



May 15, 2025

To Whom It May Concern:

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## **“Efforts to Implement Management that is Conscious of the Cost of Capital and Stock Price” and “Status of Dialogue with Shareholders”**

Japan Securities Finance Co., Ltd. (hereinafter “JSF”) has compiled the following information on its initiatives in FY2024 with regard to those matters requested of listed companies by the Tokyo Stock Exchange as of March 31, 2023, and hereby announces that these initiatives were approved at a meeting of the Board of Directors convened today.

### **I. Efforts to Implement Management that is Conscious of the Cost of Capital and Stock Price (Analysis of the Current Situation and Efforts in FY2024)**

#### **1. Analysis of the Current Situation**

##### **(1) JSF's performance and valuation in the stock market for FY2024**

##### **① Management goals**

- Pursuant to the “Seventh Medium-Term Management Plan (through FY2025),” we have set as management goals the maintenance of a stable ROE above 5% and the pursuit of further improvement, and the maintenance of consolidated ordinary profits at a stable level of over 10 billion yen while seeking further improvement.
- Additionally, we formulated and announced the “Long-Term Management Vision Targeted by JSF” in November 2023. The direction of our long-term management is as follows: We will continue to steadily strengthen our earnings base and seek stable and steady improvements in our capital efficiency while remaining mindful of the cost of capital. We will work toward the steady improvement of ROE, keeping the 8% level in mind. Through these management efforts, we aim to establish a market valuation with a price-to-book ratio (PBR) exceeding 1.0.

## ② JSF's performance for FY2024

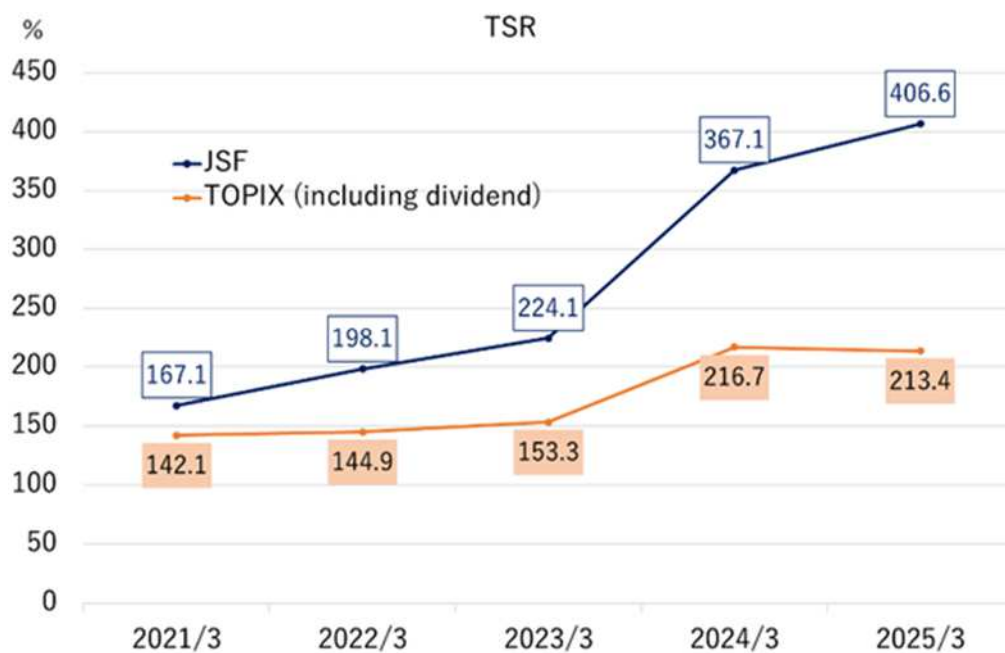
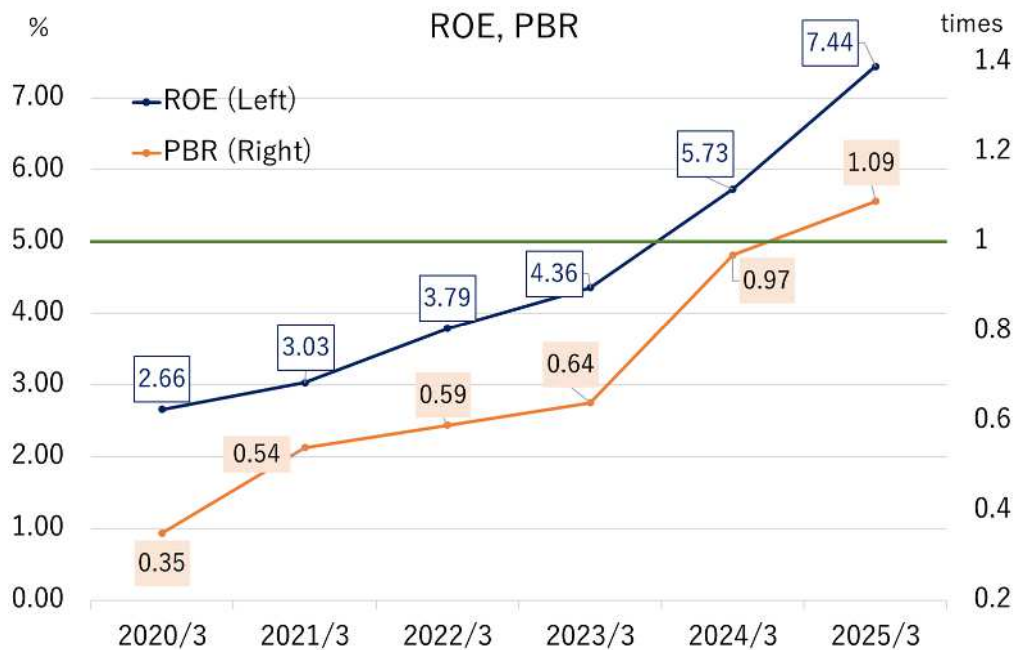
- As a result of our efforts toward these goals, in FY2024 we achieved a consolidated ordinary profit of 12.5 billion yen and an ROE of 7.4%. Even excluding one-time gains (extraordinary income) recorded by JSF and its group companies in FY2024, our underlying ROE was 6.5%. In this way, we have steadily attained the management goals set out in our Seventh Medium-Term Management Plan.
- Regarding the impact of rising interest rates following the end of the negative interest rate policy, our lending rates (which are determined based on the policy rate and market interest rates) have risen, and we have also observed an increase in demand for funding from our clients. We recognize these developments as fundamentally positive for our company. In this environment, both our loans for margin transaction business and our securities financing business (centered on bond repo/gensaki transactions and equity repo transactions) performed strongly in FY2024. Additionally, our subsidiary, JSF Trust and Banking Co., Ltd., also posted strong performance, driven by its managed trust services in niche sectors where it has particular strengths.

## ③ Shareholder returns

- We have maintained a proactive shareholder return policy, aiming for a cumulative total payout ratio of 100% through the flexible execution of dividends and share buybacks in the period from FY2023 through FY2025. As part of this, our policy for FY2024 and FY2025 is to actively pay dividends with a target dividend payout ratio of 70%.
- In line with this policy, and reflecting higher net income, for FY2024 we increased the annual dividend to ¥84 per share (including a special dividend of ¥16), and carried out agile share buybacks totaling ¥3.0 billion. The special dividend was implemented to return the temporary gains that arose outside of the ordinary course of our efforts toward sustainable growth (specifically, one-time gains from the sale of real estate held by a subsidiary and the sale of unlisted shares held by JSF) to our shareholders.

④ JSF's valuation in the stock market

- Regarding the market's valuation of our initiatives described above, our PBR has generally been trending at levels above 1.0, except for a brief period in early April 2025 when concerns over U.S. tariff policy spread. Additionally, our total shareholder return (TSR) has consistently outperformed the TOPIX index. We believe that the market's valuation of our company has been steadily increasing.



## (2) Cost of capital

- We recognize the cost of capital to be in the mid-4% range, calculated using multiple methods that employ objective, long-term chronological data. This also serves as the basis for setting the management goals in our current 7th Medium-Term Management Plan. We are licensed as a securities finance company, and as such we are legally required to maintain financial soundness and have legal restrictions placed on the scope of our operations. As a result, our financial and business strategy risks are relatively low, and we believe this is reflected in our risk premium. We therefore believe this is a natural level for our cost of capital.
- On the other hand, given recent rise in domestic long-term interest rates and other changes in financial and capital market conditions, we are aware that our cost of capital may have shifted from previously indicated level. In FY2025, we will undertake discussions to formulate our next Medium-Term Management Plan (the 8th Plan). In this process, we intend to remeasure our cost of capital, reflecting these changes in the market environment, and will incorporate the results thereof as the basis for setting our management goals.

## 2. Efforts in FY2024

### (1) Strengthening earnings base and business strategy initiatives

- As Japan's sole securities finance company, we fulfill an essential infrastructure role within the securities market by providing market funding and securities liquidity through our loans for margin transactions business that supports standardized margin trading. This role holds great importance for us, and the loans for margin transactions business serves as a cornerstone of our operations. However, from an earnings perspective, the loans for margin transactions business has faced notable fluctuations influenced by stock market conditions. In addition, the utilization of standardized margin transactions and loans for margin transactions has declined compared with the period prior to the introduction of negotiable margin transactions in the late 1990s.
- To this end, we have focused on diversifying our revenue streams and bifurcating the factors that affect earnings, in an effort to build a business

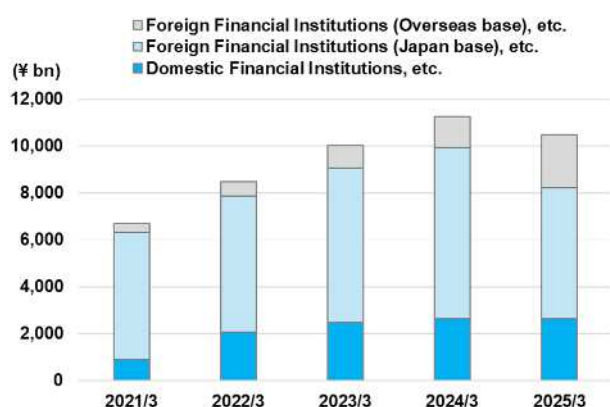
portfolio that supports stable, consistent growth. In particular, we recognize that these efforts have yielded certain results over the past few years.

① Expansion of the securities financing business

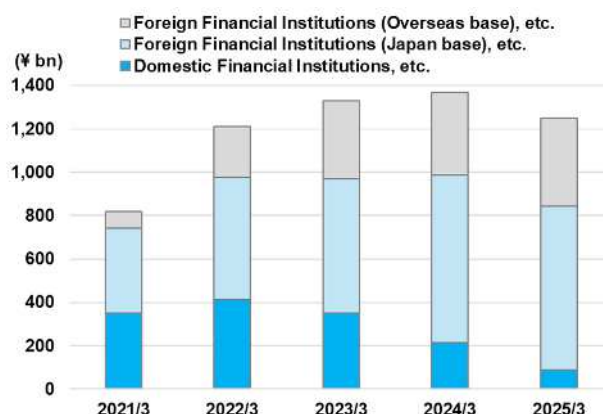
- The securities financing business, comprised mainly of equity repo transactions and bond repo and gensaki transactions, provides broad liquidity to securities and financial markets by financing holdings of securities and meeting collateral demands. We have been promoting this securities financing business as one of our growth engines.
- In the bond repo/gensaki transactions, against the backdrop of strengthened settlement risk management and international financial regulations, there is particularly high overseas demand for Japanese government bonds (JGBs) as high-quality liquid assets (HQLAs). By connecting this with the investment needs of domestic institutional investors and regional financial institutions, we have acted as an intermediary to drive growth in this business.
- In the equity repo transactions, now that interest rate mechanisms are once again functioning, we have met the increased demand for funds and have expanded our outstanding transaction balances.
- We are also working to expand our services with foreign financial institutions by diversifying the securities we handle to include foreign stocks and foreign government bonds. Recently, there has been an increase in transactions where stocks from the Asian region, including Japan, are being accepted as collateral in exchange for HQLAs such as Japanese government bonds. We participate in securities lending forums in Asia, Europe, and North America, in an effort to raise our awareness and to accurately grasp the trading needs of market participants. Going forward, we will continue to respond to a wide range of client needs and expand our transactions.
- We were awarded the Asian Repo Team of the Year at the Industry Excellence Awards 2024 sponsored by the Securities Finance Times (Black Knight Media Ltd.), in international recognition of our efforts.

Average balances of JSF's bond repo/gensaki transactions and equity repo transactions.

Bond repo/gensaki transactions (Borrowing)



Equity repo transactions (Borrowing)



## ② Loans for margin transaction business

- We have endeavored to ensure the stable operations in our loans for margin transaction business by expanding the range of loanable issues and strengthening the procurement of stock for lending and otherwise appropriately responding to changes in the stock market environment, and by accurately identifying the trading needs of market participants to promote the use of our services.
- We changed the method of setting interest rates for margin loans from April 2024. Previously, we notified counterparties only when rates were changed, but now we disclose the margin loan rate on a monthly basis regardless of whether or not it has changed. We will continue to make timely and appropriate adjustments to the system and strive to improve convenience. Additionally, we have been strengthening our dissemination of information regarding the significance and benefits of standardized margin transactions and loans for margin transaction to both domestic and international audiences. Through these efforts, our intent is to further strengthen our loans for margin transaction business, our founding business, which continues to serve as one of our core operations.

## (2) Corporate governance initiatives

### ① Enhancing the effectiveness of the Board of Directors

- Based on the Long-Term Management Vision and the Seventh Medium-Term Management Plan formulated and announced in November 2023, we have continued to strive to strengthen our earnings base, and have endeavored to strengthen internal management structure, starting with the reinforcement

of our human resource base.

- The Board of Directors recognizes the proper supervision of these executive-side initiatives and the need to deepen discussions aimed at enhancing corporate value going forward, including consideration of the next medium-term management plan, as key issues. From a medium- to long-term perspective, we have strived to further enhance the agenda items and reports submitted to the Board of Directors while aiming for greater focus and prioritization.
  - Specifically, we have established an annual schedule of topics for the Board and each committee through discussions at those bodies, to facilitate planned and organized deliberation and consideration. Moreover, although FY2024 was the mid-point of the Seventh Medium-Term Management Plan, the Board of Directors engaged in discussions for the formulation of the next medium-term management plan, and otherwise endeavored to establish appropriate agenda items focused on medium- to long-term corporate value enhancement. Through these efforts, we have strived to enrich discussions and improve the effectiveness of the Board of Directors and committees. We are currently evaluating the effectiveness of the Board of Directors in FY2024, and will appropriately release our findings in due course.
- ③ Initiatives of the Nominating Committee, Compensation Committee, and Audit Committee
- The Nominating Committee, in addition to determining candidates for directors and executive officers (and corporate officers), have deliberated a variety of topics related to the appointment of directors and executive officers. Specifically, the Committee, taking into account internal and external circumstances, has discussed and determined the composition of the skill matrix for the Board of Directors to ensure its appropriateness in terms of proper oversight by the Board of Directors in the determination and execution management policies. The Committee has also continuously and actively examined issues such as whether the Board's composition is appropriate from the perspectives of diversifying skills, age composition, and gender. Furthermore, the Committee has discussed the desired skills and backgrounds (the so-called "long list") for selecting future executive officers and corporate officers.
  - The Compensation Committee, in addition to the determination of individual

compensation for directors and executive officers, has actively deliberated the optimal compensation system aligned with JSF's long-term management vision, to facilitate the steady implementation of the management plan.

- The Audit Committee, in addition to the auditing of the execution of duties by directors and executive officers and the preparation of audit reports, has worked to improve the effectiveness of audits in coordination with the internal audit department and accounting auditors.

### (3) Other initiatives

#### ① Enhanced disclosure of information

(Corporate logo and website renewal)

- In 2023, we established a new corporate message, "Be unique. Be a pioneer." To embody the spirit of this message, we also redesigned our corporate logo and established new corporate colors.
- This reflects our determination as Japan's only securities finance company to leverage our uniqueness and, as a nimble, flexible and distinctive company, to pioneer new frontiers in such sectors as the securities financing business, which has loans for margin transactions as its core.
- We have devoted efforts to provide information to all of our stakeholders. In November 2024, we revamped our corporate website (<https://www.jsf.co.jp/en/index.html>) and our website that provides information on loans for margin transactions (<https://www.taisyonu.jp/english/>), introducing a completely new design. We have improved usability and information visibility, and we expanded the content of the disclosed information.
- In conjunction with these efforts, we also published a corporate advertisement in The Nihon Keizai Shimbun in December 2024, using our new corporate message and logo to communicate our rebranded image, to emphasize the company's evolving profile, and to highlight our proactive stance toward enhancing corporate value.



(2024 Integrated Report)

- As part of our commitment to enhanced disclosure, we have been prepared integrated reports since FY2022. These integrated reports cover our business model, management policies, corporate governance, and initiatives on sustainability issues, among other topics, and we update the content each year based on feedback from shareholders and other stakeholders.
- The 2024 Integrated Report illustrates our position as a leading company in the securities and financial markets and highlights the significant changes in our revenue profile resulting from the growth of the securities financing business. It also depicts our efforts to strengthen our earnings base and the internal management framework supporting our operations—such as proactive mid-career hiring under our human capital policy, and reinforcement of our risk appetite framework (RAF) management system that includes front-office revenue and risk management. In terms of enhanced corporate governance, the report explains that by transitioning to a company with nominating committee, etc. (a committee-based governance structure), we have clearly separated the execution and oversight of management, thereby strengthened the Board of Directors' supervisory function and improving transparency. In addition, the report discusses our newly established human rights policy.

② Granting company stock incentives to employees

- In FY2024, as in the previous year, we granted shares of the Company's stock to employees based on the Company's performance (employee stock incentive plan). This was implemented based on the fact that we achieved our 5% ROE target two years ahead of the schedule initially envisioned in our mid-term plan.
- The purpose of this initiative is to enhance employee motivation and engagement toward the achievement of management goals, and to heighten interest in corporate value enhancement and promote value-sharing with shareholders by having employees own JSF stock, thereby driving improvements in our corporate value over the medium- to long-term.

③ Initiatives on sustainability issues

- We are proactively addressing sustainability issues. In FY2024, we primarily

focused on the following two initiatives.

– Joint research with The University of Tokyo

- Since April 2021, JSF and the Tanaka Laboratory of the Graduate School of Engineering at The University of Tokyo has been jointly conducting a proof-of-concept study to verify whether the use of distributed ledger technology (DLT) makes it possible to facilitate smooth transactions for tokenized securities and collateral in repo and securities lending transactions. In May 2023, we published a report on the results of this joint research. Additionally, together with members of the Tanaka Lab, we presented our findings at an international conference on transdisciplinary engineering (Transdisciplinary Engineering 2024) held in London in July 2024.

– International cooperation with the Indonesian securities industry

- As one significant issue for realizing a sustainable society, we are engaged in activities that contribute to and support the infrastructure of overseas securities and financial markets. A concrete example of this is our ongoing collaboration with the Indonesian securities industry.
- In our capacity as an institution supporting the infrastructure of Japan's securities and financial markets, we have provided Indonesian securities-related organizations with know-how on the operation and administrative aspects of loans for margin transactions, and have repeatedly emphasized the importance of securities financing for the improvement of market liquidity in Indonesia. Through these efforts, we contributed to the establishment of the Indonesian securities finance company (PT Pendanaan Efek Indonesia) at the end of 2016. Even after the establishment of this company, we have continued to provide practical support in areas such as risk management and funding, and in August 2020 we made an equity investment in the company.
- Currently, through participation in advisory committees and shareholders' meetings comprised of JSF, other shareholders such as the Indonesia Stock Exchange group, and the Indonesian securities finance company, we are actively contributing to discussions on the company's management policies and business operations. We are also organizing seminars from time to time in Jakarta and Tokyo for members of Indonesia's securities industry (including regulatory authorities, exchange officials, and securities firms).
- We intend to further leverage our accumulated expertise in securities

finance operations to contribute to the sustainable development of Indonesia's economy and its financial and securities markets going forward.

④ Formulation of JSF human rights policy

- With a longstanding recognition of the importance of respecting human rights, prohibiting discrimination, valuing diversity, and prohibiting various types of harassment, the JSF Group has endeavored to uphold human rights. In October 2024, we announced the new formulation of the Japan Securities Finance Human Rights Policy, stating that we would continue to promote efforts to respect the human rights of all people involved in our business activities.

⑤ Evaluation of efforts addressing corporate governance and sustainability issues

- We were awarded the Best Corporate Governance Practices (Finance) at The Global Economics Awards 2024 sponsored by The Global Economics Limited.
- As an institution that supports the infrastructure of securities and financial markets, we have been recognized for our contributions to the development and sustainability of Japanese and global markets. We will continue to proactively meet the diverse needs of the securities and financial industries, centering on securities financing, as we work towards resolving social issues.

## **II. Status of Dialogue with Shareholders**

As a company listed on the Prime Market, based on Japan's Corporate Governance Code, we are constructively engaging in a dialogue with our shareholders, in an effort to contribute to the Company's sustainable growth and to enhance our corporate value over the medium- to long-term.

The status of dialogue with shareholders conducted by JSF's management in FY2024 is as follows.

### **1. Persons Engaging in Dialogue**

- The Representative Executive Officer & President and the Senior Managing Executive Officer Responsible for Corporate Strategy engaged in the dialogue.
- Depending on the content, outside directors may also participate in the dialogue.

### **2. Overview of Shareholders Involved in Dialogue**

Total: 20 times

- Individual interviews: 18 times (domestic investors: 9; overseas investors: 5)
- Briefings: 2 times (a total of 8 companies participated)
  - In FY2024, we held regular financial results briefings for full-year and interim results.

### **3. Feedback from Shareholders to the Board of Directors**

- The status of the dialogue with shareholders is reported to the Board of Directors promptly after each dialogue.
- Through these initiatives, we strive to ensure that the Board of Directors and the various committees engage in discussions that take into account the opinions and feedback from shareholders.

#### 4. Main Themes and Matters of Interest to Shareholders

Themes	Main matters of interest
(1) Management strategy	<ul style="list-style-type: none"><li>• Medium-term management plan</li><li>• Shareholders return policy</li></ul>
(2) Business model	<ul style="list-style-type: none"><li>• Revenue structure for the loans for margin transaction business and securities financing business</li><li>• Background of growth of the securities financing business</li><li>• Recent changes in our business portfolio</li></ul>
(3) Changes in external environment	<ul style="list-style-type: none"><li>• Impact of the financial environment such as interest rate increases on our earnings</li></ul>

#### 5. Specific Examples of Dialogue

##### (1) Management strategy

###### ① Medium-term management plan

- We have set management goals of ROE 5% and consolidated ordinary profit of ¥10 billion in our Seventh Medium-Term Management Plan (FY2023–FY2025). In FY2023, we anticipated achieving these targets two years ahead of schedule. Recognizing that our management initiatives had produced significant results, and reaching a turning point, we newly formulated and announced a Long-Term Management Vision in November 2023. At the same time, we upwardly revised the management goals of the Seventh Medium-Term Management Plan, and we are striving to further improve our profitability and capital efficiency, keeping an ROE level of 8% in mind. As a result, ROE for FY2024 reached 7.4% (6.5% excluding extraordinary gains), and our consolidated ordinary profit reached ¥12.5 billion. These figures demonstrate steady improvement in our profitability and capital efficiency.
- We have explained the content of these policies and the process of their formulation, as well as our initiatives to strengthen our business foundation for sustainable growth to our shareholders. We have also explained that steady improvements are being made in profitability and capital efficiency, with performance remaining strong mainly in our securities financing business.

- Shareholders have certainly appreciated our efforts in recent years to strengthen our earnings base and to improve capital efficiency, and the resulting rise in ROE from the 2% range in the past to over 5%.
- At the same time, shareholders have expressed their desire to for the clear presentation of our next targeted goals for the further enhancement of corporate value above and beyond the current achievements, and have expressed opinions and asked questions regarding our business strategies for achieving our next goals and our thoughts on investments in human capital and systems to support future growth.
- From our perspective, in consideration of the progress in building a diversified business portfolio that has improved our earning power and capital efficiency, the significant advancements in strengthening our corporate governance, and the progress made under the current medium-term plan, we believe that the foundation for a new phase of growth is gradually being put into place. With this recognition, it is our desire that the Board of Directors will thoroughly examine the formulation of the next medium-term management plan, setting higher targets for metrics such as profitability and capital efficiency, so that we are able to share a more concrete roadmap and milestones for our future initiatives with our stakeholders.

## ② Future shareholder return policy

- Our basic shareholder return policy during the Seventh Medium-Term Management Plan is to aim for a cumulative total payout ratio of 100% through the agile execution of dividends and share buybacks. Additionally, our policy for FY2024 through FY2025, our policy is to actively pay dividends at a target payout ratio of 70%.
- Shareholders appreciate our proactive approach to shareholder returns. We have also received feedback requesting that we continue to maintain a high total payout ratio, and opinions that we should formulate our future capital policy and shareholder return policy accordingly after thoroughly discussing the level of capital needed for future growth.
- With regard to future shareholder returns, while it will be up to the Board of Directors to discuss the specifics in the course of considering the next medium-term management plan, we would like to persist with our fundamental approach of providing our shareholders with enhanced

returns.

(2) Business model

- We have provided shareholders with an explanation of our efforts to strengthen our business foundation through the diversification of revenue sources and the bifurcation of the factors affecting revenue as described in I.2.(1).
- Some shareholders commented that although they strongly associated JSF with the loans for margin transaction business, they now recognize that JSF's business portfolio is changing as securities financing grows. On the other hand, many shareholders and investors expressed the view that while JSF's business model is unique, it is complex and not easy to understand, suggesting that a more accessible and clearly articulated explanation is required.
- Taking these opinions into account, we will work to provide information in an easier to understand way, so that stakeholders are able to form a concrete picture of our business model.

(3) Changes in external environment

- As noted above, among our significant revenue sources, securities financing, is characterized by its susceptibility to trends in the securities market as well as interest rate movements. Interest rates have been rising in Japan's financial markets. The negative interest rate policy has been eased, creating an environment in which interest rate mechanisms are now functioning. In this environment, our lending rates have also risen, and we have seen an increase in funding demand from our clients. We view the overall environment surrounding us as generally positive.
- Many shareholders have expressed a strong interest in more specific information on just how the rising interest rates are contributing to our earnings.
- In light of these inquiries, as with our business model, we will continue to consider ways to disclose information about our revenue structure in as clear and accessible a manner as possible.

End of Document

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