

Annual Report the 11th Tokyo Financial Exchange Inc.

Annual Report

**Business Report 2014 for the Fiscal Year
Ended March 31, 2015**



Tokyo Financial Exchange Inc.



To Our Shareholders

First, we would like to express our sincere gratitude to our shareholders for your continued support of our operations and business.

In fiscal 2014, the operating environment for Tokyo Financial Exchange (TFX) was as follows:

- Short-term interest rates hovered at lower levels compared to the previous fiscal year due to the further expansion of Quantitative and Qualitative Monetary Easing with JGB yields turning negative. Trading volumes of Three-month Euroyen futures fell significantly to 2,394,000 lots, down 48.1% year-on-year.
- In the foreign exchange market, the yen depreciated significantly in the second half of the fiscal year driven by directional differences between Japanese and U.S. monetary policies, postponement of a consumption tax increase in Japan, and additional monetary easing by the Bank of Japan. Trading volumes of Click 365, Exchange FX Margin contracts, showed increases in the second quarter onward due to a sharp depreciation of the yen after a very weak first quarter. For the full year, however, trading volumes of Click 365 declined to 34,015,000 lots, down 23.6% year-on-year.
- The stock market saw significant rises in stock prices on the back of, among other factors, the improved corporate earnings environment due to the cheaper

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yen, and declines in crude oil prices, coupled with buying by the BOJ and inflows from public pension funds.

Annual trading volumes of Click Kabu 365, Exchange Equity Index Margin contracts, rose to 6,324,000 lots, up 20.0% year-on-year.

As a result, the overall trading volume on TFX in fiscal year 2014 was 42,734,000 lots, down 21.5% year-on-year.

Operating revenues decreased 801 million yen, or 15.9%, year-on-year to 4,225 million yen.

Operating expenses fell 1,715 million yen, or 27.3%, year-on-year to 4,559 million yen. We achieved the significant expense reduction by cutting personnel expenses by 165 million yen compared to the previous fiscal year after reviewing our organizational structure to enhance operating efficiency. In addition, we achieved a year-on-year reduction of 1,572 million yen in facility-related expenses by upgrading systems.

Operating loss narrowed by 914 million yen year-on-year to 333 million yen, with Interest Rate Futures contracts and Margin contracts (Click 365 and Click Kabu 365) posting a loss of 1,323 million yen and a profit of 989 million yen, respectively.

Non-operating revenues, which were mostly generated from investments such as the gain on sales of investment securities and dividend income, were 644 million yen as fund investments were expanded in 2014. Non-operating expenses were 3 million yen.

Ordinary income was 308 million yen, up 1,422 million yen compared to the loss posted in the previous fiscal year.

As a result of the above, profit before income taxes was 308 million yen, and profit after income taxes was 469 million yen after deducting income taxes and adding income taxes-deferred of 180 million yen due to posting of deferred tax assets.

In fiscal year 2015,

Interest Rate Futures Contracts Business will focus on creating trades by overseas investors given very limited trades by Japanese financial institutions.

In addition, in light of the enhanced OTC derivatives regulations, we will pursue new business opportunities such as margin management service for OTC derivatives.

In Margin Contracts Business, market share performance of "Click 365" in Japan remains weak due to competition for narrower spreads with OTC retail FX brokers. TFX will appeal the advantages of trading on an exchange and meet trading needs of overseas investors and large accounts (corporate). Specifically, we plan to list the Click 365 Large with trading units 10 times larger than the existing Click 365. We will also consider creating a currency futures market.

For Click Kabu 365, we will work on integrated management of margin accounts for Click Kabu 365 and Click 365.

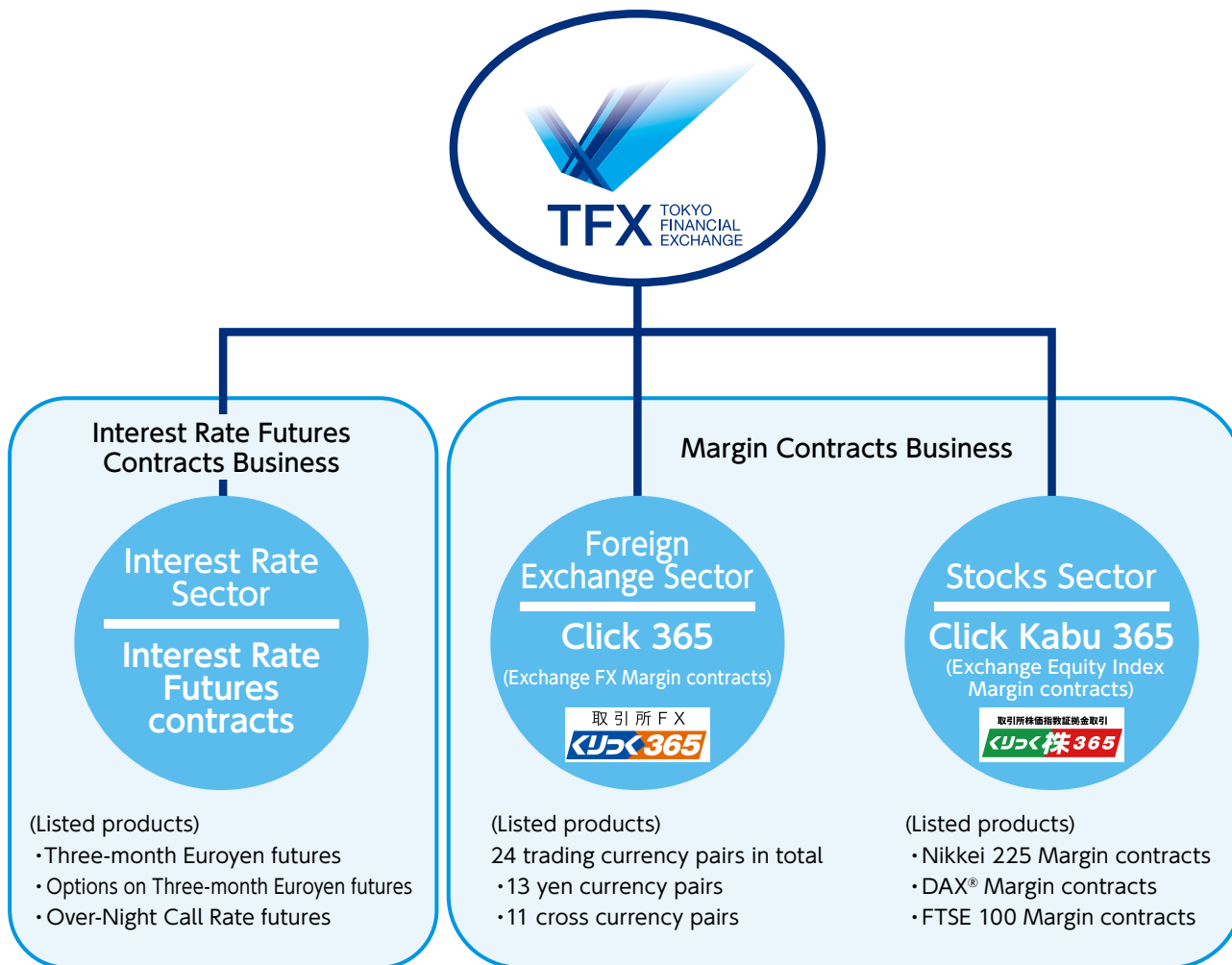
We sincerely ask our shareholders for your ongoing support and cooperation.

June 2015

President and CEO **Shozo Ohta**

Tokyo Financial Exchange (TFX) contributes to the sound development of the financial markets and the economy of Japan by developing financial instruments markets as public infrastructure related to financial instruments transactions that provide a superior degree of fairness, reliability, and convenience in accordance with the Financial Instruments and Exchange Act.

TFX, as a **comprehensive exchange for financial derivatives**, has now listed products that cover all three major sectors for financial derivatives: **interest rates**, **foreign exchange**, and **stocks** as listed below.



Summary of Operating Results

Financial Accounts – Highlights

		FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	Change from FY 2013
Operating Revenues	(million yen)	10,966	9,238	5,456	6,602 (5,027)	7,627 (4,225)	15.5% (▲15.9%)
Operating Profit or Loss (▲)	(million yen)	3,927	1,761	▲581	▲1,247	▲333	—
Ordinary Profit or Loss (▲)	(million yen)	4,232	2,086	▲378	▲1,114	308	—
Net Income or Loss (▲)	(million yen)	2,242	807	55	▲1,855	469	—
Net Income or Loss (▲) per Share	(yen)	2,599.02	935.52	63.98	▲2,150.61	543.95	—
Total Assets	(million yen)	238,807	240,840	249,650	284,647	395,379	38.9%
Net Assets	(million yen)	23,244	23,447	23,071	20,958	21,340	1.8%
Net Assets per Share	(yen)	26,942.55	27,178.08	26,742.06	24,292.09	24,735.03	1.8%

- The values in parentheses under operating revenues are effective operating revenues after subtracting cost for incentive programs to make investor's charge for Click 365 free.
- Net income per share was 543.95 yen, and net assets per share were 24,735.03 yen, up 1.8% year-in-year.
- Dividend per share increased 50 yen year-on-year to 200 yen as TFX returned to profitability for the current term.

Market Highlights

Annual Trading Volume (Change from previous fiscal years)

■ Three-month Euroyen futures (in thousands)				
FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
11,466 (▲5.7%)	5,816 (▲49.2%)	4,989 (▲14.2%)	4,620 (▲7.4%)	2,394 (▲48.1%)

■ Click Kabu 365 (in thousands)				
FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
447 (—%)	1,042 (+132.8%)	2,524 (+142.1%)	5,268 (+108.6%)	6,324 (+20.0%)

■ Click 365 (in thousands)				
FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
123,432 (+53.5%)	121,116 (▲1.8%)	58,200 (▲51.9%)	44,556 (▲23.4%)	34,015 (▲23.6%)

■ Total Trading Volume of Listed Products (in thousands)				
FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
135,346 (+46.2%)	128,019 (▲5.4%)	65,718 (▲48.6%)	54,445 (▲17.1%)	42,734 (▲21.5%)

- The rate of change year-on-year shown is rounded down to the first decimal place.

Topics in Fiscal Year 2014

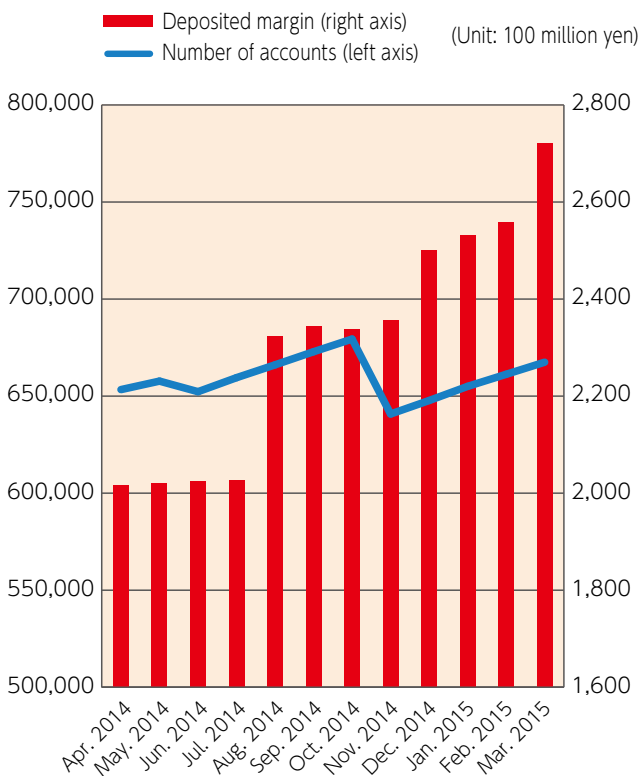
1 Expansion of Margin Contracts Market

1 Record highs for deposited margin

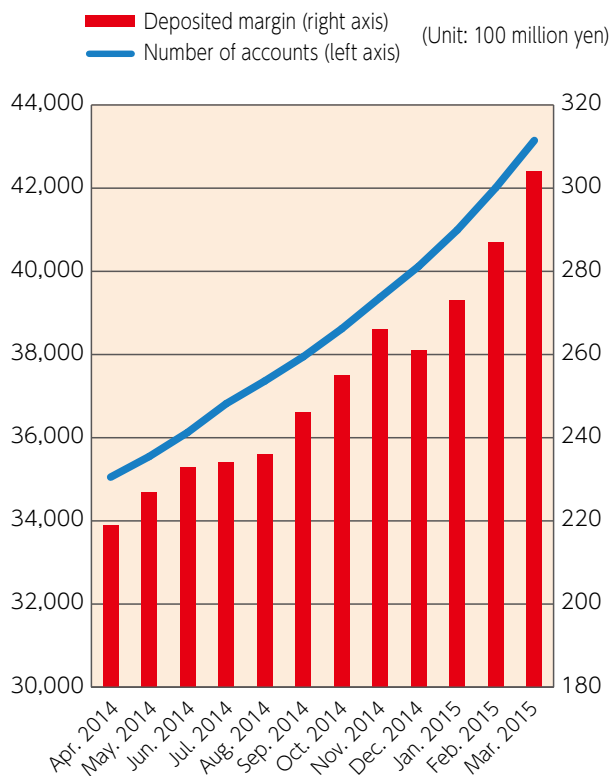
The deposited margin of Click 365 reached a record high as of the end of March 2015 with the increased number of accounts.

Click Kabu 365 posted record highs in both deposited margin and the number of accounts as of the end of March 2015.

Click 365



Click Kabu 365

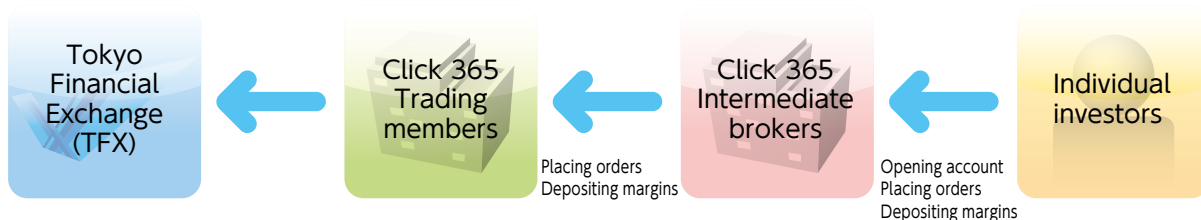


2 Expansion of trading channels with new entry by intermediate brokers and agents

Trading channels expanded as three intermediate brokers and one intermediate agent newly entered the market.

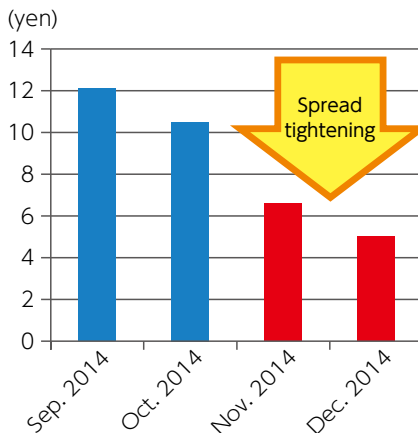
(As of the end of March 2015, TFX has five intermediate brokers and three intermediate agents)

Click 365 trading through intermediate brokers



3 Spread Tightening for Nikkei 225 Margin contracts

Spread for Nikkei 225 Margin contracts tightened significantly after designation of Nissan Century Securities as market maker (MM) in November.



It's really tight...



2 Enhanced Promotion Activity

1 Enhanced Promotion Targeting Domestic Investors —●

TFX strengthened its efforts to promote the Margin contracts market. TFX held the Click Festival 2014 in November in collaboration with media organizations and seminars for beginners at TFX Plaza (three times a month) and then participated in many seminars hosted by Trading Members.



2 Expansion of Promotion Targeting Overseas Investors —●

In order to expand trades in the Interest Rate Futures contracts market and the Margin contracts market, TFX visited investors in, among other places, London, Chicago, and Singapore, enhancing sales to win trading flows.

3 Establishment of Committee for Creation of Currency Futures Market —●

In light of tighter regulations on OTC derivatives trades, TFX sets up the Committee for Creation of Currency Futures Market to exchange opinions on creation of a currency futures market similar to the Chicago Mercantile Exchange (CME).

3 Improving Operational Efficiency, Cutting Expenses

1 Improved Efficiency in the Market Monitoring System —●

In July 2014, TFX established a more efficient monitoring system with the limited number of personnel by consolidating the market monitoring functions of the Interest Rate Futures Contracts Business and the Margin Contracts Business.

2 Expense Reduction Initiatives —●

TFX achieved a significant reduction of approximately 1.7 billion yen year-on-year in operating expenses. This reduction was achieved by, among other measures, reviewing its organizational structure as described in 1 above, and upgrading systems.



4 Enhanced Risk Management System

1 Enhanced Risk Management System

TFX took appropriate measures to meet the requirements of “Comprehensive Guidelines for Supervision of Financial Market Infrastructures - Clearing Organizations, Fund Clearing Organizations, Book-entry Transfer Institutions, and Trade Repositories” (2013) by establishing the Chief Risk Officer (CRO) and the Risk Management Office (Compliance and Risk Management Office).



2 Won a Lawsuit concerning Click 365 South Africa Rand/Japanese Yen contracts

TFX won a lawsuit initiated in 2010 in which the plaintiff claimed damages against the Company relating to the South Africa rand/Japanese yen contracts with the Tokyo District Court dismissing the case in March 2015. The case is now being adjudicated by the Tokyo High Court because the plaintiff appealed.

5 Others

1 Developing and Enhancing Talent

TFX strived to develop and enhance talent (by enhancing, for example, secondment to domestic financial institutions and government agencies, trainees overseas, overseas English study, and training by job rank) to be a trustworthy organization .



2 Safe and Efficient Fund Management

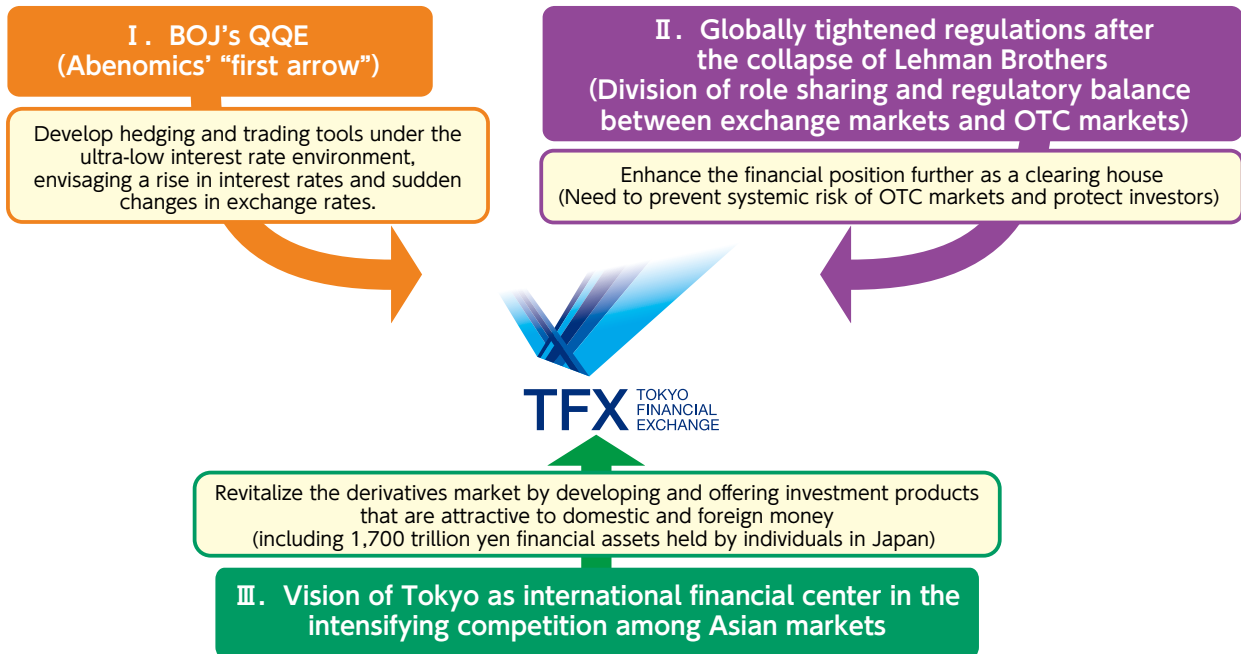
TFX actively invested its own funds while paying attention to safety by establishing an investment committee.



Framework Based on Economic/ Financial and Regulatory Outlook

- I. The Japanese economy is currently expected to show a modest recovery and defeat deflation underpinned by, among other factors, the yen's depreciation, cheaper oil prices, improved corporate earnings, and increased consumer spending on the back of employment and wage growth. Going forward, sudden changes in interest rates and foreign exchange rates are envisaged in association with the end of Quantitative and Qualitative Monetary Easing (QQE) by the Bank of Japan.
- II. After the collapse of Lehman Brothers, the global trend is for tighter financial regulations to prevent systemic risk.
- III. Amid intensifying competition among Asian markets, the Japanese government articulates establishment of Japan financial market as an international financial center in its Japan Revitalization Strategy of the Japanese government that has a view of 2020.

Based on these visions, TFX, as a comprehensive exchange for financial derivatives, is expected to contribute to the development and revitalization of Japan's financial derivatives market by offering attractive and reliable products.



I . BOJ's Quantitative and Qualitative Monetary Easing (Abenomics' "First Arrow")

I
II
III

While trading volumes of Interest Rate Futures contracts significantly decreased due to the continuation of QQE by the BOJ, TFX needs to be prepared for the revival and development of the short-term interest futures market, which is indispensable function in the financial market, with the prospect of rising short-term interest rates upon ending of the monetary easing.

In addition, developing a sound FX derivatives market that will withstand sudden changes in exchange rates in the future is an urgent task.



Challenge

Develop hedging and trading tools that envisage rising interest rates and sudden changes in exchange rates

◆ Developing mid-curve options

In prospect of rising interest rates in the future, TFX will develop mid-curve options, which are mainstream products in overseas exchanges, as hedging and trading tools on the mid-range of the yield curve.



◆ Creation of a currency futures market

By having in-depth discussions at the Committee for Creation of Currency Futures Market, TFX will consider the frameworks that focus on use by institutional investors (e.g. auctions).

II. Globally tightened regulations after the collapse of Lehman Brothers (Division of role sharing and regulatory balance between exchange markets and OTC markets)

I II
III

Financial regulations have been tightened on global basis since the collapse of Lehman Brothers.

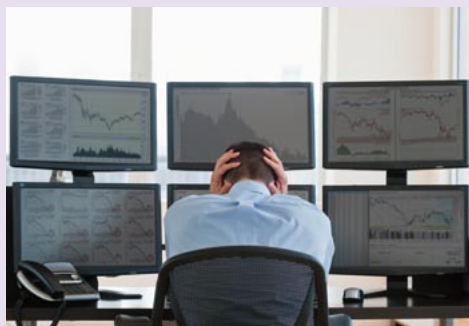
Especially, exchanges who have their own clearing houses ("clearing house(s)") are required to meet various regulations including enhancement of financial resources and introduction of higher risk management. As a result, while heavy burden is placed on clearing houses, OTC markets are not subject to the same level of strict regulations.

On the other hand, for FX trades, which have become popular among individual investors in recent years, overseas countries (e.g. U.S. and Asian countries) treat exchange-traded FX trading differently from OTC-traded FX.

Globally consistent standards should be established in Japanese regulations from the perspective of investor protection, based on the respective characteristics of exchanges and OTC markets.



Challen

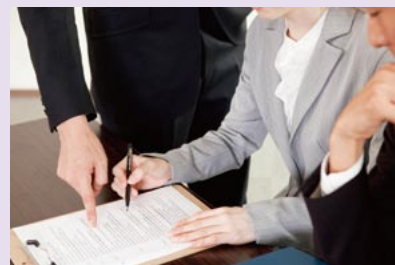


Further enhancement of financial position as a clearing house Prevention of systemic risk in the Japanese FX market and enhanced investor protection

◆ Observing financial regulations

The Principles for Financial Market Infrastructures (PFMI), international standards released in 2012 in response to the financial crisis triggered by the collapse of Lehman Brothers, require clearing houses to put aside more financial resources to fund loss compensation in the event of default by a clearing participant. In order to meet these requirements, TFX has taken measures such as increasing clearing deposits and default compensation reserves.

In addition, in April 2015, TFX was recognized as a Third-Country CCP under European Market Infrastructure Regulation (EMIR), which regulates clearing houses in Europe with the aim of reducing systemic risk.



◆ Preventing systemic risk in the Japanese FX market

International financial regulations introduced after the Lehman shock also applies to TFX as a clearing house (for Click 365), thereby enhancing investor protection.

OTC markets do not have a safety net such as clearing deposits and default compensation reserves, nor are subject to PFMI.

Necessary regulations are required on OTC markets for sound development of the FX market and investor protection.



III. Vision of Tokyo as international financial center in the intensifying competition among Asian markets

I II
III

With the rise of Asia in the global economy, Singapore, Hong Kong, Shanghai, and other Asian financial markets now show a significant presence, attracting investors across the world.

In order to attract domestic and foreign money (including 1,700 trillion yen financial assets held by individuals in Japan), TFX is expected to contribute to the realization of the Tokyo international financial center by developing attractive financial products.



Revitalization of the financial derivatives market

◆ Listing of Click 365 Large

TFX will list the Click 365 Large whose trading unit is 10 times larger than the existing Click 365 with tighter spreads (reintroducing transaction fee collection) in order to meet the transaction needs of large volume investors (corporate) at home and abroad.

◆ Expansion of Click Kabu 365

TFX will enhance the appeal of Click Kabu 365, very popular retail equity indexed CFD products with user-friendly specs, and attract Asian investors by increasing varieties of indexes and taking other measures.



Financial Statements (Summary) and Market Data

Balance Sheet (Summary)

(million yen)

Account Titles	FY 2013 As of March 31, 2014	FY 2014 As of March 31, 2015
(Assets)		
Current Assets	15,944	14,774
Cash and bank deposits	13,526	7,518
Securities	1,764	5,440
Accounts receivable - trade	548	686
Accounts receivable - other	17	921
Income taxes receivable	12	7
Prepaid expenses	74	78
Deferred tax assets	—	116
Others	0	4
Non-current Assets	268,703	380,604
Tangible Fixed Assets	1,684	1,421
Buildings	419	399
Furniture and equipment	1,264	1,022
Intangible Fixed Assets	3,663	2,910
Software	3,648	2,897
Others	14	13
Investment and Other Assets	642	4,024
Assets Held for Guarantee from Members	262,712	372,247
Total Assets	284,647	395,379

(Liabilities)

Account Titles	FY 2013 As of March 31, 2014	FY 2014 As of March 31, 2015
Current Liabilities	438	1,191
Accounts payable - trade	418	553
Accounts payable - other	2	513
Consumption taxes receivable	—	46
Others	17	78
Non-current Liabilities	263,251	372,847
Deposits received from members	262,712	372,247
Others	539	599
Total Liabilities	263,689	374,039

(Net Assets)

Account Titles	FY 2013 As of March 31, 2014	FY 2014 As of March 31, 2015
Shareholders' Equity	20,957	21,297
Common stock	5,844	5,844
Capital surplus	6,045	6,045
Retained earnings	9,066	9,406
Default compensation Reserve	3,594	3,594
Retained earnings brought forward	5,472	5,812
Valuation and Translation Adjustments	0	42
Total Net Assets	20,958	21,340
Total Liabilities and Net Assets	284,647	395,379

Profit and Loss Statement (Summary)

(million yen)

Account Titles	FY 2013 From April 1, 2013 to March 31, 2014	FY 2014 From April 1, 2014 to March 31, 2015
Operating Revenues	6,602	7,627
Fixed amount exchange fees	144	142
Per-contract exchange fees	5,872	6,700
Income related to system equipment	258	208
Other exchange fees	47	35
Member registration fees, etc.	17	7
Income from information services	262	262
Income from asset management/investment	—	271
Operating Expenses	7,850	7,960
Personnel expenses	1,336	1,222
Marketing expenses	1,781	3,553
Facility-related expenses	4,537	2,965
Administrative expenses	193	219
Operating Loss (▲)	▲ 1,247	▲ 333
Non-operating Revenues	133	644
Non-operating Expenses	0	3
Ordinary income or loss (▲)	▲ 1,114	308
Extraordinary Income	—	—
Extraordinary Losses	▲ 543	—
Income or Loss (▲) Before Income Taxes	▲ 1,658	308
Income taxes-current	3	19
Income taxes-deferred	193	▲ 180
Net Income or Loss (▲)	▲ 1,855	469

Market Data

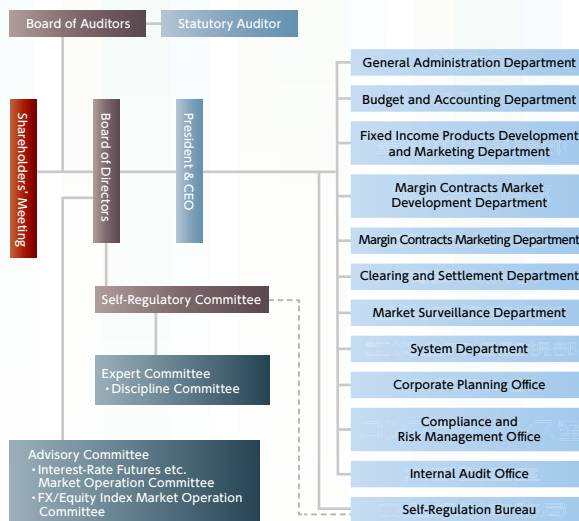
(In lots; upper row: annual trading volume; lower row: average daily trading volume)

Products	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Three-month Euroyen futures	11,466,264 (46,801)	5,816,233 (23,643)	4,989,726 (20,366)	4,620,441 (18,859)	2,394,821 (9,735)
Options on Three-month Euroyen futures	0 (0)	35,547 (145)	1,500 (6)	0 (0)	100 (0)
Click 365	123,432,149 (472,920)	121,116,072 (466,391)	58,200,747 (224,754)	44,556,077 (171,731)	34,015,116 (130,828)
Click Kabu 365	447,814 (5,128)	1,042,524 (4,088)	2,524,870 (9,762)	5,268,870 (20,285)	6,324,175 (24,380)
All Listed Products	135,346,227 (524,849)	128,019,351 (494,471)	65,718,851 (254,896)	54,445,388 (210,875)	42,734,212 (164,943)

Corporate Profile

Company Name	Tokyo Financial Exchange Inc.	
Founded	April 1989 (in April 2004, TFX changed from a membership organization to a stock company)	
Address	Marunouchi Park Building 15th Floor, 2-6-1 Marunouchi, Chiyoda-ku, Tokyo, 100-6915, Japan	
Capital	5,844,650,000 yen	
No. of Employees	95 (as of March 31, 2015)	
Fiscal term	March 31	
Management	President & CEO	Shozo Ohta
	Managing Director	Wataru Ito
	Managing Director	Takuo Hirota
	Member of the Board	Takashi Imai
	Member of the Board	Masahiro Okuno-Fujiwara
	Member of the Board	Junko Hirakawa
	Member of the Board	Hidekazu Fukumoto
	Member of the Board	Shin Yoshidome
	Standing Statutory Auditor	Nagao Hashimoto
	Statutory Auditor	Toshiyuki Tsukasaki
	Statutory Auditor	Shigeyuki Maeda

Organizational Chart



No. of TFX Members

- (i) Interest Rate Futures Trading Members 44
(including 31 Interest Rate Futures Clearing Members and
12 inactive trading members (inactive clearing members))
- (ii) FX Margin Trading Members
(FX Margin Clearing Members) 21
(including 6 FX Market Makers)
- (iii) Equity Index Margin Trading Members
(Equity Index Margin Clearing Members) 11
(including 3 Equity Index Market Makers)

Share Information (as of March 31, 2015)

Total No. of Shares Authorized 3,400,000
No. of Shares Issued and Outstanding ... 862,750
No. of Shareholders 75

URL <http://www.tfx.co.jp>

* Information without a specific date is as of June 19, 2015.

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