October 5, 2018

To whom it may concern:

Name of Company: Suruga Bank, Ltd.
Name of Representative: Director and President: Michio Arikuni
(Code No. 8358 First Section of Tokyo Stock Exchange)
Contact Person: Senior Executive Officer
General Manager of General
Management Planning Headquarters
Tatsuya Akita
(TEL 03-3279-5535)

About administrative actions against our Bank

Today, the Bank has received administrative actions (partial business suspension order and business improvement order) from the Financial Services Agency under the provisions of Article 26, Paragraph 1 of the Banking Law.
Once again, we would like to offer our deepest and sincere apologies for the great trouble and concern that we have caused to our customers, shareholders, partner companies, and many other stakeholders.
Taking these administrative actions seriously, all our officers and employees will strive together to make continual improvements to prevent the recurrence of these situations in to promote thorough compliance, and strengthen customer-oriented business operations and governance functions.

1. Contents of administrative actions

(1) Suspend new investment real estate loans during the period from Friday, October 12, 2018 to Friday, April 12, 2019.
Similarly, suspend new housing loans for a house in which one's own living area is less than 50% of the entire house area.

(2) Train all the Bank's officers and employees during the period of (1) above to foster a sound corporate culture by acquiring knowledge they should have as bank staff regarding the loan business and compliance with laws and regulations. In doing so, every officer and employee should be completely away from their ordinary work at least for a certain period of time and dedicate themselves to the training to achieve the purpose.

(3) To ensure sound and appropriate business operations, implement the following:
1) Clarification of management responsibility based on the disposition (including the construction of an objective verification system and the pursuit of responsibility

by an external third party who can be expected to make strict judgments)

2) Compliance with laws and regulations, customer protection and the establishment of customer-oriented business operations (including accurate reports to the authorities and the necessary understanding of the actual situations of past misconduct), improvement of bank-wide awareness, and fostering of healthy corporate culture
3) Establishment of a management system to eliminate anti-social forces as well as a management system to prevent money laundering and terrorist financing
4) Establishment of a credit risk management system, including internal loan screening management, and establishment of an internal audit system
5) Establishment of a management system to hold and manage the Bank's business real estate and shares, and appropriately manage transactions with a group of family companies under a certain influence of the founder family
6) With respect to loans to share houses and other investment real estate loans, establishment of a system to respond appropriately to each individual borrower, including interest rate reduction, review of repayment conditions, partial reduction of the principal, using financial ADR, etc.
7) Fundamental enhancement of the business management system to implement the above measures steadily and build sustainable business models in the future

(4) Submit a business improvement plan pertaining to (3) above by the end of November, 2018 and immediately implement it.

(5) Regarding the improvement plan of (4) above, report progress and improvement status every three months until the implementation of the plan is completed by the 15th day of the following month (the first reporting due date shall be the end of December, 2018).

2. Reasons for administrative actions

Based on the investigation report from the Suruga Bank Third Party Committee announced on September 7, 2018, as a result of examining your bank as of March 13, 2018 (Tuesday) as the date of the examination (FSA Policy Bureau No. 1739), as well as the report requested pursuant to Article 24, Paragraph 1 of the Banking Law (FSA Supervision Bureau No. 616), it was recognized that the Bank's compliance with laws and regulations, customer protection and customer-oriented business operations, credit risk management system, business management control system, etc. indicate the following problems:

(1) Misconduct on share house loans and other investment real estate loans

The following misconduct was confirmed in the Bank regarding share house loans and other investment real estate loans.

1) Real estate-related contractors (channels) estimated higher rents and occupancy rates than actual rates, or falsified them to higher figures than actual figures and the Bank evaluated real estate by the profit reduction method. As a result, prices of real estate were raised numerically and a large amount of financing was carried out by the Bank based on such raised prices of real estate.

In the Bank, a considerable number of sales employees dealing with investment real estate loans were working while clearly recognizing the abovementioned misconduct by the channels or at least having serious doubts about them. Among them were cases where some sales employees of the Bank actively encouraged channels to falsify documents, and cases where some other employees carried out falsification by themselves.

2) To pass the Bank's loan screening, the channels conducted; (i) falsification of the balance of the passbook held by a borrower without personal funds, (ii) transfer of the required funds to the account of a borrower (show money), (iii) falsification of income confirmation materials of borrowers so as to satisfy certain annual income standards, and (iv) preparation of dual sales contracts, etc.
In the Bank, a considerable number of sales employees dealing with investment real estate loans were working while clearly recognizing the abovementioned misconduct by the channels or at least having serious doubts about them.
3) Even though the Screening Department prohibited transactions with the channel on which there was undesirable information such as falsification of materials, branch offices attempted to continue transactions in a circumventing way by asking the channel to establish a new channel on the channel to continue and encourage misconduct.

(2) Business operations harming the interests of customers
When the Bank executed investment real estate loans including share house loans, the Bank sold various products such as card loans, time deposits, insurance products, etc. at the same time. However, these transactions have no economic rationality for customers, and they are an inappropriate business practice in terms of customer protection. Among these transactions were a certain number of acts in violation of Article 13, Paragraph 3-3 (prohibition of tie-in sales) of the Banking Law.
In addition, the Bank entrusted explanations of transactions to customers to channels that have no license of bank agency operations. It is recognized that the Bank's customer explanation system was inadequate.

(3) Lack of checking functions for sales operation and appropriate credit risk management
Although the management team and the Screening Department knew various risks related to the financial status of a particular channel and the sustainability of business models with respect to share house loans and other investment real estate loans, continuing such loans without fully considering these risks has resulted in an increase of bad loans. This is a problem of credit risk management.
In response to a request from the sales division, the Screening Department simplified documents necessary for Ringi by allowing branch offices to confirm ex post facto the use of funds and the verification of financial assets owned by borrowers to speed up screening. In addition, loan screening in effect became a dead letter as shown by the fact that almost all loans for share houses (99%) were approved after the general manager's meeting of the sales division determined share house loans as appropriate.
Regarding the series of misconduct issues, the Audit Department did not conduct a risk assessment on the loan policy, its measures or structural changes in the portfolio, etc. It placed emphasis only on checking inadequate operations, failing to find signs of misconduct.

(4) Inappropriate financing for family companies
As described below, concerning loans to family companies, the Bank did not grasp the actual state of their owned assets or verify their specific repayment plans, etc. Through this, the actual state of inappropriate loan management is recognized. In addition, while a certain amount of financing was carried out from family companies to the founder individuals, credit risk management problems are recognized in the fact that the Bank has made no progress in collecting loans from family companies with poor business performance.

1) There was a case where the Bank's loan to a family company that was transferred to another family company became uncollectible due to its excessive liabilities and the Bank needed an additional allowance for doubtful accounts of the possibly bankrupt family company.
2) To collect loans from a specific family company, the Bank raised funds as contribution initially over multiple times and transferred such funds to the family company through another family company and received repayment. Such transaction substantially supported the specific family company. It should have been determined after discussing the prospect of future business improvement and the necessity of management support at the Board of Directors and the Management Committee. Nevertheless, the fact is that it was decided only by some members of the management team, which indicates problems of credit risk management and corporate governance.

(5) Deficiencies in the management system to deal with anti-social forces and the management system regarding preventive measures against money laundering and terrorist financing.
1) Even if the Bank newly identified existing customers as anti-social forces, (i) the Bank had not closed credit facilities of their existing card loans, and there were cases where the loan balance increased within the credit facility, (ii) there were many cases where new deposit accounts were opened because the system to block the opening of new deposit accounts against anti-social forces was inadequate.
2) Even if existing customers were newly identified as anti-social forces, the Bank made few inquiries to the police, and regarding customers (anti-social forces) to be referred to the police, the Bank gave priority to those whose transactions were relatively easy to cancel. The Bank has not made sufficient efforts to eliminate transactions with anti-social forces.
3) The Bank has not developed a system to detect suspicious transactions in corporate transactions as shown by the fact that the Bank has not included corporate transactions among the detection targets in the system that detects suspicious transactions, and has not taken any alternative countermeasures either, including outputting and confirming forms to manage such transactions.
In addition, regarding transactions with a corporation, since employees at sales sites were not made thoroughly aware of confirming and recording of the substantial controller of its business, they conducted transactions without confirming the information of the substantial controller (violation of Article 4 paragraph 1-4 of the Act on Prevention of Transfer of Criminal Proceeds).

(6) Report to the authorities of different information from the actual situation
It has been found that when the Bank received inquiries from the authorities on the existence of a business relationship with a specific channel regarding share house loans and investment real estate loans, the Bank reported to the authorities different information from the actual situation.
It has also been found that although the Bank reported to the authorities about the management status of loans to family companies, the report was different from the actual situation because the Bank did not fully grasp the status of sublease by the borrowing family company.

(7) The reasons for the problems (1) to (6) above are as follows: while the founder's family substantially controlled the Bank, the Bank established a sales-oriented organization

where the loan screening system was inadequate and the Bank left the sales sites free to do what they wanted. Then on the sales front, a specific executive officer who gained the backing of the founder's family pressured sales employees with strict performance targets, quotas, reprimands, etc. As a result, the Bank developed a corporate culture to make light of compliance with laws and regulations, spreading misconduct.

In addition, the Board of Directors left all management policy and measures to specific officers and employees, and failed to grasp not only the contents and results of the policy and measures, but also the structure of the Bank's own loan portfolio. The Board did not fulfill its supervising functions appropriately. The lack of business management (governance) also factored into the problems.

3. Current situation that we understand

About the matters referred to in 2 above, what we understand at present is as described in the attachment. The number of cases in (1)) (2) (3) (6) described in the attachment and the cases of reporting to the authorities different information from the actual situation will be further examined through a comprehensive investigation to be conducted during the business suspension period.

4. Measures to prevent recurrence

After the discovery of this case, we have already begun to improve (1) to (8).
Based on this business improvement order, we will submit to the authorities an effective work improvement plan, including the following measures, by the end of November 2018 and steadily carry them out.

(1) Organizational reform of the governance system

Currently, the Board of Directors has a majority of outside directors (two internal directors and four external directors), and the Chairman of the Board is also served by an outside director from this September. The Board of Auditors also has three outside corporate auditors out of the five corporate auditors. Outside directors speak actively leading to thorough deliberations, strengthening of supervision and a check-and-balance system of management.

In addition, we plan to reform the conference body in the future where we abolish the existing Management Committee, reorganize the executive committee, and create a new system that collectively carries out overall business execution. In addition, we will change each risk committee, which was an advisory body to the Management Committee, to being an advisory body to the Board of Directors, and have each risk committee report directly to the Board of Directors so that the information gathering function of the Board of Directors will be strengthened. In addition, we will review matters to be resolved and reporting items, etc., so that more effective deliberations will be conducted at the Board of Directors meeting.

(2) Recommendation, proposals, advice, etc., to the Board of Directors by the Corporate Culture and Governance Reform Committee

On June 28, 2018, we established the "Corporate Culture and Governance Reform Committee," consisting of a majority of outside directors and outside corporate auditors. The Committee held 17 meetings (as of October 1), providing the Board of Directors with proactive recommendations, proposals, and advice, etc. regarding personnel management of executives, response to compliance-related events of executives and employees, development and operation of governance and internal control, and the establishment of business models based on a customer-oriented perspective. In addition, the Committee fulfills its function as a de facto nomination committee and remuneration committee.

(3) Customer support by Office to Support Customer Owners of Share Houses and Others
On June 28, 2018, we established the "Office to Support Customer Owners of Share Houses and Others," and at present 62 full-time staff are taking detailed measures, including reduction of lending interest rates and deferred repayment of the principal, considering each customer's specific circumstances. We have interviewed about 90% of the customers of share house owners with whom we can directly negotiate, and for more than 70% of the customers we interviewed, we have changed loan conditions such as the interest rate and repayment method. We will continue to carefully respond the customers, considering their individual situation. In addition, we will take into consideration in-depth support of every possible option as a financial institution, and bear a proportionate burden, including partial loan forgiveness, using financial ADR and civil mediation as necessary.

(4) Renewal of the management team and establishment of a new organizational structure
On September 7, 2018, taking management responsibility for the series of events, three representative directors and two executive directors resigned. For the new management team, Michio Arikuni was appointed as President and Representative Director.
In addition, to ensure the Bank's stable management and restore confidence, we have invited Mr. Hiroshi Sasaki as Senior Executive Officer responsible for business reform and appointed seven new executive officers within the Bank.
Also, we implemented an organizational reform as of October 1. We reorganized the Management Planning Department and the Business Administration Department and established a "Comprehensive Planning Division" that integrates the functions of the planning division and financial management division separated from these two Departments, and unified management of information from inside and outside of the Bank as well as contact points to strengthen our internal control system. In addition, we made the "Compliance Administration Department" independent from the former Management Planning Department to strengthen functions to ensure business operations with compliance as a top priority. In addition, we reorganized the previous Sales Promotion Department as the "Sales Administration Department" to strengthen its functions. The new Department centralizes each sales area to gather information from each branch office so that it can provide integral instructions and checks and balances.
We will continue to review various policies and measures to strengthen our internal control system.

(5) Pursuit of legal responsibility
To clarify the responsibility for the series of events, on September 14, 2018, we established the "Committee to Investigate the Responsibilities of Directors, etc.," consisting of two external corporate auditors who were newly appointed at the Ordinary General Shareholders' Meeting this June and an independent lawyer who has no vested interests with the Bank. The Committee then began to investigate and consider from a legal perspective whether the current and former directors and executive officers are liable for damages to the Bank due to a violation of duty of due care of a prudent manager, etc., regarding the execution of duties.
Regarding the legal responsibilities of corporate auditors, for the same purpose, we also

launched on the same day the "Committee to Investigate the Responsibilities of Corporate Auditors," consisting of independent lawyers who have no vested interests with the Bank, and began an investigation. Results of the investigation are expected to be published this November.

(6) Disciplinary actions of employees and supervisors who were involved in the misconduct
Regarding employees and supervisors who were involved in the misconduct, we have established a team of outside lawyers who are now strictly moving forward with procedures, including interviewing the employees. We will complete the disciplinary actions by the time we submit a business improvement plan.

(7) Implementation of compliance training
We held meetings of all branch managers and general managers of headquarters in July and September where we reemphasized customer-oriented business operations and compliance with laws and regulations, and implemented interactive training such as group meetings.
In August 2018, we also implemented training of about 300 sales employees where they had interactive discussions to ensure customer-oriented business operations and compliance with laws and regulations.
We will implement such training regularly to ensure compliance.

(8) Dissolution of transactions with anti-social forces
Regarding transactions with some customers whom we treated as anti-social forces but had not made specific efforts to dissolve transactions with them, we have started making efforts to dissolve transactions with them from September 2018 by working with Lawyer Mr. Akira Takeuchi, Vice Chairman of the Special Committee on Measures against Racketeering through Intercession in Civil Disputes of the Japan Federation of Bar Associations and external specialized institutions.

1) Regarding all customers whom we treat as anti-social forces, we will make efforts to dissolve transactions, including account closing, by working with the police and legal experts.
2) Regarding 46 newly opened accounts of customers whom we treat as anti-social forces described in the attachment, we will promptly make efforts to close the accounts.
3) Regarding 22 card loan cases described in the attachment, where we allowed the borrowers to increase the loan balance within the credit facility of the card loan contract, we have already stopped new loans and will promptly make efforts to dissolve transactions.
4) Regarding review and improvement of the system to eliminate anti-social forces, we have already begun discussions.

Recognizing the public nature of banking business, we will make strenuous efforts to restore confidence by strictly complying with laws and regulations and business rules and practicing customer-oriented, sound and appropriate business operations.

<Attachment> 3. Current situations that we understand

Regarding items pointed out by the Financial Services Agency in the administrative actions, we understand the following at present:

(1) Involvement or acquiescence in the falsification of documents regarding share house loans and investment real estate loans

1) Falsification of rent rolls 131 cases
2) Falsification of borrowers' own funds 1,101 cases
3) Falsification of borrowers' income 89 cases
4) Dual sales contracts 225 cases

These include cases where our employees executed loans with some doubt, if not acquiescence.

(2) Violation of Article 13, Paragraph 3-3 (prohibition of tie-in sales) of the Banking Law 534 cases

(3) The number of real estate agents that violated or may have violated Article 52, Paragraph 36-1 (permission of bank agency business) of the Banking Law 88 agents

(4) Total loan amount to the founder's family companies

1) Total loan amount to the founder's family companies 48.8 billion yen
2) Total loan amount to the founder's individuals from the founder's family companies 6.9 billion yen

(5) Problems in making efforts to eliminate transactions with anti-social forces

1) The number of cases where the Bank newly opened accounts of customers whom the Bank treats as anti-social forces 46 cases
2) Regarding customers who were not recognized as anti-social forces when the Bank started card loan transactions with them, but whom the Bank later treated as anti-social forces, the number of cases where the Bank allowed borrowers to increase the loan balance within the credit facility of the card loan contract 22 cases

(6) Violation of Article 4, paragraph 1 of the Act on Prevention of Transfer of Criminal Proceeds (confirm at the time of transaction)

1) The number of transactions without confirming the substantial controller of a corporation 18 cases

End