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JAPAN SECURITIES FINANCE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements

March 31, 2023

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, 2022 to March 31, 2023) 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 |
|--|---------------------|---------------------|------------------------------|
| | 2023 | 2022 | (Note) 2023 |
| ASSETS | | | |
| Current assets | | | |
| Cash and deposits *1 | ¥ 1,598,274 | ¥ 1,299,070 | \$ 12,018,912 |
| Securities *1,*5 | 71,013 | 109,724 | 534,019 |
| Operating loans *1,*3 | 955,550 | 891,485 | 7,185,670 |
| Securities purchased under resale agreements | 3,561,406 | 3,928,146 | 26,781,518 |
| Cash collateral provided for securities borrowed | 6,669,821 | 6,499,422 | 50,156,574 |
| Other *1 | 405,951 | 355,293 | 3,052,727 |
| Allowance for doubtful accounts | (165) | (133) | (1,244) |
| Total current assets | 13,261,853 | 13,083,009 | 99,728,179 |
| Non-current assets | | | |
| Property, plant and equipment | | | |
| Buildings and structures | 9,044 | 9,039 | 68,010 |
| Accumulated depreciation | (6,893) | (6,762) | (51,835) |
| Buildings and structures, net | 2,150 | 2,276 | 16,174 |
| Tools, furniture and fixtures | 1,280 | 1,478 | 9,625 |
| Accumulated depreciation | (699) | (1,268) | (5,260) |
| Tools, furniture and fixtures, net | 580 | 210 | 4,365 |
| Land *7 | 3,264 | 3,264 | 24,551 |
| Construction in progress | 1 | 304 | 7 |
| Total property, plant and equipment | 5,997 | 6,056 | 45,099 |
| Intangible assets | 916 | 960 | 6,893 |
| Investments and other assets | | | |
| Investment securities *1,*4,*5 | 745,621 | 1,042,496 | 5,607,018 |
| Bad debts | 81 | 95 | 610 |
| Retirement benefit asset | 1,180 | 437 | 8,873 |
| Other | 40,648 | 35,696 | 305,676 |
| Allowance for doubtful accounts | (81) | (95) | (610) |
| Total investments and other assets | 787,450 | 1,078,629 | 5,921,568 |
| Total non-current assets | 794,364 | 1,085,646 | 5,973,561 |
| Total assets | ¥ 14,056,217 | ¥ 14,168,656 | \$ 105,701,740 |

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) |
|---|-----------------|-------------|--|
| | 2023 | 2022 | 2023 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Call money *1 | ¥ 2,190,400 | ¥ 1,858,400 | \$ 16,471,649 |
| Short-term borrowings *1 | 92,010 | 239,210 | 691,908 |
| Current portion of long-term borrowings | 1,000 | — | 7,519 |
| Commercial papers | 451,000 | 496,000 | 3,391,487 |
| Securities sold under repurchase agreements | 4,781,801 | 5,544,898 | 35,958,799 |
| Cash collateral received for securities lent | 5,073,776 | 4,706,496 | 38,154,429 |
| Income taxes payable | 750 | 879 | 5,640 |
| Provision for bonuses | 495 | 466 | 3,723 |
| Provision for bonuses for directors and other officers | 107 | 106 | 806 |
| Borrowed money from trust account | 871,335 | 1,031,412 | 6,552,376 |
| Other | 219,774 | 137,585 | 1,652,685 |
| Total current liabilities | 13,682,448 | 14,015,456 | 102,891,027 |
| Non-current liabilities | | | |
| Long-term borrowings *1 | 232,700 | 4,000 | 1,749,887 |
| Deferred tax liabilities | 2,196 | 3,011 | 16,519 |
| Deferred tax liabilities for land revaluation *7 | 74 | 74 | 557 |
| Provision for share awards for directors and other officers | 240 | 228 | 1,805 |
| Retirement benefit liability | 217 | 213 | 1,633 |
| Asset retirement obligations | 56 | 55 | 425 |
| Derivatives liabilities | 2,013 | 7,054 | 15,142 |
| Other | 542 | 563 | 4,076 |
| Total non-current liabilities | 238,040 | 15,202 | 1,790,047 |
| Total liabilities | 13,920,489 | 14,030,659 | 104,681,074 |
| NET ASSETS | | | |
| Shareholders' equity | | | |
| Share capital | 10,000 | 10,000 | 75,199 |
| Capital surplus | 8,878 | 8,878 | 66,769 |
| Retained earnings | 118,702 | 115,521 | 892,631 |
| Treasury shares | (7,655) | (4,680) | (57,566) |
| Total shareholders' equity | 129,925 | 129,719 | 977,033 |
| Accumulated other comprehensive income | | | |
| Valuation difference on available-for-sale securities | (4,300) | 9,920 | (32,338) |
| Deferred gains or losses on hedges | 9,782 | (1,967) | 73,561 |
| Revaluation reserve for land *7 | 168 | 168 | 1,263 |
| Remeasurements of defined benefit plans | 152 | 156 | 1,145 |
| Total accumulated other comprehensive income | 5,802 | 8,277 | 43,632 |
| Total net assets | 135,728 | 137,996 | 1,020,665 |
| Total liabilities and net assets | 14,056,217 | 14,168,656 | 105,701,740 |

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 |
|---|-----------------|---------|------------------------------|
| | 2023 | 2022 | (Note) 2023 |
| Operating revenue | | | |
| Interest on loans receivable | ¥ 2,486 | ¥ 2,708 | \$ 18,700 |
| Interest income on securities purchased under resale agreements | 10,683 | 5,714 | 80,339 |
| Interest income on cash collateral provided for securities borrowed | 2,553 | 2,250 | 19,204 |
| Securities lending fees | 12,844 | 9,457 | 96,592 |
| Other operating revenue | 13,949 | 10,006 | 104,899 |
| Total operating revenue | 42,518 | 30,138 | 319,737 |
| Operating expenses | | | |
| Interest expenses | 1,033 | 747 | 7,774 |
| Interest expenses on securities sold under repurchase agreements | 6,015 | 3,614 | 45,236 |
| Securities borrowing fees | 13,456 | 9,357 | 101,195 |
| Other operating expenses | 8,258 | 2,814 | 62,106 |
| Total operating expenses | 28,765 | 16,533 | 216,312 |
| Operating gross profit | 13,753 | 13,604 | 103,425 |
| General and administrative expenses | | | |
| Remuneration, salaries and allowances | 2,897 | 3,008 | 21,787 |
| Retirement benefit expenses | 169 | 248 | 1,270 |
| Provision for bonuses | 495 | 466 | 3,723 |
| Provision for bonuses for directors and other officers | 107 | 106 | 806 |
| Provision for share awards for directors and other officers | 49 | 36 | 368 |
| Depreciation | 682 | 1,195 | 5,128 |
| Provision of allowance for doubtful accounts | 17 | — | 133 |
| Reversal of allowance for doubtful accounts | — | (571) | — |
| Other | 2,981 | 2,876 | 22,419 |
| Total general and administrative expenses *1 | 7,398 | 7,368 | 55,637 |
| Operating profit | ¥ 6,354 | ¥ 6,235 | \$ 47,787 |

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------------|------------------------------|
| | 2023 | 2022 | (Note) 2023 |
| Non-operating income | | | |
| Interest income | ¥ 247 | ¥ 294 | \$ 1,859 |
| Dividend income | 207 | 186 | 1,561 |
| Share of profit of entities accounted for using equity method | 523 | 446 | 3,938 |
| Gain on investments in investment partnerships | 156 | — | 1,173 |
| Miscellaneous income | 122 | 31 | 924 |
| Total non-operating income | 1,257 | 959 | 9,457 |
| Non-operating expenses | | | |
| Interest expenses | 0 | 0 | 0 |
| Commission for purchase of treasury shares | 8 | 6 | 63 |
| Loss on investments in money held in trust | — | 14 | — |
| Loss on investments in investment partnerships | 2 | 4 | 15 |
| Miscellaneous expenses | 0 | 4 | 2 |
| Total non-operating expenses | 10 | 29 | 81 |
| Ordinary profit | 7,601 | 7,164 | 57,162 |
| Extraordinary income | | | |
| Gain on sale of non-current assets *2 | — | 40 | — |
| Gain on revision of retirement benefit plan | 671 | — | 5,050 |
| Total extraordinary income | 671 | 40 | 5,050 |
| Extraordinary losses | | | |
| Loss on retirement of non-current assets *3 | — | 41 | — |
| Branch office relocation expenses | — | 16 | — |
| Total Extraordinary losses | — | 58 | — |
| Profit before income taxes | 8,273 | 7,147 | 62,212 |
| Income taxes - current | 1,965 | 2,071 | 14,784 |
| Income taxes - deferred | 340 | (98) | 2,559 |
| Total income taxes | 2,306 | 1,972 | 17,343 |
| Profit | ¥ 5,966 | ¥ 5,174 | \$ 44,869 |
| Profit attributable to non-controlling interests | — | — | — |
| Profit attributable to owners of parent | ¥ 5,966 | ¥ 5,174 | \$ 44,869 |

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 (Note) |
|--|-----------------|----------------|--|
| | 2023 | 2022 | 2023 |
| Profit | ¥ 5,966 | ¥ 5,174 | \$ 44,869 |
| Other comprehensive income | | | |
| Valuation difference on available-for-sale securities | (14,213) | (12,534) | (106,888) |
| Deferred gains or losses on hedges | 11,749 | 15,010 | 88,357 |
| Remeasurements of defined benefit plans, net of tax | (56) | 206 | (424) |
| Share of other comprehensive income of entities accounted for using equity method | 45 | 32 | 342 |
| Total other comprehensive income * | (2,474) | 2,714 | (18,611) |
| Comprehensive income | ¥ 3,491 | ¥ 7,889 | \$ 26,257 |
| Comprehensive income attributable to | | | |
| Comprehensive income attributable to owners of parent | ¥ 3,491 | ¥ 7,889 | \$ 26,257 |
| 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, 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 |
| 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 |
| 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, 2022 to March 31, 2023)

(Millions of yen)

| | Shareholders' equity | | | | | Total shareholders' equity |
|---|----------------------|-----------------|-------------------|-----------------|--|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | | |
| Balance at April 1, 2022 | ¥ 10,000 | ¥ 8,878 | ¥ 115,521 | ¥ (4,680) | | 129,719 |
| Changes arising during year | | | | | | |
| Cash dividends | | | (2,786) | | | (2,786) |
| Net income attributable to owners of parent | | | 5,966 | | | 5,966 |
| Purchase of treasury share | | | | (3,000) | | (3,000) |
| Disposal of treasury share | | | | 26 | | 26 |
| Net changes other than stockholders' equity | | | | | | |
| Total changes during the year | — | — | 3,180 | (2,974) | | 206 |
| Balance at March 31, 2023 | ¥ 10,000 | ¥ 8,878 | ¥ 118,702 | ¥ (7,655) | | 129,925 |

| | 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, 2022 | ¥ 9,920 | ¥ (1,967) | ¥ 168 | ¥ 156 | ¥ 8,277 | 137,996 |
| Changes arising during year | | | | | | |
| Cash dividends | | | | | | (2,786) |
| Net income attributable to owners of parent | | | | | | 5,966 |
| Purchase of treasury share | | | | | | (3,000) |
| Disposal of treasury share | | | | | | 26 |
| Net changes other than stockholders' equity | (14,220) | 11,749 | — | (4) | (2,474) | (2,474) |
| Total changes during the year | (14,220) | 11,749 | — | (4) | (2,474) | (2,268) |
| Balance at March 31, 2023 | ¥ (4,300) | ¥ 9,782 | ¥ 168 | ¥ 152 | ¥ 5,802 | 135,728 |

Current Fiscal Year (From April 1, 2022 to March 31, 2023)

(Thousands of U.S. dollars)

| | Shareholders' equity | | | | | Total shareholders' equity |
|---|----------------------|-----------------|-------------------|-----------------|--|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | | |
| Balance at April 1, 2022 | \$ 75,199 | \$ 66,769 | \$ 868,712 | \$ (35,198) | | 975,482 |
| Changes arising during year | | | | | | |
| Cash dividends | | | (20,950) | | | (20,950) |
| Net income attributable to owners of parent | | | 44,869 | | | 44,869 |
| Purchase of treasury share | | | | (22,566) | | (22,566) |
| Disposal of treasury share | | | | 198 | | 198 |
| Cancellation of treasury share | | | | | | |
| Net changes other than stockholders' equity | | | | | | |
| Total changes during the year | — | — | 23,919 | (22,368) | | 1,551 |
| Balance at March 31, 2023 | \$ 75,199 | \$ 66,769 | \$ 892,631 | \$ (57,566) | | 977,033 |

| | 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, 2022 | \$ 74,598 | \$ (14,795) | \$ 1,263 | \$ 1,177 | \$ 62,243 | 1,037,726 |
| Changes arising during year | | | | | | |
| Cash dividends | | | | | | (20,950) |
| Net income attributable to owners of parent | | | | | | 44,869 |
| Purchase of treasury share | | | | | | (22,566) |
| Disposal of treasury share | | | | | | 198 |
| Cancellation of treasury share | | | | | | |
| Net changes other than stockholders' equity | (106,937) | 88,357 | — | (32) | (18,611) | (18,611) |
| Total changes during the year | (106,937) | 88,357 | — | (32) | (18,611) | (17,060) |
| Balance at March 31, 2023 | \$ (32,338) | \$ 73,561 | \$ 1,263 | \$ 1,145 | \$ 43,632 | 1,020,665 |

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 (Note) |
|---|-----------------|-------------|--|
| | 2023 | 2022 | 2023 |
| Cash flows from operating activities | | | |
| Profit before income taxes | ¥ 8,273 | ¥ 7,147 | \$ 62,212 |
| Depreciation | 682 | 1,195 | 5,128 |
| Loss (gain) on sale and retirement of non-current assets | 5 | (17) | 45 |
| Loss (gain) related to securities | 1,530 | 251 | 11,512 |
| Increase (decrease) in allowance for doubtful accounts | 17 | (571) | 130 |
| Increase (decrease) in provision for bonuses | 28 | 7 | 212 |
| Increase (decrease) in provision for bonuses for directors and other officers | 0 | (11) | 2 |
| Increase (decrease) in provision for share awards for directors and other officers | 11 | (3) | 85 |
| Increase (decrease) in retirement benefit liability | (739) | (346) | (5,560) |
| Interest and dividend income | (20,347) | (15,866) | (153,009) |
| Interest expenses | 7,049 | 4,361 | 53,011 |
| Share of loss (profit) of entities accounted for using equity method | (523) | (446) | (3,938) |
| Decrease (increase) in operating loans receivable | (64,064) | 224,867 | (481,761) |
| Net decrease (increase) in call loans | — | 2,500 | — |
| Net decrease (increase) in securities purchased under resale agreements | 366,739 | (926,289) | 2,757,857 |
| Net decrease (increase) in cash collateral provided for securities borrowed | (170,398) | (1,173,851) | (1,281,387) |
| Net increase (decrease) in call money | 332,000 | 151,800 | 2,496,616 |
| Net increase (decrease) in short-term borrowings | (147,200) | 101,616 | (1,106,933) |
| Net increase (decrease) in commercial papers | (45,000) | (117,000) | (338,396) |
| Net increase (decrease) in securities sold under repurchase agreements | (763,097) | 1,353,090 | (5,738,439) |
| Net increase (decrease) in cash collateral received for securities lent | 367,279 | 677,793 | 2,761,912 |
| Net increase (decrease) in cash collateral received for margin transactions | (19,829) | (15,407) | (149,116) |
| Net increase (decrease) in borrowed money from trust account | (160,077) | (112,050) | (1,203,768) |
| Net increase (decrease) in long-term borrowings | 229,700 | 1,000 | 1,727,327 |
| Purchase of short-term and long-term investment securities | (228,058) | (466,887) | (1,714,980) |
| Proceeds from sale and redemption of short-term and long-term investment securities | 539,458 | 267,505 | 4,056,688 |
| Other, net | 62,003 | (93,766) | 466,263 |
| Subtotal | 295,443 | (129,379) | 2,221,716 |
| Interest and dividends received | 21,016 | 15,362 | 158,043 |
| Interest paid | (6,999) | (4,171) | (52,631) |
| Income taxes paid | (11,911) | (8,191) | (89,570) |
| Income taxes refund | 5,995 | 4,074 | 45,086 |
| Net cash provided by (used in) operating activities | ¥ 303,546 | ¥ (122,304) | \$ 2,282,644 |

| | Millions of yen | | Thousands of U.S. dollars (Note) |
|---|------------------|------------------|--|
| | 2023 | 2022 | 2023 |
| Cash flows from investing activities | | | |
| Purchase of investment securities | ¥ (317) | ¥ (645) | \$ (2,385) |
| Proceeds from sale and redemption of investment securities | 4,402 | 6,296 | 33,103 |
| Purchase of property, plant and equipment | (353) | (641) | (2,656) |
| Proceeds from sale of property, plant and equipment | — | 48 | — |
| Purchase of intangible assets | (285) | (153) | (2,144) |
| Other, net | 1 | 2 | 9 |
| Net cash provided by (used in) investing activities | 3,447 | 4,907 | 25,926 |
| Cash flows from financing activities | | | |
| Dividends paid | (2,786) | (2,786) | (20,950) |
| Purchase of treasury shares | (3,000) | (2,301) | (22,566) |
| Other, net | — | 0 | — |
| Net cash provided by (used in) financing activities | (5,786) | (5,088) | (43,516) |
| Effect of exchange rate change on cash and cash equivalents | — | — | — |
| Net increase (decrease) in cash and cash equivalents | 301,206 | (122,485) | 2,265,053 |
| Cash and cash equivalents at beginning of period | 1,295,058 | 1,417,543 | 9,738,743 |
| Cash and cash equivalents at end of period * | 1,596,264 | 1,295,058 | 12,003,797 |

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, 2023

(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

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, 2023

(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, and past service costs

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.

Past service costs are recorded as expenses at the year in which the costs 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, 2023). 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, 2023

(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, 2023, which was ¥132.98 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, 2023 are as follows:

| | Millions of yen | | | | Thousands of |
|--------------------------------|-----------------|--------|------|--------|--------------|
| | 2023 | | 2022 | | U.S. dollars |
| | | | | 2023 | |
| Deferred tax assets | ¥ | 13,809 | ¥ | 16,595 | \$ 103,846 |
| Deferred tax liabilities | | 16,006 | | 19,607 | 120,366 |
| Deferred tax liabilities (Net) | ¥ | 2,196 | ¥ | 3,011 | \$ 16,519 |

(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 year. 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 "Implementation Guidance on Accounting Standards for Fair Value Measurement")

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021. Hereinafter referred to as the "Implementation Guidance") have been applied from the beginning of the year ended March 31, 2023, and in accordance with the transitional treatment stipulated in paragraph 27-2 of the Implementation Guidance, the new accounting policy stipulated by the Implementation Guidance will be prospectively applied.

As a result, investment securities, deferred tax liabilities, and valuation difference on available-for-sale securities increased by ¥2,623 million (\$19,729 thousand), ¥809 million (\$6,087 thousand), and ¥1,814 million (\$13,641 thousand), respectively, in the consolidated balance sheets for the current fiscal year.

In accordance with Paragraph 27-3 of the Implementation Guidance, in the note "Financial Instruments" the items regarding investment trusts with regard to the breakdown of the fair value of financial instruments by level, etc., are not presented those for the previous fiscal year.

(Accounting Standards Not Yet Adopted)

"Accounting Standard for Current Income Taxes" (ASBJ Statement No. 27, October 28, 2022)

"Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25, October 28, 2022)

"Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022, ASBJ)

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(1) Overview

In February 2018, ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting", etc. (Hereinafter referred to as the "ASBJ Statement No. 28, etc."), which completed the transfer of practical guidelines on tax effect accounting at the JICPA to the ASBJ Accounting Standards Board. In the course of deliberation, the following two issues, which were to be reviewed again after the release of ASBJ Statement No. 28, etc., were discussed and published.

- (i) Accounting section of tax expenses (taxation on other comprehensive income)
- (ii) Tax effect on the sale of shares of subsidiaries, etc., (shares of subsidiaries or affiliates) when the group corporate taxation system is applied

(2) Scheduled date of adoption

This accounting standard will be applied from the beginning of the fiscal year ending March 31, 2025.

(3) Effect of adoption

The amounts of the impact of applying "Accounting Standard for Current Income Taxes", etc., are under evaluation at this time.

(Reclassification)

(Consolidated Balance Sheets)

"Accounts payable-other" under "Current liabilities," which was independently presented in the previous fiscal year, is included in "Other" in the current consolidated fiscal year because it has become insignificant in terms of amount. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, ¥128 million (\$963 thousand) presented as "Accounts payable-other" under "Current liabilities" in the consolidated balance sheet for the previous fiscal year has been reclassified as "Other."

(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 ¥484 million (\$3,646 thousand) and the number of the stocks was 1,022 thousand shares as of March 31, 2023, and ¥511 million and the number of the stocks was 1,077 thousand shares as of March 31, 2022.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(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 |
|-----------------------|-----------------|----------|--------------|
| | 2023 | 2022 | U.S. dollars |
| | | | 2023 |
| Securities | ¥ 65,607 | ¥ 86,459 | \$ 493,362 |
| Operating loans | 502,453 | 526,090 | 3,778,410 |
| Investment securities | 293,024 | 370,156 | 2,203,521 |

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

| | Millions of yen | | Thousands of |
|-----------------------|-----------------|-----------|--------------|
| | 2023 | 2022 | U.S. dollars |
| | | | 2023 |
| Call money | ¥ 280,000 | ¥ 250,000 | \$ 2,105,579 |
| Short-term borrowings | — | 137,200 | — |
| Long-term borrowings | 229,700 | — | 1,727,327 |

For call money, short-term borrowings and long-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 |
|------------------------|-----------------|---------|--------------|
| | 2023 | 2022 | U.S. dollars |
| | | | 2023 |
| Cash and deposits | ¥ 25 | ¥ 25 | \$ 187 |
| Current assets (other) | 378,375 | 230,004 | 2,845,359 |
| Investment securities | 5,875 | 1,222 | 44,183 |

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

| | Millions of yen | | Thousands of |
|---|-----------------|-------------|---------------|
| | 2023 | 2022 | U.S. dollars |
| | | | 2023 |
| Fair value of the securities receivable as collateral | ¥ 2,904,598 | ¥ 2,519,083 | \$ 21,842,371 |
| Securities lent | 147,985 | 182,137 | 1,112,838 |
| Collateral provided | 682,509 | 358,707 | 5,132,424 |
| On hand | 2,074,103 | 1,978,237 | 15,597,108 |

*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 |
|-------------------|-----------------|-----------|--------------|
| | 2023 | 2022 | U.S. dollars |
| | | | 2023 |
| Total credit line | ¥ 956,058 | ¥ 957,858 | \$ 7,189,487 |
| Drawn amount | 97,300 | 63,680 | 731,688 |
| Undrawn amount | ¥ 858,758 | ¥ 894,178 | \$ 6,457,798 |

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, 2023

*4 Items related to affiliated companies are as follows:

| | Millions of yen | | Thousands of |
|--------------------------------|-----------------|---------|--------------|
| | 2023 | 2022 | U.S. dollars |
| Investment securities (stocks) | ¥ 5,060 | ¥ 4,595 | \$ 38,056 |

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

| | Millions of yen | | Thousands of |
|-----------------------|-----------------|---------|--------------|
| | 2023 | 2022 | U.S. dollars |
| Securities | ¥ 2,007 | ¥ 8,764 | \$ 15,094 |
| Investment securities | 180,608 | 424,126 | 1,358,160 |

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

| | Millions of yen | | Thousands of |
|---|-----------------|--------------|---------------|
| | 2023 | 2022 | U.S. dollars |
| The fair value of the securities borrowed | ¥ 10,287,704 | ¥ 10,092,917 | \$ 77,362,795 |
| Securities loaned | 9,613,304 | 9,565,616 | 72,291,352 |
| Securities pledged as collateral | 641,815 | 478,582 | 4,826,408 |
| On hand | 32,584 | 48,717 | 245,034 |

*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, 2023

(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 |
|-----------------|------|------------------------------|
| 2023 | 2022 | 2023 |
| ¥ 0 | ¥ 40 | \$ 0 |

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

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------------|-----------------|------|------------------------------|
| | 2023 | 2022 | 2023 |
| Tools, furniture and fixtures | ¥ — | ¥ 40 | \$ — |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------|-----------------|------|------------------------------|
| | 2023 | 2022 | 2023 |
| Buildings and structures | ¥ — | ¥ 2 | \$ — |
| Demolition and removal expenses | — | 39 | — |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(Notes to the Consolidated Statements of Comprehensive Income)

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

| | Millions of yen | | Thousands of |
|--|-----------------|------------|--------------|
| | 2023 | 2022 | U.S. dollars |
| Valuation difference on available-for-sale securities: | | | 2023 |
| Arising during the year | ¥ (22,004) | ¥ (18,641) | \$ (165,475) |
| Reclassification adjustment | 1,530 | 251 | 11,512 |
| Before tax effect adjustment | (20,473) | (18,390) | (153,962) |
| Tax effect | 6,260 | 5,855 | 47,074 |
| Valuation difference on available-for-sale securities | (14,213) | (12,534) | (106,888) |
| Deferred gains or losses on hedges: | | | |
| Arising during the year | 16,935 | 15,362 | 127,353 |
| Reclassification adjustment | — | — | — |
| Before tax effect adjustment | 16,935 | 15,362 | 127,353 |
| Tax effect | (5,185) | (352) | (38,995) |
| Deferred gains or losses on hedges | 11,749 | 15,010 | 88,357 |
| Remeasurements of defined benefit plans: | | | |
| Arising during the year | (93) | 319 | (703) |
| Reclassification adjustment | (43) | 1 | (330) |
| Before tax effect adjustment | (137) | 321 | (1,034) |
| Tax effect | 81 | (115) | 610 |
| Remeasurements of defined benefit plans | (56) | 206 | (424) |
| Share of other comprehensive income of entities accounted for using equity method: | | | |
| Arising during the year | 38 | 25 | 290 |
| Reclassification adjustment | 6 | 6 | 51 |
| Share of other comprehensive income of entities accounted for using equity method | 45 | 32 | 342 |
| Total other comprehensive income | ¥ (2,474) | ¥ 2,714 | \$ (18,611) |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

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

Previous 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:

- 1 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)
- 2 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.
- 3 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 |
| (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)”

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

| | |
|-------------------------------------|--------------------|
| (a) Total dividends | ¥1,393 million |
| (b) Cash dividends per common share | ¥15 |
| (c) Record date | September 30, 2021 |
| (d) Effective date | December 3, 2021 |

Note Total dividends include dividends of ¥16 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, 2022

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

| | |
|-------------------------------------|----------------|
| (a) Total dividends | ¥1,356 million |
| (b) Cash dividends per common share | ¥15 |
| (c) Record date | March 31, 2022 |
| (d) Effective date | June 2, 2022 |

Note Total dividends include dividends of ¥16 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, 2023

Current fiscal year (From April 1, 2022 to March 31, 2023)

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 | 96,000 | — | — | 96,000 |
| Common stock | | | | |
| Treasury shares | 6,683 | 3,175 | 55 | 9,803 |
| Common stock (Note) | | | | |

Notes:

1 Number of shares include shares which are held by the “Board Benefit Trust (BBT)” (1,077 thousands of shares at the beginning of the fiscal year and 1,022 thousands of shares at the end of the fiscal year)

2 Increase of 3,174 thousands of shares is due to purchase of treasury shares and 0 thousands of shares is due to purchase of shares less than one unit.

3 Decrease of 55 thousands of shares is due to delivery of treasury shares from the “Board Benefit Trust (BBT)” to respective person.

4 The Company resolved at the Board of Directors meeting held on March 20, 2023 to cancel treasury stock in accordance with Article 178 of the Companies Act, but has not completed the cancellation procedures for the following treasury stock as of the end of the current fiscal year.

Book value ¥6,532 million (\$49,126 thousand)

Type of share Common stock

Number of share 8,000 thousands of shares

The cancellation procedures for the above treasury stock was completed on April 20, 2023.

2 Stock acquisition rights, etc.

No items to report.

3 Dividends

(1) Dividends paid

(a) Dividends paid during the year ended March 31, 2023

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

| | |
|-------------------------------------|------------------------------------|
| (a) Total dividends | ¥1,356 million (\$10,197 thousand) |
| (b) Cash dividends per common share | ¥15 (\$ 0.11) |
| (c) Record date | March 31, 2022 |
| (d) Effective date | June 2, 2022 |

Note Total dividends include dividends of ¥16 million (\$123 thousand) to shares which are owned by “Board Benefit Trust (BBT)”

The following was approved by the Board of Directors held on November 7, 2022.

| | |
|-------------------------------------|------------------------------------|
| (a) Total dividends | ¥1,429 million (\$10,752 thousand) |
| (b) Cash dividends per common share | ¥16 (\$0.12) |
| (c) Record date | September 30, 2022 |
| (d) Effective date | December 7, 2022 |

Note Total dividends include dividends of ¥16 million (\$123 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, 2023

The following was approved by the Board of Directors held on May 15, 2023.

| | |
|-------------------------------------|------------------------------------|
| (a) Total dividends | ¥1,395 million (\$10,495 thousand) |
| (b) Cash dividends per common share | ¥16 (\$0.12) |
| (c) Record date | March 31, 2023 |
| (d) Effective date | June 1, 2023 |

Note Total dividends include dividends of ¥16 million (\$123 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, 2023

(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 |
|--|-----------------|-------------|---------------|
| | 2023 | 2022 | U.S. dollars |
| | | | 2023 |
| Cash and deposits | ¥ 1,598,274 | ¥ 1,299,070 | \$ 12,018,912 |
| Time deposits with maturities of over three months | (10) | (10) | (75) |
| Certificate of deposits with maturities of over three months | (2,000) | (4,002) | (15,039) |
| Cash and cash equivalents | ¥ 1,596,264 | ¥ 1,295,058 | \$ 12,003,797 |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(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 manages 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, 2023

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 (confidence interval: 99%, holding period: 10-240 days, observation period: 20 days-1 year (holding period and observation period are depending on purposes in holding)). Market risk amount (possible losses) of the Company is ¥6,220 million (\$46,774 thousand) as of March 31, 2023.

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 ¥5,228 million (\$39,311 thousand) as of March 31, 2023.

(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, 2023

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, 2022)

| | Millions of yen | | | |
|---|-----------------|-------------|-------------|-----|
| | 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 | | — |
| Assets total | ¥ 2,035,268 | ¥ 2,035,432 | ¥ | 164 |
| Long-term borrowings | ¥ 4,000 | ¥ 3,998 | ¥ | (1) |
| Liabilities total | ¥ 4,000 | ¥ 3,998 | ¥ | (1) |
| Derivative transactions *4 | ¥ 5,686 | ¥ 5,686 | ¥ | — |

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 | |
|---|---------|
| Unlisted equity securities | |
| Other securities | ¥ 1,765 |
| Investments in affiliates | 4,595 |
| Investments in investment limited partnership | 1,986 |

*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, 2023

Current fiscal year (As of March 31, 2023)

| | Millions of yen | | | |
|---|-----------------|-------------|-------------|-------|
| | Carrying amount | Fair value | Differences | |
| (1) Operating loans | ¥ 955,550 | | | |
| Allowance for doubtful accounts *2 | (121) | | | |
| | ¥ 955,429 | ¥ 955,426 | ¥ | (2) |
| (2) Securities and investment securities *3 | | | | |
| Available-for-sale securities | 808,123 | 808,123 | | — |
| Assets total | ¥ 1,763,553 | ¥ 1,763,550 | ¥ | (2) |
| Long-term borrowings *4 | ¥ 233,700 | ¥ 232,763 | ¥ | (936) |
| Liabilities total | ¥ 233,700 | ¥ 232,763 | ¥ | (936) |
| Derivative transactions *5 | ¥ 15,839 | ¥ 15,839 | ¥ | — |

| | Thousands of U.S. dollars | | | |
|---|---------------------------|---------------|-------------|---------|
| | Carrying amount | Fair value | Differences | |
| (1) Operating loans | \$ 7,185,670 | | | |
| Allowance for doubtful accounts *2 | (910) | | | |
| | \$ 7,184,760 | \$ 7,184,738 | \$ | (22) |
| (2) Securities and investment securities *3 | | | | |
| Available-for-sale securities | 6,077,030 | 6,077,030 | | — |
| Assets total | \$ 13,261,791 | \$ 13,261,769 | \$ | (22) |
| Long-term borrowings *4 | \$ 1,757,407 | \$ 1,750,363 | \$ | (7,043) |
| Liabilities Total | \$ 1,757,407 | \$ 1,750,363 | \$ | (7,043) |
| Derivative transactions *5 | \$ 119,109 | \$ 119,109 | \$ | — |

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 |
|---|-----------------|---------------------------|
| Unlisted equity securities | | |
| Other securities | ¥ 1,786 | \$ 13,436 |
| Investments in affiliates | 5,060 | 38,056 |
| Investments in investment limited partnership | 1,664 | 12,513 |

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

*5 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, 2023

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, 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 |

Current fiscal year (As of March 31, 2023)

| | 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 | ¥ 1,598,274 | ¥ — | ¥ — | ¥ — |
| Operating loans | 930,245 | 25,127 | 177 | — |
| Securities purchased under resale agreements | 3,561,406 | — | — | — |
| Cash collateral provided for securities borrowed | 6,469,821 | 200,000 | — | — |
| Securities and investments securities | | | | |
| Available-for-sale securities with maturities | | | | |
| Bond securities | | | | |
| 1) Government bonds | 7,400 | 54,767 | 37,000 | 266,500 |
| 2) Corporate bonds | 58,429 | 277,965 | 3,000 | — |
| 3) Other | 3,094 | 40,964 | 20,529 | 14,369 |
| Total | ¥ 12,628,671 | ¥ 598,824 | ¥ 60,707 | ¥ 280,869 |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

| | 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 | \$ 12,018,912 | \$ — | \$ — | \$ — |
| Operating loans | 6,995,379 | 188,957 | 1,333 | — |
| Securities purchased under resale agreements | 26,781,518 | — | — | — |
| Cash collateral provided for securities borrowed | 48,652,589 | 1,503,985 | — | — |
| Securities and investments securities | | | | |
| Available-for-sale securities with maturities | | | | |
| Bond securities | | | | |
| 1) Government bonds | 55,647 | 411,843 | 278,237 | 2,004,060 |
| 2) Corporate bonds | 439,381 | 2,090,276 | 22,559 | — |
| 3) Other | 23,271 | 308,053 | 154,382 | 108,053 |
| Total | \$ 94,966,700 | \$ 4,503,117 | \$ 456,513 | \$ 2,112,114 |

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, 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 |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

Current fiscal year (As of March 31, 2023)

| | 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 | ¥ 2,190,400 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Short-term borrowings | 92,010 | — | — | — | — | — |
| Commercial paper | 451,000 | — | — | — | — | — |
| Securities sold under repurchase agreements | 4,781,801 | — | — | — | — | — |
| Cash collateral received for securities lent | 5,073,776 | — | — | — | — | — |
| Long-term borrowings | 1,000 | 149,800 | — | — | 79,900 | 3,000 |
| Total | ¥ 12,589,987 | ¥ 149,800 | ¥ — | ¥ — | ¥ 79,900 | ¥ 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 | \$ 16,471,649 | \$ — | \$ — | \$ — | \$ — | \$ — |
| Short-term borrowings | 691,908 | — | — | — | — | — |
| Commercial paper | 3,391,487 | — | — | — | — | — |
| Securities sold under repurchase agreements | 35,958,799 | — | — | — | — | — |
| Cash collateral received for securities lent | 38,154,429 | — | — | — | — | — |
| Long-term borrowings | 7,519 | 1,126,485 | — | — | 600,842 | 22,559 |
| Total | \$ 94,675,791 | \$ 1,126,485 | \$ — | \$ — | \$ 600,842 | \$ 22,559 |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

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 Previous 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 |
| Bonds | | | | |
| Government and local bonds, etc. | 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 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, 2023

Current fiscal year (As of March 31, 2023)

| Classification | Millions of yen | | | |
|--------------------------------------|-----------------|-----------|---------|-----------|
| | Fair value | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Securities and investment securities | | | | |
| Available-for-sale securities | | | | |
| Equity securities | ¥ 11,493 | ¥ — | ¥ — | ¥ 11,493 |
| Bonds | | | | |
| Government and local bonds, etc. | 295,746 | 60,335 | — | 356,081 |
| Corporate bonds | — | 340,053 | — | 340,053 |
| Other | 13,317 | 59,270 | — | 72,587 |
| Other | 11,740 | 16,167 | — | 27,907 |
| Derivative transactions | | | | |
| Currency-related | — | 1 | — | 1 |
| Interest-related | — | 17,866 | — | 17,866 |
| Assets total | ¥ 332,297 | ¥ 493,693 | ¥ — | ¥ 825,991 |
| Derivative transactions | | | | |
| Currency-related | ¥ — | ¥ 28 | ¥ — | ¥ 28 |
| Interest-related | — | 1,946 | — | 1,946 |
| Equity securities-related | 53 | — | — | 53 |
| Liabilities total | ¥ 53 | ¥ 1,974 | ¥ — | ¥ 2,028 |

| 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 | \$ 86,428 | \$ — | \$ — | \$ 86,428 |
| Bonds | | | | |
| Government and local bonds, etc. | 2,223,995 | 453,715 | — | 2,677,710 |
| Corporate bonds | — | 2,557,174 | — | 2,557,174 |
| Other | 100,144 | 445,709 | — | 545,853 |
| Other | 88,287 | 121,575 | — | 209,863 |
| Derivative transactions | | | | |
| Currency-related | — | 8 | — | 8 |
| Interest-related | — | 134,358 | — | 134,358 |
| Assets total | \$ 2,498,855 | \$ 3,712,542 | \$ — | \$ 6,211,397 |
| Derivative transactions | | | | |
| Currency-related | \$ — | \$ 211 | \$ — | \$ 211 |
| Interest-related | — | 14,639 | — | 14,639 |
| Equity securities-related | 405 | — | — | 405 |
| Liabilities total | \$ 405 | \$ 14,851 | \$ — | \$ 15,257 |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

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

Previous 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, etc. | | 1,673 | — | — | 1,673 |
| Assets total | ¥ | 1,673 | ¥ 526,090 | ¥ 365,306 | ¥ 893,070 |
| Long-term borrowings | ¥ | — | ¥ 3,998 | ¥ — | ¥ 3,998 |
| Liabilities total | ¥ | — | ¥ 3,998 | ¥ — | ¥ 3,998 |

Current fiscal year (As of March 31, 2023)

| Classification | Millions of yen | | | | |
|-----------------------------|-----------------|---------|-----------|-----------|-----------|
| | Fair value | | | | |
| | Level 1 | Level 2 | Level 3 | Total | |
| Operating loans | ¥ | — | ¥ 502,453 | ¥ 452,973 | ¥ 955,426 |
| Assets total | ¥ | — | ¥ 502,453 | ¥ 452,973 | ¥ 955,426 |
| Long-term borrowings (Note) | ¥ | — | ¥ 232,763 | ¥ — | ¥ 232,763 |
| Liabilities total | ¥ | — | ¥ 232,763 | ¥ — | ¥ 232,763 |

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

| Classification | Thousands of U.S. dollars | | | | |
|-----------------------------|---------------------------|---------|--------------|--------------|--------------|
| | Fair value | | | | |
| | Level 1 | Level 2 | Level 3 | Total | |
| Operating loans | \$ | — | \$ 3,778,410 | \$ 3,406,328 | \$ 7,184,738 |
| Assets total | \$ | — | \$ 3,778,410 | \$ 3,406,328 | \$ 7,184,738 |
| Long-term borrowings (Note) | \$ | — | \$ 1,750,363 | \$ — | \$ 1,750,363 |
| Liabilities total | \$ | — | \$ 1,750,363 | \$ — | \$ 1,750,363 |

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

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

Securities and investment securities

Securities and investment securities for which unadjusted quoted market prices in active markets are available are classified as Level 1 fair value. This mainly includes listed equities, listed mutual funds, and government bonds. If the market is not active, even if published quoted market prices are used, the market value is classified as Level 2 fair value. This mainly includes municipal bonds and corporate bonds. For mutual funds for which no market trading prices exist, reference prices are used as fair value and classified as Level 2 fair value if there are no material restrictions that would require compensation for the risk from market participants with respect to cancellation or repurchase requests.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

Operating loans

For operating 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 long-term loans with fixed interest rates, the fair value is calculated for each category based on the term by discounting the total amount of principal by the market interest rate. For short-term loans with fixed interest rates, the carrying amounts are used as the fair value because the fair value approximates the carrying amounts. 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 is 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.

Long-term borrowings

For long-term loans with variable interest rates, the carrying amount are used as fair value because the fair value approximates the carrying amount since the variable interest rate reflects the market interest rate in a short period of time and the Company's credit status has not changed significantly since the execution of the loans. For those with fixed interest rates are calculated using the discounted present value method based on the total amount of principal and interest rate that takes into account the remaining term of the debt and credit risk. When unobservable inputs are not used in the calculation of these fair values, or when the effect of such inputs is not significant, the fair value is classified as Level 2.

Derivative transactions

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, 2023

(Securities)

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

Previous 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 | |

Current fiscal year (As of March 31, 2023)

No items to report.

2. Available-for-sale securities with market value

Previous fiscal year (As of March 31, 2022)

| | Type | Millions of yen | | |
|--|---|-----------------|------------------|-------------|
| | | 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 |
| Carrying amount not exceeding acquisition cost | (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 for unlisted equity securities, and ¥1,986 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, 2023

Current fiscal year (As of March 31, 2023)

| | | Millions of yen | | |
|--|---|-----------------|------------------|-------------|
| Type | | Carrying amount | Acquisition cost | Differences |
| Carrying amount exceeding acquisition cost | (1) Equity securities | ¥ 11,493 | ¥ 4,235 | ¥ 7,257 |
| | (2) Bonds | | | |
| | Government bonds, municipal bonds, etc. | 83,370 | 77,456 | 5,913 |
| | Corporate bonds | 82,512 | 82,490 | 21 |
| | Other | 3,811 | 3,276 | 534 |
| | (3) Others | 27,380 | 21,648 | 5,732 |
| | Subtotal | ¥ 208,567 | ¥ 189,107 | ¥ 19,460 |
| | (1) Equity securities | ¥ — | ¥ — | ¥ — |
| | (2) Bonds | | | |
| | Government bonds, local bonds, etc. | 272,711 | 290,256 | (17,544) |
| Corporate bonds | 257,540 | 258,099 | (558) | |
| Other | 68,776 | 73,192 | (4,416) | |
| (3) Others | 526 | 542 | (16) | |
| Subtotal | ¥ 599,555 | ¥ 622,091 | ¥ (22,535) | |
| Total | ¥ 808,123 | ¥ 811,199 | ¥ (3,075) | |

Note Consolidated balance sheet carrying amounts of ¥1,786 million (\$13,436 thousand) for unlisted equity securities, and ¥1,664 million (\$12,513 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 | \$ 86,428 | \$ 31,854 | \$ 54,574 |
| | (2) Bonds | | | |
| | Government bonds, local bonds, etc. | 626,936 | 582,463 | 44,472 |
| | Corporate bonds | 620,486 | 620,323 | 163 |
| | Other | 28,662 | 24,639 | 4,022 |
| | (3) Others | 205,902 | 162,796 | 43,105 |
| | Subtotal | \$ 1,568,416 | \$ 1,422,077 | \$ 146,338 |
| | (1) Equity securities | \$ — | \$ — | \$ — |
| | (2) Bonds | | | |
| | Government bonds, local bonds, etc. | 2,050,774 | 2,182,710 | (131,935) |
| Corporate bonds | 1,936,687 | 1,940,886 | (4,198) | |
| Other | 517,191 | 550,402 | (33,210) | |
| (3) Others | 3,961 | 4,082 | (121) | |
| Subtotal | \$ 4,508,614 | \$ 4,678,081 | \$ (169,466) | |
| Total | \$ 6,077,030 | \$ 6,100,158 | \$ (23,127) | |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

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

Current fiscal year (From April 1, 2022 to March 31, 2023)

| | Millions of yen | | |
|-------------------------------------|--------------------|----------------------|-----------------------|
| | Proceeds from sale | Gross realized gains | Gross realized losses |
| (1) Equity securities | ¥ — | ¥ — | ¥ — |
| (2) Bonds | | | |
| Government bonds, local bonds, etc. | 155,348 | 4,854 | 101 |
| Corporate bonds | 47,904 | 52 | 212 |
| Other | 59,991 | 116 | 6,846 |
| (3) Others | 4,402 | 605 | — |
| | ¥ 267,646 | ¥ 5,629 | ¥ 7,160 |

| | Thousands of U.S. dollars | | |
|-------------------------------------|---------------------------|----------------------|-----------------------|
| | Proceeds from sale | Gross realized gains | Gross realized losses |
| (1) Equity securities | \$ — | \$ — | \$ — |
| (2) Bonds | | | |
| Government bonds, local bonds, etc. | 1,168,205 | 36,506 | 762 |
| Corporate bonds | 360,236 | 394 | 1,597 |
| Other | 451,134 | 878 | 51,484 |
| (3) Others | 33,103 | 4,552 | — |
| | \$ 2,012,680 | \$ 42,331 | \$ 53,844 |

4. Reclassified securities for which the purpose of holding has changed

In the current fiscal year, the entire amount of government bonds (consolidated balance sheet amount: ¥1,510 million (\$11,362 thousand)), which were previously held to maturity, were changed to available-for-sale securities. This was due to a change in fund management policy. The impact of this change on the consolidated financial statements is immaterial.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(Derivative Transactions)

1. Derivative transactions for which hedge accounting is not applied

Currency-related

Previous fiscal year (As of March 31, 2022)

| Category | Nature of transaction | Millions of yen | | | |
|-------------------------|----------------------------|------------------|--------------------------|------------|------------------------------|
| | | 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 |

Current fiscal year (As of March 31, 2023)

| Category | Nature of transaction | Millions of yen | | | |
|-------------------------|----------------------------|------------------|--------------------------|------------|------------------------------|
| | | Contract amounts | Of which within one year | Fair value | Gains or losses on valuation |
| | Forward exchange contract: | | | | |
| | Sell: | | | | |
| Non-market transactions | U.S. dollars | ¥ 14 | ¥ — | ¥ (0) | ¥ (0) |
| | Euro | 293 | — | (8) | (8) |
| | Buy: | | | | |
| | U.S. dollars | 686 | — | (4) | (4) |

| Category | Nature of transaction | Thousands of U.S. dollars | | | |
|-------------------------|----------------------------|---------------------------|--------------------------|------------|------------------------------|
| | | Contract amounts | Of which within one year | Fair value | Gains or losses on valuation |
| | Forward exchange contract: | | | | |
| | Sell: | | | | |
| Non-market transactions | U.S. dollars | \$ 109 | \$ — | \$ (1) | \$ (1) |
| | Euro | 2,204 | — | (67) | (67) |
| | Buy: | | | | |
| | U.S. dollars | 5,165 | — | (37) | (37) |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

2. Derivative transactions for which hedge accounting is applied

(1) Currency derivatives

Previous fiscal year (As of March 31, 2022)

No items to report.

Current fiscal year (As of March 31, 2023)

| Hedge accounting method | Nature of transaction | Hedged items | Millions of yen | | |
|-------------------------|--|------------------------|------------------------------|------------------------|------------|
| | | | Contract or notional amounts | Of which over one year | Fair value |
| *1 | Forward exchange contract: Sell Euro | Investments securities | ¥ 501 | ¥ — | ¥ (12) |

Note:

*1 Deferred hedge accounting is applied.

| Hedge accounting method | Nature of transaction | Hedged items | Thousands of U.S. dollars | | |
|-------------------------|--|------------------------|------------------------------|------------------------|------------|
| | | | Contract or notional amounts | Of which over one year | Fair value |
| *1 | Forward exchange contract: Sell Euro | Investments securities | \$ 3,768 | \$ — | \$ (96) |

Note:

*1 Deferred hedge accounting is applied.

(2) Interest rate derivatives

Previous 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 |
| *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, 2023

Current fiscal year (As of March 31, 2023)

| Hedge accounting method | Nature of transaction | Hedged items | Millions of yen | | |
|-------------------------|---------------------------------------|---------------------------------------|------------------------------|------------------------|------------|
| | | | 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 | ¥ 682,371 | ¥ 655,543 | ¥ 15,523 |
| | Variable rate paid for fixed rate | Long-term borrowings | ¥ 126,000 | ¥ 126,000 | ¥ 396 |
| *2 | Interest rate swaps: | | | | |
| | Variable rate received for fixed rate | Operating loans | ¥ 14,385 | ¥ 14,385 | ¥ *3 |
| | Variable rate paid for fixed rate | Long-term borrowings | ¥ 29,100 | ¥ 29,100 | ¥ *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.

| Hedge accounting method | Nature of transaction | Hedged items | Thousands of U.S. dollars | | |
|-------------------------|---------------------------------------|---------------------------------------|------------------------------|------------------------|------------|
| | | | 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 | \$ 5,131,382 | \$ 4,929,638 | \$ 116,734 |
| | Variable rate paid for fixed rate | Long-term borrowings | \$ 947,510 | \$ 947,510 | \$ 2,984 |
| *2 | Interest rate swaps: | | | | |
| | Variable rate received for fixed rate | Operating loans | \$ 108,174 | \$ 108,174 | \$ *3 |
| | Variable rate paid for fixed rate | Long-term borrowings | \$ 218,829 | \$ 218,829 | \$ *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.

(3) Bond derivatives

Previous 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 |
| *1 | Bond futures: | | | | |
| | Sell | Investments securities | ¥ 3,053 | ¥ — | ¥ 114 |

Note *1 Deferred hedge accounting is applied.

Current fiscal year (As of March 31, 2023)

No items to report.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(4) Stock derivatives

Previous 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 |
| *1 | Stock index futures: | | | | |
| | Sell | Investments securities | ¥ 8,984 | ¥ — | (943) |

Note *1 Deferred hedge accounting is applied.

Current fiscal year (As of March 31, 2023)

| Hedge accounting method | Nature of transaction | Hedged items | Millions of yen | | |
|-------------------------|-----------------------|------------------------|------------------------------|------------------------|------------|
| | | | Contract or notional amounts | Of which over one year | Fair value |
| *1 | Stock index futures: | | | | |
| | Sell | Investments securities | ¥ 9,602 | ¥ — | (53) |

Note *1 Deferred hedge accounting is applied.

| Hedge accounting method | Nature of transaction | Hedged items | Thousands of U.S. dollars | | |
|-------------------------|-----------------------|------------------------|------------------------------|------------------------|------------|
| | | | Contract or notional amounts | Of which over one year | Fair value |
| *1 | Stock index futures: | | | | |
| | Sell | Investments securities | \$ 72,213 | \$ — | (405) |

Note *1 Deferred hedge accounting is applied.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(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 | |
|--|-----------------|---------|---------------------------|--|
| | 2023 | 2022 | 2023 | |
| Retirement benefit obligation at beginning of year | ¥ 9,187 | ¥ 9,421 | \$ 69,089 | |
| Service cost | 282 | 320 | 2,122 | |
| Interest cost | 51 | 28 | 384 | |
| Actuarial gains and losses | (211) | (213) | (1,587) | |
| Benefits paid | (308) | (369) | (2,321) | |
| Past service costs incurred | (671) | — | (5,050) | |
| Retirement benefit obligation at end of year | ¥ 8,329 | ¥ 9,187 | \$ 62,636 | |

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

| | Millions of yen | | Thousands of U.S. dollars | |
|----------------------------------|-----------------|---------|---------------------------|--|
| | 2023 | 2022 | 2023 | |
| Plan assets at beginning of year | ¥ 9,624 | ¥ 9,482 | \$ 72,376 | |
| Expected return on plan assets | 192 | 189 | 1,447 | |
| Actuarial gains and losses | (304) | 106 | (2,290) | |
| Employer contributions | 278 | 119 | 2,091 | |
| Benefits paid | (281) | (273) | (2,114) | |
| Plan assets at end of year | ¥ 9,509 | ¥ 9,624 | \$ 71,510 | |

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

| | Millions of yen | | Thousands of U.S. dollars | |
|---|-----------------|-------|---------------------------|--|
| | 2023 | 2022 | 2023 | |
| Retirement benefit liability at beginning of year | ¥ 213 | ¥ 184 | \$ 1,608 | |
| Retirement benefit expenses | 36 | 51 | 275 | |
| Benefits paid | (32) | (22) | (247) | |
| Contributions | (0) | (0) | (2) | |
| Retirement benefit liability at end of year | ¥ 217 | ¥ 213 | \$ 1,633 | |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(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 |
|---|-----------------|---------|------|---------|--------------|
| | 2023 | | 2022 | | U.S. dollars |
| | | | | | 2023 |
| Funded retirement benefit obligation | ¥ | 8,329 | ¥ | 9,187 | \$ 62,636 |
| Plan assets | | (9,509) | | (9,624) | (71,510) |
| | | (1,180) | | (437) | (8,873) |
| Unfunded retirement benefit obligation | | 217 | | 213 | 1,633 |
| Net liability and asset recognized in consolidated balance sheets | ¥ | (962) | ¥ | (223) | \$ (7,239) |
| | | 217 | | 213 | 1,633 |
| Liability for retirement benefit | ¥ | (1,180) | ¥ | (437) | \$ (8,873) |
| Net liability and asset recognized in consolidated balance sheets | ¥ | (962) | ¥ | (223) | \$ (7,239) |

(5) The components of retirement benefit expenses

| | Millions of yen | | | | Thousands of |
|---|-----------------|-------|------|-------|--------------|
| | 2023 | | 2022 | | U.S. dollars |
| | | | | | 2023 |
| Service cost | ¥ | 282 | ¥ | 320 | \$ 2,122 |
| Interest cost | | 51 | | 28 | 384 |
| Expected return on plan assets | | (192) | | (189) | (1,447) |
| Amortization of actuarial gains or losses | | (43) | | 1 | (330) |
| Past service costs recorded as expenses*1 | | (671) | | — | (5,050) |
| Retirement benefit expenses calculated by the simplified method | | 36 | | 51 | 275 |
| Retirement benefit expenses | ¥ | (538) | ¥ | 212 | \$ (4,046) |

Note *1 Past service costs recorded as expenses was recognized as a result of revision of the Company's retirement benefit plan, and is recorded as "Gain on revision of retirement benefit plan" in extraordinary income.

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

| | Millions of yen | | | | Thousands of |
|---------------------------|-----------------|-------|------|-----|--------------|
| | 2023 | | 2022 | | U.S. dollars |
| | | | | | 2023 |
| Actuarial gains or losses | ¥ | (137) | ¥ | 321 | \$ (1,034) |
| Total | ¥ | (137) | ¥ | 321 | \$ (1,034) |

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

| | Millions of yen | | | | Thousands of |
|---------------------------------------|-----------------|-------|------|-------|--------------|
| | 2023 | | 2022 | | U.S. dollars |
| | | | | | 2023 |
| Unamortized actuarial gains or losses | ¥ | (172) | ¥ | (309) | \$ (1,294) |
| Total | ¥ | (172) | ¥ | (309) | \$ (1,294) |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(8) Plan assets

(a) Percentage by major category of plan assets

| | 2023 | 2022 |
|-------------------|---------------|---------------|
| Debt securities | 26.9% | 39.1% |
| Equity securities | 33.7 | 34.3 |
| General account | 9.5 | 9.4 |
| Other | 29.9 | 17.2 |
| Total | 100.0% | 100.0% |

Note Plan assets as of March 31, 2023 and 2022 include the retirement benefit trust contributed for the years ended March 31, 2023 and 2022 which are 9.0% and 9.4% 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, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|--|------|------|
| (a) Discount rate | 0.9% | 0.5% |
| (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, 2023 and 2022, the amount to be paid by the Company and its consolidated subsidiaries to the defined contribution plans was ¥35 million (\$267 thousand) and ¥36 million, respectively.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(Tax Effect Accounting)

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

| | Millions of yen | | Thousands of |
|--|-----------------|-----------|--------------|
| | 2023 | 2022 | U.S. dollars |
| Deferred tax assets: | | | 2023 |
| Accrued business tax | ¥ 84 | ¥ 103 | \$ 633 |
| Accrued bonuses | 152 | 143 | 1,145 |
| Retirement benefit liability | 575 | 843 | 4,325 |
| Allowance for doubtful accounts | 35 | 24 | 267 |
| Deferred losses on hedges | 4,876 | 10,259 | 36,672 |
| Net unrealized loss on available-for-sale securities | 7,907 | 5,003 | 59,464 |
| Other | 276 | 305 | 2,077 |
| Subtotal | 13,907 | 16,682 | 104,585 |
| Valuation allowance | (98) | (87) | (738) |
| Deferred tax assets total | 13,809 | 16,595 | 103,846 |
| Deferred tax liabilities: | | | |
| Gain on evaluation of subsidiaries' assets | (154) | (154) | (1,165) |
| Net unrealized gain on other securities | (6,024) | (9,379) | (45,301) |
| Gain on evaluation of acquired assets by merger | (452) | (452) | (3,404) |
| Deferred loss on hedges | (9,193) | (9,390) | (69,137) |
| Other | (180) | (229) | (1,357) |
| Deferred tax liabilities total | (16,006) | (19,607) | (120,366) |
| Net deferred tax liabilities | ¥ (2,196) | ¥ (3,011) | \$ (16,519) |

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

| | 2023 | 2022 |
|--|--------|-------|
| Statutory tax rate | 30.6% | 30.6% |
| Equity in gains of affiliates | (1.9) | (1.9) |
| Expenses not deductible for tax purposes | 0.5 | 0.5 |
| Valuation allowance | 0.1 | (1.0) |
| Income not credited for tax purposes | (21.5) | (6.9) |
| Elimination of dividend income | 19.5 | 5.6 |
| Other | 0.6 | 0.7 |
| Effective tax rate | 27.9% | 27.6% |

(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, 2023

(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, 2021 to March 31, 2022)

| | Millions of yen | | | | | | | |
|---|-----------------------|-------------------|---------------|------------------|------------------------|--------------|----------|-------------------|
| | 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 |
| Extraordinary income (Gain on sale of non-current assets) | | 40 | | — | | — | | 40 |
| | | (40) | | (—) | | (—) | | (40) |
| Income taxes | | 1,371 | | 361 | | 241 | | 1,974 |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

Current fiscal year (From April 1, 2022 to March 31, 2023)

| Millions of yen | | | | | | | |
|---|-----------------------|---------------|---------------|--------------|------------------------|--------------|-----------------|
| | Securities finance | | Trust banking | | Real estate leasing | | Total |
| Revenues: | | | | | | | |
| Revenues to third parties | ¥ | 38,594 | ¥ | 3,115 | ¥ | 808 | ¥ 42,518 |
| Intersegment revenues and transfers | | 36 | | 249 | | 389 | 675 |
| Total | ¥ | 38,631 | ¥ | 3,364 | ¥ | 1,197 | ¥ 43,194 |
| Segment profit | ¥ | 10,274 | ¥ | 1,415 | ¥ | 651 | ¥ 12,342 |
| Segment assets | ¥ | 12,482,291 | ¥ | 1,758,123 | ¥ | 7,788 | ¥ 14,248,203 |
| Others: | | | | | | | |
| Depreciation and amortization | ¥ | 482 | ¥ | 105 | ¥ | 94 | ¥ 681 |
| Interest income | | 247 | | — | | 13 | 260 |
| Extraordinary income | | 671 | | — | | — | 671 |
| (Gain on revision of retirement benefit plan) | | (671) | | (—) | | (—) | (671) |
| Income taxes | | 1,644 | | 439 | | 221 | 2,306 |

| Thousands of U.S. dollars | | | | | | | |
|---|-----------------------|----------------|---------------|---------------|------------------------|--------------|-------------------|
| | Securities finance | | Trust banking | | Real estate leasing | | Total |
| Revenues: | | | | | | | |
| Revenues to third parties | \$ | 290,231 | \$ | 23,428 | \$ | 6,078 | \$ 319,737 |
| Intersegment revenues and transfers | | 274 | | 1,873 | | 2,930 | 5,078 |
| Total | \$ | 290,505 | \$ | 25,301 | \$ | 9,008 | \$ 324,815 |
| Segment profit | \$ | 77,267 | \$ | 10,642 | \$ | 4,902 | \$ 92,812 |
| Segment assets | \$ | 93,865,932 | \$ | 13,220,959 | \$ | 58,568 | \$ 107,145,460 |
| Others: | | | | | | | |
| Depreciation and amortization | \$ | 3,625 | \$ | 793 | \$ | 707 | \$ 5,126 |
| Interest income | | 1,859 | | — | | 99 | 1,958 |
| Extraordinary income | | 5,050 | | — | | — | 5,050 |
| (Gain on revision of retirement benefit plan) | | (5,050) | | (—) | | (—) | (5,050) |
| Income taxes | | 12,364 | | 3,307 | | 1,669 | 17,341 |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

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

| Operating profit | Millions of yen | | Thousands of U.S. dollars | |
|---|-----------------|----------|---------------------------|---------|
| | 2023 | 2022 | 2023 | |
| Total segment profit | ¥ 43,194 | ¥ 30,834 | \$ | 324,815 |
| Elimination of intersegment transactions | (675) | (696) | | (5,078) |
| Other | — | — | | — |
| Operating profit in consolidated financial statements | ¥ 42,518 | ¥ 30,138 | \$ | 319,737 |

| Ordinary profit | Millions of yen | | Thousands of U.S. dollars | |
|---|-----------------|---------|---------------------------|----------|
| | 2023 | 2022 | 2023 | |
| Total segment profit | ¥ 12,342 | ¥ 8,021 | \$ | 92,812 |
| Elimination of intersegment transactions | (5,264) | (1,303) | | (39,587) |
| Share of profit of entities accounted for using equity method | 523 | 446 | | 3,938 |
| Other | — | — | | — |
| Ordinary profit in consolidated financial statements | ¥ 7,601 | ¥ 7,164 | \$ | 57,162 |

| Assets | Millions of yen | | Thousands of U.S. dollars | |
|---|-----------------|--------------|---------------------------|-------------|
| | 2023 | 2022 | 2023 | |
| Total segment assets | ¥ 14,248,203 | ¥ 14,281,482 | \$ | 107,145,460 |
| Elimination of intersegment credits | (172,025) | (91,221) | | (1,293,621) |
| Elimination of investments and capital | (24,913) | (26,268) | | (187,349) |
| Other | 4,953 | 4,664 | | 37,250 |
| Total assets in consolidated financial statements | ¥ 14,056,217 | ¥ 14,168,656 | \$ | 105,701,740 |

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

| Other items | Millions of yen | | | Amounts in the consolidated financial statements |
|---|-----------------|-------------|---|--|
| | Segment total | Adjustments | | |
| <u>March 31, 2022</u> | | | | |
| Depreciation and amortization | ¥ 1,194 | ¥ 0 | ¥ | 1,195 |
| Interest income | 311 | (16) | | 294 |
| Extraordinary income | 40 | — | | 40 |
| (Gain on sale of non-current assets) | (40) | (—) | | (40) |
| Income taxes | 1,974 | (2) | | 1,972 |
| <u>March 31, 2023</u> | | | | |
| Depreciation and amortization | ¥ 681 | ¥ 0 | ¥ | 682 |
| Interest income | 260 | (13) | | 247 |
| Extraordinary income | 671 | — | | 671 |
| (Gain on revision of retirement benefit plan) | (671) | (—) | | (671) |
| Income taxes | 2,306 | 0 | | 2,306 |

| Other items | Thousands of U.S. dollars | | | Amounts in the consolidated financial statements |
|---|---------------------------|-------------|----|--|
| | Segment total | Adjustments | | |
| <u>March 31, 2023</u> | | | | |
| Depreciation and amortization | \$ 5,126 | \$ 2 | \$ | 5,128 |
| Interest income | 1,958 | (99) | | 1,859 |
| Extraordinary income | 5,050 | — | | 5,050 |
| Gain on revision of retirement benefit plan | (5,050) | (—) | | (5,050) |
| Income taxes | 17,341 | 1 | | 17,343 |

[Related information]

Previous 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 |

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, 2023

Current fiscal year (From April 1, 2022 to March 31, 2023)

1. Information by products and services

| | Millions of yen | | | |
|--|------------------------------------|--------------|----------|----------|
| | 2023 | | | |
| | Loans for margin transaction | Bond lending | Other | Total |
| Operating revenue to external customers | ¥ 8,003 | ¥ 18,037 | ¥ 16,477 | ¥ 42,518 |

| | Thousands of U.S. dollars | | | |
|--|------------------------------------|--------------|------------|------------|
| | 2023 | | | |
| | Loans for margin transaction | Bond lending | Other | Total |
| Operating revenue to external customers | \$ 60,187 | \$ 135,638 | \$ 123,911 | \$ 319,737 |

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, 2023

(Per Share Information)

| | Yen | | U.S. dollars | |
|----------------------|------------|------------|--------------|--|
| | 2023 | 2022 | 2023 | |
| Net assets per share | ¥ 1,574.64 | ¥ 1,545.03 | \$ 11.84 | |
| Profit per share | 67.76 | 56.61 | 0.5 | |

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 | |
|--|-----------------|-----------|---------------------------|--|
| | 2023 | 2022 | 2023 | |
| Total net assets | ¥ 135,728 | ¥ 137,996 | \$ 1,020,665 | |
| Amount deducted from total net assets | — | — | — | |
| Net assets applicable to common shareholders | ¥ 135,728 | ¥ 137,996 | \$ 1,020,665 | |

| | Number of shares (Thousands) | |
|---|------------------------------|--------|
| | 2023 | 2022 |
| Number of common shares outstanding | 96,000 | 96,000 |
| Number of common treasury shares | 9,803 | 6,683 |
| Number of common shares outstanding on which net assets per share is calculated | 86,196 | 89,316 |

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

| | Millions of yen | | Thousands of U.S. dollars | |
|--|-----------------|---------|---------------------------|--|
| | 2023 | 2022 | 2023 | |
| Profit attributable to owners of parent | ¥ 5,966 | ¥ 5,174 | \$ 44,869 | |
| Profit not attributable to common shareholders | — | — | — | |
| Profit applicable to common shareholders of the parent company | ¥ 5,966 | ¥ 5,174 | \$ 44,869 | |

| | Number of shares (Thousands) | |
|--|------------------------------|--------|
| | 2023 | 2022 |
| Weighted average number of common shares | 88,051 | 91,401 |

4. For calculating “Net assets per share”, the Company’s own stocks which are held by the trust (BBT) (1,077 and 1,022 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) (1,086 and 1,035 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, 2023

(Subsequent Event)

(Acquisition of treasury shares)

The Company's Board of Directors held on May 9, 2023 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 that can be acquired

Up to 3,300,000 shares (3.8% of the total number of issued shares excluding treasury shares)

(3) Total amount of share acquisition costs

UP to ¥3,300 million (\$24,815 thousand)

(4) Acquisition period

From May 10, 2023 to March 31, 2024

(Disposal of treasury shares)

The Company's Board of Directors held on May 9, 2023 has resolved to dispose of treasury shares through a third-party allotment.

1. Purpose and reasons for the disposal of treasury shares

The Company will grant the Company's common shares to its employees in accordance with the Company's performance in fiscal 2022, in an attempt to increase the job satisfaction and motivation of its employees and to provide incentives to increase the Company's corporate value over the medium to long term.

2. Details of matters related to disposal

(1) Date of disposal

June 30, 2023

(2) Class and number of shares to be disposed

Common shares of the Company 49,000 shares *1

(3) Disposal price

¥1,018 (\$7.65) per share

(4) Total amount of shares to be disposed

¥49,882,000 (\$375 thousand) *1

(5) Method of disposal of treasury shares

Third-party allotment

(6) Recipient of treasury shares to be disposed of

Employee stock ownership plan of the Company

(7) Other

With respect to this disposal of treasury shares, the Company has filed a securities registration statement in accordance with the Financial Instruments and Exchange Act.

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2023

Note *1 The number and the total amount of shares to be disposed of are maximum values, and the actual number and the total amount of shares to be disposed of are expected to be fixed according to the number of members of the employee stock ownership plan of the Company after the completion of the promotion for admission to the employee stock ownership plan.

Supplementary Information to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(v) Supplementary Statements

[Detailed Schedule of Bonds]

No items to report.

[Detailed Schedule of Borrowings]

| Classification | Millions of yen | | | | |
|--|--|----------------------------------|---------------------------|---|---|
| | 2023 | | | | |
| | At the beginning of the fiscal year | At the end of the fiscal year | Average interest rates | Repayment due | |
| Short-term borrowings | ¥ 239,210 | ¥ 92,010 | 0.020 % | — | |
| Long-term borrowings due within one year | — | 1,000 | 0.120 % | — | |
| Lease obligation due within one year | — | — | — | — | |
| Long-term borrowings (except for due within one year) | 4,000 | 232,700 | 0.049 % | From January 2025 To April 2031 | — |
| Lease obligation (except for due within one year) | — | — | — | — | — |
| Other interest-bearing liabilities: | | | | | |
| Call money (due within one year) | 1,858,400 | 2,190,400 | (0.013)% | — | |
| Commercial papers (due within one year) | 496,000 | 451,000 | 0.004 % | — | |
| Total | ¥ 2,597,610 | ¥ 2,967,110 | — | — | |

Notes:

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 | | | |
|----------------------|--|--|--|---|
| | 2023 | | | |
| | 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 | ¥ 149,800 | ¥ — | ¥ — | ¥ 79,900 |

Supplementary Information to Consolidated Financial Statements
Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
Year ended March 31, 2023

| Classification | Thousands of U.S. dollars | | | |
|---|-------------------------------------|-------------------------------|------------------------|---------------------------------|
| | 2023 | | | |
| | At the beginning of the fiscal year | At the end of the fiscal year | Average interest rates | Repayment due |
| Short-term borrowings | \$ 1,798,841 | \$ 691,908 | 0.020 % | — |
| Long-term borrowings due within one year | — | 7,519 | 0.120 % | — |
| Lease obligation due within one year | — | — | — | — |
| Long-term borrowings (except for due within one year) | 30,079 | 1,749,887 | 0.049 % | From January 2025 To April 2031 |
| Lease obligation (except for due within one year) | — | — | — | — |
| Other interest-bearing liabilities: | | | | |
| Call money (due within one year) | 13,975,033 | 16,471,649 | (0.013)% | — |
| Commercial papers (due within one year) | 3,729,884 | 3,391,487 | 0.004 % | — |
| Total | \$ 19,533,839 | \$ 22,312,453 | — | — |

Notes:

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 | | | |
|----------------------|--------------------------------------|---|--|---|
| | 2023 | | | |
| | 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 | \$ 1,126,485 | \$ — | \$ — | \$ 600,842 |

[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, 2023 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, 2023.

Supplementary Information to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2023

(2) Other

Quarterly information for the current fiscal year

| Cumulative period | Millions of yen | | | |
|---|-----------------|----------------|---------------|----------------|
| | 2023 | | | |
| | First quarter | Second quarter | Third quarter | Fourth quarter |
| Operating revenue | ¥ 11,092 | ¥ 21,081 | ¥ 31,638 | ¥ 42,518 |
| Profit before income taxes | 2,870 | 5,806 | 8,256 | 8,273 |
| Profit attributable to owners of parent | 2,063 | 4,110 | 5,911 | 5,966 |

| | Yen | | | |
|--------------------------------------|---------------|----------------|---------------|----------------|
| | 2023 | | | |
| | First quarter | Second quarter | Third quarter | Fourth quarter |
| Profit per share (Cumulative period) | ¥ 23.10 | ¥ 46.09 | ¥ 66.71 | ¥ 67.76 |
| Profit per share (Quarterly period) | 23.10 | 22.98 | 20.59 | 0.64 |

| Cumulative period | Thousands of U.S. dollars | | | |
|---|---------------------------|----------------|---------------|----------------|
| | 2023 | | | |
| | First quarter | Second quarter | Third quarter | Fourth quarter |
| Operating revenue | \$ 83,418 | \$ 158,531 | \$ 237,919 | \$ 319,737 |
| Profit before income taxes | 21,588 | 43,665 | 62,087 | 62,212 |
| Profit attributable to owners of parent | 15,518 | 30,911 | 44,457 | 44,869 |

| | U.S. dollars | | | |
|--------------------------------------|---------------|----------------|---------------|----------------|
| | 2023 | | | |
| | First quarter | Second quarter | Third quarter | Fourth quarter |
| Profit per share (Cumulative period) | \$ 0.17 | \$ 0.34 | \$ 0.50 | \$ 0.50 |
| Profit per share (Quarterly period) | 0.17 | 0.17 | 0.15 | 0.00 |

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, 2023, 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, 2023, 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 effectiveness of hedge accounting</p> <p>As of March 31, 2023, Japan Securities Finance Co., Ltd. (hereinafter referred to as "the Company") holds assets under management of 71,013 million yen of short-term investments on current assets, and 745,621 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 monitors market conditions and endeavors to reduce market risk by hedging operations through derivatives transactions and others.</p> <p>In addition, the Company applies hedge accounting using a variety of hedging instruments to hedge the risk as described in</p> | <p>In regard to examining the effectiveness of hedge accounting, we mainly performed the following audit procedures based on the "Accounting Standards for Financial Instruments" and the "Practical Guidelines for Accounting for Financial Instruments".</p> <ol style="list-style-type: none"> 1. In order to evaluate the risk management policy and internal control design and operational related to hedging transactions, we discussed with management based on domestic and overseas economic and financial conditions. Additionally, we evaluated the results of the company's examination by inspecting the minutes of the board of directors and the management meeting. 2. At the start of implementation of hedging, we evaluated the effectiveness of hedging |

[Notes] (Derivative Transactions). 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.

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.

Based on the risk management policy set by the management, various hedging transactions are composed by advanced schemes using many inputs such as interest rates, currency exchange rates and stock indexes, and these are highly dependent on the judgment of the management. In addition, in order to apply hedge accounting, it is determined in accordance with "Accounting Standards for Financial Instruments" (Corporate Accounting Standard No. 10) and "Practical Guidelines for Accounting for Financial Instruments" (Accounting System Committee Report No. 14), and requirements of effectiveness of hedge accounting are needed to be satisfied. However, the cases applied are diverse and complex. The decision requires careful judgment in the market and valuation methods.

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.

accounting mainly focusing on the following points.

- Compliance with risk management policies and others in accordance with the terms of hedging implementation.
- Documentation of hedging instruments, hedged items and methods for determining the effectiveness of hedge accounting, and evaluation of internal approval.
- Examination of applicability of hedge accounting by evaluating the correlation between hedged items and hedging instruments.

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.

- Assessing whether the validity is judged and documented once every 6 months in accordance with the "Practical Guidelines for Accounting for Financial Instruments" according to the same method established at the start of hedging transactions.
- Identification of inputs such as interest rates used in determining the effectiveness of hedge accounting and comparison with available external information.
- Examining the effectiveness of hedge accounting by assessing the correlation between hedged items and hedging instruments.

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.
- 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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Tokyo, Japan
June 29, 2023