

# 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, Retail Banking Centers, and consulting plazas 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 executives 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.

### Initiatives for anti-money laundering, counter financing of terrorism, and counter proliferation financing

Financial institutions face the risk of day-to-day transactions being used for money laundering, financing of terrorism, proliferation financing, 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, the financing of terrorism, and proliferation financing 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 required of a financial institution.

### Management system of Hyakugo Bank

Classification	Department	Functions
First line of defense (sales divisions)	Branches, Retail Banking Centers, Consulting Plazas, etc.	Directly confront and prevent money laundering and other risks.
Second line of defense (administrative divisions)	AML/CFT Unit, departments reporting to the headquarters	Oversee and support the autonomous risk management efforts of the first line of defense.
Third line of defense (internal audit divisions)	Internal Audit Division	Examine the effectiveness of AML/CFT/CPF measures.

## Whistle-blowing system

The Bank has established a whistle-blowing system (Compliance Hotline) for the early detection, correction, and prevention of recurrence of compliance issues, such as violations of laws and regulations, misconduct, breaches of internal rules and regulations, and harassment. This system allows all executives and employees of the Bank and the Group (including those who have left within the past year) to report and consult on compliance concerns.

The Compliance Hotline supports both anonymous and non-anonymous reports and consultations, and the designated Hotline Response Personnel and dedicated attorneys will receive reports, investigate them, and take necessary corrective actions.

Without the whistleblower’s consent, only a small number of Hotline Response Personnel will handle the report in order to minimize the extent to which the whistleblower’s information is shared. The Bank stipulates that executives and employees shall not seek the identity of whistleblowers, subjects of whistleblower reports, or those assisting in the investigation of the reported case, and that whistleblowers and those assisting in the investigation shall not disclose the fact that they have cooperated in the reporting and investigation, or any facts that they have come to know. This ensures that whistleblowers are not treated disadvantageously and can use the system with confidence.

In addition, the Compliance Management Division explains the whistle-blowing system and the Compliance Hotline at training sessions and on other occasions to familiarize executives and employees with the system and deepen their understanding of the system.

## 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. Companies that are subject to the management of conflicts of interest include Hyakugo Bank, and Hyakugo Research Institute and Hyakugo Securities, both of which are companies of Hyakugo Bank Group.

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.

## Elimination of antisocial forces

The Hyakugo Bank Group always recognizes the importance of a bank’s public mission and social responsibility. The entire organization is committed to cutting off all relationships, including transactions, with antisocial forces, by firmly refusing the provision of funds to antisocial forces that threaten the order and safety of civil society, and resolutely rejecting any undue requests and interventions by antisocial forces.

Specifically, the Regulation for Responding to Antisocial Forces stipulate basic matters for cutting off relationships with antisocial forces, and ensure that executives and employees are thoroughly aware of these matters. In addition, the Bank has introduced clauses to exclude organized crime groups in contracts and transaction terms and conditions in an effort to prevent transactions with antisocial forces.

In addition, the Bank cooperates with the police and other relevant administrative bodies, as well as with attorneys and other external professional organizations, and continuously implements measures to eliminate transactions and cut off relationships.

## Initiatives to strengthen customer protection and customer information management systems

The Hyakugo Bank Group regards the management of customer protection as one of the important management issues, and strictly observes laws, regulations and rules from the perspective of customers, and conducts corporate activities in good faith and fairness.

The Hyakugo Bank Group’s Customer Protection Management Policy stipulates that it will strictly comply with laws and regulations, protect the legitimate interests of customers, and strive to improve customer convenience in accordance with its corporate philosophy. The Group is making continuous efforts based on the analysis and evaluation of the status of customer protection management.

A centralized complaint management department has been established to accept consultations and complaints from customers. The department in charge of complaints consolidates them and provides direction and guidance to the department where the complaint originated and to other relevant departments to resolve the complaints. Details of complaints, their cause analysis, and the status of corrective actions are reported to the Board of Directors through the Compliance Committee, and continuous efforts are made to improve them. The Bank has also entered into a basic agreement for the implementation of dispute resolution procedures with the Japanese Bankers Association, which is the designated dispute resolution institution as defined in the Banking Act, and is compliant with the financial ADR system, which resolves disputes with customers through the involvement of a third party.

In accordance with the Act on the Protection of Personal Information and related laws and regulations, the Bank discloses the purpose of use, etc. of personal information on its website. In addition, based on its Personal Information Protection Declaration, the Bank is committed to the appropriate protection and use of personal information, and strictly manages such information.

**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 against bribery and other forms of corruption

Business entertainment is a means to build relationships with all stakeholders, including customers, and to ensure smooth business operations, and is conducted in an appropriate and sound manner. The Bank has established the Management Procedures for Business Entertainment, and has developed a system to prevent bribery and other forms of corruption, so as not to deviate from socially accepted norms and common sense.

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

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

### 1 Operation policy

Hyakugo Bank has positioned AML/CFT/CPF 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. The Bank also pays ample attention to trends in financial crime as well as domestic and international laws and regulations, living up to the trust vested in it as a financial institution.

### 2 Organizational system

Hyakugo Bank has designated the officer in charge of the Compliance Management Division as the manager responsible for AML/CFT/CPF and the AML/CFT unit of the Compliance Management Division as the division responsible for AML/CFT/CPF. This division formulates policies, procedures, plans, etc. for AML/CFT/CPF measures, cooperating with other divisions to implement appropriate operation and management in order to ensure effective AML/CFT/CPF measures.

### 3 Risk-based approach

Hyakugo Bank uses a risk-based approach to identify and evaluate risks related to AML/CFT/CPF 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.

### 4 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.

### 5 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.

### 6 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.

### 7 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.

### 8 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.

### 9 Training for executives and employees

Hyakugo Bank strives to deepen the 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/CPF.

### 10 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.

### 11 Compliance status review and auditing

Hyakugo Bank has the division responsible for AML/CFT/CPF, regularly implement reviews and improvements regarding the Bank's system for AML/CFT/CPF, as well as conducts reviews and improvements as appropriate when review is deemed necessary by the manager responsible for AML/CFT/CPF. Furthermore, an independent internal audit division performs regular audits, and the Bank makes further improvements of the system based on the results of said audits.

### 12 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 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 said transactions, actively collects information regarding the external environment, and assesses risks in a timely and appropriate manner, among others.

### 13 Group company management

Hyakugo Bank shares the information it has itself gathered and analyzed regarding AML/CFT/CPF as needed with each company of the Hyakugo Bank Group and works for AML/CFT/CPF throughout the Group.