

## Material issues (V)

# Pursuit of corporate governance that supports improved corporate value

### Our initiatives

- ▶ Improved effectiveness of corporate governance
- ▶ Respect for human rights
- ▶ Thorough compliance
- ▶ Enhancement of risk management

## Improved effectiveness of corporate governance

To practice CSV management, we have engaged in numerous dialogues from the perspectives of our stakeholders, including shareholders, members of the local community, customers and employees. At the same time, we have been monitoring and supervising management from a medium- to long-term perspective in an effort to reform the management structure.

### Corporate governance system

In addition to general shareholder meetings, we have instituted a Board of Directors, a Board of Corporate Auditors and an Accounting Auditor under the Companies Act. We have also introduced an executive officer system to accelerate decision-making, and the Board of Directors supervises and monitors them.

#### History of corporate governance improvements

|           |   |
|-----------|---|
| Jun. 2004 | Implemented executive officer system                      |
| Mar. 2010 | Elected one independent director                          |
| Jul. 2011 | Added one independent director for a total of two         |
| Apr. 2012 | Established voluntary Compensation Committee              |
| Nov. 2018 | Established voluntary Election and Compensation Committee |
| Jun. 2021 | Added one independent director for a total of three       |

### Board of Directors

Five out of NEC Capital Solutions' nine directors are outside directors. Meetings of the Board of Directors are regularly held once a month, with extraordinary meetings held when necessary. In addition to making decisions on important matters concerning issues prescribed by laws and regulations, the Articles of Incorporation, and other rules, the Board of Directors monitors the state of business execution by directors by receiving various reports, such as the amount of risk faced by the Group and the results of internal audits. In the fiscal year ended March 31, 2023, the Board of Directors held 14 meetings to discuss and pass resolutions to determine the issues, including the policy of investment and loan projects considered important to our business strategies, establish the Human Rights Policy, and set a new Group vision and Medium-term Plan. Furthermore, three of the outside directors are independent with no interests in the Group or major shareholders, and no risk of conflicts of interest with general shareholders. Their names are submitted as independent directors in accordance with the Tokyo Stock Exchange's stipulations. We expect our outside directors to play roles of providing advice concerning all aspects of corporate management based on their deep insights and extensive experience and of being involved in decision-making at the Board of Directors to ensure its appropriateness and fairness.

### Corporate auditing system

Four Corporate Auditors (three of which are outside Corporate Auditors) hold regular meetings of the Board of Corporate Auditors to discuss auditing activities based on the auditing plan and management information.

Along with attending important internal meetings that include meetings of the Board of Directors and Management Conference, Corporate Auditors hold conferences once a month with the President of NEC Capital Solutions to discuss important auditing issues, problems the Company needs to address, and progress made in developing an environment for auditing, in addition to gathering direct feedback from directors and employees regarding the execution of business.

The Auditing Department provides specific advice and recommendations regarding the improvement of business operations through internal audits, offers guidance on the development and operation of the internal control system, and evaluates its operation.

### Assessment of the effectiveness of the Board of Directors

Analysis and assessment of the effectiveness of the Board of Directors are conducted once a year at the Board of Directors meeting to improve its function. NEC Capital Solutions conducted a survey through an outside agency for all directors and Corporate Auditors in January 2023. According to the survey findings, the Board of Directors' Office separately conducted interviews with independent outside directors to obtain their opinions. Opinions were gathered at a Management Roundtable comprising all directors and Corporate Auditors in light of the findings mentioned above and from the perspectives specified below, and analyses, discussion, and assessment were conducted.

|   |   |
|---|---|
| 1 | Supervision of the management by the Board of Directors           |
| 2 | Appropriate Board composition                                     |
| 3 | Strategic orientation of the management by the Board of Directors |
| 4 | Ensured discussion opportunities for the Board of Directors       |

We assessed that the Board of Directors was sufficiently effective during the fiscal year ended March 31, 2023.

As for “1. Supervision of the management by the Board of Directors” and “2. Appropriate Board composition” the Board of Directors assessed that it consists of a diverse range of officers with the necessary skill sets, shares necessary information in an appropriate manner, and functionally supervise the management. As for “3. Strategic orientation of the management by the Board of Directors” and “4. Ensured discussion opportunities for the Board of Directors” the Company held a Management Roundtable to freely exchange opinions on important management issues, and enhanced the advance briefings on proposals given to outside directors. In addition, the Board of Directors set agendas with an eye on strategies of the new Group vision and the Medium-term Plan, thereby ensuring discussions for strategic orientation of the management.

Going forward, the Company will continue to work to improve the effectiveness of the Board of Directors and increase its corporate value over the medium- to long-term by steadily following up on the Medium-term Plan with the aim of realizing our Group vision, which is to “Be a solution company leading the next-generation circular economy.”

**Director compensation**

At the Company, the Election and Compensation Committee, a majority of which comprises independent outside directors, discusses a policy on the determination of details about compensation for individual directors and refers it to the Board of Directors for a decision.

We design a system for directors’ compensation to suit the objectives of securing and retaining competent personnel who practice our corporate philosophy and of motivating

directors to play the roles expected of them in continuously boosting corporate value and shareholder value.

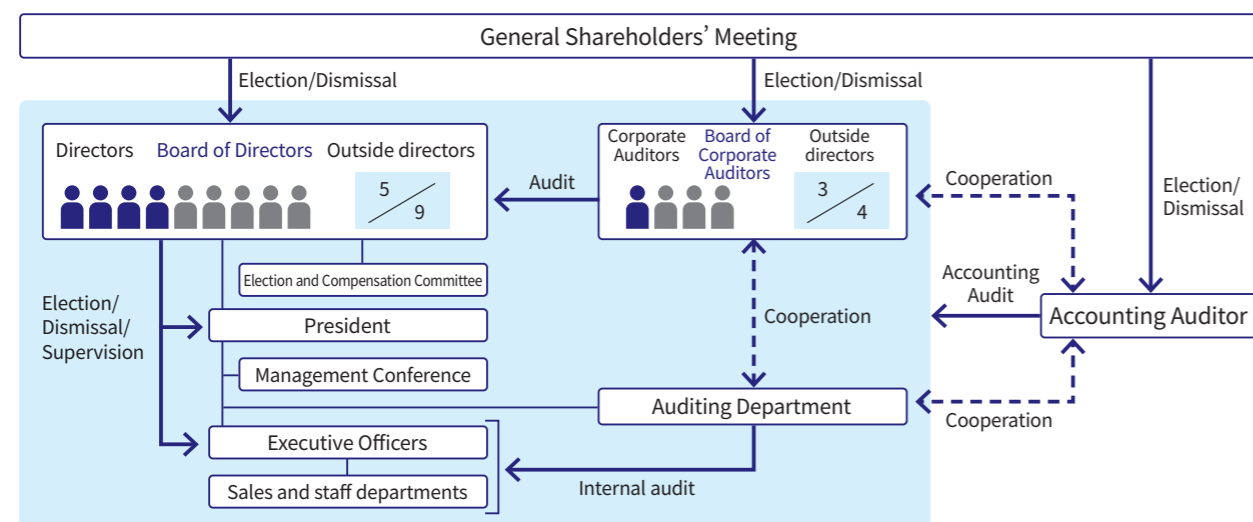
The compensation for any director playing a role of business execution comprises the supervisory compensation for their supervisory function and the executive compensation for their executive function, and the executive compensation consists of the base compensation, the performance compensation (bonus) and the share compensation. The ratio between the fixed compensation and the performance-linked compensation in the case of standard performance is roughly set at 60:40. The performance-linked compensation was determined according to the consolidated profit and the level of achievement against the personal key performance indicator (KPI) targets for resolving medium- and long-term issues in their areas of charge. This was meant to spur directors to commit to our short-, medium-, and long-term management objectives. Starting from the fiscal year ending March 31, 2024, ROA and ESG-related indicators have been newly added to evaluation factors, such as responses to environmental and social issues including initiatives for carbon neutrality and employee engagement scores. Performance-linked compensation will also be based on the extent to which these targets have been achieved. The compensation for outside directors and Corporate Auditors is composed solely of fixed compensation, and is not linked to company performance in consideration of their roles. The amount of compensation for Corporate Auditors is determined through deliberations among the Corporate Auditors.

For more information, please visit:  
<https://www.necap.co.jp/csv/governance/index.html>  
 (available in Japanese only)



**Corporate governance system schematic diagram**  
 (as of the end of June 2023)

= Internal directors = Outside directors



**Directors**

**Directors (as of the end of June 2023)**



Representative Director and President  
**Masaaki Suganuma**



Representative Director  
**Masamitsu Kisaki**



Director  
**Takashi Arai**



Director  
**Yuichi Tsukada**



Director  
**Takashi Nawa\***  
 Outside Independent  
 Professor of Hitotsubashi University Business School, School of International Corporate Strategy



Director  
**Takako Hagiwara\***  
 Outside Independent  
 Representative Director of DDD Corporation



Director  
**Asako Yamagami\***  
 Outside Independent  
 Partner, ITN Partners Attorney at law admitted in Japan



Director  
**Satoshi Okubo**  
 Outside  
 Manager of Group Business Management and Transformation Department, Strategy Division, NEC Corporation



Director  
**Shigeki Fujita**  
 Outside  
 General Manager of Public Solutions Planning Department, NEC Corporation

For their biography, please visit:  
[Notice of the Convocation of the 53rd Ordinary General Meeting of Shareholders \(Japanese only\)](https://www.necap.co.jp/ir/shareinfo/pdf/20230530e.pdf)  
<https://www.necap.co.jp/ir/shareinfo/pdf/20230530e.pdf>



\*Mr. Takashi Nawa, Ms. Takako Hagiwara, and Ms. Asako Yamagami are independent directors in accordance with the Tokyo Stock Exchange’s stipulations.

**Corporate Auditors (as of the end of June 2023)**



Corporate Auditor (Full-time)  
**Yoshiyuki Koizumi**



Corporate Auditor (Full-time)  
**Hiroshi Komazaki**  
 Outside



Corporate Auditor  
**Tatsuya Oyama**  
 Outside  
 General Manager, Head of Corporate Accounting & Global Finance, Corporate Accounting & Global Finance Department, Finance Division, NEC Corporation



Corporate Auditor  
**Shigetoshi Yokomizo**  
 Outside  
 Senior Manager, IT Service Solution FP and A Group, IT Services FP and A Department, Finance Division, NEC Corporation

### Skills matrix

We identify skills that the Board of Directors should have in light of our management philosophy and ensure that the composition of directors is well-balanced as a whole in terms of knowledge, experience and skills.

| Name             | Gender | Knowledge, experience and skills |          |                     |                                   |                          |                    |     |        |                      |
|------------------|--------|----------------------------------|----------|---------------------|-----------------------------------|--------------------------|--------------------|-----|--------|----------------------|
|                  |        | Corporate management             | CSV, ESG | Finance, accounting | Legal affairs and risk management | Human resources strategy | Financial industry | ICT | Global | Business development |
| Masaaki Suganuma | Male   | ○                                | ○        |                     |                                   |                          |                    | ○   |        | ○                    |
| Masamitsu Kisaki | Male   | ○                                | ○        | ○                   | ○                                 |                          |                    | ○   | ○      | ○                    |
| Takashi Arai     | Male   |                                  | ○        | ○                   |                                   |                          | ○                  |     | ○      | ○                    |
| Yuichi Tsukada   | Male   |                                  | ○        | ○                   |                                   | ○                        | ○                  | ○   |        | ○                    |
| Takashi Nawa     | Male   | ○                                | ○        |                     |                                   | ○                        |                    |     | ○      | ○                    |
| Takako Hagiwara  | Female | ○                                | ○        |                     |                                   | ○                        |                    |     | ○      |                      |
| Asako Yamagami   | Female |                                  | ○        |                     | ○                                 |                          |                    |     | ○      |                      |
| Satoshi Okubo    | Male   | ○                                |          |                     |                                   |                          |                    | ○   |        |                      |
| Shigeki Fujita   | Male   | ○                                |          |                     |                                   |                          |                    | ○   |        |                      |

● = Outside   ● = Independent director

#### Message from outside director



Partner, ITN Partners Attorney at law admitted in Japan

#### Asako Yamagami

Looking back on the past year from the perspective of corporate governance, the highlight was the formulation of the Group Vision 2030 and Medium-term Plan 2025. Based on the fact that CSV management, which the Company established ahead of the rest of the industry in the previous Group Vision formulated in 2013, has taken hold over the past decade, the Board of Directors repeatedly deliberated on the form of approaching “next-generation circular economy” and the strategic direction that should be taken to provide unique solutions that will lead to a virtuous circle for the environment and growth.

The Medium-term Plan 2025, which represents the first step toward realizing this, aims to improve profitability and accelerate the pursuit of sustainability management through the realization of a next-generation circular

economy. The Company has also set non-financial indicators, such as the promotion of DE&I and measures to achieve carbon neutrality. At the same time, regarding the policy for determining compensation for directors, the Company has clarified the standards for calculating performance compensation and added progress made on environmental and social issues as well as engagement scores to the calculation standards, thereby increasing the transparency of the process for determining compensation and making it possible to objectively evaluate the status of progress on sustainability goals. Moreover, the risk management system has been refined, and progress has been made toward the creation of an environment that supports appropriate risk-taking by the management team. With the progress in the effectiveness of the Board of Directors and timely reports by the Board of Corporate Auditors being made on the status of initiatives and issues related to the Medium-term Plan, I am committed to engage in discussions that incorporate the perspectives of a wide range of stakeholders in order to appropriately monitor the process of realization of the Group Vision.

### Respect for human rights

Under our corporate philosophy of “Helping Societies Advance through ‘Capital Solutions,’” the NEC Capital Solutions Group recognizes that respect for human rights is an important issue for management. We will therefore fulfill our social responsibility by implementing initiatives to respect human rights throughout the Group.

#### Human Rights Policy

In December 2022, we established the NEC Capital Solutions Group’s Human Rights Policy through approval of the Board of Directors. This policy is based on the United Nations’ “Guiding Principles on Business and Human Rights\*.”

This policy applies to all directors and employees of the NEC Capital Solutions Group. We will also work with our customers, business partners, and suppliers to ensure their understanding of this policy and to encourage their efforts to respect human rights. We will also continuously review this policy and our measures to respect human rights based on this policy, and update and revise it as necessary.

\* Guiding Principles on Business and Human Rights: A global standard approved by the UN Human Rights Council in 2011. A set of principles that embody the UN framework on business and human rights.

#### Human rights education

In order to ensure that all directors and employees of the Group understand the necessity and importance of respect for human rights and execute operations properly according to the provisions of the NEC Capital Solutions Human Rights Policy, we perform human rights education and all directors and employees, including temporary workers, of the Group receive the education.

#### Hotline to consult and report on human rights (complaint mechanism)

The Company has put a complaint mechanism in place to address and remedy any adverse impact on human rights. We have established and operate a whistle-blowing system (hotline) for all Group employees.

For more information, please visit:  
<https://www.necap.co.jp/csv/humanrights.html>  
 (available in Japanese only)



### Thorough compliance

The Company strives to ensure thorough compliance as a business operator engaged in the money lending business and type II financial instruments business. In addition to establishing a Code of Conduct, we have also prepared the necessary training and frameworks/systems as part of efforts to constantly improve the awareness of business ethics and compliance among officers and employees in our Group.

#### Code of Conduct

The Group established the NEC Capital Solutions Group Code of Conduct which stipulates that all directors and employees are required to comply with relevant laws and regulations in their daily business activities and to take action consistent with social ethics. The Code of Conduct

consists of seven chapters: General Provisions; Respect for Human Rights; Our Relationship with Society; Our Relationship with Customers and Business Partners; Our Relationship with Shareholders and Investors; Management of Company Assets and Information; and Operating Systems.

#### ● Basic Position

- 1 WE will comply with all applicable laws, rules, regulations, and in-house regulations, etc., including this Code, in every aspect of our corporate activities at all times. WE will strive to ensure that all corporate activities are in compliance with normal business practices and social ethics.
- 2 WE will maintain impartial, fair, and open relationships with all the stakeholders of our company and will conduct business in a fair manner with them.
- 3 WE will not take any action pursuing our personal or a third party’s interests against our company’s legitimate interests.
- 4 WE will not carry out any actions whatsoever that may damage the NEC Capital Solutions Group’s social trust or honor.
- 5 WE will establish an effective internal control system and implement it.
- 6 WE will accurately and fairly maintain all accounting and other records in accordance with applicable laws, rules, regulations, and in-house regulations, and properly execute our duties. WE will not carry out any unlawful accounting transactions or actions that may cause losses to the NEC Capital Solutions Group.
- 7 With an awareness of our position as a member of society, WE will always act in accordance with a good social conscience based on high moral and ethical standards.

### Compliance promotion system

At the quarterly Internal Control Committee, the initiatives of each group company are controlled in a cross-sectional manner.

Our regular compliance auditing consists of internal audits by the Auditing Department on the status of the Company's compliance to laws and regulations, the Articles of Incorporation and various rules.

### Compliance education

In order to ensure that all directors and employees of the Group understand the necessity and importance of compliance as the basis of all our business activities and execute operations properly according to the provisions of the NEC Capital Solutions Code of Conduct, we conduct compliance training annually, and all directors and employees, including temporary workers, of the Group receive the training.

See ▶P.43-44 for change in the compliance training participation rate

### Whistle-blowing system

The Company has an external whistle-blowing hotline where any employee having discovered improper activities can report anonymously. Measures are in place to ensure that whistle blowers are not treated disadvantageously. The whistle-blowing system may be used by all directors and employees of the Group, including those of overseas group companies.

### Basic policy on exclusion of antisocial forces

We believe that excluding antisocial forces that threaten the order and security of civil society is an important issue for society overall. As a corporate group with social responsibilities, we established a basic policy on antisocial forces, and set up a system to realize this policy.

For more information, please visit:  
<https://www.necap.co.jp/csv/governance/compliance.html>  
 (available in Japanese only)



### Information security

We provide the appropriate security countermeasures for our information systems, for information we obtained individually, and for information provided to us by our customers and clients. We thereby aim to maintain sound corporate activities and organizational management to be trusted by our customers and clients.

#### Fundamental Information Security Policy

1. Our group makes every effort to establish an information security system and control information assets appropriately.
2. Our group shall establish and implement internal rules for information security.
3. Our group shall continue to provide education necessary to ensure information security.
4. Our group makes every effort to take appropriate human, organizational, and technical measures to ensure that there will be no illegal intrusions, information leaks, falsification, loss, robbery, destruction, and interference of use, etc. in information systems and information assets.
5. In the event of an information security problem, our group makes every effort to immediately investigate the causes of the problem, minimize the damage and prevent the recurrence of such an incident.
6. Our group shall comply with laws and other social norms relating to information security.
7. Our group stipulates the following as basic policy for controlling information assets.
  - (I) We only obtain and retain the information necessary for our business operation.
  - (II) Information is disclosed only to those who need it.
  - (III) Authorization of access to information is limited to the minimum need for our business operation.
8. Our group makes every effort to continuously review and improve the above-mentioned items.

#### Initiatives for improving information security

In 2006, we acquired ISO/IEC 27001 certification and we strive to maintain and improve the level of information security accordingly. The Company offers information security education to all officers and employees, including temporary workers, of our Group each year. For mid-career recruits and temporary workers, we offer information security education as soon as they join us to raise their awareness.



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See ▶P.43-44 for change in the information security training participation rate

#### Efforts to protect personal information

To appropriately protect the personal information of customers, we established the "Personal Information Protection Policy" and handle information in accordance with this policy. In 2020, we acquired the PrivacyMark by establishing a personal information protection management system, conforming with JISQ 15001: Personal information protection management systems - requirements.

For more information, please visit:  
<https://www.necap.co.jp/csv/governance/security.html>  
 (available in Japanese only)



## Enhancement of risk management

We appropriately manage the diverse risks involved in business development by identifying the risks and opportunities of various points of operations.

### Approach to risk management

The objective of risk management, as we define it, is to ensure the Company's survival and improve corporate value for stakeholders.

Taking on some degree of risk is necessary in our business, but the materialization of the risks could result in losses on our financial statements and could require compensation and reparations. It invites a loss of public trust in the Company, which could have a major impact on our survival. We practice risk management by clarifying and controlling our risk tolerance, thus enhancing our relationship of trust with stakeholders.

### Risk management system

We make every effort to recognize the risks that emerge in the course of business execution, assessing them according to uniform criteria. We then carry out integrative risk management and operation while maintaining management stability and striving to maximize shareholder value.

We strive to prevent and avoid risks that may significantly impact our business activities through various meeting bodies. We also have a system in place to report such risks to the Board of Directors or the Management Conference based on the degree of importance. We have established a governance system that, in the event that risks are expected to arise, enables prompt consultation with the Management Conference or Board of Directors on the policies set by the respective meeting body, enabling an immediate response. The main meeting bodies for deliberating risk management are as follows.

| Main meeting bodies for deliberating risk management | Risks to manage  |
|--|--|
| Risk Management Committee                            | Risks related to credit, and ERM (credit, market, and operation)   |
| ALM Committee  | Risks related to interest rates, funding, income and expenditure management, foreign currency, and liquidity |
| Internal Control Committee                           | Risks related to internal control and compliance   |
| Sustainability Committee                             | Climate-related risks  |

### Business Continuity Plan (BCP)

The Company has formulated BCP as one of its most important management issues and has reinforced systems for operating and improving BCP.

Our BCP Action guidelines are as follows.

#### BCP Action guidelines

- (I) Surely protecting the lives and safety of employees and visitors
- (II) Fulfilling social responsibilities as a financial company
- (III) Minimizing management damage

#### Systems for operation and improvement

- Formulation of the "Disaster Control and Business Continuity Concept"
  - ▶ Clarified guidelines to enable employees to act according to their own judgement in the event of a disaster, set specific actions to be handled by the emergency headquarters and the business continuity headquarters, etc.
- Training to foster awareness

The emergency headquarters, established in February 2020 as part of efforts to tackle the COVID-19 pandemic, has ended its activities as COVID-19 was reclassified as a Class 5 infectious disease in May 2023.

In the event of a major earthquake or a similar disaster, the above mentioned Action guidelines are followed in operations for the fast restoration of operations and the continuity of the business.

For more information, please visit:  
<https://www.necap.co.jp/csv/governance/riskmanagement.html>  
 (available in Japanese only)

