

Business Report

(From: April 1, 2010
To March 31, 2011)

(1) Review and results of operations

As progress is made in international financial system reforms aimed at preventing the recurrence of another financial crisis, unprecedented changes are taking place in the environment surrounding financial market infrastructure, including central counterparties(CCPs). In the report, “Development of Institutional Frameworks Pertaining to Financial and Capital Markets,” announced on January 21, 2010, the Financial Services Agency stressed the need for expanding use of the services offered by the Company, and the strengthening of the Company’s systems as a prerequisite thereof, as well as the need to improve the merits for using CCPs. In response, the Company, as the central counterparty (CCP) of Japan government bonds (JGBs), has drawn up the “Roadmap for reducing the settlement risks of JGB transactions,” dated June 29, 2010, and has been making a concerted effort to accomplish the tasks outlined in the Roadmap.

In an effort to strengthen its systems, the Company took the initiative of entering into a basic agreement with the Japan Securities Clearing Corporation (JSCC) to form a capital and business alliance, and executed a capital increase by way of a third-party allotment with JSCC as the allottee. Based on this agreement, the Company received the dispatch of full-time executives and employees knowledgeable in clearing and settlement operations from JSCC to bolster its personnel infrastructure, while at the same time improved governance by increasing the number of outside directors from the banking industry. Additionally, the Company established an independent Risk Management Group in response to the increasingly sophisticated risk management required of CCPs, as well as a Management Committee and an Internal Auditing Office in order to effectuate an even more pertinent and effective execution of operations and a system of internal control.

In terms of expanding the use of CCP in JGB transactions, the Company reached an agreement with the Trust Companies Association of Japan in December 2010, to the effect that the Company would design a system that would take into account the attributes of trust banks and that based thereon the trust banks focusing on asset administration service would make adjustments toward acquiring clearing qualifications by the first half of FY 2014.

Other initiatives include the clarification and announcement of the rules for handling settlement fails, in conjunction with the adoption of new fail practices by the Japan Securities Dealers Association aimed toward maintaining and improving market liquidity, and making efforts to

enhance transparency, which became an important issue at the time of the Lehman failure; in addition to the introduction of the fail charge practice and moving up the cutoff time from November 2011.

Simultaneously with these efforts, the Company focused on promoting the project to renew the backbone system, whose primary goal, as a settlement infrastructure, was to mitigate system migration risks (System renewal by migration to the new system was completed on May 2, 2011).

With respect to operational performance for FY 2010, thanks to the increase in the number of participants in the first half of the year and the post-financial crisis market recovery, fees income reached a record-breaking ¥1,426 million (9.9% YoY increase). In terms of selling, general and administrative expenses, depreciation charges decreased by ¥181 million due to the completion of amortization of the system investments which had been made in conjunction with the Company's incorporation, which, in turn, resulted in operating income to increase by ¥284 million YoY to ¥367 million and ordinary income to similarly increase by ¥279 million YoY to ¥365 million. However, due to the recording of extraordinary loss on the nonrecurring depreciation of system-related assets, resulting from the renewal of the backbone system, which had been scheduled for May 2011, income after taxes of ¥125 million was recorded.

(2) Capital investment

The total amount of capital investment made during the current year was ¥386 million, which was mainly used for the improvement of system infrastructure, including development expenses for the renewal of the backbone system.

(3) Financing

In terms of financing, on September 29, 2010, ¥1,295 million (issue price of ¥54,488 per share) was raised through a capital increase by way of a third-party allotment with the Japan Securities Clearing Corporation as the allottee.

(4) Major issues to be addressed

The Company, true to its management philosophy of “contributing, as a core infrastructure for the settlement of JGBs, to the sound development of the JGB market and fortifying the international competitive edge of our nation's securities market, by providing excellent services with ‘Safety, Efficiency and Economy,’” had been striving to provide stable services in line with the participants' needs. However, as international discussion focuses on the nature of risk management and the lessons to be learned from the financial crisis, the Company, as a CCP, is being required to further

step up its functions. Furthermore, as part of the reforms of Financial market infrastructures (FMIs) aimed at enhancing the robustness of the settlement system, the Committee on Payment and Settlement Systems (CPSS) and the International Organization of Securities Commissions (IOSCO) has revised its previous “Recommendations for Central Counterparties,” and is considering adopting the “Principles for financial market infrastructures.” Consequently, the Company, as a CCP, will be required to meet these principles, once they are adopted.

Under these circumstances, the Company has drawn up a three-year medium-term business plan and intends to implement the various measures, which includes increasing the sophistication of its risk management function and enhancing the flexibility of its systems, to the end of promoting the “reinforcement of its clearing institution functions” and the “strengthening of its operating bases.” Additionally, in terms of furthering the alliance with JSCC, the Company has already launched a promotion project team and has begun formulating partnership menus with the enhancement of participant benefits in mind.

We, therefore, humbly ask our shareholders for their continued support and encouragement.