Securities Finance

ANNUAL REPORT 2016

JAPAN SECURITIES FINANCE CO., LTD.

PROFILE

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

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

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

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

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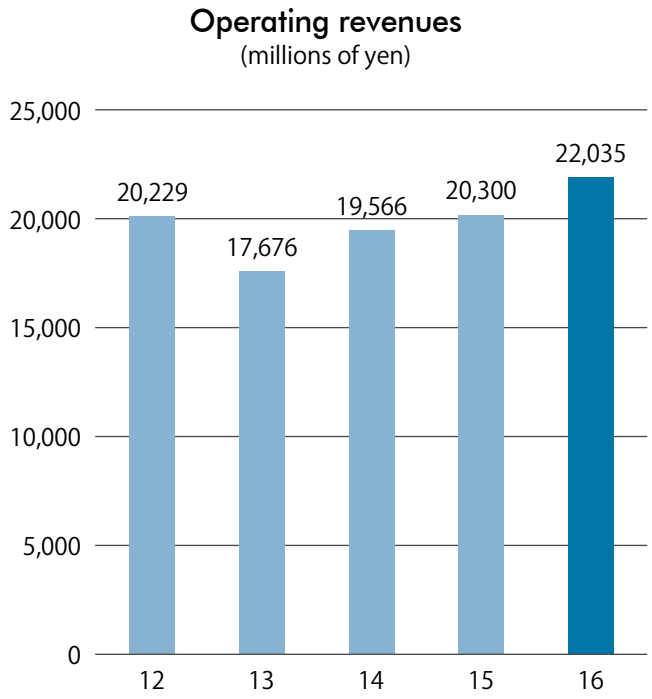
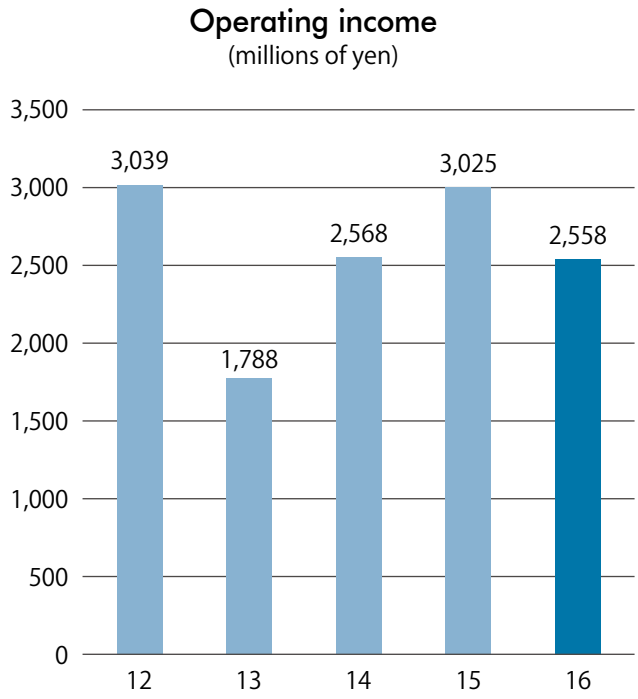
FINANCIAL HIGHLIGHTS

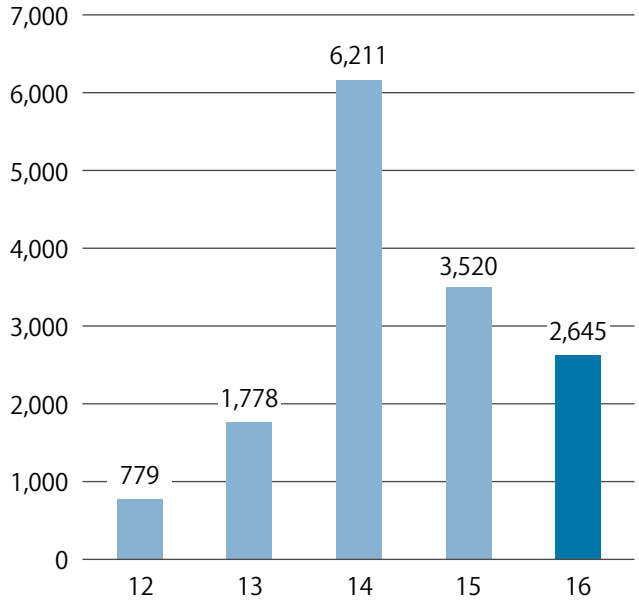
	Millions of yen*					Thousands of U.S. dollars*
	2012	2013	2014	2015	2016	2016
Operating Results:						
Operating revenues	¥ 20,229	¥ 17,676	¥ 19,566	¥ 20,300	¥ **22,035**	$ **195,554**
Operating income	3,039	1,788	2,568	3,025	**2,558**	**22,702**
Net income	779	1,778	6,211	3,520	**2,645**	**23,481**
Financial Position:						
Total assets	¥ 4,931,286	¥ 3,433,456	¥ 3,914,388	¥ 3,482,602	¥ **3,249,170**	$ **28,835,375**
Net assets	115,547	118,591	135,227	137,145	**142,030**	**1,260,479**
Shareholders' equity ratio (%)	2.56	3.45	3.45	3.94	**4.37**	**4.37**
Per Share Data:						
Net income	¥ 8.42	¥ 19.10	¥ 60.35	¥ 33.94	¥ **26.90**	$ **0.24**
Net assets	1,245.83	1,274.67	1,260.43	1,373.94	**1,467.01**	**13.02**
Cash dividend	14	14	14	15	**16**	**0.14**

* except per share amount

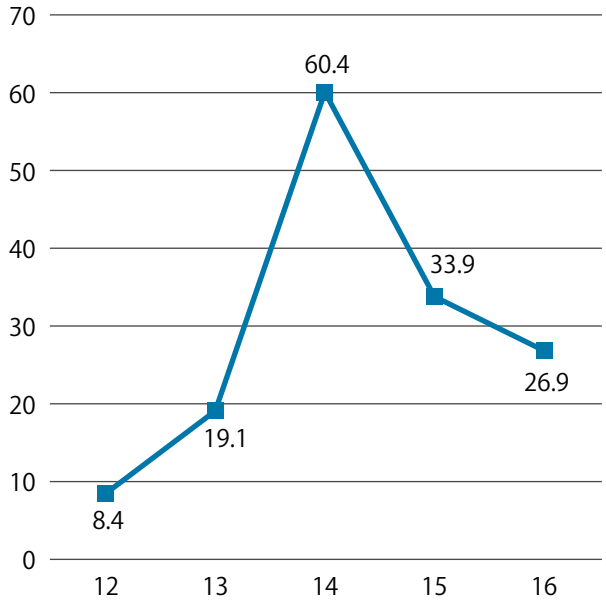




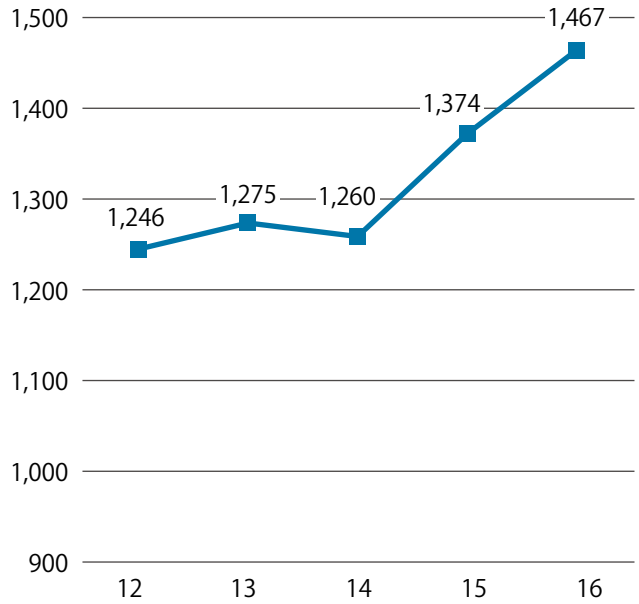
Net income
(millions of yen)



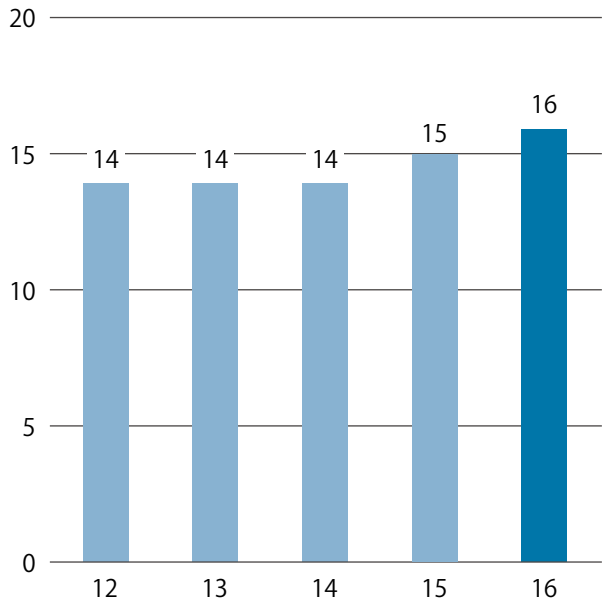
Net income per share
(yen)



Net assets per share
(yen)



Cash dividend per share
(yen)



Note: 1. Yen amounts have been translated into United States dollars, solely for the convenience of the reader, at the rate of ¥112.68=U.S.$1 in effect on March 31, 2016.

2. Net income per share is calculated based on the weighted average number of shares outstanding during each respective year. Net assets per share is calculated based on the number of shares outstanding at the end of each respective year.

3. Shareholders' equity ratio is calculated by using following formula.Total net assets / Total liabilities* and net assets

*except for securities accounts such as Collateral securities deposited

MESSAGE FROM THE PRESIDENT

We are in the final fiscal year of the 4th Mid-Term Management Plan formulated in May 2014. Since the second half of the previous fiscal year, the surrounding market trends and financial conditions have not necessarily been favorable for us. Nevertheless, we aim to achieve further growth by working to deepen our margin transaction business which serves as infrastructure for the securities market, reviewing our existing businesses, expanding transaction services and winning new customers.

Based on this perspective, the Company implemented an organizational reform in June 2016 to newly establish a department that supervises business management and planning sections and a department that supervises development of new businesses and strategies for them. Under the new organization, we will work to expand our business base, strengthen management of business resources, reinforce the corporate governance system and expand IR activities. Meanwhile, we are making steady progress in the project to fully re-construct our core system targeted to start operation in January 2017.

Eizo Kobayashi
President

With regard to return of profits, we reviewed out shareholder return policy in May 2015 and decided to raise the payout ratio to the level “not lower than approximately 60% of the consolidated payout ratio.” The Company also decided to conduct acquisition of its treasury stocks at an appropriate time, taking into account the Company’s earnings status and stock price levels. Following this policy, we plan to deliver dividends of 16 yen per share annually for the fiscal year ending March 2017, the same as the previous fiscal year. In addition, we have established a framework of share buybacks, with a ceiling of 2 million shares at the acquisition price of up to 1 billion yen.

Going forward, the Company will endeavor to further enhance its corporate value. We ask our shareholders for your continued support of the JSF Group.

Eizo Kobayashi

Eizo Kobayashi
President

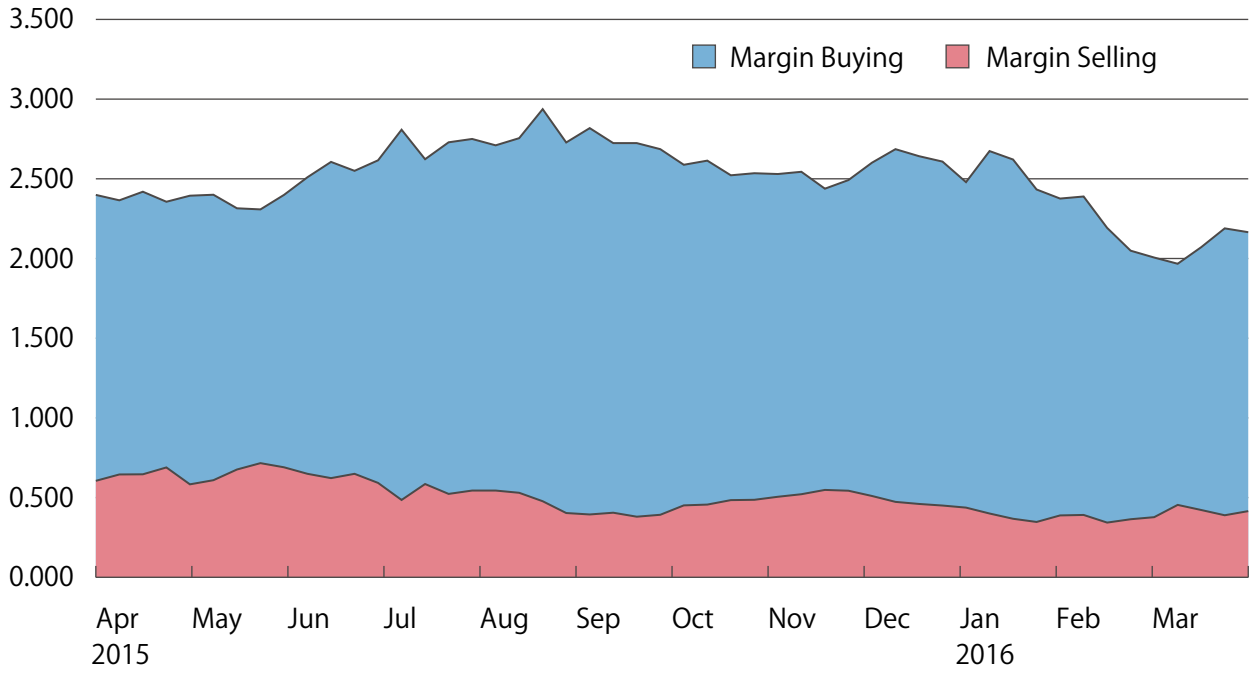
BUSINESS REVIEW

Business Environment

Looking back at the fiscal year ended March 31, 2016, the Japanese economy continued to show modest growth during the term, given improvements in corporate earnings as well as the employment and income environments, despite observed impacts of economic slowdowns in emerging countries and resource-exporting countries.

On the equity market, the Nikkei 225 stock average started the term at 19,034 yen and increased due to such factors as an anticipated increase in corporate profits and the trend for an enhanced approach to returning profits to shareholders, recovering to the 20,000 yen level for the first time in approximately 15 years on April 22. Subsequently, the average remained strong in the face of the increasingly depreciating yen and good economic indicators in the U.S., reaching the term high of 20,869 yen June 24, and stayed within a fixed range of roughly around 20,500 yen through mid-August. By late August, however, the Nikkei 225 plunged to a level below 18,000 yen because of such factors as arising uncertainty about the U.S. monetary policy on top of the unstable trend of the Shanghai equity market. Entering October, the stock price took an upward turn as investor sentiment picked up because of such factors as IPOs of the three Japan Post Group companies making a good start as well as the excessive concerns about the Chinese economic conditions easing, and temporarily recovered to the 20,000 yen level on December 1. The figure then dropped again due to a further price decline in the crude oil market and credit uncertainty of major European financial institutions, among other factors, falling below 15,000 yen for the first time in approximately a year and four months on February 12, 2016 to hit the term low of 14,952 yen. Early in March, the Nikkei 225 recovered to the 17,000 yen level, reflecting the stronger tone of the equity markets in major countries with the anticipation that the U.S. interest rate hike would be a moderate one. Nevertheless, the increasingly depreciating yen and weaker U.S. dollar, for which the exchange rate temporarily stood at the 110 yen level per dollar, served to suppress a further

Outstanding balance of Standardized Margin Transactions



rise in the stock price, which was 16, 758 yen in closing deals on March 31.

During this period, the average daily trading volume on the First Section of the Tokyo Stock Exchange was 2.343 billion shares, representing a year-on-year increase of 150 million shares, while the average daily value traded was 2.5637 trillion yen, representing an increase of 416.5 billion yen compared with the previous year.

Meanwhile, the outstanding balance of standardized margin buying on the Tokyo market had remained at the 2.3 to 2.4 trillion yen level since the beginning of the term through early June. Subsequently, the figure increased due to buying on dips by personal investors as share prices trended downward, reaching the peak for the term at the 2.9 trillion yen level in mid-August. Later, the balance took a downward turn due to profit-taking selling by personal investors as share prices trended upward. It further declined after entering the new year as personal investors strengthened their wait-and-see attitude amid the stock price trend staying on a weak note, falling to the 2.1 trillion level by the end of March. On the other hand, the outstanding balance of standardized margin selling, which was at around the 600 billion yen level at the beginning of the term, increased to the 710 billion yen level for the first time in approximately 6 years in late May due to new sales as share prices rose. Subsequently, however, the balance showed a downward trend due to profit-taking buyback as share prices tended downward, falling to the low for the term at the 340 billion yen level by mid-February. It returned to the 450 billion yen level through early March but then dropped to the 410 billion level by the end of March.

As for the bond market, the yield on newly issued 10-year Japanese government bonds standing at 0.374% at the beginning of the term rose to 0.529% by June 2015, given an increase in the interest rates in the U.S. and

Europe against the backdrop of speculation that the U.S. interest rate hike would be conducted soon and expectation that concerns about deflation in Europe would recede. Afterward, the yield trended downward due to such factors as aggressive purchasing of government bonds by the Bank of Japan, declining to 0.2% by mid-January 2016. It further dropped after the decision by the Bank of Japan on January 29 to introduce the negative interest rate policy, remaining within the negative zone in late February and thereafter and ending the term at -0.050%.

Business results of the JSF group

In light of these market trends, the total value of outstanding loans for the JSF group (term average) was 647.0 billion yen, a year-on-year decrease of 96.0 billion yen.

Consolidated operating revenues were 22,035 million yen (an increase of 8.5% year-on-year), due to such factors as increased revenue from securities lending fees in the loans for margin transactions business. Meanwhile, consolidated operating expenses were 11,537 million yen (an increase of 22.1% year-on-year) due to an increase in securities borrowing fees in the loans for margin transactions business, among other factors. General and administrative expenses amounted to 7,939 million yen (an increase of 1.5% year-on-year).

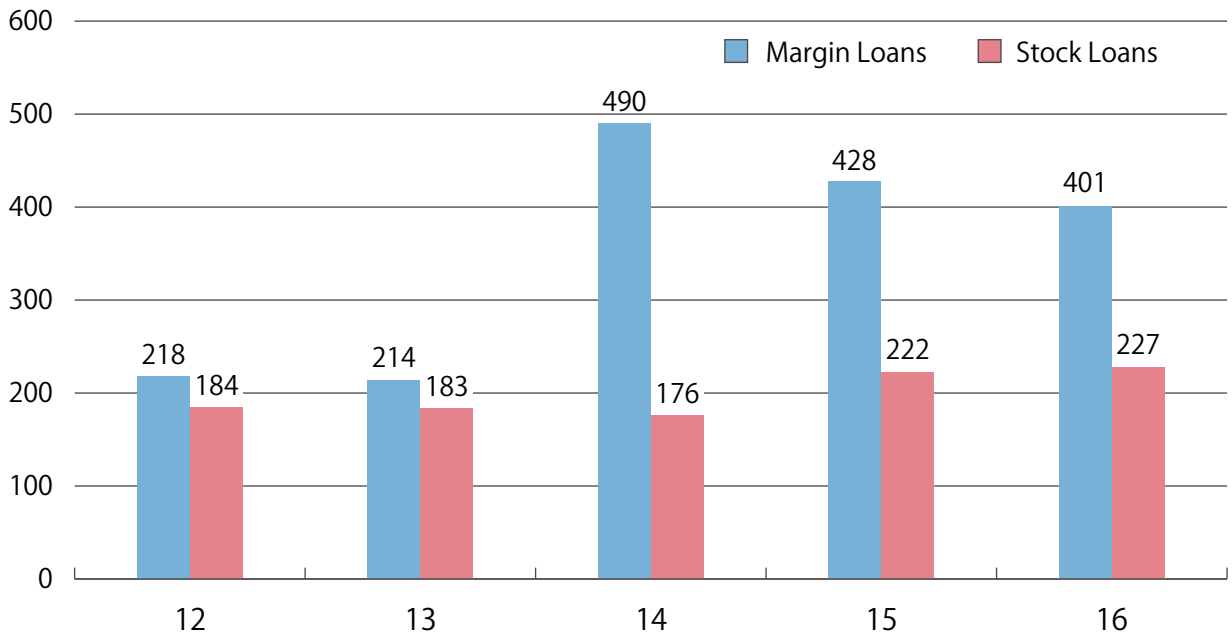
As a result, consolidated operating income was 2,558 million yen (a decrease of 15.4% year-on-year). Consolidated ordinary income dropped to 3,349 million yen (a decrease of 20.8% year-on-year) due to such factors as the absence of investment in partnership for JSF Trust and Banking, a subsidiary of JSF, which was posted in the previous fiscal year, despite an increase in interest income and dividend income. Net income attributable to owners of the parent was 2,645 million yen (a decrease of 24.9% year-on-year).

1) Securities finance business

Loans for Margin Transactions

In the loans for margin transactions business, the term average for the outstanding balance of margin loans was 401.4 billion yen, representing a 26.9 billion yen year-on-

Average outstanding balance of Loans for Margin Transactions



Breakdown of JSF Group operating revenues

	2016	2015
	(¥ million)	(¥ million)
Securities Finance Business	17,776	17,162
Loans for margin transactions	10,579	9,667
Interest on loans	2,720	3,111
Interest on collateral money for securities borrowed	575	611
Fees on lending securities	6,840	5,389
Bond financing and general loans	1,753	2,107
Securities lending	2,241	2,294
Stocks	907	784
Bonds	1,334	1,509
Other business	3,201	3,094
Trust Banking Business	3,451	2,269
Interest on loans	144	186
Trust charges	627	545
Real Estate Leasing Business	807	868
Total Operating Revenues	22,035	20,300

year decrease. In addition, due to lowering of the interest rate on loans contracted on August 6, 2014 and thereafter, interest on loans decreased year-on-year. However, the term average for the outstanding balance of stock loans was 227.4 billion yen, representing a year-on-year increase of 5.3 billion yen, and premium charges on over-lent issues also increased. Accordingly, the increase in these revenues significantly exceeded the decline in revenues from interest on loans. As a result, operating revenues for this service were 10,579 million yen (an increase of 9.4% year-on-year).

Bond financing and General Loans

As for bond financing and general loans, the term average of loans was 162.3 billion yen, representing a year-on-year decrease of 61.1 billion yen, due to a decrease both in loans to financial instruments business operators and loans to individuals and companies. This and other factors caused operating revenues for this service to be 175.3 billion yen (a decrease of 16.8% year-on-year).

Securities lending

In the securities lending business, revenues from securities lending fees increased in the general stock lending section primarily due to demand for borrowing stock aimed at avoiding failures, while revenue from interest on collateral money for securities borrowed decreased in the bond lending section primarily due to a drop in the transaction rate. As a result, operating revenues for this service combining these sections were 2,241 million yen (a decrease of 2.3% year-on-year).

Other business

Other operating revenues were 3,201 million yen (an increase of 3.5% year-on-year), due to such factors as an increase in interest income on government bonds holdings in contrast to a decrease in gain on sale of government

bonds holdings.

2) Trust banking business

In the trust banking business, the term average loan balance decreased by 4.1 billion yen year-on-year to 54.5 billion yen, causing a decrease in revenue from interest on loans. However, as trust charges and gain on sale of bonds increased, the operating revenues from this service were 3,451 million yen (an increase of 52.1% year-on-year).

3) Real estate leasing business

In the real estate leasing business, operating revenues amounted to 807 million yen (a decrease of 7.0% year-on-year).

Future challenges

In May 2014, we formulated our 4th Mid-Term Management Plan. Based on our corporate philosophy, which sets contributing to the development of the securities market as our mission, this plan espouses management policies including the establishment of social trust, strengthening of our revenue base, and achievement of a stable return of profits for all shareholders.

Under these policies, as we conduct margin transactions and other existing businesses, we will endeavor to accurately address customers' diverse needs by elaborately pursuing the market trends, in an effort to expand transactions. Moreover, we implemented an organizational reform in June 2016 to newly establish Business Development Department in charge of developing new businesses, which will work to expand new businesses in the securities and financial markets. By doing so, we aim to enhance our profitability.

With regard to our system infrastructure, we are currently in the process of revamping our core system to start operations in January 2017. By introducing the new system, we will reinforce the system aspects of our management base in order to further improve customer convenience and business operations stability while reducing costs through streamlining of our business.

In the meantime, we have been working to further reinforce our governance system in accordance with the corporate governance code that has been newly applied to listed companies since 2015. As part of the endeavors, we have established the Nomination and Remuneration Advisory Committee which is an advisory body to the Board of Directors in terms of nomination and remuneration of directors, etc. and comprises outside directors and outside auditors by a majority. The Committee is aimed at enhancing the transparency and fairness of decision-making on nomination and remuneration. Moreover, by introducing a performance-based remuneration system, we intend to further clarify the linkage of director remunerations with the business performances and stock value of the Company.

JSF Trust and Banking, a subsidiary of JSF, offers tailor-made services as a trust bank to support the operational infrastructures of security companies and other institutions. It focuses on trust services centering on products aimed at the securities industry while striving to provide appropriate banking functions commensurate it's financial strength. Through these measures, it works to increase its revenues and earnings.

Taking these initiatives as stated above, the JSF Group will endeavor to reinforce its business performances and enhance corporate value over a medium to long term.

MANAGEMENT POLICY

Basic Management Policy

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

(1) Bearing in mind at all times our social responsibilities as a securities finance company, we aim to practice sound business management through the exhaustive implementation of compliance, corporate governance and risk management to establish unshakeable credibility.

(2) We aim to retain robust equity capital to ensure the financial health and stable management society expects of a company that is part of the infrastructure of the securities market, while continuing to comprehensively assess the revenue environment, investment plans, and other factors to provide a stable return of profits to our shareholders.

(3) We aim to work to improve the convenience of the margin loan business while expanding our network of financial instruments companies and enhancing the financial and securities-related services offered by JSF and its Group companies. And further, we aim to solidify the profit base for the JSF Group as a whole through those actions.

(4) We aim to promote further Group organizational and business management efficiency to respond expeditiously to changes in the business environment.

Management Plan

1. Fourth Mid-term Management Plan

In order to improve the convenience of loans for margin transactions, a system that allows applications to be made using the Internet has been installed,

[Concept]

Recent years have seen major changes in the environment in which our company operates. Even as the internationalization of finance and capital markets continues to accelerate, IT systems have been introduced in Japan's market at a rapid pitch and Internet investors are becoming a greater presence. In this transformed environment, the Tokyo Stock Exchange (TSE) and Osaka Securities Exchange (OSE) completed their merger last year, followed this year by the rollout of Nippon Individual Saving Accounts (NISA). With the institutional framework for the new Comprehensive Exchange being put in place, numerous initiatives are underway to promote investment and strengthen the functionality of the securities market. This period has also seen a reassessment of the financial restrictions imposed in response to the Lehman Brothers Shock, giving rise to new financial needs.

With the merger of TSE and OSE, JSF and Osaka Securities Finance Company, Ltd. also merged in July 2013. Following this merger, our company will strive to effectively deploy our post-merger managerial resources to steadily pursue the business strategies laid out below, even as we continue to further strengthen our business management structure. By these and other measures, we will respond to the changing environment and achieve even further growth for our business.

[Business strategies]

i) Expanding the loans for margin transactions business as key infrastructure for the securities market

In light of the integration of the spot market, we aim to redouble our efforts both to accurately assess market needs and to promote the expansion of the investor base and the use of loans for margin transactions by increasing the

number of loanable issues and improving both the system and operation of loans for margin transactions. To this end, we aim to enhance our informational outreach activities to better publicize the systems of margin transactions and loans for margin transaction.

Regarding loans for negotiable margin transactions, we aim to work to accurately identify customer needs and expand the business.

ii) Responding to the diversifying needs of financial instruments companies and other customers

Building on our recent merger, we aim to further strengthen our network of financial instruments companies and other partners, respond proactively to the diversifying needs for funding and securities and work to expand our customer loans business in collaboration with financial instruments companies.

iii) Strengthening system infrastructure

We aim to implement a complete rebuild of the business system (JSF-Net) to achieve an even tighter fusion of business and IT, both to better meet customer needs, to reduce costs resulting from endeavors to improve business efficiency and to achieve more stable business operations through enhanced business continuity planning (BCP) resiliency. Through these efforts, we reinforce our capacity on the system side to support all of our business strategies.

iv) Other business strategies

We aim to further strengthen coordination among our Group companies to respond proactively to diversifying customer needs. We also aim to continue to monitor trends in rapidly developing Asia and other foreign markets in order to seek out and seize new business opportunities. We at the same time aim to improve the efficiency of our fund management under appropriate risk controls.

[Reinforcing business management systems]

i) Enhancing internal controls

We aim to continue to enhance the effectiveness of our compliance and internal auditing to respond more nimbly to the evolving social demands placed on financial institutions.

We aim to work ever harder to improve our risk management in view of the increasingly diverse and complex risks associated with financial business.

ii) Strengthening our business management structure

We aim to enhance the role and functions of our Business Promotion Meetings, and put in place a system to oversee the implementation of business plans to ensure they are executed properly. At the same time, we aim to implement thoroughgoing cost management.

iii) Promoting human resources development

We aim to train the human resources needed to increase our corporate value and make possible the creation of future opportunities for long-term growth.

Shareholder Return Policy

The company considers the long-term, stable return of profits to shareholders to be among its most important management tasks and therefore has a basic guideline of paying dividends according to results after provisioning the capital and internal reserves that it requires as a financial institution.

Our dividend policy is to return profits to shareholders basically in accordance with the "consolidated payout ratio" as a standard that reflect our business performance, but also taking account of the "dividend on equity ratio".

[Basic Policy]

The company considers the long-term, stable return of profits to shareholders to be among its most important management tasks and therefore has a basic guideline of paying dividends according to results after provisioning the capital and internal reserves that it requires as a financial institution.

[Basic Dividend Payment Policy]

Our policy is that the consolidated payout ratio, as a standard that reflects our business performance, shall not fall below the 60% level and that we shall return profits to

shareholders while taking into account the consolidated dividend on equity ratio (DOE = ratio of the dividend amount to shareholder equity).

[Share Buyback Policy]

With a view to offering even more rewarding returns to shareholders, we will buy back shares as needed in future while considering the company's financial situation, stock price levels, and so forth.

Services for securities companies and financial institutions

Loans for margin transactions

- **Funds loan** — Loan funds needed to settle standardized margin transactions
- **Stock loan** — Loan stock needed to settle standardized margin transactions

General stock lending — Lending stock needed to settle stock trading

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

Loans for negotiable margin transactions — Loan funds needed to settle negotiable margin transactions

Bond financing — Loan funds needed in bond underwriting, trading, etc.

General loans — Loan working funds, etc., to securities companies

Secured loans on securities for individual and corporate investors

COM - STOCK Loan — A loan aimed at individual investors, for which loan applications are made through the Internet

Business Loan — A large loan aimed at people such as owners of listed companies

Peripheral services

Securities custody — Custody services for securities owned by institutional investors, etc.

Government bond debt servicing — Designated by the Bank of Japan, repayment services for principal and interest on government bonds

LOANS FOR MARGIN TRANSACTIONS

What is Margin Transactions?

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

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

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

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

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

There are two types of margin transactions, standardized margin transactions and negotiable margin transactions. In standardized margin transactions, terms of repayment are determined by stock exchanges, and a securities company can borrow funds for purchasing and stock for sale needed to settle transactions from a securities finance company (loans for margin transactions).
In negotiable margin transactions, which is limited to cases in which a securities company can procure funds and stock to be lent to customers by internal matching (Note) or external procurement without borrowing from a securities finance company, the condition of margin transactions may be decided freely in negotiations between a securities company and its customer.

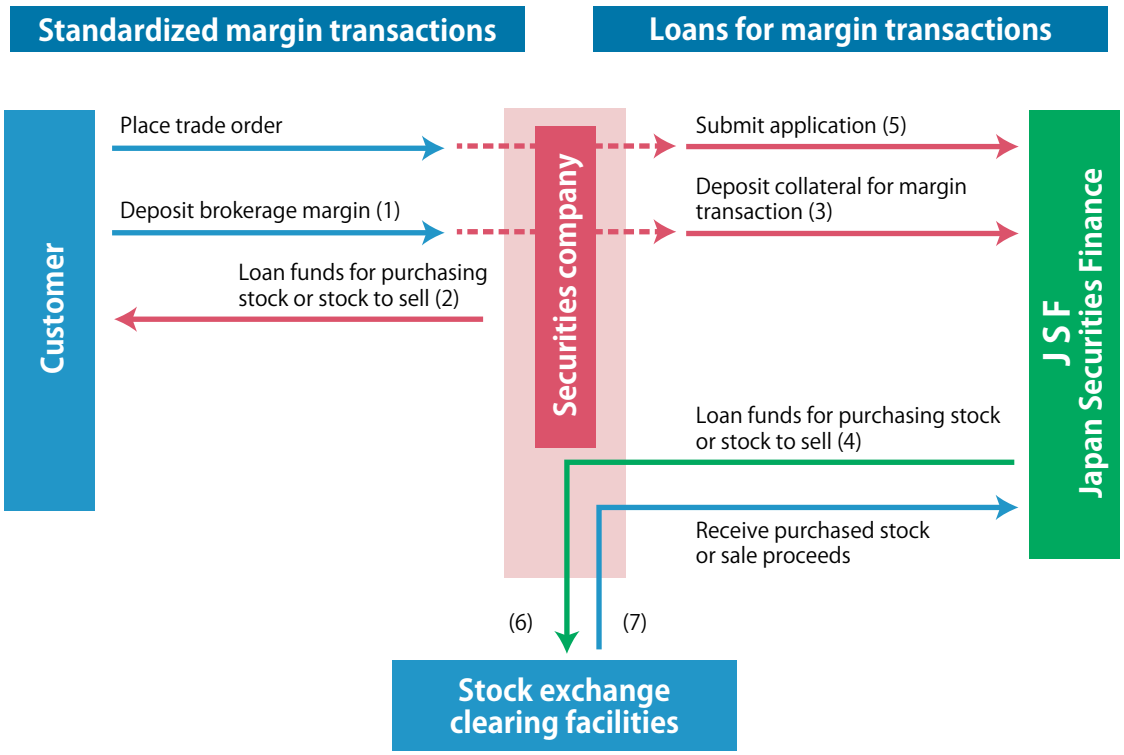
(Note) This is a system of appropriating purchased stock received from buy side as collateral to sell side's stock for sale within a company or, conversely, of appropriating sell side's proceeds of sale to buy side's funds for purchasing stocks.

What is Loans for Margin Transactions?

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

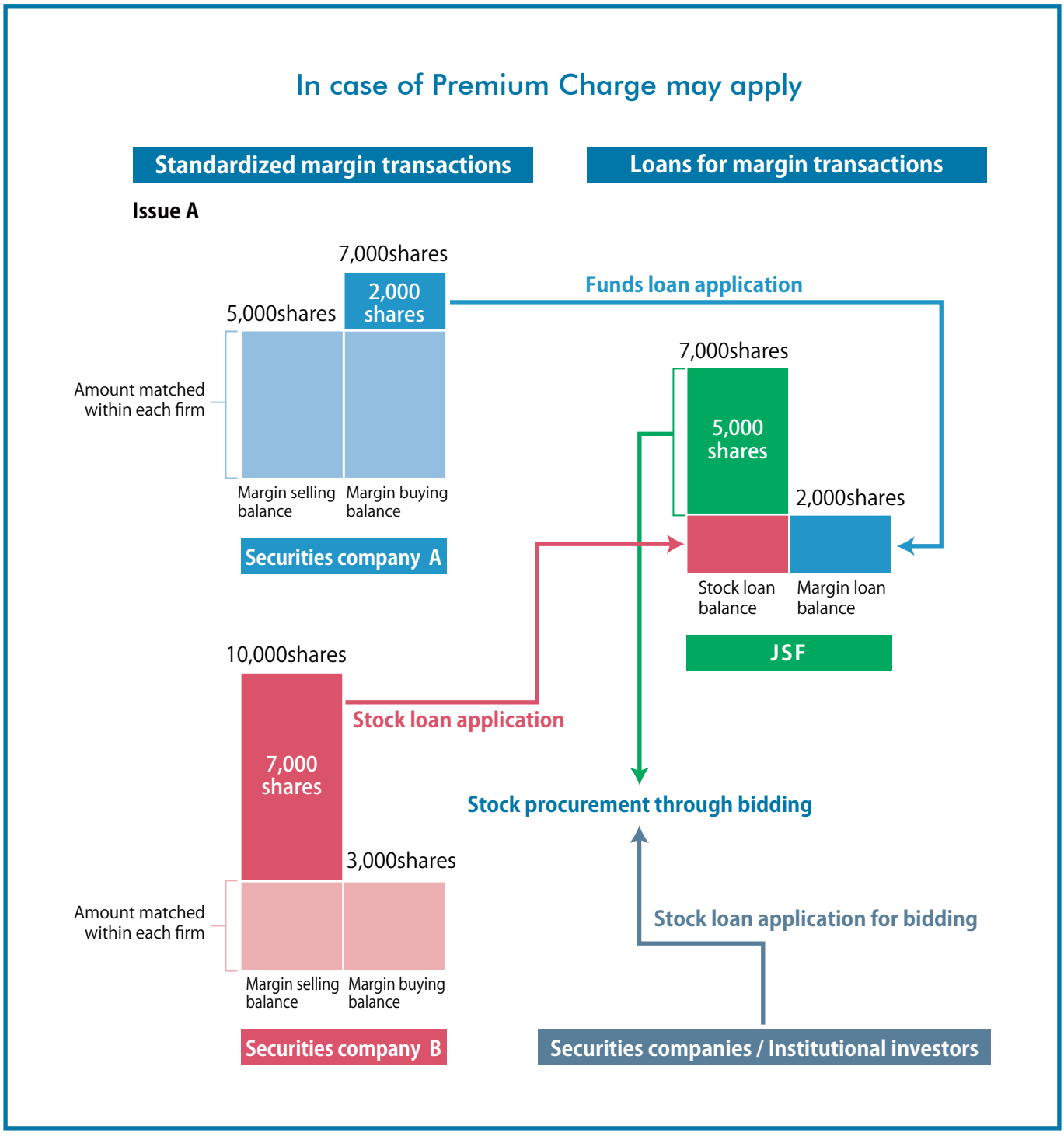
JSF receives loan applications for each issue from a securities company on the trading date of standardized margin transactions (5).To execute the loan, JSF, in place of the securities company, delivers funds or stock to clearing facilities of stock exchanges (6). The stock purchased (collateral stock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

Standardized margin transactions and Loans for margin transactions



Handling of over-lent issues

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



BOND SERVICES

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

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

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

Transaction types

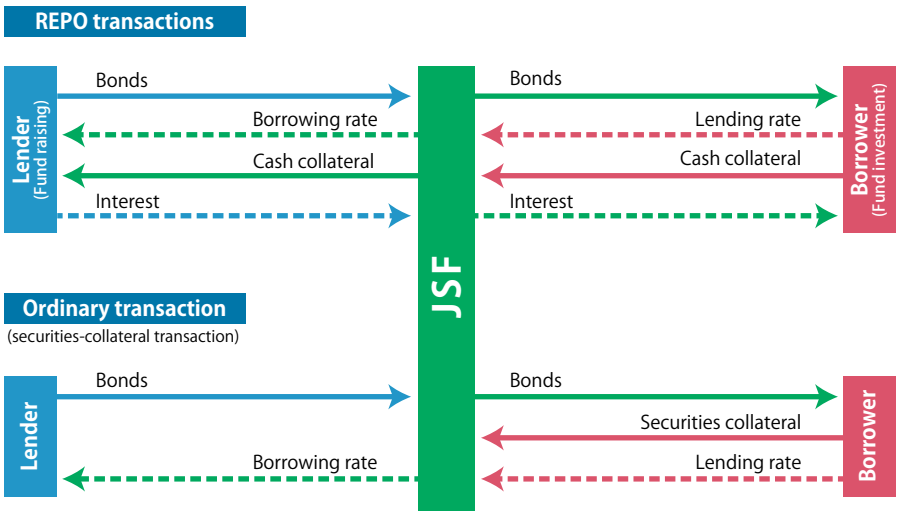
REPO transactions

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

Ordinary bond borrowing and lending transactions

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

Types of bond transactions



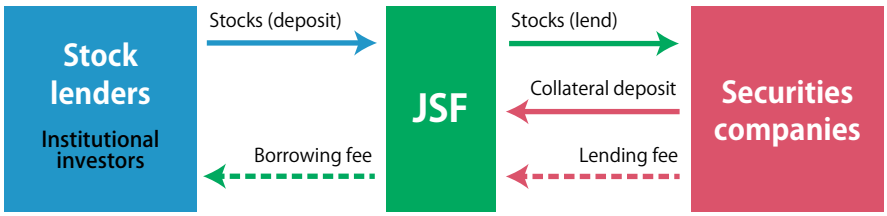
GENERAL STOCK LENDING

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

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

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

Mechanism of stock lending business



LOANS FOR NEGOTIABLE MARGIN TRANSACTIONS

What is Loans for Negotiable Margin Transactions?

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

Conditions of loans

Loanable stock Issues

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

Loan Period

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

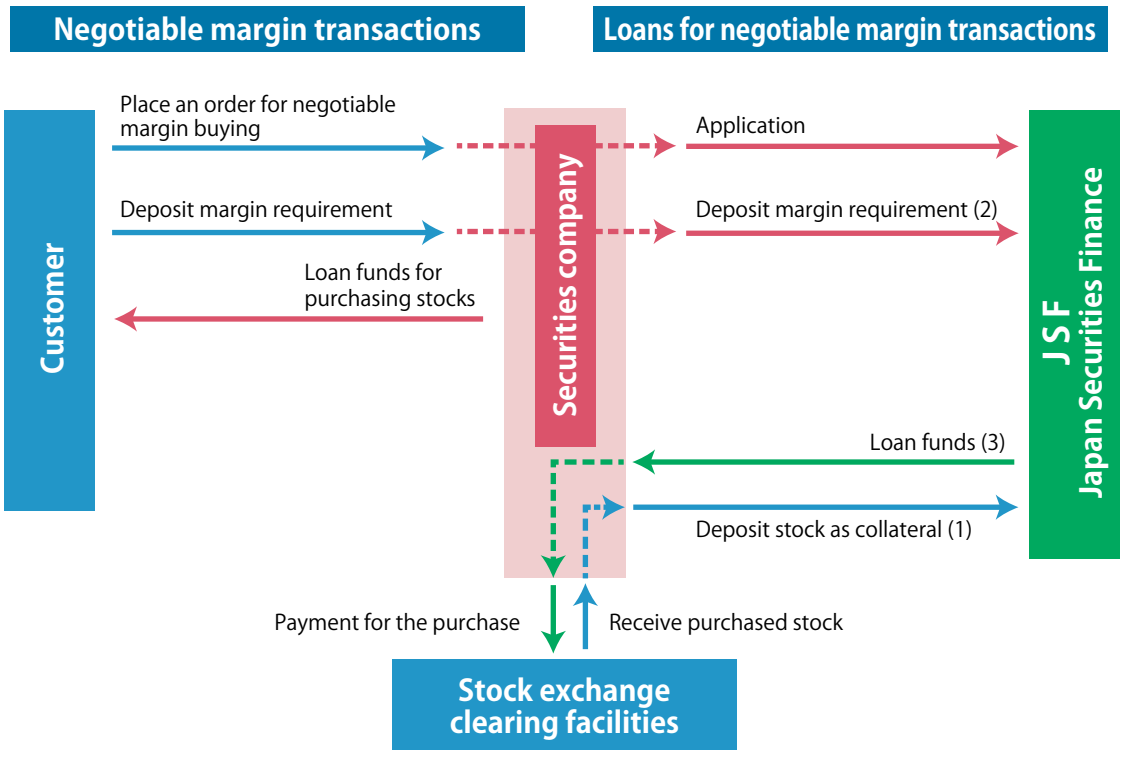
Interest rate

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

Collateral

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

Negotiable margin transactions and Loans for negotiable margin transactions



BOND FINANCING

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

GENERAL LOANS

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

SECURED LOANS ON SECURITIES FOR INDIVIDUAL AND CORPORATE INVESTORS

We provide loans to individuals and companies for any use, utilizing investment securities for shares, etc. as collateral. We are expanding "COM-STOCK Loans" for individuals, which do not require applicants to come to a branch, "Business Loans" aimed at owners of listed companies.

COM-STOCK Loan

A loan aimed at individual investors, for which loan applications can be made through the Internet, and for which investors do not need to come to a branch. Applications can be made through a special JSF website.

Business loan

A large loan aimed at people such as owners of listed companies.

CORPORATE GOVERNANCE

BASIC CONCEPT OF CORPORATE GOVERNANCE

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

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

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

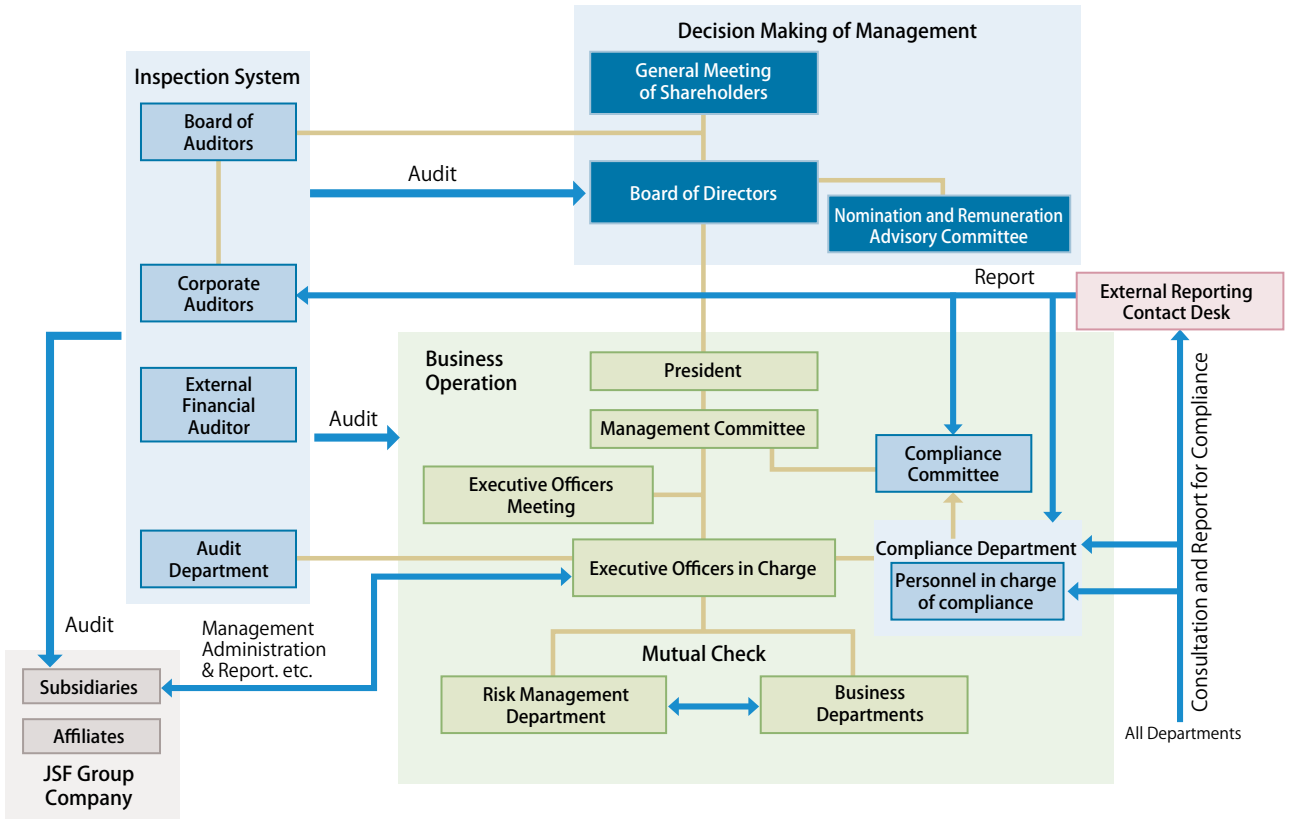
CORPORATE GOVERNANCE STRUCTURE

1. Management Structure

Below is an outline of JSF's management structure.

- The Board of Directors is the decision-making body for all matters related to management policy and the execution of operations, and it appoints executive officers who are charged with the execution of operations in accordance

Corporate Governance System Structure



with its decisions.

- Directors are members of the Board of Directors and supervise the company's decision-making and the activities of representative directors. Executive officers execute the operations of the Company in line with decisions made by the Board of Directors.
- Directors may concurrently serve as executive officers (executive directors).
- Executive officers comprise executive directors and executive officers.
- Executive officers are appointed for a term of 1 year.
- The Company has established a Nomination and Remuneration Advisory Committee in order to reinforce the supervisory functions of the Board of Directors.

2. Organization

To strengthen management supervisory functions, the Company stipulates that three of the ten directors must be outside directors, and outside directors serve as the center of the Board of Directors. In addition, two of the four auditors on the Board of Auditors must be outside auditors. The Management Committee and Executive Officers Meeting serve as management-level decision-making bodies.

Below are outlines of these organizations.

1) Board of Directors

The Board of Directors may have up to ten members (including three outside directors).

Meetings of the Board of Directors shall in principle be convened once per month but may be convened at other times as necessary. During fiscal 2015, the Board of Directors met ten times.

Positions on the Board of Directors shall consist of the chairperson, vice chairperson, president, executive vice president, senior managing directors, managing directors and directors. The Board of Directors may appoint directors to execute operations (executive directors).

Three outside directors appointed are expected to ensure the appropriateness of company operations and provide objective, neutral, outside supervision of management through advice and comments with a wealth of experience in management and professional knowledge and expertise.

2) Nomination and Remuneration Advisory Committee

The Nomination and Remuneration Advisory Committee investigates such matters as election of candidates for directors, auditors and executive officers as well as their remunerations, in response to consultations from the Board of Directors, and provides advices and proposals to the Board. A majority of the members of the Nomination and Remuneration Advisory Committee are outside directors and outside auditors.

3) Board of Auditors

The Board of Auditors may have up to four members, of which the majority must be outside auditors.

The Board of Auditors shall make a decision on the execution of the duties of auditors and shall discuss the exercise of authority by auditors. Meetings of the Board of Auditors are convened from time to time as necessary. During fiscal 2015, the Board of Auditors met ten times.

Two outside auditors are appointed and are expected to provide supervision based on a wealth of experience and broad knowledge and expertise.

4) Management Committee

The purpose of the Management Committee is to deliberate important matters related to the execution of company operations.

Members of the Management Committee are executive directors. When necessary, directors who are not executive directors and auditors may attend meetings of the Management Committee.

The Management Committee is in principle convened once per week. The Management Committee may also meet other times as necessary.

5) Executive Officers Meeting

The purpose of the Executive Officers Meeting is to report on the status of operations.

Members of the Executive Officers Meeting are all executive officers, including executive directors. Directors who are not executive directors and auditors may also attend the Executive Officers Meeting.

The Executive Officers Meeting is in principle convened

once per week. The Executive Officers Meeting may also meet other times as necessary.

3. Outside directors and outside auditors

The Company has three outside directors and two outside auditors.

The outside directors and outside auditors have no interest in the Company other than owning shares in the Company. There are not now nor have there ever been factors requiring a determination of potential conflict of interest with general shareholders by the Tokyo Stock Exchange.

Outside directors are expected to ensure the appropriateness of company operations and provide objective, neutral, outside supervision of management through advice and comments based on their abundant experience in management and professional knowledge and expertise. They are in an objective position independent of the executive directors and have no potential conflicts of interest with general shareholders.

Outside auditors are expected to provide supervision based on a wealth of experience and broad knowledge and expertise. They have a high degree of independence and no conflicts of interest with general shareholders and are therefore judged to contribute to auditing operations and compliance. They endeavor to mutually coordinate internal audit section etc.

Furthermore, the Company has established the following criteria for independence in appointing outside directors and outside auditors.

4. Status of internal audits and auditor audits

The internal audit structure consists of Audit Department that is independent of all other business units (approximately ten members).

Its duties are not only the internal audits of compliance with all applicable laws, regulations, contracts etc. It also figures out the management of risks and so forth by rigorous internal audits of the effectiveness and efficiency of operation, the accuracy and reliability of financial and operational information and the assets safeguarding/conservation. Through these activities, Audit Department verifies the appropriateness and effectiveness of internal management system in respect of control and management of risk and other factors in individual business units.

Internal audits, auditor audits and accounting audits are mutually coordinated. All who are responsible for these audits and internal control may exchange information etc. when necessary for closer coordination.

Auditor Toshio Kamiyama is a certified public accountant and certified tax accountant and provides considerable insight on financial and accounting matters.

5. Status of accounting audits

Accounting audits of the Company are performed by certified public accountants Mitsuhiro Fukuda, Nobuyuki Kobayashi and Hironobu Sakai of BDO Toyo & Co. Accounting audits are assisted by 13 certified public accountants and 6 others, and care is taken to eliminate bias in years of experience.

6. Policy regarding the remuneration of directors and auditors

The Company has established its policy on the remuneration of directors and auditors as follows, in accordance with its "Basic Policy on Corporate Governance."

[Remuneration of directors, auditors and executive officers]

- With a view to enhancing the correlation with the Company's business performance and share value, the remuneration of executive directors and executive officers shall comprise a fixed monthly remuneration, officers' bonuses linked to business performance and share-based remuneration. For the officers' bonuses, an amount determined in accordance with the business performance of each fiscal year shall be paid, with the purpose of clarifying the management's responsibility.
- As for the share-based remuneration, the Board Benefit Trust (BBT) scheme shall be used to provide points, which are determined in correlation with medium-term business performances, to the executive directors and executive officers, to whom the Company's shares will be issued upon their retirement from office in accordance with the points. Outside directors and auditors shall receive only the fixed monthly remuneration, and the officers' bonuses or the

share-based remuneration shall not be provided to them.

- Specific amounts of the remuneration for the directors and executive officers shall be determined by the Board of Directors based on the results of investigations made by the Nomination and Remuneration Advisory Committee. Modifications to the remuneration framework and the remuneration system, etc. shall also be investigated by the Nomination and Remuneration Advisory Committee.

COMPLIANCE SYSTEM

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

The company's compliance system centers on our Board of Directors, the Management Committee, the Compliance Committee and the Compliance Department. The situation regarding internal compliance is constantly studied by the Compliance Department and the results are regularly reported to the Board of Directors and the Management Committee.

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

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

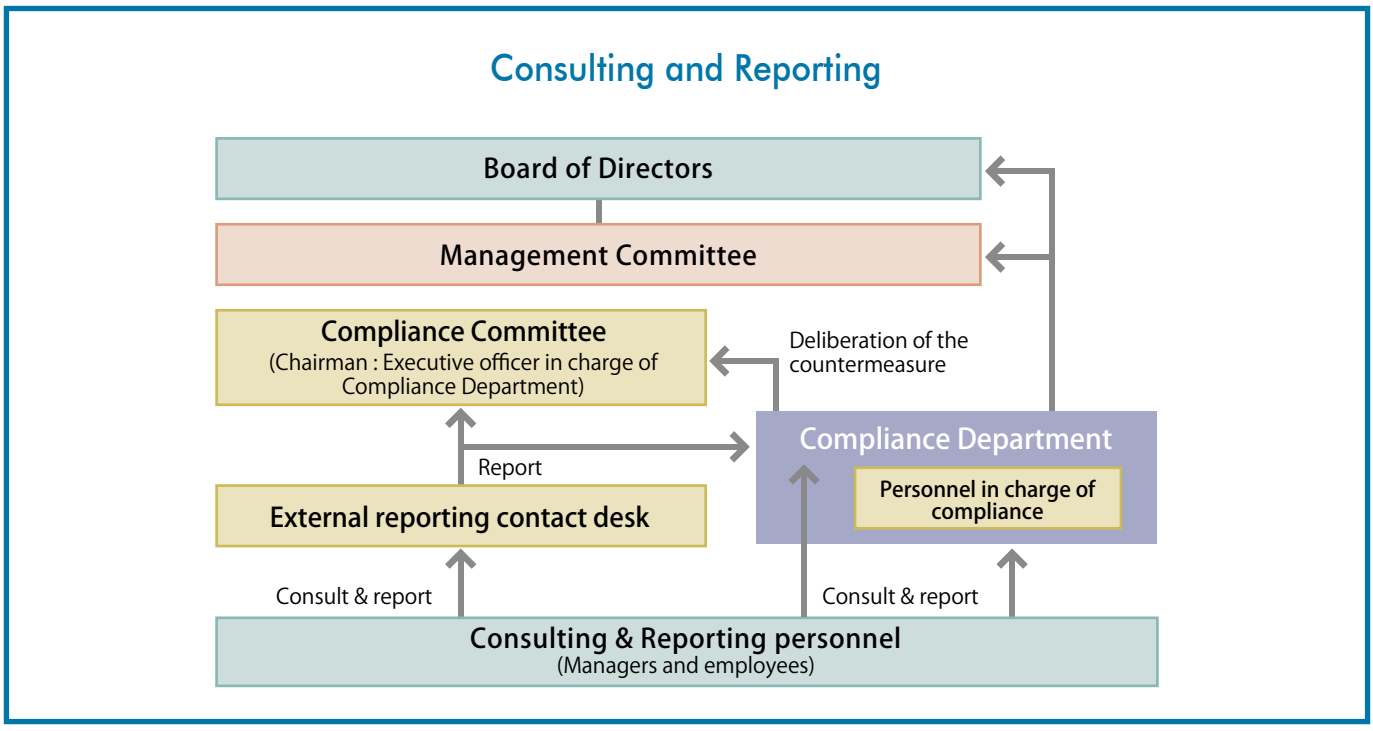
Consulting and reporting system regarding compliance

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

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

BUSINESS CONDUCT GUIDELINES

1) As an institution specializing in securities-related financing, the company recognizes its social responsibility and its public mission. It aims to establish firm trust through sound business operation.
2) The company will comply strictly with relevant rules and regulations. It will conduct its business activities in a fair and reliable manner, in accordance with social norms.
3) In the interests of its shareholders, the company will maximize its communications with a broad spectrum of society and will disclose information on the management of the organization in a fair and positive manner.



Appendix

Basic Policy on Corporate Governance

The Company has established the Basic Policy on Corporate Governance as follows in order to achieve its sustained growth and enhancement of its corporate value over a medium to long term.

1. Fundamental Views on Corporate Governance

As an institution specializing in the securities finance business, the Company is keenly aware of its public role at all times, and makes it a mission to contribute to the development of the securities market by proactively addressing the diverse needs of the securities and financial circles and working to enhance the long-term interests of the securities market participants and users. Based on this thinking, the Company aims to gain the firm trust of the society through sound business operations.

With this corporate philosophy, the Company has adopted the Board of Company Auditors system as an institution under the Companies Act, and will proactively invite outside directors and outside auditors from a wide range of economic circles including the securities and finance industries, in an effort to establish a system that enables implementation of supervision and audits from multi-faceted viewpoints.

2. Securing the Rights, Etc. of Shareholders

(1) Securing the rights and equality of shareholders

The Company shall take appropriate measures to effectively secure the rights of its shareholders, and endeavor to establish an environment in which the rights of shareholders are effectively secured.

Moreover, the Company recognizes that every shareholder is equal in accordance with his/her equity interest, and will secure the substantial equality of shareholders

(2) General meeting of shareholders

The Company shall endeavor to set schedules related to the general meeting of shareholders and expand the means for shareholders to execute their voting rights, etc., as provided below, so that a larger number of shareholders can execute their rights at the general meeting of shareholders.

1) Appropriately set the schedules related to the general meeting of shareholders from such viewpoints as enhancement of dialogue with shareholders and provision of accurate information for that purpose.

2) Send and disclose a notice of convocation of the general meeting of shareholders as early as possible in order to secure enough time for shareholders to study the content.

3) Provide information (such as information on the Company's operating results) that is necessary for shareholders to make proper judgments at the general meeting of shareholders on its website and through other means.

4) Establish an environment in which all shareholders including those who do not attend the general meeting of shareholders can exercise their voting rights appropriately, such as utilizing the Electronic Voting Platform for Foreign and Institutional Investors.

In addition, when there are a large number of votes against any of the agendas proposed by the Company at the general meeting of shareholders, the Company shall analyze the reasons and report the analysis results to the Board of Directors as well as investigate necessary responses.

(3) Protecting the rights of shareholders

When implementing the capital policies that may cause changes in the controlling interest or cause a significant share dilution, the Company shall investigate the necessity and rationality of implementing them and secure appropriate procedures so that they should cause no unjust harm to the interests of existing shareholders, and shall appropriately disclose the details of the policies to be implemented.

As for introducing and conducting anti-takeover measures, the Company shall investigate the necessity and rationality of such measures and secure appropriate procedures as well as provide sufficient explanations to the shareholders.

If the Company's shares become subject to a takeover bid, the Company shall appropriately disclose the view of the Board of Directors regarding the takeover bid to the shareholders. Moreover, the Company shall not unduly

preclude the shareholders' rights to sell the Company's shares they own in response to the takeover bid.

(4) Dialogue with shareholders, etc.

The Company shall respond to requests for dialogue from its shareholders and investors (hereinafter referred to as the "shareholders, etc.") to the extent and by the methods considered to be appropriate by the Company.

Policies on establishing a system and implementing measures for promoting constructive dialogues with the shareholders, etc. are as follows:

1) Dialogues with the shareholders, etc. shall be managed by the Corporate Planning Department and supervised by the officer in charge of the Corporate Planning Department.

2) When conducting dialogues with the shareholders, etc., the Corporate Planning Department shall be central in making appropriate coordination with internal departments, including the Business Development Department, and affiliate companies through information exchange and other measures.

3) The Company shall hold operating results briefing sessions on a regular basis, among other measures, in order to enhance the means of dialogues with the shareholders, etc.

4) Opinions, etc. obtained through dialogues with the shareholders shall be reported to the Board of Directors, etc. on a regular basis.

5) Dialogues with the shareholders, etc. shall be conducted in compliance with laws and regulations as well as internal rules, and the insider information shall be managed appropriately.

6) The Company shall endeavor to understand the shareholder structure through shareholder identification surveys and other means in order to promote constructive dialogues with the shareholders, etc.

(5) Strategic shareholdings

The Company may hold the shares of the companies that are considered to be necessary for such purposes as strengthening the business relationship with them, in order to achieve sustained growth and enhancement of its corporate value over the medium to long term.

The Company shall make a report to the Board of Directors regarding the investment efficiency and medium- to long-term economic rationality of strategic shareholdings and verify them.

With regard to the exercise of voting rights of shares the Company holds in strategic shareholdings, the Company shall exercise the rights for all agendas as a rule. Judgment of approval or disapproval for each agenda shall be made by comprehensively considering such factors as whether the subject will contribute to the medium- to long-term enhancement of the corporate value of the relevant company and common interests of its shareholders, and whether the subject will not lessen the significance of holding the relevant shares by the Company.

(6) Transactions among related parties

When the Company conducts transactions with its officers and principal shareholders, etc., the Company shall submit the matter as agenda to the Board of Directors in advance and have it approved by the Board of Directors so that the relevant transaction will not harm the Company's interests and common interests of the shareholders, except for cases where it is evident that the transaction is conducted under the similar terms and conditions as ordinary transactions in general.

3. Relationship with Stakeholders other than Shareholders

In order to achieve sustained growth and enhancement of its corporate value over medium to long term, the Company shall respect not only the shareholders but also a variety of its stakeholders including customers, officers and employees and local communities, and endeavors to maintain good and smooth relationships with them.

The Company shall establish the "Code of Conduct for Officers and Employees" and make all of its officers and employees understand that they are to respect the stakeholders' positions.

Moreover, in view of the importance of the issues related to sustainability, the Company shall endeavor to take appropriate measures to address such issues, and work to secure diversity, including promotion of women's active engagement.

4. Information Disclosure

From the perspective of ensuring management transparency, the Company shall endeavor to proactively make fair, timely and appropriate disclosure of management information by using its website and through other means, not limited to information disclosure based on the Companies Act, the Financial Instruments Exchange Act and listing rules of the security exchange, etc.

In making information disclosure, the Company shall work to provide plain and concrete descriptions.

5. Corporate Governance System

(1) Board of Directors and other systems

The Board of Directors, which is positioned by the Company as the decision-making institution on management policies and other issues, deliberates not only the matters designated by laws and regulations or the Articles of Incorporation but also important matters on business management.

In order to enhance business management efficiency and speed up execution of operations, the Board of Directors appoints executive officers to entrust them with execution of operations other than the matters to be deliberated by the Board of Directors.

The executive officers execute operations based on the decisions made by the Board of Directors. Furthermore, a Director may concurrently take office as an executive officer.

The Company has established the Management Committee, which deliberates important matters related to the execution of company operations, and the Executive Officers Meeting where the status of execution of operations is reported, among other purposes.

(2) Board of Directors

The Board of Directors comprises a variety of directors with different expertise, experiences and other qualifications. The Company secures the appropriate number of the Board of Directors members at which the functions of the Board of Directors can be exerted most effectively and efficiently, to the extent designated in the Articles of Incorporation.

Moreover, multiple outside directors independent from the Company shall be appointed to constitute the Board of Directors where it is expected that, through their advices and comments based on abundant experiences and expert knowledge on business management and other issues, appropriateness of the Company's business operations is secured and business management supervisory functions from external viewpoints is performed in an objective and neutral manner.

(3) Board of Company Auditors and Auditors

In performing their roles and responsibilities such as auditing the execution of the duties of the directors, the auditors and the Board of Company Auditors endeavor to make appropriate judgment from their independent and objective standpoint, with their fiduciary duties to the shareholders in mind.

(4) Nomination and Remuneration Advisory Committee

The Company has established the Nomination and Remuneration Advisory Committee in order to reinforce the supervisory functions of the Board of Directors. The Nomination and Remuneration Advisory Committee investigates such matters as election of candidates for directors, auditors and executive officers as well as their remunerations, in response to consultations from the Board of Directors, and provides advices and proposals to the Board.

A majority of the members of the Nomination and Remuneration Advisory Committee shall be outside directors and outside auditors (hereinafter referred to as the "outside officers").

(5) Candidates for directors, auditors and executive officers

The Company elects persons who are believed to contribute to achieving its sustained growth and enhancement of its corporate value over a medium to long term as candidates for the directors, auditors and executive officers, taking into account their personality, knowledge, capacity and experiences, etc. and with their fiduciary duties to the shareholders in mind.

For the outside officers, the Company shall elect persons who, on top of the above, satisfy the criteria for independence the Company sets forth separately.

Election of candidates for the directors, auditors and executive officers shall be determined by the Board of Directors based on the results of investigations made by the Nomination and Remuneration Advisory Committee, pursuant to the provisions of laws and regulations.

(6) Remuneration of directors, auditors and executive officers

With a view to enhancing the correlation with the Company's business performance and share value, the remuneration of executive directors and executive officers shall comprise a fixed monthly remuneration, officers' bonuses linked to the business performance and share-based remuneration. For the officers' bonuses, an amount determined in accordance with the business performance of each fiscal year shall be paid, with the purpose of clarifying the management's responsibility. As for the share-based remuneration, the Board Benefit Trust (BBT) scheme shall be used to provide points, which are determined in correlation with medium-term business performances, to the executive directors and executive officers, to whom the Company's shares will be issued upon their retirement from office in accordance with the points.

Outside directors and auditors shall receive only the fixed monthly remuneration, and the officers' bonuses or the share-based remuneration shall not be provided to them.

Specific amounts of the remuneration for the directors and executive officers shall be determined by the Board of Directors based on the results of investigations made by the Nomination and Remuneration Advisory Committee. Modifications to the remuneration framework and the remuneration system, etc. shall also be investigated by the Nomination and Remuneration Advisory Committee.

(7) Operation of the Board of Directors

The agendas and deliberation time of the Board of Directors shall be set in a manner that should allow deliberations necessary and sufficient for deciding on important execution of operations and supervision of execution of operations.

As a rule, materials for the Board of Directors meeting shall be delivered in advance, taking into account the time required for the attendees of the meeting to make prior preparations, in order to help deepen deliberations at the meeting. In addition, prior explanations may be given to them depending on the content of the agendas.

Schedules of holding the Board of Directors meeting and assumed agendas for the meeting shall be determined and notified in advance.

Aside from the Board of Directors meeting and the Board of Auditors meeting, a meeting by outside officers shall be held periodically to exchange information and share recognitions, so that they can exert functions from their standpoint that is independent from the Company.

(8) Evaluation and assessment of effectiveness of the Board of Directors

The Company shall make self-assessment as to the effectiveness of the Board of Directors once a year, and disclose the outline of the results. Furthermore, the Company shall make appropriate review of the Board of Directors based on the assessment.

(9) Support system and training policies for directors and auditors

In order for the directors and auditors to effectively perform their roles and responsibilities, related departments and sections of the Company, including the Corporate Planning Division of the Corporate Planning Department that is in charge of the work related to the Board of Directors, shall coordinate with each other to exchange information and conduct other tasks.

When it is necessary to make communications and adjustments between the outside officers and the management team or coordination with the auditors and the Board of Auditors, the secretariat of the Board of Directors shall be central in addressing such matters.

In order for the directors and auditors to effectively perform their roles and responsibilities, the Company shall set the opportunity to provide them, when they take office, with information regarding the Company's operations, finance, organization and others as well as knowledge on laws and regulations, etc., taking into account the careers and experiences, etc. of the directors or auditors who are taking office. Moreover, the Company

shall provide opportunities, as needed, to continuously update such information or knowledge.

(10) Accounting Auditor

The Company shall understand the responsibilities the accounting auditor owes to the shareholders and investors, and endeavors to secure appropriate audits as stated below.

(1) The Board of Auditors shall establish criteria to appropriately assess the accounting auditor. Moreover, the Board of Auditors shall check whether the accounting auditor has independence and expertise required for an accounting auditor.

(2) The Company shall endeavor to provide the accounting auditor with an audit environment that should allow high-quality audits, including provision of opportunities to interview senior members of the management team, auditors and other departments required for auditing and securing sufficient time for conducting audits.

When the accounting auditor points out injustice, flaws or problems, etc., the Company shall accept what is pointed out in earnest and take appropriate measures.

Criteria for Independence of Outside Officers

The Company shall determine that, on top of the criteria for independence set forth by the Tokyo Stock Exchange, a person who falls under any of the following categories is not independent of the Company.

1. A person who currently falls under any of the following (1) through (5)

(1) Principal shareholder

- A person who is a principal shareholder of the Company (a shareholder holding shares that represent at least 10% of the total voting rights) or, if the person is a corporation, etc., its conducting representative

(2) Principal business partner

- A person for whom the Company is a principal customer (a person whose transaction amount with the Company accounts for at least 2% of the person's consolidated operating revenues in the latest fiscal year) or, if the person is a corporation, etc., its conducting representative
- A person who is a principal customer of the Company (a customer with whom the Company conducts business for an amount that accounts for at least 2% of the Company's consolidated operating revenues in the latest fiscal year) or, if the person is a corporation, etc., its conducting representative

(3) Experts, etc.

- Consultant, accountant or legal professional who receives monies or other economic benefits (excluding officers' remunerations) amounting to 10 million yen or more per fiscal year from the Company or, if the person is a corporation, etc., its conducting representative

(4) Donation

- A person who has received donation from the Company for the amount of 10 million or more per fiscal year or, if the person is a corporation, etc., its conducting representative

(5) Close relatives

- A close relative (spouse or a relative within the second degree of kinship) who falls under the categories of (1) through (4) above

2. A person who falls under any of the categories in 1. at any time in the past three years

RISK MANAGEMENT

Basic policies in risk management

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

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

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

Method of risk management

We classify expected risks broadly into 5 categories and then set these categories as management objectives; credit risks, market risks, liquidity risks, processing risks, and system risks. Among these categories, for credit risks and market risks, we are striving to secure profits while quantitatively grasping the risks and controlling them within proper levels as feasible for our management vitality (integrated risk management).

On the other hand, for liquidity risks, processing risks and system risks, we are taking preventive measures against occurrences of these risks by executing proper management according to risk characteristics.

Risk Categories

Risk Category	Risk Description
Credit Risk	Credit risks are risks to suffer losses by decreasing or losing the values of the assets due to credit events such as deterioration in the financial standing of counterparty.
Market Risk	Market risk refers to the risk that owned assets (bonds, stocks) or derivative values will fluctuate and losses will be incurred due to fluctuations in various market risk factors such as interest rates, securities prices, and exchange rates.
Liquidity Risk	Liquidity risks are risks to suffer losses caused by failures of raising necessary funds or by procurement of funds with unusually high interest rates or risks caused by halt of transactions due to market disruptions or by forced transactions with unusually unfavorable prices.
Processing Risk	Processing risks are risks to suffer losses from failed processing due to negligence, accidents or fraud by officers and employees.
System Risk	System risks are risks to suffer losses due to system defects such as failures or malfunction of computer systems or due to unauthorized use of computer systems.

Integrated risk management

Integrated risk management is a method to quantify various risks with unified methodology and to manage the total amount of risks within the realm of management vitality. For credit risks and market risks, after allocating risk capital to each risk operation department by risk category within the realm of our own capital, we quantify risks with the methodology of Value at Risk (VaR) and manage the calculated volume of risks within the range of that allocated risk capital. With corresponding to Basel II regulation enforced in March 2008, operational risks, which consists of processing risks and system risks, is measured by basic method and we allocate risk capital amounts on it.

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

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

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

Credit risk management

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

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

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

Market risk management

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

Liquidity risk management

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

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

Processing risk management

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

System risk management

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

Internal auditing system

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

Appendix

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

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

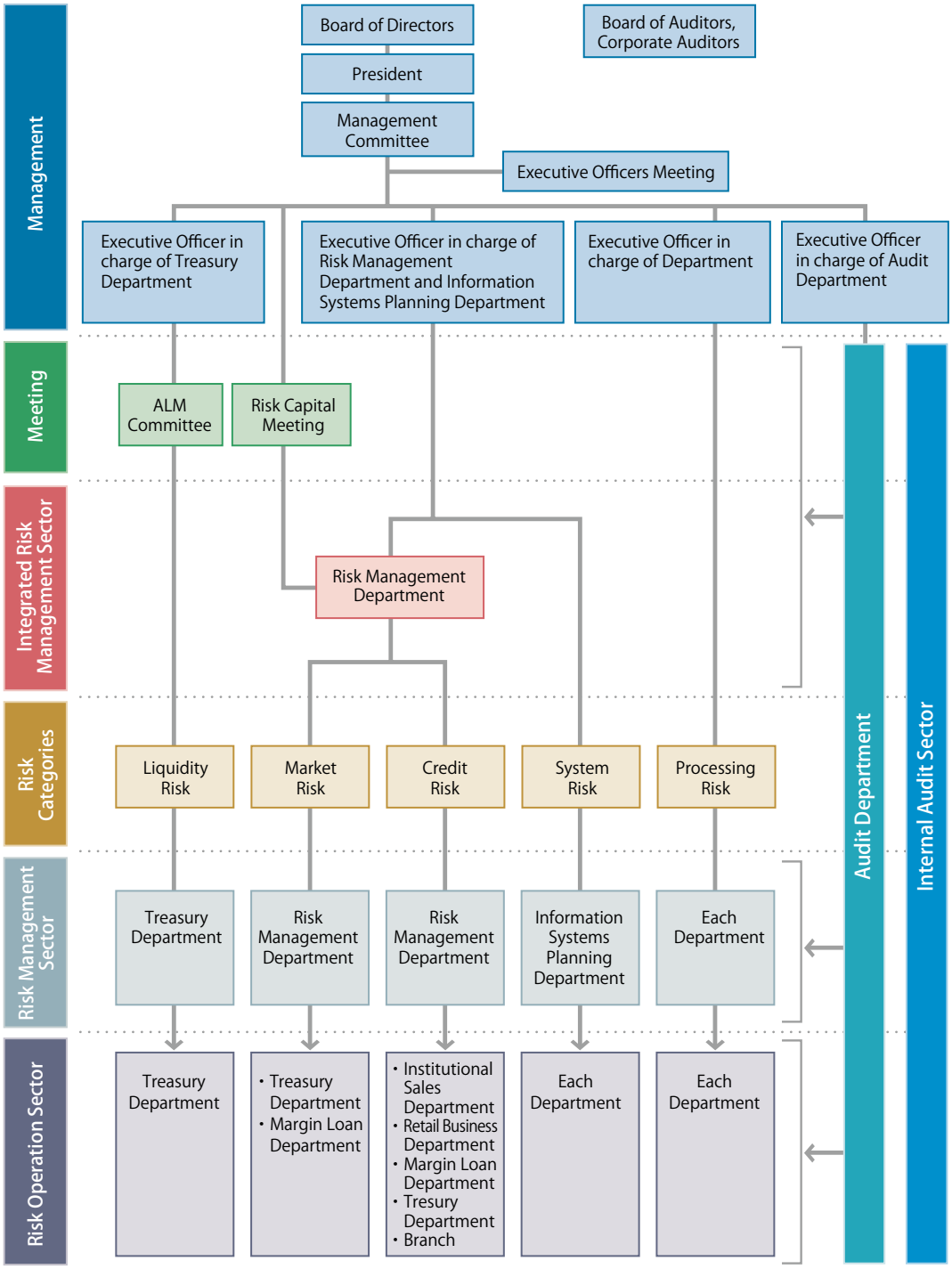
Risk Capital Meeting
The meeting is organized by the officers in charge of the Risk Management Department, Business Development Department, Corporate Planning Department, Treasury Department, Margin Loan Department, Institutional Sales Department and Retail Business Department, managers of the Risk Management Department, Business Development Department and Corporate Planning Department and, when concerned with the deliberation matters of the meeting, the managers of the Treasury Department, Margin Loan Department, Institutional Sales Department and Retail Business Department. The meeting is supervised by the officer in charge of the Risk Management Department.

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

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

ALM Committee
This is a committee to deliberate ALM (asset liability management), such as development of fund procurement and management plans and revenue management, for assets and liabilities of the company as a whole. The committee is organized by the officer in charge of the Treasury Department (serving as chairperson), officers in charge of the concerned departments and managers of respective departments.

Risk Management System



CONSOLIDATED BALANCE SHEET

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2016

Assets	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (note 2) 2016
Current assets:			
Cash (note 3)	¥ 266,378	¥ 31,792	$ 2,364,022
Short-term investments (notes 4 and 16)	431,565	588,814	3,830,005
Short-term loans receivable (note 16)	567,749	883,101	5,038,596
Deferred tax assets (note 9)	167	391	1,482
Collateral money for securities borrowed	1,025,617	974,974	9,102,032
Other current assets (note 16)	45,123	5,686	400,453
Allowance for doubtful receivables	(236)	(340)	(2,094)
Total current assets	2,336,363	2,484,418	20,734,496
Property, plant and equipment:			
Buildings and structures	8,792	8,791	78,026
Tools, furniture and fixtures	1,431	1,356	12,700
Land (note 6)	3,265	3,265	28,976
Leased assets	367	370	3,257
Construction in progress	535	333	4,748
	14,390	14,115	127,707
Accumulated depreciation	(7,408)	(7,087)	(65,744)
Net property, plant and equipment	6,982	7,028	61,963
Intangible assets, net	4,229	2,388	37,531
Investments and other assets:			
Investments in securities (notes 4, 5 and 16)	900,167	987,898	7,988,703
Other investments and other assets	2,987	2,663	26,509
Allowance for doubtful receivables	(1,558)	(1,793)	(13,827)
Total investments and other assets	901,596	988,768	8,001,385
Total assets	¥ 3,249,170	¥ 3,482,602	$ 28,835,375

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (note 2) 2016
Current liabilities:			
Call money (notes 7 and 16)	¥ 720,900	¥ 1,587,000	$ 6,397,764
Short-term borrowings and current installments of long-term borrowings (notes 7 and 16)	198,010	439,510	1,757,277
Commercial paper (note 7)	122,000	440,000	1,082,712
Accrued income taxes (note 9)	298	299	2,645
Collateral money received for securities lent	1,549,653	788,716	13,752,689
Other current liabilities (note 7)	484,592	73,600	4,300,603
Total current liabilities	3,075,453	3,329,125	27,293,690
Non-current liabilities:			
Long-term borrowings (note 7)	3,000	2,000	26,624
Deferred tax liabilities (note 9)	11,553	7,190	102,529
Deferred tax liabilities for land revaluation (note 6)	74	78	657
Liabilities for retirement benefits (note 8)	3,425	2,589	30,396
Other non-current liabilities (note 7)	13,634	4,475	120,998
Total non-current liabilities	31,686	16,332	281,204
Total liabilities	3,107,139	3,345,457	27,574,894
Stockholders' equity:			
Common stock (note 10): Authorized 200,000,000 shares; issued 100,000,000 shares in 2016 and 107,307,763 shares in 2015	10,000	10,000	88,747
Capital surplus (note 10)	11,471	11,471	101,802
Retained earnings (note 11)	104,669	103,608	928,905
Treasury stock, at cost; 3,183,566 shares in 2016 and 181,071 shares in 2015	(2,054)	(114)	(18,229)
Total stockholders' equity	124,086	124,965	1,101,225
Accumulated other comprehensive income (losses):			
Net unrealized gain on other securities (note 4)	27,877	14,787	247,400
Deferred losses on hedges (note 18)	(9,248)	(2,766)	(82,073)
Gain on revaluation of land (note 6)	168	164	1,491
Remeasurements of defined benefit plans (note 8)	(852)	(5)	(7,562)
Total accumulated other comprehensive income	17,945	12,180	159,256
Total net assets	142,031	137,145	1,260,481
Commitments and contingencies (note 19)			
Total liabilities and net assets	¥ 3,249,170	¥ 3,482,602	$ 28,835,375

CONSOLIDATED STATEMENT OF INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (note 2)
	2016	2015	2016
Operating revenues	¥ 22,035	¥ 20,300	$ 195,554
Operating expenses	11,538	9,450	102,396
Operating profit	10,497	10,850	93,158
General and administrative expenses (note 12)	7,939	7,825	70,456
Operating income	2,558	3,025	22,702
Other income (deductions):			
Interest income	259	105	2,298
Dividend income	392	293	3,479
Interest expenses	(0)	(0)	(0)
Equity in earnings (losses) of affiliates	55	(144)	488
Gain on bad debt recovered	17	271	151
Equity in earnings of limited partnership	–	591	–
Gain (loss) on sale of investments in securities	–	23	–
Subsidy income	–	39	–
Loss on sale/disposal of property, plant and equipment	–	(7)	–
Other, net	69	90	612
	792	1,261	7,028
Income before income taxes and non-controlling interests	3,350	4,286	29,730
Income taxes (note 9):			
Current	459	444	4,074
Deferred	245	321	2,174
	704	765	6,248
Net income	2,646	3,521	23,482
Net income attributable to non-controlling interests	–	–	–
Net income attributable to owners of the parent	¥ 2,646	¥ 3,521	$ 23,482

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries
For the year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (note 2)
	2016	2015	2016
Net income	¥ 2,646	¥ 3,521	$ 23,482
Other comprehensive income (losses) arising during the year (note 13) :			
Net unrealized gain on other securities (note 4)	13,152	6,397	116,720
Deferred losses on hedges (note 18)	(6,482)	(2,168)	(57,526)
Gain on revaluation of land (note 6)	4	8	36
Remeasurements of defined benefit plans (note 8)	(758)	211	(6,727)
Other comprehensive income (losses) of affiliates for by the equity method	(152)	111	(1,349)
Total other comprehensive income arising during the year	5,764	4,559	51,154
Comprehensive income	¥ 8,410	¥ 8,080	$ 74,636
Comprehensive income attributable to:			
Owners of the parent	¥ 8,410	¥ 8,080	$ 74,636
Non-controlling interests	–	–	–

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

For the year ended March 31, 2016

Millions of yen

	Stockholders' equity					Accumulated other comprehensive income(losses)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred losses on hedges	Gain on revaluation of land	Remeasurements of defined benefit plans	Total	Total net assets
	(note 10)	(note 10)	(note 11)			(note 4)	(note 18)	(note 6)	(note 8)		
Balance at March 31, 2014	¥ 10,000	¥ 16,027	¥ 101,596	¥ (16)	¥ 127,607	¥ 8,346	¥ (598)	¥ 156	¥ (283)	¥ 7,621	¥ 135,228
Cumulative effects of changes in accounting policies			64		64						64
Restated balance at March 31, 2014	10,000	16,027	101,660	(16)	127,671	8,346	(598)	156	(283)	7,621	135,292
Changes arising during year:											
Cash dividends			(1,469)		(1,469)						(1,469)
Net income attribute to owners of the parent			3,521		3,521						3,521
Change in the scope of equity method			(104)	1	(103)						(103)
Purchase of treasury stock				(4,655)	(4,655)						(4,655)
Retirement of treasury stock		(4,556)		4,556	–						–
Net changes other than stockholders' equity						6,441	(2,168)	8	278	4,559	4,559
Total changes during the year	–	(4,556)	1,948	(98)	(2,706)	6,441	(2,168)	8	278	4,559	1,853
Balance at March 31, 2015	10,000	11,471	103,608	(114)	124,965	14,787	(2,766)	164	(5)	12,180	137,145
Changes arising during year:											
Cash dividends			(1,585)		(1,585)						(1,585)
Net income attribute to owners of the parent			2,646		2,646						2,646
Purchase of treasury stock				(1,940)	(1,940)						(1,940)
Net changes other than stockholders' equity						13,090	(6,482)	4	(847)	5,765	5,765
Total changes during the year	–	–	1,061	(1,940)	(879)	13,090	(6,482)	4	(847)	5,765	4,886
Balance at March 31, 2016	¥ 10,000	¥ 11,471	¥ 104,669	¥ (2,054)	¥ 124,086	¥ 27,877	¥ (9,248)	¥ 168	¥ (852)	¥ 17,945	¥ 142,031

Thousands of U.S. dollars

(note 2)

	Stockholders' equity					Accumulated other comprehensive income(losses)					
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Net unrealized gain on other securities	Deferred losses on hedges	Gain on revaluation of land	Remeasurements of defined benefit plans	Total	Total net assets
Balance at March 31, 2015	$ 88,747	$ 101,802	$ 919,489	$ (1,012)	$ 1,109,026	$ 131,230	$ (24,547)	$ 1,455	$ (45)	$ 108,093	$ 1,217,119
Changes arising during year:											
Cash dividends			(14,066)		(14,066)						(14,066)
Net income attributable to owners of the parent			23,482		23,482						23,482
Purchase of treasury stock				(17,217)	(17,217)						(17,217)
Net changes other than stockholders' equity						116,170	(57,526)	36	(7,517)	51,163	51,163
Total changes during the year	–	–	9,416	(17,217)	(7,801)	116,170	(57,526)	36	(7,517)	51,163	43,362
Balance at March 31, 2016	$ 88,747	$ 101,802	$ 928,905	$ (18,229)	$ 1,101,225	$ 247,400	$ (82,073)	$ 1,491	$ (7,562)	$ 159,256	$ 1,260,481

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Japan Securities Finance Co., Ltd. and Consolidated Subsidiaries

For the year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (note 2)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 3,350	¥ 4,286	$ 29,730
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	626	662	5,556
Loss on sale/disposal of property, plant and equipment	15	8	133
Gain relating to short-term investments and investments in securities	(625)	(415)	(5,547)
Allowance for doubtful receivables	(339)	(1,212)	(3,009)
Increase (decrease) in liabilities for retirement benefits	836	(498)	7,419
Interest and dividend income	(10,441)	(11,313)	(92,661)
Interest expenses	2,870	3,461	25,470
Equity in (earnings) losses of affiliates	(55)	144	(488)
Decrease in short-term loans	315,353	14,724	2,798,660
(Increase) decrease in collateral money for securities borrowed	(50,643)	328,181	(449,441)
Decrease in call money	(866,100)	(9,600)	(7,686,368)
Decrease in short-term borrowings	(238,500)	(70,000)	(2,116,613)
Increase (decrease) in commercial paper	(318,000)	11,000	(2,822,151)
Increase (decrease) in collateral money received for securities lent	760,937	(397,009)	6,753,080
Increase (decrease) in collateral money received for loan transactions	(15,061)	14,885	(133,662)
Decrease in long-term debt	(2,000)	1,000	(17,749)
Purchase of short-term investments and investments in securities	(449,143)	(436,419)	(3,986,005)
Proceeds from sale/redemption of short-term investments and investments in securities	689,754	482,028	6,121,353
Other, net	417,113	985	3,701,748
Sub total	239,947	(67,102)	2,129,455
Interest and dividend received	10,526	11,791	93,415
Interest paid	(2,809)	(3,520)	(24,929)
Income taxes paid	(516)	(299)	(4,579)
Income taxes refunded	–	140	–
Net cash privided by (used in) operating activities	247,148	(58,990)	2,193,362
Cash flows from investing activities:			
Purchase of investments in securities	(7,653)	–	(67,918)
Proceeds from sale/redemption of investments in securities	200	120	1,775
Capital expenditures	(612)	(443)	(5,431)
Purchase of intangible assets	(1,896)	(1,676)	(16,827)
Other, net	1	913	9
Net cash used in investing activities	(9,960)	(1,086)	(88,392)
Cash flows from financing activities:			
Dividends paid to stockholders	(1,585)	(1,469)	(14,066)
Purchase of treasury stock	(1,939)	(4,655)	(17,208)
Other, net	(80)	(83)	(710)
Net cash used in financing activities	(3,604)	(6,207)	(31,984)
Net Increase (decrease) in cash and cash equivalents	233,584	(66,283)	2,072,986
Cash and cash equivalents at beginning of year	26,787	93,070	237,726
Cash and cash equivalents at end of year (note 3)	¥ 260,371	¥ 26,787	$ 2,310,712

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

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

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

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

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 2 subsidiaries.

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

Investments in affiliates are accounted for by the equity method.

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

(c) Cash and Cash Equivalents

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

(d) Short-term Investments and Investments in Securities

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

(e) Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is provided principally by the declining-balance method based on the estimated useful lives, except for the buildings acquired on or after April 1, 1998, which are depreciated based on the straight-line method.

The estimated useful lives are as follows:

Buildings and structures 3–50 years

(f) Intangible Assets

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

(g) Allowance for Doubtful Receivables

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

(h) Retirement and Severance Benefits

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

Liability for retirement benefits have been made in the accompanying consolidated financial statements based on the present value of the projected future retirement benefits attributable to employee services rendered by the end of the year, less amounts funded under contributory and noncontributory pension plans.

The retirement benefit obligation is attributed to each period by the benefit formula basis.

Actuarial gain or loss is amortized in the subsequent year that it occurs by the declining-balance method within the average remaining years (15 years) of service of the employees.

Certain consolidated subsidiaries calculate retirement benefit obligation based on a simplified method, which is permitted for small size companies in conformity with the Accounting Standard for Retirement Benefits for calculating retirement benefit liability and retirement benefit expenses.

(i) Leases

All finance lease transactions are capitalized.

Leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value.

(j) Income Taxes

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

(k) Directors' Bonus

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

(l) Application of accounting standard for business

Effective from the beginning of the year ended March 31, 2016, the Company applied the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No.21, issued September 13, 2013, hereinafter referred to as the "Accounting Standard for Business Combinations"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued September 13, 2013, hereinafter referred to as the "Accounting Standard for Consolidated Financial Statements"), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued September 13, 2013, hereinafter referred to as the "Accounting Standard for Business Divestitures") and other related standards and implementation guidance.

In applying these revised accounting standards, the Company records any differences arising from changes in ownership interest in a subsidiary when it retains control as capital surplus and the acquisition-related costs are recognized as expenses when incurred. Also, regarding business combinations implemented on or after April 1, 2015, the accounting method was changed to reflect adjustments to the allocation of acquisition cost under provisional accounting treatment on the consolidated financial statements of the fiscal year in which the relevant business combinations became or will become effective. In addition, the presentation of net income was amended and the reference to "minority interests" was changed to "non-controlling interests".

The Company has applied these standards in accordance with the transitional treatment prescribed in

Section 58-2 (4) of the Accounting Standard for Business Combinations, Section 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Section 57-4 (4) of the Accounting Standard for Business Divestitures, and the Company applied these standards from the beginning of the year.

As a result of these changes, there is no impact on consolidated financial statements.

(m) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used as of and for the year ended March 31, 2016.

(2) 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, 2016, which was ¥112.68 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.

(3) Cash and Cash Equivalents

Reconciliation between "Cash" in the accompanying consolidated balance sheet and "Cash and cash equivalents" in the accompanying consolidated statement of cash flows as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash	¥ 266,378	¥ 31,792	$ 2,364,022
Certificate of deposits with maturities of over three months	(6,007)	(5,005)	(53,310)
Cash and cash equivalents	¥ 260,371	¥ 26,787	$ 2,310,712

(4) Short-term Investments and Investments in Securities

No trading securities were held both as of March 31, 2016 and 2015.

Balance sheet amount, gross unrealized gain or gross unrealized loss and fair value of held-to-maturity securities as of March 31, 2016 and 2015 are summarized as follows:

	Millions of yen			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2016				
Government bond securities	¥ 41,455	¥ 585	¥ (1)	¥ 42,039
	¥ 41,455	¥ 585	¥ (1)	¥ 42,039
March 31, 2015				
Government bond securities	¥ 40,737	¥ 178	¥ (43)	¥ 40,872
	¥ 40,737	¥ 178	¥ (43)	¥ 40,872

	Thousands of U.S. dollars			
	Balance sheet amount	Gross unrealized gain	Gross unrealized loss	Fair value
March 31, 2016				
Government bond securities	$ 367,900	$ 5,192	$ (9)	$ 373,083
	$ 367,900	$ 5,192	$ (9)	$ 373,083

Acquisition cost, gross unrealized gain or gross unrealized loss and balance sheet amount of other securities with fair value as of March 31, 2016 and 2015 are summarized as follows:

	Millions of yen			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2016				
Equity securities	¥ 5,530	¥ 6,661	¥ (111)	¥ 12,080
Bond securities:				
Government bond securities	971,241	32,629	(1)	1,003,869
Corporate bond securities	204,257	233	(15)	204,475
Other	55,767	1,067	(1,093)	55,741
Other securities	1,939	676	–	2,615
	¥ 1,238,734	¥ 41,266	¥ (1,220)	¥ 1,278,780
March 31, 2015				
Equity securities	¥ 4,595	¥ 7,365	¥ (9)	¥ 11,951
Bond securities:				
Government bond securities	1,370,604	12,825	(383)	1,383,046
Corporate bond securities	98,952	13	(32)	98,933
Other	33,038	1,797	(568)	34,267
Other securities	936	814	–	1,750
	¥ 1,508,125	¥ 22,814	¥ (992)	¥ 1,529,947

	Thousands of U.S. dollars			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Balance sheet amount
March 31, 2016				
Equity securities	$ 49,077	$ 59,114	$ (985)	$ 107,206
Bond securities:				
Government bond securities	8,619,462	289,573	(9)	8,909,026
Corporate bond securities	1,812,717	2,068	(133)	1,814,652
Other	494,915	9,469	(9,700)	494,684
Other securities	17,208	5,999	–	23,207
	$ 10,993,379	$ 366,223	$ (10,827)	$ 11,348,775

Securities classified as other securities for which fair value is not available are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unlisted equity securities	¥ 2,900	¥ 2,184	$ 25,737
Unlisted preferred equity securities	–	200	–
Unlisted REITs	5,031	–	44,649

For the years ended March 31, 2016 and 2015, proceeds from sale of other securities, the gross realized gains and the gross realized losses are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Proceeds from sale of other securities	¥ 437,441	¥ 314,609	$ 3,882,153
Gross realized gains	1,750	433	15,531
Gross realized losses	6	19	53

Financial assets received as collateral on which the Company has a right of disposal as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
The fair value of the securities as collateral	¥ 1,549,741	¥ 2,060,035	$ 13,753,470
Securities lent	127,083	171,352	1,127,822
Collateral provided	394,104	545,873	3,497,551
On hand	1,028,554	1,342,810	9,128,097

Balance sheet amount of securities lent under loan for consumption agreement, etc. as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term investments	¥ 344,742	¥ –	$ 3,059,478
Investments in securities	330,321	46,734	2,931,496

The fair value of the securities borrowed under loan for consumption agreement, etc. as of March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
The fair value of the securities as collateral	¥ 1,135,294	¥ 935,537	$ 10,075,382
Securities lent	1,131,462	866,956	10,041,374
Securities pledged as collateral	–	68,581	–
On hand	3,832	–	34,008

(5) Investments in Affiliates

The aggregate carrying amount of investments in affiliates as of March 31, 2016 and 2015 are ¥3,566 million ($31,647 thousand) and ¥3,643 million, respectively.

(6) Land Revaluation

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

The value of the land as of March 31, 2016 decreased by ¥80 million ($710 thousand) in comparison with the book value of the land after revaluation.

(7) Debt

The composition of debt and the weighted average interest rate on debt as of March 31, 2016 and 2015 are as follows:

	Millions of yen	Thousands of U.S. dollars	Weighted average rate
March 31, 2016			
Short-term borrowings	¥ 198,010	$ 1,757,277	0.088%
Current portion of lease liabilities	53	470	—
Long-term borrowings	3,000	26,624	0.638
Call money	720,900	6,397,764	0.000
Commercial paper	122,000	1,082,712	0.042
	¥ 1,043,963	$ 9,264,847	
March 31, 2015			
Short-term borrowings	¥ 436,510		0.149%
Current portion of long-term borrowings	3,000		0.530
Current portion of lease liabilities	79		—
Long-term borrowings	2,000		0.902
Lease liabilities	53		—
Call money	1,587,000		0.055
Commercial paper	440,000		0.087
	¥ 2,468,642		

(8) Retirement and Severance Benefits

The Company has defined benefit retirement and pension plans, which consist of a defined benefit corporate retirement and pension plan and an unfunded retirement and severance plan that provide for lump-sum payment of benefits, and a defined contribution plan.

Consolidated subsidiaries' main retirement plans are unfunded retirement and severance plans that provide for lump-sum payment of benefits as defined benefit retirement and pension plans and the simplified method has been adopted for the calculation of liability for retirement benefits and retirement benefit expenses of lump-sum payment plans.

One subsidiary had participated in Zenkoku Jutakuchi Kaihatsu Kosei Nenkin Kikin (the Kikin) which was established as a multi-employer welfare pension plan and the Kikin obtained the approval for its liquidation from the Minister of Health, Labour and Welfare and terminated on March 29, 2016. No additional cost was anticipated for the Kikin termination.

Defined benefit plans

Followings are the information for the Company's and the consolidated subsidiaries' defined benefit plans as of March 31, 2016 and 2015 and for the years then ended.

(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
	2016	2015	2016
Retirement benefit obligation at beginning of year	¥ 7,946	¥ 7,541	$ 70,518
Cumulative effects of changes in accounting policies	–	24	–
Restated balance at beginning of year	7,946	7,565	70,518
Service cost	304	277	2,698
Interest cost	64	83	568
Actuarial gains and losses	756	340	6,709
Benefits paid	(356)	(319)	(3,159)
Retirement benefit obligation at end of year	¥ 8,714	¥ 7,946	$ 77,334

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Plan assets at beginning of year	¥ 5,534	¥ 4,646	$ 49,112
Expected return on plan assets	111	93	985
Actuarial gains and losses	(332)	624	(2,946)
Employer contributions	412	410	3,656
Benefits paid	(261)	(239)	(2,316)
Plan assets at end of year	¥ 5,464	¥ 5,534	$ 48,491

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Liabilities for retirement benefits at beginning of year	¥ 127	¥ 137	$ 1,127
Retirement benefit expenses	15	13	133
Benefits paid	(8)	(23)	(71)
Contributions	(1)	(0)	(9)
Liabilities for retirement benefits at end of year	¥ 133	¥ 127	$ 1,180

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligation	¥ 6,978	¥ 6,341	$ 61,927
Plan assets	(5,464)	(5,534)	(48,491)
	1,514	807	13,436
Unfunded retirement benefit obligation	1,869	1,731	16,587
Net liabilities for retirement benefit recognized in consolidated balance sheet	¥ 3,383	¥ 2,538	$ 30,023
Liabilities for retirement benefit	¥ 3,383	¥ 2,538	$ 30,023
Net liabilities for retirement benefit recognized in consolidated balance sheet	¥ 3,383	¥ 2,538	$ 30,023

(5) The components of retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 304	¥ 277	$ 2,698
Interest cost	64	83	568
Expected return on plan assets	(111)	(93)	(985)
Amortization of actuarial gains or losses	(5)	42	(44)
Retirement benefit expenses calculated by the simplified method	15	13	133
Retirement benefit expenses	¥ 267	¥ 322	$ 2,370

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial gains or losses	¥ (1,093)	¥ 326	$ (9,700)
Total	¥ (1,093)	¥ 326	$ (9,700)

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unamortized actuarial gains or losses	¥ 1,059	¥ (34)	$ 9,398
Total	¥ 1,059	¥ (34)	$ 9,398

(8) Plan assets

(a) Percentage by major category of plan assets

	2016	2015
Debt securities	30.8%	26.2%
Equity securities	48.4	54.2
General account	17.9	16.8
Other	2.9	2.8
Total	100.0%	100.0%

(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, 2016 and 2015 are as follows:

	2016	2015
(a) Discount rate	0.2%	0.8%
(b) Long-term expected rate of return	2.0%	2.0%
(c) Expected salary increase rate	5.2%	5.2%

Defined contribution plans

For the years ended March 31, 2016 and 2015, the amount to be paid by the consolidated subsidiaries to the defined contribution plans (including the multi-employer welfare pension plan whose contribution has been accounted for as a defined contribution plan) was ¥38 million ($337 thousand) and ¥39 million, respectively.

Followings are the information of the multi-employer plan.

(1) The most recent funded status of the whole multi-employer pension plan as of March 31, 2014 was outlined as follows:

		Millions of yen
Plan assets at fair value	¥	30,998
Benefit obligation under pension funding programs		34,214
Difference	¥	(3,216)

(2) The subsidiary's proportion of the contribution to the aggregate pension contributions in March 2015 were 0.33%.

Liabilities for retirement benefits (directors and corporate auditors)

Directors and corporate auditors are not covered by the plans described above. The Company and all consolidated subsidiaries had abolished retirement benefit system for directors and corporate auditors. Directors and corporate auditors were entitled to lump-sum payment up to the date of the abolishment when they leave the Company or subsidiaries.

As of March 31, 2016 and 2015, the liability for retirement benefits related to the plans were ¥42 million ($373 thousand) and ¥51 million which include the lump-sum payments mentioned above, respectively.

(9) Income Taxes

The Company and its consolidated subsidiaries are subject to Japanese corporate, inhabitant and business taxes based on income which, in the aggregate, result in a statutory tax rate of approximately 33.1% and 35.6% in both 2016 and 2015, respectively.

Because "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted by the Diet on March 29, 2016, the effective statutory tax rate is to be lowered from the year beginning on or after April 1, 2016. The effective statutory tax rate used to measure deferred tax assets and liabilities was changed from 32.3% to 30.9% for temporary differences expected to be eliminated in the fiscal two years beginning on April 1, 2016, and to 30.6% for temporary differences expected to be eliminated in the fiscal years beginning on and after April 1, 2018.

As a result of the change in tax rates, the net amount of deferred tax liabilities decreased by ¥626 million ($5,556 thousand), income taxes-deferred for the current year increased by ¥27 million ($240 thousand), unrealized gain on other securities increased by ¥683 million ($6,061 thousand) and deferred losses on hedges decreased by ¥12 million ($106 thousand). Deferred tax liabilities for gain on revaluation of land decreased by ¥4 million ($35 thousand) and gain on revaluation of land increased by the same amount.

In addition, due to the revision of the carry-forward system of the net operating losses, the amount of net operating losses that can be deducted has been limited to the equivalent of 60% of taxable income before such deductions from the year beginning on April 1, 2016, 55% from the year beginning on April 1, 2017 and 50% from the year beginning on April 1, 2018. As a result of the revision, the amount of deferred tax assets decreased by ¥6 million ($53 thousand) and income taxes-deferred for the current year increased by ¥6 million ($53 thousand).

The reconciliation of the statutory tax rate and the effective tax rate as a percentage of income before income taxes and non-controlling interests for the years ended March 31, 2016 and 2015 is follows:

	2016	2015
Statutory tax rate	33.1%	35.6%
Equity in gains of affiliates	(0.5)	1.2
Expenses not deductible for tax purposes	0.8	0.9
Valuation allowance	(13.1)	(20.6)
Income not credited for tax purposes	(2.2)	(2.4)
Adjustments of deferred tax assets due to change in statutory tax rate	0.8	1.5
Other	2.1	1.6
Effective tax rate	21.0%	17.8%

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Accrued business tax	¥ 43	¥ 37	$ 381
Accrued bonuses	150	167	1,331
Liabilities for retirement benefits (employees)	1,039	837	9,221
Liabilities for retirement benefits (directors and corporate auditors)	13	16	115
Allowance for doubtful receivables	424	552	3,763
Tax loss carryforward	4,103	4,811	36,413
Deferred losses on hedges	4,549	1,706	40,371
Net unrealized loss on other securities	369	307	3,275
Other	306	279	2,716
	10,996	8,712	97,586
Valuation allowance	(7,000)	(6,134)	(62,123)
	3,996	2,578	35,463
Deferred tax liabilities:			
Gain on evaluation of subsidiaries' assets	(155)	(158)	(1,376)
Net unrealized gain on other securities	(12,591)	(7,304)	(111,741)
Gain on transfer of investment in an affiliate	(359)	(367)	(3,186)
Gain on evaluation of acquired assets by merger	(603)	(637)	(5,351)
Deferred gains on hedges	(1,653)	(889)	(14,670)
Other	(21)	(22)	(186)
	(15,382)	(9,377)	(136,510)
Net deferred tax liabilities	¥ (11,386)	¥ (6,799)	$ (101,047)

Net deferred tax assets and liabilities as of March 31, 2016 and 2015 are reflected in the accompanying consolidated balance sheet under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets - Deferred tax assets	¥ 167	¥ 391	$ 1,482
Non-current liabilities - Deferred tax liabilities	(11,553)	(7,190)	(102,529)

(10) Common Stock

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

(11) Retained Earnings and Dividends

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

Cash dividends charged to retained earnings for the years ended March 31, 2016 and 2015 represent dividends paid out during those years. The amount available for dividends is based on the amount recorded in the Company's non-consolidated books of account in accordance with the Companies Act.

(a) Dividends paid during the year ended March 31, 2015

The following was approved by the general meeting of stockholders held on June 25, 2014.

(a)	Total dividends	¥751 million
(b)	Cash dividends per common share	¥7
(c)	Record date	March 31, 2014
(d)	Effective date	June 26, 2014

The following was approved by the Board of Directors held on November 10, 2014.

(a)	Total dividends	¥718 million
(b)	Cash dividends per common share	¥7
(c)	Record date	September 30, 2014
(d)	Effective date	December 5, 2014

(b) Dividends paid during the year ended March 31, 2016

The following was approved by the general meeting of stockholders held on June 25, 2015.

(a)	Total dividends	¥799million ($7,091 thousand)
(b)	Cash dividends per common share	¥8($0.07)
(c)	Record date	March 31, 2015
(d)	Effective date	June 25, 2015

The following was approved by the Board of Directors held on November 9, 2015.

(a)	Total dividends	¥787million ($6,984 thousand)
(b)	Cash dividends per common share	¥8 ($0.07)
(c)	Record date	September 30, 2015
(d)	Effective date	December 7, 2015

(c) Dividends to be paid after the balance sheet date but the record date for the payment belongs to the year ended March 31, 2016

The following was approved by the general meeting of stockholders held on June 24, 2016.

(a)	Total dividends	¥775million ($6,878 thousand)
(b)	Dividend source	Retained earnings
(c)	Cash dividends per common share	¥8 ($0.07)
(d)	Record date	March 31, 2016
(e)	Effective date	June 27, 2016

(12) General and Administrative Expenses

Significant components of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Salaries	¥ 3,172	¥ 3,215	$ 28,151
Retirement benefit expenses	305	361	2,707
Administrative and computer expenses	1,331	1,368	11,812
Depreciation	626	662	5,556

(13) Other Comprehensive Income

The reclassification adjustment and the related income tax effects allocated to each component of other comprehensive income (losses) for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized gain on other securities:			
Arising during the year	¥ 19,969	¥ 9,336	$ 177,219
Reclassification adjustment	(1,693)	(341)	(15,025)
Before tax amount	18,276	8,995	162,194
Tax expense	(5,124)	(2,598)	(45,474)
Net-of-tax amount	13,152	6,397	116,720
Deferred losses on hedges:			
Arising during the year	(6,929)	(1,929)	(61,493)
Reclassification adjustment	–	–	–
Before tax amount	(6,929)	(1,929)	(61,493)
Tax benefit (expense)	447	(239)	3,967
Net-of-tax amount	(6,482)	(2,168)	(57,526)
Gain on revaluation of land:			
Tax benefit	4	8	36
Remeasurements of defined benefit plans:			
Arising during the year	(1,088)	285	(9,656)
Reclassification adjustment	(5)	41	(44)
Before tax amount	(1,093)	326	(9,700)
Tax benefit (expense)	335	(115)	2,973
Net-of-tax amount	(758)	211	(6,727)
Share of other comprehensive income (losses) of affiliates accounted for by equity method:			
Arising during the year	(162)	98	(1,438)
Reclassification adjustment	10	13	89
	(152)	111	(1,349)
Total other comprehensive income	¥ 5,764	¥ 4,559	$ 51,154

(14) Per Share Information

(a) Net Income per Share

Basic net income per share, and reconciliation of the numbers and the amounts used in the basic net income per share computations for the years ended March 31, 2016 and 2015 are as follows:

	Yen		U.S. dollars
	2016	2015	2016
Basic net income per share	¥ 26.90	¥ 33.94	$ 0.24

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net income attributable to owners of the parent	¥ 2,646	¥ 3,521	$ 23,482
Net income not applicable to common stockholders	–	–	–
Net income attributable to owners of the parent applicable to common stockholders	¥ 2,646	¥ 3,521	$ 23,482

	Number of shares (Thousands)	
	2016	2015
Weighted average number of shares outstanding on which basic net income per share is calculated	98,344	103,726

(b) Net Assets per Share

Net assets per share, and reconciliation of the numbers and the amounts used in the net assets per share computations as of March 31, 2016 and 2015 are as follows:

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	¥ 1,467.01	¥ 1,373.94	$ 13.02

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total net assets	¥ 142,031	¥ 137,145	$ 1,260,481
Amount deducted from total net assets	–	–	–
Net assets applicable to common stockholders	¥ 142,031	¥ 137,145	$ 1,260,481

	Number of shares (Thousands)	
	2016	2015
Number of shares outstanding at end of year on which net assets per share is calculated	96,816	99,819

(15) Leases

(a) Finance Lease

The main assets are system equipment which are included in tools, furniture and fixtures.

(b) Operating Lease

Future minimum lease payments required under noncancellable operating leases as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Future minimum lease payments:			
Within one year	¥ 1	¥ 5	$ 9
Over one year	–	1	–
	¥ 1	¥ 6	$ 9

(16) Pledged Assets

The carrying value and classification of assets owned by the Company that have been pledged to counterparties as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term investments	¥ 85,059	¥ 586,013	$ 754,872
Short-term loans receivable	113,642	23,281	1,008,537
Investments in securities	466,275	812,392	4,138,046

Assets in the above table were pledged for the followings:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Call money	¥ 450,900	¥ 1,302,200	$ 4,001,597
Short-term borrowings	20,000	75,000	177,494

In addition to the above, followings are deposited for the Clearing Fund of Japan Securities Clearing Corporation and Japan Government Bond Clearing Corporation, etc.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Other current assets	¥ 30,001	¥ 501	$ 266,250
Investments in securities	1,502	16,742	13,330

(17) Financial Instruments

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 maintain daytime liquidity.

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, government-backed bonds, local government bonds and public corporation bonds as securities investment activities and usually raises money from call market.

(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. Main financial instrument that JSFTB holds are loans to government and business corporations and securities such as government bonds, government-backed bonds, local government bonds and public corporation 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. Collateral money for securities borrowed is collateral money mainly for repurchase transaction and securities borrowed of loans for margin transactions. 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.

JSFTB has entered into interest rate swaps for hedging fixed-rate loans and bonds, and variable-rate 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 and the interest rate risk of hedged items are offset by hedging derivatives.

(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.

1) 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.

2) 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 revaluates the securities daily to mitigate the collectability issues, and the Company collects the claims quickly through sale of the collaterals when the customer bankrupts.

3) 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.

4) 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: mainly 1 year). Market risk amount (possible losses) of the Company is ¥22,326 million ($198,136 thousand) as of March 31, 2016.

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.

5) 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.

6) 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 ¥4,826 million ($42,829 thousand) as of March 31, 2016.

(4) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments are measured based on the quoted market price, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments which quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described below in note "(18) Derivative financial instruments" does not represent the market risk of the derivative transactions.

Fair value of financial instruments

The carrying value on the consolidated balance sheet, fair value, and differences as of March 31, 2016 and 2015 are as follows.

Financial instruments, of which it is extremely difficult to measure the fair value, are not included. (Please see "<2> Financial instruments of which the fair value is extremely difficult to measure")

	Millions of yen					
	2016			2015		
	Carrying value	Fair value	Differences	Carrying value	Fair value	Differences
Assets:						
(1) Cash	¥ 266,378	¥ 266,378	¥ –	¥ 31,792	¥ 31,792	¥ –
(2) Trade loans receivable	567,749			883,101		
Allowance for doubtful receivables *1	(127)			(195)		
	567,622	567,651	29	882,906	882,905	(1)
(3) Collateral money for securities borrowed *1	1,025,508	1,025,508	–	974,861	974,861	–
(4) Short-term investments and investments in securities						
Held-to-maturity securities	41,455	42,039	584	40,737	40,872	135
Other securities	1,278,780	1,278,780	–	1,529,947	1,529,947	–
Total	¥ 3,179,743	¥ 3,180,356	¥ 613	¥ 3,460,243	¥ 3,460,377	¥ 134
(1) Call money	¥ 720,900	¥ 720,900	¥ –	¥ 1,587,000	¥ 1,587,000	¥ –
(2) Short-term borrowings	198,010	198,010	–	436,510	436,510	–
(3) Commercial paper	122,000	122,000	–	440,000	440,000	–
(4) Collateral money received for securities lent	1,549,653	1,549,653	–	788,716	788,716	–
(5) Long-term borrowings *2	3,000	3,000	–	5,000	5,000	–
Total	¥ 2,593,563	¥ 2,593,563	¥ –	¥ 3,257,226	¥ 3,257,226	¥ –
Derivative transactions *3	¥ (11,608)	¥ (11,608)	¥ (–)	¥ (3,012)	¥ (3,012)	¥ (–)

	Thousands of U.S. dollars		
	2016		
	Carrying value	Fair value	Differences
Assets:			
(1) Cash	$ 2,364,022	$ 2,364,022	$ –
(2) Trade loans receivable	5,038,596		
Allowance for doubtful receivables *1	(1,127)		
	5,037,469	5,037,726	257
(3) Collateral money for securities borrowed *1	9,101,065	9,101,065	–
(4) Short-term investments and investments in securities			
Held-to-maturity securities	367,900	373,083	5,183
Other securities	11,348,775	11,348,775	–
Total	$ 28,219,231	$ 28,224,671	$ 5,440
(1) Call money	$ 6,397,764	$ 6,397,764	$ –
(2) Short-term borrowings	1,757,277	1,757,277	–
(3) Commercial paper	1,082,712	1,082,712	–
(4) Collateral money received for securities lent	13,752,689	13,752,689	–
(5) Long-term borrowings *2	26,624	26,624	–
Total	$ 23,017,066	$ 23,017,066	$ –
Derivative transactions *3	$ (103,017)	$ (103,017)	$ (–)

*1 Allowance for doubtful accounts associated with trade loans receivable is deducted. Carrying value of collateral money for securities borrowed is net amount of related allowance for doubtful accounts, because the allowance for doubtful accounts for collateral money for securities borrowed is not material.

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

*3 Derivative receivables and payables are on net basis. Items that are net payables are shown in parenthesis.

<1> Fair value measurement of financial instruments

Assets:

(1) Cash

The fair value approximates carrying amount because of the short maturity of these instruments.

(2) Trade loans receivable

The fair value of trade loans receivable with variable interest rate approximates carrying amount because the fair value is reflected a fluctuation of interest market in a short period and unless credit status of the borrower does not change so much from when the Company lent. Allowance for doubtful receivables are estimated based on collectable amounts by collaterals and guarantee and thus the fair value approximates the carrying amount minus allowance for doubtful receivables amounts.

(3) Collateral money for securities borrowed

The fair value approximates carrying amount because of the short maturity of these instruments.

(4) Short-term investments and investments in securities

The fair value of equity securities and bond securities is calculated by quoted market price and quotes from information venders. The fair value of government bonds with variable interest rate held by the Company and JSFTB is estimated based on quotes from information venders in accordance with the "Practical Solution on Measurement of Fair Value of Financial Assets" (ASBJ Practical Issue Task Force (PITF) No. 25, October 28, 2008), because based on our determination that their market prices cannot be deemed fair value due to the

market situation where the number of transactions is extremely small. The pricing model used by the information vendors is forward pricing model, and the price determinant variables are the spot rate for Japanese government bonds and the swaption volatility.

The fair value of investment trust is calculated by quoted market price.

Please see note "(4) Short-term Investments and Investments in Securities" for information by category.

Liabilities:

(1) Call money, (2) Short-term borrowings, (3) Commercial paper and (4) Collateral money received for securities lent

The fair value approximates carrying amount because of the short maturity of these instruments.

(5) Long-term borrowings

The fair value of long-term borrowings with variable interest rate approximates carrying amount because the fair value is reflected a fluctuation of interest market in a short period and credit status of the Company does not change very much from when the Company borrowed. The fair value of long-term borrowings with fixed interest rate is based on the present value of future cash flows of interest and principal payments discounted using the current borrowing rate for similar borrowings of a comparable maturity.

Derivatives:

Please see note "(18) Derivative Financial Instruments."

<2> Financial instruments of which the fair value is extremely difficult to measure

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unlisted equity securities			
Other securities	¥ 2,900	¥ 2,184	$ 25,737
Investments in affiliates	3,566	3,643	31,647
Unlisted preferred equity securities	–	200	–
Unlisted REITs	5,031	–	44,649

Above securities have no market value and the fair value is extremely difficult to measure, therefore are not included in "Assets: (4) Short-term investments and investments in securities."

<3> Projected future redemption of monetary claim and securities with maturities as of March 31, 2016

	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
(1) Cash	¥ 266,378	¥ –	¥ –	¥ –
(2) Trade loans receivable	472,816	94,244	689	–
(3) Collateral money for securities borrowed	1,005,617	20,000	–	–
(4) Short-term investments and investments in securities				
Held-to-maturity securities (Government bonds)	–	40,000	–	1,500
Other securities with maturities				
Bond securities				
Government bonds	404,947	375,344	32,000	153,000
Corporate bonds	25,935	178,210	–	–
Other	–	–	49,977	2,765
Total	¥ 2,175,693	¥ 707,798	¥ 82,666	¥ 157,265

	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
(1) Cash	$ 2,364,022	$ –	$ –	$ –
(2) Trade loans receivable	4,196,095	836,386	6,115	–
(3) Collateral money for securities borrowed	8,924,539	177,494	–	–
(4) Short-term investments and investments in securities				
Held-to-maturity securities				
(Government bonds)	–	354,988	–	13,312
Other securities with maturities				
Bond securities				
Government bonds	3,593,779	3,331,061	283,990	1,357,827
Corporate bonds	230,165	1,581,558	–	–
Other	–	–	443,530	24,539
Total	$ 19,308,600	$ 6,281,487	$ 733,635	$ 1,395,678

<4> The annual maturities of the long-term borrowings, lease liabilities and other interest bearing liabilities as of March 31, 2016

	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	¥ 720,900	¥ –	¥ –	¥ –	¥ –	¥ –
Short-term borrowings	198,010	–	–	–	–	–
Commercial paper	122,000	–	–	–	–	–
Collateral money received for securities lent	1,549,653	–	–	–	–	–
Long-term borrowings *	–	–	1,000	–	–	2,000
Total	¥ 2,590,563	¥ –	¥ 1,000	¥ –	¥ –	¥ 2,000

	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	$ 6,397,764	$ –	$ –	$ –	$ –	$ –
Short-term borrowings	1,757,277	–	–	–	–	–
Commercial paper	1,082,712	–	–	–	–	–
Collateral money received for securities lent	13,752,689	–	–	–	–	–
Long-term borrowings *	–	–	8,875	–	–	17,749
Total	$ 22,990,442	$ –	$ 8,875	$ –	$ –	$ 17,749

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

(18) Derivative Financial Instruments

Derivative transactions to which hedge accounting are applied as of March 31, 2016 and 2015 are summarized as follows:

(a) Exchange rate derivatives

			Millions of yen			
			2016		2015	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value	Contract or notional amounts	Fair value
*1	Forward exchange contract: Sell:					
	U.S. dollars	Investments in securities	¥ 12,982	¥ 687	¥ 10,515	¥ (274)
	Euro	Investments in securities	39,760	207	21,349	631

			Thousands of U.S. dollars	
			2016	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Forward exchange contract: Sell:			
	U.S. dollars	Investments in securities	$ 115,211	$ 6,097
	Euro	Investments in securities	352,858	1,837

(b) Interest rate derivatives

			Millions of yen			
			2016		2015	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value	Contract or notional amounts	Fair value
*1	Interest rate swaps:					
	Variable rate received for fixed rate	Investments in securities	¥ 246,150	¥ (12,458)	¥ 45,000	¥ (3,349)
	Variable rate received for fixed rate	Trade loans	7,500	(44)	7,500	(20)
*2	Interest rate swaps:					
	Variable rate received for fixed rate	Trade loans	111,595	*3	5,056	*3
	Variable rate paid for variable rate	Long-term borrowings	2,000	*3	2,000	*3

			Thousands of U.S. dollars 2016	
Hedge accounting method	Nature of transaction	Hedged items	Contract or notional amounts	Fair value
*1	Interest rate swaps:			
	Variable rate received for fixed rate	Investments in securities	$ 2,184,505	$ (110,561)
	Variable rate received for fixed rate	Trade loans	66,560	(390)
*2	Interest rate swaps:			
	Variable rate received for fixed rate	Trade loans	990,371	*3
	Variable rate paid for variable rate	Long-term borrowings	17,749	*3

*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.

The fair value of interest rate swaps are estimated based on quotes from counterparties.

(19) Commitments and Contingencies

As of March 31, 2016 and 2015, undrawn amount of general loan for securities companies and customers, overdraft loan and loan commitment line are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total credit line	¥ 738,467	¥ 741,813	$ 6,553,665
Drawn amount	68,847	210,581	610,995
Undrawn amount	¥ 669,620	¥ 531,232	$ 5,942,670

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

(20) Segment Information

The reported segments of the Company are the business units for which the Company 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. and "Real estate leasing business" conducted by Nihon Building Co., Ltd. are the Company's reported segments. JSF Trust and Banking Co., Ltd. and Nihon Building Co., Ltd. are consolidated subsidiaries of the Company.

"Securities finance business" is engaged in providing loan services, which are loans for margin transaction, 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 JSF Group.

Segment revenues, income, assets, liabilities and others are calculated by accounting methods similar to those employed to prepare the accompanying consolidated financial statements. Segment income is calculated based on "Keijo-soneki." Under accounting principles generally accepted in Japan, an ordinary income or loss, "Keijo-soneki" should be disclosed in the income statement. The ordinary income or loss is an income or loss figure with certain adjustments, which are categorized as extraordinary items in accordance with accounting principles generally accepted in Japan, made to income or loss before income taxes and minority interests. Therefore, ordinary income or loss is operating income or loss plus non-operating income from interest and dividend income and other items less non-operating expenses, such as interest expenses. Intersegment revenue and transfer are based on arms-length transactions.

The reported segment information for the Company and its consolidated subsidiaries for the years ended March 31, 2016 and 2015 was summarized as follows:

	Millions of yen			
	2016			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 17,776	¥ 3,452	¥ 807	¥ 22,035
Intersegment revenues and transfers	22	25	393	440
Total	¥ 17,798	¥ 3,477	¥ 1,200	¥ 22,475
Segment income	¥ 2,508	¥ 470	¥ 467	¥ 3,445
Segment assets	¥ 2,633,332	¥ 649,149	¥ 8,856	¥ 3,291,337
Others:				
Depreciation and amortization	¥ 352	¥ 113	¥ 152	¥ 617
Interest income	259	–	13	272
Income taxes	537	19	151	707
Increase in property, plant and equipment and intangible assets	2,420	53	35	2,508

	Thousands of U.S. dollars			
	2016			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	$ 157,757	$ 30,635	$ 7,162	$ 195,554
Intersegment revenues and transfers	195	222	3,488	3,905
Total	$ 157,952	$ 30,857	$ 10,650	$ 199,459
Segment income	$ 22,258	$ 4,171	$ 4,144	$ 30,573
Segment assets	$ 23,370,004	$ 5,760,996	$ 78,594	$ 29,209,594
Others:				
Depreciation and amortization	$ 3,124	$ 1,003	$ 1,349	$ 5,476
Interest income	2,299	–	115	2,414
Income taxes	4,766	168	1,340	6,274
Increase in property, plant and equipment and intangible assets	21,477	470	311	22,258

	Millions of yen			
	2015			
	Securities finance	Trust banking	Real estate leasing	Total
Revenues:				
Revenues to third parties	¥ 17,163	¥ 2,269	¥ 868	¥ 20,300
Intersegment revenues and transfers	22	2	396	420
Total	¥ 17,185	¥ 2,271	¥ 1,264	¥ 20,720
Segment income	¥ 2,653	¥ 1,281	¥ 583	¥ 4,517
Segment assets	¥ 2,881,054	¥ 649,730	¥ 8,781	¥ 3,539,565
Others:				
Depreciation and amortization	¥ 387	¥ 101	¥ 165	¥ 653
Interest income	105	–	12	117
Income taxes	457	107	207	771
Increase in property, plant and equipment and intangible assets	1,881	200	37	2,118

Reconciliation between total segment revenues in the table above and revenues in the accompanying consolidated statement of income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total segment revenues	¥ 22,475	¥ 20,720	$ 199,459
Intersegment revenues	(440)	(420)	(3,905)
Revenues in the accompanying consolidated statement of income	¥ 22,035	¥ 20,300	$ 195,554

Reconciliation between total segment income in the table above and ordinary income for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total segment income	¥ 3,445	¥ 4,517	$ 30,573
Intersegment income	(149)	(142)	(1,322)
Equity in earnings (losses) of affiliates	54	(144)	479
Ordinary income	¥ 3,350	¥ 4,231	$ 29,730

Reconciliation between total segment assets in the table above and assets in the consolidated accompanying balance sheet as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total segment assets	¥ 3,291,337	¥ 3,539,565	$ 29,209,594
Intersegment accounts	(19,072)	(34,021)	(169,258)
Intersegment investments	(26,269)	(26,269)	(233,129)
Other	3,174	3,327	28,168
Assets in the accompanying consolidated balance sheet	¥ 3,249,170	¥ 3,482,602	$ 28,835,375

Reconciliation between others in the table above and amounts in the consolidated financial statements as of and for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2016			
Depreciation and amortization	¥ 617	¥ 9	¥ 626
Interest income	272	(13)	259
Income taxes	707	(3)	704
Increase in property, plant and equipment and intangible assets	2,508	–	2,508
March 31, 2015			
Depreciation and amortization	¥ 653	¥ 9	¥ 662
Interest income	117	(12)	105
Income taxes	771	(6)	765
Increase in property, plant and equipment and intangible assets	2,118	–	2,118

	Thousands of U.S. dollars		
	Segment total	Adjustments	Amounts in the consolidated financial statements
March 31, 2016			
Depreciation and amortization	$ 5,476	$ 80	$ 5,556
Interest income	2,414	(116)	2,298
Income taxes	6,274	(26)	6,248
Increase in property, plant and equipment and intangible assets	22,258	–	22,258

Related Information

(a) Information by services

Sales by services for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Loans for margin transaction	¥ 10,579	¥ 9,667	$ 93,885
Other	11,456	10,633	101,669
	¥ 22,035	¥ 20,300	$ 195,554

(b) Geographic information

Because there are no revenues from customers outside Japan and no property, plant and equipment located outside Japan, the geographic information is not disclosed for the years ended March 31, 2016 and 2015.

(c) Information by major customers

Because no particular third party whose revenues are over 10% of revenues in the consolidated statement of income exists, the information by major customers is not disclosed for the years ended March 31, 2016 and 2015.

Information of impairment loss on fixed assets by reported segments

The information is not applicable for the years ended March 31, 2016 and 2015.

Goodwill by reported segments

The information is not applicable for the years ended March 31, 2016 and 2015.

Negative goodwill incurred by reported segments

The information is not applicable for the years ended March 31, 2016 and 2015.

(21) Subsequent Event

Acquisition of treasury stocks

The Board of Directors of the Company approved at May 12, 2016 to acquire treasury stocks pursuant to the provisions of Article 165 Paragraph 3 of the Companies Act by replacing the provisions stipulated in Article 156 of the same Act.

1. Reasons for the acquisition of treasury stocks

The acquisition of treasury stocks was conducted in an aim to prepare for flexible capital policies.

2. Details of the acquisition of treasury stocks

(1) Type of shares to be acquired: Common stocks

(2) Number of shares to be acquired: 2,000,000 shares (upper limit)

(3) Total acquisition costs: ¥1,000 million ($8,875 thousand) (upper limit)

(4) Schedule of acquisition date: From May 13, 2016 to March 22, 2017

Introduction of a new Performance-based Share

Remuneration Plan for the directors and the executive officers

The Board of Directors of the Company approved at May 12, 2016 to revise its existing director remuneration plan and newly introduce a performance-based share remuneration plan called “Board Benefit Trust (BBT) (herein after “the Plan”) and the 106th general meeting of shareholders (herein after “OGM”) at June 24, 2016 approved the proposal for the introduction of the Plan.

1. Background and purpose

Board of Directors of the Company approved to introduce the Plan on condition of obtaining the approval

of shareholders at the OGM, and to submit the proposal for the Plan at the OGM. The purpose of the proposed introduction of the plan is to further clarify the linkage between remuneration for directors (other than outside directors) and executive officers 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.

The Company has a Nomination and Remuneration Advisory Committee, a major member of the Committee comprised by outside directors and outside auditors, which serves as an advisory body to the Board of Directors. The Committee deliberated the Plan proposal prior to the Board of Directors.

2. Outline of the Plan

(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 (herein after "the Trust") using money contributed by the Company and the Company's shares and the money equivalent to the market value of the shares (herein after "the Shares, etc.") will be delivered by the Trust to directors and executive officers pursuant to the "Rules for Delivery of Shares to Directors (herein after "the Rule")" to be established by the board of directors.
In principle, the Shares, etc. will be delivered when he/she resigns as Director or Executive Officer.

(2) Targets of the Plan

Directors (excluding outside directors) and Executive Officers

(3) Trust period under the Plan

The Trust period will be from August 2016 (scheduled) to the expiration of the Trust. No specific expiration date is set for the Trust, which will remain in effect as long as the Plan continues. The Plan will terminate upon the delisting of the Company's shares, an abolition of the Plan based on the board of directors' resolution, or in certain other cases.

(4) Amount of funds the Company will contribute to the Trust

The Company will introduce the Plan for four fiscal years ending at March 31, 2020 (this period of four fiscal years as well as each subsequent period of four fiscal years, are hereinafter "Target period") and for each subsequent Target periods. In initial Target period, the Company will contribute up to ¥80 million ($710 thousand) (including $66 million ($586 thousand) for directors) per fiscal year, ¥320 million ($2,840 thousand) (including ¥264 million ($2,343 thousand) for directors) in total, to the Trust as funds to acquire the Company's shares in advance, for the purpose of delivering them to directors and executive officers under the Plan.

After the initial Target period, the Company will make an additional contribution to the Trust of up to ¥320 million ($2,840 thousand) (including ¥264 million ($2,343 thousand) for directors) for each of the Target periods until the termination of the Plan as the funds to acquire the Company's shares as mentioned above.

Upon such additional contribution, however, if there are the Company's shares (excluding shares which correspond to the number of points awarded to directors and executive officers, and which have yet to be delivered to them) and money remaining in the trust assets (hereinafter "Remaining shares, etc.") on the last day of the Target period immediately preceding the Target period for which the Company intends to make the additional contribution, the combined total value of the Remaining shares, etc.(the applicable value of the Company's shares will be calculated by the market price on the last day of the preceding Target period) and the funds to be additionally contributed will be an amount not exceeding the upper limit approved at the OGM.

(5) Method of acquisition of the Company's shares and number of shares to be acquired

The Trust will acquire the Company's shares through securities markets or by underwriting of treasury stock disposal.

In the initial Target period, the Trust will acquire the Company's shares up to 640,000 shares immediately after the establishment of the Trust. The method of acquisition will be disclosed as the details have been determined.

(6) Details of the Shares, etc. to be delivered to directors and executive officers

In each fiscal year, the Company will award points (hereinafter "Share points") to each director and executive officer, which will be calculated by multiplying the base point awarded according to his/her duties, responsibilities and other elements by a factor which will vary depending on the level of the consolidated results.

The total number of Share points awarded to directors and executive officers in each fiscal year is up to 160,000 points (equivalent to 160,000 shares of the Company's common stock (including 132,000 points for directors (equivalent to 132,000 shares of the Company's common stock)). The Company believes the number of points is reasonable, as it is comprehensively determined considering the current payment level of remuneration for directors and executive officers, the number of directors and executive officers, and the trend of the Company's stock price, etc.

Upon the delivery of Shares, etc. to director or executive officer, mentioned in (7) below, 1 Share point will be converted to 1 share of the Company's common stock. If, however, the number of the Company's share is increased or decreased due to a share split, free allotment of shares, stock consolidation or any other event, after the Plan is approved at the OGM, the conversion ratio will be adjusted reasonably according to the percentage of the increase or decrease.

(7) Time to deliver

If a director or executive officer who has resigned meets the beneficiary requirement stipulated in the Rule, he/she will be able to receive the Company's shares from the Trust after his/her retirement in proportion to the accumulated number of the Share points rewarded until his/her retirement as director or executive officer, by taking established procedures to determine the beneficiary. As for a certain percentage of the Company's shares which are supposed to be delivered, if a director or executive officer meets certain requirements, the Company will pay him/her money equivalent to the market value of such shares, instead of delivering the shares.

The Trust may sell a certain number of the shares for paying money.

(8) Handling of voting rights

To ensure the neutrality of management, voting rights whose shares which belong to the Trust will not be exercised during the trust period.

(9) Handling of dividends

Dividends on the Company's shares which belong to the Trust will be received by the Trust, and will be used to acquire the Company's shares and pay trust fees payable to the trustee. Pursuant to the Rule, any such dividends remaining in the Trust at the termination of the Trust will be paid to directors and executive officers at that time.

(10) Procedure of the termination of the Trust

The Trust will terminate upon the delisting of the Company's shares or abolition of the Rule, or in other cases.

Of the residual assets of the Trust at the termination of the Trust, all the Company's shares in the Trust will be acquired by the Company at no charge and cancelled after a resolution is approved at the

Board of Directors. Of the residual assets of the Trust at the termination of the Trust, any money remaining in the Trust (deducting the amount to be delivered to directors and executive officers pursuant to (9)) will be paid to the Company.

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BDO Toyo & Co.
Kandamitoshirocho7,
Chiyoda-ku,Tokyo
101-0053 Japan

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Japan Securities Finance Co., Ltd., which comprise the consolidated balance sheet as of March 31, 2016, and the consolidated statement of income, comprehensive income, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

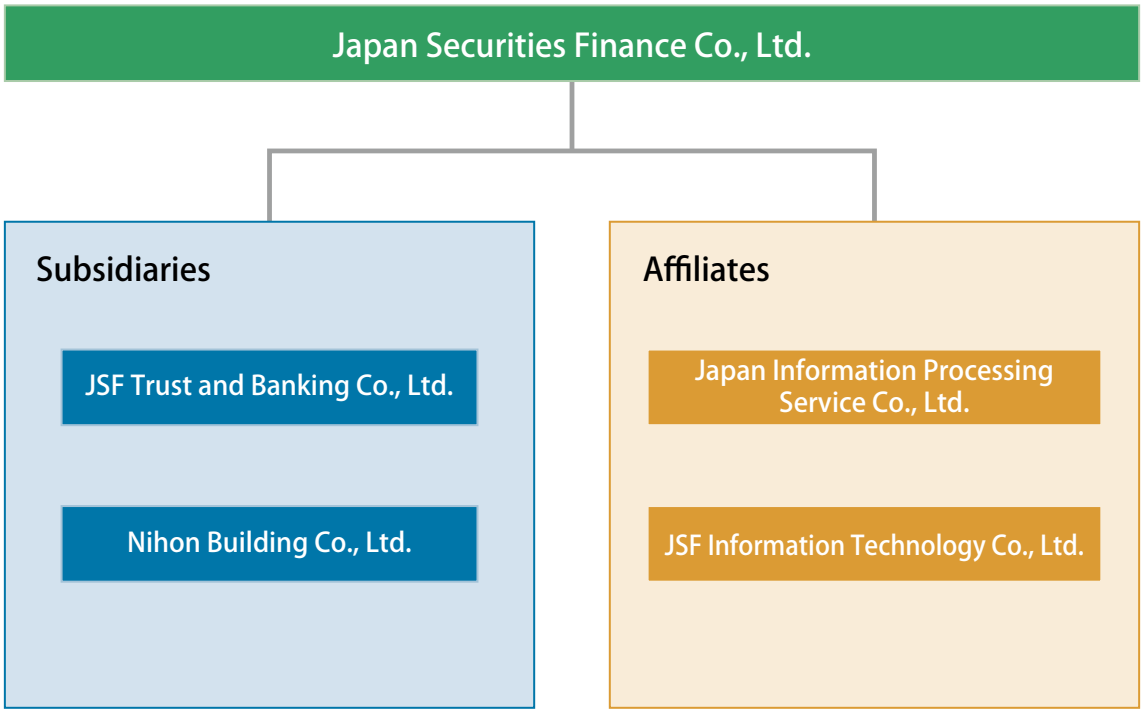
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Japan Securities Finance Co., Ltd. as of March 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
Our audits 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 2 to the consolidated financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside Japan.

BDO Toyo & Co.
Tokyo, Japan
June 27, 2016

BDO Toyo & Co.



Name	Capital (millions of yen)	Ratio of shareholding	Business overview
Subsidiaries			
JSF Trust and Banking Co., Ltd.	14,000	100	Trust service, Banking services
Nihon Building Co., Ltd.	100	100	Real estate ownership and leasing Real estate trading and brokerage
Affiliates			
Japan Information Processing Service Co., Ltd.	2,460	20.00	Information processing services Software development and sales
JSF Information Technology Co., Ltd.	100	20.75	Information processing services Software development and sales

Establishment
July 1927

President
Eizo Kobayashi

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

Capital
¥ 10 billion

Number of employees
253

Share Information

Shares outstanding
100,000,000 shares（as of March 31, 2016）

Stock exchange listing
Tokyo Stock Exchange, 1st section (Code:8511)

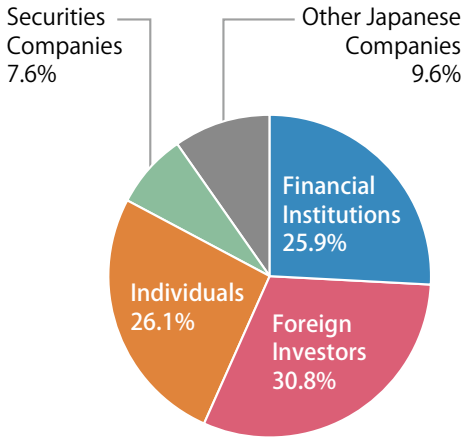
Number of shareholders
13,391（as of March 31, 2016）

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

Major shareholders

	Number of shares held (Thousands)	Ratio of shareholding
Japan Trustee Services Bank, Ltd. (Trust account)	5,873	5.87
Northern Trust Co. (AVFC) Re IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	5,478	5.47
Shihon-Shijo Shinko Foundation	4,810	4.81
Mizuho Bank, Ltd.	4,779	4.77
JP Morgan Chase Bank 385632	4,777	4.77
RBC ISB S/A Dub Non Resident / Treaty Rate Ucits-Clients Account	3,800	3.80
Japan Trustee Services Bank, Ltd. (Trust account 4)	3,000	3.00
The Master Trust Bank of Japan, Ltd. (Trust account)	1,634	1.63
Japan Secrities Agents, Ltd.	1,460	1.46
Chase Manhattan Bank GTS Clients Account Escrow	1,434	1.43

Composition of shareholders
(by number of shares)



Board of Directors, Corporate Auditors and Executive Officers (As of June 24, 2016)

Directors

Chairperson	Minoru Masubuchi *
President	Eizo Kobayashi *
Vice President	Shunichiro Higuchi *
Senior Managing Director	Toshihiro Oritate
Managing Director	Yasufumi Oda
	Kenji Fukushima
	Kazuhiro Maeda
Director	Takashi Imai **
	Tetsuo Mae **
	Eiko Shinotsuka **

(* Representative Directors)
(** Outside Directors)

Executive Officers

Chairperson	Minoru Masubuchi
President	Eizo Kobayashi
Vice President	Shunichiro Higuchi
Senior Managing Director	Toshihiro Oritate
Managing Director	Yasufumi Oda
	Kenji Fukushima
	Kazuhiro Maeda
Senior Executive Officer	Yutaka Tanaka
Executive Officer	Yasuhiro Hirama
	Teruo Murasawa

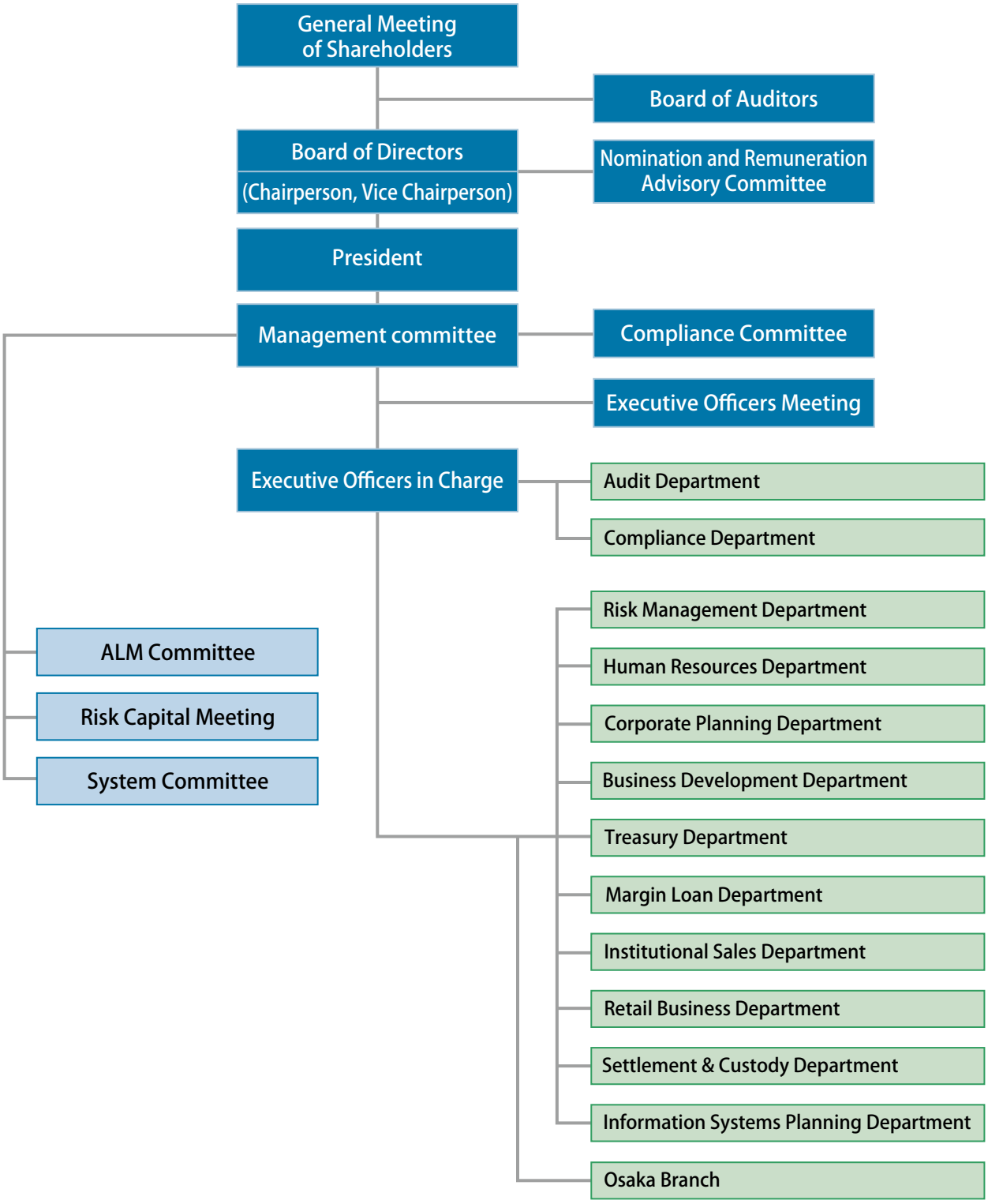
Corporate Auditors

Tadahiko Genta
Masayuki Hamada
Shuuya Iimura *
Toshio Kamiyama *
(* Outside Corporate Auditors)

Rating Information

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

ORGANIZATION



JSF

JAPAN SECURITIES FINANCE CO., LTD.

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