

May 13, 2025
Suruga Bank, Ltd.

Receipt of Report Request from the Financial Services Agency
and Overview of the Our Response to Loans for Investment Real Estate to date

Suruga Bank Ltd. (Director and President Kosuke Kato; hereinafter, “the Bank”) has received a report request today from Japan’s Financial Services Agency (FSA) pursuant to Article 24, Paragraph 1 of the Banking Act. This request concerns the so-called “Apaman Issue”—a series of irregularities in loans for investment real estate (excluding share houses) made prior to 2018. As the Bank has not yet resolved all cases with individual borrowers and the resolution process has become prolonged, the FSA has requested a report detailing the reasons for the delay, target deadlines, and specific remedial measures to achieve early resolution.

The Bank takes this report request from the FSA with utmost seriousness and will submit a response accordingly. We will also continue to disclose relevant information to our stakeholders in a timely and appropriate manner.

We sincerely apologize to all those affected by the Apaman Issue, especially the borrowers involved, for the concern and inconvenience caused. The Bank remains committed to addressing each borrower’s unique circumstances with care and compassion, working diligently to alleviate the concerns of all parties involved and accelerate the resolution of individual cases.

In light of the numerous inquiries we have received regarding the Bank’s efforts to date on this matter, we would like to provide the following explanation.

Background I (2018): Revelation of Misconduct and Submission of Business Improvement Plan

In response to problems related to share house loans—triggered by SMART DAYS, INC ceasing rent payments to share house owners—the Bank established an independent third-party committee in May 2018. A report on the committee’s findings was released in September of the same year, and a business improvement plan was submitted to the Financial Services Agency in November. The main elements of the plan were as follows:

- Clarification of management responsibilities; restructuring of governance systems; implementation of company-wide training programs to foster a sound corporate culture; elimination of ties with anti-social forces and establishment of AML/CFT compliance systems; establishment of credit risk management and internal audit frameworks; and severance of ties with the founding family
- Comprehensive review of all investment real estate loans (hereinafter referred to as the “full-scale review”)
- Establishment of internal systems to ensure appropriate handling of share house loans and other investment real estate loans

The Bank has taken the issue of improper lending very seriously and has worked to rebuild its compliance and governance frameworks in line with the business improvement plan. As a result, since resuming the handling of investment real estate loans in May 2019, the Bank has not issued any inappropriate loans in this category to date.

The results of the full-scale review¹ revealed that irregularities such as the falsification or fabrication of screening documents were found in approximately 20% of the total 37,907 investment real estate loan properties (including share houses). In addition, interviews were conducted to determine whether Bank employees were involved in these irregularities. As a result, 75 employees were found to have been involved—35 who gave instructions or similar directives, and 40 who turned a blind eye—while 257 employees were found not to have been involved.

The falsifications and fabrications varied, involving items such as personal equity contributions and rent rolls. The nature of involvement also differed on a case-by-case basis: in some cases, real estate agents altered documents under instructions from the Bank in order to deceive borrowers, while in others, real estate agents manipulated documents to deceive both the borrowers and the Bank. The circumstances of the parties involved varied significantly from case to case.

Background II (–2022): Resolution of Issues Related to Share House Loans

Based on a mediation recommendation from the Tokyo District Court, the Bank sought to resolve the issues related to share house loans by transferring the relevant loan claims to a third party. Between March 2020 and September 2022, the Bank executed four rounds of bulk loan transfers. This response was based on the mediation panel’s determination² that, with regard to share house loans, the Bank had a standard liability for damages arising from tortious conduct.

Background III (–2022): Response to the Apaman Issue

In parallel with efforts to resolve the share house loan issues, the Bank also earnestly worked to address the Apaman Issue. The main initiatives undertaken between 2018 and 2022 are outlined below:

- In May 2019, the Bank publicly released the results of the full-scale review and informed borrowers that irregularities such as the falsification or fabrication of screening documents had been discovered.
- Based on the review results, the Bank decided in May 2019 to implement repayment support measures -such as partial principal forgiveness and interest rate reductions- for customers experiencing repayment difficulties. These measures were publicly announced, and individual notifications were sent to all borrowers of the affected properties.
- For properties for which we received inquiries or requests following the announcement of the repayment support measures, the Bank conducted careful individual consultations and proposed support tailored to each borrower’s circumstances. As a result, the Bank applied measures such as partial principal forgiveness or rate reductions to approximately 3,600 affected properties³.

¹ https://www.surugabank.co.jp/surugabank/kojin/topics/pdf/190515_4_a.pdf

² Summary of the mediation recommendation: The court’s mediation panel determined that, regardless of whether there was misconduct in individual cases, the Bank bore standard responsibility due to issues in its screening framework—specifically, its failure to sufficiently analyze the unique risks associated with share houses, which were a new type of product, and its overlooking of unrealistic business plans.

³ Number of properties addressed as of the end of September 2022. This excludes properties handled through the bulk transfer of share house loan claims.

Background IV (2022–): Additional Response to the Apaman Issue

While the issues related to share house loans were largely resolved by 2022, the measures taken for the Apaman Issue—such as partial principal forgiveness and interest rate reductions—proved insufficient. In response, a group of borrowers, primarily those seeking a blanket settlement similar to that of the share house loans, formed the Defense Counsel for Victims of Suruga Bank’s Illegal Loans (hereinafter, the “SI Defense Counsel”). In February 2022, this group filed for civil mediation⁴.

The Bank has responded to the civil mediation in good faith while repeatedly explaining that a blanket settlement is not possible in the case of the Apaman Issue. The reason is that, for share house loans, the court’s mediation panel determined that the Bank bore a standard liability for damages arising from tortious conduct, regardless of the specific circumstances of each case. Based on that determination, the Bank agreed to a blanket settlement.

In contrast, the Apaman Issue involves a wide range of circumstances across individual cases⁵, and the court’s mediation panel has not made a determination that standardized tortious conduct occurred, as it did with the share house cases. In fact, judicial rulings and settlements based on individual circumstances have already been reached in some cases⁶. From the standpoint of ensuring fairness with those cases, it is difficult for the Bank to adopt a blanket settlement, or a one-size-fits-all solution.

While the Bank could not agree to a blanket settlement, it proposed an “Early Resolution Framework” to the SI Defense Counsel in May 2022 as a means of resolving the Apaman Issue. The framework proposes a three stage process. The first stage is to consider the issue of inflated⁷ property valuations, the second is to consider whether it is highly likely that Suruga Bank or its employees were involved in falsifying rent rolls presented to borrowers, and the third is to consider the calculation of a settlement figure based on the amount of damage and the degree of responsibility.

- Although the SI Defense Counsel has not necessarily agreed to the proposed Early Resolution Framework, 24 properties were submitted on a trial basis, and discussions were held to apply the framework to these individual cases.
- Of these 24 properties, 8 were deemed to fall within the scope of the first stage of the framework, and of those, 2 met the criteria for the second stage.

Furthermore, in April 2023, the Bank announced three key policies aimed at achieving early resolution of the Apaman Issue. As part of one of these policies—“Reducing obligations on debtors by assisting with negotiated sales etc.”—the Bank also announced the following debt relief measures. In addition to making these measures public, the Bank sent individual written notices to eligible

⁴ The Bank discloses the number of properties associated with “organizational negotiation partners”—borrowers who have appointed the SI Defense Counsel or other attorneys and are collectively pursuing mediation or litigation. As of the end of September 2022, the number of properties involving such organizational negotiation partners was 931.

⁵ In the Apaman Issue, the circumstances of the parties involved differ depending on each individual case. Specifically, some cases involved the so-called “inflated property valuations,” while others did not. There are also cases in which real estate agents falsified documents under instructions from the Bank to deceive borrowers; cases in which real estate agents falsified documents and deceived both the borrowers and the Bank; and cases in which borrowers and real estate agents colluded to falsify documents in order to obtain a larger loan from the Bank.

⁶ As of the end of March 2025, rulings had been finalized in 11 cases related to Apaman loans. In all of these cases, the Bank was not found liable for damages.

⁷ The term “inflated” here broadly means that the falsified rent roll led to the “mistake” of thinking that the property in question was more profitable than it actually was, resulting in a higher price than if the “mistake” had not occurred.

borrowers by May 2024:

- Partial waiver of overdue interest and damages after voluntary sale
- Consultation on repayment of remaining debt after applying proceeds from a voluntary sale (e.g., 0% interest, 35-year repayment period)
- Support for achieving a positive cash flow through individual consultations for debtors who are unable to make scheduled repayments due to a property's negative cash flow, including measures such as interest rate reductions (with a minimum rate of 1.40%) and a lump-sum payment of a portion of the principal at the final maturity date
- If repayment of the outstanding debt is unlikely even after implementing the above support measures, we will consult with the borrower to create an individual repayment plan based on their specific circumstances (e.g., amount that could be repaid, assets, etc.)
- Individual consultations for cases where the property's cash flow is unclear or where there are special circumstances

Current Status of the Apaman Issue and Acceleration of Individual Resolutions

As a result of the various initiatives implemented to date, the number of properties involving organizational negotiation partners decreased from 931 at the end of September 2022 to 768 at the end of March 2025—a cumulative reduction of 163 properties (−17.5%). The breakdown of the 768 properties (with some overlap between categories) is as follows:

- Properties undergoing judicial proceedings (lawsuits or mediation): 759 properties
- Properties under settlement negotiations through out-of-court dispute resolution procedures: 9 properties
- Properties under settlement negotiations through individual dialogue: 77 properties

For the latest information on our initiatives, please refer to the document dated March 13, 2025, titled “Status of Suruga Bank’s Response to Loans for Investment Real Estate Other Than Shared Housing,” available on our website⁸.

Going forward, based on the report request received today, the Bank will make every effort to accelerate individual resolutions. The new initiatives currently planned are as follows:

- Establishment of an emergency project structure: The Bank will promptly establish an internal framework that enables attentive and supportive responses tailored to each customer, and will expand consultation services.
 - Consultation desk: Office to Support Customer Owners of Share Houses and Others (Tel: 0120-010-636)
- Call for individual dialogue with affected borrowers: The Bank will once again provide individual guidance on the support measures it has proposed and will actively encourage one-on-one discussions to explore resolution based on those proposals.
- Case-by-case responses based on individual circumstances: For properties currently involved in

⁸ https://www.surugabank.co.jp/surugabank/kojin/topics/pdf/250313_01.pdf

judicial proceedings, the Bank will continue to respond sincerely and promptly to court requests and work toward obtaining timely judicial decisions. For out-of-court dispute resolution procedures, the Bank will respond with the same sincerity and urgency as it does in judicial matters, while also seeking to prevent procedural delays. For individual dialogue, the Bank will promptly propose and discuss resolution plans tailored to each borrower's unique situation based on the aforementioned support measures, while also working to manage deadlines appropriately.

The above provides an overview of the Bank's response to the Apaman Issue to date. We recognize that alleviating the burden on affected borrowers struggling with loan repayments is an urgent priority, and that swift action is essential. The Bank remains fully committed to supporting each borrower in accordance with their individual circumstances, to support them in reaching a swift and satisfactory resolution.

Note : This document has been translated from the Japanese original for reference purposes only.
In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.