

# Compliance



## Compliance Measures

In addition to observing laws, regulations and rules, compliance refers to the act of adhering to and fulfilling social norms. Hyakugo Bank believes that as a bank, whose most valuable asset is its credibility, enhancing its managerial soundness and solidifying society's trust are natural principles of compliance, and each executive and employee must steadily put compliance into practice in the daily execution of duties.

To this end, the Hyakugo Bank has made compliance one of its highest management priorities and has been making efforts to bolster its compliance structure, while at the same time mitigate ethical and legal risks\*.

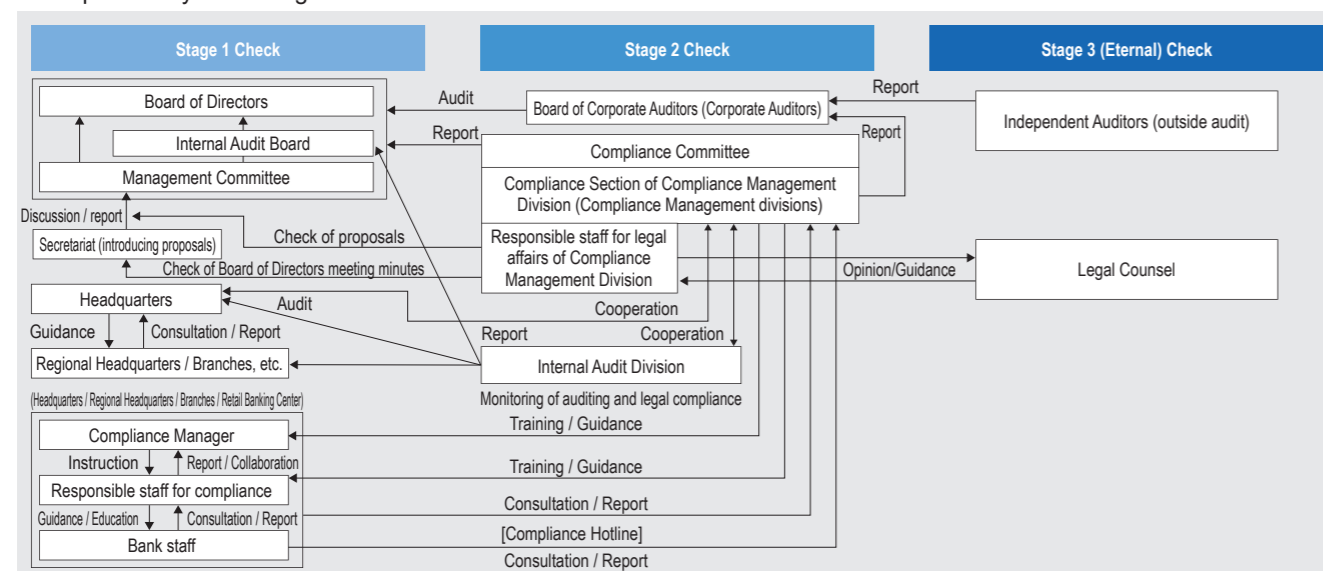
Specifically, in addition to issuing the Compliance Manual that states fundamental guidelines for compliance within the Bank, we have created the Bank-wide Compliance Committee to discuss overall compliance measures. Furthermore, Hyakugo Bank has established the Compliance Management Division to conduct integrated supervision and promotion of compliance.

Moreover, compliance officers are assigned to all headquarters divisions, regional headquarters, branches and the Retail Banking Centers to prevent legal infractions and check the status of compliance. Furthermore, Hyakugo Bank is engaged in initiatives based on the Compliance Action Plan, which is formulated as a concrete action plan each year.

Hyakugo Bank will continue to reinforce its compliance structure going forward.

\* The risk of Hyakugo Bank having to assume liability for damages or the Bank losing its credibility as a result of Hyakugo Bank being held legally or morally culpable by clients, shareholders and other stakeholders, on account of directors and employees engaging in activities that violate laws, regulations, rules, social norms, etc. in the execution of their duties or Hyakugo Bank's rules of procedures being in violation thereof.

### Compliance System: Diagram



## Management of Conflicts of Interest

In transactions that may pose a conflict of interest between Hyakugo Bank or its group companies and customers, and between customers of Hyakugo Bank or its group companies, Hyakugo Bank properly conducts business so as not to unfairly impair the interests of customers, in accordance with the Banking Act, the Financial Instruments and Exchange Act and other related laws and regulations.

"Transactions that may pose a conflict of interest" refer to transactions entered into by Hyakugo Bank or its group companies that "may unfairly impair the interests of customers." "Conflicts of interest" refer to situations in which interests conflict between the Hyakugo Bank or its group companies and the customer, and the interests between the customers of Hyakugo Bank or its group companies.

Hyakugo Bank appropriately manages conflicts of interest by identifying transactions that are subject to conflict of interest management.

Pursuant to laws and regulations, Hyakugo Bank also discloses its Guidelines on the Management of Conflicts of Interest by posting them on its website and at its branches.

### Response to the financial alternative dispute resolution (ADR) system

Hyakugo Bank has concluded a contract regarding procedures for handling customer complaints and procedures for dispute resolution with the Japanese Bankers Association, which is the designated dispute resolution institution as defined in the Banking Act.

Contact: Advisory Office, Japanese Bankers Association  
Phone: 0570-017109 or 03-5252-3772

## Initiatives for Anti-Money Laundering and Counter Financing of Terrorism

Financial institutions face the risk of day-to-day transactions being used for money laundering, financing of terrorism, or financial crimes due to the nature of their business. As the threat of terrorism grows around the world, money is increasingly transferred over greater distances, and as globalism in money transferring increases, there is a rising interest in the measures being taken by financial institutions to combat these risks

With this background, the Hyakugo Bank Group carries out effective initiatives for combatting money laundering and the financing of terrorism in order to comply with related laws and regulations such as the Act on Prevention of Transfer of Criminal Proceeds and the Foreign Exchange and Foreign Trade Act and to enable the Group to respond to constantly changing risks. Through this, the Group lives up to the trust vested in it as a financial institution.

### Policy on Anti-Money Laundering and Counter Financing of Terrorism

Hyakugo Bank has defined the following basic policy for Anti-Money Laundering and Counter Financing of Terrorism (hereinafter referred to as "AML/CFT").

- Operation policy**  
Hyakugo Bank has positioned AML/CFT as one of its most critical business issues. The Bank constantly reviews and improves its activities aimed at the establishment of an effective risk management system, coordinates closely with related authorities both inside Japan and abroad, and pays ample attention to trends in financial crime and domestic and international laws and regulations, living up to the trust vested in it as a financial institution.
- Organizational structure**  
Hyakugo Bank has designated the officer in charge of the Compliance Management Division as the manager responsible for AML/CFT and the AML/CFT unit of the Compliance Management Division as the division responsible for AML/CFT. This division formulates policies, procedures, plans, etc. for AML/CFT measures, cooperating with other divisions to implement appropriate operation and management in order to ensure effective AML/CFT measures.
- Risk-based approach**  
Hyakugo Bank uses a risk-based approach to identify and evaluate risks related to AML/CFT faced by Hyakugo Bank based on external information such as the National Risk Assessment of Money Laundering and Terrorist Financing issued by the National Public Safety Commission and implements mitigation measures commensurate with these risks.
- Customer reception policy**  
Hyakugo Bank has established a customer reception and refusal policy in order to protect the Bank and its customers from money laundering and other related crimes.
- Economic sanctions and asset freezing**  
Hyakugo Bank uses filtering, etc. to eliminate transactions with targets of economic sanctions, etc. It also has in place a system for carrying out appropriate confirmation related to measures for freezing assets, etc.
- Reporting of suspicious transactions**  
Hyakugo Bank appropriately deals with customers, transactions, etc., detected as suspicious activity by reports from branches, etc., or monitoring by the headquarters, and promptly reports suspicious transactions to the authorities.
- Prohibition of anonymous accounts and accounts opened under false names**  
Hyakugo Bank does not perform transactions involving highly anonymous accounts or accounts opened under false names.

- Policy regarding the management of correspondent agreement parties**  
Hyakugo Bank gathers sufficient information regarding correspondent banks, appropriately evaluates them, and implements appropriate handling measures based on correspondent party risk. Furthermore, Hyakugo Bank discontinues all transactions with fictitious banks that are not engaged in actual banking business and all banks that have transactions with fictitious banks.
- Training for executives and employees**  
Hyakugo Bank strives to deepen knowledge and understanding of executives and employees and to secure and develop employees with specialization and aptitude commensurate with their roles through its system of continuous, systematic training regarding AML/CFT.
- Bribery prohibition and corruption prevention**  
Hyakugo Bank works to bestow bank executives and employees with a high degree of professional ethics. Our bank executives and employees adhere to established guidelines, which prohibit social contact or gifts that exceed the scope deemed as socially appropriate as well as bribery based on the intent of related laws and regulations.
- Compliance status review and auditing**  
Hyakugo Bank has the division responsible for AML/CFT, regularly implement reviews and improvements regarding the Bank's system for AML/CFT, as well as conducts reviews and improvements as appropriate when review is deemed necessary by the manager responsible for AML/CFT. Furthermore, an independent internal audit division performs regular audits, and the Bank makes further improvements of the system based on the results of the said audits.
- Foreign currency transactions**  
When handling foreign currency transactions, Hyakugo Bank not only complies with Japanese laws and regulations, but also takes into consideration related overseas regulations, etc. in order to eliminate the risk of the said transactions being improperly used for purposes such as money laundering, etc. Furthermore, the Bank establishes a system to continuously improve and reinforce its handling of foreign currency transactions. To this end, the Bank carries out measures for mitigating the risks of the said transactions, actively collects information regarding the external environment, and assesses risks in a timely and appropriate manner, among others.
- Group company management**  
Hyakugo Bank shares the information it has itself gathered and analyzed regarding AML/CFT as needed with each company of the Hyakugo Bank Group and works for AML/CFT throughout the Group.