

Message from the President

On behalf of the Shoko Chukin Bank, I would like to take this opportunity to thank all of our stakeholders for their continued support and understanding.

We would like to once again offer our sincere apology for causing a great deal of inconvenience and concern to our customers and shareholders, as well as to a Japanese citizen, concerning the misconduct in our crisis response operations. Our entire organization will sincerely reflect on this misconduct, and all of the officers and employees of the Bank will work together to steadily implement measures to prevent recurrence, including strengthening our governance framework and restoring compliance.

Shoko Chukin Bank takes seriously the suggestions of the Board to Examine the Shoko Chukin Bank's Way of Being and the opinions of the Evaluation Committee Regarding Management and Crisis Response Operations at the Shoko Chukin Bank. In light of these suggestions, and based on the second Administrative Order from the ministries in charge on October 25, 2017, we submitted an Operation Improvement Plan Related to Our Business Model, etc., which includes "development of a sustainable business model based on the Bank's purpose of complementing private-sector business" and "construction of the Bank's new operational and management system, including strengthening of the rights and privileges of the Board of Directors and employment of external human resources" to the ministries in charge on May 22, 2018.

Based on the identity of the Shoko Chukin Bank as a financial institution run by SMEs for SMEs, we pursue cooperation and collaboration with regional financial institutions based on relationships of trust, and prioritize efforts to resolve issues that SMEs are facing from a truly customer-oriented viewpoint. We will work to recover the people's trust by contributing to the revitalization of regional economy through these efforts.

Financial and Economic Environment

The Japanese economy in fiscal 2017 continued a gradual recovery. Despite temporary downward pressure seen at some points due to weather conditions such as prolonged rain and heavy snow, demand remained generally stable both in Japan and overseas.

The business confidence of SMEs was on a track toward improvement, according to the Bank of Japan's Short-Term Economic Survey of Enterprises in Japan (Tankan). On the Shoko Chukin Bank's Survey of SME Capital Investment Trends, the proportion of companies that responded that they are making capital investments has risen gradually, and the willingness of SME to make capital investment showed improvement. Meanwhile, there are rising concerns regarding the labor shortage and an increase in the burden of personnel costs.

Overview of Fiscal 2017

Amid this environment, the Shoko Chukin Bank assigned top priority to efforts to clarify the full picture regarding the misconduct in crisis response operations, and to steadily implement recurrence prevention measures. At the same time, we worked to contribute to the enhancement of the corporate value of SMEs and SME cooperatives and revitalize local communities by fulfilling our safety net function and carrying out activities to provide information and solutions, taking the management needs of our customers as our starting point in line with changes in the environment surrounding SMEs.

Income before income taxes and other of ¥56.9 billion and net income of ¥36.2 billion were recorded, reflecting factors such as the posting of a reversal of reserve for possible loan losses, despite a decrease in interest income due to factors such as declining returns amid a low-interest environment. We are grateful for the support of our shareholders and clients in enabling us to achieve these results.

Future Operating Performance and Management

We will sincerely reflect on the business operations of the Shoko Chukin Bank that led to the misconduct in crisis response operations, and work to steadily implement recurrence prevention measures. All officers and employees of the Shoko Chukin Bank Group will work together on “reform through dismantling,” sharing a commitment to building a new business model that will deepen our relationships with customers and contribute to the enhancement of the corporate value of SMEs that face difficult management issues, from a truly customer-oriented, long-term viewpoint.

First of all, with regard to restoring compliance awareness, we will make all of our employees aware of compliance by formulating a Code of Ethics and Code of Behavior, and by carrying out ongoing educational training to achieve reforms of our organizational culture and awareness. In doing so, we will establish mechanisms that prevent the occurrence of misconduct, and realize and firmly establish business operations that put compliance first.

Going forward, the Shoko Chukin Bank will transform into a “comprehensive financial services business to support management,” leveraging the Bank’s unique characteristics such as its track record and expertise as a financial institution dedicated to SMEs, as well as its domestic and overseas networks. Specifically, we will emphasize efforts to provide problem-solving, high value-added services for SMEs that need management improvement, business revitalization, or business succession, and for SMEs that are facing challenges in their efforts to launch high-risk businesses. In this manner, we will contribute to the further revitalization of regional finance.

Furthermore, in order to realize such a sustainable business model, we will drastically reform the operational, organizational, and human resources systems of the Shoko Chukin Bank, and carry out exhaustive enhancement and streamlining of both

management and operations. In addition, we will strive to build a new governance framework, including renewal of the management structure and reinforcement of the Board of Directors’ functions.

Through these measures, we will fulfill the Shoko Chukin Bank’s mission to contribute to the sustainable growth of SMEs and SME cooperatives.

In Closing

Returning to the Bank’s starting point of facilitating SME finance and contributing to the growth and development of SMEs, it will swiftly implement necessary reforms and do its utmost to win back the trust of stakeholders, with each and every member of the Shoko Chukin Bank Group working together to achieve this goal.

We would like to express our gratitude for your patronage thus far, and ask for your continuing strong support.



July 2018
Masahiro Sekine
 President
 The Shoko Chukin Bank, Ltd.