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In the event of any differences between the original Japanese version and the
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JSF in violation of the law

~Inappropriate accounting treatment and our claims~

Jan 19 2023
Strategic Capital, Inc.

Financial Instruments Business Operator, Director Kanto Local Finance Bureau (Kinsho) No 2786
MO Building 6F, 3-14-15, Higashi, Shibuya-ku
TEL: 03-6433-5277 / MAIL: info@stracap.jp

- As of December 21, 2022, Strategic Capital, Inc. and the funds it manages (hereinafter referred to as the Company or SC) is a major shareholder of Japan Securities Finance Co., Ltd ("JSF") holding 4,835,400 shares (approximately 5.04% of total o/s shares). At the extraordinary general meeting of shareholders (EGM) to be held February 7, 2023, on the "Election of a person to investigate the status of the operations and property of the Stock Company (Article 316 Paragraph 2 of the Companies Act)" SC will be making proposals 1 to 3.
- This presentation is composed of analysis of Strategic Capital, information from our activist activities and release from companies. Information and documents in this presentation are composed of materials we believe to be trusted and latest, however we do not guarantee the accuracy, completeness etc.
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1. Inappropriate Accounting



Overview of Inappropriate Accounting

P/L Structure of JSF

PL Items		Discrepancy
Operating Revenues	...	Overstated
Operating Expenses	...	—
<u>Operating Profit</u>		<u>Overstated</u>
General & Administrative Expenses	...	—
<u>Operating Income</u>		<u>Overstated</u>
Non-operating Revenues	...	—
Non-operating Expenses	...	—
<u>Recurring Income</u>		<u>Overstated</u>
Extraordinary Profit	...	Understated
Extraordinary Loss	...	—
<u>Net Income before Income Taxes</u>		—
Income Taxes		—
<u>Net Income</u>		—

Inappropriate Procedure

Part of Extraordinary Profit
(from gain on sale of JPX shares)

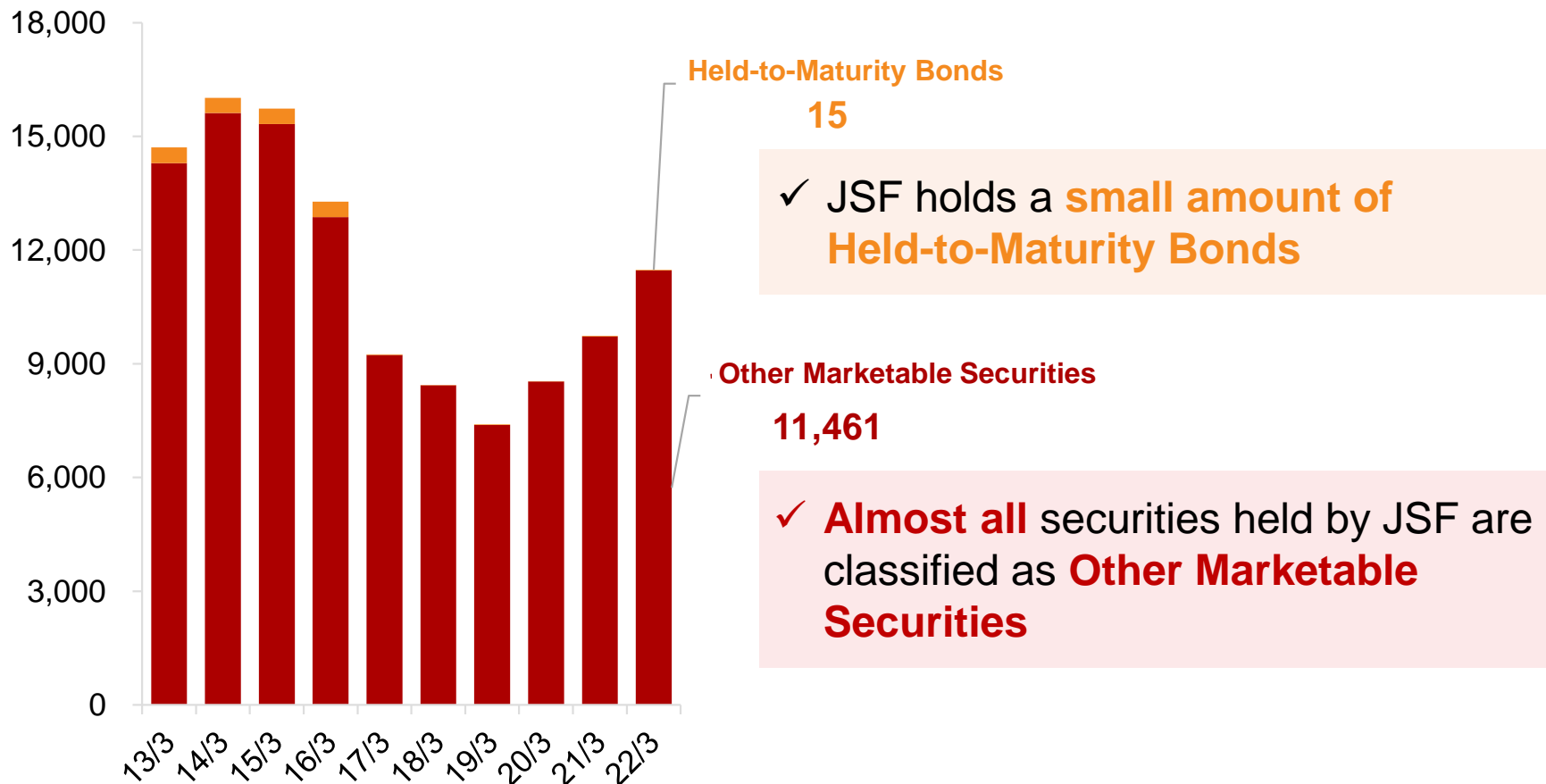
are
Being misrecorded as
Operating Revenues

Violation of Laws by JSF

- Financial Instruments & Exchange Act
- Regulation of Financial Statements
- Cabinet Office Ordinance on Securities Financing Companies

Security holdings as per JSF

Balance of securities held (by purpose, in JPY billions)



(Source : QUICK ASTRA MANAGER)

Accounting rule for securities

- **Almost all** securities held by JSF are classified as **“Other Marketable Securities”**
- As such, gains on sales of the securities should be **recorded as either non-operating revenue or extraordinary profit**

Accounting rule for securities

Classification by purpose of holding	Examples	Line item
① Other Marketable Securities (Paragraph 18 of Accounting Standard for Financial Instruments, ASFI)	Other than ②~④ (e.g. cross-shares, stocks held for pure investment, mutual funds)	■ Extraordinary profit (non-recurring) ■ Non-operating revenues (other)
② Securities for trading purposes (Paragraph 15 of ASFI)	Stocks, bonds held for trading purposes	■ Non-operating revenue (in principle) ■ Operating revenue (if securities trading is main business)
③ Held to maturity bonds (Paragraph 16 of ASFI)	—	■ Non-Operating revenue (when there is a reasonable cause) ■ Extraordinary profit (if no reasonable cause)
④ Subsidiaries and affiliates (Paragraph 17 of Accounting Standard for Financial Instruments)	—	■ Extraordinary profit

Not held or minimal amount held

(Source: Prepared by SC based of “Accounting Standards for Financial Instruments” issued by the Accounting Standards Board of Japan, “Corporate Accounting Navigator, Financial Instruments Part 3: Valuation of Financial Instruments”, by Ernst&Young ShinNihon LLC and Q68 of Q&A on Accounting for Financial Instruments by the Accounting System Committee, Japanese Institute of Certified Public Accountants)

Evidence of JSF's improper accounting practice

Gain on sales of Other Marketable Securities and non-operating revenue/extraordinary profit (JPY 100 million)

		13/3	14/3	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3
Gains on Sales of Other Marketable Securities	Equity	1.7	-	0.2	-	0.6	-	-	-	7.4	13.4
	Bond	18.2	5.7	4.1	17.5	10.1	12.0	5.6	8.1	0.0	0.6
	Others	-	-	-	-	1.4	3.2	0.9	0.4	-	0.5
	Total	19.8	5.7	4.3	17.5	12.1	15.2	6.5	8.5	7.4	14.5

Gains on Sales of Other Marketable Securities is NOT recorded as Non-operating Revenue nor Extraordinary gains

Non-operating Revenues	-	-	-	-	-	-	-	-	-	-	-
Extraordinary Profit	1.7	-	0.2	-	0.6	0.1	-	-	0.4	-	-

- JSF is recording gains on sales of securities as Operating Revenue
- Such an accounting treatment is **in violation of the Financial Instruments and Exchange Act and Cabinet Office Ordinance.**

(Source: Prepared by SC based on QUICK ASTRA MANAGER and the Company's Annual Securities Reports)



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2. Request for the Filing of Action for Restitution Based on Unjust Enrichment



Claims filed by Strategic Capital

P/L Structure of JSF

PL Items		Discrepancy
Operating Revenues	...	Overstated
Operating Expenses	...	—
Operating Profit		Overstated
General & Administrative Expenses	...	—
Operating Income		Overstated
Non-operating Revenues	...	—
Non-operating Expenses	...	—
Recurring Income		Overstated
Extraordinary Profit	...	Understated
Extraordinary Loss	...	—
Net Income before Income Taxes		—
Income Taxes		—
Net Income		—

Claims

Recurring Income is likely to be overstated due to inappropriate accounting treatment



Performance based remuneration for Officers is determined **based on recurring income**



Overpayment of performance-linked remuneration due to overstatement of recurring income



Request filing of a lawsuit to recover the overpaid remuneration

Overstatement of recurring income from sale of JPX shares

Gain on sales of Other Marketable Securities and non-operating revenue/extraordinary gains (JPY 100 million)

		13/3	14/3	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3
Gains on Sales of Other Marketable Securities	Equity	1.7	-	0.2	-	0.6	-	-	-	7.4	13.4
	Bond	18.2	5.7	4.1	17.5	10.1	12.0	5.6	8.1	0.0	0.6
	Others	-	-	-	-	1.4	3.2	0.9	0.4	-	0.5
	Total	19.8	5.7	4.3	17.5	12.1	15.2	6.5	8.5	7.4	14.5

Almost all due to sale of JPX shares

Non-operating Revenues	-	-	-	-	-	-	-	-	-	-	-
Extraordinary Profit	1.7	-	0.2	-	0.6	0.1	-	-	0.4	-	

Gain on sale of JPX shares not recognized as extraordinary profit

Recurring Income	25.6	31.2	42.3	33.5	36.1	46.9	50.5	48.9	55.6	71.6
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Increases recurring income

Understatement of extraordinary profit/overstatement of recurring income due to sale of JPX shares

(Source: Prepared by SC based on QUICK ASTRA MANAGER and the Company's Annual Securities Reports)

Improper accounting treatment and Officer remuneration

- **Recurring income may have been padded** from the understatement of extraordinary profit
- Raises suspicion that overpayment of performance-linked remuneration, which is based off Recurring Income occurred

Policy on Remuneration

Base remuneration	Performance-linked remuneration	
	Officer bonus	Stock-based remuneration
65%	20%	15%

Performance-linked remuneration occupies 35% of total remuneration

Performance-linked remuneration is linking to Recurring Income

[Officer bonus]

- Bonuses are determined by multiplying the standard bonus calculation amount for each Executive Officer's position by the performance-linked coefficient (bonus).

※Non-GAAP Recurring Income

- The performance-linked coefficient (bonus) is determined by multiplying each of the three indicators (number of lending issues, **basic profit**, and consolidated current fiscal year net income) by the ratio of change from the previous year to each indicator, which reflect the degree of progress and achievement of management goals.

[Stock-based remuneration]

- The number of base points will be determined based on each Executive Officer's position.
- Based on the base number of points, if the **average consolidated ordinary profit or loss for the past three years**, including the current fiscal year, exceeds the benchmark, an addition is made, and if it falls below the benchmark, a subtraction is made.
- The Company uses consolidated recurring income as an indicator for the purpose of increasing the linkage with shareholders' interests over the medium to long term by using its performance, excluding the impact of one-time profit or loss.

(Source: NOTICE OF CONVOCATION OF THE 112TH ANNUAL GENERAL MEETING OF SHAREHOLDERS)

What we are seeking

- See the correction of JSF's accounting treatment and recovery of damages

Assumptions

Accounting procedures

- Gains (losses) on sale of marketable securities should be included in non-operating revenue (loss) or extraordinary profit (loss)
- JSF is including the majority of gains (losses) from the above-mentioned sale in operating P&L
- Such treatment is a clear violation of laws

Executive Officer Compensation

- 35% of compensation is performance-linked
- Recurring Income is used to determine performance-linked remuneration
- May be overstated due to incorrect accounting treatment
- As a result there may be an overpayment of performance-linked remuneration

What we are seeking

Accounting procedures

- Correct past financial statements and properly classify any gains (losses) on sale of marketable securities as either non-operating or extraordinary profit (loss)

Executive Officer Compensation

- Recalculate the performance-linked remuneration based on the corrected financial statements
- Seek the recovery of the amount of performance-linked remuneration that was overpaid