies (note 18)			
Total liabilities and net assets	¥ 12,136,230	¥ 9,814,495	\$ 109,621,805

Consolidated Statement of Income

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2021

	Millions of yen		Thousands of U.S. dollars (note 2)
	2021	2020	2021
Operating revenues	¥ 30,925	¥ 29,102	\$ 279,333
Operating expenses	18,019	16,835	162,758
Operating profit	12,906	12,267	116,575
General and administrative expenses (note 12)	8,129	8,137	73,426
Operating income	4,777	4,130	43,149
Other income (deductions):			
Interest income	258	227	2,330
Dividend income	183	191	1,653
Interest expenses	(0)	(0)	(0)
Equity in earnings of affiliates	395	307	3,568
Gain on bad debt recovered	–	22	–
Gain (loss) on sale of investments in securities	44	(37)	397
Loss on money held in trust	(83)	–	(750)
Other, net	28	18	254
	825	728	7,452
Income before income taxes and non-controlling interests	5,602	4,858	50,601
Income taxes (note 9):			
Current	1,854	1,260	16,747
Deferred	(223)	42	(2,014)
	1,631	1,302	14,733
Net income	3,971	3,556	35,868
Net income attributable to non-controlling interests	–	–	–
Net income attributable to owners of parent	¥ 3,971	¥ 3,556	\$ 35,868

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, 2021

	Millions of yen		Thousands of U.S. dollars (note 2)
	2021	2020	2021
Net income	¥ 3,971	¥ 3,556	\$ 35,868
Other comprehensive income (losses) arising during the year (note 13):			
Net unrealized gain (loss) on other securities (note 4)	2,129	(8,880)	19,230
Deferred gain (loss) on hedges	3,330	(6,175)	30,079
Remeasurements of defined benefit plans (note 8)	1,001	(64)	9,042
Share of other comprehensive gain (loss) of affiliates accounted for by the equity method	68	(8)	614
Total other comprehensive income (loss) arising during the year	6,528	(15,127)	58,965
Comprehensive income	¥ 10,499	¥ (11,571)	\$ 94,833
Comprehensive income attributable to:			
Owners of the parent	¥ 10,499	¥ (11,571)	\$ 94,833
Non-controlling interests	–	–	–

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

For the year ended March 31, 2021

	Millions of yen										
	Stockholders' equity					Accumulated other comprehensive income (loss)					Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred loss on hedges	Gain on revaluation of land	Remeasurements of defined benefit plans	Total	
(note 10)	(note 10)	(note 11)			(note 4)	(note 17)	(note 6)	(note 8)			
Balance at March 31, 2019	¥ 10,000	11,326	109,688	(4,382)	126,632	29,171	(14,133)	168	(1,045)	14,161	140,793
Changes arising during year:											
Cash dividends			(2,051)		(2,051)						(2,051)
Net income attributable to owners of parent			3,556		3,556						3,556
Purchase of treasury stock				(507)	(507)						(507)
Disposition of treasury stock		(0)		23	23						23
Net changes other than stockholders' equity						(8,893)	(6,176)	–	(58)	(15,127)	(15,127)
Total changes during the year	–	(0)	1,505	(484)	1,021	(8,893)	(6,176)	–	(58)	(15,127)	(14,106)
Balance at March 31, 2020	10,000 ¥	11,326	111,193	(4,866)	127,653	20,278	(20,309)	168	(1,103)	(966)	126,687
Changes arising during year:											
Cash dividends			(2,031)		(2,031)						(2,031)
Net income attributable to owners of parent			3,971		3,971						3,972
Purchase of treasury stock				(0)	(0)						(0)
Disposition of treasury stock		(50)		62	12						12
Cancellation of treasury stock		(2,397)		2,397	–						–
Net changes other than stockholders' equity						2,154	3,331	–	1,043	6,528	6,528
Total changes during the year	–	(2,447)	1,940	2,459	1,952	2,154	3,331	–	1,043	6,528	8,480
Balance at March 31, 2021	¥ 10,000 ¥	8,879 ¥	113,133 ¥	(2,407) ¥	129,605 ¥	22,432 ¥	(16,978) ¥	168 ¥	(60) ¥	5,562 ¥	135,167 ¥

	Thousands of U.S. dollars										
	(note 2)										
	Stockholders' equity					Accumulated other comprehensive income (loss)					Total net assets
Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred loss on hedges	Gain on revaluation of land	Remeasurements of defined benefit plans	Total		
Balance at March 31, 2020	\$ 90,326	\$ 102,304	\$ 1,004,363	\$ (43,953)	\$ 1,153,040	\$ 183,164	\$ (183,444)	\$ 1,518	\$ (9,963)	\$ (8,725)	
Changes arising during year:											
Cash dividends			(18,345)		(18,345)						(18,345)
Net income attributable to owners of parent			35,868		35,868						35,868
Purchase of treasury stock				(0)	(0)						(0)
Disposition of treasury stock		(452)		560	108						108
Cancellation of treasury stock		(21,651)		21,651	–						–
Net changes other than stockholders' equity						19,456	30,088	–	9,421	58,965	58,965
Total changes during the year	–	(22,103)	17,523	22,211	17,631	19,456	30,088	–	9,421	58,965	76,596
Balance at March 31, 2021	\$ 90,326	\$ 80,201	\$ 1,021,886	\$ (21,742)	\$ 1,170,671	\$ 202,620	\$ (153,356)	\$ 1,518	\$ (542)	\$ 50,240	\$ 1,220,911

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, 2021

	Millions of yen		Thousands of U.S. dollars (note 2)
	2021	2020	2021
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 5,602	¥ 4,858	\$ 50,601
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	1,356	1,399	12,248
Loss on sale/disposal of property, plant and equipment	4	2	36
Gain relating to short-term investments and investments in securities	30	214	271
Allowance for doubtful receivables	(10)	(159)	(90)
Increase (decrease) in liabilities for retirement benefits	(1,270)	244	(11,471)
Interest and dividend income	(14,104)	(12,555)	(127,396)
Interest expenses	3,630	2,874	32,788
Equity in earnings of affiliates	(395)	(307)	(3,568)
Increase in short-term loans	(428,674)	(18,785)	(3,872,044)
Decrease in call loans	72,500	25,000	654,864
Increase in receivables under resale agreements	(254,460)	(2,200,854)	(2,298,437)
Increase in collateral money for securities borrowed	(1,447,745)	(1,740,237)	(13,076,913)
Increase in call money	529,804	160,336	4,785,512
Increase in short-term borrowings	37,121	83,926	335,299
Increase in commercial paper	247,000	152,000	2,231,054
Increase in payable under repurchase agreements	268,394	2,470,062	2,424,298
Increase in collateral money received for securities lent	924,674	1,540,599	8,352,218
Increase in collateral money received for loan transactions	38,908	3,762	351,441
Increase in borrowed money from trust account	273,974	126,159	2,474,698
Decrease in long-term borrowings	(1,000)	–	(9,033)
Purchase of short-term investments and investments in securities	(279,511)	(467,450)	(2,524,713)
Proceeds from sale/redemption of short-term investments and investments in securities	163,933	345,013	1,480,742
Other, net	16,963	(207,972)	153,217
Sub total	156,689	268,129	1,415,310
Interest and dividend received	14,323	11,847	129,374
Interest paid	(3,688)	(2,743)	(33,312)
Income taxes paid	(5,634)	(3,727)	(50,890)
Income taxes refunded	2,770	1,533	25,020
Net cash provided by operating activities	164,460	275,039	1,485,502
Cash flows from investing activities:			
Purchase of investments in securities	(707)	(8,863)	(6,386)
Proceeds from sale/redemption of investments in securities	3,552	4,329	32,084
Capital expenditures	(134)	(26)	(1,210)
Purchase of intangible assets	(460)	(235)	(4,155)
Other, net	(20)	1	(181)
Net cash used in investing activities	2,231	(4,794)	20,152
Cash flows from financing activities:			
Dividends paid to stockholders	(2,031)	(2,051)	(18,345)
Purchase of treasury stock	(1)	(507)	(9)
Other, net	0	0	0
Net cash used in financing activities	(2,032)	(2,558)	(18,354)
Net Increase in cash and cash equivalents	164,659	267,687	1,487,300
Cash and cash equivalents at beginning of year	1,252,885	985,198	11,316,819
Cash and cash equivalents at end of year (note 3)	¥ 1,417,544	¥ 1,252,885	\$ 12,804,119

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(1) Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

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

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

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

(b) Principles of Consolidation

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

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

Investments in affiliates are accounted for by the equity method.

The Accounting Standards for Consolidation require the control or influence concept for the consolidation scope of subsidiaries and affiliates. Under the control or influence concept, a company in which the parent company or its consolidated subsidiaries, directly or indirectly, are able to exercise control over operations is fully consolidated, and a company over which the parent company and/or its consolidated subsidiaries have the ability to exercise significant influence is accounted for by the equity method.

(c) Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Company considers all highly liquid investments with insignificant risk of changes in value which have maturities of generally three months or less when purchased to be cash equivalents.

(d) Short-term Investments and Investments in Securities

Under the Accounting Standards for Financial Instruments, securities are classified into four categories – “trading securities,” “held-to-maturity securities,” “investments in affiliates” and “other securities.” Securities classified as “trading securities” are stated at fair value and unrealized gains or losses are recorded in the consolidated statement of income. Securities classified as “held-to-maturity securities” are stated at amortized cost. Securities classified as “other securities” with fair value are stated at fair value and unrealized gains or losses, net of related taxes, are excluded from earnings and recorded in a separate component of net assets. Realized gains or losses on the other securities are determined by the moving average method. Securities classified as “other securities” for which fair value is not available are stated at the moving-average cost.

Resale/repurchase transactions originate in the Japanese financial markets, and involve the selling/purchasing of commercial paper, certificates of deposit, Japanese government bonds and various other debt securities to/from an institution wishing to make a short-term investment, with the Company agreeing to repurchase/resell them from/to the institution on a specified date at a specified price. Under the “Accounting Standards for Financial Instruments”, resale/repurchase transactions are accounted for as financing transactions. Resale/repurchase transactions are carried at their contractual amounts.

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(e) Property, Plant and Equipment

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

The estimated useful lives are as follows:

Buildings and structures	3–50 years
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(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 to 7 years). Intangible assets other than software are deferred and amortized by the straight-line method at rates based on the estimated useful lives of the respective assets.

(g) Allowance for Doubtful Receivables

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

(h) Retirement and Severance Benefits

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

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

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

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

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

(i) 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.

(j) Directors' Bonus

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

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(k) Provision for Share Remuneration Plan

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

(l) Accounting standards issued but not yet applied

1. Accounting Standard for Revenue Recognition etc.

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) co-developed a new comprehensive revenue recognition standard and published "Revenue from Contracts with Customers" in May 2014 (IFRS No. 15 in IASB, Topic 606 in FASB). Given that IFRS No. 15 will be applied from the fiscal year starting on or after January 1, 2018 and Topic 606 from the fiscal year starting after December 15, 2017, the Accounting Standards Board of Japan (ASBJ) has developed comprehensive accounting standards for revenue recognition and published them together with implementation guidance

The ASBJ basic policy in developing accounting standards for revenue recognition is thought to be setting accounting standards, with the incorporation of the basic principles of IFRS No. 15 as a starting point, from a standpoint of comparability between financial statements, which is one of the benefits of ensuring consistency with IFRS No. 15, and to be adding alternative accounting treatments without losing the comparability if there is an item that we should take into account in practices, etc. that have been conducted in Japan.

(2) Planned applicable date

The accounting standards are to be applied from the beginning of the year ending March 31, 2022.

(3) Impact of application on these accounting standards

The Company is currently evaluating the impact of application of these accounting standards to the consolidated financial statements.

2. Accounting Standard for Fair Value Measurement etc.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019)
- Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019)
- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, July 4, 2019)
- Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The International Accounting Standards Board (IASB) and US Financial Accounting Standards Board (FASB) each have established detailed guidance regarding fair value measurements that are nearly identical (IFRS No. 13 in IASB, Topic 820 in FASB). In order to improve the comparability mainly about guidance and disclosures for fair value of financial instruments with such international accounting standards, the Accounting Standards Board of Japan has published "Accounting Standard for Fair Value Measurement" etc.

The basic approach taken by the ASBJ in development of accounting standards for fair value measurement was to adopt generally all principles of IFRS No. 13, from a standpoint of comparability between financial statements of domestic and overseas companies. However, for any item that we should take into account in accounting practices, etc. that have been conducted in Japan, other accounting treatments without impairing comparability shall be determined.

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(2) Planned applicable date

The accounting standards are to be applied from the beginning of the year ending March 31, 2022.

(3) Impact of application on these accounting standards

The Company is currently evaluating the impact of application of these accounting standards to the consolidated financial statements.

(m) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used as of and for the year ended March 31, 2021.

(n) Accounting Estimates

The Company has applied "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the end of the fiscal year ended March 31, 2021 and disclosed significant accounting estimates for the consolidated financial statements.

However, in accordance with the transitional treatment set forth in the proviso to paragraph 11 of the accounting standard, the contents of the previous fiscal year are not disclosed in the note.

(Significant Accounting Estimates)

Recoverability of deferred tax assets

(1) Deferred tax assets and liabilities in the accompanying consolidated balance sheet as of March 31, 2021 are as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets	¥ 8,696	\$ 78,548
Deferred tax liabilities	17,195	155,316
Deferred tax liabilities (Net)	¥ 8,499	\$ 76,768

(2) Information on the nature of significant accounting estimates for identified items

Deferred tax assets before offsetting with deferred tax liabilities are estimated based on the timing and amount of reversal of future deductible temporary difference in future consolidated financial period. These estimates may be affected by changes in uncertain economic conditions in the future, and if the actual timing and amount of the reversal of temporary differences differ from the estimates, it may have a significant impact on the amount of deferred tax assets in the consolidated financial statements for the following fiscal year.

(2) Financial Statement Translation

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate as of March 31, 2021, which was ¥110.71 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.

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(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, 2021 and 2020 are as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
			2021
Cash	¥ 1,421,557	¥ 1,299,936	\$ 12,840,367
Time deposits with maturities of over three months	(10)	(43,048)	(90)
Certificate of deposits with maturities of over three months	(4,003)	(4,003)	(36,158)
Cash and cash equivalents	¥ 1,417,544	¥ 1,252,885	\$ 12,804,119

(4) Short-term Investments and Investments in Securities

No trading securities were held both as of March 31, 2021 and 2020.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2021 and 2020 are summarized as follows:

	Millions of yen				Fair value
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss		
<u>March 31, 2021</u>					
Government bond securities	¥ 1,512	¥ 195	¥ —	¥ 1,707	
	¥ 1,512	¥ 195	¥ —	¥ 1,707	
<u>March 31, 2020</u>					
Government bond securities	¥ 1,513	¥ 209	¥ —	¥ 1,722	
	¥ 1,513	¥ 209	¥ —	¥ 1,722	

	Thousands of U.S. dollars				Fair value
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss		
<u>March 31, 2021</u>					
Government bond securities	\$ 13,657	\$ 1,761	\$ —	\$ 15,418	
	\$ 13,657	\$ 1,761	\$ —	\$ 15,418	

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2021 and 2020 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<u>March 31, 2021</u>				
Equity securities	¥ 4,728	¥ 10,636	¥ (26)	¥ 15,338
Bond securities:				
Government bond securities	492,798	22,887	(5,294)	510,391
Corporate bond securities	355,826	87	(413)	355,500
Other	54,415	2,251	(659)	56,007
Other securities	13,967	3,563	(23)	17,507
	¥ 921,734	¥ 39,424	¥ (6,415)	¥ 954,743
<u>March 31, 2020</u>				
Equity securities	¥ 4,978	¥ 7,468	¥ (269)	¥ 12,177
Bond securities:				
Government bond securities	492,117	28,981	(2,269)	518,829
Corporate bond securities	254,185	7	(574)	253,618
Other	38,491	122	(2,058)	36,555
Other securities	15,621	692	(2,370)	13,943
	¥ 805,392	¥ 37,270	¥ (7,540)	¥ 835,122

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
<u>March 31, 2021</u>				
Equity securities	\$ 42,706	\$ 96,071	\$ (235)	\$ 138,542
Bond securities:				
Government bond securities	4,451,251	206,730	(47,819)	4,610,162
Corporate bond securities	3,214,037	785	(3,730)	3,211,092
Other	491,509	20,332	(5,952)	505,889
Other securities	126,158	32,184	(208)	158,134
	\$ 8,325,661	\$ 356,102	\$ (57,944)	\$ 8,623,819

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unlisted equity securities	¥ 1,716	¥ 2,038	\$ 15,500
Unlisted REITs	14,572	14,577	131,623
Investments in investment limited partnership	1,503	1,291	13,576

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Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

For the years ended March 31, 2021 and 2020, proceeds from sale of other securities, the gross realized gains and the gross realized losses are summarized as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Proceeds from sale of other securities	¥ 20,119	¥ 78,299	\$ 181,727
Gross realized gains	741	851	6,693
Gross realized losses	730	396	6,594

Financial assets received as collateral on which the Company has a right of disposal as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
The fair value of the securities received as collateral:			
Securities lent	¥ 186,427	¥ 119,168	\$ 1,683,922
Collateral provided	325,002	169,491	2,935,616
On hand	1,570,357	1,007,183	14,184,418
	¥ 2,081,786	¥ 1,295,842	\$ 18,803,956

Balance sheet amount of securities lent under loan for consumption agreement, etc. as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Short-term investments	¥ 6,049	¥ 44,081	\$ 54,638
Investments in securities	391,988	346,296	3,540,674

The fair value of the securities borrowed under loan for consumption agreement, etc. as of March 31, 2021 and 2020 was as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
The fair value of the securities borrowed:			
Securities loaned	¥ 7,765,317	¥ 6,614,961	\$ 70,141,062
Securities pledged as collateral	296,943	163,101	2,682,170
On hand	78,944	23,967	713,070
	¥ 8,141,204	¥ 6,802,029	\$ 73,536,302

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Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(5) Investments in Affiliates

The aggregate carrying amount of investments in affiliates as of March 31, 2021 and 2020 are ¥4,267 million (\$38,542 thousand) and ¥3,934 million, respectively.

(6) Land Revaluation

The Company revaluated its land at fair value, pursuant to the Enforcement Ordinance for the Law Concerning Land Revaluation and its amendments (the "Law"). According to the Law, net unrealized gain was reported in a separate component of net assets, net of related taxes, and the related taxes are reported in liabilities as deferred tax liabilities for land revaluation as of March 31, 2002.

(7) Debt

The composition of debt and the weighted average interest rate on debt as of March 31, 2021 and 2020 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
<u>March 31, 2021</u>			
Short-term borrowings	¥ 137,594	\$ 1,242,833	0.046%
Long-term borrowings	3,000	27,098	0.684
Call money	1,706,600	15,415,048	(0.040)
Commercial paper	613,000	5,536,989	0.004
	¥ 2,460,194	\$ 22,221,968	
<u>March 31, 2020</u>			
Short-term borrowings	¥ 100,473		0.471%
Long-term borrowings	4,000		0.535
Call money	1,176,796		(0.065)
Commercial paper	366,000		0.001
	¥ 1,647,269		

(8) Retirement and Severance Benefits

The Company has defined benefit retirement and pension plans, which consist of a defined benefit corporate retirement and pension plan and an unfunded retirement and severance plan that provide for lump-sum payment of benefits, and a defined contribution plan. The Company has established a retirement benefit trust to cover the defined benefit retirement and pension plans.

Consolidated subsidiaries' main retirement plans are unfunded retirement and severance plans that provide for lump-sum payment of benefits as defined benefit retirement and pension plans. The simplified method has been adopted for the calculation of liability for retirement benefits and retirement benefit expenses for the plans.

Defined benefit plans

Followings are the information for the Company's and the consolidated subsidiaries' defined benefit plans as of March 31, 2021 and 2020 and for the years then ended.

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Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

- (1) Reconciliation of changes in retirement benefit obligation (the following table excludes certain plans mentioned in (3))

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Retirement benefit obligation at beginning of year	¥ 9,471	¥ 9,689	\$ 85,548
Service cost	332	355	2,999
Interest cost	28	20	253
Actuarial gains and losses	6	(226)	54
Benefits paid	(415)	(367)	(3,749)
Retirement benefit obligation at end of year	¥ 9,422	¥ 9,471	\$ 85,105

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

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Plan assets at beginning of year	¥ 8,210	¥ 8,658	\$ 74,158
Expected return on plan assets	164	173	1,481
Actuarial gains and losses	1,210	(542)	10,929
Employer contributions	184	186	1,662
Benefits paid	(285)	(265)	(2,574)
Plan assets at end of year	¥ 9,483	¥ 8,210	\$ 85,656

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

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Liability for retirement benefits at beginning of year	¥ 179	¥ 161	\$ 1,617
Retirement benefit expenses	19	18	172
Benefits paid	(13)	-	(118)
Contributions	(0)	(0)	(0)
Liability for retirement benefits at end of year	¥ 185	¥ 179	\$ 1,671

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Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

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

	Millions of yen		Thousands of U.S. dollars	
	2021	2020	2021	
Funded retirement benefit obligation	¥ 9,422	¥ 9,471	\$ 85,105	
Plan assets	(9,483)	(8,210)	(85,656)	
	(61)	1,261	(551)	
Unfunded retirement benefit obligation	185	179	1,671	
Net liability for retirement benefit recognized in consolidated balance sheet	¥ 124	¥ 1,440	\$ 1,120	
Liability for retirement benefit	¥ 124	¥ 1,440	\$ 1,120	
Net liability for retirement benefit recognized in consolidated balance sheet	¥ 124	¥ 1,440	\$ 1,120	

(5) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars	
	2021	2020	2021	
Service cost	¥ 332	¥ 355	\$ 2,998	
Interest cost	28	20	253	
Expected return on plan assets	(164)	(173)	(1,481)	
Amortization of actuarial gains or losses	201	182	1,816	
Retirement benefit expenses calculated by the simplified method	19	18	172	
Retirement benefit expenses	¥ 416	¥ 402	\$ 3,758	

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

	Millions of yen		Thousands of U.S. dollars	
	2021	2020	2021	
Actuarial gains or losses	¥ 1,405	¥ (134)	\$ 12,691	
Total	¥ 1,405	¥ (134)	\$ 12,691	

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

	Millions of yen		Thousands of U.S. dollars	
	2021	2020	2021	
Unamortized actuarial gains or losses	¥ 12	¥ 1,417	\$ 108	
Total	¥ 12	¥ 1,417	\$ 108	

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Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(8) Plan assets

(a) Percentage by major category of plan assets

	2021	2020
Debt securities	40.3%	24.9%
Equity securities	33.1	29.7
General account	9.8	11.4
Other	16.8	34.0
Total	100.0%	100.0%

Plan assets as of March 31, 2021 and 2020 include the retirement benefit trust contributed for the years ended March 31, 2021 and 2020 which are 9.6% and 10.2% of total plan assets, respectively.

(b) Determination procedure of long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Company considers the current and projected asset allocation, as well as current and future long-term rate of returns for various categories of the plan assets.

(9) Basis for calculation of actuarial assumptions

The assumptions used in accounting for the above plans as of March 31, 2021 and 2020 are as follows:

	2021	2020
(a) Discount rate	0.3%	0.3%
(b) Long-term expected rate of return	2.0%	2.0%
(c) Expected salary increase rate	5.2%	5.2%

Defined contribution plans

For the years ended March 31, 2021 and 2020, the amount to be paid by the Company and its consolidated subsidiaries to the defined contribution plans was ¥36 million (\$325 thousand) and ¥36 million, respectively.

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(9) Income Taxes

The Company and its consolidated subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 30.6% both in 2021 and 2020.

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and non-controlling interests for the years ended March 31, 2020 is as follows:

	2020
Statutory tax rate	30.6%
Equity in gains of affiliates	(1.9)
Expenses not deductible for tax purposes	1.1
Valuation allowance	(2.7)
Income not credited for tax purposes	(2.5)
Other	2.2
Effective tax rate	26.8%

The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2021 is not subject to disclosure because the difference between the rates does not exceed 5% of the statutory tax rate.

Significant components of deferred tax assets and liabilities as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Accrued business tax	¥ 111	¥ 89	\$ 1,003
Accrued bonuses	142	152	1,283
Liability for retirement benefits (employees)	852	1,211	7,696
Allowance for doubtful receivables	37	76	334
Tax loss carryforward	—	2	—
Deferred losses on hedges	10,323	10,415	93,244
Net unrealized loss on other securities	1,668	2,027	15,066
Other	305	265	2,755
	13,438	14,237	121,381
Valuation allowance	(4,742)	(4,430)	(42,833)
	8,696	9,807	78,548
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(155)	(155)	(1,400)
Net unrealized gain on other securities	(11,668)	(11,139)	(105,392)
Gain on transfer of investment in an affiliate	—	(166)	—
Gain on evaluation of acquired assets by merger	(537)	(580)	(4,851)
Deferred loss on hedges	(4,751)	(3,172)	(42,914)
Other	(84)	(59)	(759)
	(17,195)	(15,271)	(155,316)
Net deferred tax liabilities	¥ (8,499)	¥ (5,464)	\$ (76,768)

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Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

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(10) Common Stock

Under the Companies Act, the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital, which is included in capital surplus.

(11) Retained Earnings and Dividends

The Companies Act provides that an amount equal to 10% of distributions from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Companies Act also provides that capital surplus and legal reserve are available for appropriations by the resolution of the stockholders. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheet.

Cash dividends charged to retained earnings for the years ended March 31, 2021 and 2020 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, 2020

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

(a) Total dividends	¥1,027 million
(b) Cash dividends per common share	¥11
(c) Record date	March 31, 2019
(d) Effective date	June 26, 2019

The following was approved by the Board of Directors held on November 11, 2019.

(a) Total dividends	¥1,024 million
(b) Cash dividends per common share	¥11
(c) Record date	September 30, 2019
(d) Effective date	December 6, 2019

(b) Dividends paid during the year ended March 31, 2021

The following was approved by the Board of Directors held on May 18, 2020.

(a) Total dividends	¥1,016 million (\$9,177 thousand)
(b) Cash dividends per common share	¥11 (\$0.10)
(c) Record date	March 31, 2020
(d) Effective date	June 2, 2020

The following was approved by the Board of Directors held on November 11, 2020.

(a) Total dividends	¥1,016 million (\$9,177 thousand)
(b) Cash dividends per common share	¥11 (\$0.10)
(c) Record date	September 30, 2020
(d) Effective date	December 4, 2020

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- (c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2021

The following was approved by the Board of Directors held on May 17, 2021.

(a) Total dividends	¥1,393 million (\$12,582 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥15 (\$0.14)
(d) Record date	March 31, 2021
(e) Effective date	June 3, 2021

(12) General and Administrative Expenses

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Salaries	¥ 2,924	¥ 2,945	\$ 26,411
Retirement benefit expenses	452	438	4,083
Depreciation	1,356	1,399	12,248

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(13) Other Comprehensive Income (Loss)

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Net unrealized gain (loss) on other securities:			
Arising during the year	¥ 2,825	¥ (11,749)	\$ 25,517
Reclassification adjustment	32	(491)	289
Before tax amount	2,857	(12,240)	25,806
Tax benefit (expense)	(728)	3,360	(6,576)
Net-of-tax amount	2,129	(8,880)	19,230
Deferred gain (loss) on hedges:			
Arising during the year	5,462	(8,030)	49,336
Reclassification adjustment	(7)	632	(63)
Before tax amount	5,455	(7,398)	49,273
Tax benefit (expense)	(2,125)	1,223	(19,194)
Net-of-tax amount	3,330	(6,175)	30,079
Remeasurements of defined benefit plans:			
Arising during the year	1,204	(316)	10,875
Reclassification adjustment	201	182	1,816
Before tax amount	1,405	(134)	12,691
Tax benefit (expense)	(404)	70	(3,649)
Net-of-tax amount	1,001	(64)	9,042
Share of other comprehensive income (loss) of affiliates accounted for by equity method:			
Arising during the year	55	(28)	497
Reclassification adjustment	13	20	117
	68	(8)	614
Total other comprehensive income (loss)	¥ 6,528	¥ (15,127)	\$ 58,965

Notes to Consolidated Financial Statements

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(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, 2021 and 2020 are as follows:

	Yen		U.S. dollars	
	2021	2020	2021	
Basic net income per share	¥ 43.28	¥ 38.47	\$	0.39

	Millions of yen		Thousands of U.S. dollars	
	2021	2020	2021	
Net income attributable to owners of parent	¥ 3,971	¥ 3,556	\$	35,868
Net income not applicable to common stockholders	—	—		—
Net income attributable to owners of parent applicable to common stockholders	¥ 3,971	¥ 3,556	\$	35,868

	Number of shares (Thousands)	
	2021	2020
Weighted average number of shares outstanding on which basic net income per share is calculated	91,744	92,429

The Company's own stocks which are held by the trust are included in the treasury stocks which are excluded from the calculation of weighted average number of shares outstanding on which basic net income per share is calculated.

(b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations as of March 31, 2021 and 2020 are as follows:

	Yen		U.S. dollars	
	2021	2020	2021	
Net assets per share	¥ 1,473.24	¥ 1,381.22	\$	13.31

	Millions of yen		Thousands of U.S. dollars	
	2021	2020	2021	
Total net assets	¥ 135,167	¥ 126,687	\$	1,220,911
Amount deducted from total net assets	—	—		—
Net assets applicable to common stockholders	¥ 135,167	¥ 126,687	\$	1,220,911

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	Number of shares (Thousands)	
	2021	2020
Number of shares outstanding at end of year on which net assets per share is calculated	91,747	91,721

The Company's own stocks which are held by the trust (BBT) are included in the treasury stocks which are excluded from the calculation of number of shares outstanding at end of year on which net assets per share is calculated.

(15) Pledged Assets

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Short-term investments	¥ 32,918	¥ 21,011	\$ 297,335
Short-term loans receivable	723,947	440,811	6,539,129
Investments in securities	404,633	322,233	3,654,891

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Call money	¥ 127,000	¥ 67,000	\$ 1,147,141
Short-term borrowings	40,500	—	365,821

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
	2021	2020	2021
Cash	¥ 25	¥ 25	\$ 226
Other current assets	222,265	188,311	2,007,633
Investments in securities	5,864	—	52,967

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(16) Financial Instruments

Conditions of Financial instruments

(1) Management policy

The Company and a consolidated subsidiary, JSF Trust and Banking Co., Ltd. (“JSFTB”) mainly deal in financial instruments. The Company is engaged in providing loan services, mainly loans for margin transactions. The loans for margin transaction are loan services which are money lending or stock loan for settlement of standardized margin transactions. The transaction is strongly effected by security market condition, therefore, the Company raises money flexibly from short-term finance market, primarily from call market. The Company owns securities such as Japanese Government Bonds to manage the funds efficiently.

A consolidated subsidiary, JSFTB is engaged in providing credit services such as loans as banking business and finance and securities activities. JSFTB invests in highly liquid and safe-and-secure securities such as government bonds, local government bonds, public corporation bonds and government-backed bonds as securities investment activities and usually raises money through a trust account.

(2) Financial instruments and risks

Main financial instrument that the Company holds are trade loans receivable, collateral money for securities borrowed, short-term investments and investments in securities such as government bonds and equity securities. Collateral money for securities borrowed is the collateral for cash-secured bond lending transaction, cash-secured stock lending transaction and securities borrowed of loan on margin transactions.

Main financial instrument that JSFTB holds are loans to government, other credit granting and securities such as government bonds, local government bonds, public corporation bonds and government-backed bonds. Trade loans receivable held by the Company and JSFTB are exposed to credit risks that caused from counterparties’ default of contract. Securities are exposed to market risks. Regarding raising money such as call money and short-term borrowings of the Company and JSFTB, the liabilities are exposed to liquidity risks that caused from turmoil in the financial markets or a credit rating down.

The Company has entered into forward exchange contract for hedging currency exchange risk of bonds denominated in foreign currency and interest rate swaps for hedging interest rate risk of fixed-rate bonds. Hedge accounting is applied to the derivatives and the Company regularly monitors the hedge effectiveness whether the relationship between hedging derivatives and hedged assets are appropriate and the currency exchange risk and the interest rate risk of hedged items are offset by hedging derivatives.

JSFTB has entered into interest rate swaps for hedging fixed-rate loans, bonds and borrowings as a part of interest risk control (ALM). Hedge accounting is applied to the derivatives held for ALM purpose, and the Company regularly monitors the hedge effectiveness whether the relationship between hedging derivatives and hedged assets or liabilities are appropriate.

(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

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by business operation departments are assessed by themselves strictly. The Company receives collateral securities for each loan and revalues 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: 1 year). Market risk amount (possible losses) of the Company is ¥7,109 million (\$64,213 thousand) as of March 31, 2021.

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 ¥6,784 million (\$61,277 thousand) as of March 31, 2021.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments which quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used.

Fair value of financial instruments

The carrying value on the consolidated balance sheet, fair value, and differences as of March 31, 2021 and 2020 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")

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	Millions of yen					
	2021			2020		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 1,421,557	¥ 1,421,557	¥ —	¥ 1,299,936	¥ 1,299,936	¥ —
(2) Call loan *1	2,497	2,497	—	74,906	74,906	—
(3) Trade loans receivable	1,116,353			687,679		
Allowance for doubtful receivables *1	(93)			(136)		
	1,116,260	1,116,267	7	687,543	687,553	10
(4) Receivables under resale agreements *1	3,001,773	3,001,773	—	2,747,329	2,747,329	—
(5) Collateral money for securities borrowed *1	5,325,071	5,325,071	—	3,877,538	3,877,538	—
(6) Short-term investments and investments in securities						
Held-to-maturity securities	1,512	1,707	195	1,513	1,722	209
Other securities	954,742	954,742	—	835,122	835,122	—
Total	¥ 11,823,412	¥ 11,823,614	¥ 202	¥ 9,523,887	¥ 9,524,106	¥ 219
Liabilities:						
(1) Call money	¥ 1,706,600	¥ 1,706,600	¥ —	¥ 1,176,796	¥ 1,176,796	¥ —
(2) Short-term borrowings	137,594	137,594	—	100,473	100,473	—
(3) Commercial paper	613,000	613,000	—	366,000	366,000	—
(4) Payables under repurchase agreements	4,191,809	4,191,809	—	3,923,415	3,923,415	—
(5) Collateral money received for securities lent	4,028,703	4,028,703	—	3,104,029	3,104,029	—
(6) Long-term borrowings *2	3,000	3,000	—	4,000	4,000	—
Total	¥ 10,680,706	¥ 10,680,706	¥ —	¥ 8,674,713	¥ 8,674,713	¥ —
Derivative transactions *3	¥ (11,026)	¥ (11,026)	¥ —	¥ (27,613)	¥ (27,613)	¥ —

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2021

	Thousands of U.S. dollars		
	2021		
	Carrying value	Fair value	Differences
Assets:			
(1) Cash	\$ 12,840,367	\$ 12,840,367	\$ —
(2) Call loan *1	22,554	22,554	—
(3) Trade loans receivable	10,083,579		
Allowance for doubtful receivables *1	(840)		
	10,082,739	10,082,802	63
(4) Receivables under resale agreements *1	27,113,838	27,113,838	—
(5) Collateral money for securities borrowed *1	48,099,277	48,099,277	—
(6) Short-term investments and investments in securities			
Held-to-maturity securities	13,657	15,418	1,761
Other securities	8,623,810	8,623,810	—
Total	\$ 106,796,242	\$ 106,798,066	\$ 1,824
Liabilities:			
(1) Call money	\$ 15,415,048	\$ 15,415,048	\$ —
(2) Short-term borrowings	1,242,833	1,242,833	—
(3) Commercial paper	5,536,989	5,536,989	—
(4) Payables under repurchase agreements	37,862,966	37,862,966	—
(5) Collateral money received for securities lent	36,389,694	36,389,694	—
(6) Long-term borrowings *2	27,098	27,098	—
Total	\$ 96,474,628	\$ 96,474,628	\$ —
Derivative transactions *3	\$ (99,594)	\$ (99,594)	\$ —

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

*2 Long-term borrowings include current installment of long-term borrowings.

*3 Derivative receivables and payables are on net basis. Items that are net payables are shown in parenthesis.

<1> Fair value measurement of financial instruments

Assets:

(1) Cash and (2) Call loan

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

(3) Trade loans receivable

The fair value of trade loans receivable with variable interest rate approximates carrying amount because the fair value is reflected a fluctuation of interest market in a short period and unless credit status of the borrower does not change so much from when the Company lent. The fair value of long-term trade loans receivable with fixed interest rate is calculated by discounting the total amount of principal and interest divided by a certain period of time by the interest rate assumed to be applied to similar transactions at the

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

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end of the fiscal year. The fair value of short-term trade loans receivable with fixed interest rate approximates carrying amount because the fair value is reflected a fluctuation of interest market in a short period. Allowance for doubtful receivables are estimated based on collectable amounts by collaterals and guarantee and thus the fair value approximates the carrying amount minus allowance for doubtful receivables amounts.

(4) Receivables under resale agreements and (5) Collateral money for securities borrowed

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

(6) Short-term investments and investments in securities

The fair value of equity securities are calculated by quoted market price and bond securities are calculated by quoted market price or quotes from information vendors.

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

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

Liabilities:

(1) Call money, (2) Short-term borrowings, (3) Commercial paper, (4) Payables under repurchase agreements and (5) Collateral money received for securities lent

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

(6) Long-term borrowings

The fair value of long-term borrowings with variable interest rate approximates carrying amount because the fair value is reflected a fluctuation of interest market in a short period and credit status of the Company does not change very much from when the Company borrowed.

Derivatives:

Please see note “(17) Derivative Financial Instruments.”

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

	Millions of yen		Thousands of
	2021	2020	U.S. dollars
Unlisted equity securities			2021
Other securities	¥ 1,716	¥ 2,038	\$ 15,500
Investments in affiliates	4,267	3,934	38,542
Unlisted REITs	14,572	14,577	131,623
Investments in investment limited partnership	1,503	1,291	13,576

Above securities have no market value and the fair value is extremely difficult to measure, therefore are not included in “Assets: (6) Short-term investments and investments in securities.”

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

<3> Projected future redemption of monetary claim and securities with maturities as of March 31, 2021

	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	¥ 1,421,557	¥ —	¥ —	¥ —
(2) Call loan	2,500	—	—	—
(3) Trade loans receivable	1,075,367	40,388	598	—
(4) Receivables under resale agreements	3,001,857	—	—	—
(5) Collateral money for securities borrowed	5,305,571	20,000	—	—
(6) Short-term investments and investments in securities				
Held-to-maturity securities (Government bonds)	—	—	—	1,500
Other securities with maturities				
Bond securities				
Government bonds	6,000	64,367	48,800	368,000
Corporate bonds	36,909	259,949	56,533	—
Other	—	25,469	23,601	4,439
Total	¥ 10,849,761	¥ 410,173	¥ 129,532	¥ 373,939

	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	\$ 12,840,367	\$ —	\$ —	\$ —
(2) Call loan	22,582	—	—	—
(3) Trade loans receivable	9,713,369	364,809	5,401	—
(4) Receivables under resale agreements	27,114,597	—	—	—
(5) Collateral money for securities borrowed	47,923,142	180,652	—	—
(6) Short-term investments and investments in securities				
Held-to-maturity securities (Government bonds)	—	—	—	13,549
Other securities with maturities				
Bond securities				
Government bonds	54,196	581,402	440,791	3,324,000
Corporate bonds	333,385	2,348,017	510,640	—
Other	—	230,051	213,179	40,096
Total	\$ 98,001,638	\$ 3,704,931	\$ 1,170,011	\$ 3,377,645

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

<4> The annual maturities of the long-term borrowings, lease liabilities and other interest bearing liabilities as of March 31, 2021

	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	¥ 1,706,600	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	137,594	—	—	—	—	—
Commercial paper	613,000	—	—	—	—	—
Payables under repurchase agreements	4,191,809	—	—	—	—	—
Collateral money received for securities lent	4,028,703	—	—	—	—	—
Long-term borrowings	—	—	—	—	—	3,000
Total	¥ 10,677,706	¥ —	¥ —	¥ —	¥ —	¥ 3,000

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Call money	\$ 15,415,048	\$ —	\$ —	\$ —	\$ —	\$ —
Short-term borrowings	1,242,833	—	—	—	—	—
Commercial paper	5,536,989	—	—	—	—	—
Payables under repurchase agreements	37,862,966	—	—	—	—	—
Collateral money received for securities lent	36,389,694	—	—	—	—	—
Long-term borrowings	—	—	—	—	—	27,098
Total	\$ 96,447,530	\$ —	\$ —	\$ —	\$ —	\$ 27,098

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(17) Derivative Financial Instruments

- Derivative transactions to which hedge accounting are not applied as of March 31, 2021 and 2020 are summarized as follows:

Exchange rate derivatives

		Millions of yen						
		2021			2020			
	Nature of transaction	Contract or notional amounts	Fair value	Gains or losses on valuation	Contract or notional amounts	Fair value	Gains or losses on valuation	
Off-market transaction	Forward exchange contract:							
	Sell:							
	U.S. dollars	¥ 526	¥ (13)	¥ (13)	¥ 22,021	¥ (47)	¥ (47)	
	Euro	6	(0)	(0)	190	(0)	(0)	
	Australian dollars	53	(1)	(1)	-	-	-	
	Buy:							
	U.S. dollars	10,922	161	161	10,747	74	74	

		Thousands of U.S. dollars		
		2021		
	Nature of transaction	Contract or notional amounts	Fair value	Gains or losses on valuation
Off-market transaction	Forward exchange contract:			
	Sell:			
	U.S. dollars	\$ 4,751	\$ (117)	\$ (117)
	Euro	54	(0)	(0)
	Australian dollars	479	(9)	(9)
	Buy:			
	U.S. dollars	98,654	1,454	1,454

The fair value is estimated based on quotes from counterparties.

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

2. Derivative transactions to which hedge accounting are applied as of March 31, 2021 and 2020 are summarized as follows:

(a) Exchange rate derivatives

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen			
			2021		2020	
			Contract or notional amounts	Fair value	Contract or notional amounts	Fair value
*1	Forward exchange contract: Sell: U.S. dollars	Investments in securities	¥ 2,111	¥ (100)	—	—

Hedge accounting method	Nature of transaction	Hedged items	Thousands of U.S. dollars	
			Contract or notional amounts	Fair value
2021				
*1	Forward exchange contract: Sell: U.S. dollars	Investments in securities	¥ 19,068	¥ (903)

*1 Deferred hedge accounting is applied.

The fair value is estimated based on quotes from counterparties.

(b) Interest rate derivatives

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen			
			2021		2020	
			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	¥ 720,863	¥ (10,560)	¥ 627,178	(24,836)
*2	Interest rate swaps: Variable rate received for fixed rate	Trade loans	563,060	*3	17,508	*3
	Variable rate paid for fixed rate	Long-term borrowings	3,000	*3	3,000	*3

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

Hedge accounting method	Nature of transaction	Hedged items	Thousands of U.S. dollars	
			Contract or notional amounts	Fair value
			2021	
*1	Interest rate swaps: Variable rate received for fixed rate	Investments in securities	\$ 6,511,273	\$ (95,384)
*2	Interest rate swaps: Variable rate received for fixed rate	Trade loans	5,085,900	*3
	Variable rate paid for fixed rate	Long-term borrowings	27,098	*3

*1 Deferred hedge accounting is applied.

*2 The difference in amounts to be paid or received on interest rate swaps is recognized over the life of the agreements as an adjustment to interest expense.

*3 For the assets and liabilities for which interest rate swap contracts are used to hedge the interest rate fluctuations, fair value of derivative financial instrument is included in fair value of the respective assets and liabilities as hedged items.

The fair value is estimated based on quotes from counterparties or calculated by using discounted present value.

(c) Bond derivatives

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen			
			2021		2020	
			Contract or notional amounts	Fair value	Contract or notional amounts	Fair value
*1	Bond futures: Sell	Investments in securities	¥ —	¥ —	¥ 3,477	¥ (27)

*1 Deferred hedge accounting is applied.

The fair value is calculated by quoted market price.

(d) Stock derivatives

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen			
			2021		2020	
			Contract or notional amounts	Fair value	Contract or notional amounts	Fair value
*1	Stock index futures: Sell	Investments in securities	¥ 15,187	¥ (514)	¥ 18,629	¥ (2,778)

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

			Thousands of U.S. dollars	
			2021	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Stock index futures: Sell	Investments in securities	\$ 137,178	\$ (4,643)

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

(18) Commitments and Contingencies

As of March 31, 2021 and 2020, undrawn amount of general loan for securities companies and customers, overdraft loan and loan commitment line are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total credit line	¥ 849,058	¥ 822,108	\$ 7,669,208
Drawn amount	40,890	33,610	369,343
Undrawn amount	¥ 808,168	¥ 788,498	\$ 7,299,865

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

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

(19) Segment Information

The reported segments of the Company are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results.

“Securities finance business” conducted by the Company, “Trust banking business” conducted by JSF Trust and Banking Co., Ltd. and “Real estate leasing business” conducted by Nihon Building Co., Ltd. are the Company’s reported segments. JSF Trust and Banking Co., Ltd. and Nihon Building Co., Ltd. are consolidated subsidiaries of the Company.

“Securities finance business” is engaged in providing loan services, which are loans for margin transaction, bond financing and general loans, bond lending and stock lending. “Trust banking business” is engaged in providing trust services such as securities trust and banking services such as deposit or loan. “Real estate leasing business” is mainly engaged in providing services for leasing and managing real estate owned by JSF Group.

Segment revenues, income, assets, liabilities and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements. Segment income is calculated based on “Keijo-soneki.” Under accounting principles generally accepted in Japan, an ordinary income or loss, “Keijo-soneki” should be disclosed in the income statement. The ordinary income or loss is an income or loss figure with certain adjustments, which are categorized as extraordinary items in accordance with accounting principles generally accepted in Japan, made to income or loss before income taxes and non-controlling interests. Therefore, ordinary income or loss is operating income or loss plus non-operating income from interest and dividend income and other items less non-operating expenses, such as interest expenses. Intersegment revenue and transfer are based on arms-length transactions.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2021 and 2020 was summarized as follows:

	Millions of yen						
	2021						
	Securities finance		Trust banking		Real estate leasing		Total
Revenues:							
Revenues to third parties	¥	27,535	¥	2,482	¥	908	¥ 30,925
Intersegment revenues and transfers		16		144		387	547
Total	¥	27,551	¥	2,626	¥	1,295	¥ 31,472
Segment income	¥	4,484	¥	1,255	¥	716	¥ 6,455
Segment assets	¥	10,711,092	¥	1,517,947	¥	10,084	¥ 12,239,123
Others:							
Depreciation and amortization	¥	1,197	¥	58	¥	101	¥ 1,356
Interest income		258		—		15	273
Income taxes		974		398		259	1,631

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

	Thousands of U.S. dollars							
	2021							
		Securities finance	Trust banking	Real estate leasing	Total			
Revenues:								
Revenues to third parties	\$	248,713	\$	22,418	\$	8,202	\$	279,333
Intersegment revenues and transfers		145		1,301		3,495		4,941
Total	\$	248,858	\$	23,719	\$	11,697	\$	284,274
Segment income	\$	40,502	\$	11,336	\$	6,467	\$	58,305
Segment assets	\$	96,749,092	\$	13,711,020	\$	91,085	\$	110,551,197
Others:								
Depreciation and amortization	\$	10,812	\$	524	\$	912	\$	12,248
Interest income		2,331		—		135		2,466
Income taxes		8,798		3,595		2,339		14,732

	Millions of yen							
	2020							
		Securities finance	Trust banking	Real estate leasing	Total			
Revenues:								
Revenues to third parties	¥	25,370	¥	2,833	¥	899	¥	29,102
Intersegment revenues and transfers		14		113		384		511
Total	¥	25,384	¥	2,946	¥	1,283	¥	29,613
Segment income	¥	3,433	¥	621	¥	728	¥	4,782
Segment assets	¥	8,836,290	¥	1,065,020	¥	10,327	¥	9,911,637
Others:								
Depreciation and amortization	¥	1,203	¥	87	¥	109	¥	1,399
Interest income		227		—		15		242
Income taxes		943		124		233		1,300

Reconciliation between total segment revenues in the table above and revenues in the accompanying consolidated statement of income for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen			Thousands of U.S. dollars		
	2021			2021		
	2021	2020				
Total segment revenues	¥	31,472	¥	29,613	\$	284,274
Intersegment revenues		(547)		(511)		(4,941)
Revenues in the accompanying consolidated statement of income	¥	30,925	¥	29,102	\$	279,333

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

Reconciliation between total segment income in the table above and ordinary income for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total segment income	¥ 6,455	¥ 4,782	\$ 58,305
Intersegment income	(1,291)	(194)	(11,661)
Equity in earnings of affiliates	394	306	3,559
Ordinary income	¥ 5,558	¥ 4,894	\$ 50,203

Reconciliation between total segment assets in the table above and assets in the consolidated accompanying balance sheet as of March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total segment assets	¥ 12,239,123	¥ 9,911,637	\$ 110,551,197
Intersegment accounts	(80,548)	(74,344)	(727,558)
Intersegment investments	(26,269)	(26,269)	(237,278)
Other	3,924	3,471	35,444
Assets in the accompanying consolidated balance sheet	¥ 12,136,230	¥ 9,814,495	\$ 109,621,805

Reconciliation between others in the table above and amounts in the consolidated financial statements as of and for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Amounts in the consolidated financial statements
	Segment total	Adjustments	
<u>March 31, 2021</u>			
Depreciation and amortization	¥ 1,356	¥ 0	¥ 1,356
Interest income	273	(15)	258
Income taxes	1,631	0	1,631
<u>March 31, 2020</u>			
Depreciation and amortization	¥ 1,399	¥ 0	¥ 1,399
Interest income	242	(15)	227
Income taxes	1,300	2	1,302

Notes to Consolidated Financial Statements

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

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	Thousands of U.S. dollars		Amounts in the consolidated financial statements
	Segment total	Adjustments	
<u>March 31, 2021</u>			
Depreciation and amortization	\$ 12,248	\$ 0	\$ 12,248
Interest income	2,466	(136)	2,330
Income taxes	14,732	0	14,732

Related Information

(a) Information by services

Sales by services for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Loans for margin transaction	¥ 11,360	¥ 12,518	\$ 102,610
Bond lending	9,554	6,294	86,298
Other	10,011	10,290	90,425
	¥ 30,925	¥ 29,102	\$ 279,333

(b) Geographic information

Because revenues from customers inside Japan are over 90% of revenues in the consolidated statement of income and no property, plant and equipment located outside Japan, the geographic information is not disclosed for the years ended March 31, 2021 and 2020.

(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, 2021 and 2020.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2021 and 2020.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2021 and 2020.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2021 and 2020.

(20) Transactions of Delivering the Company's Own Stock to Directors through Trust

The Company has introduced a performance-based share remuneration plan called "Board Benefit Trust (BBT)" in order to further clarify the linkage between remuneration for directors (other than outside directors) and executive officers (collectively "directors") and the performance and share value of the Company, thereby enhancing their awareness of the need to contribute to the efforts to archive improved business performance and greater enterprise value in the medium to long term.

1. Outline of the plan

The Plan is a performance-based share remuneration plan under which the Company's shares will be acquired through a trust using money contributed by the Company and the Company's shares and the

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Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021

money equivalent to the market value of the shares will be delivered by the Trust to directors pursuant to the “Rules for Delivery of Shares to Directors” to be established by the board of directors. In principle, the Shares, etc. will be delivered when he/she resigns as director.

2. Stock remaining in the trust

In accordance with the “Practical Solution on Transactions of delivering the Company’s Own Stock to Employees etc. through Trust (ASBJ Practical Issue Task Force (PITF) No. 30, March 26, 2015)”, the Company recorded assets and liabilities of the trust on the Company’s balance sheet as assets and liabilities of the Company. The Company recorded own stocks in the trust as treasury stocks under net assets at book value in the trust excluding associated costs. The book value of the own stocks was ¥540 million (\$4,878 thousand) and the number of the stocks was 1,137 thousand shares as of March 31, 2021, and ¥258 million and the number of the stocks was 592 thousand shares as of March 31, 2020.

Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Japan Securities Finance Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Assessment of the effectiveness of hedge accounting</p> <p>As of March 31, 2021, the Company holds assets under management of 42,967 million yen of short-term investments on current assets, and 935,344 million yen of investments in securities on investments and other assets. Since these securities are exposed to interest rates risk, currency exchange risk, and various other risks, the Company applies hedge accounting using a variety of hedging instruments to hedge the risk, as described in [Notes] (Derivative Financial Instruments).</p> <p>In addition, since the Company is a specialized institution of securities finance and functions as an infrastructure in the securities market, there is a high demand for maintaining financial soundness and high creditworthiness by applying hedge accounting against various risks faced. For the qualitative point of view, evaluating the</p>	<p>In regard to examining the effectiveness of hedge accounting, we mainly performed the following audit procedures based on the "Accounting Standards for Financial Instruments" and the "Practical Guidelines for Accounting for Financial Instruments".</p> <ol style="list-style-type: none"> 1. In order to evaluate the risk management policy and internal control design and operational related to hedging transactions, we discussed with management based on domestic and overseas economic and financial conditions. Additionally, we evaluated the results of the company's examination by inspecting the minutes of the board of directors and the management meeting. 2. At the start of implementation of hedging, we evaluated the effectiveness of hedging accounting mainly focusing on the following points.

<p>effectiveness of hedge accounting is highly important.</p> <p>Among derivative transactions, hedge accounting is applied to a wide range of transactions such as exchange contract transactions, interest rate swap transactions, bond futures transactions, and stock index futures transactions, and the diversification of hedging methods is progressing. In addition, the following various cases have arisen in the application of hedge accounting.</p> <ul style="list-style-type: none"> • Specify a part of the hedged item • Cancellation of hedge accounting application due to certain circumstances • Termination of hedge accounting due to extinction of hedged items <p>Based on the risk management policy set by the management, various hedging transactions are composed by advanced schemes using many inputs such as interest rates, currency exchange rates and stock indexes, and these are highly dependent on the judgment of the management. In addition, in order to apply hedge accounting, it is determined in accordance with "Accounting Standards for Financial Instruments" (Corporate Accounting Standard No. 10) and "Practical Guidelines for Accounting for Financial Instruments" (Accounting System Committee Report No. 14), and requirements of effectiveness of hedge accounting are needed to be satisfied. However, the cases applied are diverse and complex. The decision requires a high degree of expertise and experience in the market and valuation methods.</p> <p>Based on the above, we determined the assessment of the effectiveness of hedge accounting is a key audit matter, as the evaluation of the effectiveness of hedge accounting is particularly important in the consolidated financial statements for the current fiscal year.</p>	<ul style="list-style-type: none"> • Compliance with risk management policies and others in accordance with the terms of hedging implementation. • Documentation of hedging instruments, hedged items and methods for determining the effectiveness of hedge accounting, and evaluation of internal approval. • Examination of applicability of hedge accounting by evaluating the correlation between hedged items and hedging instruments. <p>3. We evaluated whether the high effectiveness of hedge accounting was continuously maintained, mainly focusing on the following points, by taking regular measures after the start of hedging transactions.</p> <ul style="list-style-type: none"> • Assessing whether the validity is judged and documented once every 6 months in accordance with the "Practical Guidelines for Accounting for Financial Instruments" according to the same method established at the start of hedging transactions. • Identification of inputs such as interest rates used in determining the effectiveness of hedge accounting and comparison with available external information. • Examining the effectiveness of hedge accounting by assessing the correlation between hedged items and hedging instruments.
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Key audit matter	How the scope of our audit addressed the key audit matter
<p>Assessment of the deferred tax assets</p> <p>As of March 31, 2021, the Company has recorded deferred tax liabilities of ¥ 8,499 million on its consolidated balance sheet, after offsetting deferred tax assets and deferred tax liabilities.</p>	<p>In regard to examining the assessment of the deferred tax assets, we mainly performed the following audit procedures</p> <ul style="list-style-type: none"> • We evaluated the results of the company's examination of the design and operational

As stated in Income Taxes on Notes, deferred tax assets recognized as recoverable are 8,696 million yen. Of this amount, the Company has recorded deferred tax assets of ¥ 8,544 million as recoverable.

The recoverability of deferred tax assets is judged in accordance with the "Application Guidelines for Recoverability of Deferred Tax Assets" (Corporate Accounting Standards Application Guideline No. 26). It depends on the judgment of classification by the company, the adequacy of future taxable income and the scheduling of the expected year to reversal of temporary differences, and these involve important management judgment and estimation factors.

The company is promoting the diversification of income sources in order to stably fulfill its function as the infrastructure of the securities market, and the core business of lending and borrowing transactions is influenced by the trading volume, the margin transaction balance, and others in the stock market. Estimation of future taxable income are based on the medium-term management plan and may be affected by uncertain future fluctuations in economic conditions, and others, which involve important management judgment and estimates.

In addition, as described in a key audit matter "Assessment of the effectiveness of hedge accounting", the Company applies derivative transactions as a hedging instrument to avoid interest rates and currency exchange risk of the securities that the Company hold. Therefore, there is a large amount of temporary difference that is subject to deferred tax assets or deferred tax liabilities due to the application of hedge accounting, and the scheduling of the expected fiscal year to eliminate this temporary difference is involved a complicated and sophisticated judgment and estimation by the management.

Based on the above, we determined the assessment of the deferred tax assets is a key audit matter, as it is particularly important in the consolidated financial statements for the current fiscal year.

status of internal controls regarding the assessment of deferred tax assets.

- Based on the "Application Guidelines for Recoverability of Deferred Tax Assets", we examined the validity of classification by the Company based on profitability and assessed whether the business environment is expected to change significantly in the near future specially the impact of the coronavirus infection. In addition, JSF Trust and Banking Co., Ltd., an important subsidiary, had a loss carried forward until the previous consolidated fiscal year. Therefore, we examined the feasibility of the company's future business outlook and its consistency with the information obtained during the audit process.
- In order to evaluate future estimates by management, we evaluated the medium-term management plan that is the basis for the future estimates. For the purpose of assessing the important assumptions made by management in the medium-term management plan, we discussed with management based on domestic and overseas economic and financial conditions in addition to inspecting the minutes of the board of directors and the management meeting.
- Regarding the estimation of future taxable income, we conducted trend analysis of past performance and compared the future estimation in the past and its corresponding actual result.
- Regarding temporary differences, we examined the validity of the main assumptions used for the scheduling of the expected fiscal year to eliminate this temporary difference. In particular, we examined those future deductible temporary differences related to other securities should be appropriately scheduled according to the redemption date based on the risk management policy and should be offset against future taxable temporary differences related to related deferred hedge income.
- In addition to the validity of the balance of temporary differences, we examined the appropriateness of the calculation of offsetting between future deductible temporary differences and future taxable temporary differences.

Responsibilities of Management and the Audit Committee

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern using the going concern basis of accounting, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The Audit Committee is responsible for overseeing the execution of the duties of Directors related to designing and operating the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosure of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



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We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

Crowe Toyo & Co.
Tokyo, Japan
June 25, 2021

Crowe Toyo & Co.