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JAPAN SECURITIES FINANCE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements

March 31, 2022

V. Accounting

1. Preparation Policy of the Consolidated and Non-consolidated Financial Statements

- (1) The consolidated financial statements of the Company are prepared in accordance with the “Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance No. 28 of 1976).
- (2) The non-consolidated financial statements of the Company are prepared in accordance with the “Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59, of 1963).

2. Audit Certification

In accordance with the provisions of Article 193-2 (1) of the Financial Instruments and Exchange Act, the consolidated financial statements and the non-consolidated financial statements for the fiscal and business year (from April 1, 2021 to March 31, 2022) were audited by Crowe Toyo & Co.

3. Special Effort to Ensure the Appropriateness of Consolidated Financial Statements, etc.

The Company is making special effort to ensure the appropriateness of the consolidated financial statements. Specifically, the Company has been a member of the Financial Accounting Standards Foundation and participated in training programs conducted by the organizations which determine accounting standards in order to ensure that the content of accounting standards is properly understood and that changes in accounting standards can be properly addressed.

1. Consolidated Financial Statements
(1) Consolidated Financial Statements
(i) Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars (Note)
	2022	2021	2022
ASSETS			
Current assets			
Cash and deposits *1	¥ 1,299,070	¥ 1,421,557	\$ 10,642,883
Call loans	—	2,500	—
Securities *1,*5	109,724	42,967	898,942
Operating loans *1,*3	891,485	1,116,353	7,303,669
Securities purchased under resale agreements	3,928,146	3,001,856	32,182,093
Cash collateral provided for securities borrowed	6,499,422	5,325,571	53,247,767
Other *1	355,293	255,387	2,910,809
Allowance for doubtful accounts	(133)	(693)	(1,096)
Total current assets	13,083,009	11,165,499	107,185,068
Non-current assets			
Property, plant and equipment			
Buildings and structures	9,039	8,836	74,054
Accumulated depreciation	(6,762)	(6,693)	(55,406)
Buildings and structures, net	2,276	2,142	18,648
Tools, furniture and fixtures	1,478	1,498	12,113
Accumulated depreciation	(1,268)	(1,251)	(10,389)
Tools, furniture and fixtures, net	210	246	1,723
Land *7	3,264	3,264	26,747
Construction in progress	304	72	2,497
Total property, plant and equipment	6,056	5,727	49,616
Intangible assets	960	1,750	7,869
Investments and other assets			
Investment securities *1,*4,*5	1,042,496	935,344	8,540,850
Long-term loans receivable from employees	—	0	—
Bad debts	95	107	781
Retirement benefit asset	437	—	3,581
Other	35,696	27,906	292,450
Allowance for doubtful accounts	(95)	(107)	(781)
Total investments and other assets	1,078,629	963,251	8,836,882
Total non-current assets	1,085,646	970,729	8,894,369
Total assets	¥ 14,168,656	¥ 12,136,229	\$ 116,079,437

Note Method of translation of the financial statements is described in “(7) Financial Statement Translation” in “4. Significant accounting principles”.

	Millions of yen		Thousands of U.S. dollars (Note)
	2022	2021	2022
LIABILITIES			
Current liabilities			
Call money *1	¥ 1,858,400	¥ 1,706,600	\$ 15,225,299
Short-term borrowings *1	239,210	137,594	1,959,773
Commercial papers	496,000	613,000	4,063,575
Securities sold under repurchase agreements	5,544,898	4,191,808	45,427,648
Cash collateral received for securities lent	4,706,496	4,028,703	38,558,880
Accounts payable - other	128	4,184	1,049
Income taxes payable	879	990	7,209
Provision for bonuses	466	459	3,825
Provision for bonuses for directors and other officers	106	118	875
Borrowed money from trust account	1,031,412	1,143,462	8,450,041
Other	137,457	145,330	1,126,144
Total current liabilities	14,015,456	11,972,251	114,824,323
Non-current liabilities			
Long-term borrowings	4,000	3,000	32,770
Deferred tax liabilities	3,011	8,498	24,676
Deferred tax liabilities for land revaluation *7	74	74	607
Provision for share awards for directors and other officers	228	231	1,873
Retirement benefit liability	213	123	1,752
Asset retirement obligations	55	54	454
Derivatives liabilities	7,054	16,212	57,793
Other	563	616	4,620
Total non-current liabilities	15,202	28,811	124,548
Total liabilities	14,030,659	12,001,062	114,948,871
NET ASSETS			
Shareholders' equity			
Share capital	10,000	10,000	81,926
Capital surplus	8,878	8,878	72,742
Retained earnings	115,521	113,133	946,430
Treasury shares	(4,680)	(2,407)	(38,346)
Total shareholders' equity	129,719	129,604	1,062,753
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	9,920	22,432	81,272
Deferred gains or losses on hedges	(1,967)	(16,978)	(16,119)
Revaluation reserve for land *7	168	168	1,376
Remeasurements of defined benefit plans	156	(59)	1,282
Total accumulated other comprehensive income	8,277	5,562	67,812
Total net assets	137,996	135,166	1,130,565
Total liabilities and net assets	14,168,656	12,136,229	116,079,437

Note Method of translation of the financial statements is described in “(7) Financial Statement Translation” in “4. Significant accounting principles”.

(ii) Consolidated Statement of Income and Consolidated Statement of Comprehensive
Income
Consolidated Statement of Income

	Millions of yen		Thousands of U.S. dollars
	2022	2021	(Note) 2022
Operating revenue			
Interest on loans receivable	¥ 2,708	¥ 2,247	\$ 22,190
Interest income on securities purchased under resale agreements	5,714	4,428	46,817
Interest income on cash collateral provided for securities borrowed	2,250	2,714	18,435
Securities lending fees	9,457	13,357	77,486
Other operating revenue	10,006	8,175	81,982
Total operating revenue	30,138	30,924	246,911
Operating expenses			
Interest expenses	747	697	6,123
Interest expenses on securities sold under repurchase agreements	3,614	2,932	29,611
Securities borrowing fees	9,357	12,581	76,662
Other operating expenses	2,814	1,806	23,056
Total operating expenses	16,533	18,018	135,453
Operating gross profit	13,604	12,906	111,457
General and administrative expenses			
Remuneration, salaries and allowances	3,008	2,923	24,651
Retirement benefit expenses	248	452	2,037
Provision for bonuses	466	459	3,825
Provision for bonuses for directors and other officers	106	118	875
Provision for share awards for directors and other officers	36	63	302
Depreciation	1,195	1,356	9,791
Provision of allowance for doubtful accounts	—	11	—
Reversal of allowance for doubtful accounts	(571)	—	(4,679)
Other	2,876	2,744	23,566
Total general and administrative expenses *1	7,368	8,129	60,370
Operating profit	¥ 6,235	¥ 4,777	\$ 51,087

	Millions of yen		Thousands of U.S. dollars
	2022	2021	(Note) 2022
Non-operating income			
Interest income	¥ 294	¥ 258	\$ 2,412
Dividend income	186	182	1,528
Share of profit of entities accounted for using equity method	446	395	3,660
Miscellaneous income	31	42	257
Total non-operating income	959	878	7,858
Non-operating expenses			
Interest expenses	0	0	0
Commission for purchase of treasury shares	6	—	52
Loss on investments in money held in trust	14	82	122
Loss on investments in investment partnerships	4	13	35
Miscellaneous expenses	4	1	33
Total non-operating expenses	29	97	245
Ordinary profit	7,164	5,558	58,700
Extraordinary income			
Gain on sale of non-current assets *2	40	—	330
Gain on sale of investment securities	—	43	—
Total extraordinary income	40	43	330
Extraordinary losses			
Loss on retirement of non-current assets *3	41	—	341
Branch office relocation expenses	16	—	136
Total Extraordinary losses	58	—	478
Profit before income taxes	7,147	5,601	58,553
Income taxes - current	2,071	1,853	16,969
Income taxes - deferred	(98)	(222)	(808)
Total income taxes	1,972	1,630	16,161
Profit	¥ 5,174	¥ 3,971	\$ 42,392
Profit attributable to non-controlling interests	—	—	—
Profit attributable to owners of parent	¥ 5,174	¥ 3,971	\$ 42,392

Note Method of translation of the financial statements is described in “(7) Financial Statement Translation” in “4. Significant accounting principles”.

Consolidated Statement of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars			
	2022	2021	(Note)			
			2022			
Profit	¥	5,174	¥	3,971	\$	42,392
Other comprehensive income						
Valuation difference on available-for-sale securities		(12,534)		2,129		(102,693)
Deferred gains or losses on hedges		15,010		3,330		122,976
Remeasurements of defined benefit plans, net of tax		206		1,000		1,689
Share of other comprehensive income of entities accounted for using equity method		32		67		269
Total other comprehensive income *		2,714		6,527		22,242
Comprehensive income	¥	7,889	¥	10,499	\$	64,634
Comprehensive income attributable to						
Comprehensive income attributable to owners of parent	¥	7,889	¥	10,499	\$	64,634
Comprehensive income attributable to non-controlling interests	¥	—	¥	—	\$	—

Note Method of translation of the financial statements is described in “(7) Financial Statement Translation” in “4. Significant accounting principles”.

(iii) Consolidated Statement of Changes in Equity

Previous Fiscal Year (From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity					Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares		
Balance at April 1, 2020	¥ 10,000	¥ 11,325	¥ 111,193	¥ (4,865)		127,653
Changes arising during year						
Cash dividends			(2,031)			(2,031)
Net income attributable to owners of parent			3,971			3,971
Purchase of treasury share				(0)		(0)
Disposal of treasury share		(49)		61		12
Cancellation of treasury share		(2,396)		2,396		—
Net changes other than stockholders' equity						
Total changes during the year	—	(2,446)	1,940	2,458		1,951
Balance at March 31, 2021	¥ 10,000	¥ 8,878	¥ 113,133	¥ (2,407)		129,604

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at April 1, 2020	¥ 20,277	¥ (20,308)	¥ 168	¥ (1,102)	¥ (965)	126,687
Changes arising during year						
Cash dividends						(2,031)
Net income attributable to owners of parent						3,971
Purchase of treasury share						(0)
Disposal of treasury share						12
Cancellation of treasury share						—
Net changes other than stockholders' equity	2,154	3,330	—	1,042	6,527	6,527
Total changes during the year	2,154	3,330	—	1,042	6,527	8,479
Balance at March 31, 2021	¥ 22,432	¥ (16,978)	¥ 168	¥ (59)	¥ 5,562	135,166

Current Fiscal Year (From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity					Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares		
Balance at April 1, 2021	¥ 10,000	¥ 8,878	¥ 113,133	¥ (2,407)		129,604
Cumulative effects of accounting changes			0			0
Restated balance at April 1, 2021	10,000	8,878	113,133	(2,407)		129,605
Changes arising during year						
Cash dividends			(2,786)			(2,786)
Net income attributable to owners of parent			5,174			5,174
Purchase of treasury share				(2,301)		(2,301)
Disposal of treasury share		0		28		28
Cancellation of treasury share						
Net changes other than stockholders' equity						
Total changes during the year	—	0	2,387	(2,272)		114
Balance at March 31, 2022	¥ 10,000	¥ 8,878	¥ 115,521	¥ (4,680)		129,719

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at April 1, 2021	¥ 22,432	¥ (16,978)	¥ 168	¥ (59)	¥ 5,562	135,166
Cumulative effects of accounting changes						0
Restated balance at April 1, 2021	22,432	(16,978)	168	(59)	5,562	135,167
Changes arising during year						
Cash dividends						(2,786)
Net income attributable to owners of parent						5,174
Purchase of treasury share						(2,301)
Disposal of treasury share						28
Cancellation of treasury share						
Net changes other than stockholders' equity	(12,512)	15,010	—	216	2,714	2,714
Total changes during the year	(12,512)	15,010	—	216	2,714	2,829
Balance at March 31, 2022	¥ 9,920	¥ (1,967)	¥ 168	¥ 156	¥ 8,277	137,996

Current Fiscal Year (From April 1, 2021 to March 31, 2022)

(Thousands of U.S. dollars)

	Shareholders' equity					Total shareholders' equity
	Share capital	Capital surplus	Retained earnings	Treasury shares		
Balance at April 1, 2021	\$ 81,926	\$ 72,742	\$ 926,867	\$ (19,725)		1,061,811
Cumulative effects of accounting changes			3			3
Restated balance at April 1, 2021	81,926	72,742	926,870	(19,725)		1,061,814
Changes arising during year						
Cash dividends			(22,831)			(22,831)
Net income attributable to owners of parent			42,392			42,392
Purchase of treasury share				(18,853)		(18,853)
Disposal of treasury share		0		232		232
Cancellation of treasury share						
Net changes other than stockholders' equity						
Total changes during the year	—	0	19,560	(18,621)		938
Balance at March 31, 2022	\$ 81,926	\$ 72,742	\$ 946,430	\$ (38,346)		1,062,753

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at April 1, 2021	\$ 183,781	\$ (139,096)	\$ 1,376	\$ (491)	\$ 45,570	1,107,381
Cumulative effects of accounting changes						3
Restated balance at April 1, 2021	183,781	(139,096)	1,376	(491)	45,570	1,107,384
Changes arising during year						
Cash dividends						(22,831)
Net income attributable to owners of parent						42,392
Purchase of treasury share						(18,853)
Disposal of treasury share						232
Cancellation of treasury share						
Net changes other than stockholders' equity	(102,508)	122,976	—	1,773	22,242	22,242
Total changes during the year	(102,508)	122,976	—	1,773	22,242	23,180
Balance at March 31, 2022	\$ 81,272	\$ (16,119)	\$ 1,376	\$ 1,282	\$ 67,812	1,130,565

Note Method of translation of the financial statements is described in “(7) Financial Statement Translation” in “4. Significant accounting principles”.

(iv) Consolidated Statement of Cash Flows

	Millions of yen		Thousands of U.S. dollars
	2022	2021	(Note) 2022
Cash flows from operating activities			
Profit before income taxes	¥ 7,147	¥ 5,601	\$ 58,553
Depreciation	1,195	1,356	9,791
Loss (gain) on sale and retirement of non-current assets	(17)	3	(143)
Loss (gain) related to securities	251	30	2,059
Increase (decrease) in allowance for doubtful accounts	(571)	(10)	(4,679)
Increase (decrease) in provision for bonuses	7	(35)	60
Increase (decrease) in provision for bonuses for directors and other officers	(11)	(2)	(91)
Increase (decrease) in provision for share awards for directors and other officers	(3)	46	(26)
Increase (decrease) in retirement benefit liability	(346)	(1,316)	(2,841)
Interest and dividend income	(15,866)	(14,103)	(129,989)
Interest expenses	4,361	3,630	35,735
Share of loss (profit) of entities accounted for using equity method	(446)	(395)	(3,660)
Decrease (increase) in operating loans receivable	224,867	(428,673)	1,842,268
Net decrease (increase) in call loans	2,500	72,500	20,481
Net decrease (increase) in securities purchased under resale agreements	(926,289)	(254,460)	(7,588,803)
Net decrease (increase) in cash collateral provided for securities borrowed	(1,173,851)	(1,447,744)	(9,617,001)
Net increase (decrease) in call money	151,800	529,804	1,243,650
Net increase (decrease) in short-term borrowings	101,616	37,121	832,508
Net increase (decrease) in commercial papers	(117,000)	247,000	(958,544)
Net increase (decrease) in securities sold under repurchase agreements	1,353,090	268,394	11,085,450
Net increase (decrease) in cash collateral received for securities lent	677,793	924,674	5,552,953
Net increase (decrease) in cash collateral received for margin transactions	(15,407)	38,908	(126,225)
Net increase (decrease) in borrowed money from trust account	(112,050)	273,973	(917,992)
Net increase (decrease) in long-term borrowings	1,000	(1,000)	8,192
Purchase of short-term and long-term investment securities	(466,887)	(279,510)	(3,825,065)
Proceeds from sale and redemption of short-term and long-term investment securities	267,505	163,933	2,191,588
Other, net	(93,766)	16,962	(768,196)
Subtotal	(129,379)	156,689	(1,059,967)
Interest and dividends received	15,362	14,322	125,863
Interest paid	(4,171)	(3,688)	(34,172)
Income taxes paid	(8,191)	(5,634)	(67,108)
Income taxes refund	4,074	2,770	33,380
Net cash provided by (used in) operating activities	¥ (122,304)	¥ 164,459	\$ (1,002,005)

	Millions of yen		Thousands of U.S. dollars
	2022	2021	(Note) 2022
Cash flows from investing activities			
Purchase of investment securities	¥ (645)	¥ (706)	\$ (5,290)
Proceeds from sale and redemption of investment securities	6,296	3,551	51,585
Purchase of property, plant and equipment	(641)	(133)	(5,252)
Proceeds from sale of property, plant and equipment	48	—	394
Purchase of intangible assets	(153)	(460)	(1,256)
Other, net	2	(20)	21
Net cash provided by (used in) investing activities	4,907	2,230	40,203
Cash flows from financing activities			
Dividends paid	(2,786)	(2,031)	(22,831)
Purchase of treasury shares	(2,301)	(0)	(18,853)
Other, net	0	0	0
Net cash provided by (used in) financing activities	(5,088)	(2,031)	(41,685)
Effect of exchange rate change on cash and cash equivalents	—	—	—
Net increase (decrease) in cash and cash equivalents	(122,485)	164,658	(1,003,487)
Cash and cash equivalents at beginning of period	1,417,543	1,252,884	11,613,499
Cash and cash equivalents at end of period *	1,295,058	1,417,543	10,610,012

Note Method of translation of the financial statements is described in “(7) Financial Statement Translation” in “4. Significant accounting principles”.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2022

(Basis of Presentation of the Consolidated Financial Statements)

1. Scope of consolidation

Number of consolidated subsidiaries: 2 companies

All two subsidiaries are consolidated.

Names of consolidated subsidiaries

JSF Trust and Banking Co., Ltd.

Nihon Building Co., Ltd.

2. Application of the equity method

Number of affiliates accounted for by the equity method: 2 companies

Name of the companies

Japan Information Processing Service Co., Ltd.

JSF Information Technology Co., Ltd.

3. Accounting periods of consolidated subsidiaries

The fiscal year end of consolidated subsidiaries is the same as the consolidated fiscal year end.

4. Significant accounting principles

(1) Valuation standards and methodology for material assets

(i) Securities

Held-to-maturity debt securities:

Stated at amortized cost

Available-for-sale-securities:

Securities other than for which there are no fair value:

Stated at fair value based on the quoted market price at the fiscal year end (with any unrealized gains or losses being reported directly as a component of shareholders' equity and the cost of any securities sold being computed by the moving average method)

Securities for which there are no fair value:

Stated at cost determined by the moving average method

(ii) Derivatives

Stated at fair value

(2) Depreciation and amortization methods for material depreciable assets

(i) Property, plant and equipment

The Company and its subsidiaries provided depreciation 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 equipment attached to buildings 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

(ii) Intangible assets

Straight-line method is applied.

Software for internal use is amortized by the straight-line method over the estimated useful life (5 to 7 years).

(3) Basis of material allowances

(i) Allowance for doubtful accounts

Allowance for doubtful accounts is measured at estimated recoverable amounts. For general receivables, the recoverable amounts are estimated by historical write-off ratio and for individual receivables such as receivables with default risk, the recoverable amounts are estimated individual basis.

(ii) Provision for bonuses

Provision for bonuses is measured based on estimated amount of payment for employee bonuses.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(iii) Provision for bonuses for directors and other officers

Provision for bonuses for directors and other officers is measured based on estimated amount of payment for directors (including executive officers) bonuses.

(iv) Provision for share awards for directors and other officers

Provision for share awards for directors and other officers is measured based on estimated amount of stock benefit obligation as of the end of the current fiscal year based on internal regulations for the payment of the Company's stock.

(4) Accounting treatment for retirement benefits

(i) The method of attributing expected retirement benefit

For calculating benefit obligation, the method of attributing expected retirement benefit to periods up to the end of current fiscal year is the benefit formula basis.

(ii) The method of amortizing actuarial gains and losses

Actuarial gains and losses are amortized using the declining balance method within over average remaining years of service of the employees (15 years) from the following year in which the gains or losses are recognized.

Consolidated subsidiaries apply a simplified method to calculate liabilities for retirement benefits and retirement benefit expenses, using required payment assuming retirement for personal reason at the end of the fiscal year as retirement benefit obligation.

(5) Significant method of hedge accounting

(i) Hedge accounting

In principle, deferral hedge accounting is applied. For Interest rate swaps, if they satisfy the requirements for treatment that incorporates swaps into underlying accounting items, they are accounted for by incorporating swaps into underlying accounting items.

(ii) Hedge methods and hedged items

Hedge methods Interest rate swaps, foreign exchange contracts, etc.

Hedged items Securities, investment securities, borrowings, etc.

(iii) Hedge policy

In accordance with the Group's internal rules for risk management, Hedging is used to hedge against the risk of future fluctuations in interest rates and foreign currency exchange rates, etc.

(iv) Evaluation of hedge effectiveness

The Group compares market fluctuations of hedged items with those of hedge methods and evaluates the effectiveness of hedge based on the amount of fluctuation of both. However, for interest rate swaps which incorporating swaps into underlying accounting items, the evaluation of the effectiveness of hedge is omitted.

(Hedge relationships to which "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" is applied)

Among the above hedge relationships, the exceptional treatment prescribed in the PITF is applied to all hedge relationships included in the scope of application of "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (PITF No. 40, March 17, 2022). The details of hedging relationships to which the PITF is applied are as follows.

Hedge accounting Deferral hedge accounting and for interest rate swaps, accounting for by incorporating swaps into underlying accounting items

Hedge methods Interest rate swaps

Hedged items Securities, investment securities, borrowings, etc.

Hedging transactions Offsetting market fluctuations or fixing cash flows

(6) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents as stated in the consolidated statements of cash flows consist of cash in hand, readily available deposits, and any short-term liquid investments with a maturity not exceeding three months at the time of purchase whose value is not subject to significant fluctuation risk.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(7) 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, 2022, which was ¥122.06 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.

(Significant Accounting Estimates)

Recoverability of deferred tax assets

(1) Deferred tax assets and liabilities in the accompanying consolidated balance sheet as of March 31, 2022 are as follows:

	Millions of yen				Thousands of
	2022		2021		U.S. dollars
					2022
Deferred tax assets	¥	16,595	¥	8,696	\$ 135,964
Deferred tax liabilities		19,607		17,194	160,641
<u>Deferred tax liabilities (Net)</u>	¥	<u>3,011</u>	¥	<u>8,498</u>	<u>\$ 24,676</u>

(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.

(Changes in Accounting Policies)

(Application of “Accounting Standards for Revenue Recognition”, etc.)

“Accounting Standards for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, hereinafter as “Accounting Standards for Revenue Recognition”) have been applied from the beginning of the current fiscal year. In accordance with the transitional treatment provided for in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of the retrospective application of the new accounting policy prior to the beginning of the current fiscal year is added to or deducted from retained earnings at the beginning of the current fiscal year.

The impact to the profit and loss for the current fiscal year and retained earnings at the beginning of the current fiscal year is immaterial.

(Application of “Accounting Standards for Fair Value Measurement”, etc.)

“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter as “Accounting Standard for Fair Value Measurement”) is applied from the beginning of the current fiscal year and the new accounting policy stipulated by the Accounting Standard for Fair Value Measurement is to be applied prospectively in accordance with the transitional treatment stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019).

There is no impact on the consolidated financial statements.

In addition, the breakdown of financial instruments by each fair value level are included in the notes to “Financial Instruments”. However, in accordance with the transitional treatment stipulated in Paragraph 7-4 of the “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019), no such note for the previous fiscal year is presented.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Accounting Standards Not Yet Adopted)

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021)

(1) Overview

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31) was revised and issued on June 17, 2021. At the point of issuance on July 4, 2019, it was considered that a certain period of time will be required for discussions with related parties, etc. for the study on "calculation of the fair value of investment trusts," and a certain amount of study was also required for notes on the fair value of "investments in partnerships, etc., in which the net amount equivalent to the equity interest recorded in the balance sheet" and therefore it was expected that it would take approximately one year.

(2) Scheduled date of adoption

This accounting standard will be applied from the beginning of the fiscal year ending March 31, 2023.

(3) Effect of adoption

The amounts of the impact of applying “Implementation Guidance on Accounting Standard for Fair Value Measurement” are under evaluation at this time.

(Additional Information)

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

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

1. Outline of the plan

The Plan is a performance-based share remuneration plan under which the Company’s shares will be acquired through a trust using money contributed by the Company and the Company’s shares and the money equivalent to the market value of the shares will be delivered by the Trust to directors pursuant to the “Rules for Delivery of Shares to Directors” to be established by the board of directors.

In principle, the Shares, etc. will be delivered when he/she resigns as director.

2. Stock remaining in the trust

In accordance with the “Practical Solution on Transactions of delivering the Company’s Own Stock to Employees etc. through Trust (ASBJ Practical Issue Task Force (PITF) No. 30, March 26, 2015)”, the Company recorded assets and liabilities of the trust on the Company’s balance sheet as assets and liabilities of the Company. The Company recorded own stocks in the trust as treasury stocks under net assets at book value in the trust excluding associated costs. The book value of the own stocks was ¥511 million (\$4,189 thousand) and the number of the stocks was 1,077 thousand shares as of March 31, 2022, and ¥539 million and the number of the stocks was 1,137 thousand shares as of March 31, 2021.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Notes to the Consolidated Balance Sheets)

*1 Assets pledged as collateral and secured debt

Assets pledged as collateral are as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
			2022
Securities	¥ 86,459	¥ 32,918	\$ 708,333
Operating loans	526,090	723,947	4,310,093
Investment securities	370,156	404,632	3,032,581

The above assets are pledged as collateral for the following obligations:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
			2022
Call money	¥ 250,000	¥ 127,000	\$ 2,048,173
Short-term borrowings	137,200	40,500	1,124,037

For call money and short-term borrowings, in addition to the assets pledged as collateral above, a portion of the collateral according to 2 and 6 below is also pledged.

In addition, the following items are pledged as collateral for the clearing funds of Japan Securities Clearing Corporation and JASDEC DVP Clearing Corporation.

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
			2022
Cash and deposits	¥ 25	¥ 25	\$ 204
Current assets (other)	230,004	222,264	1,884,359
Investment securities	1,222	5,864	10,018

2 Collateralized financial assets with rights of free disposal are as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
			2022
Fair value of the securities received as collateral	¥ 2,519,083	¥ 2,081,786	\$ 20,638,073
Securities lent	182,137	186,426	1,492,200
Collateral provided	358,707	325,002	2,938,780
On hand	1,978,237	1,570,356	16,207,092

*3 Credit line for financial instruments dealers and customers, and undrawn amount related to overdraft agreements, of the Company and JSF Trust and Banking Co., Ltd. are as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
			2022
Total credit line	¥ 957,858	¥ 849,058	\$ 7,847,453
Drawn amount	63,680	40,890	521,710
Undrawn amount	¥ 894,178	¥ 808,168	\$ 7,325,725

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 Financial Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2022

*4 Items related to affiliated companies are as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
Investment securities (stocks)	¥ 4,595	¥ 4,267	\$ 37,653

*5 Balance sheet amount of securities lent under loan for consumption agreement, etc. are as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
Securities	¥ 8,764	¥ 6,049	\$ 71,806
Investment securities	424,126	391,987	3,474,740

6 The fair value of the securities borrowed under loan for consumption agreement, etc. are as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
The fair value of the securities borrowed	¥ 10,092,917	¥ 8,141,203	\$ 82,688,162
Securities loaned	9,565,616	7,765,316	78,368,154
Securities pledged as collateral	478,582	296,942	3,920,878
On hand	48,717	78,944	399,129

*7 The Company revaluated its land at fair value, pursuant to the Law Concerning Land Revaluation (Law No.34 March 31, 1998) and its amendments (Law No.19 March 31, 2001) (the “Law”), and for net unrealized gain, tax equivalent is presented as “Deferred tax liabilities for land revaluation” under LIABILITIES and the amounts net of the tax equivalent is presented as “Revaluation reserve for land” under NET ASSETS.

Date of revaluation: March 31, 2002

Revaluation method to be prescribed on Article3, paragraph3 of the Law Concerning Land Revaluation:

The revaluation is calculated by making reasonable adjustments to the value calculated by the method specified and announced by the Commissioner of the National Tax Agency for calculating the value of land as the basis for calculating the taxable value of land as stipulated in Article 16 of the Land Value Tax Law based on Article 2, clause 4 of the Enforcement Order for the Law Concerning Revaluation of Land (Ordinance No. 119 March 31, 1998).

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Notes to the Consolidated Statements of Income)

*1 Research and development expenses included in general and administrative expenses and manufacturing costs for the year are as follows:

		Millions of yen		Thousands of U.S. dollars
		2022	2021	2022
	¥	40	¥ —	\$ 334

*2 Breakdown of gain on sale of non-current assets are as follows:

		Millions of yen		Thousands of U.S. dollars
		2022	2021	2022
Tools, furniture and fixtures	¥	40	¥ —	\$ 330

*3 Breakdown of loss on retirement of non-current assets are as follows:

		Millions of yen		Thousands of U.S. dollars
		2022	2021	2022
Buildings and structures	¥	2	¥ —	\$ 16
Demolition and removal expenses		39	—	325

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Notes to the Consolidated Statements of Comprehensive Income)

*1 Reclassification adjustments and tax effects related to other comprehensive income

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
			2022
Valuation difference on available-for-sale securities:			
Arising during the year	¥ (18,641)	¥ 2,824	\$ (152,724)
Reclassification adjustment	251	32	2,059
Before tax effect adjustment	(18,390)	2,857	(150,664)
Tax effect	5,855	(728)	47,971
Valuation difference on available-for-sale securities	(12,534)	2,129	(102,693)
Deferred gains or losses on hedges:			
Arising during the year	15,362	5,462	125,860
Reclassification adjustment	—	(6)	—
Before tax effect adjustment	15,362	5,455	125,860
Tax effect	(352)	(2,125)	(2,884)
Deferred gains or losses on hedges	15,010	3,330	122,976
Remeasurements of defined benefit plans:			
Arising during the year	319	1,204	2,619
Reclassification adjustment	1	201	13
Before tax effect adjustment	321	1,405	2,632
Tax effect	(115)	(404)	(943)
Remeasurements of defined benefit plans	206	1,000	1,689
Share of other comprehensive income of entities accounted for using equity method:			
Arising during the year	25	54	212
Reclassification adjustment	6	13	56
Share of other comprehensive income of entities accounted for using equity method	32	67	269
Total other comprehensive income	¥ 2,714	¥ 6,527	\$ 22,242

Notes to Consolidated Financial Statements
 Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
 Year ended March 31, 2022

(Notes to the Consolidated Statements of Changes in Net Assets)

Previous fiscal year (From April 1, 2020 to March 31, 2021)

1 Type and number of issued shares and treasury shares

Type of share	Number of shares at the beginning of the year	Increase	Decrease	(Thousands of shares)	
				Number of shares at the end of the year	
Shares outstanding					
Common stock (Note 1)	100,000	—	4,000	96,000	
Treasury shares					
Common stock (Note 2, 3, 4)	8,278	574	4,600	4,252	

Notes:

- 1 Decrease of 4,000 thousands of shares is due to cancellation of treasury shares.
- 2 Number of shares include shares which are held by the “Board Benefit Trust (BBT)” (592 thousands of shares at the beginning of the fiscal year and 1,137 thousands of shares at the end of the fiscal year)
- 3 Increase of 572 thousands of shares is due to purchase by the “Board Benefit Trust (BBT)” and 1 thousands of shares is due to purchase of shares less than one unit.
- 4 Decrease of 4,000 thousands of shares is due to cancellation of treasury shares, 572 thousands of shares is due to disposal of treasury shares by third-party allotment to the “Board Benefit Trust (BBT)”, 27 thousands of shares is due to delivery of treasury shares from the “Board Benefit Trust (BBT)” to respective person and 0 thousands of shares is due to sale of treasury shares less than one unit.

2 Stock acquisition rights, etc.

No items to report.

3 Dividends

(1) Dividends paid

(a) 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	¥1,015 million
(b) Cash dividends per common share	¥11
(c) Record date	March 31, 2020
(d) Effective date	June 2, 2020

Note Total dividends include dividends of ¥6 million to shares which are owned by “Board Benefit Trust (BBT)”

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

(a) Total dividends	¥1,015 million
(b) Cash dividends per common share	¥11
(c) Record date	September 30, 2020
(d) Effective date	December 4, 2020

Note Total dividends include dividends of ¥6 million to shares which are owned by “Board Benefit Trust (BBT)”

(2) 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
(b) Cash dividends per common share	¥15
(c) Record date	March 31, 2021
(d) Effective date	June 3, 2021

Note Total dividends include dividends of ¥17 million to shares which are owned by “Board Benefit Trust (BBT)”

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

Current fiscal year (From April 1, 2021 to March 31, 2022)

1 Type and number of issued shares and treasury shares

Type of share	Number of shares at the beginning of the year	Increase	Decrease	(Thousands of shares)
				Number of shares at the end of the year
Shares outstanding Common stock	96,000	—	—	96,000
Treasury shares Common stock (Note)	4,252	2,490	59	6,683

Notes:

- Number of shares include shares which are held by the “Board Benefit Trust (BBT)” (1,137 thousands of shares at the beginning of the fiscal year and 1,077 thousands of shares at the end of the fiscal year)
- Increase of 2,489 thousands of shares is due to purchase of treasury shares and 1 thousands of shares is due to purchase of shares less than one unit.
- Decrease of 59 thousands of shares is due to delivery of treasury shares from the “Board Benefit Trust (BBT)” to respective person and 0 thousands of shares is due to sale of treasury shares less than one unit.

2 Stock acquisition rights, etc.

No items to report.

3 Dividends

(1) Dividends paid

(a) Dividends paid during the year ended March 31, 2022

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

(a) Total dividends	¥1,393 million (\$11,416 thousand)
(b) Cash dividends per common share	¥15 (\$ 0.12)
(c) Record date	March 31, 2021
(d) Effective date	June 3, 2021

Note Total dividends include dividends of ¥17 million (\$139 thousand) to shares which are owned by “Board Benefit Trust (BBT)”

The following was approved by the Board of Directors held on November 2, 2021.

(a) Total dividends	¥1,393 million (\$11,415 thousand)
(b) Cash dividends per common share	¥15 (\$0.12)
(c) Record date	September 30, 2021
(d) Effective date	December 3, 2021

Note Total dividends include dividends of ¥16 million (\$132 thousand) to shares which are owned by “Board Benefit Trust (BBT)”

(2) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2022

The following was approved by the Board of Directors held on May 16, 2022.

(a) Total dividends	¥1,356 million (\$11,109 thousand)
(b) Cash dividends per common share	¥15 (\$0.12)
(c) Record date	March 31, 2022
(d) Effective date	June 2, 2022

Note Total dividends include dividends of ¥16 million (\$132 thousand) to shares which are owned by “Board Benefit Trust (BBT)”

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Note to the Consolidated Statements of Cash Flows)

The reconciliation between year-end balance of cash and cash equivalents and amounts stated in the consolidated balance sheets

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
			2022
Cash and deposits	¥ 1,299,070	¥ 1,421,557	\$ 10,642,883
Time deposits with maturities of over three months	(10)	(10)	(81)
Certificate of deposits with maturities of over three months	(4,002)	(4,003)	(32,789)
Cash and cash equivalents	¥ 1,295,058	¥ 1,417,543	\$ 10,610,012

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Financial Instruments)

1. 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.

(i) 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.

(ii) Credit risk

The Company manages all of the credit risk strictly to maintain and improve assets quality. The Risk Management Department evaluates credit risks according to the in-house rating and quantizes and controls the credit risk using the default rate by each in-house rating category. Stress tests are also performed for compensating the quantization control. The Risk Management Department evaluates customers or loans, and sets up the credit limits, while business operation department monitors the credit limit. Assets owned by business operation departments are assessed by themselves strictly. The Company receives collateral securities for each loan and reevaluates the securities daily to mitigate the collectability

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

issues, and the Company collects the claims quickly through sale of the collaterals when the customer bankrupts.

(iii) 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.

(iv) 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 ¥6,878 million (\$56,354 thousand) as of March 31, 2022.

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.

(v) 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.

(vi) Subsidiary's risk control system

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

JSFTB calculates market risk amount for all market transactions. Interest rate risk amount which is a major risk variable is calculated by VaR (Delta method; holding period: 1 year, confidence interval: 99%, observation period: 5 years). JSFTB market risk amount is ¥5,598 million (\$45,866 thousand) as of March 31, 2022.

(4) Supplemental explanation regarding fair value of financial instruments

The fair value might differ if different assumptions are used because to measure fair value of financial instruments, variable factors are considered. In addition, the contract amounts of derivative transactions in the Notes to "Derivative" are not in themselves indicative of the market risk associated with derivative transactions.

Notes to Consolidated Financial Statements
Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2022

2. Fair value of financial instruments, etc.

Carrying amount in the consolidated balance sheets, fair values and differences are as follows:

Previous fiscal year (As of March 31, 2021)

	Millions of yen		
	2021		
	Carrying amount	Fair value	Differences
(1) Operating loans	¥ 1,116,353		
Allowance for doubtful accounts *2	(92)		
	¥ 1,116,260	¥ 1,116,266	¥ 6
(2) Securities and investment securities *3			
Held-to-maturity securities	1,512	1,706	194
Available-for-sale securities	954,741	954,741	—
Total	¥ 2,072,513	¥ 2,072,715	¥ 201
Derivative transactions *4	¥ (11,025)	¥ (11,025)	¥ —

Notes:

*1 Cash is omitted and deposits, call loans, securities purchased under resale agreements, cash collateral provided for securities borrowed, call money, short-term borrowings, commercial papers, securities sold under repurchase agreements and cash collateral received for securities lent are also omitted as most of these are settled in the short term and their fair value approximates their carrying amount.

*2 General and specific allowance for operating loans is deducted.

*3 The following financial instruments are not included in “(2) Securities and investment securities” because they do not have market prices and their fair value is extremely difficult to measure. Carrying amount of those financial instruments are as follows:

	Millions of yen	
	2021	
Unlisted equity securities		
Other securities	¥	1,716
Investments in affiliates		4,267
Unlisted REITs		14,571
Investments in investment limited partnership		1,503

*4 Net receivables and payables, which were derived from derivative transactions, are presented in net amounts, and any item for which the total becomes a net liability is indicated in parentheses.

Notes to Consolidated Financial Statements
Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2022

Current fiscal year (As of March 31, 2022)

	Millions of yen		
	2022		
	Carrying amount	Fair value	Differences
(1) Operating loans	¥ 891,485		
Allowance for doubtful accounts *2	(90)		
	¥ 891,395	¥ 891,396	¥ 1
(2) Securities and investment securities *3			
Held-to-maturity securities	1,511	1,673	162
Available-for-sale securities	1,142,362	1,142,362	—
Total	¥ 2,035,268	¥ 2,035,432	¥ 164
Derivative transactions *4	¥ 5,686	¥ 5,686	¥ —

	Thousands of U.S. dollars		
	2022		
	Carrying amount	Fair value	Differences
(1) Operating loans	\$ 7,303,669		
Allowance for doubtful accounts *2	(740)		
	\$ 7,302,928	\$ 7,302,939	\$ 10
(2) Securities and investment securities *3			
Held-to-maturity securities	12,380	13,713	1,332
Available-for-sale securities	9,359,020	9,359,020	—
Total	\$ 16,674,330	\$ 16,675,673	\$ 1,343
Derivative transactions *4	\$ 46,585	\$ 46,585	\$ —

Notes:

*1 Cash is omitted and deposits, call loans, securities purchased under resale agreements, cash collateral provided for securities borrowed, call money, short-term borrowings, commercial papers, securities sold under repurchase agreements and cash collateral received for securities lent are also omitted as most of these are settled in the short term and their fair value approximates their carrying amount.

*2 General and specific allowance for operating loans is deducted.

*3 The following financial instruments with no market prices are not included in “(2) Securities and investment securities”. Carrying amount of those financial instruments are as follows:

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Unlisted equity securities		
Other securities	¥ 1,765	\$ 14,467
Investments in affiliates	4,595	37,653
Investments in investment limited partnership	1,986	16,272

*4 Net receivables and payables, which were derived from derivative transactions, are presented in net amounts, and any item for which the total becomes a net liability is indicated in parentheses.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

Note 1. Projected future redemption of monetary claim and securities with maturities after the end of the fiscal year

Previous fiscal year (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
Cash and deposits	¥ 1,421,557	¥ —	¥ —	¥ —
Call loan	2,500	—	—	—
Operating loans	1,075,366	40,388	598	—
Securities purchased under resale agreements	3,001,858	—	—	—
Cash collateral provided for securities borrowed	5,305,571	20,000	—	—
Securities and investments securities				
Held-to-maturity securities (Government bonds)	—	—	—	1,500
Available-for-sale securities with maturities				
Bond securities				
1) Government bonds	6,000	64,367	48,800	368,000
2) Corporate bonds	36,909	259,949	56,533	—
3) Other	—	25,469	23,601	4,438
Total	¥ 10,849,760	¥ 410,173	¥ 129,532	¥ 373,938

Current fiscal year (As of March 31, 2022)

	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
Cash and deposits	¥ 1,299,070	¥ —	¥ —	¥ —
Operating loans	870,912	19,916	656	—
Securities purchased under resale agreements	3,928,146	—	—	—
Cash collateral provided for securities borrowed	6,349,422	150,000	—	—
Securities and investments securities				
Held-to-maturity securities (Government bonds)	—	—	—	1,500
Available-for-sale securities with maturities				
Bond securities				
1) Government bonds	6,000	65,767	51,400	395,000
2) Corporate bonds	100,319	311,619	34,275	—
3) Other	3,326	57,175	39,709	29,511
Total	¥ 12,557,196	¥ 604,477	¥ 126,040	¥ 426,011

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

	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
Cash and deposits	\$ 10,642,883	\$ —	\$ —	\$ —
Operating loans	7,135,120	163,171	5,377	—
Securities purchased under resale agreements	32,182,093	—	—	—
Cash collateral provided for securities borrowed	52,018,863	1,228,903	—	—
Securities and investments securities				
Held-to-maturity securities (Government bonds)	—	—	—	12,289
Available-for-sale securities with maturities				
Bond securities				
1) Government bonds	49,156	538,808	421,104	3,236,113
2) Corporate bonds	821,882	2,552,998	280,804	—
3) Other	27,248	468,418	325,323	241,779
Total	\$ 102,877,247	\$ 4,952,301	\$ 1,032,610	\$ 3,490,181

Note 2. Repayments schedule of long-term borrowings and other interest-bearing liabilities after the end of the fiscal year

Previous fiscal year (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	—	—	—	—	—
Securities sold under repurchase agreements	4,191,808	—	—	—	—	—
Cash collateral received for securities lent	4,028,703	—	—	—	—	—
Long-term borrowings	—	—	—	—	—	3,000
Total	¥ 10,677,706	¥ —	¥ —	¥ —	¥ —	¥ 3,000

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

Current fiscal year (As of March 31, 2022)

	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	¥ 1,858,400	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	239,210	—	—	—	—	—
Commercial paper	496,000	—	—	—	—	—
Securities sold under repurchase agreements	5,544,898	—	—	—	—	—
Cash collateral received for securities lent	4,706,496	—	—	—	—	—
Long-term borrowings	—	1,000	—	—	—	3,000
Total	¥ 12,845,005	¥ 1,000	¥ —	¥ —	¥ —	¥ 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	\$ 15,225,299	\$ —	\$ —	\$ —	\$ —	\$ —
Short-term borrowings	1,959,773	—	—	—	—	—
Commercial paper	4,063,575	—	—	—	—	—
Securities sold under repurchase agreements	45,427,648	—	—	—	—	—
Cash collateral received for securities lent	38,558,880	—	—	—	—	—
Long-term borrowings	—	8,192	—	—	—	24,578
Total	\$105,235,175	\$ 8,192	\$ —	\$ —	\$ —	\$ 24,578

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

3. Breakdown of financial instruments by each fair value level

The fair value of financial instruments is classified into the following three levels, depending on the observability and materiality of the inputs used to measure fair value.

Level 1: Fair value based on quoted market prices for assets or liabilities that are the subject of the calculation of such fair value in an active market amongst the inputs to the measurement of observable fair value

Level 2: Fair value measured using inputs for the calculation of fair value other than Level 1 inputs amongst the inputs to the measurement of observable fair value

Level 3: Fair value measured using unobservable inputs for fair value calculations

Fair value is classified at the lowest priority level in the measurement of fair value among the levels to which each of those inputs belong where multiple inputs are used that have a significant impact on the measurement of fair value.

(1) Financial instruments that are stated at fair value in the accompanying consolidated balance sheets Current fiscal year (As of March 31, 2022)

Classification	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Equity securities	¥ 12,022	¥ —	¥ —	¥ 12,022
Government and local bonds	467,407	60,418	—	527,826
Corporate bonds	—	447,409	—	447,409
Other	80,764	44,836	—	125,600
Derivative transactions				
Currency-related	—	11	—	11
Interest-related	—	12,736	—	12,736
Debt-related	114	—	—	114
Assets total	¥ 560,308	¥ 565,412	¥ —	¥ 1,125,720
Derivative transactions				
Currency-related	¥ —	¥ 122	¥ —	¥ 122
Interest-related	—	6,111	—	6,111
Equity securities-related	943	—	—	943
Liabilities total	¥ 943	¥ 6,233	¥ —	¥ 7,176

Note Investment trusts of ¥29,504 million (\$241,718 thousand) recorded on the consolidated balance sheets at fair value are not included in the table above in accordance with Paragraph 26 of the “Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019).

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

Classification	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Equity securities	\$ 98,494	\$ —	\$ —	\$ 98,494
Government and local bonds	3,829,326	494,993	—	4,324,319
Corporate bonds	—	3,665,484	—	3,665,484
Other	661,674	367,328	—	1,029,003
Derivative transactions				
Currency-related	—	93	—	93
Interest-related	—	104,349	—	104,349
Debt-related	936	—	—	936
Assets total	\$ 4,590,432	\$ 4,632,249	\$ —	\$ 9,222,681
Derivative transactions				
Currency-related	\$ —	\$ 999	\$ —	\$ 999
Interest-related	—	50,067	—	50,067
Equity securities-related	7,726	—	—	7,726
Liabilities total	\$ 7,726	\$ 51,067	\$ —	\$ 58,793

(2) Financial instruments other than that are stated at fair value in the accompanying consolidated balance sheets

Current fiscal year (As of March 31, 2022)

Classification	Millions of yen			
	Fair value			
	Level 1	Level 2	Level 3	Total
Operating loans	¥ —	¥ 526,090	¥ 365,306	¥ 891,396
Securities and investment securities				
Held-to-maturity securities				
Government and local bonds	1,673	—	—	1,673
Assets total	¥ 1,673	¥ 526,090	¥ 365,306	¥ 893,070

Classification	Thousands of U.S. dollars			
	Fair value			
	Level 1	Level 2	Level 3	Total
Operating loans	\$ —	\$ 4,310,093	\$ 2,992,846	\$ 7,302,939
Securities and investment securities				
Held-to-maturity securities				
Government and local bonds	13,713	—	—	13,713
Assets total	\$ 13,713	\$ 4,310,093	\$ 2,992,846	\$ 7,316,653

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

Note Explanation of valuation methods and inputs used to calculate fair value

Securities and investment securities

Listed stocks, government bonds, local bonds and corporate bonds are valued using the quoted market prices. Fair value of listed stocks and government bonds is classified as level 1 because these prices involve transactions on active markets. On the other hand, fair value of local and corporate bonds is classified as level 2 due to infrequent trading in the market and the prices are not considered as quoted price in an active market.

Operating loans

For loans with variable interest rates, the carrying amounts are used as the fair value because the fair value approximates the carrying amounts if the credit conditions of the borrowers have not changed significantly since the loans were made, as the variable interest rate reflects the market interest rates in a short period of time. For those with fixed interest rates, the fair value is calculated by discounting the total amount of principal and interest by the market interest rate for each category based on the type of loan, internal rating, and term. The fair value of doubtful receivables is calculated based on the estimated amount of collection from collateral and guarantees, etc. and the fair value approximates the balance sheet amount on the end of consolidated fiscal year less the current estimated uncollectable amount, and such amounts are used as the fair value. Credit risk and other factors are considered in calculating these fair values, and if the impact of unobservable inputs is significant, the fair value is classified as Level 3; otherwise, the fair value is classified as Level 2.

Derivative transactions

Bond futures and stock index futures transactions are valued using quoted market prices and are classified as Level 1 because they are traded in active markets. The fair values of interest rate swaps and foreign exchange contracts are determined using the discounted present value method with observable inputs such as interest rates and foreign exchange rates, and are classified as Level 2.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Securities)

1. Held-to-maturity debt securities with market value

Previous fiscal year (As of March 31, 2021)

	Type	Millions of yen		
		Carrying amount	Fair value	Differences
Fair value exceeds the carrying amount	(1) Government bonds, local bonds, etc.	¥ 1,512	¥ 1,706	¥ 194
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥ 1,512	¥ 1,706	¥ 194
Fair value not exceed the carrying amount	(1) Government bonds, local bonds, etc.	¥ —	¥ —	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥ —	¥ —	—
Total	¥ 1,512	¥ 1,706	¥ 194	

Current fiscal year (As of March 31, 2022)

	Type	Millions of yen		
		Carrying amount	Fair value	Differences
Fair value exceeds the carrying amount	(1) Government bonds, local bonds, etc.	¥ 1,511	¥ 1,673	¥ 162
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥ 1,511	¥ 1,673	¥ 162
Fair value not exceed the carrying amount	(1) Government bonds, local bonds, etc.	¥ —	¥ —	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	¥ —	¥ —	—
Total	¥ 1,511	¥ 1,673	¥ 162	

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

		Thousands of U.S. dollars		
	Type	Carrying amount	Fair value	Differences
Fair value exceeds the carrying amount	(1) Government bonds, local bonds, etc.	\$ 12,380	\$ 13,713	\$ 1,332
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	\$ 12,380	\$ 13,713	\$ 1,332
Fair value not exceed the carrying amount	(1) Government bonds, local bonds, etc.	\$ —	\$ —	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	\$ —	\$ —	—
Total		\$ 12,380	\$ 13,713	\$ 1,332

2. Available-for-sale securities with market value

Previous fiscal year (As of March 31, 2021)

		Millions of yen		
	Type	Carrying amount	Acquisition cost	Differences
Carrying amount exceeding acquisition cost	(1) Equity securities	¥ 15,018	¥ 4,381	¥ 10,636
	(2) Bonds			
	Government bonds, local bonds, etc.	352,041	329,154	22,886
	Corporate bonds	62,897	62,811	86
	Other	36,471	34,220	2,250
	(3) Others	16,318	12,755	3,562
	Subtotal	¥ 482,747	¥ 443,325	¥ 39,422
Carrying amount not exceeding acquisition cost	(1) Equity securities	¥ 319	¥ 345	(25)
	(2) Bonds			
	Government bonds, local bonds, etc.	158,348	163,642	(5,293)
	Corporate bonds	292,601	293,014	(413)
	Other	19,535	20,194	(659)
	(3) Others	1,188	1,211	(23)
	Subtotal	¥ 471,993	¥ 478,408	¥ (6,414)
Total		¥ 954,741	¥ 921,733	¥ 33,007

Note Consolidated balance sheet carrying amounts of ¥1,716 million for unlisted equity securities, ¥14,571 million for unlisted REITs and ¥1,503 million for investments in investment limited partnership are not included above because they do not have market prices and their fair value is extremely difficult to measure.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

Current fiscal year (As of March 31, 2022)

		Millions of yen		
Type		Carrying amount	Acquisition cost	Differences
Carrying amount exceeding acquisition cost	(1) Equity securities	¥ 11,708	¥ 3,890	¥ 7,818
	(2) Bonds			
	Government bonds, municipal bonds, etc.	266,390	250,879	15,511
	Corporate bonds	11,733	11,700	32
	Other	42,943	40,264	2,679
	(3) Others	14,829	10,407	4,421
	Subtotal	¥ 347,606	¥ 317,142	¥ 30,463
	(1) Equity securities	¥ 313	¥ 345	(32)
	(2) Bonds			
	Government bonds, local bonds, etc.	261,435	272,679	(11,243)
Corporate bonds	435,675	436,495	(819)	
Other	82,656	85,229	(2,573)	
(3) Others	14,674	14,674	(0)	
Subtotal	¥ 794,756	¥ 809,424	¥ (14,668)	
Total	¥ 1,142,362	¥ 1,126,567	¥ 15,794	

Note Consolidated balance sheet carrying amounts of ¥1,765 million (\$14,467 thousand) for unlisted equity securities, and ¥1,986 million (\$16,272 thousand) for investments in investment limited partnership are not included above because they do not have market prices and their fair value is extremely difficult to measure.

		Thousands of U.S. dollars		
Type		Carrying amount	Acquisition cost	Differences
Carrying amount exceeding acquisition cost	(1) Equity securities	\$ 95,926	\$ 31,872	\$ 64,054
	(2) Bonds			
	Government bonds, local bonds, etc.	2,182,458	2,055,378	127,080
	Corporate bonds	96,125	95,859	266
	Other	351,824	329,872	21,952
	(3) Others	121,493	85,268	36,224
	Subtotal	\$ 2,847,828	\$ 2,598,251	\$ 249,577
	(1) Equity securities	\$ 2,567	\$ 2,831	(264)
	(2) Bonds			
	Government bonds, local bonds, etc.	2,141,861	2,233,977	(92,116)
Corporate bonds	3,569,359	3,576,070	(6,711)	
Other	677,178	698,261	(21,082)	
(3) Others	120,224	120,224	0	
Subtotal	\$ 6,511,191	\$ 6,631,366	\$ (120,174)	
Total	\$ 9,359,020	\$ 9,229,617	\$ 129,402	

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

3. Available-for-sale securities sold during the fiscal year

Previous fiscal year (From April 1, 2020 to March 31, 2021)

	Millions of yen		
	Proceeds from sale	Gross realized gains	Gross realized losses
(1) Equity securities	¥ 1,993	¥ 739	¥ —
(2) Bonds			
Government bonds, local bonds, etc.	—	—	—
Corporate bonds	16,633	1	34
Other	—	—	—
(3) Others	1,492	0	695
	¥ 20,119	¥ 741	¥ 729

Current fiscal year (From April 1, 2021 to March 31, 2022)

	Millions of yen		
	Proceeds from sale	Gross realized gains	Gross realized losses
(1) Equity securities	¥ 2,778	¥ 1,344	¥ 300
(2) Bonds			
Government bonds, local bonds, etc.	7,412	7	2
Corporate bonds	—	—	—
Other	7,869	57	277
(3) Others	3,832	46	1,127
	¥ 21,892	¥ 1,456	¥ 1,707

	Thousands of U.S. dollars		
	Proceeds from sale	Gross realized gains	Gross realized losses
(1) Equity securities	\$ 22,763	\$ 11,017	\$ 2,461
(2) Bonds			
Government bonds, local bonds, etc.	60,727	58	16
Corporate bonds	—	—	—
Other	64,471	470	2,276
(3) Others	31,399	384	9,234
	\$ 179,361	\$ 11,930	\$ 13,989

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Derivative Transactions)

1. Derivative transactions for which hedge accounting is not applied

Currency-related

Previous fiscal year (As of March 31, 2021)

Category	Nature of transaction	Millions of yen			
		2021			
		Contract amounts	Of which within one year	Fair value	Gains or losses on valuation
	Forward exchange contract:				
	Sell:				
Non-market transactions	U.S. dollars	¥ 525	¥ —	¥ (12)	¥ (12)
	Euro	5	—	(0)	(0)
	Australian dollars	52	—	(0)	(0)
	Buy:				
	U.S. dollars	10,921	—	161	161

Current fiscal year (As of March 31, 2022)

Category	Nature of transaction	Millions of yen			
		2022			
		Contract amounts	Of which within one year	Fair value	Gains or losses on valuation
	Forward exchange contract:				
	Sell:				
Non-market transactions	U.S. dollars	¥ 1,024	¥ —	¥ (34)	¥ (34)
	Euro	1,375	—	(61)	(61)
	Australian dollars	640	—	(24)	(24)
	Buy:				
	U.S. dollars	182	—	9	9

Category	Nature of transaction	Thousands of U.S. dollars			
		2022			
		Contract amounts	Of which within one year	Fair value	Gains or losses on valuation
	Forward exchange contract:				
	Sell:				
Non-market transactions	U.S. dollars	\$ 8,393	\$ —	\$ (281)	\$ (281)
	Euro	11,272	—	(504)	(504)
	Australian dollars	5,250	—	(198)	(198)
	Buy:				
	U.S. dollars	1,492	—	78	78

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

2. Derivative transactions for which hedge accounting is applied

(1) Interest rate derivatives

Previous fiscal year (As of March 31, 2021)

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen		
			Contract or notional amounts	Of which over one year	Fair value
			2021		
*1	Interest rate swaps: Variable rate received for fixed rate	Securities and Investments securities	¥ 720,862	¥ 716,953	¥ (10,559)
*2	Interest rate swaps: Variable rate received for fixed rate	Operating loans	¥ 563,060	¥ 19,869	¥ *3
	Variable rate paid for fixed rate	Long-term borrowings	¥ 3,000	¥ 3,000	¥ *3

Notes:

*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.

Current fiscal year (As of March 31, 2022)

Hedge accounting method	Nature of transaction	Hedged items	Millions of yen		
			Contract or notional amounts	Of which over one year	Fair value
			2022		
*1	Interest rate swaps: Variable rate received for fixed rate	Securities and Investments securities	¥ 825,668	¥ 808,349	¥ 6,625
*2	Interest rate swaps: Variable rate received for fixed rate	Operating loans	¥ 98,427	¥ 19,180	¥ *3
	Variable rate paid for fixed rate	Long-term borrowings	¥ 3,000	¥ 3,000	¥ *3

Notes:

*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.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

			Thousands of U.S. dollars		
			2022		
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Of which over one year	Fair value
*1	Interest rate swaps: Variable rate received for fixed rate	Securities and Investments securities	\$ 6,764,443	\$ 6,622,554	\$ 54,282
*2	Interest rate swaps: Variable rate received for fixed rate Variable rate paid for fixed rate	Operating loans Long-term borrowings	\$ 806,382 \$ 24,578	\$ 157,135 \$ 24,578	\$ *3 \$ *3

Notes:

*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.

(2) Bond derivatives

Previous fiscal year (As of March 31, 2021)

No items to report.

Current fiscal year (As of March 31, 2022)

			Millions of yen		
			2022		
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Of which over one year	Fair value
*1	Bond futures: Sell	Investments securities	¥ 3,053	¥ —	¥ 114

Note *1 Deferred hedge accounting is applied.

			Thousands of U.S. dollars		
			2022		
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Of which over one year	Fair value
*1	Bond futures: Sell	Investments securities	\$ 25,019	\$ —	\$ 936

Note *1 Deferred hedge accounting is applied.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(3) Stock derivatives

Previous fiscal year (As of March 31, 2021)

			Millions of yen		
			2021		
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Of which over one year	Fair value
*1	Stock index futures:				
	Sell	Investments securities	¥ 15,186	¥ —	(514)

Note *1 Deferred hedge accounting is applied.

Current fiscal year (As of March 31, 2022)

			Millions of yen		
			2022		
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Of which over one year	Fair value
*1	Stock index futures:				
	Sell	Investments securities	¥ 8,984	¥ —	(943)

Note *1 Deferred hedge accounting is applied.

			Thousands of U.S. dollars		
			2022		
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Of which over one year	Fair value
*1	Stock index futures:				
	Sell	Investments securities	\$ 73,603	\$ —	(7,726)

Note *1 Deferred hedge accounting is applied.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Retirement Benefits)

1. Outline of retirement benefit plans

The Company has defined benefit plans which consist of a defined benefit corporate pension plan and a lump-sum retirement benefit plan, and a defined contribution pension plan. The Company has established retirement benefit trust for the defined benefit corporate pension plan and the lump-sum retirement benefit plan.

Consolidated subsidiaries' main retirement plan is a defined benefit lump-sum retirement plan and the simplified method has been adopted for the calculation of retirement benefit liability and retirement benefit expenses for the plans.

2. Defined benefit plan

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

	Millions of yen		Thousands of U.S. dollars	
	2022	2021	2022	
Retirement benefit obligation at beginning of year	¥ 9,421	¥ 9,470	\$ 77,187	
Service cost	320	331	2,625	
Interest cost	28	28	231	
Actuarial gains and losses	(213)	6	(1,749)	
Benefits paid	(369)	(415)	(3,024)	
Retirement benefit obligation at end of year	¥ 9,187	¥ 9,421	\$ 75,270	

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

	Millions of yen		Thousands of U.S. dollars	
	2022	2021	2022	
Plan assets at beginning of year	¥ 9,482	¥ 8,209	\$ 77,687	
Expected return on plan assets	189	164	1,553	
Actuarial gains and losses	106	1,210	869	
Employer contributions	119	184	978	
Benefits paid	(273)	(286)	(2,238)	
Plan assets at end of year	¥ 9,624	¥ 9,482	\$ 78,851	

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

	Millions of yen		Thousands of U.S. dollars	
	2022	2021	2022	
Retirement benefit liability at beginning of year	¥ 184	¥ 179	\$ 1,512	
Retirement benefit expenses	51	18	424	
Benefits paid	(22)	(12)	(181)	
Contributions	(0)	(0)	(3)	
Retirement benefit liability at end of year	¥ 213	¥ 184	\$ 1,752	

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

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

	Millions of yen				Thousands of
	2022		2021		U.S. dollars
					2022
Funded retirement benefit obligation	¥	9,187	¥	9,421	\$ 75,270
Plan assets		(9,624)		(9,482)	(78,851)
		(437)		(61)	(3,581)
Unfunded retirement benefit obligation		213		184	1,752
Net liability and asset recognized in consolidated balance sheets	¥	(223)	¥	123	\$ (1,829)
		213		123	1,752
Liability for retirement benefit	¥	(437)	¥	—	\$ (3,581)
Net liability and asset recognized in consolidated balance sheets	¥	(223)	¥	123	\$ (1,829)

(5) The components of retirement benefit expenses

	Millions of yen				Thousands of
	2022		2021		U.S. dollars
					2022
Service cost	¥	320	¥	331	\$ 2,625
Interest cost		28		28	231
Expected return on plan assets		(189)		(164)	(1,553)
Amortization of actuarial gains or losses		1		201	13
Retirement benefit expenses calculated by the simplified method		51		18	424
Retirement benefit expenses	¥	212	¥	416	\$ 1,740

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

	Millions of yen				Thousands of
	2022		2021		U.S. dollars
					2022
Actuarial gains or losses	¥	321	¥	1,405	\$ 2,632
Total	¥	321	¥	1,405	\$ 2,632

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

	Millions of yen				Thousands of
	2022		2021		U.S. dollars
					2022
Unamortized actuarial gains or losses	¥	(309)	¥	11	\$ (2,537)
Total	¥	(309)	¥	11	\$ (2,537)

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(8) Plan assets

(a) Percentage by major category of plan assets

	2022	2021
Debt securities	39.1%	40.3%
Equity securities	34.3	33.1
General account	9.4	9.8
Other	17.2	16.8
Total	100.0%	100.0%

Note Plan assets as of March 31, 2022 and 2021 include the retirement benefit trust contributed for the years ended March 31, 2022 and 2021 which are 9.4% and 9.6% 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, 2022 and 2021 are as follows:

	2022	2021
(a) Discount rate	0.5%	0.3%
(b) Long-term expected rate of return on plan assets	2.0%	2.0%
(c) Expected salary increase rate	5.2%	5.2%

3. Defined contribution plans

For the years ended March 31, 2022 and 2021, the amount to be paid by the Company and its consolidated subsidiaries to the defined contribution plans was ¥36 million (\$296 thousand) and ¥35 million, respectively.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Tax Effect Accounting)

1. The principal components of deferred tax assets and deferred tax liabilities are as follows:

	Millions of yen		Thousands of
	2022	2021	U.S. dollars
Deferred tax assets:			2022
Accrued business tax	¥ 103	¥ 110	\$ 849
Accrued bonuses	143	141	1,177
Retirement benefit liability	843	852	6,911
Allowance for doubtful accounts	24	37	198
Deferred losses on hedges	10,259	10,323	84,050
Net unrealized loss on available-for-sale securities	5,003	1,667	40,989
Other	305	305	2,501
Subtotal	16,682	13,438	136,678
Valuation allowance	(87)	(4,742)	(713)
Deferred tax assets total	16,595	8,696	135,964
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(154)	(154)	(1,269)
Net unrealized gain on other securities	(9,379)	(11,667)	(76,845)
Gain on evaluation of acquired assets by merger	(452)	(537)	(3,709)
Deferred loss on hedges	(9,390)	(4,750)	(76,936)
Other	(229)	(84)	(1,879)
Deferred tax liabilities total	(19,607)	(17,194)	(160,641)
Net deferred tax liabilities	¥ (3,011)	¥ (8,498)	\$ 24,676

2. The reconciliation of the statutory tax rate and the effective tax rate when there is a significant difference

	2022	2021
Statutory tax rate	30.6%	
Equity in gains of affiliates	(1.9)	
Expenses not deductible for tax purposes	0.5	
Valuation allowance	(1.0)	*1
Income not credited for tax purposes	(6.9)	
Elimination of dividend income	5.6	
Other	0.7	
Effective tax rate	27.6%	

Note *1 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.

(Revenue Recognition)

Information on the revenue recognition is omitted as revenue subject to the "Account Standards for Revenue Recognition" is immaterial for "Securities finance business," "Trust banking business" and "Real estate leasing business" which are conducted by the Group.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Segment Information)

1. Outline of the reportable segments

The reportable segments of the Group are the business units for which the Group 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., a consolidated subsidiary and “Real estate leasing business” conducted by Nihon Building Co., Ltd., a consolidated subsidiary, are the Group’s reportable segments.

“Securities finance business” is engaged in providing loan services, government and corporate 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 the Group.

2. Calculation methods of operating revenue, profit or loss, assets, liabilities and other items for each reportable segment.

As the methods of accounting treatment for the reported business segments are the same as description in the “Basis of Presentation of the Consolidated Financial Statements”.

Profits by reportable segments are based on ordinary profit base. Intersegment revenue and transfer are based on arms-length transactions.

3. Information on operating revenue, profit or loss, assets, liabilities and other items for each reportable segment

Previous fiscal year (From April 1, 2020 to March 31, 2021)

	Millions of yen						
	2021						
	Securities finance		Trust banking		Real estate leasing		Total
Revenues:							
Revenues to third parties	¥	27,534	¥	2,481	¥	908	¥ 30,924
Intersegment revenues and transfers		16		143		386	546
Total	¥	27,550	¥	2,624	¥	1,295	¥ 31,470
Segment profit	¥	4,484	¥	1,254	¥	715	¥ 6,454
Segment assets	¥	10,711,091	¥	1,517,947	¥	10,084	¥ 12,239,123
Others:							
Depreciation and amortization	¥	1,196	¥	58	¥	101	¥ 1,356
Interest income		258		—		15	273
Income taxes		974		397		258	1,630

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2022

Current fiscal year (From April 1, 2021 to March 31, 2022)

	Millions of yen						
	2022						
	Securities finance	Trust banking	Real estate leasing				Total
Revenues:							
Revenues to third parties	¥ 26,558	¥ 2,737	¥ 841	¥	¥	¥	30,138
Intersegment revenues and transfers	28	222	445				696
Total	¥ 26,586	¥ 2,960	¥ 1,286	¥	¥	¥	30,834
Segment profit	¥ 5,928	¥ 1,385	¥ 707	¥	¥	¥	8,021
Segment assets	¥ 12,714,123	¥ 1,557,744	¥ 9,614	¥	¥	¥	14,281,482
Others:							
Depreciation and amortization	¥ 993	¥ 104	¥ 96	¥	¥	¥	1,194
Interest income	294	—	16				311
Income taxes	1,371	361	241				1,974

	Thousands of U.S. dollars						
	2022						
	Securities finance	Trust banking	Real estate leasing				Total
Revenues:							
Revenues to third parties	\$ 217,585	\$ 22,431	\$ 6,894	\$	\$	\$	246,911
Intersegment revenues and transfers	230	1,824	3,646				5,702
Total	\$ 217,816	\$ 24,256	\$ 10,541	\$	\$	\$	252,613
Segment profit	\$ 48,573	\$ 11,348	\$ 5,794	\$	\$	\$	65,716
Segment assets	\$ 104,162,902	\$ 12,762,119	\$ 78,765	\$	\$	\$	117,003,787
Others:							
Depreciation and amortization	\$ 8,143	\$ 854	\$ 791	\$	\$	\$	9,789
Interest income	2,412	—	139				2,551
Income taxes	11,236	2,964	1,979				16,180

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

4. Reconciliation between total amounts of reportable segments and consolidated financial statements

Operating profit	Millions of yen		Thousands of U.S. dollars	
	2022	2021	2022	
Total segment profit	¥ 30,834	¥ 31,470	\$ 252,613	
Elimination of intersegment transactions	(696)	(546)	(5,702)	
Other	—	—	—	
Operating profit in consolidated financial statements	¥ 30,138	¥ 30,924	\$ 246,911	

Ordinary profit	Millions of yen		Thousands of U.S. dollars	
	2022	2021	2022	
Total segment profit	¥ 8,021	¥ 6,454	\$ 65,716	
Elimination of intersegment transactions	(1,303)	(1,291)	(10,675)	
Share of profit of entities accounted for using equity method	446	395	3,660	
Other	—	—	—	
Ordinary profit in consolidated financial statements	¥ 7,164	¥ 5,558	\$ 58,700	

Assets	Millions of yen		Thousands of U.S. dollars	
	2022	2021	2022	
Total segment assets	¥ 14,281,482	¥ 12,239,123	\$ 117,003,787	
Elimination of intersegment credits	(91,221)	(80,548)	(747,352)	
Elimination of investments and capital	(26,268)	(26,268)	(215,212)	
Other	4,664	3,923	38,215	
Total assets in consolidated financial statements	¥ 14,168,656	¥ 12,136,229	\$ 116,079,437	

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

Other items	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	1,356
Interest income	273	(15)	258	258
Income taxes	1,630	0	1,630	1,630
<u>March 31, 2022</u>				
Depreciation and amortization	¥ 1,194	¥ 0	¥ 1,195	1,195
Interest income	311	(16)	294	294
Income taxes	1,974	(2)	1,972	1,972

Other items	Thousands of U.S. dollars			Amounts in the consolidated financial statements
	Segment total	Adjustments		
<u>March 31, 2022</u>				
Depreciation and amortization	\$ 9,789	\$ 2	\$ 9,791	9,791
Interest income	2,551	(139)	2,412	2,412
Income taxes	16,180	(19)	16,161	16,161

[Related information]

Previous fiscal year (From April 1, 2020 to March 31, 2021)

1. Information by products and services

	Millions of yen			
	2021			
	Loans for margin transaction	Bond lending	Other	Total
Operating revenue to external customers	¥ 11,359	¥ 9,553	¥ 10,011	¥ 30,924

2. Geographic information

(1) Operating revenue

Because revenues from external customers inside Japan are over 90% of operating revenue in the consolidated statement of income, the geographic information is not disclosed.

(2) Property, plant and equipment

Because there are no property, plant and equipment outside Japan, the geographic information is not disclosed.

3. Information by major customers

Because no particular customer whose operating revenue is over 10% of operating revenue in the consolidated statement of income exists, the information by major customers is not disclosed.

Notes to Consolidated Financial Statements
 Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
 Year ended March 31, 2022

Current fiscal year (From April 1, 2021 to March 31, 2022)

1. Information by products and services

	Millions of yen			
	2022			
	Loans for margin transaction	Bond lending	Other	Total
Operating revenue to external customers	¥ 6,118	¥ 11,985	¥ 12,033	¥ 30,138

	Thousands of U.S. dollars			
	2022			
	Loans for margin transaction	Bond lending	Other	Total
Operating revenue to external customers	\$ 50,127	\$ 98,194	\$ 98,589	\$ 246,911

2. Geographic information

(1) Operating revenue

Because revenues from external customers inside Japan are over 90% of operating revenue in the consolidated statement of income, the geographic information is not disclosed.

(2) Property, plant and equipment

Because there are no property, plant and equipment outside Japan, the geographic information is not disclosed.

3. Information by major customers

Because no particular customer whose operating revenue is over 10% of operating revenue in the consolidated statement of income exists, the information by major customers is not disclosed.

[Information of impairment losses on fixed assets by reportable segments]

No items to report.

[Amortization and unamortized balance of goodwill by reportable segments]

No items to report.

[Negative goodwill incurred by reported segments]

No items to report.

[Information of related parties]

1. Business transactions with related parties

No items to report.

2. Note to significant affiliate companies

No items to report.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Per Share Information)

	Yen		U.S. dollars	
	2022	2021	2022	
Net assets per share	¥ 1,545.03	¥ 1,473.24	\$ 12.65	
Profit per share	56.61	43.28	0.46	

Notes:

1. Diluted profit per share for the previous and current fiscal year are not stated as there are no potential shares that have dilutive effect.
2. The basis for calculating net assets per share is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2022	2021	2022	
Total net assets	¥ 137,996	¥ 135,166	\$ 1,130,565	
Amount deducted from total net assets	—	—	—	
Net assets applicable to common shareholders	¥ 137,996	¥ 135,166	\$ 1,130,565	

	Number of shares (Thousands)	
	2022	2021
Number of common shares outstanding	96,000	96,000
Number of common treasury shares	6,683	4,252
Number of common shares outstanding on which net assets per share is calculated	89,316	91,747

3. The basis for calculating profit per share is as follows:

	Millions of yen		Thousands of U.S. dollars	
	2022	2021	2022	
Profit attributable to owners of parent	¥ 5,174	¥ 3,971	\$ 42,392	
Profit not attributable to common shareholders	—	—	—	
Profit applicable to common shareholders of the parent company	¥ 5,174	¥ 3,971	\$ 42,392	

	Number of shares (Thousands)	
	2022	2021
Weighted average number of common shares	91,401	91,744

4. For calculating “Net assets per share”, the Company’s own stocks which are held by the trust (BBT) (1,137 and 1,077 thousands shares for previous and current fiscal year, respectively) are included in the treasury stocks which are excluded from the calculation of number of shares outstanding at end of year.

For calculating “Profit per share”, the Company’s own stocks which are held by the trust (BBT) (765 and 1,086 thousands shares for previous and current fiscal year, respectively) are included in the treasury stocks which are excluded from the calculation of weighted average number of shares.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(Subsequent Event)

(Acquisition of treasury shares)

The Company's Board of Directors held on May 10, 2022 has resolved to acquire treasury shares pursuant to the provisions of Article 156 of the Companies Act, as applied by replacing the relevant terms pursuant to the provisions of Article 165, paragraph (3) of the same Act.

1. Reasons for the acquisition of treasury shares

The Company acquires treasury shares in accordance with Shareholder Return Policy, aim for a total return ratio of 100% on a cumulative basis from FY2021 through FY2025 by the flexible payment of dividends and acquisition of treasury shares.

2. Details of matters related to acquisition

(1) Class of shares to be acquired

Common shares of the Company

(2) Total number of shares to be acquired

Up to 3,200,000 shares (3.5% of the total number of issued shares excluding treasury shares)

(3) Total amount of share acquisition costs

UP to ¥3,000 million (\$24,578 thousand)

(4) Acquisition period

From May 11, 2022 to March 31, 2023

Supplementary Information to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(v) Supplementary Statements

[Detailed Schedule of Bonds]

No items to report.

[Detailed Schedule of Borrowings]

Classification	Millions of yen				
	2022				
	At the beginning of the fiscal year	At the end of the fiscal year	Average interest rates	Repayment due	
Short-term borrowings	¥ 137,594	¥ 239,210	0.007 %	—	
Long-term borrowings due within one year	—	—	—	—	
Lease obligation due within one year	—	—	—	—	
Long-term borrowings (except for due within one year)	3,000	4,000	0.543 %	From November 2023 To April 2031	
Lease obligation (except for due within one year)	—	—	—	—	
Other interest-bearing liabilities:					
Call money (due within one year)	1,706,600	1,858,400	(0.011)%	—	
Commercial papers (due within one year)	613,000	496,000	0.001 %	—	
Total	¥ 2,460,194	¥ 2,597,610	—	—	

Note

1 Average interest rates are calculated based on the interest rates at the end of the fiscal year.

2 Cash collateral received for securities lent is excluded from other interest-bearing liabilities.

3 The amounts of long-term borrowings (except for due within one year) due within five years of the end of the fiscal year are as follows:

	Millions of yen			
	2022			
	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
Long-term borrowings	¥ 1,000	¥ —	¥ —	¥ —

Supplementary Information to Consolidated Financial Statements
 Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
 Year ended March 31, 2022

Classification	Thousands of U.S. dollars			
	2022			
	At the beginning of the fiscal year	At the end of the fiscal year	Average interest rates	Repayment due
Short-term borrowings	\$ 1,127,265	\$ 1,959,773	0.007 %	—
Long-term borrowings due within one year	—	—	—	—
Lease obligation due within one year	—	—	—	—
Long-term borrowings (except for due within one year)	24,578	32,770	0.543 %	From November 2023 To April 2031
Lease obligation (except for due within one year)	—	—	—	—
Other interest-bearing liabilities:				
Call money (due within one year)	13,981,648	15,225,299	(0.011)%	—
Commercial papers (due within one year)	5,022,120	4,063,575	0.001 %	—
Total	\$ 20,155,611	\$ 21,281,418	—	—

Note

1 Average interest rates are calculated based on the interest rates at the end of the fiscal year.

2 Cash collateral received for securities lent is excluded from other interest-bearing liabilities.

3 The amounts of long-term borrowings (except for due within one year) due within five years of the end of the fiscal year are as follows:

	Thousands of U.S. dollars			
	2022			
	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
Long-term borrowings	\$ 8,192	\$ —	\$ —	\$ —

[Detailed Schedule of Asset Retirement Obligations]

Pursuant to Article 92-2 of the Regulations for Consolidated Financial Statements, this information has been omitted because the balance of asset retirement obligations at the beginning and at the end of the fiscal year ended March 31, 2022 was less than 1/100th of the balance of liabilities and net assets at the beginning and at the end of the fiscal year ended March 31, 2022.

Supplementary Information to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(2) Other

Quarterly information for the current fiscal year

Cumulative period	Millions of yen			
	2022			
	First quarter	Second quarter	Third quarter	Fourth quarter
Operating revenue	¥ 7,406	¥ 15,056	¥ 22,362	¥ 30,138
Profit before income taxes	2,504	3,875	5,649	7,147
Profit attributable to owners of parent	1,778	2,745	4,032	5,174

	Yen			
	2022			
	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share (Cumulative period)	¥ 19.38	¥ 29.91	¥ 43.94	¥ 56.61
Profit per share (Quarterly period)	19.38	10.53	14.03	12.65

Cumulative period	Thousands of U.S. dollars			
	2022			
	First quarter	Second quarter	Third quarter	Fourth quarter
Operating revenue	\$ 60,679	\$ 123,355	\$ 183,211	\$ 246,911
Profit before income taxes	20,515	31,752	46,284	58,553
Profit attributable to owners of parent	14,571	22,489	33,038	42,392

	U.S. dollars			
	2022			
	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share (Cumulative period)	\$ 0.15	\$ 0.24	\$ 0.35	\$ 0.46
Profit per share (Quarterly period)	0.15	0.08	0.11	0.10

Independent Auditor's Report

To the Board of Directors
 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, 2022, and the consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the annexed consolidated detailed schedules.

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, 2022, 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 judgment, 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 operation of the new banking accounting system of JSF Trust and Banking Co.,Ltd.</p> <p>JSF Trust and Banking Co.,Ltd. (hereinafter referred to as "JSF Trust and Banking"), a subsidiary of Japan Securities Finance Co, Ltd. (hereinafter referred to as "the Company") introduced a new banking account system (hereinafter referred to as "the new system") in the current consolidated fiscal year as part of efforts to improve the efficiency of banking operations and strengthen the failure management system. In accordance with this, JSF Trust and Banking has been conducting data migration of the former banking account system (hereinafter referred to as the "old system").</p>	<p>With the involvement of our IT specialists, we conducted the following audit procedures with respect to the operation of the new system, primarily to verify the reliability of the new system and data migration, and to assess the effectiveness of internal control over such business processes, and to verify that the financial information obtained through the new system is processed accurately and comprehensively.</p> <p>1. Reliability of the new system</p> <p>I Assessment of IT general controls We evaluated the IT general controls that the company designed and operated for the operation of the new system. The evaluation procedures performed included:</p>

JSF Trust and Banking is a significant subsidiary in the consolidated group of the Company and the total assets of JSF Trust and Banking recorded in the consolidated balance sheet is 1,557,744 million yen, accounting for 10.9% of the consolidated total assets, which is significant in terms of quantitative materiality. Of the consolidated operating revenue of 30,138 million yen for the current fiscal year, operating revenue recorded through the new system of JSF Trust and Banking accounted for 2,737 million yen, or 9.0% of consolidated operating revenue.

Therefore, in order to ensure the reliability of financial reporting, it is essential that the information processed through the new system is accurate and comprehensive through to financial reporting. In addition, the assessment of above requires appropriate expertise and experience in IT systems.

The new system is a core system covering a wide range of business operations of JSF Trust and Banking. If the new system does not operate properly or if the data migration is incorrect, the financial information obtained from the system may not be reliable and errors may occur in the related accounts and disclosures in the consolidated financial statements of the Company.

Based on the above, we determined the assessment of the operation of the new system of JSF Trust and Banking is particularly important to the Company's consolidated financial statements for the current fiscal year and constitutes a key audit matter.

- By reviewing the approval documents and test result report materials, and by asking questions to the system administrator, we examined whether the series of processes from planning, migration testing, and production launch of the new system were executed under the appropriate implementation, and whether approval procedures were carried out by the appropriate administrator at each step of the process.

- By asking questions to the system administrator while reviewing the system screen and output forms and so forth, we examined whether the authentication function of the application related to the new system would function properly and whether there was a mechanism to grant access rights that matched the division of duties.

- By asking questions to the system administrator after reviewing the automatically output user ID list and other information, we examined whether the status of granting application-level and system-level privileged IDs and managing passwords related to the new system was appropriate.

- We examined whether the backup system and failure management system for the new system were properly constructed by asking questions to the system administrator after reviewing the regular report materials and system failure contact forms of the operation contractor.

II Assessment of migration data
As of the transition date, the following audit procedures were mainly performed using transaction data automatically output from the new system and the old system.

- By comparing the total amounts in the general ledger, we examined whether the transaction data from the old system had been comprehensively transferred to the new system.

- We examined whether the transaction data from the old system was correctly migrated to the new system by confirming the consistency of the registered

	<p>contents of the randomly extracted sample transaction data.</p> <p>2. Assessment of the effectiveness of internal control over business processes We evaluated the effectiveness of internal control over the registration of accounting events into the new system and the approval of journal entries. In particular, we focused on verifying the accuracy of the information processing of the new system incorporated in the internal control by confirming that the registered information was processed correctly and the accounting events were correctly recorded as journal entries. Specifically, the following procedures were mainly implemented.</p> <p>I Income from trust fees</p> <ul style="list-style-type: none"> • We reviewed the trust fee statements and so forth output from the trust business management system, and examined whether information on trust fees was properly registered in the new system in a series of processes under the confirmation by staff and approval procedures by an appropriate administrator. • We reviewed the journal vouchers and others output from the new system and examined whether the information on trust fees registered in the new system was properly processed and accurately journalized by the new system. <p>II Acquisition of securities</p> <ul style="list-style-type: none"> • We reviewed transaction statements and other documents issued by clients and examined whether information on securities acquired through a series of processes, including confirmation by staff and approval procedures by appropriate managers, was properly registered in the new system. • We reviewed the journal vouchers and other documents output from the new system and examined whether the information on securities registered in the new system was properly processed and accurately journalized by the new system.
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Key audit matter	How the scope of our audit addressed the key audit matter
<p data-bbox="213 488 810 544">Assessment of the effectiveness of hedge accounting</p> <p data-bbox="213 577 810 1155">As of March 31, 2022, the Company holds assets under management of 109,724 million yen of short-term investments on current assets, and 1,042,496 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 Transactions). 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 effectiveness of hedge accounting is highly important.</p> <p data-bbox="213 1189 810 1552">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, fluctuations in interest rates, exchange rates, and market values of securities that are hedged items are significantly affected by changes in the domestic and foreign economic environments, including the recent resurgence of infection by the COVID-19 and the situation in Ukraine.</p> <p data-bbox="213 1585 810 2040">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</p>	<p data-bbox="836 488 1380 667">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 data-bbox="836 701 1380 2018" style="list-style-type: none"> <li data-bbox="836 701 1380 1003">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. <li data-bbox="836 1014 1380 1496">2. At the start of implementation of hedging, we evaluated the effectiveness of hedging accounting mainly focusing on the following points. <ul data-bbox="893 1126 1380 1496" style="list-style-type: none"> <li data-bbox="893 1126 1380 1216">• Compliance with risk management policies and others in accordance with the terms of hedging implementation. <li data-bbox="893 1227 1380 1373">• Documentation of hedging instruments, hedged items and methods for determining the effectiveness of hedge accounting, and evaluation of internal approval. <li data-bbox="893 1384 1380 1496">• Examination of applicability of hedge accounting by evaluating the correlation between hedged items and hedging instruments. <li data-bbox="836 1529 1380 2018">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. <ul data-bbox="893 1720 1380 2018" style="list-style-type: none"> <li data-bbox="893 1720 1380 1921">• 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. <li data-bbox="893 1933 1380 2018">• Identification of inputs such as interest rates used in determining the effectiveness of hedge accounting and

<p>complex. The decision requires careful judgment in the market and valuation methods.</p> <p>In addition, the publication of LIBOR was permanently suspended at the end of December 2021 due to the reform of interest rate indices based on recommendations by the Financial Stability Board (FSB). Accordingly, interest rate swaps that reference LIBOR and are held as hedging instruments are treated in a special way as prescribed in the "Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (Practical Issues Task Force No. 40).</p> <p>Based on the above, we determined the assessment of the effectiveness of hedge accounting is particularly important in the consolidated financial statements for the current fiscal year and constitutes a key audit matter.</p>	<p>comparison with available external information.</p> <ul style="list-style-type: none"> Examining the effectiveness of hedge accounting by assessing the correlation between hedged items and hedging instruments. <p>4. We evaluated the interest rate swaps referencing LIBOR held as hedging instruments, focusing primarily on the following points.</p> <ul style="list-style-type: none"> Confirmation that hedge accounting will continue to be applied after the replacement in accordance with the exceptional treatment prescribed in "Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR. By comparing the calculation process of successor interest rates with external information, examine whether the change in contract conditions will result in roughly the same economic effects before and after the replacement of interest rate benchmarks.
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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, 2022, the Company has recorded deferred tax liabilities of 3,011 million yen on its consolidated balance sheet, after offsetting deferred tax assets and deferred tax liabilities. As stated in Income Taxes on Notes, deferred tax assets recognized as recoverable are 16,595 million yen. Of this amount, the Company has recorded deferred tax assets of 14,128 million yen as recoverable.</p> <p>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. As stated in Recoverability of Deferred Tax Assets in Significant Accounting Estimates on Notes, such estimates may be affected by uncertain future economic conditions and other factors, and these involve</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 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 appropriateness of classification by the Company based on profitability. In particular, we assessed whether the business environment is expected to change significantly in the near future by questioning management and cross-checking with relevant documents regarding recent trends in taxable income and the outlook for future taxable income. Regarding temporary differences, we examined the validity of the main

<p>important management judgment and estimation factors.</p> <p>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.</p>	<p>assumptions used for the scheduling of the expected fiscal year to eliminate this temporary difference.</p> <ul style="list-style-type: none"> 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.
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Other Information

The other information comprises the information included in the Report and Accounts that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management, 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.



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- 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.

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.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

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 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.



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Crowe Toyo & Co.
Tokyo, Japan
June 24, 2022