

Business Report

From April 1, 2011
To March 31, 2012

Japan Government Bond Clearing Corporation

(1) Review and results of operations

The world economy during FY 2011 vacillated under the pressures of the European debt crisis, which centered mainly on the crisis in Greece, while smoldering concerns remain today over the possibility of another debt crisis flaring up in Europe. Under such circumstances, the Committee on Payment and Settlement Systems of the Bank for International Settlements (BIS-CPSS) and the Technical Committee of the International Organization of Securities Commissions (IOSCO), in light of the lessons learned from the global financial crisis and based on the experience of implementing existing international standards, announced on April 2012 the “Principles for financial market infrastructures,” as a new set of standards to replace the existing international standards, including the “Recommendations for Central Counterparties.”

Amid these developments, the Company, as a core infrastructure for the settlement of Japan Government Bonds(JGBs), has been making efforts to accomplish various tasks toward expanding the Company’s user base and strengthening the Company’s systems as a prerequisite thereof, as well as improving the benefits of using central counterparties (CCPs), in accordance with the “Roadmap for reducing the settlement risks of JGB transactions,” which was drawn up in June 2010. Furthermore, the Company, in order to respond appropriately to the changes in the environment surrounding financial market infrastructures, including CCPs, and to strengthen its function as a CCP and reinforce its operating base, has formulated a medium-term management plan to cover the three years from FY 2011, including the current fiscal year, and has been conducting its business activities accordingly.

As part of its efforts toward strengthening its function as a CCP, the Company once again conducted a self-assessment of its observance of the “Recommendations for Central Counterparties,” released by the CPSS-IOSCO in November 2004, and identified the issues that needed to be addressed. Additionally, in conjunction with the shortening of the JGB settlement cycle for outright transactions to T+2 to become effective April 23, 2012, the Company implemented the necessary amendments of system and rules in response to participants’ needs.

In order to reinforce its operating base, the Company established and reviewed manuals, as well

as conducted proficiency training to ensure that operations would run in a stable and reliable manner after the systems are renewed. At the same time, the Company reinforced its framework for the management of system risk by establishing the Risk Management Policy, based on the fit/gap analysis outlined in the inspection manuals of the regulating authorities. Moreover, the Company has strengthened its alliance with the Japan Securities Clearing Corporation, in addition to considering ways of enhancing the efficiency of its operations.

With respect to the operational performance for FY 2011, despite the decrease in the number of participants accompanying the transfer of business, operating revenue of ¥1,428 million was recorded, which was comparable to previous year, thanks to factors including the high levels in the amount of acceptance of settlement obligations. In terms of selling, general and administrative expenses, depreciation charges associated with the system renewals in May 2011 increased by ¥129 million YoY, which resulted in operating income decreasing by 40.1% YoY to ¥220 million. Additionally, ordinary income decreased by 39.5% YoY to ¥221 million, while income after taxes comparable to the previous year was recorded at ¥125 million.

(2) Capital investment

The total amount of capital investment made during the current year was ¥754 million, which was mainly used for the improvement of system infrastructure, including development expenses for the system renewal.

(3) Financing

There is nothing to report.

(4) Major issues to be addressed

The Company to date has been contributing to the maintenance and enhancement of the safety and efficiency of our nation's financial and capital markets by continuously providing stable services as a core infrastructure for the settlement of JGBs. However, as the CPSS-IOSCO released the "Principles for financial market infrastructures" in April 2012, which are considered to be standards more binding than the previous Recommendations, the Company will be required as a CCP to compile measures toward fulfilling the Principles.

In light of these circumstances, the Company has formulated a medium-term management plan covering the three years from FY 2011, including the current fiscal year, and has been engaged in business activities in a proactive and strategic manner. In response to these recent developments by international organizations to reinforce the standards on CCPs, the Company intends to strengthen

its governance and risk management framework while responding to changes in the environment and participants' needs, and provide trouble-free services by building a more robust infrastructure and enhancing its responsiveness to disasters and system malfunctions. We, therefore, humbly ask our shareholders for their continued support and encouragement.