

Misconduct in Crisis Response Operations

We would like to once again offer our sincere apology for causing a great deal of inconvenience and concern to our customers and shareholders, as well as to the people, concerning the misconduct in our crisis response operations.

The Shoko Chukin Bank received a second Administrative Order on October 25, 2017 from the Ministry of Economy, Trade and Industry, the Ministry of Finance, the Financial Services Agency, and the Ministry of Agriculture, Forestry and Fisheries of Japan, due to the widespread occurrence of misconduct, including falsification of the requisite documents for screening of the eligibility requirements for crisis response operations, in addition to inappropriate business operations in other areas.

Background regarding the Misconduct

- October 24, 2016 : Discovered that employees had falsified trial balance sheets and other documents of customers by replacing or changing figures and/or dates, when confirming loan eligibility requirements in crisis response operations at the Shoko Chukin Bank.
 - December 12, 2016 : Established an Independent Committee tasked with conducting an investigation to uncover the causes of the incident and make recommendations to prevent recurrence.
 - April 25, 2017 : Published the "Investigation Report" of the Independent Committee.
 - May 9, 2017 : Business operations improvement order (to conduct a full investigation, establish and implement recurrence prevention measures to be carried out immediately) from the ministries in charge (Ministry of Economy, Trade and Industry; Ministry of Finance; Financial Services Agency; and Ministry of Agriculture, Forestry and Fisheries of Japan)
- From May onward : Full investigation by the Shoko Chukin Bank; inspection by the ministries in charge.
- October 25, 2017 : Second business operations improvement order in response to the inspection by the ministries in charge and report of the investigation results of all incidents, etc. Submitted the "Business Operations Improvement Plan" to the ministries in charge. Established the "Board to Examine the Shoko Chukin Bank's Way of Being."
 - January 11, 2018 : Received the recommendations of the "Board to Examine the Shoko Chukin Bank's Way of Being."
 - March 26, 2018 : Published results of additional investigations after publication of the Investigation Report.
 - March 27, 2018 : Established the "Evaluation Committee Regarding Management and Crisis Response Operations at Shoko Chukin Bank."
 - May 22, 2018 : Submitted the "Operation Improvement Plan Related to Our Business Model, etc." to the ministries in charge.

Results of the investigation of misconduct in crisis response operations

In order to clarify the details of the misconduct in its crisis response operations, the Bank conducted a full investigation of all 220,000 cases of crisis response loans. The results revealed 4,631 incidents of misconduct by 446 employees at 97 business offices (out of a total 100 domestic business offices). (Published the Investigation Report on October 25, 2017, and results of additional investigation on March 26, 2018.)

Fundamental causes of the incident

The four fundamental causes of the incident were as follows: (1) a lack of internal control and excessive pressure for business performance in crisis response operations; (2) the use of crisis response loan facilities as a dominant tool; (3) the attitude of the Bank's Headquarters and management, as well as a decline in compliance awareness that led to misconduct; and, (4) a lack of governance.

Main content of the business operations improvement order

- * Thoroughly re-examine the Bank's legal compliance, management system, internal management system, etc., in order to prevent the occurrence of any misconduct or inappropriate business operations. The re-examination shall include:
- (1) Clarification of the responsibilities of the Bank's officers and employees during the period from time the incident occurred to the present;
 - (2) Creation and implementation of an in-depth recurrence prevention plan, which includes measures to strengthen audit functions and ensure appropriate organizational management;
 - (3) Development and implementation of a sustainable business model based on the Bank's purpose of complementing private-sector business; and,
 - (4) Construction of the Bank's new operational and management system, including strengthening of the rights and privileges of the Board of Directors and employment of external human resources.