

May 15, 2019

## Report (investigation of unsecured loans)

Suruga Bank, Ltd.

### 1. Investigation of unsecured loans

#### (1) Purpose of the investigation of unsecured loans

In response to the news report on February 5, 2019 that “a Bank employee is suspected to have been involved in a romance scam” and “the Bank is suspected of concluding loan contracts based on documents stating falsified use of loans and annual income of the borrower,” we investigated whether or not Bank employees were involved in “fraudulent” business practices (hereinafter referred to as “fraudulent business practices”) including “romance scams.” Incidentally, we also investigated the Bank employee's involvement in falsification of screening materials such as income confirmation materials for unsecured loans (hereinafter, these investigations are collectively referred to as “the Investigations”).

#### (2) Approach, system and methods of investigation

The Investigations were conducted by the Compliance System Restructuring Committee (chaired by attorney Hideaki Sudo) together with the Bank's relevant Departments, using outside experts (hereinafter referred to as the “Investigation Team”) such as attorneys from Anderson, Mori & Tomotsune (hereinafter referred to as “Attorneys”) and KPMG FAS (hereinafter referred to as “KPMG”). The outline of the approaches and methods of the Investigations established by the Investigation Team under the supervision of the Compliance System Restructuring Committee is as follows:

##### 1) Identification of Bank employees who may have been involved in fraudulent business practices or falsification of screening materials

The following two approaches shall be used to identify those who are suspected to have been involved in fraudulent business practices or falsification of screening materials:

###### 1) Complaint approach

We shall identify Bank employees who are suspected to have been involved in fraudulent business practices or falsification of screening materials by using keywords set for the purpose of the Investigations from customers' feedback (total 46,924 cases of data) and CRM registration information (total 6,638,408 cases of data).

###### 2) Factorial approach

Based on the questionnaire conducted on all Bank employees (2,888 Bank employees, including non-regular employees but excluding employees on leave, temporary staff, etc.), we shall identify employees who are suspected to have

been involved in fraudulent business practices or falsification of screening materials. This questionnaire asked for information not only on the involvement of the respondents themselves in fraudulent business practices (including suspicion, acquiescence, etc.) but also on other employees' involvement.

In addition, we shall identify Bank employees who were in charge of cases of denial of guarantee of an unsecured loan (cases where the guarantor refused to fulfill its guarantee obligation due to doubts in the transaction) as Bank employees who are suspected to have been involved in fraudulent business practices or falsification of screening materials.

## 2) Forensic investigation

With regard to the 70 Bank employees who are identified in 1) and 2) above, 1 Bank employee in charge of the fraudulent case in the news report, and 7 Bank employees about whom complaints were received from borrowers, KPMG shall implement a forensic investigation by searching the PC emails of Bank employees using certain key words and conditions to detect suspicious emails, and identify materials that may raise suspicions of Bank employees who were involved in fraudulent business practices or falsification of screening materials. The Bank employees who are identified in this investigation shall be interviewed by the Attorneys in 3) below.

## 3) Interview investigation by the Attorneys

Attorneys shall conduct interview investigations of those Bank employees who are identified in the forensic investigation 2) above based on the information detected during the forensic investigation and the information from the questionnaire on Bank employees in order to recognize whether or not they were involved in the fraudulent business practices or falsification of screening materials, and determine their degree of involvement, etc.

## 2. Summary of results of the investigation

The results of the Investigations are as follows:

### (1) Target of the Investigations

#### 1) Number of Bank employees identified by the Complaint approach and the Factorial approach

The total number of Bank employees identified by 1. (2) 1) 1) the Complaint approach and 2) the Factorial approach (target employees of the forensic investigation) was 78 in total (71 current employees and 7 retired employees).

#### 2) Forensic investigation

KPMG conducted a forensic investigation of the 78 employees identified in 1) above (71 current employees and 7 retired employees). As a result of the forensic investigation, about 59 employees out of the 78 employees, the investigation

identified materials that may raise suspicions of Bank employees who were involved in fraudulent business practices or falsification of screening materials (the materials identified do not necessarily support the suspicion).

3) Interview investigation by the Attorneys

The Attorneys conducted an interview investigation of the 59 employees in 2) above.

(2) Investigation results of Bank employees who were involved in fraudulent business practices

An employee who executed unsecured loans, knowing that the loans were introduced by a person who was involved in fraudulent business practices (acquiescence): 1 employee<sup>1</sup>  
The Bank employee was in charge of the case reported in the news on February 5, 2019.

Although the Bank employee did not realize that the person who introduced the loan transactions was conducting a romance scam, he executed unsecured loans for two borrowers (one case was reported in the news) by falsifying the borrower's withholding tax slip either by himself or instructing the person to do so while realizing that the person was dealing with sales of uncertain investment products and that the two borrowers would purchase such products from him using the loan money.

In addition, the Bank employee was also involved in the falsification of screening materials in (3) below. He executed unsecured loans for 31 borrowers, including the above two borrowers, by conducting fraudulent acts such as falsification of screening materials.

(3) Results of investigation of Bank employees who were involved in falsification of screening materials

The status of Bank employees who were involved in falsification of screening materials for unsecured loans is as follows:

Types of involvement in falsification of materials	Number of employees concerned
Employees who created or falsified materials by themselves, or instructed other employees to do so	4 employees
Employees who executed or tried to execute unsecured loans while recognizing that the received materials were falsified (or without taking specific measures even if they had specific suspicions that the materials received at the time of the loan execution were falsified)	5 employees

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<sup>1</sup> In addition, there were five employees who executed unsecured loans without proper examination of the loans that were introduced by: a person who was suspected of handling uncertain investment products, a person who received introduction commissions from borrowers, and a person who suggested Bank employees manipulate or falsify the borrower's annual income. However, it was not recognized by the investigation that these employees realized that these persons were involved in fraudulent business practices at the time of the loan execution.

In the course of the investigation, it was revealed that there were Bank employees who violated the Bank's internal regulations by failing to confirm the borrower's workplace and their employment, and conducting improper operations such as fabrication of use of funds, etc.<sup>2</sup>

### 3. Disciplinary action and measures to prevent recurrence

One employee who was identified to have been involved in fraudulent business practices (the employee in 2. (2) above) was disciplinarily dismissed. In addition, for Bank employees who were recognized to have been involved in falsification of the screening materials and other Bank employees who violated the Bank's internal regulations, we imposed strict disciplinary action on them in accordance with the Bank regulations<sup>3</sup>.

In light of the problems that have arisen, the Bank is implementing the following measures to prevent recurrence, including the contents of the business improvement plan that has been already announced.

- (1) Review of the personnel evaluation system based on a reflection on the excessive performance-oriented policy
- (2) Operations to record the history of negotiations for a thorough understanding of the background to customers' loan applications and their intentions
- (3) Handling to receive and confirm the original documents directly from customers
- (4) Stop accepting new applications for “loans after cash payment”

Repayment of unsecured loans and other consultations will be accepted at each customer's transaction office or Customer Consultation Center at any time.

[Customer Consultation Center]

500 Suruga-daira, Nagaizumi-cho, Shizuoka Prefecture

TEL: 0120-707-193

Telephone reception time      Monday through Friday (except public holidays)  
09:00-17:00

End

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<sup>2</sup> (1) For confirmation of employment, it is sufficient to confirm the borrower's identification card and it was not required to call their workplace, but there were two employees who failed to confirm the identification card.

(2) With regard to the use of funds of “loans after cash payment,” there are no restrictions other than prohibition of use for business purposes. Bank employees are required to check for what purpose the borrower used funds in the past (for education, nursing care, pets, etc.). However, there were 38 employees who wrote the use of funds on loan documents without confirming with the borrower or while knowing that the use of funds was false.

\* (1) and (2) include duplicate employees.

<sup>3</sup> As a result of reviewing the content and the degree of the violations based on the Bank's internal regulations, the final number of employees who were subject to disciplinary action is 1,515.

\* There were 22 employees who were not subject to disciplinary action but were given stern warnings.