

Initiatives to Enhance and Sophisticate Operational Quality

In 2020, it became evident that SuMi TRUST Bank has been handling the tallying operations of voting rights exercise forms for the general meeting of shareholders of client companies in an inappropriate manner. There was also a case of misconduct in which a former employee of SuMi TRUST Bank embezzled client funds. These incidents undermine the expectations and trust of clients and society towards our

Group, and we have taken the issues very seriously.

We acknowledge anew that maintaining high operational quality is the source of strength of our trust banking Group and the foundation sophisticate that earns the trust of our clients and society. We will therefore strive to enhance and sophisticate our operational quality in order to respond and exceed the expectations of stakeholders.

Process of Remedial Actions

(1) Identify structural issues

We identified the structural issues inherent to the Group through interviews with each business and business management department.

- Supervision across the Group
- Risk management system that suits the trust business
- Sophistication of operational processes

(2) Strengthen organizational functions

We strengthened the functions of the organization, including defining the roles of the organization in the action towards resolving the structural issues identified in (1).

(3) Develop an operational structure to improve operational quality autonomously

We are undertaking step-by-step actions to ensure the effectiveness of organizational functions, embed risk culture in the organization, and develop a robust operational structure that can improve operation quality continuously and autonomously.

(Initiatives for FY2021 and beyond)

Specific Actions

(1) Restructure the risk management structure

In an aim to drive the strategies of our Group companies and optimize the allocation of resources, we established an Affiliates Management Department to consolidate and strengthen the supervisory functions over Group companies within the Corporate Planning Department including the Asset Management Business Planning Department. In addition, we added the functions to manage operational quality and operational risks within the Business Process Management Department of SuMi TRUST Bank.

We have clarified that the Business Process Management Department of SuMi TRUST Holdings is responsible for management and supervision of all the operational quality and quality verification functions across the entire Group, and work to evaluate and enhance each operational process based on a unified standard.

(2) Enhance visualization of the processes

In order to make the Three Lines of Defense model work effectively, we must better visualize the processes and continually monitor and optimize the value chain of the entire Group.

With better visualization of the processes, we can redevelop from scratch any process that was to date considered routine and eliminate potential risks at the First Line. By conducting objective reviews of the visualized processes, the Second Line can strengthen the capability to detect problems within a process, and the Third Line can improve the effectiveness of the audits. By clearly defining the roles of the First, Second, and Third Lines of Defense as such and establishing common ground for risk awareness, we can promote mutual understanding, which will lead to

preventing the occurrence of potential risks and fostering a risk-conscious culture.

The visualization of processes can also help us identify similar operations which have been handled by different departments within the Group. We will seek to increase efficiency and reduce costs by standardizing the similar operations that are identified. In addition, obtaining and managing quantitative information on resources that are necessary to execute the operational processes will facilitate business portfolio reviews and enable us to enact faster and more flexible decision-making that meets the needs of clients and society.

(3) Strengthen supervision by the Board of Directors

The Board of Directors receives regular reports on the status of the initiatives from the Internal Audit Department and Audit Committee, exercises supervision on an ongoing basis, and provides appropriate advice and recommendations depending on the status of the initiatives. In particular, we will focus our supervision on the following points to further strengthen the internal controls over the entire Group: (1) status of initiatives to improve/enhance operational quality; (2) status of instilling sound corporate culture; (3) status of the effects of internal control functions based on communication and containment of information; and (4) status of the effects of the Board of Directors' check and balance function over management.

Please refer to pages 50-52 of the 2021 Integrated Report for detailed information on our initiatives for improving and enhancing operational quality.