

Mar 24, 2020

To whom it may concern

Japan Securities Finance Co., Ltd.

Notice of Formulation of Mid-Term Management Plan

Japan Securities Finance Co., Ltd. (hereinafter “JSF”) has formulated its Sixth Mid-Term Management Plan (FY2020-2022) as attached.

Under the Fifth Mid-Term Management Plan formulated in March 2017, our Group worked to strengthen our existing business by leveraging the management capabilities and creditworthiness that we have acquired over time in finance and securities business management as well as our market neutrality; at the same time, we enhanced the fundamental stability of our business by proactively addressing new domestic and overseas transaction needs. During this time, we also worked to further strengthen our governance structure by transitioning to a company with a nominating committee, etc.

On the other hand, looking at the business environment surrounding our Group, we are still in the midst of drastic change. In other words, as ultra-low interest rates remain and digitalization makes rapid progress, securities companies and other financial institutions are restructuring the financial services business with new technologies for information processing like artificial intelligence (AI). Under such circumstances, combined with the impact of review of international financial regulations and securities clearing systems, new financial transaction needs have emerged and transaction needs have diversified.

Committed to maintaining our financial soundness, required as a key player in the securities market infrastructure, our Group hopes to respond to the trust of the market and investors by using our resources, including human resources, more effectively to further strengthen our margin loan business, a licensed business, and diversify revenue sources, as well as by building a quick and efficient business management structure to enhance our competitiveness.

Based on this, we have formulated a new mid-term management plan beginning in FY2020.

Mid-Term Management Plan (FY2020-2022)

1. Corporate Philosophy

As an institution specializing in securities finance, JSF has a mission to contribute to the development of the securities market by proactively meeting the diverse needs of the securities and financial sectors and to enhance the long-term interests of users, while always maintaining a keen awareness of its public role.

2. Management Principles

- (1) To practice sound business management by thoroughly implementing compliance, corporate governance, and risk management under a new governance structure and thereby establish solid credibility, while always maintaining a keen awareness of our social responsibilities as a securities finance company.
- (2) To enhance enterprise value while maintaining solid equity capital in order to ensure stability in management and the financial health required of a company that is a key player in securities market infrastructure, to give comprehensive consideration to the earnings environment, investment plans, etc., and to ensure profits are returned to shareholders.
- (3) To further enhance JSF's core margin loan business while also striving to expand the finance- and securities-related services provided by JSF and Group companies, develop new business, and to further grow and solidify our base.
- (4) To build a quick and efficient business management structure and strengthen our competitive base in order to address changes in the business environment in a flexible manner.

3. Management Goals

Given that the margin loan business, JSF's core business, is greatly affected by market fluctuation, we will strengthen its base by steadily increasing our number of loanable stock issues and stabilize our role as part of the securities market infrastructure by diversifying revenue sources and steadily increasing our basic profit (recurring income calculated based on the assumed gross operating profit of margin loan business).ⁱ

4. Strategies

- (1) Enhancing the Margin Loan Business as part of securities market infrastructure
We aim to pursue stable management of our margin loan business and improve profitability by appropriately responding to changes in the stock market environment. Moreover, we aim to monitor trends among market participants carefully, increase our number of lending issues steadily, promote the use of margin loans, enhance the provision of information relating to margin transactions and margin loans, and expand the range of investors.
- (2) Expanding and enhancing the "Securities Finance" business
We aim to utilize the financial and securities transaction expertise we have cultivated thus far to handle diverse transactions with domestic and overseas financial

instruments businesses in a proactive manner and increase business partners and applicable securities to enhance and expand our “Securities Finance” business, increasing opportunities for profit.

(3) Developing and realizing new business

We will leverage our strengths as a company with a history in the securities finance field, and develop and realize new business based on a long-term perspective in collaboration with Group companies and domestic and foreign partners.

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

We will secure stable revenues by responding to changes in the external environment and revising our portfolio in a flexible manner while maintaining appropriate risk controls. Moreover, we will move forward with expanding management based on foreign currency-denominated securities such as foreign government bonds and establishing funding methods for foreign currency in order to support the development of business using foreign currency.

(5) Strengthening business management structure

We will proactively address our social obligations and ensure that compliance is positioned as a prerequisite of management in order to achieve our corporate philosophy.

To establish unwavering social trust in our company, we aim to secure the effectiveness of our internal auditing and further enhance our risk management in response to the increasingly diverse and complex risks associated with the finance business.

In order to fulfill our role as part of the securities market infrastructure even in the event that a major disaster occurs, we will continue to upgrade our business continuity system.

(6) Strengthening our competitive base through efficient business operation

As our transaction volume increases and our business becomes more complex, we will review our processes and actively promote the use of digital technologies such as RPA (robotic process automation) to build an efficient business operation structure and strengthen our competitive base.

(7) Facilitating diverse work styles and making JSF more dynamic

As work changes and diversifies with work-style reform, delayed retirement and more, we will increase the productivity of individual personnel and make the company more dynamic by reviewing our employment system and developing a rewarding and employee-friendly workplace.

5. Use of Risk Appetite Framework

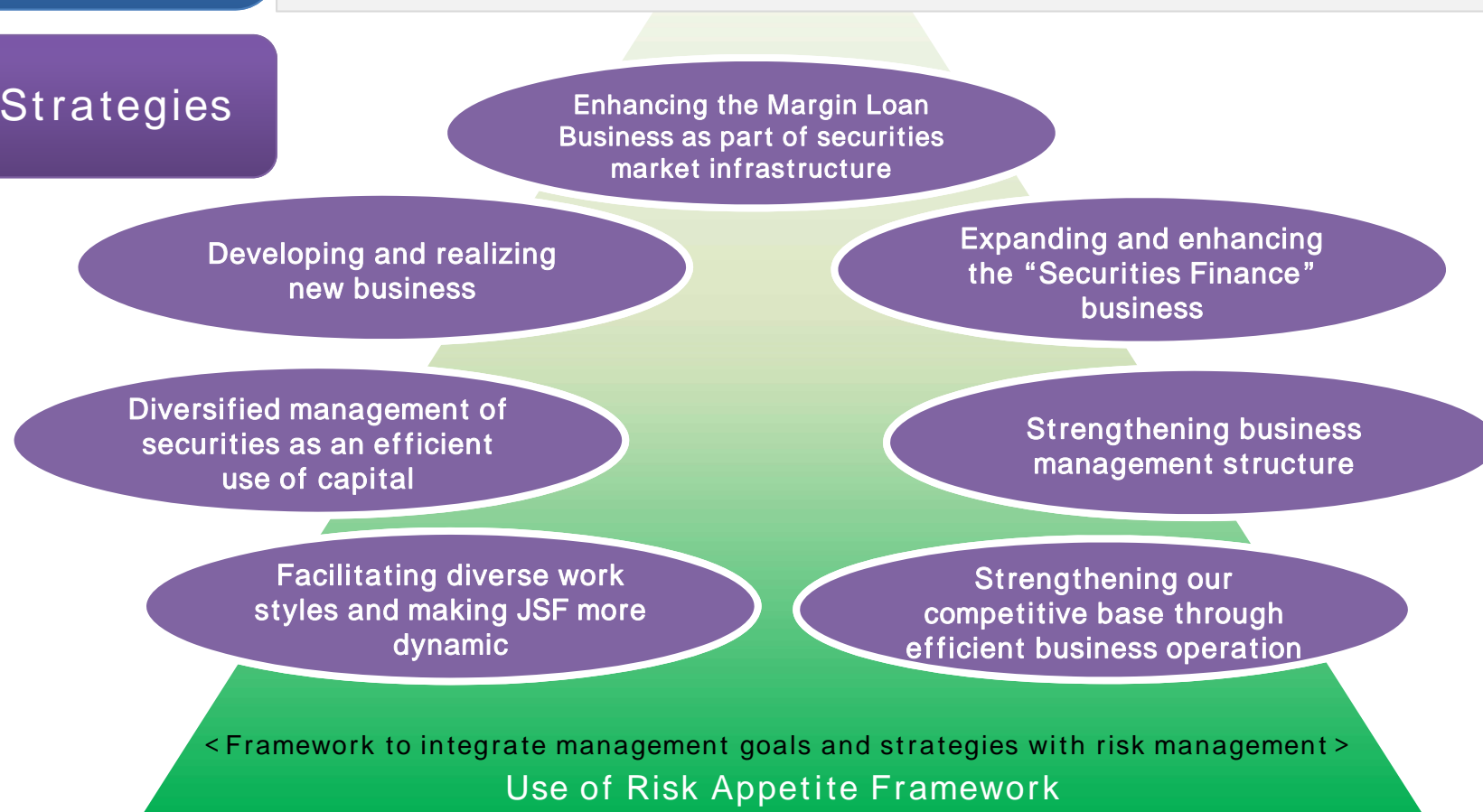
We will introduce the risk appetite framework to integrate management of the above goals and strategies with risk management.

ⁱ Assumed gross operating profit of margin loan business: The average gross operating profit of margin loan business over the past three years.

Management Goals

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Strategies



Management Goals

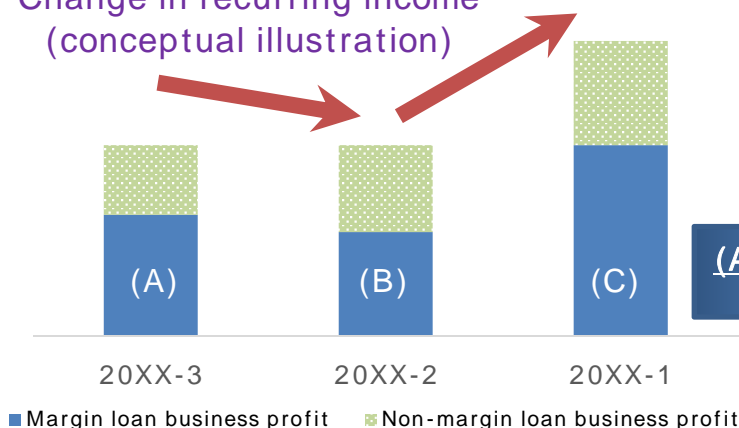
- ❑ Number of loanable stock issues : We will aim to increase our number of loanable stock issues steadily to strengthen our margin loan business base
- ❑ Basic profit : We will aim to diversify revenue sources and steadily increase our basic profit to stabilize our role as part of the securities market infrastructure

Definition of “basic profit”

Recurring income calculated based on the assumed gross operating profit of margin loan business (average over the past three years)

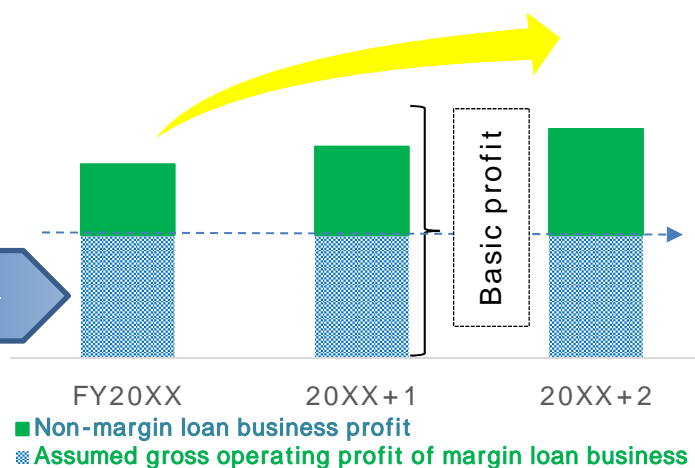
1. Characteristics of Our Recurring Income

Change in recurring income
(conceptual illustration)



- ❖ Margin loans, JSF's core business, are susceptible to market fluctuation (profit fluctuates significantly)
- ❖ It is difficult to understand change in our basic earnings

2. Calculation of Basic Profit



- ❖ We calculate the basic profit to visualize our profitability based on our average margin loan business profit.
- ❖ This makes change in basic earnings easier to understand