Securities Finance

ANNUAL REPORT 2006

JAPAN SECURITIES FINANCE CO., LTD

PROFILE

Growing in step with the securities industry and supporting its future development

In June 1951, Japan Securities Finance Co., Ltd. (JSF) launched its loaning operations, dealing with funds and stock certificates needed by securities companies for delivery and settlement of margin transactions.

This margin loan business can be transacted solely by securities finance companies licensed in accordance with the Securities and Exchange Law.

As Japan's largest securities finance company designated by the Tokyo, JASDAQ, Sapporo and Fukuoka Stock Exchanges, JSF is contributing significantly to improve the fairness of stock price formation and liquidity of stocks in the secondary equity markets.

CONTENTS

FINANCIAL HIGHLIGHTS

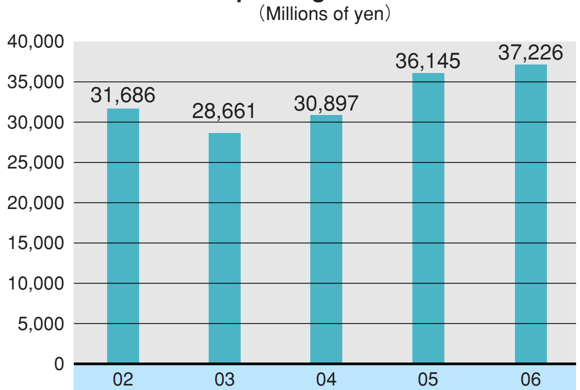
Japan Securities Finance Co.,Ltd. and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2006 (April 1, 2005 - March 31, 2006)	2005 (April 1, 2004 - March 31, 2005)	2006 (April 1, 2005 - March 31, 2006)
Consolidated financial results			
Oparating revenues	¥ 37,226	¥ 36,145	$ 316,898
Net income	4,953	5,519	42,164
Shareholders' equity (period end)	118,962	126,337	1,012,701

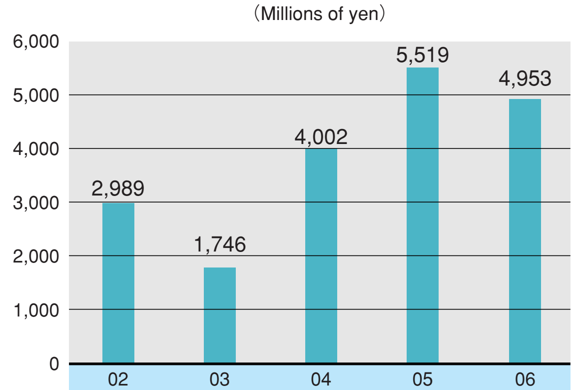
	Yen		U.S. dollars
	2006	2005	2006
Amounts per share			
Net income	¥ 48.93	¥ 54.08	$ 0.42
Shareholders' equity	1,205.27	1,276.04	10.26

Note:U.S. doller amounts in this annual report are translated from Japanese Yen, for convenience only, at the rate of ¥117.47=US$1, the approximate exchange rate at March 31,2006.

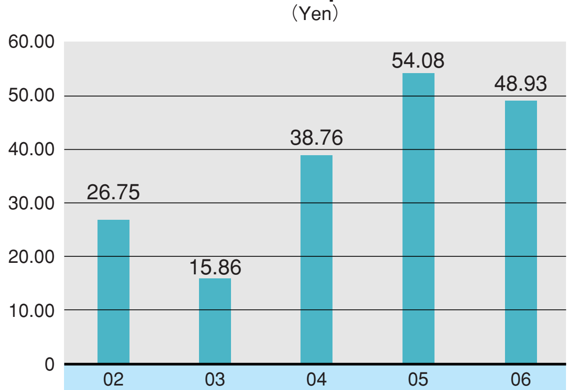
Operating revenues
(Millions of yen)



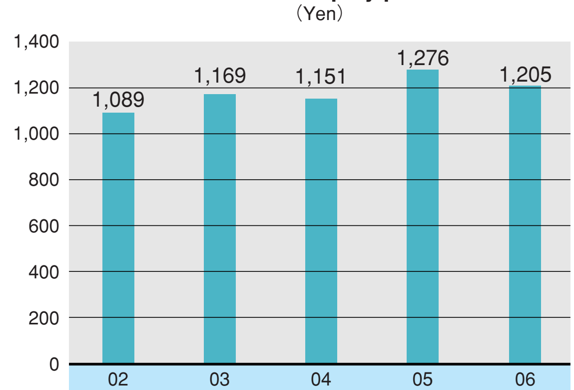
Net income
(Millions of yen)



Net income per share
(Yen)



Shareholders' equity per share
(Yen)



Minoru Masubuchi
President

It is my sincere hope that the Annual Report 2006 for the fiscal year ended March 31, 2006 will be of use to shareholders, investors and other supporters of Japan Securities Finance Company.

BUSINESS REVIEW

Business Environment

Looking back on the Japanese economy during the fiscal year, the basic tone of economic recovery was sustained in the environment that capital investment showed a tendency to increase against a background of strong corporate earnings and improved personal income of workers shored up steady consumer spending.

In the stock market, the Tokyo Stock Price Index (TOPIX), which started the fiscal year at 1,186 points, dropped to 1,109 points in May due to expectations of an economic slowdown in the United States and other factors, but it began to rebound thereafter on heightened expectations of economic recovery and strong corporate performance. After the turn of the New Year, news reports about some emerging corporations resulted in conflicting views of the market that amplified volatility, but by the end of January the TOPIX had retaken the 1,700 point level for the first time in 5 years and 9 months and closed the fiscal year at 1,728.

The average daily trading volume on the first section of the Tokyo Stock Exchange during the fiscal year stood at 2,180 million shares, an increase of 655 million over the previous fiscal year; likewise, the average daily trading value increased by 921.9 billion yen over the previous fiscal year to reach 2,252.1 billion yen.

Meanwhile, the outstanding balance of standardized margin buying transactions in the Tokyo market declined from 2,600 billion yen at the beginning of the fiscal year to less than 2,300 billion yen in August temporarily, but then turned back upwards, driven by strong gains for the market as a whole. In February, it crossed the 5,000 billion yen for the first time in almost 15 years (the last time was May 1991) and closed the fiscal year at the level of 4,500 billion yen. On the other hand, the outstanding balance of standardized margin selling transactions moved within the range of 600 billion yen to 1,000 billion yen, ending the fiscal year at the level of 900 billion yen.

Turning to the bond market, the yield of newly issued 10-year Japanese government bonds (JGBs), which started the fiscal year at 1.328%, declined to 1.165% at one point in June due to the general global decline in long-term interest rates. The yields continued to be volatile thereafter, driven by stock-market trends and expectations that the Bank of Japan would finally abandon its quantitative easing policy. After the quantitative easing policy was believed to come to an end, the yields began to rise and reached 1.764% at the end of March.

Business Results of the JSF Group

The amount of total outstanding loans extended by JSF group companies during the period averaged 2,760 billion yen, a substantial increase of 445.6 billion yen over the previous period. This was due to the increase in the amount of loans for margin transactions caused by high level in the outstanding balance of standardized margin buying transactions.

As to the performance during the fiscal year, while interests on loans for margin transactions increased, declines in JGB positions resulted in less interest income and trading profits, and the JSF group companies recorded consolidated operating revenues of 37,226 million yen (up 3.0% year-on-year), recurring income of 8,293 million yen (down 13.4% year-on-year) and net income for the term of 4,952 million yen (down 10.3% year-on-year).

Nonetheless, the company pays a year-end dividend of 14 yen per share, which combined with the interim dividend results in a total annual dividend of 24 yen per share (up 10 yen per share from the previous fiscal year). This dividend was set in accordance with the company's dividend policy of returning profits to shareholders at Dividend Payout Ratio of approximately 40% on non-consolidated financial results.

In July, the company spun off its subsidiary, JSF Information Technology Co., Ltd., and subsequently sold the majority of its shares to its affiliate, Japan Information Processing Service Co., Ltd. This was done as part of a strategy to achieve efficiency gains within group companies by consolidating the business portfolio and to facilitate operations by bringing capital relationships in line with actual business operations.

OUTLOOK FOR NEXT FISCAL YEAR

Earnings Outlook

Turning to the future, the economy as a whole is expected to continue to enjoy steady recovery. Excess corporate debt and other structural adjustment pressures have been alleviated to a large extent, and the fact that an increasing number of companies consider themselves to be understaffed indicates that Japanese economic activities are on the increase. In addition, expanding overseas economies are boosting exports and strong corporate earnings, together with modest increase in personal income of workers, are likely to increase domestic private-sector demand.

Against this background, while there will be substantial declines in dividends from JSF Trust and Banking Co., Ltd., the outstanding balance of standardized margin buying transactions in the Tokyo market has remained solid since April, which indicates a high likelihood of increases in loans for margin transactions for the full year, and the company, as non-consolidated basis, anticipates gains in both revenues and profits during the coming year.

With respect to its subsidiaries, both of the companies forecast income roughly on par with the previous fiscal year. Among equity-method affiliates, Japan Information Processing Service Co., Ltd. forecasts income on par with the previous fiscal year and Japan Securities Agents, Ltd. forecasts significant contractions in its deficits, while NetWing Securities Co., Ltd. (formerly, Nihon Kyoei Securities Co., Ltd.) foresees a reduction in income.

Mid-Term Management Plan

The company formulated a Medium-Term Management Plan (FY 2006 – FY 2008) that seeks to improve corporate value over the medium and long terms, and announced it on March 13, 2006.

The company's management target is to achieve recurring income of 12,000 million yen on non-consolidated basis by the final year of the Medium-Term Management Plan, i.e. FY 2008 (this assumes an average margin loan balance of 1,600 billion yen and an increase of approximately 0.50 percentage points in short-term interest rates from the time at which the plan was announced).

Japan Securities Finance has a mission to contribute to the development of securities industry as a specialist institution of securities finance business and will continue to meet the demands that society has placed on it.

Current Challenges (Strategy)

Thanks to the growing number of individual investors using the Internet trade, the ratio of stock trading by individual investors to whole trading values has doubled over the last five years, and household stock holding crossed the 100 trillion yen line for the first time in almost 16 years at the end of December 2005. This represents a clear trend of "from savings to investment." Preparations for the dematerialization of stock certificates, which are scheduled for completion in January 2009, are now moving forward as the final step of the reform of securities clearing and settlement system.

Under these circumstances, we believe that Japan Securities Finance has a mission to respond flexibly to the increasingly diverse needs of the securities and finance industry and to contribute to the development of securities market as a specialist in securities finance business. To give a concrete example, we will seek improvements in both systems and operations for our primary service of providing loans for margin transactions under the Medium-Term Management Plan announced in March of this year. Strengthening our ability to procure stock certificates will also continue to be an emphasis with a view to expanding the number of loanable issues, and we hope to strengthen our competitiveness. We are also endeavoring to increase the outstanding balance of loans from areas other than standardized margin transactions, for example, by expanding the number of securities companies to which we extend "loans for negotiable margin transactions," a new type of loan for securities companies that has been introduced in last October and covers negotiable margin transactions. In April of this year, we overhauled our organizations in order to strengthen our internal governance and risk control management. The Inspections Department and Research Department were reorganized into the Audit Department and Risk Management Department respectively and their areas of responsibility updated so as to strengthen monitoring functions and enhance and reinforce risk management.

JSF Trust and Banking Co., Ltd. will make further contributions to the development of the securities market as a trust bank serving for the securities market. To this end, it will use its trust-bank skills to expand into operations such as customers' segregated money trust or securities trust. It will also strengthen the marketing capacities of its loan and trusts departments so as to create a stable and balanced profit structure.

Japan Information Processing Service Co., Ltd. and Japan Securities Agents, Ltd., both of which are our equity-method affiliates, decided to establish a joint holding company called "JBIS Holdings, Inc.," to which the two companies will assign shares, and this operation is scheduled to take place by October 1st, 2006 (tentative). With the upcoming dematerialization of stock certificates, there will be greater synergy between the accumulated expertise of the two companies, which will enable them to offer better-quality services to their clients. This, we believe, is in line with our business philosophy and orientation of contributing to the development of the securities industry.

We will continue to review group-wide operations and capital relationships so as to further strengthen JSF group's base of operations within the securities market and improve JSF group's overall strength and capacity.

Minoru Masubuchi

Minoru Masubuchi
President

OUR BUSINESS DEVELOPMENT

Services for securities companies and financial institutions

- **Loans for margin transactions**
  - **Funds loan**: Loan funds needed to settle standardized margin transactions
  - **Stock loan**: Loan stock certificates needed to settle standardized margin transactions
- **General stock lending**
  - Lending stock certificates needed to settle stock trading
- **Bond services**
  - Brokerage between borrowers and lenders in bond borrowing and lending market
  - Gensaki transactions of JGB,Outright transactions
- **Loans for negotiable margin transactions**
  - Loan funds needed to settle negotiable margin transactions
- **Bond financing**
  - Loan funds needed in bond underwriting, trading, etc.
- **General loans**
  - Loan working funds, etc., to securities companies

Secured loans on securities for indivisual and corporate investors

- **Bond financing**
- **General loans**
  - **Direct loans**: Direct loans to customer
  - **Safekeeping deposited loans**: Loans on securities in safekeeping account, within credit line set before

Peripheral services

- **Securities custody**
  - Custody services for securities owned by institutional investors, etc.
- **Government bond debt servicing**
  - Designated by the Bank of Japan, repayment services for principal and interest on government bonds

LOANS FOR MARGIN TRANSACTIONS

What is Margin Transactions?

In margin transactions, an investor trades stocks after (1) depositing a certain amount of collateral (margin requirements) with a securities company and (2) borrowing funds for purchasing stock or stock certificates for sale. Margin transactions help investors to expand their trading volumes by enabling them to purchase stock which value is in excess of their available funds, or to sell stock that they do not own. Thus, margin transactions broaden and strengthen stock trading and contribute to the smooth circulation of stocks and the fair stock prices formation.

Margin transactions is used, for example, when an investor considers that the stock price of a certain issue will rise or decline sharply in a short period of time.

- When it is expected that the stock price will rise, an investor borrows funds for purchasing stock from a securities company (margin buying), and if the stock price rises as expected within a term of repayment (6 months), the investor sells the stock, repays the funds borrowed (reversing transaction) and receives the margin. The investor may also receive the stock certificates (actual receipt) by procuring funds separately and depositing it with a securities company.

- Conversely, when it is expected that the stock price will decline, an investor borrows stock certificates from a securities company and sells them (margin selling). If the stock price declines as expected within the term of repayment(6 months), the investor buys back the stock, returns it to a securities company and receives the margin. The investor may also receive the equivalent money to stock certificates sold by procuring stock certificates separately and offering them to a securities company (actual delivery).

Apart from the purpose of obtaining margins as described above, an investor can use margin transactions as a means for hedging. In other words, in the event that, although an investor expects that the stock price in hand may decline, the stock is not to be sold for some reasons, such as that convertible bond is within its convertible period or that it is a publicly-offered stock just purchased, the investor can avoid loss with hedging sale by using margin transactions.

There are two types of margin transactions, standardized margin transactions and negotiable margin transactions. In standardized margin transactions, interest rate on loans or terms of repayment are determined by stock exchanges, and a securities company can borrow funds for purchasing and stock certificates for sale needed to settle transactions from a securities finance company (loans for margin transactions).

In negotiable margin transactions, which is limited to cases in which a securities company can procure funds and stock certificates to be lent to customers by internal matching (Note) or external procurement without borrowing from a securities finance company, the condition of margin transactions may be decided freely in negotiations between a securities company and its customer.

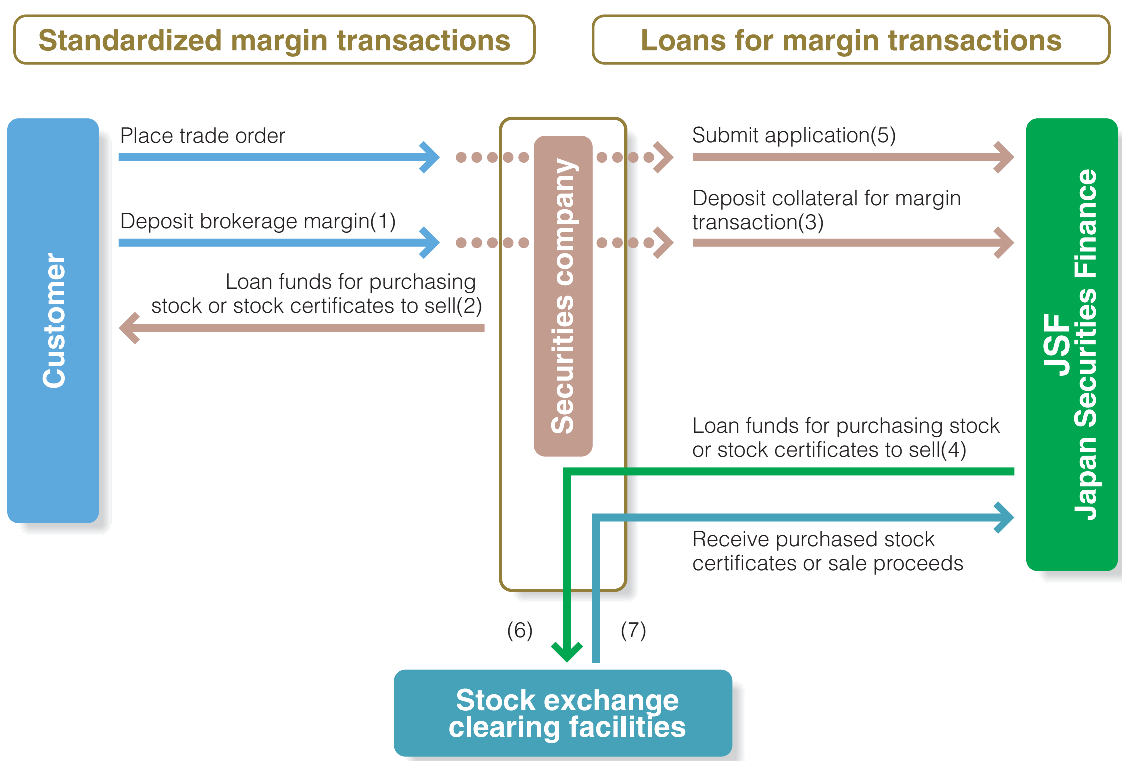
(Note) This is a system of appropriating purchased stock certificates received from buy side as collateral to sell side's stock certificates for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

What is Loans for Margin Transactions?

Loans for margin transactions is a system in which a securities finance company receives a certain amount of margin (margin requirements) from a securities company, which is a general trading participant of stock exchanges (3) and lends funds or stock certificates necessary for margin transactions (4). This is executed through the clearing facilities of stock exchanges. Loans for margin transactions is authorized only for the securities finance companies with a license given by the Prime Minister. We, Japan Securities Finance Co., Ltd. conduct loans for margin transactions through the stock exchange in Tokyo, Sapporo, Fukuoka, and JASDAQ.

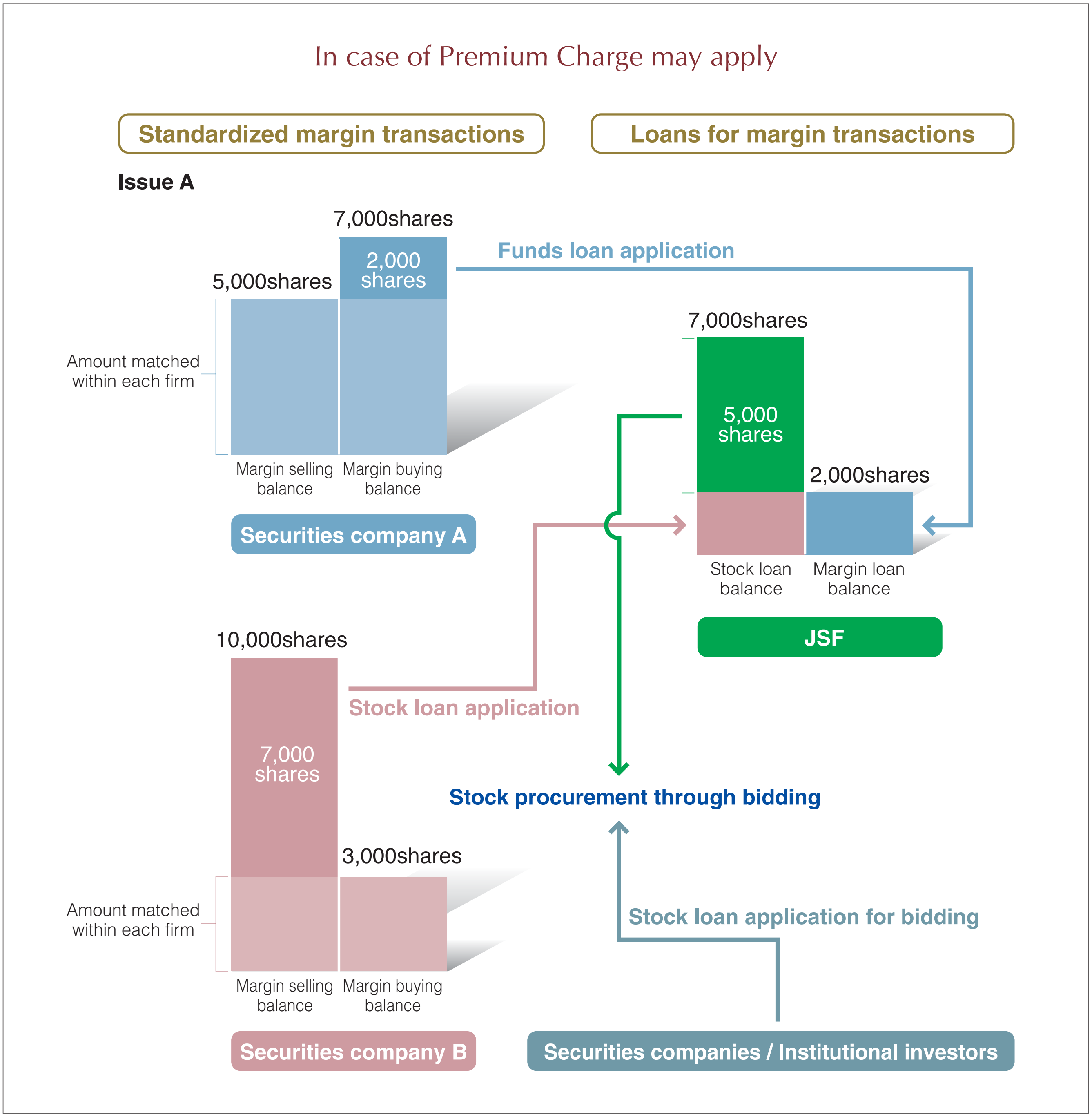
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions(5).To execute the loan, JSF, in place of the securities company, delivers funds or stock certificates to clearing facilities of stock exchanges(6). The stock certificates purchased (collateral stock certificates for loans) or proceeds from sale (collateral money for stock loans) are received by JSF(7), and then each collateral is appropriated.

Standardized margin transactions and Loans for margin transactions



Handing of over-lent issues

JSF usually appropriates stock certificates received as collateral for loans to stock loans. However, should the outstanding stock loans exceed the outstanding loans, it is necessary to procure the stock certificates needed for settlement by bidding with securities companies or institutional investors such as life and non-life insurance companies, banks and other sources. The highest bidding rate becomes the lending rate (Premium Charge) of that issue. This premium charge is applied to all users of standardized margin transactions, and should be collected by all sell sides and paid to all buy sides or successful bidders.



BOND SERVICES

In bond borrowing and lending transactions, a lender lends bonds to a borrower, and after mutually agreed period, the borrower repays the lender with bonds of the same type and quantity. JSF serves as a broker between borrowers and lenders.

The bond borrowing and lending transactions market was established in May 1990 for the purpose of covering bonds sold short, and was followed in April 1996 by the introduction of REPO (cash-collateral bond borrowing and lending transactions). JSF was the first company in Japan to be authorized to offer such brokerage services, because JSF can link securities industries and financial industries on neutral ground and is well versed in handling of bond transactions.

JSF receives applications from both parties and, on their behalf, lends and borrows bonds on the basis of loan agreement. This type of arrangement has several advantages, including helping to form a transaction that matches the needs of both lender and borrower, maintaining high confidentiality of information to ensure the complete privacy of both parities, and transferring all counterparty credit risk to JSF. The arrangement also contributes to creating fair and stable market by publicly disclosing indication via QUICK, Bloomberg, and other information services.

Transaction types

REPO transactions

JSF borrows bonds after depositing cash collateral with a lender and then lends bonds after receiving cash collateral from a borrower. This transaction can be either a Special Collateral transaction that specifies an issue or a General Collateral transaction that does not specify an issue.

Ordinary bond borrowing and lending transactions

JSF, in principle, borrows bonds without collateral from a lender and then lends bonds after receiving collateral from a borrower.

Gensaki

This transaction involves resale or repurchase of the same type and quantity of bonds, etc., at a prescribed price after a fixed period agreed upon in advance between transacting parties.

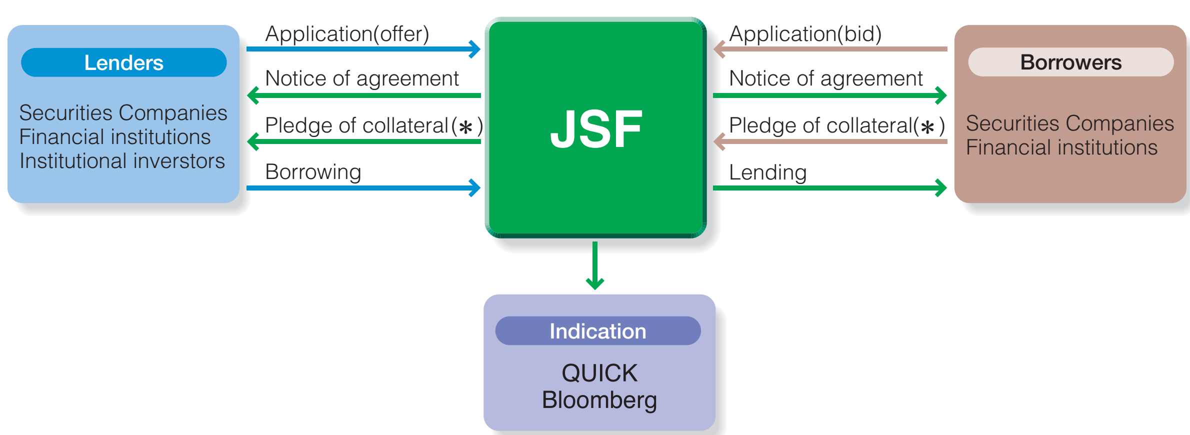
JGB Gensaki operations by BOJ

The Bank of Japan has selected JSF as a participant of Japanese government bond (JGB) operations. Transaction format between JSF and the Bank of Japan is Gensaki, while the transaction between JSF and counterparty is conducted by Gensaki or Repo transaction.

Outright transactions

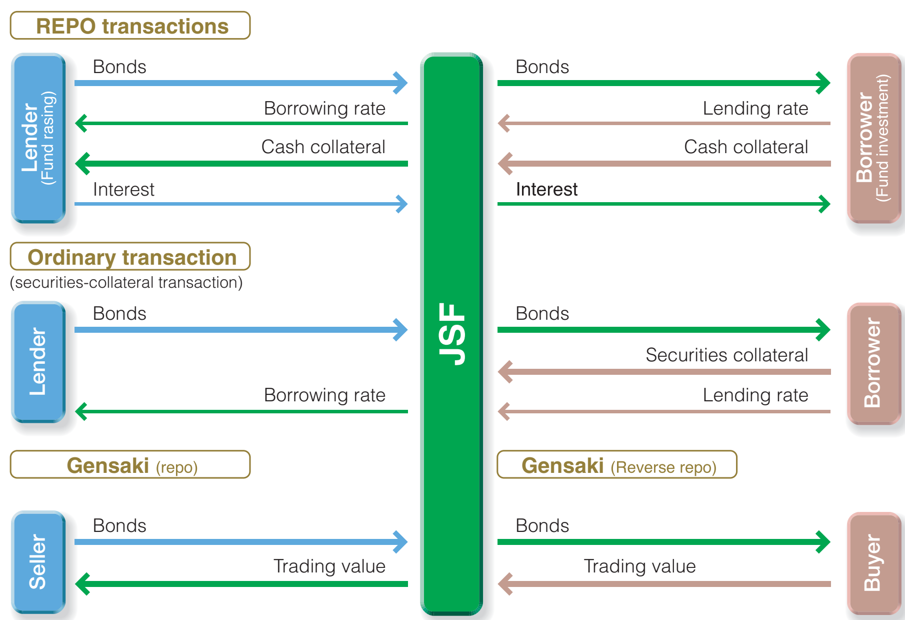
JSF conducts outright buying and selling of Treasury Bills or Financial Bills, and has developed a system in its securities business that enables efficient investment and management in combination with Gensaki.

Transaction structure(Process from application to agreement)



*In cash-collateral bond borrowing and lending transactions,only cash is acceptable.In ordinary bond borrowing and lending transactions, no collateral is pledged to lenders.

Types of bond transactions



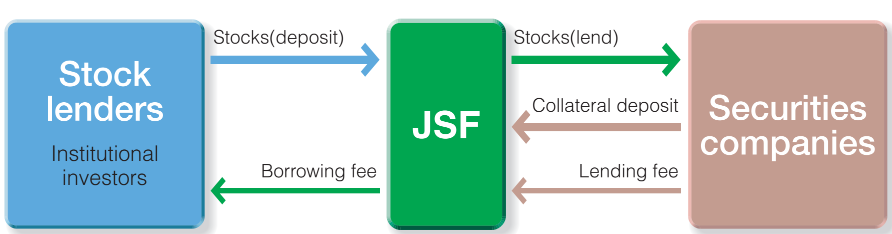
GENERAL STOCK LENDING

This business lends stock certificates needed to settle trades to securities companies. A securities company would use General Stock Lending when it has no stock certificates on hand, for the purpose of hedge sale of convertible bonds or arbitrage transactions with spots and futures, and so forth. JSF has done its utmost to increase the number of eligible issues and shares for brokerage services since the business was launched in 1977.

In February 2002, we implemented offer-bid borrowing and lending transactions (e Stock Lending) by expanding the online network that is linked with securities companies, so as to include institutional investors, such as life and non-life insurance companies.

JSF procures stock certificates for lending from institutional investors such as life and non-life insurance companies. JSF also receives stock certificates in advance for quick stock lending.

Mechanism of lending stock business



LOANS FOR NEGOTIABLE MARGIN TRANSACTIONS

What is Loans for Negotiable Margin Transactions?

Loans for negotiable margin transactions is a system which lends the necessary funds for securities companies to purchase stocks in negotiable margin transactions on behalf of its customer (3), receiving stock certificates purchased (1) or certain margin requirement (2) as collateral for loans.

Conditions of loans

Loanable stock Issues

In principle, loanable stock issues are those listed on stock exchange. (However, they can be limited to those we admit available.) Newly listed stocks can be accepted from the 1st day of its listing.

Loan Period

In principle, the due date of loan is the day following the lending date, but it can be extended to the deferment deadline for repayment of negotiable margin transactions for securities companies.

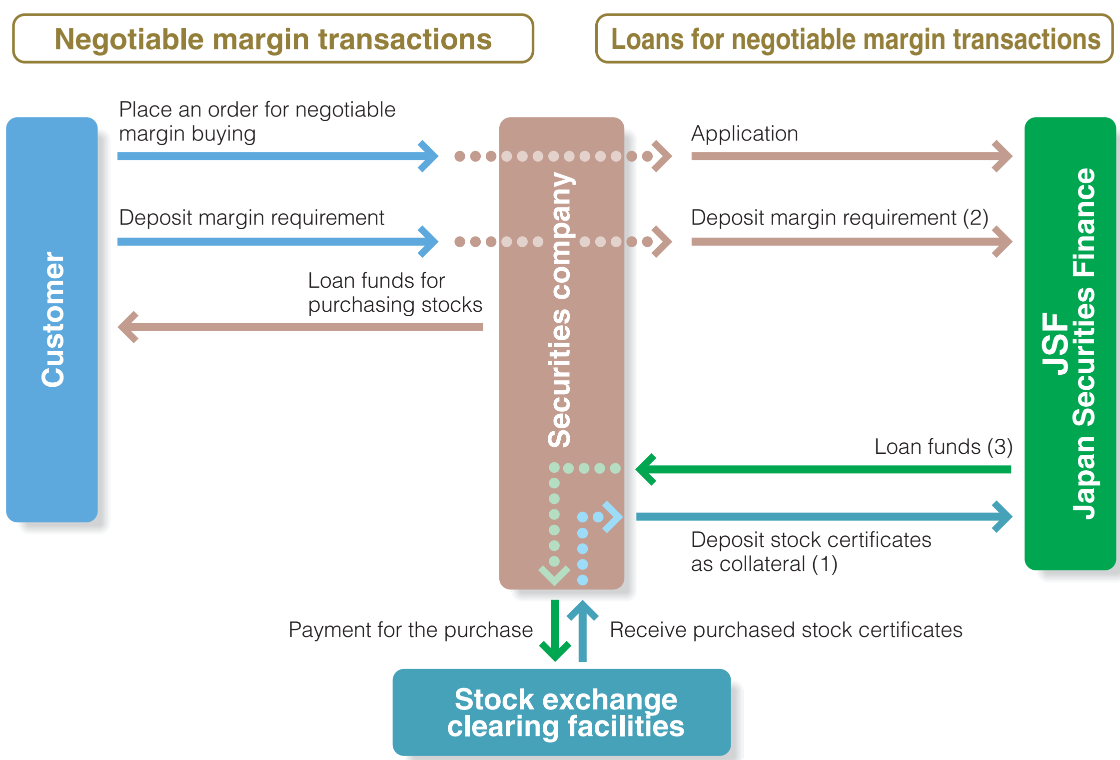
Interest rate

The interest rate on loans is determined individually between JSF and securities companies.

Collateral

JSF receive stock certificates purchased in negotiable margin transactions and certain margin requirement as collateral for loans. Margin requirement can be substituted by a certain ratio of cash or by securities.

Negotiable margin transactions and Loans for negotiable margin transactions



BOND FINANCING

The aim of bond financing is to contribute to smooth underwriting, circulation and fair price formation in bond markets. This business offers low-interest loans by using government and other bonds as collateral to provide funds required by securities companies in bond operations.

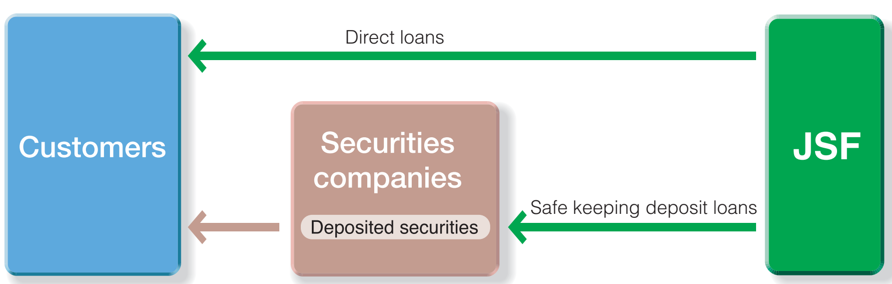
GENERAL LOANS

This business loans working funds required by securities companies by using stocks, bond, and other securities as collateral, and aims to respond quickly and flexibly to the needs of securities companies.

SECURED LOANS ON SECURITIES FOR INDIVIDUAL AND CORPORATE INVESTORS

JSF provides individual investors with direct loans keeping securities as collateral, and safe keeping deposit loans. JSF provides corporate investors, separately, with loans secured by securities.

Secured loans on securities for individual



CORPORATE GOVERNANCE

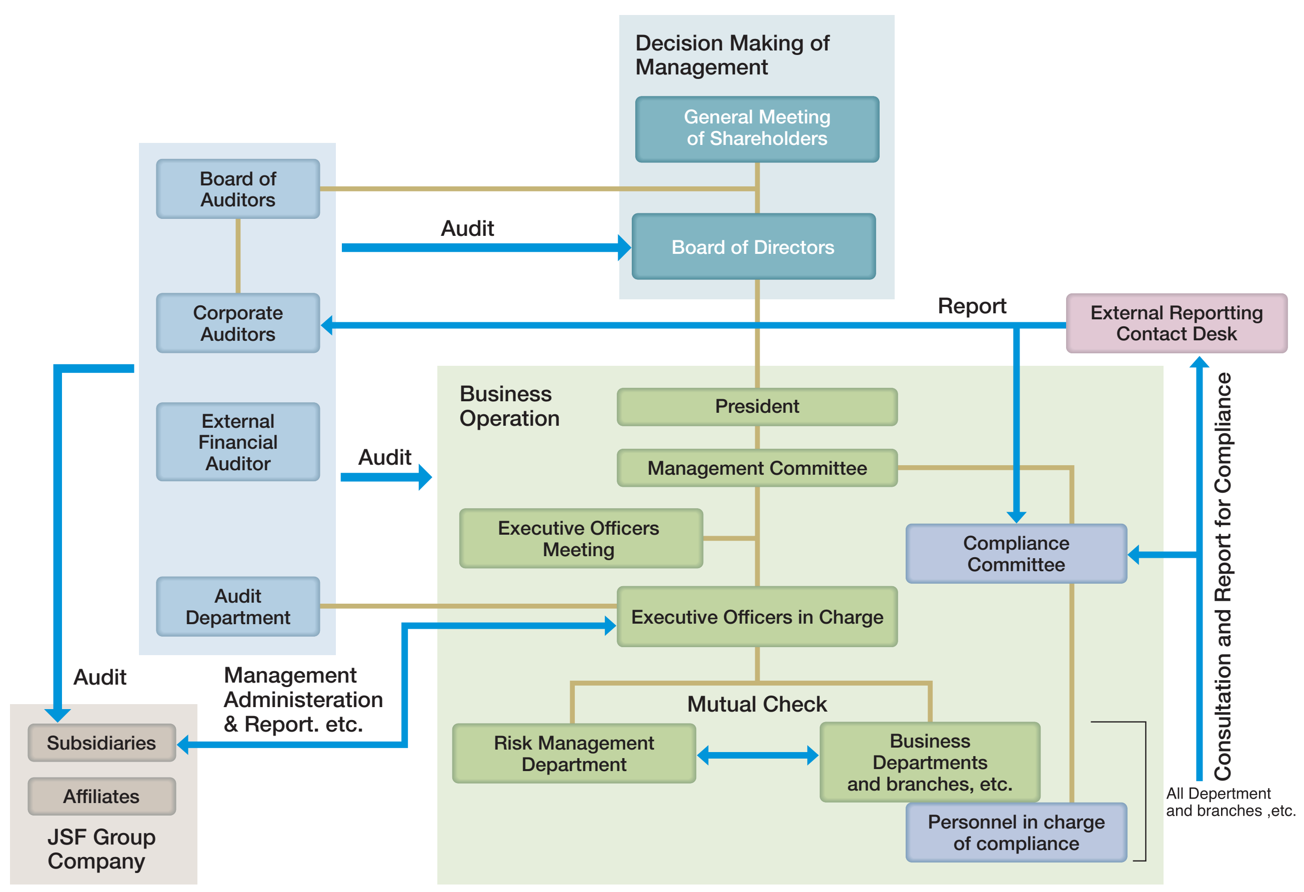
BASIC CONCEPT OF CORPORATE GOVERNANCE

Japan Securities Finance is constantly aware of its social responsibilities and public mission as an institution expert in securities finance, and believes that firm establishment of social trust through sound business operations is management's most important issue. To achieve this goal, the company continuously implements the following measures:

- Active invitation of outside directors (three directors, three auditors)
- Attendance of corporate auditors at internal meetings and instigation of necessary checks
- Establishment and implementation of risk management policies
- Establishment of compliance system

Furthermore, from the perspective of ensuring management transparency, we are committed to making active and timely disclosure of management information that goes beyond legal requirements via our website.

Corporate Governance System Structure



COMPLIANCE SYSTEM

The following details our compliance system and consulting and reporting system in regard to compliance.

The company's compliance system centers on our Board of Directors and the Compliance Committee. The situation regarding internal compliance is constantly studied by the Compliance Committee and the results of the committee's deliberations are regularly reported to the Board of Directors. The Compliance Committee, chaired by the director in charge of compliance, makes all possible efforts to promote and thoroughly establish compliance through such measures as urging managers and employees alike to take faithful and honest actions based on clear ethical standards.

Major activities of Compliance Committee

- Annual drafting and implementation of compliance program
- Drafting of compliance manual
- Advice and guidance regarding compliance
- Identification and evaluation of compliance system
- Implementation of compliance education training

In addition, the company takes the initiative in the promotion of the establishment and strengthening of overall group compliance system.

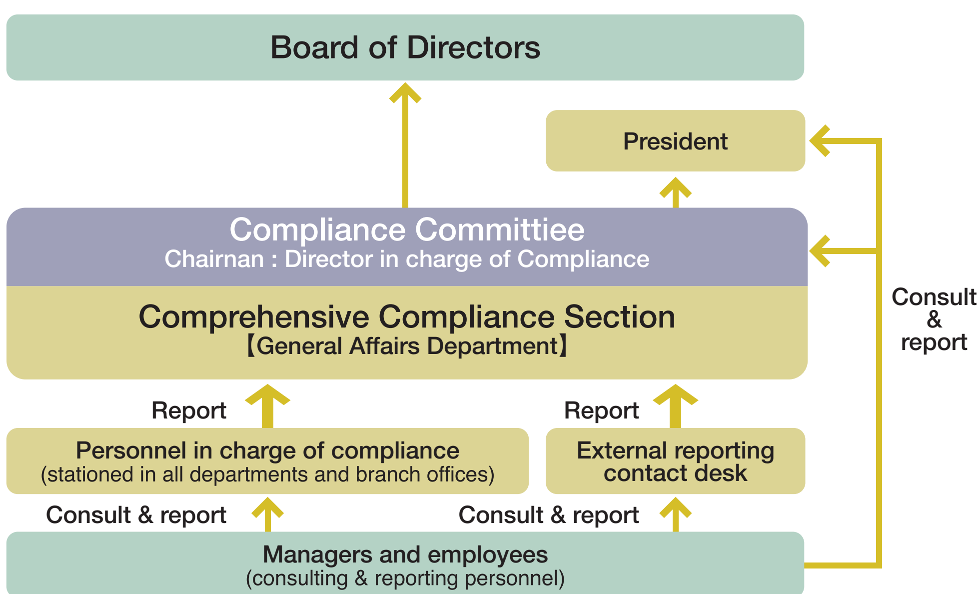
Consulting and Reporting System Regarding Compliance

Establishment of an external reporting contact desk

From October 2004, in order to strengthen the compliance system, the company expanded its compliance consulting and reporting contact desk. In addition to the Compliance Committee and reception by personnel in charge of compliance, we also established an external consulting and reporting contact desk.

This external consulting and reporting contact desk guarantees the complete anonymity of any person consulting or reporting matters regarding the company, thereby reducing the psychological burden on those persons and making consulting and reporting easier.

Consulting and Reporting



RISK MANAGEMENT

Basic Policies in Risk Management

With environmental changes such as financial deregulation and globalization as well as striking advances in information technologies, risks which financial institutions face have become diversified and more complicated. Accordingly, risk management has become more important in the management of financial institutions than ever before.

In this situation, in order to increase profitability while maintaining sound management, we have positioned risk management at the highest priority and has established basic policies in risk management at our Board of Directors.

More precisely, we have established basic policies for risk management: "Keeping all employees informed of company's emphasis on risk management", "Proper management of each category of risk", "Promotion of integrated risk management", "Establishing a system of mutual checks and balances", and so forth.

Methods for Risk Management

We classify expected risks broadly into 5 categories and then set these categories as management objectives: credit risks, market risks, liquidity risks, processing risks, and system risks. Among these categories, for credit risks and market risks, we are striving to secure profits while quantitatively grasping the risks and controlling them within proper levels as feasible for our management vitality (integrated risk management). On the other hand, for liquidity risks, processing risks and system risks, we are taking preventive measures against occurrences of these risks by executing proper management according to risk characteristics.

INTEGRATED RISK MANAGEMENT

Integrated risk management is a method to quantify various risks with unified methodology and to manage the total amount of risks within the realm of management vitality.

For credit risks and market risks, after allocating risk capital to each risk operation department by risk category within the realm of our own capital, we quantify risks with the methodology of Value at Risk (VaR) and manage the calculated volume of risks within the range of that allocated risk capital.

Allocated amounts of risk capital are determined as final at the Management Committee, with prior deliberation at regular "Risk Capital Meeting" in every March.

Each risk operation department controls the risks within the realm of the allocated risk capital. Risk Management Department, which is independent of risk operation departments, quantifies the risks, monitors risk operation conditions, and reports to board members.

In case a possible rise for a risk may exceed the allocated amount of the risk capital, an extraordinary "Risk Capital Meeting" will be held to deliberate responses to the case and then consult the Management Committee.

Risk Capital

Risk capital is capital necessary to cover losses caused by risks generated from business operation.

Value at Risk (VaR)

VaR is the maximum expected loss on an asset calculated with a certain period (holding period) and a certain probability (confidence level). This is calculated based on data in the past with statistical method. In our company, VaR is calculated based on confidence level of 99% and holding period of 1 year.

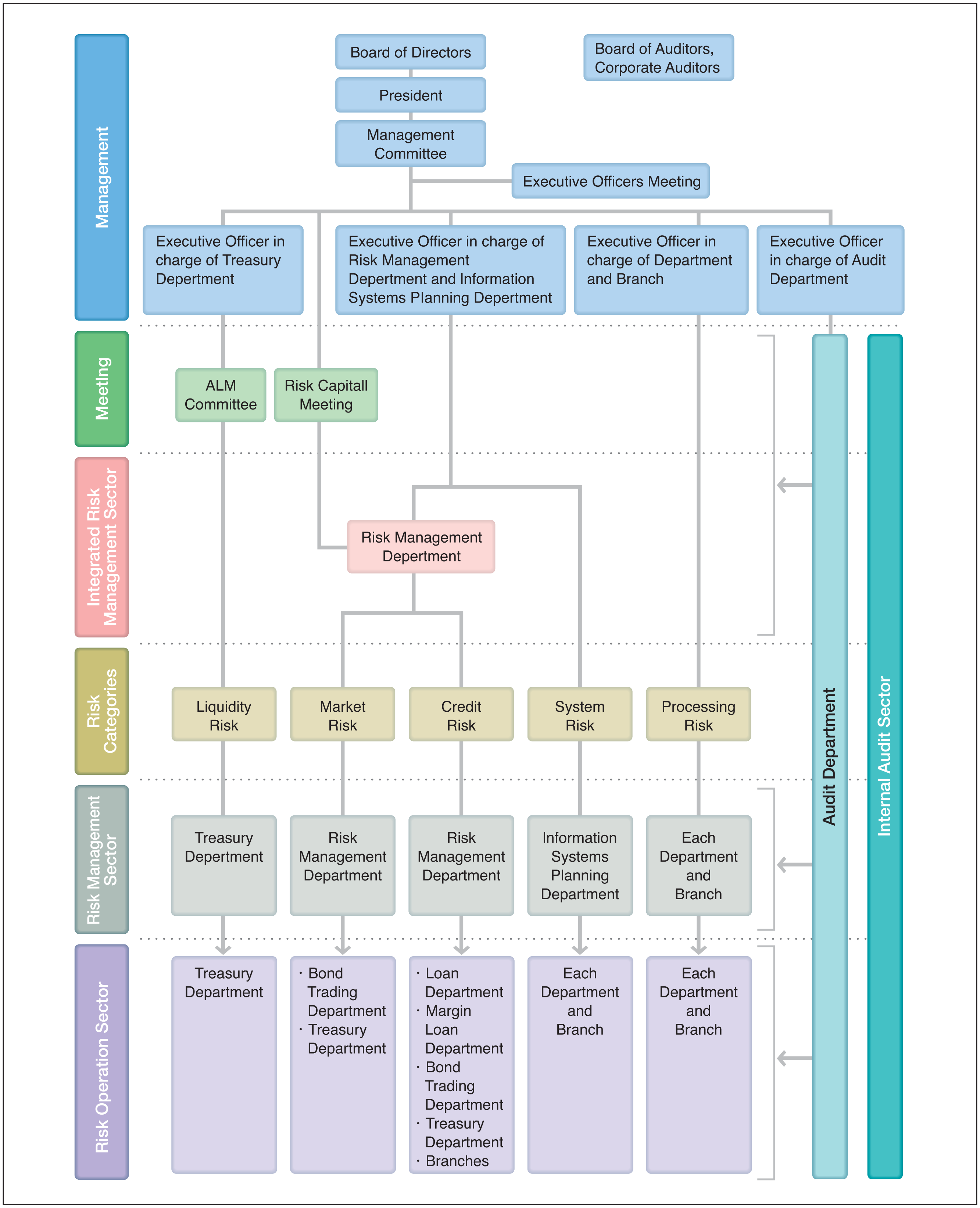
Risk Capital Meeting

This is a meeting to deliberate issues such as allocated amount of risk capital and so forth. The meeting is organized by the managers of Risk Management Department (chairperson), Planning Department, Treasury Department, and all the other business departments concerned.

Management Committe

This is a committee to deliberate important matters concerning business execution. The committee is organized by directors who serve as the executive officers concurrently.

RISK MANAGEMENT SYSTEM



CREDIT RISK MANAGEMENT

Credit risks are the risks to suffer losses by decreasing or losing the values of the assets due to credit events such as deterioration in the financial standing of a counterparty.

We try to sustain and improve the soundness of the assets by strictly managing overall credit risks.

More precisely, Risk Management Department assesses credit risks according to in-house ratings, and quantifies and manages credit risks using a default rate for each in-house rating. Furthermore, to complement management by quantification, we implement stress tests. On the other hand, for credit control, apart from screening client companies and loan transactions by the Risk Management Department, each risk operation department sets and manages amounts for transaction limitation for each client. In addition, each department implements rigid self-assessment of those assets for which they hold jurisdiction.

Additionally, for each loan transaction, as a general rule, we take adequate collateral. By implementing a daily marking to the market of the relevant collaterals, we suppress occurrences of impaired loans. In a case where a borrower falls into bankruptcy, by selling off collateral securities and so forth, we collect receivables in an expeditious manner.

In-house Rating System

We introduced a rating system which segmentalizes credit ratings of client companies into 6 ranks, based on ratings by external credit rating agencies, quantitative assessment of financial standing, obligor classifications used in self-assessment, and so forth. With this system, we assess the levels of credit risks properly, quantify credit risks, and set up amount for transaction limitation.

Stress Tests

Since VaR is statistical estimated figure, it cannot include possible losses, which can be caused by extreme market fluctuation such as Black Monday or economic crisis (stress event). In this situation, to be prepared for unforeseeable circumstances, we implement stress tests to calculate amount of losses in a case of occurrence of stress event based on data in the past or on hypothetical scenarios and assess the soundness of our financial management.

MARKET RISK MANAGEMENT

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

In our company, Risk Management Department quantifies and manages market risks, and to complement management by quantification, it implements stress tests. Furthermore, to validate the reliability of the market risk quantification model we are adapting, we are also implementing back testing to compare the calculated VaR with actual profits and losses.

LIQUIDITY RISK MANAGEMENT

Liquidity risks are risks to suffer losses caused by failures of raising necessary funds or by procurement of funds with unusually high interest rates or risks caused by halt of transactions due to market disruptions or by forced transactions with unusually unfavorable prices.

In our company, the Treasury Department has jurisdiction over the management of liquidity risks and attempts to diversify procurement methods and to secure stable suppliers. As for cash flow management, while we are implementing development of cash flow projection, grasping the amount which can be procured or liquidity of assets, and paying attention to concentrated settlement dates for large capital, we have a system to report to our management with daily cash flow status. Furthermore, to be prepared for unforeseeable circumstances, we take measures to supplement liquidity such as possessing a certain amount of government bonds with high liquidity.

In addition, at the "ALM Committee " held in every quarter, we develop cash flow projection based on forecasts of loans outstanding, deliberate policies for ALM (Asset Liability Management) such as revenue management for assets and liabilities of the company as a whole and thus report to the Management Committee.

ALM Committee

This is a committee to deliberate ALM such as development of fund management plans and revenue management for assets and liabilities of the company as a whole. The committee is organized by the executive officer in charge of Treasury Department, and managers of Treasury Department (chairperson) and all the other departments concerned.

PROCESSING RISK MANAGEMENT

Processing risks are risks to suffer losses from failed processing due to negligence, accidents or fraud by officers and employees.

In our company, each department and branch has jurisdiction over the management of processing risks. To lessen processing risks, through facilitation of regulations and manuals and also through trainings, all employees are familiarized with proper handling of operational work. In addition, by ensuring that each department and branch implements its own voluntary inspection on a regular basis, we endeavor to prevent occurrence of accidents and improve our business processing system.

SYSTEM RISK MANAGEMENT

System risks are risks to suffer losses due to system defects such as failures or malfunction of computer systems or due to unauthorized use of computer systems.

In our company, the Information Systems Planning Department holds jurisdiction over management of system risks. To ensure stable operation of our computer systems, the department takes preventive measures for occurrence of system failures such as duplicating networks and equipment and so forth. To develop and operate our computer systems safely and effectively, all operation procedures are clarified and our monitoring system is facilitated. In addition, concerning protection of our own information assets (information and information systems), necessary regulations are consolidated and all officers and employees are familiarized with handling of the information assets. Furthermore, to minimize the effects of system failures, measures are taken such as facilitation of various handling manuals, implementation of drills, and so on.

INTERNAL AUDITING SYSTEM

In our company, the Audit Department, which is independent from other departments, implements strict internal auditing of overall business operation on management status of each category of risk along with regulatory compliance status and validates the appropriateness and efficacy of our internal control system in each department.

BUSINESS RESULTS

Consolidated operating revenues rose 3.0% year-on-year to 37,226 million yen thanks to increased interests on loans for margin transactions, which helped to offset declines in interest revenues from JGBs caused by reducing JGB positions. On the other hand, consolidated operating expenses rose 16.5% year-on-year to 19,142 million yen due to the increased fees on borrowing securities in concert with the fees on lending securities reported in the operating revenues as well as the increased losses on the sale of JGBs at JSF Trust and Banking Co., Ltd.

As a result, consolidated operating income was 8,927 million yen (down 12.0% year-on-year), and consolidated recurring income was 8,293 million yen (down 13.4% year-on-year) due to the posting of 815 million yen loss in equity-method because of poor performance at equity-method affiliates. In addition, the company posted 33 million yen in extraordinary profits due to the reversal of the allowance of doubtful receivables and other factors, as well as 140 million yen in extraordinary losses due primarily to losses on the sale of fixed assets in conjunction with a rebuilding of properties owned by Nihon Building Co., Ltd. As a result, consolidated net income for the period was 4,953 million yen (down 10.3% year-on-year).

Breakdown of JSF group operating revenues

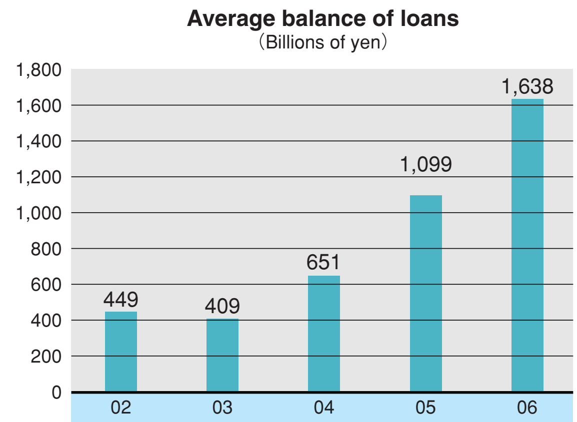
	2006 (April 1, 2005 - March 31, 2006) Amount (¥ million)	2005 (April 1, 2004 - March 31, 2005) Amount (¥ million)
Securities financing business	34,234	33,178
Loans for margin transactions	22,993	17,309
Interest on loans	10,158	6,794
Interest on collateral money for securities borrowed	893	889
Fees on lending securities	11,226	9,040
Bond financing and general loans	865	887
Interest on bond financing	7	14
Interest on general loans	858	873
Securities lending	2,700	1,926
Stocks	1,465	1,016
Bonds	1,235	910
Fees on lending	929	693
Interest on collateral money for securities borrowed	306	217
Trust banking	4,287	8,206
Interest on loans	1,382	1,067
Trust charges	161	227
Real estate leasing	871	939
Other business	2,518	3,911
Information processing business	2,992	2,967
Fees on information services	2,726	2,755
Fees on machinery leasing	78	107
Others	188	105
Total operating revenues	37,226	36,145

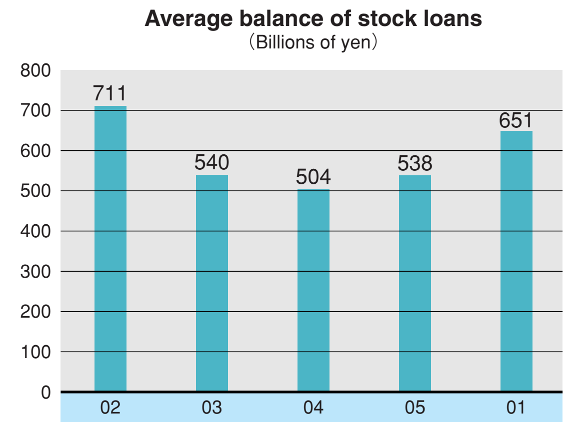
SECURITIES FINANCE BUSINESS

Operating revenues from securities finance business increased to 37,226 million yen (up 3.2% year-on-year).

Loans for Margin Transactions

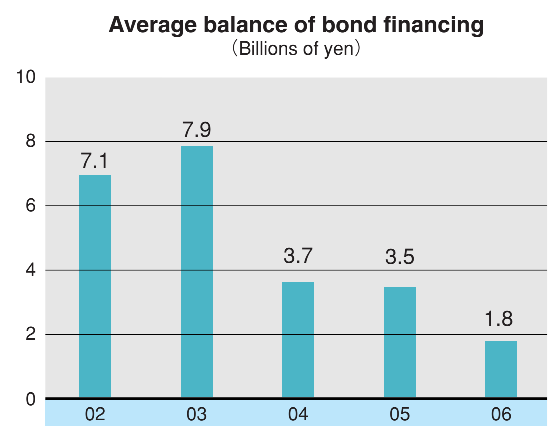
In the loans for margin transactions business, due to the increased outstanding balance of standardized margin buying transactions, the amount of loans for margin transactions during the fiscal year averaged 1,637.6 billion yen, a dramatic increase of 539 billion yen over the previous period, resulting in increased interests on loans. On the other hand, the fees on securities lending increased, as the stock loans for margin transactions during the fiscal year increased by 112.8 billion yen from the previous year to 651 billion yen. As a result, the operating revenues from loans for margin transactions business were 22,993 million yen, (up 32.8% year-on-year).

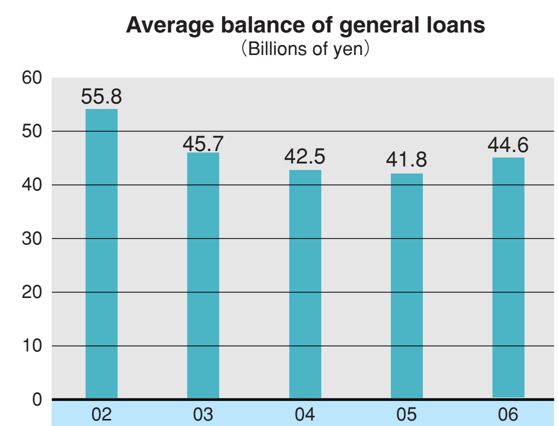




Bond Financing and General Loans Business

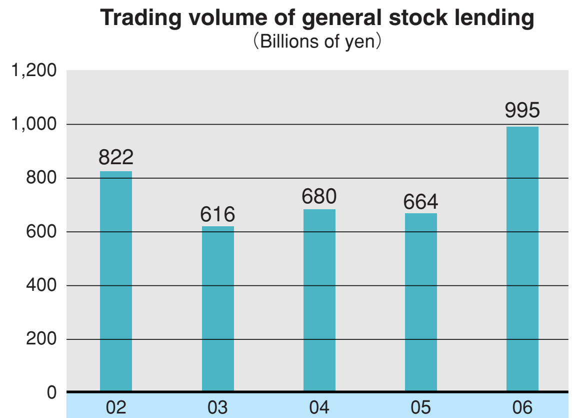
In bond financing and general loans business, the company experienced higher demand for funds as brokerages sought to strengthen their liquidity on hand in the face of market volatility and the loans for negotiable margin transactions that began in October of last year helped to further increase outstanding balances, but the growth in loan to individual investors and corporations was sluggish. As a result, average outstanding bond financing was 1,800 million yen and average outstanding general loans 44,600 million yen (of which, outstanding loans for negotiable margin transactions was 2,500 million yen) during the fiscal year, resulting in operating revenues of 865 million yen for this business (down 2.6% year-on-year).

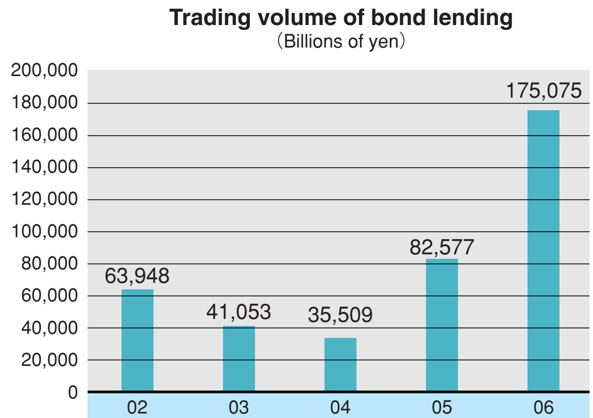




Securities Lending Business

As for the business of securities lending, in addition to brisk demands in the general stock lending department for expand issuing of convertible-bond type corporate bonds with new share reservation rights as well as hedge sales for public capital increase and failure-avoidance transactions, we concentrated on SC transactions (transactions in specified issues) as well as on expanding clientele in the bonds department. As a result, the operating revenues for this business registered 2,700 million yen (up 40.1% year-on-year).





Trust Banking Business

In the trust banking business, the average outstanding loan balance for the fiscal year was 1,016.4 billion yen, a decline of 141.5 billion yen from the previous fiscal year due primarily to the declining loans to government sector. Nonetheless, interests on loans rose thanks to a renewed emphasis on syndicated loan. On the other hand, because a temporary compression in securities investment position during the fiscal year resulted in substantial declines in interest income and trading profits, operating profits of trust bank business was 4,287 million yen (down 47.8% year-on-year).

Other Business

In other revenues, the company recorded 2,518 million yen (down 35.6% year-on-year) due to declining coupon revenues resulting from reduced position of JGBs.

INFORMATION PROCESSING BUSINESS

In the information processing business, in spite of decreased orders for data entry services and leasing business, the systems development side performed well thanks to strong sales of catalog sales management software, and the operating revenues amounted to 2,992 million yen (up 0.9% year-on-year).

CONSOLIDATED BALANCE SHEETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries as of March 31, 2006 and 2005

Assets	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars(note 2) 2006
Current assets:			
Cash (note 3)	¥ 3,824	¥ 95,956	$ 32,553
Call loans	118,000	136,000	1,004,512
Short-term investments (notes 4 and 15)	1,365,935	1,085,895	11,627,947
Short-term loans receivable (note 15)	3,194,928	2,528,076	27,197,821
Securities lent	705,151	604,540	6,002,818
Securities in custody (note 15)	193,722	255,467	1,649,119
Securities in deposit (note 15)	1,740,415	955,999	14,815,825
Deferred tax assets (note 9)	856	1,014	7,287
Collateral money for securities borrowed (note 15)	1,662,232	2,031,907	14,150,268
Other current assets	42,625	117,092	362,859
Allowance for doubtful receivables	(1,307)	(1,319)	(11,126)
Total current assets	9,026,381	7,810,627	76,839,883
Property, plant and equipment:			
Buildings and structures	7,696	7,695	65,515
Machinery, equipment and vehicles	2	2	17
Tools, furniture and fixtures	2,132	2,302	18,149
Land	3,324	3,063	28,297
Construction in progress	397	105	3,379
	13,551	13,167	115,357
Accumulated depreciation	(6,020)	(6,193)	(51,247)
Net property, plant and equipment	7,531	6,974	64,110
Intangible assets, net	3,838	4,455	32,672
Investments and other assets:			
Investments in securities (notes 4, 5 and 15)	669,067	1,397,824	5,695,642
Deferred tax assets (note 9)	7,465	450	63,548
Other investments and other assets	8,142	9,695	69,311
Allowance for doubtful receivables	(41)	(51)	(349)
Total investments and other assets	684,633	1,407,918	5,828,152
Total assets	¥ 9,722,383	¥ 9,229,974	$ 82,764,817

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars(note 2) 2006
Current liabilities:			
Call money (notes 7 and 15)	¥ 1,964,400	¥ 1,410,200	$ 16,722,567
Bills sold (notes 7 and 15)	672,400	2,135,100	5,724,015
Short-term borrowings (note 7)	1,577,820	959,820	13,431,685
Commercial paper (note 7)	–	172,000	–
Payables under repurchase agreements (notes 7 and 15)	114,420	26,698	974,036
Accrued income taxes (note 9)	1,845	2,962	15,706
Collateral money received for securities lent (note 15)	2,462,857	2,328,595	20,965,838
Collateral securities deposited	2,328,083	1,386,620	19,818,532
Securities borrowed (note 15)	302,380	423,565	2,574,104
Securities lent opposite account	8,825	5,821	75,126
Other current liabilities (note 7)	153,828	235,652	1,309,509
Total current liabilities	9,586,858	9,087,033	81,611,118
Non-current liabilities:			
Long-term borrowings (note 7)	4,500	2,500	38,308
Deferred tax liabilities (note 9)	–	225	–
Deferred tax liabilities for land revaluation (note 6)	99	103	843
Liabilities for retirement and severance benefits (note 8)	3,924	4,153	33,404
Other non-current liabilities	8,040	9,623	68,443
Total non-current liabilities	16,563	16,604	140,998
Total liabilities	9,603,421	9,103,637	81,752,116
Stockholders' equity:			
Common stock (note 10):	10,000	10,000	85,128
Authorized 200,000,000 shares in 2006 and 152,195,000 shares in 2005; issued and outstanding 99,704,000 shares in 2006 and 2005			
Additional paid-in capital (note 10)	5,182	5,182	44,113
Retained earnings (note 11)	109,872	107,473	935,320
Gain on revaluation of land (note 6)	143	151	1,217
Net unrealized gain (loss) on other securities (note 4)	(5,751)	3,784	(48,957)
Treasury stock	(484)	(253)	(4,120)
Total stockholders' equity	118,962	126,337	1,012,701
Commitments and contingencies (note 16)			
Total liabilities and stockholders' equity	¥ 9,722,383	¥ 9,229,974	$ 82,764,817

CONSOLIDATED STATEMENTS OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries for the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars(note 2)
	2006	2005	2006
Operating revenues	¥ 37,226	¥ 36,145	$ 316,898
Operating expenses	19,142	16,429	162,952
Operating profit	18,084	19,716	153,946
General and administrative expenses (note 12)	9,157	9,567	77,952
Operating income	8,927	10,149	75,994
Other income (deductions):			
Interest income	9	16	77
Dividend income	66	54	562
Interest expenses	(3)	(4)	(26)
Equity in losses of affiliates	(815)	(778)	(6,938)
Gain on sale of investments in securities (note 4)	—	234	—
Other, net	3	(166)	25
	(740)	(644)	(6,300)
Income before income taxes	8,187	9,505	69,694
Income taxes (note 9)			
Current	2,997	4,023	25,513
Deferred	237	(37)	2,017
	3,234	3,986	27,530
Net income	¥ 4,953	¥ 5,519	$ 42,164

	Yen		U.S. dollars(note 2)
	2006	2005	2006
Per share of common stock (note 1(m)):			
Net income – basic	¥ 48.93	¥ 54.08	$ 0.42
Cash dividends applicable to the year	24.00	7.00	0.20

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries for the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars(note 2)
	2006	2005	2006
Common stock (note 10):			
Balance at beginning of year	¥ 10,000	¥ 10,000	$ 85,128
Balance at end of year	10,000	10,000	85,128
Additional paid-in capital (note 10):			
Balance at beginning of year	5,182	5,182	44,113
Balance at end of year	5,182	5,182	44,113
Retained earnings (note 11):			
Balance at beginning of year	107,473	101,927	914,897
Increase resulting from an affiliate newly accounted for by the equity method	—	1,004	—
Cash dividends	(2,389)	(698)	(20,337)
Bonuses to directors and corporate auditors	(172)	(115)	(1,464)
Addition (deduction) of revaluation of land	7	(164)	60
Net income	4,953	5,519	42,164
Balance at end of year	109,872	107,473	935,320
Gain on revaluation of land at end of year	143	151	1,217
Net unrealized gain (loss) on other securities at end of year (note 4)	(5,751)	3,784	(48,957)
Treasury stock at end of year	(484)	(253)	(4,120)
Total stockholders' equity at end of year	¥ 118,962	¥ 126,337	$ 1,012,701

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries for the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars(note 2)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes	¥ 8,187	¥ 9,505	$ 69,694
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,627	1,488	13,850
(Gains) losses relating to short-term investments and investments in securities	2,380	(1,127)	20,261
Allowance for doubtful receivables	(21)	376	(179)
Decrease in liabilities for retirement and severance benefits	(229)	(61)	(1,949)
Interest and dividend income	(16,481)	(15,396)	(140,300)
Interest expenses	1,529	1,544	13,016
Equity in losses of affiliates	815	778	6,938
Increase in short-term loans receivable	(666,853)	(47,743)	(5,676,794)
Decrease in call loans	18,000	197,000	153,231
(Increase) decrease in collateral money for securities borrowed	369,675	(192,381)	3,146,974
Increase (decrease) in call money	554,200	(18,200)	4,717,800
Decrease in bills sold	(1,462,700)	(326,500)	(12,451,690)
Increase (decrease) in borrowings	618,000	(261,500)	5,260,918
Increase (decrease) in payables under repurchase agreements	87,723	(55,568)	746,770
Decrease in commercial paper	(172,000)	(38,000)	(1,464,204)
Increase in collateral money received for securities lent	134,261	319,181	1,142,939
Increase (decrease) in collateral money received for loan transactions	24,773	(15,294)	210,888
Purchase of short-term investments	(6,846,295)	(12,190,039)	(58,281,221)
Proceeds from sale/redemption of short-term investments	7,173,246	12,778,649	61,064,493
Other, net	72,341	(95,196)	615,825
Sub total	(97,822)	51,516	(832,740)
Interest and dividend received	16,551	16,382	140,895
Interest paid	(1,553)	(1,470)	(13,220)
Income taxes paid	(4,941)	(3,344)	(42,062)
Net cash provided by (used in) operating activities	(87,765)	63,084	(747,127)
Cash flows from investing activities:			
Purchase of investments in securities	(157)	(226)	(1,337)
Proceeds from sale/redemption of investments in securities	100	659	851
Capital expenditures	(1,110)	(732)	(9,449)
Purchase of intangible assets	(580)	(1,680)	(4,937)
Other, net	(0)	227	(0)
Net cash used in investing activities	(1,747)	(1,752)	(14,872)
Cash flows from financing activities:			
Dividends paid to stockholders	(2,389)	(698)	(20,337)
Other, net	(231)	(45)	(1,966)
Net cash used in financing activities	(2,620)	(743)	(22,303)
Net increase (decrease) in cash and cash equivalents	(92,132)	60,589	(784,302)
Cash and cash equivalents at beginning of year	95,956	35,367	816,855
Cash and cash equivalents at end of year (note 3)	¥ 3,824	¥ 95,956	$ 32,553

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

(1)SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presenting Consolidated Financial Statements

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

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

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

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (3 subsidiaries for 2006 and 2005).

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

Investments in affiliates are accounted for by the equity method.

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

The excess of cost over the underlying net assets at the dates of investments in subsidiaries is amortized over 5 years.

(c) Cash and Cash Equivalents

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

(d) Short-term Investments and Investments in Securities

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

(e)Inventories

Inventories are stated at cost. Cost is determined principally by the specific identification method.

(f) Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is provided principally by the declining-balance method based on the estimated useful lives.

The estimated useful lives are as follows:

Buildings and structures 3–50 years

(g) Intangible Assets

Intangible assets are carried at cost less amortization. Software development expenses are deferred and amortized by the straight-line method over estimated useful lives (5 years). Intangible assets other than software are deferred and amortized by the straight-line method at rates based on the estimated useful lives of the respective assets.

(h) Allowance for Doubtful Receivables

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

(i) Retirement and Severance Benefits

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

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

(j) Leases

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases.

(k) Income Taxes

The Accounting Standards for Deferred Income Taxes require that deferred income taxes should be accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled, and the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(l) Appropriation of Retained Earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by the resolution of stockholders at a general meeting to be held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation. (See note 11)

(m) Data per Common Share

Net income per share is computed on the basis of the weighted average number of shares of common stock outstanding during the respective years. (See note 13)
Cash dividends per share are computed based on dividends actually paid during the year. (See note 11)

(n) Impairment of Long-lived Assets

Effective April 1, 2005, the Company and its consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets (“Opinion Concerning the Establishment of an Accounting Standard for the Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the “Implementation Guidance on the Accounting Standard for the Impairment of Fixed Assets” (Business Accounting Standard Implementation Guidance No. 6 issued on October 31, 2003). The effect of adoption of these new standards was nil.

(o) Reclassifications

Certain reclassifications have been made to the prior years’ consolidated financial statements to conform to the presentation used as of and for the year ended March 31, 2006.

(2) FINANCIAL STATEMENT TRANSLATION

The consolidated financial statements are expressed in Japanese yen. However, solely for the convenience of the reader, the consolidated financial statements as of and for the year ended March 31, 2006 have been translated into United States dollars at the rate of ¥117.47=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2006. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

(3) CASH AND CASH EQUIVALENTS

A reconciliation between “Cash” in the accompanying consolidated balance sheets and “Cash and cash equivalents” in the accompanying consolidated statements of cash flows as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash	¥ 3,824	¥ 95,956	$ 32,553
Cash and cash equivalents	¥ 3,824	¥ 95,956	$ 32,553

(4) SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

Balance sheet amount and net unrealized loss which are charged to income of trading securities as of March 31, 2005 are ¥9,999 million and ¥1 million, respectively. As of March 31, 2006, the Company holds no trading securities.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2006 and 2005 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2006				
Government bond securities	¥ 15	¥ —	¥ —	¥ 15
Corporate bond securities	—	—	—	—
Others	—	—	—	—
	¥ 15	¥ —	¥ —	¥ 15
March 31, 2005				
Government bond securities	¥ 15	¥ —	¥ —	¥ 15
Corporate bond securities	100	—	—	100
Others	—	—	—	—
	¥ 115	¥ —	¥ —	¥ 115

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2006				
Government bond securities	$ 128	$ —	$ —	$ 128
Corporate bond securities	—	—	—	—
Others	—	—	—	—
	$ 128	$ —	$ —	$ 128

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2006 and 2005 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2006				
Equity securities	¥ 1,234	¥ 5,898	¥ –	¥ 7,132
Bond securities:				
Government bond securities	1,974,980	234	20,884	1,954,330
Corporate bond securities	10,000	–	3	9,997
Others	–	–	–	–
Other securities	80	29	–	109
	¥ 1,986,294	¥ 6,161	¥ 20,887	¥ 1,971,568
March 31, 2005				
Equity securities	¥ 1,179	¥ 2,871	¥ –	¥ 4,050
Bond securities:				
Government bond securities	2,448,136	2,841	2,543	2,448,434
Corporate bond securities	5,776	29	2	5,803
Others	–	–	–	–
Other securities	66	15	–	81
	¥ 2,455,157	¥ 5,756	¥ 2,545	¥ 2,458,368

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2006				
Equity securities	$ 10,505	$ 50,208	$ –	$ 60,713
Bond securities:				
Government bond securities	16,812,633	1,992	177,782	16,636,843
Corporate bond securities	85,128	–	25	85,103
Others	–	–	–	–
Other securities	681	247	–	928
	$ 16,908,947	$ 52,447	$ 177,807	$ 16,783,587

It is not practicable to estimate the fair value of securities as of March 31, 2006 and 2005 described bellow because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Unlisted equity securities	¥ 727	¥ 624	$ 6,189
Commercial paper	47,992	—	408,547

Projected future redemption of other securities with maturities and held-to-maturity securities as of March 31, 2006 is summarized as follows:

	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
Bond securities:				
Government bond securities	¥ 1,307,946	¥ 315,666	¥ 65,057	¥ 265,675
Corporate bond securities	57,989	—	—	—
Others	—	—	—	—
	¥ 1,365,935	¥ 315,666	¥ 65,057	¥ 265,675

	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
Bond securities:				
Government bond securities	$ 11,134,298	$2,687,205	$ 553,818	$2,261,641
Corporate bond securities	493,650	—	—	—
Others	—	—	—	—
	$ 11,627,948	$2,687,205	$ 553,818	$2,261,641

For the years ended March 31, 2006 and 2005, proceeds from sale of other securities are ¥4,449,469 million ($37,877,492 thousand) and ¥9,784,248 million, the gross realized gains are ¥1,722 million ($14,659 thousand) and ¥4,969 million, and the gross realized losses are ¥4,243 million ($36,120 thousand) and ¥3,825 million, respectively.

(5) INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates as of March 31, 2006 and 2005 are ¥14,701 million ($125,147 thousand) and ¥14,613 million, respectively.

(6) LAND REVALUATION

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

The book value of the land was revaluated at ¥830 million at March 31, 2002. The value of the land at March 31, 2006 decreased by ¥177 million ($1,507 thousand) in comparison with the book value of the land after the revaluation.

(7) DEBT

The composition of debt and the weighted average interest rate on debt as of March 31, 2006 and 2005 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2006			
Short-term borrowings	¥ 1,577,820	$ 13,431,685	0.067%
Long-term borrowings	4,500	38,308	0.194
Call money	1,964,400	16,722,567	0.021
Bills sold	672,400	5,724,015	0.016
Payables under repurchase agreements	114,420	974,036	0.087
Other	1,914	16,293	1.375
	¥ 4,335,454	$ 36,906,904	

	Millions of yen	Weighted average rate
March 31, 2005		
Short-term borrowings	¥ 959,820	0.085%
Long-term borrowings	2,500	0.162
Call money	1,410,200	0.013
Bills sold	2,135,100	0.001
Commercial paper	172,000	0.026
Payables under repurchase agreements	26,698	0.001
Other	2,114	1.375
	¥ 4,708,432	

(8) RETIREMENT AND SEVERANCE BENEFITS

The Company has defined benefit retirement and pension plans, which consist of tax qualified noncontributory pension plans and unfunded retirement and severance plans that provide for lump-sum payment of benefits, and a noncontributory defined contribution plan. The Company was a member of the welfare pension plan administrated by the Japan Securities Dealers Employees Pension Fund, and on March 25, 2005, the Fund obtained the approval for its liquidation from the Minister of Health, Labour and Welfare.

The consolidated subsidiaries have defined benefit retirement and pension plans, which consist of contributory benefit plans provided under the Welfare Pension Insurance Law of Japan, tax qualified noncontributory pension plans and unfunded retirement and severance plans that provide for lump-sum payment of benefits, and noncontributory defined contribution plans. The welfare pension plan consisted of two tiers, the substitution portion of Japanese Welfare Pension Insurance and the corporate portion which was established as an industry-wide multi-employer noncontributory plan. The welfare pension plans are administrated by The Zenkoku Joho Service Sangyo Kosei Nenkin Kikin (JJK: the Japan Information Service Industry Welfare Pension Fund), etc. The plan assets of such welfare pension funds cannot be specifically allocated to the individual participants nor to the substitution and corporate portions. However, based on the subsidiaries' proportion of the contribution to the aggregate pension contributions, the plan assets amounts at March 31, 2006 and 2005 are estimated to be ¥938 million ($7,985 thousand) and ¥778 million, respectively.

The funded status of the pension plans as of March 31, 2006 and 2005 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥ (7,677)	¥ (7,832)	$ (65,353)
Plan assets at fair value	3,929	3,327	33,447
Funded status	(3,748)	(4,505)	(31,906)
Unrecognized actuarial loss	534	1,178	4,546
Net amount recognized in the consolidated balance sheets	(3,214)	(3,327)	(27,360)
Prepaid retirement and severance benefits	51	59	434
Accrued retirement and severance benefits	¥ (3,265)	¥ (3,386)	$ (27,794)

Net periodic pension cost for the years ended March 31, 2006 and 2005 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 240	¥ 258	$ 2,043
Interest cost	159	154	1,353
Expected return on plan assets	(71)	(54)	(604)
Amortization of actuarial loss	169	168	1,439
Amortization of unrecognized prior service cost	—	(142)	—
Net periodic pension cost	¥ 497	¥ 384	$ 4,231

Significant assumptions of pension plans used to determine these amounts in fiscal 2006 and 2005 are as follows:

	2006	2005
Periodic allocation method for projected benefit	Straight-line	Straight-line
Discount rate	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets	Mainly 2.5%	Mainly 2.0%
Period for amortization of unrecognized prior service cost	—	*See below note
Period for amortization of unrecognized actuarial loss	Mainly 15 years	Mainly 15 years

Note: *Amortized in the year in which they were generated

Directors and corporate auditors are not covered by the plans described above. For such persons, the Company and its certain subsidiaries have unfunded defined benefit pension plans. Under the plans, directors and corporate auditors are entitled to lump-sum payments based on the current rate of pay and length of service when they leave the Company. The Company provides for the amount of the vested benefits to which directors and corporate auditors are entitled if they were to retire or sever immediately at the balance sheet dates. As of March 31, 2006 and 2005, the liabilities for retirement and severance benefits related to the plans were ¥659 million ($5,610 thousand) and ¥767million, respectively.

(9) INCOME TAXES

The Company and its consolidated subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 40.7% in 2006 and 2005.

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the years ended March 31, 2006 and 2005 is not subject to disclosure as the difference between the rates is less than 5%.

Significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Accrued business tax	¥ 184	¥ 228	$ 1,566
Accrued bonuses	241	245	2,052
Liabilities for retirement and severance benefits (employees)	1,226	1,233	10,437
Liabilities for retirement and severance benefits (directors and corporate auditors)	268	312	2,281
Allowance for doubtful receivables	458	529	3,899
Net unrealized loss on other securities	8,501	1,035	72,367
Other	218	226	1,856
	11,096	3,808	94,458
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(182)	(182)	(1,549)
Net unrealized gain on other securities	(2,508)	(2,343)	(21,350)
Other	(85)	(44)	(724)
	(2,775)	(2,569)	(23,623)
Net deferred tax assets	¥ 8,321	¥ 1,239	$ 70,835

Net deffered tax assets and liabilities as of March 31, 2006 and 2005 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current assets - Deferred tax assets	¥ 856	¥ 1,014	$ 7,287
Investments and other assets- Deferred tax assets	7,465	450	63,548
Non-current liabilities- Deferred tax liabilities	—	(225)	—

(10) COMMON STOCK

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital. On October 1, 2001, the Commercial Code of Japan was amended to eliminate the provision of common stock par value resulting in all common stock being recorded with no par value.

(11) RETAINED EARNINGS AND DIVIDENDS

The Commercial Code of Japan provides that an amount equal to at least 10% of appropriations paid in cash should be appropriated as a legal reserve until an aggregated amount of such reserve and additional paid-in capital equal 25% of common stock. Either additional paid-in capital or the legal reserve may be available for dividends by resolution of the stockholders to the extent that the amount of total additional paid-in capital and legal reserve exceeds 25% of stated common stock. Balances of the legal reserve are included in retained earnings in the accompanying consolidated balance sheets.

The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Commercial Code of Japan.

In accordance with the Commercial Code of Japan, proposed appropriations of retained earnings have not been reflected in the financial statements at the end of each fiscal year. The proposed appropriation of retained earnings at March 31, 2006 of cash dividends of ¥14 ($0.12) per common share aggregating ¥1,391 million ($11,841 thousand) was approved at the Company's general meeting of stockholders held on June 28, 2006.

(12) GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Salaries	¥ 3,148	¥ 3,187	$ 26,798
Pension cost	424	323	3,609
Provision for retirement and severance benefits (directors and corporate auditors)	197	203	1,677
Administrative and computer expenses	1,197	1,265	10,190
Depreciation	1,490	1,476	12,684

(13) NET INCOME PER SHARE INFORMATION

The reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2006 and 2005 are as follows:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
Net income	¥	4,953	¥	5,519	$	42,164
Net income not applicable to common stockholders:						
Directors' and corporate auditors' bonuses		(123)		(172)		(1,047)
Net income applicable to common stockholders	¥	4,830	¥	5,347	$	41,117

	Number of shares(Thousands)	
	2006	2005
Weighted average number of shares on which basic net income per share is calculated	98,707	98,867

(14) LEASES

Finance leases, except for those where the legal title of the underlying property is transferred from the lessor to the lessee at the end of the lease term, are accounted for similarly to operating leases under accounting principles generally accepted in Japan.

Certain key information about such lease contracts of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 are as follows:

(a) Lessee

(i) Acquisition cost, accumulated depreciation and net book value of leased assets, if they had been capitalized:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
Furniture and fixtures:						
Acquisition cost	¥	348	¥	358	$	2,962
Accumulated depreciation		(281)		(222)		(2,392)
Net book value	¥	67	¥	136	$	570

(ii) Lease expense and future minimum lease payments including interest expense:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
Lease expense	¥	84	¥	109	$	715
Future minimum lease payments:						
Within one year	¥	46	¥	83	$	391
Over one year		21		53		179
	¥	67	¥	136	$	570

(b) Lessor

(i) Acquisition cost, accumulated depreciation and net book value of leasing assets:

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Furniture and fixtures	Others	Total	Furniture and fixtures	Others	Total	Furniture and fixtures	Others	Total
Acquisition cost	¥ 119	69	188	¥ 216	71	287	$ 1,013	587	1,600
Accumulated depreciation	(88)	(46)	(134)	(151)	(34)	(185)	(749)	(391)	(1,140)
Net book value	¥ 31	23	54	¥ 65	37	102	$ 264	196	460

(ii) Lease income, depreciation and future minimum lease payments including interest income:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease income	¥ 63	¥ 92	$ 536
Depreciation	30	47	255
Future minimum lease payments:			
Within one year	¥ 38	¥ 62	$ 324
Over one year	24	57	204
	¥ 62	¥ 119	$ 528

(15) PLEDGED ASSETS

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2006 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Short-term investments	¥ 1,324,872	¥ 1,075,295	$ 11,278,386
Short-term loans receivable	503,441	819,650	4,285,698
Securities in custody	29,000	120,000	246,872
Securities in deposit	1,325,494	523,524	11,283,681
Collateral money for securities borrowed	98,477	175,529	838,316
Investments in securities	595,341	1,252,428	5,068,026

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Call money	¥ 1,395,100	¥ 892,000	$ 11,876,224
Bills sold	672,400	2,135,100	5,724,015
Payables under repurchase agreements	114,420	26,698	974,036
Collateral money received for securities lent	169,749	599,998	1,445,041
Securities borrowed	98,477	162,996	838,316

In addition to the above, securities received as collateral for loans receivable amounting to ¥1,405,560 million were deposited as guarantee for liabilities at March 31, 2005, and securities received as collateral for securities loaned transaction and securities received as collateral for bond borrowing and lending transaction with cash collateral amounting to ¥2,693,541 million ($22,929,608 thousand) are deposited as guarantee for liabilities at March 31, 2006. And short-term investments of ¥15,998 million ($136,188 thousand), other current assets of ¥500 million ($4,256 thousand) and investments in securities of ¥5,548 million ($47,229 thousand) are deposited to the Clearing Fund of Japan Securities Clearing Corporation and Japan Government Bond Clearing Corporation at March 31, 2006.

The fair value of the securities received as collateral for bond borrowing and lending transaction with cash collateral and securities borrowed under loan for consumption agreement as of March 31, 2006 and 2005 are as follows:

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Securities loaned	¥ 108,701	¥ 1,281,018	$ 925,351
Securities pledged as collateral	1,584,601	882,855	13,489,410
Securities on hand	177,519	145,457	1,511,186

(16) COMMITMENTS AND CONTINGENCIES

As of March 31, 2006 and 2005, undrawn amount of general loan for securities companies and customers and overdraft loan are as follows:

	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars 2006
Total credit line	¥ 591,644	¥ 576,189	$ 5,036,554
Drawn amount	(54,879)	(38,937)	(467,175)
Undrawn amount	¥ 536,765	¥ 537,252	$ 4,569,379

(17) SEGMENT INFORMATION

(a) Industry segments

Operations by business group are summarized as follows:

	Millions of yen				
	2006				
	Securities finance	Data processing service	Total	Elimination / corporate	Consolidated
Revenues from outside customers	¥ 34,234	¥ 2,992	¥ 37,226	¥ —	¥ 37,226
Inter-segment revenues	17	58	75	(75)	—
	34,251	3,050	37,301	(75)	37,226
Operating expenses	25,352	3,008	28,360	(61)	28,299
Operating income	¥ 8,899	¥ 42	¥ 8,941	¥ (14)	¥ 8,927
Assets	¥ 9,720,253	¥ 2,174	¥ 9,722,427	¥ (44)	¥ 9,722,383
Depreciation and amortization	1,541	95	1,636	(9)	1,627
Capital expenditures	1,663	41	1,704	(14)	1,690

	Millions of yen				
	2005				
	Securities finance	Data processing service	Total	Elimination / corporate	Consolidated
Revenues from outside customers	¥ 33,178	¥ 2,967	¥ 36,145	¥ —	¥ 36,145
Inter-segment revenues	17	114	131	(131)	—
	33,195	3,081	36,276	(131)	36,145
Operating expenses	23,004	3,118	26,122	(126)	25,996
Operating income (loss)	¥ 10,191	¥ (37)	¥ 10,154	¥ (5)	¥ 10,149
Assets	¥ 9,227,861	¥ 2,152	¥ 9,230,013	¥ (39)	¥ 9,229,974
Depreciation and amortization	1,348	146	1,494	(6)	1,488
Capital expenditures	2,369	72	2,441	(29)	2,412

	Thousands of U.S. dollars				
	2006				
	Securities finance	Data processing service	Total	Elimination / corporate	Consolidated
Revenues from outside customers	$ 291,428	$ 25,470	$ 316,898	$ —	$ 316,898
Inter-segment revenues	144	494	638	(638)	—
	291,572	25,964	317,536	(638)	316,898
Operating expenses	215,817	25,606	241,423	(519)	240,904
Operating income	$ 75,755	$ 358	$ 76,113	$ (119)	$ 75,994
Assets	$82,746,684	$ 18,507	$82,765,191	$ (374)	$82,764,817
Depreciation and amortization	13,118	809	13,927	(77)	13,850
Capital expenditures	14,157	349	14,506	(119)	14,387

Notes: 1.Business segments reflect the actual business contents.
2.Major revenues of each business segment
Securities finance segment: interest income on loans, securities lending fees, etc.
Data processing service segment: service fees for computer processing, etc.
3.All of the assets are allocated to appropriate segment.

(b) Geographic segments

The Company does not have any overseas subsidiaries for the years ended March 31, 2006 and 2005.

(c) Overseas sales

Not applicable.

(18) SUBSEQUENT EVENT

(a) Corporate separation of JSF Information Technology Co., Ltd. (JSFIT) and sale of JSFIT shares

JSFIT and Nihon Building Co., Ltd. (Nihon Bldg), both are consolidated subsidiaries of the Company, agreed to separate and transfer a part of business of JFFIT to Nihon Bldg. On April 28, 2006, the Board of Directors of the Company approved the subsidiaries' decision. The corporate separation will become effective July 1, 2006.

Currently, 82.5% of JSFIT shares are owned by the Company and 17.5% are owned by Nihon Bldg. The Company and Japan Information Processing Service Co., Ltd. (JIPS), which is an affiliate of the Company accounted for by the equity method, agreed to transfer a part of JSFIT shares owned by the Company and whole JSFIT shares owned by Nihon Bldg to JIPS on July 3, 2006. As a result of the transfer, 65% of JSFIT outstanding shares will be owned by JIPS.

These corporate restructurings are to increase business efficiency by proper concentration of group resources and to utilize the capital in group effectively.

(b) Business integration of affiliates

JIPS and Japan Securities Agents, Ltd. (JSA), both are affiliates of the Company accounted for by the equity method, agreed on May 16, 2006, at their Board of Directors to establish a joint holding company, JBIS Holdings Inc. (JBIS) by transfer their shares on October 1, 2006. JBIS will be listed in Tokyo Stock Exchange on October 2, 2006.

1 share of JBIS common stock will be allotted to 1 share of JIPS common stock. 1.3 share of JBIS common stock will be allotted to 1 share of JSA common stock. JBIS will be an affiliate of the Company accounted for by the equity method.

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Japan Securities Finance Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and related consolidated statements of income, stockholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Japan Securities Finance Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As more fully described in Note 18 to the consolidated financial statements, on April 28, 2006, the Board of Directors of the Company approved the corporate separation of JSF Information Technology Co., Ltd. and the sale of a part of its shares. Furthermore, on May 16, 2006, the Board of Directors of the Company approved that Japan Information Processing Service Co., Ltd. and Japan Securities Agents, Ltd. will establish a joint holding company by the transfer of their shares.

The accompanying consolidated financial statements as of and for the year ended March 31, 2006 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into United States dollars on the basis described in Note 2 to the consolidated financial statements.

Toyo & Co.

Toyo & Co.
Tokyo, Japan
June 28, 2006

OUTLINE OF THE CORPORATE GROUP

CORPORATE DATA

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Established
July 1927

Capital
¥10 billion

Branch offices
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Tel: +81-11-241-1291
Fukuoka Branch
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Tel: +81-92-741-1861

Web site
http://www.jsf.co.jp

Stock exchange listing
Tokyo Stock Exchange, 1st Section

Shares outstanding
99,704,000 shares (as of March 31, 2006)

Number of shareholders
6,227 shareholders (as of March 31, 2006)

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

Board of Directors and Corporate Auditors
(As of June 28, 2006)

Directors

President	Minoru Masubuchi*
Executive Vice President	Hiroshi Saito*
Senior Managing Director	Hisao Harada*
Managing Directors	Sadamu Shimomura
	Yasuhisa Hashimoto
Executive Adviser	Kunio Kojima
Directors	Takashi Imai **
	Akira Kanno **
	Eiichiro Okumoto **

(* Representative Directors)
(** Outside Directors)

Corporate Auditors

Munetaka Tada
Yoshiyasu Arai *
Yasukuni Watanabe *
Toshio Kamiyama *
(* Outside Corporate Auditors)

Exective Officers

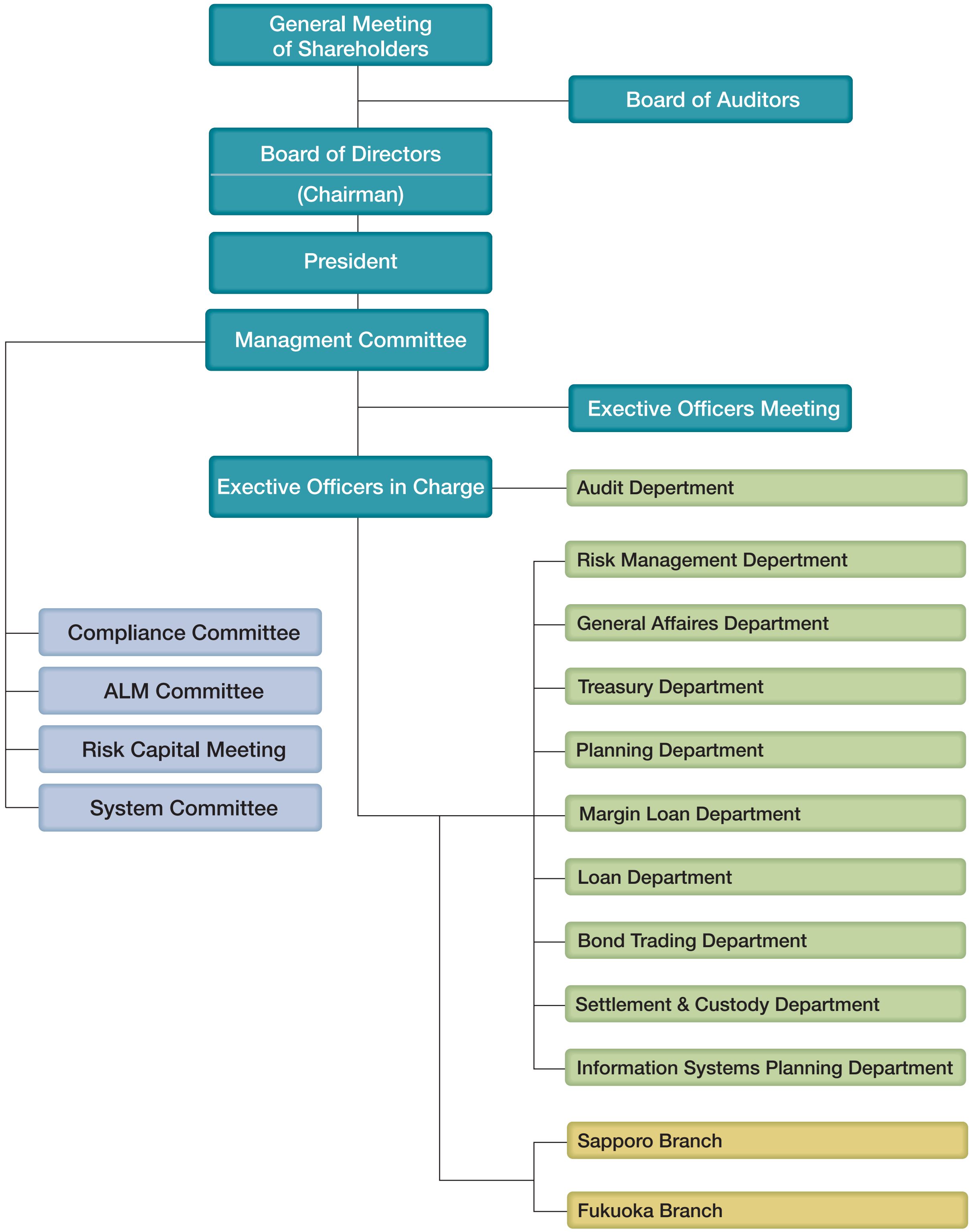
President	Minoru Masubuchi
Executive Vice President	Hiroshi Saito
Senior Managing Director	Hisao Harada
Managing Directors	Sadamu Shimomura
	Yasuhisa Hashimoto
Senior Executive Officer	Akira Onoda
Executive Officer	Hiroshi Nasuno
	Yukitaka Yoshida
	Hiroshi Asakura
	Shigeru Awashima

Rating Information

(As of the end of July, 2006)

	Long-term Rating	Short-term Rating
Standard and Poor's (S&P)	A	A-1
Rating and Investment Information, Inc. (R&I)	AA^-	$a\text{-}1^+$
Japan Credit Rating Agency (JCR)	AA^-	$J\text{-}1^+$

ORGANIZATION



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