

## Compliance system in the secured loan business

Suruga Bank, Ltd.

As disclosed separately in “What we have done to restructure the compliance system,” we have been working on a fundamental review of our compliance system.

In particular, with regard to the secured loan business, we have taken the following initiatives in order to operate it prudently.

### 1. Overall secured loans

#### (1) Implementation of structural reform

From the perspective of further strengthening the checking function within the Sales Department that is in charge of independent compliance risk management as the first line of the “three lines of defense” of the Bank as a whole, the Bank will establish a “Sales Control Department,” that carries out the functions of the second line within the Sales Department. The Sales Control Department is dedicated to “Sales Quality Management” in order to thoroughly carry out customer-oriented business operations, and as the second line in the Sales Department, it supports and checks compliance and risk management of the first line of three personal banking offices, eight blocks, and branch offices as well as the Sales Support Office.

In addition, evaluation of the second line, the Sales Control Department, will be carried out directly by the President, not by the General Manager of the Sales Department who is responsible for business performance, ensuring independence from the first line. Furthermore, at branch offices that are responsible for the secured loan business, we will assign loan officers whose performances are evaluated by the Sales Control Department and who are required to report to the Department. This ensures that the President directly controls the branch offices that are responsible for the secured loan business through the Sales Control Department.

#### (2) Strengthening the functions of loan officers

The secured loan business is limited to branch offices where “loan officers” are assigned. Loan officers' duties are to check the Ringi for all loan applications at each branch office before submitting them to the Screening Department to ensure the appropriateness of each loan being in line with the customer's intentions as well as the defined workflow.

Loan officers shall be designated by General Manager of the Sales Control Department from employees at branch offices who have loan sales experience and have been an officer for more than one year. In order to ensure the independence of loan officers' duties, the evaluation of their performance shall be conducted by the Sales Control Department, and a reporting line between the loan officer and the Sales Control Department shall be established.

In addition, we will conduct training and study sessions for loan officers on a regular and continuous basis in cooperation with the Screening Department and the Compliance Department in order to improve their expertise and share risk information.

(3) Measures to prevent the recurrence of misconducts

To prevent the recurrence of wrong business practices such as combined sales that are not the customer's intention, we have stipulated that an employee should interview with the customer before submitting a Ringi for their loan application and at the time of concluding the loan contract (interviewed by two employees at the time of conclusion). The stipulation will ensure that we thoroughly understand the customer's application process and intention. We also record the process of negotiation with the customer. The recorded contents will be examined not only at the first line branch office but also at the second line the Screening Department to verify whether or not the loan application is processed in accordance with the customer-oriented transaction and the defined workflow. In addition, we have changed the workflow where we receive and confirm the original screening materials directly from the customer in person at the time of the interview in order to prevent falsification and fabrication.

(4) Sales targets

In order to review excessive sales quota setting, and the short-term and sales-oriented performance evaluation system that caused the misconduct, we have abolished the setting of quantitative sales targets for the first half of fiscal 2019. Going forward, we will consider how to set sales targets that will not lead to the recurrence of misconduct and improve the performance evaluation systems.

(5) Cooperation with the Compliance Department

The Compliance Department has assigned a compliance leader at each branch office, who is in charge of both compliance promotion, and compliance risk management, playing the role of second line at each branch office (first line). The compliance leader plays the role of risk sensor for early detection of any risk factors that will impede overall operations including appropriate sales activities and the development of a healthy work environment, as well as the role of leading the development of compliance awareness at each branch office. The Sales Control Department will ensure understanding and dissemination of the compliance leader's roles at area meetings of the Heads of the branch offices. At the same time, it will strive to develop an environment for compliance leaders to fulfil their duties and to prevent interference with their activities. In addition, the Compliance Department, as the second line, will hold regular meetings with the Sales Department on a monthly basis to share risk information on handling secured loans, and support and check them to ensure appropriate business practices.

(6) Verification of the effectiveness of the Internal Audit Department's initiatives

The Internal Audit Department conducts an audit on the entire secured loan business as a check of the third line, verifies the effectiveness of the initiatives, and reports to the Board of Directors.

## 2. Investment real estate loans and combined property loans\*

### (1) Organization of a specialized team

- 1) The “Tokyo Metropolitan Area Sales Department” of the Metropolitan Wide Area Banking Office will organize a team specialized in investment real estate loans, where only the Bank can handle investment real estate loans (including refinancing of existing customers' investment real estate loans) and combined property loans. However, loans for existing customers' house repair costs will be handled at the relevant branch office.

\* Of the housing loans, an owner's mortgage whose residential area is less than 50% of the entire area will be newly defined as a “combined property loan” because it is investment-inclined, and will be handled by the specialized team.

- 2) At first, the team will resume loan sales with around 15 members, including one member who worked in the Screening Department, so they can fully monitor sales activities, and examine the appropriateness of loans within the team.

### (2) Structure of the checking system for the specialized team

- 1) Recognizing that the specialized team has inherent risks different from those of other sales organizations, a compliance staff member from the Compliance Department will be stationed in the team and conduct activities specialized in supervising appropriate business execution.
- 2) In order to eliminate the risks inherent in the specialized team, we will formulate new checking items in the self-inspection program and conduct them on a regular basis. To identify signs of misconduct, we will establish a mechanism where the Head of a branch office will conduct a self-inspection, which will be checked by the person in charge of compliance.

### (3) Initiatives on the management of real estate-related companies

We will establish a real estate-related company management system to identify and eliminate bad agents, and thoroughly manage risk information such as changes in business conditions and the reputations of real estate-related companies. In addition, to avoid encouraging real estate agents to violate the bank agency business, the Bank will request that real estate agents do not solicit customers or provide them with inappropriate explanations, and record the contents of the process in the real estate-related agent management system. In order for the system to function properly, we will ensure that employees fully understand the system for acquiring, input, updating, and sharing of accurate and correct information on real estate-related agents.

If we have acquired bad information on a real estate-related agent, we will be sure to register it in the real estate-related company management system and also input information on the person in charge of the agent. In addition, we will work on conducting periodic inspections of real estate-related companies according to actual loan execution results and updating this information. We will strictly prohibit intentional negligence of registration of real estate-related companies or bad information on them, etc., or registration of different information from their actual status, as an act

of disabling internal control by the Bank. We will ensure that if the person in charge conducts such act, the person shall be subject to a strict disposition.

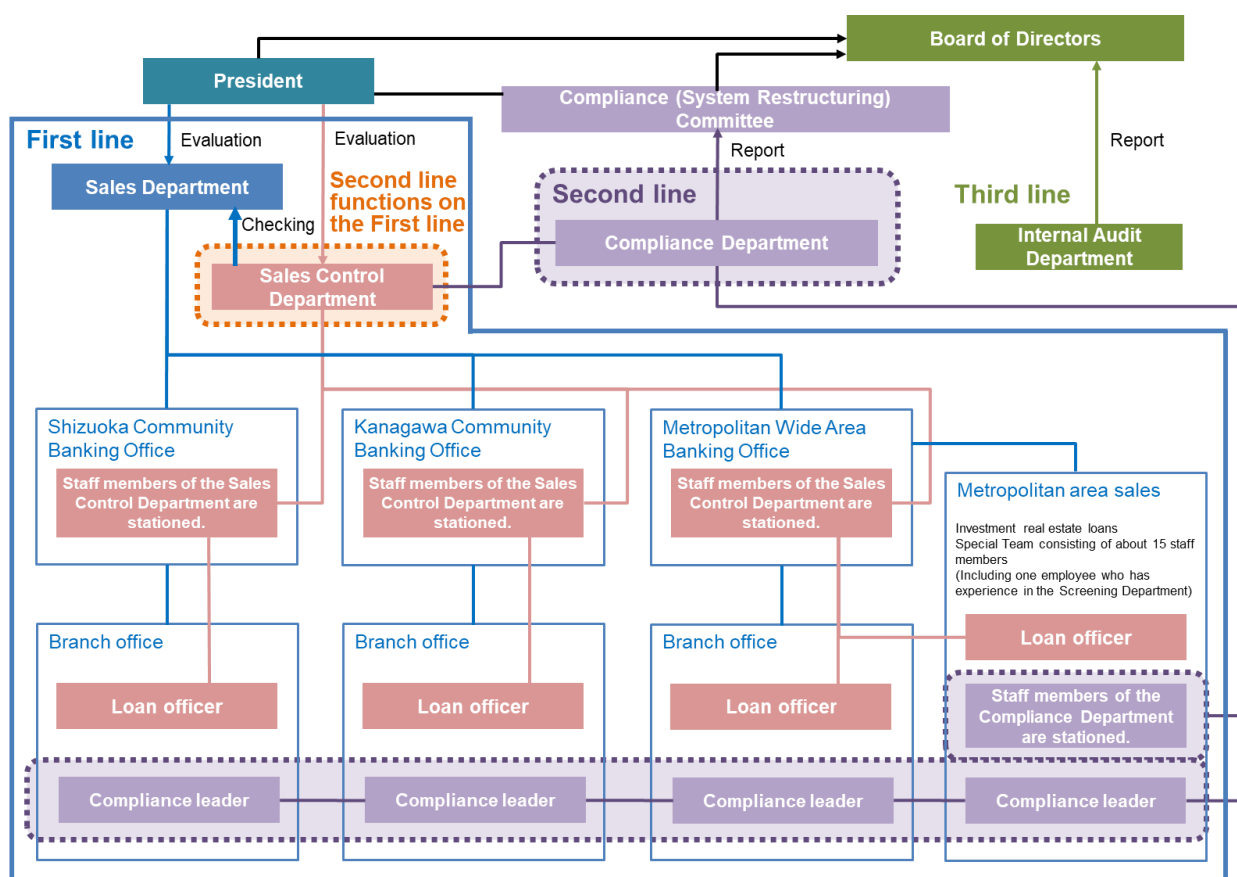
#### (4) Resumption of investment real estate loans

The Compliance System Restructuring Committee (chaired by attorney Hideaki Sudo) has approved the resumption of investment real estate loans under the compliance system for the above-mentioned secured loan business.

We will promptly implement organizational reforms, etc. toward restructuring the system and plan to resume operations in the last week of May.

We will work on further strengthening our compliance system in order to thoroughly conduct customer-oriented business operations through future sales activities.

### 3. Organizational structure in the secured loan business



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