

September 7, 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	Executive Officer
General Manager of Management Planning Department		Takeshi Miyajima
		(TEL03-3279-5535)

Receipt of Investigation Report from the Third Party Committee and the Bank's Response Policy

1. Report from the Third Party Committee

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 regarding the series of problems of share house loans.

We hereby publicize the summary of "Investigation Report (the Report)" we have received today from the Third Party Committee.

The results of the Third Party Committee's investigation recognized that many loan screening documents in asset-building loans related to share houses and income-producing buildings were altered and fabricated, where a significant number of employees of the Bank got involved in those wrongdoings and other employees knew or suspected the fact of those fabrications, if not actively involved, while they were handling loan procedures. It was also recognized that there was a problem with combined sales, including a purpose-free loan that does not meet the customer's intention, when executing a loan regarding the above problem. The Committee pointed out that reasons for this problem were excessive business target setting, too much pressure on employees to achieve such targets, lack of independence of loan screening, lack of awareness of compliance, the failure of the Bank's governance, and ultimately the problem resulted from our corporate culture.

We have taken the matters pointed out in the report seriously, and we will make a drastic improvement or change of our corporate culture, make strenuous efforts to ensure compliance awareness and to establish a customer-oriented business management system, and develop a management system where corporate governance functions effectively.

2. Future management system

Taking management responsibility for the series of events, Mitsuyoshi Okano, Representative Director and Chairman, Akihiro Yoneyama, Representative Director and President, Toshihiko Shirai, Representative Senior Managing Director, Kazuya Mochizuki, Senior Managing Director, and Nobuaki Yanagisawa, Managing Director, resigned. As a new management system, Michio Arikuni was appointed as the new Representative Director and President at the Board of Director's meeting today.

In future, we will further strengthen activities of "Reform Committee of Corporate Culture and Governance" chaired by Shione Kinoshita, outside director, consisting of mainly outside directors and outside corporate auditors, that was established in June 2018. This organization will function as a nomination committee and a compensation committee so that we will implement business operations in a similar form of a company with committees. In addition, in order to ensure the Bank's stable management and restore confidence in the future, we have invited Mr. Hiroshi Sasaki (attached resume) as Senior Executive Officer responsible for business reform and appointed seven executive officers within the Bank.

3. Pursuit of management responsibility and discharge of employees who were involved in the wrongdoings

To clarify the responsibility for the series of events, we determined at the general meeting of shareholders this June to establish "Investigation Committee on the Responsibility of Directors, etc." headed by Yoichi Namekata and Emi Noge, both of who are newly appointed outside corporate auditors.

The "Investigation Committee on the Responsibility of Directors, etc." will judge whether or not the management team, including retired directors and executive officers, had legal responsibility and take appropriate actions.

With regard to the auditors' responsibility, based on the resolution of the Board of Director's meeting today, we will establish "Investigation Committee on the Responsibility of Auditors" to judge whether or not they had legal responsibility and take appropriate actions in the same manner towards directors, etc.

When it comes to employees who were involved in wrongdoings, we have established a team of outside lawyers who are now proceeding with procedures, including interviewing the employees, in order to take strict actions as the new management team.

4. Support to owner customers of share houses

We established "Office to Support Customer Owners of Share Houses" in July 2018 that has been providing the customers with financial supports, including lowering loan interest rates and reviewing repayment conditions, considering each customer's specific circumstances. Also, we will provide in-depth support of every possible option as a financial institution, including partial exemption of repayment of the principal amount by using ADR, etc. In addition, since we are receiving proposals for the utilization of share houses and inquiries from outside companies in a variety of business fields, we are preparing to mediate appropriate and possible proposals and inquiries for our customers.

5. Impact on our business results

With respect to impact on the business results of the first half and the consolidated full year of fiscal 2019, in addition to our analysis and examination of the result of the Third Party Committee's investigation that we have received today, we will also examine the results of self-assessment of loans as of September 30, 2018 and disclose promptly if we decide to revise the earnings forecast.

The Bank's non-consolidated capital adequacy ratio as of June 30, 2018 was 12.14%, securing sound management. From now on, taking the matters pointed out by the Third Party Committee seriously, and under the new active management system where we pursue our own business models, all our officers and employees will work together toward drastic reform of our corporate culture and business reform in order to raise awareness of customer-oriented business operations in all businesses. With respect to more specific measures, we would ask your understanding that we will take further consideration in order to clarify them by the time of announcement of the financial results for the first half of fiscal 2018 at the latest.

End

September 7, 2018

Suruga Bank, Ltd. Third Party Committee
Chairman Naoto Nakamura
Member Hidetaka Nishina
Member Kazuhiko Yamada
Member Yusaku Kurahashi

Summary of Results of Investigation

The summary of the results of the survey conducted by the Committee based on the delegation from Suruga Bank, Ltd. ("Bank") is as follows:

1 Problems that occurred

(1) Loss on loans for income-producing real estate

- The Bank posted 42,049 million yen in allowance for doubtful accounts in the fiscal year ended March 2018 regarding share house loans.
- In addition, as for loans for real estate for investment purposes other than share house loans, the Bank posted 16,226 million yen (estimate) in allowance for doubtful accounts because there were risks similar to those for shared house loans, such as attributes of relevant real estate agent, long-term sublease, etc.
- Including the above, by the end of June 2018, the Bank posted 71,796 million yen (estimate) in allowance for doubtful accounts for all loans for income-producing real estate.

(2) Individual wrongdoings, etc.¹ - direct fabrication

- Fabrication of borrower-related materials
 - ✓ At the Bank, since it was the rule to request investors 10% of their own funds in providing loans for income-producing real estate, including share house loans, investors who were not able to prepare 10% of own funds, or real estate agents who wanted to sell real estate to the investors, fabricated data as if the investors had 10% own funds. At the same time, based on the fact that it was regarded as important to have a certain level of financial strength even after the purchase of real estate for loan screening, they fabricated their own funds to show that they still had a reasonable amount of financial assets.
 - ✓ There was also a fabrication to show lots of repayment resources and to make loans exceeding the original limit amount possible by fabricating income-related documents.
 - ✓ As a fabrication of borrower-related materials other than the above, a fabrication of medical certificate, etc. for applying for group credit life insurance was recognized.
- Fabrication of property-related materials
 - ✓ In order to raise the loan limit amount and the mortgage valuation amount by showing a false amount of rent income larger than the actual amount as repayment resource, the act of

¹Include fraudulent acts including illegal acts as well as acts deemed inappropriate that cannot yet be regarded as fraudulent acts, but that could increase the possibility of leading to fraudulent acts.

fabrication of rent roll and sublease contract was carried out for second-hand condominiums and the like. Also for newly constructed income-producing real estate, estimated rents beyond the realistic rent setting were set up for the same reason.

- ✓ In addition to the rent roll that shows only revenue obtained from the property, the business plan after purchasing the property that was required for application for loan approval was also fabricated.
- ✓ It was also revealed that false rent contracts were created and an order was made to the real estate agent to delete information on lessee recruitment for vacant units from the website, in order to surely cover up the fabrication of rent rolls.
- ✓ Some employees of the Bank informed the agent beforehand of the timing of bank examiners of the property heading to the property site. As a result, it became possible for the agent to perform camouflage such as drawing curtains (to show few vacant rooms) for the property on which the inspection was conducted.
- ✓ In addition to this, cases of suspected fabrication of the inspection certificate and the confirmed certificate of the building were also recognized as fabrication of property-related materials.
- Fabrication of transaction-related materials
 - ✓ In the Bank, 90% of the purchase price was, practically speaking, the loan limit amount. In order to evade this rule, a sales contract with a false purchase price was submitted to the Bank, pretending that the actual purchase price was about 90% of the false purchase price. Similarly, there was also a way to conclude a sales contract at a high price, and then to prepare a memorandum of reduction afterwards.
 - ✓ For those who had no own funds, fabrication of a payment receipt of deposit, etc. was also conducted instead of a passbook.
- Spread of document fabrication
 - ✓ A forensic investigation and interview conducted by the Committee have confirmed that many bank employees were involved in fabrication.
 - ✓ The number of cases (number of materials) suspected of fabrication that were detected as a result of the forensic investigation is 795 since 2014.
 - ✓ Apart from the questionnaire by the Committee, in a questionnaire survey conducted by the Bank, many employees of the Bank answered that they fabricated documents by themselves, connived at others' fabrication, or provided loans regardless of suspicion of fabrication.
 - ✓ The forensic investigation, which focused on agents with many transactions, detected many exchanged e-mails containing suspected fabrication, as far as the Committee investigated.
 - ✓ Although it is impossible to count the number of precise fabrication acts, it is recognized that the fabrication of documents spread throughout loans for income-producing real estate.
- Involvement of the Bank's employees in fabrication
 - ✓ In the forensic investigation carried out by this Committee, the employee questionnaire by this Committee, the hearing by the Compliance Department of the Bank, and the interview by this Committee, it is recognized that many sales employees in the Personal Banking Department involved in loan sales while acquiescing fabrication, and in some cases, sales employees were actively involved in fabrication.
 - ✓ Even at the head level (branch manager), it is recognized in some fabrication acts that the head was directly involved in fabrication in the first place. In addition, it is recognized either other employees practically remained silent as to fabrication or tried not to recognize it on their own while knowing of the existence of fabrication (they tried not to see what they did not want to see).
 - ✓ Even among the executive officers at the Personal Banking Department, one executive officer was recognized as having been directly involved in the act of fabrication. Since the other executive officers have relatively recent experience in the post of the head of branch (within

five years), it is also recognized, like the above head officials, either they practically remained silent or tried not to recognize fabrication on their own while knowing of the existence of fabrication.

(3) Individual wrongdoings, etc. - misconduct other than fabrication

- Combined sales
 - ✓ In the Bank, the sales headquarters strongly encouraged all branch offices to make combined sales of unsecured loans (not limited to share house loans) and loans for income-producing real estate (secured with mortgage) on the whole.
 - ✓ In Yokohama-Higashiguchi Branch, the rate of combined sales of a secured loan and an unsecured loan was higher than at other branches. In order to realize this type of sales, they requested Smart Life (currently Smart Days) to promote their share house project with an unsecured loan provided by the Bank as a set.
 - ✓ In addition to the above, combined sales with time deposits and insurance contracts were carried out mechanically, regardless of individual circumstances.
- It is recognized that Yokohama-Higashiguchi Branch was strongly requesting Smart Life to cooperate with the Bank in preventing advance repayment of share house loans in particular, despite no basis under the loan agreement.
- In branch offices of the Bank, many lending projects were realized by matching a seller side agent with a customer side agent. Some employees of the Bank were individually introducing property to real estate agents beyond their job of matching between the two agents.
- Each branch of the sales headquarters openly continued the relationship with the agent (channel), whose transactions were suspended by the Screening Department, through a separate corporation called "Hako."

(4) Individual wrongdoings, etc. - acts to create hotbeds of fraudulent acts, etc.

- At the Bank, employees revealed to agents the requirements for the Bank's loan screening (what kind of case can pass the screening).
- Not only in share house loans but also in loans for income-producing real estate on the whole, it became common that the Bank's employee communicated solely with the agent and met with the borrower only at the conclusion of the loan agreement. Therefore, explanation of the content of the loan and receipt of documents were all conducted through the agent.
- In the Bank, in the case of a borrower who lives distant from the Bank, the Bank's employee went to the vicinity of the borrower's place of residence and conducted a procedure of concluding the loan agreement at a nearby family restaurant, etc. Such transaction called "loan agreement trip" was frequently done. For a loan agreement trip, it became common that the channel (agent) arranging loan projects paid transportation fees to the Bank's employee.
- In the questionnaire survey of the Bank's employees conducted by the Committee, there were no employees who confessed the receipt of kickback payment, but multiple responses indicated that some employees (including retirees) were suspected of receiving such money. However, since the Committee had no authority to ask for the submission of deposit passbooks, etc. from those employees (retirees in particular), the Committee was not able to confirm that those employees actually received money from the agent.

2 Causes of the problems that occurred

(1) Problems in the loan screening system

- The Loan Management Department within the Screening Department collects delinquent loans. Through its duties and functions, the staff recognized the following problems regarding the lending criteria and the loan screening system for loans for income-producing real estate, and pointed them out at the meeting of "Awareness viewed from the exit" that was held with Vice President Okano. However, the problems pointed out at the meeting were neither shared within the Screening Department nor informed to the executive management other than Vice President Okano. The problems were not fully utilized to encourage the verification of the lending criteria and loan screening system for loans for income-producing real estate. From an ex post point of view, if problems pointed out at the meeting had been seriously considered and taken up in the Screening Department and the Sales Planning Department as well as at management meetings and the Board of Directors, the loan screening system of the Bank could have been improved at an earlier stage.
- ✓ In providing loans for income-producing real estate, there were apparently problems, including doubtful rent rolls, severity of vacancy risk of a property, the risk of regarding 70% of the rent income from assumed full occupancy of the property as repayment resources, divergence trend of the evaluation amount of mortgage from its actual price, and inappropriate investment decisions arising from an excessive dependence on the rent income guarantee. In addition, verification materials of borrowers' own funds in almost all the delinquent loans for income-producing real estate were fictional or fabricated.
- ✓ In the meeting material for "Awareness viewed from the exit" held on April 18, 2016, there was a statement that it is planned to monitor trends of share house projects in the future. This statement was made in view that the amount of share house loans at Yokohama-Higashiguchi Branch began to increase rapidly immediately after the branch manager changed, which was seen as an abnormal figure to the Loan Management Department.
- ✓ Risks of loans for income-producing real estate include (1) fluctuation risk of repayment resources (annual income and rent income), (2) mortgage valuation based on the earnings capitalization method tends to deviate from the actual price, (3) some investments in income-producing real estate were made by customers who lack appropriate judgment, (4) there is a possibility of inappropriate solicitation or misconduct by a bad channel, and (5) there is overconfidence in rent guarantee and sublease.
- Despite the following serious risks in the share house loan, the existing handling procedure for apartment loans was applied to the share house loan at the Bank when the loan system started, and then the handling procedure for asset-building loans was applied, where the loan system was not examined as an original new product. Some employees in charge of loan screening seemed to have suspected the rationality of the business model from the beginning when the share house loan system started. If so, the share house loan should have been examined and verified as an original new product.
- ✓ Fluctuation risk of repayment resources
Share house loans were provided based on the lending criteria that allowed an annual repayment amount to the extent that "40% of annual income plus 70% of the rent income from assumed full occupancy of the property" was regarded as repayment resources. However, it is not realistic to maintain the current annual income over a long period of 30 to 35 years. Also, with respect to 70% of the rent income from assumed full occupancy of the property, the remaining 30% of the rent income were supposed to cover vacancy risk, rent declining risk, and burden of repair expenses and property tax, etc. However, there is concern whether only 30% of the total rent income from assumed full occupancy of the property can cover all of these risks and cost burdens. Actually, in the most recent situation, approximately

half of the completed properties with confirmed occupancy status have an occupancy rate of the share house of 50% or less. It became clear after the fact that the weighting of 70% of the rent income from assumed full occupancy of the property was insufficient to consider the vacancy risk.

- ✓ Deviation between the valuation of mortgage and the actual market price by earnings capitalization method

For share house loans, the Bank permitted the loan amount up to 100% of the valuation of mortgage based on the earnings capitalization method. Particularly, since the structure of the building of share house is special and unique, when the business model of share house collapses, it is expected that the market value of mortgage will drop sharply because the building cannot meet the market needs. There is concern that mortgage valuation by the earnings capitalization method will deviate from the actual market value at the time of disposal of mortgage. In fact, as a result of extracting and verifying 127 cases of share house loans, the valuation of property by the earnings capitalization method is 1.7 times higher on average than that by the accumulation method, and thus there is concern that a loan loss may increase at the time of disposal of mortgage.

- ✓ Amplified risk by subleasing

If a property is subleased, the subleasing period is limited to five to ten years, which originally does not cover the long-term repayment period of 35 years. There may be subleasing for a long period of 30 years, but if the business model of share house collapses, the financial soundness of the sublease company will be damaged at the same time, and rent guarantee by subleasing can no longer be obtained. Despite these concerns, rent guarantee by sublease was disseminated, distorting investors' investment decisions, where there is a fear of inducing loan application exceeding repayment capacity. There is also a problem that it becomes impossible to diversify the portfolio due to the concentration of subleasing in a specific sublease company. Actually, a share house operator went bankrupt after operating on a shoestring. It became clear after the fact that the Bank should have carefully verified the financial soundness of the sublease company.

- Even if the share house loan could have been handled as a pilot product at the initial stage, the risk of share house loans was recognized as described below by some employees in the Screening Department from mid-2015 to 2016. In response to the emergence of these risks, the Bank should have promptly tightened the lending criteria and considered discontinuation of share house loans, but such measures were not taken.
- ✓ The Bank started conducting periodic inspections of income-producing buildings from October 2013, and started inspection of the property of share house from around April 2015. As a result, from the middle of 2015, it was becoming apparent at the person-in-charge level that the occupancy status of share house was unfavorable.
- ✓ At the share house meeting in May 2016, the risk of share house loans was clearly analyzed and the risk of subleasing company falling into operating on a shoestring was pointed out. However, at the request of the sales side of the Bank, the Bank adopted the policy to continue share house loans by limiting the sales areas and agents.
- ✓ Since it was apparent at the person-in-charge level at least in mid-2015 that the vacancy risk was significant, and the risk characteristics of share house loans were more clearly pointed out at the share house meeting in May 2016, it can be said that measures, including tightening of lending criteria and discontinuance of handling share house loans, should have been taken promptly.
- In 2015, Vice President Okano instructed employees to stop transactions with Smart Life, but the instructions were made only orally, and in fact transactions continued with another company in a circumventing way. When an employee in the Screening Department inspected the actual site, he seemed to begin to gradually suspect that

transactions with Smart Life practically continued because he saw a sign of "Kabocha no Basha" at the site. However, he was not able to sufficiently point out the doubt to the sales employees, and as a result, a large number of share house loans with Smart Life as the sublease company continued.

- The above-mentioned problems concerning loans for income-producing real estate, including share house loans, were grasped and recognized by employees in the Screening Department from an early stage. However, as explained below, the independence of loan screening from the sales side was not secured and the Screening Department did not function effectively. As a result, problematic loans in terms of credit risk and customer protection were executed.
- ✓ Even if an employee in the Screening Department pointed out to the sales employees about doubt of fabrication of the rent roll, etc., it was immediately rebutted. When he repeated the doubt, the branch manager overbearingly argued him down, and finally Mr. Aso (former Senior Managing Executive Officer/Co-COO) directly negotiated with the General Manager of the Second Screening Department as well as the General Manager of the Screening Department and pushed them to approve the Ringi (request for approval).
- ✓ Some executives and employees of the Screening Department expressed Mr. Aso's overbearing attitude as intimidation. (On the other hand, some other employees in charge of screening referred to the characteristics of Mr. Aso by saying "Rather than intimidation, no matter what I pointed out, he rebutted and our discussion ended up without any progress. Eventually he persisted in his opinions in most cases. ")
- ✓ Although an employee in the Screening Department seemed to have stated negative opinions to the sales employee, eventually, Mr. Aso strictly questioned and pushed the General Manager of the Second Screening Department to approve the Ringi. Sales employees and branch managers used the fact of consultation with Mr. Aso as a deciding factor in discussing with employees in the Screening Department. The branch manager of Yokohama-Higashiguchi Branch stated "Consulted with Personal Banking Department" at the head of the Ringi application, pressuring the Screening Department to approve the Ringi.
- ✓ In the cases where the Ringi was approved despite the negative opinion of an employee in the Screening Department, some employees in the Screening Department left their review opinions as a record exclusively for the Screening Department, and the number of cases exceeds 200. The content of opinions includes many similar comments stating, "There is doubt about rent setting." This indicates the possibility that many loans were executed, regardless of doubts about the validity of rent roll.
- ✓ As described above, even if an employee in the Screening Department gives a negative opinion from a perspective of loan screening, the opinion of the sales side was eventually pushed through and the loan was executed in most cases, and the average approval rate of asset-building loans for every half year from the starting year of 2015 to the first half of fiscal 2017 was constantly in excess of 99.0%. In terms of loans for income-producing real estate on the whole, the average approval rate for every half year was at 80 to 90% in the first half of fiscal 2008 to the first half of fiscal 2010, while after the second half of fiscal 2010, it began to rise to more than 90%, and after the second half of fiscal 2014, it remained at more than 99%. Such rising approval rate and continuing high approval rate are considered to indicate that the independence of screening gradually deteriorated.
- ✓ In addition to the procedure for approving each individual loan mentioned above, there were many cases where priority was given to the intention of the Sales Planning Department and the sales headquarters rather than to loan screening when considering formulation of the lending criteria. For example, in 2014, documents to be sent to the Screening Department were simplified and it was decided not to send verification documents for the applicant's own funds to the Screening Department, but this procedural change was at the request of the Sales

Planning Department. It was also at the discretion of Mr. Aso that the policy of share house loans was determined at the share house meeting in May 2016.

- ✓ As described above, independence of the loan screening from the sales side was not secured, both in formulating the lending criteria and in an individual credit judgment, resulting in the spread of many fraudulent acts, and the failure of credit risk management.

(2) Sales problems

➤ Pressure from the sales side

- ✓ Bank's single-year business objectives (sales promotion items) were formulated in a top-down manner without listening to opinions of employees at branches, making a tough sales quota that did not take into consideration the actual condition of the sales field.
- ✓ Furthermore, in the headquarters organizations, including the Sales Planning Department, which formulate sales promotion items, there was no mechanism to monitor the progress of sales promotion items, and it was not verified whether the objectives were excessive and there was risk of producing distortion at branches.
- ✓ For promotion items (net increase objective), which included loans for income-producing real estate that seems to have supported the profit of the Bank in recent years, they depended on the Personal Banking Department at an extremely high proportion each year (100% in a certain fiscal year).
- ✓ The Personal Banking Department that was imposed with such high business objectives set separate higher sales quotas (stretched objectives) other than the official sales promotion items, and imposed them on sales bases of the Personal Banking Department. In order to achieve the higher objectives, the Personal Banking Department put high pressure on the chiefs of the sales bases at center chief meetings, etc.

➤ Efficiency-oriented and dependence on channels

- ✓ In the Bank, extreme formalism (the notion that it is enough to have necessary documents) prevailed. As a result, as for loans for income-producing real estate, the employee's sense of lending money to the borrower diminished because once the value of the property was appraised, the amount of the loan would be determined easily.
- ✓ As a result of formalism, since it was more efficient to collect necessary documents from the agent who was accustomed to the loan procedure than from the borrower, collection of documents from the agent became standard, and the Bank's employee met with the borrower only when concluding a loan agreement.
- ✓ Also, as a result of formalism, based on an idea that if the Bank tells the agent the loan requirements from the beginning, only loan applications that satisfy the loan requirements will be submitted to the Bank; the number of rejection cases will be reduced; and there will be no waste in the Bank's procedures, the loan requirements were often disclosed to the agent, making it possible for the agent to fabricate evidence that meets the loan screening requirements.
- ✓ As a result of the emphasis on efficiency as described above, the Bank was in a situation where it was difficult to execute loans without working with agents (channels).
- ✓ The agent side had the recognition that the Bank depending on the agent would accept even a somewhat impossible application, and the Bank fell into a vicious cycle where difficult applications that normally would be rejected were brought to the Bank.
- ✓ Employees of the Bank fell into the ideas that even if the agent submitted suspected fabrication of evidence to the Bank, (1) it would become extremely difficult to achieve his or her quota if the Bank refused the agent's request, (2) even if he or she refused it, if it would be taken up by another branch, eventually it would become a loan of the Bank and the other branch would be praised for achieving the quota, and such ideas created the ground to justify taking up even such a difficult application without rejection.

- Inadequate management of agents
 - ✓ The Bank had in place a channel management system called Channel PRM, but because the rules of registration to the system were not clear, it was not able to properly eliminate an agent that would bring fabricated documents to the Bank.
 - ✓ Even if the Bank ceased to do business with the agent, the agent side soon tried to approach the Bank by establishing another company or transferring to another existing real estate agent as if it was a cat-and-mouse game.
 - ✓ As a result, the Bank, as a whole, was not able to properly manage agents and not able to exterminate relationships with malicious agents.
- Diversification of wrongdoings
 - ✓ Because wrongdoings, etc. carried out in this case were diverse, it seems there were many cases where the Bank's employees themselves were actively involved, cases where they remained silent, and cases where lending was carried out even if they had doubts. It is also considered that there were many fabrications that were conducted while the Bank's employees themselves did not notice them.
- Share house loans
 - ✓ Factors that are considered to be the main reasons for the occurrence of share house loans are not necessarily unique to share house loans. The reason why the current situation occurred is considered that the numerous problems seen in loans for income-producing real estate in general were the same as those in the case of share house.

(3) **Problem of the internal audit system**

- The internal audit by the Audit Department, based on the audit plan, audit policy, and audit checklist prepared in advance, was limited only to formal and external confirmations, including the development of internal regulations, and an effective internal business audit was not carried out, and signs of numerous wrongdoings and the failure of the screening function were overlooked.
- In fact, when the Committee interviewed several of the Bank's executives and employees who audited internal business from 2014 to 2017, none of them understood or recognized the following important incidents.
 - ✓ From around 2015, share house loans had been rapidly increasing.
 - ✓ There were a lot of fabrications of verification documents for the applicant's own funds and rent rolls when applying for loans for income-producing real estate.
 - ✓ The Loan Management Department and the Vice President held a meeting of "Awareness viewed from the exit" and they understood many problems of loan screening from the loan management viewpoint.
 - ✓ Inspection of properties regarding loans for income-producing real estate was conducted by the Screening Department, and with regard to the share house loan as of September 2015, it was believed that the vacancy rate would remain at only 50% at many properties.
 - ✓ For loans for income-producing real estate executed by Yokohama-Higashiguchi Branch, they stated "Consulted with PB" on the Ringi and effective screening was not conducted.
 - ✓ Despite problems pointed out and objection by the Screening Department, priority was given to the intention of the sales side and many loans were executed, and the Screening Department recorded a lot of doubts about executing loans within the automatic screening system to leave its evidence of the problems and their opinions.
 - ✓ Although the share house meeting was held in 2016 and they understood the risks specific to the share house loan, they determined to continue the share house loan.
- These important facts were recognized by a large number of employees in the Screening Department, and if the corporate auditors had grasped signs of the facts by practically interviewing them at the time of internal business audit and reported the same to the

management meeting, etc., they could have improved the failure of screening function earlier. However, these signs were not grasped in the internal business audit.

- As described above, merely formal and clerical confirmation of the checklist is considered to have hindered effective auditing.
- As other factors of why an effective audit was not conducted, the following are pointed out.
 - ✓ The General Manager of the Audit Department was not authorized to attend important internal meetings.
 - ✓ The Audit Department was not incorporated into the reporting line of important information, and did not actively collect important information.
 - ✓ The audit targets were limited.
 - ✓ The internal business audit was passive and followed precedents.

(4) Control environment (corporate culture)

- In light of the following points, we have to say that the Bank remarkably lacks awareness of compliance and it experienced remarkable deterioration of the control environment (corporate culture).
 - ✓ Many wrongdoings/unjust acts (see 1 above).
 - ✓ These wrongdoings were organized, initiative, and continued for a long time.
 - ✓ Those were not for the Bank or for customers.
 - ✓ Although so many unauthorized acts continued and spread across multiple branches over a long time, no whistleblower appeared.
- The personnel evaluation system had the following problems.
 - ✓ Direct proposal for personnel change concerning department outside his/her jurisdiction was tolerated, ignoring the authority.
 - ✓ Promotion and the promotion criteria became a matter of formality.
 - ✓ With respect to personnel changes, they were not reported even to the relevant directors. In addition, important personnel changes were determined by the "personnel meeting" without rule base while being unchecked.
 - ✓ As a result, personnel changes based on over-emphasis on sales promotion (Personal Banking Department centered) were implemented. Specifically, personnel resources Mr. Aso needed concentrated in the Personal Banking Department, and Mr. Aso, who had no authority to allocate the staff in the Screening Department, drafted the allocation and managed them.
 - ✓ The bonus system was extremely short-term results-linked.

(5) Governance problem

- The Board of Directors did not fulfill its responsibility with respect to any of (1) monitoring for management, (2) building and monitoring of internal control systems, and (3) decision-making on important business execution matters.
- In the first place, there were problems in building organizations, including (1) positioning of the Board of Directors, (2) positioning of the management meeting, (3) positioning of the executive meeting, (4) positioning of various risk committees, (5) positioning of CEO and COO, (6) positioning of directors responsible for each business operation, and (7) positioning of outside officers.
- There were many problems with the duties of the corporate auditors. For instance, when they went to branches to audit, even though they grasped signs of risks, they did not properly investigate them and neglected reporting them to outside corporate auditors.

(6) Composition of this matter - transformed Personal Banking Department into a sacred place and its essential issues

- As mentioned in (2) above, it is no exaggeration to say that Personal Banking Department was creating Bank's business results alone and the Bank strongly depended on Personal Banking Department.
- As a result, the recognition that Personal Banking Department is creating the whole business performance expanded within the Bank, and naturally it strengthened Personal Banking Department's voice and the situation escalated.
- However, even though Mr. Aso had strong power, he was only an executive officer (an employed "worker"), and there were many higher ranking officers as well as the Okano brothers, the founder's family members.
- Board members who are superior and responsible for each department were not on the management line and execution duties were left almost entirely to the executive officers. The Board of Directors and outside officers were not informed of the sales targets for a single fiscal year and even the medium-term business plan.
- Top management of the Bank had completely controlled the Bank as a whole against the backdrop of the shareholding ratio and the founder's power. On the other hand, the sales divisions at branches left sales promotion to sales employees who had strong sales promotion capability and strictly requested them to increase sales figures. Their personnel treatment depended on sales results. Management members did not get deeply involved in the business execution, creating layers of barriers to cut off information.
- The main reasons why the sales headquarters repeated deviant actions were cut-off, noninterference, and allowance, which may be taken as intentional.
- We should say that this case was the result of a created convenient system for the top management such as "limited sacred place" and "irresponsible sales promotion system."

(7) Management's response and problems after the problem surfaced

- As SAKT Investment Partners was seized by the National Tax Agency in February 2017, the management of the Bank gradually got involved in the problem of the share house. However, their involvement was nothing but stray. They could not clarify where the problem existed. They were swayed by the sales headquarters. Without making proper decision, instructions, or order, the Risk Management Committee was established in January 2018.
- From this series of responses, we can see that (1) the management attitude lacked consistent and proactive response, (2) lacked sensitivity to risks and knowledge of work, (3) lacked awareness of appropriately recognizing and responding properly to acts of violating business instructions, and (4) the internal control related to the decision-making in the Bank was not properly developed and operated.

3 Legal responsibility of concerned people and presence of management responsibility

(1) Chairman Okano

- There is no evidence that he specifically knew or could have known individual wrongdoing or risks related to share house loans.
- Meanwhile, with regard to the following points (hereinafter also referred to as "actions after the problem discovery"), it is recognized that he had a violation of duty of due care of a prudent manager (partial violation of law).
- ✓ As a result of the 4th meeting on SAKT Investment Partners held on July 5, 2017, they recognized that the risks and problems of share house loans were identified, creating a serious problem that could cause significant damage to the Bank. Nevertheless, they neglected to report and discuss the problem by holding a meeting of the Board of Directors and to

immediately inform the corporate auditors (Article 357 of the Companies Act).

- ✓ At the Board of Directors' meeting held on October 19, 2017, they did not ask the director in charge to provide a sufficient explanation of the above-mentioned problem and he did not explain on his own initiative.
- ✓ In the management meeting on October 19, 2017, despite the revision of the lending criteria (conditions such as business history for more than 5 years, collective execution of loan at the completion of property), they were practically reversed at the in-house meeting on 31st of the same month, and they did not rectify it while recognizing violation of the resolution of the management meeting.
- Regarding the fact that they constructed a corporate mechanism as described as "composition of this matter," we do not recognize his legal responsibility, but he has the same heaviest management responsibility regarding the various factors as the late Vice President Okano.

(2) President Yoneyama

- There is no evidence that he specifically knew or could have known individual wrongdoing or risks related to share house loans.
- Meanwhile, with regard to his actions after the problem discovery, it is recognized that he had a violation of duty of due care of a prudent manager (partial violation of law).
- Regarding the fact that he constructed a corporate mechanism as described as "composition of this matter," we do not recognize his legal responsibility, but as he was Representative Director since June 2016 and he was the Chief Operating Officer (COO) since April 2017, he cannot be relieved from a certain management responsibility after being appointed (however, it is too much to say that his management responsibility is "heavy").

(3) Late Vice President Okano

- For many years from April 1998 to July 2016 when he passed away, he was practically a top decision-maker for the overall business execution of the Bank. There are many problem factors, because he was mainly responsible for building the "composition of this matter" resulting from (1) personnel affairs placing extreme emphasis on sales, (2) excessive business targets, (3) creating organizational climate of emphasis on sales and little emphasis on compliance, (4) weakened screening divisions, etc.
- However, in light of the fact that these factors rely on the results of interviews with the present executives and employees, that he passed away and cannot explain himself, and that it is no longer possible to pursue his responsibility, etc., the Committee reserves judgment on his legal responsibility.
- However, it is easily recognized that he had management responsibility because he was the principal responsible person who created the "composition of the matter" and caused a significant deterioration of the corporate culture.

(4) Senior Managing Director Shirai

- With regard to his actions after the problem discovery, it is recognized that he had a violation of duty of due care of a prudent manager (partial violation of law).
- Although we cannot recognize his legal liability for building the corporate mechanism as described as "composition of this matter," we cannot say that he fully fulfilled his responsibilities as Senior Managing Director (Representative Director), and we say he has management responsibility in light of the facts that (1) he could have had opportunities to recognize a suspicion of fabrication of verification documents for the applicant's own-funds as the director who was responsible for compliance, (2) lack of

appropriate response to the inadequate in-house dissemination of the cease of transactions with Smart Life, (3) as the director who was responsible for the Personnel Department, he left the situation as was that no report on personnel change was made to himself, and (4) "customer's opinions" and the whistleblowing system were not appropriately utilized.

(5) Senior Managing Director Mochizuki

- There is no evidence that he specifically knew or could have known of individual wrongdoing.
- Meanwhile, with regard to his actions after the problem discovery, it is recognized that he had a violation of duty of due care of a prudent manager (partial violation of law).
- Although we cannot recognize his legal liability for building the corporate mechanism as described as "composition of this matter," he was Senior Managing Director since June 2011, and as CFO he regularly received reports on financial figures and was in a position to be able to access various information in the Bank, and therefore we cannot say that he fully fulfilled his responsibilities as Senior Managing Director, and we say that he has management responsibility.

(6) Mr. Okazaki (former Senior Managing Director)

- There is no evidence that he specifically knew or could have known of individual wrongdoing.
- However, regarding the following matters, it is recognized that he neglected his duties as a director of sales administration.
 - ✓ Despite having an obligation to monitor sales performance including information that leads to sales strategy, he neglected it.
 - ✓ Although he recognized, from his many years of experience in the sales field, that there was a possibility that agents (channels) would create incorrect evidence and bring it to the Bank, and that there was a risk that once an agent who got banned from entering the Bank would approach the Bank again in the form of another corporation, he neglected to monitor whether or not the sales headquarters built and operated internal controls to respond to these risks (internal control to prevent increase in inappropriate financing).
- Regarding the following matters, it is recognized that he neglected his duties as a director serving as General Manager of the sales headquarters.
 - ✓ He neglected his duties to establish and operate necessary internal controls at the sales headquarters.
- In addition, with regard to his actions after the problem discovery, it is recognized that he had a violation of duty of due care of a prudent manager (partial violation of law).
- Furthermore, among the factors that created the "composition of this matter," it was no one but Mr. Okazaki who created the cut-off of information between the sales headquarters and the management team. His management responsibility is heavy next to that of the late Vice President Okano.

(7) Managing Director Yanagisawa

- With regard to his actions after the problem discovery, it is recognized that he had a violation of duty of due care of a prudent manager (partial violation of law).
- Before taking office as Managing Director (June 2017), he was appointed as an executive officer serving as General Manager of the Screening Department, Managing Executive Officer serving as General Manager of the Screening Department, and Managing Executive Officer responsible for the Screening Department. Even though he

had the following recognition, he failed to take appropriate responses and it is recognized that he had a violation of duty of due care of a prudent executive officer.

- ✓ He was reported problems at sales fields ascertained by the Loan Management Department in the Screening Department, including doubts about the validity of the rent roll, and fabricated verification documents for the applicant's own-funds.
- ✓ While he was aware of the necessity of scrutinizing the occupancy rate of share houses and the risk of subleasing company falling into operating on a shoestring, he recognized the sales field situation that it was difficult to visually confirm the details of occupancy of share houses.
- ✓ He recognized that share house loans had totally different risk characteristics from other asset-building loans.
- ✓ He recognized the situation that priority was given to opinions of the sales side rather than opinions of the screening side. For example, when opinions conflicted between a screening employee and a sales employee, loans were executed in most cases.
- On the other hand, after taking office as Managing Director in June 2017, he voluntarily raised a question with materials named "problems of share house," and proposed tightening of loan requirements at the Credit Risk Committee. He actively acted to rectify the entire loans for income-producing real estate.
- In addition, when he took office as a director, the "composition of this matter" had already been completed, and no contribution to the creation was recognized. He is not responsible for "the composition of this matter."

(8) Director Yagi

- There is no evidence that he specifically knew or could have known individual wrongdoing or risks related to share house loans.
- On the other hand, as a director responsible for the Screening Department, it is recognized that unusual information related to his own responsible department was accumulated to him. By around the end of 2016, it was necessary for him to investigate appropriately how far the problem was spreading, or he should have ordered the General Manager of the Screening Department to investigate the problem, but did not do either of them. We should say that he neglected his duties as the director of the administration.
- Regarding the fact that he constructed a corporate mechanism as described as "composition of this matter," we do not recognize his legal responsibility, but as he was a director since June 2012 and he was responsible for the screening divisions, he has a certain amount of management responsibility.

(9) Director Arikuni

- There is no evidence that he specifically knew or could have known individual wrongdoing or risks related to share house loans.
- After taking office as a director in June 2016, he served as CRO (Chief Risk Officer) responsible for the Audit Department, the Systems Department, Systems Department and Business Operation Department, and Loan Management Department. With respect to these duties as director, it is not recognized that he had a clear violation of duty of due care of a prudent director.
- Before joining the Board of Directors, he served as the General Manager of the Casting Department (present Personnel Department) of the Management Planning Department, and recognized various problems related to personnel affairs (see 2 (4) above). In particular, despite the fact that the loan screening became ineffective because the intention of the sales side was reflected in the personnel affairs of the Screening Department and he recognized the possibility of the development of credit risk, he did

not attempt to rectify the problem by reporting it to the Board of Directors without delay. He cannot be relieved from a certain amount of management responsibility even though we cannot conclude that he had a clear violation of duty of due care of a prudent director.

(10) Mr. Aso (former Senior Managing Executive Officer/Co-COO)

- With respect to the following points, etc., he violated the duty of care as an executive officer of the sales headquarters.
 - ✓ He intervened in personnel affairs of the Screening Department.
 - ✓ Regarding share house loans, despite the discussion about the fact that structural problems and risks were extremely large, he just took limited countermeasures and further promoted share house loans.
 - ✓ Although he knew that branches were conducting transactions with Smart Life against the instructions of the late Vice President Okano, he did not stop that or take appropriate measures.
 - ✓ Despite the decision to make the loan requirements tighter at the management meeting on October 19, 2017, he got involved in setting up a procedure, conflicting with the above decision, at the in-house meeting on October 31 of the same year, and later he actually applied for approval of loan, which was a violation of the resolution of the management meeting, and had it executed.
 - ✓ Despite the growing risks of loans for income-producing real estate, he neglected the obligation to conduct necessary supervision at the sales headquarters.
- Besides this, his other actions were: repeatedly reprimanding at the center chief meeting, strict order given to promote sales, strong demand for approval of Ringi by the Screening Department, etc. We cannot say that these invited violation of duty of care immediately, but we cannot deny that they caused deterioration of corporate culture, and he contributed to the remarkable deterioration of the corporate culture of the Bank.
- Meanwhile, he was not a member of the management team of the Bank where information was cut off. We should say that he was in a position to dedicate himself to promote sales under the management team that did not clearly intervene in the sales field. Therefore, he is not the mastermind who created the "composition of this matter," and it is harsh on him to say that he should assume responsibility for the composition (it is the responsibility of top management).

(11) Internal corporate auditors

- With regard to the following points, etc., it is recognized that they had a violation of duty of due care of prudent corporate auditors.
 - ✓ Since there were opportunities to recognize the signs of the problem in the borrower of a large amount of relevant loan, they should have properly investigated it at each time, but they didn't.
 - ✓ Despite the fact that the management meeting made a decision that would have a significant impact on management, they did not make an appropriate report to the Board of Corporate Auditors.
 - ✓ Recognizing that an informal in-house meeting decided to set up a procedure to overturn the decision of the management meeting, they did not notify this to the outside corporate auditors, nor to the Board of Corporate Auditors.
 - ✓ Although they obtained a list of problematic employees, they neither made any specific investigation, nor reported to outside corporate auditors.

(12) Outside directors and outside corporate auditors

- There is no evidence that they specifically knew or could have known individual wrongdoing or risks related to share house loans. Also, we cannot find the situation that even though they knew or could have known specifically the essential problem described as "composition of this matter," they left it as was. It is not recognized that they have legal responsibility.

End

Hiroshi Sasaki

■Business Experience

1978 Long-Term Credit Bank of Japan, Ltd.(LTCB)
1981 Ministry of Finance, Japan (Two year transfer)
1983 International Financial Division, LTCB
1992 Deputy General Manager, New York branch, LTCB
1996 Associate General Manager, Securities Business Division, LTCB
1998 General Manager, Americas Headquarter Division, LTCB
1999 General Manager, International Business Division, LTCB
2000 General Manager, Financial Development Division, Shinsei Bank, Ltd.
2001 President and Representative Director, Shinsei Securities Co., Ltd.
2004 General Manager, European Investment Planning Division, Shinsei Bank, Ltd.,
2004 President and Representative Director, Shinsei International, Ltd. (London)
2006 Chairman and Representative Director, Shinsei Macquarie Advisory, Ltd.
2007 Board Director, Kirayaka Bank, Ltd.
2008 Representative Director, Kirayaka Bank, Ltd.
2009 Board Director, Nangoku Corporation Co.,Ltd.
2010 Trustee Representative, Anabuki Construction Inc.
2011 President and Representative Director, Anabuki Construction Inc.
2013 Special Advisor, J-Will Advance, Ltd.
2014 Board Director, ND Software, Ltd.
2018 Resigned, Executive Director, J-Will Advance, Ltd.
Resigned, Board Director, ND Software, Ltd.

■Education

1978 Graduated from the Faculty of Laws, The University of Tokyo

■Date of Birth June 8, 1953

■Place of Birth Shimane prefecture, Japan