

October 16, 2023

The Chiba Bank, Ltd.
Chibagin Securities Co., Ltd.

**Progress of Initiatives for Improvement and the Prevention of recurrence
Regarding Administrative Actions Issued by the Kanto Local Finance Bureau**

On June 23, 2023, Chiba Bank, Ltd. (President: Tsutomu Yonemoto) (“Chiba Bank” or “the Bank”) was issued with the administrative actions (Business Improvement Order) for situations where a problem related to the investors’ protection was raised by the Kanto Local Finance Bureau, pursuant to Article 51-2 of the Financial Instruments and Exchange Act, regarding the financial instruments intermediary business related to the solicitation and sales of structured bonds. In accordance with Article 51 of the Financial Instruments and Exchange Act, Chibagin Securities Co., Ltd. (President: Yukihiro Inamura) (“Chibagin Securities”) was issued with the administrative actions (Business Improvement Order) from the Kanto Local Finance Bureau regarding business operations that violate the suitability principle for solicitation and sales of structured bonds.

Chiba Bank and Chibagin Securities reported to the Kanto Local Finance Bureau the progress of initiatives for improvement and the prevention (As of September 30, 2023) of their respective business improvement reports to the Kanto Local Finance Bureau, based on each business improvement order mentioned above, on July 24. Chiba Bank and Chibagin Securities

Progress in initiatives to improve and prevent recurrence is as shown in the attachment.

Chiba Bank and Chibagin Securities will continue to make the whole company efforts to improve operations and prevent recurrence of these issues while striving to regain the trust of all our stakeholders, including our customers.

End

Progress of Initiatives for Improvement and the Prevention of recurrence Regarding the Administrative Actions Issued by the Kanto Local Finance Bureau (Overview)



On June 23, 2023, Chiba Bank, Ltd. was issued with the administrative actions (Business Improvement Order) for situations where a problem related to the investors' protection was raised, pursuant to Article 51-2 of the Financial Instruments and Exchange Act, regarding the financial instruments intermediary business related to the solicitation and sales of structured bonds. In accordance with Article 51 of the Financial Instruments and Exchange Act, Chibagin Securities Co., Ltd. was issued with the administrative actions (Business Improvement Order) regarding business operations that violate the suitability principle for solicitation and sales of structured bonds. Taking this situation very seriously, and each company has formulated a business improvement plan, including efforts to prevent recurrence, based on a fundamental cause analysis as an initiative for improvement. Since the establishment of the relevant business improvement plan, we have made the whole company initiatives to improve operations and prevent recurrence of these issues. We will continue to steadily implement initiatives for improvement and prevention of recurrence, while striving to regain the trust of all our stakeholders, including our customers.

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Chiba Bank

Chibagin Securities

Problems pointed out by the Kanto Local Finance Bureau (June 23)*1

1. **Situation of the inducement to structured bonds without confirming and considering customer attributes**
2. **Insufficient situation of internal control system**
 - ① Insufficient internal control system for responding to complaints
 - ② Insufficient effective monitoring system regarding the status of explanations to customers
 - ③ Insufficient governance by management

1. **Situation of long-term and continuing solicitations that violate the suitability principle**
2. **Insufficient situation of posture for compliance with the suitability principle**

Cause analysis*2

1. Problems in the operational control environment (incentive mechanism)

A system in which structured bonds with a high rate of return to earnings are evaluated relative to the volume of work, and there are no administrative tasks that are complicated compared to investment trusts and insurance
 Preference for selling structured bonds, but underestimation of problems and risks associated with structured bonds

2. Problem in the internal control system

① There were three elements of ① motivation, ② opportunity, ③ justification for 1st line (branch and sales division).

(Motivation) Performance awards and personnel evaluation mechanisms to motivation and pressure of bank employees

(Opportunity) Malfunction due to formal confirmation by the internal administration supervisor, etc.

(Justification) Rewarded by achieving the target, customers ask for explanations,
 Bad sense of security that the ultimate sales responsibility lies with Chibagin Securities

② Problem in risk detection for 2nd line (management division) and 3rd line (audit division) and inadequate response for the detected risks

3. Problem in business management system

① Group governance issues (problems in grasping the current situation, identifying issues, and managing the progress of instructions)

② Problems in organizational culture (problems in business operation system: situation where management is unable to respond appropriately)

1. Motivation (pursuit of profits)

① Management's stance of strongly pursuing earnings, ② Mechanism for achieving highly established earnings targets, ③ Evaluation system that emphasizes performance-based evaluation for individuals, ④ Issues such as human resource development

2. Opportunity (check-and-balance malfunction)

- ① 3 lines management was not fully functioning
- ② Inadequate response to the complaint
- ③ Problems in the process of selecting products to sell
- ④ Inadequate checks and balances by Chiba Bank

3. Justification (pressure from the bank as the referral source)

Relationships with the staff of Chiba Bank and Musashino Bank lead to justification for improper behavior for those in charge of Chiba Securities, resulting in cases in inducement to structured bonds with inadequate confirmation of suitability and customer attributes.

4. Business Management System, etc.

Revenue from sales of structured bonds is important for the management of Chibagin Securities, and dilution in all tiers, including the management of the most securities, in terms of compliance with the suitability principle.

*1 For details, please refer to the "Administrative Actions by the Kanto Local Finance Bureau" dated June 23, 2023.

*2 For details, please refer to the "Overview of the Plans for Improvement and the Prevention of Recurrence, and Disciplinary Actions to Persons Involved in the Administrative Actions Issued by Kanto Local Finance Bureau" dated August 31, 2023.

Chiba Bank				
Establishment of the business operation system	P5	Penetration and thoroughness of the Purpose, Vision, Fiduciary Duty	Strengthening comprehensive proposal capabilities in the personal business	Elimination of incentives in the personal business
Strengthening the internal management system	P6	Strengthening 1st line functions	Strengthening 2nd line functions	Strengthening 3rd line functions
Strengthening the business management system	P7	Strengthening group governance	Reform of organizational culture	
			×	Building a new business model linking with the banking and securities
Chibagin Securities				
Strengthening the business management system	P8	Strengthening governance by management team	Reform of organizational structure	Reform of corporate culture
Establishment of the business management system	P9	Strengthening confirmation of the compliance suitability principle	Sophistication of product selection process	
		Review of performance award system and personnel evaluation system	Review of Human Resource development system and training system	
Strengthening the internal management system	P10	Strengthening 1st line functions	Strengthening 2nd line functions	Strengthening 3rd line functions
		Strengthening complaint response	Strengthening checks and balances by banks	

Main measures	Major initiatives to date (until September 2023)	Major future initiatives
Establishment of the operational management system (problem of incentive mechanism)		
Penetration and thorough implementation of the Purpose, Vision, Fiduciary Duty Policy, etc.	<ul style="list-style-type: none"> Opened the Chibagin Academy, an intra-company university utilizing the internet (to foster risk ownership through ethics training, etc.) (April 2023) Consider establishing the "Three Pledges" in Fiduciary Duty (September 2023) <div style="border: 1px solid black; padding: 5px;"> <p>"Three Pledges" Whenever making a proposal to a customer or making a business decision, we always stop and think, "Will this proposal or decision lead to the realization of the customer's wish?," "Will this proposal or decision lead to a solution to the customer's problem?" and "Will this proposal or decision lead to the realization of prosperous lifestyles for the customer?"</p> </div>	<ul style="list-style-type: none"> Thorough penetration and establishment of the "Purpose and Vision" as the axis of action and judgment for all group officers and employees (continuation) Comprehensively organize the Purpose, Vision and Fiduciary Duty Policy. Review Fiduciary Duty Policy, and establish Fiduciary Duty Handbook (October 2023) Use Fiduciary Duty Handbook to penetrate Fiduciary Duty among all employees through the President, CRO, CBO, study meetings at branches, etc. (continued from October 2023) Senior Compliance Management Training for Directors and general managers (November 2023)
Strengthening comprehensive proposal capabilities in the personal business	<ul style="list-style-type: none"> Implemented four major measures to pursue the best interests of customers and improve convenience (April 2023) <ol style="list-style-type: none"> (i) Improving financial literacy of customers by building an asset management portal site (ii) Provide highly convenient non-face-to-face channels, including investment trusts of app (iii) Specialization of "careful explanation/ convincing proposal" through paperless investment trust procedures (iv) Introduce Advanced consulting proposals through the use of the proposal tool Okane no Basket(Money Basket) 	<ul style="list-style-type: none"> In addition to sales of financial products, train specialists who can provide comprehensive consulting services for individuals on general life plans, such as loans and testamentary trust. During the period of the Mid Management Plan (from FY2023 to FY2025), the number of specialists is planned to be 50. (Started in April 2023 and will continue to develop planned number of employees)
Elimination of incentives in personal businesses	<ul style="list-style-type: none"> Established the Banking and Securities Strategic Review Committee, and froze the profit targets of Chibagin Securities (July 2022) In principle, the introduction of customers to Chibagin Securities by Chiba Bank was suspended (July 2022) ,and new sales of structured bonds were completely suspended (August 2022). 	<ul style="list-style-type: none"> Abolished the profit target for the personal division of bank branches and reviewed the assessment system by Fiduciary Duty (pursuing the best interests of customers) and activity volume, etc. (contacting customers) (October 2023) Complete eliminate the revenue return incentive that had been generated when a customer referred by Chiba Bank to Chibagin Securities, closing a deal at Chibagin Securities(October 2023).

Main measures	Major initiatives to date (until September 2023)	Major future initiatives
Strengthening the internal management system		
Strengthening 1st line functions	<p><u>Efforts to Understand the actual status of the workplace</u></p> <ul style="list-style-type: none"> Strengthening use of the internal reporting system (from the second half of FY2021) Implementation of 360-degree evaluation (from December 2021) Implementation of 1on1 Meetings (from March 2022) Held coaching training for newly appointed General Managers of branch (from May 2023) Implementation of engagement survey (from September 2023) Opening of Chocotto line* to group companies (from September 2023) <p>* The system that enables employees to easily consult with in-house chats with some trouble to lower the psychological hurdle for people to consult (from October 2021)</p> <p><u>Strengthening internal management functions on 1st line</u></p> <ul style="list-style-type: none"> Establishment of new criteria for introducing Chibagin securities (April 2023) 	<ul style="list-style-type: none"> Introduce 360-degree evaluation to group companies (during FY2024) Newly-established practical training for newly assigned in charge of the internal administration supervisors (October 2023) Introduce suitability verification tools (during FY2023)
Strengthening 2nd line functions	<p><u>Revision of the 2nd line system (Organizational change in October 2023*3)</u></p> <ul style="list-style-type: none"> Appointment of the General Manager in charge of Corporate Management Consolidation of the Compliance and Risk Management Division and the Service Quality Management Division Newly-established the "Group Improvement Office" in the Compliance and Risk Management Division <p>In addition to the above, additional personnel will be assigned to the Compliance and Risk Management Division.</p>	<ul style="list-style-type: none"> Sophistication of analysis on "complaints, requests, and inquiries" (until September 2024) Establishment of a system to analyze "customer and regional opinions" (until September 2024) Infrastructure investment, including the introduction of a telephone recording system, and improvements in the performance of microphones and camera analysis (until September 2024) Diversification and sophistication of monitoring methods through the use of systems such as recordings sound and movie by personal computers at the time of visits (until September 2024)
Strengthening 3rd line functions	<ul style="list-style-type: none"> Review of internal audit plan (September 2023) Strengthen group collaboration in the audit department through participation in conference bodies of the Audit and Inspection Division of Chibagin Securities by the Audit and Inspection Division of the Bank (from September 2023) 	<ul style="list-style-type: none"> The President is officer in charge of the Audit and Inspection Division and is deeply involved in PDCA (October 2023) Reporting on activities the Audit and Inspection Division to the Board of Directors (October 2023) Implementation of culture audit (October 2023)

*3 The Organizational changes were announced in September 27, 2023 and are described in "Major initiatives to date (until September 2023) ."

Main measures	Major initiatives to date (until September 2023)	Major future initiatives
Strengthening the business management system		
<p>Strengthening group governance</p>	<ul style="list-style-type: none"> • Newly-established group company management regulations (February 2022) • Newly-established the Banking and Securities Strategic Review Committee (July 2022) • Changed the chairman of the Appointment, Remuneration and Corporate Advisory Committee to an Outside Director (October 2022) • Started managing progress in the form of a list of the instructions of management team at the committees of the Bank, including the Board of Directors and the Board of Designated Directors (January 2023) • Newly-established of Group Strategy Division (April 2023) • Since April 2023, the Bank has dispatched Audit & Supervisory Board, Director, and general manager-level personnel to Chibagin Securities as Standing Audit & Supervisory Board Member, and person responsible for corporate management, administrative, and planning departments (from April 2023) • Unification of group recruitment at the Bank and two-way personnel exchanges between the Bank and group companies commenced (April 2023) • Stricter product introduction process (August 2023) (Chiba Bank: the Board of Designated Directors, Chibagin Securities: deliberation on Banking and Securities Strategic Review Committee) • Newly-established of the "Group Improvement Office" headed by the President (Organizational change in October 2023*4) 	<ul style="list-style-type: none"> • Chairman of the Board of Directors shall also be an Outside Director (April 2024) • Regularly report to the Board of Directors after verifying and ascertaining issues from the customer's perspective in various administrative areas, including group companies, from the perspective of exercising cross-divisional functions as a group CxO (October 2023)
<p>Organizational culture reform</p>	<ul style="list-style-type: none"> • Executive meetings are held every morning with all members of the Board of Designated Directors participating in principle. Thorough "bad news first." (from July 2021) • Regular 1on1 meetings with General Managers of division by the President and 1on1 meetings with deputy general managers by the executives in charge (from December 2021) • 1on1 Meeting with Presidents of group companies by the President (from September 2023) • Regular meetings to exchange opinions with the executives in charge of the Bank to hear the opinions of employees of Group companies (from September 2023) 	<ul style="list-style-type: none"> • Thoroughly penetrate and establish the "Purpose" and "Vision" as the axis of action and judgment for all group officers and employees (Reinstatement and continuation) (The "Purpose" and "Vision" are displayed so that officers and employees can always see them.) • Introduced skill matrix for directors of group companies (utilize for appointment from April 2024) • Appointment of presidents of group companies is an advisory matter to the Appointment, Remuneration and Corporate Advisory Committee. Appropriate personnel selection, including external personnel (March 2024) • The "transfer system" in which someone that has been brought up by their company can transfer to the Bank, and consideration of a "specialist course" for human resources of highly specialized group companies and mid-career recruits (April 2024)

Progress of each measures (Chibagin Securities)

Main measures	Major initiatives to date (until September 2023)	Major future initiatives
Strengthening the business management system		
Strengthening governance by management team	<ul style="list-style-type: none"> • The Bank has dispatched Audit & Supervisory Board, Director, and general manager-level personnel to Chibagin Securities as Standing Audit & Supervisory Board Member, and person responsible for corporate management, administrative, and planning departments (from April 2023) • Changed the chairperson of each committee to the President, reviewed the frequency of committee meetings, and implemented consolidation and elimination (July 2023). • Conducted free discussions with Directors and General Managers on the ideal image of Chibagin Securities (August and September 2023) 	<ul style="list-style-type: none"> • Conducted seminars for Directors and lectures for Directors from Chiba Bank Outside Directors (from October 2023) • Conducted a questionnaire survey of Directors and Audit & Supervisory Board Members to improve the effectiveness of the Board of Directors, etc. (from October 2023)
Reform of organizational structure	<ul style="list-style-type: none"> • Transition to a three-headquarters structure for the Corporate Management Division, Business Support Division, and Advisor Support Division (April 2023) • Transferred 15 branch General Managers among 20 branches to recruit diverse human resources (April 2023) • Continue to interview for mid-career hires through group-wide recruitment (from April 2023) • Review of project team, which oversees internal reforms and complaint countermeasures (August 2023) 	<ul style="list-style-type: none"> • Introduced the "Head Office Evaluation System" to strengthen the system for management to grasp the status of business execution and problem solving in the headquarters and issue appropriate instructions (from October 2023)
Reform of corporate culture	<ul style="list-style-type: none"> • To educate all executives and employees about the necessity to "reborn as a securities company needed by customers" and what we must do to achieve this by the President (from July 2022) • The Digital Suggestion Box ※ was installed (August 2022) ※System that allows employees to express opinions and make inquiries directly to the President • Held an Advisory Meeting to hear opinions directly from customers at branch offices (September 2022) • Adopted a mission card describing "Mission of Chibagin Securities" and "Mission as an Advisor" (January 2023) • the Engagement was started, which launched, which was introduced to all Group companies by Chiba Bank (September 2023) 	<ul style="list-style-type: none"> • The President and the heads of the three-headquarters hold on-the-counter meetings for all branches to exchange opinions, fostering a sense of unity with front-line employees (from October 2023) • Deliver management policies (the Purpose and the Mid Management Plans, etc.) through e-learning to penetrate their vision (from October 2023) • Conducted regular employee opinion exchange meetings and written/unwritten questionnaires to gather opinions (from October 2023)

Main measures	Major initiatives to date (until September 2023)	Major future initiatives
Establishment of business management system		
Strengthening confirmation of the compliance suitability principle	<ul style="list-style-type: none"> Introduced interview sheets ("Consultation Sheet" and "Suitability Confirmation Sheet") (April 2023) Newly-established new referral standards from Chiba Bank to Chibagin Securities (April 2023) Sophistication of suitability judgment by feedback from internal administration supervisors to advisors based on monitoring results and examples (from April 2023) 	<ul style="list-style-type: none"> Continue to verify the operation status after the introduction of the interview sheet Continue to verify and review various handling standards and rules Continue to monitor compliance with the referral standards and verify the appropriateness of the referral standards
Sophistication of product selection process	<ul style="list-style-type: none"> Approval by "the Banking and Securities Strategic Review Committee"(the Bank) and the "Investment-type Financial Instruments Selection Committee" is mandatory at the time of product selection at Chibagin Securities (from June 2023) Started collecting information to utilize external knowledge in collaboration with the Chiba Bank Asset Management and Consultation Division in order to build a product selection process that meets various guidelines (from September 2023) 	<ul style="list-style-type: none"> Establishment of a product selection process in response to various guidelines by utilizing external knowledge (during FY2023) Development of product lineup (during FY2023)
Review of performance award system and personnel evaluation system	<ul style="list-style-type: none"> Reviewed marketing measures to thoroughly carry out activities to "listen to and respond to customers' voices in the best interests of our customers" and reborn ourselves as "a securities company needed by customers," and to establish a stable earnings base that is not affected by the market by shifting to an asset management-type business (the first half of FY2023) 	<ul style="list-style-type: none"> Abolished the return of profits to Chiba Bank in financial instrument intermediary (October 2023) Review of performance award system consistent with asset management-type business (the second half of FY2023) Reviewed to strengthen the functions of branch Senior Deputy General Managers and team leaders and to assume the role of improving the quality of proposals from the perspective of risk ownership on 1st line (the second half of FY2023) Review of bonus assessment methods for realizing management centered on the head of the department and branch (the second half of FY2023)
Review of Human Resource development system and training system	<ul style="list-style-type: none"> Introduced business skill assessment (October 2022) Introduced "Teach me Biz," a training tool. (December 2022) Conducted monthly compliance training by the General Manager in charge of Corporate Management with the aim of reforming the awareness of branch General Managers. Repeated training to instill awareness that compliance is fundamental to all operations (from June 2023) 	<ul style="list-style-type: none"> Formulated an overview of our human resource development system based on the three personalities Chibagin Securities demand from "Integrity" "Professional" "Challenge" (October 2023)

Progress of each measures (Chibagin Securities)

Main measures	Major initiatives to date (until September 2023)	Major future initiatives
Strengthening the internal management system		
Strengthening 1st line functions	<ul style="list-style-type: none"> Assigned a dedicated internal administration supervisors at 20 branches The Internal Control Division was newly established under the Corporate Management Headquarters (April 2023) Regular monthly meetings of internal administration supervisors are held to verify transactions at branches, share customer response cases, provide advisor guidance, etc. (from April 2023) 	<ul style="list-style-type: none"> Establishment of eligibility criteria for internal administration supervisors Strengthen management of compliance with the Suitability Principles by revising the internal control manual for branch
Strengthening 2nd line functions	<ul style="list-style-type: none"> "The former executives in charge of compliance of the Chiba Bank is appointed as the Director and General Manager in charge of the Corporate Management (April 2023) The Compliance Division divided into two groups :the Coordination Department and Service Quality Management Department (April 2023) Changed in the responsibility of the Fiduciary Duty Committee from the Sales Division to the Compliance Division (April 2023), and in the frequency of the Compliance Committee and Fiduciary Duty Committee to monthly in principle (July 2023) 	<ul style="list-style-type: none"> Understand KPI related to the status of "customer-oriented business operations" by branch and continue to verify Continuous review of monitoring methods Consider introducing a call recording text system to improve the quality of monitoring
Strengthening 3rd line functions	<ul style="list-style-type: none"> Conducted audits to verify customer-oriented business operations and Suitability Principles at all branches, focusing on checking the functioning and status of activities of internal administration supervisors (July and August 2023) Changed the method for auditing sales branches from administrative verification audits to audits to verify whether transactions with customers are conducted appropriately (August 2023) General Manager of the Chiba Bank's Audit and Inspection Division attends an observer on Chibagin Securities Internal Audit Committee (August 2023) 	<ul style="list-style-type: none"> Collaborating with the Bank of Chiba Bank's Audit and Inspection Division to conduct thematic audits "Progress of Business Improvement Plans" (the second half of FY2023) Introduced external consulting to receive advice on the appropriateness of response as 3rd line, identification of issues, and measures for upgrading (from October 2023)
Strengthening complaint response	<ul style="list-style-type: none"> "Complaint Measures Project Team(established in February 2020)" was reorganized as "After-sales Follow-up Project Team." Shared the status of post-sales follow-up and the complaints status of customers who hold structured bonds, and discussed countermeasures together with Chiba Bank division in charge (July 2022) After complaints are filed, a system has established for reporting operational improvements, such as the analysis of true causes and preventive measures, and management discussion of them at the Compliance Committee and Fiduciary Duty Committee montly by the Compliance Division, the Coordination Department, (July 2023). 	<ul style="list-style-type: none"> Formulated effective measures to prevent recurrence based on the analysis of true causes and reported them to the Compliance Committee. Thorough implementation of response through meetings in which 1st line participates, such as after-sales follow-up project team
Strengthening checks and balances by banks	<ul style="list-style-type: none"> Established "the Banking and Securities Strategic Review Committee" (July 2022) At the morning meeting in which Chiba Bank management participates, the status of after-sales follow-up to customers referred by Chiba Bank to Chibagin Securities is reported every week (from July 2023) Musashino Bank began surveys and monitoring of their referral customers (from September 2023) 	<ul style="list-style-type: none"> Continue discussions and reports with Chiba Bank through the "the Banking and Securities Strategic Review Committee" and morning meetings In-depth information collaboration with Musashino Bank and ongoing implementation of transaction verification and surveys by the bank