

Status of Compliance System Development

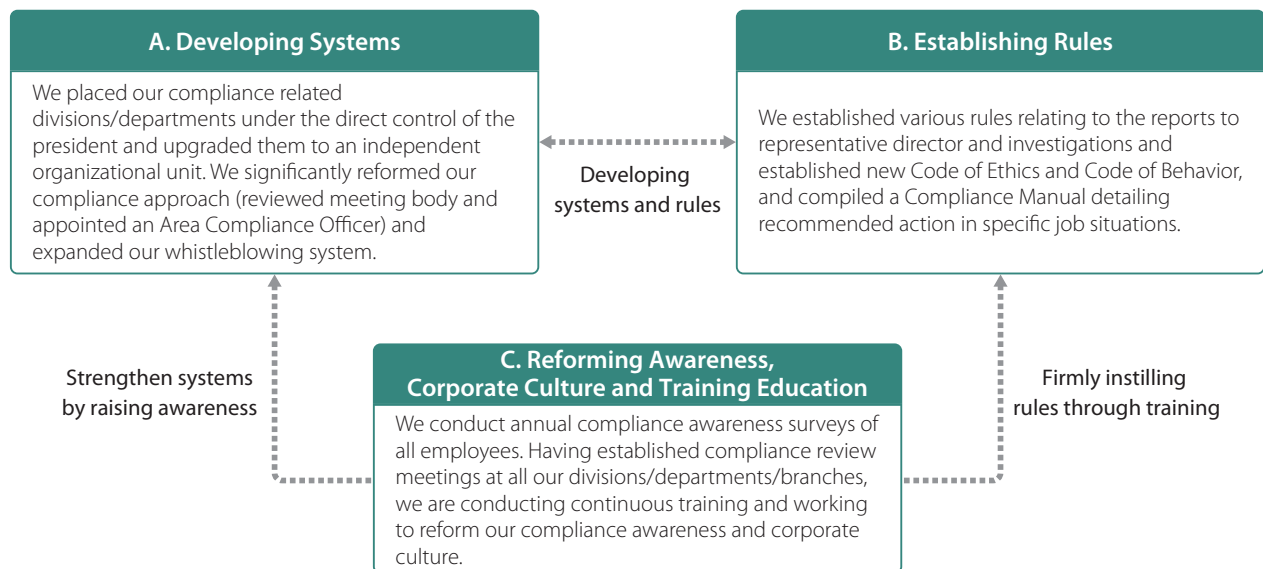
Status of the initiatives to develop compliance systems in the wake of misconduct in crisis response operations

Regarding the misconduct announced in 2016 in our crisis response operations, we would like to once again offer our sincere apologies for the considerable inconvenience and concern caused to our business partners, shareholders, and the general public.

The Shoko Chukin Bank recognizes that the four fundamental causes of the misconduct in the past were: (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. Based on that recognition, we have developed various approaches and have been steadily raising the employees' compliance awareness.

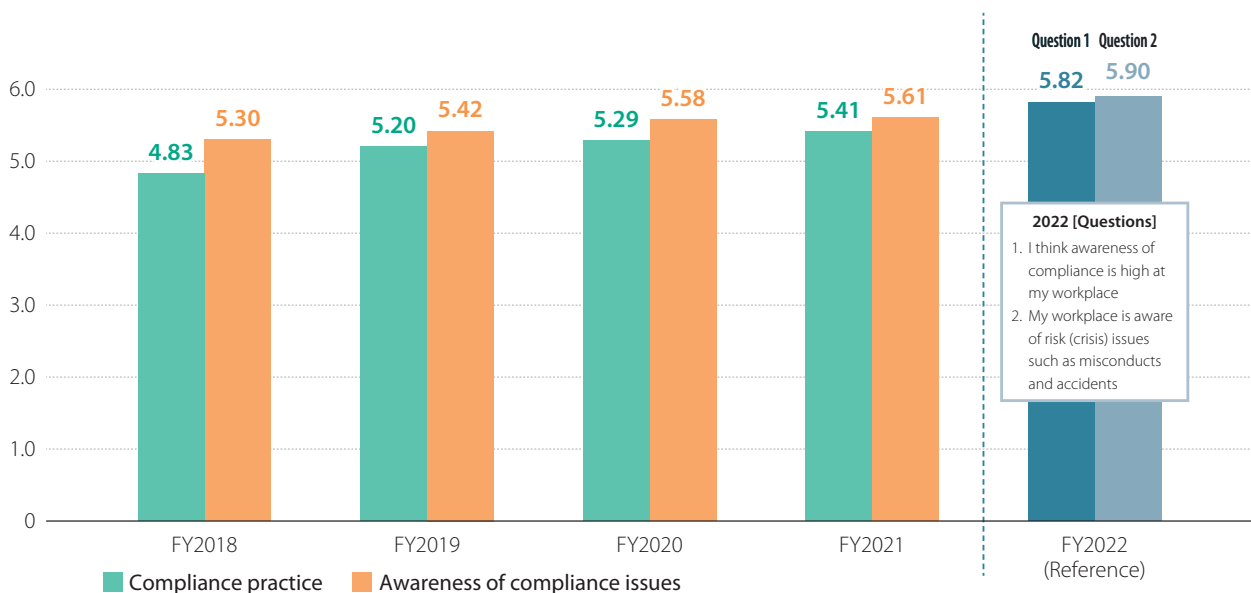
Going forward, we will aim to transition from uniform companywide measures to the promotion of self-directed measures tailored to the issues facing each division, department and branch and to shift away from headquarters-led initiatives to "self-directed compliance" that is planned, reviewed, and operated independently by each division, department and branch.

◆ Three Initiatives to Rebuild Organization After the Misconduct Incident



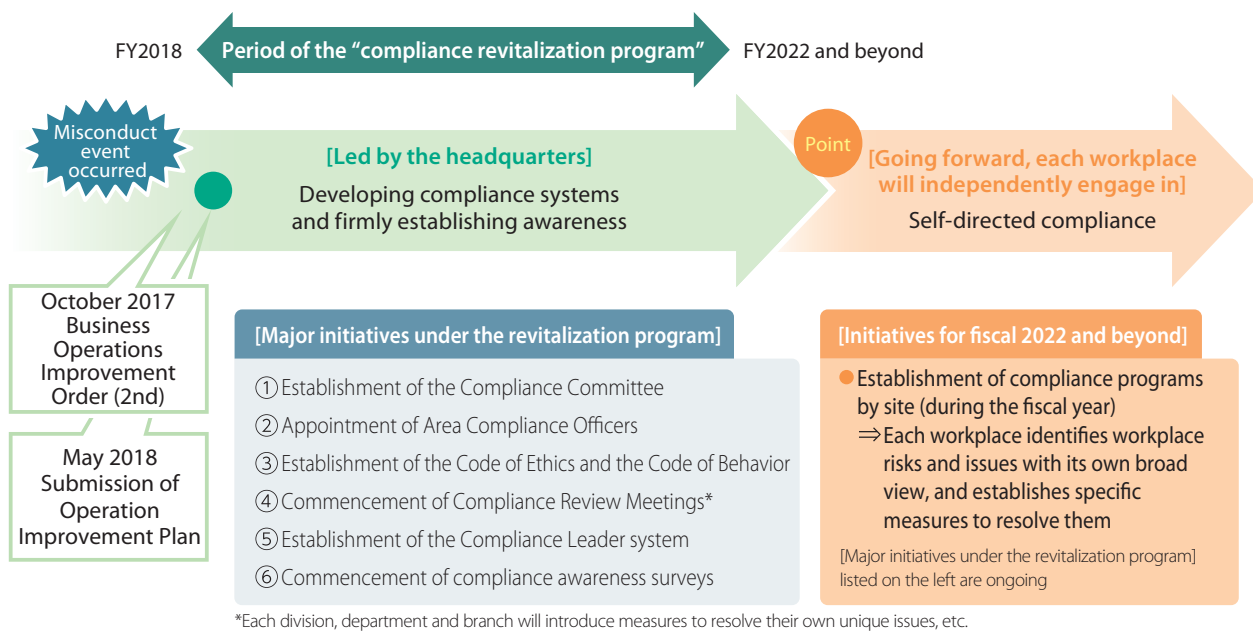
◆ Change in Compliance Awareness

We have been conducting an annual survey of staff compliance awareness since fiscal 2018. (Due to a change in the survey method, figures for fiscal 2022 are for reference only)



*The surveys were conducted by having respondents rate their compliance from 1 to 7 (the higher the number the more positive the action).

◆ Initiatives after discovering the misconduct event [overview of future initiatives]



● Examples of initiatives under the compliance programs by site

As part of our initiative toward self-directed compliance, we have established and are implementing “compliance programs by site” at each workplace. Some of these initiatives are introduced below.

Sendai Office

The Sendai Office organized a cleanup of the local Hirose River in an effort to raise awareness of the SDGs among employees. Family members of staff also participated, which helped to stimulate communication.



Fukutoshin Business Division

Recognizing that the risk of money laundering is higher than in other regions, the Fukutoshin Business Division arranged a money laundering training course for staff in cooperation with the Shinjuku Police Station.



INTERVIEW

Compliance Leader

Compliance Leaders are responsible for promoting overall compliance-related activities in each division, department and branch. Not only formulate and implement compliance programs by site, but we also share initiatives across sites.

As a Compliance Leader, I try to create a fun environment in which colleagues can relax and talk freely. My goal is to acquaint every member of staff with the importance of compliance.

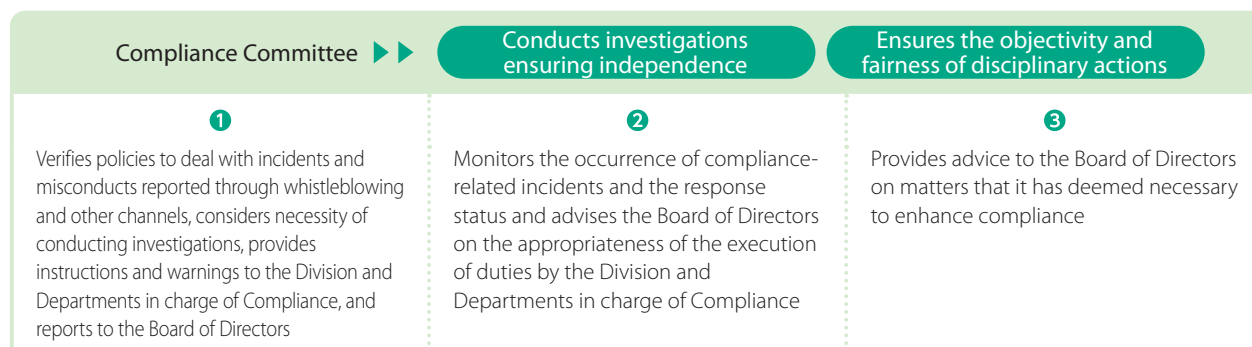
Kaori Izawa, Omori Office



Compliance Committee

◆ The Role of the Compliance Committee

The Compliance Committee is delegated by the Board of Directors to engage in the following three tasks, (1) to (3). The Committee is consulted on all incidents that involve personnel decisions and other disciplinary actions, ensures objectivity and fairness, and provides guidance and checks so that appropriate actions are taken.



◆ Compliance Committee Members

Compliance Committee members are appointed by the Board of Directors and its chairperson is elected from among members who are outside attorneys-at-law by mutual election.

Compliance Committee	Chairperson	Takanori Ishikawa (Attorney at law, Mori Hamada & Matsumoto)
	Vice chairperson	Katsumi Nakamura (Attorney at law, T. Kunihiro & Co., Attorneys-at-Law)
	Member	Hajimu Nakatani (Deputy President and Executive Officer, the Shoko Chukin Bank)

◆ Activities of the Compliance Committee

The Compliance Committee meets once a month in principle to carefully examine various agendas under the guidance of outside attorneys at law. In fiscal 2018, monitoring commenced under the Committee members (chairperson and vice chairperson) to verify the process of agenda submission to the Committee, which has contributed to preventing omissions in the agenda to be submitted to the Committee while also improving efficiency.

- **Monitoring details:** In addition to the monthly Committee meetings, the chairperson and vice chairperson (outside attorneys-at-law) also conduct monitoring of operational risk events. They also confirm whether there are any omissions in the agenda to be discussed by the Committee on a risk basis and do the process verification including giving instructions to submit the necessary agenda to the Committee.

[Monitoring of operational risk events]

- ▶ Monitoring of operational risk events which occurred in the previous month (a certain number is randomly extracted)
- ▶ Verifies the investigation results of incidents determined to pose compliance risks and the status of formulating measures to prevent such recurrences, and confirms the appropriateness of decisions on matters which were not submitted as agenda to the Compliance Committee (provides instructions to refer the matter to the Committee, as necessary)

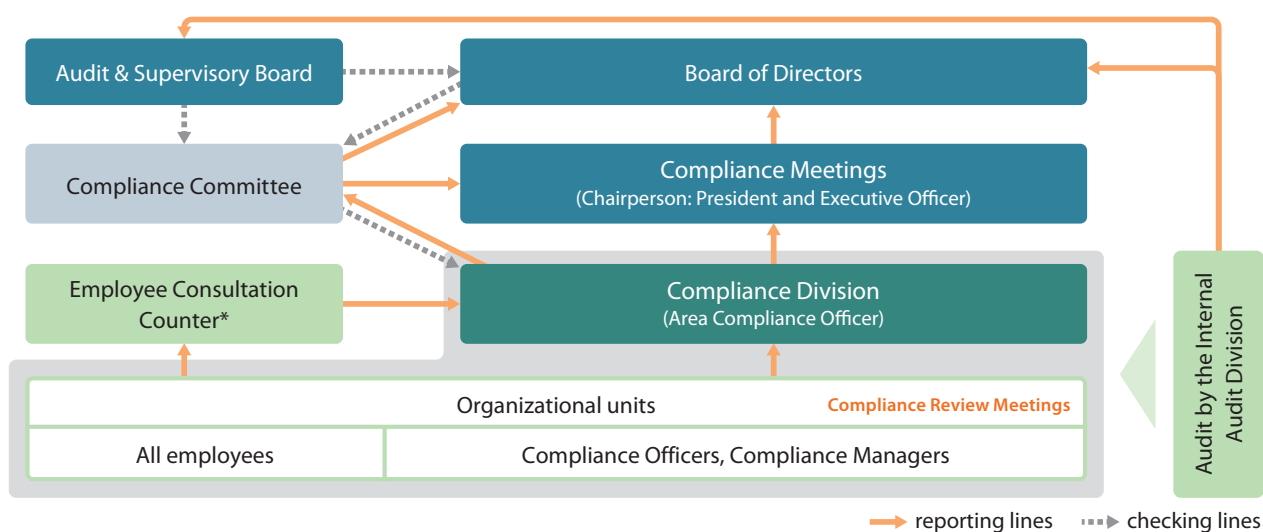
Compliance Committee

● Number of the Committee and Monitoring held

	FY2018	FY2019	FY2020	FY2021	FY2022
Compliance Committee	21	13	13	12	12
Monitoring	7	12	13	12	12
Total	28	25	26	24	24



◆ Compliance Structure



*The Shoko Chukin Bank has established internal and external employee consultation contact points and accepts a wide range of alerts and consultations for the early discovery and correction of misconducts, violations of internal rules, harassment, etc.

Act on Prevention of Transfer of Criminal Proceeds and Anti-Money Laundering, Counter Financing of Terrorism, and Counter-Proliferation Financing

The Shoko Chukin Bank established the Financial Crimes Compliance Department in April 2020 to upgrade our systems to prevent money laundering and other crimes. Taking into account relevant laws and regulations, we are working to strengthen our systems to prevent money laundering and other crimes by thoroughly checking overseas remittance transactions, updating information on our clients, and preventing special types of frauds.

Strengthening systems to prevent money laundering and other crimes is an international trend. Financial institutions will be required to strengthen their stance in the future. The Shoko Chukin Bank, which has positioned money laundering as one of its importance management issues, will continue to upgrade its systems to tackle the issue.

The importance of countermeasures against money laundering and other crimes has become more and more acute in recent years for both Japan and the international community, and the Shoko Chukin Bank will continue to cooperate with the relevant government agencies, respond to the increasingly complex and sophisticated methods used in money laundering and other crimes, and go forward with measures to effectively prevent such crimes.

◆ Customer Management (Customer Due Diligence)

To effectively prevent crimes such as money laundering, financial institutions are required to have a grasp of customers' information including the purpose of each transaction, their occupation and business description, and to update and maintain such details. The Shoko Chukin Bank, since fiscal 2019, has also been regularly asking its customers to provide such information.

◆ Overseas Remittances

In terms of handling overseas remittances, we are required by the Japanese government, international agencies, and foreign government authorities to rigorously confirm whether overseas remittances constitute money laundering or infringe various domestic and overseas laws and regulations. To this end, the Shoko Chukin Bank asks customers to provide materials and other data on the content of the transactions and information about customers and beneficiaries, etc.

Zero-Tolerance of Anti-social Forces

As a financial institution, to maintain public confidence and ensure the adequacy and soundness of our business operations, it is required to eliminate anti-social forces from financial transactions.

The Shoko Chukin Bank develops its system aimed at the elimination of anti-social forces by taking initiatives such as designating the Compliance Division as a supervising division for the elimination of anti-social forces, and assigning a person responsible for elimination of anti-social forces within each division, department and branch, thereby working to cut off the relationships and eliminate transactions with anti-social forces, in cooperation with external professional bodies including the police and lawyers.