

# Corporate Governance

In order to ensure management transparency and corporate governance, SBIH recognizes that one of its most crucial management issues is to establish, maintain and improve upon an organizational structure capable of responding quickly to changes in the business environment, as well as a shareholder-oriented and fair management system.

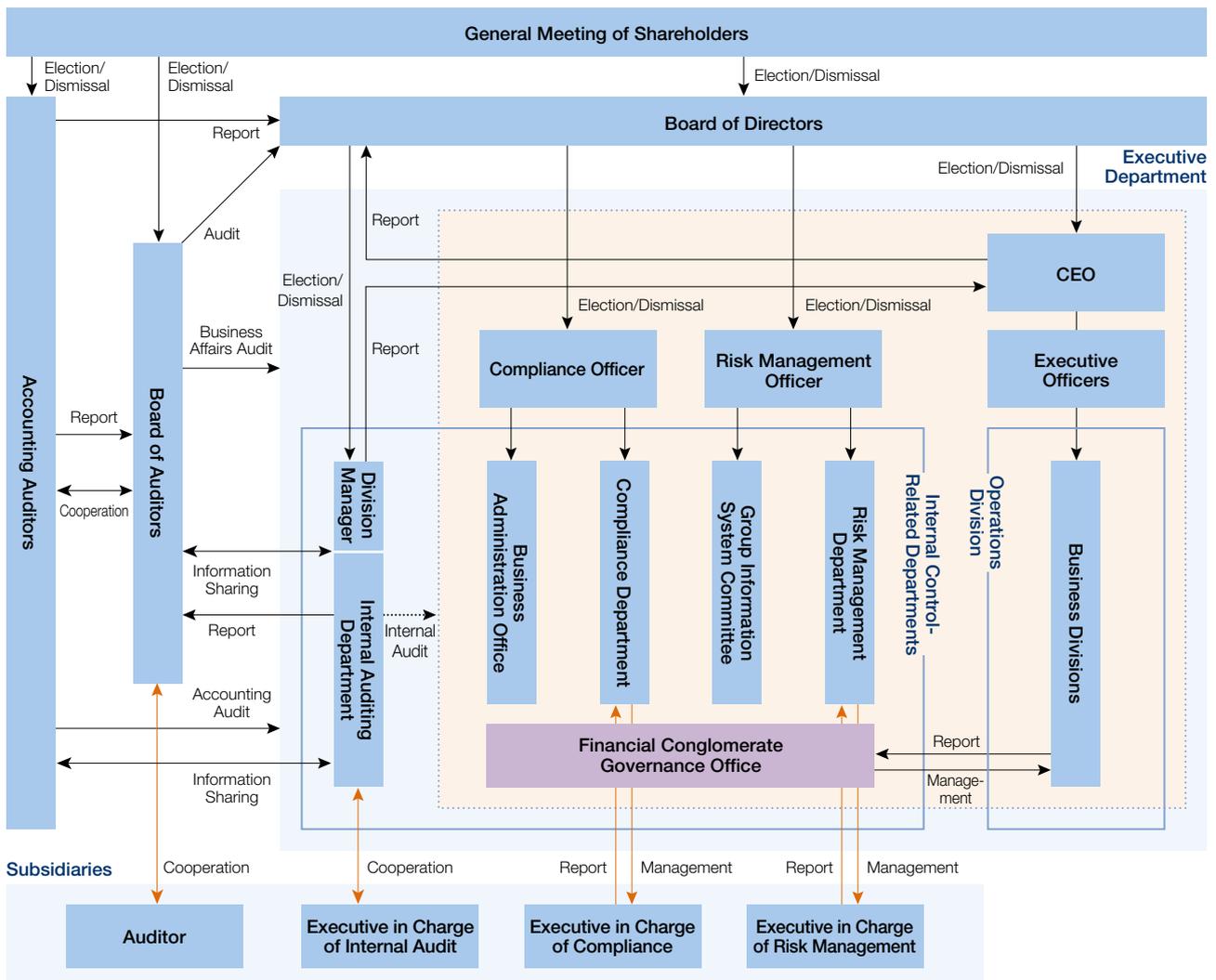
## Basic Framework for Corporate Governance

SBIH's Board of Directors consists of 21 directors (as of June 29, 2011), and the Company has adopted the Executive Officer System to clarify the functions and responsibilities of directors, executive officers and the Board of Directors, which includes the CEO and CFO as well as 10 directors and executive officers who control each business division, and 6 executive officers, for a total of 18 individuals charged to manage the execution of business affairs. We have also built a corporate governance system that facilitates quick and flexible responses

to drastic changes in the business environment. Moreover, as a general rule, the Board of Directors convenes once a month and extraordinary meetings are held when necessary to make decisions on important matters and to monitor the execution of business operations. SBIH has appointed 4 outside directors, with each having a high degree of independence and no conflicts of interest with general stakeholders, to fortify the supervision of management appropriateness.

The Board of Statutory Auditors, which comprises 4 members all proficient in financial affairs and includes 2 outside

### <Structure of Corporate Governance and Internal Control>



(As of June 29, 2011)

statutory auditors, organically combines the audits performed by each statutory auditor, the Internal Auditing Department and the accounting auditors in an effort to maintain the appropriateness of corporate governance.

Based on the above, we believe that the current system allows us to adhere to the basic principles of corporate governance, namely to preserve the transparency of management and execute management's third-party accountability.

## **Initiatives for Strengthening Corporate Governance**

### **Internal Controls**

SBIH recognizes the importance of establishing an internal control system and executing business operations based on a sound internal control system in order to ensure appropriate corporate governance. The Company has the Representative Director take the lead in ensuring all officers and employees to be aware that, together with working to maintain that system, realizing the Company's Management Philosophy and Corporate Vision assume legal compliance and ethical codes of conduct.

Specifically, this involves regular monthly meetings of the Board of Directors as well as irregular meetings convened when necessary in accordance with regulations of the Board to facilitate close communications among the Directors and the supervision of the execution of duties of the Representative Director. In addition, SBIH appoints a Compliance Officer, establishes the Compliance Department reporting directly to the Compliance Officer and sees that the Department makes efforts in identifying compliance issues and problems. Further, SBIH has established an internal whistle-blowing system to enable Directors and employees to directly report to the Internal Auditing Department and Statutory Auditors of any act of violation against laws, regulations and the Articles of Incorporation detected and any other important fact relating to compliance.

In order to identify compliance issues and problems and ensure appropriateness of operations in the SBI Group, SBIH ensures that the Compliance Officer and the Compliance Department work in cooperation with compliance officers of the SBI Group companies and holds a committee for exchanging information on compliance group-wide.

### **Risk Management**

SBIH manages risks that may impede the execution of business operations, and the attainment of our Management Philosophy and Corporate Vision. The Board of Directors appoints a Risk Management Officer in accordance with crisis management, risk management and group risk management regulations. In addition, the Risk Management Department was established to identify, properly evaluate and manage risks on a cross-sectional basis for the entire Group including SBIH.

In the event of a potential or actual management crisis that would materially impact SBIH's existence, the Risk Management Officer appointed by the Board of Directors, leads gathering of pertinent information, and considers and implements countermeasures and measures to prevent recurrences while reporting and disclosing information to the related parties. For all the processes involved in SBIH's business activities, we have in place a mutual checking framework involving multiple departments aimed at ensuring operations that conform to not only the respective laws and regulations but also to agreements, terms and other rules, all as part of the overall system to maximize compliance efforts.

With regard to information management and system risk, SBIH has in place a Group Information System Committee chaired by the Risk Management Officer and composed of members appointed from each of the divisions, and exerts efforts in maintaining an overall information system including the management of customer information and reinforcing the system risk management system. In particular, from the perspective of business continuity, SBIH has built a system in place to readily respond to any type of contingency through making use of a back-up structure that incorporates dual systems and back-up sites.

### **Audits by Statutory Auditors, Internal Auditors and Independent Auditors**

SBIH has organized the Internal Auditing Department, which is independent from all the business divisions and administrative divisions. This department evaluates the adequacy of management, composed with legal compliance, operation adequacy and internal control. In addition, it gives advice and recommendations on audit issues. Internal audits are conducted with the help of external specialists, when needed. Audit results are reported to CEO and Board Meeting directly and promptly more than once every six months. Also, they are reported to the Statutory Auditors.

The Internal Auditing Department is comprised of a dedicated manager and 4 other employees who are specialists in audits (internal audit, accounting audit, internal control and other), and they perform audits based on generally accepted internal audit standards and practices.

The Internal Auditing Department works organically in collaboration with the Board of Statutory Auditors. For example, it periodically provides reports to the Board of Statutory Auditors, separate from reporting to the Board of Directors, after completing each internal audit, exchanges opinions with the Board of Statutory Auditors, and incorporates requests from the Board in determining audit themes and scopes.

The Internal Auditing Department shares information with the Independent Auditors, particularly with respect to areas relating

to internal control over financial reporting whenever necessary.

Statutory Auditors are independent of the Company's executive bodies and bear the responsibility of securing trust from the society by establishing a sound corporate governance system based on audits performed over the executive actions of Directors. The Board of Statutory Auditors of SBIH is comprised of 4 auditors, including 2 Outside Statutory Auditors. Of the 4 Auditors, 3 have worked in financial institutions for many years and hold a wide range of expertise in the overall financial industry while the remaining auditor holds extensive knowledge on finance and accounting based on long years of experience in accounting.

In accordance with the Standards for Audits by Statutory Auditors, Statutory Auditors attend meetings of the Board of Directors and other important corporate meetings, review documents underlying important decisions, and exchange opinions with the Representative Director, Directors and other senior members as necessary. The Statutory Auditors perform audits of the Company's internal controls in accordance with the Practice Standards for Internal Controls.

Statutory Auditors coordinate with the Internal Auditing Department through periodically exchanging information and opinions as described above.

The Board of Statutory Auditors receives explanations from Independent auditors regarding the annual audit plan and other matters based on audit reports prepared at the interim and year-end closing periods. The Board of Statutory Auditors also shares information and holds discussions with the Independent auditors with regard to management issues and problems whenever necessary.

As described above, Statutory Auditors, the Internal Auditing Department and Independent Auditors work together organically while performing audits to ensure that the Company maintains an appropriate corporate governance system.

#### Outside Directors and Outside Statutory Auditors

SBIH has 4 Outside Directors and 2 Outside Statutory Auditors.

Outside Directors and Outside Statutory Auditors, in their objective and neutral positions that present no risk of creating conflicts of interest with general shareholders, monitor or audit as well as provide advice and suggestions from an external perspective by leveraging their respective expertise as well as their wide range of experience and knowledge on high-level management. They are charged with the roles and functions for ensuring adequacy and appropriateness of decision-making and execution of duties by the Board of Directors.

Their appointment enables, by focusing on their expert accounting knowledge, specialized knowledge and independence, the adherence to basic principles of corporate governance principles such as ensuring management transparency

and executing management's accountability for providing explanations to third parties.

#### Compensation for Directors and Statutory Auditors

A breakdown of compensation for directors and statutory auditors is as follows:

Directors (excluding outside director(s))	12 directors	¥145 million
Statutory Auditors (excluding outside statutory auditor(s))	1 auditor	¥10 million
Outside Directors and Auditors	6 outside directors and auditors	¥57 million

\* The above includes compensation for directors and statutory auditors who have retired during the fiscal year.

#### Initiatives During the Past Year to Enhance Corporate Governance

The Board of Directors has continued to fulfill its responsibilities as an organ for supervising management and fair decision-making, holding at least one meeting each month. Also, to reinforce management oversight functions, statutory auditors conduct exhaustive audits based on the annual auditing plan. The Internal Auditing Department, in conjunction with external specialists, conducts comprehensive internal audits that include the Group companies. In addition, in order to meet the requirement for a "system of internal control over financial reporting" stipulated in Article 24-4-4 of the Financial Instruments and Exchange Act, companywide efforts were made to design and operate internal controls over financial reporting, whose implementation status is evaluated independently by the Internal Auditing Department. Through these activities, SBIH worked to further improve its operating efficiency and prevent the occurrence of improper activities and errors.

Regarding information disclosure to investors, SBIH is dedicated to supplying its varied investors with accurate corporate information. We hold quarterly meetings to announce earnings and provide the latest report on operations following the annual shareholders meeting. Explanatory meetings (called "information meetings") are held for individual investors in major Japanese cities, where information is provided directly by a representative of SBIH. Our disclosure activities also include attendance at many investor relations conferences in Japan and other countries.

SBIH is firmly committed to the transmission of information. Earnings releases, press releases, streaming videos of quarterly earnings announcements and information meetings, as well as other relevant materials, are quickly posted on the SBIH website.