

## What we have done to restructure the compliance system

Suruga Bank, Ltd.

In order to fundamentally review the Bank's compliance system, we established the “Compliance System Restructuring Committee” (hereinafter referred to as the “Restructuring Committee”) in November 2018 and have promoted the restructuring of the compliance framework since then. Going forward, we will continue to work on further improvement of the framework and work together to realize smooth management at an early stage.

### 1. Establishment of the Restructuring Committee and subcommittees

The Restructuring Committee consists of the Chairman, attorney Hideaki Sudo, and three members of attorney Tetsuya Ohno, President Michio Arikuni and Senior Executive Officer Hiroshi Sasaki, and held a total of 20 meetings by May 10, 2019. In addition to reviewing the whole picture of the Bank's compliance system, the Restructuring Committee holds repeated discussions and deliberations by sharing matters concerning the business improvement plan and the contents of initiatives taken by the four subcommittees established within the Committee. As activities of each subcommittee and the Office to Support Customer Owners of Share Houses and Others, discussions have been held under the guidance of the specialized attorneys, who have provided specialized knowledge and know-how necessary for implementing compliance measures.

[Subcommittees and attorneys in charge]

Subcommittee for education and training	Attorney Masatake Hirose, Tokyo Fuji Law Office
Subcommittee for response to whistleblowing	Attorney Yuko Gomi, T. Kunihiro & Co. Attorneys-at-Law
Subcommittee for AML and CFT (Anti-Money Laundering and Counter Financing Terrorism)	Attorney Tetsuya Ohno, Proact Law Office
Subcommittee for internal audit	Attorney Hidetaka Miyake, Anderson Mori & Tomotsune

Under the guidance and supervision of the Restructuring Committee, the Bank had “built up” its compliance system by April 2019, and will continue to make further improvements while “managing” the system. The Restructuring Committee will continue to follow-up during our “management” and will end its mission when the Restructuring Committee determines that “the Bank can manage the compliance system independently.”

### 2. Grand design of the compliance system and initiatives of each subcommittee

#### (1) Grand design of the compliance system

Looking at the whole picture of the compliance system, we have discussed the formulation of the basic policy on compliance, the establishment of a Chief Compliance

Officer (CCO), and the need to develop a compliance and risk management system with the concept of the three lines of defense, and have implemented measures including the establishment of the Compliance Charter and the assignment of compliance leaders.

At the same time, we have established and revised internal regulations, including the compliance regulations, which are necessary for development of the compliance system.

(i) Determination of the grand design of the compliance system

Formulated and declared the Compliance Charter (Mar. 18)	Assigned a compliance leader for each Department and branch office (Mar. 15)
Established a framework of compliance and risk management	Mechanism to realize independent risk management by the first line
Established CCO (Chief Compliance Officer)	Established a verification system by the third line
Reestablished the Compliance Committee (Apr. 1)	Promoted system development related to each compliance area
Strengthened the Compliance Department (second line)	Formulated the Compliance Program (Apr. 10)

(ii) Formulation and revision of regulations

Committee	Compliance System Restructuring Committee Regulations
	Compliance Committee Regulations
Whistleblowing	Compliance Helpline Regulations
	Regulations regarding Reception and Response to External Information
	Responding to feedback from customers
Dealing with anti-social forces	Basic Policy on Dealing with Anti-social Forces
	Regulations on Dealing with Anti-social Forces
	Procedures for Dealing with Antisocial Forces
	N Information Manual
Counter-measures against money laundering and terrorist financing	Basic Policy to Prevent Money Laundering and Terrorist Financing
	Regulations to Prevent Money Laundering and Terrorist Financing
Counter-measures against money laundering and terrorist financing	Risk assessment document
	Procedures to prevent money laundering and terrorist financing
	Customer Acceptance Policy (Business Procedure)

The status of the main measures is as follows:

(iii) Formulation and declaration of the Compliance Charter

We have formulated and declared the Compliance Charter that will serve as standards for all actions and decisions taken by all the Bank's officers and employees. The Compliance Charter stipulates the following:

# Compliance Charter

Enacted on March 18, 2019

In response to the lessons learned from the recent misconduct that has had a significant impact on society, the Suruga Bank Group has been making efforts to establish a compliance system, placing top management priority on compliance to prevent recurrence of the same mistakes.

We hereby declare that all employees will work together to practice the Compliance Charter so that the Bank will become an indispensable entity for society.

## **[Customer-oriented business operations]**

We will listen carefully to our customers and provide optimal products and services, considering the best benefits for them. We will establish trust from our customers through long-standing business relationships with them and realize sound management that will create appropriate profits.

## **[Honest, fair and transparent corporate activities]**

In order to meet the expectations of customers and society, we will ensure that we will take faithful actions, taking into consideration not only compliance with laws and regulations and rules but also social norms and the public nature of the banking business. We will work on the early detection of problems, recognize the facts correctly, disclose information fairly, and respond based on appropriate judgment.

## **[Ensuring a healthy work environment]**

We will be considerate to co-workers and their families, eliminate harassment, and create an environment where all staff can work with peace of mind.

We will develop a corporate culture where we respect each other and can freely exchange opinions regardless of different positions.

## **[Blocking all relations with anti-social forces]**

We will cut off any relationship with anti-social forces that threatens social order and people's safety, and ensure the soundness and security of the functions of financial infrastructure.

## **[Taking ownership of actions]**

Based on our strong conviction and sense of responsibility that each employee "will change the Bank," we will work on daily operations using the Compliance Charter as the criteria for actions.

### (iv) Established a framework of compliance and risk management

Clarifying our compliance risk management framework called the "Three Lines of Defense," for the first line of defense at branch offices, we ensure the education and training of branch managers to identify risk ownership and we assign the compliance leader who plays the role of the second line of defense. For the second line of defense, we also ensure training and education to strengthen the Compliance Department, and for the third line of defense, we have established an independent verification system by the Internal Audit Department.

	Business Division <First line>	Management Division <Second line>	Audit Division <Third line>
Management	Board of Directors	Board of Directors	Board of Directors
Responsible person	Executive Officer General Manager of Sales Department	CCO	Senior Executive Officer General Manager of Internal Audit Department
Deliberative body	Executive Committee	Compliance Committee	Consultation between the Board of Corporate Auditors and Internal Audit Department
Department	Sales Division	Compliance Department	Internal Audit Department
Branch office	General Manager	Compliance leader (each Department and branch office)	(Onsite audit)

(v) Establishment of CCO

Chief Compliance Officer (CCO) will be established as the Head of compliance. The CCO will develop and manage our compliance system according to the three lines of defense, and will promote compliance and realize Bank-wide compliance risk management.

In addition, the CCO will supervise the Compliance Department and preside over the Compliance Committee.

We are currently in the process of selecting the CCO, and for the time being President Michio Arikuni will take these duties.

(vi) Re-establishment of the Compliance Committee

In April 2019, we re-established the Compliance Committee as a compliance deliberative body, and in response to risk information such as fraudulent acts, we collect and aggregate information to the Restructuring Committee as well as implement the formation of investigation teams and instruct them to investigate.

The Compliance Committee will work under the guidance and supervision of the Restructuring Committee for the time being.

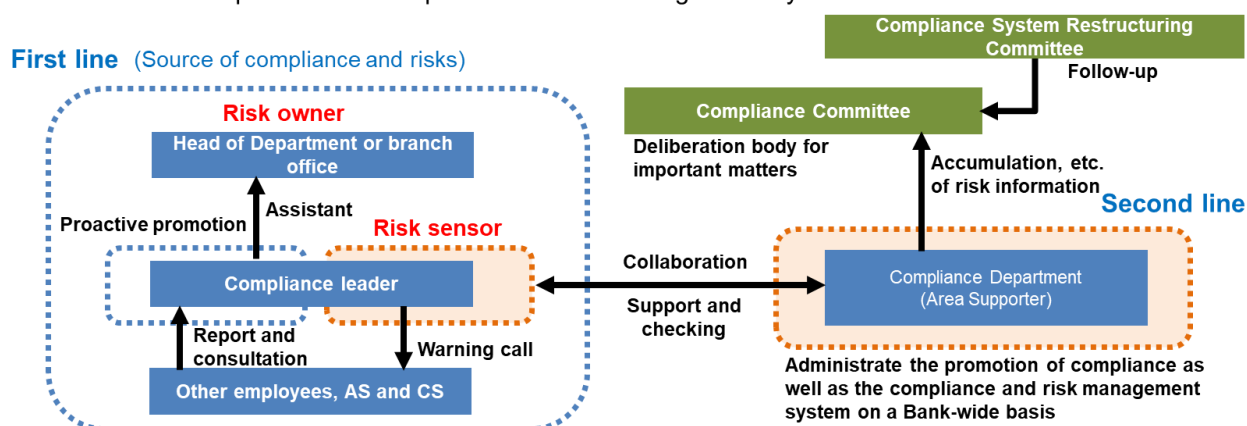
(vii) Assignment of compliance leaders

As a second line role at each branch office (first line), we assigned a compliance leader who leads compliance promotion, and compliance and risk management. The compliance leader does not exist as a mere “person in charge of compliance promotion”

but accurately understands the risk information as a risk sensor, and carries out checks against the Head of the branch office (first line), who is responsible for the first line. At the same time, the compliance leader plays a leading role in promoting compliance, including disseminating the Compliance Charter, characterizing their duties as second line functions on the first line. The compliance leader is appointed by the Compliance Department and has a reporting line to the CCO through the Department. The compliance leader not only collects risk information but also realizes voluntary compliance risk management on the first line.

In addition, we will assign area supporters in the Compliance Department to proactively support and check the first line. The area supporters will support compliance promotion on the first line, and in order to detect compliance risks on the first line and promptly report to the CCO, they will constantly communicate with the compliance leaders in charge to develop a relationship of trust. We will position this system as our core compliance practices through regular visits and quarterly compliance leaders' meetings in the responsible area.

■ Promotion of compliance and compliance and risk management system



(viii) Formulation of Compliance Program

As a specific action plan for the promotion of compliance and compliance risk management, we have formulated a compliance program for the first half of fiscal 2019. The program focuses on activities to promote the understanding and dissemination of the Compliance Charter, improve risk management capabilities by each of the three lines of defense, promote appropriate responses to risk information such as whistleblowing, promote measures to block relations with anti-social forces, prevent money laundering, and combat terrorist financing.

## ■ Four basic policies

<p><b>1. Compliance Charter</b></p> <ul style="list-style-type: none"> <li>➤ Based on the Compliance Charter, we will verify that all employees' actions and decisions are made properly.</li> <li>➤ We will conduct activities to promote all employees' understanding and awareness of the Compliance Charter.</li> </ul>	<p><b>2. Overall compliance</b></p> <p>We will work together responsibly based on the concept of the three lines of defense.</p> <p>In particular, employees at branch offices, the first-line risk owners, will understand the specific risks and take the initiative for thorough management of risks.</p>
<p><b>3. Response to whistleblowing</b></p> <ul style="list-style-type: none"> <li>➤ We will never permit fraud and harassment, and create a safe and rewarding work environment for employees.</li> <li>➤ We will comprehensively understand external risk information and take appropriate actions.</li> </ul>	<p><b>4. AML/CFT Countermeasure</b></p> <p>We will cut off relations with anti-social forces and promote measures against money laundering and terrorist financing.</p>

As described above, the Restructuring Committee has been working on the overall compliance system design, management, monitoring and implementation of measures for improvement. In addition, within the four subcommittees responsible for: customer-oriented business operations, and education and training for compliance; for responses to whistleblowing; for AML and CFT; and for advanced internal audits, we are working on enhancing their functions under the guidance and supervision of external specialist attorneys for the entire process.

### (2) Each subcommittee's initiatives

#### (i) Subcommittee for education and training

Having active discussions in the subcommittee on specialized training methods, rather than general methods, to encourage employees' initiatives as well as to create opportunities for them to learn at each worksite, we have implemented various training sessions, such as training for all employees to develop a sound corporate culture, compliance studies (to discuss case studies), facilitation training to stimulate discussions, training for employees in charge of loan operations to strengthen basic skills, and special training for mid-career employees.

##### 1) Training for all bank employees

During the period from December 2018 to the end of March 2019, we conducted a six-day training course by position for all bank employees. We adopted a curriculum as the basis for creating a new Suruga Bank on our own initiative (to strengthen “compliance,” “business knowledge” and the “elimination of harassment” in particular), based on the understanding and agreement of every single person in management and employees.

The curriculum incorporated expertise from external lecturers to help us objectively understand the differences between our Bank-specific rules and

perceptions, and those from the outside. In addition, we eliminated a listening-based curriculum but organized a curriculum that requires self-thinking where we have been conducting interactive training with a flow of “personal work - group work - sharing among groups and participants” in mind. In addition to the above training for all employees, we conducted the following training:

2) The implementation of compliance studies

To date, we have held five study sessions at all Departments and branch offices, incorporating two-way discussions on past cases of harassment, and violations of laws and regulations.

3) Training to strengthen basic lending capabilities

We conducted training to strengthen basic lending capabilities (a whole day course on six subjects, including compliance, screening, loan management, etc.) for all loan officers at branch offices (284 officers).

4) Special training for mid-career employees

For mid-career employees (108 employees), in addition to training for all bank employees, we conducted a whole day training program aimed at understanding high ethical standards and expertise as a financial professional.

5) Other

In addition to collective training, we started “video training” for all bank employees on March 28 to provide them with opportunities to learn more. In the first round, we provided trainees with important items selected from the six themes implemented in the training to strengthen basic loan skills, where they had around 20 minutes of training for each subject. In the future, we will continue to distribute the contents of the training through videos as necessary so that more employees can learn and deepen their knowledge.

\* These training programs will continue to be implemented in the human resources development program starting in fiscal year 2019.

6) Compliance officer qualification acquired by all employees

In order to raise the awareness of compliance among all employees, we have all employees take the examination of the “Compliance Officer Bank Course” sponsored by the Kinzai Institute for Financial Affairs, Inc., which is mainly held by managers and compliance officers at branch offices. The pass rate as of May 14 is about 95.5%.

(ii) Subcommittee for response to whistleblowing

We discussed the restructuring of the whistleblowing system and the establishment of a centralized management system for external risk information, and established the “Compliance Helpline Regulations” and the “Regulations on Reception and Response to External Information.” In addition, we discussed the individual

notification cases and investigated matters related to harassment under the guidance of attorneys.

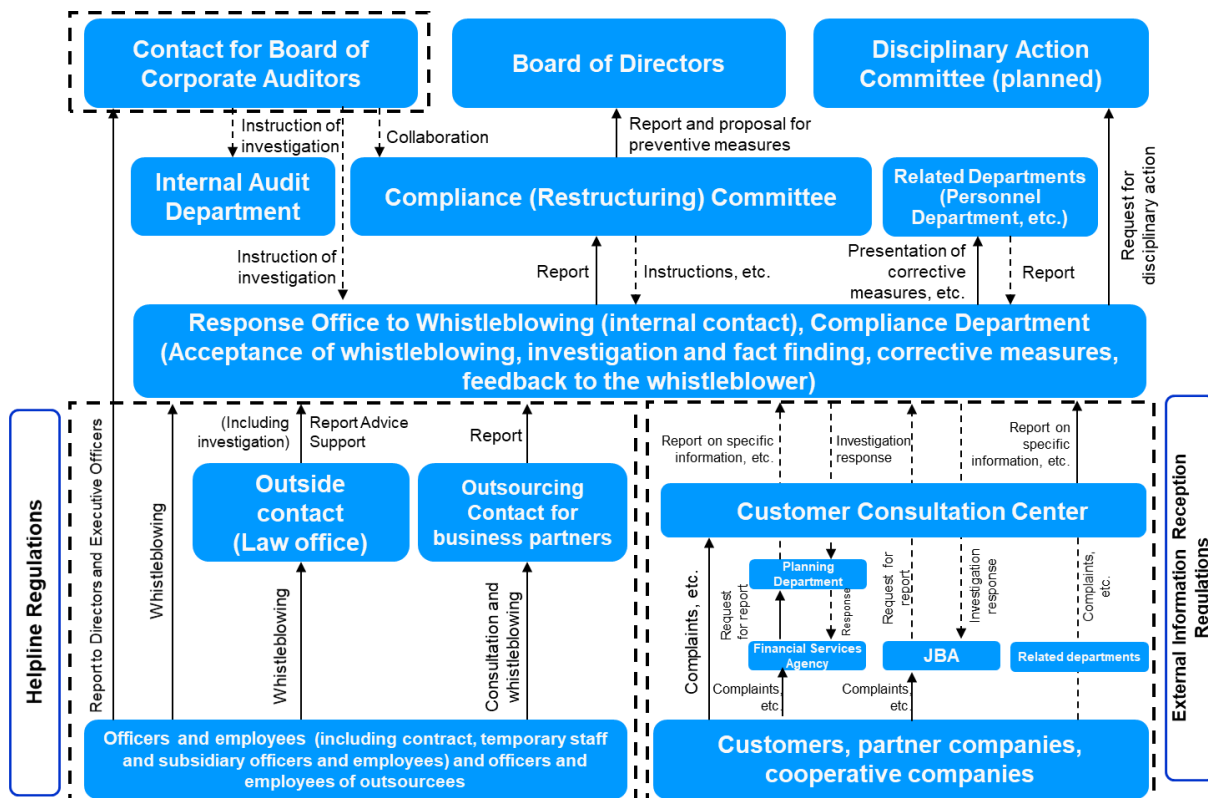
As specific measures, we have improved the communication flow to appropriately treat notified matters, have revised the regulations, and have conducted training for employees in charge to improve their investigation and response capabilities. Furthermore, we have designated a new law office as the external contact point for whistleblowing and have introduced a telephone answering service conducted by a company specialized in receiving whistleblowing information (Hope Hotline, available every day including weekends).

In addition, in order to reduce employees' psychological resistance and promote the use of the whistleblowing system, we have revised the compliance regulations and eliminated the need for consultation with the Head at the worksite in advance, making the Helpline easier to use and more practical for employees while securing anonymity.

Furthermore, the Compliance Department has decided to accept consultations even for minor harassment and will cooperate with the Personnel Department and others, if necessary, to solve problems and prevent recurrence.

We have decided that we will centrally manage complaints from customers and risk information from external organizations such as the Financial Services Agency and Japanese Bankers Association, etc. and the Response Office to Whistleblowing will investigate and respond as necessary. Accordingly, we have established “Regulations on Reception and Response to External Information,” and have revised the related business procedures.

#### <Management system for risk information>





(iii) Subcommittee for AML and CFT

We have studied measures against anti-social forces, measures against money laundering and terrorist financing, and measures to protect depositors from special fraud, etc., and have implemented the elimination of anti-social forces, a fundamental review of countermeasures against money laundering and terrorist financing, maintenance of relevant regulations, and system enhancements.

- 1) The status of the establishment of a management system to eliminate anti-social forces as well as to prevent money laundering and terrorist financing

We have established the dedicated “AML/CFT Response Office” within the Compliance Department by centralizing the tasks of eliminating anti-social forces, preventing money laundering, and combating terrorist financing, which were previously shared by multiple Departments.

Under the guidance of the Proact Law Office, which is represented by attorney Akira Takeuchi, Vice Chairman of the Committee of Response to Racketeering by Interceding in Civil Disputes and Threatening the Use of Violence at the Japan Federation of Bar Associations, the Office has been working on overall structural improvements, including fundamental review of the elimination of anti-social forces and prevention of money laundering and terrorist financing, the development of regulations, system enhancements, and the termination of transactions with anti-social forces.

Regarding “Deficiencies in the management system to deal with anti-social forces,” we have revised the regulations and business procedures to clarify the response policy for parties suspected of being anti-social forces, and based on the response policy, we have thoroughly inquired to the police and we have dissolved, or are otherwise in the process of dissolving, transactions with them.

To prevent any recurrence of such deficiencies, we have ensured that all officers and employees understand the revised regulations and business procedures regarding transactions with anti-social forces, and to prevent human error, we have finished building a system to block the opening of new accounts by anti-social forces and have commenced its operation.

Also, regarding “Insufficient system to detect suspicious corporate transactions” and “Inadequate confirmation of the substantial controller of a corporation,” we have finished building a system to prevent deficiencies and have started its operation.

(iv) Subcommittee for internal audit

We have revised our internal audit procedures and have formulated an internal audit plan to report on initiatives for the enhancement of internal audits.

- 1) The status of the establishment of the internal audit system

Regarding internal audits, under the guidance of attorneys at law of the Restructuring Committee and external specialized institutions, we conducted a risk assessment based on the Bank's inherent risks and completed trials of risk-based audits by the end of March 2019 based on the results of the risk assessment, and we will fully implement risk-based audits from April. In this way, we will monitor and evaluate the state of risk ownership at branch offices, which is the first line of the three lines of defense, as well as the independence of the Screening Department, which is the second line of defense, and report them to the Board of Directors and strengthen cooperation with the Board of Auditors.

With regard to assessing the quality of audit effectiveness, under the guidance of an external specialized institution, we will continue to conduct self-checks at each individual audit or on a regular basis to maintain and improve audit quality. In addition, we will have an external specialist assess audit quality on a regular basis to further enhance our quality assessment.

End