

Report on Progress of “Share house-related Loan Problems” and Future Measures

Akihiro Yoneyama
Representative Director and President
Suruga Bank Ltd.

We would like to convey our deepest apologies for the great trouble and concern that we have caused to our customers, shareholders and many other stakeholders regarding share house-related loan problems, which have been triggered by the fact that Smart Days, Ltd. (“Smart Days”) ceased to make rental payments to the owners of the share houses in January 2018.

In response to the problems, Suruga Bank Ltd. (the “Bank”) has set up a “Crisis Management Committee” comprising external attorneys to investigate the facts. The attachment is a summary of its findings.

In view of the gravity of the situation, it is our understanding that it is necessary to ensure accountability to our stakeholders. Therefore, we launched today a third party committee (the “Third Party Committee”) consisting only of persons who are neutral and fair specialists and fully independent of the Bank, to further investigate the problems and causes of this incident. The Third Party Committee acts in accordance with the “Guidelines for Third Party Committees on Corporate Misconduct”, published by the Japan Federation of Bar Associations and the outcome of the committee's investigation will be promptly published upon completion of the investigation.

The following is a summary of the current situation.

1. Overview of loans related to share houses

As of the end of March 2018, the number of customers who have been granted loans by the Bank for investment in share houses stands at 1,258, and the total amount of loans outstanding from these customers stands at 203,587 million yen. These figures also include share house-related loans that are not related to Smart Days.

2. Support to customers

As a part of the measures taken in respect of share house-related customers, the Bank set up a “Customer Support Team” in December 2017. This team is handling inquiries from customers and is providing consultations for the revision of the repayment conditions under their loans, considering each customer's specific circumstances. The size of the team has been enhanced, and the number of its members now stands at 28.

In order to respond in a sincere and careful manner to those customers who have fallen into difficulties with their loan repayments due to the failure of the sublease operator, the team has been calling each customer to ask to visit the Bank's offices for consultations. The team has already contacted more than 90% of such customers as of today. The team has been proposing the best solutions (i.e., revising loan conditions through, for example, reduction of interest rates or deferral of repayment of the principal) for each customer in accordance with his/her requests, promptly taking the required steps such as execution of the necessary agreements.

The Bank has been making efforts to understand the actual situation in respect of the loans, including conducting a survey by mail in February 2018.

The Bank has taken no legal action at present even where these customers have delayed in their loan repayment.

3. Issues pointed out by the media, etc.

The investigation by the Crisis Management Committee and customer and employee surveys conducted by the Bank reveal that documents certifying the deposit balances of the relevant customers, such as bank books, had been manipulated or fabricated when they applied for loans, and sale and purchase agreements for purposes of "bank submission" (in which the sale prices had been overstated), had been prepared and executed separately from the actual sale and purchase agreements, in order to get higher loan amounts (dual contract).

The possibility that quite a few employees may have been aware of such facts was found.

There are no definite findings with respect to these matters at present, but the Bank is going to request the Third Party Committee to conduct an in-depth investigation including these matters and will provide its full cooperation in such investigation.

4. Issues recognized and measures taken at present

The issues recognized through the investigation of the Crisis Management Committee and our internal investigations, and the improvement measures that we have taken so far are explained below. The Bank will take fundamental improvement measures after identifying the root causes of the problem, based on the results of the Third Party Committee investigation and inspections conducted by the Financial Services Agency (the "FSA").

(1) Sales and screening systems

(i) Issues currently recognized

The Bank has been promoting loans, through real estate agencies (selling through "channels"), related to share houses as a type of loan for investment in real estate, but it has been discovered that wrongful acts had been committed, including overstatement of selling prices (dual contract) and manipulation and fabrication of documents used to verify the amount of customers' own funds. These resulted from our inadequate screening of the risks associated with bad "channels", on which we had relied upon.

Further, due to the pressure to continue further growth of sales and profits year-on-year, substantially more focus was placed on sales than on screening of loan applications and the persons in charge at the sales division also tended to apply pressure on the loan screening division. The Bank recognizes that its loan screening function was not fully functioning under such circumstances.

(ii) Measures currently taken

The Bank managed its sales "channels" by registering information on business operators in its original internal system and determining whether such business operators qualified as sales "channels" based on such information. Although real estate agencies are not borrowers under real estate mortgage loans, the Bank, in response to this incident, will manage its sales "channels" more strictly by enhancing its ability to research and will also make other qualitative improvements by using external research agencies.

The Bank has enhanced its screening function and put a person in charge of both the promotion of sales and the management of operations in the sales division. Chiefs in branches will strictly implement such management process in accordance with internal regulations, thereby performing thorough initial credit management functions and enhancing the self-controlling functions.

(2) Compliance structure

(i) Issues currently recognized

(a) Verification of amount of loan applicants' own funds

Under our internal procedures, original verification documents (such as bank books) must be checked to verify the amount of a loan applicant's own funds, but this procedure was disregarded in many cases. With respect to the own funds held in internet banking accounts, only printed copies of account activity statements displayed on screens on the relevant web sites were used to verify the amount of such funds in many cases.

The Bank has confirmed that certain of its sales employee suspected that documents (such as bank books) used for verification of customers' own funds and other documents submitted to the Bank may have been manipulated and fabricated, and that there is a possibility that a considerable number of the Bank's employees may have been aware of this problem.

A branch requested customers to submit a "Confirmation Letter of Own Funds" signed and sealed by the customers, and such customers provided a breakdown of their own funds by themselves when applying for loans. The branch asked customers to submit such letters to supplement or substitute the Bank's verification of the original copies of verification documents since it was necessary, in an increasing number of cases, to verify the own funds through evidence in respect of internet banking accounts for which no bank book is issued, and due to the substantial clerical work involved, verification using originals of copies of bank books was not carried out thoroughly. Such practices may have resulted in an incomplete verification process.

(b) Execution of land sale agreements

The Bank has confirmed that there were cases where an “agreement for the purpose of bank submission” or “(memorandum on) amendment to agreement” had been executed between each customer and the real estate agency, separately from the actual sale and purchase agreements in order to get excessive loans from the Bank (dual contract).

The Bank did not take sufficient measures against such dual contract practices. However, a considerable number of employees would have been aware of the possibility of the existence of such dual contracts.

(c) Sale of free loans

We proposed term deposits and installment time deposits to prepare for future repair expenses, as we had determined that such deposits were necessary to grant a loan with a term that is longer than the useful life of the relevant building.

Though there was no such reason to propose free loans, we asked customers to take out free loans. In particular, sales employees in our Yokohama-Higashiguchi Branch, together with its sales "channels", sold free loans by way of "tying-up" - making such free loans “a condition for taking up loans related to share houses.”

(d) The Bank recognizes that, overall, as the Bank focused on sales, the poorer recognition of compliance resulted from its chasing after immediate sales became a factor for our failure to operate our business in an adequate and customer-oriented manner.

(ii) Measures currently taken

The Crisis Management Committee also pointed out to the fact that the Bank had failed to undertake “customer-oriented business operations.” Therefore, we will, in addition to re-ensuring our compliance, establish a system to ensure that we operate our business in a thoroughly “customer-oriented” manner.

The Bank will also reinforce its system of thoroughly assessing loan applications by establishing procedures to ensure the verification of our customers' own funds through verification of originals of bank books and other appropriate measures.

In addition, the Bank has introduced an employee performance review system effective from this fiscal year under which the percentage of evaluation items relating to qualitative performance has been increased. This is different from the way we used to review the performance of an employee, which largely focusing on his/her sales results.

(3) Management control system

(i) Issues currently recognized

In the course the financial environment has been drastically changing, the Bank has been pursuing a retail business strategy that focused on the sale of personal loans. Under these situations, we have employed the executive officer system to facilitate the decision-making process and to separate the

execution of business activities from the management of the Bank. This is intended to make clear where decision-making authority belongs.

However, the Bank had considered loans related to share houses just as a type of loan for asset building, and recognizes that the Bank's management failed to comprehend the overall size of such loans and related business risks, which shows inadequacy of the Bank's governance.

(ii) Measures currently taken

In order to ensure that a proper company-wide risk management system is in place, and to enhance corporate governance standards, the Bank has reviewed and restructured its governance organs, especially matters relating to the board of directors, management meetings and executive meetings. Previously, only executive officers participated in executive meetings. However, this system has been changed to have the directors also participate in executive meetings, in order to strengthen the supervision by directors and to enable directors to quickly understand and discuss various issues arising from the promotion of sales or business operations, thereby ensuring strong governance.

The Bank has also reviewed and revised the procedure by which to handle complaints from customers, in order to ensure that complaints received are promptly reported to management.

5. Restructuring the governance system

Subject to elections at the annual shareholders' meeting to be held on June 28, the Bank will elect outside directors and outside auditors to gain the confidence of our customers and various stakeholders, and to improve governance standards.

The Bank is also considering establishing a system under which outside directors should be involved in elections of inside directors in order to entrench and enhance the supervisory function of outside directors.

6. Management responsibility

Once the Bank receives the results of the Third Party Committee investigation and inspection by the FSA, it will take strict actions with respect to the responsibility of its management.

In the meantime, the Bank, with the current management, will fully and sincerely cooperate in the investigation by the Third Party Committee and the inspection by the FSA.

<p>Crisis Management Committee</p> <p>Chair: Hideaki Kubori, Attorney at law (Hibiya Park Law Offices) Member: Tadashi Kunihiro, Attorney at law (T. Kunihiro & Co. Attorneys-at-Law) Member: Tsutomu Miyano, Attorney at law (Anderson Mori & Tomotsune)</p>

<p>Third Party Committee</p>

Chair: Naoto Nakamura, Attorney at law (Nakamura, Tsunoda & Matsumoto)

Member: Hidetaka Nishina, Attorney at law (Same as above)

Member: Kazuhiko Yamada, Attorney at law (Same as above)

Member: Yusaku Kurahashi, Attorney at law (Same as above)

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