Securities Finance

ANNUAL REPORT 2007

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

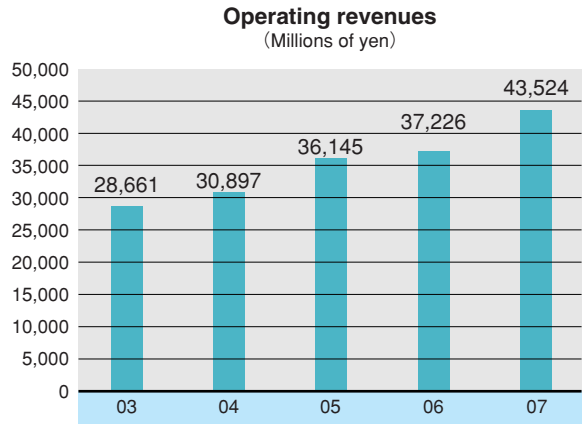
FINANCIAL HIGHLIGHTS

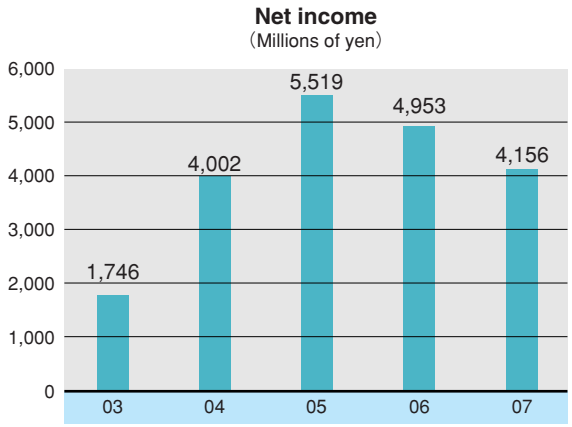
Japan Securities Finance Co.,Ltd. and Consolidated Subsidiaries

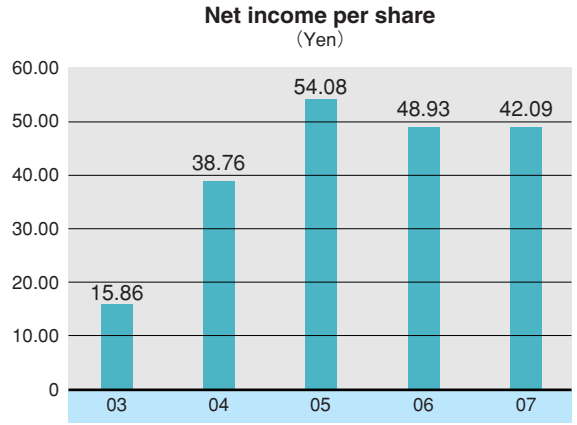
	Millions of yen		Thousands of U.S. dollars
	2007 (April 1, 2006 - March 31, 2007)	2006 (April 1, 2005 - March 31, 2006)	2007 (April 1, 2006 - March 31, 2007)
Consolidated financial results			
Oparating revenues	¥ 43,524	¥ 37,226	$ 368,691
Net income	4,156	4,953	35,205
Net assets (period end)	122,876	118,962	1,040,881

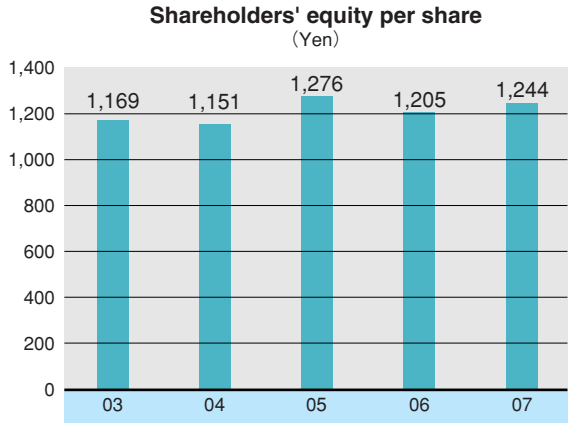
	Yen		U.S. dollars
	2007	2006	2007
Amounts per share			
Net income	¥ 42.09	¥ 48.93	$ 0.36
Net assets	1,244.61	1,205.27	10.54

Note:U.S. doller amounts in this annual report are translated from Japanese Yen, for convenience only, at the rate of ¥118.05=US$1, the approximate exchange rate at March 30,2007.









MESSAGE FROM THE PRESIDENT

Minoru Masubuchi
President

It is my sincere hope that the Annual Report 2007 for the fiscal year ended March 31, 2007 will be of use to shareholders, investors and other supporters of Japan Securities Finance Company.

BUSINESS REVIEW

Business Environment

When we look back on the performance of the Japanese economy during the fiscal year, we can say that conditions were conducive to expansion, which was sustained by healthy exports, an increasing level of capital investment against a background of high corporate earnings and an increase in demand, both at domestic and abroad, which was resulting from an upsurge in consumer spending; being prompted by gradually increasing levels of personal income.

In the stock market, the Tokyo Stock Price Index (TOPIX), which started the fiscal year at 1,754 points, continued to perform strongly during the first phase, but dropped to 1,458 points - its lowest level during the fiscal term – in mid-June, reflecting the heightened economic uncertainty that was provoked by the high price of crude oil, strong yen and worldwide rises in interest rates. It has been strongly influenced by oil prices, as well as by business trends both in Japan and in the USA. From late November, it showed a trend towards recovery, in response to a strong US stock market, a prevailing feeling of delay in the recovery of Japanese stock prices and expectations of an improvement in corporate business performance. In late February, the index rose to 1,816 points, its highest level of the term. Thereafter, it dropped slightly, in reaction to the spontaneous worldwide decline in stock values and closed the fiscal year at 1,713 points.

The average daily trading volume on the First Section of the Tokyo Stock Exchange during the fiscal year stood at 1,985 million, a decrease of 195 million by comparison with the previous fiscal year. However, the average daily trading value increased by 410.9 billion yen over the previous fiscal year, to reach 2,663.1 billion yen, due partly to transaction activities by foreign investors – mainly in highly priced international blue-chip issues.

Meanwhile, the outstanding balance of standardized margin buying in the Tokyo market rose from an initial level of 4,500 billion yen to the level of 4,900 billion yen at one point in May, but then gradually declined again on account of bargain sales by personal investors who had unrealized losses on securities, caused by the sharp drop in stock prices. It remained at the 3,000-billion-yen-level from October until February. In March, it began to increase again as a result of buying on dips in a downward trend caused by the spontaneous worldwide decline in stock values – and closed the fiscal year at 3,700 billion yen. On the other hand, the outstanding balance of standardized margin selling fluctuated between the levels of 900 and 1,000 billion yen, reaching a peak of 1,100 billion yen in February.

Turning to the bond market, the yield on newly-issued 10-year Japanese government bonds (JGBs), which started the fiscal year at 1.843%, rose to 1.990% at one point in May, due to speculation that the Bank of Japan would finally conclude its zero-interest-rate policy. The yield continued to be sensitive thereafter because of differing views about the timing and the spread of the interest rate rise. It reached 1.835 % on July 14, when the policy was concluded. Then, the yield hovered at around 1.7%, due to various unfavorable economic indices and to lowered expectations of an additional interest rate rise. At one stage, It fell to 1.545%, following the decision to increase interest rates again in February, when there seemed to be no further new factors relevant to the bond market, and reached 1.649% at the end of the term.

Business Results of the JSF Group

Under these circumstances, the total value of outstanding loans extended by JSF group companies during the fiscal year averaged 2,251.9 billion yen, a decrease of 508.1 billion yen by comparison with the previous year. This was due mainly to falls in the outstanding balance of loans for margin transactions and of trust bank loans.

JSF group companies recorded the consolidated operating profits of 43,524 million yen (up 16.9% year-on-year), the result of increased interest revenues from loans for margin transactions. This was also due to raised loan rates in response to higher short-term interest rates, as well as to the increased coupon income of JGBs. On the other hand, the consolidated operating expenses rose 30.2% year-on-year to 24,923 million yen, due to increased interest payments resulting from higher short-term interest rates, with the general and administrative expenses totaling 8,959 million yen (down 2.2% year-on-year).

As a result, the consolidated operating profits totaled 9,642 million yen (up 8.0% year-on-year), and the consolidated recurring profits totaled 9,447 million yen (up 13.9% year-on-year).

JSF posted 585 million yen in extraordinary profits attributable to the reversal of the allowance of doubtful receivables and other factors, as well as 1,399 million yen in extraordinary losses, resulting from changes in equity and other factors, in conjunction with the establishment of a joint holding company by Japan Information Processing Service Co., Ltd. and Japan Securities Agents Ltd. and with partial sales of JSF Information Technology Co., Ltd.'s equity. As a result, the consolidated net income for the period was 4,156 million yen (down 16.1% year-on-year).

OUTLOOK FOR NEXT FISCAL YEAR

Earnings Outlook

Turning to the outlook, the economy as a whole is expected to continue expanding gradually in an environment in which Japanese economic activities are on the increase, as is evidenced by higher levels of capital investment, by companies' increasing feeling of labor force shortage, by strong export performance and by increases in employees' personal incomes.

Under these circumstances, the company anticipates gains both in operating income and in recurring income, due to the positive contribution of raised interest rates during the period; although there will be a slight decrease in the outstanding balance of loans for margin transactions. However, as there will be no longer the reversal of the allowance of doubtful receivables and the gain on sale of subsidiaries, both of which are reported in the current period, a slight loss in net income is expected.

With regard to consolidated subsidiaries, it is expected that JSF Trust and Banking Co., Ltd. will achieve increases both in sales and in profits, while Nihon Building Co., Ltd. will maintain a profit level similar to that of the previous fiscal year. Among the equity-method affiliates, JBIS Holdings, Inc., forecasts an increase in profit. Netwing Securities Co., Ltd. is expected to maintain a level of profit similar to that of the previous fiscal year, but JSF forecasts dilution losses resulting from changes in equity arising from the merger with Maruwa Securities Co., Ltd. that is scheduled for October this year.

Basic Management Policy

As an institution specializing in the securities finance business, Japan Securities Finance has a mission to contribute to the development of the securities industry. The company will continue to meet the demands that society may make upon it and to move with the times. Our basic policy is as follows.

(1) Capture various needs in securities industry with sincere recognition of its social responsibility and public mission

(2) Promote improvement systematically and operationally and extend margin loan balance in margin loan business, and further strengthen profit foundation in other business

(3) Obtain firm trust of stakeholders by the improvement of corporate governance and the control of management risk

Basic Policy on Profit Sharing

JSF regards the stable long-term return on its profits to its shareholders as an important priority. The company follows a basic dividend payments policy, with a view to strengthening its capital base and its internal reserves, taking account of its business performance.

As a standard which reflects our business performance, we have established a dividend policy under which we return on our profits so that the dividend payout ratio (non-consolidated) is about 40 %.

On the basis of this principle, we have decided to pay an annual dividend of 26 yen per share for this fiscal year.

In conformity with our fundamental policy of setting the dividend payout ratio on a non-consolidated basis at about 40%, we will take account both of dividend payout ratio and dividend on equity (DOE) on a consolidated basis.

Present Management Strategy

1. Mid-Term Management Plan

We are now committed to achieving the Mid-Term Management Plan, formulated in March 2006, for the three years from FY 2006 till FY 2008. The details of the plan are as follows.

[Management Target]

To achieve a recurring income of 12,000 million yen on a non-consolidated basis by the final year of the Plan, i.e. FY 2008 (this management target makes certain assumptions in respect of loan balance and short market interest rates):

[Strategies]

(i) Strengthen Margin Loan Business
(ii) Expand secured loan and stock loan through JSFNET
(iii) Boost Loans for General Margin Transactions and loans to individuals via through internet facility
(iv) Offer low-priced and good quality service by strengthening cash funding sources and inproved efficiency of organization and business operation
(v) Positive action for Securities Settlement Systems Reform
(vi) Strengthen corporate governance and risk management, and Enhance compliance program
(vii) Review capital tie-up with group companies for synergy and unrestricted management

2. Strengthening of Investor Relations Activities

We will commit ourselves to the strengthening of IR activities by further improving the quality of our information disclosure to shareholders and investors through our home-pages or financial presentation meetings. JSF mounted an IR event for individual investors in July 2006, and will continue to hold IR meetings with institutional investors. We shall also engage in proactive IR undertakings with foreign institutional investors.

3. Achievements during This Term

Our major achievements during this term are as follows:

(1)Increase in the Number of Loanable Issues

In order to improve the convenience of margin transactions, the number of loanable issues was increased (up 56 issues from the end of the previous term) by procuring stock certificates. This has increased the number of loanable issues to 1,688 as at the end of March 2007.

(2)Increase in Our Ability to Procure Funds

In order to cope flexibly and efficiently with the rapidly-increasing value of loans, the maximum limit of commercial paper to be issued, as one of the means of procuring funds, was increased from 600 billion yen to 1,000 billion yen.

(3)Strengthening of Internal Controls

JSF is committed to the further strengthening of corporate governance, the improvement of management efficiency and the expediting of business transactions. This will be achieved through the introduction of an operating officer system and a reduction in the number of directors from twelve to nine. Also, the company abolished the system of retirement benefits for directors and officers in order to clarify their management responsibilities and introduced a stock-price-linked remuneration system, so as to reflect the company's business results more directly in their emoluments.

With regard to internal controls, the functions of the Inspection Department have been completely revised and it has been renamed the Audit Department. The purpose of these changes was to strengthen the Department's monitoring activities – which include the audit control of our entire business management - by conducting stricter internal risk management audits, including credit and many other risks, and to ensure compliance.

(4)Strengthening of Risk Management

In recent years, the role of risk management in

financial institutions has become more important, which face increasingly diverse and complex risks as the business environment changes. In view of this, JSF has completely revised the duties of its Research Department. It has been renamed the Risk Management Department and its functions include the introduction of integrated risk management, designed to ensure sound business management and higher profitability.

(5)Review of capital ties between group companies
On July 3, 2006, JSF and its subsidiary Nihon Building Co., Ltd. assigned some of their shares in JSF Information Technology Co., Ltd. to Japan Information Processing Services Co., Ltd. Also, Japan Information Processing Services Co., Ltd. and Japan Securities Agents, Ltd. have established a joint holding company, JBIS Holdings, Inc., to which the two companies assigned shares on October 2, 2006.

Future Challenges (Strategy)

In the financial and securities market, there is an increasing and broadly-based sector of personal investors. This is evidenced by the outstanding balance of the stock investment fund, which rose to almost 60 trillion yen in March of this year due to the development and sale of a variety of investment products. With the aim of encouraging a steady flow of funds from savings to investments, the Financial Instruments and Exchange Law was formulated in June of last year as a cross–over measure to protect investors. Preparations for the dematerialization (digitalization) of stock certificates, which is scheduled for completion in January 2009, are now moving forward during the final stage of the reform of the 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 Mid-Term Management Plan announced in March of last 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. Also, the outstanding balance of loans for negotiable margin transactions is steadily increasing and we will do our utmost further to solidify our revenue base through the expansion of business other than that of loans for margin transactions, with a focus on further increasing the outstanding balance by attracting new customers.

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.

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

Minoru Masubuchi
President

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).

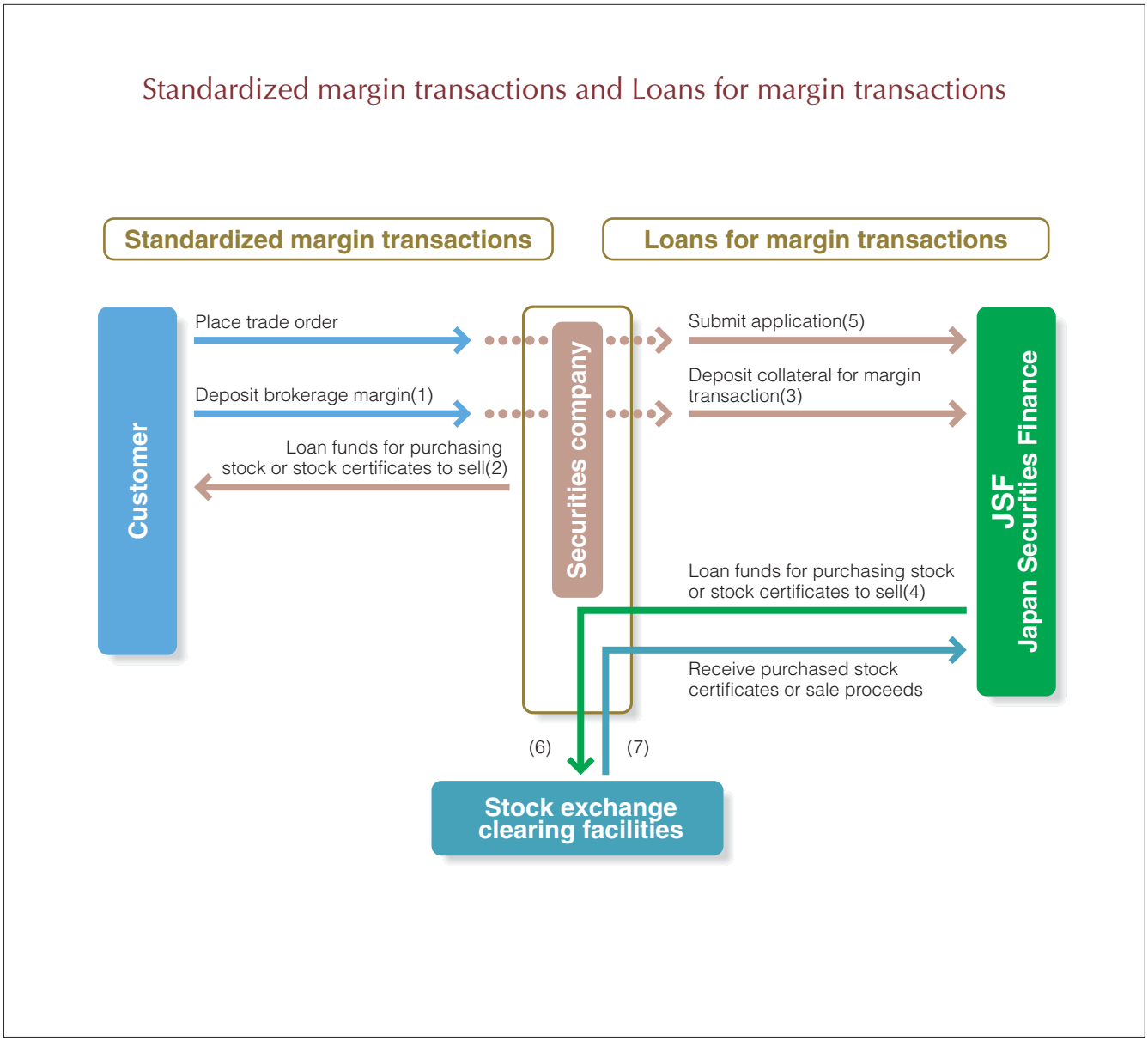
In negotiable margin transactions, which is limited to cases in which a securities company can procure funds and stock certificates to be lent to customers by internal matching (Note) or external procurement without borrowing from a securities finance company, the condition of margin transactions may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

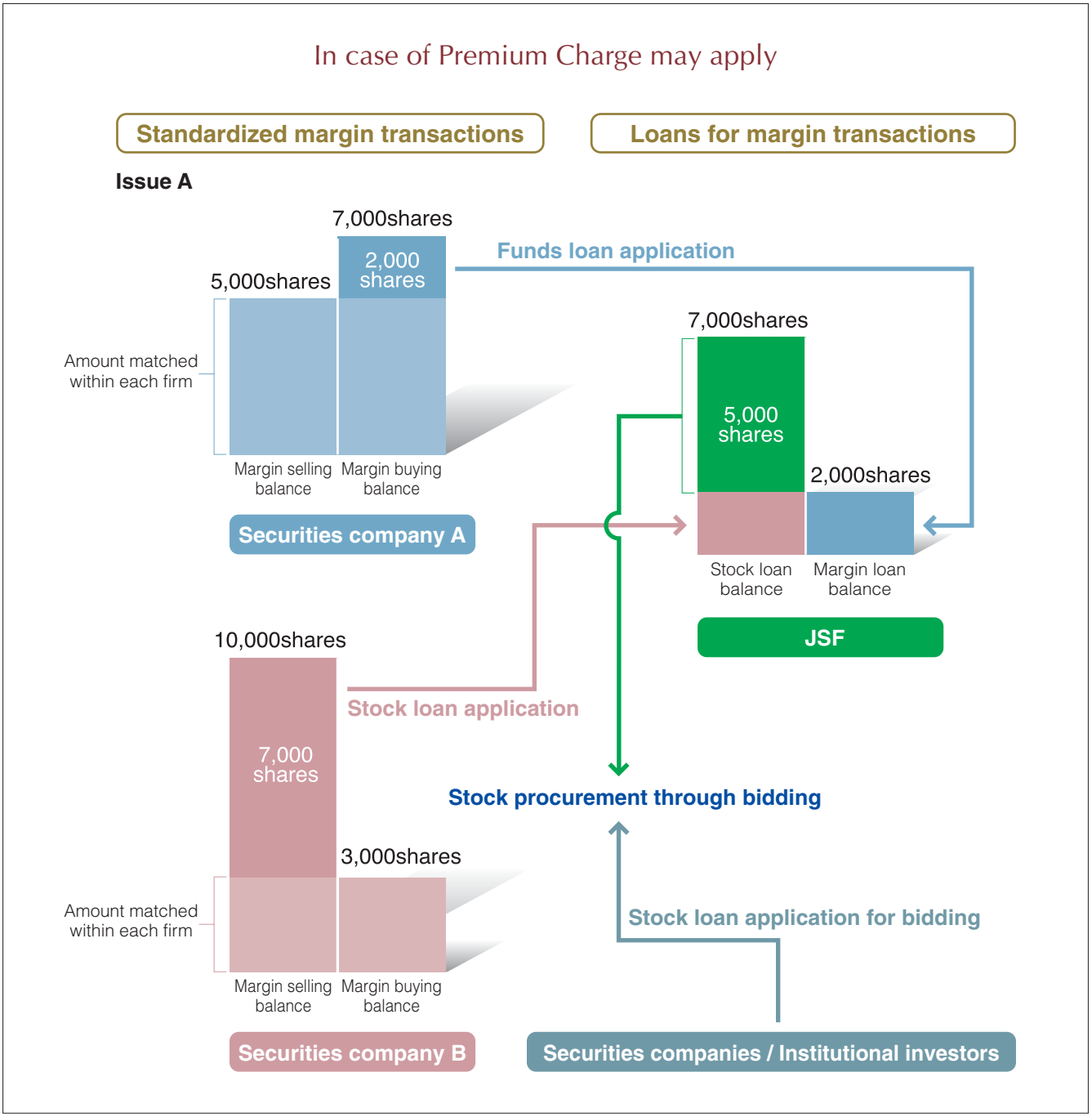
Loans for margin transactions is a system in which a securities finance company receives a certain amount of margin (margin requirements) from a securities company, which is a general trading participant of stock exchanges (3) and lends funds or stock certificates necessary for margin transactions (4). 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.



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.

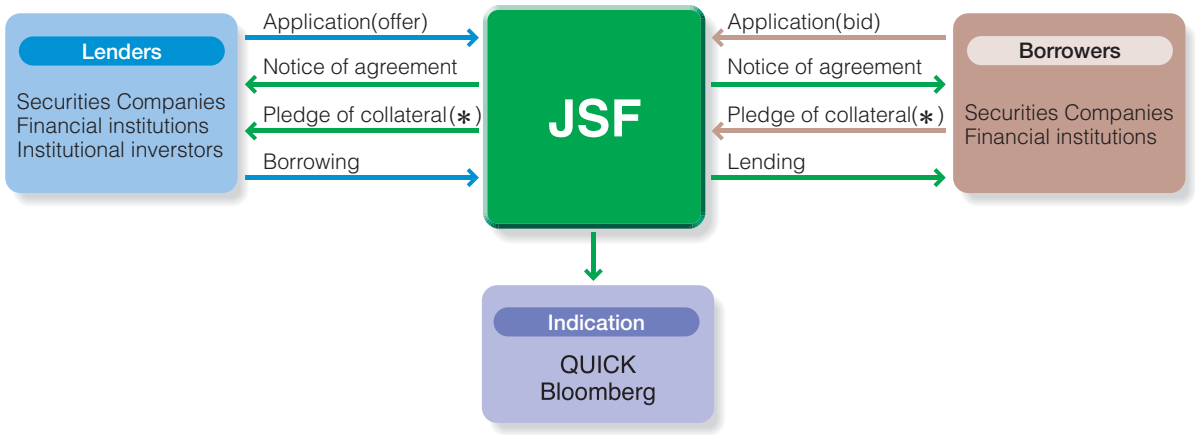
JGB Gensaki operations by BOJ

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

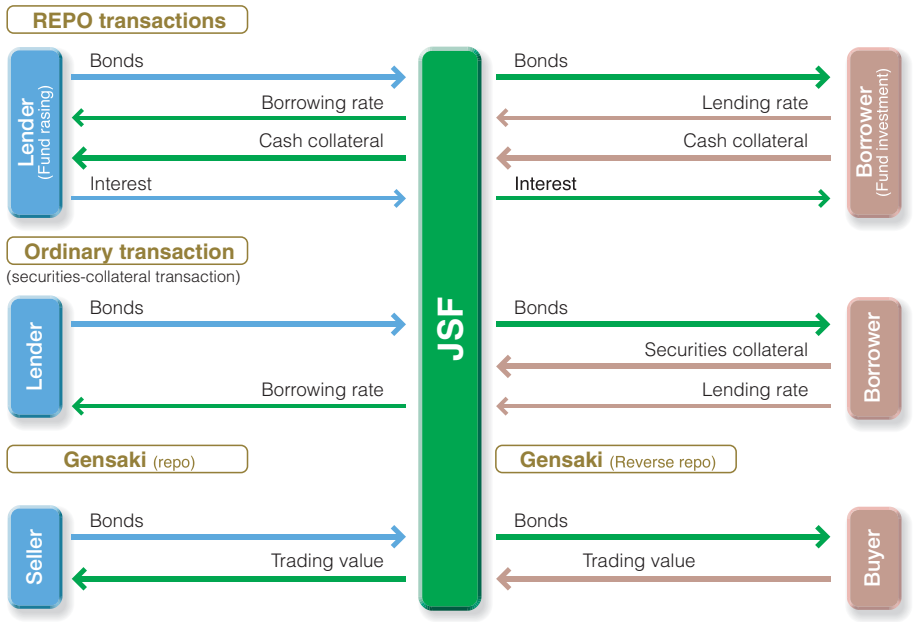
JSF conducts outright buying and selling of Treasury Bills or Financial Bills, and has developed a system in its securities business that enables efficient investment and management in combination with Gensaki.

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



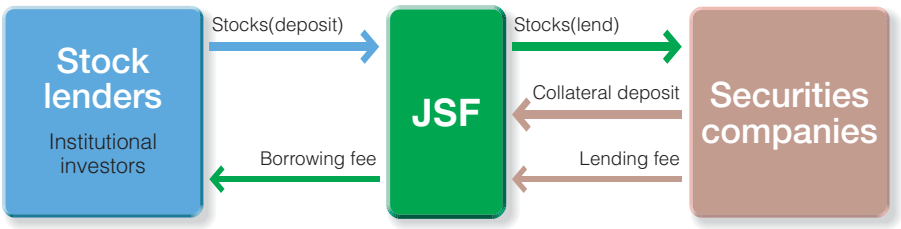
GENERAL STOCK LENDING

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 stock lending business



LOANS FOR NEGOTIABLE MARGIN TRANSACTIONS

What is Loans for Negotiable Margin Transactions?

Loans for negotiable margin transactions is a system which lends the necessary funds for securities companies to purchase stocks in negotiable margin transactions on behalf of its customer (3), receiving stock 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.

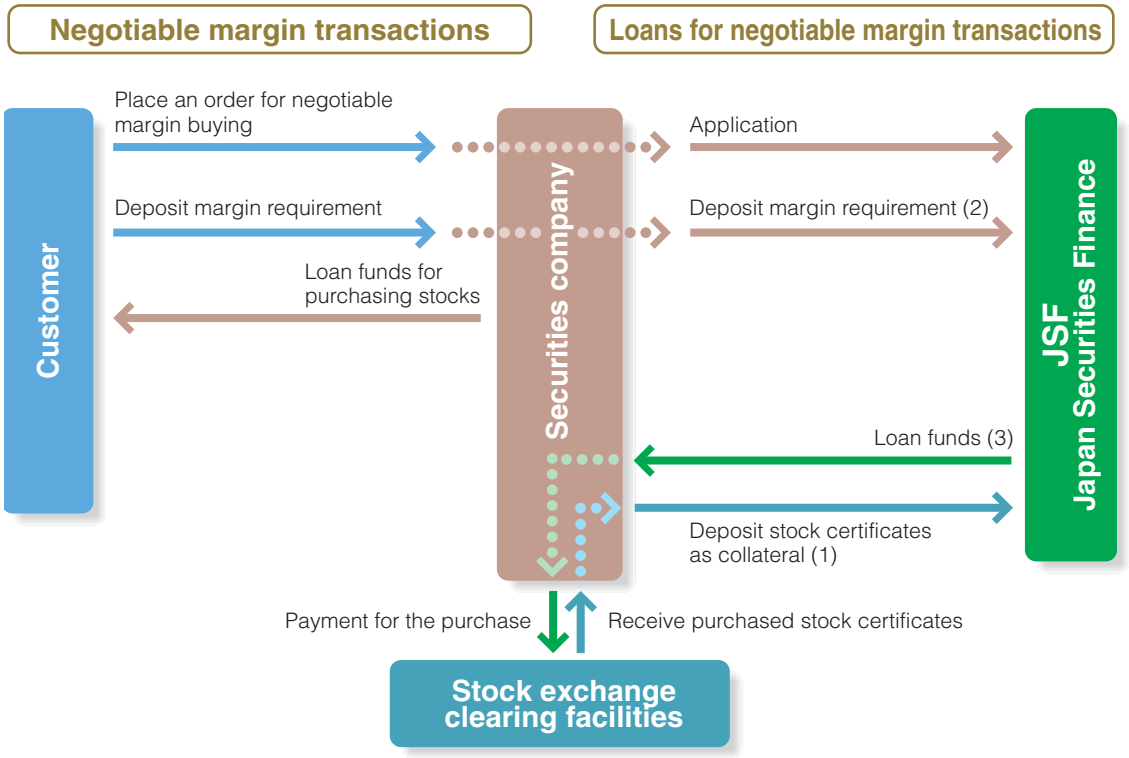
Interest rate

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.

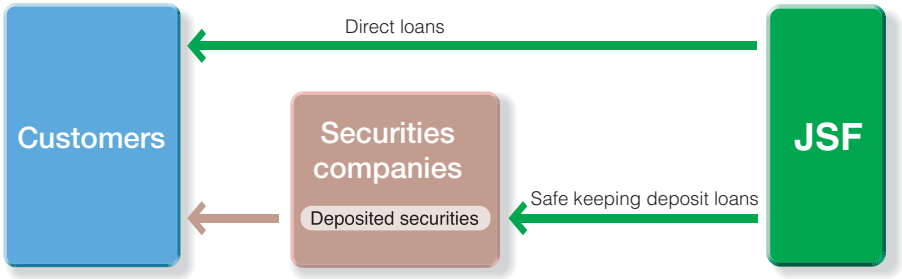
GENERAL LOANS

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

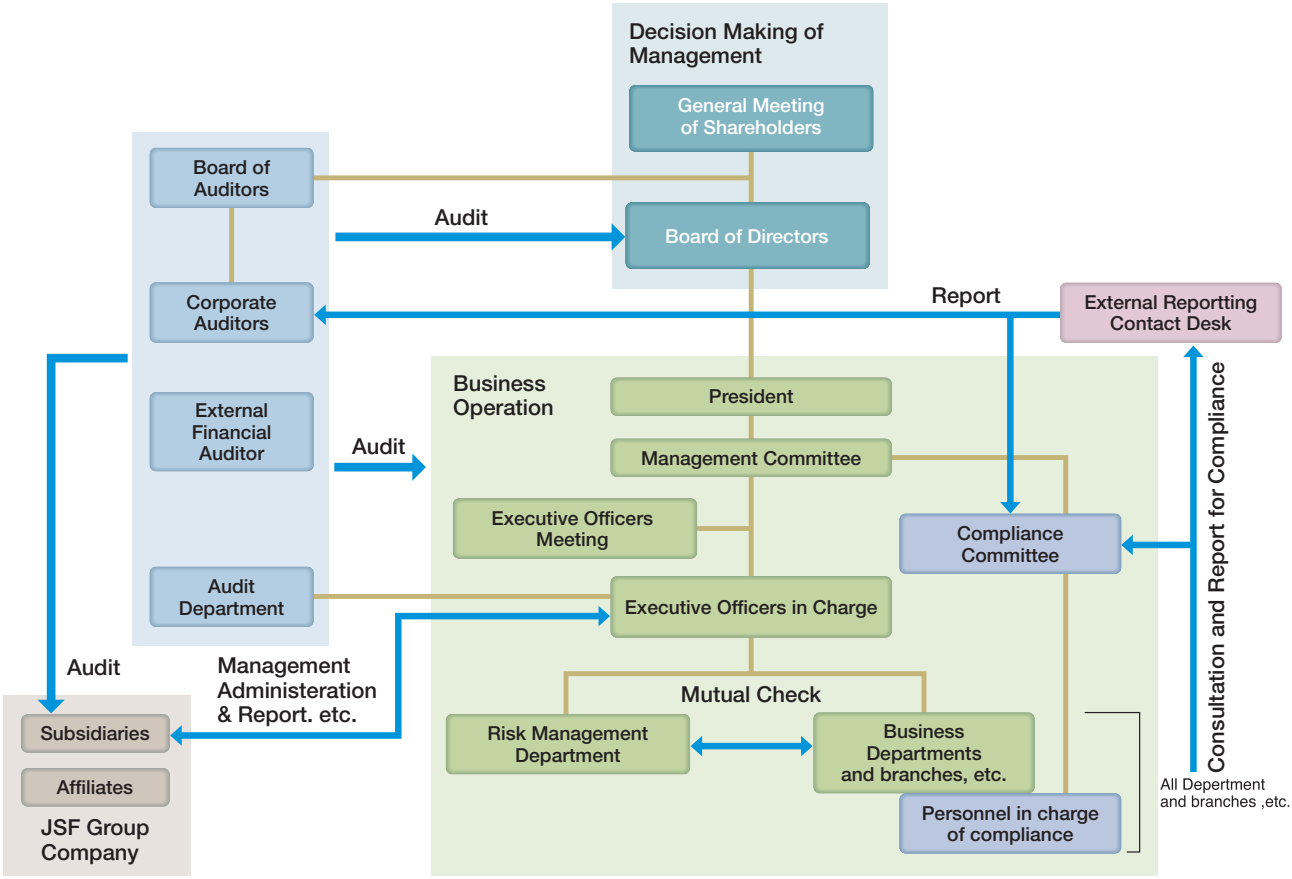
BASIC CONCEPT OF CORPORATE GOVERNANCE

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

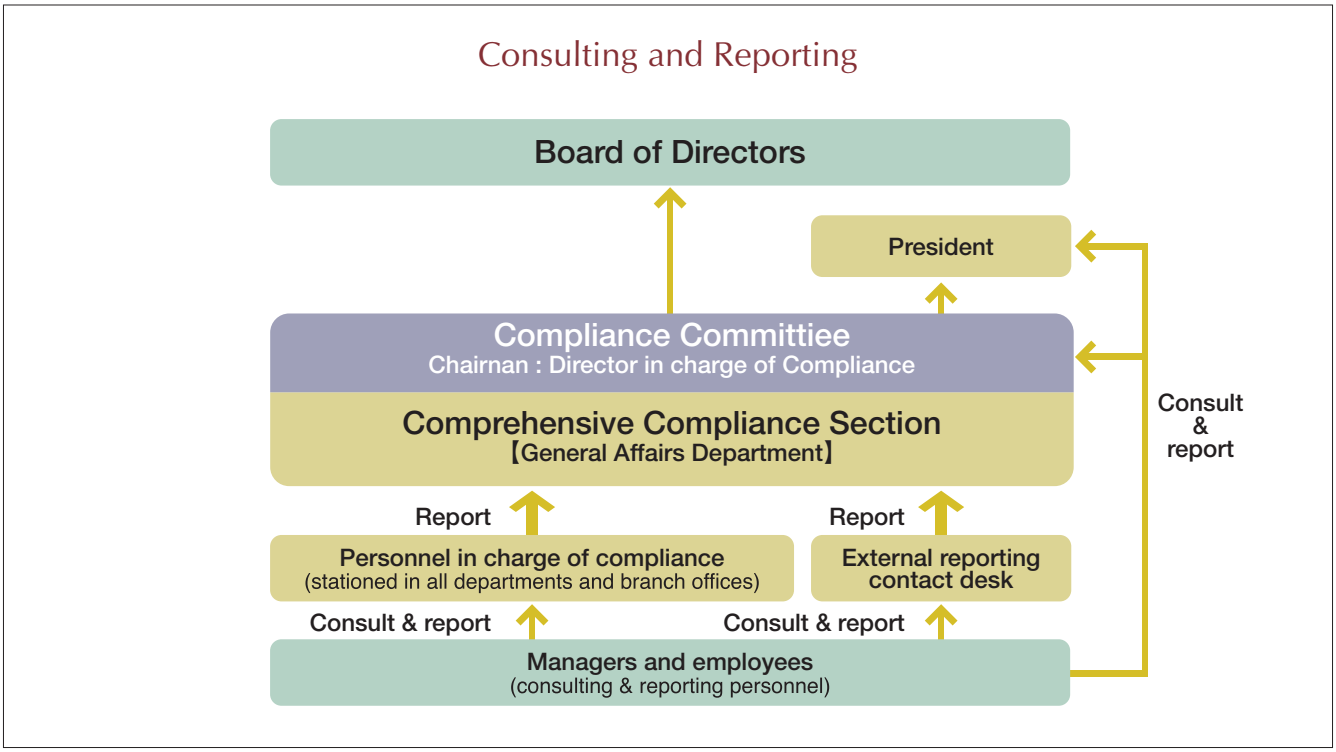
In addition, the company takes the initiative in the promotion of the establishment and strengthening of overall group compliance system.

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.



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.

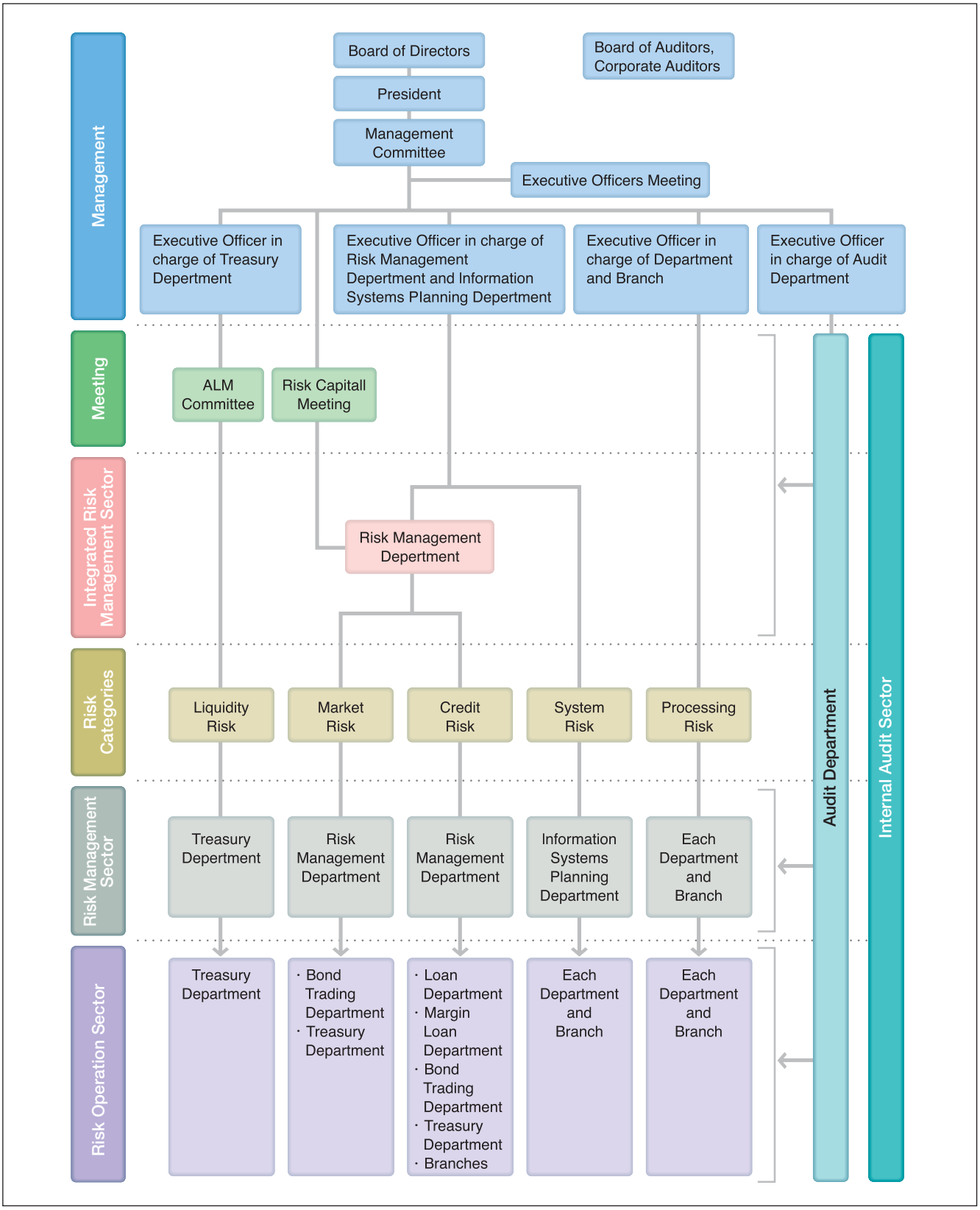
Risk Capital Meeting

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.

JSF group companies recorded the consolidated operating profits of 43,524 million yen (up 16.9% year-on-year), the result of increased interest revenues from loans for margin transactions. This was also due to raised loan rates in response to higher short-term interest rates, as well as to the increased coupon income of JGBs. On the other hand, the consolidated operating expenses rose 30.2% year-on-year to 24,922 million yen, due to increased interest payments resulting from higher short-term interest rates, with the general and administrative expenses totaling 8,959 million yen (down 2.2% year-on-year).

As a result, the consolidated operating profits totaled 9,642 million yen (up 8.0% year-on-year), and the consolidated recurring profits totaled 9,447 million yen (up 13.9% year-on-year).

JSF posted 585 million yen in the extraordinary profits attributable to the reversal of the allowance of doubtful receivables and other factors, as well as 1,399 million yen in the extraordinary losses, resulting from changes in equity and other factors, in conjunction with the establishment of a joint holding company by Japan Information Processing Service Co., Ltd and Japan Securities Agents Ltd. and with partial sales of JSF Information Technology Co., Ltd.'s equity. As a result, the consolidated net income for the period was 4,156 million yen (down 16.1% year-on-year).

Breakdown of JSF group operating revenues

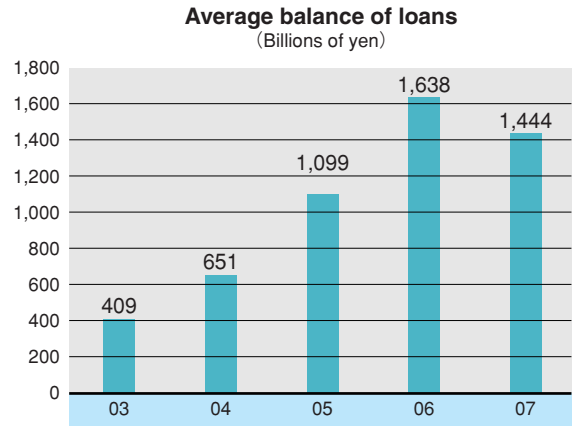
	2007 (April 1, 2006 - March 31, 2007) Amount (¥ million)	2006 (April 1, 2005 - March 31, 2006) Amount (¥ million)
Securities financing business	42,914	34,234
Loans for margin transactions	23,187	22,993
Interest on loans	10,954	10,158
Interest on collateral money for securities borrowed	1,345	893
Fees on lending securities	10,225	11,226
Bond financing and general loans	1,254	865
Interest on bond financing	4	7
Interest on general loans	1,250	858
Securities lending	5,093	2,700
Stocks	1,442	1,465
Bonds	3,651	1,235
Fees on lending	986	929
Interest on collateral money for securities borrowed	2,665	306
Trust banking	6,981	4,287
Interest on loans	2,964	1,382
Trust charges	178	161
Real estate leasing	1,015	871
Other business	5,384	2,518
Information processing business	610	2,992
Fees on information services	583	2,726
Fees on machinery leasing	15	78
Others	12	188
Total operating revenues	43,524	37,226

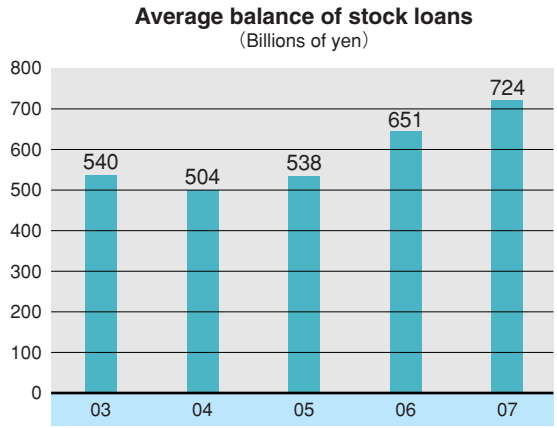
SECURITIES FINANCE BUSINESS

Operating revenues from securities finance business increased to 43,524 million yen (up 16.9% year-on-year).

Loans for Margin Transactions

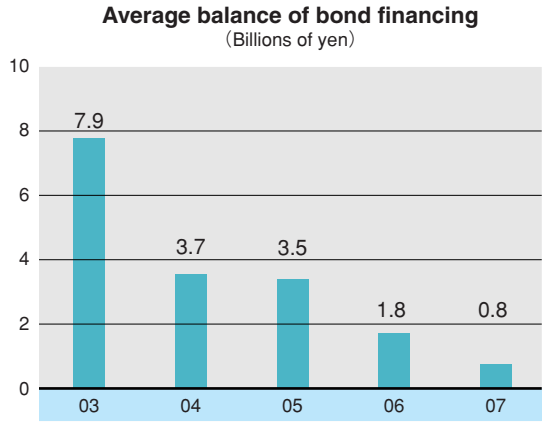
In margin loan business, although the outstanding balance of loans for margin transactions during the fiscal year averaged 1,444.3 billion yen - a decrease of 193.3 billion yen by comparison with the previous fiscal year – the revenues from interest on loans increased, due to the rise in interest rates on loans. On the other hand, while the average outstanding balance of stock loans for margin transactions during the fiscal year increased by 72.7 billion yen from the previous year to 723.8 billion yen, the fees on lending securities decreased, due to the decrease of over-lent issues. As a result, the operating revenues from loans for margin transactions totaled 23,187million yen, up 0.8% on the previous fiscal year's figures.

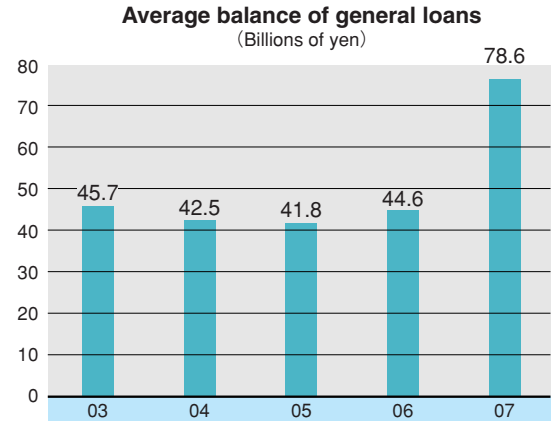




Bond Financing and General Loans Business

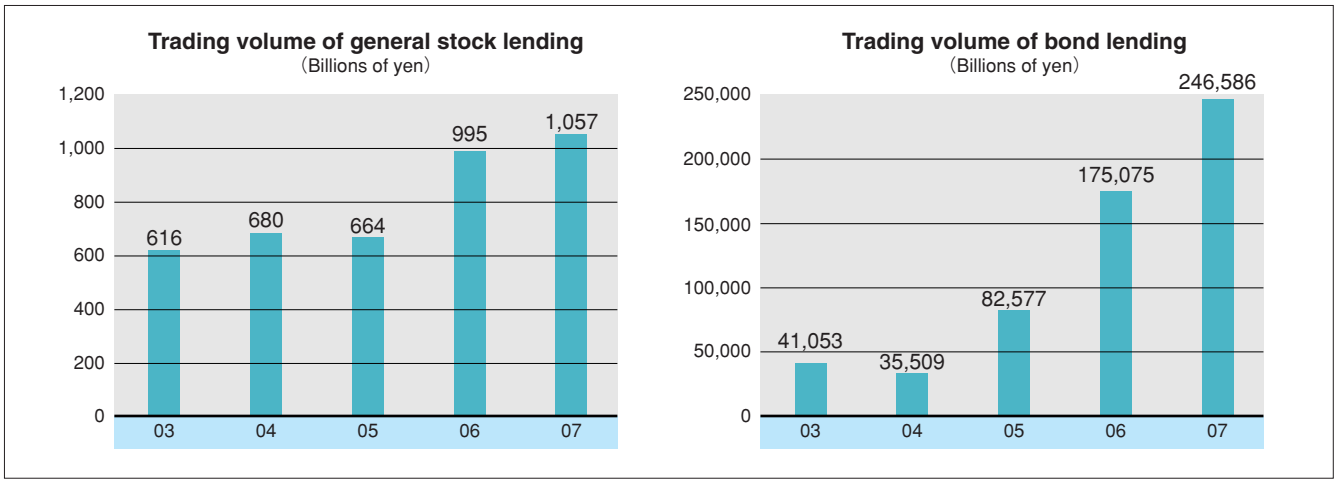
In bond financing and general loans business, although growth in loan to individual investors and non-financial companies was sluggish, the outstanding balance of loans for negotiable margin transactions to securities companies has grown steadily. As a result, the average outstanding of bond financing and general loans were respectively 0.8 billion yen and 78.6 billion yen (of which that of negotiable margin transactions represented 33.7 billion yen) during the fiscal year, resulting in the operating revenues of 1,254 million yen for this business (up 45.0 % year-on-year).





Securities Lending Business

As regards securities lending business, in bond trading department, the trading volume during the fiscal year amounts to 246,585.6 billion yen, mainly resulting from increased GC transactions (transactions in unspecified issues), and the trading rates were also increased due to the BOJ's two interest rate rises. In stock lending department, as in the previous fiscal year, we experienced a brisk demand for stock borrowing in order to avoid fails in delivery. As a result, the operating revenues from this business totaled 5,093 million yen (up 88.6% year-on-year).



Trust Banking Business

In trust banking business, the average outstanding loan balance for the fiscal year was 711.9 billion yen, a fall of 304.5 billion yen from the previous fiscal year's figure. Despite our efforts to increase syndicated loans, this was due primarily to the fall in government loans. Nonetheless, the revenues from interest on loans increased dramatically, thanks to the rise in interest rates, and resulted in an increase in operating revenues to 6,981 million yen (up 62.9% year-on-year).

Other Business

In respect of other revenues, the company recorded a figure of 5,993 million yen (up 8.8% year-on-year) due to the increased coupon income on JGBs.

In information processing service business, for which JSF Information Technology Co., Ltd. was responsible until the first quarter of fiscal 2006, the company is no longer our consolidated subsidiary, following the partial sale of its shares in July 2006. Therefore, its operating revenues of 610 million yen as a former consolidated subsidiary are included in the figures for other revenues.

CONSOLIDATED BALANCE SHEETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries as of March 31, 2007 and 2006

Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars(note 2) 2007
Current assets:			
Cash (note 3)	¥ 4,858	¥ 3,824	$ 41,152
Call loans	130,200	118,000	1,102,922
Short-term investments (notes 4 and 15)	898,761	1,365,935	7,613,393
Short-term loans receivable (note 15)	2,028,633	3,194,928	17,184,524
Securities lent	713,295	705,151	6,042,313
Securities in custody (note 15)	161,317	193,722	1,366,514
Securities in deposit (note 15)	1,114,258	1,740,415	9,438,865
Deferred tax assets (note 9)	697	856	5,904
Collateral money for securities borrowed (note 15)	1,919,195	1,662,232	16,257,476
Other current assets	30,778	42,625	260,720
Allowance for doubtful receivables	(734)	(1,307)	(6,218)
Total current assets	7,001,258	9,026,381	59,307,565
Property, plant and equipment:			
Buildings and structures	8,102	7,696	68,632
Machinery, equipment and vehicles	–	2	–
Tools, furniture and fixtures	1,260	2,132	10,673
Land	3,316	3,324	28,090
Construction in progress	3	397	25
	12,681	13,551	107,420
Accumulated depreciation	(5,466)	(6,020)	(46,302)
Net property, plant and equipment	7,215	7,531	61,118
Intangible assets, net	2,797	3,838	23,693
Investments and other assets:			
Investments in securities (notes 4, 5 and 15)	404,884	669,067	3,429,767
Deferred tax assets (note 9)	4,377	7,465	37,077
Other investments and other assets	2,683	8,142	22,728
Allowance for doubtful receivables	(34)	(41)	(288)
Total investments and other assets	411,910	684,633	3,489,284
Total assets	¥7,423,180	¥9,722,383	$ 62,881,660

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars(note 2) 2007
Current liabilities:			
Call money (notes 7 and 15)	¥ 2,191,400	¥ 1,964,400	$ 18,563,321
Bills sold (notes 7 and 15)	–	672,400	–
Short-term borrowings (notes 7 and 15)	802,530	1,577,820	6,798,221
Commercial paper (note 7)	110,000	–	931,808
Payables under repurchase agreements (notes 7 and 15)	96,738	114,420	819,466
Accrued income taxes (note 9)	2,945	1,845	24,947
Collateral money received for securities lent (note 15)	1,949,169	2,462,857	16,511,385
Collateral securities deposited	1,634,701	2,328,083	13,847,531
Securities borrowed (note 15)	349,645	302,380	2,961,838
Securities lent opposite account	4,526	8,825	38,340
Other current liabilities (note 7)	94,625	153,828	801,567
Total current liabilities	7,236,279	9,586,858	61,298,424
Non-current liabilities:			
Long-term borrowings (note 7)	60,000	4,500	508,259
Deferred tax liabilities (note 9)	188	–	1,592
Deferred tax liabilities for land revaluation (note 6)	99	99	839
Liabilities for retirement and severance benefits (note 8)	2,991	3,924	25,337
Other non-current liabilities	747	8,040	6,328
Total non-current liabilities	64,025	16,563	542,355
Total liabilities	7,300,304	9,603,421	61,840,779
Stockholders' equity:			
Common stock (note 10):	10,000	10,000	84,710
Authorized 200,000,000 shares ; issued 99,704,000 shares in 2007 and 2006			
Additional paid-in capital (note 10)	5,182	5,182	43,897
Retained earnings (note 11)	111,252	109,872	942,414
Treasury stock, at cost; 977,940 shares in 2007 and 1,104,905 shares in 2006	(457)	(484)	(3,871)
Total Stockholders' equity	125,977	124,570	1,067,150
Valuation and translation adjustments:			
Net unrealized loss on other securities (note 4)	(3,244)	(5,751)	(27,480)
Gain on revaluation of land (note 6)	143	143	1,211
Total valuation and translation adjustments	(3,101)	(5,608)	(26,269)
Total net assets	122,876	118,962	1,040,881
Commitments and contingencies (note 17)			
Total liabilities and net assets	¥ 7,423,180	¥ 9,722,383	$ 62,881,660

CONSOLIDATED STATEMENTS OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries for the years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars(note 2)
	2007	2006	2007
Operating revenues	¥ 43,524	¥ 37,226	$ 368,691
Operating expenses	24,923	19,142	211,122
Operating profit	18,601	18,084	157,569
General and administrative expenses (note 12)	8,959	9,157	75,892
Operating income	9,642	8,927	81,677
Other income (deductions):			
Interest income	13	9	110
Dividend income	97	66	822
Interest expenses	(1)	(3)	(9)
Equity in losses of affiliates	(432)	(815)	(3,659)
Reversal of allowance for doubtful receivables	576	18	4,879
Dilution loss from changes in equity interest	(1,276)	–	(10,809)
Other, net	15	(15)	127
	(1,008)	(740)	(8,539)
Income before income taxes	8,634	8,187	73,138
Income taxes (note 9)			
Current	4,317	2,997	36,569
Deferred	161	237	1,364
	4,478	3,234	37,933
Net income	¥ 4,156	¥ 4,953	$ 35,205

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries for the years ended March 31, 2007 and 2006

	Millions of yen								
	Stockholders' equity					Valuation and translation adjustments			
	Common stock (note 10)	Additional paid-in capital (note 10)	Retained earnings (note 11)	Treasury stock	Total	Net unrealized gain on other securities (note 4)	Gain on revaluation of land (note 6)	Total	Total net assets
Balance at March 31, 2005	¥ 10,000	¥ 5,182	¥107,473	¥ (253)	¥122,402	¥ 3,784	¥ 151	¥ 3,935	¥126,337
Changes arising during year:									
Cash dividends			(2,389)		(2,389)				(2,389)
Bonuses to directors and corporate auditors			(172)		(172)				(172)
Net income			4,953		4,953				4,953
Addition of revaluation of land			7		7				7
Other, net				(231)	(231)	(9,535)	(8)	(9,543)	(9,774)
Total changes during the year	–	–	2,399	(231)	2,168	(9,535)	(8)	(9,543)	(7,375)
Balance at March 31, 2006	10,000	5,182	109,872	(484)	124,570	(5,751)	143	(5,608)	118,962
Changes arising during year:									
Cash dividends			(2,583)		(2,583)				(2,583)
Bonuses to directors and corporate auditors			(123)		(123)				(123)
Net income			4,156		4,156				4,156
Increased earnings of spin-off			394		394				394
Decreased earnings of excluded consolidated company			(464)		(464)				(464)
Acquired treasury stock				(12)	(12)				(12)
Decreased treasury stock of subsidiary				39	39				39
Net amount of change out of stockholders' equity						2,507		2,507	2,507
Total amount of change	–	–	1,380	27	1,407	2,507	–	2,507	3,914
Balance at March 31, 2007	¥ 10,000	¥ 5,182	¥111,252	¥ (457)	¥125,977	¥ (3,244)	¥ 143	¥ (3,101)	¥122,876

	Thousands of U.S. dollars (note 2)								
	Stockholders' equity					Valuation and translation adjustments			
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Gain on revaluation of land	Total	Total net assets
Balance at March 31, 2006	$ 84,710	$ 43,897	$930,724	$ (4,100)	$1,055,231	$ (48,716)	$ 1,211	$(47,505)	$1,007,726
Changes arising during year:									
Cash dividendss			(21,881)		(21,881)				(21,881)
Bonuses to directors and corporate auditors			(1,042)		(1,042)				(1,042)
Net income			35,205		35,205				35,205
Increased earnings spin-off			3,338		3,338				3,338
Decreased earnings of excluded consolidated company			(3,930)		(3,930)				(3,930)
Acquired treasury stock				(102)	(102)				(102)
Decreased treasury stock of subsidiary				331	331				331
Net amount of change out of stockholders' equity						21,236		21,236	21,236
Total amount of change	–	–	11,690	229	11,919	21,236	–	21,236	33,155
Balance at March 31, 2007	$ 84,710	$ 43,897	$92,414	$ (3,871)	$1,067,150	$ (27,480)	$ 1,211	$(26,269)	$1,040,881

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, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars(note 2)
	2007	2006	2007
Cash flows from operating activities:			
Income before income taxes	¥ 8,634	¥ 8,187	$ 73,138
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,649	1,627	13,969
Losses relating to short-term investments and investments in securities	3,235	2,380	27,404
Allowance for doubtful receivables	(577)	(21)	(4,888)
Decrease in liabilities for retirement and severance benefits	(274)	(229)	(2,321)
Interest and dividend income	(27,527)	(16,481)	(233,181)
Interest expenses	11,198	1,529	94,858
Equity in losses of affiliates	432	815	3,659
Dilution loss from changes in equity interest	1,276	–	10,809
(Increase) decrease in short-term loans receivable	1,165,795	(666,853)	9,875,434
(Increase) decrease in call loans	(12,200)	18,000	(103,346)
(Increase) decrease in collateral money for securities borrowed	(256,963)	369,675	(2,176,730)
Increase in call money	227,000	554,200	1,922,914
Decrease in bills sold	(672,400)	(1,462,700)	(5,695,892)
Increase (decrease) in borrowings	(775,280)	618,000	(6,567,387)
Increase (decrease) in payables under repurchase agreements	(17,681)	87,723	(149,775)
Increase (decrease) in commercial paper	110,000	(172,000)	931,809
Increase (decrease) in collateral money received for securities lent	(513,688)	134,261	(4,351,444)
Increase (decrease) in collateral money received for loan transactions	(33,860)	24,773	(286,828)
Purchase of short-term investments	(8,623,903)	(6,846,295)	(73,052,969)
Proceeds from sale/redemption of short-term investments	9,352,511	7,173,246	79,224,998
Other, net	42,698	72,341	361,694
Sub total	(9,925)	(97,822)	(84,075)
Interest and dividend received	27,009	16,551	228,793
Interest paid	(10,227)	(1,553)	(86,633)
Income taxes paid	(3,247)	(4,941)	(27,505)
Income taxes refunded	893	–	7,565
Net cash provided by (used in) operating activities	4,503	(87,765)	38,145
Cash flows from investing activities:			
Purchase of investments in securities	(375)	(157)	(3,177)
Proceeds from sale/redemption of investments in securities	0	100	0
Capital expenditures	(309)	(1,110)	(2,617)
Purchase of intangible assets	(195)	(580)	(1,652)
Other, net	116	(0)	983
Net cash used in investing activities	(763)	(1,747)	(6,463)
Cash flows from financing activities:			
Dividends paid to stockholders	(2,583)	(2,389)	(21,881)
Other, net	(11)	(231)	(93)
Net cash used in financing activities	(2,594)	(2,620)	(21,974)
Net increase (decrease) in cash and cash equivalents	1,146	(92,132)	9,708
Cash and cash equivalents at beginning of year	3,824	95,956	32,393
Cash and cash equivalents of subsidiaries excluded from consolidation	(112)	–	(949)
Cash and cash equivalents at end of year (note 3)	¥ 4,858	¥ 3,824	$ 41,152

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 (2 subsidiaries for 2007 and 3 subsidiaries for 2006).

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 difference between the cost and the underlying net assets at the date of investments in subsidiaries or affiliates is allocated to identifiable assets and liabilities based on fair market value at the date of investments.

The unallocated portion of the difference, which is recognized as goodwill or negative goodwill, is amortized over 5 years.

As a result of the shares exchange described in note 18, JSF Information Technology Co., Ltd. (JSFIT) which was formerly a consolidated subsidiary of the Company became an affiliate, and the statement of income of JSFIT was consolidated during the time JSFIT was a subsidiary.

Japan Information Processing Service Co., Ltd. (JIPS) and Japan Securities Agents, Ltd. (JSA) established a joint holding company, JBIS Holdings Inc. (JBIS) by transfer their shares on October 1, 2006, and JBIS has been an affiliate of the Company accounted for by the equity method.

(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 net assets. Realized gains or losses on the other securities are determined by the moving average method. Bond securities classified as "other securities" for which fair value is not available are stated at the amortized cost. Equity securities classified as "other securities" for which fair value is not available are stated at the moving-average cost.

(e)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 contributory and noncontributory 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) Directors' Bonus

Effective from the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Directors' bonus" (Accounting Standards Board of Japan Statement No. 4, issued by Accounting Standards Board of Japan on November 29, 2005).

According to the standard, directors' bonuses are accounted for as an expense when such bonuses are accrued, instead of being accounted for as an appropriation of retained earnings upon approval at general meeting of stockholders. The effect of adoption of the new standard was to decrease income before income taxes and minority interests by ¥156 million ($1,321 thousand).

(m) Presentation of Net Assets on Balance Sheet

Effective from the year ended March 31, 2007, the Company adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5, issued by Accounting Standards Board of Japan on December 9, 2005) and the "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Guidance No. 8, issued by Accounting Standards Board of Japan on December 9, 2005).

According to the standards, former "Stockholders' equity" is presented as "Net assets" and classified into "Stockholders' equity" and "Valuation and translation adjustments." The stockholders' equity amounted to ¥122,876 million ($1,040,881 thousand) based on the former classification.

(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, 2007.

(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, 2007 have been translated into United States dollars at the rate of ¥118.05=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 30, 2007. 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, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Cash	¥ 4,858	¥ 3,824	$ 41,152
Cash and cash equivalents	¥ 4,858	¥ 3,824	$ 41,152

(4) SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

As of March 31, 2006, the Company held no trading securities. Balance sheet amount and net unrealized loss which are charged to income of trading securities as of March 31, 2007 are ¥59,935 million ($507,709 thousand) and ¥25 million ($212 thousand), respectively.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2007 and 2006 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2007				
Government bond securities	¥ 15	¥ —	¥ —	¥ 15
Corporate bond securities	6,700	70	—	6,770
Others	—	—	—	—
	¥ 6,715	¥ 70	¥ —	¥ 6,785
March 31, 2006				
Government bond securities	¥ 15	¥ —	¥ —	¥ 15
Corporate bond securities	—	—	—	—
Others		¥ —	—	—
	¥ 15	¥ —	¥ —	¥ 15

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2007				
Government bond securities	$ 127	$ —	$ —	$ 127
Corporate bond securities	56,756	593	—	57,349
Others	—	—	—	—
	$ 56,883	$ 593	$ —	$ 57,476

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2007 and 2006 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2007				
Equity securities	¥ 1,548	¥ 4,961	¥ —	¥ 6,509
Bond securities:				
Government bond securities	1,164,307	1,089	13,638	1,151,758
Corporate bond securities	66,928	12	3	66,937
Others	—	—	—	—
Other securities	47	40	—	87
	¥ 1,232,830	¥ 6,102	¥ 13,641	¥ 1,225,291
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

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2007				
Equity securities	$ 13,113	$ 42,025	$ —	$ 55,138
Bond securities:				
Government bond securities	9,862,830	9,225	115,528	9,756,527
Corporate bond securities	566,946	101	25	567,022
Others	—	—	—	—
Other securities	398	339	—	737
	$ 10,443,287	$ 51,690	$ 115,553	$ 10,379,424

It is not practicable to estimate the fair value of securities as of March 31, 2007 and 2006 described bellow because of lack of market price and difficulty in estimating fair value.

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Unlisted equity securities	¥ 727	¥ 727	$ 6,158
Commercial paper	—	47,992	—

Projected future redemption of other securities with maturities and held-to-maturity securities as of March 31, 2007 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	¥ 771,889	¥ 60,385	¥ 59,940	¥ 259,558
Corporate bond securities	66,937	6,700	—	—
Others	—	—	—	—
	¥ 838,826	¥ 67,085	¥ 59,940	¥ 259,558

	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	$ 6,538,662	$ 511,520	$ 507,751	$ 2,198,712
Corporate bond securities	567,022	56,756	—	—
Others	—	—	—	—
	$ 7,105,684	$ 568,276	$ 507,751	$ 2,198,712

For the years ended March 31, 2007 and 2006, proceeds from sale of other securities are ¥6,325,438 million ($53,582,702 thousand) and ¥4,449,469 million, the gross realized gains are ¥297 million ($2,516 thousand) and ¥1,722 million, and the gross realized losses are ¥3,636 million ($30,801 thousand) and ¥4,243 million, respectively.

(5) INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates as of March 31, 2007 and 2006 are ¥10,978 million ($92,994 thousand) and ¥14,701 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 net assets, net of related taxes, and the related deferred tax liabilities are reported in liabilities as deferred tax liabilities for land revaluation.

The value of the land at March 31, 2007 decreased by ¥148 million ($1,254 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, 2007 and 2006 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2007			
Short-term borrowings	¥ 802,530	$ 6,798,221	0.563%
Long-term borrowings	60,000	508,259	0.787
Call money	2,191,400	18,563,321	0.550
Commercial paper	110,000	931,808	0.619
Payables under repurchase agreements	96,739	819,475	0.651
Other	494	4,185	1.375
	¥ 3,261,163	$ 27,625,269	

	Millions of yen	Weighted average rate
March 31, 2006		
Short-term borrowings	¥ 1,577,820	0.067%
Long-term borrowings	4,500	0.194
Call money	1,964,400	0.021
Bills sold	672,400	0.016
Payables under repurchase agreements	114,420	0.087
Other	1,914	1.375
	¥ 4,335,454	

(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 ware estimated to be ¥938 million. As at March 31, 2007, one subsidiary has the welfare pension plan administrated by JJK, and based on the subsidiary's proportion of the contribution to the aggregate pension contributions, the plan asset amount at March 31, 2007 is estimated to be ¥140 million ($1,186 thousand).

The funded status of the pension plans as of March 31, 2007 and 2006 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥ (6,296)	¥ (7,677)	$ (53,333)
Plan assets at fair value	3,469	3,929	29,386
Funded status	(2,827)	(3,748)	(23,947)
Unrecognized actuarial loss	430	534	3,642
Net amount recognized in the consolidated balance sheets	(2,397)	(3,214)	(20,305)
Prepaid retirement and severance benefits	—	51	—
Accrued retirement and severance benefits	¥ (2,397)	¥ (3,265)	$ (20,305)

Net periodic pension cost for the years ended March 31, 2007 and 2006 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 174	¥ 240	$ 1,474
Interest cost	126	159	1,067
Expected return on plan assets	(82)	(71)	(694)
Amortization of actuarial loss	81	169	686
Net periodic pension cost	¥ 299	¥ 497	$ 2,533

Significant assumptions of pension plans used to determine these amounts in fiscal 2007 and 2006 are as follows:

	2007	2006
Periodic allocation method for projected benefit	Straight-line	Straight-line
Discount rate	2.0%	Mainly 2.0%
Expected rate of return on plan assets	2.5%	Mainly 2.5%
Period for amortization of unrecognized actuarial loss	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 had unfunded defined benefit pension plan. Under the plan, 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. At the general meeting of stockholders held on June 28, 2006, abolishment of retirement benefit system for directors and corporate auditors was approved, and directors and corporate auditors were entitled to lump-sum payment up to the date of the abolishment when they leave the Company. The amount to be paid is ¥389 million ($3,295 thousand). Certain subsidiaries still have unfunded defined benefit pension plans for directors and corporate auditors. 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 subsidiaries. As of March 31, 2007 and 2006, the liabilities for retirement and severance benefits related to the plans were ¥594 million ($5,032 thousand) which include the lump-sum payments mentioned above, and ¥659 million, 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 2007 and 2006.

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes for the year ended March 31, 2007 is follows :

Statutory tax rate	40.7%
Dilution loss from changes in equity interest	6.0
Equity in losses of affiliates	2.1
Gain on sale of associated company	1.9
Expenses not deductible for tax purposes	0.6
Income not credited for tax purposes	(3.8)
Other	4.3
Effective tax rate	51.8%

Significant components of deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Accrued business tax	¥ 215	¥ 184	$ 1,821
Accrued bonuses	173	241	1,465
Liabilities for retirement and severance benefits (employees)	965	1,226	8,174
Liabilities for retirement and severance benefits (directors and corporate auditors)	242	268	2,050
Allowance for doubtful receivables	239	458	2,025
Net unrealized loss on other securities	5,552	8,501	47,031
Other	169	218	1,432
	7,555	11,096	63,998
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(182)	(182)	(1,542)
Net unrealized gain on other securities	(2,484)	(2,508)	(21,042)
Other	(3)	(85)	(25)
	(2,669)	(2,775)	(22,609)
Net deferred tax assets	¥ 4,886	¥ 8,321	$ 41,389

Net deffered tax assets and liabilities as of March 31, 2007 and 2006 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current assets - Deferred tax assets	¥ 697	¥ 856	$ 5,904
Investments and other assets- Deferred tax assets	4,377	7,465	37,077
Non-current liabilities- Deferred tax liabilities	(188)	—	(1,592)

(10) COMMON STOCK

On May 1, 2006, a new corporation law (the "Corporation Law") became effective, which reformed and replaced the Commercial Code of Japan with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. Under the Corporation Law the entire amount of the issue price of shares is required to be designated as stated common stock account although a company in Japan may, by resolution of its Board of Directors, account for an amount not exceeding 50% of the issue price of new shares as additional paid-in capital.

(11) RETAINED EARNINGS AND DIVIDENDS

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

Cash dividends charged to retained earnings for the years ended March 31, 2007 and 2006 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Corporation Law.

Dividends paid during the year ended March 31, 2006 which was approved by the general meeting of stockholders held on June 28, 2006 are as follows:

(a) Total dividends	¥1,391 million ($11,783 thousand)
(b)Cash dividends per common share	¥14 ($0.12)
(c) Record date	March 31, 2006
(d)Effective date	June 28, 2006

Dividends paid during the year ended March 31, 2007 which was approved by the Board of Directors held on November 13, 2006 are as follows:

(a) Total dividends	¥1,192 million ($10,097 thousand)
(b)Cash dividends per common share	¥12 ($0.10)
(c) Record date	September 30, 2006
(d)Effective date	December 8, 2006

Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2007 which was approved by the general meeting of stockholders held on June 27, 2007 are as follows:

(a) Total dividends	¥1,391 million ($11,783 thousand)
(b)Dividend source	Retained earnings
(c) Cash dividends per common share	¥14 ($0.12)
(d)Record date	March 31, 2007
(e) Effective date	June 28, 2007

(12) GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Salaries	¥ 3,087	¥ 3,148	$ 26,150
Pension cost	307	424	2,601
Provision for retirement and severance benefits (directors and corporate auditors)	86	197	729
Administrative and computer expenses	1,131	1,197	9,581
Depreciation	1,618	1,490	13,706

(13) NET INCOME PER SHARE INFORMATION

(a) Net Income per Share

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2007 and 2006 are as follows:

	Yen		Us dollars
	2007	2006	2007
Basic net income per share	¥ 42.09	¥ 48.93	$ 0.36

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Net income	¥ 4,156	¥ 4,953	$ 35,205
Net income not applicable to common stockholders:			
Directors' and corporate auditors' bonuses	—	(123)	—
Net income applicable to common stockholders	¥ 4,156	¥ 4,830	$ 35,205

	Number of shares(Thousands)	
	2007	2006
Weighted average number of shares outstanding on which basic net income per share is calculated	98,730	98,707

(b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations at March 31, 2007 are as follows:

	Yen	Us dollars
Net assets per share	¥ 1,244.61	$ 10.54

	Millions of yen	Thousands of U.S. dollars
Total net assets	¥ 122,876	$ 1,040,881
Amount deducted from total net assets	—	—
Net assets applicable to common stockholders	¥ 122,876	$ 1,040,881

	Number of shares(Thousands)
Number of shares outstanding at the end of year on which net assets per share is calculated	98,726

(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, 2007 and 2006 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
	2007	2006	2007
Furniture and fixtures:			
Acquisition cost	¥ 46	¥ 348	$ 390
Accumulated depreciation	(19)	(281)	(161)
Net book value	¥ 27	¥ 67	$ 229

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Lease expense	¥ 46	¥ 84	$ 390
Future minimum lease payments:			
Within one year	¥ 9	¥ 46	$ 76
Over one year	18	21	153
	¥ 27	¥ 67	$ 229

(b) Lessor

(i) Acquisition cost, accumulated depreciation and net book value of leasing assets as of March 31, 2006 are as follows:

	Millions of yen		
	Furniture and fixtures	Others	Total
Acquisition cost	¥ 119	69	¥ 188
Accumulated depreciation	(88)	(46)	(134)
Net book value	¥ 31	23	¥ 54

(ii) Lease income, depreciation and future minimum lease payments including interest income for the year ended March 31, 2006 are as follows:

	Millions of yen
Lease income	¥ 63
Depreciation	30
Future minimum lease payments:	
Within one year	¥ 38
Over one year	24
	¥ 62

(15) PLEDGED ASSETS

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2007 and 2006 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Short-term investments	¥ 680,176	¥ 1,324,872	$ 5,761,762
Short-term loans receivable	78,398	503,441	664,108
Securities in deposit	940,091	1,325,494	7,963,499
Collateral money for securities borrowed	181,221	98,477	1,535,121
Investments in securities	132,991	595,341	1,126,565
Securities received as collateral for securities loans for margin transactions , etc.	850,698	—	7,206,252
Securities in custody	—	29,000	—

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Call money	¥ 1,667,000	¥ 1,395,100	$ 14,121,135
Short-term borrowings	436,700	—	3,699,280
Payables under repurchase agreements	96,739	114,420	819,475
Securities borrowed	181,221	98,477	1,535,121
Other current liabilities	494	—	4,185
Bills sold	—	672,400	—
Collateral money received for securities lent	—	169,749	—

In addition to the above, short-term investments of ¥170,084 million ($1,440,779 thousand), securities in custody of ¥30,300 million ($256,671 thousand), other current assets of ¥500 million ($4,235 thousand), investments in securities of ¥208,743 million ($1,768,259 thousand), and securities received as collateral for securities loans for margin transactions , etc. of ¥70,610 million ($598,136 thousand) are deposited for the real time settlement system of Bank of Japan, the Clearing Fund of Japan Securities Clearing Corporation and Japan Government Bond Clearing Corporation and the foreign exchange settlement, etc. at March 31, 2007.

In addition to the above, securities received as collateral for securities loans for margin transactions and securities received as collateral for bond borrowing and lending transaction with cash collateral amounting to ¥2,693,541 million were deposited as guarantee for liabilities at March 31, 2006. And short-term investments of ¥15,998 million, other current assets of ¥500 million, and investments in securities of ¥5,548 million 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, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Securities loaned	¥ 1,407,181	¥ 108,701	$ 11,920,212
Securities pledged as collateral	560,858	1,584,601	4,751,021
Securities on hand	116,017	177,519	982,778

(16) DERIVATIVE FINANCIAL INSTRUMENTS

The Company does not hold or issue derivative financial instruments for the purpose of trading. One subsidiary has entered into interest rate swap agreements to manage interest rate exposures borrowings.

If interest rate swap agreements are used as hedges and meet certain hedging criteria, the difference in amounts to be paid or received on the interest rate swap agreements is recognized over the life of the agreements as an adjustment to interest expense.

The counterparties to the derivative transactions are financial institutions with high credit ratings and consequently, the Company does not anticipate credit-related losses from non-performance by the counterparties to transactions involving derivative financial instruments.

Derivative transactions have been executed and controlled in accordance with the Company's derivative regulations.

The information relating to fair value of derivative transactions to which hedge accounting is applied is not subject to disclosure.

(17) COMMITMENTS AND CONTINGENCIES

As of March 31, 2007 and 2006, undrawn amount of general loan for securities companies and customers and overdraft loan are as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Total credit line	¥ 592,492	¥ 591,644	$ 5,018,992
Drawn amount	(35,084)	(54,879)	(297,196)
Undrawn amount	¥ 557,408	¥ 536,765	$ 4,721,796

(18) SEGMENT INFORMATION

(a) Industry segments

The Company had categorized its business into the two segments of "securities finance business" and "data processing service business." JSF Information Technology Co., Ltd. which has engaged in the data processing service business has been excluded from consolidation during the year ended March 31, 2007. As a result, the segments have been reclassified into a single industry segment, securities finance business.

Operations by business group for the year ended March 31, 2006 were 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(loss)	¥ 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

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, 2007 and 2006.

(c) Overseas sales

Not applicable.

(19) Business Combinations

JSF Information Technology Co., Ltd. (JSFIT) is engaged in the information processing services, software development, sales and leasing, and real estate leasing and Nihon Building Co., Ltd. (Nihon Bldg) is engaged in real estate ownership and leasing, real estate trading and brokerage and insurance agency services, both are wholly-owned subsidiaries of the Company.

JSFIT separated its real estate business on July 1, 2006 and transferred the business to Nihon Bldg, Nihon Bldg issued 600 new shares of its common stock to JSFIT shareholders at the day before the separation at an exchange ratio of 3 shares for each outstanding share of JSFIT's common stock.

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

The separation constitutes a transaction under common control under the "Accounting for Business Combinations" (Statement of Opinion issued by the Business Accounting Council on October 31, 2003), the transaction has been eliminated in consolidation. The difference between the cost and the transferred assets of ¥394 million ($3,338 thousand) is recorded as an increase of retained earnings.

(20) Subsequent Event

Business integration of affiliates

Net Wing Securities Co., Ltd. ("Net Wing"), formerly named Nihon Kyoei Securities Co., Ltd. which is an affiliate of the Company accounted for by the equity method, have decided to establish a joint holding company named M&N Holdings Inc. ("M&N"), with Maruwa Securities Co., Ltd. ("Maruwa") by transfer their shares on October 1, 2007.

1.1 share of M&N common stock will be allotted to 1 share of Net Wing common stock. 1 share of M&N common stock will be allotted to 1 share of Maruwa common stock.

(21) Supplemental Cash Flow Information

Assets and liabilities of the subsidiary, JSF Information Technology Co., Ltd. (JSFIT) excluded from consolidation in 2007 by sales, and net proceeds from sales were as follows:

	Millions of yen	Thousands of U.S. dollars
Assets and liabilities:		
Current assets	¥ 1,525	$ 12,918
Non-current assets	1,346	11,402
Current liabilities	(642)	(5,438)
Non-current liabilities	(869)	(7,361)
Sales price	¥ 587	$ 4,972
Cash and cash equivalents held by the subsidiary	345	2,922
Net proceeds from sales	¥ 242	$ 2,050

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, 2007 and 2006, and related consolidated statements of income, changes in net assets 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, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements as of and for the year ended March 31, 2007 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 Horwath

Toyo Horwath
Tokyo, Japan
June 27, 2007

OUTLINE OF THE CORPORATE GROUP

(As of the end of March 31, 2007)

CORPORATE DATA

JAPAN SECURITIES FINANCE CO., LTD.

Address
1-2-10 Nihonbashi-Kayabacho, Chuo-ku, Tokyo 103-0025
Tel:+81-3-3666-3184 Fax:+81-3-3666-1403

Established
July 1927

Capital
¥10 billion

Branch offices
Sapporo Branch
4-5 Minami Ichijo Nishi, Chuo-ku, Sapporo 060-0061
Tel: +81-11-241-1291
Fukuoka Branch
2-14-2 Tenjin, Chuo-ku, Fukuoka 810-0001
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, 2007)

Number of shareholders
6,227 shareholders (as of March 31, 2007)

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 27, 2007)

Directors

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

(* Representative Directors)
(** Outside Directors)

Corporate Auditors

Yoshiyasu Arai *
Shigeru Awashima
Yasukuni Watanabe *
Toshio Kamiyama *
(* Outside Corporate Auditors)

Exective Officers

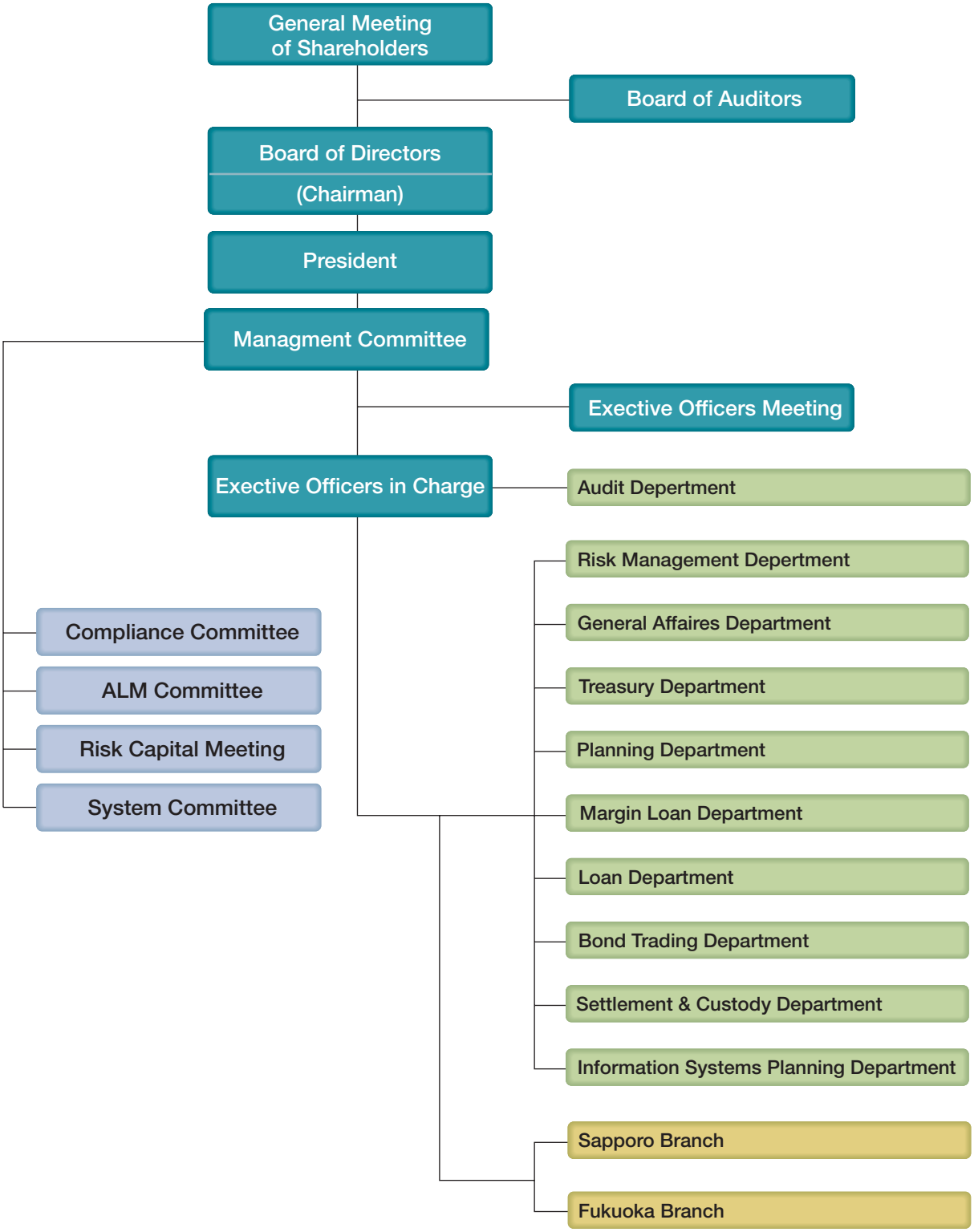
President	Minoru Masubuchi
Executive Vice President	Hiroshi Saito
Senior Managing Director	Sadamu Shimomura
Managing Directors	Yasuhisa Hashimoto
	Hiroshi Nasuno
Executive Officer	Hiroshi Asakura
	Mochiyoshi Katou
	Teiichi Takatori

Rating Information

(As of the end of July, 2007)

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

ORGANIZATION



JSF

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