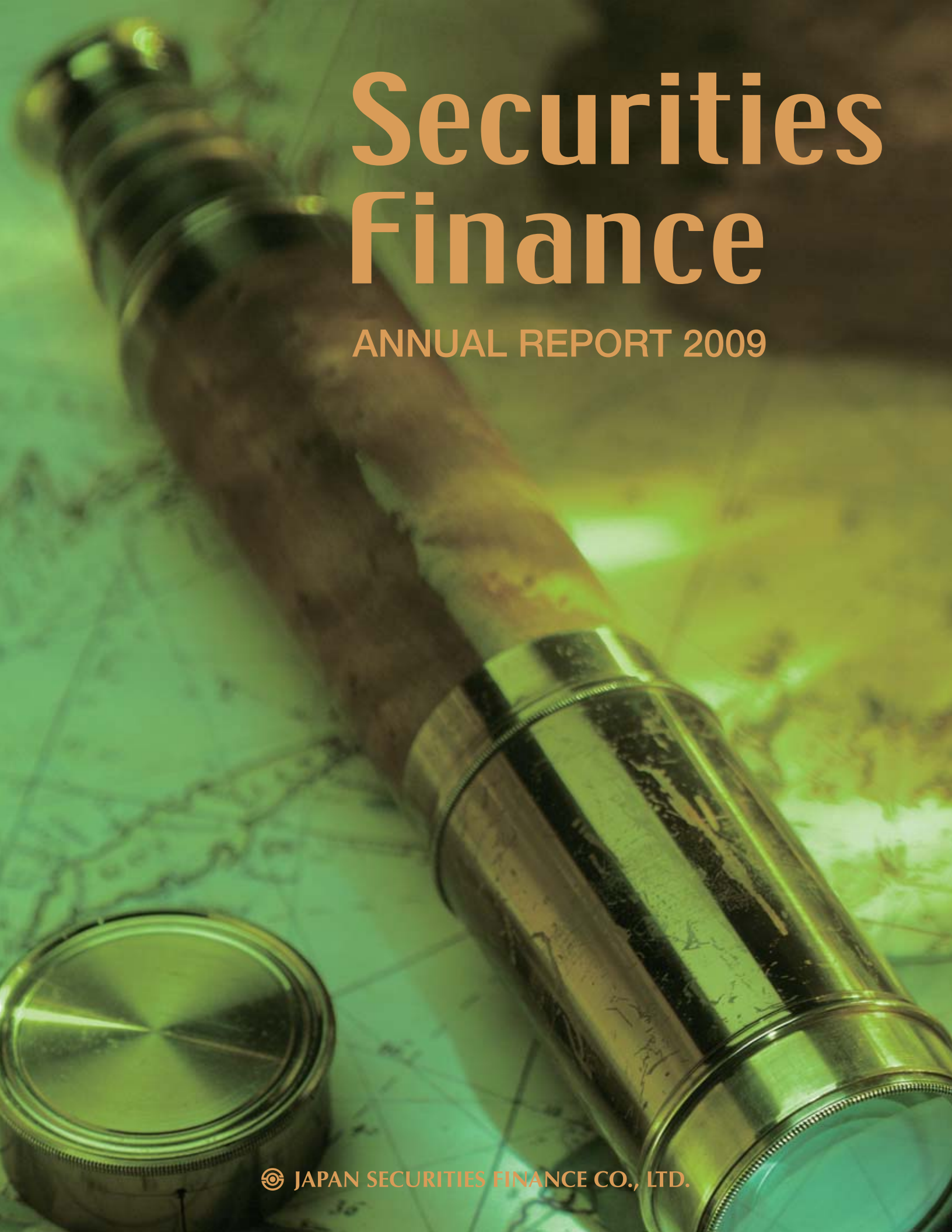
Securities Finance

ANNUAL REPORT 2009



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 Financial Instruments and Exchange Law.

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

CONTENTS

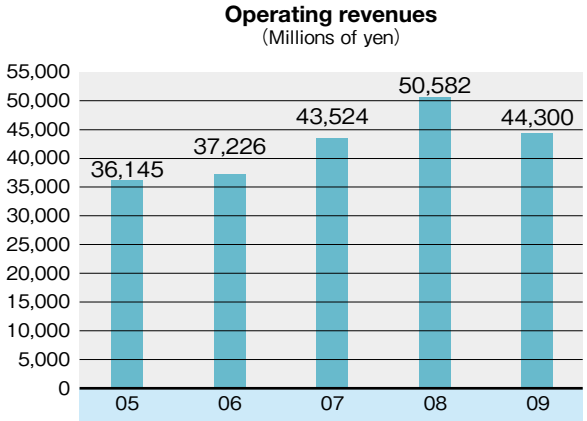
FINANCIAL HIGHLIGHTS

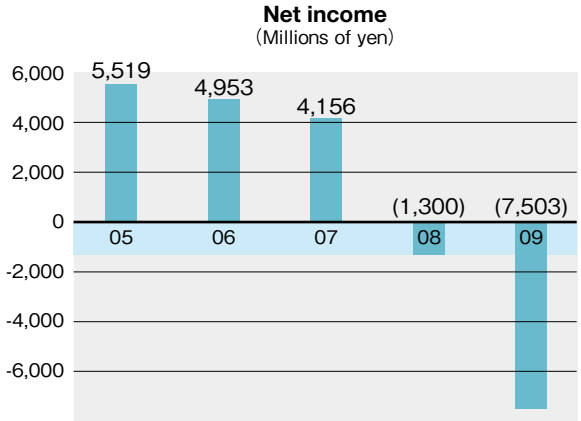
Japan Securities Finance Co.,Ltd. and Consolidated Subsidiaries

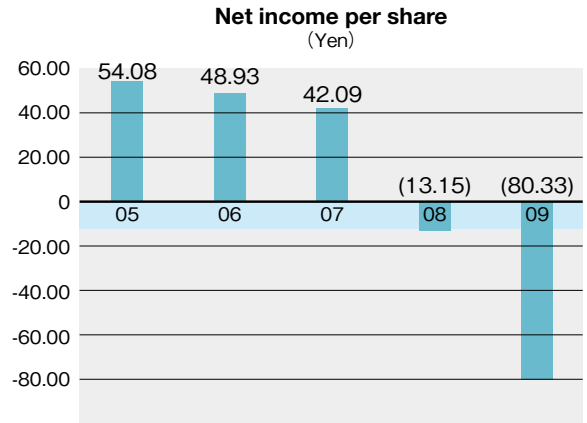
	Millions of yen		Thousands of U.S. dollars
	2009 (April 1, 2008 - March 31, 2009)	2008 (April 1, 2007 - March 31, 2008)	2009 (April 1, 2008 - March 31, 2009)
Consolidated financial results			
Operating revenues	¥ 44,300	¥ 50,582	$ 450,982
Net income (loss)	(7,503)	(1,300)	(76,382)
Net assets (period end)	107,233	111,304	1,091,652

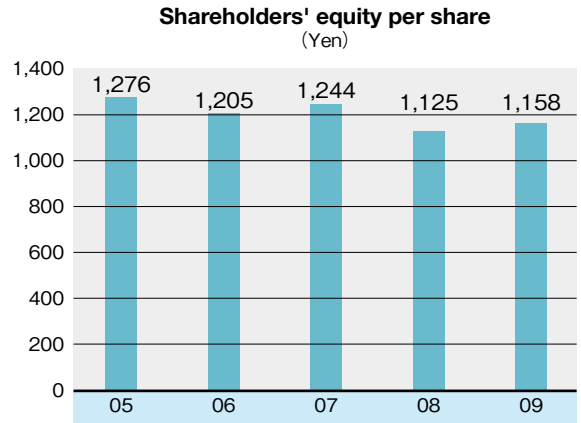
	Yen		U.S. dollars
	2009	2008	2009
Amounts per share			
Net income (loss)	¥ (80,33)	¥ (13.15)	$ (0.82)
Net assets	1,158.32	1,125.72	11.79

Note:U.S. dollar amounts in this annual report are translated from Japanese Yen, for convenience only, at the rate of ¥98.23=US$1, the approximate exchange rate at March 31,2009.









MESSAGE FROM THE PRESIDENT

Minoru Masubuchi
President

It is my sincere hope that the Annual Report 2009 for the fiscal year ended March 31, 2009 will be of use to shareholders, investors and other supporters of Japan Securities Finance Co., Ltd.

BUSINESS REVIEW

Business Environment

During the fiscal year under review, business conditions in the Japanese economy worsened further as the confusion on global credit markets sparked by the US financial crisis exerted a severe impact on the real economy.

On the stock market, the Tokyo Stock Price Index (TOPIX) started the fiscal year at 1,230 points and rose to 1,430 points in early June. However, the market then turned soft because the outlook for the global economy became increasingly unclear. The decline accelerated as the failure of a leading US financial institution in September intensified financial uncertainty worldwide. Stock prices continued dropping thereafter on worries over deteriorating business conditions and poor corporate performance. The TOPIX fell below 700 points in mid-March, posting the lowest level since the collapse of the bubble economy, and closed the fiscal year at 773 points.

The average daily trading volume on the First Section of the Tokyo Stock Exchange was 2,029 million shares, down 164 million shares from the previous fiscal year. The average daily trading value fell 1,001.8 billion yen to 1,877.1 billion yen.

The outstanding balance of standardized margin buying on the Tokyo market declined from over 1,600 billion yen in early April to over 1,300 billion yen in early May, but then recovered to above 1,700 billion yen at the end of June. The balance turned back to a declining trend from July as individual investors refrained from margin buying amid the stock market slump, while many sold off holdings under the sudden decline in stock prices. The outstanding balance of standardized margin buying closed the fiscal year above 600 billion yen, the lowest level in 11 years and 4 months (the lowest level since November 1998). Meanwhile, the outstanding balance of standardized margin selling rose from over 600 billion yen at the start of the fiscal year to over 800 billion yen in May, but then turned to a decline and bottomed out at above 400 billion yen in October. The outstanding balance of standardized margin selling subsequently

recovered to close the year at above 600 billion yen.

Turning to the bond markets, the yield on newly issued 10-year Japanese government bonds (JGBs) started the fiscal year at 1.356% and rose to 1.875% in mid-June on concerns over worldwide inflation from skyrocketing crude oil and raw materials prices. The yield then turned to a declining trend from growing concerns over the worsening economic environment, and fell to 1.163% at the end of December following the two-time reduction of policy rate by the Bank of Japan. The JGB yield has remained flat since January, and closed the fiscal year at 1.342%.

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 806.8 billion yen, down 692.1 billion yen from the previous year.

The consolidated operating revenues declined 12.4% year-on-year to 44,299 million yen because of a decrease of interest rates on loans for margin transactions. The consolidated operating expenses were down 4.4% to 37,690 million yen. While funds procurement costs declined, there were 6,132 million yen of devaluation losses on collateralized debt obligations and 2,217 million yen of sales losses on stocks and investment trusts owned by JSF Trust and Banking Co., Ltd., a subsidiary of JSF. General and administrative expenses rose 29.6% to 11,406 million yen as credit costs increased (2,725 million yen was added to the allowance for doubtful accounts).

As a result of these developments, JSF Group posted consolidated operating losses of 4,797 million yen. Consolidated recurring losses totaled 5,479 million yen including equity method investment losses of 951 million yen (non-operating costs), in part from impairment costs on software owned by an equity method affiliate. With devaluation losses on investment securities, the consolidated net loss was 7,503 million yen.

OUTLOOK FOR NEXT FISCAL YEAR

Earnings Outlook

The slowdown in the international economy which began from the confusion on global financial and securities markets is expected to continue for the time being.

Under these conditions, the outstanding balance of standardized margin buying remains dull, and the company projects that the outstanding balance of margin loans will decline somewhat from the previous year. The interest on loans is expected to decline because of this decreased balance combined with a decline of loan rates. In contrast, the outstanding balance of standardized margin selling is holding firm, and the company anticipate an increase in the outstanding balance of stock loans with increased fees on lending securities.

With regard to consolidated subsidiaries, JSF Trust and Banking Co., Ltd. and Nihon Building Co., Ltd. are expected to turn profitable. Both companies posted losses the previous fiscal year because of losses from the revaluation of securities. The equity method affiliate, JBIS Holdings, Inc. and its subsidiaries are expected to maintain firm profits overall.

MANAGEMENT POLICY

Basic Management Policy

As an institution specializing in the securities

finance business, JSF has a mission, while always maintaining a keen awareness of our public role, to contribute to the development of the securities industry by proactively meeting the diverse needs of securities and financial circles and working to boost the long-term interests of securities market users and participants. Based on this corporate philosophy, our basic management policy is as follows.

(1) While maintaining a keen awareness of our influence on securities markets and investors and other social responsibilities, implement exhaustive compliance, corporate governance and risk management, and establish solid social credibility through sound business operations.
(2) Retain solid equity capital to secure the financial health and management stability that society demands of the company as a firm engaged in the margin loan business, which constitutes part of securities market infrastructure, and provide stable and long-term return of profits to shareholders by comprehensively considering revenues environment or investment plans, etc.
(3) Advance systematic and operational improvements to strengthen competitiveness in the margin loan business, strive to expand securities-related services by Japan Securities Finance and its Group companies, and further solidify the profit base of JSF Group.

Basic Policy on Profit Sharing

JSF regards the stable and 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 strengthen its capital base and its internal reserves, taking account of its business performance.

As a standard which reflects a business performance, JSF has established a dividend policy under which the company returns on its profits so that the dividend payout ratio (non-consolidated) is about 40%.

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

Management Strategy

1.First Mid-term Management Plan (FY2006-FY2008)

[Management Target]

The First Mid-term Management Plan set a target of 12 billion yen in non-consolidated recurring profits by the final year of the plan, fiscal 2008. The plan assumed an average annual margin loan balance of 1,600 billion yen and an increase of approximately 0.50% percentage points in short-term interest rates from the time when the plan was announced.

From the second half of the plan period, however, the stock market turned soft and the margin loan balance slumped, then the economic environment surrounding the company also greatly diverged from the plan's assumed levels. For those reasons, in May 2008, JSF decided to change the plan target to 3.4 billion yen in non-consolidated recurring profits. The actual performance for the fiscal year, which was the final year of the plan, fiscal 2008, was 3.8 billion yen.

[Strategy Achievement Status]

i) Strengthen Competitiveness in Margin Loan Business

To improve the convenience of margin loan business, the company worked to secure share

lenders and to expand the range of subject securities. During the plan period, the number of loanable issues was increased by 81 issues to 1,715 issues.

ii) Promote Loans to Individual Investors

To respond to the large-lot funding needs of company owners and other customers, JSF formed business alliances with multiple securities companies concerning the mediation of secured loans on securities (loans which use securities as collateral) and worked to increase the outstanding loan balance.

iii) Strengthen Funds Procurement Capabilities

The company worked to lower funds procurement costs by revising the borrowing terms from banks and other funds providers, and to reduce costs overall.

iv) Actively Address Securities Settlement Systems Reforms

The company successfully completed all operating systems adjustments, beginning with the handling of stock collateral, as needed to respond to the introduction of a dematerialization of stock certificates.

v) Reinforce Compliance, Corporate Governance and Risk Management Systems

Sincerely reflecting on the business improvement order issued by the Financial Services Agency (FSA) in December 2007, JSF has positioned compliance as a prerequisite to operations, established a Compliance Department, and revised the related corporate regulations.

The company also introduced an executive officer system and worked to achieve more efficient management and faster operations by reducing the number of corporate directors.

vi) Advance Group Strategies

JSF established JBIS Holdings, Inc. through the management integration of Japan Information Processing Service Co., Ltd. (JIPS) and Japan Securities Agents, Ltd. (JSA), and otherwise reorganized the capital relations among JSF Group companies.

2.Second Mid-term Management Plan (FY2009-FY2011)

Moving forward from the results of the First Mid-term Management Plan, JSF devised the following strategies for the Second Mid-term Management Plan, in accordance with the basic management policy presented above.

[Business Strategies]

i) Increase the Number of Loanable Issues

Increase the number of loanable issues to improve the convenience of margin loan and strengthen competitiveness.

ii) Increase the Use of Loans for Negotiable Margin Transactions

Work to improve the use of loans for negotiable margin transactions to increase the outstanding balance and a market share of loans for negotiable margin transactions.

iii) Respond to Diverse Funding Needs of Securities Companies, Etc.

Implement new financing with flexible lending methods and conditions in order to increase loans to securities companies, etc.

iv) Increase Securities Lending Business Revenues

Aim to expand revenues by developing new customers to increase the outstanding balance of securities lending, introducing more flexible general stock lending transaction formats, and expanding transaction methods in the bond lending business.

[Reinforcing Management Foundations]

i) Improve Business Management System
While strongly recognizing our social responsibility as an institution specializing in the securities finance business, boost and ensure the awareness of compliance by officers and employees, and work further to strengthen internal audit functions. Also, strengthen risk management to secure management stability and financial health as the risk accompanying a financial business becomes more diverse and complex.

ii) Upgrade Business Continuity Plan
Work to improve the business continuity plan during large-scale disasters and other unexpected contingencies to maintain the function of margin loan business, which constitutes part of securities market infrastructure.

iii) Build Up Effective Organization and Advance Human Resources Development Strategy
Build up a lean and effective organization that can respond flexibly to changes in the external environment such as the reorganization of existing stock exchanges or the expansion of PTS (proprietary trading system) markets. Advance the training of personnel with high levels of expertise, and work to utilize human resources effectively via personnel exchanges among JSF Group companies.

iv) Reinforce Funds Procurement Foundation
Reinforce the funds procurement foundation and otherwise strengthen the ability to raise funds for the stable supply of low-interest funds to securities markets and to make the company's finances more secure.

v) Strengthen Group Company Ties
Actively strengthen ties among JSF Group companies in fields where synergies can be expected, for the provision of more replete securities-related services by JSF Group as a whole.

Future Challenges (Strategy)

While the global economic slowdown sparked by confusion on international financial and securities markets has prompted the mobilization of earnest fiscal and monetary policies in each nation, the economic outlook is still uncertain. As a company which conducts business in financial and securities markets, JSF expects our management environment to remain harsh for some time.

Sincerely reflecting on the business improvement order issued by the Financial Services Agency (FSA) in December 2007, JSF has moved forward with the reorganization of internal controls system, involving the entire company, and submitted an improvement report to the FSA. Also, while a consolidated subsidiary, JSF Trust and Banking Co., Ltd. posted net losses for two consecutive years, mostly from losses on portfolio investments, all the securitized products and other assets owned by the trust bank which suffered large price declines due to market fluctuations were sold off or written off during fiscal 2008.

Following these developments, all officers and employees of JSF are acting as one with fresh appreciation of the company's mission to contribute to the development of securities markets. We have adopted this mission with renewed dedication as the key pillar for the Second Mid-term Management Plan, which begins from fiscal 2009.

Based on this management philosophy, we have identified the following key management policies:

gaining the trust of society, retaining the solid equity capital that society demands of the company as a provider of securities market infrastructure, and providing stable and long-term return of profits to shareholders. As concrete measures to achieve these policies, JSF is responding to the diversification of listed products on stock exchanges and otherwise working to position the company's competitiveness in the margin loan business as a cornerstone of our operations, while also aiming to promote loans for negotiable margin transaction and to increase the revenues of securities lending business.

Based on the labor savings in operations for delivery or custody of stock certificates after the introduction of a dematerialization of stock certificates from this January, JSF is working to build up lean and effective operations or organization by reviewing a branch structure and revising a procedure of secured loan on securities.

At a subsidiary, JSF Trust and Banking Co., Ltd., sincerely reflecting on the past developments and going back the origin of business foundation, focus operations on trust business, pay greater heed to risk management, and otherwise realize solid operations.

Minoru Masubuchi

Minoru Masubuchi
President

OUR BUSINESS DEVELOPMENT

Services for securities companies and financial institutions

Loans for margin transactions
- **Funds loan**: Loan funds needed to settle standardized margin transactions
- **Stock loan**: Loan stock needed to settle standardized margin transactions

General stock lending
- Lending stock needed to settle stock trading

Bond services
- Brokerage between borrowers and lenders in bond borrowing and lending market

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 individual 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 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 (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 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 sold by procuring stock 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.

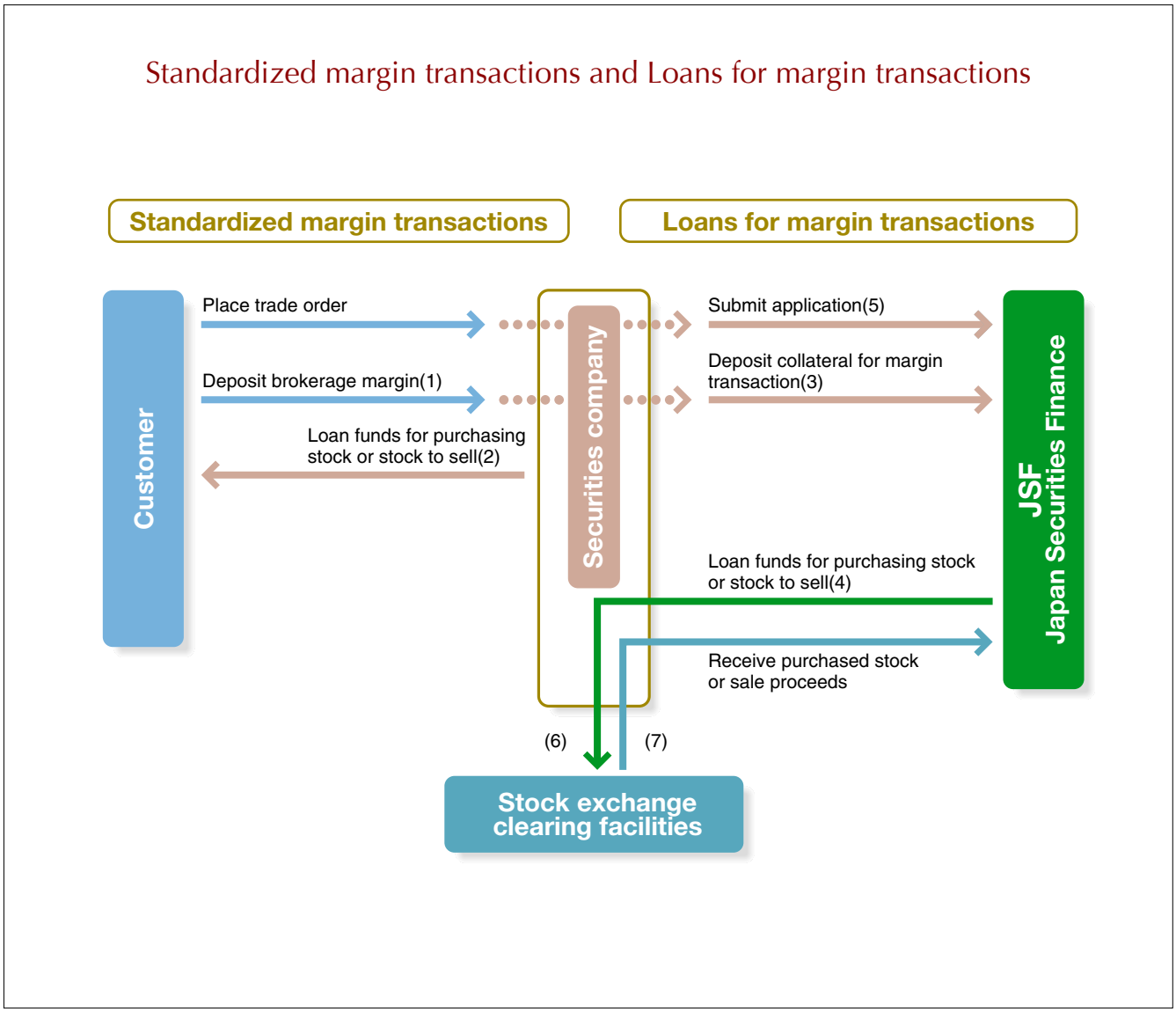
There are two types of margin transactions, standardized margin transactions and negotiable margin transactions. In standardized margin transactions, terms of repayment are determined by stock exchanges, and a securities company can borrow funds for purchasing and stock for sale needed to settle transactions 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 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 received from buy side as collateral to sell side's stock 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?

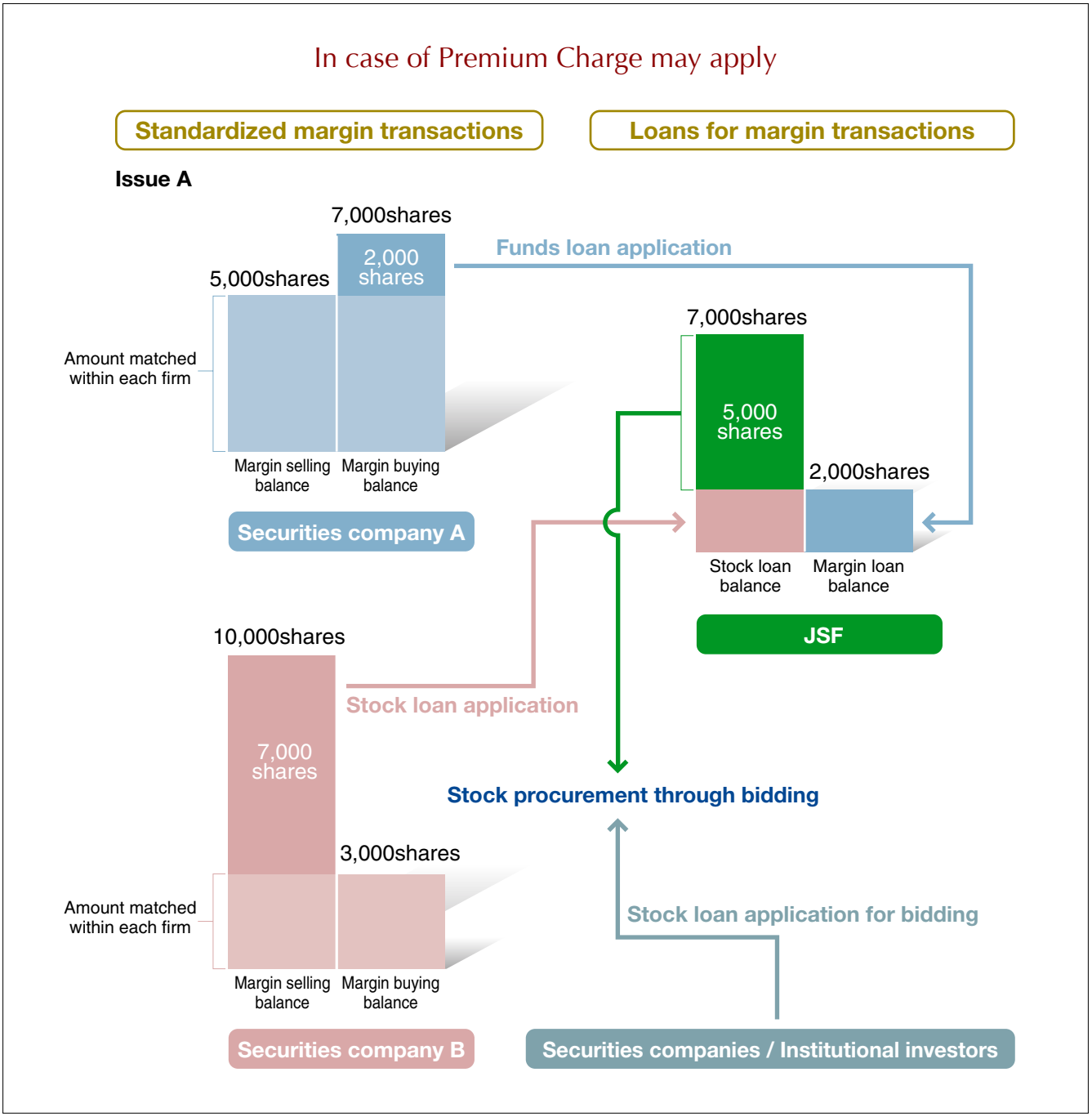
Loans for margin transactions is a system in which a securities finance company receives a certain amount of margin (margin requirements) from a securities company, who is a general trading participant of stock exchanges (3) and lends funds or stock necessary for margin transactions (4). This is executed 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 to clearing facilities of stock exchanges (6). The stock purchased (collateral stock for loans) or proceeds from sale (collateral money for stock loans) are received by JSF (7), and then each collateral is appropriated.



Handling of over-lent issues

JSF usually appropriates stock 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 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 Charges) 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

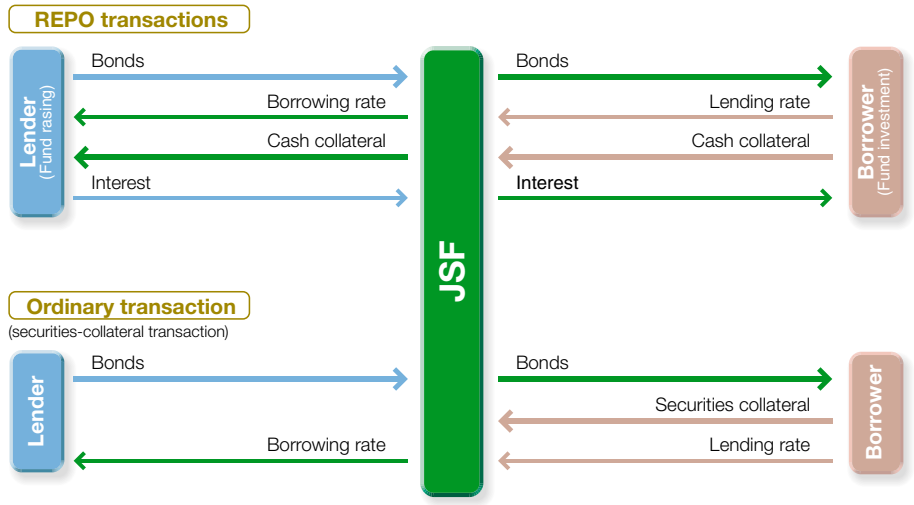
REPO transactions

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.

Types of bond transactions



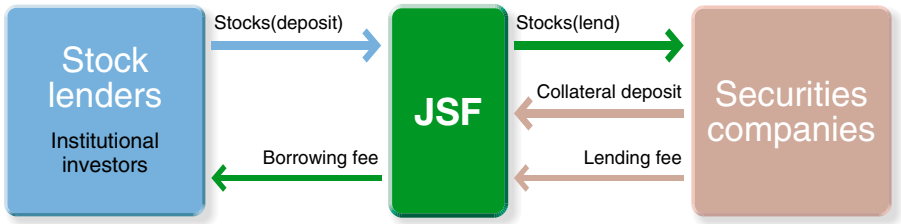
GENERAL STOCK LENDING

This business lends stock needed to settle trades to securities companies. A securities company would use General Stock Lending when it has no stock 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 for lending from institutional investors such as life and non-life insurance companies. JSF also receives stock 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 purchased (1) and 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

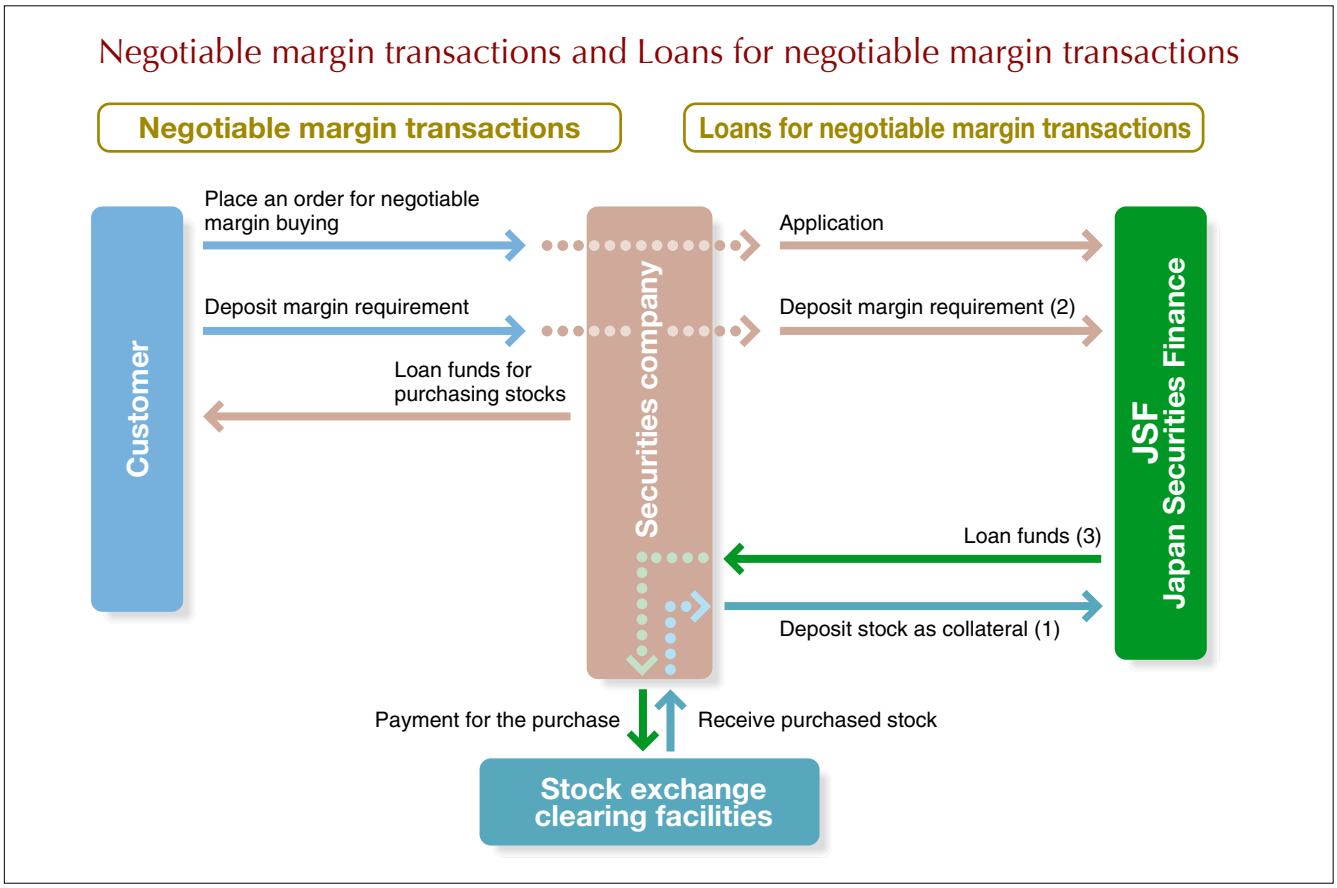
In principle, the due date of loan is the day following the lending date, but it can be extended to the deferment deadline for repayment of negotiable margin transactions for securities companies.

Interest rate

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

Collateral

JSF receive stock 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.



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.

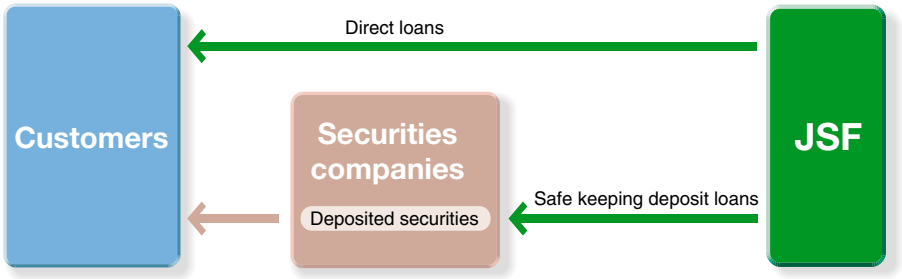
GENERAL LOANS

This business loans working funds required by securities companies by using stocks, bonds, 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, mediated loans and safe keeping deposit loans. JSF provides corporate investors, separately, with loans secured by securities.

Secured loans on securities for individual



CORPORATE GOVERNANCE

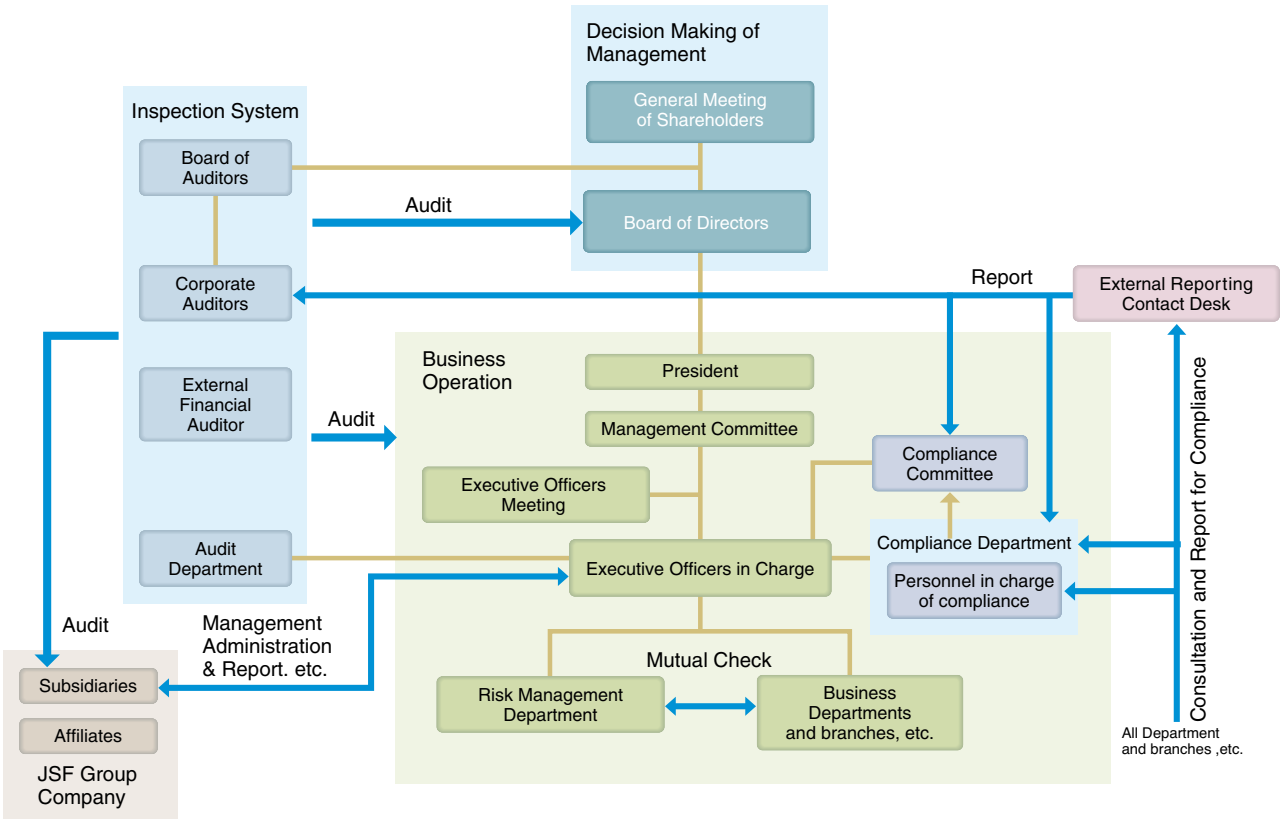
BASIC CONCEPT OF CORPORATE GOVERNANCE

As an institution specializing in the securities finance business, Japan Securities Finance has a mission, while always maintaining a keen awareness of our public role, to contribute to the development of the securities industry by proactively meeting the diverse needs of securities and financial circles and working to boost the long-term interests of securities markets users and participants. The company believes gaining the firm trust of society through sound business operations is our most important management directive.

- Establishment of compliance system
- Establishment and implementation of risk management policies
- Active invitation of outside directors (three directors, two auditors)
- Attendance of corporate auditors at internal meetings and instigation of necessary checks
- Internal audit by the Audit Department, which is independent from other departments

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, the Management Committee, the Compliance Committee and the Compliance Department.The situation regarding internal compliance is constantly studied by the Compliance Department and the results are regularly reported to the Board of Directors and the Management Committee.

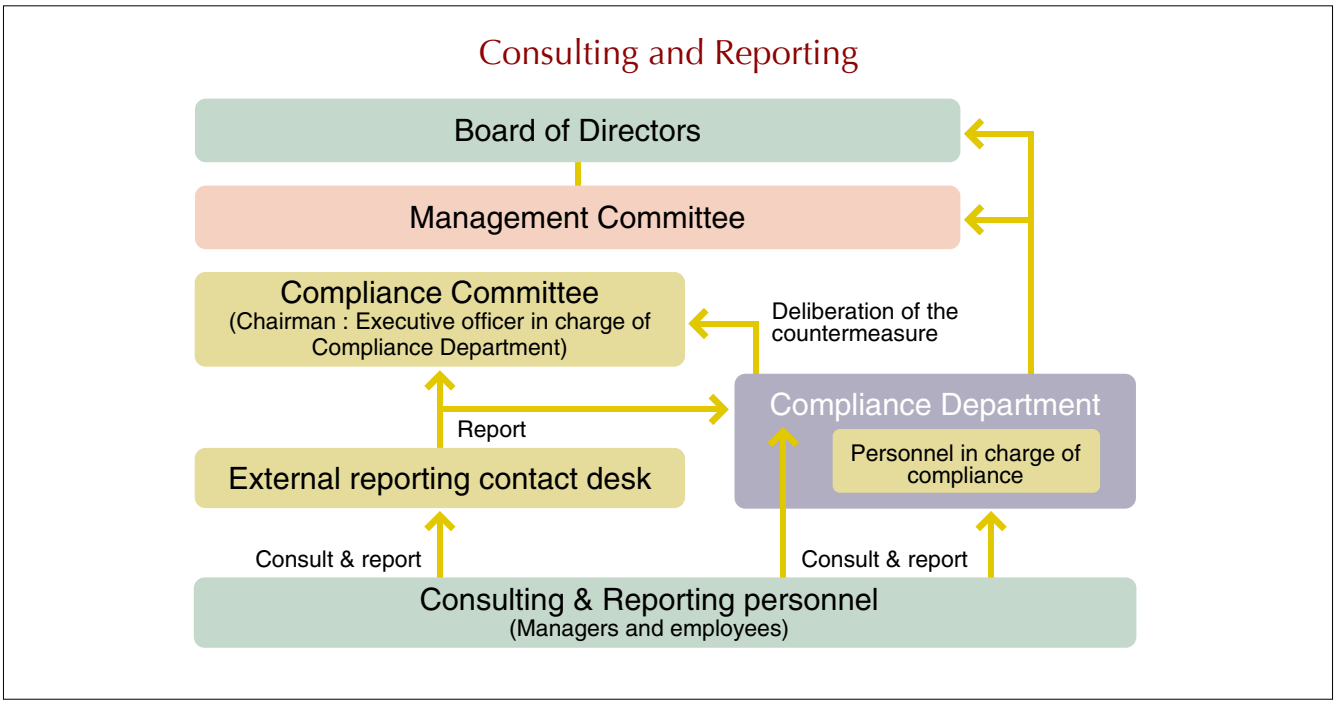
The Compliance Committee deliberates important matters concerning compliance. The Compliance Department makes all possible efforts to promote and thoroughly establish compliance through such measures as urging managers and employees alike to take faithful and honest actions based on clear ethical standards.

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

In order to strengthen the compliance system, the company has its external consulting and reporting contact desk by lawyers, in addition to the Compliance Committee, the Compliance Department and personnel in charge of compliance.

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.



BUSINESS CONDUCT GUIDELINES

i) As an institution specializing in securities-related financing, the company recognizes its social responsibility and its public mission. It aims to establish firm trust through sound business operation.

ii) The company will comply strictly with relevant rules and regulations. It will conduct its business activities in a fair and reliable manner, in accordance with social norms.

iii) In the interests of its shareholders, the company will maximize its communications with a broad spectrum of society and will disclose information on the management of the organization in a fair and positive manner.

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. With corresponding to Basel Ⅱ regulation enforced in March 2008, operational risks, which consists of processing risks and system risks, is measured by basic method and we allocate risk capital amounts on it.

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)

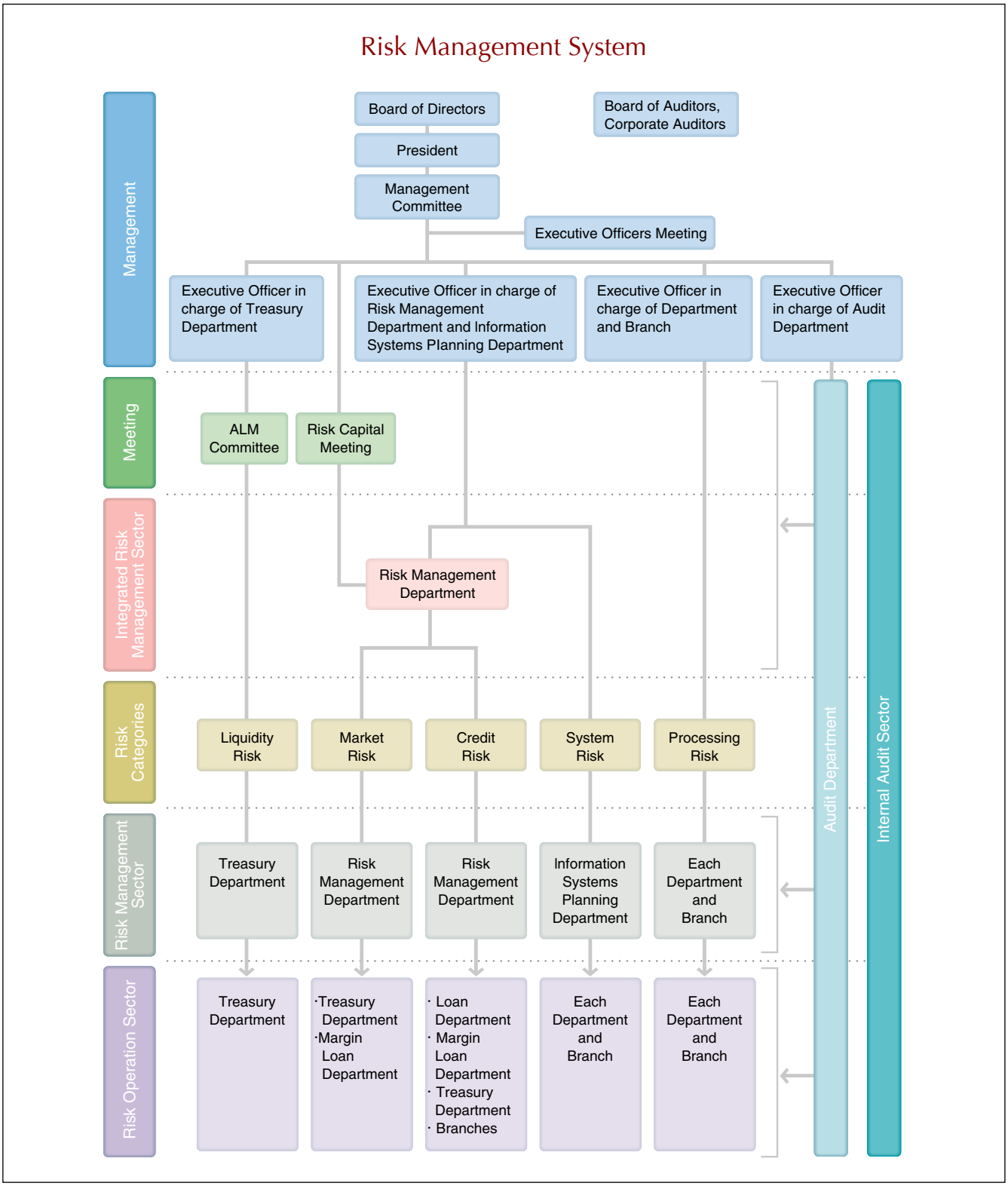
VaR is the maximum expected loss on an asset calculated with a certain period (holding period) and a certain probability (confidence level). This is calculated based on data in the past with statistical method. In our company, VaR is calculated based on confidence level of 99% and holding period of 1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

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



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 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 (bonds, 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.

The consolidated operating revenues declined 12.4% year-on-year to 44,299 million yen because of a decrease of interest rates on loans for margin transactions. The consolidated operating expenses were down 4.4% to 37,690 million yen. While funds procurement costs declined, there were 6,132 million yen of devaluation losses on collateralized debt obligations and 2,217 million yen of sales losses on stocks and investment trusts owned by JSF Trust and Banking Co., Ltd., a subsidiary of JSF. General and administrative expenses rose 29.6% to 11,406 million yen as credit costs increased (2,725 million yen was added to the allowance for doubtful accounts).

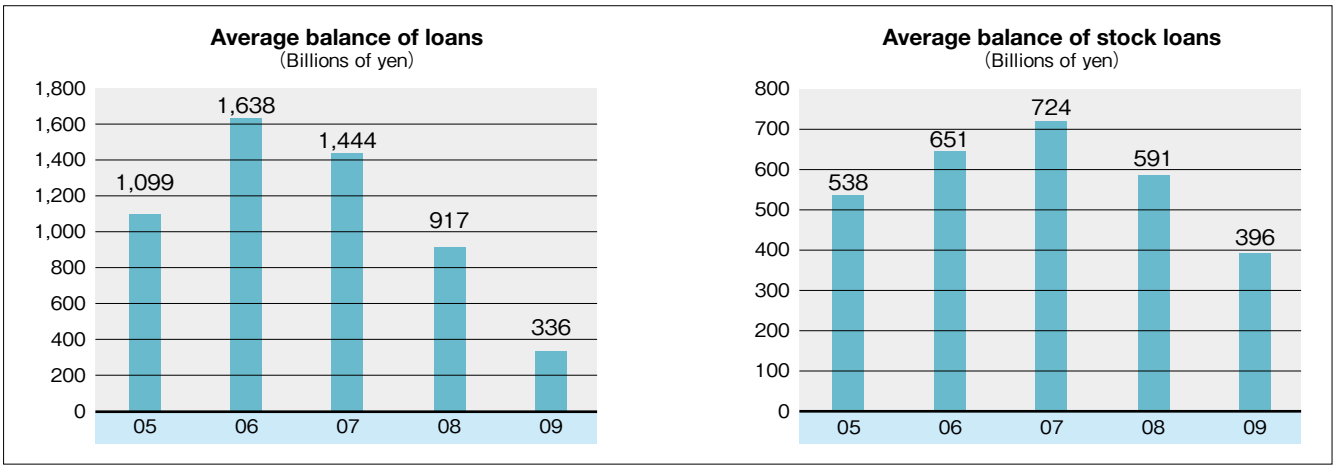
As a result of these developments, JSF Group posted consolidated operating losses of 4,797 million yen. Consolidated recurring losses totaled 5,479 million yen including equity method investment losses of 951 million yen (non-operating costs), in part from impairment costs on software owned by an equity method affiliate. With devaluation losses on investment securities, the consolidated net loss was 7,503 million yen.

Breakdown of JSF group operating revenues

	2009 (April 1, 2008 - March 31, 2009) Amount (¥ million)	2008 (April 1, 2007 - March 31, 2009) Amount (¥ million)
Loans for margin transactions	19,638	23,156
Interest on loans	3,899	10,581
Interest on collateral money for securities borrowed	1,992	1,683
Fees on lending securities	13,278	10,383
Bond financing and general loans	1,275	1,428
Securities lending	4,848	6,297
Stocks	462	848
Bonds	4,386	5,448
Trust banking	8,780	10,844
Interest on loans	3,348	3,833
Trust charges	209	198
Real estate leasing	1,091	1,118
Other business	8,664	7,736
Total operating revenues	44,299	50,582

Loans for Margin Transaction

In the margin loan business, the average outstanding balance of loans for margin transactions during the fiscal year declined 580.8 billion yen year-on-year to 336.3 billion yen while loan rates declined from February, resulting in a huge drop of interest on loan. On the other hand, while the average outstanding balance of stock loans for margin transactions during the fiscal year decreased by 194.8 billion yen to 396.1 billion yen, the fees on lending securities rose from the previous year due to the increased number of over-lent issues. As a result, the overall operating revenues of margin loan business totaled 19,638 million yen, down 15.2% from the previous fiscal year.

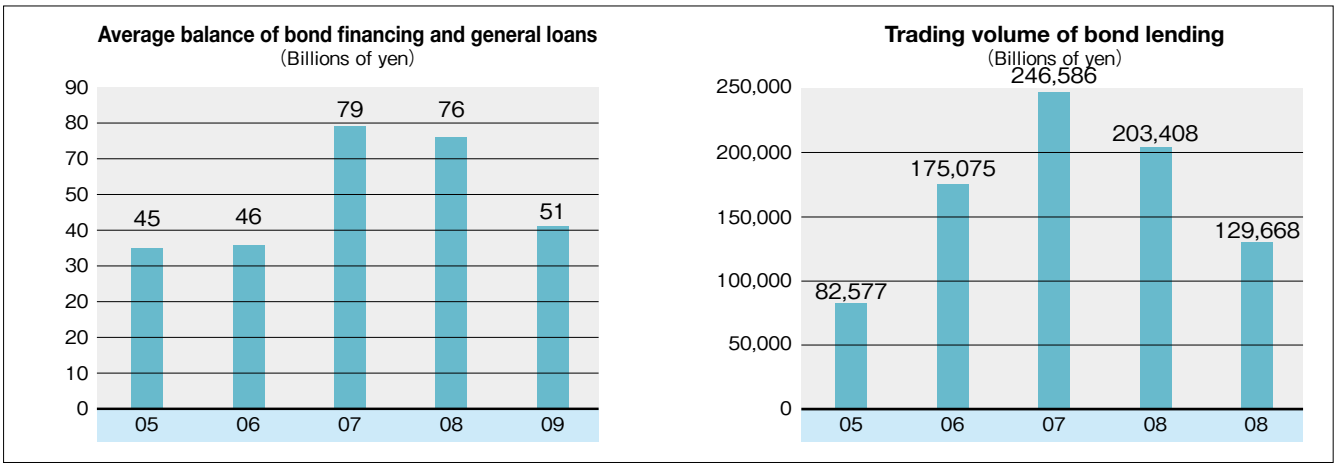


Bond Financing and General Loans business

In the bond financing and general loans business, although loans to individuals increased through alliances with securities companies, the outstanding balance of loans for negotiable margin transactions to financial instruments business operators declined. As a result, the average outstanding balance of bond financing and general loans during the fiscal year declined 25.0 billion yen to 51.8 billion yen (including 14.2 billion yen in loans for negotiable margin transactions). Consequently, the operating revenues of the bond financing and general loans business declined 10.7% to 1,275 million yen.

Securities Lending Business

In the securities lending business, the demand for special collateral transactions (bond lending in which issues are specified) was dull in the bonds department, while the demand for stock borrowing to avoid fails in delivery declined in the general stock lending department. As a result, the operating revenues of the securities lending business were down 23.0% to 4,848 million yen.



Trust Banking Business

In the trust banking business, operating revenues declined 19.0% to 8,780 million yen. Because the average outstanding loan balance during the fiscal year declined by 38.1 billion yen to 410.8 billion yen and the interest on collateral money for securities borrowed also declined.

Other Business

In other businesses, revenues rose 12.0% to 8,664 million yen, mostly due to increasing coupon income on JGBs.

CONSOLIDATED BALANCE SHEETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries Consolidated Balance Sheets As of March 31, 2009 and 2008

Assets	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars(note 2) 2009
Current assets:			
Cash (note 3)	¥ 2,957	¥ 4,629	$ 30,103
Call loans	7,000	24,000	71,261
Short-term investments (notes 4 and 16)	2,697,283	1,980,835	27,458,852
Short-term loans receivable (note 16)	503,071	1,131,385	5,121,358
Securities lent	460,437	431,517	4,687,336
Securities in custody (note 16)	23,000	8,751	234,144
Securities in deposit (note 16)	94,263	256,732	959,615
Deferred tax assets (note 10)	537	301	5,467
Collateral money for securities borrowed (note 16)	1,042,223	900,506	10,610,027
Other current assets (note 16)	33,382	4,984	339,835
Allowance for doubtful receivables	(2,820)	(839)	(28,708)
Total current assets	4,861,333	4,742,801	49,489,290
Property, plant and equipment:			
Buildings and structures	7,996	8,111	81,401
Tools, furniture and fixtures	1,350	1,201	13,743
Land	3,316	3,316	33,758
Leased assets	27	–	275
Construction in progress	112	219	1,140
	12,801	12,847	130,317
Accumulated depreciation	(5,836)	(5,735)	(59,412)
Net property, plant and equipment	6,965	7,112	70,905
Intangible assets, net	1,612	2,546	16,411
Investments and other assets:			
Investments in securities (notes 4, 5 and 16)	422,115	335,042	4,297,211
Deferred tax assets (note 10)	107	4,818	1,089
Other investments and other assets	1,928	1,562	19,627
Allowance for doubtful receivables	(782)	(43)	(7,961)
Total investments and other assets	423,368	341,379	4,309,966
Total assets	¥ 5,293,278	¥ 5,093,838	$ 53,886,572

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars(note 2) 2009
Current liabilities:			
Call money (notes 8 and 16)	¥ 1,387,800	¥ 1,857,600	$ 14,128,067
Short-term borrowings (notes 8 and 16)	1,676,310	894,910	17,065,153
Commercial paper (note 8)	15,000	68,000	152,703
Payables under repurchase agreements(notes 8 and 16)	637,882	341,943	6,493,759
Accrued income taxes (note 10)	103	1,371	1,049
Collateral money received for securities lent	791,540	1,029,100	8,058,027
Collateral securities deposited	244,307	508,588	2,487,091
Securities borrowed (note 16)	332,260	184,262	3,382,470
Securities lent opposite account	1,134	4,149	11,544
Other current liabilities (note 8)	47,144	37,565	479,935
Total current liabilities	5,133,480	4,927,488	52,259,798
Non-current liabilities:			
Long-term borrowings (notes 8 and 16)	48,500	51,000	493,739
Deferred tax liabilities (note 10)	505	445	5,141
Deferred tax liabilities for land revaluation (note 7)	99	99	1,008
Liabilities for retirement and severance benefits (note 9)	2,585	2,757	26,316
Other non-current liabilities (note 8)	876	745	8,918
Total non-current liabilities	52,565	55,046	535,122
Total liabilities	5,186,045	4,982,534	52,794,920
Stockholders' equity:			
Common stock (note 11):	10,000	10,000	101,802
Authorized 200,000,000 shares;issued 93,700,000 shares in 2009 and issued 99,704,000 shares in 2008			
Additional paid-in capital (note 11)	5,182	5,182	52,754
Retained earnings (note 12)	92,472	106,874	941,382
Treasury stock, at cost; 646,977 shares in 2009 and 831,013 shares in 2008	(649)	(440)	(6,607)
Total Stockholders' equity	107,005	121,616	1,089,331
Valuation and translation adjustments:			
Net unrealized gain (loss) on other securities (note 4)	85	(10,455)	865
Gain on revaluation of land (note 7)	143	143	1,456
Total valuation and translation adjustments	228	(10,312)	2,321
Total net assets	107,233	111,304	1,091,652
Commitments and contingencies (note 18)			
Total liabilities and net assets	¥ 5,293,278	¥ 5,093,838	$ 53,886,572

CONSOLIDATED STATEMENTS OF OPERATIONS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries Consolidated Statements of Operations For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars(note 2)
	2009	2008	2009
Operating revenues	¥ 44,300	¥ 50,582	$ 450,982
Operating expenses	37,690	39,437	383,691
Operating profit	6,610	11,145	67,291
General and administrative expenses (note 13)	11,407	8,799	116,125
Operating income (loss)	(4,797)	2,346	(48,834)
Other income (deductions):			
Interest income	9	9	91
Dividend income	173	137	1,761
Interest expenses	(1)	(1)	(10)
Equity in earnings (losses) of affiliates	(951)	255	(9,681)
Gain on transfer of investment in an affiliate	–	1,038	–
Loss on devaluation of investments in securities	(487)	–	(4,958)
Impairment loss (note 6)	(210)	–	(2,138)
Loss on change in equity	(0)	(965)	(0)
Other, net	33	85	336
	(1,434)	558	(14,599)
Income (loss) before income taxes	(6,231)	2,904	(63,433)
Income taxes (note 10):			
Current	1,646	3,322	16,756
Deferred	(374)	882	(3,807)
	1,272	4,204	12,949
Net loss	¥ (7,503)	¥ (1,300)	$ (76,382)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries Consolidated Statements of Changes in Net Assets For the years ended March 31, 2009 and 2008

	Millions of yen								
	Stockholders' equity					Valuation and translation adjustments			
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Total	Net unrealized loss on other securities	Gain on revaluation of land	Total	Total net assets
	(note 11)	(note 11)	(note 12)			(note 4)	(note 7)		
Balance at March 31, 2007	¥ 10,000	¥ 5,182	¥111,252	¥ (457)	¥125,977	¥ (3,244)	¥ 143	¥ (3,101)	¥122,876
Changes arising during year:									
Cash dividends			(2,683)		(2,683)				(2,683)
Net loss			(1,300)		(1,300)				(1,300)
Decrease resulting from exclusion of an affiliate			(395)		(395)				(395)
Purchase of treasury stock				(5)	(5)				(5)
Decrease in treasury stock held by an affiliate				22	22				22
Net changes other than stockholders' equity						(7,211)		(7,211)	(7,211)
Total changes during the year	–	–	(4,378)	17	(4,361)	(7,211)	–	(7,211)	(11,572)
Balance at March 31, 2008	10,000	5,182	106,874	(440)	121,616	(10,455)	143	(10,312)	111,304
Changes arising during year:									
Cash dividends			(2,222)		(2,222)				(2,222)
Net loss			(7,503)		(7,503)				(7,503)
Purchase of treasury stock				(4,886)	(4,886)				(4,886)
Retirement of treasury stock			(4,677)	4,677	–				–
Net changes other than stockholders' equity						10,540		10,540	10,540
Total changes during the year	–	–	(14,402)	(209)	(14,611)	10,540	–	10,540	(4,071)
Balance at March 31, 2009	¥ 10,000	¥ 5,182	¥ 92,472	¥ (649)	¥107,005	¥ 85	¥ 143	¥ 228	¥107,233

	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 loss on other securities	Gain on revaluation of land	Total	Total net assets
Balance at March 31, 2008	$ 101,802	$ 52,754	$1,087,997	$ (4,479)	$1,238,074	$ (106,434)	$ 1,456	$ (104,978)	$1,133,096
Changes arising during year:									
Cash dividends			(22,620)		(22,620)				(22,620)
Net loss			(76,382)		(76,382)				(76,382)
Purchase of treasury stock				(49,741)	(49,741)				(49,741)
Retirement of treasury stock			(47,613)	47,613	–				–
Net changes other than stockholders' equity						107,299		107,299	107,299
Total changes during the year	–	–	(146,615)	(2,128)		107,299	–	107,299	(41,444)
Balance at March 31, 2009	$ 101,802	$ 52,754	$ 941,382	$ (6,607)	$1,089,331	$ 865	$ 1,456	$ 2,321	$1,091,652

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries Consolidated Statements of Cash Flows For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars(note 2)
	2009	2008	2009
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (6,231)	¥ 2,904	$ (63,433)
Adjustments to reconcile income (loss) before income taxes to net cash provided by operating activities:			
Depreciation and amortization	1,644	1,576	16,736
Impairment loss	210	–	2,138
Losses relating to short-term investments and investments in securities	7,867	7,219	80,088
Allowance for doubtful receivables	2,721	113	27,700
Decrease in liabilities for retirement and severance benefits	(172)	(234)	(1,751)
Interest and dividend income	(27,126)	(35,439)	(276,148)
Interest expenses	15,939	21,211	162,262
Equity in (earnings) losses of affiliates	951	(255)	9,681
Loss on change in equity	0	965	0
Gain on transfer of investment in an affiliate	–	(1,038)	–
Decrease in short-term loans receivable	628,314	897,248	6,396,356
Decrease in call loans	17,000	106,200	173,063
(Increase) decrease in collateral money for securities borrowed	(141,716)	1,018,688	(1,442,696)
Decrease in call money	(469,800)	(333,800)	(4,782,653)
Increase in borrowings	781,400	92,380	7,954,800
Increase in payables under repurchase agreements	295,939	245,204	3,012,715
Decrease in commercial paper	(53,000)	(42,000)	(539,550)
Decrease in collateral money received for securities lent	(237,560)	(920,069)	(2,418,406)
Increase (decrease) in collateral money received for loan transactions	6,007	(23,558)	61,153
Purchase of short-term investments	(8,804,956)	(7,675,531)	(89,636,119)
Proceeds from sale/redemption of short-term investments	7,997,059	6,647,268	81,411,575
Other, net	(16,282)	(13,476)	(165,754)
Sub total	(1,792)	(4,424)	(18,243)
Interest and dividend received	27,185	34,920	276,748
Interest paid	(16,389)	(21,072)	(166,843)
Income taxes paid	(2,928)	(5,006)	(29,808)
Income taxes refunded	103	–	1,049
Net cash provided by operating activities	6,179	4,418	62,903
Cash flows from investing activities:			
Purchase of investments in securities	(45)	(740)	(458)
Proceeds from sale/redemption of investments in securities	–	40	–
Capital expenditures	(255)	(269)	(2,596)
Purchase of intangible assets	(347)	(981)	(3,532)
Other, net	(93)	(8)	(947)
Net cash used in investing activities	(740)	(1,958)	(7,533)
Cash flows from financing activities:			
Dividends paid to stockholders	(2,222)	(2,683)	(22,620)
Purchase of treasury stock	(4,885)	(6)	(49,730)
Other, net	(4)	–	(41)
Net cash used in financing activities	(7,111)	(2,689)	(72,391)
Net decrease in cash and cash equivalents	(1,672)	(229)	(17,021)
Cash and cash equivalents at beginning of year	4,629	4,858	47,124
Cash and cash equivalents at end of year (note 3)	¥ 2,957	¥ 4,629	$ 30,103

See accompanying notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presenting Consolidated Financial Statements

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

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

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

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (2 subsidiaries both for 2009 and 2008).

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.

Net Wing Securities Co., Ltd. ("Net Wing"), formerly named Nihon Kyoei Securities Co., Ltd. which was an affiliate of the Company accounted for by the equity method, established 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. As a result of the shares exchange, Net Wing has not been an affiliate, and the investment in Net Wing was accounted for by the equity method during the time Net Wing was an affiliate. Difference between the carrying amount of Net Wing and the fair value of M&N is recorded as gain on transfer of investment in an affiliate.

(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.

Floating rate Japanese government bonds held by the Company and certain consolidated subsidiaries were previously

evaluated based on their market prices. From the year ended March 31, 2009, based on our determination that their market prices cannot be deemed fair value due to the market situation where the number of transactions is extremely small, such bonds have been valued based on reasonable estimates which are obtained from information vendors in accordance with the "Practical Solution on Measurement of Fair Value of Financial Assets" (ASBJ Practical Issue Task Force (PITF) No. 25, October 28, 2008). The pricing model used by the information vendors is forward pricing model, and the price determinant variables are the spot rate for Japanese government bonds and the swaption volatility.

(e)Property, Plant and Equipment

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

The estimated useful lives are as follows:

Buildings and structures 3–50 years

From the year ended March 31, 2008, pursuant to an amendment to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries changed the estimated residual value of property, plant and equipment which was acquired on or after April 1, 2007 from 5% of the acquisition cost to ¥1. The effect of this change was immaterial.

From the year ended March 31, 2008, pursuant to an amendment to the Corporation Tax Law, property, plant and equipment acquired on or before March 31, 2007 which were depreciated to the allowable limit (95% of the acquisition cost) in a particular business year can be further depreciated down to ¥1 evenly over five years starting from the following business year. As a result of the change, both operating income and income before income taxes decreased by ¥11 million.

(f) 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.

(g) Allowance for Doubtful Receivables

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

(h) Retirement and Severance Benefits

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

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.

(i) Leases

Financial lease transactions without title transfer were formerly accounted for as operating leases. On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the former accounting standard for lease transactions issued on June 17, 1993, and ASBJ Guidance No.16, "Guidance on Accounting Standard for Lease Transactions," which revised the former guidance issued on January 18, 1994. From the year ended March 31, 2009, the Company adopted the revised accounting standards. The revised accounting standards require that all finance lease transactions shall be capitalized. Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value. Regarding finance leases transactions without title transfer for which the starting date for the lease transactions is prior to the initial fiscal year in which these new accounting standards apply, the Company and its domestic consolidated subsidiaries have continued recognize lease payments as expenses.

The effect of this change on operating loss and loss before income taxes is immaterial.

(j) 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.

(k) Directors' Bonus

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

(l) 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, 2009.

(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, 2009 have been translated into United States dollars at the rate of ¥98.23=U.S.$1, the approximate exchange rate on the Tokyo Foreign Exchange Market on March 31, 2009. 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, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash	¥ 2,957	¥ 4,629	$ 30,103
Cash and cash equivalents	¥ 2,957	¥ 4,629	$ 30,103

(4) SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

No trading securities are held as of March 31, 2009. Balance sheet amount of trading securities as of March 31, 2008 were ¥422,450 million, and net unrealized loss which were charged to income were ¥276 million.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2009 and 2008 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2009				
Government bond securities	¥ 39,873	¥ 232	¥ –	¥ 40,105
Corporate bond securities	11,000	2	183	10,819
Other securities	22,939	4	110	22,833
	¥ 73,812	¥ 238	¥ 293	¥ 73,757
March 31, 2008				
Government bond securities	¥ 15	¥ –	¥ –	¥ 15
Corporate bond securities	9,100	124	–	9,224
	¥ 9,115	¥ 124	¥ –	¥ 9,239

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2009				
Government bond securities	$ 405,915	$ 2,362	$ –	$ 408,277
Corporate bond securities	111,982	20	1,863	110,139
Other securities	233,523	41	1,120	232,444
	$ 751,420	$ 2,423	$ 2,983	$ 750,860

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2009 and 2008 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2009				
Equity securities	¥ 1,556	¥ 828	¥ 11	¥ 2,373
Bond securities:				
Government bond securities	2,898,808	3,867	1,515	2,901,160
Corporate bond securities	128,970	251	46	129,175
Other securities	3,770	4	13	3,761
	¥ 3,033,104	¥ 4,950	¥ 1,585	¥ 3,036,469
March 31, 2008				
Equity securities	¥ 4,691	¥ 2,129	¥ 856	¥ 5,964
Bond securities:				
Government bond securities	1,821,788	1,805	15,948	1,807,645
Corporate bond securities	24,417	–	129	24,288
Other securities	37,115	10	1,075	36,050
	¥ 1,888,011	¥ 3,944	¥ 18,008	¥ 1,873,947

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2009				
Equity securities	$ 15,840	$ 8,429	$ 112	$ 24,157
Bond securities:				
Government bond securities	29,510,414	39,367	15,423	29,534,358
Corporate bond securities	1,312,939	2,555	468	1,315,026
Other securities	38,380	41	133	38,288
	$30,877,573	$ 50,392	$ 16,136	$30,911,829

The Company recognized impairment losses on other securities with fair value of ¥6,064 million ($61,733 thousand) and ¥6,587 million for the years ended March 31, 2009 and 2008, respectively.

Securities classified as other securities for which fair value is not available are unlisted equity securities amounting to ¥2,314 million ($23,557 thousand) and ¥2,314 million as of March 31, 2009 and 2008, respectively.

Projected future redemption of other securities with maturities and held-to-maturity securities as of March 31, 2009 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	¥ 2,628,353	¥ 37,929	¥ 49,479	¥ 225,272
Corporate bond securities	67,930	70,345	1,900	–
Other securities	1,000	19,998	5,619	–
	¥ 2,697,283	¥ 128,272	¥ 56,998	¥ 225,272

	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	$ 26,757,131	$ 386,124	$ 503,706	$ 2,293,312
Corporate bond securities	691,541	716,125	19,342	–
Other securities	10,180	203,584	57,202	–
	$ 27,458,852	$ 1,305,833	$ 580,250	$ 2,293,312

For the years ended March 31, 2009 and 2008, proceeds from sale of other securities are ¥3,762,993 million ($38,307,981 thousand) and ¥4,785,032 million, the gross realized gains are ¥807 million ($8,215 thousand) and ¥831 million, and the gross realized losses are ¥2,242 million ($22,824 thousand) and ¥1,970 million, respectively.

On December 31, 2008, floating rate Japanese government bonds, Euro-Yen bonds and corporate bonds held by certain consolidated subsidiaries which were previously classified as other securities were reclassified as held-to-maturity securities in accordance with "Tentative Solution on Reclassification of debt Securities" (ASBJ Practical Issue Task Force (PITF) No. 26, December 5, 2008). The subsidiaries have been experiencing difficulty in selling the debt securities at the fair value for a certain period of time because of an extreme diminishment of the market liquidity of the securities due to an unexpected and significant change in the market environment.

Reclassified amount from other securities to held-to-maturity securities are as follows:

	Millions of yen		
	Fair value	Balance sheet amount	Net unrealized loss on other securities
Government bond securities	¥ 40,090	¥ 39,858	¥ 513
Corporate bond securities	1,902	1,900	301
Other securities	22,833	22,939	1,049
	¥ 64,825	¥ 64,697	¥ 1,863

	Thousands of U.S. dollars		
	Fair value	Balance sheet amount	Net unrealized loss on other securities
Government bond securities	$ 408,124	$ 405,762	$ 5,223
Corporate bond securities	19,363	19,342	3,064
Other securities	232,444	233,524	10,679
	$ 659,931	$ 658,628	$ 18,966

(5) INVESTMENTS IN AFFILIATES

The aggregate carrying amount of investments in affiliates as of March 31, 2009 and 2008 are ¥6,803 million ($69,256 thousand) and ¥8,052 million, respectively.

(6) IMPAIRMENT OF LONG-LIVED ASSETS

For the year ended March 31, 2009, a subsidiary reviewed its long-lived assets for impairment and, as a result, recognized an impairment loss as follows:

Location	Usage	Classification
Chuo-ku, Tokyo	Dealing system	Other assets

The dealing system was written down to a recoverable amount and the amount was recognized as impairment loss of ¥210 million ($2,138 thousand) because the division which used the dealing system was closed.

(7) 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.

(8) DEBT

The composition of debt and the weighted average interest rate on debt as of March 31, 2009 and 2008 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2009			
Short-term borrowings	¥ 1,673,810	$ 17,039,703	0.250%
Current portion of long-term borrowings	2,500	25,450	0.756
Current portion of lease liabilities	5	51	–
Long-term borrowings	48,500	493,739	0.951
Lease liabilities	20	204	–
Call money	1,387,800	14,128,067	0.098
Commercial paper	15,000	152,703	0.250
Payables under repurchase agreements	637,882	6,493,759	0.205
	¥ 3,765,517	$ 38,333,676	

	Millions of yen	Weighted average rate
March 31, 2008		
Short-term borrowings	¥ 894,910	0.672%
Long-term borrowings	51,000	1.046
Call money	1,857,600	0.552
Commercial paper	68,000	0.684
Payables under repurchase agreements	341,943	0.662
	¥ 3,213,453	

(9) RETIREMENT AND SEVERANCE BENEFITS

The Company has defined benefit retirement and pension plans, which consist of tax qualified noncontributory pension plan and unfunded retirement and severance plan that provide for lump-sum payment of benefits, and a defined contribution plan, which is a noncontributory funded contract-type corporate pension plan.

The consolidated subsidiaries have defined benefit retirement and pension plans, which consist of unfunded retirement and severance plan that provide for lump-sum payment of benefits and welfare pension plan, and a defined contribution plan, which is a noncontributory funded contract-type corporate pension plan. Regarding the welfare pension plan, one subsidiary has joined Zenkoku Jutakuchi Kaihatsu Kosei Nenkin Kikin which was established as a multi-employer noncontributory fund. The welfare pension plan consisted of two tiers, the substitution portion of Japanese Welfare Pension Insurance and the corporate portion, and the plan assets of such welfare pension funds cannot be specifically allocated to the individual participants nor to the substitution and corporate portions.

According to the "Partial Amendments to Accounting Standard for Retirement Benefits Part 2" (Accounting Standards Board of Japan Statement No.14, issued on May 15, 2007), the most recent funded status of the pension plans and the ratio of the company to the entire plans, and the supplementary description are required to be disclosed for corporate pensions under multi-employer pension plans under which the required contribution is recognized as the net pension cost, unless they are insignificant.

Funded status of the whole welfare pension plan at March 31, 2008 and 2007 was outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Plan assets at fair value (1)	¥ 31,483	¥ 36,998	$ 320,503
Benefit obligation under pension funding programs (2)	37,939	35,890	386,226
(1) - (2)	¥ (6,456)	¥ 1,108	$ (65,723)

The subsidiary's proportion of the contribution to the aggregate pension contributions in March 2008 and 2007 are 0.32% and 0.33%, respectively.

The funded status of the pension plans as of March 31, 2009 and 2008 is outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥ (6,305)	¥ (6,246)	$ (64,186)
Plan assets at fair value	2,548	3,064	25,939
Funded status	(3,757)	(3,182)	(38,247)
Unrecognized actuarial loss	1,449	908	14,751
Net amount recognized in the consolidated balance sheets	(2,308)	(2,274)	(23,496)
Prepaid retirement and severance benefits	–	–	–
Accrued retirement and severance benefits	¥ (2,308)	¥ (2,274)	$ (23,496)

Net periodic pension cost for the years ended March 31, 2009 and 2008 consists of the following components:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥ 163	¥ 165	$ 1,660
Interest cost	123	124	1,252
Expected return on plan assets	(61)	(87)	(621)
Amortization of actuarial loss	129	61	1,313
Net periodic pension cost	¥ 354	¥ 263	$ 3,604

Significant assumptions of pension plans used to determine these amounts in fiscal 2009 and 2008 are as follows:

	2009	2008
Periodic allocation method for projected benefit	Straight-line	Straight-line
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.5%
Period for amortization of unrecognized actuarial loss	15 years	15 years

Directors and corporate auditors are not covered by the plans described above. One subsidiary has unfunded defined benefit pension plan for directors and corporate auditors. 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 subsidiary. As of March 31, 2009 and 2008, the liabilities for retirement and severance benefits related to the plans were ¥277 million ($2,820 thousand) and ¥483 million which include the lump-sum payments mentioned above, respectively.

At the Board of Directors of the other subsidiary held on June 27, 2008, abolishment of retirement benefit system for directors and corporate auditors of the subsidiary was approved, and directors and corporate auditors were entitled to lump-sum payment up to the date of the abolishment when they leave the subsidiary. At the general meeting of stockholders of the Company held on June 28, 2006, abolishment of retirement benefit system for directors and corporate auditors of the Company 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.

(10) 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 2009 and 2008.

The reconciliation for the year ended March 31, 2009 is not subject to disclosure because loss before income taxes are recorded.

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, 2008 is follows:

	2008
Statutory tax rate	40.7%
Consolidated subsidiaries losses	83.6
Dilution loss from changes in equity interest	13.5
Valuation allowance	9.8
Expenses not deductible for tax purposes	0.5
Equity in gains (losses) of affiliates	(3.6)
Income not credited for tax purposes	(3.9)
Gain on sale of associated company	–
Other	4.1
Effective tax rate	144.7%

Significant components of deferred tax assets and liabilities at March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Accrued business tax	¥ 28	¥ 105	$ 285
Accrued bonuses	176	175	1,792
Liabilities for retirement and severance benefits (employees)	933	917	9,498
Liabilities for retirement and severance benefits (directors and corporate auditors)	113	196	1,150
Allowance for doubtful receivables	1,210	189	12,318
Loss on devaluation of investments in securities	275	934	2,800
Net unrealized loss on other securities	620	5,334	6,312
Other	218	173	2,219
	3,573	8,023	36,374
Valuation allowance	(1,037)	(1,137)	(10,557)
	2,536	6,886	25,817
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(182)	(182)	(1,853)
Net unrealized gain on other securities	(1,791)	(1,595)	(18,233)
Gain on transfer of investments in an affiliate	(422)	(422)	(4,296)
Other	(2)	(13)	(20)
	(2,397)	(2,212)	(24,402)
Net deferred tax assets	¥ 139	¥ 4,674	$ 1,415

Net deferred tax assets and liabilities as of March 31, 2009 and 2008 are reflected in the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current assets - Deferred tax assets	¥ 537	¥ 301	$ 5,467
Investments and other assets			
- Deferred tax assets	107	4,818	1,089
Non-current liabilities			
- Deferred tax liabilities	(505)	(445)	(5,141)

(11) COMMON STOCK

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

(12) RETAINED EARNINGS AND DIVIDENDS

The Corporation Law of Japan 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, 2009 and 2008 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.

(a) Dividends paid during the year ended March 31, 2008

The following was approved by the general meeting of stockholders held on June 27, 2007.

(a) Total dividends	¥1,391 million
(b) Cash dividends per common share	¥14
(c) Record date	March 31, 2007
(d) Effective date	June 28, 2007

The following was approved by the Board of Directors held on November 12, 2007.

(a) Total dividends	¥1,292 million
(b) Cash dividends per common share	¥13
(c) Record date	September 30, 2007
(d) Effective date	December 7, 2007

(b) Dividends paid during the year ended March 31, 2009

The following was approved by the general meeting of stockholders held on June 26, 2008.

(a) Total dividends	¥1,292 million ($ 13,153 thousand)
(b) Cash dividends per common share	¥10 ($ 0.10)
(c) Record date	March 31, 2008
(d) Effective date	June 27, 2008

The following was approved by the Board of Directors held on October 31, 2008.

(a) Total dividends	¥931 million ($9,478 thousand)
(b) Cash dividends per common share	¥10 ($ 0.10)
(c) Record date	September 30, 2008
(d) Effective date	December 5, 2008

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2009

The following was approved by the general meeting of stockholders held on June 26, 2009.

(a) Total dividends	¥931 million ($9,478 thousand)
(b) Dividend source	Retained earnings
(c) Cash dividends per common share	¥10 ($ 0.10)
(d) Record date	March 31, 2009
(e) Effective date	June 29, 2009

(13) GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Salaries	¥ 2,986	¥ 3,112	$ 30,398
Pension cost	358	267	3,645
Provision for retirement and severance benefits (directors and corporate auditors)	38	66	387
Administrative and computer expenses	1,168	1,129	11,890
Depreciation	1,644	1,576	16,736

(14) PER SHARE INFORMATION

(a) Net Loss per Share

Basic net loss per share, and reconciliation of the numbers and the amounts used in the basic net loss per share computations for the years ended March 31, 2009 and 2008 are as follows:

	Yen		U.S. dollars
	2009	2008	2009
Basic net loss per share	¥ (80.33)	¥ (13.15)	$ (0.82)

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Net loss	¥ (7,504)	¥ (1,300)	$ (76,392)
Net loss not applicable to common stockholders	–	–	–
Net loss applicable to common stockholders	¥ (7,504)	¥ (1,300)	$ (76,392)

	Number of shares(Thousands)	
	2009	2008
Weighted average number of shares outstanding on which basic net loss per share is calculated	93,405	98,874

(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, 2009 and 2008 are as follows:

	Yen		U.S. dollars
	2009	2008	2009
Net assets per share	¥ 1,158.32	¥ 1,125.72	$ 11.79

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Total net assets	¥ 107,233	¥ 111,304	$ 1,091,652
Amounts deducted from total net assets	–	–	–
Net assets applicable to common stockholders	¥ 107,233	¥ 111,304	$ 1,091,652

	Number of shares(Thousands)	
	2009	2008
Number of shares outstandings at end of year on which net assets per share is calculated	92,575	98,872

(15) LEASES

Certain key information about finance lease contracts of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 are as follows, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

(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
	2009	2008	2009
Furniture and fixtures:			
Acquisition cost	¥ 45	¥ 51	$ 458
Accumulated depreciation	(29)	(28)	(295)
Net book value	¥ 16	¥ 23	$ 163

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Lease expense	¥ 7	¥ 9	$ 71
Future minimum lease payments:			
Within one year	¥ 6	¥ 7	$ 61
Over one year	10	16	102
	¥ 16	¥ 23	$ 163

(16) PLEDGED ASSETS

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Short-term investments	¥ 2,649,403	¥ 1,893,319	$ 26,971,424
Short-term loans receivable	80,000	382,659	814,415
Securities in custody	23,000	–	234,144
Securities in deposit	65,352	204,481	665,296
Collateral money for securities borrowed	307,434	165,911	3,129,736
Investments in securities	359,390	269,678	3,658,658
Securities received as collateral for securities loans for margin transactions, etc.	287,578	457,669	2,927,598

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Call money	¥1,202,900	¥ 1,515,000	$ 12,245,750
Short-term borrowings	1,103,300	295,400	11,231,803
Payables under repurchase agreements	451,260	341,943	4,593,912
Securities borrowed	307,434	165,911	3,129,736
Long-term borrowings	10,000	10,000	101,802

In addition to the above, other current assets of ¥500 million ($5,090 thousand) and investments in securities of ¥9,820 million ($99,969 thousand) are deposited for the Clearing Fund of Japan Securities Clearing Corporation and Japan Government Bond Clearing Corporation, etc. at March 31, 2009.

In addition to the above, short-term investments of ¥22,147 million, other current assets of ¥500 million and investments in securities of ¥15,404 million are deposited for the Clearing Fund of Japan Securities Clearing Corporation, Japan Government Bond Clearing Corporation and the foreign exchange settlement, etc. at March 31, 2008.

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, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities loaned	¥ 584,778	¥ 716,575	$ 5,953,151
Securities pledged as collateral	428,974	191,789	4,367,037
Securities on hand	50,205	8,751	511,096

(17) DERIVATIVE FINANCIAL INSTRUMENTS

One subsidiary has entered into interest rate swap agreements to manage interest rate exposures borrowings. The subsidiary has also held interest rate swap agreements for trading purposes within a certain limit.

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.

Derivatives are subject to market risk and credit risk.

Market risk is the potential adverse financial impact of changes in values of financial instruments from fluctuations in various market factors such as interest rates. Credit risk is the risk that a counterparty will fail to perform on an obligation due to deterioration of financial circumstances, etc. 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. There is no outstanding balance of derivative transactions for other than hedging purposes.

(18) COMMITMENTS AND CONTINGENCIES

As of March 31, 2009 and 2008, undrawn amount of general loan for securities companies and customers and overdraft loan are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Total credit line	¥ 584,936	¥ 592,483	$ 5,954,759
Drawn amount	(35,965)	(40,374)	(366,130)
Undrawn amount	¥ 548,971	¥ 552,109	$ 5,588,629

(19) SEGMENT INFORMATION

(a) Industry segments

The Company has categorized its business into a single industry segment, securities finance business.

(b) Geographic segments

The Company does not have any overseas subsidiaries for the years ended March 31, 2009 and 2008.

(c) Overseas sales

Not applicable.

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, 2009 and 2008, and related consolidated statements of operations, 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 consolidated 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, 2009 and 2008, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

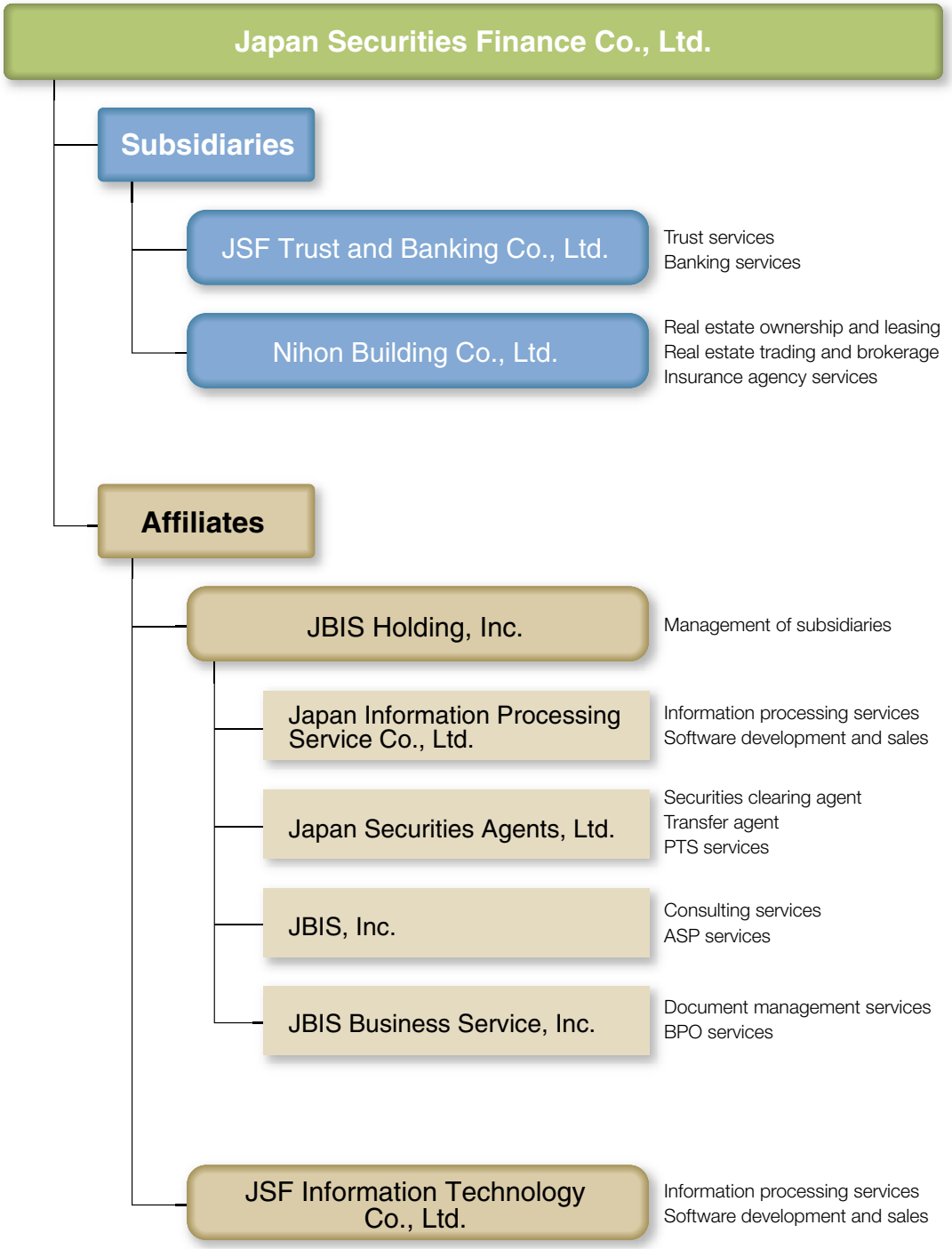
The accompanying consolidated financial statements as of and for the year ended March 31, 2009 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in yen have 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 29, 2009

OUTLINE OF THE CORPORATE GROUP

(As of June 30, 2009)



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
93,700,000 shares (as of March 31, 2009)

Number of shareholders
9,274 shareholders (as of March 31, 2009)

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 26, 2009)

Directors

President	Minoru Masubuchi *
Executive Vice President	Hiromitsu Matsuda *
Senior Managing Director	Yasuhisa Hashimoto
Managing Director	Hiroshi Nasuno
	Hiroshi Asakura
Directors	Takashi Imai **
	Akira Kanno **
	Hiroshi Koshida **

(* Representative Directors)
(** Outside Directors)

Corporate Auditors

Shigeru Awashima
Ushio Mizuno *
Toshio Kamiyama *
(* Outside Corporate Auditors)

Executive Officers

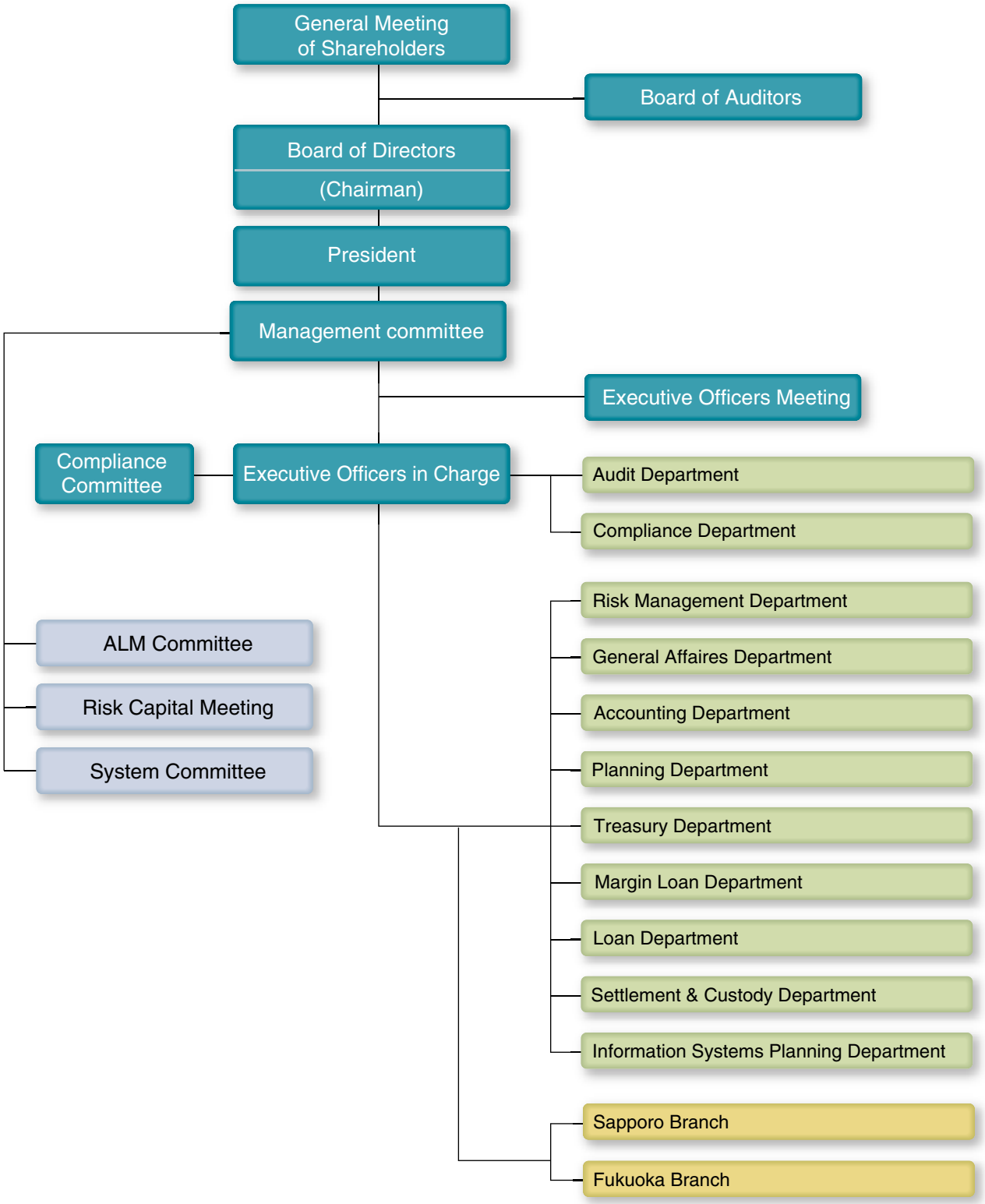
President	Minoru Masubuchi
Executive Vice President	Hiromitsu Matsuda
Senior Managing Director	Yasuhisa Hashimoto
Managing Director	Hiroshi Nasuno
	Hiroshi Asakura
Executive Officers	Teiichi Takatori
	Masao Iguchi
	Tomoyoshi Sugaya
	Toshihiko Ishide
	Ichiro Kasahara

Rating Information

(As of the end of July, 2009)

	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

JAPAN SECURITIES FINANCE CO., LTD.

1-2-10 Nihonbashi-Kayabacho, Chuo-ku, Tokyo, 103-0025