

Japan Securities Finance Co., Ltd.

Integrated Report **2022**



All for the securities market.

Corporate Philosophy

As an institution specializing in securities finance, JSF has a mission to contribute to the development of the securities market by proactively meeting the diverse needs of the securities and financial sectors and to enhance the long-term interests of users, while always maintaining a keen awareness of its public role.

Management Principles

1. To practice sound business management by thoroughly implementing compliance, corporate governance, and risk management under a new governance structure, thereby establishing solid credibility, while always maintaining a keen awareness of our social responsibilities as a securities finance company.
2. To enhance corporate value while maintaining solid equity capital in order to ensure stability in management and the financial soundness required of a company that is a key player in securities market infrastructure, to give comprehensive consideration to the earnings environment, investment plans, etc., and to ensure profits are returned to shareholders.
3. To further enhance JSF's core loans for margin transactions business while also striving to expand the finance- and securities-related services provided by JSF and Group companies, develop new business, and to further grow and solidify our base.
4. To build a quick and efficient business management structure and strengthen our competitive base in order to address changes in the business environment in a flexible manner.

Toward the Development of the Securities Market

Established in 1950, Japan Securities Finance (“JSF”) is Japan’s only securities finance company, specializing in lending funds and securities needed for the securities market.

As such, our mission is to contribute to the development of the securities market by proactively meeting the diverse needs of the securities and financial sectors and to enhance the long-term interests of users.



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Editorial Policy

Japan Securities Finance has issued this integrated report so that investors and other stakeholders may gain an understanding of our efforts to create sustainable value.

We hope that this report deepens understanding of the JSF Group, whose mission is to contribute to the development of the securities market.

Report Coverage

Japan Securities Finance Co., Ltd. and its consolidated subsidiaries

Reporting Period

April 1, 2021 to March 31, 2022
(Some sections include information regarding matters occurring before or after the reporting period.)

Reference Guidelines

- IFRS Foundation, International Integrated Reporting Framework
- Ministry of Economy, Trade and Industry, *Guidance for Collaborative Value Creation*

Cautionary Note Regarding Forward-looking Statements

Forward-looking statements such as performance forecasts in this report are forecasts made by the Company based on information available at the time of creation and include risks, uncertainties and other factors. Therefore, actual results may differ significantly from forecasts due to changes in various factors.

Interview with the President



Japan Securities Finance, growing in step with the securities industry and supporting its future development

Japan Securities Finance (“JSF”) aims to maintain strong financial soundness, achieve the sustainable growth expected of a listed company, and increase corporate value over the medium to long term, while maintaining a keen awareness of the public role expected of it as a securities finance company functioning as infrastructure for the securities market.

TOP INTERVIEW

Shigeki Kushida

Representative Executive Officer & President
Japan Securities Finance Co., Ltd.

Q. Please tell us about JSF’s history from its inception to the present.

The Company launched operations as an institution specializing in securities finance in 1950 after considering what kind of mechanism would be necessary to increase the liquidity of the securities market in Japan as it resumed activities following World War II. Looking back on the situation in the securities market at that time, the ability of securities companies to raise funds was poor, and the stock lending market was not as developed as in Europe or the United States. In order to resolve these issues, margin transactions were established along with loans for margin transactions, which constitute the funds and stocks required by securities companies for such transactions. A securities finance company is a company that specializes in providing loans for margin transactions and is licensed by the Prime Minister of Japan. The loans for margin transactions business has been JSF’s core business since the Company’s founding and has served as infrastructure for the country’s securities and financial markets.

Starting from the public business of loans for

margin transactions, we proactively meet the diverse needs of the securities and financial sectors by providing a variety of services that leverage our expertise in handling securities and funds. Specifically, we have expanded the scope of our business to include repurchase (repo) and *gensaki* transactions for the purchase and resale of Japanese government bonds and other bonds, equity repo transactions, general stock lending, and retail loans secured by securities companies.

In 1998, following the introduction of trusts for cash segregated as deposits for customers, we established JSF Trust and Banking, which, since then has made custodial trusts the pillar of its business, and has expanded the scope of its transactions to include crypto assets and foreign exchange (forex) transactions.

In this way, the JSF Group responds to the diverse needs of the securities and financial markets through a business portfolio including a security financing business centered on loans for margin transactions and a trust banking business.

Q. What are your thoughts on the role JSF should play as a securities finance company, its corporate philosophy, and the Vision for JSF in the Future?

Based on the Company’s original foundation and subsequent development, we set forth our corporate philosophy as follows: “As an institution specializing in securities finance, JSF has a mission to contribute to the development of the securities market by proactively meeting the diverse needs of the securities and financial sectors and to enhance the long-term interests of users, while always maintaining a keen awareness of its public role.”

I believe there are two points to be made regarding the Vision for JSF in the Future that we are aiming for based on this corporate philosophy.

The first is that in order to play a public role as

infrastructure for the securities and financial markets, it is necessary to maintain reliable business management and a high level of financial soundness.

The second is that as a company listed on the Prime Market (a new market classification) of the Tokyo Stock Exchange, we must aim to achieve sustainable growth and increase corporate value over the medium to long term based on a strong governance system.

We are in a unique position as a listed company that plays a public role, but we will strive to both maintain sound management and increase corporate value over the medium to long term.

Interview with the President

Q. Please tell us about the thinking behind the medium-term management policy formulated and announced in November 2021, and future initiatives based on this policy.

In November 2021, we formulated and announced the new medium-term management policy based on our corporate philosophy and Vision for JSF in the Future. The policy sets forth the medium-term management goals of attaining an ROE of 4% during the term of the current mid-term management plan (FY2020–FY2022), and of 5% during the term of the next plan (FY2023–FY2025). To formulate the ROE target, we estimated the Company's cost of equity capital to be around 4.5% using objective data and multiple calculation methods. Accordingly, we set a target of 5% for the term of the next plan to exceed this figure. The initiatives under the current mid-term management plan are steadily starting to show in earnings and ROE trends, so we intend to accelerate and strengthen them. We have established the following three pillars as specific measures to achieve our medium-term management goals.

The first is strengthening the securities finance business centered on loans for margin transactions. In addition to striving to improve the stable operation and convenience of this business, we will effectively utilize the Company's expertise in securities and fund transactions to proactively meet diverse security financing needs other than loans for

margin transactions, in areas that use bonds and stocks. Here, our strategy is to become the main player in niche market areas by leveraging JSF's strengths, such as its high credit rating, neutrality that comes from not belonging to any corporate group, and the agility of a relatively small enterprise.

The second is reinforcing consolidated management of the Group. JSF's subsidiary, JSF Trust and Banking, has adopted a strategy similar to that of the Company's security finance business. Responding flexibly to customer needs in unique and niche areas has enabled it to acquire a large share of the custodial trust market, including preservation trusts for cash segregated as deposits for customers. As a result, JSF Trust and Banking's profits are trending upward. We are working to improve the profitability of the entire Group, including Nihon Building, another JSF subsidiary.

The third is improving operational efficiency. We will further improve operational efficiency by reviewing business processes such as system operation and RPA.*

Through the above measures, we aim to achieve our ROE targets while steadily accumulating earnings.

* RPA (Robotic process automation): Automation of routine tasks by using software robots.

Q. Please tell us more about strengthening the securities finance business centered on loans for margin transactions, the first pillar for achieving the medium-term management goals.

The loans for margin transactions business is where the Company has its origins as infrastructure for the securities and financial markets. It is one of our core businesses, accounting for about 30% of gross profit. The Company has continuously worked to increase the number of loanable stock issues and strengthen the procurement of stock to be used for stock lending. In addition, for participants in loans for margin transactions we provide JSF Net as the system infrastructure used for transactions, and we are working to improve it. Going forward, we will continue to support standardized margin transactions

for stocks by improving the convenience of loans for margin transactions and addressing transaction needs in various ways.

As for securities finance business other than loans for margin transactions, in recent years we have been increasing our transaction balance by actively responding to the rising demand for repo transactions (with a focus on securities (property)) against the backdrop of collateral transactions and institutional investors' securities investment needs and the rising demand for multi-currency international transactions. We plan to accelerate and strengthen

these efforts by increasing the number of business clients, including through further sophistication and internationalization of trading methods.

Since earnings from the loans for margin transactions business are susceptible to stock

market fluctuations and are relatively volatile, I believe that strengthening the securities finance business will lead to a stronger earnings base for the Company, and is also important from the perspective of stable management of such loans.

Q. As a securities finance company, JSF is unique in Japan's financial sector. Please tell us about the Company's characteristics and business portfolio.

As a securities finance company, JSF serves as infrastructure for the securities and financial markets. It has three specific characteristics.

The first is being licensed as market infrastructure under the Financial Instruments and Exchange Act of Japan, and being required to be financially sound so as to enable it to supply securities companies with the funds and stock necessary for margin transactions.

The second relates to the imposition of restrictions on so-called concurrent business, meaning that, from a legal standpoint, its foremost obligation is to fulfill market infrastructure functions such as providing loans for margin transactions. Other business is legally permitted only to the extent that it does not hinder the stable execution of the loans for margin transactions business.

Finally, as a key player in the market infrastructure, JSF uses clearing institutions for securities settlements, as well as the central bank system for fund settlements, to ensure the reliability of settlements. The operators of these settlement systems expect the Company to be financially sound.

As already mentioned, we estimated the Company's cost of equity capital to be around 4.5%

using actual objective data and multiple calculation methods. As infrastructure for the securities market, we are subject to various restrictions in terms of financial soundness and business scope imposed by laws and regulations, standards for participation in securities and fund settlement systems, among others. Therefore, I believe that our cost of capital is considerably lower than the general level due to our characteristic low business strategy risk and high financial and earnings stability.

Based on these characteristics, our business portfolio is centered on the securities finance business with the loans for margin transaction business, a licensed business, at its core. However, since this core business is greatly affected by market fluctuations, we will continue making efforts to diversify our revenue sources. In addition, our basic policy is to work to achieve management goals while staying conscious of the importance of further improving capital efficiency in each business. Based on this approach, the JSF Group's business portfolio consists of the securities financing business centered on loans for margin transactions, securities investment, trust banking and real estate leasing.



Interview with the President

Q. What is your approach to shareholder returns?

Our management goal is to achieve an ROE of 5%, which exceeds the cost of equity capital, by FY2025. However, we think that we do not need to accumulate any more capital for the time being in order to achieve this goal. Based on this view, for shareholder returns we are aiming for a total payout ratio of 100%

on a cumulative basis from FY2021 through FY2025 including dividend payments and flexible share repurchases. With regard to dividends, our aim is ambitious: to pay annual dividends of at least ¥30 per share from FY2021 through FY2025 (achieving the ROE target of 5%).

Q. What initiatives are you taking for corporate governance?

In 2019, JSF transitioned to a Company with a Nominating Committee, etc. system, thus separating oversight and execution, with the Board of Directors responsible for making management policy decisions and overseeing execution, and executive officers responsible for executing management plans. In addition, the chairpersons of the Board of Directors, the Nomination Committee, the Remuneration Committee and the Audit Committee are all outside directors. I believe that for corporate Japan this is an advanced governance system.

Furthermore, with changes to JSF's operating environment in recent years, such as revisions to the Corporate Governance Code, the transition to new market segments by the Tokyo Stock Exchange, and further progress in internationalization and digital transformation, and given that we are about to begin formulating and implementing our next mid-term management plan based on the medium-term management policy, we are implementing various initiatives related to corporate governance.

After deliberation by the Nomination Committee, the Board of Directors conducted a review of various aspects of the board, including its composition, and concluded that there was a need to structure a board with multiple layers of complementary skills in light of matters including changes in the financial and economic environment, and recognized the importance of balancing the number of supervisors and executives, and diversifying board members in terms of age and gender.

Based on these thoughts, in June 2022 the number of directors was increased by two, bringing the total number of directors to seven, of whom five are outside directors and two inside directors.

With regard to the appointment of executive officers, after deliberation by the Nomination Committee, the Board of Directors conducted a review, identifying the qualities required of executive officers and making specific appointments.

Furthermore, we established the Corporate Governance Office with improved functions as the

secretariat of the Board of Directors for more effective governance and stronger support for the Board of Directors.

I intend to continue expeditiously addressing diverse issues in order to achieve the level of governance expected of a listed company.

Q. What about initiatives for sustainability?

The development of infrastructure that forms the foundation of socio-economic activities is a key element in realizing a sustainable society, and is also one of the Sustainable Development Goals. The JSF Group provides a variety of services, including the loans for margin transactions business, as a part of the infrastructure of Japan's securities and financial markets, and works to improve the liquidity of those markets and improve convenience for market participants. Through these activities, we aim to play a part in initiatives to realize a sustainable society, including supporting market participants who are engaged in similar initiatives.

Because it is responsible for the infrastructure of the securities and financial markets, the Group believes it is important to build a system that provides stable operations regardless of circumstances. To this end, we must not only respond to disasters in a narrow sense, but also ensure the stability and high reliability of our business base. In addition, we believe that there are issues in which the Group can also contribute to sustainability by utilizing the know-how and other resources that it has cultivated over the years.

As specific initiatives for the environment (E), we will promote reduction of environmental impact in ways such as improving Company equipment with energy savings and environmental impact in mind and making various in-house operations paperless. We are also working to enhance the disclosure of

information related to climate change in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Regarding social (S) initiatives, we understand that enhancing our functions as infrastructure for the securities and financial markets is necessary for the realization of a sustainable society, so we will build a system for stable business operations under any circumstances. Moreover, to respond to changes in the operating environment of the securities and financial markets, we respect diverse viewpoints and values and are striving to ensure the diversity of our core human resources. In addition, we are engaged in initiatives such as promoting financial and economic education and academic research, contributing to overseas securities and financial market infrastructure, and realizing diverse work styles for employees.

As for governance (G) initiatives, in order to strengthen corporate governance we have adopted the system of a Company with a Nominating Committee, etc., and have established a dedicated department to expeditiously address various corporate governance issues. In addition, we are conducting initiatives for risk management, BCP and compliance.

With constant awareness of our social responsibilities as a securities finance company, we will work in various ways to achieve sustainable growth and increase corporate value, including through sound business practices that establish unwavering social trust.

Q. To sum up, do you have a message for readers of this report and stakeholders?

We are now moving toward realization of the Vision for JSF in the Future described in our medium-term management policy. FY2022 is the final year of the Sixth Mid-term Management Plan. As we continue to accelerate the positive trend of existing initiatives to expand and strengthen the securities and finance

business and to develop efficient business operations, I aim to push for results that will lead to achievement of our management target for ROE of 5% by FY2025.

We will continue to increase corporate value as a distinctive and unique financial institution, therefore I ask for your ongoing understanding and support.



History of the Group

70 years of involvement in the development of Japan's securities market

Established in 1950 as an institution specializing in securities finance, JSF has provided infrastructure functions for Japan's securities market for more than 70 years through its core loans for margin transactions business. In addition, we have developed various services related to securities finance by keeping abreast with the evolution in customer needs resulting from changing conditions in the securities and financial markets.

1950–1965

1965–1980

1980–1995

1995–2013

2013–

History of Japan's Securities Market

Postwar period of high economic growth

- 1951
 - Margin transaction system established
- 1954–1961
 - Postwar boom

Economic turbulence with successive booms and busts

- 1965–1970
 - Postwar boom continues
- 1966
 - Long-term government bonds issued for the first time after World War II, leading to significant expansion of the public and corporate bond market
- 1968
 - Transition of securities companies to license system
- 1971
 - "Nixon Shock" resulting from suspension of the gold standard for foreign exchange and implementation of surcharges on imports by the United States
- 1973
 - First oil crisis
- 1979
 - Second oil crisis due to the Iranian Revolution

Securities market progresses rapidly

- 1985
 - Conclusion of the Plaza Accord aimed at depreciating the strong U.S. dollar
- 1986–1991
 - Japanese asset price bubble
- 1987
 - Global decline in stock prices starting with the Black Monday crash of the New York Stock Exchange
- 1989
 - The Nikkei Stock Average hits a record high of ¥38,915 at the peak of the bubble
- 1991
 - Decline in stock prices and the collapse of the bubble triggered by tension in the Middle East caused by the Iraqi invasion of Kuwait in 1990

Globalization of securities and financial markets

- 1997
 - Yamaichi Securities Co., Ltd. and Sanyo Securities Co., Ltd. cease operations
- 1998
 - Implementation of the revised Securities and Exchange Act (current Financial Instruments and Exchange Act)
 - Implementation of the "Japanese Big Bang" financial system reforms, including liberalization of stock brokerage commissions and the approval of negotiable margin transactions
- 2000
 - Dot-com bubble bursts in the United States
- 2001
 - Bank of Japan introduces quantitative easing policy
 - The Dow Jones Industrial Average of the New York Stock Exchange plummets following the 9/11 terrorist attacks

- 2008
 - Global recession due to the collapse of Lehman Brothers triggered by the subprime mortgage crisis
- 2011
 - The Japanese economy suffers a slowdown due to the power shortage caused by the Great East Japan Earthquake and subsequent nuclear power plant disaster
- 2012
 - The Liberal Democratic Party wins a big victory in the House of Representatives election, and the economic policies of then-Prime Minister Abe ("Abenomics") cause the yen to depreciate and stock prices to rise

Toward the realization of a sustainable society and economy

- 2013
 - Establishment of the Japan Exchange Group, Inc. through the market and management integration of the Tokyo Stock Exchange and Osaka Stock Exchange
- 2016
 - Bank of Japan adopts negative interest-rate policy
- 2018
 - Japanese government bond settlement cycle is shortened to T+1 (transaction date plus one day)
- 2019
 - Stock settlement cycle is shortened to T+2 (transaction date plus two days)
- 2020
 - Stagnation of the global economy due to the COVID-19 pandemic
- 2022
 - Restructuring of the Tokyo Stock Exchange market segments

History of JSF

Launching JSF and establishing its foundation

- 1950
 - Launched operations as a specialized securities finance institution
- 1951
 - Launched margin loan business with the establishment of a margin transaction system
- 1955
 - Established branch offices by acquiring entire business operations of securities finance companies in Hokkaido, Niigata, and Fukuoka
- 1956
 - Granted securities finance license under a revision of the Securities and Exchange Act

Supporting the securities market during Japan's period of high economic growth with institutional financing

- 1968
 - Launched bond financing business to facilitate bond underwriting and circulation
- 1977
 - Launched general stock loan business for lending stock to securities companies to cover shortfalls caused by delays in obtaining delivery stock for trading, etc.
 - Completion of head office building

Playing a role as a stable source of funds and securities even during periods of market stagnation such as the bursting of the economic bubble and global financial instability, and responding to the reform of the securities and financial trading system

- 1985
 - Launched secured loans using a revolving credit line format that accepts securities deposited by customers at securities companies as collateral
- 1987
 - Launched trading via JSF Online System after developing a network with securities companies
- 1989
 - Launched bond borrowing and lending transaction brokerage business with securities companies and financial institutions as customers
 - First commercial paper (CP) issued as a financial institution

- 1996
 - Launched bond repo transactions
- 1998
 - Established JSF Trust and Banking Co., Ltd.
- 2003
 - Launched securities-backed "COM-STOCK LOANS" through the internet

- 2004
 - Launched loans for margin transactions business for the JASDAQ market
 - Renewed JSF Online System and launched trading via JSFNET
- 2005
 - Launched loans to securities companies required for negotiable margin transactions

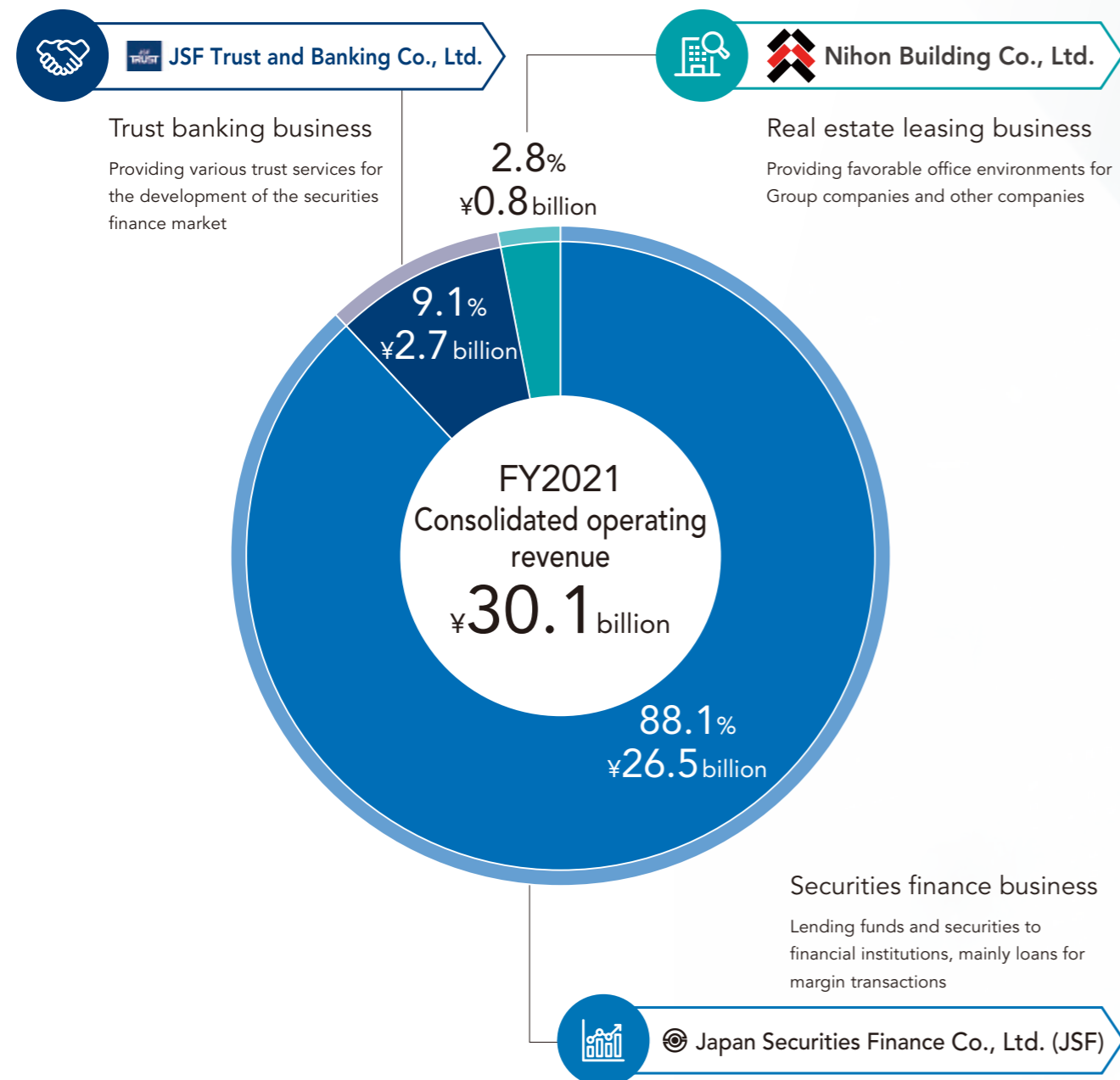
Taking on new challenges for the future of the securities market

- 2013
 - Merged with Osaka Securities Finance Co., Ltd.
- 2019
 - Transitioned to a Company with a Nominating Committee, etc.
 - Launched loans for margin transactions business for proprietary trading systems (PTS)
- 2020
 - Investment in an Indonesian securities finance company
 - Start of the Sixth Mid-Term Management Plan (FY2020–FY2022)
- 2022
 - Moved from the Tokyo Stock Exchange First Section to the Prime Market
 - Launched fund administration services

At a Glance

JSF Group's Business

The JSF Group is a corporate group that operates in sync with the securities and financial markets. The Group comprises Japan Securities Finance, which responds to the diverse needs of financial institutions and investors as a provider of securities market infrastructure, JSF Trust and Banking, which deploys highly distinctive trust services, and Nihon Building, which provides favorable office environments for Group companies and other companies.



Loans for Margin Transactions Business

Only one in Japan

JSF is the only securities finance company in Japan that has been licensed to conduct a loans for margin transactions business under the Financial Instruments and Exchange Act.

Stable Credit Ratings

R&I, JCR S&P
AA- A

Over the years, we have secured high credit ratings, including an AA rating from two Japanese rating agencies and an A rating from foreign rating agencies.

Business Partners

Network with domestic and overseas financial institutions

We are building business relationships with domestic and overseas financial institutions and institutional investors such as securities companies, banks and insurance companies. We also provide financial services for general businesses and individual investors.

Shareholder Returns

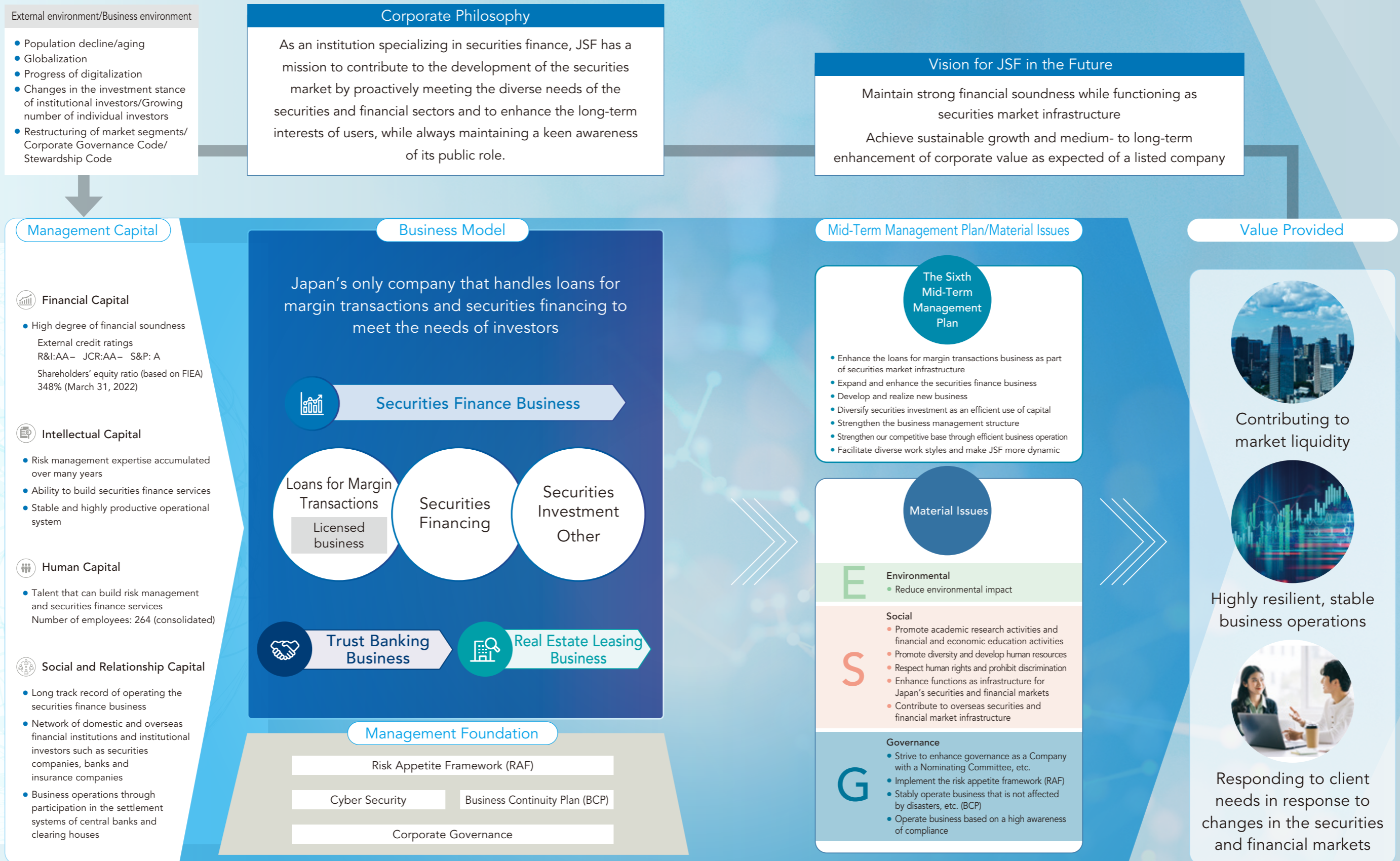
97.6% (FY2021)

We are aiming for a total payout ratio of 100% on a cumulative basis from FY2021 through FY2025 (achieving the ROE target of 5%) through dividend payments and flexible implementation of share buy-backs.

Characteristics of a Securities Finance Company

- Role as an Administrator of Loans for Margin Transactions**
A securities finance company serves in an institutional role of accepting loan applications from securities companies, and therefore must maintain a strong financial base and a high credit rating to ensure it has the fund-raising capabilities necessary for lending funds and securities.
- Restrictions as a Company Licensed under the Financial Instruments and Exchange Act**
Aside from the loans for margin transactions business, a securities finance company is legally permitted to operate other businesses only to the extent that they do not impair the operation of the loans for margin transactions business and the risk of such businesses is small. Other restrictions include those on M&A.
- Business Operation through Participation in Settlement Systems**
Delivery of securities, including loans for margin transactions, is legally permitted at clearing houses, and settlement of funds is conducted through the central bank system. Therefore, in order to remain eligible to participate in these settlement systems, it is necessary to maintain a shareholders' equity ratio above a certain level.

Value Creation Process



Business Model

Securities Finance Business [▶ See page 28 for details.](#)

Operating the loans for margin transactions business, which is one of the infrastructure functions of the securities market, and developing securities financing to meet customer needs

Loans for Margin Transactions Business

The loans for margin transactions business contributes to the smooth circulation of stocks and the formation of appropriate prices. We lend securities companies the funds and stock certificates necessary for margin transactions.

Margin Transactions

In margin transactions, an investor pledges a certain amount of security deposit (brokerage margin) to a securities company as collateral (1), borrows the funds required for purchase or the stock required for sale from the securities company (2), and buys or sells shares. Under this system, it is possible to buy stocks with an amount exceeding the amount of funds on hand and sell stock certificates that are not held, adding depth to transactions and contributing to the smooth circulation of stocks and the formation of appropriate prices.

There are two types of margin transactions: standardized margin transactions and negotiable margin transactions. In standardized margin transactions, the premium charges and repayment deferral deadline are stipulated by the stock exchange, and the securities company can borrow the stocks to be sold and the funds to be purchased from a securities finance company (loans for margin transactions). In negotiable margin transactions, the term terms can be freely determined between the customer and the securities company, but the securities company cannot use loans for margin transactions to settle negotiable margin transactions.

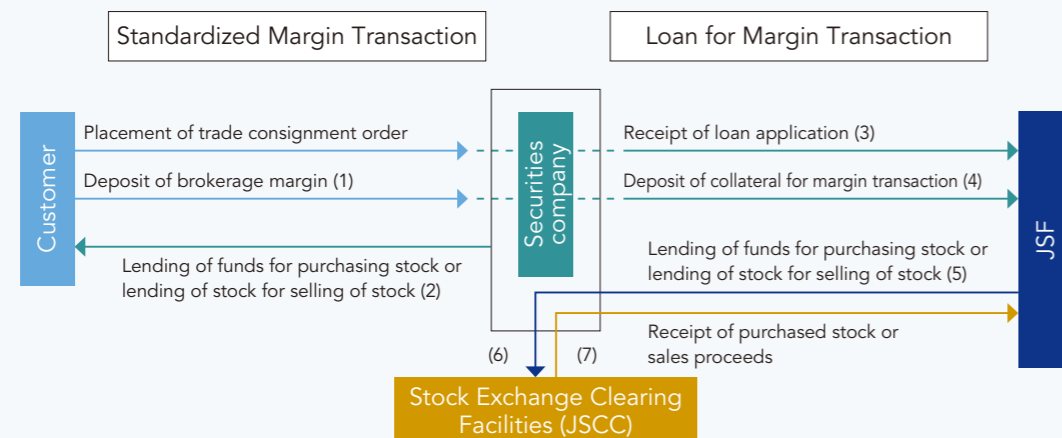
Loans for Margin Transactions

Loans for margin transactions are a financing scheme in which a securities finance company lends funds and stock certificates necessary for standardized margin transactions to securities companies that participate in trading on a stock exchange. These margin loans are conducted through clearing facilities such as a stock exchange.

This business may only be carried out by a securities finance company licensed by the Prime Minister. JSF conducts the loans for margin transactions business on each stock exchange market (Tokyo, Nagoya, Sapporo, Fukuoka) and on proprietary trading systems (PTS).

JSF receives a loan application (3) and collateral for the margin transaction (4) for each stock issue from the securities companies. To execute the loan (5), JSF, in place of the securities company, delivers the loaned funds or stocks to the clearing facilities of the stock exchange (6) and in return, the stock purchased (collateral stock for loan) or proceeds from the sale (collateral money for stock loans) is received by JSF (7) and then the collateral for each is appropriated.

Structure of Margin Transactions and Margin Loans



Securities Financing

Consisting of five business areas, securities financing is the generic term we use for the business of lending securities and the business of lending of funds backed by securities. We are promoting securities financing as one of our growth engines, and are also working to expand our services by increasing the number of business partners we work with, including foreign financial institutions, and by diversifying securities handled to include foreign stocks and foreign government bonds.

Loans to Financial Instrument Companies

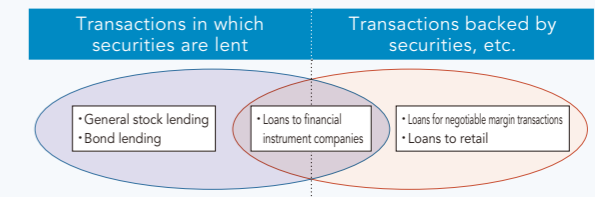
We are responding to the diversification of financing methods of securities companies through transactions such as those in which stocks are used as collateral when lending funds to securities companies (general loans), and those in which cash is deposited in exchange for borrowing stock held by a securities company (equity repo transactions).

Bond Lending

Bond lending is the business of matching (brokering) various financial institutions' lending needs and borrowing needs, mainly for government bond repo and *gensaki* transactions (transactions in which bonds are exchanged for cash).

General Stock Lending

General stock lending is the business of procuring stock from institutional investors and others, and lending it to securities companies that mainly require it for trading, thus contributing to the stability of the settlement system.



Loans for Negotiable Margin Transactions

While margin loans provide funds and stocks necessary for the settlement of standardized margin transactions, the business of loans for negotiable margin transactions involves lending funds to securities companies to enable them to purchase stocks in negotiable margin transactions.

Loans to Retail

These are transactions that involve lending funds to individual investors and others, using stock as collateral. The main service in this business is COM-STOCK loans (securities-backed loans that can be transacted online). We make effective use of our assets to help meet the financial needs of our customers.

Trust Banking Business [▶ See page 32 for details.](#)

Providing services such as segregated management of customer assets required by securities companies, based on a management philosophy of contributing to the development of the securities market

Trusts for Cash Segregated as Deposits

Under the Financial Instruments and Exchange Act, securities companies are obliged to manage customer assets separately. Since its establishment, the trust banking business has been a focus based on JSF Trust and Banking's management philosophy of contributing to the securities market as a trust bank in the JSF Group closely connected with the securities industry. The number of customers is among the highest in the industry in Japan, with many securities companies using the service.

ABL Trusts (Loans for Trust Accounts)

We function as a segregated portfolio company (SPC) for trusts when an asset-backed loan (ABL) is arranged as an investment product for institutional investors by a securities company acting as an arranger. Since we started handling this service in 2009, a wide variety of investment products have been created through arrangements by multiple arrangers, and are used by many institutional investors.

Other Customer Asset Preservation Trusts

Segregated management of customer assets is required in various fields outside the securities industry. Utilizing the expertise cultivated in trusts for cash segregated as deposits for customers, we offer a wide range of products which are available to customers across industries, such as foreign exchange margin trusts, contract for difference (CFD)/overseas futures margin trusts, crypto asset-related trusts, crowdfunding payment trusts, specified joint real estate venture trusts and performance security deposit trusts.

Securities Trusts

We provide securities management trusts and investment trusts to customers, mainly financial institutions and general businesses that hold securities. These trusts are used to save labor and reduce costs related to the management and custody of customers' stocks and other holdings, and to improve investment performance through stock lending operations.

Real Estate Leasing Business [▶ See page 33 for details.](#)

Medium-Term Management Policy

Under the Sixth Mid-Term Management Plan formulated in March 2020, we have been working to steadily increase our earning power under the assumption that we will maintain the high degree of financial soundness required of us as a key player in the securities market infrastructure.

During that time, the Corporate Governance Code was revised in June 2021, and the Tokyo Stock Exchange restructured its market segments in April 2022. As a publicly listed company, we recognize that the current situation calls for us to ensure greater commitment and transparency to achieve sustainable growth and enhance corporate value over the medium to long term based on a sophisticated governance system.

We see this transformation for listed companies as an opportunity to accelerate our current efforts toward management reform. To deepen our dialogue with the capital market and meet the expectations of shareholders and investors, we have formulated the medium-term management policy.



Medium-Term Management Goals

Thinking

- Assumed maintenance of the high degree of financial soundness required to maintain market infrastructure functionality
- Adding ROE, which is widely used as an indicator of profitability and capital efficiency, to management goals
- ROE target set above cost of equity capital (recognized as around 4.5%)

Estimated Cost of Equity Capital

We recognize our cost of equity capital to be considerably lower than the general level, due to our characteristically low-risk business strategy and high financial and earnings stability, given that financial securities companies are by their nature subject to financial soundness standards and restrictions on the scope of their operations as part of the securities market infrastructure, including those imposed by laws and regulations and standards for participation in securities and payment systems.

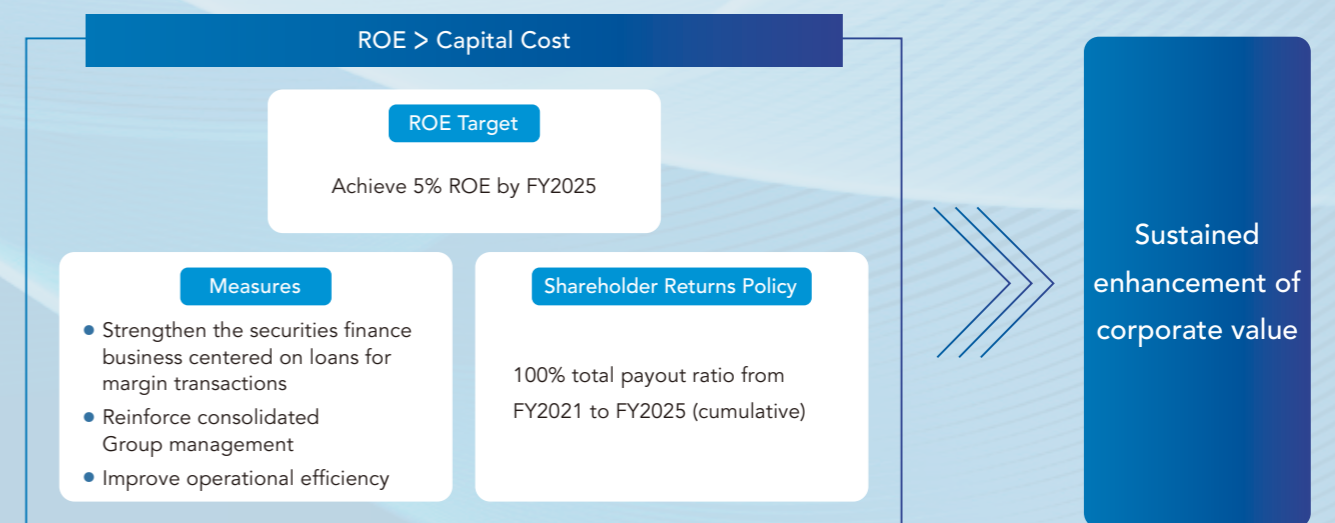
Specifically, we have used various methods to estimate the cost of equity capital, and as a result of repeated discussions by the Board of Directors, we recognize that the Company's cost of equity capital is around 4.5%. The ROE target for the next mid-term management plan has been set at a level above this cost of equity capital (5% by FY2025).

Approach to the Business Portfolio

With strong awareness of the public role it plays as securities market infrastructure, the JSF Group will actively respond to diverse needs in the securities and finance sectors by providing a variety of related services, focusing on securities and financing with the licensed business of loans for margin transactions at the core.

In addition, given that loans for margin transactions services are substantially affected by market fluctuations and other factors, the JSF Group will continue working to diversify earnings sources and to achieve management goals in each business area while maintaining awareness of improving capital efficiency.

Using this approach, the JSF Group will endeavor to achieve the Vision for JSF in the Future through a business portfolio consisting of the securities finance business (securities financing centered on loans for margin transactions, securities investment business), the trust banking business and the real estate leasing business.



Medium-Term Management Policy

Strategy

Strengthen the Securities Finance Business Centered on Loans for Margin Transactions

- Initiatives such as improving the operational stability and convenience of the loans for margin transactions business, steadily increasing the number of loanable stock issues, and strengthening the dissemination of information related to standardized margin transactions and margin loans
- Use of the financial and securities transaction expertise cultivated thus far to handle diverse transactions in a proactive manner and increase the number of business partners and applicable securities

Reinforce Consolidated Group Management

- Make further use of Group resources to improve overall profitability

Improve Operational Efficiency

- Review business processes and other areas to promote further improvements in operational efficiency
- Maintain awareness of sustainability issues, promote business operations with low environmental impact and diverse employee work styles

Shareholder Returns

To ensure the operational stability and financial soundness required of us as a key player in the securities market infrastructure, we will enhance corporate value while maintaining solid shareholders' equity. At the same time, we intend to increase returns to shareholders based on comprehensive consideration of the earnings environment, investment plans and other factors.

FY2022 (Forecast)

Dividend (Forecast)	Share Buy-backs	Total Payout Ratio
¥32.0 (+¥2.0 YoY)	3.2 million shares (3.5% of total shares issued and outstanding) ¥3 billion	103.4%

Shareholder Returns Policy

We are aiming for a cumulative total payout ratio of 100% through dividend payments and flexible share buy-backs in the FY2021–FY2025 period (achieving the ROE target of 5%).

We aim to pay annual dividends per share of no less than ¥30.0 during that period.

	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022 (Forecast*)
Profit	¥4.2 billion	¥3.7 billion	¥3.5 billion	¥3.9 billion	¥5.1 billion	¥5.6 billion
Dividends per Share	¥26.0	¥22.0	¥22.0	¥26.0	¥30.0	¥32.0
Dividend Payout Ratio	58.8%	55.0%	57.2%	60.1%	53.0%	49.2%
Share Buy-back Amount	¥0.9 billion	¥1.2 billion	¥0.5 billion	—	¥2.3 billion	¥3.0 billion
Total Payout Ratio	79.3%	87.8%	71.0%	60.1%	97.6%	103.4%

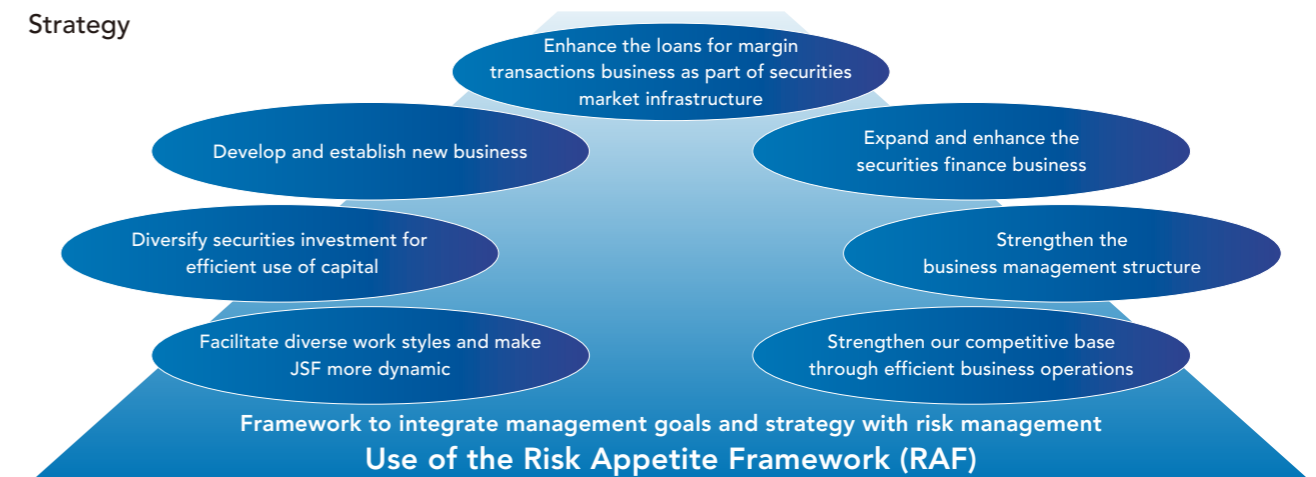
* Announced on May 10, 2022

The Sixth Mid-Term Management Plan

Management Goals

Given that the loans for margin transactions business, JSF's core business, is greatly affected by market fluctuations, we will strengthen its base by increasing the number of loanable stock issues, and stabilize our functions as securities market infrastructure by diversifying revenue sources and steadily increasing basic profit (ordinary profit estimated based on the assumed profit of loans for margin transactions).

Strategy



Strategy

Strengthen the Loans for Margin Transactions Business as Part of Securities Market Infrastructure

We aim for operational stability and increased profitability in our loans for margin transactions business by appropriately responding to changes in the stock market's operating environment. In addition, we will carefully identify trends among market participants, steadily increase the number of loanable stock issues, promote the use of loans for margin transactions, step up the dissemination of information relating to margin transactions and loans for margin transactions, and expand our investor base.

Expand and Enhance the Securities Finance Business

We aim to effectively use the financial and securities transaction expertise we have cultivated thus far to proactively handle diverse transactions with domestic and overseas financial instruments businesses and increase the number of business partners and applicable securities to enhance and expand our securities finance business, increasing opportunities for profit.

Develop and Establish New Business

We will leverage our history, background and characteristics as a securities finance company, and take a long-term perspective in developing and establishing new businesses in collaboration with Group companies and domestic and foreign partners.

Diversify Securities Investment for Efficient Use of Capital

We will secure stable revenues by responding to changes in the external environment with agile revisions to our portfolio, based on appropriate risk controls. In addition, we will expand foreign currency funding methods to increase management of

foreign currency-denominated securities such as foreign government bonds, and to support business development using foreign currencies.

Strengthen the Business Management Structure

We will proactively meet our social obligations, and reaffirm that compliance is a management prerequisite for achieving our corporate philosophy.

To establish unwavering public trust in JSF, we aim to ensure the effectiveness of our internal auditing and further enhance our risk management in response to the increasingly diverse and complex risks associated with the finance business.

We will further strengthen our business continuity system to enable us to carry out our securities market infrastructure functions even in the event of a major disaster.

Strengthen Our Competitive Base through Efficient Business Operations

Given the increase in transaction volume and complexity of business, we will review our business processes and actively promote the use of digital technologies such as robotic process automation (RPA) to build an efficient business operation structure and strengthen our competitive base.

Facilitate Diverse Work Styles and Make JSF More Dynamic

Amid changes and diversification of work, such as work-style reform and delayed retirement, we will review our employment systems to establish a rewarding and employee-friendly working environment, thereby improving individual productivity and increasing JSF's vitality.

Message from the Executive Officer in Charge of Corporate Planning

Aiming to be a company that earns the trust of all stakeholders



Senior Managing Executive Officer,
Executive Officer in charge of Corporate Planning **Yutaka Okada**

FY2021 Consolidated Financial Results

In FY2021, the business performance of companies in Japan recovered from the stagnation caused by the impact of the COVID-19 pandemic, and the recovery trend strengthened. However, stock market movement remained stuck in a narrow range due to the impact of circumstances overseas, including concerns about default on debts by the Evergrande Group of China, the implementation of tapering by the Federal Reserve (phasing out quantitative easing) in the United States and soaring crude oil prices due to the situation in Ukraine.

Under these circumstances, consolidated results for FY2021 included operating profit of ¥6,235 million, a 30.5% increase year on year, ordinary profit of ¥7,164 million, a 28.9% increase, and profit of ¥5,174 million, a 30.3% increase, for an increase of about 30% for all three levels of income.

The growth engine of the Group, the securities finance business, drove the increase in profits. In particular, bond lending (repo transactions and *gensaki* transactions for the purchase and resale of Japanese government bonds and other bonds) and equity repo transactions performed strongly, setting a new record-high balance by actively responding to the market's growing need for investment and procurement of securities. In addition, at our subsidiary JSF Trust and Banking, trust fees reached a record high as the trust balance of custodial trust services centered on preservation trusts such as cash segregated as deposits for customers and crypto-asset-related trusts, as well as asset-backed loan trusts, continued to increase. On the other hand, the loans for margin transactions business, which is greatly affected by stock

market conditions, was sluggish, especially stock lending.

In this way, we were able to achieve solid results in our securities finance business, centered on bond lending and equity repo transactions, which I believe is not only a result of efforts on the sales side, but also of the increased efficiency of business operations resulting from reviewing business processes, utilizing RPA and promoting telework amid the increase in transactions and growing complexity of operations.



Outlook for FY2022

In the loans for margin transactions business, we will steadily promote measures such as increasing the number of loanable stock issues and stepping up the dissemination of information related to margin transactions and loans for margin transactions. In the securities finance business, we aim to utilize our financial and securities transaction expertise to proactively expand our handling of diverse transactions with

financial institutions in Japan and overseas, and increase business partners and applicable securities to further expand the business.

We aim to achieve ROE of 4% for FY2022, which together with further promotion of the trust business at JSF Trust and Banking is one of the milestones of our medium-term management policy.

About Shareholder Returns

We will comprehensively consider the earnings environment and investment plans as we strive to return profits to our shareholders while maintaining financial soundness.

In FY2021, based on our shareholder return policy, we paid annual dividends of ¥30.0 per share, an increase of ¥4.0 compared with the previous fiscal year, and carried out share

buy-backs in the market totaling ¥2.3 billion for a total payout ratio of 97.6%. ▶ See page 20 for details.

In FY2022, we are aiming for a total payout ratio of 100% through dividends and the flexible implementation of share buy-backs in accordance with our shareholder return policy.

Shareholder Returns

		FY2021	FY2022 (Forecast)
Dividends per share	Annual	¥30.0 (+¥4.0 vs. FY2020)	¥32.0 (+¥2.0 vs. FY2021)
	Interim	¥15.0	¥16.0
	Year-end	¥15.0	¥16.0
	Dividend payout ratio	53.0%	49.2%
Share buy-backs	Aggregate no. of shares to be repurchased	¥2.3 billion 2.80 million	¥3.0 billion 3.2 million
	Result	¥2.3 billion 2.48 million	—
	Repurchase period	December 21, 2021 to March 11, 2022	May 11, 2022 to March 31, 2023
Total payout ratio		97.6%	103.4%

Message from the Executive Officer in Charge of Corporate Planning

Features of the Consolidated Balance Sheet

The loans for margin transactions business, securities finance and securities investments are the pillars of the Company's earnings and features of its balance sheet.

Funds lending transactions are recorded under assets as loans while the collateral for those loans is off-balance-sheet. In securities lending transactions, while the securities lent are off-balance-sheet, collateral deposits received in connection with such lending are recorded under liabilities as collateral money received for securities lent.

In addition, in the security finance business, bond repo and *gensaki* transactions are brokerage transactions that match the needs of lenders and borrowers. As a result, the balance sheet is expanded in both assets (collateral money for securities borrowed) and liabilities (collateral money received for securities lent), but financial soundness is ensured as both are secured transactions.

Road to Achieving the Management Goals

The Company aims to ensure the financial soundness required of a company that is a key part of Japan's securities market infrastructure while achieving the sustainable growth expected of a listed company and increasing corporate value over the medium to long term. To make these management policies clear, we are aiming for ROE of 4% during the term of the current mid-term management plan (FY2020–FY2022), and 5% during the term of the next plan (FY2023–FY2025).

To formulate the ROE target, we estimated the Company's cost of equity capital to be around 4.5% using objective data and multiple calculation methods. Accordingly, we set a target of 5% for the term of the next plan to exceed this figure. Characteristic of a securities finance company, we are subject to restrictions in terms of financial soundness and

business scope imposed by laws and regulations, standards for participation in securities and fund settlement systems, among others, as a key part of Japan's securities market infrastructure. Therefore, I believe that our cost of equity capital is considerably lower than the general level due to our characteristic low business strategy risk and high financial and earnings stability. Based on these characteristics, we are going to take a steady and stable approach to achieving ROE of 5% by FY2025.

ROE has steadily increased in recent years, reaching 3.79% in FY2021 due to ongoing efforts under the mid-term management plan. I believe that we have built a foothold for achieving our medium-term management policy targets of 4% for FY2022 and 5% for FY2025.

To Our Stakeholders

In FY2021, despite the impact of the COVID-19 pandemic and the situation overseas on market conditions, we were able to build earnings centered on the securities finance business, which is crucial to enhancing profitability. Results surpassed the estimates we made at the beginning of the fiscal year. In addition, due to a dividend increase and share buy-backs, we were able to return profits to shareholders at a total payout ratio of close to 100%.

I would like to express my heartfelt gratitude to our shareholders, investors, business partners and other

stakeholders, whose support has made this possible.

In addition to business and financial issues such as enhancing profitability and improving capital efficiency, from the perspective of sustainability I will work to gain a broad understanding of non-financial information centered on ESG factors and expand disclosure.

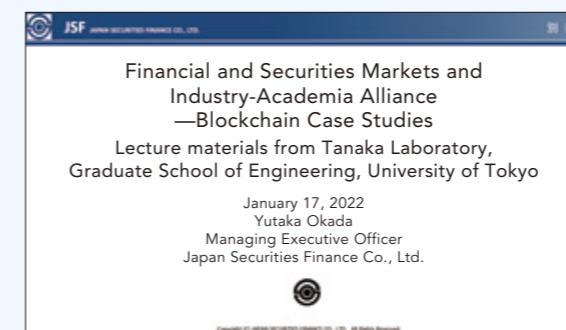
Company officers and employees will continue to work together for sustainable growth in corporate value so that JSF achieves wide recognition from society as a valuable presence.

ESG Initiatives as the Executive Officer in Charge of Sustainability

Lecture on Financial and Securities Markets and Industry-Academia Alliance to the Graduate School of Engineering, University of Tokyo

Distributed ledger technology (blockchain) has drawn increasing attention in recent years, and discussions about its applicability in the securities field are progressing. Since June 2021, JSF has been conducting empirical research jointly with the University of Tokyo on the applicability of blockchain technology, with a focus on the Company's main business area, securities lending.

On January 17, 2022, as JSF's Managing Executive Officer at the time, I delivered a lecture regarding this empirical research to students of the Graduate School of Engineering at the University of Tokyo on the topic "Financial and Securities Markets and Industry-Academia Alliance—Blockchain Case Studies." All students in attendance were keenly aware of recent trends in finance and securities, as well as the latest technologies such as blockchain, and industry-academia collaboration. Lively discussion ensued, not only on current issues, but also on the future of the securities finance industry and how it should ideally evolve.



Cooperative Relationships with Indonesia's Securities Market Infrastructure

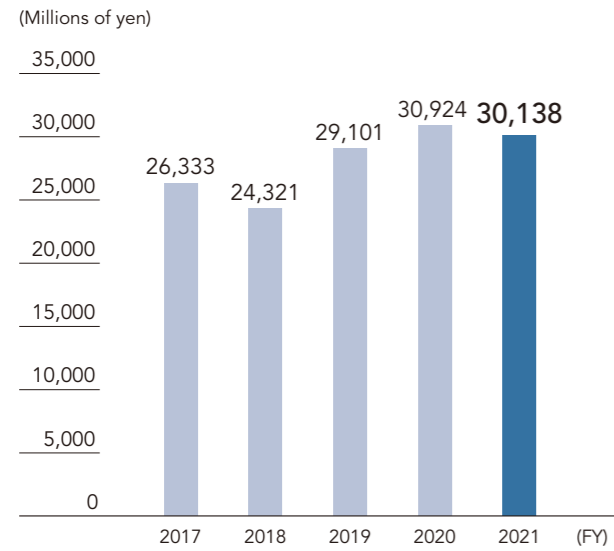
In Indonesia, the government's policy objectives are to strengthen the financial services sector to contribute to medium- to long-term growth and to stabilize the financial system as a basis for sustainable economic development. In the securities sector, one measure for achieving an efficient, highly liquid and stable securities market is to enhance the efficiency of securities transactions and settlements using securities finance. A project to establish and operate a securities finance company in Indonesia was launched in 2014, and in December 2016, PT Pendanaan Efek Indonesia (PEI) was established with investments by three companies, including the Indonesia Stock Exchange.

As part of the infrastructure of the Japanese securities market, JSF has been actively supporting this project since its beginning, and has acquired a 10% stake in PEI (about ¥400 million). Going forward, we will further utilize the knowledge we have accumulated in the securities finance business to support PEI and Indonesia Stock Exchange Group in their business development and market infrastructure improvements, and continue to strengthen cooperative relationships with all parties involved as we contribute to the sustainable development of Indonesia's economy as well as its financial and securities markets.

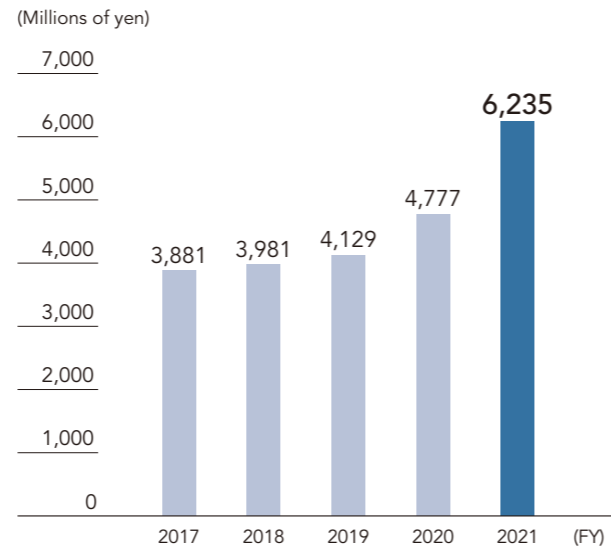
Financial and Non-Financial Highlights

Financial Highlights

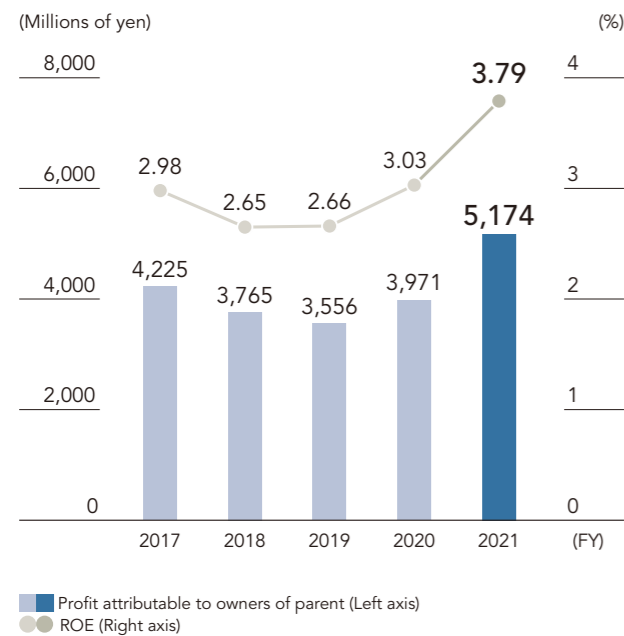
Operating Revenue



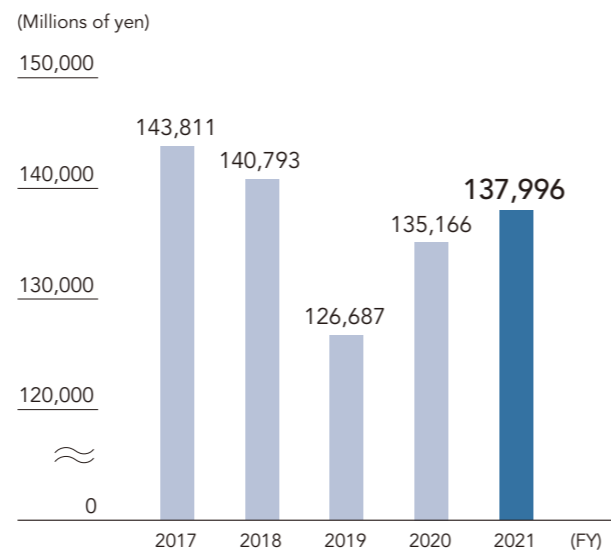
Operating Profit



Profit Attributable to Owners of Parent and ROE

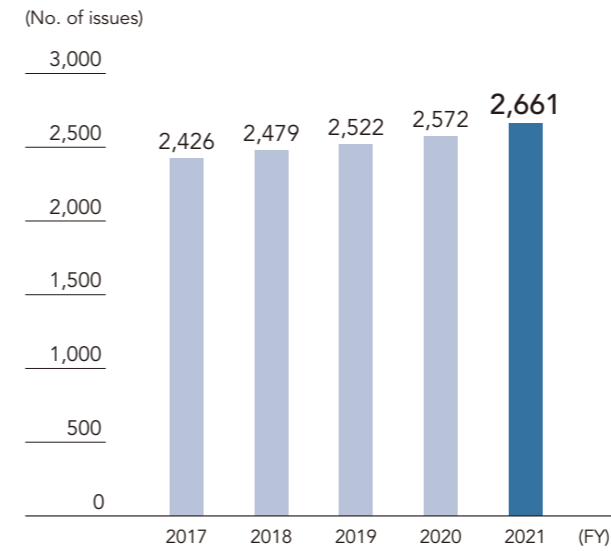


Net Assets

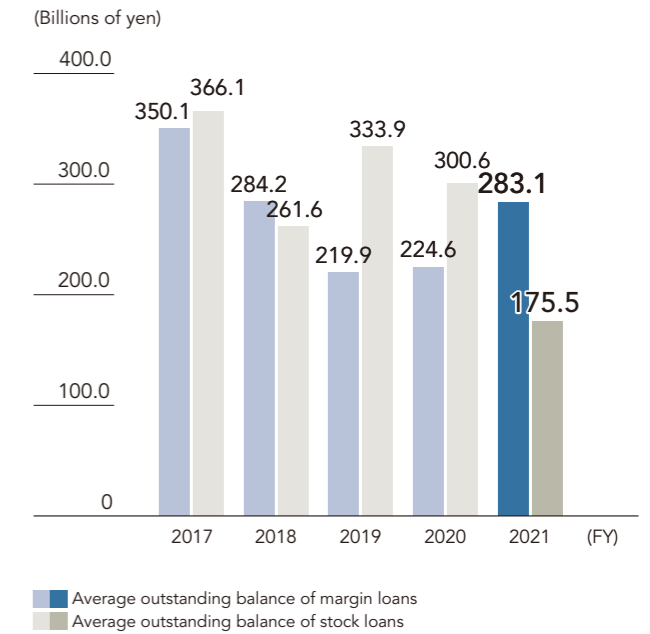


Non-Financial Highlights

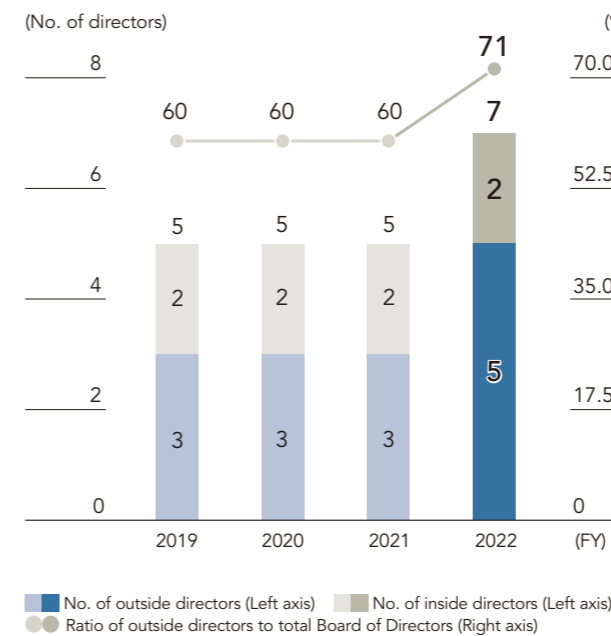
Loanable Stock Issues



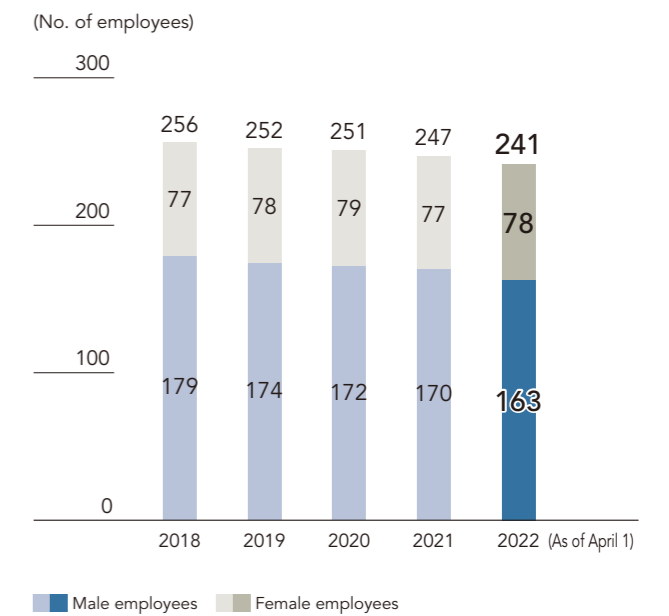
Average Outstanding Balance of Margin Loans and Stock Loans



Directors and Ratio of Outside Directors to Total Board of Directors



Employees (Non-consolidated, including seconded employees)

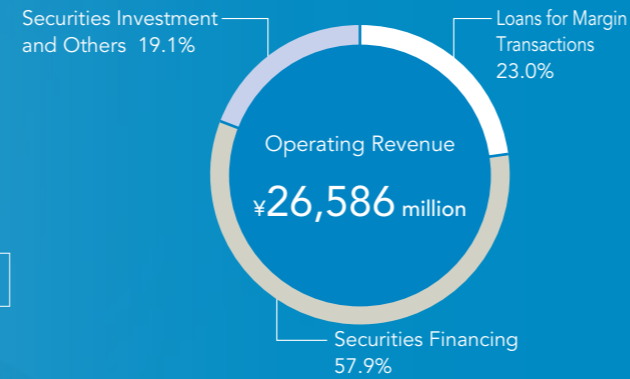


Securities Finance Business

Japan Securities Finance Co., Ltd.

Net assets ¥121.1 billion

Number of employees 207



Business Description and Policy

JSF was established in 1950 as an institution specializing in securities finance that lends the funds and securities needed for the securities market. As the only securities finance company in Japan, its mission is to contribute to the development of the securities market. Our securities finance business comprises operations such as the loans for margin transactions business, securities financing, and the securities investment business for government bonds. The legally licensed loans for margin transactions business is our core business, and serves as securities market infrastructure. In addition, we leverage our expertise in handling securities and funds to expand our business mainly through securities financing such as repo transactions and *gensaki* transactions for Japanese government bonds and other bonds, equity repo transactions, general stock lending and loans to retail secured by securities companies.



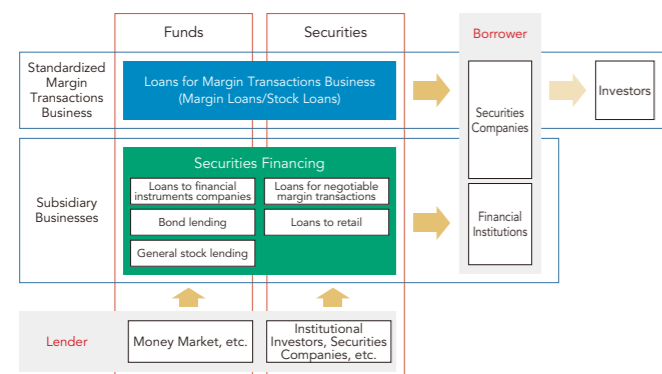
Shigeki Kushida
Representative Executive Officer & President
Japan Securities Finance Co., Ltd.

Business Environment and Recognized Issues

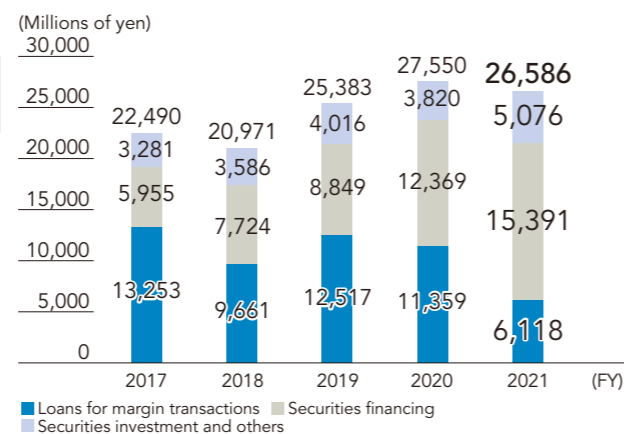
The loans for margin transactions business is characterized by volatile earnings due to stock market conditions and the balance of standardized margin transactions. Even so, securities financing business results in areas such as bond repo and *gensaki* transactions and equity repo transactions have expanded significantly in recent years due to successes in advancement and diversification of offerings based on the

widening range of market needs, including the increase in overseas business partners and transactions using foreign securities. In addition, in the securities investment business, which includes government bonds, we are working to ensure stable earnings while appropriately controlling market risk and other factors.

JSF Business Overview



Operating Revenue



Loans for Margin Transactions Business

Strengths and Opportunities

A securities finance company serves as a source of funds, stocks and other securities for the smooth implementation of standardized margin transactions through loans of funds and stocks necessary for settlement to the securities company after a standardized margin transaction sale and purchase is made. The loans for margin transactions business requires a license under the Financial Instruments and Exchange Act, and JSF's mission as Japan's only securities finance company is to ensure stable operation of loans for margin transactions.

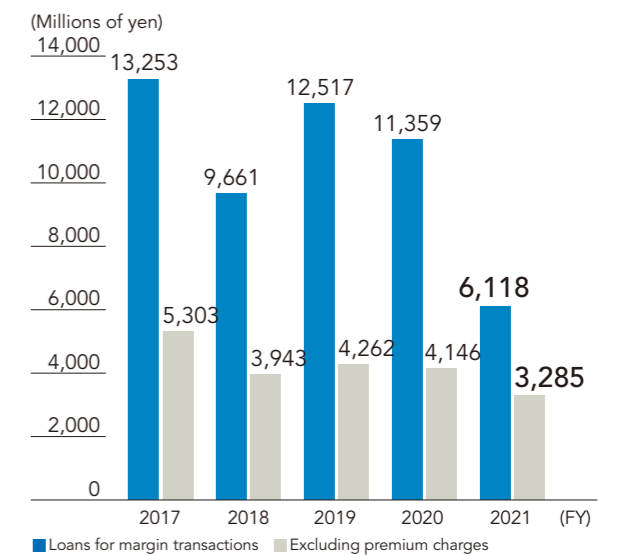
The ability of securities companies to procure funds and stocks has improved since financial liberalization in the late 1990s, and in recent years the utilization ratio for margin loans (the ratio of the margin loan balance to the standardized margin transaction balance) has declined. However, given the support for the convenience of loans for margin transactions, which provide the necessary funds and stocks in a standardized form without to the need to check the inventory of stocks in advance, loans for margin transactions continue to occupy an important position in securities market infrastructure.

FY2021 Initiatives

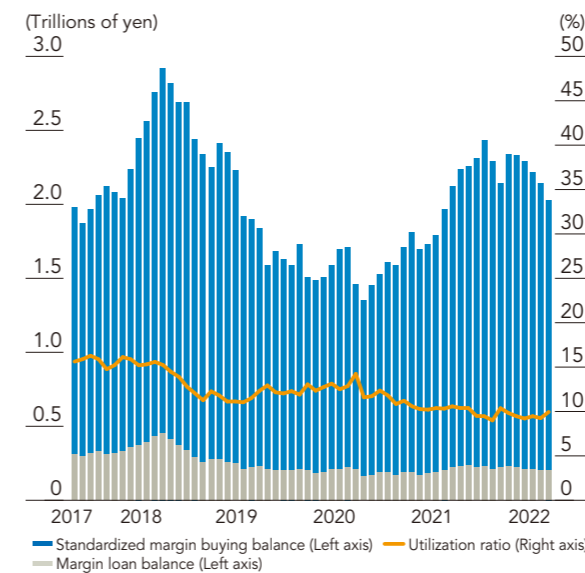
In FY2021, the margin loan balance increased year on year, recovering in line with the recovery of the standardized margin buying balance. On the other hand, the balance of stock loans for margin transactions was significantly lower than in the previous fiscal year, due to a slump in the standardized margin transaction selling balance.

* The graph on the right includes data for operating revenue on an actual basis, excluding premium charges, which do not affect profits.

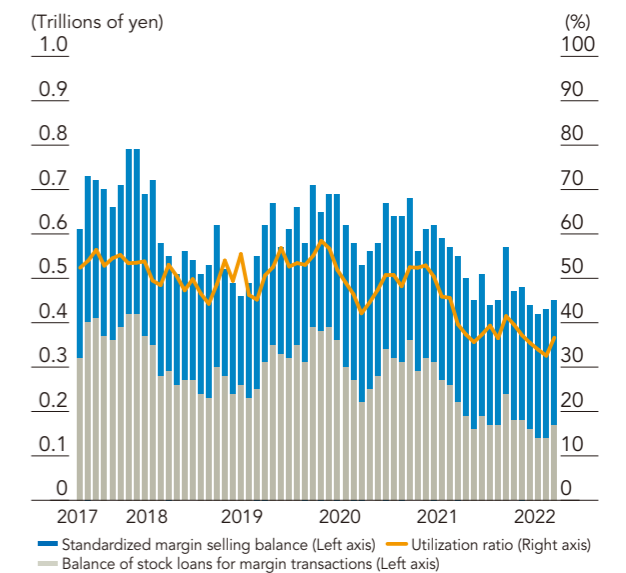
Operating Revenue (Loans for Margin Transactions Business)*



Margin Loan Balance and Standardized Margin Transaction Buying Balance



Balance of Stock Loans for Margin Transactions/Standardized Margin Selling Balance





Securities Financing

Strengths and Opportunities

Consisting of five business areas, securities financing is the generic term we use for the lending of funds backed by securities and the lending of securities other than in the loans for margin transactions business.

Since earnings from the loans for margin transactions business are easily impacted by market conditions and the balance of standardized margin transactions, we have worked to ensure financial soundness by expanding and enhancing our other businesses so that we can keep the loans for margin transactions business stable even when market conditions are sluggish. In order to ensure JSF continues to grow sustainably and carry out its market infrastructure functions, we are making the most of our high credit ratings (creditworthiness) backed by solid equity capital and the expertise in securities and finance-related businesses we have cultivated over the years as we work to expand our securities financing business.

As measures common to all of these businesses, we are working to increase the number of business partners, including foreign financial institutions, and to expand our securities for transactions in foreign currency-denominated securities such as foreign government bonds and foreign stocks. To this end, we actively participate in international securities lending business conferences such as PASLA¹ and ISLA.²

1. Pan Asia Securities Lending Association: An industry group that promotes sound development of the securities lending business by developing market practices for securities lending in Asian markets.
2. International Securities Lending Association: An industry group that promotes the growth of the securities lending and financial industries by developing market practices related to securities lending in global markets and a legal framework for the Global Master Securities Lending Agreement (GMSLA).

FY2021 Initiatives

- Loans to Financial Instruments Companies

The balance of equity repo transactions reached a record high in FY2021 as transactions with major Japanese securities companies and foreign financial institutions expanded due to the successful diversification of transactions such as those targeting foreign stocks and those secured by government bonds. We will continue to flexibly respond to customer needs, diversify the collateral we accept and the currencies we handle to improve the commercial appeal of our products and improve transaction convenience.

- Bond Lending

The balance of bond lending transactions remains at a record high, due to an increase in the balance of loans to foreign financial institutions. In addition to trust banks and insurance companies, we are working to expand our bond procurement sources to include regional financial institutions and others.

- General Stock Lending

In the general stock lending business, the demand for loan stock to avoid failed transactions is decreasing. Going forward, we will focus on identifying transaction needs and demand, mainly from foreign financial institutions, and will work to further increase our stock procurement sources.

- Loans for Negotiable Margin Transactions

Loans for negotiable margin transactions help finance negotiable margin transactions by securities companies. The balance of loans for negotiable margin transactions was on a recovery trend in FY2021 due to the acquisition of new business partners and the identification of dormant business partners.

- Loans to Retail

The balance of securities-backed loans to individual investors or firms increased year on year due to meticulous improvement of the commercial appeal of mainstay COM-STOCK loans (securities-backed loans that can be traded online) and an increase in business partners. In face-to-face transactions, we are focusing on identifying transaction needs in cooperation with securities companies and independent financial advisors.

Highlights

International Finance Awards

At the International Finance Awards 2021, JSF received awards in two categories relating to work in Japan—Most Innovative Securities Lending Services Provider and Most Innovative Financing Company. Sponsored by British financial media company International Finance Publications, the awards recognize outstanding companies in 11 categories in the field of international finance, including banking and brokerage. This is the first time JSF has received these awards.



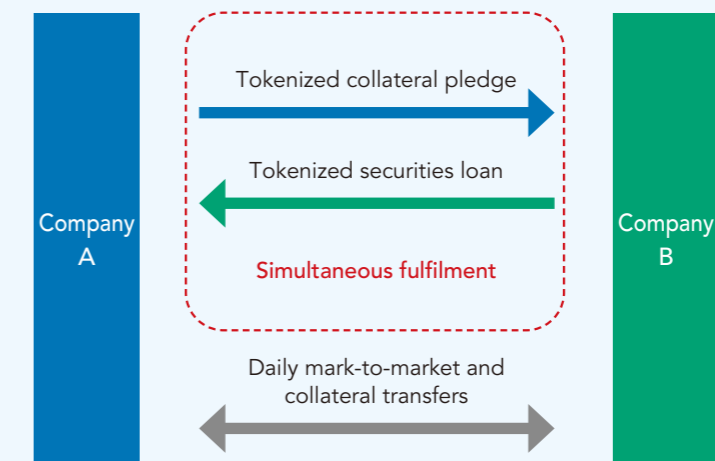
Empirical Research on Securities Transactions Using Blockchain Technology (Joint Research with the University of Tokyo)

In recent years, awareness of distributed ledger technology (blockchain) has been increasing, and discussions about its potential use in the securities field are progressing.

We have been conducting empirical research jointly with the University of Tokyo to verify whether smooth transactions can be carried out through the use of blockchain technology. The focus of this research is securities lending, one of our main business areas.

Specifically, we are conducting hypothetical transactions in which tokenized securities (cryptographic assets issued using blockchain technology) and collateral are exchanged virtually between limited parties. We are examining the possibility of (1) enabling the near-simultaneous real-time transfer of securities and collateral denominated in foreign currencies, which normally involves time differences, (2) obtaining benefits from increasing both system availability and the efficiency of administrative processing, and (3) utilizing various assets, including illiquid assets, as collateral backed by these advantages.

Overview of Empirical Research

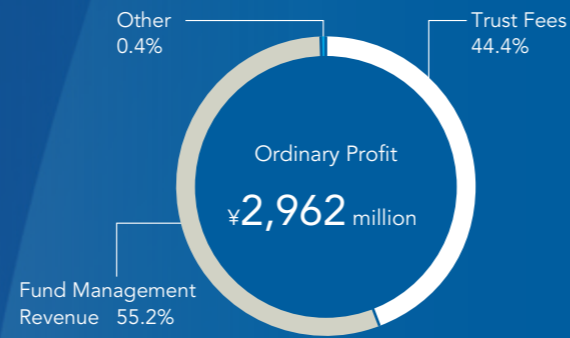


Trust Banking Business

JSF Trust and Banking Co., Ltd.

Net assets ¥30.4 billion

Number of employees 41



Ordinary Profit
¥2,962 million

Business Description and Policy

JSF Trust and Banking Co., Ltd. was established in 1998 amid financial system reforms known as the "Japanese Big Bang." A wholly owned subsidiary of JSF, it aims to contribute to JSF's securities market functions through its trust business. As times change and financial technology becomes increasingly sophisticated, JSF Trust and Banking provides trust services to meet needs that get more diverse by the year and contribute broadly to the development of Japan's financial market.

Business Policy

In light of its founding philosophy of being a trust bank that supports the business infrastructure of securities companies and other financial instruments companies, JSF Trust and Banking aims to deepen and expand its business model through financial and securities-related services that only it can provide.

- As a highly specialized trust bank, JSF Trust and Banking works to expand its business through a focus on securities market-related operations.
- We handle lending to securities companies and others, and carry out banking functions in accordance with our size.
- We contribute to the sound development of the financial and securities markets by providing comprehensive financial services in cooperation with our parent company, JSF.

Business Environment and Recognized Issues

Since its founding, JSF Trust and Banking has been engaged in the trust business, focusing on trusts for cash segregated as deposits for customers and securities trusts. In recent years, laws and regulations have been established for various financial products such as forex transactions, overseas futures trading and CFD transactions, investment crowdfunding, and crypto asset transactions, making the protection of customer assets mandatory. In response, JSF Trust and Banking has leveraged the expertise and technical information it has cultivated through trusts for cash segregated as deposits for customers and securities trusts to increase trust products for financial instruments businesses, commodity futures traders and crypto asset exchange traders.

We will continue to develop asset preservation trust products. In addition to trust services, we are focusing on banking services such as business development support loans for financial instruments businesses and other business partners.

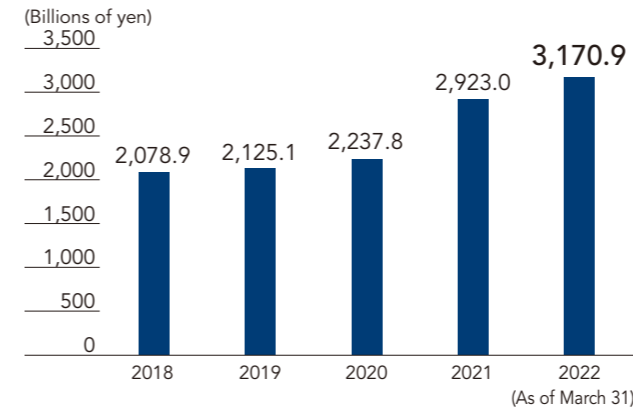
Strengths and Opportunities

The strength of JSF Trust and Banking lies in its ability to make proposals based on its extensive experience and track record, its flexibility, and the meticulous administrative support it provides. In recent years, as well as building a track record of handling ABL trusts through referrals from securities companies, we have received many inquiries, mainly from other financial institutions and fund management companies, about investment trusts managed under instructions from the trustor and securitized receivables trusts that help customers manage their assets. In cooperation with its parent company, JSF Trust and Banking will work to meet market needs as a trust bank that contributes to the improvement of market functions and investor convenience.

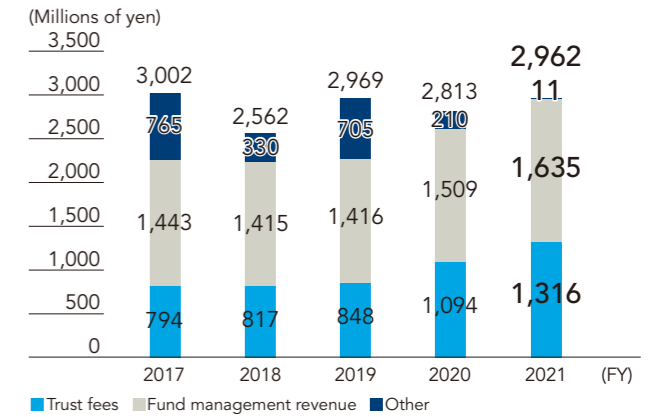


Toshihiro Oritate
President
JSF Trust and Banking Co., Ltd.

Balance of Trust Assets



Ordinary Profit (Non-consolidated)

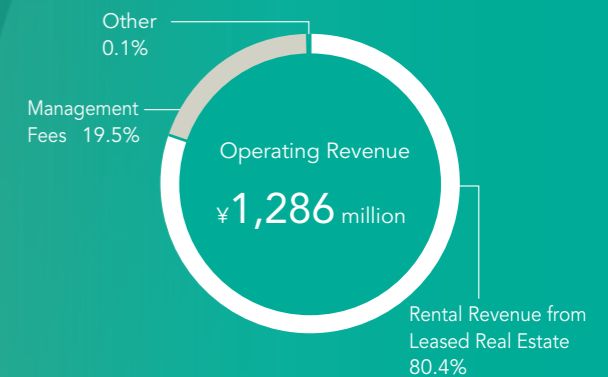


Real Estate Leasing Business

Nihon Building Co., Ltd.

Net assets ¥8.2 billion

Number of employees 16



Operating Revenue
¥1,286 million

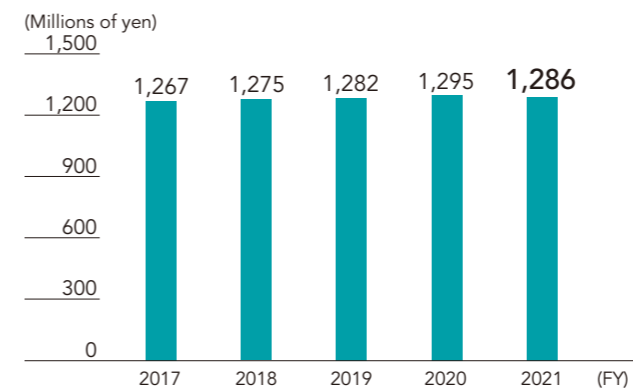
Business Information and Policy

A wholly owned subsidiary of JSF, Nihon Building Co., Ltd. was established in 1958. As the JSF Group's real estate leasing company, Nihon Building is tasked with providing suitable, comfortable office space to tenants and customers, especially members of the Group. In addition to working for the Group, such as managing the JSF head office building, and steadily promoting the leasing business for buildings owned by the Group in Nihonbashi-kayabacho, Nihon Building will continue to improve its services in cooperation with Group companies while responding to changes in the business environment, including redevelopment under way in the Nihonbashi area.



Kazuhiro Maeda
President
Nihon Building Co., Ltd.

Operating Revenue



Nihon Building No. 3

Message from an Outside Director

We will work to further enhance and strengthen corporate governance to improve corporate value.

Naotaka Obata
 Outside Director
 Chairperson of the Board
 Nomination Committee Chairperson
 Remuneration Committee Chairperson



Roles to Be Fulfilled as an Outside Director and Chairperson of the Board

I was appointed as an outside director in 2019, when Japan Securities Finance (“JSF”) transitioned to a “Company with a Nominating Committee, etc.” structure. For the past three years, I have served as chairperson of the Board of Directors, as well as chairperson of both the Nomination Committee and the Remuneration Committee. A Company with a Nominating Committee, etc. is designed to clearly separate supervision and execution of management. In this structure, the role of the Board of Directors is to determine basic medium- to long-term management policies and to supervise executive officers to ensure that they are executing business appropriately based on those policies.

As chairperson of the Board of Directors of JSF, I have always had a mindset of maximizing its effectiveness as a so-called “monitoring board.” I feel that the diverse knowledge of board members, who are mainly outside directors, has helped deepen and broaden discussions at board meetings.

In supervising the execution of business by the president and other executive officers, outside directors must sometimes give harsh opinions, and at other times encourage management to take on new challenges.

When deliberating on important management matters and overseeing business execution, outside directors are expected to act from an objective standpoint with an outsider’s point of view. At the same time, we must constantly bear in mind JSF’s corporate philosophy of contributing to the development of the securities market while always maintaining a keen awareness of its public role.

In FY2022, the focus of the Board of Directors will be on deliberating and deciding the next mid-term management plan based on the medium-term management policy formulated in 2021. As chairperson, I intend to continue leading those discussions.

Working to Improve the Effectiveness of the Board of Directors

Three years have passed since JSF transitioned to a Company with a Nominating Committee, etc. structure. During that time, we have been working in cooperation with the secretariat of

the Board of Directors to enhance the effectiveness of the board as a monitoring board by creating an environment that encourages lively discussions at board meetings. Initiatives include enhancing training to acquire knowledge about the Company’s operations, holding regular meetings for outside directors to enable them to share information with one another, and creating opportunities for outside directors and department heads to exchange opinions.

I believe that mutual understanding of each other’s knowledge and expertise and a shared awareness of business execution issues will enable outside directors to speak frankly at board meetings, thereby deepening discussion. Moreover, to facilitate such rich discussion, it is essential to provide a foundation of information and support for directors. To that end, the Corporate Governance Office was established to serve as secretariat of the Board of Directors. I feel this has enhanced support for the board.

We conduct annual evaluations of the effectiveness of the Board of Directors, identifying issues related to the operation of the Board of Directors, and working in cooperation with the secretariat of the board to make improvements. I am happy to say that we have received many candid and forward-looking proposals from directors on various issues, such as expanding opportunities for outside directors to exchange opinions with one another.

Enhancing and Strengthening Corporate Governance to Improve Corporate Value

With changes in JSF’s operating environment in FY2021, such as revisions to the Corporate Governance Code and the transition to new market segments by the Tokyo Stock Exchange, the Company formulated its medium-term management policy in November 2021.

The Corporate Governance Code includes three new requirements: enhanced Board of Directors’ functions, diversity in core personnel, and response to issues regarding sustainability.

In order to further enhance the functions of the Board of Directors, in 2022 the Company took steps to structure a board with multiple layers of complementary skills by appointing two new outside directors whose backgrounds and expertise differ from those of existing board members. To ensure diversity of core personnel and address issues

regarding sustainability, the Company has been promoting the recruitment of female talent and mid-career hires under a policy of developing and retaining diverse human resources. Meanwhile, it has been steadily working on the formulation of ESG-conscious management strategies and the development of governance systems, including a system for the disclosure of climate change information, based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

As an outside director, I will do my utmost to contribute to the achievement of the Company’s management goals set forth in the medium-term management policy and the realization of its vision for the future by expeditiously addressing diverse issues in order to achieve the level of governance expected of a listed company.

As Nomination Committee Chairperson

The Nomination Committee decides on director candidates, prepares succession plans for the representative executive officer and president, decides on candidates for the position of executive officer, and considers policies regarding the appointment and dismissal of individuals in these management positions. In FY2021, we discussed how to approach various Board of Directors’ issues, such as its composition, as well as how to approach the appointment of executive officers.

First, with regard to the composition and other aspects of the Board of Directors, since the 2019 transition to a Company with a Nominating Committee, etc., JSF has maintained a system of five directors, including three outside directors. Under this system, I believe that the Board of Directors has been appropriately formulating management policies and supervising the execution of business. It has also been evaluated and confirmed to be effective. However, during that time there have been remarkable changes in the Company’s internal and external environment, such as Corporate Governance Code revisions and the Tokyo Stock Exchange’s transition to new market classifications, as well as further progress of digitalization and internationalization. The Company is also at the stage of formulating and implementing its next mid-term management plan based on its latest medium-term management policy. We therefore examined the composition and other aspects of the Board of Directors from the perspective of further enhancing its functions. We concluded that the Board of Directors was currently made up of directors with the necessary skills and that the board was effectively performing its function of supervising business execution. However, given the importance of having a board with multiple layers of complementary skills to respond to matters including changes in the environment, as well as the need to balance the number of supervisors and executives, and to diversify the board in terms of age and gender, the Company decided at its June 2022 general meeting of shareholders to add two new outside directors.

When deciding on new director candidates, the Nomination Committee first confirmed the skill matrix, discussed and formulated a preliminary list of candidates, and interviewed each candidate on the list with a focus on their experience, and their awareness of issues required of an outside director. Based on the results of the interviews, the final candidates were selected after an evaluation of whether they could be expected to make an adequate contribution to the Company as a director.

The committee also comprehensively examined the approach to appointing executive officers from the perspective

of building an execution system for promoting the mid-term management plan. Based on the public role and special characteristics of the securities finance business, the Company formerly sought executive officer candidates with qualities such as the ability to fully recognize the Company’s public role in the execution of business and extensive knowledge of the overall finance and securities markets, but we have newly broadened the qualities required to include having an international outlook, a high degree of knowledge and experience in business management and risk management, and a high degree of knowledge and experience in finance and accounting.

By organizing our approach in this way, we can select specific candidates based on their character from a preliminary list of qualified candidates from within the Company, the public sector, and the securities and financial sectors. This process, which includes discussions at Board of Directors meetings and prior briefings, enables Nomination Committee members to deepen their understanding of the qualities and character of each executive officer. In addition, we communicate with managerial-level individuals other than officers through various opportunities such as business briefings, and strive to identify their capabilities. In this way, Nomination Committee members work both inside and outside the committee to collect information for the selection of candidates. As the leader among the executive officers who possess these qualities, and the person responsible for management, the representative executive officer and president is required to have the ability to oversee business execution and improve corporate value, and other qualities such as high ethical standards as the representative of a company that plays a public role. Furthermore, the committee regularly arranges opportunities for interviews and discussions with candidates to help create a mental picture while gathering information to make decisions on selection.

As Remuneration Committee Chairperson

The Remuneration Committee decides on the remuneration of directors and executive officers, and policies regarding the remuneration of officers and other matters. In its officer remuneration system, the Company has been working to further link executive officer remuneration to performance, and has revised bonuses for executive officers to reflect the degree of progress and achievement of the management goals in the mid-term management plan. In FY2021, the first year after this revision, we worked to manage the system appropriately. Going forward, we will consider revising officer remuneration based on the new mid-term management plan, which is aimed at achieving the management goals set out in our medium-term management policy. Moreover, in recent years companies have been expected to actively address sustainability issues, and there have been moves to reflect the results of such efforts in officer remuneration. I would like the Remuneration Committee to discuss officer remuneration from this perspective as well.

Board of Directors Initiatives and Policies Going Forward

Going forward, as the Company’s management begins to step up efforts to implement the medium-term management policy, I would like the Board of Directors to contribute to the Company’s development by conducting appropriate supervision based on the launch of the mid-term management plan and the monitoring of its progress through free and open discussion among directors with various backgrounds.

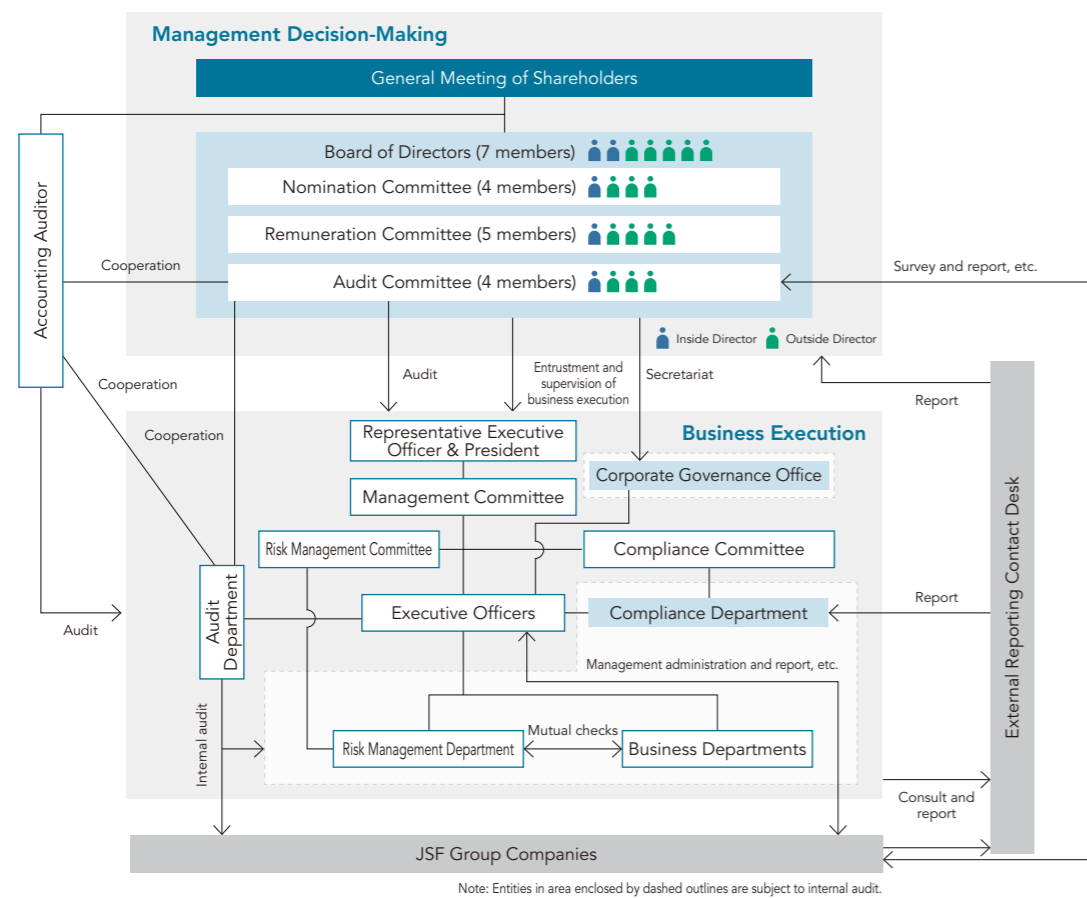
Corporate Governance

Basic Concept

As an institution specializing in securities finance, JSF has a mission to contribute to the development of the securities market by proactively meeting the diverse needs of the securities and financial sectors and to enhance the long-term interests of users, while always maintaining a keen awareness of its public role. Based on this thinking, the Company aims to gain the firm trust of society through sound business operations.

Under this corporate philosophy, the Company has adopted the Company with a Nominating Committee, etc. structure under the Companies Act, based on which it strives to clarify the separation of supervision and execution of business operations, further strengthen supervision by having mainly outside directors to ensure sound management, and achieve prompt business execution that responds quickly to changes in the business environment.

Corporate Governance System



Overview of the Board of Directors and Status of Initiatives

JSF has strengthened the supervisory function of the Board of Directors as a Company with a Nominating Committee, etc., based on which it has separated supervision and execution. Excluding matters to be resolved by the Board of Directors, such as those designated by laws and regulations and the Articles of Incorporation, decisions on business execution are, in principle, delegated to executive officers, thereby building an effective and efficient governance system that enables the Company to respond quickly to changes in its operating environment. The Board of Directors is responsible for determining basic management policies and for supervising the execution of business by executive officers. As a specific example, under this system the chairpersons of the Board of Directors and the three statutory committees, who are all outside directors, engage in extensive study and discussion from various angles in formulating the mid-term management plan. In addition, in order to appropriately supervise the execution of business, the Company strives to enhance the provision of information to directors, in ways such as reviewing report content and holding business briefings.

Composition of the Board of Directors

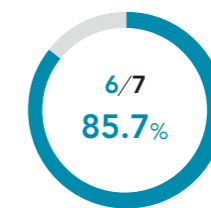
The Board of Directors comprises a variety of directors with diverse expertise, experience and other characteristics, based on a skill matrix formulated by the Company. To the extent designated in the Articles of Incorporation, JSF secures the appropriate number of members to maximize the effectiveness and efficiency of the board's functions. In addition, multiple outside directors independent from the Company and possessing abundant experience and expert knowledge of business management and other matters have been appointed to the board to ensure appropriate business operations while enabling objective and neutral management supervision from external viewpoints.

The Board of Directors currently comprises seven members (including five outside directors), with an outside director serving as chairperson. At the general meeting of shareholders held in June 2022, the number of outside directors was increased from three to five, taking into consideration factors such as balancing the number of people engaged in oversight and execution, diversification in terms of age and gender, and the need for multifaceted skills in light of changes in the operating environment, such as the revisions to the Corporate Governance Code, the transition to new market segments by the Tokyo Stock Exchange, and further progress in internationalization and digital transformation.

Overview of the Board of Directors (As of June 23, 2022)

Organization Form	Company with a Nominating Committee, etc.
Chairperson of the Board	Outside director
Maximum Number of Directors as Stipulated in the Articles of Incorporation	8
Number of Directors	7
Number of Outside Directors (Independent Directors)	5 (5)

Non-Executive Directors



Independent Outside Directors



Initiatives in FY2021

In light of changes in JSF's operating environment in FY2021, such as the revisions to the Corporate Governance Code and the shift to new market segments by the Tokyo Stock Exchange, the Company announced its medium-term management policy in November 2021 after discussing the Vision for JSF in the Future, medium-term management goals, strategies for achieving those goals, and shareholder returns. Of particular note, the Company decided to use ROE as an indicator for management targets. Having estimated the cost of equity capital to be around 4.5%, the Company set an ROE target of 5% for the next mid-term management plan to exceed this figure, to be achieved by FY2025. The Company also deliberated and announced a basic policy for its business portfolio based on the fundamental nature of the Group's business and the purpose of the Corporate Governance Code.

Moreover, as an initiative for corporate governance, the Board of Directors worked to further enhance its role by deliberating and studying its composition, as well as the qualities required of executive officers. In addition, the Company established a Corporate Governance Office with improved functions as the secretariat of the Board of Directors.

JSF has clarified its basic policy for sustainability promotion and ESG-related initiatives as follows: "The JSF Group provides a variety of services, including the loans for margin transactions business, as a part of the infrastructure of Japan's securities market, and works to improve the liquidity

of the country's securities and financial markets as well as the convenience for market participants. Through these activities, we aim to play a part in initiatives to realize a sustainable society, including supporting market participants who are engaged in similar initiatives."

Main Agenda for FY2021

- Corporate Governance**
 - Formulation of the medium-term management policy
 - Formulation of a business portfolio policy
 - Examination of sustainability issues (formulation of basic thinking, identification of material issues, etc.)
 - Disclosure of climate-related financial information based on TCFD recommendations
 - Formulation of an approach to the composition and other aspects of the Board of Directors and appointment of executive officers
 - Consideration of response to the new market segments of the Tokyo Stock Exchange (transition to Prime Market)
 - Evaluation of the effectiveness of the Board of Directors
- Risk Management**
 - Status of risk appetite indicators and risk management
 - Implementation status of internal audits
- Capital and Financial Policy**
 - Examination of shareholder returns policy
 - Evaluation of cross-shareholdings
 - Status of dialogue with investors
- Mid-Term Management Plan**
 - Progress of the mid-term management plan

Corporate Governance

Overview of Each Statutory Committee and Status of Initiatives

Nomination Committee

To ensure that the Board of Directors can adequately determine management policies and supervise execution, the Nomination Committee deliberates and decides on general matters related to the appointment and dismissal of the Company's management team (directors, executive officers and corporate officers) such as the composition of the Board of Directors, including the skill matrix, determination of director candidates, consideration of succession plans, qualifications required of executive officers and corporate officers, the policy for their appointment and dismissal, and

determination of specific candidates. The committee currently consists of four directors (including three outside directors), and is chaired by an outside director.

Main Agenda for FY2021

- Consideration of and deliberation on the skill matrix for directors, the composition and other aspects of the Board of Directors
- Consideration of and deliberation on the approach to the appointment of executive officers
- Nomination of director, executive officer and corporate officer candidates for FY2022

Remuneration Committee

The Remuneration Committee deliberates and decides on general matters related to amounts of remuneration for senior management (directors, executive officers and corporate officers) for the steady implementation of the medium-term management policy and management plans based on this policy. These matters include making sure the remuneration system is consistent with the implementation of the management policy and related plans, deciding on remuneration for individual members of senior management,

and the policy for determination thereof. The committee currently comprises five directors (including four outside directors), and is chaired by an outside director.

Main Agenda for FY2021

- Determination of FY2021 remuneration amounts for individual directors and executive officers
- Future officer remuneration based on the formulation of the medium-term management policy

Audit Committee

In addition to carrying out tasks such as auditing the execution of duties of directors and executive officers and preparing audit reports, the Audit Committee deliberates and determines the content of proposals (including those on election and dismissal of the accounting auditor) to be submitted to the general meeting of shareholders.

The committee currently comprises four directors (including three outside directors), and is chaired by an outside director.

Main Agenda for FY2021

- Business operation status, risk management, compliance, internal auditing
- Reports from the accounting auditor (audit plans, major audit matters, etc.)

Director Expertise (Skill Matrix), Attendance at Board of Directors and Other Meetings

Name	Outside/Inside	Area of Expertise							FY2021 Meeting Attendance				
		Corporate management	Finance, securities, economics	International affairs	Legal affairs, compliance	Financial affairs, accounting	Internal control, risk management	ESG	Board of Directors	Nomination Committee	Remuneration Committee	Audit Committee	
Naotaka Obata	Outside	●	●	●				●	●	100% 11/11	100% 8/8	100% 5/5	—
Shoko Sugino	Outside				●			●	●	100% 11/11	100% 8/8	100% 5/5	100% 11/11
Shuya Imura	Outside		●		●	●	●			100% 11/11	—	—	100% 11/11
Kensuke Futagoishi	Outside	●	●			●	●	●		—	○ ¹	○ ¹	—
Takayoshi Yamakawa	Outside	●	●	●		●	●	●		—	—	○ ¹	○ ¹
Shigeki Kushida (Representative Executive Officer & President)	Inside	●	●	●				●	●	100% 11/11	100% 8/8	100% 5/5	—
Hiroshi Asakura	Inside		●			●				100% 9/9 ²	—	—	100% 9/9 ²

◎: Chairperson, ○: Member 1. Appointed in June 2022 2. Appointed in June 2021

Evaluation of the Effectiveness of the Board of Directors

In FY2021, based on an evaluation by each of the directors, the Board of Directors analyzed and evaluated matters related to its effectiveness including the composition and operation of the Board of Directors, the support system for directors and the directors' personal efforts, as well as an evaluation of the three statutory committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee.

For the analysis and evaluation, a questionnaire was administered to all directors. The Company has chosen to receive recommendations from an external organization regarding the content of the questionnaire and, in principle, to send responses directly to that organization. The board's analysis and evaluation is based on the external organization's report of the aggregated results and an opinion exchange meeting, including with the outside directors, held prior to administration of the questionnaire.

(1) Overall Evaluation

The questionnaire responses and other findings confirmed that the composition, operation, support system and other aspects of the Board of Directors are all appropriate. The statutory committees were also confirmed to be operating appropriately.

Based on these findings, the Company judged that the effectiveness of its Board of Directors has been ensured.

(2) Initiatives in FY2021 to Address Issues Raised in FY2020

The FY2020 evaluation yielded feedback that we should increase opportunities for directors to exchange opinions in order to further enhance discussions at Board of Directors meetings. Another issue recognized by participants in the evaluation was the need to strengthen support for the Board of Directors and statutory committees in order to improve their effectiveness.

Responding to this feedback, in FY2021 the Company provided multiple opportunities for outside directors to exchange opinions and established the Corporate Governance Office. This office serves as a dedicated secretariat to strengthen support for the Board of Directors and the statutory committees in ways such as providing directors with appropriate information on corporate governance and on execution of Company business. These initiatives were judged to be appropriate.

(3) Issues Raised in FY2022

The Company concluded that the effectiveness of the Board of Directors has been ensured. However, given that the number of directors was increased in FY2021, efforts will continue to further improve the effectiveness of the Board of Directors, including by enhancing the provision of information and training and by improving the functions of the secretariat.

In FY2022, the Board of Directors will focus on consideration of the next mid-term management plan toward the realization of the medium-term management policy announced in November 2021. Accordingly, the Company will work to enhance board discussions through a proper understanding of the progress of the current mid-term management plan, which is the premise of discussions, and by providing accurate information on trends inside and outside the Company. In addition, since various considerations regarding nomination and remuneration will take place in relation to the formulation of the next mid-term management plan, the Company will work to further improve the effectiveness of the statutory committees.

The Company will work to address these issues to further improve the effectiveness of the Board of Directors.

Policy on the Composition of the Board of Directors and Appointment of Executive Officers

Composition and Other Aspects of the Board of Directors

The situation in the securities and financial markets affecting the Company is undergoing major changes due to factors such as the progress of globalization and digitalization, as well as the prolonged COVID-19 pandemic. In addition, revisions to the Corporate Governance Code and the transition by the Tokyo Stock Exchange to the Prime Market necessitate the establishment of a more advanced governance system. As a listed company, JSF is expected to further enhance profitability and address new issues such as sustainability.

In light of issues related to this situation both inside and outside the Company, the Nomination Committee and the Board of Directors deliberated and reviewed the composition and other aspects of the board from the perspective of further enhancing the roles of the Board of Directors in regard to determining basic management policies and carrying out supervisory functions. Their conclusions were as follows.

- As of the end of FY2021, the Company's Board of Directors comprises directors with the necessary skillsets, and is effectively performing its function of supervising execution.

Corporate Governance

- It is appropriate to appoint directors who have multiple layers of skills, given the Company's steady growth in recent years centered on the securities finance business, progress in the diversification and sophistication of operations, the need to respond to changes in the operating environment such as further progress in globalization and digital transformation, and the desirability of having a system that allows members with diverse backgrounds to engage in multifaceted consideration.
- It is also important to balance the number of people engaged in oversight and execution, and to diversify in terms of age and gender.
- Based on these conclusions, the number of directors was increased by two at the general meeting of shareholders held in June 2022.
- To enable speedy decision-making, and taking the size of the Company into account, the upper limit on the number of directors based on the skill matrix was revised to allow a certain amount of leeway relative to the actual number of directors.

Qualities Required of Executive Officers

In light of the public role and special characteristics of securities finance services such as loans for margin transactions, the Company believes that in addition to the generally required knowledge and leadership in areas such as corporate governance, legal affairs and finance, executive officers should have the following qualities.

- The ability to fully recognize JSF's public role in the execution of business
- Extensive knowledge of the overall securities and finance markets
- Well versed in the Financial Instruments and Exchange Act and other various laws and regulations
- Knowledge and experience involving JSF's highly specialized business
- The internationality required in the advance of JSF's business
- A high degree of knowledge and experience in business management and risk management
- A high degree of knowledge and experience in finance and accounting
- Ability to flexibly respond to the various changes affecting JSF in the securities and finance sectors

Officer Remuneration System

Policy for Determining the Amount of Remuneration for Officers and the Calculation Method Thereof

Details of Policy and Determination Method

Remuneration for Company officers shall be based on systems and standards in accordance with the respective roles and expected functions of directors and executive officers, in order to achieve sustained growth and enhancement of corporate value over the medium to long term based on the corporate philosophy and management principles. Specifically, individual amounts of remuneration shall be determined by the Remuneration Committee based on the following policy decided on by the committee.

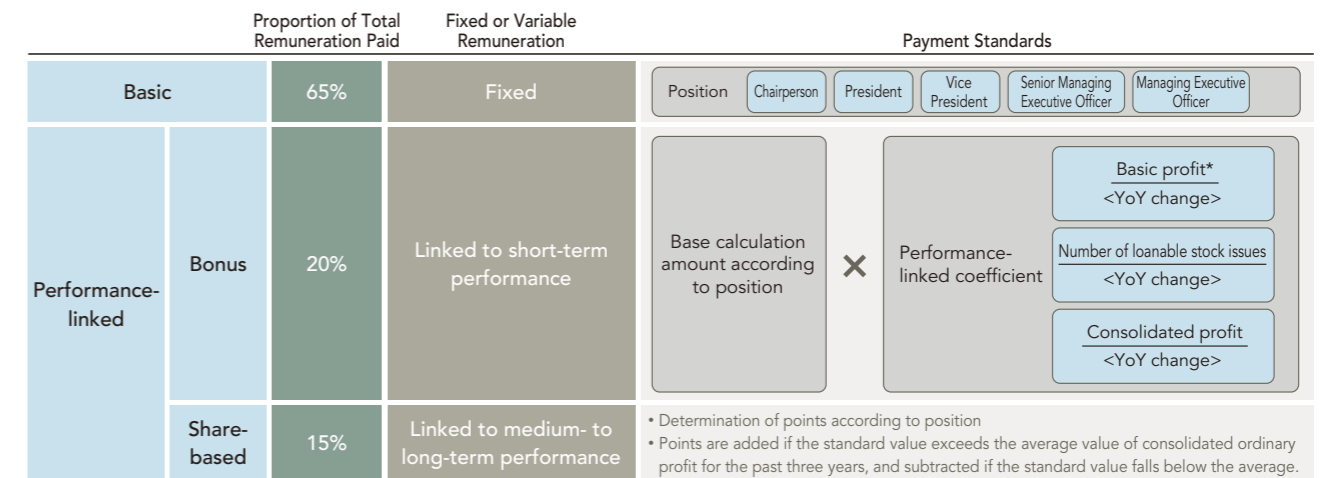
Directors

- With a view to having supervisory functions carried out appropriately, directors shall receive only fixed monthly remuneration (base remuneration). Performance-linked remuneration shall not be provided to directors.
- Remuneration for individual directors shall be determined in accordance with the responsibilities of each director, such as whether that person is serving in a full-time or part-time capacity or as chairperson.
- Directors concurrently serving as executive officers shall not receive remuneration as directors.

Executive Officers

- With a view to enhancing correlation with the Company's business performance and share value, remuneration for executive officers shall comprise fixed monthly remuneration (base remuneration), performance-linked officer bonuses and share-based remuneration.
- Fixed monthly remuneration (base remuneration) shall be determined in accordance with each executive officer's position.
- To clarify the responsibilities of management, officer bonuses shall be determined after the end of each fiscal year, in accordance with the degree of achievement of management goals under the mid-term management plan and business performance for the fiscal year, and are paid within three months after being decided.
- As for share-based remuneration, a Board Benefit Trust (BBT) scheme shall be used to award each executive officer points, which are determined based on correlation with the Company's medium- to long-term business performance. Upon retirement from office, executive officers are issued Company shares corresponding to the number of points they have accumulated.

Overview of the Officer Remuneration System



* Basic profit is defined as ordinary profit estimated based on the assumed gross operating profit of the loans for margin transactions business (average over the past three years) and the gross operating profit of businesses other than loans for margin transactions business. The loans for margin transactions business, which is our main business, is susceptible to market fluctuations, and earnings fluctuate significantly.

Total Amount of Remuneration by Officer Classification

Officer Classification	Total Amount of Remuneration Paid (Thousands of yen)	Total Amount of Remuneration Paid by Type of Remuneration (Thousands of yen)			Number of Eligible Officers
		Basic	Bonus	Non-monetary (Share-based)	
Director (Excluding outside directors)	8,400	8,400	—	—	2
Outside Director	46,560	46,560	—	—	3
Executive Officer	298,873	194,160	75,250	29,463	6

1. Directors concurrently serving as executive officers shall not receive remuneration as directors.
2. Performance indicators for performance-linked remuneration (bonuses) are the number of loanable stock issues, basic profit and consolidated profit, which in FY2021 were 2,661 stock issues, ¥8,454 million and ¥5,174 million, respectively.
3. The business performance index for calculating performance-linked share-based remuneration is consolidated ordinary profit (3-year average), which in FY2021 was ¥5,872 million.

Policy on Cross-Shareholdings

The Company has been reducing cross-shareholdings. Between March 2018 and March 2022, it reduced shares of listed issues held by 91% on a market value basis, and shares of total issues held including listed and unlisted issues by 78%.

Basic Policy

- (1) In order to contribute to sustainable growth and an increase in corporate value over the medium to long term, JSF strategically holds other companies' shares it deems necessary for purposes such as strengthening business relationships.
- (2) With respect to cross-shareholdings, the Company examines the status of dividends and valuation gains and losses, the status of transactions with investee companies, the history and the effects of the shareholdings, and based on this examination, reduces the number of shares in shareholdings for which cross-holding is not necessary.

	March 31, 2022			
	Number of Issues	Carrying Amount	Percentage of Total Assets	Percentage of Net Assets
Listed Shares	2	¥1,057 million	0.007%	0.766%
Unlisted Shares	7	¥1,759 million	0.012%	1.275%

Officers (As of June 23, 2022)

Directors



Director, Chairperson of the Board
Naotaka Obata

Apr. 1968 Joined The Mitsubishi Bank, Ltd.
May 1999 Managing Executive Officer of The Bank of Tokyo-Mitsubishi, Ltd.
Jan. 2004 Senior Managing Executive Officer of The Bank of Tokyo-Mitsubishi, Ltd.
Jun. 2004 Deputy President of The Bank of Tokyo-Mitsubishi, Ltd.
Jun. 2005 President and CEO of Diamond Lease Company Limited
Apr. 2007 President and CEO of Mitsubishi UFJ Lease & Finance Company Limited (currently Mitsubishi HC Capital Inc.)
Jun. 2010 Chairman of Mitsubishi UFJ Lease & Finance Company Limited
Jun. 2012 Executive Advisor to the Board, Mitsubishi UFJ Lease & Finance Company Limited
Apr. 2013 Board member of Japan Pension Service
Jun. 2018 Special Advisor, Mitsubishi UFJ Lease & Finance Company Limited (currently Mitsubishi HC Capital Inc.) (current position)
Jun. 2019 Director, Chairperson of the Board of Japan Securities Finance Co., Ltd. (current position)



Director
Shoko Sugino

Apr. 1973 Registered as an attorney
Joined Fujibayashi Law Office
Apr. 1994 Partner Attorney at Fujibayashi Law Office (current position)
Apr. 1997 Professor for The Legal Training and Research Institute of Japan
Apr. 2000 Tokyo Family Court Conciliation Committee Member
Jul. 2005 Environment Dispute Coordination Commission Member
Mar. 2007 Audit & Supervisory Board Member of Kitoku Shinryo Co., Ltd. (current position)
Jun. 2018 Audit & Supervisory Board Member of Takeei Corporation (current position)
Jun. 2019 Director of Japan Securities Finance Co., Ltd. (current position)

Significant concurrent positions
Partner Attorney at Fujibayashi Law Office
Audit & Supervisory Board Member of Kitoku Shinryo Co., Ltd.
Audit & Supervisory Board Member of Takeei Corporation
Outside Director of Janome Corporation



Director
Shuya Iimura

Apr. 1987 Joined Tokyo Stock Exchange (TSE)
Jul. 2001 Chief of Public Relations Office of General Affairs Department, TSE
Jun. 2010 Director of Derivatives Department, TSE
Mar. 2014 Director of Market Planning Department, Osaka Exchange
Apr. 2016 Human Resources Department, Japan Exchange Group
Jun. 2016 Audit & Supervisory Board Member of Japan Securities Finance Co., Ltd.
Aug. 2018 Audit & Supervisory Board Member of Intellex Co., Ltd. (current position)
Jun. 2019 Director of Japan Securities Finance Co., Ltd. (current position)

Significant concurrent positions
Audit & Supervisory Board Member of Intellex Co., Ltd.



Director
Kensuke Futagoishi

Apr. 1977 Joined The Sanwa Bank, Limited (currently MUFJ Bank, Limited)
Apr. 2001 General Manager, Retail Banking Planning Division, UFJ Holdings, Inc. (currently Mitsubishi UFJ Financial Group, Inc.)
Jan. 2002 General Manager, Gotanda Corporate Sales Department and Branch Manager, Gotanda Branch, UFJ Bank Limited (currently MUFJ Bank, Ltd.)
Oct. 2003 Joined IY Bank Co., Ltd. (currently Seven Bank, Ltd.)
Jun. 2004 Director of IY Bank Co., Ltd. (currently Seven Bank, Ltd.)
Jun. 2006 Director, Executive Officer of Seven Bank, Ltd.
Nov. 2007 Director, Managing Executive Officer of Seven Bank, Ltd.
Jun. 2009 Director, Senior Managing Executive Officer of Seven Bank, Ltd.
Jun. 2010 President and Representative Director of Seven Bank, Ltd.
Jun. 2018 Chairman and Representative Director of Seven Bank, Ltd.
Jun. 2022 Executive Advisor of Seven Bank, Ltd. (current position)
Director of Japan Securities Finance Co., Ltd. (current position)



Director
Takayoshi Yamakawa

Apr. 1991 Joined Yokogawa Hewlett Packard Co.
Oct. 1995 Joined The Boston Consulting Group
Jan. 1997 Project Manager of The Boston Consulting Group
May 1999 Principal of The Boston Consulting Group
Jun. 2000 Founder (co-established), Director and CTO of Dream Incubator Inc.
Jun. 2005 Vice Representative Director of Dream Incubator Inc.
Jun. 2006 Representative Director & CEO of Dream Incubator Inc. (retired June 2020)
Jul. 2020 Representative Partner of Business Producer LLC (current position)



Director
Shigeki Kushida

Jan. 2021 Outside Director of BitStar, Inc. (current position)
Apr. 2021 Outside Director of Baseconnect Inc. (current position)
Jun. 2021 Outside Director of Akatsuki Securities, Inc. (current position)
Jun. 2022 Director of Japan Securities Finance Co., Ltd. (current position)

Significant concurrent positions
Representative Partner of Business Producer LLC
Outside Director of Akatsuki Securities, Inc.
Outside Director of FP Corporation



Director
Shigeki Kushida

May 2008 Deputy Director-General of Personnel and Corporate Affairs Department (Personnel Management), Bank of Japan (BOJ)
Mar. 2009 Director-General of Personnel and Corporate Affairs Department, BOJ
Jun. 2010 Director-General of Monetary Affairs Department, BOJ
May 2011 General Manager of Nagoya Branch, BOJ
Mar. 2013 Executive Director of BOJ
Apr. 2017 Senior Advisor of American Family Life Assurance Company (currently Aflac Japan Ltd.)
May 2019 Advisor of Japan Securities Finance Co., Ltd.
Jun. 2019 Director, Representative Executive Officer & President of Japan Securities Finance Co., Ltd. (current position)
Jun. 2022 Director of JSF Trust & Banking Co., Ltd. (current position)

Significant concurrent positions
Director of Denso Corporation



Director
Hiroshi Asakura

Apr. 1978 Joined Japan Securities Finance Co., Ltd.
Jun. 2002 General Manager of Planning Department
Jun. 2005 General Manager of Margin Loan Department
Jun. 2006 Corporate Officer & General Manager of Margin Loan Department
Feb. 2008 Corporate Officer & General Manager of Loan Department
Jun. 2009 Managing Director
Jun. 2013 Senior Managing Director (retired in June 2016)
Jun. 2016 President of Nihon Building Co., Ltd. (retired in June 2021)
Jun. 2021 Director of Japan Securities Finance Co., Ltd. (current position)

Executive Officers



Chairperson
Eizo Kobayashi



Representative Executive Officer & President
Shigeki Kushida



Executive Vice President
Shunichiro Higuchi
Responsible for Internal Audit Department, Compliance Department



Senior Managing Executive Officer
Yutaka Okada
Responsible for Corporate Governance Office, Business Development Department, Treasury Department, International Relations



Managing Executive Officer
Masaru Sekiguchi
Responsible for Risk Management Department, Human Resources Department, Corporate Planning Department, Group Companies Relations



Managing Executive Officer
Morikuni Shimoyamada
Responsible for Margin Loan Department, Institutional Sales Department, Retail Business Department



Managing Executive Officer
Shinichi Sugiyama
Responsible for Settlement & Custody Department, Information System Planning Department, Osaka Branch

Corporate Officers

General Manager of Compliance Department
Yutaka Osonoi

General Manager of Osaka Branch
Jun Akabane

General Manager of Human Resources Department
Wataru Sato

General Manager of Business Development Department
Yuji Yoshimoto

General Manager of Risk Management Department
Ken Toda

ESG Initiatives

Initiatives and Basic Approach to Sustainability

The development of infrastructure that forms the foundation of socio-economic activities is a key element in realizing a sustainable society, and it is also one of the Sustainable Development Goals (SDGs: Goal 9). The JSF Group provides a variety of services, including loans for the margin trading business, as a part of the infrastructure of Japan's securities market, and works to improve the liquidity of the domestic securities and financial markets, as well as convenience for market participants. Through these activities, we aim to contribute to initiatives to realize a sustainable society, including supporting market participants who are engaged in similar initiatives.

Because it is responsible for the infrastructure of the securities and financial markets, the Group believes it is

important to build a system that provides stable operations regardless of circumstances. To this end, we must not only respond to disasters in a narrow sense, but also ensure the stability and high reliability of our business base. In addition, we believe that there are issues toward which the Group can also contribute by utilizing the know-how and other resources that it has cultivated over the years. Based on this perspective, we are currently aware of the following material issues. Our Group recognizes the roles expected of it in addressing these material issues and will advance various initiatives while flexibly responding to future changes in the social environment.


Material Issues That We Recognize

E: Environmental S: Social G: Governance

Classification	Item	Issues
E	Climate change	<ul style="list-style-type: none"> Promote reduction in environmental impact
	Education	<ul style="list-style-type: none"> Promote financial and economic education activities Promote academic research activities
S	Human resources	<ul style="list-style-type: none"> Promote diversity Develop and secure human resources and create a pleasant workplace
	Human rights	<ul style="list-style-type: none"> Respect for human rights, non-discrimination and diversity Prohibit all types of harassment
	Capital market	<ul style="list-style-type: none"> Enhance functions as infrastructure for Japan's securities and financial markets Contribute to overseas securities and financial market infrastructure
G	Corporate Governance	<ul style="list-style-type: none"> Continuously improve corporate governance
	Business continuity plan (BCP)	<ul style="list-style-type: none"> Stably operate business that is not affected by disasters, etc.
	Compliance	<ul style="list-style-type: none"> Operate business based on a high awareness of compliance
	Risk management	<ul style="list-style-type: none"> Implement the Risk Appetite Framework (RAF)

Specific Initiatives Related to Material Issues

E: Environmental S: Social G: Governance

Classification	Issues	Initiatives
E	Reduce environmental impact	<ul style="list-style-type: none"> Improve Company facilities to conserve electricity, and be conscious of environmental impact Promote paperless operations in all areas of the Company
S	Promote financial and economic education activities	<ul style="list-style-type: none"> Hold a lecture on "Financial and Securities Markets and Industry-Academia Alliance—Blockchain Case Studies" at the Graduate School of Engineering at the University of Tokyo ▶ See page 25 for details. Hold various seminars on margin transactions Hold seminars for investors and training for securities company employees, etc.
	Promote academic research activities	<ul style="list-style-type: none"> Conduct joint empirical research with the University of Tokyo (Securities Lending and Lending Transactions Utilizing Distributed Ledger Technology) ▶ See page 31 for details.
G	Contribute to overseas securities and financial market infrastructure	<ul style="list-style-type: none"> Provide technical assistance and investment in securities finance in Indonesia ▶ See page 25 for details.
	Realize diverse work styles for employees	<ul style="list-style-type: none"> Provide support for childbirth, childcare and caregiving - Introduce Company-wide teleworking - Understand employee engagement 
G	Enhance corporate governance	<ul style="list-style-type: none"> Strive to enhance governance as a Company with a Nominating Committee, etc. - Ensure that the majority of directors are independent outside directors - Ensure that the chairpersons of the Board of Directors and the three statutory committees are independent outside directors Establish a dedicated department to address various corporate governance issues with a sense of urgency
	Implement risk management	<ul style="list-style-type: none"> Implement RAF and establish a system to integrate business management and risk management
	Implement BCP	<ul style="list-style-type: none"> Continue to strengthen the BCP system and cyber security system to ensure stable business operations as a part of the infrastructure of securities and financial markets
G	Compliance	<ul style="list-style-type: none"> Prepare manuals and establish Compliance Enhancement Month

Dialogue with Stakeholders

We are promoting the following initiatives in order to gain and maintain the support and trust of our stakeholders.

Shareholders and Investors	<ul style="list-style-type: none"> Hold financial results briefings for analysts and institutional investors (May and November 2021) and individual interviews Conduct shareholder surveys and share survey responses with the Board of Directors Introduction of hybrid shareholder meetings that enable both online and in-person participation (Live streaming of general meetings for shareholders unable to attend due to remote location or other reasons)
Employees	<ul style="list-style-type: none"> Hold dialogue sessions between top management and employees to share value (Online meetings for all employees, and regular small group dialogue sessions with voluntary participation) Conduct employee surveys and DI* surveys to understand employee attitudes and opinions
Business Partners and Others	<ul style="list-style-type: none"> Interviews and participation in international conferences Hold various seminars on margin transactions for securities company employees
Society	<ul style="list-style-type: none"> Support international cooperation and securities market development, and engage in academic research on securities and financial markets Donations for disaster relief

* Diffusion Index: An index based on employee surveys that measures employee job satisfaction, changes in workplace conditions and other conditions

Addressing Climate Change and Environmental Protection (Initiatives Based on the TCFD Recommendations)

In addition to engaging in initiatives aimed at bringing about a sustainable global environment through its business activities, JSF is working to improve disclosure of climate change information in accordance with the TCFD* recommendations.

* Task Force on Climate-related Financial Disclosures: Established by the Financial Stability Board (FSB) in 2015 at the request of the G20 for the purpose of financial stability. The final report on frameworks for disclosure of climate-related risks and opportunities (TCFD recommendations) published in 2017 calls on companies to assess the risks and opportunities of climate change, reflect them in their business strategy and risk management, understand their financial impact, and disclose this information.

Governance

- To drive Group-wide climate-related efforts, the Board of Directors approved the "Basic Stance on Sustainability," in which it recognizes climate change as a material issue for its business.
- The Management Committee (chaired by the representative executive officer & president) deliberates and decides on sustainability initiatives, including those concerning climate-related issues, and the Board of Directors oversees the progress on these initiatives.
- Specific sustainability initiatives, including those concerning climate-related issues, are detailed in the action plan for the mid-term management plan, and they are carried out across the organization under the oversight of the Corporate Governance Office.

Strategy

- As a company responsible for Japan's securities and financial market infrastructure, JSF recognizes the importance of building systems that operate reliably regardless of conditions. Therefore, we believe that realizing a sustainable global environment is crucial for the continuation of our business activities, and that climate change is a material issue for our business.
- After identifying the risks and opportunities of climate change that could impact our business activities, we qualitatively analyze those impacts and verify the resilience of our management strategy.
- In responding to the transformation into a carbon-free society, we support the efforts of the securities and financial markets participants that are grappling with climate-related issues by improving our financial services and the commercial appeal of our products. At the same time, we are aiming to enhance our own corporate value.

Recognized Risks

- Climate change risks are divided into two categories for identification and recognition purposes. These are "transition risks," which are risks arising from the process of transitioning to a lower-carbon economy to address climate change, and "physical risks," which are risks of losses arising directly from climate change.
- For recognized risks, assumptions have been made about the type of damage (direct or indirect), the scale of the risk (large, medium or small), and the time frame (short- to medium- to long-term).
- JSF believes that the increase in its credit costs will be limited because most of its lending comprises securities-backed loans to securities firms and banks.

Type of Risk	Description	Damage	Scale	Time Frame
Transition Risks	Higher operating costs due to taxation changes related to climate change, such as stricter regulation and carbon taxes	Direct	Small	Medium- to long-term
	Decline in securities financing balance due to factors such as worsening economic conditions, weak financial and securities markets and declining demand for funding due to the effects of global warming	Indirect	Medium	Medium- to long-term
	Decline in share prices due to stakeholder criticism of JSF's response to global warming and inadequate disclosure	Direct	Small	Medium- to long-term

Type of Risk	Description	Damage	Scale	Time Frame
Physical Risks	Damage to owned real estate and facilities due to major storm and flood damage, with damage to facilities affecting business continuity	Direct	Medium	Short- to long-term
	Drop in prices of securities held as a result of worsening financial and securities markets due to the effects of extreme weather events			
	Higher credit costs as a result of damage to counterparty business locations due to major storm and flood damage	Indirect	Small	Short- to long-term
	Business relocation costs incurred due to rising sea levels	Direct	Medium	Long-term
Chronic risks	Higher credit costs as a result of damage to counterparty business location due to rising sea levels	Indirect	Small	Long-term

Note: Short-term, medium-term and long-term time frames are assumed to be 3 years or less, 3-10 years and 10 years or longer, respectively.

Recognized Opportunities

- JSF anticipates and recognizes the following opportunities associated with tackling climate-related issues.
- Our initiatives with respect to these climate-related issues are incorporated into the action plan for the mid-term management plan, and we are monitoring the progress of their implementation.

Opportunity	Description	Time Frame
Resource-efficient Energy Sources	<ul style="list-style-type: none"> • Propelling resource and energy savings • Utilizing renewable energy 	Short- to long-term
Markets for Products and Services	<ul style="list-style-type: none"> • Offering financial services that support the transition to a carbon-free society • Contributing to an environmentally sustainable society through investments in green bonds and other instruments • Increased demand for funding due to the expanding market for ESG investment • Gaining the trust of counterparties and capital markets as a result of appropriate initiatives and disclosure in response to climate-related issues 	Short- to long-term
Resilience	<ul style="list-style-type: none"> • Ensuring business continuity in securities market infrastructure such as lending and borrowing transactions by building a resilient BCP system 	Short- to long-term

Scenario Analysis

- A qualitative analysis of the impact of climate on the JSF Group, based on two scenarios, is presented below. Under the 2°C scenario, global warming is curbed due to strict countermeasures, while under the 4°C scenario, global warming continues to progress in the absence of drastic measures.

	2°C Scenario ¹	4°C Scenario ²
Assumptions	<ul style="list-style-type: none"> • Greenhouse gas emissions are curtailed through policy measures • There are advances in low-carbon technologies and they are widely adopted • Sudden storm and flood damage occurs at a similar scale and frequency as at present 	<ul style="list-style-type: none"> • Without drastic policy measures, greenhouse gas emissions continue to increase at the current rate • Sudden storm and flood damage occurs more frequently and is larger in scale • Chronic changes, such as rising sea levels, have a significant impact on economic activity
Opportunities	<ul style="list-style-type: none"> • Demand increases for funding in the financial and securities markets due to growing ESG investment • Need increases for financial products and services related to environmental protection 	<ul style="list-style-type: none"> • Demand increases for funding in connection with investment in infrastructure for disaster preparedness

1. 2°C Scenario: International Energy Agency (IEA) 2°C Scenario (2DS)

2. 4°C Scenario: Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 8.5

		2°C Scenario ¹	4°C Scenario ²
Risks	Transition risks	<ul style="list-style-type: none"> Stakeholders criticize JSF's response to global warming, causing its share price to decline Equipment costs rise as a result of measures to cut greenhouse gas emissions and enhance BCP 	<ul style="list-style-type: none"> Securities financing balances decline as the economy and financial markets deteriorate due to the effects of global warming
	Physical risks	<ul style="list-style-type: none"> Sudden extreme weather events are similar to those at present, and no major financial impact is expected There is no irreversible climate change, such as rising sea levels, and no major financial impact is expected 	<ul style="list-style-type: none"> There is damage to owned real estate and facilities due to major storms and flooding, affecting business continuity (assumes limited increase in credit costs in conjunction with damage to counterparty financial institutions) Relocation expenses arise from damage to owned real estate due to rising sea levels

1. 2°C Scenario: International Energy Agency (IEA) 2°C Scenario (2DS)
 2. 4°C Scenario: Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 8.5

Risk Management

- JSF recognizes that climate change not only poses the risk of a significant impact on the global environment, but it could also affect our financial position in the future.
- Because these climate change risks could cause or amplify financial risks (credit risk and market risk, for example), we manage the risks associated with climate change within an integrated risk management framework.

Metrics and Targets

- We are working to save resources and energy by promoting telework, using web conferencing both inside and outside the Company, introducing an electronic decision-making system and a paperless meeting system, and digitalizing document storage.
- The JSF Group's CO₂ emissions (combined Scope 1 and Scope 2 emissions³) are shown below. The Group is working to further reduce CO₂ emissions.

	FY2018	FY2019	FY2020	FY2021
CO ₂ emissions (t-CO ₂)	868	853	809	770

3. Scope 1: Direct emissions (use of gas, gasoline, etc.); Scope 2: Indirect emissions (use of electric power)

Diversity and Inclusion

Human Resource Development

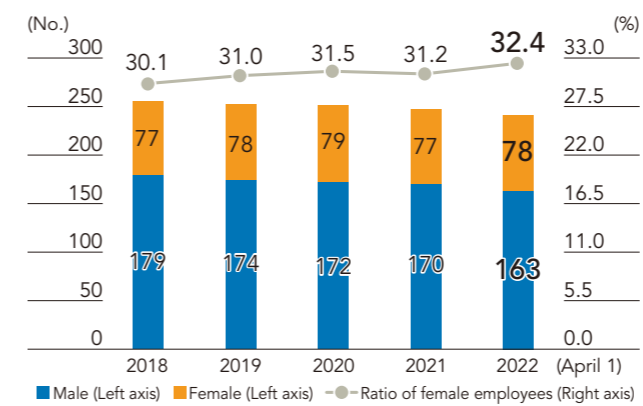
JSF believes that it is important to respect diverse perspectives and values in order to flexibly respond to changes in the operating environment of the securities and financial markets. That is why we support further growth and active participation of our diverse employees while leveraging their individual characteristics. In order to provide a work environment where all employees can actively participate over the long term with peace of mind and a sense of purpose, we will step up initiatives such as promoting health and productivity management and providing flexible work styles.

We need to respond to changes in the business environment and to address the demands and maintain the trust of stakeholders. To do so, we are working to improve productivity through human resource development. Initiatives include establishing various highly flexible training systems, such as a support system that enables employees to independently develop their abilities and improve their skills (for example, at a language school or graduate school, or through an overseas trainee assignment program).

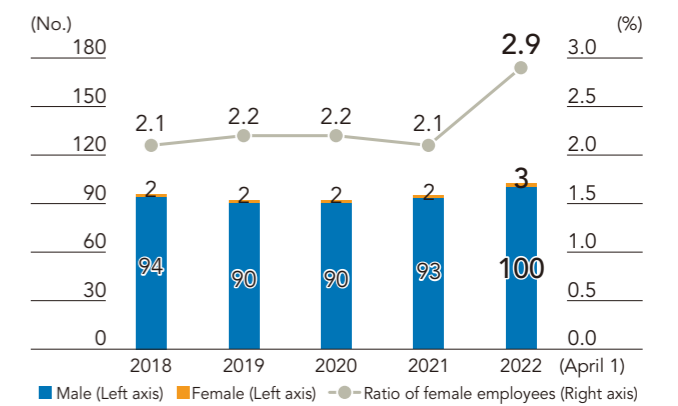
Promoting Active Participation of Female Employees

In order to step up the active participation of female employees, we have set our target ratio for female graduate hires to total new graduate hires at 40% or higher. In recent years, we have maintained this ratio at 50% or higher. In addition, we provide career development support such as various training opportunities so that female employees can take on leadership roles at an early stage of their careers. We also fully leverage the abilities and individuality of all of our employees by maintaining an environment in which they can balance active participation in work with childcare and nursing care. Through such measures, we plan to increase the ratio of women in managerial positions.

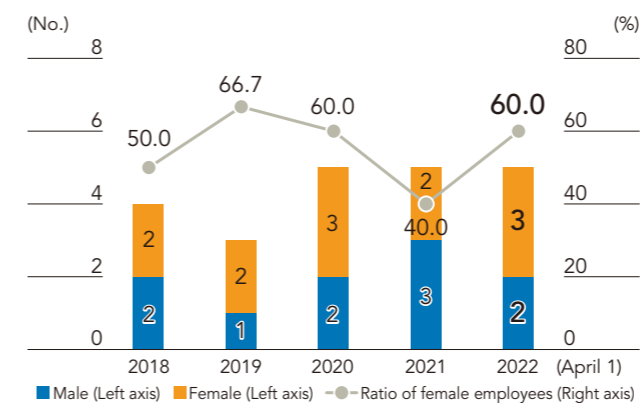
Employees



Managerial Positions



New Graduate Hires



Promoting Active Participation of Mid-Career Hires

In aiming for sustainable growth and improved corporate value, we will flexibly recruit talent from a wide range of industries in accordance with business development. This will include people who can supply diversified financial services, people who can help us enter new fields and people with specialized expertise, all regardless of nationality. We also support employees hired mid-career so that they can maximize their abilities in the workplace. We provide them with opportunities to acquire knowledge both in their specialized fields and in our main business areas.

Supporting Work-Life Balance

We have established various systems to support childcare and nursing care, as well as a framework for disseminating information about changes in Company systems due to revisions of laws and regulations and other matters, and for addressing employee requests by providing individual consultations. Together, these systems help employees balance work with childcare and nursing care. For employees who wish to take a leave of absence to care for young children or another family member, we hold individual interviews to get a grasp of their concerns, anxieties and needs, and create a plan that will facilitate their return to work.

Childcare and Nursing Care Support System				
<ul style="list-style-type: none"> • Childcare and nursing care leave of absence • Child and adult nursing care leave • Reduced working hours • Exemption from overtime work • Childbirth support leave • Subsidies for babysitting expenses • Creation of support plan and implementation of measures for returning to work after taking childcare leave • Support for returning to work and for continuing work • Distributing pamphlets and raising awareness within the Company regarding in-house systems related to nursing care 				
	FY2018	FY2019	FY2020	FY2021
Female Employees				
Number taking childcare leave (half-day, hourly)	10	10	8	13
Number taking a childcare leave of absence	3	6	8	6
Rate of female employees returning to work after taking a childcare leave of absence	100%	100%	100%	100%
Number on reduced working hours system (childcare)	10	9	10	13
Male Employees				
Number taking childcare leave (half-day, hourly)	14	15	11	12
Number taking special leave (childbirth support leave)	7	10	6	7
Rate of male employees taking special leave (childbirth support leave)	100%	100%	100%	89%

Promoting Work-Life Balance

We believe that the mental and physical health of our employees is an important foundation of management. We are therefore working to establish a safe and healthy work environment.

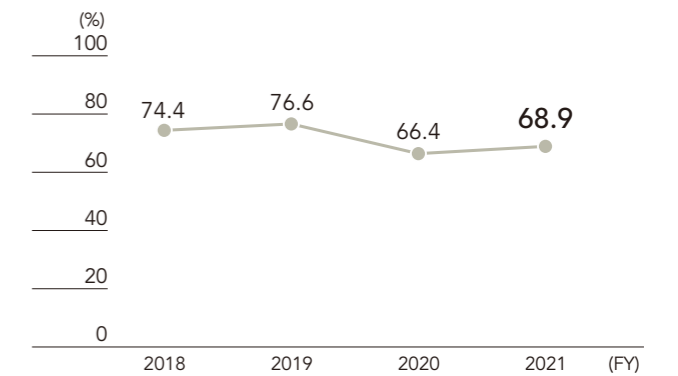
Detailed analysis of stress caused by the work environment enables early identification of employees who are having issues and individual follow-ups to help improve their situations.

We are striving to achieve both improved productivity and happiness for our employees at home and at work by creating an environment in which all employees can choose flexible work styles. We support work styles that match individual circumstances such as marriage, childcare and nursing care, and encourage employees to minimize overtime work and take leave at an appropriate frequency and duration.

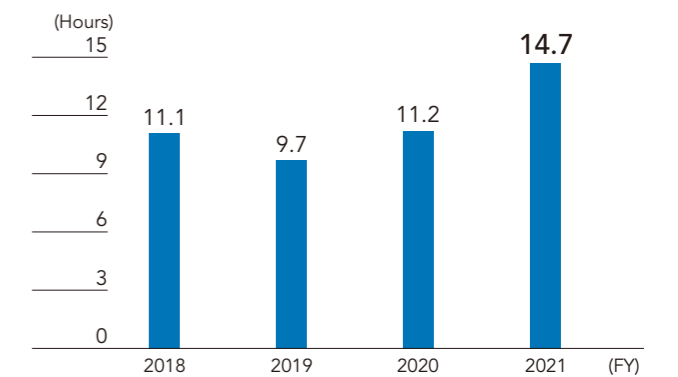
We consider the rate of paid leave taken and the number of overtime hours worked to be important indicators of employees' work situation and pay attention to any changes, as we use this information as a basis for making decisions when planning policy.

Furthermore, by developing a telework environment, we have enabled efficient and flexible working styles that are not restricted by time or location. This has helped lighten the burden on employees raising children or taking care of other family members. Telework is used by all employees, with the average annual implementation rate remaining between 50% and 59%.

Rate of Paid Leave Taken



Overtime Hours Worked (Monthly Average per Employee)



Risk Appetite Framework

Positioning

The JSF Group has made the risk appetite framework (RAF) part of its corporate governance framework, defining it as “a framework that, based on the JSF Group’s social role and management philosophy, clarifies the types and amounts of risks that should be willingly taken (risk appetite)¹ and the risks to be avoided² in order to achieve the mid-term management plan within the scope of the Group’s financial strength, and integrates business management and risk management.”

1. Risks to be taken: Risks associated with revenue-generating activities
 2. Risks to be avoided: Unacceptable risks such as conduct risk

The main purpose of the Company’s RAF is to maintain the high degree of financial soundness required of a securities finance company licensed under the Financial Instruments and Exchange Act, and of a company responsible for the infrastructure functions of Japan’s securities market, while achieving medium- to long-term corporate value as expected of a listed company. To this end, the RAF improves the transparency of the review and decision-making process for establishing the Company’s overall risk-taking policy, including capital allocation and strengthening of profitability. Furthermore, the RAF optimizes allocation of management resources and strengthens monitoring.

Operation

In the operation of the RAF, the Board of Directors establishes a risk management policy for overall management based on the social role that JSF should play as infrastructure for Japan’s securities market and its medium- to long-term vision for the future. At the same time, the board determines the basic items of the RAF, such as risk appetite and the risk appetite indicators that specifically reflect its components, in conformance with the mid-term management plan. Risk appetite is set from a wide range of perspectives, including management stability and financial soundness, as well as the social responsibility of serving as infrastructure for and contributing to Japan’s securities market.

In the execution of business management, we set more detailed targets and decide plans for each business as we promote the mid-term management plan, keeping in mind the risk management policy, risk appetite and risk appetite indicators decided by the Board of Directors.

The Board of Directors works to improve and strengthen the effectiveness of the RAF on an ongoing basis by monitoring risk appetite and risk appetite indicators as it supervises the status of business execution. If risk appetite indicators deviate from set levels, the board analyzes the causes and formulates and implements countermeasures.

Fostering and Instilling a Risk Culture and Risk Governance

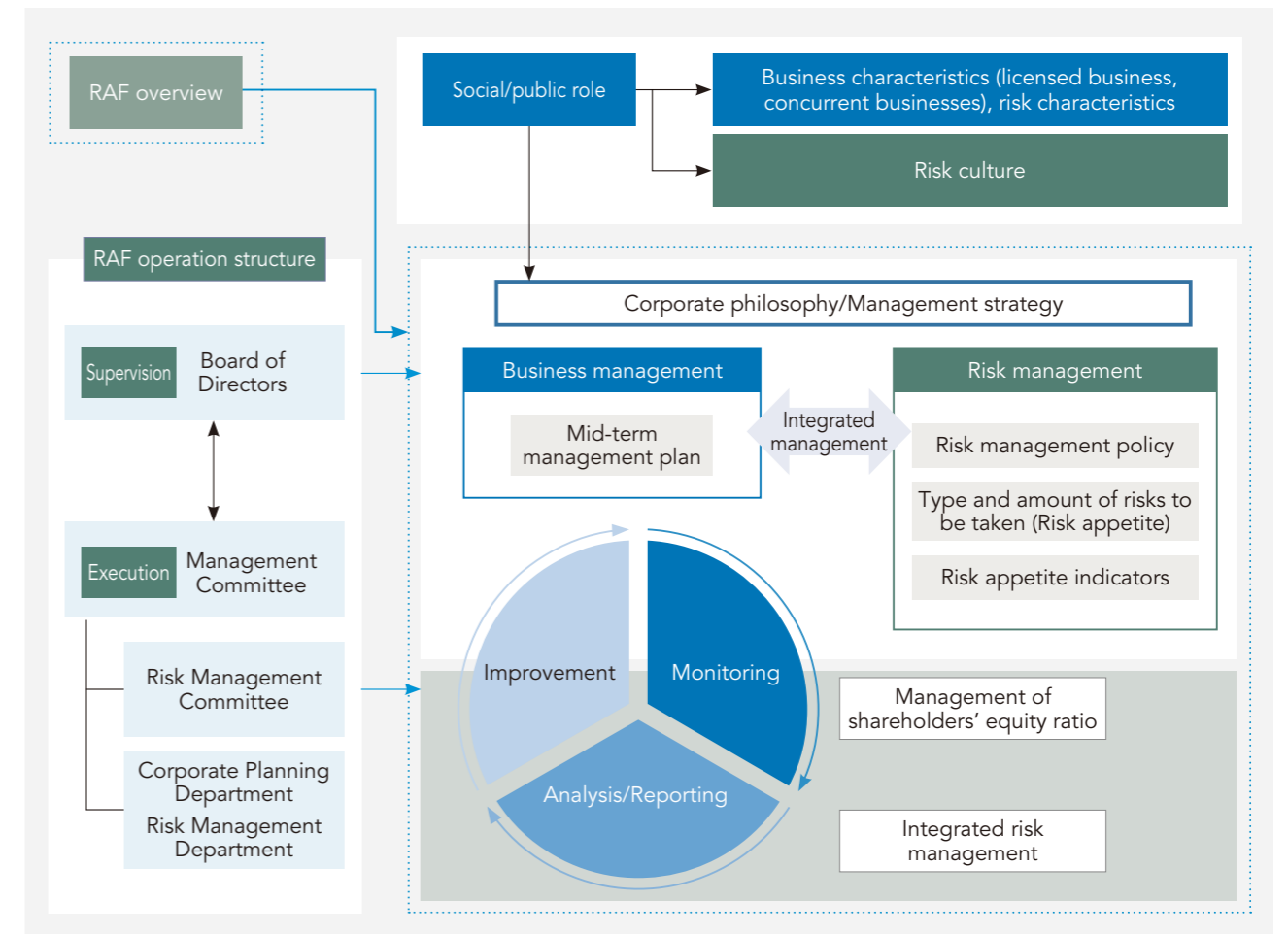
In order to play a public role as part of the infrastructure of Japan’s securities market, we take risks with a keen awareness of maintaining financial soundness and ensuring that concurrent businesses such as securities finance do not affect the stable operation of our licensed loans for margin transactions business. In addition, through regular training and interviews we strive to stay apprised of the status of employees’ compliance awareness and the work environment, and take care to reduce conduct risk.

The risk culture fostered by JSF’s identity is firmly instilled throughout the Company through adherence to the Code of

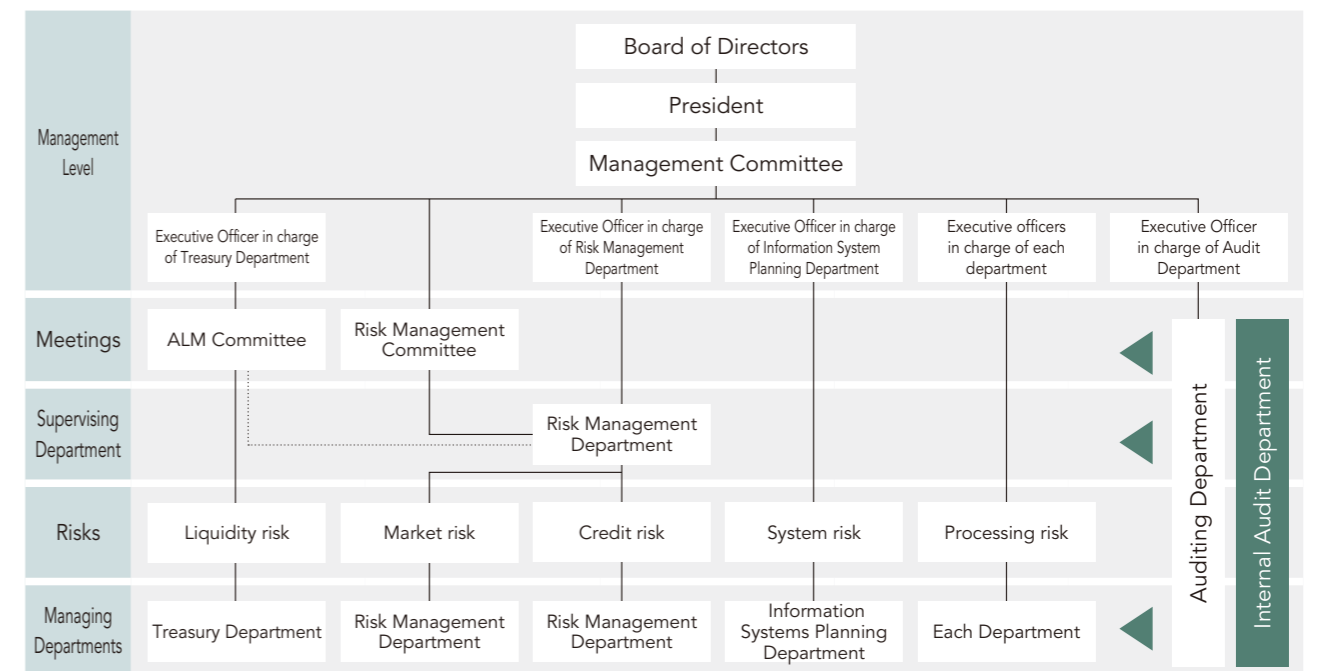
Conduct for Officers and Employees and the risk management policy, and serves as the operational foundation of the RAF. In addition, risk governance is further strengthened through the cyclical effect of continuously raising awareness of risk culture through the operation of the RAF, which further fosters and instills this culture.

We will continue to increase the sophistication of our risk governance, which constitutes part of our corporate governance, and aim to achieve sustainable growth and increase our corporate value over the medium to long term.

Risk Appetite Framework



Integrated Risk Management System



Risk Management

Basic Concept

We broadly classify assumed risks for management as credit risk, market risk, liquidity risk, processing risk and system risk. For credit risk and market risk, we strive to secure profits while quantitatively identifying risks and using integrated risk management to keep them within levels that match our financial strength. For liquidity risk, processing risk and system risk, we strive to prevent their manifestation by implementing appropriate management according to risk characteristics.

Integrated Risk Management

We use integrated risk management to quantify various risks with unified methodology and to keep the total amount of risk within the bounds of management strength.

For credit risk and market risk, we allocate risk capital to each risk category within the bounds of our equity capital, then quantify risks using the Value at Risk (VaR) method to keep the calculated volume of each risk within the bounds of the risk capital allocated to it.

To measure operational risk, which comprises processing risk and system risk, we use basic methods and set the necessary risk capital amounts accordingly.

Amounts of risk capital to be allocated are determined by

the Management Committee following deliberation by the Risk Management Committee at its regular annual meeting.

Each risk operation department keeps the risks within the bounds of the risk capital allocated to them. The Risk Management Department, which is independent of the risk operation departments, quantifies the risks, monitors the status of risk operations, and reports its findings to the board members.

In the event that a risk may exceed the allocated amount of risk capital, the Risk Management Committee holds an extraordinary meeting to deliberate how to respond and then consults with the Management Committee.

Credit Risk Management

Credit risk is the risk of loss due to a decrease or loss in value of assets resulting from credit events such as deterioration in the financial condition of a counterparty. We work to sustain and improve the soundness of assets by strictly managing overall credit risk.

More precisely, the Risk Management Department assesses credit risk according to in-house ratings, quantifying and managing this risk using these ratings. As a supplementary measure, we also implement stress tests. For credit control, the Risk Management Department screens client companies and loan proposals and sets limits on transaction amounts for

each client. Business operation departments keep said amounts within these limits. In addition, business operation departments implement rigorous assessments of the assets for which they hold jurisdiction.

Additionally, as a general rule we assure collateral equivalent to the amount of each loan transaction. By marking relevant collateral to the market on a daily basis, we limit the possibility of impaired loans. In the event of borrower bankruptcy, we take steps including selling securities held as collateral to promptly collect receivables.

Market Risk Management

Market risk is the risk of loss caused by fluctuations in the value of assets held due to fluctuations in various market risk factors such as interest rates, prices of securities and exchange rates.

The Risk Management Department quantifies and

manages market risks, and supplements quantification by implementing stress tests. Furthermore, to validate the reliability of the market risk quantification model we have adopted, we also implement back testing to compare calculated VaR with portfolio-fixed virtual profit and loss.

Liquidity Risk Management

Liquidity risk is the risk of loss caused by failure to raise necessary funds or by procurement of funds with unusually high interest rates, or the risk of loss caused by a halt of transactions due to market disruptions or by forced transactions at unusually unfavorable prices.

The Treasury Department has jurisdiction over the management of liquidity risks. As such, it strives to diversify procurement methods and secure stable suppliers. To manage cash flow, it formulates cash flow projections to grasp the amount that can be procured and the liquidity of assets while paying attention to concentrated settlement dates for

large amounts of funds. There is also a system for reporting the status of daily cash flow to Company management. Furthermore, to be prepared for unforeseeable circumstances, measures are taken to supplement liquidity, such as holding a certain amount of highly liquid government bonds.

In addition, at its quarterly meetings the ALM Committee develops cash flow projections based on forecasts of loans outstanding, deliberates policies for asset liability management, such as revenue management for assets and liabilities of the Company as a whole, and reports on these matters to the Management Committee.

Processing Risk Management

Processing risk is risk of loss in processing due to negligence, accidents or fraud by officers or employees.

Each department has jurisdiction over the management of processing risks. To lessen processing risks, officers and employees are familiarized with proper operational

procedures through regulations, manuals and training. In addition, to prevent accidents and improve the business processing system, each department implements its own voluntary inspections on a regular basis.

System Risk Management

System risk is risk of loss due to system defects such as failures or malfunction of computer systems, or to unauthorized use of computer systems.

The Systems Planning Department has jurisdiction over management of system risks. To ensure stable operation of our computer systems, the department takes measures to prevent system failures, such as duplicating networks and equipment. For the system's safe and effective development

and operation, clear operational procedures and a monitoring system have been put in place. In addition, to protect the Company's own information assets (its information and information systems), necessary regulations have been established and officers and employees have been familiarized with the handling of such assets. Furthermore, measures to minimize the effects of system failures include providing various manuals and drills.

Initiatives for BCP

Basic Concept for BCP

As a securities finance company with a social mission to continue operations that serve as infrastructure for the securities market, such as loans for margin transactions, for the handling of a possible disaster event such as a large-scale earthquake JSF has established a business continuity plan (BCP) system so that operations can be continued or resumed as soon as possible in order to minimize the impact of the disaster on our business

partners and related external organizations. The Company has positioned the loans for margin transactions, general credit financing and fund/securities settlement businesses as operations to be continued on a priority basis. We have established a policy assuming the respective cases of (i) injury (or threat of injury) to officers and employees, and damage to buildings etc., (ii) damage to the Company's main centers, and (iii) insufficient personnel.

Compliance

Compliance System

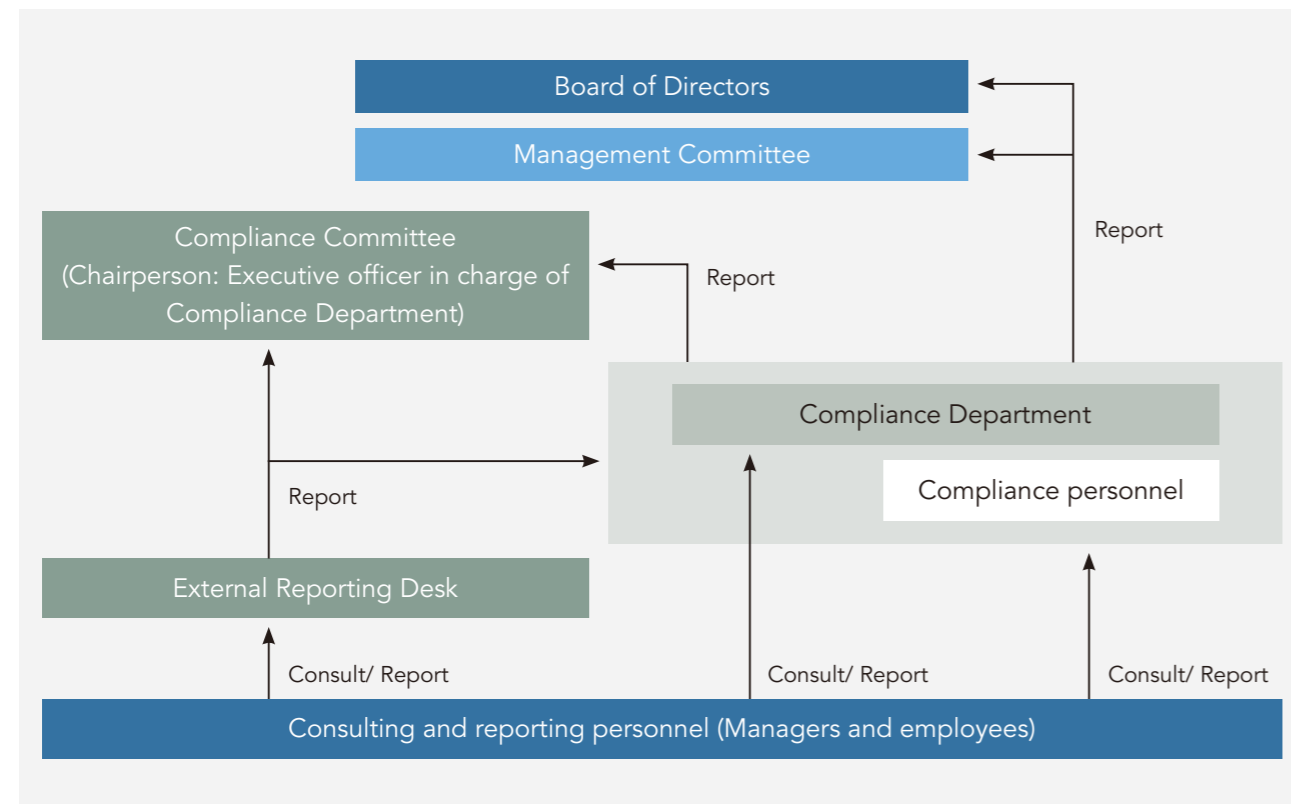
We believe that it is important to comply with all laws, regulations and rules in conducting business as a company and in one's daily life (as a private citizen), and to carry out honest and fair corporate activities in line with social norms. We have therefore made compliance the basic premise of our management and the foundation of all of our operations, and have established a compliance system to ensure compliance throughout the Company.

Specifically, we have established a Compliance Committee, chaired by the executive officer in charge of the Compliance Department, to deliberate on important matters related to compliance, such as formulating a compliance program and considering measures to be taken when compliance-related issues arise. In addition to educating officers and employees

regarding honest and fair conduct based on high ethical standards, the Compliance Department works to thoroughly implement and promote Company-wide compliance activities. Activities include holding meetings for compliance officers to communicate and share information with those in charge in each department, and compliance management meetings to share awareness with senior management.

In addition, the Company plays a central role in promoting the establishment and strengthening of the overall compliance system for the JSF Group, in ways such as holding the Group compliance liaison meetings and Group compliance officer liaison meetings to promote mutual understanding and information sharing among Group companies.

Compliance System



Formulating Conduct Guidelines and Compliance Program

In addition to formulating and disseminating the JSF Business Conduct Guidelines and the accompanying Compliance Manual, the Company is working to instill compliance awareness by having all officers and employees carry a "compliance self-check card" at all times.

In addition, the Board of Directors formulates the Compliance Program as a practical plan for promoting compliance, and regularly reports on its implementation status. The Compliance Program incorporates specific measures

related to compliance promotion from the perspectives of understanding compliance risks and the status of legal compliance (such as the establishment of systems related to laws and regulations and self-inspections using checklists), compliance awareness-raising activities (including training and tests), and cooperation in and promotion of compliance activities (activities aimed at sharing recognition and awareness among Group companies and among officers and employees).

Establishment of an External Reporting Desk

In addition to the Compliance Committee, the Compliance Department and compliance officers, the Company has established an external consulting and reporting desk staffed by legal advisors to further strengthen the compliance system.

This external consulting and reporting 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.

Initiatives to Block Relationships with Antisocial Forces

The organization as a whole takes a resolute stance against unreasonable demands made by antisocial forces that threaten the order and safety of civil society. Our aim is to eliminate any relationships with antisocial forces by working closely with external specialized agencies such as the police, anti-organized crime campaign centers, and attorneys. We are also working to block such relationships through

appropriate pre-screening and organized crime exclusion clauses in contracts and other documents.

The Compliance Department ensures the effectiveness of efforts to block relationships with antisocial forces in various ways, including centrally managing and accumulating information on such groups, building a database, conducting training activities and preparing response manuals.

Initiatives to Protect Customers and Personal Information

Regarding opinions and complaints received from customers, we clarify the relevant facts and responsibilities and work to resolve the situation quickly, honestly, fairly and appropriately, with respect for the customer's position. In the event of a dispute or similar issue, we respond appropriately in accordance with the aims of the financial alternative dispute resolution (ADR) system.

In addition, regarding transactions between Company or Group company businesses and their customers, or between Company or Group company customers, we carry out our duties appropriately, taking necessary measures in accordance

with laws and regulations and our conflict of interest management policy to ensure that the interests of our customers are not wrongfully harmed.

We take appropriate measures to safely and properly manage the personal information of our customers to prevent leakage, loss, damage or other issues, and educate and properly supervise our employees to that same end. In addition, when entrusting the handling of personal information and similar data that we have received, we appropriately supervise the entrusted party.

11-Year Highlights (Consolidated)

(Millions of yen)

	102nd Term FY2011	103rd Term FY2012	104th Term FY2013	105th Term FY2014	106th Term FY2015	107th Term FY2016	108th Term FY2017	109th Term FY2018	110th Term FY2019	111th Term FY2020	112th Term FY2021
Operating revenue	20,229	17,675	19,566	20,300	22,035	23,066	26,333	24,321	29,101	30,924	30,138
Operating profit	3,039	1,787	2,568	3,025	2,558	2,802	3,881	3,981	4,129	4,777	6,235
Ordinary profit	2,387	2,557	3,119	4,230	3,349	3,611	4,685	5,046	4,894	5,558	7,164
Profit attributable to owners of parent	779	1,777	6,211	3,520	2,645	3,078	4,225	3,765	3,556	3,971	5,174
Comprehensive income	1,862	4,257	6,978	8,079	8,410	(469)	6,819	935	(11,571)	10,499	7,889
Net assets	115,546	118,590	135,227	137,145	142,030	139,712	143,811	140,793	126,687	135,166	137,996
Total assets	4,504,856	3,433,456	3,914,388	3,482,601	3,249,170	4,645,051	4,960,161	5,291,372	9,814,494	12,136,229	14,168,656
Net assets per share (Yen)	1,245.83	1,274.67	1,260.43	1,373.93	1,467.01	1,452.63	1,518.77	1,519.30	1,381.22	1,473.24	1,545.03
Profit per share (Yen)	8.41	19.10	60.35	33.94	26.90	31.90	44.24	40.02	38.47	43.28	56.61
Shareholders' equity ratio (%)	2.56	3.45	3.45	3.94	4.37	3.01	2.90	2.66	1.29	1.11	0.97
Return on equity (%)	0.68	1.52	4.89	2.59	1.90	2.19	2.98	2.65	2.66	3.03	3.79
Price-earnings ratio (Times)	56.89	37.89	9.91	22.36	16.80	18.55	14.75	14.58	12.81	18.43	16.27
Cash flows from operating activities	(34,252)	106,689	(27,055)	(58,989)	247,148	818,189	(290,514)	226,351	275,039	164,459	(122,304)
Cash flows from investing activities	1,274	(1,230)	(1,078)	(1,085)	(9,959)	(7,507)	(4,440)	(8,652)	(4,794)	2,230	4,907
Cash flows from financing activities	(1,310)	(1,310)	(1,610)	(6,207)	(3,604)	(1,902)	(2,725)	(3,970)	(2,557)	(2,031)	(5,088)
Cash and cash equivalents at end of year	10,110	114,258	93,069	26,787	260,371	1,069,150	771,469	985,197	1,252,884	1,417,543	1,295,058
Dividend payout ratio (%)	166.3	73.3	23.2	44.2	59.5	56.4	58.8	55.0	57.2	60.1	53.0
Number of employees (Average number of temporary workers) (No.)	260 (2)	258 (2)	295 (3)	289 (3)	282 (5)	281 (5)	281 (6)	281 (3)	272 (3)	272 (4)	264 (5)

1. In calculating net assets per share, Company shares held by the Board Benefit Trust (BBT) are included in the treasury stock deducted from the total number of shares issued and outstanding at the end of the fiscal year. These shares are also included in treasury shares deducted when calculating the average number of shares during the term when calculating profit per share.

2. The shareholders' equity ratio is calculated using the following formula.
Shareholders' equity ratio (%) = $\frac{\text{Equity capital}}{\text{Total liabilities} + \text{Net assets}} \times 100$

Financial Section

Disclaimer: This document is a translation of the Japanese original and is an excerpt of the section on consolidated financial statements. The Japanese original has been disclosed in Japan in accordance with the Japanese accounting standards and the Financial Instruments and Exchange Act. This document does not contain or constitute any guarantee and the Company will not compensate any losses and/or damage stemming from actions taken based on this document. In the event of any discrepancy between the Japanese original and this document, the Japanese original shall prevail.

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JAPAN SECURITIES FINANCE CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Consolidated Financial Statements

March 31, 2022

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

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

2. Audit Certification

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

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

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

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

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

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

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

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

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

Consolidated Statement of Income

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

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

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

Consolidated Statement of Comprehensive Income

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

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

(iii) Consolidated Statement of Changes in Equity

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

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

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

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

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

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

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

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

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

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

(iv) Consolidated Statement of Cash Flows

	Millions of yen			Thousands of U.S. dollars	Millions of yen			Thousands of U.S. dollars
				(Note)			(Note)	
	2022	2021	2022	2022	2022	2021	2022	
Cash flows from operating activities								
Profit before income taxes	¥	7,147	¥	5,601	\$	58,553		
Depreciation		1,195		1,356		9,791		
Loss (gain) on sale and retirement of non-current assets		(17)		3		(143)		
Loss (gain) related to securities		251		30		2,059		
Increase (decrease) in allowance for doubtful accounts		(571)		(10)		(4,679)		
Increase (decrease) in provision for bonuses		7		(35)		60		
Increase (decrease) in provision for bonuses for directors and other officers		(11)		(2)		(91)		
Increase (decrease) in provision for share awards for directors and other officers		(3)		46		(26)		
Increase (decrease) in retirement benefit liability		(346)		(1,316)		(2,841)		
Interest and dividend income		(15,866)		(14,103)		(129,989)		
Interest expenses		4,361		3,630		35,735		
Share of loss (profit) of entities accounted for using equity method		(446)		(395)		(3,660)		
Decrease (increase) in operating loans receivable		224,867		(428,673)		1,842,268		
Net decrease (increase) in call loans		2,500		72,500		20,481		
Net decrease (increase) in securities purchased under resale agreements		(926,289)		(254,460)		(7,588,803)		
Net decrease (increase) in cash collateral provided for securities borrowed		(1,173,851)		(1,447,744)		(9,617,001)		
Net increase (decrease) in call money		151,800		529,804		1,243,650		
Net increase (decrease) in short-term borrowings		101,616		37,121		832,508		
Net increase (decrease) in commercial papers		(117,000)		247,000		(958,544)		
Net increase (decrease) in securities sold under repurchase agreements		1,353,090		268,394		11,085,450		
Net increase (decrease) in cash collateral received for securities lent		677,793		924,674		5,552,953		
Net increase (decrease) in cash collateral received for margin transactions		(15,407)		38,908		(126,225)		
Net increase (decrease) in borrowed money from trust account		(112,050)		273,973		(917,992)		
Net increase (decrease) in long-term borrowings		1,000		(1,000)		8,192		
Purchase of short-term and long-term investment securities		(466,887)		(279,510)		(3,825,065)		
Proceeds from sale and redemption of short-term and long-term investment securities		267,505		163,933		2,191,588		
Other, net		(93,766)		16,962		(768,196)		
Subtotal		(129,379)		156,689		(1,059,967)		
Interest and dividends received		15,362		14,322		125,863		
Interest paid		(4,171)		(3,688)		(34,172)		
Income taxes paid		(8,191)		(5,634)		(67,108)		
Income taxes refund		4,074		2,770		33,380		
Net cash provided by (used in) operating activities	¥	(122,304)	¥	164,459	\$	(1,002,005)		
Cash flows from investing activities								
Purchase of investment securities	¥	(645)	¥	(706)	\$	(5,290)		
Proceeds from sale and redemption of investment securities		6,296		3,551		51,585		
Purchase of property, plant and equipment		(641)		(133)		(5,252)		
Proceeds from sale of property, plant and equipment		48		—		394		
Purchase of intangible assets		(153)		(460)		(1,256)		
Other, net		2		(20)		21		
Net cash provided by (used in) investing activities		4,907		2,230		40,203		
Cash flows from financing activities								
Dividends paid		(2,786)		(2,031)		(22,831)		
Purchase of treasury shares		(2,301)		(0)		(18,853)		
Other, net		0		0		0		
Net cash provided by (used in) financing activities		(5,088)		(2,031)		(41,685)		
Effect of exchange rate change on cash and cash equivalents		—		—		—		
Net increase (decrease) in cash and cash equivalents		(122,485)		164,658		(1,003,487)		
Cash and cash equivalents at beginning of period		1,417,543		1,252,884		11,613,499		
Cash and cash equivalents at end of period *		1,295,058		1,417,543		10,610,012		

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

Notes to Consolidated Financial Statements

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

(Basis of Presentation of the Consolidated Financial Statements)

1. Scope of consolidation

Number of consolidated subsidiaries: 2 companies

All two subsidiaries are consolidated.

Names of consolidated subsidiaries

JSF Trust and Banking Co., Ltd.

Nihon Building Co., Ltd.

2. Application of the equity method

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

Name of the companies

Japan Information Processing Service Co., Ltd.

JSF Information Technology Co., Ltd.

3. Accounting periods of consolidated subsidiaries

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

4. Significant accounting principles

(1) Valuation standards and methodology for material assets

(i) Securities

Held-to-maturity debt securities:

Stated at amortized cost

Available-for-sale-securities:

Securities other than for which there are no fair value:

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

Securities for which there are no fair value:

Stated at cost determined by the moving average method

(ii) Derivatives

Stated at fair value

(2) Depreciation and amortization methods for material depreciable assets

(i) Property, plant and equipment

The Company and its subsidiaries provided depreciation principally by the declining-balance method based on the estimated useful lives, except for the buildings acquired on or after April 1, 1998 and the equipment attached to buildings and structures acquired on or after April 1, 2016, which are depreciated based on the straight-line method.

The estimated useful lives are as follows:

Buildings and structures 3-50 years

(ii) Intangible assets

Straight-line method is applied.

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

(3) Basis of material allowances

(i) Allowance for doubtful accounts

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

(ii) Provision for bonuses

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

Notes to Consolidated Financial Statements

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

(iii) Provision for bonuses for directors and other officers

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

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

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

(4) Accounting treatment for retirement benefits

(i) The method of attributing expected retirement benefit

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

(ii) The method of amortizing actuarial gains and losses

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

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

(5) Significant method of hedge accounting

(i) Hedge accounting

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

(ii) Hedge methods and hedged items

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

Hedged items Securities, investment securities, borrowings, etc.

(iii) Hedge policy

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

(iv) Evaluation of hedge effectiveness

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

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

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

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

Hedge methods Interest rate swaps

Hedged items Securities, investment securities, borrowings, etc.

Hedging transactions Offsetting market fluctuations or fixing cash flows

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

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

Notes to Consolidated Financial Statements

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

(7) Financial Statement Translation

The translations of the yen amounts into U.S. dollars are included solely for the convenience of the reader, using the prevailing exchange rate as of March 31, 2022, which was ¥122.06 to U.S. \$1. This translation should not be construed as a representation that the amounts shown could be converted into U.S. dollars at such rate.

(Significant Accounting Estimates)

Recoverability of deferred tax assets

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

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

(2) Information on the nature of significant accounting estimates for identified items

Deferred tax assets before offsetting with deferred tax liabilities are estimated based on the timing and amount of reversal of future deductible temporary difference in future consolidated financial period. These estimates may be affected by changes in uncertain economic conditions in the future, and if the actual timing and amount of the reversal of temporary differences differ from the estimates, it may have a significant impact on the amount of deferred tax assets in the consolidated financial statements for the following fiscal year.

(Changes in Accounting Policies)

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

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

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

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

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

There is no impact on the consolidated financial statements.

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

Notes to Consolidated Financial Statements

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

(Accounting Standards Not Yet Adopted)

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

(1) Overview

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

(2) Scheduled date of adoption

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

(3) Effect of adoption

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

(Additional Information)

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

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

1. Outline of the plan

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

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

2. Stock remaining in the trust

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

Notes to Consolidated Financial Statements

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

(Notes to the Consolidated Balance Sheets)

*1 Assets pledged as collateral and secured debt

Assets pledged as collateral are as follows:

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

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

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

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

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

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

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

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

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

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

Since some of these contracts expire without the rights exercised, the undrawn amount itself does not necessarily affect future cash flows.

Notes to Consolidated Financial Statements

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

*4 Items related to affiliated companies are as follows:

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

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

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

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

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

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

Date of revaluation: March 31, 2002

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

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

Notes to Consolidated Financial Statements

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

(Notes to the Consolidated Statements of Income)

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

(Notes to the Consolidated Statements of Comprehensive Income)

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

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

Notes to Consolidated Financial Statements

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

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

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

1 Type and number of issued shares and treasury shares

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

Notes:

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

2 Stock acquisition rights, etc.

No items to report.

3 Dividends

(1) Dividends paid

(a) Dividends paid during the year ended March 31, 2021

The following was approved by the Board of Directors held on May 18, 2020.

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

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

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

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

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

(2) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2021

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

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

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

Notes to Consolidated Financial Statements

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

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

1 Type and number of issued shares and treasury shares

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

Notes:

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

2 Stock acquisition rights, etc.

No items to report.

3 Dividends

(1) Dividends paid

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

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

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

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

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

(Note to the Consolidated Statements of Cash Flows)

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

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

Notes to Consolidated Financial Statements

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

(Financial Instruments)

1. Conditions of Financial instruments

(1) Management policy

The Company and a consolidated subsidiary, JSF Trust and Banking Co., Ltd. (“JSFTB”) mainly deal in financial instruments. The Company is engaged in providing loan services, mainly loans for margin transactions. The loans for margin transaction are loan services which are money lending or stock loan for settlement of standardized margin transactions. The transaction is strongly effected by security market condition, therefore, the Company raises money flexibly from short-term finance market, primarily from call market. The Company owns securities such as Japanese Government Bonds to manage the funds efficiently.

A consolidated subsidiary, JSFTB is engaged in providing credit services such as loans as banking business and finance and securities activities. JSFTB invests in highly liquid and safe-and-secure securities such as government bonds, local government bonds, public corporation bonds and government-backed bonds as securities investment activities and usually raises money through a trust account.

(2) Financial instruments and risks

Main financial instrument that the Company holds are trade loans receivable, collateral money for securities borrowed, short-term investments and investments in securities such as government bonds and equity securities. Collateral money for securities borrowed is the collateral for cash-secured bond lending transaction, cash-secured stock lending transaction and securities borrowed of loan on margin transactions. Main financial instrument that JSFTB holds are loans to government, other credit granting and securities such as government bonds, local government bonds, public corporation bonds and government-backed bonds. Trade loans receivable held by the Company and JSFTB are exposed to credit risks that caused from counterparties’ default of contract. Securities are exposed to market risks. Regarding raising money such as call money and short-term borrowings of the Company and JSFTB, the liabilities are exposed to liquidity risks that caused from turmoil in the financial markets or a credit rating down.

The Company has entered into forward exchange contract for hedging currency exchange risk of bonds denominated in foreign currency and interest rate swaps for hedging interest rate risk of fixed-rate bonds. Hedge accounting is applied to the derivatives and the Company regularly monitors the hedge effectiveness whether the relationship between hedging derivatives and hedged assets are appropriate and the currency exchange risk and the interest rate risk of hedged items are offset by hedging derivatives.

JSFTB has entered into interest rate swaps for hedging fixed-rate loans, bonds and borrowings as a part of interest risk control (ALM). Hedge accounting is applied to the derivatives held for ALM purpose, and the Company regularly monitors the hedge effectiveness whether the relationship between hedging derivatives and hedged assets or liabilities are appropriate.

(3) Financial instruments risk management

The Company places risk management as top priority of management. Basic policy of risk management is approved at the Board of Directors, and various rules for risk management according to the basic policy are established for concrete risk management method or system. The Company regularly receives a report from JSFTB concerning its risk management.

(i) Integrated risk management

The Company quantizes the risk by Value at Risk (VaR) approach after allocating risk capital within equity capital, and controls the quantized risk amount within the allocated risk capital. Each business operation department controls a risk within the allocated risk capital, risk management department that is independent from each operational section quantizes the risk, monitors the risk management and reports to the management.

(ii) Credit risk

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

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
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issues, and the Company collects the claims quickly through sale of the collaterals when the customer bankrupts.

(iii) Market risk

The Risk Management Department quantizes and controls market risks, and performs stress tests to compensate the quantization control. Back-testing which is the test compared calculated VaR and estimated profit or loss by using the fixed portfolio is performed to test the reliability of the Company's market risk quantization model.

(iv) Quantitative information of market risk

The Company calculates VaR of short-term investments and investments in securities by using Delta method (holding period: 10-240 days (depending on purposes in holding), confidence interval: 99%, observation period: 1 year). Market risk amount (possible losses) of the Company is ¥6,878 million (\$56,354 thousand) as of March 31, 2022.

Because VaR is a statistical estimate of market risk amount at a particular probability using past market movement data, VaR may not capture the risk during radical market movements that are extreme in nature.

(v) Liquidity risk

The Treasury Department of the Company seeks to diversify financing channels and to secure stable financing sources. For sound cash flow management, the Company develops cash flow forecast, understands the amount can be raised or future liquidity and also understands dates of a large payment concentration, the Company has a system to report to the management with daily cash flow status. The Company tries to hold enough liquidity, for example, to possess a certain amount of government bonds, makes a contingency plan and builds a company-wide emergency response system against contingencies. Liquidity stress tests are performed monthly for ascertaining whether consolidated liquidity held by the Company and JSFTB is adequate. At the "ALM Committee" held in every quarter, the Company develops cash flow forecast based on estimates of loans outstanding, studies policies for ALM (Asset Liability Management) such as revenue management for assets and liabilities of the Company and the Company has a system to report to the management.

(vi) Subsidiary's risk control system

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

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

(4) Supplemental explanation regarding fair value of financial instruments

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

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
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2. Fair value of financial instruments, etc.

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

Previous fiscal year (As of March 31, 2021)

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

Notes:

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

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

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

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

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

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

Current fiscal year (As of March 31, 2022)

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

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

Notes:

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

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

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

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

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

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

Previous fiscal year (As of March 31, 2021)

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

Current fiscal year (As of March 31, 2022)

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

Notes to Consolidated Financial Statements

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

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

Previous fiscal year (As of March 31, 2021)

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Call money	¥ 1,706,600	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	137,594	—	—	—	—	—
Commercial paper	613,000	—	—	—	—	—
Securities sold under repurchase agreements	4,191,808	—	—	—	—	—
Cash collateral received for securities lent	4,028,703	—	—	—	—	—
Long-term borrowings	—	—	—	—	—	3,000
Total	¥ 10,677,706	¥ —	¥ —	¥ —	¥ —	¥ 3,000

Notes to Consolidated Financial Statements

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

Current fiscal year (As of March 31, 2022)

	Millions of yen					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Call money	¥ 1,858,400	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	239,210	—	—	—	—	—
Commercial paper	496,000	—	—	—	—	—
Securities sold under repurchase agreements	5,544,898	—	—	—	—	—
Cash collateral received for securities lent	4,706,496	—	—	—	—	—
Long-term borrowings	—	1,000	—	—	—	3,000
Total	¥ 12,845,005	¥ 1,000	¥ —	¥ —	¥ —	¥ 3,000

	Thousands of U.S. dollars					
	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Call money	\$ 15,225,299	\$ —	\$ —	\$ —	\$ —	\$ —
Short-term borrowings	1,959,773	—	—	—	—	—
Commercial paper	4,063,575	—	—	—	—	—
Securities sold under repurchase agreements	45,427,648	—	—	—	—	—
Cash collateral received for securities lent	38,558,880	—	—	—	—	—
Long-term borrowings	—	8,192	—	—	—	24,578
Total	\$105,235,175	\$ 8,192	\$ —	\$ —	\$ —	\$ 24,578

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
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3. Breakdown of financial instruments by each fair value level

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

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

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

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

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

Notes to Consolidated Financial Statements

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

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

Securities and investment securities

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

Operating loans

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

Derivative transactions

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

Notes to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries
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(Securities)

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

Previous fiscal year (As of March 31, 2021)

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

Current fiscal year (As of March 31, 2022)

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

Notes to Consolidated Financial Statements

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

2. Available-for-sale securities with market value
Previous fiscal year (As of March 31, 2021)

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

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

Notes to Consolidated Financial Statements

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

Current fiscal year (As of March 31, 2022)

	Type	Millions of yen		
		Carrying amount	Acquisition cost	Differences
Carrying amount exceeding acquisition cost	(1) Equity securities	¥ 11,708	¥ 3,890	¥ 7,818
	(2) Bonds			
	Government bonds, municipal bonds, etc.	266,390	250,879	15,511
	Corporate bonds	11,733	11,700	32
	Other	42,943	40,264	2,679
	(3) Others	14,829	10,407	4,421
	Subtotal	¥ 347,606	¥ 317,142	¥ 30,463
Carrying amount not exceeding acquisition cost	(1) Equity securities	¥ 313	¥ 345	¥ (32)
	(2) Bonds			
	Government bonds, local bonds, etc.	261,435	272,679	(11,243)
	Corporate bonds	435,675	436,495	(819)
	Other	82,656	85,229	(2,573)
	(3) Others	14,674	14,674	(0)
	Subtotal	¥ 794,756	¥ 809,424	¥ (14,668)
Total		¥ 1,142,362	¥ 1,126,567	¥ 15,794

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

	Type	Thousands of U.S. dollars		
		Carrying amount	Acquisition cost	Differences
Carrying amount exceeding acquisition cost	(1) Equity securities	\$ 95,926	\$ 31,872	\$ 64,054
	(2) Bonds			
	Government bonds, local bonds, etc.	2,182,458	2,055,378	127,080
	Corporate bonds	96,125	95,859	266
	Other	351,824	329,872	21,952
	(3) Others	121,493	85,268	36,224
	Subtotal	\$ 2,847,828	\$ 2,598,251	\$ 249,577
Carrying amount not exceeding acquisition cost	(1) Equity securities	\$ 2,567	\$ 2,831	\$ (264)
	(2) Bonds			
	Government bonds, local bonds, etc.	2,141,861	2,233,977	(92,116)
	Corporate bonds	3,569,359	3,576,070	(6,711)
	Other	677,178	698,261	(21,082)
	(3) Others	120,224	120,224	0
	Subtotal	\$ 6,511,191	\$ 6,631,366	\$ (120,174)
Total		\$ 9,359,020	\$ 9,229,617	\$ 129,402

Notes to Consolidated Financial Statements

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

3. Available-for-sale securities sold during the fiscal year
Previous fiscal year (From April 1, 2020 to March 31, 2021)

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

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

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

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

Notes to Consolidated Financial Statements

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

(Derivative Transactions)

1. Derivative transactions for which hedge accounting is not applied

Currency-related

Previous fiscal year (As of March 31, 2021)

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

Current fiscal year (As of March 31, 2022)

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

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

Notes to Consolidated Financial Statements

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

2. Derivative transactions for which hedge accounting is applied

(1) Interest rate derivatives

Previous fiscal year (As of March 31, 2021)

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

Notes:

*1 Deferred hedge accounting is applied.

*2 The difference in amounts to be paid or received on interest rate swaps is recognized over the life of the agreements as an adjustment to interest expense.

*3 For the assets and liabilities for which interest rate swap contracts are used to hedge the interest rate fluctuations, fair value of derivative financial instrument is included in fair value of the respective assets and liabilities as hedged items.

Current fiscal year (As of March 31, 2022)

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

Notes:

*1 Deferred hedge accounting is applied.

*2 The difference in amounts to be paid or received on interest rate swaps is recognized over the life of the agreements as an adjustment to interest expense.

*3 For the assets and liabilities for which interest rate swap contracts are used to hedge the interest rate fluctuations, fair value of derivative financial instrument is included in fair value of the respective assets and liabilities as hedged items.

Notes to Consolidated Financial Statements

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

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

Notes:

*1 Deferred hedge accounting is applied.

*2 The difference in amounts to be paid or received on interest rate swaps is recognized over the life of the agreements as an adjustment to interest expense.

*3 For the assets and liabilities for which interest rate swap contracts are used to hedge the interest rate fluctuations, fair value of derivative financial instrument is included in fair value of the respective assets and liabilities as hedged items.

(2) Bond derivatives

Previous fiscal year (As of March 31, 2021)

No items to report.

Current fiscal year (As of March 31, 2022)

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

Note *1 Deferred hedge accounting is applied.

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

Note *1 Deferred hedge accounting is applied.

Notes to Consolidated Financial Statements

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

(3) Stock derivatives

Previous fiscal year (As of March 31, 2021)

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

Note *1 Deferred hedge accounting is applied.

Current fiscal year (As of March 31, 2022)

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

Note *1 Deferred hedge accounting is applied.

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

Note *1 Deferred hedge accounting is applied.

Notes to Consolidated Financial Statements

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

(Retirement Benefits)

1. Outline of retirement benefit plans

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

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

2. Defined benefit plan

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

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

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

(5) The components of retirement benefit expenses

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

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

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

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

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

Notes to Consolidated Financial Statements

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

(8) Plan assets

(a) Percentage by major category of plan assets

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

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

(b) Determination procedure of long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Company considers the current and projected asset allocation, as well as current and future long-term rate of returns for various categories of the plan assets.

(9) Basis for calculation of actuarial assumptions

The assumptions used in accounting for the above plans as of March 31, 2022 and 2021 are as follows:

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

3. Defined contribution plans

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

Notes to Consolidated Financial Statements

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

(Tax Effect Accounting)

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

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

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

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

Note *1 The reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2021 is not subject to disclosure because the difference between the rates does not exceed 5% of the statutory tax rate.

(Revenue Recognition)

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

Notes to Consolidated Financial Statements

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

(Segment Information)

1. Outline of the reportable segments

The reportable segments of the Group are the business units for which the Group is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business results.

"Securities finance business" conducted by the Company, "Trust banking business" conducted by JSF Trust and Banking Co., Ltd., a consolidated subsidiary and "Real estate leasing business" conducted by Nihon Building Co., Ltd., a consolidated subsidiary, are the Group's reportable segments.

"Securities finance business" is engaged in providing loan services, government and corporate bond financing and general loans, bond lending and stock lending. "Trust banking business" is engaged in providing trust services such as securities trust and banking services such as deposit or loan. "Real estate leasing business" is mainly engaged in providing services for leasing and managing real estate owned by the Group.

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

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

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

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

Notes to Consolidated Financial Statements

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

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

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

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

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

Notes to Consolidated Financial Statements

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

Other items	Millions of yen			Amounts in the consolidated financial statements
	Segment total	Adjustments		
<u>March 31, 2021</u>				
Depreciation and amortization	¥ 1,356	¥ 0	¥	1,356
Interest income	273	(15)		258
Income taxes	1,630	0		1,630
<u>March 31, 2022</u>				
Depreciation and amortization	¥ 1,194	¥ 0	¥	1,195
Interest income	311	(16)		294
Income taxes	1,974	(2)		1,972

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

[Related information]

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

1. Information by products and services

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

2. Geographic information

(1) Operating revenue

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

(2) Property, plant and equipment

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

3. Information by major customers

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

Notes to Consolidated Financial Statements

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

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

1. Information by products and services

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

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

2. Geographic information

(1) Operating revenue

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

(2) Property, plant and equipment

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

3. Information by major customers

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

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

No items to report.

[Amortization and unamortized balance of goodwill by reportable segments]

No items to report.

[Negative goodwill incurred by reported segments]

No items to report.

[Information of related parties]

1. Business transactions with related parties

No items to report.

2. Note to significant affiliate companies

No items to report.

Notes to Consolidated Financial Statements

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

(Per Share Information)

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

Notes:

1. Diluted profit per share for the previous and current fiscal year are not stated as there are no potential shares that have dilutive effect.

2. The basis for calculating net assets per share is as follows:

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements

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

(Subsequent Event)

(Acquisition of treasury shares)

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

1. Reasons for the acquisition of treasury shares

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

2. Details of matters related to acquisition

(1) Class of shares to be acquired

Common shares of the Company

(2) Total number of shares to be acquired

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

(3) Total amount of share acquisition costs

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

(4) Acquisition period

From May 11, 2022 to March 31, 2023

Supplementary Information to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(v) Supplementary Statements

[Detailed Schedule of Bonds]

No items to report.

[Detailed Schedule of Borrowings]

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

Note

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

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

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

	Millions of yen			
	2022			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term borrowings	¥ 1,000	¥ —	¥ —	¥ —

Supplementary Information to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

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

Note

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

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

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

	Thousands of U.S. dollars			
	2022			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term borrowings	\$ 8,192	\$ —	\$ —	\$ —

[Detailed Schedule of Asset Retirement Obligations]

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

Supplementary Information to Consolidated Financial Statements

Japan Securities Financial Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2022

(2) Other

Quarterly information for the current fiscal year

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

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

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

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



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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of Japan Securities Finance Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the annexed consolidated detailed schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

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

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

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

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

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

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

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

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

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

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



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	contents of the randomly extracted sample transaction data.
2.	<p>Assessment of the effectiveness of internal control over business processes We evaluated the effectiveness of internal control over the registration of accounting events into the new system and the approval of journal entries. In particular, we focused on verifying the accuracy of the information processing of the new system incorporated in the internal control by confirming that the registered information was processed correctly and the accounting events were correctly recorded as journal entries. Specifically, the following procedures were mainly implemented.</p> <p>I Income from trust fees</p> <ul style="list-style-type: none"> We reviewed the trust fee statements and so forth output from the trust business management system, and examined whether information on trust fees was properly registered in the new system in a series of processes under the confirmation by staff and approval procedures by an appropriate administrator. We reviewed the journal vouchers and others output from the new system and examined whether the information on trust fees registered in the new system was properly processed and accurately journalized by the new system. <p>II Acquisition of securities</p> <ul style="list-style-type: none"> We reviewed transaction statements and other documents issued by clients and examined whether information on securities acquired through a series of processes, including confirmation by staff and approval procedures by appropriate managers, was properly registered in the new system. We reviewed the journal vouchers and other documents output from the new system and examined whether the information on securities registered in the new system was properly processed and accurately journalized by the new system.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Assessment of the effectiveness of hedge accounting</p> <p>As of March 31, 2022, the Company holds assets under management of 109,724 million yen of short-term investments on current assets, and 1,042,496 million yen of investments in securities on investments and other assets. Since these securities are exposed to interest rates risk, currency exchange risk, and various other risks, the Company applies hedge accounting using a variety of hedging instruments to hedge the risk, as described in [Notes] (Derivative Transactions). In addition, since the Company is a specialized institution of securities finance and functions as an infrastructure in the securities market, there is a high demand for maintaining financial soundness and high creditworthiness by applying hedge accounting against various risks faced. For the qualitative point of view, evaluating the effectiveness of hedge accounting is highly important.</p> <p>Among derivative transactions, hedge accounting is applied to a wide range of transactions such as exchange contract transactions, interest rate swap transactions, bond futures transactions, and stock index futures transactions, and the diversification of hedging methods is progressing. In addition, fluctuations in interest rates, exchange rates, and market values of securities that are hedged items are significantly affected by changes in the domestic and foreign economic environments, including the recent resurgence of infection by the COVID-19 and the situation in Ukraine.</p> <p>Based on the risk management policy set by the management, various hedging transactions are composed by advanced schemes using many inputs such as interest rates, currency exchange rates and stock indexes, and these are highly dependent on the judgment of the management. In addition, in order to apply hedge accounting, it is determined in accordance with "Accounting Standards for Financial Instruments" (Corporate Accounting Standard No. 10) and "Practical Guidelines for Accounting for Financial Instruments" (Accounting System Committee Report No. 14), and requirements of effectiveness of hedge accounting are needed to be satisfied. However, the cases applied are diverse and</p>	<p>In regard to examining the effectiveness of hedge accounting, we mainly performed the following audit procedures based on the "Accounting Standards for Financial Instruments" and the "Practical Guidelines for Accounting for Financial Instruments".</p> <ol style="list-style-type: none"> In order to evaluate the risk management policy and internal control design and operational related to hedging transactions, we discussed with management based on domestic and overseas economic and financial conditions. Additionally, we evaluated the results of the company's examination by inspecting the minutes of the board of directors and the management meeting. At the start of implementation of hedging, we evaluated the effectiveness of hedging accounting mainly focusing on the following points. <ul style="list-style-type: none"> Compliance with risk management policies and others in accordance with the terms of hedging implementation. Documentation of hedging instruments, hedged items and methods for determining the effectiveness of hedge accounting, and evaluation of internal approval. Examination of applicability of hedge accounting by evaluating the correlation between hedged items and hedging instruments. We evaluated whether the high effectiveness of hedge accounting was continuously maintained, mainly focusing on the following points, by taking regular measures after the start of hedging transactions. <ul style="list-style-type: none"> Assessing whether the validity is judged and documented once every 6 months in accordance with the "Practical Guidelines for Accounting for Financial Instruments" according to the same method established at the start of hedging transactions. Identification of inputs such as interest rates used in determining the effectiveness of hedge accounting and



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<p>complex. The decision requires careful judgment in the market and valuation methods.</p> <p>In addition, the publication of LIBOR was permanently suspended at the end of December 2021 due to the reform of interest rate indices based on recommendations by the Financial Stability Board (FSB). Accordingly, interest rate swaps that reference LIBOR and are held as hedging instruments are treated in a special way as prescribed in the "Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" (Practical Issues Task Force No. 40).</p> <p>Based on the above, we determined the assessment of the effectiveness of hedge accounting is particularly important in the consolidated financial statements for the current fiscal year and constitutes a key audit matter.</p>	<p>comparison with available external information.</p> <ul style="list-style-type: none"> Examining the effectiveness of hedge accounting by assessing the correlation between hedged items and hedging instruments. <p>4. We evaluated the interest rate swaps referencing LIBOR held as hedging instruments, focusing primarily on the following points.</p> <ul style="list-style-type: none"> Confirmation that hedge accounting will continue to be applied after the replacement in accordance with the exceptional treatment prescribed in "Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR." By comparing the calculation process of successor interest rates with external information, examine whether the change in contract conditions will result in roughly the same economic effects before and after the replacement of interest rate benchmarks.
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<p>important management judgment and estimation factors.</p> <p>Based on the above, we determined the assessment of the deferred tax assets is a key audit matter, as it is particularly important in the consolidated financial statements for the current fiscal year.</p>	<p>assumptions used for the scheduling of the expected fiscal year to eliminate this temporary difference.</p> <ul style="list-style-type: none"> In addition to the validity of the balance of temporary differences, we examined the appropriateness of the calculation of offsetting between future deductible temporary differences and future taxable temporary differences.
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Other Information

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

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

Responsibilities of Management, the Audit Committee

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern using the going concern basis of accounting, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

The Audit Committee is responsible for overseeing the execution of the duties of Directors related to designing and operating the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Key audit matter	How the scope of our audit addressed the key audit matter
<p>Assessment of the deferred tax assets</p> <p>As of March 31, 2022, the Company has recorded deferred tax liabilities of 3,011 million yen on its consolidated balance sheet, after offsetting deferred tax assets and deferred tax liabilities. As stated in Income Taxes on Notes, deferred tax assets recognized as recoverable are 16,595 million yen. Of this amount, the Company has recorded deferred tax assets of 14,128 million yen as recoverable.</p> <p>The recoverability of deferred tax assets is judged in accordance with the "Application Guidelines for Recoverability of Deferred Tax Assets" (Corporate Accounting Standards Application Guideline No. 26). It depends on the judgment of classification by the company, the adequacy of future taxable income and the scheduling of the expected year to reversal of temporary differences. As stated in Recoverability of Deferred Tax Assets in Significant Accounting Estimates on Notes, such estimates may be affected by uncertain future economic conditions and other factors, and these involve</p>	<p>In regard to examining the assessment of the deferred tax assets, we mainly performed the following audit procedures</p> <ul style="list-style-type: none"> We evaluated the results of the company's examination of the design and operational status of internal controls regarding the assessment of deferred tax assets. Based on the "Application Guidelines for Recoverability of Deferred Tax Assets", we examined the appropriateness of classification by the Company based on profitability. In particular, we assessed whether the business environment is expected to change significantly in the near future by questioning management and cross-checking with relevant documents regarding recent trends in taxable income and the outlook for future taxable income. Regarding temporary differences, we examined the validity of the main



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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosure of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

Shigeki Tsujimura
Designated Partner,
Engagement Partner
Certified Public Accountant

Shuyo Goto
Designated Partner,
Engagement Partner
Certified Public Accountant

Nobuyuki Mito
Designated Partner,
Engagement Partner
Certified Public Accountant

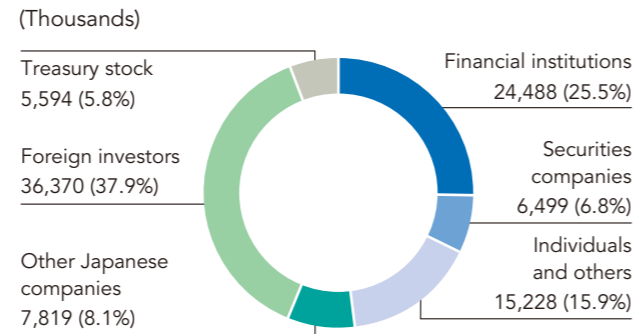
Crowe Toyo & Co.
Tokyo, Japan
June 24, 2022

Shareholder and Investor Information (As of March 31, 2022)

Share Information

Total number of authorized shares	200,000,000
Total number of issued and outstanding shares	96,000,000
Number of shareholders	10,441

Shares Held by Shareholder Type

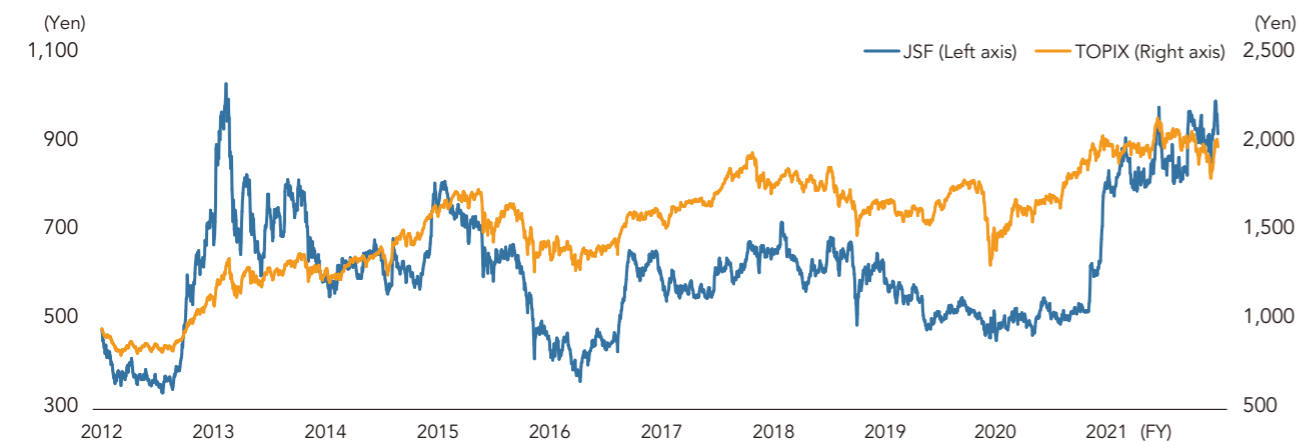


Major Shareholders (Top 10)

Shareholder Name	Number of shares held (Thousands)	Shareholding ratio (%)
THE SFP VALUE REALIZATION MASTER FUND LTD.	12,674	14.01
The Master Trust Bank of Japan, Ltd. (Trust account)	10,946	12.10
Capital Market Research Institute	4,654	5.14
Custody Bank of Japan, Ltd. (Trust account)	4,228	4.67
Mizuho Bank, Ltd.	3,536	3.91
THE CHASE MANHATTAN BANK, N.A. LONDON SPECIAL OMNIBUS SECS LENDING ACCOUNT	3,530	3.90
INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP	3,109	3.43
STATE STREET CLIENT OMNIBUS ACCOUNT OM44	2,006	2.21
Custody Bank of Japan, Ltd. (Trust account 4)	1,874	2.07
INTERTRUST TRUSTEES CAYMAN LIMITED AS TRUSTEE OF JAPAN-UP UNIT TRUST	1,725	1.90

Note: Shareholding ratios have been calculated based on the total number of issued and outstanding shares excluding treasury stock (5,594 thousand shares).

Share Price



Company Information (As of March 31, 2022)

Company Profile

Name	Japan Securities Finance Co, Ltd.
Representative	Shigeki Kushida, Representative Executive Officer & President
Head office	1-2-10 Nihonbashi-Kayabacho, Chuo-ku, Tokyo 103-0025 Japan
Established	July 1927
Incorporated	February 1950 (Newly launched as a securities finance company)
Capital	¥10 billion
Stock listing	Tokyo Stock Exchange Prime Market*
Main business	Securities finance business based on the Financial Instruments and Exchange Act (Loans for margin transactions, public and corporate bond financing and general loans, bond services, and general stock lending)

* In April 2022, following the restructuring of market classifications by the Tokyo Exchange, the Company transitioned to the Prime Market.

Website

A range of information about the JSF Group such as a Company profile, news releases, financial information and IR information is listed on our website. The site can also be viewed with a smartphone.

JSF also provides an e-mail service that notifies registered users of news releases and provides IR updates.

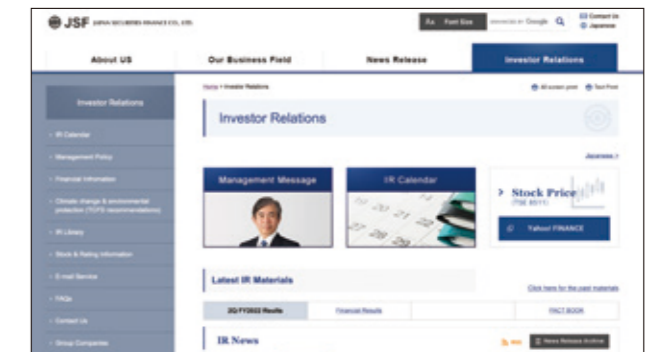
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Home Page



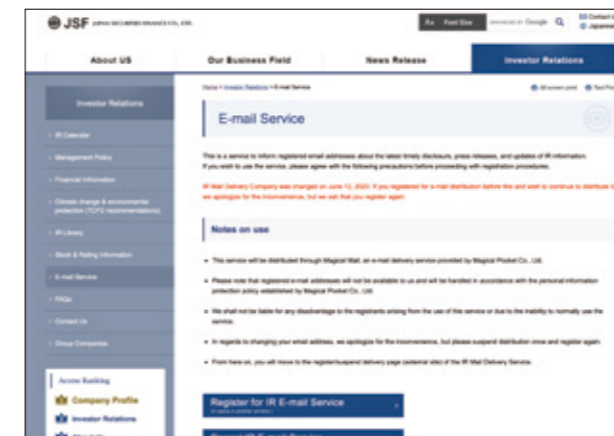
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Investor Relations



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E-mail Inquiries



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Loans for Margin Transactions



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