

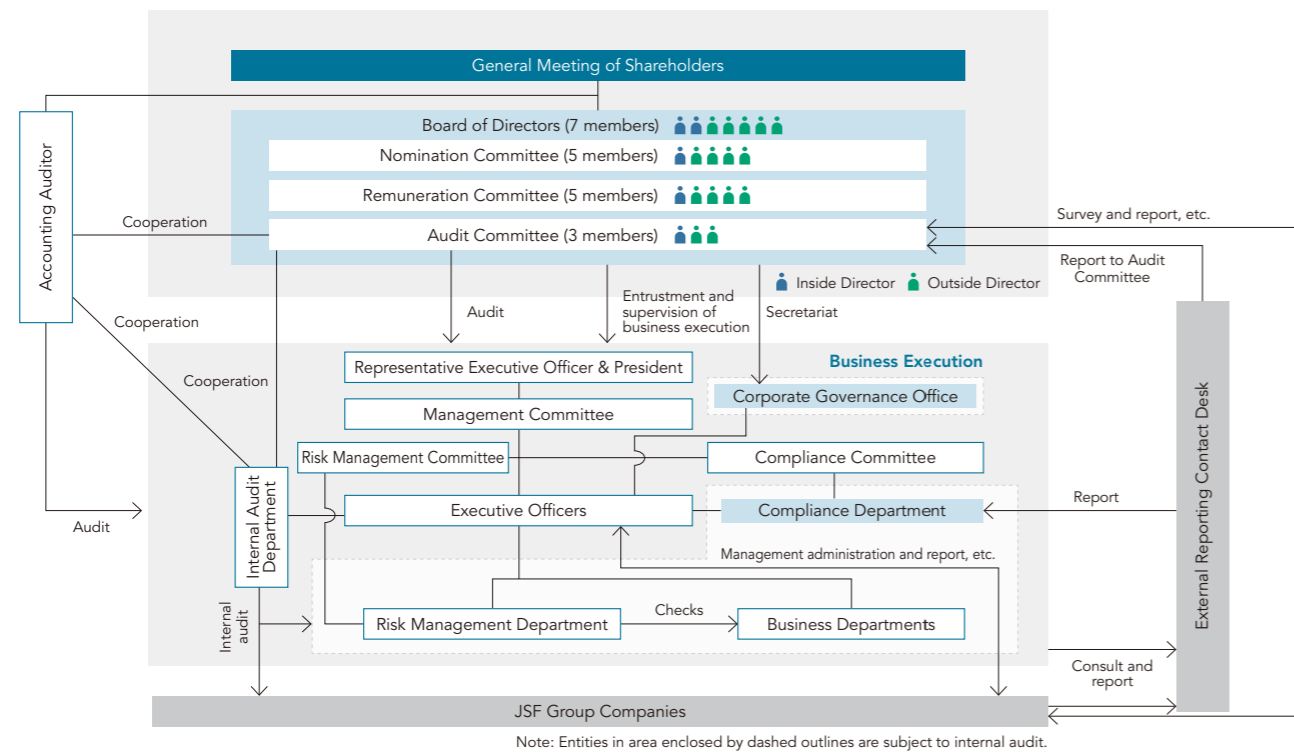
# Corporate Governance

## Basic Concept

As an institution specializing in securities finance, JSF has a mission to contribute to the development of the securities and financial markets by proactively meeting the diverse needs of the securities and financial sectors and to enhance the long-term interests of market participants and users, while always maintaining a keen awareness of its public role. Based on this thinking, the Company aims to gain the solid trust of society through sound business operations.

Under this corporate philosophy, the Company has adopted the Company with a Nominating Committee, etc. structure under the Companies Act, based on which it strives to clarify the separation of supervision and execution of business operations, further strengthen supervision by having mainly outside directors to ensure sound management, and achieve prompt business execution that responds quickly to changes in the business environment.

## Corporate Governance System



## Corporate Governance History

The Company has a history of taking a strong interest in and being proactive about corporate governance since the time it was a Company with a Board of Auditors. For example, in FY2015, the Company appointed a woman outside director, and in FY2016, it established a Nomination Committee and Remuneration Committee, with the majority of the committee members being outside directors and outside Audit & Supervisory Board members. In FY2018, the Company formulated a succession plan for candidates for executive director at the time.

Based on this foundation, JSF transitioned to a Company with a Nominating Committee, etc. in FY2019. The aim of this was to separate supervision from execution to create a system that would enable the Company to push forward with its management policies. The organization would be

comprised of the Board of Directors, responsible for determining and supervising management policies such as medium-term management plans, and an execution side composed of the Executive Committee under the supervision of the Representative Executive Officer & President. This would allow for prompt and effective decision-making. Therefore, from the outset, the chairpersons of the Board of Directors and the three statutory committees were all outside directors, and the majority of the directors were independent outside directors.

Under the basic framework as a Company with a Nominating Committee, etc., JSF has made various efforts to improve its effectiveness accordingly. A summary of key initiatives is presented here.

## JSF's Corporate Governance Enhancements in Retrospect

Company with a Board of Auditors	FY2015	<ul style="list-style-type: none"> <li>Appointed a woman outside director</li> </ul>
	FY2016	<ul style="list-style-type: none"> <li>Established a Nomination Committee and Remuneration Committee</li> <li>Made the majority of the committee members outside directors and outside Audit &amp; Supervisory Board members</li> <li>Introduced a share-based remuneration plan</li> </ul>
	FY2017	<ul style="list-style-type: none"> <li>Began holding an outside officers-only meeting</li> </ul>
	FY2018	<ul style="list-style-type: none"> <li>Formulated succession plans for candidates for executive director (management executives)</li> </ul>
Company with a Nominating Committee, etc.	FY2019	<ul style="list-style-type: none"> <li>Transitioned to a Company with a Nominating Committee, etc.                             <ul style="list-style-type: none"> <li>Separated supervision and execution, with the Board of Directors determining and supervising management policies such as medium-term management plans, and the Executive Committee under the supervision of the Representative Executive Officer &amp; President, for a system to make prompt decisions to realize the management policies</li> <li>Made the chairpersons of the Board of Directors and the three statutory committees all outside directors</li> <li>Independent outside directors come to account for the majority of directors</li> </ul> </li> <li>Formulated and announced the Sixth Medium-Term Management Plan                             <ul style="list-style-type: none"> <li>Pushed to expand and strengthen the securities financing business and trust banking business, promoted the diversification of revenue sources, and enhanced profitability</li> <li>Set and announced management goals (number of loanable stock issues and basic profit)</li> </ul> </li> </ul>
	FY2020	<ul style="list-style-type: none"> <li>Introduced performance-linked remuneration for officers                             <ul style="list-style-type: none"> <li>Introduced performance-linked remuneration for officers in line with the management goals of the Sixth Medium-Term Management Plan</li> </ul> </li> </ul>
	FY2021	<ul style="list-style-type: none"> <li>Formulated and announced the Medium-Term Management Policy                             <ul style="list-style-type: none"> <li>Ensured a higher level of transparency and commitment to sustainable growth and medium- to long-term enhancement of corporate value</li> <li>Set a management goal of achieving ROE of 5% by FY2025, above the cost of equity (estimated to be around 4.5%)</li> <li>Aiming to achieve a total payout ratio of 100% on a cumulative basis by FY2025</li> </ul> </li> <li>Formulated and announced our approach to the composition and other aspects of the Board of Directors                             <ul style="list-style-type: none"> <li>Amid the changing environment of globalization and digital transformation, decided on a policy of structuring the Board of Directors that is attentive to the diversification of skills, balancing the numbers on the supervision and execution sides and diversifying board members in terms of age and gender, in order to formulate medium-term management plans in accordance with the Medium-Term Management Policy and further exercise supervisory functions</li> </ul> </li> <li>Formulated and announced our approach to the appointment of executive officers</li> </ul>
		<ul style="list-style-type: none"> <li>Formulated and publicly announced our basic approach concerning our business portfolio                             <ul style="list-style-type: none"> <li>Decided on a business portfolio consisting of securities financing centered on loans for margin transactions, as well as securities investment, trust banking and real estate leasing</li> </ul> </li> <li>Formulated and announced our basic approach to sustainability                             <ul style="list-style-type: none"> <li>By providing loans for margin transactions and various other services as infrastructure for securities and financial markets, the JSF Group aims to contribute to the realization of a sustainable society, including by providing support to market participants who are engaged in similar initiatives.</li> </ul> </li> <li>Strengthened the functions of the secretariat of the Board of Directors                             <ul style="list-style-type: none"> <li>A Corporate Governance Office was established from the perspective of promptly addressing corporate governance issues and further strengthening the secretariat functions of the Board of Directors. The office fulfills a secretariat function for deliberations of the Nomination Committee, the Remuneration Committee and the Board of Directors on the various measures mentioned above.</li> </ul> </li> </ul>
		<ul style="list-style-type: none"> <li>Improved the transparency of the nomination process for management executives                             <ul style="list-style-type: none"> <li>Pursuant to decisions by the Nomination Committee and the Board of Directors, in March 2023, publicly announced the operational specifics of the nomination process for management executives, particularly the independent and active involvement of outside directors in the Nomination Committee and other committees, and the approach to in-house human resource development with a view to the selection of management executives (details on pages 43–44)</li> </ul> </li> <li>Formulated and publicly announced the Seventh Medium-Term Management Plan (details on page 20)</li> <li>Determined the officer remuneration system in line with the Seventh Medium-Term Management Plan (details on page 45)</li> </ul>
	FY2022	<ul style="list-style-type: none"> <li>Announced efforts to respond to the Tokyo Stock Exchange's request to listed companies, as well as the status of dialogue with shareholders</li> <li>Implemented a Company stock incentive program for employees</li> <li>Formulated and announced the Long-Term Management Vision (details on page 9)</li> </ul>
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# Corporate Governance

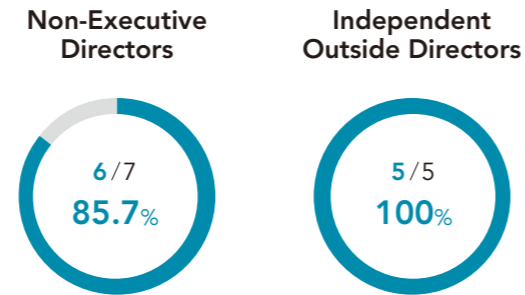
## Composition of the Board of Directors

The Board of Directors comprises a variety of directors with diverse expertise, experience and other characteristics, based on a skill matrix formulated by the Company. To the extent stipulated in the Articles of Incorporation, JSF secures the appropriate number of members to maximize the effectiveness and efficiency of the board's functions. In addition, multiple outside directors independent from the Company and possessing

abundant experience and expert knowledge of business management and other matters have been appointed to the board to ensure appropriate business operations while enabling objective and neutral management supervision from external viewpoints. The Board of Directors currently comprises seven members (including five outside directors), with an outside director serving as chairperson.

### Overview of the Board of Directors (As of June 22, 2023)

Organization form	Company with a Nominating Committee, etc.
Chairperson of the board	Outside director
Maximum number of directors as stipulated in the Articles of Incorporation	8
Number of directors	7
Number of outside directors [Independent directors]	5 [5]



### Director Expertise (Skill Matrix), Attendance at Board of Directors and Other Meetings

Name	Outside/Inside	Area of Expertise							FY2022 Meeting Attendance			
		Corporate management	Finance, securities, economics	International affairs	Legal affairs, compliance	Financial affairs, accounting	Internal control, risk management	ESG	Board of Directors	Nomination Committee	Remuneration Committee	Audit Committee
Naotaka Obata	Outside	●	●	●			●	●	100% 13/13	100% 8/8	100% 7/7	—
Shoko Sugino	Outside				●		●	●	100% 13/13	100% 8/8	100% 7/7	100% 13/13
Kensuke Futagoishi <sup>1</sup>	Outside	●	●			●	●	●	100% 10/10	100% 8/8	100% 6/6	—
Takayoshi Yamakawa <sup>1</sup>	Outside	●	●	●		●	●	●	100% 10/10	○	100% 6/6	100% 11/11
Setsuko Egami <sup>2</sup>	Outside	●			●		●	●	—	—	○	—
Shigeki Kushida <small>Representative Executive Officer &amp; President</small>	Inside	●	●	●			●	●	100% 13/13	100% 8/8	100% 7/7	—
Hiroshi Asakura	Inside		●			●			100% 13/13	—	—	100% 13/13

● Chairperson ○ Member (As of June 22, 2023) 1. Appointed in June 2022 2. Appointed in June 2023

## Status of Board of Director Initiatives

Committed to achieving the Medium-Term Management Policy's medium-term management goal of 5% ROE by FY2025, in FY2022 we compiled the Seventh Medium-Term Management Plan based on discussions of JSF's management policy for the coming three years and the strategies and measures it encompasses. In particular, in order to respond agilely and flexibly to changes in the business environment we need to improve corporate vitality and organizational transformation capabilities by developing human resources and ensuring diversity. We therefore discussed human resource strategies for the Seventh Medium-Term Management Plan, and formulated and publicly announced our Human Capital Policy, which is our basic policy for promoting initiatives related to human capital formation. In addition, in order to increase employee job satisfaction, motivation and interest in improving corporate value, we also discussed and publicly announced our Company stock incentive program for employees under which we will grant JSF stock to employees based on the Company's performance in FY2022, the final year of the Sixth Medium-Term Management Plan.

Among initiatives related to promoting sustainability and ESG, we have clarified and publicly announced our policy with regard to addressing climate change and environmental protection (initiatives to meet the TCFD recommendations).

Namely, JSF will work to realize a sustainable global environment through its business activities and to enhance disclosure of climate-related information in accordance with the TCFD recommendations. The board also received reports from executive officers and discussed various initiatives related to the Company's material issues, such as efforts for carbon neutrality and programs to promote academic research.

- Main Agenda Items for FY2022**
- Corporate Governance**
- Formulation of the Seventh Medium-Term Management Plan
  - Partial revision of Basic Policy on Corporate Governance
  - Examination of sustainability issues (e.g., addressing carbon neutrality)
  - Disclosure of climate-related financial information in accordance with the TCFD recommendations
  - Examination of implementation of Company stock incentive program for employees
  - Evaluation of the effectiveness of the Board of Directors
- Risk Management**
- Summary report on the risk appetite framework (RAF)
  - Examination of risk appetite indicators
  - Implementation status of internal audits
- Capital and Financial Policy**
- Examination of future shareholder returns
  - Evaluation of strategic equity holdings
  - Status of dialogue with investors

## Overview of Each Statutory Committee and Status of Initiatives

### Nomination Committee

To ensure that the Board of Directors can adequately determine management policies and supervise execution, the Nomination Committee deliberates and decides on general matters related to the appointment and dismissal of the Company's management executive team (directors, executive officers and corporate officers) such as the composition of the Board of Directors, including the skill matrix; determination of director candidates; consideration of succession plans; qualifications required of executive officers and corporate officers; the policy for their appointment and dismissal; and determination of specific candidates. The committee currently comprises five directors

(including four outside directors), and is chaired by an outside director.

- Main Agenda Items for FY2022**
- Consideration of management executive team succession plans
  - Consideration of the transparency of the selection process and the in-house human resource development policy for management executive team members
  - Consideration of the approach to the appointment of executive officers and corporate officers
  - Nomination of director, executive officer and corporate officer candidates for FY2023

### Remuneration Committee

The Remuneration Committee deliberates and decides on general matters related to amounts of remuneration for senior management (directors, executive officers and corporate officers) for the steady implementation of the Medium-Term Management Policy and management plans based on this policy. These matters include making sure the remuneration system is consistent with the implementation of the management policy and related plans, deciding on remuneration for individual members of

senior management, and the policy for determination thereof. The committee currently comprises five directors (including four outside directors), and is chaired by an outside director.

- Main Agenda Items for FY2022**
- Determination of FY2022 remuneration amounts for individual directors and executive officers
  - Consideration of the officer remuneration system in conjunction with the formulation of the Seventh Medium-Term Management Plan

## Corporate Governance

### Audit Committee

In addition to carrying out tasks such as auditing the execution of duties of directors and executive officers and preparing audit reports, the Audit Committee deliberates on and determines the content of proposals (including those on appointment and dismissal of the accounting auditor) to be submitted to the General Meeting of Shareholders.

The committee currently comprises three directors (including two outside directors), and is chaired by an outside director.

#### Main Agenda Items for FY2022

- Business operation status, risk management, compliance, internal auditing
- Reports from the accounting auditor (audit plans, major audit matters, etc.)

### Evaluation of the Effectiveness of the Board of Directors

In FY2022, based on an evaluation by each of the directors, the Board of Directors analyzed and evaluated matters related to its effectiveness including the composition and operation of the Board of Directors, the support system for directors and the directors' individual initiatives, as well as an evaluation of the three statutory committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee.

For the analysis and evaluation, a questionnaire survey of all directors was conducted. The Company has chosen to

receive recommendations from an external organization regarding the content of the questionnaire and, in principle, to send responses directly to that organization. The board's analysis and evaluation are based on the external organization's report of the aggregated results and an opinion exchange meeting, including with the outside directors, held prior to conducting the questionnaire survey.

### Overall Evaluation

The questionnaire responses and other findings confirmed that the composition, operation, support system and other aspects of the Board of Directors and the committees are all appropriate. Board and committee meetings were also highly

evaluated for their free, lively and constructive discussions and exchanges of opinions.

Based on these findings, the Company judged that the effectiveness of its Board of Directors has been ensured.

### Initiatives to Address Issues in FY2022

FY2022 was the final year of the Sixth Medium-Term Management Plan, and the main item for discussion was the formulation of the Seventh Medium-Term Management Plan, aimed at achieving the medium-term management goal of 5% ROE by FY2025. We evaluated the process for formulating medium-term management plans, and concluded that follow-up on the progress of the Sixth Medium-Term Management Plan, which is a prerequisite for plan formulation, is being carried out appropriately; and that executive officers explain management issues to the Board of Directors in a timely manner and provide sufficient information related to discussions.

With regard to the constructive dialogue that JSF maintains with shareholders and investors to improve corporate value over the medium to long term, we concluded that feedback to the Board of Directors regarding the status of dialogue with shareholders and investors is being provided appropriately. In addition, in conjunction with the formulation of the Seventh Medium-Term Management Plan, the committees discussed

topics such as the revision of officer remuneration and the approach to in-house human resource development with a view to selecting management executives. We concluded that the committees' discussions regarding nomination and remuneration were carried out in accordance with the management policy. With the addition of two new directors in FY2022, we worked to enhance the provision of information and training, and to improve secretariat functions. Specifically, in addition to continuing to provide advance explanations on important agenda items for Board of Directors meetings, we also worked to enhance the provision of information in ways such as conducting tours of JSF business locations. Based on these initiatives, we concluded that the provision of information and the improvement of the functions of the secretariat were carried out appropriately. However, because we believe that providing various types of information to directors constitutes the basis of discussions at Board of Directors meetings, we will remain cognizant of this issue and work to improve it.

### Issues to Address in FY2023

With regard to the way JSF disseminates information, some respondents felt that we should focus more on providing information to shareholders and investors in general, including individual shareholders. Consequently, we recognize this as an issue and are addressing it in FY2023 by enhancing various tools for providing information, such as our website and integrated report.

Furthermore, we will continue working to provide information to directors and enhance opportunities for outside directors to exchange opinions, based on our ongoing awareness that these are issues we need to address.

The Company will work to address all of the aforementioned issues to further improve the effectiveness of the Board of Directors.

### Approach to Selecting the Management Executive Team

JSF believes that the roles expected of its management team, centered on the Representative Executive Officer & President, change over time depending on the environment in which the Company operates and its business portfolio. With this

in mind, the appointment of our management team and succession planning are structured based on our approach concerning the Company's business portfolio, as follows:

<b>JSF's aims for business expansion</b>	<ul style="list-style-type: none"> <li>• <b>Operation of a loans for margin transactions system</b> The loans for margin transactions business is the foundation and raison d'être of the Company as a licensed business under the Financial Instrument and Exchange Act. JSF will continue to maintain and strengthen this business by appropriately responding to the changing business environment surrounding the stock market and properly understanding the trading requirements of market participants.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Securities financing and trust banking business</b> In the securities financing business, JSF is actively responding to the expansion of transactions with domestic and overseas market participants by leveraging its background in loans for margin transactions and other services. Specifically, we are expanding the number of clients, and the currencies and securities covered. To achieve this, we are actively engaged in cross-border securities loans through international forums such as PASLA and ISLA. In the trust banking business, we are also expanding by focusing on so-called custodial trusts, such as preservation trusts, and by taking advantage of our agility and flexibility to gain a high market share in niche areas. These operations are expected to make a significant contribution to the Company's future profitability.</li> </ul>
<b>Qualities considered important for each business in JSF's portfolio</b>	<ul style="list-style-type: none"> <li>• <b>Loans for margin transactions system</b> Because loans for margin transactions systems are widely used by securities companies, the qualifications required for their administration emphasize their public role, impartiality, and neutrality. In addition, going forward, JSF must be flexible in responding to the changing business environment and participants' needs, and in uncovering participants' new requirements in this field. For this reason, a project team was established in FY2023 to consider the ideal mechanisms for margin loan transactions from a medium- to long-term perspective.</li> </ul>
	<ul style="list-style-type: none"> <li>• <b>Securities financing and other businesses</b> Since the securities financing business and trust banking business also involve an extensive range of market participants, we believe even more strongly that the above-mentioned qualities are appropriate for JSF, which supports the securities and financial market infrastructure. However, for these businesses, knowledge and experience related to securities and financial business, markets, and technological innovation, as well as international expertise, are even more important qualities.</li> </ul>

### Approach to the Structure of the Management Team

Based on such future business developments and the required qualifications, the management team is currently being structured as follows:

- **Execution**

JSF will build an overall executive system with the qualities sought by combining the strengths and talents of each individual executive officer so that the above business development can proceed effectively. The required qualities of the entire executive team are having a thorough recognition of their public role; extensive knowledge of the market in general; familiarity with various laws and regulations; knowledge of the Company's highly specialized operations; international

expertise; advanced knowledge of business management, risk management, and financial accounting; and flexibility in responding to the changing business environment.

- **Supervision**

After establishing a skill matrix to enable effective supervision of the above execution, we will structure a team of directors taking into consideration the multi-layering of skills and diversification in age and gender. In recent years, experience in corporate management in the financial and industrial sectors, specialized knowledge such as that relating to law, and expertise in digital transformation and innovative business have been emphasized.

### Approach to Succession Planning for the Representative Executive Officer & President

Among the succession plans for the management executive team mentioned above, the Nomination Committee engages on an ongoing basis in discussions of a preliminary list of specific candidates and requisite qualities for the Representative Executive Officer & President, for whom the succession plan is particularly important.

Regarding the preliminary list of candidates, we are taking into consideration the above-mentioned direction for developing JSF's business by positioning securities financing and other areas as growth fields, as well as the composition of the executive officer team as a whole. At the same time, we are mainly considering candidates from within the Company, including experienced mid-career hires, but not candidates

from public sector backgrounds, with more emphasis on knowledge and experience in securities and financial businesses, including technological innovation.

The qualities required of the Representative Executive Officer & President currently under discussion include high ethical standards and a sense of responsibility as a representative of a company with a public role; the ability to accurately understand changes in the operating environment and develop strategies for shaping a vision for JSF's future; both a long-term and a big-picture perspective; decision-making and execution abilities; leadership; and communication skills that contribute to organizational vitality.



# Corporate Governance

## Management Team Appointment Process and the Roles Played by the Nomination Committee and the Board of Directors

The appointment of the management team is one of the most important missions of the Nomination Committee and Board of Directors, and this committee and the Board of Directors are independently and actively engaged in the following management nomination process:

### Appointment Process

- 1) Deliberation and determination of the basic qualitative requirements**  
The Nomination Committee and Board of Directors deliberates and determines the "Approach to the structure of the Board of Directors," the skill matrix for directors, and the "Approach to the appointment of Executive Officers," and establishes the required qualities as described on the previous page.
- 2) Preliminary list discussions**  
Discussions are held on the preliminary list of candidates. In the case of directors, individuals with corporate management

executive experience, legal and other experts, and those with expertise in digital transformation and innovative business. In the case of executive officers, those from within the Company and outside persons (e.g., those from public sector backgrounds and those from the securities and financial sectors).

- 3) Narrowing down and finalizing the list to a short list**  
Following 2), above, the Nomination Committee narrows down the candidates to a short list based on their backgrounds, expertise, and evaluation results. The final decision is then made based on this short list.

### Independent and Active Involvement of the Nomination Committee in the Above Process

The Nominating Committee gathers information during various opportunities such as regular briefings and discussions at the Board of Directors, on-site tours, and briefings prior to the Board of Directors meeting from the executive side. The committee also exchanges opinions with outside directors (excluding the director who also serves as the Representative Executive Officer & President) through activities such as outside director liaison committee meetings. Based on this understanding of the Company's operations and candidates, as well as proactive questions from the supervisory side and a review and proposals by the executive side in response to such questions, deliberations and decisions are effectively carried out.

As an example, JSF disclosed its current view regarding succession planning for the current president, which is to consider internal personnel, including employees hired mid-career, but not including those from public sector backgrounds, as was the policy as of January 2023. This point was already raised by the Nomination Committee in the

summer of 2022 during an informal exchange of views between the Nomination Committee and the executive team. Likewise, on the executive side as well, a similar awareness of the issue had emerged during the process of establishing our approach to the business portfolio and our thoughts on appointing executive officers based on this approach since 2021, and a basic understanding was reached between the supervisory and executive sides. Based on these considerations, the succession plan for the Representative Executive Officer & President was discussed and disclosed in January 2023 after being approved by the Nomination Committee and the Board of Directors.

For important matters, including the aforementioned cases, decisions are made after several rounds of discussions, with the supervisory side proposing and raising issues to the executive side, in the form of deliberations on 1) organization of the issues and free discussion, 2) discussions on the draft proposals, and 3) deliberation on the resolutions and disclosure.

	Basic approach	Preliminary list	Short list	Interviews, etc.	Decision
<b>Directors</b>	Skill matrix Approach to board structure	Individuals with corporate management experience, legal and other experts, and those with expertise in digital transformation and innovative business	Nomination Committee narrows the list to a short list. • Interviews are held for new director candidates.		Candidates for director are determined by the Nomination Committee (Appointed by the General Meeting of Shareholders)
<b>Executive officers</b>	Qualities sought	Individuals from within the Company and individuals from the public sector or the securities and financial sector	• Executive officer candidates are judged on their character and qualifications over the course of regular briefings and discussions at Board of Directors meetings, as well as through interviews, as necessary.		The Board of Directors makes decisions on candidates based on the candidates selected by the Nomination Committee.

## Officer Remuneration System

### Revision of the Officer Remuneration System in Line with the Seventh Medium-Term Management Plan

The Remuneration Committee revised the design of remuneration for officers to create incentives consistent with the management policy under the Seventh Medium-Term Management Plan, which started in FY2023.

### Overview of the New Remuneration System for Officers

- Regarding performance-linked remuneration, it is divided into short-term and long-term incentives, with bonuses positioned as short-term incentives and share-based remuneration as long-term incentives.
- Regarding bonuses, consolidated current fiscal year profit shall be used as a reference index from the perspective of defining management responsibility for each fiscal year as a short-term incentive. In addition, remuneration is divided into a performance-based component and an individual evaluation component. It may increase or decrease depending on the individual evaluation.
- Regarding share-based remuneration, ROE and consolidated ordinary profit, for which management goals have been set in the Seventh Medium-Term Management Plan, will be used as reference indicators for the long-term incentive.

### Policy for Determining the Amount of Remuneration for Officers and the Calculation Method Thereof

#### Details of Policy and Determination Method

Remuneration for officers shall be based on systems and standards in accordance with the respective roles and expected functions of directors and executive officers, in order to achieve sustained growth and enhancement of corporate value over the medium to long term based on the corporate philosophy and management principles. Specifically, individual amounts of remuneration shall be determined by the Remuneration Committee based on the following policy decided on by the committee.

#### • Directors

- With a view to having supervisory functions carried out appropriately, directors shall receive only fixed monthly remuneration (base remuneration). Performance-linked remuneration shall not be provided to directors.
- Remuneration for individual directors shall be determined in accordance with the responsibilities of each director, such as whether that person is serving in a full-time or part-time capacity or as a chairperson.
- Directors concurrently serving as executive officers shall not receive remuneration as directors.

#### • Executive Officers

- With a view to enhancing correlation with the Company's business performance and share value, remuneration for executive officers shall comprise fixed monthly remuneration (base remuneration), performance-linked officer bonuses and share-based remuneration.
- Fixed monthly remuneration (base remuneration) shall be determined in accordance with each executive officer's position.
- Regarding performance-linked remuneration, it is divided into short-term and long-term officer incentives, with bonuses positioned as short-term incentives and share-based remuneration as long-term incentives.
- To clarify the responsibilities of management each fiscal year for short-term incentives, officer bonuses shall be determined after the end of each fiscal year, in accordance with business performance and individual evaluation for the fiscal year, and are paid within three months after being decided.
- As for share-based remuneration, a Board Benefit Trust (BBT) scheme shall be used to award each executive officer points as a long-term incentive. Points shall be determined based on correlation with the achievement of management goals in the medium-term management plan, from the perspective of strengthening the link between medium- to long-term increases in corporate value and shareholder returns. Upon retirement from office, executive officers are issued Company shares corresponding to the number of points they have accumulated.

### Overview of the Officer Remuneration System (FY2023)

		Proportion of total remuneration paid	Fixed or variable remuneration	Payment standards				
		65%	Fixed	Position	Chairperson	President	Senior managing executive officer	Managing executive officer
Performance-linked	Bonus	20% (performance-linked component: 15%; individual evaluation component: 5%)	Linked to short-term performance (short-term incentive)	Base calculation amount according to position	×	Performance-linked coefficient	Consolidated profit <YoY change>	
	Share-based	15%	Linked to medium- to long-term performance (long-term incentive)					

• Number of standard points according to position × Performance-linked coefficient  
• Consolidated ROE and consolidated ordinary profit (Degree of achievement: Actual values in relation to standard values for each fiscal year)

# Corporate Governance

## Total Amount of Remuneration by Officer Classification (FY2022)

Officer classification	Total amount of remuneration paid (Thousands of yen)	Total amount of remuneration paid by type of remuneration (Thousands of yen)			Number of eligible officers
		Basic	Bonus	Non-monetary (Share-based)	
Director (Excluding outside directors)	8,400	8,400	—	—	2
Outside director	61,560	61,560	—	—	5
Executive officer	329,977	219,480	72,230	38,267	7

- Directors concurrently serving as executive officers shall not receive remuneration as directors.
- The indicators for calculating performance-linked bonuses are the number of loanable stock issues, basic profit and consolidated profit, which in FY2022 were 2,702 stock issues, ¥8,610 million and ¥5,966 million, respectively.
- The indicator for calculating performance-linked share-based remuneration is consolidated ordinary profit (3-year average), which in FY2022 was ¥6,774 million.

## Status of Dialogue with Shareholders (FY2022)

As a Prime market listed company, JSF, based on Japan's Corporate Governance Code, engages in dialogue with its shareholders in a positive manner, within reasonable limits, in order to contribute to the sustainable growth and the enhancement of corporate value over the medium to long term.

The status of dialogue with shareholders conducted by JSF's management and others during FY2022 is as follows.

Main persons engaging in dialogue	<ul style="list-style-type: none"> <li>The Representative Executive Officer &amp; President and the Senior Managing Executive Officer Responsible for Corporate Strategy engage in dialogue.</li> <li>Depending on the substance of an opportunity for dialogue, outside directors may also participate.</li> </ul>
Overview of shareholders with whom dialogue was conducted	Total: 41 times <ul style="list-style-type: none"> <li>Individual interviews: 39 times (Domestic investors: 9; Overseas investors: 4; Total: 13 companies)</li> <li>Information sessions: 2 times (total of 23 companies participated)</li> </ul>
Main themes, matters of interest to shareholders, etc.	(1) Initiatives and achievements to enhance corporate value and capital efficiency (2) Officer nomination process and initiatives in governance (3) Information disclosure
Feedback from shareholders to the Board of Directors	<ul style="list-style-type: none"> <li>JSF reports the status of dialogue with shareholders to the Board of Directors promptly after each opportunity for dialogue.</li> <li>Through these initiatives, we strive to ensure that the Board of Directors and the various committees hold discussions that also take into account the feedback of shareholders.</li> </ul>

Below, we introduce specific examples of dialogue, including shareholder opinions, matters that were brought to our attention by shareholders and our response to them, and matters that were explained to and understood by shareholders.

### Initiatives and achievements to enhance corporate value and capital efficiency

The Company explained that it has been striving to improve profitability and capital efficiency by setting a management goal of achieving ROE of 5%, exceeding the cost of equity (estimated to be around 4.5%), during the period of the Seventh Medium-Term Management Plan in its Medium-Term Management Policy, that JSF's ROE has been steadily increasing in recent years as a result of the initiatives under the Sixth Medium-Term Management Plan, and that JSF is making steady progress toward achieving its ROE target of 4% for FY2022. Many shareholders understand our cost of equity and management goal, given our nature as a securities finance company, and have positively assessed our efforts and accomplishments over the past several years. However, there were differences in perception among a portion of the shareholders regarding the level of the ROE target and the time frame for achieving it.

In addition, we received feedback from shareholders that they would like to see continued efforts to enhance corporate value after the Seventh Medium-Term Management Plan period is over. In light of this, we have indicated that we will further promote our efforts to enhance corporate value, and will continue our management efforts to achieve a higher ROE level in FY2026 and beyond.

### Officer nomination process and governance initiatives

The Company transitioned to a Company with a Nominating Committee, etc. in 2019 and is working to further enhance and strengthen its corporate governance. The Company published its policy regarding the composition of the Board of Directors and the appointment of executive officers in FY2021. In our dialogue with shareholders, we provided explanations regarding governance at JSF, focusing on the details of the nomination process for these officers. Many of our shareholders have given JSF favorable evaluations for its governance initiatives.

We also received feedback that, from now on, shareholders expect the disclosure of information to focus on the evolution of governance efforts to date, specifics about the status of the nomination process, the roles played by outside directors, and human capital initiatives. In light of these comments, in March 2023 we disclosed our approach to the appointment of management executives and our internal human resources development policy in anticipation of these appointments (details on page 43).

Specifically, we disclosed the following cases that were proposed as issues raised by outside directors regarding the actual operational aspects of the Nomination Committee, Remuneration Committee and Board of Directors, each of which is led by an outside director.

- Succession planning for the current Representative Executive Officer & President
- Internal human resource development initiatives in response to the business portfolio
- More proactive disclosure of our approach to human capital

### Information disclosure

Although many shareholders have stated that dialogue has enabled them to better understand JSF's management policies and the special characteristics of JSF on which they are based, and the Company's various governance initiatives, they also commented that such information should be widely disseminated to the general public. In response to this, in FY2022 JSF formulated and published its first *Integrated Report* incorporating such information. Also, as mentioned above, we disclosed our approach to the appointment of management and our internal human resource development in anticipation of these appointments. Specifically, our report sets out our approach to the appointment of management executives based on the business development we aim to achieve and the qualities considered important for each business in our business portfolio, and explains our approach to the composition of the management executive team and succession planning for the Representative Executive Officer & President. Also, from the perspective that the development of internal human resources is important for ensuring the effectiveness of management succession planning, the report explains the direction of human resource development and specific initiatives. It also describes the specific commitments of the Nomination Committee and the Board of Directors in the above-mentioned initiatives.

We recognize through discussions at Board of Directors meetings that we need to develop tools and systems to enhance information disclosure, and we will continue to proactively disseminate information with regard to this as well.

## Policy on Strategic Equity Holdings

The Company has been reducing strategic equity holdings. Between March 2018 and March 2022, it reduced shares of listed issues held by 91% on a market value basis, and shares of total issues held including listed and unlisted issues by 78%. In FY2022 as well, the Board of Directors

received a report on the status of strategic equity holdings. Upon verifying the propriety of all strategic equity holdings, the board determined that they all remained justifiable (the number of stock issues did not change from the previous fiscal year-end).

### Policy on Strategic Equity Holdings

#### Basic Policy

(1) In order to contribute to sustainable growth and an increase in corporate value over the medium to long term, JSF strategically holds other companies' shares it deems necessary for purposes such as strengthening business relationships.

(2) With respect to strategic equity holdings, the Company examines the status of dividends and valuation gains and losses, the status of transactions with investee companies, and the history and the effects of the shareholdings, and based on this examination, reduces the number of strategic equity holdings in shareholdings deemed to be no longer necessary.

	March 31, 2023			
	Number of issues	Carrying amount	Percentage of total assets	Percentage of net assets
Listed shares	2	¥1,254 million	0.009%	0.924%
Unlisted shares	7	¥1,780 million	0.013%	1.311%

## Compliance and Internal Audits

### Message from the Responsible Executive Officer

#### We will promote the establishment of a system that reflects our awareness of our public role.

We are always aware of our public role in supporting the infrastructure functions of securities and financial markets. We believe that conducting business in compliance with laws, regulations and rules is crucial, as are honest and fair corporate activities. In order to realize our corporate philosophy, we position compliance as a precondition for management. We have therefore established a system to ensure thorough compliance, and will proactively respond to the social demands placed on the Company. In addition, one of the strategies in the Seventh Medium-Term Management Plan is to strengthen the business management structure, and we are building a robust system to ensure the effectiveness of internal audits and contribute to increased corporate value over the medium to long term.



**Shinichi Sugiyama**  
Managing Executive Officer  
Responsible for Compliance Department,  
Internal Audit Department

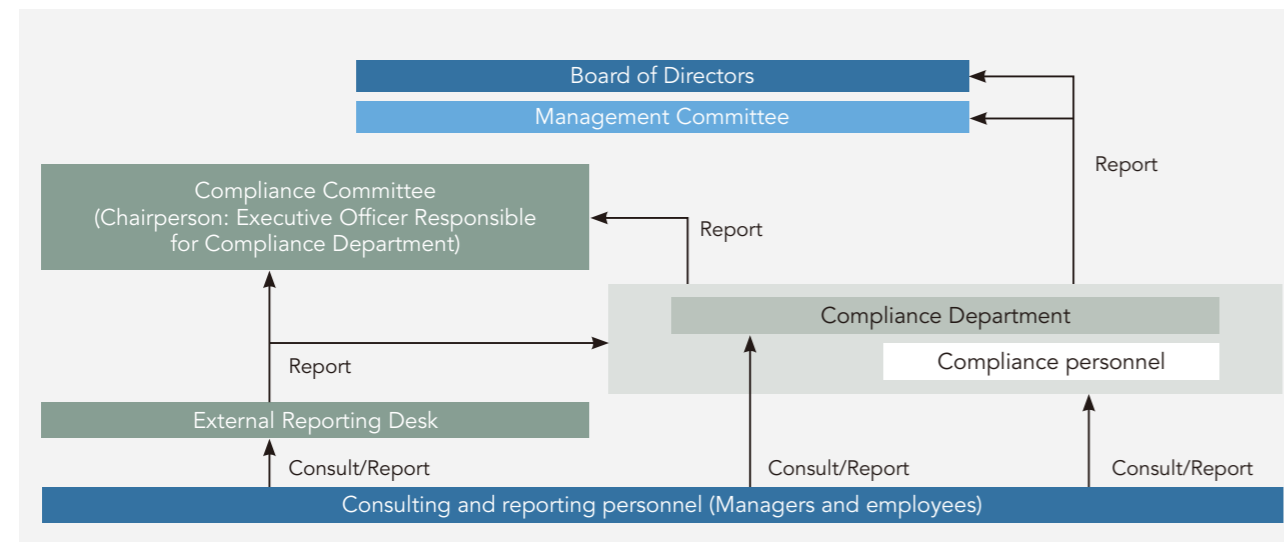
### Compliance System

We have established a Compliance Committee, chaired by the executive officer responsible for the Compliance Department, to deliberate on important matters related to compliance, such as formulating a compliance program and considering measures to be taken when compliance-related issues arise. In addition to educating officers and employees regarding honest and fair conduct based on high ethical standards, the Compliance Department works to thoroughly implement and promote Company-wide compliance activities. Activities include holding meetings for compliance officers to communicate

and share information with those in charge in each department, and compliance management meetings to share awareness with senior management.

In addition, the Company plays a central role in promoting the establishment and strengthening of the overall compliance system for the JSF Group, in ways such as holding Group compliance liaison meetings and Group compliance officer liaison meetings to promote mutual understanding and information sharing among Group companies.

#### Compliance System



### Formulating Conduct Guidelines and Compliance Program

In addition to formulating and disseminating the JSF Business Conduct Guidelines and the accompanying Compliance Manual, the Company is working to instill compliance awareness by having all officers and employees carry a "compliance self-check card" at all times. In addition, the Company has formulated a Compliance Program as a practical plan for promoting compliance, and the Board of Directors receives regular reports on the program's implementation status.

The Compliance Program incorporates specific measures related to compliance promotion from the perspectives of

understanding compliance risks and the status of legal compliance (such as the establishment of systems related to laws and regulations and self-inspections using checklists), compliance awareness-raising activities (including training and tests), and cooperation in and promotion of compliance activities (activities aimed at sharing recognition and awareness among Group companies and among officers and employees).

### Response to Money Laundering and Other Issues

As Japan's financial institutions are required to strengthen their response to money laundering within an international framework, we are conducting risk assessments and evaluations of money laundering and other issues with regard to our clients in compliance with the guidelines issued by Japan's Financial Services Agency. At the same time, we have strengthened

our system for implementing mitigation measures. We will continue to collect information on the changing external environment and trends at other financial institutions, and will continuously review our business practices under the leadership of our management executive team.

### Initiatives to Block Relationships with Antisocial Forces

The organization as a whole takes a resolute stance against demands made by antisocial forces that threaten the order and safety of civil society. Our aim is to eliminate any relationships with antisocial forces by working closely with external specialized agencies such as the police, anti-organized crime campaign centers, and attorneys. We are also working to block such relationships through appropriate pre-screening

and organized crime exclusion clauses in contracts and other documents.

The Compliance Department ensures the effectiveness of efforts to block relationships with antisocial forces in various ways, including centrally managing and accumulating information on such groups, building a database, conducting training activities and preparing response manuals.

### Initiatives to Protect Clients and Personal Information

Regarding opinions and complaints received from clients, we clarify the relevant facts and responsibilities and work to resolve the situation quickly, honestly, fairly and appropriately, with respect for the client's position. In the event of a dispute or similar issue, we respond appropriately in accordance with the aims of the financial alternative dispute resolution (ADR) system.

In addition, regarding transactions between Company or Group company businesses and their clients, or between Company or Group company clients, we carry out our duties appropriately, taking necessary measures in accordance with

laws and regulations and our conflict of interest management policy to ensure that the interests of our clients are not wrongfully harmed.

We take appropriate measures to safely and properly manage the personal information of our clients to prevent leakage, loss, damage or other issues, and educate and properly supervise our employees to that same end. In addition, when entrusting the handling of personal information and similar data that we have received, we appropriately supervise the entrusted party.

### Internal Audit System

The Company has established an Internal Audit Department as an independent department to conduct audits of all Company businesses and departments. Additionally, the Internal Audit Department conducts Group-wide audits, targeting the operations of consolidated subsidiaries, as necessary.

Specifically, the Internal Audit Department verifies the propriety and effectiveness of the internal control system of each business and department, reports the audit results to the Representative Executive Officer & President and to the

Management Committee, and then makes recommendations for improvements and enhanced conformance to the audited department based on its evaluation. Moreover, important matters such as internal audit plans and audit results are reported to the Audit Committee and the Board of Directors. By establishing this internal audit system, we have strengthened our operational management system and ensure effective, sound corporate activities.



# Officers

## Directors



**Takayoshi Yamakawa**  
Director

**Kensuke Futagoishi**  
Director

**Hiroshi Asakura**  
Director

**Shoko Sugino**  
Director

**Naotaka Obata**  
Director, Chairperson of the Board

**Shigeki Kushida**  
Director

**Setsuko Egami**  
Director

### Naotaka Obata Director, Chairperson of the Board

Apr. 1968 Joined The Mitsubishi Bank, Ltd.  
 May 1999 Managing Executive Officer of The Bank of Tokyo-Mitsubishi, Ltd.  
 Jan. 2004 Senior Managing Executive Officer of The Bank of Tokyo-Mitsubishi, Ltd.  
 Jun. 2004 Deputy President of The Bank of Tokyo-Mitsubishi, Ltd.  
 Jun. 2005 President and CEO of Diamond Lease Company Limited  
 Apr. 2007 President and CEO of Mitsubishi UFJ Lease & Finance Company Limited (currently Mitsubishi HC Capital Inc.)  
 Jun. 2010 Chairman of Mitsubishi UFJ Lease & Finance Company Limited  
 Jun. 2012 Executive Advisor to the Board, Mitsubishi UFJ Lease & Finance Company Limited  
 Apr. 2013 Board member of Japan Pension Service  
 Jun. 2018 Special Advisor, Mitsubishi UFJ Lease & Finance Company Limited (currently Mitsubishi HC Capital Inc.)  
 Jun. 2019 Director, Chairperson of the Board of Japan Securities Finance Co., Ltd. (current position)  
 Jun. 2023 Honorary Advisor, Mitsubishi HC Capital Inc. (current position)

### Shoko Sugino Director

Apr. 1973 Registered as an attorney Joined Fujibayashi Law Office  
 Apr. 1994 Partner Attorney at Fujibayashi Law Office (current position)  
 Apr. 1997 Professor for The Legal Training and Research Institute of Japan  
 Apr. 2000 Tokyo Family Court Conciliation Committee Member  
 Jul. 2005 Environment Dispute Coordination Commission Member  
 Mar. 2007 Outside Audit & Supervisory Board Member of Kitoku Shinryo Co., Ltd.  
 Jun. 2018 Outside Audit & Supervisory Board Member of Takeei Corporation (current position)  
 Jun. 2019 Director of Japan Securities Finance Co., Ltd. (current position)  
 Jun. 2022 Outside Director of Janome Corporation (current position)

**Significant concurrent positions**

Partner Attorney at Fujibayashi Law Office  
 Outside Audit & Supervisory Board Member of Takeei Corporation  
 Outside Director of Janome Corporation

### Kensuke Futagoishi Director

Apr. 1977 Joined The Sanwa Bank, Limited  
 Apr. 2001 General Manager, Retail Banking Planning Division, UFJ Holdings, Inc.  
 Jan. 2002 General Manager, Gotanda Corporate Sales Department and Branch Manager, Gotanda Branch, UFJ Bank Limited  
 Oct. 2003 Joined IY Bank Co., Ltd. (currently Seven Bank, Ltd.)  
 Jun. 2004 Director of IY Bank Co., Ltd. (currently Seven Bank, Ltd.)  
 Jun. 2006 Director, Executive Officer of Seven Bank, Ltd.  
 Nov. 2007 Director, Managing Executive Officer of Seven Bank, Ltd.  
 Jun. 2009 Director, Senior Managing Executive Officer of Seven Bank, Ltd.  
 Jun. 2010 President and Representative Director of Seven Bank, Ltd.  
 Jun. 2018 Chairman and Representative Director of Seven Bank, Ltd.  
 Jun. 2022 Executive Advisor of Seven Bank, Ltd. (current position)  
 Director of Japan Securities Finance Co., Ltd. (current position)

### Takayoshi Yamakawa Director

Apr. 1991 Joined Yokogawa Hewlett Packard Co.  
 Oct. 1995 Joined The Boston Consulting Group  
 Jun. 2000 Founder (co-established), Director and CTO of Dream Incubator Inc.  
 Jun. 2005 Vice Representative Director of Dream Incubator Inc.  
 Jun. 2006 Representative Director & CEO of Dream Incubator Inc. (retired June 2020)  
 Jul. 2020 Representative Partner of Business Producer LLC (current position)  
 Jan. 2021 Outside Director of BitStar, Inc. (current position)  
 Apr. 2021 Outside Director of Baseconnect Inc. (current position)  
 Jun. 2021 Outside Director of Akatsuki Securities, Inc. (current position)  
 Jun. 2022 Outside Director of FP Corp. (current position)  
 Director of Japan Securities Finance Co., Ltd. (current position)

**Significant concurrent positions**

Representative Partner of Business Producer LLC  
 Outside Director of Akatsuki Securities, Inc.  
 Outside Director of FP Corporation

### Setsuko Egami Director

Apr. 1983 Chief Editor of *Travail* of Japan Recruit Center  
 Dec. 2001 Head of Frontier Service Development Laboratory of East Japan Railway Company  
 Apr. 2006 Visiting Professor of Graduate School of Public Management, Waseda University  
 Nov. 2006 Member of Government Tax Commission  
 Jun. 2007 Outside Auditor of Taisho Pharmaceutical Co., Ltd.  
 Apr. 2009 Professor of Graduate School of Humanities, Musashi University  
 Professor of Faculty of Sociology, Musashi University  
 Jun. 2011 Outside Auditor of Yusen Logistics Co., Ltd.  
 Apr. 2012 Dean of Faculty of Sociology, Musashi University

Jun. 2015 Outside Director of Mitsubishi Estate Co., Ltd.  
 Jun. 2018 Outside Director of Mitsubishi Motors Corporation  
 Jun. 2020 Outside Director of Resona Holdings, Inc. (current position)  
 Apr. 2021 Professor Emeritus, Musashi University (current position)  
 Jun. 2023 Director of Japan Securities Finance Co., Ltd. (current position)

**Significant concurrent positions**

Professor Emeritus, Musashi University  
 Outside Director of Resona Holdings, Inc.

### Shigeki Kushida Director

May 2008 Deputy Director-General of Personnel and Corporate Affairs Department (Personnel Management), Bank of Japan (BOJ)  
 Mar. 2009 Director-General of Personnel and Corporate Affairs Department, BOJ  
 Jun. 2010 Director-General of Monetary Affairs Department, BOJ  
 May 2011 General Manager of Nagoya Branch, BOJ  
 Mar. 2013 Executive Director of BOJ  
 Apr. 2017 Senior Advisor of American Family Life Assurance Company (currently Aflac Japan Ltd.)  
 May 2019 Advisor of Japan Securities Finance Co., Ltd.  
 Jun. 2019 Director, Representative Executive Officer & President of Japan Securities Finance Co., Ltd. (current position)  
 Jun. 2022 Director of JSF Trust & Banking Co., Ltd. (current position)

**Significant concurrent positions**

Outside Director of Denso Corporation

### Hiroshi Asakura Director

Apr. 1978 Joined Japan Securities Finance Co., Ltd.  
 Jun. 2002 General Manager of Planning Department  
 Jun. 2005 General Manager of Margin Loan Department  
 Jun. 2006 Corporate Officer & General Manager of Margin Loan Department  
 Feb. 2008 Corporate Officer & General Manager of Loan Department  
 Jun. 2009 Managing Director  
 Jun. 2013 Senior Managing Director (retired in June 2016)  
 Jun. 2016 President of Nihon Building Co., Ltd. (retired in June 2021)  
 Jun. 2021 Director of Japan Securities Finance Co., Ltd. (current position)

## Executive Officers



**Eizo Kobayashi**  
Chairperson



**Shigeki Kushida**  
Representative Executive Officer & President



**Yutaka Okada**  
Senior Managing Executive Officer Responsible for Corporate Governance Office, Business Development Department, Treasury Department, International Relations



**Morikuni Shimoyamada**  
Senior Managing Executive Officer Responsible for Margin Loan Department, Institutional Sales Department, Retail Business Department



**Masaru Sekiguchi**  
Managing Executive Officer Responsible for Risk Management Department, Corporate Planning Department, Settlement & Custody Department, Information Systems Planning Department, Osaka Branch, Group Companies Relations



**Shinichi Sugiyama**  
Managing Executive Officer Responsible for Internal Audit Department, Compliance Department



**Wataru Sato**  
Managing Executive Officer Interim General Manager of Human Resources Department

## Corporate Officers

**Jun Akabane**  
General Manager of Osaka Branch

**Yuji Yoshimoto**

**Ken Toda**  
General Manager of Compliance Department

**Hiroyuki Matsui**  
General Manager of Risk Management Department

# Sustainability Initiatives

## Basic Approach to Sustainability

The development of infrastructure that serves as the foundation of socio-economic activities is a key element in realizing a sustainable society, and it is also one of the Sustainable Development Goals (SDGs: Goal 9). The JSF Group provides a variety of services, including the loans for margin transactions business, as a company that supports the infrastructure of Japan's securities and financial markets, and works to improve the liquidity of the domestic securities and financial markets, as well as convenience for market participants. Through these activities, we aim to contribute to initiatives to realize a sustainable society, including supporting market participants who are engaged in similar initiatives.

Because it is responsible for the infrastructure of the securities and financial markets, the Group believes it is

important to build a system that provides stable operations regardless of circumstances. To this end, we must not only respond to disasters in a narrow sense, but also ensure the stability and high reliability of our business base.

In addition, we believe that there are issues toward which the Group can also contribute by utilizing the know-how and other resources that it has cultivated over the years. Based on this perspective, we are currently aware of the following material issues. Our Group recognizes the roles expected of it in addressing these material issues and will advance various initiatives while flexibly responding to changes in the social environment.

## Dialogue with Stakeholders

We are promoting the following initiatives in order to gain and maintain the support and trust of our stakeholders.

Shareholders and investors	<ul style="list-style-type: none"> <li>• Hold financial results briefings for analysts and institutional investors (May and November 2022) and individual interviews</li> <li>• Conduct shareholder surveys and share survey responses with the Board of Directors</li> <li>• Introduce hybrid shareholder meetings that enable both online and in-person participation (Live streaming of general meetings for shareholders unable to attend due to remote location or other reasons)</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Hold dialogue sessions between top management and employees to share value (Online meetings for all employees, and regular small group dialogue sessions with voluntary participation)</li> <li>• Conduct employee surveys and DI* surveys to understand employee attitudes and opinions</li> </ul>
Business partners and others	<ul style="list-style-type: none"> <li>• Interviews and participation in international conferences</li> <li>• Hold various seminars on margin transactions for securities company employees</li> </ul>
Society	<ul style="list-style-type: none"> <li>• Support international cooperation and securities market development, and engage in academic research on securities and financial markets</li> <li>• Make donations for disaster relief</li> </ul>

\* Diffusion Index: An index based on employee surveys that measures employee job satisfaction, changes in workplace conditions and other conditions

## Material Issues That We Recognize

Classification	Item	Issues	Initiatives
E	Climate change	<ul style="list-style-type: none"> <li>• Promote reduction in environmental impact</li> </ul>	<ul style="list-style-type: none"> <li>• Improve Company facilities to conserve electricity, and be conscious of environmental impact</li> <li>• Promote paperless operations in all areas of the Company</li> <li>• Carry out initiatives to address the TCFD recommendations</li> </ul>
S	Education	<ul style="list-style-type: none"> <li>• Promote financial and economics-themed education activities</li> <li>• Promote academic research activities</li> </ul>	<ul style="list-style-type: none"> <li>• Hold a lecture on "Financial and Securities Markets and Industry-Academia Alliance—Blockchain Case Studies" at the Graduate School of Engineering at the University of Tokyo</li> <li>• Hold various seminars on margin transactions</li> <li>• Conduct joint empirical research with the University of Tokyo (Securities Finance Transactions Using Distributed Ledger Technology)</li> </ul>
	Human resources	<ul style="list-style-type: none"> <li>• Promote diversity</li> <li>• Develop and secure human resources and create a pleasant workplace</li> </ul>	<ul style="list-style-type: none"> <li>• Provide support for childbirth, childcare and nursing care                             <ul style="list-style-type: none"> <li>- Introduce telework Company-wide</li> <li>- Monitor employee engagement</li> </ul> </li> </ul>
	Human rights	<ul style="list-style-type: none"> <li>• Respect human rights, prohibit discrimination and respect diversity</li> <li>• Prohibit all types of harassment</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct harassment prevention training for new managers</li> <li>• Establish an Internal Reporting Desk and an External Reporting Desk</li> </ul>
	Capital market	<ul style="list-style-type: none"> <li>• Enhance functions as infrastructure for Japan's securities and financial markets</li> <li>• Contribute to overseas securities and financial market infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Provide technical assistance and investment in securities finance in Indonesia</li> </ul>
G	Corporate governance	<ul style="list-style-type: none"> <li>• Continuously improve corporate governance</li> </ul>	<ul style="list-style-type: none"> <li>• Strive to enhance governance as a Company with a Nominating Committee, etc.                             <ul style="list-style-type: none"> <li>- Ensure that the majority of directors are independent outside directors</li> <li>- Ensure that the chairpersons of the Board of Directors and the three statutory committees are independent outside directors</li> <li>- Establish a dedicated department to address various corporate governance issues with a sense of urgency</li> </ul> </li> </ul>
	Business continuity planning (BCP)	<ul style="list-style-type: none"> <li>• Stably operate business that is not affected by disasters, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to strengthen the BCP system and cyber security system to ensure stable business operations as a part of the infrastructure of securities and financial markets</li> </ul>
	Compliance	<ul style="list-style-type: none"> <li>• Operate business based on a high awareness of compliance</li> </ul>	<ul style="list-style-type: none"> <li>• Prepare manuals and establish Compliance Enhancement Month</li> </ul>
	Risk management	<ul style="list-style-type: none"> <li>• Implement the risk appetite framework (RAF)</li> </ul>	<ul style="list-style-type: none"> <li>• Implement RAF and establish a system to integrate business management and risk management</li> </ul>



## Sustainability Initiatives

### Empirical Research on Securities Finance Transactions Using Distributed Ledger Technology

JSF and the Graduate School of Engineering of the University of Tokyo (University of Tokyo) have been conducting empirical research since April 2021 to explore the feasibility of using distributed ledger technology to facilitate transactions involving tokenized securities or collateral in repo transactions and securities lending and borrowing transactions. The two parties released a report on the results on May 30, 2023.\*

\* [https://www.jsf.co.jp/english/media/report\\_dlt\\_en.pdf](https://www.jsf.co.jp/english/media/report_dlt_en.pdf)

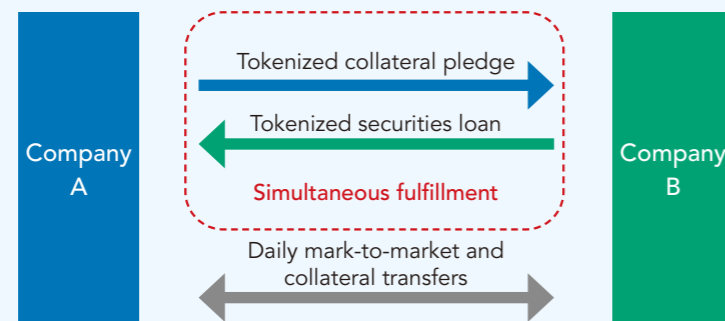
JSF was responsible for conceptualization and scheme planning, research of related market practices, and compilation of the final report, while the University of Tokyo was in charge of data analysis and review of basic technologies and systems concerning distributed ledger technology.

In this research, we evaluated the following three points and identified five implications.

#### Points Evaluated

- Feasibility of securities finance transactions execution (individual bilateral transactions)
- System performance when processing transactions in market-wide scale
- Impacts of collateralized securities diversification and threshold setting for margin call on net credit amount and necessary liquidity, including the evaluation in the event of market turmoil

#### Conceptual Diagram of Individual Bilateral Transaction



#### Implications

##### (1) Transaction feasibility

Various types of securities finance transactions, including those involving the exchange of assets denominated in different currencies and securities tokens to securities tokens, can be smoothly implemented to the end of the transaction period, from the start of transactions through margin calls.

##### (2) Reduction of settlement risks, especially in the case of simultaneous execution of transactions denominated in different currencies

Token-to-token exchanges can be automatically conducted simultaneously without any time difference, even if the underlying assets are denominated in different currencies. In addition, margin calls can be automatically implemented without the need for operations by transaction parties.

##### (3) Flexibility in reducing credit risk and enhancing the economization of liquidity

Automation of margin calls reduces operational burden, making it easier to make margin calls, and credit risk may be reduced.

We expect the findings of this research to be utilized for social implementation in a number of fields in the future, including the securities industry. In addition, we believe that this research, through industry-academia collaboration, provided positive outcomes that address important sustainability issues recognized by JSF, especially contributions to the promotion of academic research activities and the infrastructure of securities and financial markets.

In addition, the appropriate combination of collateralized securities diversification effect and margin call threshold setting can reduce credit risk and economize liquidity, especially during market turmoil.

##### (4) Streamlining of operation

Automation of settlement and margin call administration makes it possible for straight through processing (STP) and to improve the efficiency of securities finance transactions administration and the management of operational risk. In particular, this has the potential to significantly reduce operations and time requirements for exchanging transaction information and checking status with counterparties located in other countries, thereby improving the efficiency of transactions.

##### (5) Utilization of assets with low liquidity

It will become easier to transfer rights of low-liquidity assets by tokenization, providing the potential to not only hold these assets, but also to utilize them as collateral for securities finance transactions (the valuation of the underlying asset itself may improve as the utilization value increases).

### Cooperative Relationships with Indonesia's Securities Market Infrastructure

#### Technical Cooperation and Investment in an Indonesian Securities Finance Company

In Indonesia, the government's policy objectives are to strengthen the financial services sector to contribute to medium- to long-term growth and to stabilize the financial system as a basis for sustainable economic development. A project to establish and operate a securities finance company in Indonesia was launched in 2014, and in December 2016, PT Pendanaan Efek Indonesia (PEI) was established with investments by three companies, including the Indonesia Stock Exchange.

As part of the infrastructure of the Japanese securities market, JSF has been actively supporting this project since

its beginning in ways such as providing knowledge of securities financing, and acquired a 10% stake in PEI in August 2020 through an investment of ¥400 million. Going forward, we will further utilize the knowledge we have accumulated in the securities finance business to support PEI and Indonesia Stock Exchange Group in their business development and market infrastructure improvements, and continue to strengthen cooperative relationships with all parties involved as we contribute to the sustainable development of Indonesia's economy as well as its financial and securities markets.

#### The Sixth Workshop for Participants in Indonesia's Securities Sector

JSF regularly conducts workshops to deepen interaction with people involved in Indonesia's securities sector. We held our sixth workshop at our Company headquarters from September 4-6, 2023. A total of 20 people came to Japan from organizations including the Indonesia Stock Exchange (IDX), PEI, the Indonesia Clearing and Guarantee Corporation (KPEI), the Indonesia Central Securities Depository (KSEI), and the Indonesia Financial Services Authority (OJK) for an exchange of opinions on a wide range of topics including JSF's loans for margin transactions

business, securities financing and trust business, Indonesia's economic and financial situation, capital markets, and an overview of PEI's business. At the workshop, young and mid-career employees played a central role in giving presentations. Expanding networks and facilitating interaction with people from different cultures and business environments is also useful for human resource development, as it helps our people acquire an international perspective.

#### Collaboration with Indonesia Securities Finance (PEI)

I have been involved in projects in Indonesia since summer 2019. Following the signing of a memorandum of understanding in 2014 to introduce a securities finance system to stimulate Indonesia's securities market, we have met with our Indonesian counterparts many times, shared knowledge face-to-face, and had multiple discussions about investing in Indonesian securities finance. Under these circumstances, the investment project gained momentum at the time of the COVID-19 pandemic in 2020, and JSF made its investment in August 2020. During the pandemic, negotiations were mainly conducted online, and the investment signing ceremony was also held online, and I recall the challenges both parties dealt with. Currently, we continue to collaborate closely by attending general meetings of shareholders and various other meetings, and holding workshops for people from both countries involved in the securities sector.



Yusuke Tamai  
Business Development  
Department

#### Winner at the International Finance Awards and the Annual Global Economics Awards

JSF received the following awards sponsored by British financial media outlets International Finance Publications Limited and The Global Economics Limited. These awards recognize outstanding companies in the field of international finance.

- International Finance Awards 2022, Most Innovative Securities Finance Company (second consecutive year)
- The Annual Global Economics Awards 2022 (AGEA), Best Client Services Team in Securities Lending
- The Annual Global Economics Awards 2023 (AGEA), Best Corporate Governance Practices (Finance). This was JSF's first award in a corporate governance-related category.



# Addressing Climate Change and Environmental Protection (Initiatives Based on the TCFD Recommendations)

In addition to engaging in initiatives aimed at bringing about a sustainable global environment through its business activities, JSF is working to improve disclosure of climate change information in accordance with the TCFD\* recommendations.

\* Task Force on Climate-related Financial Disclosures: Established by the Financial Stability Board (FSB) in 2015 at the request of the G20 for the purpose of financial stability. The final report on frameworks for disclosure of climate-related risks and opportunities (TCFD recommendations) published in 2017 calls on companies to assess the risks and opportunities of climate change, reflect them in their business strategy and risk management, understand their financial impact, and disclose this information.

## Governance

- To drive Group-wide climate-related efforts, the Board of Directors approved the “Basic Stance on Sustainability,” in which it recognizes climate change as a material issue for its business.
- The Management Committee (chaired by the Representative Executive Officer & President) deliberates and decides on sustainability initiatives, including those concerning climate-related issues, and the Board of Directors oversees the progress on these initiatives.
- Specific sustainability initiatives, including those concerning climate-related issues, are detailed in the action plan for the medium-term management plan, and they are carried out across the organization under the oversight of the Corporate Governance Office.

## Strategy

- As a company responsible for Japan’s securities and financial market infrastructure, JSF recognizes the importance of building systems that operate reliably regardless of conditions. Therefore, we believe that realizing a sustainable global environment is crucial for the continuation of our business activities, and that climate change is a material issue for our business.
- After identifying the risks and opportunities of climate change that could impact our business activities, we qualitatively analyze those impacts and verify the resilience of our management strategy.
- In responding to the transformation into a carbon-free society, we support the efforts of the securities and financial markets participants that are grappling with climate-related issues by improving our financial services and the commercial appeal of our products. At the same time, we are aiming to enhance our own corporate value.

### Recognized Risks

- Climate change risks are divided into two categories for identification and recognition purposes. These are “transition risks,” which are risks arising from the process of transitioning to a lower-carbon economy to address climate change, and “physical risks,” which are risks of losses arising directly from climate change.
- For recognized risks, assumptions have been made about the type of damage (direct or indirect), the scale of the risk (large, medium or small), and the time frame (short- to medium- to long-term).
- JSF believes that the increase in its credit costs will be limited because most of its lending comprises securities-backed loans to securities firms and banks.

Type of risk	Description	Damage	Scale	Time frame
Transition risks	Higher operating costs due to taxation changes related to climate change, such as stricter regulation and carbon taxes	Direct	Small	Medium- to long-term
	Decline in securities financing balance due to factors such as worsening economic conditions, weak financial and securities markets and declining demand for funding due to the effects of global warming	Indirect	Medium	Medium- to long-term
	Decline in share prices due to stakeholder criticism of JSF's response to global warming and inadequate disclosure	Direct	Small	Medium- to long-term

Type of risk	Description	Damage	Scale	Time frame
Physical risks	Damage to owned real estate and facilities due to major storm and flood damage, with damage to facilities affecting business continuity	Direct	Medium	Short- to long-term
	Drop in prices of securities held as a result of worsening financial and securities markets due to the effects of extreme weather events			
	Higher credit costs as a result of damage to counterparty business locations due to major storm and flood damage	Indirect	Small	Short- to long-term
	Business relocation costs incurred due to rising sea levels	Direct	Medium	Long-term
Chronic risks	Higher credit costs as a result of damage to counterparty business locations due to rising sea levels	Indirect	Small	Long-term

Note: Short-term, medium-term and long-term time frames are assumed to be 3 years or less, 3–10 years and 10 years or longer, respectively.

### Recognized Opportunities

- JSF anticipates and recognizes the following opportunities associated with tackling climate-related issues.
- Our initiatives with respect to these climate-related issues are incorporated into the action plan for the medium-term management plan, and we are monitoring the progress of their implementation.

Opportunity	Description	Time frame
Resource-efficient energy sources	<ul style="list-style-type: none"> <li>• Promoting resource and energy savings</li> <li>• Utilizing renewable energy</li> </ul>	Short- to long-term
Markets for products and services	<ul style="list-style-type: none"> <li>• Offering financial services that support the transition to a carbon-free society</li> <li>• Contributing to an environmentally sustainable society through investments in green bonds and other instruments</li> <li>• Increased demand for funding due to the expanding market for ESG investment</li> <li>• Gaining the trust of counterparties and capital markets as a result of appropriate initiatives and disclosure in response to climate-related issues</li> </ul>	Short- to long-term
Resilience	<ul style="list-style-type: none"> <li>• Ensuring business continuity in securities market infrastructure such as loans for margin transactions by building a resilient BCP system</li> </ul>	Short- to long-term

### Scenario Analysis

- A qualitative analysis of the impact of climate on the JSF Group, based on two scenarios, is presented below. Under the 2°C scenario, global warming is curbed due to strict countermeasures, while under the 4°C scenario, global warming continues to progress in the absence of drastic measures.

	2°C scenario <sup>1</sup>	4°C scenario <sup>2</sup>
Assumptions	<ul style="list-style-type: none"> <li>• Greenhouse gas emissions are curtailed through policy measures</li> <li>• There are advances in low-carbon technologies and they are widely adopted</li> <li>• Sudden storm and flood damage occurs at a similar scale and frequency as at present</li> </ul>	<ul style="list-style-type: none"> <li>• Without drastic policy measures, greenhouse gas emissions continue to increase at the current rate</li> <li>• Sudden storm and flood damage occurs more frequently and is larger in scale</li> <li>• Chronic changes, such as rising sea levels, have a significant impact on economic activity</li> </ul>
Opportunities	<ul style="list-style-type: none"> <li>• Demand increases for funding in the financial and securities markets due to growing ESG investment</li> <li>• Need increases for financial products and services related to environmental protection</li> </ul>	<ul style="list-style-type: none"> <li>• Demand increases for funding in connection with investment in infrastructure for disaster preparedness</li> </ul>
Risks	Transition risks	<ul style="list-style-type: none"> <li>• Stakeholders criticize JSF's response to global warming, causing its share price to decline</li> <li>• Equipment costs rise as a result of measures to cut greenhouse gas emissions and enhance BCP</li> </ul>
	Physical risks	<ul style="list-style-type: none"> <li>• There is damage to owned real estate and facilities due to major storms and flooding, affecting business continuity (assumes limited increase in credit costs in conjunction with damage to counterparty financial institutions)</li> <li>• Relocation expenses arise from damage to owned real estate due to rising sea levels</li> </ul>

1. 2°C Scenario: International Energy Agency (IEA) 2°C Scenario (2DS)

2. 4°C Scenario: Intergovernmental Panel on Climate Change (IPCC) Representative Concentration Pathway (RCP) 8.5

## Addressing Climate Change and Environmental Protection

(Initiatives Based on the TCFD Recommendations)

### Risk Management

- JSF recognizes that climate change not only poses the risk of a significant impact on the global environment, but it could also affect its financial position in the future.
- Because these climate change risks could cause or amplify financial risks (credit risk and market risk, for example), we manage the risks associated with climate change within an integrated risk management framework.

### Metrics and Targets

- We are working to save resources and energy by promoting telework, using web conferencing both inside and outside the Company, introducing an electronic decision-making system and a paperless meeting system, and digitalizing document storage.
- In FY2022, we converted all lighting in our head office building to LED as an energy-saving measure. We also considered initiatives for achieving carbon neutrality and reported the direction of such initiatives to the Board of Directors.
- The JSF Group's CO<sub>2</sub> emissions (combined Scope 1 and Scope 2 emissions\*) are shown below. We have steadily reduced CO<sub>2</sub> emissions and are implementing initiatives to reduce them still further.

\* Scope 1: Direct emissions (use of gas, gasoline, etc.); Scope 2: Indirect emissions (use of electric power)

	FY2019	FY2020	FY2021	FY2022
CO <sub>2</sub> emissions	923	874	856	810

(t-CO<sub>2</sub>)

## Risk Appetite Framework/Risk Management

### Message from the Responsible Executive Officer

Risk appetite is the type and total amount of risk that a company takes on in order to achieve its medium-term management plans. JSF's management goals are capital efficiency, profitability and shareholder returns, and we clearly identify risks that we should be willing to take<sup>1</sup> and risks that we should avoid<sup>2</sup> in order to achieve those goals within the scope of our management capabilities. Our risk appetite framework (RAF) integrates business management and risk management. Determining the management targets for the Seventh Medium-Term Management Plan involved reviewing our risk appetite and relevant indicators, which we are now regularly monitoring.

In addition, the Company plays a public role as a provider of securities market infrastructure, so we are strongly aware that the risks we take on should in no way impact our ability to maintain financial soundness or stably operate our loans for margin transactions business.

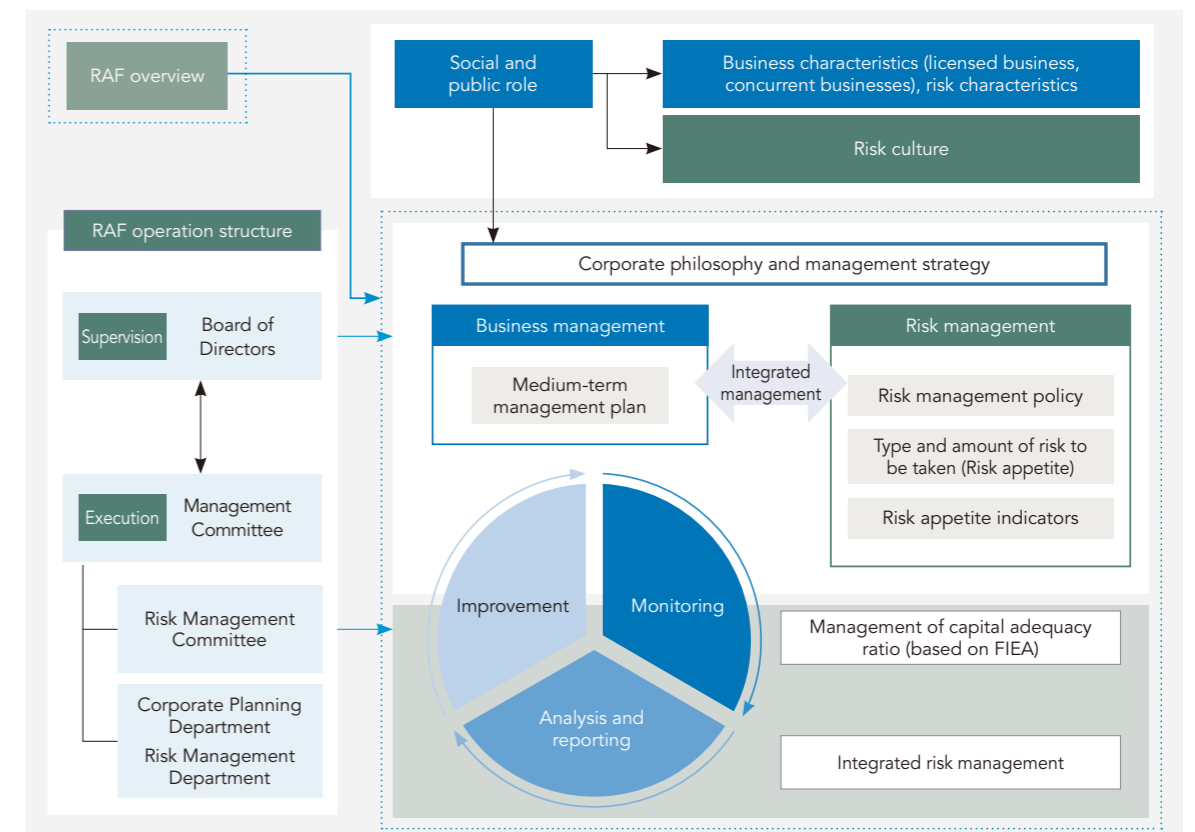
We will continue strengthening our monitoring system, promoting a Group-wide RAF management system and taking other steps to improve the sophistication of our RAF in order to increase corporate value over the medium to long term.

1. Risks to be taken: Risks associated with revenue-generating activities
2. Risks to be avoided: Unacceptable risks such as conduct risk



**Masaru Sekiguchi**  
Managing Executive Officer  
Responsible for Risk Management  
Department

### Risk Appetite Framework





## Risk Appetite Framework/Risk Management

### Basic Policy for Risk Appetite Framework

The Group considers the RAF to be part of its corporate governance framework. Our objective is to maintain the high degree of financial soundness required of a securities finance company responsible for the infrastructure functions of Japan's securities market, while improving medium- to long-term corporate value as expected of a listed company. To this

end, the RAF improves the transparency of the review and decision-making process for establishing the Company's overall risk-taking policy, including capital allocation and strengthening of profitability. Furthermore, the RAF optimizes allocation of management resources and strengthens the monitoring system.

### Risk Appetite Framework Governance

In the execution of business management, we set more detailed targets and decide plans for each business as we promote the medium-term management plan, keeping in mind our risk management policy, risk appetite and risk appetite indicators decided by the Board of Directors.

The Board of Directors works to improve and strengthen the effectiveness of the RAF on an ongoing basis by monitoring

risk appetite and risk appetite indicators as it supervises the status of business execution. If risk appetite indicators deviate from set levels, the board analyzes the causes and formulates countermeasures.

### Operation

In the operation of the RAF, the Board of Directors establishes a risk management policy for overall management based on the social role that JSF should play as a company responsible for infrastructure functions of Japan's securities market and its medium- to long-term vision for the future. At the same time, the board determines the basic items of the RAF, such as risk appetite and the risk appetite indicators that specifically

reflect its components, in conformance with the medium-term management plan. Risk appetite is set from a wide range of perspectives, including management stability and financial soundness, as well as the social responsibility for the infrastructure functions of and contributing to Japan's securities market.

### Process for Setting and Managing Risk Appetite

#### (1) Confirm premises for management plan formulation

Formulate multiple scenarios that take into account changes in the domestic and overseas environment, and verify premises for formulating medium-term management strategies, including capital and liquidity constraints.

#### (2) Consider medium-term management plan proposals

Consider business plans that encompass business goals, risk appetite, and business strategies in order to realize the Vision of the Future Targeted by JSF.

#### (3) Verify risk appetite

Evaluate the propriety of financial plans and risk appetite through stress tests, and revise business plan proposals, as necessary.

Review as appropriate based on verification results

#### (4) Determine medium-term management plan

The Board of Directors discusses and decides management goals, risk appetite and management strategies.

#### (5) Monitor risk appetite compliance

Regularly monitor indicators for each aspect of risk appetite and check compliance status.

#### (6) Reset risk appetite

Reset risk appetite in the case of discrepancies between risk appetite indicators and actual operations, or if significant changes occur in the operating environment.

Upper limit exceeded or other reason

### Fostering and Instilling a Risk Culture

We must provide risk management education and training and share risk information to foster and inculcate a risk culture throughout the Group. Therefore, we conduct regular in-house training to help employees deepen their understanding of the RAF and employ it in our business operations. Regarding risk information, we conduct surveys of market trends and monitor business partners as needed, and collaborate with business operations departments to share necessary information.

In addition, risk governance is further strengthened through an ongoing cycle of reminders of risk culture through the operation of the RAF, which further fosters and instills this culture.

We will continue to promote greater sophistication in our risk governance, which constitutes part of our corporate governance, with the aim of achieving sustainable growth and increasing corporate value over the medium to long term.

## Risk Management

### Basic Policies

JSF plays a public role as a provider of infrastructure for securities and financial markets, so we are strongly aware that the risks we take on should help maintain financial soundness and increase corporate value. Furthermore, we position risk management as one of our most important

management issues, and through the JSF Business Conduct Guidelines and our risk management policy, we instill a mindset and risk culture that emphasizes risk management throughout JSF.

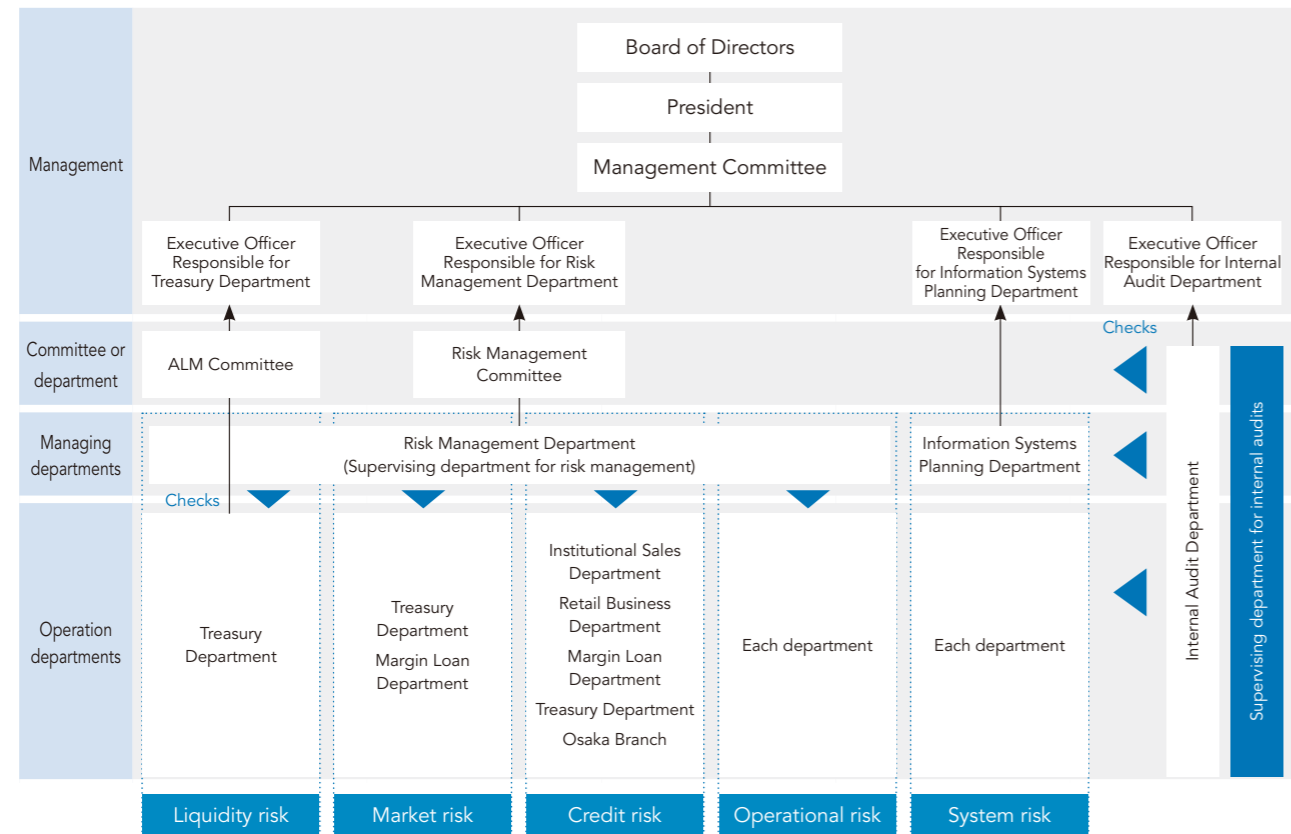
### Risk Management System

We broadly classify assumed risks for management as credit risk, market risk, liquidity risk, operational risk and system risk. For credit risk and market risk, we strive to secure profits while quantitatively identifying risks and keeping them within levels that match our financial strength. For liquidity risk, operational risk and system risk, we strive to prevent their manifestation by implementing appropriate management according to risk characteristics.

Regarding reporting, credit risk and market risk are reported to the Management Committee following discussion at the Risk Management Committee, and liquidity risk is reported to the Management Committee following deliberations at the Asset Liability Management (ALM) Committee. The officers responsible for each committee regularly report to the Board of Directors on the status of risks and measures to improve risk management.

# Risk Appetite Framework/Risk Management

## Risk Management System



Based on this approach to risk management, we have developed a system that supports the expansion of our balance sheet by using the risk appetite framework as described below.

## Capital Adequacy Ratio (Adequacy of Equity Capital)

In participating in the Japanese Securities Clearing Corporation (JSCC) clearing and settlement system, we are required to calculate, manage and maintain our capital adequacy ratio above a certain level in accordance with the Financial Instruments and Exchange Act. Specifically, we precisely calculate and manage this ratio on a monthly basis, monitor the impact of daily market fluctuations on equity capital, and quickly report this information to management.

We also verify our capital adequacy by using stress tests to calculate impacts on our equity capital, and formulate action plans, as necessary. We conduct two types of stress tests: monthly tests based on individual credit and market stress scenarios, and semi-annual comprehensive stress tests based on scenarios that reflect the current financial environment.

## Integrated Risk Management

### Credit Risk Management

JSF quantifies and manages credit risk using default rates for in-house ratings that it has calculated for each of its business partners. For credit management, we screen business partners, securities accepted as collateral, and loans, and set and manage transaction limits for each business partner. For each loan transaction, we reduce exposure by marking to market the

relevant collateral on a daily basis. In the event of borrower bankruptcy, we take steps including selling securities held as collateral to promptly collect receivables. Additionally, we manage large credit positions by calculating the stress exposure for each business partner across our businesses on a daily basis and sharing this information with business departments.

## Market Risk Management

JSF quantifies and manages market risks. Furthermore, to validate the reliability of the market risk quantification model we have adopted, we also implement back testing to compare calculated value at risk (VaR) with virtual profit and loss from

a given portfolio. At the same time, we appropriately control investment losses by setting loss limits based on overall profit and loss.

## Liquidity Risk Management

JSF recognizes liquidity risk as a significant risk, and strives to ensure the funding liquidity necessary for stable business operations by diversifying funding methods and maturities.

For cash flow management, we set a minimum amount of liquidity reserves based on the assumption that certain stress events will occur in financial markets. We monitor the state of liquidity reserves by formulating cash flow forecasts and confirming the amount of funding available, as well as the status of highly liquid asset holdings, while confirming concentrated maturities for large amounts of funds. We also have a system for reporting the status of daily cash flow to

management. Furthermore, we avoid fund shortages by conducting liquidity stress tests to address risks such as cash outflows when stress occurs in the funding environment.

In addition, we manage liquidity risk on a consolidated basis by receiving daily reports from JSF Trust and Banking that include cash flow forecasts and the status of its liquidity reserves. Furthermore, we prepare for unforeseen circumstances with measures to supplement liquidity, such as holding a certain amount of government bonds that we can immediately convert into cash.

## Initiatives for BCP

### Basic Concept for BCP

As a securities finance company with a social mission to continue operations that serve as infrastructure for the securities market, such as loans for margin transactions, for the handling of a possible disaster event such as a large-scale earthquake, JSF has established a business continuity plan (BCP) system so that operations can be continued or resumed as soon as possible, and so the impact of the disaster on our business partners and related external organizations is minimized.

The Company has positioned the loans for margin transactions, loans for negotiable margin transactions and fund/securities settlement businesses as operations to be continued on a priority basis. We have established a policy assuming the respective cases of 1) injury (or threat of injury) to officers and employees, and damage to buildings, etc., 2) damage to the Company's main centers, and 3) insufficient personnel.

### Comments from the Osaka Branch about the Operational Status of BCP

The Osaka Branch was established as a BCP base in September 2018 with the aim of strengthening business continuity in the event of a large-scale disaster such as an earthquake directly beneath the Tokyo metropolitan area or a wide-area disaster there. In normal times, the two locations conduct operations in parallel with each other, so that in the event of a disaster in the Tokyo metropolitan area, the Osaka Branch can function as a remote backup office for the Tokyo head office, handling important operations centered on loans for margin transactions and their settlement, which are securities market infrastructure.

In addition, in response to the widespread adoption of remote work during the COVID-19 pandemic, we have positioned remote work as a third BCP base, enabling business continuity in collaboration with the Osaka Branch in the event of a disaster.

