Financial Presentation for FY2014
Summary of Remarks

Date and Time: Wednesday, May 13, 2015, 15:30-16:20
Presenters: Japan Securities Finance Co., Ltd.
President Eizo Kobayashi
Managing Director Toshihio Oritate

Part I: Financial Summary
Presenter: Toshihiro Oritate, Managing Director

Financial Results for Year Ended March 2015 (page 3 of materials)

I'm Toshihiro Oritate, Managing Director of Japan Securities Finance, and I'll be presenting the financial results for the fiscal year ended March 2015.

Please follow according to the page number at the bottom right of each page.

Let's begin with on a non-consolidated basis. Operating revenues increased to 17,185 million yen – however, the figure immediately below, excluding premium charges, of 12,741 million yen more accurately reflects the actual situation. It is down slightly from the preceding fiscal year.

Operating expenses totaled 8,288 million yen, and the figure excluding premium charges was 3,845 million yen, again down slightly compared to the preceding fiscal year. With regard to premium charges, the same amount was collected from stock loan recipients and paid directly to lenders – there is no impact on the company's profits, as we have explained at previous financial results briefings.

Regarding General & Administrative Expenses, in addition to the decrease in rent following the relocation last March of the Osaka branch, property costs decreased due to a drop in M&A-related costs, leading to a decrease in General & Administrative Expenses.

As a result, Operating Income totaled 2,010 million yen, and Recurring Income including dividends received was 2,653 million yen – we achieved slight increases in both cases. Meanwhile, Extraordinary Profit declined dramatically due to the drop in the M&A-related gain in negative goodwill recorded during the preceding fiscal year, leading to total Net Income of 2,219 million yen, down significantly year-on-year. For reference, just below the Net Income figure, we have noted Net Income minus Extraordinary Profit, and on this basis, as you can see we achieved an actual increase in profit of over 100 million yen.

On a consolidated basis, Operating Revenues totaled 20,300 million yen, or 15,856 million yen after deducting premium charges; Operating Expenses totaled 9,450 million yen, or 5,008 million yen after deducting premium charges – the degree of change was similar when looking at them against the preceding fiscal year. General & Administrative Expenses, in addition to a small decline on a non-consolidated basis, due to a reversal of allowance for doubtful receivables in line with payments from borrowers to our subsidiary JSF Trust Bank, the result was a decrease of 425 million yen. In the end, Operating Income was 3,025 million yen, and though there was a deficit in equity in loss of affiliates, Recurring Income totaled 4,230 million yen – once again marked increases were achieved in both cases.

The deficit in Extraordinary Profit or Loss for non-consolidated Net Income resulted in a significant decline to 3,520 million yen. However, we also have noted Net Income minus Extraordinary Profit, and on this basis, consolidated Net Income was up to 856 million yen.

Breakdown of Operating Revenues by Business (page 4 of materials)

Let's now take a look at consolidated operating revenues by business area, on page 4 of the materials.

We've already covered the overall profit figures, and the composition by business area closely resembles that of the preceding fiscal year.

I'd like now to talk more in detail about gains and losses in key areas.

Financial Highlights FY2014 (page 5 of materials)

I'd now like to explain five points among our financial highlights for fiscal year 2014.

To begin with, let's look at trends of Loans for Margin Transactions for fiscal year 2014. The average loan balance for the year was 428.3 billion yen in margin loans – down slightly year-on-year – and for stock loans it was 2,220 million yen, clearly up against the preceding fiscal year.

The graph on the lower left hand side of the page indicates margin and stock loan balances for fiscal years 2013 and 2014 month by month.

Looking at this graph, the margin loan balance generally remained between 400 and 500 billion yen. In fiscal year 2014, the balance never reached 600 billion yen as it did in fiscal year 2013, resulting in an average margin loan balance of 428.3 billion yen, down 62.3 billion yen from fiscal year 2013. Meanwhile, in the beginning of fiscal year 2014, the stock loan balance remained generally between 150 and 200 billion yen, but after that, it was directly impacted by the rise in the stock price and began to increase, ending with a stock loan average for the year of 222 billion yen, up 45.5 billion yen against the preceding fiscal year.

With regard to operating revenue for this business, in addition to a slight decline in the loan balance, interest earned on loans, due to the reduction in the loan rate last August, also decreased. Concerning fees on lending securities, with the rise in the stock loan balance, premium charges and stock lending fees both rose.

As a result, Operating Revenues for this business increased overall, but as I mentioned earlier, as there is no effect on profits from the income derived from premium charges, looking at Operating Revenues excluding premium charges, there was only a slight decrease.

Let me just add for your reference that, as announced on May 1, the average margin loan balance for April 2015 was 428.1 billion yen, and the average stock loan balance was 290 billion yen.

Financial Highlights FY2014 (page 6 of materials)

The second point I'd like to address is growth in the general loan business.

In this business, funds are provided for applications other than loans for Margin Transactions. Please refer to the table at the lower right hand side of the page. In general terms it is divided into financial instruments business operators and individual investors or general businesses.

Looking first at financial product transaction operators, in order to meet the needs of everyone from major and foreign securities to medium- and small-scale securities, we determine the interest, collateral and type of loan based on the purpose and period of the fund usage and the rating, and this led to increased earnings.

Meanwhile, looking at individual investors and general businesses – this is an area we took over after the July 2013 merger with what was formerly Osaka Securities Finance – we achieved only a minor increase in earnings.

As a result, Operating Revenues for this business totaled 2,170 million yen, up 147 million yen year-on-year.

Financial Highlights FY2014 (page 7 of materials)

I'd now like to address the third point.

The Securities Lending business is divided into two departments handling bond lending arrangements – the Bond Services and General Stock Lending. The Bond Service saw a decrease in earnings as shown on page 4, due to the drop in the interest rate and a lower loan balance.

Meanwhile, the General Stock Lending, due to the increase in demand for stock lending, saw increased earnings. This department appears on the right side of the page, conducts stock lending activities excluding stock loans for Margin Transactions in response to stock borrowing needs. The borrowers are securities companies, and we lend to them stock certificates we have borrowed from institutional investors such as those at life and non-life insurance companies.

As shown in the bar graph, over the past few years this business' earnings have grown steadily. This is due to efforts to gather information from the stock lending market, as well as expanding our lineup of lendable issues. We have worked to respond to the new needs of clients and have continued to successfully close contracts.

Financial Highlights FY 2014 (page 8 of materials)

The fourth point I would like to address earnings from bond investment. The data appears under "Others" within "Securities Finance Business" in the chart on page 4.

As you know, in order to procure funds in an agile manner, we hold JGBs, and the earnings from that were affected by monetary easing, and have been on a declining trend in recent years.

Given these circumstances, we began investing in government bonds of foreign countries in April 2014. Our investment targets are limited to securities that are eligible for collateral as designated by the Bank of Japan, and at present this includes the U.S., Germany, and France. As of the end of March 2015, on a yen basis we held a total of 34,200 million yen in foreign bonds. Until now, we have hedged 100% against foreign currency fluctuation risk through forward exchange contracts. Investment became full-fledged beginning last September, and as such earnings were not significant in the fiscal year ended March 2015, limited to 222 million yen. The current balance on an annual basis is 454 million yen, and we believe this business will contribute more to earnings after next fiscal year.

Additionally, beginning in January 2015, with the aim of hedging against future surges in the interest rate, we began executing interest-rate swaps with JGBs that we hold. Through this, carryover earnings were suppressed due to the hedging executed, but going forward, our focus is on suppressing the expansion of appraisal loss in the event of an interest rate surge. At present, we are conducting interest-rate swaps with a portion of our long-term bonds, but depending on market conditions going forward, we may expand the scope of our swap activity.

Lastly, the fifth point I'd like to cover. This fiscal year, JSF Trust Bank recorded temporary earnings. In concrete terms, this was attributable to the reversal of allowance for doubtful receivables and earnings from investment partnerships, and I will go into this in more detail later on.

Financial Results of Group Companies (page 9 of materials)

I'd now like to take a look at the consolidated financial results of the group companies. Please refer to the figure at the top of page 9. This figure reflects the situation as of March 31.

Our group comprised of wholly owned subsidiaries JSF Trust Bank and Nihon Building, equity affiliate Japan Information Processing – a subsidiary of NTT Data – and JSFIT, a subsidiary of Japan Information Processing.

Please now refer to the table at the bottom of the page.

With regard to the financial results for the two wholly owned subsidiaries, Net Income of JSF Trust Bank totaled 1,173 million yen, recording a significant increase in earnings. I will go into more detail on this on the next page.

Nihon Building recorded Net Income of 408 million yen thanks to increased occupancy rates, surpassing the previous year's performance by over 100 million yen.

Gain or Loss in Equity-Method ended in a loss of 144 million yen.

Financial Results of JSF Trust Bank (page 10 of materials)

I'd now like to go into more detail with regard to JSF Trust Bank.

Concerning trust services, trust services for separate money management of securities companies' customers continued their strong performance from the preceding fiscal year, while trust services for cash margin of FX trading and entrustment of trusts as receptacles for asset backed loans for institutional investors grew, resulting in Trust charges of 546 million yen, surpassing the previous year's performance.

Looking at banking services, with the decreased loan balance interest on loans also decreased, resulting in decreased earnings. Amidst these circumstances, there were two positive factors. The first was the reversal of a significant volume of allowances for doubtful receivables. On the income statements you can see the decrease in general and administrative expenses. This was primarily due to events that occurred in the first quarter, but with payments from our borrowers, 345 million yen of our outstanding allowances for doubtful receivables were returned. The second positive factor was earnings from investment to limited partnerships. JSF Trust Bank had been investing in buyout funds formed by domestic management companies, and due to the recent exit from these funds the company received 591 million yen in dividends.

Positive factors such as these contributed to Recurring Revenues totaling 3,400 million yen, a year-on-year increase of more than 1,000 million yen.

Meanwhile, Recurring Expenses, due to the absence of provision of allowances for doubtful receivables, totaled 2,120 million yen, down against the preceding fiscal year.

As a result, Recurring Income totaled 1,280 million yen and Net Income was 1,173 million yen, both rising significantly against the preceding fiscal year.

Estimated Figures for FY2015 (page 11 of materials)

Lastly I'd like to explain estimated figures for FY2015.

Looking first at non-consolidated estimates, the premise for loan transactions based on recent market trends is an average margin loan balance of 430 billion yen and an average stock loan balance of 290 billion yen.

Look now at "JSF" in the table to the right – based on the aforementioned premise, the estimates for FY2015 are for Operating Income of 2,100 million yen, Recurring Income of 2,700 million yen, and Net Income of 2,300 million yen. The average margin loan balance is essentially the same as the preceding fiscal year, but the average stock loan balance is nearly 70 billion yen higher and as such we forecast increased earnings.

Now let's look at consolidated figures. As shown next to "Consolidated" in the table, Operating Income is expected to total 2,600 million yen, Recurring Income 3,200 million yen, and Net Income 2,600 million yen.

Due to an absence of special factors during the fiscal year ended March 2015 for JSF Trust Bank, the company is expecting a decline in earnings. Additionally, Nihon Building, due to a decrease in rental income, expects earnings to fall below those of FY2014. As a result, Operating Income, Recurring Income and Net Income, unlike those of JSF, are forecast to fall below FY2014 levels. However, as I explained earlier, if you exclude special factors such as JSF Trust Bank's temporary earnings, the company actually forecasts a mild increase in profit.

Furthermore, regarding the monthly margin and stock loan balances, as we began releasing them through the Tokyo Stock Exchange at the beginning of next month, they are also available on our website, so please refer to them. Going forward, if the presumed loan balance changes we will adjust our estimates, and we do announce estimates each quarter.

For first-half estimates (first and second quarters), please refer to page 12.

This concludes my portion of today's presentation. Thank you for your attention.

Part II: Management Matters

Presenter: Eizo Kobayashi, President

JSF Earnings Structure (page 14 of materials)

I'm Eizo Kobayashi, President of Japan Securities Finance, and I'd like to talk to you today about matters related to management. I have two major themes I'd like to cover. One is our earnings situation and future prospects, and the second is about increasing profit returns to our shareholders.

The graph on the left side of the page shows trends for our core business, Loans for Margin Transactions, over the past five years. Following the global financial crisis, it had been on a downward trend, but with the revitalization of Japan's stock market it bottomed out in fiscal 2012 and has been recovering since. Our earnings situation can be seen in the graph on the right side of the page. It shows our Operating Income, Net Income and ROE for the past five years. Just as with the margin loan balance, it has been on a recovery course since fiscal 2012. Last fiscal year, Net Income was considerable higher than Operating Income, and as Mr. Oritate explained earlier, this was due to special M&A-related factors.

Now, the solid black line on the right-side figure depicts ROE. Our ROE has been consistently relatively low. The average over the past five years is shown by the dotted black line, and it is about 2.5%. Measuring our company using ROE as a yardstick, it can be said that it has not been higher because the special characteristics of the securities finance industry and recent low interest rates. I would like to explain this more in detail.

Specific Nature of Securities Finance Business (page 15 of materials)

I'd like to cover three points related to the specific nature of the previously mentioned securities finance industry.

The first point is that, as part of the infrastructure of the securities market, when we receive a request for funds or securities lending, we grant the loan regardless of what the situation may be. This is the absolute defining characteristic of our core business. In other words, a distinctive feature of systematic finance is our passive approach to meeting clients' needs. As a securities finance company, we must maintain our ability to secure funds and to borrow securities. We must always be able to secure funds and to borrow securities, and in order to do so, a strong credit rating is essential.

The second point is that we are a licensed company under the Financial Instruments and Exchange Act. With regard to the realm of business of a securities finance company, it is delineated by laws and regulations. Business that is presently permitted in addition to the licensed business of Loans for Margin Transactions includes the lending of securities and security-backed lending. It would be difficult for us to develop other types of business at this moment in time, and also would not be appropriate.

The third point is our close relationships with the Central Bank and settlement institutions. From a fund procurement perspective, if we are not selected as an operational partner of the Central Bank, it is difficult to steadily secure funds. Additionally, we deliver funds and securities via the settlement systems of settlement institutions and the Central Bank – we are very closely connected to them in conducting our business. In order to participate in such a settlement system, it is necessary for us to maintain equity capital at above a certain level.

These three points summarize our specific nature as a part of the securities market infrastructure, and it's important that you understand the importance for us to maintain a stable earnings structure and financial foundation.

The present interest environment doesn't really need to be covered; it is extremely low, and with regard to its effect on earnings, I would like to explain using the next page of the materials.

ROE (page 16 of materials)

In order to look at our company's present situation from the perspective of ROE, we've prepared this table to show how it is related to the specific characteristics I mentioned earlier.

As you can see, ROE can be broken into three elements – Profitability (A), Inventory Turnover (B) and Financial Leverage (C). (A) is an index that shows how much of our Operating Revenues are profit, and is expressed as Net Income / Operating Revenues. Our company's figures on this index are not at all low – the average for companies listed on the first section of the Tokyo Stock Exchange is between 1 and 3%, so we are actually rather high, comparable to banks and securities firms.

So, where exactly is the problem? Let's now look at (B). Referred to as inventory turnover, it indicates the Operating Revenues generated by assets we own. This figure is extremely low. Over the past few years it has been less than 1%, while banks and securities firms are generally around 4 or 5%. I'd like to explain why it is so low as it pertains to our assets. Our consolidated net assets as of the end of March 2015 were about 3.5 trillion yen. Of that, our loans totaled 883.1 billion yen. Our loans are on a short-term interest rate basis.

Collateral money of securities borrowed of 974.9 billion yen comprised of bond and stock repo transactions is collateral we have pledged to borrowers of our securities, and when you combine loans and collateral money of securities borrowed, the total is 1.85 trillion yen, which is primarily loans linked with short-term interest rates. At present, the short-term interest rate is very low, and comparing our loans to our asset scale, the degree of Operating Revenues we can generate is likewise low.

Now I'd like to talk about securities. On our balance sheet, they are listed as "securities" and "investment in securities," and we hold a total of 1.57 trillion yen. Of that, about 700 billion yen – and another 400 billion yen held by JSF Trust Bank, for a combined total of 1.1 trillion yen – are short-term securities, JGBs maturing in between 3 and 5 years. We hold these for the purpose of procuring funds. As I mentioned earlier, we conduct loans on a short-term interest rate basis, and as such it is necessary for us to always hold securities as our first line of collateral toward procuring funds. In order to do so, we also hold short-term government bonds. The remaining 400 billion yen is held in the form of "investment in securities" – this is very meaningful as we require them in order to procure funds. In the event first-line collateral is not available, we can employ long-term government bonds as collateral. Recently, we began investing in government bonds issued by foreign countries, but basically we invest in those designated eligible collateral by the Bank of Japan. As interest is very low, this leads to low Operating Revenues despite the scale of our assets, which holds down our Inventory Turnover.

Let's now look at Financial Leverage, the third item, which is expressed as Total Assets / Net Assets. Our company's figures in this area are high. When considering the scale of our Total Assets, our earnings are not high, but in order to secure an absolute level of earnings our asset scale is inflated, and as such our leverage ratio is rather high. What makes this style of operation possible is, as I noted earlier, our strong credit rating and our equity capital level.

The Medium- and Long-term Prospects (page 17 of materials)

While we do have restrictions, we do not think that it is not necessary to be concerned with capital efficiency. While fulfilling our function as a securities finance company, within that framework, we intend to work to improve capital efficiency. From that perspective, we have set forth earnings expansion measures in our medium-term management plan, and in terms of costs, we have a plan to develop a new system.

We are proceeding with the development of this new system with the goal of releasing it in January 2017, and while the details concerning our reasoning behind developing the system are outlined in the materials, there are four basic points I will note. First is to enhance convenience for business partners; second is to enable flexible response to changes in the environment; third is to reinforce our BCP response; and fourth is to reduce system-related costs.

The Medium- and Long-term Prospects (page 18 of materials)

I would like to take a closer look at the reduction of system costs.

In terms of the scale of the new system, initial development cost was 4,500 million yen and maintenance costs once the system is up and running are expected to be 600 million yen per year. In addition to the burden over five years of 900 million yen per year as depreciation, therefore, annual costs of 1,500 million yen will be incurred, and this is not that different from the cost of maintaining the present system, which is 1,400 million yen annually. Once costs have been amortized after five years, we expect further cost reductions, and that this will contribute greatly to enhancing our earning power.

The Medium- and Long-term Prospects (page 19 of materials)

I'd now like to talk about earnings expansion activities.

In our Loans for Margin Transactions we are looking to expand Loanable Issues. This fiscal year, we added 143 new issues, and as of the end of March, 2015 we had 2,202 issues. Additionally, in order to clearly grasp the needs of the securities companies that are our clients and increase usage, we have established a dedicated sales promotion team, which is focused on improving communication with securities companies and ascertaining needs more clearly. Furthermore, in order to promote the understanding and use of Margin Transactions and Loans for Margin Transactions, as part of our information distribution targeting individual investors and securities companies, we regularly conduct seminars collaboratively with the Tokyo Stock Exchange and securities companies in major cities such as Tokyo and Osaka as well as in regional areas.

Concerning general loans, securities lending and bond investment, our activities are noted in the materials, but most recently we are exerting particular effort in expanding general stock lending.

With regard to JSF Trust Bank, by strengthening custodian-type trust services, this is slowly coming to fruition. At trust banks overall, loan departments are contracting and earnings are not improving markedly, but custodian-type trust services are getting stronger.

Revision of Shareholder Return Policy (page 20 of materials)

I'd now like to look at the second of today's major themes – our policy with regard to shareholder returns.

JSF, while ensuring stable management and securing a sound financial foundation, considers the earnings environment and investment plans in a comprehensive fashion, and our policy is to provide stable returns to our shareholders. Based on this thinking, we intend to place more focus on shareholder returns.

Specifically, we intend to revise our dividend policy in order to bolster shareholder returns from the fiscal year ending March 2016, such that "our dividend payout ratio will not fall below around 60%". Last fiscal year we did not indicate a clear figure, but until now we have endeavored to keep the dividend payout ratio at 40%. This will increase to 60%.

Revision of Shareholder Return Policy (page 21 of materials)

I'd now like to talk about another key element of shareholder returns – our share buyback policy.

In conjunction with the aforementioned dividend policy change, we have set forth a buyback policy as follows: "From the perspective of enriching shareholder returns, while considering our earnings situation and stock price level, we will execute share buybacks at appropriate timing."

Looking at our situation with regard to outstanding shares, it is indicated in a simple figure on the lower right side of the page. Through the merger in fiscal 2013 with what was formerly Osaka Securities Finance, we issued an additional 14 million shares, and in fiscal 2014 given the risk control structure implemented after the merger, we bought back and cancelled about half that many, or about 7 million shares. As a result, our number of outstanding shares at present is exactly 100 million.

Next, I'd like to explain the dividend and share buyback, in line with the explanation mentioned before.

Dividend (page 22 of materials)

I'd now like to talk about the dividend for this fiscal year and the dividend forecast for next fiscal year.

Concerning dividends for fiscal 2014, the year-end dividend was 8 yen per share, or 1 yen greater than the forecast we issued in February. In addition to the interim dividend of 7 yen that has already been paid out, the total for the year was 15 yen per share.

Regarding the forecast for fiscal 2015, the interim and year-end dividends will each be 8 yen per share for a total expected payout of 16 yen per share. Based on this forecast, the dividend payout ratio would be 61.4%.

Share Buyback Program (page 23 of materials)

Finally, I'd like to talk about our share buyback program.

As disclosed the day before yesterday (May 11, 2015), at our board of directors meeting, effective yesterday (May 12) through March 18 of next year, we decided to implement a buyback of up to 3 million shares at a total value of up to 2.5 billion yen. This is part of the aforementioned effort to enrich shareholder returns.

This ends my portion of today's presentation. Thank you very much for listening.