

Realizing an Organizational Structure that can Respond Promptly to Changes in the Business Environment, with a Highly Effective Corporate Governance System

Basic Concept of Corporate Governance

A company's stakeholders include consumers, business partners and the community at large, in addition to customers, shareholders and investors. The SBI Group keenly recognizes the social nature of companies, contributes to the preservation and development of society, and uncompromisingly engages in customer-oriented businesses in accordance with the "Customer-centric Principle," which is the Group's core management principle. The Group also considers it essential to obtain public trust in the course of business activities, and is working to ensure transparency and fairness in its decision-making, and an organizational structure capable of promptly responding to changes in the business environment, as well as to enhance appropriate corporate governance to increase corporate value.

The Company has selected an organizational structure with a board of statutory auditors, and consequently established a Board of Directors and Board of Statutory Auditors. The Company's Board of Directors, consisting of 13 Directors, with five Independent Outside Directors (as of the end of June 2020), is strengthening its oversight of the appropriateness of the company's management. The Board of Directors meets once a month, in principle, to decide important matters and oversee the status of business execution. In addition to Executive Directors including the President, Senior Executive Vice Presidents and Senior Managing Directors, 12 Executive Officers with expertise and insight aligned with the Directors are in charge of business execution. The Company clearly defines the functions and responsibilities of the Executive Directors, Executive Officers and the Board of Directors, and has put in place an organizational structure capable of promptly and flexibly responding to sudden changes in the business environment. The Statutory Auditors are responsible for establishing a high-quality corporate governance

system worthy of public trust, by means including auditing the Directors' performance of duties. The Statutory Auditors ensure collaboration with Outside Directors and Accounting Auditors, and endeavor to realize a more effective corporate governance system.

Corporate Governance Principles Based on the Corporate Governance Code

https://www.sbigroup.co.jp/english/investors/management/governance_policy.html

Improving the Effectiveness of the Board of Directors

■ **Evaluation of the Board of Directors:** The Company conducted a self-assessment for all Directors and Statutory Auditors regarding the effectiveness of the Board of Directors from February to March 2020. The Company analyzed and evaluated the effectiveness of the Board of Directors, based on the results of the self-assessment and discussions held during the March 2020 Board of Directors meeting. The evaluation found the Board of Directors to be sufficiently effective, and to be effectively carrying out its function as a business execution and monitoring organization. On the other hand, the evaluation noted that in further improving the effectiveness of the Board of Directors, it is critical to secure Directors with keen insight into the advanced technologies that are the keys for sustained business growth, and to renew awareness of the importance of human resource development from the medium-term and long-term perspectives.

Among opinions expressed in the evaluation was the opinion that, amid the increasing focus of attention on corporate

Overview of Organization (As of June 30, 2020)

Configuration	Company with Board of Statutory Auditors
Number of Directors (Independent Outside Directors)	13 (5)
Term of office of Directors	1 year
Average age of Directors	56.5 years old
Number of Statutory Auditors (Outside Statutory Auditors)	4 (2)
Number of Directors registered as Independent Executives	5
Number of Management Advisory Committee members (Independent Outside Directors)	8 (5)
Involvement of Independent Outside Directors in compensation decisions (Yes / No)	Yes

Results of Main Efforts for the Fiscal Year Ended March 31, 2020

Number of Ordinary Board of Directors meetings held per year	12
Average attendance rate at Board of Directors meetings for Independent Outside Directors	97.8%
Average attendance rate at Board of Directors meetings for Outside Statutory Auditors	100.0%
Number of Board of Statutory Auditors meetings	16
Average attendance rate at Board of Statutory Auditors meetings for Outside Statutory Auditors	100.0%

Major Items Discussed at the Board of Directors

- Approval of the annual internal auditing plan for FY2019
- Report on cybersecurity activities
- About regional revitalization projects
- Report on the establishment of a local subsidiary in Germany

sustainability and social impact, further enhancement of governance including that of overseas locations is to be pursued in tandem with ensuring the speed of business growth. According to this view, the Company has arrived at the stage of a more profound debate that addresses management strategy from the dual perspectives of business opportunity and risk management. The Board of Directors is continuing to strengthen its effectiveness based on the above results of this analysis and evaluation, and will ensure that it contributes to the increase of sustainable corporate value.

■ **Director Training:** The Company maintains a training environment in which each Director and Statutory Auditor can acquire and update the knowledge required of management. For the fiscal year ended March 31, 2020, the Company conducted training in November 2019 in which the Company invited Daigo Shimizu, who heads the Business Development Department Equity Sales Group of the Global Markets division at Goldman Sachs Group Inc., where he is responsible for the Sustainable Development Goals (SDGs) and environmental, social and governance factors (ESG), to lecture the crucial importance in the investment chain of ESG factors and the SDGs.

Key Themes Discussed During the Director Training

- The global trends in ESG and SDGs
- The critical importance of ESG factors in capital markets (the importance of more concrete policy formulation and disclosure)
- Increased interest in ESG and SDGs among passively investing institutional investors
- The state of listed subsidiaries



Attendees of director training

Management Advisory Committee

The Company is strengthening the supervisory function of the Board of Directors by increasing the transparency of the Company's management from an outside perspective, through utilizing the efforts of several Independent Outside Directors. From June 27, 2019, it was decided to further strengthen its supervisory function, to ensure an appropriateness of management, and to increase transparency of management, and that a third or more of the Board of Directors will be Independent Outside

Directors, in accordance with the Company's independence standards. Moreover, it was decided to establish the Management Advisory Committee as the voluntary advisory body to the Board of Directors, and that it comprise a majority of Independent Outside Directors.

Similar to the former Outside Director Liaison Committee, this committee will share information and opinions from an objective perspective, while also maintaining an environment in which Independent Outside Directors may engage appropriately and actively in discussions of the Board of Directors.

The Committee will further solidify the Company's corporate governance framework, by increasing the objectivity and transparency of Board decisions through appropriate involvement in the Board's functions and deliberation processes, which include the selection of candidate Directors and Statutory Auditors, appointment and dismissal of management executives (President, Senior Executive Vice Presidents, Senior Managing Directors, Managing Directors) and the determination of compensation for Directors, as well as the development of the next generation of management executives.

At the fourth Management Advisory Committee meeting held in December 2019, the SDGs and ESG factors were discussed in the context of director training. It was a meaningful exchange of views that applied the knowledge of each Independent Outside Director regarding the efforts that the SBI Group must undertake in becoming a sustainable corporation, including education of the children who will form the next generation, climate change policy, succession plans and technology.

The Members of the Management Advisory Committee (As of June 26, 2020)

Position	Name
Chairman of the Management Advisory Committee	Heizo Takenaka*
Member of the Management Advisory Committee	Teruhide Sato*
Member of the Management Advisory Committee	Ikkou Nakatsuka
Member of the Management Advisory Committee	Hirofumi Gomi
Member of the Management Advisory Committee	Yoshitaka Asaeda
Member of the Management Advisory Committee	Yasuhiro Suzuki*
Member of the Management Advisory Committee	Hiroshi Ito*
Member of the Management Advisory Committee	Kanae Takeuchi*

* Independent Outside Directors of the Company

Compensation for Directors

The compensation for Directors, in principle, is decided by the Board of Directors within the total compensation amount approved at the General Meeting of Shareholders after receiving feedback from the Management Advisory Committee, in order to secure fairness and clarity.



A compensation system including restricted stock units has been introduced from June 2019 for Directors (excluding Outside Directors), as an incentive to continue to grow corporate value, and to further share value with all Group shareholders. The recipient Directors of this system exchange their monetary compensation received as property in kind to receive an amount of regular shares or treasury shares.

■ Policy on Determining Compensation for Directors

- 1) The policy for determining the amount and calculation method of Director compensation is to be decided by the Board of Directors after receiving feedback from the Management Advisory Committee.
- 2) The amount of compensation, which is made up of fixed basic compensation as well as bonuses based on the Company's performance and restricted stock units, for each Director (excluding Outside Directors) is to be decided by the Board of Directors after receiving feedback from the Management Advisory Committee, and is to be within the total compensation limits approved at the General Meeting of Shareholders. Similarly, the amount of compensation for each Outside Director, which is made up of fixed basic compensation and bonuses, is to be decided by the Board of Directors, and is to be within the total compensation limit approved at the General Meeting of Shareholders. However, when these decisions have been entrusted to the Representative Directors, the Representative Directors will determine the above compensation matters. The amount of basic compensation for each Director will be decided based on the following:

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| • The maximum amount of employee salary | • The prevailing rate of compensation for directors |
| • Compensation paid to Directors of the same rank in the past | • The degree of contribution to the Company's business performance |
| • The Company's business performance outlook | • The circumstances of accession to office |
| | • Other matters |

Amounts paid to each Director as bonuses and restricted stock units will be decided based on an overall assessment of basic factors, such as their work duties and how they are conducting their work, as well as the business environment, and their overall contribution to the Company. Accordingly, no particular quantitative targets are set.

- 3) Compensation of Statutory Auditors is on a fixed basic remuneration basis, while the amount paid to each Statutory Auditor will be decided based on Statutory Auditor discussions, and is to be within the total compensation amount approved at the General Meeting of Shareholders.

Note: Under certain circumstances, however, such as significantly worsened business performance, the Board of Directors can decide to take such measures as a reduction in Director compensation or a reduction for a set period.

Policy and Status of Strategic Shareholding

As of March 31, 2020, the Company is not engaged in any strategic shareholding. Moreover, in one of the Group's main businesses, the venture capital business, all of the Group-owned shares of startup companies, such as those invested in via the venture capital fund, are in principal included as operational investment securities in the Company's Consolidated Financial Statements.

Basic Policy on Parent and Subsidiary Listings, and Protection of Minority Shareholders

Since the SBI Group has a wide range of business areas, some investors say that it is difficult to attain an understanding of the full picture. In response to this, we work to make the corporate value of the Group as a whole more visible by promoting initial public offerings for our subsidiaries so that the business value of each operational unit becomes clear. While increasing the capital procurement capability of each Group company, these public stock offerings enable them to strengthen their financial standing and be self-reliant. At the same time, in order to protect minority shareholders, we adhere to the arm's length principle to ensure the fairness and rationality of transactions with each company in the Group, and respect the independence of their management. For Morningstar Japan, which is listed on the TSE JASDAQ market, we maintain a basic policy of ensuring that transactions with the SBI Group are objective and, applying the same conditions as to transactions with other business associates, using fair market prices, and ensuring that transactions are appropriate, as determined by the Board of Directors. We also endeavor to make it a priority of internal auditing and audits by Statutory Auditors to ensure that the conditions of transactions with the Group are determined comparably to general transaction conditions.

In addition, for SBI Insurance Group, which is listed on the TSE Mothers market, we maintain a basic policy of ensuring that transactions with the SBI Group are the same appropriate terms and conditions as those for general transactions. When a transaction with the SBI Group is expected, the appropriateness of the conditions of the transaction is discussed at the Board of Directors meetings in advance, to protect the profits of shareholders other than controlling shareholders.

The SBI Group from the Perspective of Independent Outside Directors



Securing Human Resources with Strong Execution and Adaptability

Teruhide Sato, Independent Outside Director

The SBI Group is entering its next phase of growth based on the strong leadership of President Kitao and his broad management strategy. Moving forward, it will become increasingly important to secure human resources with strong execution and adaptability skills, in addition to incorporating major strategies into specific strategies in each field and country of business. My hope is that the Board of Directors, along with the Business Advisory Committee, will continue to hold strategic discussions on personnel matters, as well as the next generation management structure.



Improving Transparency of the Board of Directors through the Management Advisory Committee

Heizo Takenaka, Independent Outside Director

As the SBI Group has a wide range of business operations, I feel that the present structure of the Board of Directors is appropriate. The Board of Directors is engaged in broad discussions, which is effective in making it easier for the Board of Directors to reflect the decisions and opinions of Independent Outside Directors. In light of the recent governance debate, I believe that it is important to increase the number of opportunities for discussion at the Business Advisory Council, in order to further enhance the transparency of management.



Enhanced ESG Initiatives Based on Sound Ethical Values

Yasuhiro Suzuki, Independent Outside Director

At the SBI Group, management is based on highly sound ethical values, and management takes candid proposals such as succession issues for President Kitao seriously, and I think that the challenge is to make stakeholders aware of such a reality. Also, as the responsibility of an Independent Outside Director, I would like to continue to actively express my opinions on the securing and training of IT personnel, and the risks involved in the establishment and operation of a large-scale system.



Contributing to the Enhancement of Corporate Value by Incorporating Experience in Insurance and ESG Activities

Hiroshi Ito, Independent Outside Director

In the highly regulated financial sector, I believe that the SBI Group is a company that challenges in the development of strategic and innovative businesses. I would like to apply my expertise and knowledge, gained both in Japan and abroad, of the financial sector (insurance), in which I have been involved thus far, as well as in compliance and business continuity planning (BCP), which are fields to protect companies. In addition, we will contribute to further enhancing the corporate value of the SBI Group from the perspective of engaging in businesses with ESG in mind.



Contributing to the Enhancement of Corporate Value from a Diversity Point of View

Kanae Takeuchi, Independent Outside Director

I am looking forward to contributing to the enhancement of corporate value by exchanging ideas with the other directors regarding the variety of measures that the SBI Group will be undertaking from a diversity point of view, making the best of my experience that I have gained from having lived in different cultures overseas, as well as from my perspective as a woman. Even more so than in the past, the SBI Group is developing and expanding its business globally, and I believe that it is more important than ever to reflect on the current global social problems in its management, including measures to combat infectious diseases.

Establishment and Operation of the Internal Control System

The Company believes that in order to enhance its corporate governance, it is important to have an internal control system in place, and to conduct business through a sound internal control system. With the goal of developing the internal control system, the Representative Director works to ensure that all corporate officers and employees understand that compliance with laws and ethical behavior are essential in realizing the corporate management philosophy and vision.

To identify compliance issues and problems, the Board of Directors has decided to appoint an Officer in charge of compliance, and the Legal and Compliance Dept., as the Compliance Department, has been established under the direct control of that individual.

The Company has established a whistle-blowing system for Directors and employees for direct reporting upon finding violations of laws, regulations, the Articles of Incorporation, or other important compliance-related matters to the independent Internal Auditing Dept. and Statutory Auditors, which are independent of both executive and management departments.

The Company has established a stringent compliance system of checks and balances among multiple departments to ensure that all processes under business activities comply fully with not only laws and regulations, but also with contracts, agreements, etc. Moreover, the Company conducts regular compliance training, using e-learning and other means, to raise the knowledge and awareness of the employees regarding compliance issues.

In addition, the Officer in charge of compliance and the Compliance Department, in cooperation with those in charge of compliance at each Group company, holds regular meetings to exchange information throughout the Group.

Whistle-blowing System

The SBI Group has established a whistle-blowing system enabling reporting by Group company employees (including non-regular employees) whenever they discover actions, whether organizational or individual, that violate laws or regulations. To ensure ease of use for whistle-blowers, a secondary point of contact has been established at the Company's Board of Statutory Auditors, and we take ample care in ensuring the confidentiality of whistle-blowers and in the handling of the information. In order to ensure that the whistle-blower is protected after making a report, the Group investigate as appropriate to determine whether they have received any unfavorable treatment.

Whistle-blowing System

For more information on the whistle-blowing system, please refer to "Corporate Governance Principles," Section II: 4. (3).



https://www.sbigroup.co.jp/english/investors/management/governance_policy.html

Establishing a Risk Management System

The SBI Group has business operations spanning the globe focused on financial services. Thus, it has established a Risk Management Department, and designated an Officer in charge of risk management to ensure risks capable of inhibiting the Group's business activities are adequately comprehended, evaluated and managed. (For details, please see page 44.)

Business Risk

For more information about potential risk, please see the "Risk" section on the SBI Group website.



<https://www.sbigroup.co.jp/english/investors/management/risk.html>

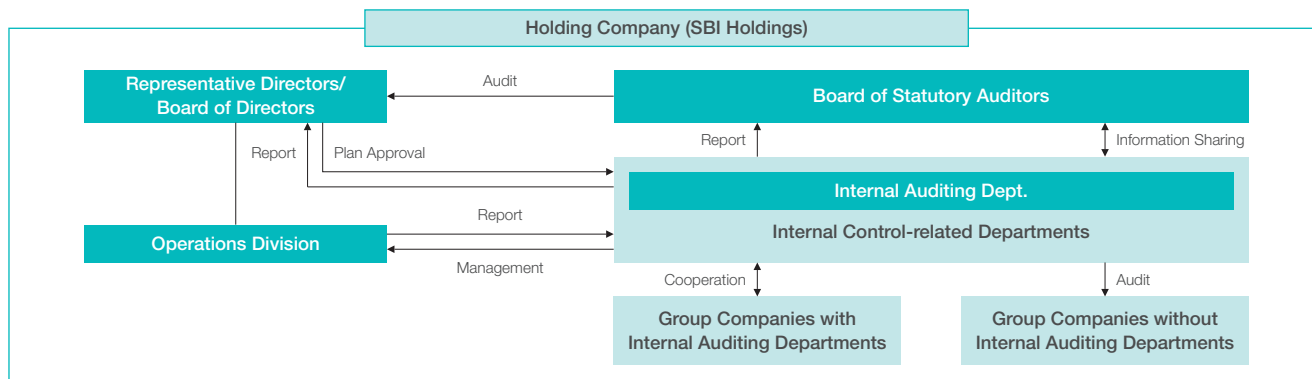
Internal Auditing

The Internal Auditing Dept. comprehensively and objectively evaluates the appropriateness of internal management conditions, such as the appropriate operation of internal control systems, compliance and business operations. Also, the department makes proposals on and follows up measures to remedy and improve issues found during the auditing process. The results of audits are to be reported to the Representative Director and Board of Directors without delay after the completion of each audit. Moreover, where necessary, proposals on corrective measures and improvements of issues will be made to relevant departments.

In addition, the Internal Auditing Dept., and the Board of Statutory Auditors act in cooperation, with the department regularly reporting to and exchanging opinions with the Board after each internal audit has been completed, as well as incorporating the requests of the Board into its auditing themes and selection of audit targets.

The Internal Auditing Dept., consists of a general manager and members with expert knowledge of internal auditing, accounting auditing and internal control, and it conducts its audits according to generally accepted internal auditing standards. Auditing targets are grouped according to elements such as capital relationships. Then, they are given a score according to various types of risks, such as credit risk, market risk, liquidity risk and operational risk. Based on these results, the frequency of auditing is determined in descending order from the highest-scored target. Internal audits are conducted combining document auditing, interviews, physical inspections, and other methods. In addition to subsidiaries, affiliate companies are also audited when necessary.

Outline of Internal Control Department



COLUMN Auditor Viewpoints



Atsushi Fujii
Standing
Statutory Auditor

Improving the Effectiveness of Corporate Governance through Monitoring and Verification of Risk Response Status

In the organizational design of a company with a board of auditors, while increasing the ratio of Independent Outside Directors to strengthen the supervisory function, the Board of Statutory Auditors plays a systematic auditing function that is independent of business execution. On the other hand, decision-making on business execution by the Board of Directors is focused on pertinent matters that may have certain effects on the Group's management strategy, but within an environment in which the business execution managers of each Group company can make prompt business decisions, so that the management supervision and business execution functions are well balanced and effective. As an auditor, I would like to enhance governance by monitoring and reviewing whether important management risks are appropriately managed through audit activities, and to encourage the further sophistication of Group control based on such results. Additionally, more recently, the Group has been asked to be more aware of stakeholder viewpoints in its business activities, in terms of responding to the SDGs. Our Group has several areas of business that are considered to be promoting the SDGs, including "contribution to regional revitalization," and in the years to come, I believe it will be necessary to deepen discussions not only on business opportunities but also on risk management.



Toru Ichikawa
Outside Standing
Statutory Auditor

Initiatives to Strengthen Corporate Governance from a Long-term Perspective

Since the Company has a large number of Group companies under its auspices over a wide range of business fields, I feel that the company with a full-time board of auditors, and an independent auditor, is functionally synced. Also, at the Board of Directors Meetings, the president, corporate officers and the external board members have worked together to strengthen the atmosphere of constructive discussions throughout the years, utilizing the diversity and backgrounds of the individuals present at the meetings, which I believe is highly appropriate.

With regards to the strengthening of risk management, regulation-related reports are numerous due to the Company's main characteristics as a financial business and to manage the Company from the long-term point of view, the SBI Group must comprehend a wide range of risk conditions, and it would be appropriate for the Board of Directors to increase opportunities to engage in discussions concerning responses to operational risks. In fact, reports about AML (anti-money-laundering) and CFT (combating the financing of terrorism) are currently presented to the Board of Directors on a regular basis, but going forward, discussions about risks involving information security and other labor-related risks, such as work-style reform and workplace harassment, may also be considered as necessary.