COMPANY RESEARCH AND ANALYSIS REPORT

Japan Securities Finance Co., Ltd.

8511

Tokyo Stock Exchange First Section

28-Dec.-2018

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Index

Summary

Aiming to contribute to the development of securities markets and further improvement of enterprise value

Japan Securities Finance Co., Ltd. <8511> (hereafter "the Company"), which is listed on the First Section of the Tokyo Stock Exchange (TSE), is a highly public financial institution that plays a role in lending transactions carried out on securities exchanges. It has upwardly revised its FY3/19 full-year results estimates to reflect the strong results in 1H. Based on the 5th Mid-term Management Plan (FY2017 to FY2019), the Company and its group companies (hereafter "the Group") are aiming to continue to contribute to the development of securities markets and further improvement of enterprise value.

1. Decreases in revenues and income in the FY3/19 1H results

Reflecting the economic uncertainty, the balance of standardized margin transactions on the TSE in FY3/19 1H trended at a low level. In addition, although the balance of loans for margin transactions and the margin loan balance exceeded the levels of the previous year, the levels of the July-September period were below those of the previous year, and a situation continued in which the stock loan balance was below the level of the previous year throughout the period. As a result, due to factors including the decline in fees on lending securities in the margin loans business, consolidated revenues and profits decreased, resulting in operating revenues of ¥12,052mn (down 6.6% year on year (YoY)), operating income of ¥2,226mn (down 8.0%), recurring income of ¥2,695mn (down 1.0%), and net income attributable to owners of parent of ¥1,946mn (down 12.6%).

2. Slightly revised the FY3/19 full-year results estimates

The results of the Group's Securities Finance Business, which is its main business, are greatly affected by various trends, such as in market conditions and interest rates. Therefore, instead of results forecasts, it discloses results estimates calculated from the assumptions for the balance of loans for margin transactions and other items at that point in time. Based on the results up to 1H, for the average balance of loans for margin transactions for the full fiscal year, which is the precondition for the results estimates, the Company has set estimates of ¥310bn for margin loans (down ¥30bn from the previous estimate) and ¥250bn for stock loans (unchanged), and while it still expects the declines in revenues and profits to continue, it maintains and has slightly upwardly revised its estimates for consolidated operating income of ¥3,600mn (unchanged), recurring income of ¥4,500mn (unchanged), and net income attributable to owners of parent of ¥3,200mn (up ¥100mn). It has left unchanged the previous forecast of an annual dividend of ¥22 (interim dividend of ¥11 and a period-end dividend of ¥11), for an expected dividend payout ratio of 64.9%.

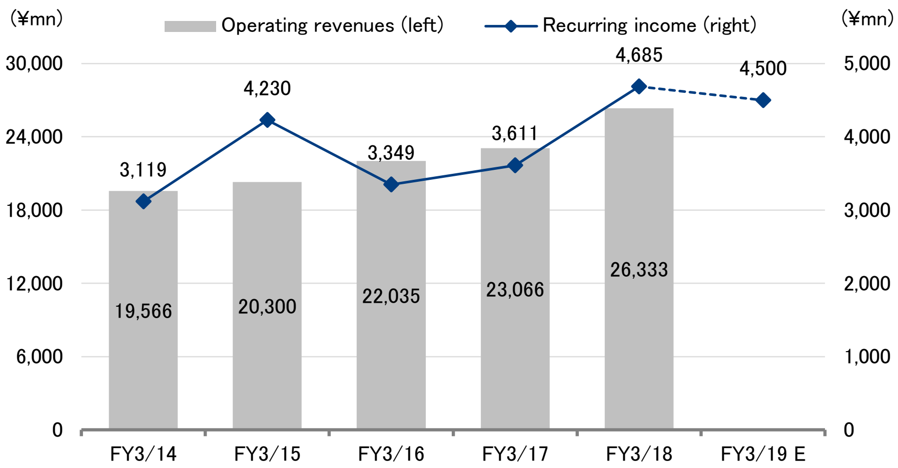
3. Strengthening existing businesses and meeting new transaction needs domestically and overseas through the 5th Mid-term Management Plan

Based on the 5th Mid-term Management Plan for FY2017 to FY2019, the Company is utilizing its management capabilities in financing- and securities-related businesses, the high level of creditworthiness it has cultivated up to the present time, and its neutrality in the markets as it works to strengthen its margin loans business and other existing businesses and actively strives to meet new transaction needs domestically and overseas. In this way, it is considered that it is aiming to make its existing foundation even stronger and to respond to the confidence that the markets and investors place in it. Specifically, it has set seven targets in the plan, including enhancing the margin loans business as part of the securities market infrastructure, flexibly addressing the needs of domestic and foreign financial instruments companies, and developing new businesses, and it is aiming to further improve enterprise value.

Key Points

- Reflecting the lack of strength in the stock markets, revenues and profits declined in FY3/19 1H, due in part to a drop in revenues from the margin loans business.
- FY3/19 full-year results estimates call for consolidated recurring income of ¥4,500mn (unchanged from the previous estimate) and net income attributable to owners of parent of ¥3,200mn (up ¥100mn), while the annual dividend forecast is ¥22 (unchanged).
- Seven targets were established in the 5th Mid-term Management Plan (FY2017 to FY2019) with the aims of strengthening existing businesses and meeting new transaction needs domestically and overseas.

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

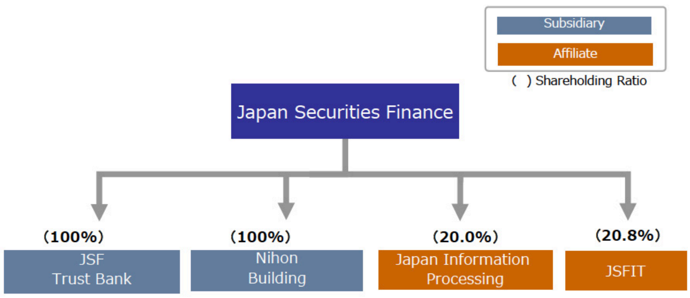
A highly public and neutral financial institution that plays a role in margin transactions

1. Company profile

The Company is a highly public and neutral financial institution that has received designations from various stock exchanges and plays a role in providing loans for margin transactions on those exchanges. The margin loans business, which is its main business, can only be conducted by securities finance companies that have been licensed to do so based on the Financial Instruments and Exchange Law, and they lend to securities companies the funds and stocks needed to settle standardized margin transactions. Furthermore, the Company is developing a securities-secured loan business for individuals that utilizes the Internet.

The Group consists of two wholly owned consolidated subsidiaries of the Company: JSF Trust and Banking Co., Ltd. (JSF Trust Bank), which carries out a trust business (including trusts for the separate management of customers' money and securities and securities trusts) and a banking business (including deposits and loans), and Nihon Building Co., Ltd., which leases and manages the real estate owned by the Group. The Company also holds approximately 20% stake in two equity-method affiliates, Japan Information Processing Service Co., Ltd. and JSF Information Technology Co., Ltd. (JSFIT), which provides information processing and other services.

Group companies



Shareholding Ratio	Name	Capital (mill yen)	Business overview
100%	JSF Trust and Banking Co., Ltd.	14,000	Trust service, Banking service
100%	Nihon Building Co., Ltd.	100	Real estate ownership and leasing Real estate trading and brokerage
20.0%	Japan Information Processing Service Co., Ltd	2,460	Information processing services Software development and sales
20.8%	JSF Information Technology Co., Ltd	100	Information processing services Software development and sales

Source: Company's results briefing materials

2. History

During the reopening of the stock markets after the Second World War, in order to introduce anticipated demand and supply that would expand trading, the margin transactions and margin loans system was created, and securities finance companies were established at each stock exchange. However, because there was little trading volume on the regional stock exchanges and management conditions were severe for regional securities finance companies, they were consolidated into the Company and (at that time) Osaka Securities Finance Co., Ltd. Together with Chubu Securities Financing Co., Ltd. of Nagoya, these three securities finance companies coexisted for a long time. But upon the management integration of the TSE and the Osaka Stock Exchange in 2013, the Company merged with Osaka Securities Finance with the objectives of improving convenience for stock market participants and investors and raising market efficiency. Moreover, in 2017, Chubu Securities Financing, which had been conducting a margin loans business on the Nagoya Stock Exchange, decided to voluntarily close its business, so these three securities finance companies consolidated into one company, Japan Securities Finance. Currently, the Company is conducting its margin loans business on all four of Japan's stock exchanges in Tokyo, Nagoya, Sapporo, and Fukuoka.

The Company was newly established in 1950 and listed on the TSE. Following the creation of the margin transaction system in 1951, it started the margin loans business, which is its main business. Subsequently, in 1977, it launched the general stock loans business for the lending of stock certificates to securities companies separate from margin loans. In 1985, it launched a secured collateral loans business, in which loans were collateralized by the securities held by customers of securities companies, and then in 1989, it started a brokerage business for bond lending transactions, with securities companies and financial institutions as counterparties to the transactions. It established JSF Trust Bank in 1998, started the margin loans business for the JASDAQ market in 2004, and began lending to securities companies the funds necessary to settle negotiable margin transactions in 2005. In this way, the Company has expanded the scope of its business. In 2013, it merged with Osaka Securities Finance, and moreover in 2017, it inherited the margin loans business of the dissolved Chubu Securities Financing, and the Company is continuing to grow and develop as the only currently surviving securities finance company in Japan.

History

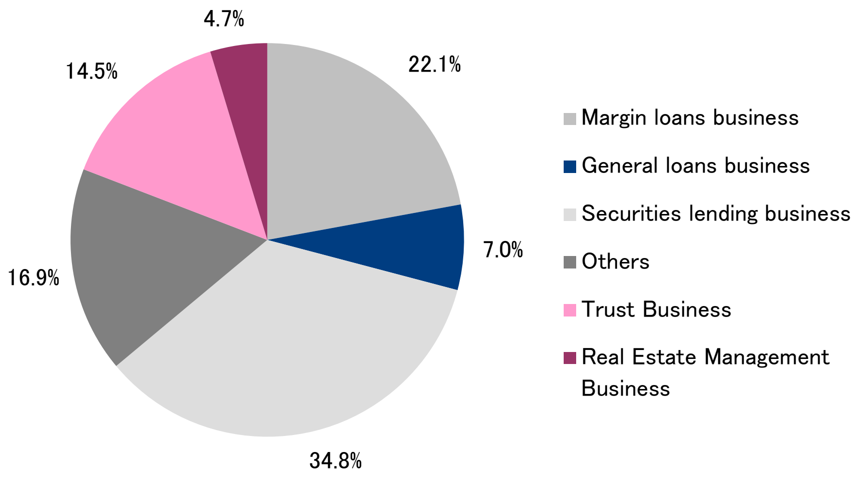
Year	Major events
1927	Established as Tokabu Daiko Co., Ltd.
1943	Name changed to Tokyo Securities Co., Ltd.
1949	Name changed to Japan Securities Finance Co., Ltd.
1950	Launched operations as a specialized securities finance institution Began current account transactions with the Bank of Japan (BOJ) and listed on the Tokyo Stock Exchange Launched lending business as a transitional measure prior to the introduction of a margin transaction system
1951	Launched loans for margin transactions with the establishment of a margin transaction system
1955	Established branch offices by acquiring the complete operations of securities finance companies in Hokkaido, Niigata, and Fukuoka
1956	Granted license according to the Securities and Exchange Law
1960	Launched business in loans secured by bonds
1967	Launched revolving credit line lending of short-term working funds to securities companies
1968	Launched bond financing business with the aim of facilitating bond underwriting and circulation
1977	Launched general stock lending business to lend stock certificates to securities companies separate from the margin transaction business Launched BOJ agency business after designation by the BOJ as a government bond principal and interest payment agent
1979	Launched agency services for a portion of BOJ operations following the establishment of the substitute certificate system for registered bond system for bond financing
1985	Launched secured loans on securities using a revolving credit line format that accepts securities deposited by customers at a securities company as collateral
1987	Launched trading via the JSF Online System after developing a network among securities companies
1989	Launched bond borrowing and lending transactions with securities companies and financial institutions as customers
1996	Launched cash-collateral bond borrowing and lending transactions
1998	Established JSF Trust and Banking Co., Ltd.
2000	Launched securities business limited to Gensaki for treasury bills, etc
2002	Launched e Stock Lending, a stock borrowing and lending transaction system Began handling “new” Gensaki
2003	Increased capital in JSF Trust and Banking Co., Ltd
2004	Launched margin loans business for the JASDAQ market Renewed the JSF Online System and launched trading via JSFNET
2005	Launched the loans for negotiable margin transaction business
2013	Merged with Osaka Securities Finance Company, Ltd.
2017	Launched margin loans business for the Nagoya Stock Exchange

Source: Prepared by FISCO from Company materials

3. Business activities

The Group’s businesses are divided into three segments: the Securities Finance Business conducted by the Company and the Trust Business and Real Estate Management Business conducted by its two subsidiaries. The Securities Finance Business is further divided into the margin loans business, general loans business, securities lending business, and others. Looking at the composition of total operating revenues by business in FY3/19 1H (excluding premium charges), the margin loans business provided 22.1%, general loans business 7.0%, securities lending business 34.8%, and others 16.9%, meaning that the Securities Finance Business contributed 80.8% of the Group’s total revenues. The Trust Business contributed 14.5% and Real Estate Management Business 4.7%.

Composition of operating revenues by business (FY3/19 1H: ¥9,428mn)



Note: Excluding premium charges
Source: Prepared by FISCO from the Company's results briefing materials

Business overview

Main business is the Securities Finance Business, centered on the margin loans business

1. Securities Finance Business

The Securities Finance Business, which is conducted by the Company itself, contributed 80.8% of FY3/19 1H consolidated operating revenues (excluding premium charges). The Securities Finance Business is divided into the margin loans business, general loans business, securities lending business, and others.

(1) Margin loans business

This is the Group's core business and it contributed 22.1% of consolidated operating revenues (39.1% including premium charges). It involves the lending to securities companies of the funds and stock certificates necessary to settle standardized margin transactions.

In a margin transaction, investors buy and sell stocks by depositing a certain amount of collateral (margin money) to a securities company and borrowing from the securities company the funds to buy the stock they wish to hold or sell. This system enables investors to buy stocks of an amount greater than their cash on hand or sell stocks that they do not own, which adds to the expanse of trading and contributes to the smooth circulation of stocks and formation of appropriate prices.

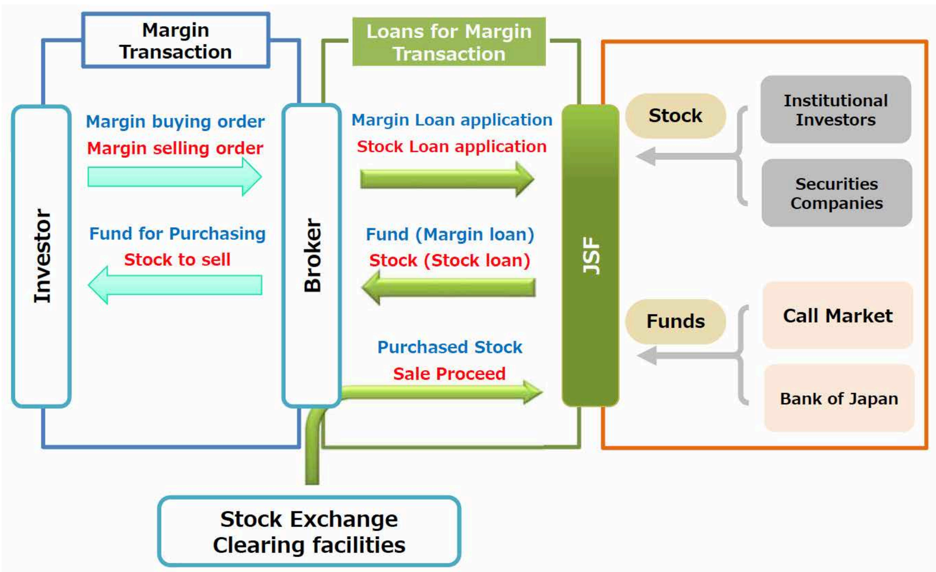
There are two types of margin transactions: standardized margin transactions and negotiable margin transactions. In a standardized margin transaction, aspects such as premium charges and a term of repayment are stipulated by the stock exchange, and securities companies can borrow from the Company the stock certificates to be sold or the funds for the purchase that they need to settle the transaction (the margin loan). On the other hand, in a negotiable margin transaction, the customer and the securities company can freely set transaction conditions, but securities companies cannot use margin loans to settle negotiable margin transactions.

In this way, margin loans are a transaction in which the Company receives a certain amount of collateral for a loan from a securities company, which trades on a stock exchange, and in return it loans to them the funds or stocks needed for a standardized margin transaction. These transactions are carried out through the stock exchange's clearing corporation.

The Company receives an application for a loan for each issue from the securities company on the trading date of the standardized margin transaction. For the execution of the loan, instead of the securities company, the Company transfers the funds for the purchase of the stock to be held or sold to the clearing corporation of the stock exchange. In return, it receives a purchased stock certificate (collateral stock certificate in the case of a loan) or a sales fee (collateral money for a stock loan), which it allocates to the collateral for each respective loan, and the transaction is completed.

In the event that the Company cannot cover applications for margin loans or stock loans from securities companies using its collateral stock or money from internal holdings, it responds through methods such as raising funds from the call market or elsewhere or borrowing the stock in question from institutional or other investors.

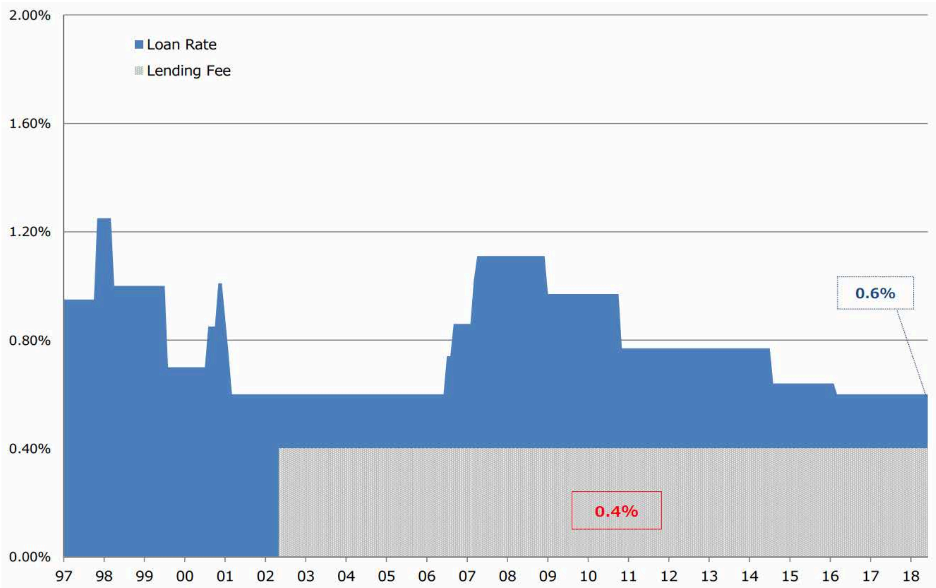
Structure of margin transactions and loans for margin transactions



Source: Company's results briefing materials

For the Company, its main revenues are interest on loans (loan rate, currently 0.60%) and fees on lending securities (stock lending fees, 0.40%). But affected by the long-term super monetary easing policy, the loan rate is at a historically low level.

Interest rate for loans for margin transactions



Source: Company's results briefing materials

(2) General loans business

This business involves lending to securities companies, such as for working capital, and also to individuals and general business corporations via the Internet, using securities as the collateral. It contributes 7.0% of consolidated operating revenues.

(3) Securities lending business

This business involves brokerage operations on the government bonds lending and borrowing markets and lending of stocks necessary to settle trades. It contributes 34.8% of consolidated operating revenues. The lenders are mainly securities companies and the borrowers are institutional investors, such as life and non-life insurance companies.

(4) Others

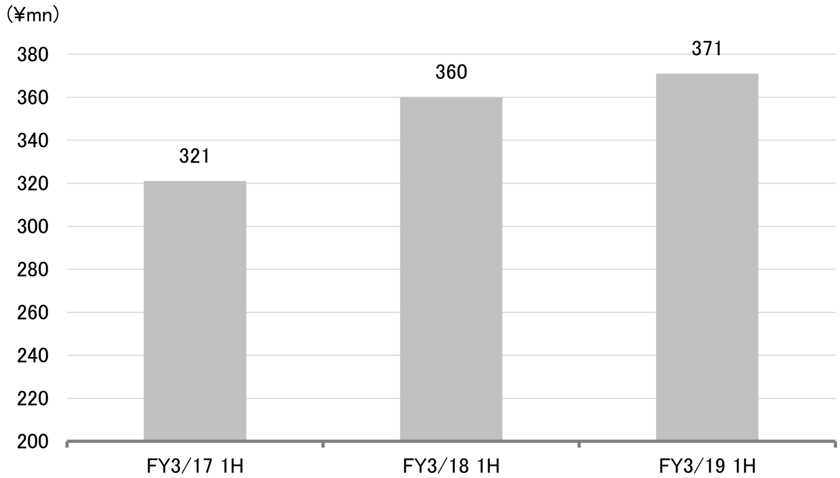
Others include the management of government bonds and other securities, and it contributes 16.9% of consolidated operating revenues.

2. Trust Business

Since its establishment in 1998, JSF Trust Bank, which is the Company's wholly owned subsidiary, has been focusing on trusts to protect customer assets for individual investors and others, in order to protect the money and other assets they have deposited with securities companies, FX traders, commodity futures traders, and others. Also, in recent years, it has been accumulating a track record for the acceptance of ABL (asset backed loan) trusts based on introductions by securities companies. In addition, it has recently begun engaging in cloud funding and protection trusts for lump-sum payments on entering a residence. In such ways, alongside the development of the financial markets, JSF Trust Bank is provided highly precise services that meet the needs of customers.

The Trust Business contributes 14.5% of the Group's consolidated operating revenues, mainly sourced from trust charges, interest on loans, interest and dividends from securities, and gains on the sale of government bonds and other bonds. Stable revenues in the Trust Business are provided by trust charges, which have continuously increased in recent years and achieved record highs, but even so, the Company is working to develop new trust products aimed at further improving revenues. Also, looking at the lenders, we see that 98.4% of the total lending amount is to the central government (including government guarantees), so it can be said that the loans are highly stable.

JSF Trust Bank: Trends in trust charges



Source: Prepared by FISCO from the Company's results briefing materials

3. Real Estate Management Business

This business, which is conducted by the wholly owned subsidiary Nihon Building, involves leasing real estate owned by the Group companies. It is small scale and contributes only 4.7% of the Group's consolidated operating revenues.

Results trends

Revenues and profits declined, reflecting the lack of strength in the stock markets

1. Summary of FY3/19 1H results

In the world economy in FY3/19 1H, the economic recovery in the United States continued, while the European economy also recovered moderately. In addition, the Japanese economy maintained its gradual recovery trend through improvements to corporate earnings and to the employment and income environments. However, the unclear outlook for the economy will continue due to factors including uncertainty regarding policies in the United States, developing trade issues, and impacts from a series of natural disasters.

In the stock markets, the Nikkei Stock Average, which started the year at ¥21,388, had declined to as low as ¥21,292 by April 3, which was its lowest price for the period, due to factors including the sense of caution surrounding trade friction between the United States and China. However, it rebounded when this excessive sense of caution receded, and had risen to around the ¥23,000 level by the end of May. Subsequently, due to various concerns, including about U.S. trade policy and the depreciation of the currencies of emerging countries, it continued to develop, heavily testing the upper limit of ¥23,000. But since the middle of September, it has been supported by the easing of concerns about trade friction, the strengthening of the U.S. dollar and the weakening of the yen, and by the close of trading at the end of September, it had risen to as high as ¥24,120, its highest price in the period.

The buying balance of standardized margin transactions (transactions between securities companies and investors) on the TSE during this period declined gradually from its peak at the start of the period of the ¥2.90tn level. In addition to disposal sales during a phase of falling stock prices, there were sales to lock in profits during a phase of rising stock prices, which meant that by the end of September, it had declined to the ¥2.13tn level, its bottom for the period. On the other hand, for the same selling balance, which was at the ¥500bn level at the start of the period, there were repurchases during the phase of falling stock prices up to early July, and it declined to the ¥470bn level, its bottom for the period. But it subsequently trended moderately upwards alongside the recovery in stock prices. By late September, it had increased to as high as ¥680bn, its peak for the period, and was at the ¥660bn level at the end of September.

In these ways, the stock markets have lacked strength, but the Group's outstanding loan balance (average during the period) for FY3/19 1H was ¥833.7bn, an increase of ¥297bn YoY. Mainly due to the decrease in fees on lending securities in the margin loans business (transactions between the Company and securities companies), consolidated operating revenues declined to ¥12,052mn (down 6.6%). Also, operating expenses were ¥5,748mn (down 11.8%), due in part to decreases in fees on borrowing securities in margin loan and bond loan transactions, while general and administrative expenses were basically unchanged at ¥4,077mn (up 2.7%). As a result, operating income was ¥2,226mn (down 8.0%), recurring income was ¥2,695mn (down 1.0%), and net income attributable to owners of parent was ¥1,946mn (down 12.6%). The reason for the large decrease in net income attributable to owners of parent was an increase in extraordinary loss (loss on a system disposal) and an increase in the tax burden due to the reversal of deferred tax assets (which became the same as the ordinary effective tax rate from this period).

FY3/19 1H consolidated results

(¥mn)

	FY3/18 1H		FY3/19 1H		YoY	
	Amount	% of operating revenues	Amount	% of operating revenues	Change	Change (%)
Operating revenues	12,909	100.0%	12,052	100.0%	-856	-6.6%
Operating profit	6,391	49.5%	6,303	52.3%	-88	-1.4%
General and administrative expenses	3,970	30.8%	4,077	33.8%	106	2.7%
Operating income	2,420	18.7%	2,226	18.5%	-194	-8.0%
Recurring income	2,723	21.1%	2,695	22.4%	-27	-1.0%
Net income attributable to owners of parent	2,227	17.3%	1,946	16.1%	-280	-12.6%

Source: Prepared by FISCO from the Company's financial results and results briefing materials

The business overview of each segment in 1H is as follows. In order to present the Company's business condition more accurately, this explanation excludes premium charges in the margin loans business, which do not affect the Company's earnings (the amount of so-called premiums the Company receives is paid as is to the lenders, so these premiums are excluded from the results for neutrality purposes).

(1) Securities Finance Business

a) Margin loans business (excluding premium charges)

The average margin loan balance during the period was ¥326bn, an increase of ¥12.2bn YoY, so interest on loans increased. Conversely, the average stock loan balance during the period was ¥261.6bn, down ¥112.2bn, so stock lending fees decreased, and therefore fees on lending securities also decreased. As a result, operating revenues in this business were ¥2,083mn (down 20.4%).

b) General loans business

Lending to individuals and general business corporations were higher than in the same period in the previous fiscal year, while lending to securities companies also trended steadily. Therefore, the average lending balance during the period in this business was ¥94bn, up ¥57.8bn YoY. The use of cash-secured stock lending transactions also greatly increased, and as a result, operating revenues in this business were ¥659mn (up 58.9%).

c) Securities lending business

In bond lending and general stock lending, fees on lending securities increased. As a result, operating revenues in this business were ¥3,281mn (up 46.3%).

d) Others

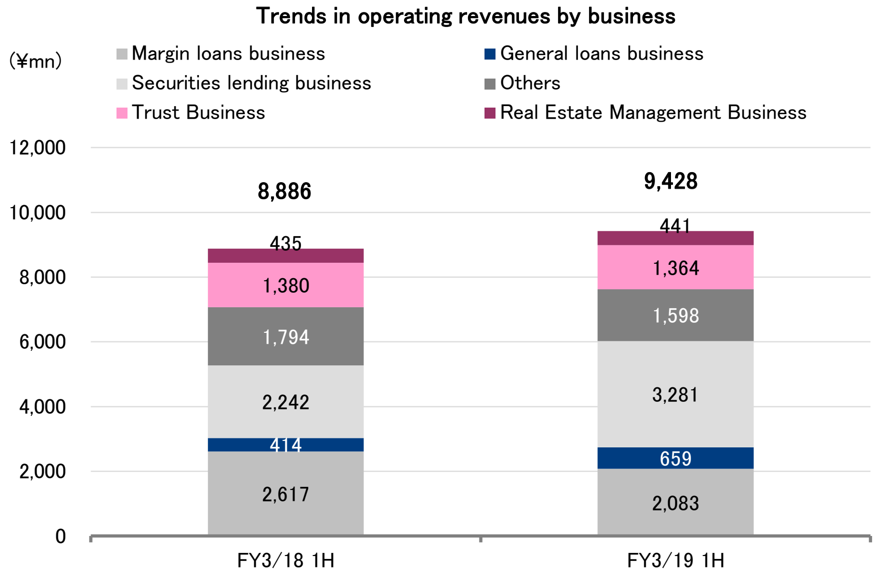
Interest income from and gains on sales of government bond holdings both declined. As a result, operating revenues in this business were ¥1,598mn (down 10.9%).

(2) Trust Business

Trust charges and gains on sales of government bond holdings increased, but interest income from securities decreased due to the decline in the balance of government bond holdings and other holdings. In addition, interest on loans fell due to lower interest rates. As a result, operating revenues in this business were ¥1,364mn (down 1.2%).

(3) Real Estate Management Business

Operating revenues were ¥441mn (up 1.2%).



Source: Prepared by FISCO from the Company's results briefing materials

In assets, current assets increased significantly

2. Financial position and management indicators

At the end of FY3/19 1H, total assets were up ¥500.7bn compared to the same period of the previous fiscal year to ¥5.46tn, due to increases in cash and deposits, securities, and collateral money of securities borrowed, despite a decrease in operating loans. The majority of cash and deposits are temporary deposits arising from borrowed money from trust account of JSF Trust Bank and situation of funding.

The equity ratio fell 0.3 of a percentage point on the end of the previous fiscal period to 2.6%. The Group’s equity ratio and ROA (return on assets; the ratio of recurring income to total assets) tends to be low compared to those of companies in other industries, because the asset amount it holds is large for business purposes.

Consolidated balance sheet

(¥mn)

	March 31, 2018	September 30, 2018	Change
Current assets	4,161,486	4,825,059	663,573
Cash	777,895	1,042,461	264,566
Short-term investments	60,817	142,437	81,620
Operating loans	1,002,931	881,989	-120,942
Collateral money for securities borrowed	2,168,170	2,179,271	11,101
Non-current assets	798,674	635,866	-162,808
Investments in securities	787,231	622,400	-164,831
Total assets	4,960,161	5,460,926	500,765
Current liabilities	4,792,452	5,297,432	504,980
Call money	771,414	1,254,497	483,083
Short-term borrowings	15,510	8,010	-7,500
Commercial paper	459,000	194,000	-265,000
Collateral money for securities lent	2,505,135	2,392,698	-112,437
Borrowed money from trust account	961,611	935,944	-25,667
Non-current liabilities	23,897	19,988	-3,909
Total liabilities	4,816,350	5,317,420	501,070
Net assets	143,811	143,505	-306
[Stability]			
Current ratio	86.8%	91.1%	
Equity ratio	2.9%	2.6%	
[Profitability]			
Operating income ratio	14.7%	18.5%	
ROA (return on assets)	0.1%	-	
ROE (return on equity)	3.0%	-	

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Business outlook

Based on 1H results, full-year results estimates have been slightly revised

The results of the Securities Finance Business, which is the Group's main business, are greatly affected by trends in market conditions, interest rates, and other factors, so it does not disclose results forecasts. However, it does announce results estimates with the aim of appropriately disclosing the Group's business conditions. It reviews these estimates every quarter and announces them when it announces its results.

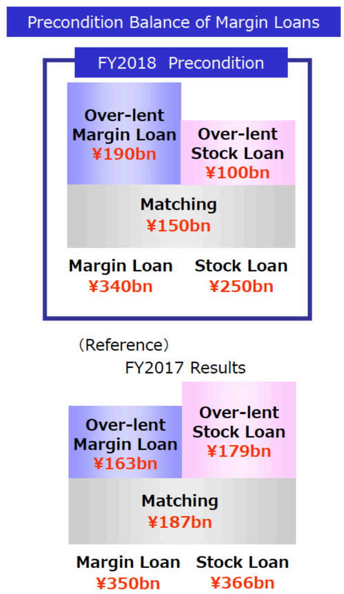
From April to September 2018, the Nikkei Stock Average trended in a box range, from ¥21,000 to ¥24,000, and in this situation, the average margin loan balance was ¥326bn (up ¥12.2bn YoY), and the average stock loan balance was ¥261.6bn (down ¥112.2bn). Therefore, the Company revised the conditions for the results estimates from its previous announcement (as of July, ¥340bn for margin loans and ¥250bn for stock loans) and it now projects ¥310bn for margin loans and ¥250bn for stock loans. So it expects lower levels than the FY3/18 average balances (¥350.1bn for margin loans and ¥366.1bn for stock loans). On the other hand, it is difficult to imagine there will be any major changes during FY3/19 to monetary policy, which effects both the loan-interest level and securities companies' demand for funds. So it seems that the current conditions will continue for the results estimates.

From the above, on a stand-alone basis, the Company's FY3/19 results estimates are for operating income of ¥2,500mn (down ¥405mn YoY), recurring income of ¥3,300mn (down ¥325mn), and net income of ¥2,300mn (down ¥1,139mn), and each estimate has been downwardly revised by ¥100mn from the previous estimates. Conversely, JSF Trust Bank upwardly revised its previous estimates because its trust business is performing strongly, and it is anticipating recurring income of ¥590mn (up ¥168mn) and net income of ¥510mn (up ¥143mn). Also, Nihon Building is maintaining its previous estimates, and it expects operating income of ¥545mn (down ¥22mn), recurring income of ¥650mn (up ¥1mn), and net income of ¥430mn (up ¥2mn).

As a result, the Group's consolidated results estimates are for declines in revenue and profits, including operating income of ¥3,600mn (down ¥281mn YoY), recurring income of ¥4,500mn (down ¥185mn), and net income attributable to owners of parent of ¥3,200mn (down ¥1,025mn). However, the estimate of net income attributable to owners of parent has been upwardly revised by ¥100mn compared to the previous estimate. The reasoning behind full-year results estimates being restricted to 1.6 to 1.7 times that of 1H results is that the collection of dividends is concentrated in the first half, in addition, JSF Trust Bank does not expect gains on sales of bonds in 2H.

Upon entering 2H, the Nikkei Stock Average temporarily exceeded ¥22,500 in early November, and during October, the Company's average margin loan balance was ¥284.2bn and average stock loan balance was ¥280bn, trending above the conditions for the results estimates but below the average margin loan balance. Taking into consideration the current state of the stock markets, which lack strength due to uncertain outlooks on the Japanese and overseas economies, it does not seem that the Company's FY3/19 full-year results can maintain the momentum of the previous fiscal period.

Estimated figures for FY3/19



(¥ mil)		FY2018 Estimated Figures	YoY.⊿	⊿ from prev. EF
Consolidated				
	Operating Income	2,600	▲281	▲100
	Recurring Income	3,300	▲185	–
	Net Income	2,600	▲1,125	–
JSF	Operating Income	2,600	▲305	▲100
	Recurring Income	3,400	▲225	–
	Net Income	2,400	▲1,039	–
JSF Trust and Banking	Recurring Income	400	▲21	–
	Net Income	340	▲26	–
Nihon Building	Operating Income	545	▲22	▲15
	Recurring Income	650	1	▲10
	Net Income	430	2	▲5

Preconditions of Loans for Margin Transactions
●Loan Rate : 0.60%, ●Interest on Collateral Money : 0%, ●Lending Fee : 0.40%

* Previous estimates were announced with the FY3/19 1Q financial results
Source: Company's results briefing materials

Medium- to long-term growth strategy

Working to strengthen the revenue base by developing businesses other than the margin loans business

1. New medium-term management plan

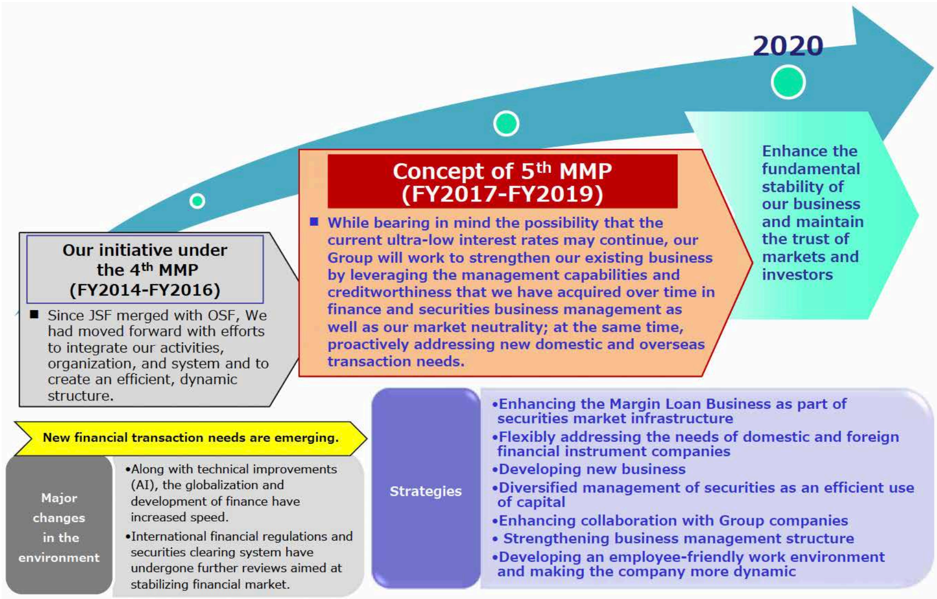
More than five years have passed since the Company merged with Osaka Securities Finance, and during that time, the Group has worked to integrate its businesses, organizations, and systems and progressed in establishing a structure that is efficient and full of vitality under the 4th Mid-term Management Plan (FY2014 to FY2016). On the other hand, the business environment facing the Group is changing greatly. Specifically, the globalization and increased sophistication of financing is accelerating in conjunction with the technological improvements that utilize artificial intelligence (AI) for products and services. Moreover, international financial regulations and securities settlement systems to stabilize the financing markets have been reviewed, and based on these developments, new needs for financing transactions are being created.

While keeping in mind the possibility that the current low interest rate will continue, the Group is utilizing its management capabilities in financing- and securities-related businesses, the high level of creditworthiness it has cultivated up to the present time, and its neutrality in the markets as it works to strengthen its margin loans business and other existing businesses and actively strives to meet new transaction needs domestically and overseas. Through this, it is considered that the Company is aiming to make its existing foundation stronger and to respond to the confidence that the markets and investors have placed in it. In other words, its intention is to strengthen its revenue foundation by, on the one hand, working to enhance the margin loans business that is its main business, but on the other hand, also developing other businesses.

Based on this approach and in advance of the 70th anniversary of its establishment in 2020, the Company is currently executing the 5th Mid-term Management Plan, with FY2017 as its first year. Through this plan, it intends to continue to contribute to the development of the securities markets.

The 5th Mid-term Management Plan has qualitative targets, but it does not present quantitative calculated targets, such as for revenues and income. Certainly, the margin loans business, which accounts for the majority of the Company's revenue, is greatly affected by stock market conditions and the financing environment, so it is understandably difficult to present revenue estimates for three years in the future. However, at FISCO, we think that in order for investors to understand the Company's image of itself in the future and to confirm the progress made in each fiscal period, it would be meaningful for it to present calculated targets of some sort, even if they are not quantitative figures such as for revenues and income.

Outline of the 5th Mid-term Management Plan (FY2017 to FY2019)



Source: Company's results briefing materials

2. Specific strategies

The seven basic strategies of the 5th Mid-term Management Plan are as follows.

(1) Enhancing the margin loans business as part of securities market infrastructure

The Company is aiming to respond appropriately to the environmental changes in the stock markets and to conduct stable management and improve the convenience of the margin loans business. It is also working to accurately ascertain trends among market participants and promote the use of loans for margin transactions, to strengthen its dissemination of information relating to standardized margin transactions and loans for margin transactions and to expand the field of view of investors.

In terms of examples of specific measures, in addition to improving its ability to procure stock certificates, the Company is enhancing the provision of information relating to stock procurement, targeting major domestic and overseas securities companies, in order to promote the use of stock loans. It is also holding seminars and study meetings for securities companies on margin transactions and loans for margin transactions to promote more widespread use. Moreover, in order to expand the issues that it lends and borrows, the Company is improving its methods of approaching the issuing companies (including by aiming to promote understanding of margin transactions and loans for margin transactions in the divisions responsible for IPOs within securities companies). As a result, stock borrowers have recently expanded to include regional financial institutions which previously were mainly life and non-life insurance companies.

(2) Flexibly addressing the needs of domestic and foreign financial instruments companies

The Company is aiming to expand direct transactions with entities outside Japan, including overseas corporations that are its existing trading partners, and to expand transactions through accepting foreign securities as collateral. In such ways, it intends to actively respond to a diverse range of transactions with domestic and overseas securities companies and others, and thereby expand revenue opportunities. In addition, alongside the shortening of the settlement period for securities, it is actively working to meet new transaction needs in order to expand the securities lending business.

In terms of specific measures, the Company has been lending funds collateralized by foreign securities and lending foreign securities. It has concluded stock lending and borrowing contracts with overseas financial institutions using standard international contracts. Moreover, it is responding to new needs that are being created in conjunction with the shortening of settlement periods for government bonds and stocks (government bonds: responding to the transition to the repurchase agreement method from the former lending and borrowing method; stocks: considering new schemes and improving its ability to procure stock certificates as a response to fail-cover needs). Recently, there has been an increase in lending funds collateralized by Asian securities to meet trading partners' needs.

(3) Developing new businesses

Against the backdrop of its business history as a securities finance company, the Company is utilizing its features to develop new businesses from a long-term perspective in collaboration with related parties domestically and overseas, and with its Group companies.

A specific example of this is its activity to support the establishment of securities finance companies in Indonesia (technological support). In such ways, it is aiming to develop new businesses and enhance existing businesses, while collaborating with overseas finance- and securities markets-related parties, particularly in Asia.

(4) Diversified management of securities as an efficient use of capital

The Company will secure stable revenues by responding to changes in the external environment and flexibly reviewing its portfolio, based on appropriate risk controls. It will also establish methods of procuring foreign currencies in order to expand its management of foreign currency-denominated securities, such as foreign government bonds, and to support the development of its businesses using foreign currencies.

(5) Enhancing collaboration with Group companies

The Company will enhance collaboration with Group companies, particularly its subsidiaries, and actively respond to diversifying transaction needs. It will also work to further solidify the revenue foundation for the Group as a whole through measures that are integrated between it and the subsidiaries.

(6) Strengthening the business management structure

The Company has reconfirmed that it regards compliance as a basis for management to actively respond to society's demands of it and realize its corporate philosophy. In order to establish society's unwavering trust, it is striving to ensure the effectiveness of internal audits and to further enhance risk management to respond to diversifying and increasingly complex risks associated with the financing business. To continue the margin loans business, which is its most important business, even in the event of a major disaster, it will establish a remote backup system, while also paying attention to trends in the finance and securities industries.

A specific example of this is its effort to strengthen cybersecurity measures. In addition, as a measure to strengthen its approach to BCP, it will utilize the Osaka branch office in the event of a large-scale disaster in the Kanto region.

(7) Developing an employee-friendly work environment and making the Company more dynamic

The Company is working to improve productivity per employee and become more dynamic by establishing an employee-friendly work environment that provides its employees with job satisfaction.

Shareholder return policy

Provides enhanced returns to shareholders

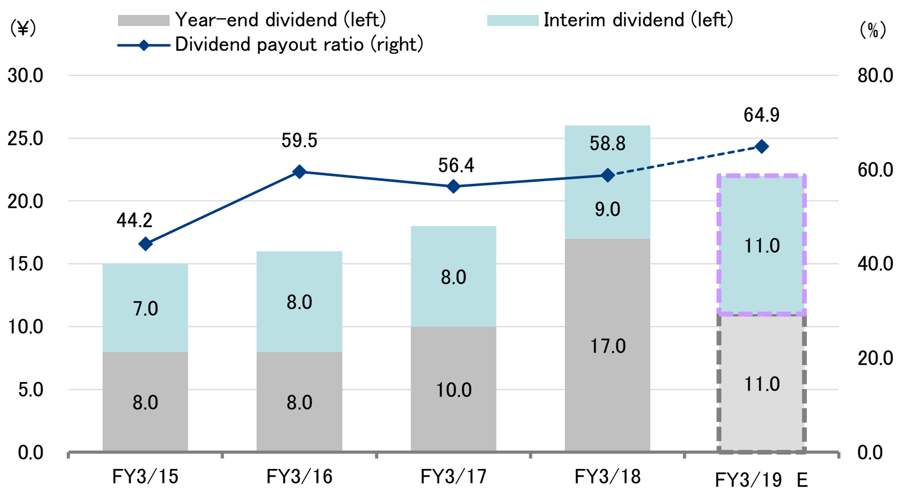
The Company maintains a firm level of capital in order to ensure the stability of management and the financial soundness that is required of it as part of the securities market infrastructure. But at the same time, its basic approach is to stably return profits to shareholders, while comprehensively considering aspects such as the earnings environment and the investment plan. As the standard that reflects results, its policy for returning profits to shareholders is for the consolidated dividend payout ratio to not fall below the 60% level, while also considering consolidated dividends on equity (DOE).

Based on this policy, in FY3/18, the Company paid an interim dividend of ¥9 and a year-end dividend of ¥17, for a total dividend of ¥26, an increase of ¥8 YoY, for a dividend payout ratio 58.8%. For FY3/19, taking into consideration the results estimates, it has left unchanged the initial dividend forecast of ¥22, comprised of an interim dividend of ¥11 and a year-end dividend of ¥11, and the expected dividend payout ratio is 64.9%.

Furthermore, since FY3/15, the Company has been buying back its own shares, which has led to improvements in earnings per share and the shareholders' equity ratio. In FY3/9 also, it has set a framework for acquiring 1 million shares for ¥0.8bn, and is currently acquiring them. As a result, the total return ratio ((dividend payment amount + share buyback amount) / net income attributable to owners of parent) is forecast to be 85.0% (compared to 66.3% in the previous fiscal year). From FY3/19 onwards as well, the Company will investigate buying back its own shares while considering factors such as the capital level and risk conditions.

As the Company's results are greatly affected by the market environment, the actual year-end dividend will be determined by the 2H results. But up to the present time, it would seem that the market environment and the results are trending basically in line with the Company's expectations.

Trends in dividends and the dividend payout ratio



Source: Prepared by FISCO from the Company's results briefing materials

Information security measures

As part of the securities market infrastructure, the Company is implementing measures to ensure that there are no impediments to its businesses

As part of measures to establish and maintain a structure for business continuity, the Company is working to deal with cyberattacks. Specifically, centered on the BCP Measures Headquarters that supervises business continuity during times of emergency, its efforts include ascertaining the damage situation, communicating with external organizations, and preparing reports.

The Company has been implementing a variety of measures up to the present time, including creating a contingency plan assuming a virus infection (from a cyberattack, such as a targeted attack email), holding cyberattack drills, participating in the joint exercises held by Financials ISAC Japan, and using external experts to conduct reception tests of targeted attack emails. Also, its technological measures include separating the Internet environment and the business environment and installing software to protect against targeted attack emails.

Going forward, the policy is to improve the ability of the Company as a whole to respond to risks, including through drills based on various conditions and assumptions and various types of training.

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