

## Report (investigation of all investment real estate loans)

Suruga Bank, Ltd.

### 1. Investigation of all investment real estate loans

#### (1) Purpose of the investigation of all cases

Based on the investigation report by the Third Party Committee and the administrative dispositions concerning misconduct in overall investment real estate loans triggered by the so-called share house-related loan problems, the Bank decided to investigate the following matters for all cases of investment real estate loans 1) and 2), hereinafter referred to as “Investigations of all cases”:

- 1) whether or not there was misconduct such as falsification or fabrication of loan materials or other fabrication when making an investment real estate loan; and
- 2) whether or not the Bank's employees were involved in such misconduct.

#### (2) System for investigating all cases

On October 25, 2018, the Bank commissioned Mr. Osamu Sudo, attorney-at-law, who has no vested interest in the Bank, to administrate the entire Investigations of all cases from an objective and neutral standpoint. Attorney Sudo, together with attorney Tadashi Kunihiro and attorney Tsutomu Miyano, who are in charge of crisis management operations at the Bank, made preparations to investigate all cases by formulating the investigation logic, including preparing implementation guidelines for the questionnaire survey (these three attorneys-at-law are hereinafter referred to as the “Administration Team”).

Under the Administration Team, a team headed by Tomoyuki Hotta, Partner of KPMG FAS (55 persons, hereinafter referred to as the “KPMG FAS Team”) was selected as a team of experts to carry out the verification of screening documents, answers to questionnaires and other related documents. In addition, a team of 17 attorneys-at-law (hereinafter referred to as the “Attorney Team”) was selected to conduct interviews with Bank employees to examine whether or not they were involved in “cases of misconduct such as falsification or fabrication.”

#### (3) Progress of the Investigations of all cases

Since November 8, 2018 when the first meeting was held, the Administration Team, Executive Officers of the Bank including President Michio Arikuni, the KPMG FAS Team, and the Attorney Team all participated in meetings (hereinafter referred to as “Joint Meetings”). There were 19 Joint Meetings by April 26, 2019.

At the Joint Meetings, we managed the progress of the Investigations of all cases, re-examined the investigation logic, set decision criteria for each specific case, and carried

out review work. At the same time, we continued discussions to ensure the appropriateness and adequacy of the ongoing investigations. The Investigations of all cases were completed on April 26, 2019.

As a result, the Bank received the following report.

## 2. Summary of results of the investigation

### (1) Target of the investigation and methods

#### 1) Target of the investigation

The total number of investment real estate loans for investigation was 37,907 (the number of investment properties for investigation<sup>1</sup>).

#### 2) Investigation methods

In order to investigate whether or not there was misconduct such as falsification or fabrication in the various loan materials or other fabrication when executing investment real estate loans,

- 1) we used the method of verifying the Ringi data itself to identify misconduct such as falsification or fabrication (hereinafter referred to as the “Ringi approach”), and
- 2) the method of identifying misconduct such as falsification or fabrication based on information received by the Bank through various other routes (hereinafter referred to as the “Other approach”) to judge cases where misconduct such as “falsification and fabrication” were identified.

Please refer to the attached sheet for details of the investigation methods in 1) and 2) above.

This investigation was seeking traces of misconduct from the evidence that the Bank can access at the moment. With regard to cases other than “cases where misconduct was identified,” it is only to say that no evidence was found to judge whether or not there was misconduct<sup>2</sup>.

- 3) According to 1) and 2) above, in order to identify whether or not Bank employees were involved in the cases judged as “misconduct identified,” the Attorney Team interviewed 332 employees, including employees who were interviewed at the time of the personnel disciplinary action last summer (actual number; the number of actual interviews was more than 332 because there were multiple interviews per person), and judged whether or not the Bank employees were involved in the misconduct.

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<sup>1</sup> The above number is the number of properties for which investment real estate loans were provided. The number above is different from the number of Ringi (internal applications for approval) or the number of loans because multiple loans may have been made for one property.

<sup>2</sup> Therefore, cases that were judged as "not identified" by the Investigations of all cases do not necessarily guarantee that there was no misconduct at all.

(2) Summary of results of the investigation

- 1) The following are the results of the investigation whether or not there was any misconduct such as falsification or fabrication in the loan materials or other fabrication when executing investment real estate loans.

	Number of properties for which loans were provided							
	Total cases	Number of cases where misconduct such as falsification or fabrication was identified						
		Total	Own funds	Own income	Sales contract	Rent roll	Building confirmation	Group credit life insurance
Share house	1,647	886	556	53	660	1	29	10
Other than share house	36,260	6,927	4,627	307	3,179	323	2	77
Grand total number	37,907	7,813	5,183	360	3,839	324	31	87

\* The total figure may not match the aggregate figure of each piece of data judged from the Ringi materials because it may be judged that "misconduct such as falsification or fabrication was identified" in multiple Ringi materials for the loan on one property.

\* For reference, the total amount of loans of "cases where misconduct such as falsification or fabrication was identified" for share houses is ¥111.041 billion and that for other than share houses is ¥442.727 billion<sup>3,4</sup>.

\* There were 1,575 cases where misconduct such as falsification or fabrication is suspected<sup>5</sup> (69 cases of which involve share house loans). For reference, the total amount of these loans for share houses is ¥8.308 billion and that for other than share houses is ¥78.116 billion.<sup>3,4</sup>

- 2) We received a report that the results of the interviews with Bank employees by the Attorney Team were as follows:

Actual number (employees)	Instructions, etc.	Acquiescence	Not identified
Total	35	40	257

(Judgment criteria)

Instructions, etc.: Employees who created or falsified materials by themselves, or instructed or suggested other employees to do so

Acquiescence: Employees who executed or attempted to execute investment

<sup>3</sup> Of the share house loans, the delinquency rate of "cases where misconduct such as falsification or fabrication was identified" is 38.47%. Of the investment real estate loans other than shared house loans (one-room apartment loans, apartment rent-earning loans, and other secured loans), the delinquency rate of "cases where misconduct such as falsification or fabrication was identified" is 2.02%.

<sup>4</sup> Based on this investigation, with regard to actual credit costs and the balance of allowances for loan losses related to investment real estate loans, the Bank has posted approximately ¥900 million as allowance for doubtful accounts by classifying part of the "cases where misconduct such as falsification or fabrication was identified," "cases where misconduct such as falsification or fabrication is suspected," and "cases where an agent is suspected of making replacement payments for borrowers according to the ancillary investigation (see attached sheet)" as "doubtful loans" on a conservative basis. If their repayment ability is confirmed at the time of a future self-assessment of these loans, we will raise their rank to "performing loans."

<sup>5</sup> For example, although the printed figures in a bank passbook indicating the borrower's own funds were printed on a slight slant, it was considered that the slant may have been caused by the printer.

real estate loans while recognizing that the received materials were falsified

Not identified: Employees other than the above

As mentioned above, the total number of employees is 75, including 35 for instructions, etc. and 40 for acquiescence. The breakdown of those who received disciplinary action last summer and those who are to newly receive disciplinary action this time are as follows: Please refer to the attached sheet for the relationship between the disciplinary action based on the interviews with the employees last summer and the interviews in the Investigations of all cases this time.

75 employees	Employees who have already received disciplinary action	73 employees
	Employees who are to newly receive disciplinary action this time	2 employees

Detailed explanation of the investigation methods, etc.

1. Ringi approach

In the Investigations of all cases, we verified whether or not the materials for the Ringi checked by the Bank for screening had been falsified or fabricated.

First, we mailed a questionnaire to all 23,185 borrowers of investment real estate loans, asking if there was any falsification in the materials submitted to the Bank as well as asking them to provide the materials they (think they) submitted to the Bank. As a result, the number of borrowers who answered the questionnaire was 7,137 (30.7% of the number of the borrowers to whom the questionnaire was sent), and of these, 2,600 borrowers (36.4% of the number of questionnaire respondents) provided the Bank with the materials at hand.

For those borrowers who provided the materials at hand together with their answers to the questionnaire, we cross-checked and compared them with the Ringi materials stored at the Bank and examined if there was any falsification in each item such as the borrower's own funds, income, sales contract (so-called double contracts), rent roll and building confirmation<sup>6</sup>.

On the other hand, for borrowers who answered the questionnaire but did not send back materials as well as those who did not answer the questionnaire, we visually verified the Ringi materials stored at the Bank. In doing so, we examined the Ringi materials on the borrowers who answered the questionnaire, referring to the content of their answers as clues for visual verification.

Although it was extremely difficult to identify any falsification by visually verifying only the Ringi materials stored by the Bank without checking the borrowers' materials, we carefully examined the Ringi materials from the perspective of finding if there were any contradictions or inconsistencies between the materials, or contradictions, inconsistencies or unreasonable points in the material itself.

With regard to the borrower's own funds, for example, we looked into copies of bank passbooks and Internet banking transaction records to verify if interest payments were made at the correct timing (timing of interest payments varies depending on financial institutions), and if the interest amount was correct. In addition, regarding the borrower's income, we examined the borrower's final income tax return or withholding tax slip in the Ringi materials to see if there were any differences in font, signs of cutting and pasting, wrong date of birth or inconsistency between the amount of salary in the passbook and that on the withholding tax slip.

On the other hand, with regard to sales contracts and rent rolls, except where

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<sup>6</sup> With regard to the fabrication of group credit life insurance, the Bank does not store any material related to the group credit life insurance, since the Bank only sends a sealed medical certificate of the borrower as is to the insurance company. Therefore, we had to exclude the group credit life insurance from verification of the Ringi materials.

contradictory multiple documents were filed by chance in the Ringi materials, we were not able to identify any facts of double sales contracts or increase in profitability using fabrication of rent rolls unless the materials were sent from the borrower.

In the Ringi approach, we received full technical support from the KPMG FAS Team.

## 2. Other approach

In the Investigations of all cases, we extracted “fraud cases” based on the information sent to the Bank through various routes. We had the following routes for collecting such information, where we examined the specifics of the information, etc., and judged a case as a “fraud case” only if it was identified that a fraud was actually conducted in the case.

### (1) Information from the Loan Management Department (Office to Support Customer Owners of Share Houses and Others)

- 1) Confirmation documents or oral information that the Loan Management Department received at the time of the interviews with customers (including phone interviews)
- 2) Confirmation documents or oral information from attorneys who intervened
- 3) Confirmation documents or oral information that each sales office of the former Personal Banking Department<sup>7</sup> (including the Wide Area Sales Department and Yokohama Higashiguchi Branch) received at the time of the interviews with customers (including phone interviews) and shared them with the Loan Management Department (including cases where Customer Consultation Center shared information with each branch office)

### (2) Indictment from a channel where the management changed (Company W)

In November 2017, the Bank received a report from the management of Company W that under the company's former management the company actually used another channel name<sup>8</sup> to conduct intermediary transactions, and falsified borrowers' bank passbooks and rent rolls.

Subsequent investigation by the Bank revealed that various Ringi materials were falsified for 22 properties of 11 borrowers.

## 3. Interviews with the Bank employees

For the 7,813 cases identified as fraudulent cases using both the Ringi approach and the Other approach, there were 332 employees who were involved in these cases to be interviewed. We already interviewed 259 of these employees last summer and so we decided to interview the rest of the 73 employees (= 332 - 259) in principle. However,

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<sup>7</sup> Sales offices of the former Personal Banking Department are the Tokyo Metropolitan Area Sales Department, each branch of Shibuya, Shinjuku, Midtown, Futakotamagawa, Omiya, Chiba, Kawasaki, Tama Plaza, Yokohama Higashiguchi, Nagoya, Sapporo, Sendai, Kyoto, Fukuoka, Hiroshima and Osaka.

<sup>8</sup> Company W was registered in the Channel PRM (the Bank's system to comprehensively manage channel information) in December 2016 due to bad information on the company.

there were 129 employees, some related to findings provided by the KPMG FAS Team, who were likely to lead to a worse result (they may be judged more seriously) than the initial judgement (instructions, etc., acquiescence, or not identified) after the interviews conducted in August 2018, and some were charged in interviews with other employees with information who are likely to lead to a worse result than the initial judgement in the interviews conducted in August 2018. Since we interviewed them again, as part of the Investigations of all cases this time, we interviewed 202 employees in total (= 332 - 259 + 129).

As a result, as described in 2. (2) 2) in this report, the total number of employees who either instructed or acquiesced to misconduct was 75.

The following are changes between the results of the investigation at the time of the disciplinary action after the interviews conducted in August 2018 and the results of the Investigations of all cases this time.

Actual number (employees)	Instructions, etc.	Acquiescence	Not identified
At the time of disciplinary action in 2018	32	41	186
<div style="display: flex; justify-content: space-around; align-items: center;"> <div style="border: 1px solid black; padding: 5px; width: 20%;">                     Acquiescence → Instructions, etc.                      1 employee                      Not identified → Instructions                      2 employees                 </div> <div style="border: 1px solid black; padding: 5px; width: 10%; text-align: center;">                     1 employee                 </div> <div style="border: 1px solid black; padding: 5px; width: 10%; text-align: center;">                     2 employees                 </div> </div>			
After the Investigations of all cases	35	40	257

Disciplinary action against 117 employees already took place in November based on the interviews in August 2018 and most of the 75 employees who have been found to be fraudulent as a result of these Investigations of all cases are included in those 117 employees. There was only one employee whose judgement was more serious than the previous judgement, and two employees who were newly judged to be fraudulent.

4. Ancillary investigation (investigation of cases where a real estate agent was suspected to have made replacement payments for borrowers)

In addition to the Investigations of all cases regarding acts of misconduct such as falsification and fabrication, we investigated cases where a real estate agent was suspected to have made replacement payments for borrowers.

As conditions for investment real estate loans provided by the Bank, the borrower was required to provide 10 percent of the funds for the purchase of real estate from their own funds, and this 10 percent of funds was required to be transferred in advance to their account with the Bank in the name of the borrower. However, it was revealed incidentally by the Investigations of all cases that there were cases where a real estate agent (channel) transferred its own money to the borrower's account in the name of the borrower

(replacement payment by the channel) despite the condition that the borrower was required to do so with their own funds.

Based on this fact, as ancillary interviews by the Investigations of all cases, we interviewed those employees who were involved in cases where the channel was identified to have made replacement payments or was suspected to have done so (hereinafter referred to as the “Transfer analysis approach”) after confirming whether or not the channel made replacement payments by examining the accounts with the sending bank concerning transfers in the name of the borrower using two guidelines: (1) cases where a bias in the sender was recognized, and (2) cases where there was inconsistency between the information reported by the borrower to the Bank on the borrower's ordinary deposit account with the sending bank and that held by the sending bank.

The investigation using the “Transfer analysis approach” was a statistical inference analysis, unlike the investigations of direct document falsification which used the “Ringi approach” and “Other approach.” Therefore, this approach does not necessarily prove that the channel made the replacement payment. In addition, although the cases identified as being suspected of replacement payment by a channel indirectly also suspects the existence of fabrication of passbooks, etc. or double sales contracts, they are not necessarily linked to fabrication or other misconduct.

The “Transfer analysis approach” identified 6,908 cases (of which 1,278 were for share houses) suspected of having replacement payments by the channel<sup>9</sup>. Of these, the “Ringi Approach” and the “Other approach” identified 2,894 “cases where misconduct such as falsification or fabrication was identified” or “cases where misconduct such as falsification or fabrication is suspected.”

End

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<sup>9</sup> In principle, as for cases where there was a bias in the sending bank, cases where more than five borrowers per one agent made transfers from the same financial institution or the same branch office were judged as being suspected of replacement payments by the channel. In addition, cases where the transfer was made from an account with another financial institution other than the one reported by the borrower were judged as being suspected of replacement payments by the channel.