

Japan Securities Finance Co., Ltd.

1<sup>st</sup> Half FY2020

Financial Results Presentation

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# 1 . Executive Summary (Consolidated)

| (¥ mil)            | FY2020<br>1 <sup>st</sup> Half |       | YoY $\Delta$ | $\Delta$ %   | Highlight |
|--------------------|--------------------------------|-------|--------------|--|-----------|
|                    |                                |       |              |  |           |
| Operating Revenues | 15,291                         | + 897 | + 6.2%       | <ul style="list-style-type: none"> <li>✓ Margin Loan Business resulted decrease ( 7.4% ) due to a decrease of balance of Stock Loan</li> <li>✓ Revenue of subsidiary JSFTB decreased ( 30.9%)due to a decrease in gains on sales of bonds.</li> <li>✓ Securities Financing saw a significant increase in revenue driven by Bond Lending (+63.9% )</li> </ul> |           |
| Operating Income   | 2,758                          | + 390 | + 16.5%      | <ul style="list-style-type: none"> <li>✓ Operating expenses increased due to an increase in borrowing fees for securities, but general and administrative expenses decreased due to an increase in reversal of allowance for doubtful accounts.</li> </ul>   |           |
| Recurring Income   | 3,039                          | + 280 | + 10.2%      | <ul style="list-style-type: none"> <li>✓ Share of profit of entities accounted for using equity method decreased.</li> </ul>   |           |
| Net Income         | 2,186                          | + 115 | + 5.6%       |  |           |

# 1 . Summary Financial Results for 1<sup>st</sup> Half FY2020



| (¥ mil)                              | Consolidated                   |       |          | Parent |       |                |       |                |       |
|--------------------------------------|--------------------------------|-------|----------|--------|-------|----------------|-------|----------------|-------|
|                                      | FY2020<br>1 <sup>st</sup> Half | YoY.Δ | (%Δ)     | JSF    |       | JSF Trust Bank |       | Nihon Building |       |
|                                      |                                |       |          |        | YoY.Δ |                | YoY.Δ |                | YoY.Δ |
| <b>Operating Revenues</b>            | <b>15,291</b>                  | 897   | (+6.2%)  | 13,657 | 1,434 | 1,273          | ▲495  | 645            | 3     |
| <i>Except Premium Charges</i>        | 11,580                         | 1,359 | (+13.3%) | 9,946  | 1,896 |                |       |                |       |
| Operating Expenses                   | 8,777                          | 853   | (+10.8%) | 8,579  | 1,506 | 288            | ▲605  | 9              | ▲1    |
| <i>Except Premium Charges</i>        | 5,079                          | 1,328 | (+35.4%) | 4,881  | 1,981 |                |       |                |       |
| General & Administrative Expenses    | <b>3,755</b>                   | ▲346  | (△8.4%)  | 3,346  | ▲108  | 268            | ▲244  | 332            | ▲4    |
| <b>Operating Income</b>              | <b>2,758</b>                   | 390   | (+16.5%) | 1,730  | 36    | 716            | 354   | 303            | 9     |
| <b>Recurring Income</b>              | <b>3,039</b>                   | 280   | (+10.2%) | 3,243  | 1,174 | 717            | 354   | 365            | ▲1    |
| <i>Gain or Loss in Equity-Method</i> | 3                              | 144   | (-97.4%) |        |       |                |       |                |       |
| Extraordinary Profit or Loss         | —                              | —     | (—)      | —      | —     | —              | —     | —              | —     |
| <b>Net Income</b>                    | <b>2,186</b>                   | 115   | (+5.6%)  | 2,668  | 1,102 | 563            | 260   | 242            | ▲2    |

## 2 . Summary Financial Results for 1<sup>st</sup> Half FY2020 ( JSF parent )

| Japan Securities Finance (parent)<br>*excluding premium charge |                                |       |          |
|--|--------------------------------|-------|----------|
| (¥ mil)  | FY2020<br>1 <sup>st</sup> Half | YoY.Δ | (%Δ)     |
| <b>Operating Revenues*</b>                                     | <b>9,946</b>                   | 1,896 | (+23.6%) |
| Margin Loan Business*  | <b>2,106</b>                   | ▲1    | (Δ0.1%)  |
| Securities Financing   | <b>6,258</b>                   | 2,442 | (+54.0%) |
| Others   | <b>1,582</b>                   | ▲545  | (Δ25.6%) |
| Operating Expenses*  | <b>4,881</b>                   | 1,981 | (+68.3%) |
| General & Administrative Expenses                              | <b>3,346</b>                   | ▲108  | (Δ3.1%)  |
| <b>Operating Income</b>  | <b>1,730</b>                   | 36    | (+2.1%)  |
| <b>Recurring Income</b>  | <b>3,243</b>                   | 1,174 | (+56.8%) |
| Extraordinary Profit or Loss                                   | —                              | —     | (—)      |
| <b>Net Income</b>  | <b>2,668</b>                   | 1,102 | (+70.4%) |

### Key Points

#### ● Operating Revenues

- ◆ **Up ¥1,896 mil (+23.6%) YoY driven by Securities Financing.**
  - Margin Loan Business remained the same level YoY. Though Stock Loan balance decreased, Margin Loan Balance recovered to a level higher than in the same period of the previous fiscal year.
  - Securities Financing saw a significant increase in revenue driven by Bond Lending .
  - Others(Securities investment) dropped due to a decrease of gain on sales of JGBs, etc.

※For details of segments, see “Financial Highlights for 1Q, FY2020(P6-P8)”

#### ● Operating Expenses

- Up ¥1,981mil (+68.3%) YoY
- Fees on borrowing securities and interest on payables under repurchase agreements in Bond Lending

#### ● Recurring Income/Net Income

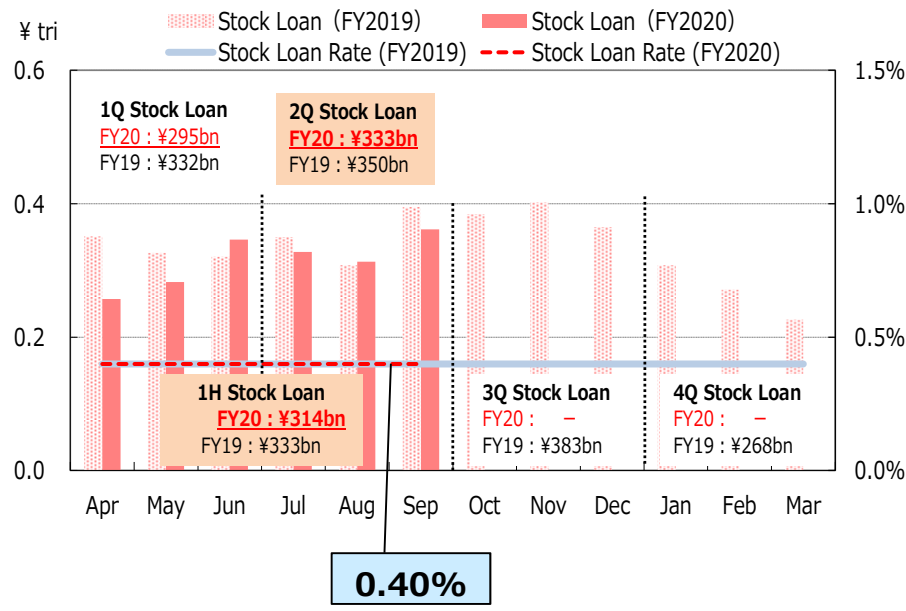
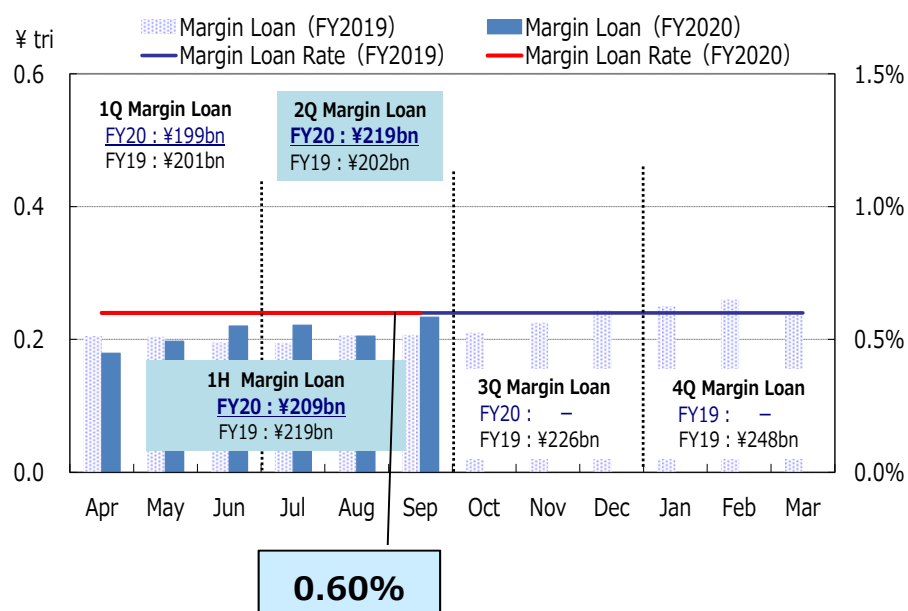
- Significant increase in profit due to increase in dividend income from two consolidated subsidiaries (elimination on consolidated basis).

# 3 . Financial Highlight ( Margin Loan Business )



- As the stock market had climbed back to its pre-coronavirus crisis level since June, Margin Loan balance recovered to a level higher than in the same period of the previous fiscal year.
- Stock Loan balance declined due to the impact of sluggish April-May.

| (¥ bn, %)        | FY2019 |             |             |      |      |           | FY2020 |             |             | YoY  |      |
|------------------|--------|-------------|-------------|------|------|-----------|--------|-------------|-------------|------|------|
|                  | 1Q     | 2Q          | 1H          | 3Q   | 4Q   | full year | 1Q     | 2Q          | 1H          | 2Q   | YTD  |
| Margin Loan      | 201    | <b>202</b>  | <b>202</b>  | 226  | 248  | 219       | 199    | <b>219</b>  | <b>209</b>  | 168  | 71   |
| Margin Loan Rate | 0.60   | <b>0.60</b> | <b>0.60</b> | 0.60 | 0.60 | -         | 0.60   | <b>0.60</b> | <b>0.60</b> | -    | -    |
| Stock Loan       | 332    | <b>350</b>  | <b>341</b>  | 383  | 268  | 333       | 295    | <b>333</b>  | <b>314</b>  | ▲166 | ▲269 |



## 5 . Financial Highlight ( Securities Financing )

- Strong Bond Lending drive “Securities Financing Business”
- General Stock Lending and Loans to Securities Companies also steady.

(¥ mil)

|                      | Type of transaction                     | FY2020<br>1 <sup>st</sup> Half |       |        |   |
|----------------------|---|--------------------------------|-------|--------|---|
|                      |   |                                | YoY△  | YoY%   |   |
| Securities Financing | Loans for Negotiable margin transaction | 33                             | ▲5    | △13.2% | ✓ The balance of loans outstanding decreased due to negotiable margin transactions decreased. |
|                      | Loan to Securities Companies*           | 422                            | 133   | +46.1% | ✓ Increased use of equity repo transactions denominated in foreign currencies contributed.    |
|                      | Loan to Individual Investors or Firms   | 229                            | ▲18   | △7.4%  | ✓ Outstanding of COM-STOCK Loan remained sluggish.  |
|                      | General Stock Lending                   | 498                            | 43    | +9.6%  | ✓ Borrowing demands for mainly use as collateral increased.                                   |
|                      | Bond Lending                            | 5,074                          | 2,289 | +82.2% | ✓ Both outstanding of Gensaki transactions and Repo transactions increased significantly.     |
|                      | Total Revenues                          | 6,258                          | 2,442 | +64.0% |   |

\* Equity Repo, General Loans, Stabilizing funding loan, etc.

## 4 . Financial Highlight ( Securities Investment of JSF parent )

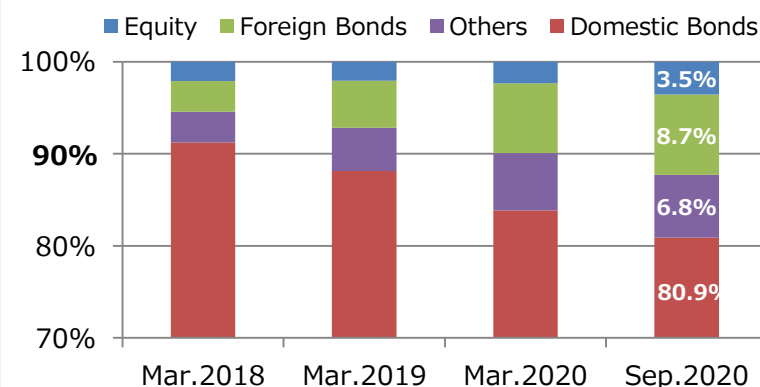
- Resulted in decrease due to decrease in gain on sales of JGBs and the impact of foreign exchange gains concerning foreign currency.

### Revenues from securities investment (JSF)

|                              | 1 <sup>st</sup> Half FY2020 | YoY        |
|------------------------------|-----------------------------|------------|
| <b>Yen-based</b>             | ¥ 1,363 mil                 | ▲¥ 293 mil |
| <b>Domestic Bonds</b>        | ¥ 532 mil                   | ▲¥ 223 mil |
| <b>Others*</b>               | ¥ 830 mil                   | ▲¥ 70 mil  |
| <b>In foreign currencies</b> | ¥ 201 mil                   | ▲¥ 256 mil |
| <b>Total</b>                 | ¥ 1,564 mil                 | ▲¥ 549 mil |

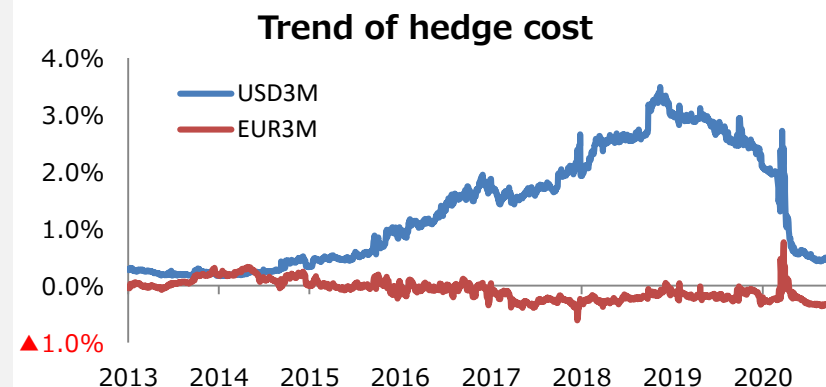
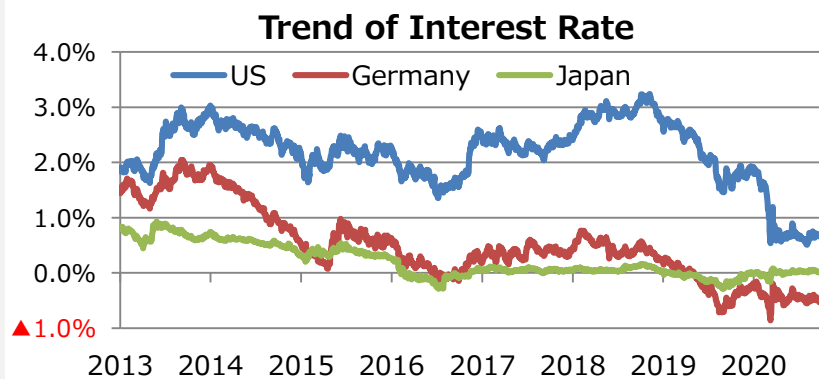
※ Investment Trust, etc.

### Transition of investment portfolio



ref. Trend of Interest Rate and Hedge Cost (JPY v.s. USD, EUR)

source) Bloomberg





## 5 . Summary Financial Results for 2Q, FY2020 ( JSF Trust Bank )

### Highlights

- Trust charges remained stable, contributing from strengthening custodian type trust service.
- Interest income resulted in a modest increase due to an increase in outstanding of loan balance and investment securities.
- Both gains on sales of bonds and costs of unwinding IRS dropped.
- Increases were posted in Recurring Income and Net Income

| JSF Trust Bank            |                    |      |           |
|---------------------------|--------------------|------|-----------|
| (¥ mil)                   | FY2020<br>1st Half | YoY  |           |
|                           |                    |      | (%)       |
| <b>Recurring Revenue</b>  | <b>¥ 1,497</b>     | ▲271 | (△15.3%)  |
| Trust charges             | 517                | 103  | (+25.1%)  |
| Gains on sales of bonds   | 1                  | ▲644 | (△99.7%)  |
| <b>Recurring Expenses</b> | <b>780</b>         | ▲626 | (△44.5%)  |
| Losses from derivatives   | —                  | ▲558 | (△100.0%) |
| <b>Recurring Income</b>   | <b>717</b>         | 354  | (+97.7%)  |
| <b>Net Income</b>         | <b>563</b>         | 260  | (+85.8%)  |

### 【Point of Trust Charge】

Trust charges increased contributing from strengthening custodian type trust service (trusts for the separate management of money and securities, ABL trust, etc).



# 6 . Balance Sheet Summary ( end of Sep-2020, consolidated )



¥mil

|  | Sep-20           | Change from Mar-20 |   |
|--|------------------|--------------------|---|
| <b>Total assets</b>                          | <b>9,246,627</b> | <b>▲ 567,867</b>   |   |
| Cash & Deposit                               | 794,958          | ▲ 504,977          | Deposit at BOJ  |
| Short-term investments                       | 36,992           | ▲ 31,299           | JGB and other bonds (Maturity: 1year or less)   |
| Short-term loans receivable                  | 1,011,730        | 324,050            | Margin loan / Loans for negotiable margin transactions / General loans / Trust bank loans |
| Receivables under resale agreements          | 2,517,436        | ▲ 229,960          |   |
| Collateral money of securities borrowed      | 3,789,628        | ▲ 88,198           | Collateral money of bond borrowing<br>Collateral money of stock borrowing                 |
| Investments in securities                    | 846,328          | 56,146             | JGB and other bonds (Maturity: more than 1year), Stock                                    |
| <b>Total liabilities</b>                     | <b>9,117,448</b> | <b>▲ 570,358</b>   |   |
| Call money                                   | 850,900          | ▲ 325,895          |   |
| Short-term borrowings                        | 96,108           | ▲ 5,365            | Bank borrowing<br>Market operation by BOJ   |
| Commercial Paper                             | 383,000          | 17,000             |   |
| Payables under repurchase agreements         | 3,332,074        | ▲ 591,340          |   |
| Collateral money received of securities lent | 3,299,773        | 195,744            | Collateral money of bond lending<br>Collateral money of stock lending                     |
| Borrowed money from trust account            | 982,941          | 113,453            |   |
| <b>Total net assets</b>                      | <b>129,178</b>   | <b>2,490</b>       |   |

## Features of Assets

Comprise Margin loans (short-term loans receivable) and deposits in current account balance at BOJ (cash and deposits) that are changing by the day, collateral deposited for the procurement of securities (Collateral money of securities borrowed), and securities held for the purpose of efficient use of funds.

Cash and cash equivalents may change significantly depending on the status of standby funds in the trust account of JSF Trust and Banking Co., Ltd. and the status of cash management of the Group as a whole.

## Features of Liabilities

In addition to market funding, such as call money and commercial paper, which can be adjusted daily to accommodate assets changing by the day, collateral deposits received when lending securities (collateral money received of securities lent).

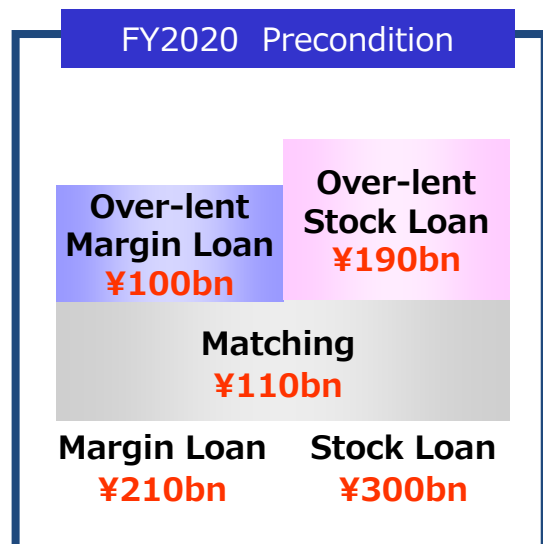
[ref] Capital Adequacy Ratio\*

at the end of Sep 2020 : 343%

\* based on FIEA

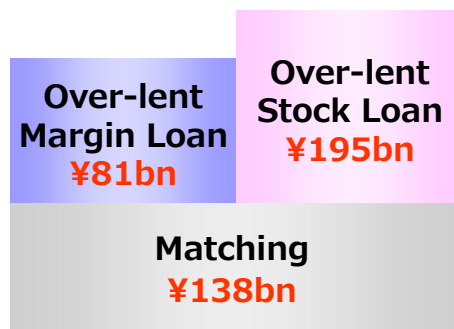
# 9 . Estimated Figures for FY2020

## Precondition Balance of Margin Loans



(Reference)

FY2019 Results



Margin Loan    Stock Loan  
¥219bn        ¥333bn

| (¥ mil)                     |                  | FY2020<br>Estimated<br>Figures | YoY.Δ | Δ from<br>prev. EF |
|-----------------------------|------------------|--------------------------------|-------|--------------------|
|                             |                  |                                |       |                    |
| Operating Income            |                  | 4,300                          | 170   | 1,200              |
| Recurring Income            |                  | 5,000                          | 105   | 1,200              |
| Net Income                  |                  | 3,500                          | ▲56   | 800                |
| JSF                         | Operating Income | 2,700                          | ▲211  | 900                |
|                             | Recurring Income | 4,300                          | 867   | 900                |
|                             | Net Income       | 3,300                          | 809   | 600                |
| JSF<br>Trust and<br>Banking | Recurring Income | 1,000                          | 379   | 260                |
|                             | Net Income       | 690                            | 193   | 180                |
| Nihon<br>Building           | Operating Income | 570                            | ▲29   | 5                  |
|                             | Recurring Income | 685                            | ▲43   | 5                  |
|                             | Net Income       | 450                            | ▲8    | 5                  |

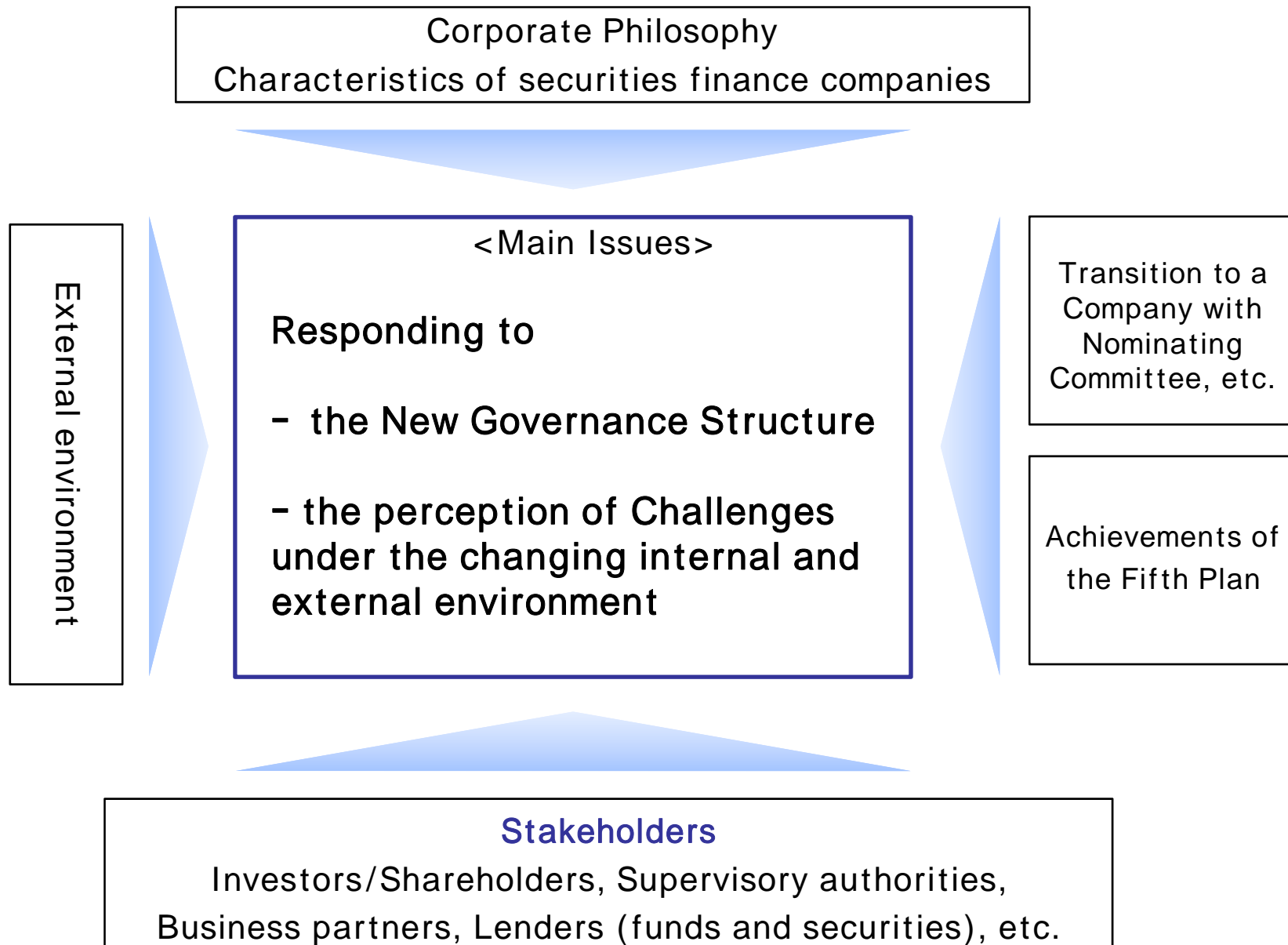
Preconditions of Loans for Margin Transactions

● Loan Rate : 0.60%, ● Interest on Collateral Money : 0%, ● Lending Fee : 0.40%

# The 6<sup>th</sup> Mid-term Management Plan (FY2020-FY2022)

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# ● Major Issues in Formulating the Plan



- Analysis of the internal and external environment and review of the 5<sup>th</sup> mid-term management plan

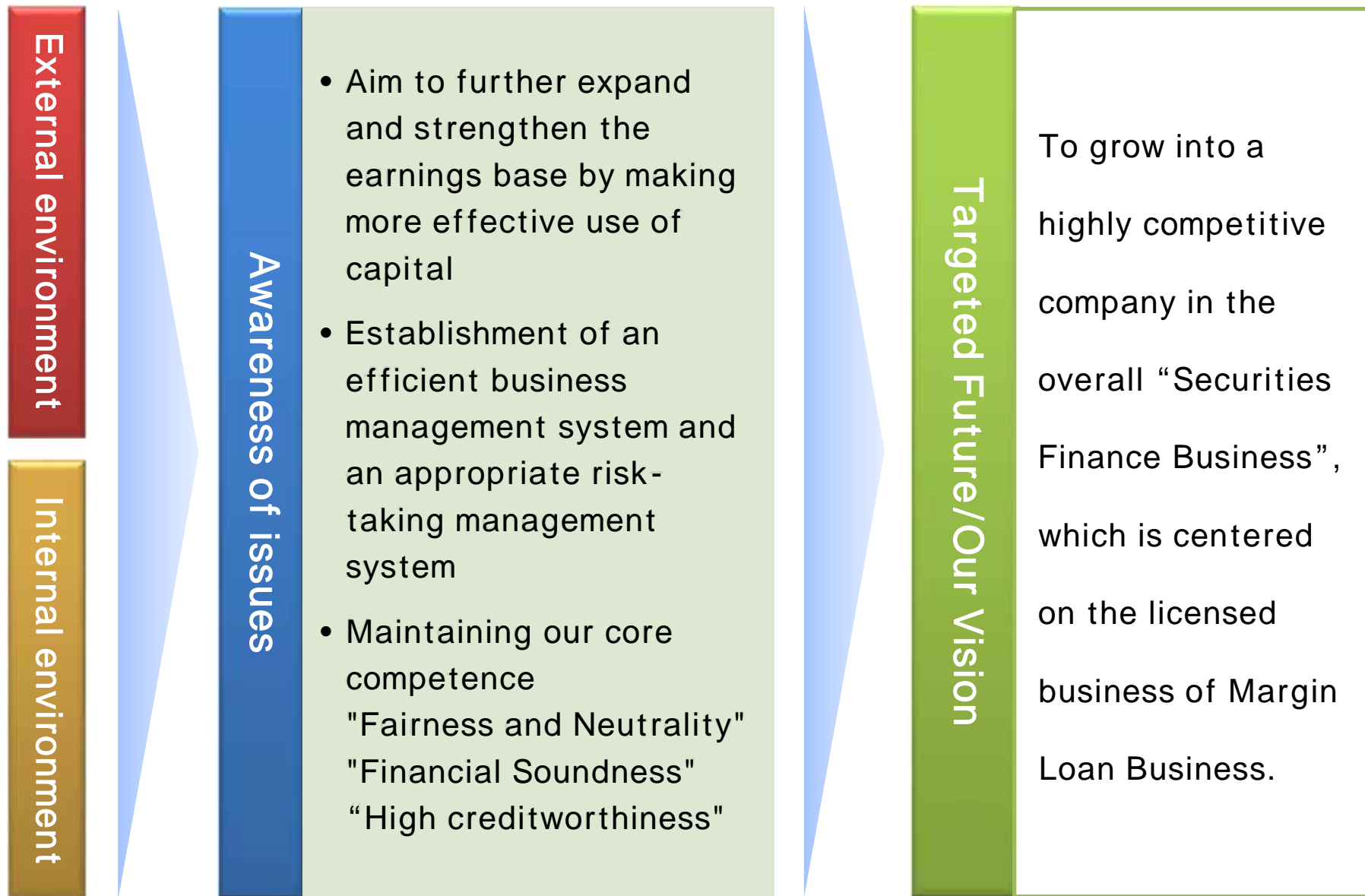
External environment

- Trends in Strengthening Corporate Governance
  - Increasing Awareness of Capital Efficiency
  - Continued ultra-low interest rate environment
  - On the other hand, attention should be paid to the possibility of a global financial stress event.
  - Risk of intensifying competition in the securities lending market under current financial environment of difficulty in fund management
- (Changes occurring after formulation)
- Economic Activity and Social Impact of the COVID-19 pandemic

Internal environment

- (Review of the 5<sup>th</sup> mid-term management plan)
- Revenues from Margin Loan Business fluctuate
  - Develop the ability to cover earnings other than Margin Loan Business and fund management
    - Increasing complexity and volume of business
      - ✓ Handling of foreign securities, foreign currencies, and direct transactions with overseas bases
      - ✓ New transaction methods (e.g., evergreen provisions)
    - Sophistication of fund management (expansion of investment target assets and hedging methods)

Awareness of issues



# ● Corporate Philosophy / Management Principles

## 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.

## Management Principles

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.

Basic Concept as the Securities Finance Company

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.

Solid equity capital  
Financial health

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.

Future business development

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.

Business management structure

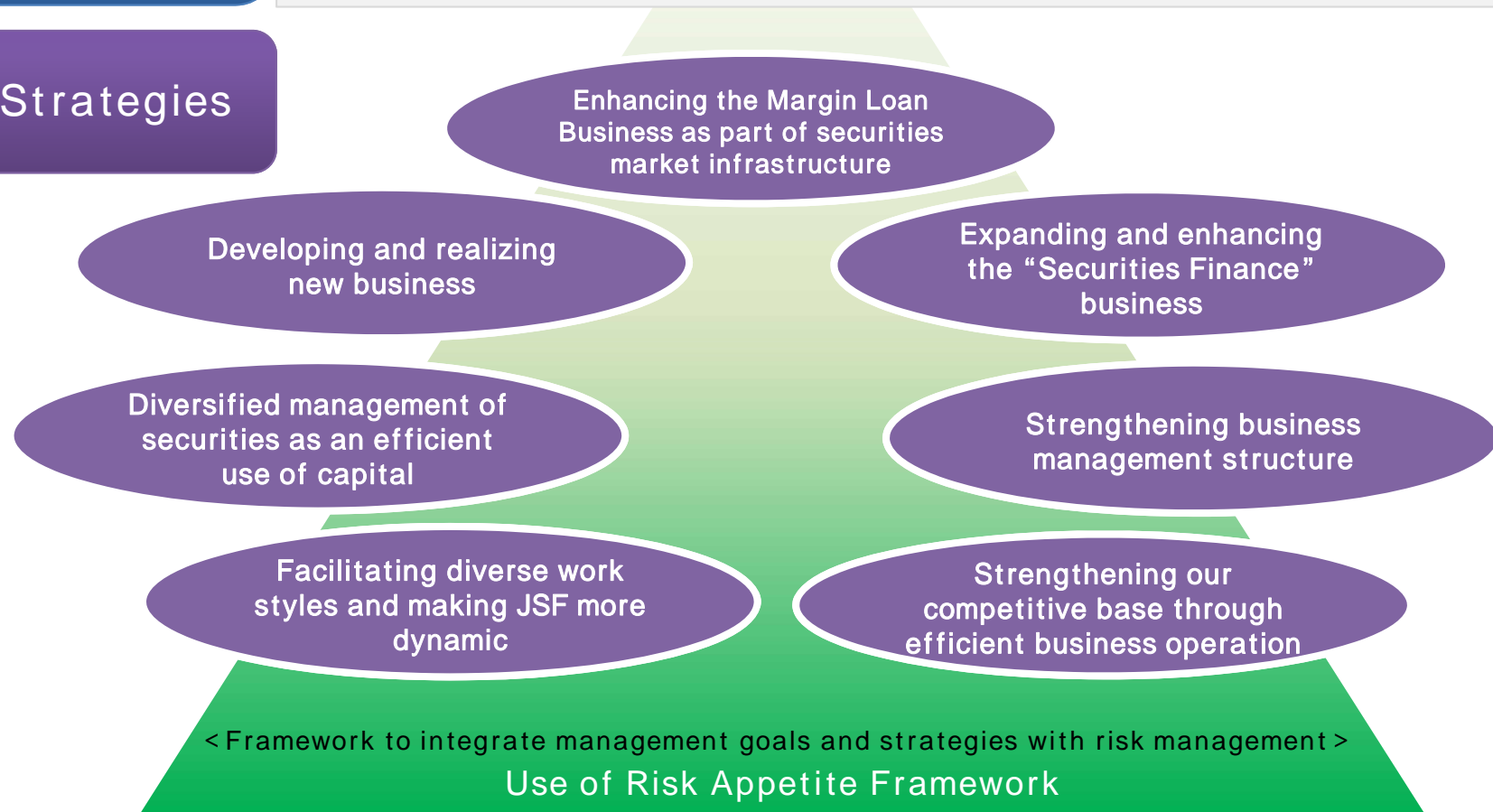


# ● Management Goals / Strategies

## 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)**

## Strategies



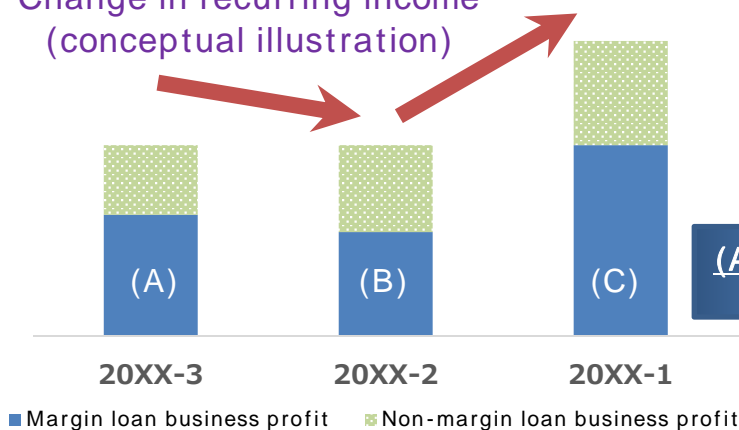
# Management Goals

- ❑ 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  
*Actual results on the base of fiscal years will be disclosed (at the announcement of the financial results)*

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

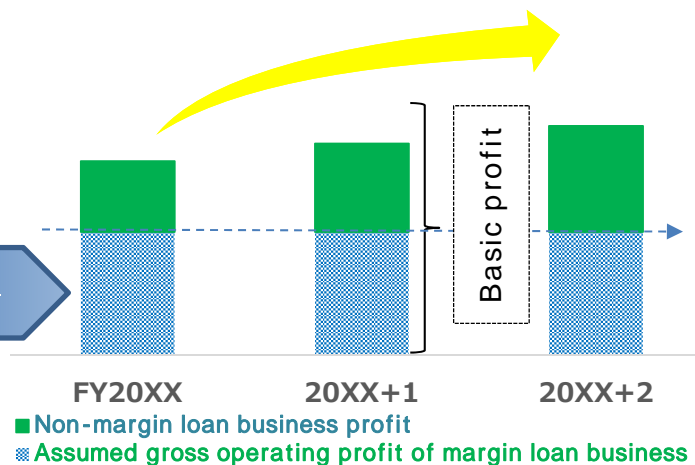
## 1. Characteristics of Our Recurring Income

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

# ● Strategies

|  |  |
|--|--|
| <p>Enhancing the Margin Loan Business as part of securities market infrastructure.</p> | <p>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.</p>   |
| <p>Expanding and enhancing the “Securities Finance” business</p>                       | <p>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.</p>  |
| <p>Developing and realizing new business</p>   | <p>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.</p>  |
| <p>Diversified management of securities as an efficient use of capital</p>             | <p>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.</p>   |
| <p>Strengthening business management structure</p>                                     | <p>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.</p> |
| <p>Strengthening our competitive base through efficient business operation</p>         | <p>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.</p>   |
| <p>Facilitating diverse work styles and making JSF more dynamic</p>                    | <p>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.</p>   |

# Return to Shareholders

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## 1 Basic Policy

- ◆ Retain solid equity capital to secure the financial health and management stability that society demands of the company as the infrastructure of securities market, and **to ensure profits are returned to shareholders** by comprehensively considering revenues environment or investment plans. etc. (medium-term management plan, management policy)
- ◆ Based upon this policy, **we will strive to place more importance on shareholder return.**

## 2 Shareholder Return Policy (released on 30 Apr 2020)

### (1) Dividend Payment Policy

- ◆ Our policy is that **the consolidated payout ratio**, as a standard that reflects our business performance, **shall not fall below the 60% level** and that we shall strive to provide **stable dividends that are not temporarily affected by earnings fluctuations.**

### (2) Share Buyback Policy

- ◆ With a view to offering even more rewarding returns to shareholders, we will buy back shares **as appropriate** while **comprehensively considering the company's financial situation, equity capital levels, and stock price levels.**

Interim and Year-end dividend (forecast) FY2020

|                                    | FY2020         | (Reference)<br>FY2019 |
|------------------------------------|----------------|-----------------------|
| Annual dividend                    | ¥22 (±¥0 YoY)  | ¥ 22                  |
| Interim dividend                   | ¥11 (± ¥0 YoY) | ¥ 11                  |
| Year-end dividend                  | ¥11 (± ¥0 YoY) | ¥ 11                  |
| Consolidated dividend payout ratio | 57.7%          | 57.2%                 |

1. Disposal of treasury stock

- Contributed to the continuation of share remuneration plan for executives  
Number of shares: 572,809 shares  
Allocation date: November 27, 2020 (planned)

2. Retirement of treasury stock

- Number of shares: 4 mil shares
  - Percentage of outstanding shares: 4.0%
  - Number of shares outstanding after cancellation: 96 mil shares
- Implementation date: December 10, 2020

# ● Dividend and Share Buyback Program (historical)

|                                | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020<br>Forecast/<br>Framework           |
|--------------------------------|---------|---------|---------|---------|---------|---------|---|
| Annual Dividend per share      | ¥15     | ¥16     | ¥18     | ¥26     | ¥22     | ¥22     | <b>¥22</b><br>(Interim ¥11<br>Year-end ¥11) |
| Share Buyback (shs)            | 7.46mil | 3mil    | 0.63mil | 1.5mil  | 2.0mil  | 1.0mil  | —   |
| (amount)                       | ¥4.6bn  | ¥1.9bn  | ¥0.3bn  | ¥0.9bn  | ¥1.2bn  | ¥0.5bn  | —   |
| <Consolidated> : Net income    | ¥3.5bn  | ¥2.6bn  | ¥3.0bn  | ¥4.2bn  | ¥3.7bn  | ¥3.5bn  | <b>¥3.5bn*</b>                              |
| : EPS                          | ¥33.9   | ¥26.9   | ¥31.9   | ¥44.2   | ¥40.0   | ¥38.4   | <b>¥38.1*</b>                               |
| : DPR                          | 44.2%   | 59.5%   | 56.4%   | 58.8%   | 55.0%   | 57.2%   | <b>57.7%*</b>                               |
| (reference) Total Return Ratio | 173.9%  | 133.1%  | 66.3%   | 79.3%   | 87.8%   | 71.0%   | <b>57.7%*</b>                               |

\* Net income is a estimated figure released on 11th-Nov.  
EPS/DPR are calculated base on the estimated figure.

# Appendix

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- The Trend of Financial Result (consolidated)
- Breakdown of Operating Revenues by business (Historical data)
- Breakdown of Operating Revenues by business
- Analysis of YoY Change in Operating Revenue by business (Quarterly)
- Outstanding Balance of Transactions by Group Business
- Margin Transactions & Loans for Margin transactions
- Structure of Margin Transaction & Loans for Margin Transactions
- Revenue structure of Loans for margin transactions
- Margin Loan Rates
- Features of Balance Sheet (Consolidated)
- Securities Holdings
- JSF Trust Bank (Loan Balance)
- The 6<sup>th</sup> mid-term Management Plan (FY2020~FY2022) I
- The 6<sup>th</sup> mid-term Management Plan (FY2020~FY2022) II
- Our Group Companies
- Rating Information
- Our Corporate Philosophy and History to Date
- Characteristics of Securities Finance Company
- Our Business Field (image chart)



# ● The Trend of Financial Result (consolidated)



¥ mil

|                                   | FY2015        | FY2016        | FY2017        | FY2018        | FY2019<br>1H  | FY2019        | FY2020<br>1H  |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating Revenues                | <b>22,035</b> | <b>23,066</b> | <b>26,333</b> | <b>24,321</b> | <b>14,393</b> | <b>29,101</b> | <b>15,291</b> |
| Ex Premium charges                | 16,160        | 16,522        | 18,383        | 18,603        | 10,221        | 20,846        | 11,580        |
| Operating Expenses                | 11,537        | 11,892        | 13,330        | 12,284        | 7,923         | 16,835        | 8,777         |
| Ex Premium charges                | 5,672         | 5,358         | 5,385         | 6,566         | 3,750         | 8,585         | 5,079         |
| General & Administrative Expenses | 7,939         | 8,371         | 9,121         | 8,056         | 4,102         | 8,136         | 3,755         |
| Operating Income                  | <b>2,558</b>  | <b>2,802</b>  | <b>3,881</b>  | <b>3,981</b>  | <b>2,368</b>  | <b>4,129</b>  | <b>2,758</b>  |
| Gain or Loss in Equity-Method     | 54            | 92            | 123           | 248           | 148           | 306           | 3             |
| Recurring Income                  | <b>3,349</b>  | <b>3,611</b>  | <b>4,685</b>  | <b>5,046</b>  | <b>2,758</b>  | <b>4,894</b>  | <b>3,039</b>  |
| Extraordinary Profit or Loss      | —             | ▲52           | 131           | ▲41           | —             | ▲36           | —             |
| Net Income                        | <b>2,645</b>  | <b>3,078</b>  | <b>4,225</b>  | <b>3,765</b>  | <b>2,070</b>  | <b>3,556</b>  | <b>2,186</b>  |


- Breakdown of Operating Revenues by business

(Historical data)

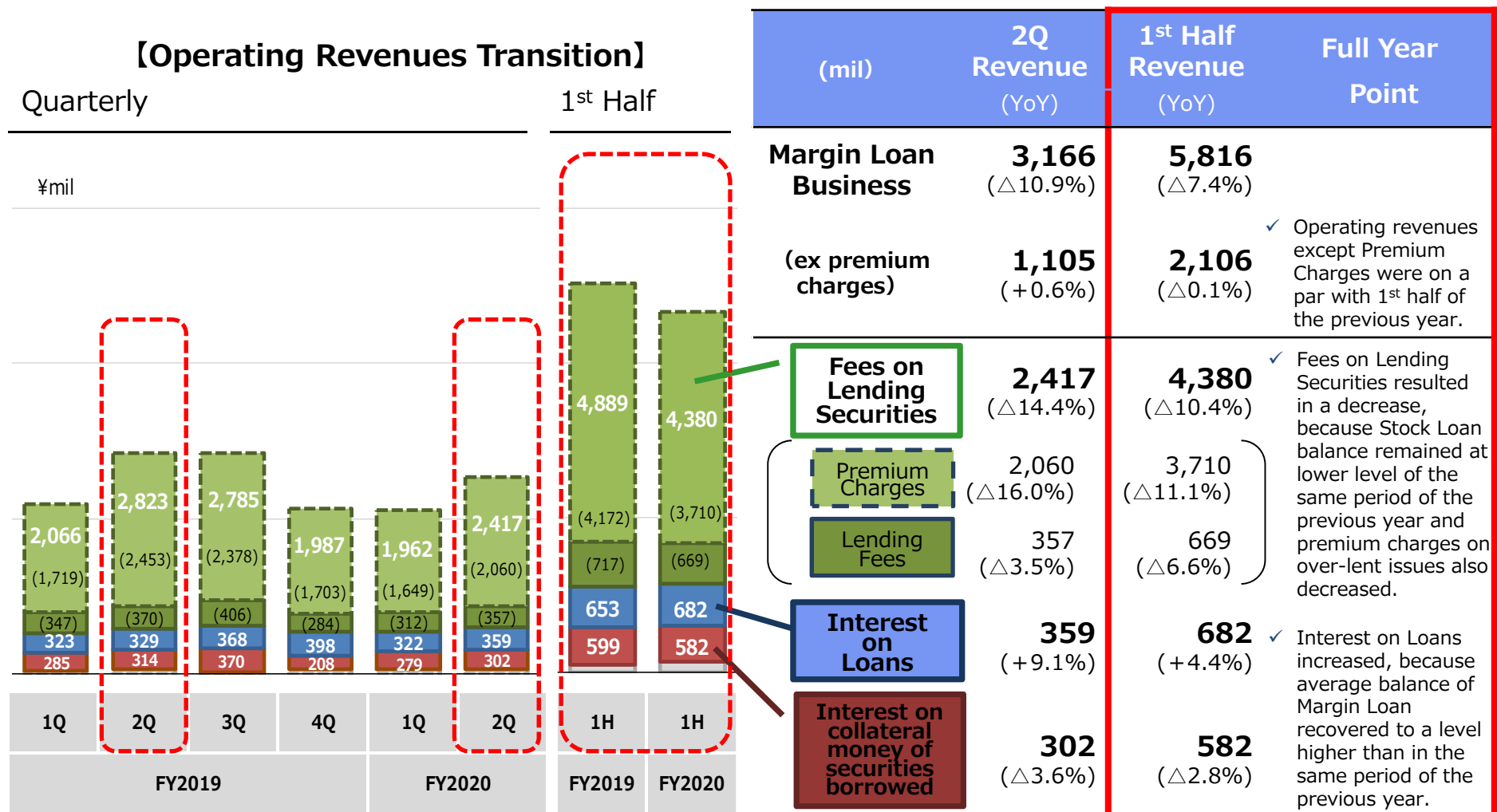



¥ mil

|   | 1H FY2019     | FY2019        | 1H FY2020     |
|---|---------------|---------------|---------------|
| <b>Securities Finance Business</b>                  | <b>12,219</b> | <b>25,369</b> | <b>13,645</b> |
| <b>Margin Loan Business</b>                         | <b>6,280</b>  | <b>12,517</b> | <b>5,816</b>  |
|   | (43.6%)       | (43.0%)       | (38.0%)       |
| Interest on Loans                                   | 653           | 1,420         | 682           |
| Interest on collateral money of securities borrowed | 599           | 1,178         | 582           |
| Fees on Lending Securities                          | 4,889         | 9,662         | 4,380         |
| Premium Charges                                     | 4,172         | 8,255         | 3,710         |
| Lending Fees  | 717           | 1,407         | 669           |
| <b>Securities Financing</b>                         | <b>3,811</b>  | <b>8,835</b>  | <b>6,246</b>  |
|   | (26.5%)       | (30.4%)       | (40.9%)       |
| Loans for Negotiable Margin Transactions            | 38            | 80            | 33            |
| Loans to Securities Companies                       | 289           | 737           | 422           |
| Loans to Individual Investors or Firms              | 248           | 494           | 229           |
| Stock Lending                                       | 454           | 1,015         | 498           |
| Bond Lending  | 2,780         | 6,507         | 5,062         |
| <b>Others</b>                                       | <b>2,127</b>  | <b>4,016</b>  | <b>1,582</b>  |
|   | (14.8%)       | (13.8%)       | (10.3%)       |
| Bond Investment (Parent only)                       | 2,114         | 3,983         | 1,564         |
| <b>Trust Business</b>                               | <b>1,724</b>  | <b>2,832</b>  | <b>1,192</b>  |
|   | (12.0%)       | (9.8%)        | (7.8%)        |
| Interest on Loans                                   | 21            | 50            | 36            |
| Trust Charges                                       | 383           | 784           | 483           |
| Bond Investment                                     | 1,292         | 1,950         | 648           |
| <b>Real Estate Management Business</b>              | <b>450</b>    | <b>899</b>    | <b>453</b>    |
|   | (3.1%)        | (3.0%)        | (3.0%)        |
| <b>Operating Revenues</b>                           | <b>14,393</b> | <b>29,101</b> | <b>15,291</b> |
| <b>(excluded Premium Charges)</b>                   | <b>10,221</b> | <b>20,846</b> | <b>11,580</b> |

● Breakdown of Operating Revenues by business  
(Margin Loan Business) 

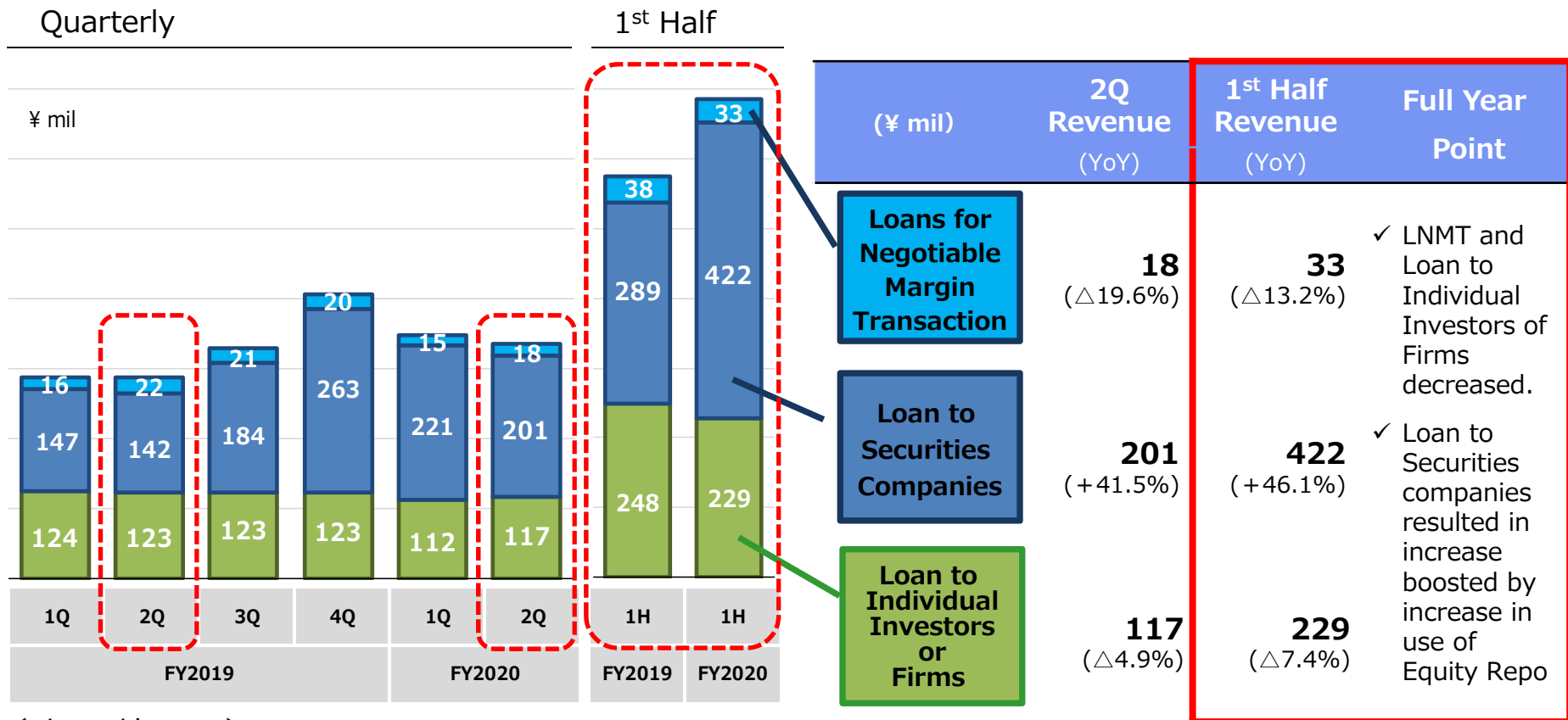
□ (Ex. Premium Charges) Remained relatively at the same level YoY due to the recovery in the balance of Margin loan.



● Breakdown of Operating Revenues by business  
(Securities Financing ) 


- Loan to Securities Companies resulted in increase.
- Increased use of equity repo transactions denominated in foreign currencies contributed.

**【Operating Revenues Transition】**



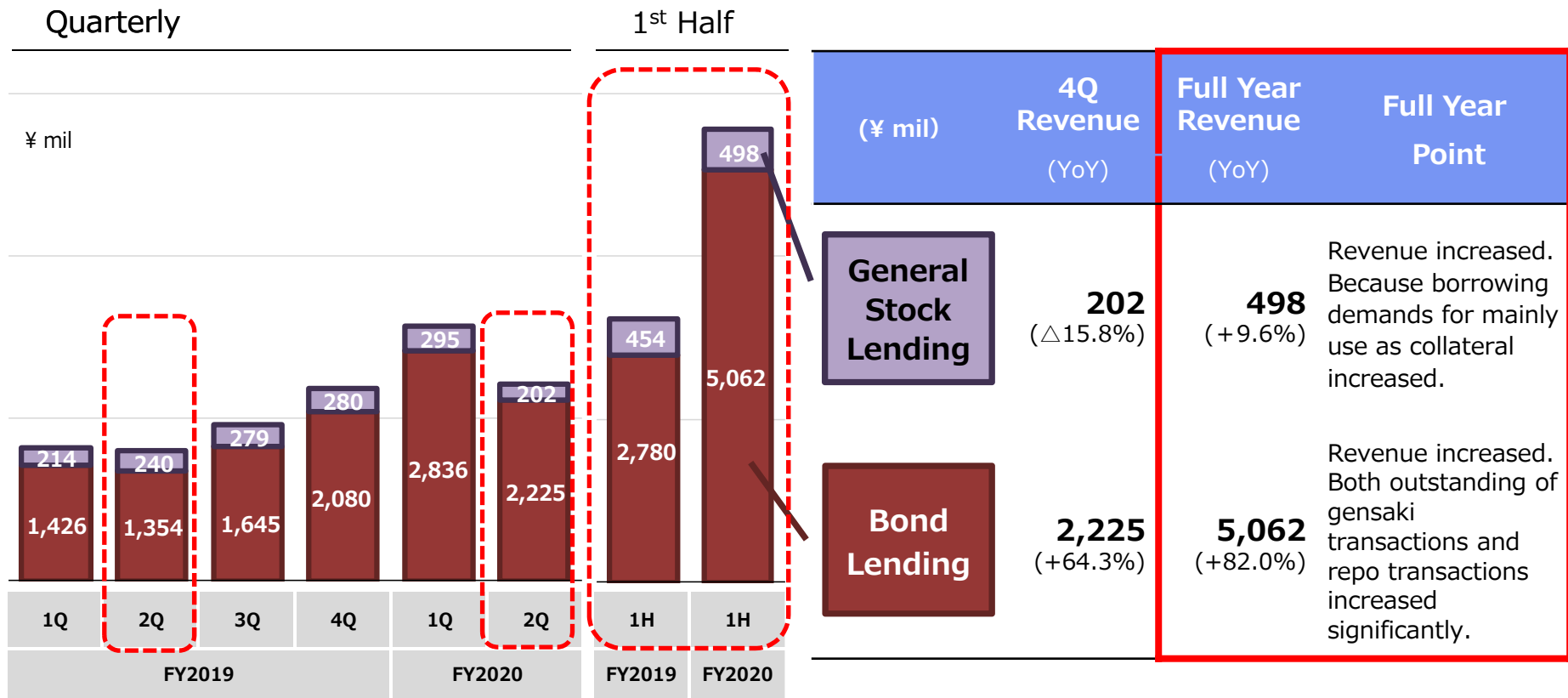
< Loan Lineup >

- ◆ Loan to Securities Companies ... General Loans, Bond Financing, Loans for Negotiable margin Transaction, Stabilizing fund loan, Equity Repo(Cash-secured Stock Lending Transaction)
- ◆ Loan to Individual Investors or Firms ... Com-STOCK Loan

● Breakdown of Operating Revenues by business  
(Securities Financing ) 

- Bond Lending : Both outstanding of Gensaki transactions and repo transactions increased significantly.
- General Stock Lending : Borrowing demands for mainly use as collateral increased.

**【Operating Revenues Transition】**



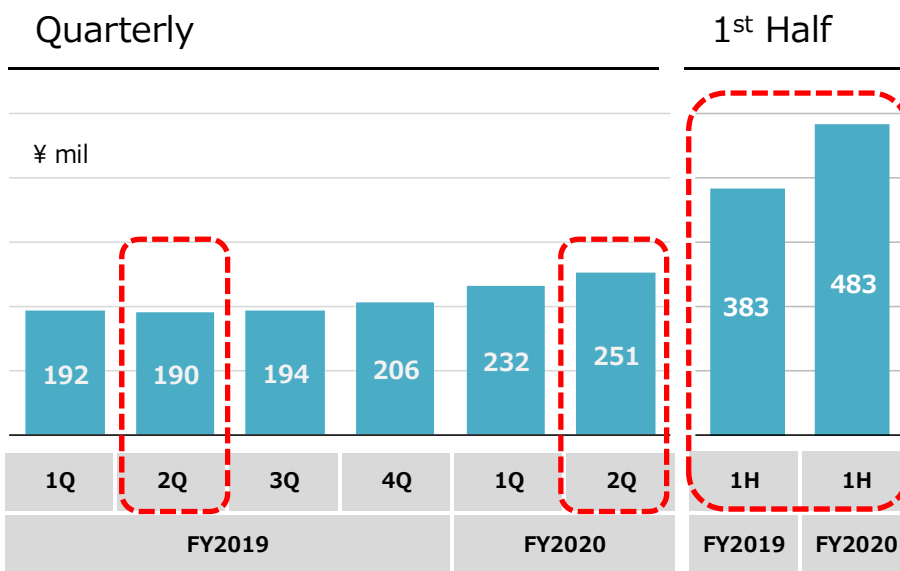
※ Genera Stock Lending is ...

- Lending stock to securities companies depending on their various demands (ex. Fail-cover, arbitrage), except on demand to settle Margin Transaction
- Main business partner – 【Lenders】 Institutional investors, etc    【Borrowers】 Securities Companies

● Breakdown of Operating Revenues by business

**Trust charges continued growth trend.**

**【Trust charges Transition】**



| (¥ mil)              | 2Q Revenue (YoY)       | 1st Half Revenue (YoY) | Full Year Point  |
|----------------------|------------------------|------------------------|--|
| <b>Trust Charges</b> | <b>251</b><br>(+31.4%) | <b>483</b><br>(+26.1%) | Trust charges continued increasing, contributing from strengthening custodian type trust service (trusts for the separate management of money and securities, ABL trust, etc). |

**【Trust Lineup】**

Trusts for the separate management of money and securities

Trust for protecting deposits which securities companies received from customers

Trusts for currency future trading

Trust for protecting guarantee deposits which FX business operators received from customers

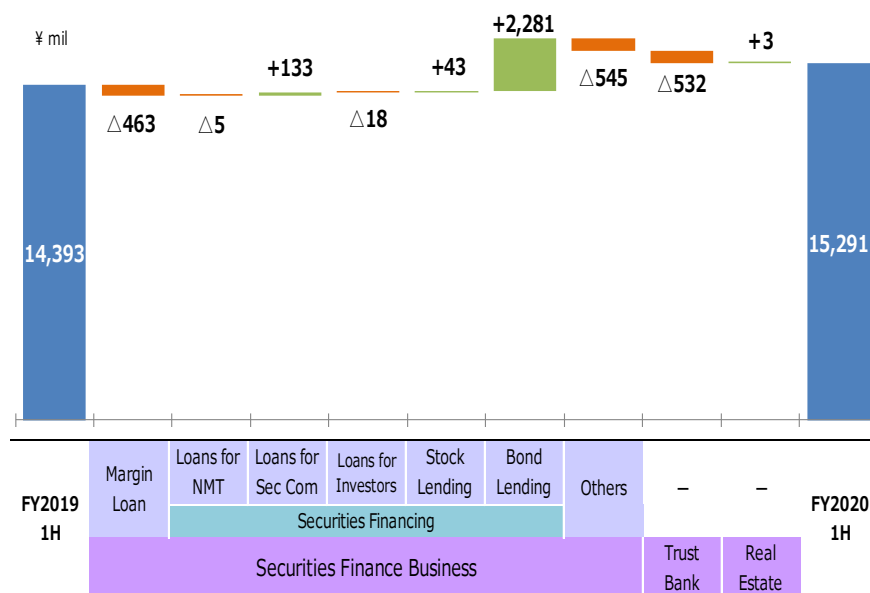
Asset Backed Loan (ABL) Trust

For setting up ABL, which is investment product for institutional investors, JSFTB provides functions as SPC.

● Analysis of YoY Change in Operating Revenue by Business  
(1<sup>st</sup> Half)



**[1<sup>st</sup> Half] YoY + ¥ 897 mil (+6.2%)**



~ Summary of the points for 1<sup>st</sup> Half ~

**【Margin Loan Business】**

- Resulted in decrease due to a decrease of outstanding of Margin Loan and Stock Loan.

**【Securities Financing】**


- **Loans to Securities Companies** : increased use of equity repo transactions denominated in foreign currencies contributed
- **Loan to Individual Investors or Firms** : resulted in decrease due to lower loan balance.
- **General Stock Lending** : Borrowing demands for mainly use as collateral increased.
- **Bond Lending** : Both outstanding of Gensaki transactions and Repo transactions increased significantly.

**【Others】**

- Resulted in decrease due to decrease in gain on sales of JGBs and the impact of foreign exchange gains concerning foreign currency.

**【Trust Business】**

- Despite Trust Charge remained steady, gains on sales of bonds largely decreased.

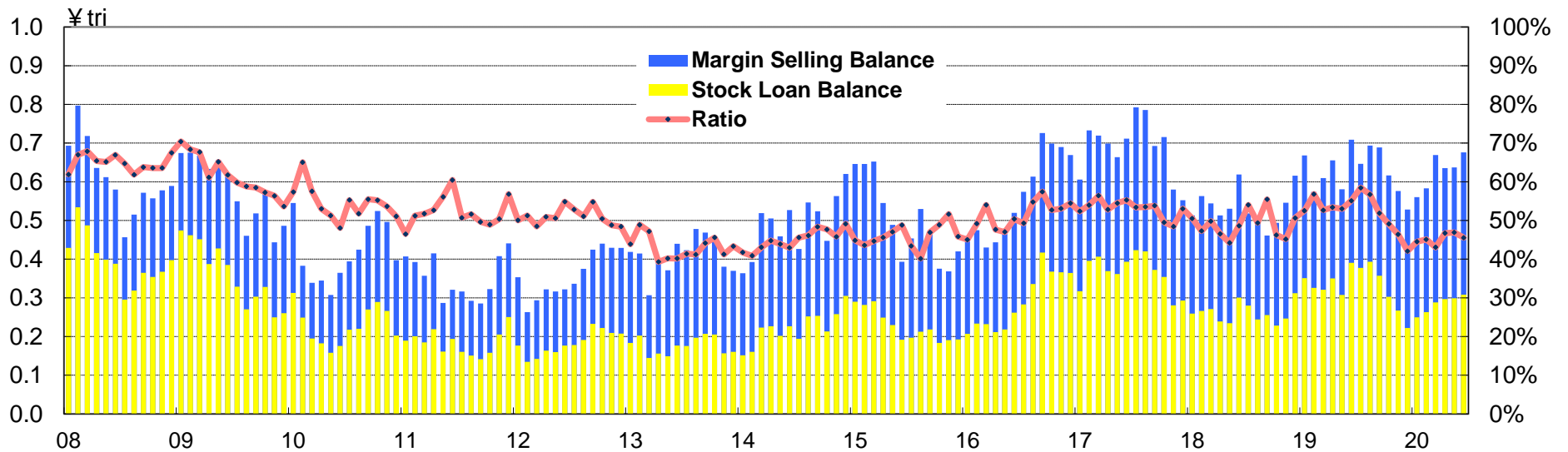
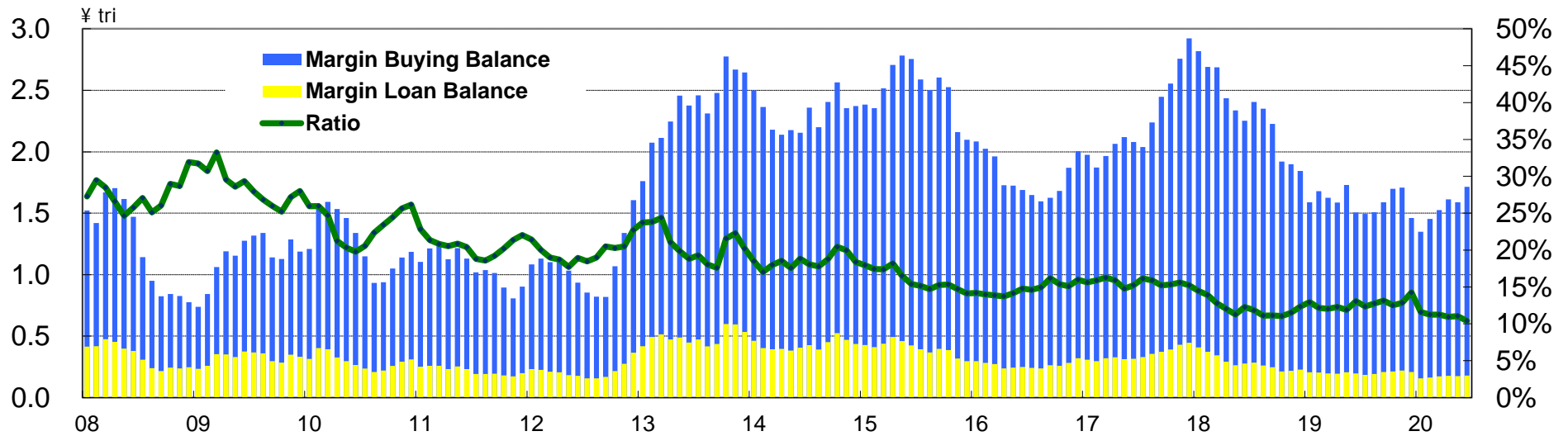
● Outstanding Balance of Transactions by Group Business  
(Average balance) 

¥ mil

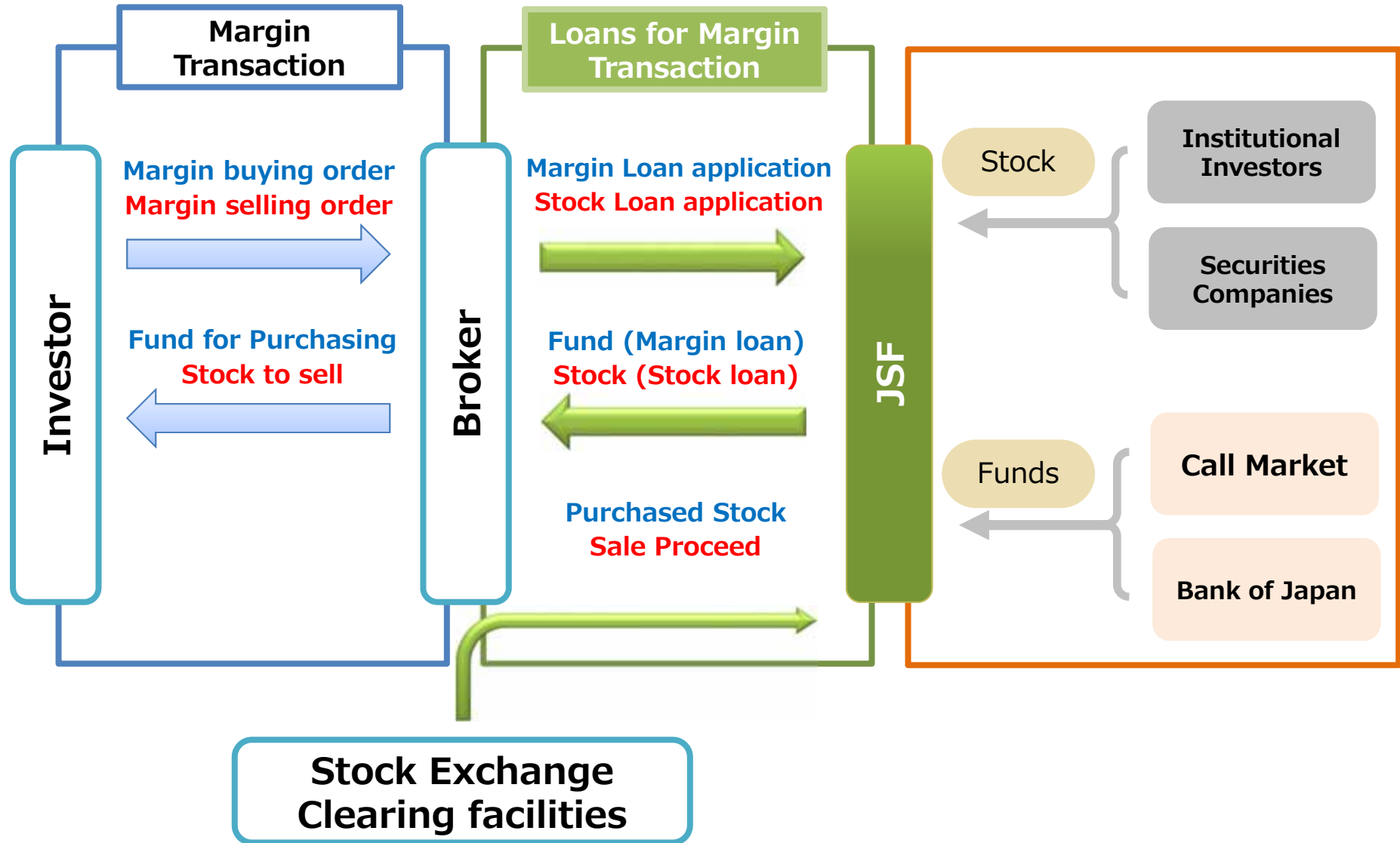
| Transaction type                        | FY2019<br>1H | FY2019    | FY2020<br>1H |
|---|--------------|-----------|--------------|
| Margin Loans                            | 202,338      | 219,979   | 209,464      |
| Stock Loans                             | 341,623      | 333,949   | 314,716      |
| Securities Financing                    | 3,842,936    | 4,609,077 | 6,658,359    |
| Loans for Negotiable Margin Transaction | 9,935        | 10,434    | 7,836        |
| Loan to Securities Companies            | 314,673      | 309,033   | 298,955      |
| Loan to Individual Investors or Firms   | 13,976       | 13,934    | 12,810       |
| General Stock Lending                   | 65,230       | 60,859    | 65,365       |
| Bond Lending                            | 3,439,120    | 4,214,817 | 6,273,391    |
| Trust Bank Loans                        | 496,933      | 473,808   | 543,506      |



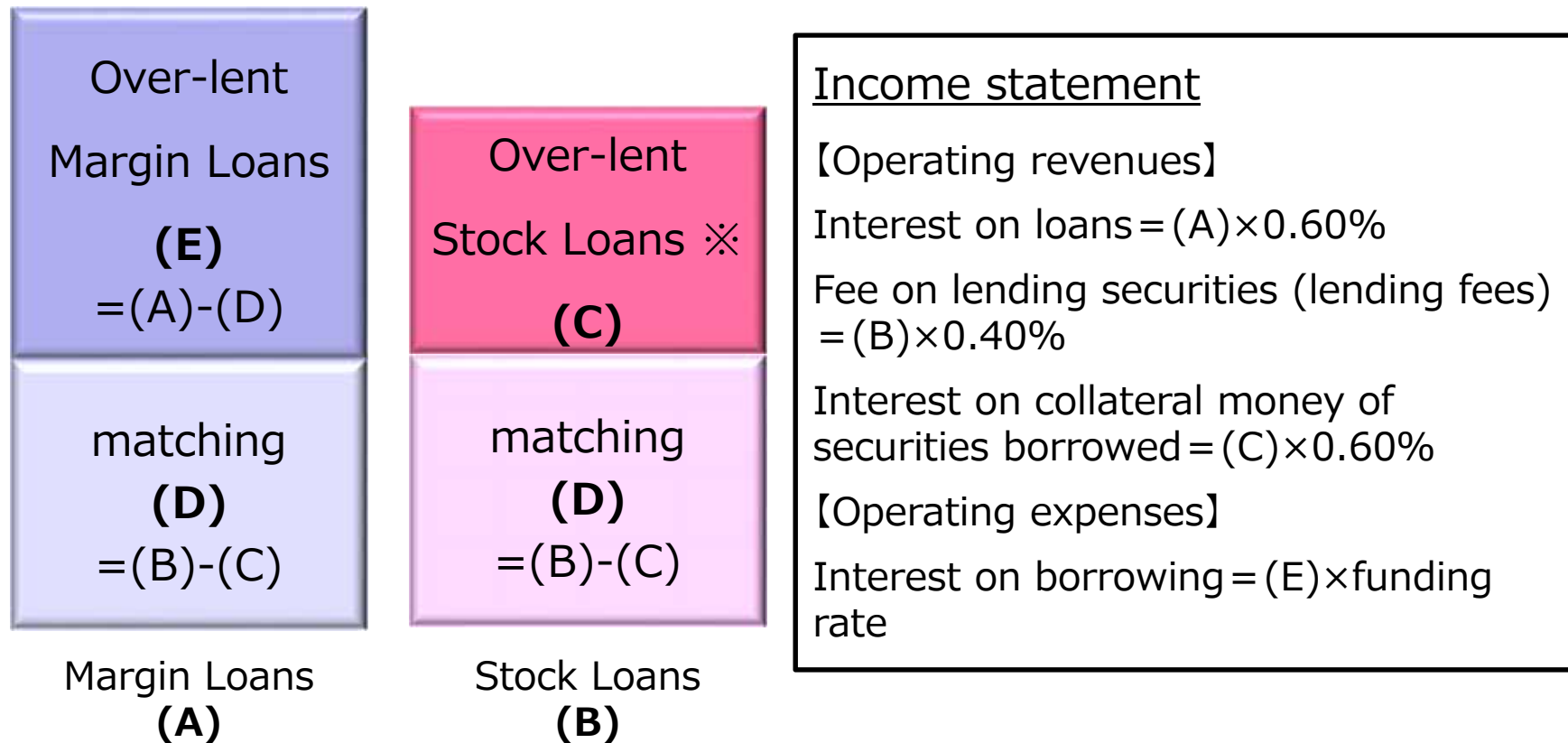
# ● Margin Transactions & Loans for Margin Transactions



● Structure of Margin Transaction  
& Loans for Margin Transaction



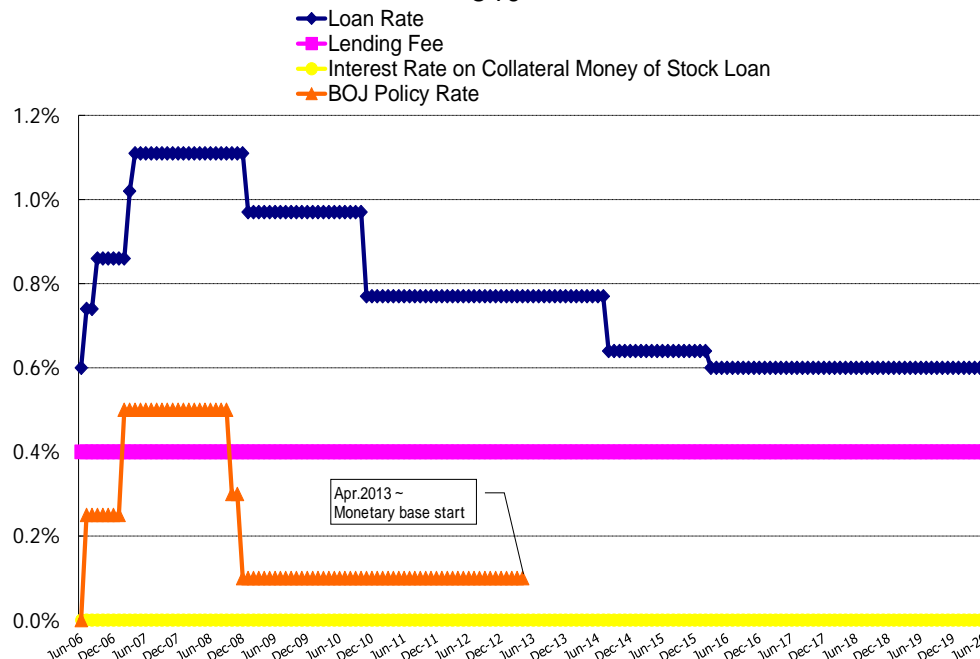
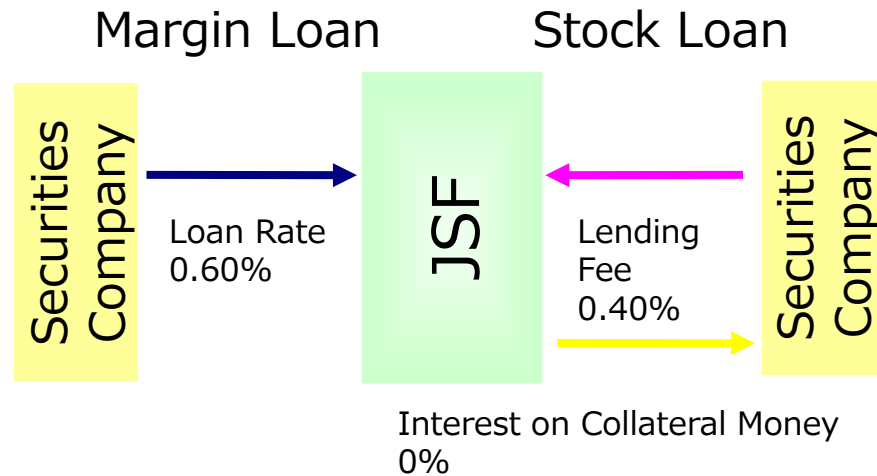
● Revenue structure of Loans for margin transactions



◆ Besides the above, Premium Charges are posted in Operating Revenues (Fees on Lending Securities) in a part of Over-lent Stock Loan. But the same amount are posted in Operating Expenses (Fees of Borrowing Charges), so the amount of Premium Charges does not affect our profit.

【revenue】 Fees on lending securities (premium charges) = 【expense】 Fees on borrowing securities (premium charges) = (C) × rate of Premium charges

# ● Margin Loan Rate



## BOJ Policy Interest Rate

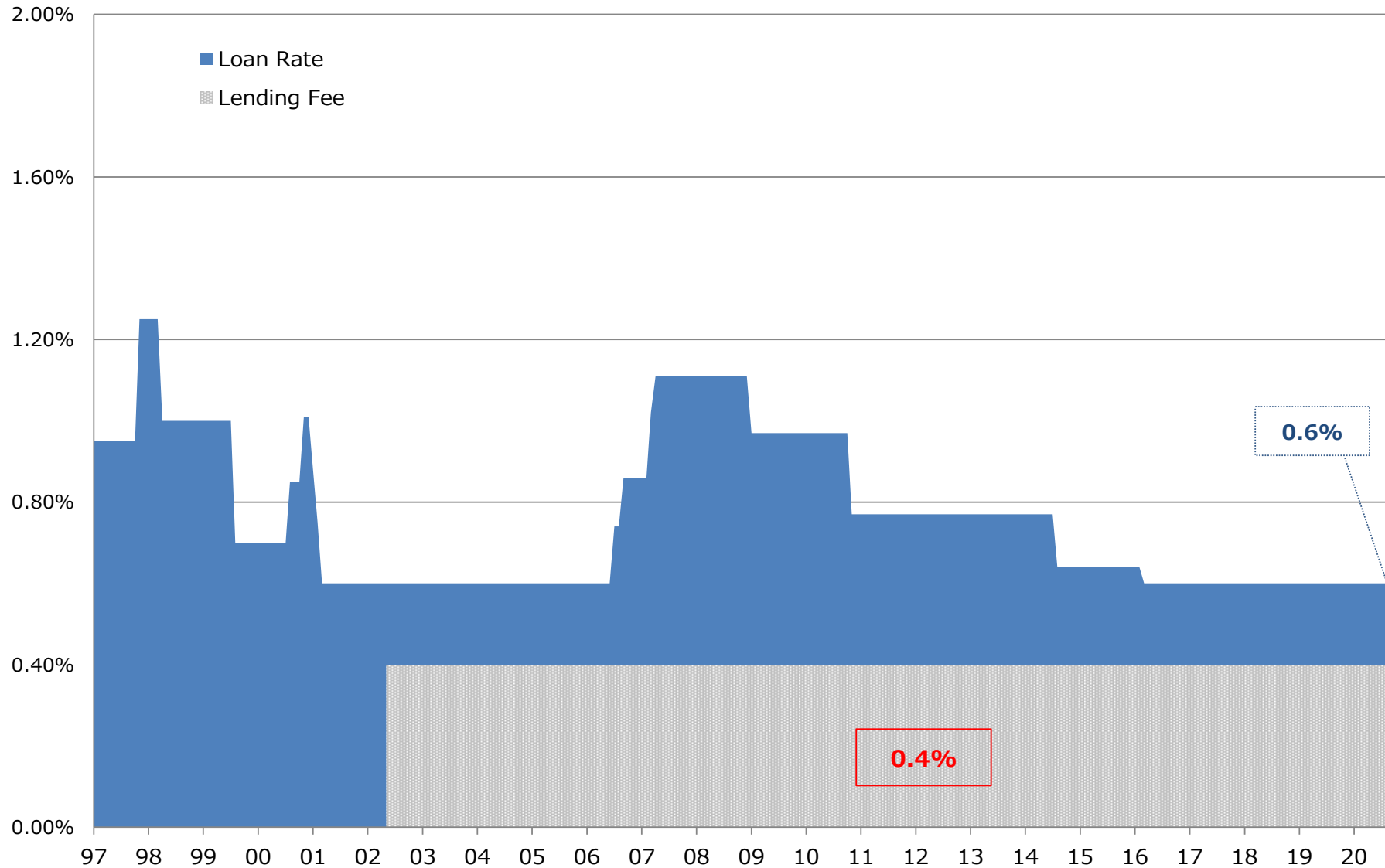
- Jul 2006 Uncollateralized O/N Call Rate: **0.25%**
- Feb 2007 Uncollateralized O/N Call Rate: **0.50%**
- Oct 2008 Uncollateralized O/N Call Rate: **0.30%** ( 0.20%)
- Dec 2008 Uncollateralized O/N Call Rate: **0.10%** ( 0.20%)
- Oct 2010 Uncollateralized O/N Call Rate: **0 ~ 0.10%** ( 0.10~0%)
- Apr 2013 Switched from interest rate to monetary base
- Jan 2016 Embraced negative interest rates
- Sep 2016 Introduced QQE with Yield Curve Control

## Margin Loan Rate

- 27/Jul/2006 **0.74%** (+0.14%)
- 22/Sep/2006 **0.86%** (+0.12%)
- 15/Mar/2007 **1.02%** (+0.16%)
- 05/Apr/2007 **1.11%** (+0.09%)
- 29/Jan/2009 **0.97%** ( 0.14%)
- 22/Nov/2010 **0.77%** ( 0.20%)
- 06/Aug/2014 **0.64%** ( 0.13%)
- 09/Mar/2016 **0.60%** ( 0.04%)

◆ Margin Loan Rates are decided by reflecting the change of market rates and BOJ's Policy Interest Rate.

# ● Loan Rate of Loans for Margin Transactions



# ● Securities Holdings

¥ mil

| Securities Holdings                   | Mar-20         |                               | Sep-20         |                               | notes                            |
|---------------------------------------|----------------|-------------------------------|----------------|-------------------------------|----------------------------------|
|                                       | B/S Amount     | Unrealized profits and losses | B/S Amount     | Unrealized profits and losses |                                  |
| <b>Equity</b>                         | <b>12,176</b>  | <b>7,198</b>                  | <b>17,595</b>  | <b>12,617</b>                 |                                  |
| <b>Bond</b>                           | <b>809,002</b> | <b>24,209</b>                 | <b>826,723</b> | <b>22,079</b>                 |                                  |
| JGB&Municipal Bond                    | 518,829        | 26,712                        | 499,920        | 22,506                        |                                  |
| Corporate Bond                        | 253,617        | ▲567                          | 286,030        | ▲366                          | Government Guaranteed Bond ,etc. |
| Others                                | 36,555         | ▲1,935                        | 40,772         | ▲61                           | Foreign government bonds         |
| <b>Other Securities</b>               | <b>13,943</b>  | <b>▲1,678</b>                 | <b>15,342</b>  | <b>▲99</b>                    |                                  |
| <b>Total</b>                          | <b>835,121</b> | <b>29,730</b>                 | <b>859,661</b> | <b>34,597</b>                 |                                  |
| (included the effects of derivatives) | —              | (6,075)                       | —              | (9,413)                       |                                  |

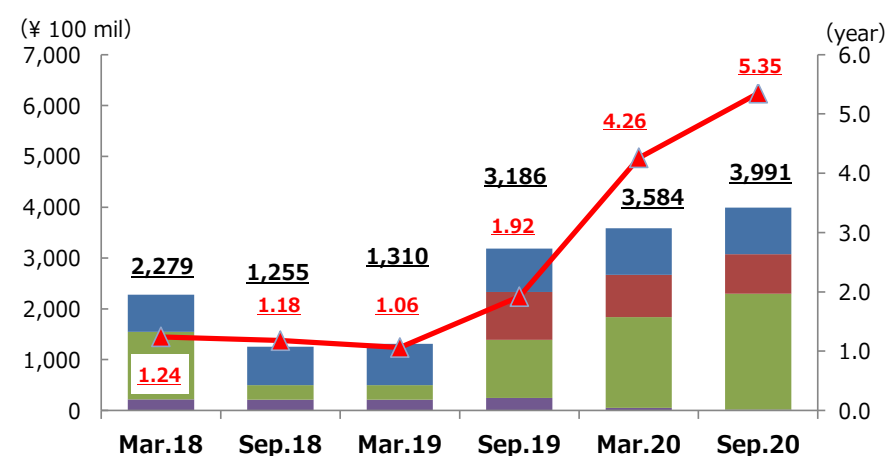
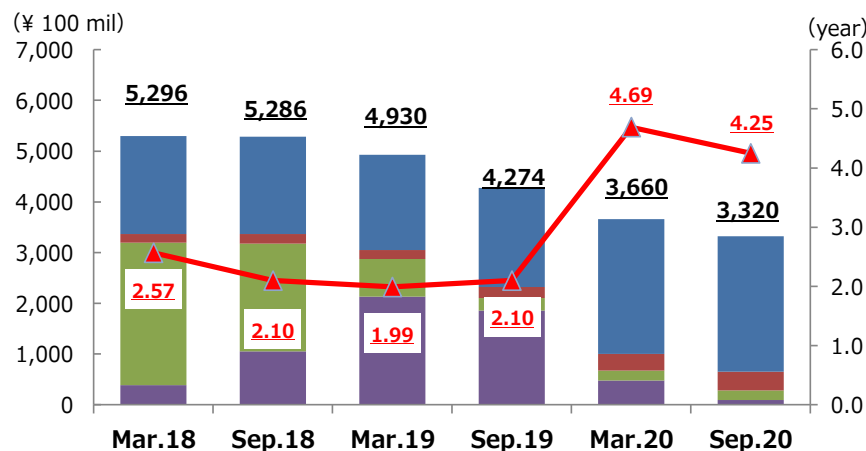
| held-to-maturity bonds | B/S Amount   | Unrealized profits and losses | B/S Amount   | Unrealized profits and losses | notes |
|------------------------|--------------|-------------------------------|--------------|-------------------------------|-------|
| <b>JGB</b>             | <b>1,512</b> | <b>208</b>                    | <b>1,512</b> | <b>210</b>                    |       |

※Unrealized profits and losses is not included the effects of hedging with derivatives

## Yen Bond Portfolio (JSF)

## Yen Bond Portfolio (JSF Trust Bank)

■ over 10 years   
 ■ 5 years to 10 years   
 ■ 1 year to 5 years   
 ■ within 1 year   
 ▲ Average remaining period



(Note) Average remaining period is calculated excluding held-to-maturity bonds, bonds for which hedge-accounting are applied

# ● JSF Trust Bank (Loan Balance)



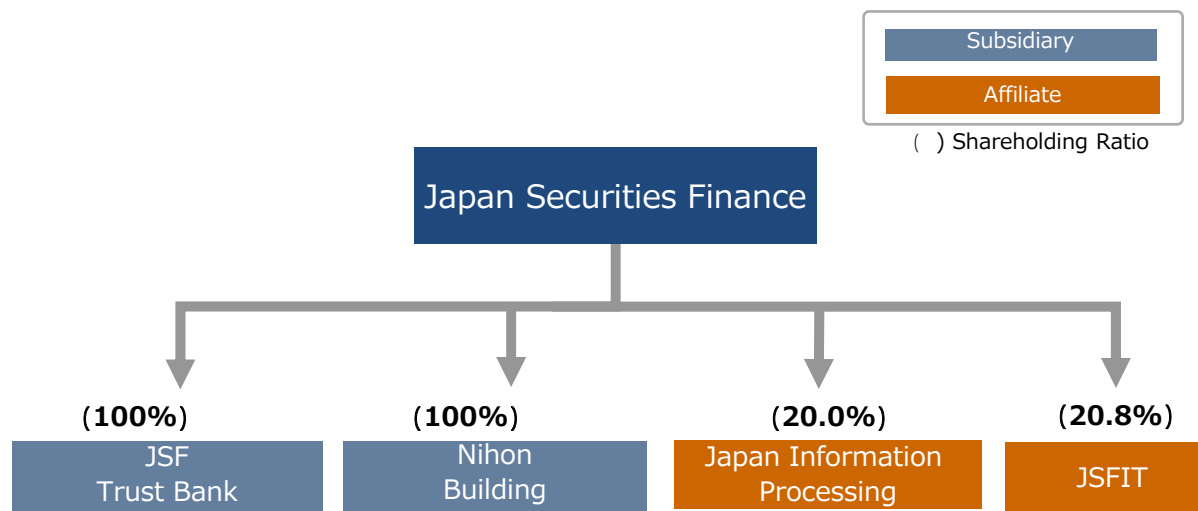
## ● Loan Banance by Industry

¥mil

|                     | Sep-19         |       | Mar-20         |       | Sep-20         |       |
|---------------------|----------------|-------|----------------|-------|----------------|-------|
|                     | Loan Balance   | ratio | Loan Balance   | ratio | Loan Balance   | ratio |
| Manufacturing       | 2,000          | 0.4%  | 0              | 0.0%  | 0              | 0.0%  |
| Fishery             | 0              | 0.0%  | 0              | 0.0%  | 0              | 0.0%  |
| Mining              | 0              | 0.0%  | 0              | 0.0%  | 0              | 0.0%  |
| Construction        | 0              | 0.0%  | 0              | 0.0%  | 0              | 0.0%  |
| Energy & Utilities  | 0              | 0.0%  | 0              | 0.0%  | 0              | 0.0%  |
| Communication       | 0              | 0.0%  | 0              | 0.0%  | 0              | 0.0%  |
| Transportation      | 689            | 0.1%  | 689            | 0.2%  | 689            | 0.1%  |
| Wholesale           | 800            | 0.2%  | 800            | 0.2%  | 0              | 0.0%  |
| Retail              | 0              | 0.0%  | 0              | 0.0%  | 0              | 0.0%  |
| Finance & Insurance | 0              | 0.0%  | 4,100          | 0.9%  | 2,100          | 0.3%  |
| Real Estate         | 3,000          | 0.6%  | 1,500          | 0.3%  | 500            | 0.1%  |
| Service Industries  | 0              | 0.0%  | 0              | 0.0%  | 0              | 0.0%  |
| Governments         | 495,178        | 98.7% | 440,810        | 98.4% | 615,762        | 99.5% |
| <b>Total</b>        | <b>501,667</b> |       | <b>447,899</b> |       | <b>619,051</b> |       |

Amounts described in "Wholesale," "Government" and "Total" as of the end of September 2020 were incorrect, and have been revised as of December 3, 2020.

# ● Our 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<br>Real estate trading and brokerage |
| 20.0%              | Japan Information Processing Service Co., Ltd | 2,460              | Information processing services<br>Software development and sales      |
| 20.8%              | JSF Information Technology Co., Ltd           | 100                | Information processing services<br>Software development and sales      |



## ● Rating Information

| As of 30/Sep/2020        |            | JCR               |         | R&I               |         | Standard & Poor's |         |
|--------------------------|------------|-------------------|---------|-------------------|---------|-------------------|---------|
|                          |            | Rating            | Outlook | Rating            | Outlook | Rating            | Outlook |
| Japan Securities Finance | Long-term  | AA-               | Stable  | AA-               | Stable  | A                 | Stable  |
|                          | Short-term | J-1+<br>(Highest) |         | a-1+<br>(Highest) |         | A-1               |         |
|                          | CP Issue   | ¥1tri             |         | ¥1tri             |         | —                 |         |
| JSF Trust Bank           | Long-term  | A+                | Stable  | A+                | Stable  | —                 | —       |
|                          | Short-term | J-1+<br>(Highest) |         | a-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.

### Our History to Date

- Focus on stable management of Margin Loan Business and improving convenience as an infrastructure for securities markets
- We will also engage in new operations that meet market needs.



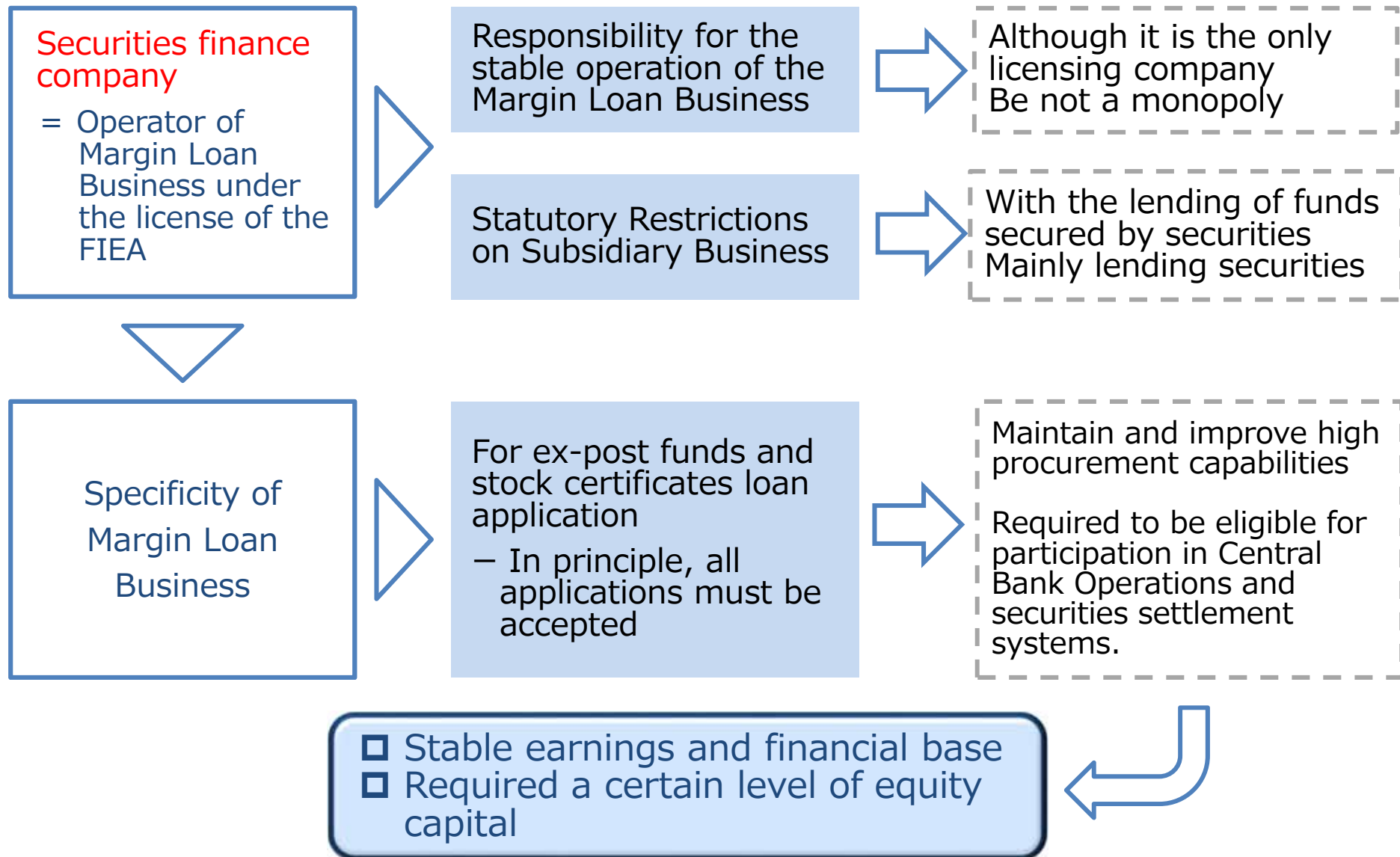
**Established as an institution specializing in securities finance** in response to requests from the securities industry with the aim of stabilizing and promoting the securities market

- 1950: Launched Margin Loan business
- 1951: Launched general stock lending business
- 1977: Launched brokerage business for bond lending
- 1989: Establishment of JSF Trust Bank
- 1998: Launched loans for margin transactions for PTS

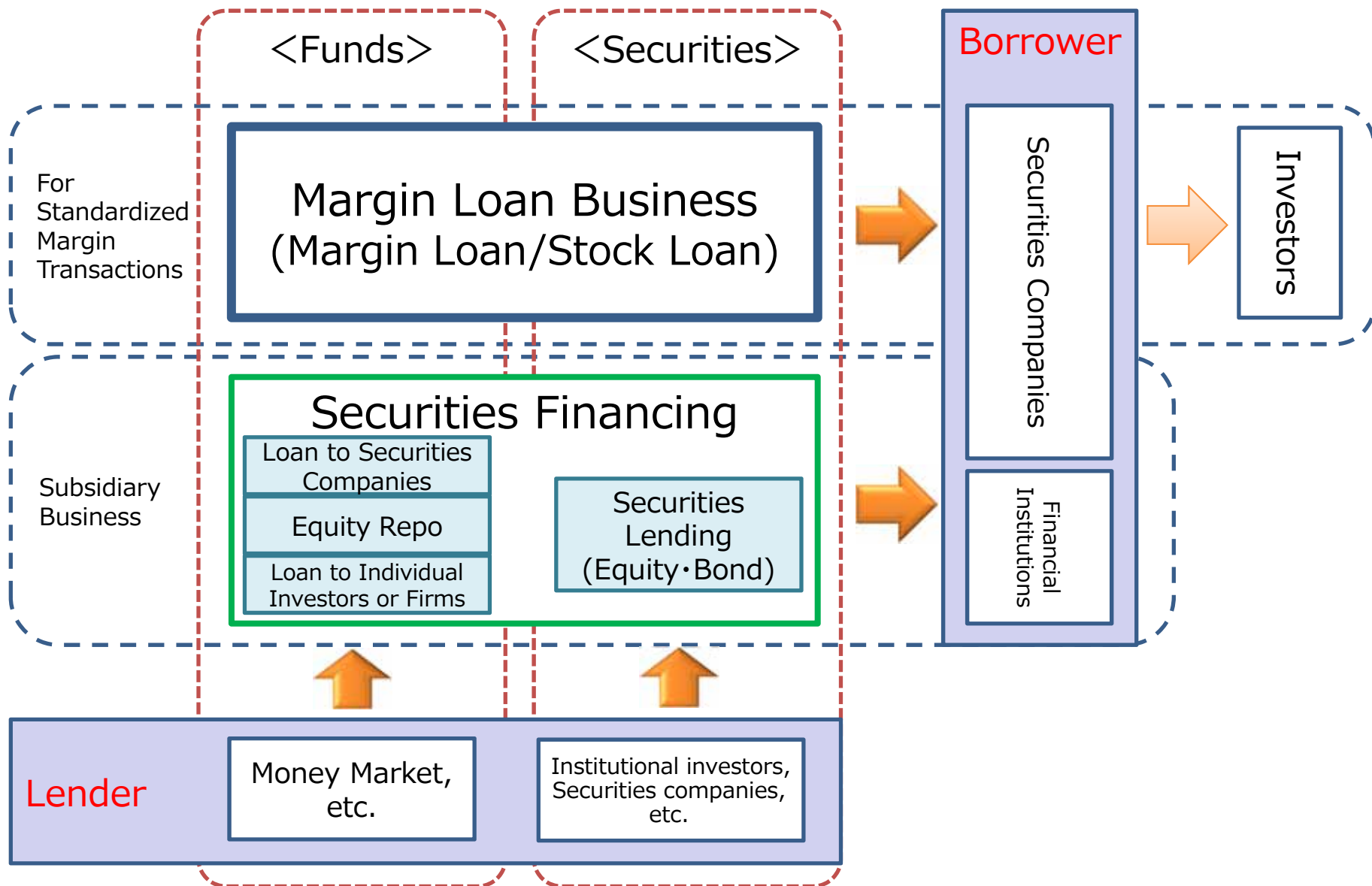


In conjunction with the establishment of the margin transaction system, commenced the Margin Loan Business of lending funds or stock certificates, etc. necessary for the settlement of margin transactions to securities companies.  
 ⇒ **Roots as a licensed company stipulated in the Financial Instruments and Exchange Law**

# ● Characteristics of Securities Finance Company



# Our Business Field (image chart)



This document includes statements for business forecast. These statements don't guarantee company's future achievement and that involve risk or uncertain factors. Company's future achievement may be changed drastically up to stock market or financial conditions.