

Performing Risk Analysis and Countermeasures for each Business Field in the Implementation of Diverse Business Operations

Group Risk Management

■ **Group Risk Management System** The Company is endeavoring to reinforce its risk management system, in order to promptly discover risks and to prevent them from actualizing. In case of a management crisis with a significant impact on the survival of the company, or to prepare against the possibility of such incidents, based on the Risk Management Rules determined by the Board of Directors, the Company appoints an Officer in charge of risk management as the leader to gather and evaluate information, and respond to the crisis, as well as reporting to applicable organizations, and disclosing pertinent information.

Moreover, in order to manage the Group-wide risk control of losses, reports on the status of risk of losses at the SBI Group's affiliate companies are to be received on a regular or timely basis through the person in charge of risk management at each Group company. When necessary, the Officer in charge of risk management and the Risk Management Department discusses with the relevant person in charge of risk management to prepare for the occurrence of losses.

The Company has established a stringent mutual compliance check system 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.

■ **Risk Management Department** The SBI Group has established the Financial Conglomerate Governance Dept. as its risk management department. It pursues duties with the purpose of maintaining an ample understanding of the actual status of the Group's overall business management system, the financial health of the Group, and the appropriateness of its business activities, in order to enable accurate responses to the risks associated with the functions as a financial conglomerate.

While complying with Affiliated Company Management Rules, Risk Management Rules and Risk Management Implementation Detailed Regulations, the SBI Group has also formulated the Management Policy for Conflicts of Interest and established a framework for the management of conflict of interest, in order to safeguard customer profits.

■ **Risk Status Reporting** The SBI Group quantifies the credit risk, market risk and operational risk, etc., in order to calculate the "ratio of quantified risk to owned capital." In addition, the Officer in charge of risk management reports to the Board of Directors on a quarterly basis regarding the status of financial health, risk concentration and other essential matters to risk management. Furthermore, the risk reports compiled by each department of the Company and by persons in charge of risk management at each Group company are also gathered and analyzed, and improvements would be requested for the countermeasures provided, if necessary. Whenever a transaction is conducted between the SBI Group's financial institutions and any other Group companies, pre-consultation and post-consultation surveys of the Group-internal transactions are held, in order to

confirm whether there are any problems regarding the arm's length rule, capital adequacy ratio or compliance.

If an accident occurs at the SBI Group's companies, the Company responds by building systems to prevent the linking or spread of damage to other Group companies as the matter is resolved.

Risk Management Initiatives by Business Segments

Risk Management in the Financial Services Business

In the Financial Services Business, initiatives consist primarily of responses to the risks that are associated with the importance of personal information, the potential risks that emerge from the use of technology, the risks of the information management and the system risks.

■ **Protection of Customer Information** The SBI Group strives to develop and operate services with maximum consideration to the reliability and stability of the information system by recognizing "potential risks that emerge from the use of information technology" that are becoming more apparent with the progress of the sophisticated IT-based society such as the spread of the Internet. Especially, in view of the importance of protecting personal information, we have established the Personal Information Protection Policy and appointed Takashi Nakagawa, Representative Director, Senior Executive Vice President as Personal Information Officer, in order to develop an environment and system that prevents incidents and accidents from happening, and provides the secure use of our services.

In addition, companies within the SBI Group that handle personal information obtain a certification (PrivacyMark®) as necessary from the Japan Institute for Promotion of Digital Economy and Community (JIPDEC), which designates them as firms that handle personal information with due care. As of March 31, 2020, eight Group companies, including SBI Holdings, have received the approval to display the certification.

We are also working to reinforce countermeasures to prevent the leaking of information due to cyberattacks on information systems, such as an internal penetration by malware, a targeted attack. Out of awareness that human resource is the most crucial element for the maintenance and improvement of the information security system, we implement continual employee education through e-learning and other means.

The sharing of good practices among the Group companies is ongoing, as we move forward with initiatives to improve information security at each Group company effectively and efficiently.

Personal Information Protection Policy

 <https://www.sbigroup.co.jp/english/policy/privacy.html>

■ Information Management and System Risk Countermeasures

As the importance of information security increases, the SBI Group has established the Group Computer Security Incident Response Team (CSIRT), controlled by the Officer in charge of information security, which operates cross-sectionally through the Group to establish and maintain overall information management systems including customer information, and to strengthen our system risk and information security risk management systems. Especially in terms of business continuity, we are building redundancy and multiple-location back-up capabilities into our systems to enable it to respond to a variety of occurrences.

We also implement thorough Group-wide security countermeasures to strengthen cybersecurity. As an example, the Group has developed its own security service using the cutting-edge technology of the companies that the SBI Group has invested in and adopted within the Group. This service is one that operates at levels of security requiring measures for anti-money laundering and countering the financing of terrorism (AML/CFT; see Glossary page 109), by the Financial Action Task Force (FATF)*. For financial business operators, enhancement of measures to prevent money laundering and the flow of capital into terrorist organizations is a crucial management issue. Since this will require a Group-wide effort, we established a new team within the Financial Conglomerate Governance Dept., in October 2018, as a unified response to this problem. Under this organizational structure, and in line with the FSA guidelines, the team is proactively assessing and countering risk situations through a risk-based approach, and is planning and implementing countermeasures focused on Group-wide and global consistency.

* Financial Action Task Force Intergovernmental (FATF): Established in 1989 as an inter-governmental organization. As of June 2020, 37 countries and territories, as well as two international organizations, are members.

Anti-Money Laundering and Countering the Financing of Terrorism Policy



https://www.sbigroup.co.jp/english/policy/money_laundering.html

Risk Management in the Asset Management Business

As ESG investments expand worldwide in this business, the fostering and management of ethics is a primary focus of the initiatives in the Asset Management Business.

The investment policy of the SBI Group is that to invest into companies with a fundamental understanding of "whether the management executives of the company have a firmly held awareness of virtue as the basis of business, as opposed to just making money," or that "companies exist within society and that it is only within this societal context that they can survive, therefore, they must contribute to the maintenance and development of society." The SBI Group conducts its operation that also suits the ESG investment trends, with no investments into companies such as those in the tobacco industry, those involved in oil, coal or other fossil fuels or nuclear power generation, as of the end of March 2020. Based on these ideas, regarding investee management, the Company's Overseas Business Department and Finance

Department collaborate with SBI Investment, a company that is central to the Asset Management Business.

Under this policy, we have invested with a concentration in growth fields such as IT, bio/life sciences, environment and energy, as we have endeavored since our founding to create and incubate core companies of the 21st century. This is an ethos that is expressed in our corporate mission of "New Industry Creator." In addition to these fields, currently the Group is proactively investing in fields of next-generation technological innovation, such as fintech, AI, blockchain, IoT and robotics. At the SBI Group, we are contributing to the realization of a sustainable society by continuing to invest in startup companies with highly specialized and original ideas, in the domains of advanced technology that can help resolve societal issues, such as labor shortages and depopulation resulting from the ongoing aging of the population and low fertility.

Risk Management in the Biotechnology-related Business

Quality management and addressing the risk of pollution of the natural environment are the primary initiatives in the Biotechnology-related Business.

Since SBI Pharmaceuticals is involved in the development and manufacturing of products using 5-Aminolevulinic Acid (5-ALA), in order to ensure product quality and safety, the company has developed a system for compliance with the relevant laws and regulations known as quality control standards, which are also required of companies that manufacture and sell drugs. Measures taken for the risk factors include the occurrence of quality problems that could lead to product or service defects and flaws, large-scale recalls or products and completed liability. SBI ALApromo, which manufactures and sells products containing 5-ALA, also implements similar countermeasures.

Furthermore, since SBI Biotech engages in drug research and development, risks are assessed and countermeasures are taken with respect to various hazards, including that of environmental contamination due to loss of animal test subjects, or the release of genetically modified organisms or radioactive isotopes into the environment.