

## Misconduct in Crisis Response Operations

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 the people, concerning the misconduct in our crisis response operations.

The Shoko Chukin Bank received a second Administrative Order on October 25, 2017 from the Ministry of Economy, Trade and Industry, the Ministry of Finance, the Financial Services Agency, and the Ministry of Agriculture, Forestry and Fisheries of Japan, due to the widespread occurrence of misconduct, including falsification of the requisite documents for screening of the eligibility requirements for crisis response operations, in addition to inappropriate business operations in other areas.

### Background regarding the Misconduct

- October 24, 2016 : Discovered that employees had falsified trial balance sheets and other documents of customers by replacing or changing figures and/or dates, when confirming loan eligibility requirements in crisis response operations at the Shoko Chukin Bank.
  - December 12, 2016 : Established an Independent Committee tasked with conducting an investigation to uncover the causes of the incident and make recommendations to prevent recurrence.
  - April 25, 2017 : Published the "Investigation Report" of the Independent Committee.
  - May 9, 2017 : Business operations improvement order (to conduct a full investigation, establish and implement recurrence prevention measures to be carried out immediately) from the ministries in charge (Ministry of Economy, Trade and Industry; Ministry of Finance; Financial Services Agency; and Ministry of Agriculture, Forestry and Fisheries of Japan)
- From May onward : Full investigation by the Shoko Chukin Bank; inspection by the ministries in charge.
- October 25, 2017 : Second business operations improvement order in response to the inspection by the ministries in charge and report of the investigation results of all incidents, etc. Submitted the "Business Operations Improvement Plan" to the ministries in charge. Established the "Board to Examine the Shoko Chukin Bank's Way of Being."
  - January 11, 2018 : Received the recommendations of the "Board to Examine the Shoko Chukin Bank's Way of Being."
  - March 26, 2018 : Published results of additional investigations after publication of the Investigation Report.
  - March 27, 2018 : Established the "Evaluation Committee Regarding Management and Crisis Response Operations at Shoko Chukin Bank."
  - May 22, 2018 : Submitted the "Operation Improvement Plan Related to Our Business Model, etc." to the ministries in charge.

### Results of the investigation of misconduct in crisis response operations

In order to clarify the details of the misconduct in its crisis response operations, the Bank conducted a full investigation of all 220,000 cases of crisis response loans. The results revealed 4,631 incidents of misconduct by 446 employees at 97 business offices (out of a total 100 domestic business offices). (Published the Investigation Report on October 25, 2017, and results of additional investigation on March 26, 2018.)

### Fundamental causes of the incident

The four fundamental causes of the incident were as follows: (1) a lack of internal control and excessive pressure for business performance in crisis response operations; (2) the use of crisis response loan facilities as a dominant tool; (3) the attitude of the Bank's Headquarters and management, as well as a decline in compliance awareness that led to misconduct; and, (4) a lack of governance.

### Main content of the business operations improvement order

- \* Thoroughly re-examine the Bank's legal compliance, management system, internal management system, etc., in order to prevent the occurrence of any misconduct or inappropriate business operations. The re-examination shall include:
- (1) Clarification of the responsibilities of the Bank's officers and employees during the period from time the incident occurred to the present;
  - (2) Creation and implementation of an in-depth recurrence prevention plan, which includes measures to strengthen audit functions and ensure appropriate organizational management;
  - (3) Development and implementation of a sustainable business model based on the Bank's purpose of complementing private-sector business; and,
  - (4) 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.

## Operation Improvement Plan Related to Our Business Model, etc.

Shoko Chukin Bank takes seriously the suggestions of the Board to Examine the Shoko Chukin Bank's Way of Being\*1 and the opinions of the Evaluation Committee Regarding Management and Crisis Response Operations at the Shoko Chukin Bank\*2. In light of these suggestions, and based on the second Administrative Order from the ministries in charge on October 25, 2017, we submitted the 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.

We will sincerely reflect on the business operations of the Shoko Chukin Bank that led to the misconduct in crisis response operations, and renew the management structure. 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.

\*1 Board to Examine the Shoko Chukin Bank's Way of Being

A board established by the government following the instructions given by the Minister of Economy, Trade and Industry to review the Shoko Chukin Bank's way of being, including the thorough implementation and reinforcement of recurrence prevention measures and governance, in addition to a re-examination of crisis response operations by the Shoko Chukin Bank and directions for the business model for times other than crises, in light of the misconduct in crisis response operations.

\*2 Evaluation Committee Regarding Management and Crisis Response Operations at the Shoko Chukin Bank

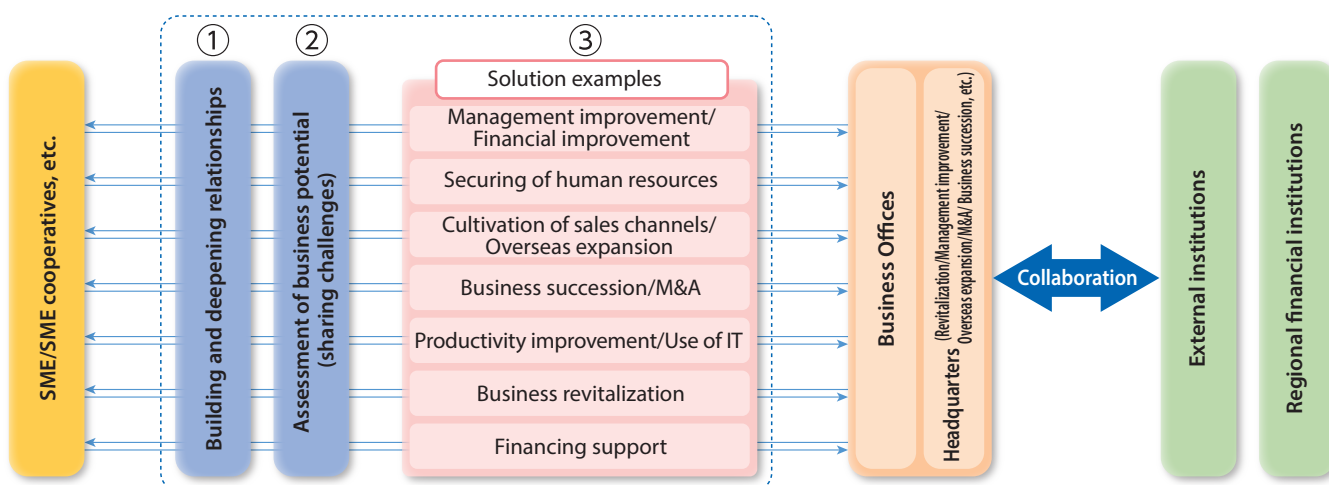
An evaluation committee established by the government to conduct evaluation, etc., of the Shoko Chukin Bank's business model and crisis response operations, based on the recommendations put forth by the "Board to Examine the Shoko Chukin Bank's Way of Being," which included effecting strong governance by establishing a highly independent third-party committee outside of the Shoko Chukin Bank.

### 1. Transformation to a comprehensive financial services business to support management

We will shift to a customer needs-oriented, problem-solving model of finance with the aim of (1) building and deepening relationships of trust with customers, (2) strengthening our efforts to understand customers' businesses and share their challenges; and, (3) providing solutions that lead to the solving of problems.

We will develop "a comprehensive financial services business to support management" by providing unique solutions that leverage our expertise as a financial institution dedicated to SMEs, our network in Japan and overseas, and our coordination functions, while cooperating and collaborating with regional financial institutions.

#### Concept outline

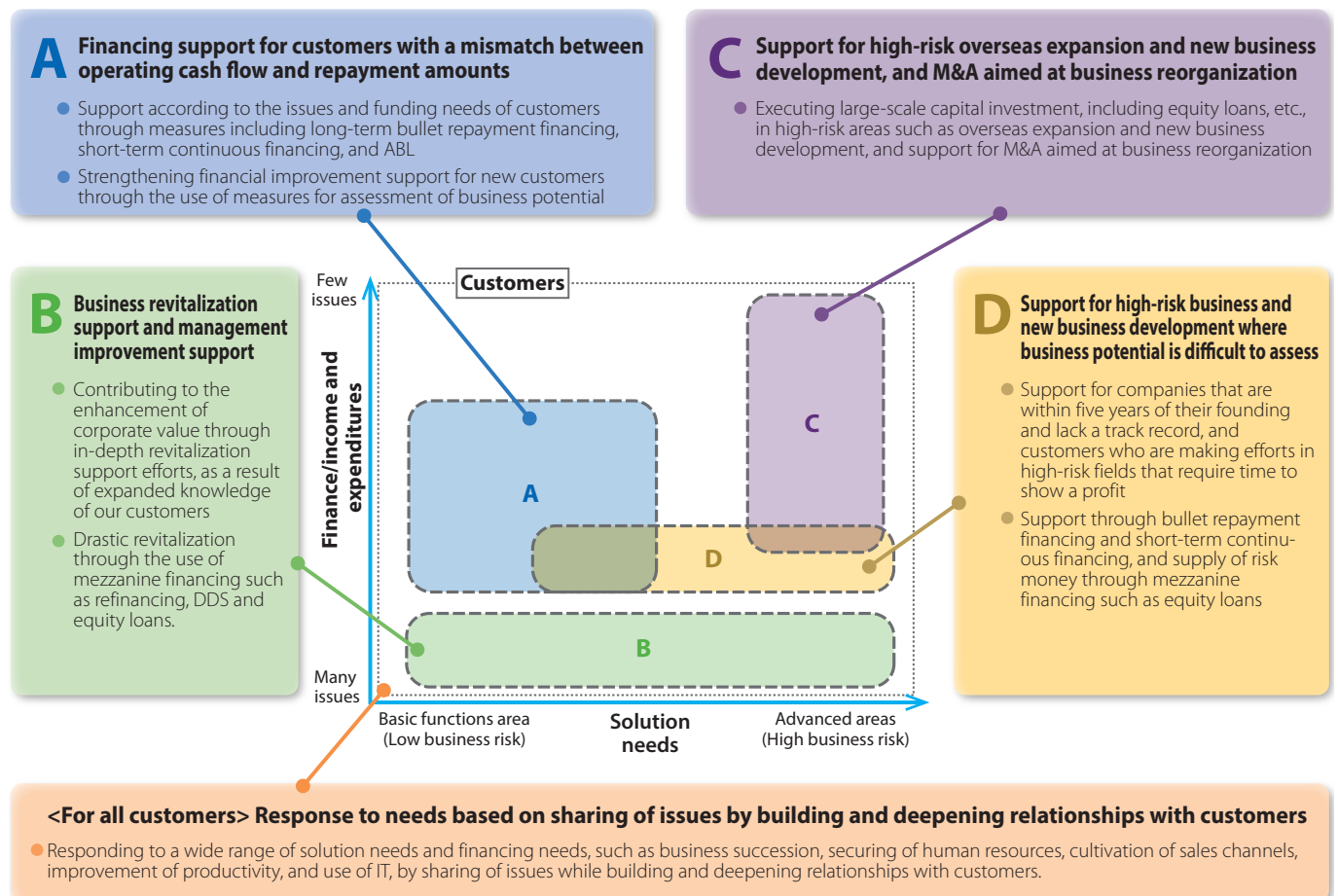


Specific solution examples

| Item   |   | Support for core business  | Financing support   |
|--|---|--|---|
| Strengthening our basic functions as a financial institution dedicated to SMEs             | Support for financial improvement               | <ul style="list-style-type: none"> <li>Support for the cultivation of sales channels (business matching)</li> </ul>  | <ul style="list-style-type: none"> <li>Short-term continuous financing, bullet repayment financing, etc. with a focus on business cash flows</li> </ul> |
|  | Support for management improvement              | <ul style="list-style-type: none"> <li>Support for formulation of improvement plan</li> <li>Support for the cultivation of sales channels (business matching)</li> </ul>   | <ul style="list-style-type: none"> <li>Refinancing support</li> </ul>   |
|  | Support for business succession                 | <ul style="list-style-type: none"> <li>Tax consulting</li> <li>Arrangement and advice on business succession schemes</li> </ul>  | <ul style="list-style-type: none"> <li>Financing for purchase of shares</li> </ul>  |
|  | Support for new business development            | <ul style="list-style-type: none"> <li>Support for subsidy applications</li> <li>Introduction of external support institutions</li> <li>Support for M&amp;A, overseas expansion</li> </ul>   | <ul style="list-style-type: none"> <li>Mezzanine financing, bullet repayment financing</li> </ul>   |
|  | Support for productivity improvement            | <ul style="list-style-type: none"> <li>Business matching (domestic/overseas)</li> <li>Introduction of human resources through collaboration with external institutions</li> <li>Support for the use of IOT</li> </ul>  | <ul style="list-style-type: none"> <li>Equipment financing</li> </ul>   |
| Advanced initiatives such as drastic business revitalization, etc.                         | Support for business revitalization             | <ul style="list-style-type: none"> <li>Proposal of drastic revitalization schemes such as M&amp;A, starting from an assessment of business potential</li> <li>Advanced support for business revitalization, in collaboration with external institutions</li> </ul> | <ul style="list-style-type: none"> <li>Mezzanine financing, DDS, DES</li> </ul>   |
|  | Support for expansion in high-risk growth areas | <ul style="list-style-type: none"> <li>Support for business plan creation</li> <li>Introduction of external support institutions</li> </ul>  | <ul style="list-style-type: none"> <li>Mezzanine financing</li> </ul>   |
| Response based on sharing of issues by building and deepening relationships with customers |   | <ul style="list-style-type: none"> <li>Providing services linked to solving problems</li> </ul>  | <ul style="list-style-type: none"> <li>Support for stable fund procurement</li> </ul>   |

2. Providing solutions in focused areas

We focus our efforts on providing solutions as the basic functions of a financial institution dedicated to SMEs along with advanced solutions, while taking advantage of the unique characteristics of the Shoko Chukin Bank.

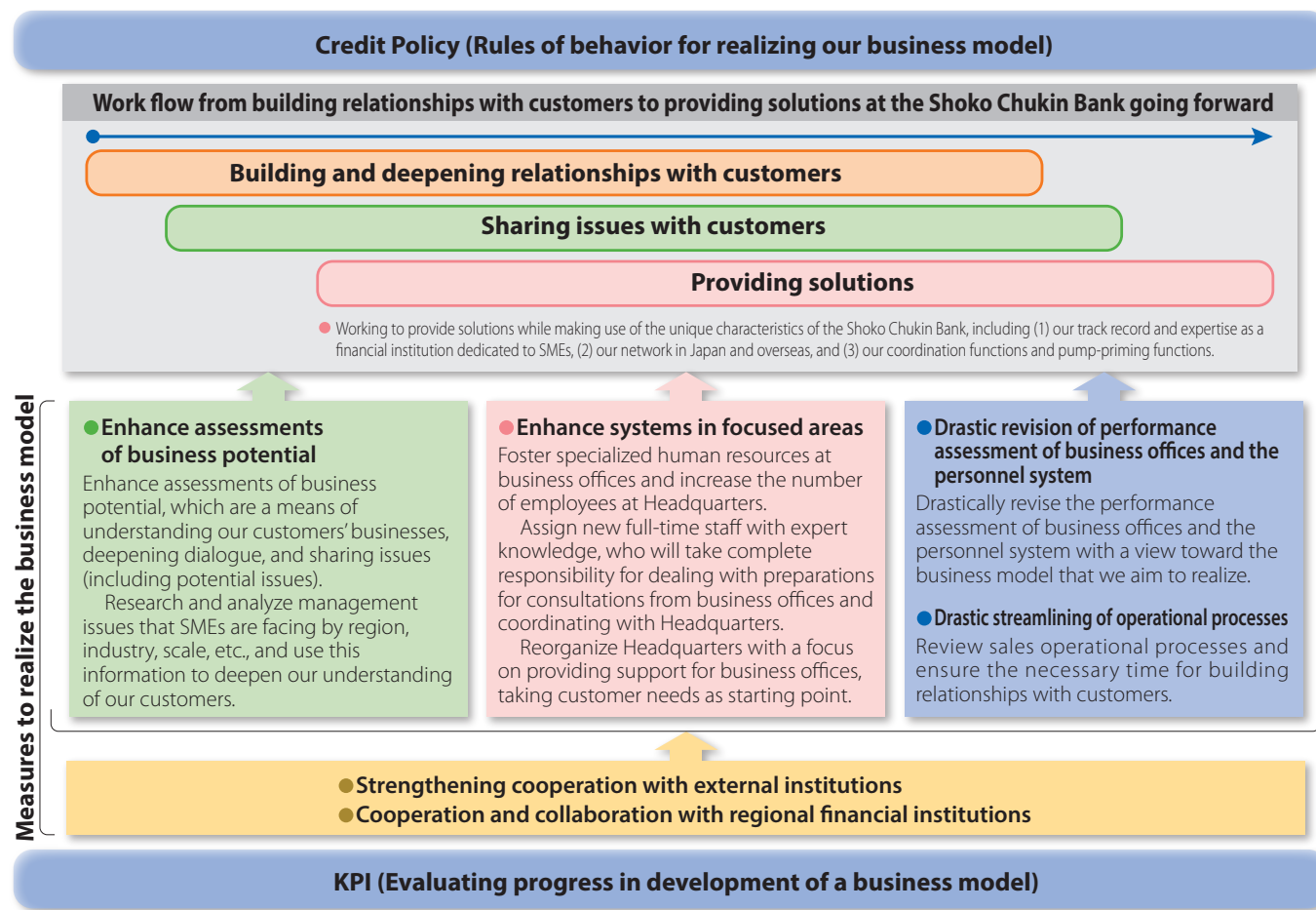


### 3. Overview of measures to realize our business model

To realize our business model, we will strengthen our assessments of business potential, bolster our human resources and organizational systems in focused areas, and drastically revise performance assessment of our business offices, personnel system, and operational processes, based on the Credit Policy, which states our rules of behavior.

In addition, in order to carry out these efforts more effectively, we will take advantage of the specialized capabilities and functions of external institutions, and collaborate and cooperate with regional financial institutions based on relationships of trust. Furthermore, we will set KPIs to evaluate our progress in developing our business model.

Through these measures, we will secure fair profits and enhance the corporate value of the Shoko Chukin Bank by providing high value-added services. We will also carry out an exhaustive enhancement and streamlining of management and operations, to realize a sustainable business model, through which we will contribute to society.



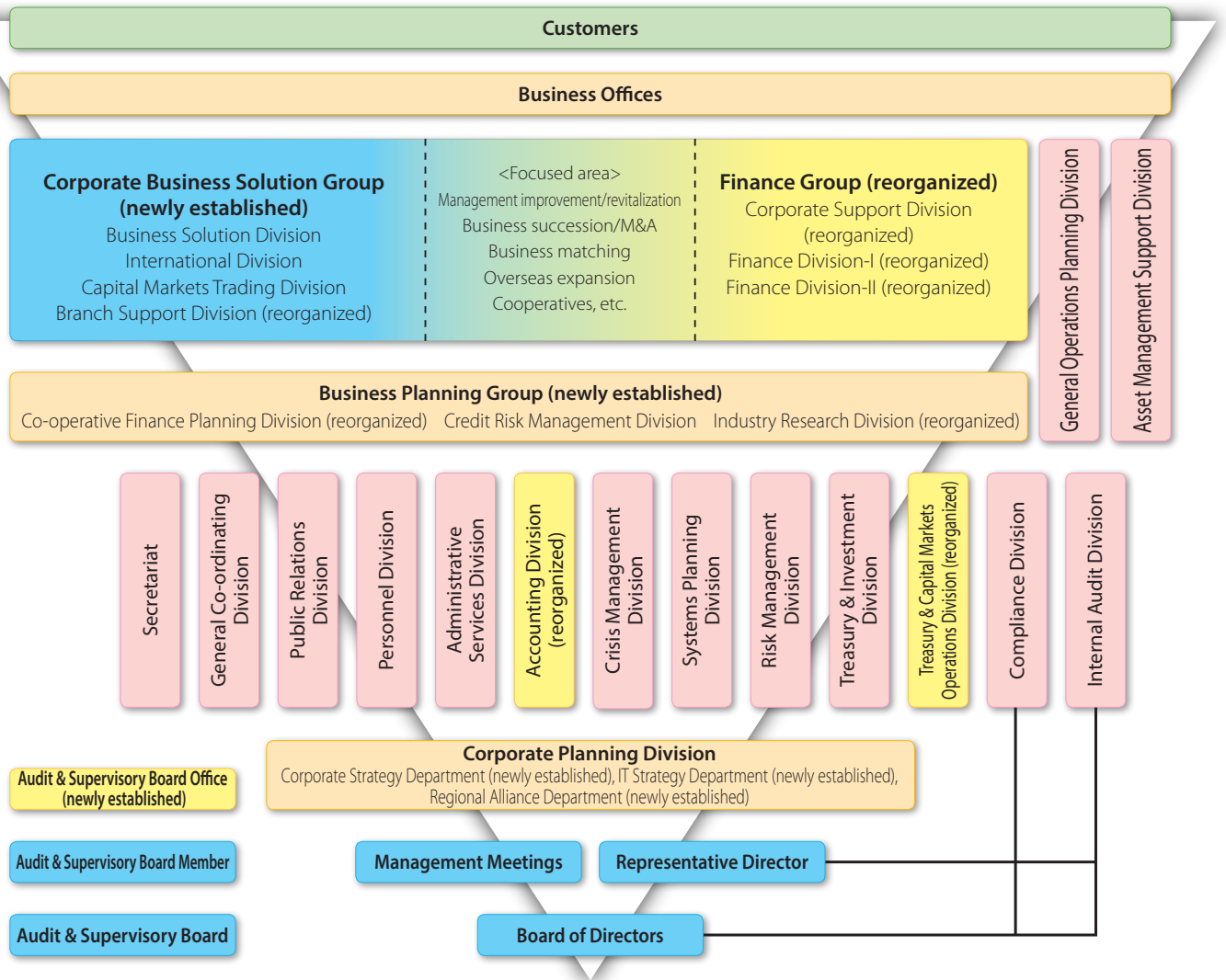
### 4. Rules of Behavior (Credit Policy)

We have formulated a Credit Policy as the rules of behavior for officers and employees, with a view toward the business model that we aim to realize.

|                       |  |
|-----------------------|--|
| <b>Basic Policy</b>   | <ul style="list-style-type: none"> <li>● We will transform into a “comprehensive financial services business to support management,” and contribute to enhancing the corporate value of SMEs and SME cooperatives from a truly customer-oriented, long-term viewpoint.</li> </ul>  |
| <b>Scope of focus</b> | <ul style="list-style-type: none"> <li>● We will focus efforts on support for SMEs that need management improvement, business revitalization, or business succession, and SMEs that are planning to launch high-risk businesses.</li> </ul>  |
| <b>Behavior</b>       | <ul style="list-style-type: none"> <li>● We work close to, and strive to build relationships of trust with our customers.</li> <li>● We deepen dialogue with our customers, understand their businesses, and make efforts to share issues with them.</li> <li>● We work to provide solutions to solve our customers’ issues.</li> <li>● Through these efforts, we engage in cooperation and collaboration with regional financial institutions based on relationships of trust.</li> <li>● We do not engage in competition which is based merely on interest rates and does not involve relationships with our customers.</li> </ul> |

5. Reorganization of headquarters by function

We carried out a reorganization focused on support for business offices, in order to contribute to enhancement of the corporate value of SMEs from a truly customer-oriented viewpoint.



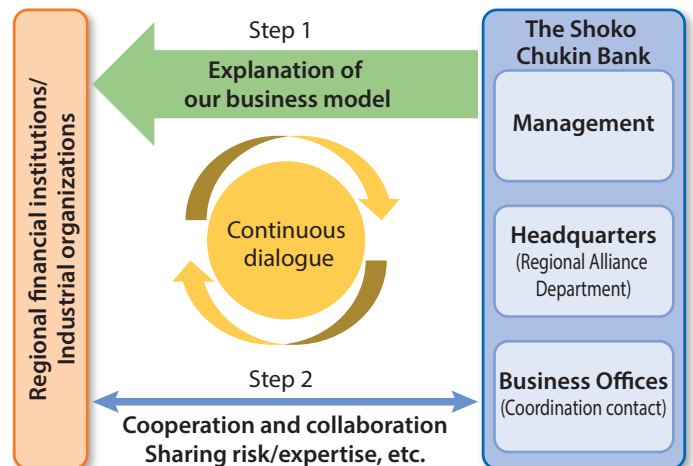
Fulfillment of Business Model

6. Cooperation and collaboration with regional financial institutions based on relationships of trust

The Shoko Chukin Bank recognizes regional financial institutions and industrial organizations as important partners in regional finance. We will build relationships of trust by explaining in detail the concept of our business model and our approach to working with regional financial institutions.

We will engage in specific collaborations with various regional financial institutions, based on their depth of support for SMEs, while striving to share our ideas regarding our efforts in the Shoko Chukin Bank's focused areas.

We do not engage in competition which is based merely on interest rates and does not involve relationships with customers.

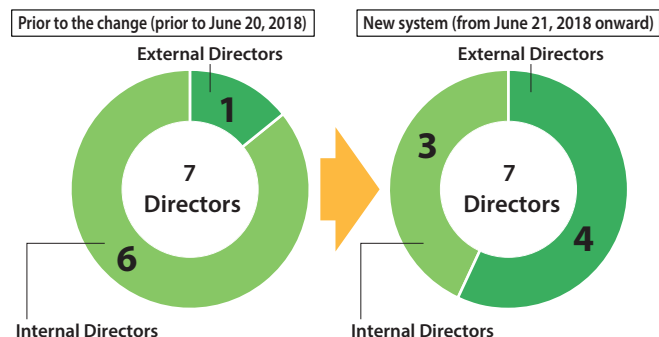


### 7. Governance framework to support the business model that we aim to realize

We will enhance our governance framework to support the realization of our business model in the future. Specifically, guided by the policy of “separating supervision from execution,” we will reinforce supervisory functions through a change from a management-style board to a monitoring-style board, where external directors comprise a majority of the Board of Directors. We are also striving to rebuild our internal control and governance by enhancing checking functions through the appointment of all new members to the Audit & Supervisory Board, with three out of four members appointed externally.

Regarding the executive side, we will promote an enhancement of the structure by introducing “mandated executive officers.” We aim to improve the speed and flexibility of decision-making through the introduction of these officers, whose position is outside the scope of employees, and who have significant authority and responsibility based on their mandated relationship with the Shoko Chukin Bank.

#### Renewal of management structure



#### New Officer (Director) System

| Position  | Name               |                 |
|---|--------------------|-----------------|
| President (Representative Director) & President and Executive Officer | Masahiro Sekine    |                 |
| Director & Senior Managing Executive Officer                          | Katsuhiko Kaji     | Newly appointed |
| Director & Managing Executive Officer                                 | Ichiro Kawano      | Newly appointed |
| Director (External Director)  | Iwao Taka          |                 |
| Director (External Director)  | Hideto Tago        | Newly appointed |
| Director (External Director)  | Shigeharu Nakamura | Newly appointed |
| Director (External Director)  | Hiromi Watase      | Newly appointed |

### 8. Formulation and execution of Medium-Term Business Plan

With the aim of realizing our business operations improvement plan, we will examine our efforts and measures related to our business model, as well as efforts to streamline management in greater detail, in the process of formulating our Medium-Term Business Plan, which is scheduled for next autumn.

In creating the Medium-Term Business Plan, we will formulate a highly effective plan, while reporting to and exchanging opinions with the Evaluation Committee Regarding Management and Crisis Response Operations at the Shoko Chukin Bank.



## Overview of the Shoko Chukin Bank Limited Act

In October 2008, the Shoko Chukin Bank shifted status from that of a jointly owned financial institution to a special company (a joint stock company) in accordance with the Shoko Chukin Bank Limited Act while maintaining the purpose and function of facilitating financing for SME cooperatives and their members.

Subsequently, the Act was amended in June 2009 in response to the chaos caused by the unprecedented economic and financial crisis and in March 2011 in response to the Great East Japan Earthquake. Following that, the Act for Partial Revision of the Shoko Chukin Bank Limited Act and the Small and Medium-sized Enterprise Credit Insurance Act was enacted in May 2015.

### Objective of the Shoko Chukin Bank

Objective of the Shoko Chukin Bank, Ltd. is to conduct businesses necessary to facilitate smooth financing for SME cooperatives, other organizations that primarily consist of SMEs and their members, while ensuring the Bank's autonomy in management toward its goal of complete privatization.

### Business

Alongside becoming a joint stock company, the Bank enhanced its full banking services, which include loans, deposits, currency exchange and guarantees. In addition, under the revised act enacted in May 2015, the measures to adequately implement the crisis response measures have been adopted.

#### [Measures to maintain the core of the Shoko Chukin Bank's SME financing functions]

- Borrowers are primarily limited to SME member companies (cooperatives and their members).
- The Bank will continue to issue bank debentures.
- SME cooperatives will continue to conduct business as a proxy for the Bank.

#### [Measures to provide more diverse services to SMEs, etc.]

- Scope of eligible borrowers will be expanded (Domestic subsidiaries of member companies, people succeeding member companies' businesses, etc.).
- Relevant limitations on guaranty operation will be eliminated.
- With the lifting of depositor eligibility restrictions, the Bank's products will be covered by the deposit insurance system.

#### [Measures to adequately implement the crisis response measures]

- The Shoko Chukin Bank, for the time being, carries responsibility for implementing crisis response measures, to fulfill its objectives. Furthermore, to ensure effective implementation of the crisis response measures, the term of the additional government funding has been extended, while submission of the business plan on crisis response measures has become mandatory.
- In the period to come, the government shall review as appropriate the strategic position of the crisis response measures, along with its involvement in the Shoko Chukin Bank, and take measures as necessary.

#### [Ensuring an appropriate competitive relationship]

- The Shoko Chukin Bank is especially required, for the time being, not to disturb its appropriate competitive relationship with other operators.

### Organization, oversight and disclosure

- Shareholders of the Shoko Chukin Bank are restricted to the government, SME cooperatives, and their members.
- Supervision by the minister in charge will be limited to the bare minimum.
- The organization is to provide and release disclosure publications, etc.

### Policies on government-owned shares

- It has been stipulated that the government shall dispose all of its shares in the Shoko Chukin Bank at an earliest possible date, accelerating the announced specific disposal schedule, with due consideration to the impact of such disposal on the Shoko Chukin Bank's achievement of the objectives, along with market trends.
- On the other hand, the government will, for the time being, hold the necessary shares in the Shoko Chukin Bank for adequately carrying out the crisis response measures in consideration of the factors including the status of commercial banks responsible for implementing crisis response measures, contribution to the crisis response reserve, implementation status of the crisis response measures by the Shoko Chukin Bank, financial base of the Shoko Chukin Bank, funding surplus of SMEs and changes in the socio-economic environment.

### (Reference) Revisions of the Shoko Chukin Bank Limited Act

|                                      | The Shoko Chukin Bank Limited Act of 2008   | Revision of the Shoko Chukin Bank Limited Act in 2009   | Revision of the Shoko Chukin Bank Limited Act in 2011   | Revision of the Shoko Chukin Bank Limited Act in 2015   |
|--------------------------------------|---|---|---|---|
| <b>Additional government funding</b> | —   | Possible <u>until March 2012</u>  | Possible <u>until March 2015</u>  | Possible <u>for the time being</u>  |
| <b>Review of the content</b>         | —   | Subject to review <u>by March 2012</u>  | Subject to review <u>by March 2015</u>  | Subject to review <u>as appropriate</u>   |
| <b>Government-owned shares</b>       | Scheduled to <u>dispose all shares within five to seven years from October 2008</u> | Scheduled <u>not to dispose until March 2012</u><br>Scheduled to <u>dispose all shares within five to seven years from April 2012</u> | Scheduled <u>not to dispose until March 2015</u><br>Scheduled to <u>dispose all shares within five to seven years from April 2015</u> | Scheduled to <u>dispose all shares as soon as possible</u><br>Scheduled, <u>for the time being, to retain shares as necessary</u> |

## Business Operation Policies for Fiscal 2018

- The Shoko Chukin Bank, as a whole will reflect sincerely on this incident of misconduct, and all officers and employees of the Bank will dedicate their utmost efforts to steadily implementing measures to prevent recurrence, including rebuilding compliance awareness and reforming our governance framework. First of all, regarding restoring compliance awareness, we will achieve and establish business operations that put compliance first, by promoting the widespread awareness of compliance through efforts to make our management stance instilled to all employees, and by holding ongoing training.
- We will sincerely reflect on the business operations of the Shoko Chukin Bank that led to the misconduct in crisis response operations, and renew our management structure. 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.
- 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. 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.
- 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 rebuild a governance framework, including renewal of the management structure and reinforcement of the Board of Directors’ functions.
- Through these efforts, as a financial institution run by SMEs for SMEs, the Shoko Chukin Bank strives to be trusted and supported by, and be a financial institution of even greater use to our customers. All of the officers and employees of the Bank will continue to enthusiastically work as one to achieve this goal.



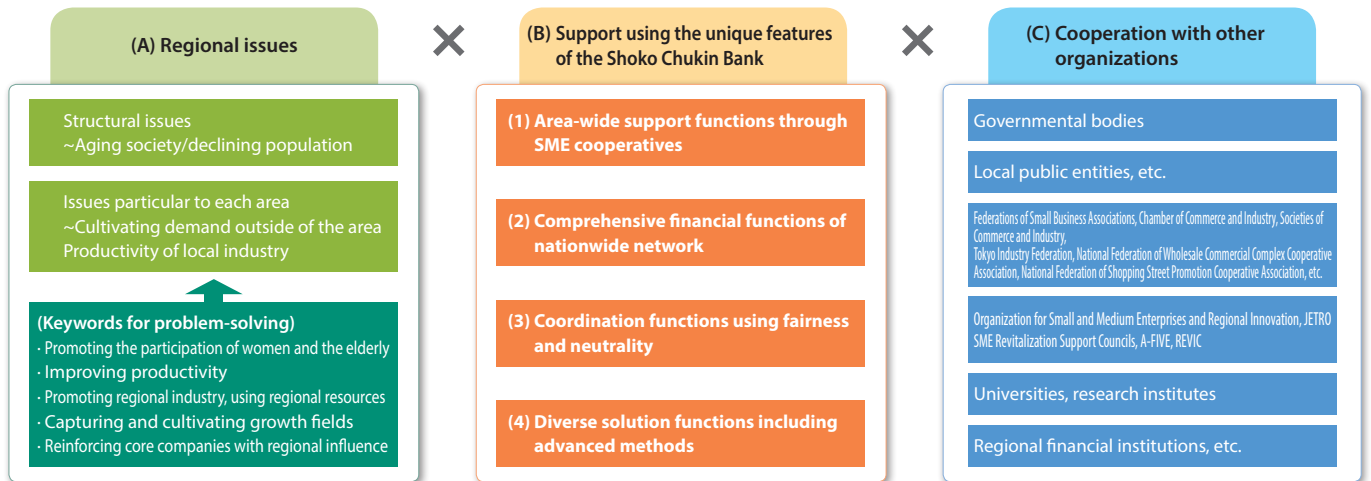
## Support for the Corporate Value Improvement for the SMEs

### Regional Revitalization Support

#### Regional Revitalization Support

The Shoko Chukin Bank supports regional revitalization, in line with the characteristics of local communities throughout Japan, by using the unique features of the Bank to provide assistance that addresses both structural issues and issues particular to each area.

Each business office of the Bank works toward regional revitalization by supporting the growth and regeneration of customer SMEs, in cooperation with local public entities and related organizations.



#### Efforts for Regional Revitalization Supports

##### Support for sixth industrialization (Niigata Office)

- Persimmon producers formed a cooperative to manufacture and sell persimmon vinegar using persimmons that were disposed of because they did not meet standards.
- A new persimmon vinegar was developed in collaboration with the cooperative members, and with the cooperation of the Niigata City Industrial Promotion Center.
- The Shoko Chukin Bank, in collaboration with the Federations of Small Business Associations, gave advice regarding the business plan, and handled the financing demand for increased production and expanded sales channels, thus contributing to revitalization of the regional economy.

##### Support for consolidation of aircraft industry (Tsu Office)

- Ten manufacturers of aircraft parts established a cooperative to engage in integrated production.
- The cooperative gathered the members' production equipment in one building, and planned to construct a joint factory to achieve high efficiency through collaboration and complementarity in each process.
- The Shoko Chukin Bank supported the entire funding procurement process including bridge financing in the procurement of advanced financing, by developing a collaboration with the prefecture, providing various forms of advice, and conducting verification of the business plan.
- Following completion of the factory, the Bank was involved in establishing a system for efficient production, thus contributing to fostering regional industry and creating employment.

##### Support for cooperatives (Kumagaya Office)

- Demand for warehousing increased in Saitama Prefecture, which is near central Tokyo, due to an increase in online sales and the opening of the Keno Expressway.
- The Shoko Chukin Bank encouraged Kumagaya City to formulate measures using the Regional Future Investment Promotion Act, as support for Wholesale Commercial Complex Cooperatives that are planning to refurbish aging facilities.
- A "distribution-related field using commercial complexes" was included in the city's basic plan. In the future, we plan to promote development in the area as a core facility of the region, while making use of the support measures under the Act.

##### Tourism Promotion (Nara Office)

- Nara Prefecture has a smaller number of hotels, and demand for tourist accommodations flows outside of the prefecture.
- The Shoko Chukin Bank provided cooperative loans with regional financial institutions to real estate companies that regard the hotel business as a second business launch. In addition, we supported hotel construction projects by undertaking the complicated coordination among stakeholders that is required for the development of public land.
- Through support for regional issues due to a lack of hotels, we contribute to the revitalization of tourism by increasing the number of people staying in the region.

## Collaborations among Enterprises, Support for Associations, Support for Business Revitalization

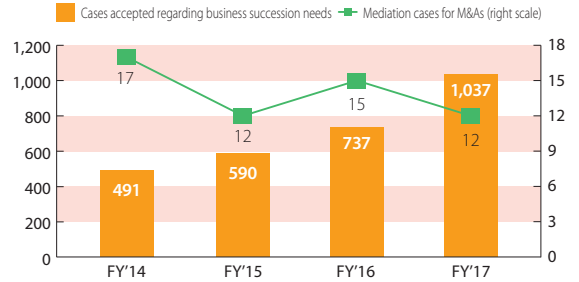
### Collaborations among Enterprises (business succession, M&A, business matching, support for financial improvement)

The Shoko Chukin Bank has been actively working on business matching, support for business succession and M&As through its national networks and relations with business partners.

Business matching will add value to the enterprises through increase in sales, reduction in purchasing cost, etc. We will endeavor to enhance the service while maintaining the relationship with the Youth kai (Note 1) and Chukin kai (Note 2).

Demand to address the business succession and M&As has been increasing as many enterprises need to address the succession issues early on, in the face of an aging management team and the absence of successors. Solutions to these issues have been attracting increasing attention. In response to the needs of the business partners, we provide various information and support for financing the business succession and also take an active approach to offer comprehensive support, including M&As, to solve these issues in collaboration with certified tax accountants or other external specialists.

Number of cases accepted regarding business succession needs and mediation cases for M&As

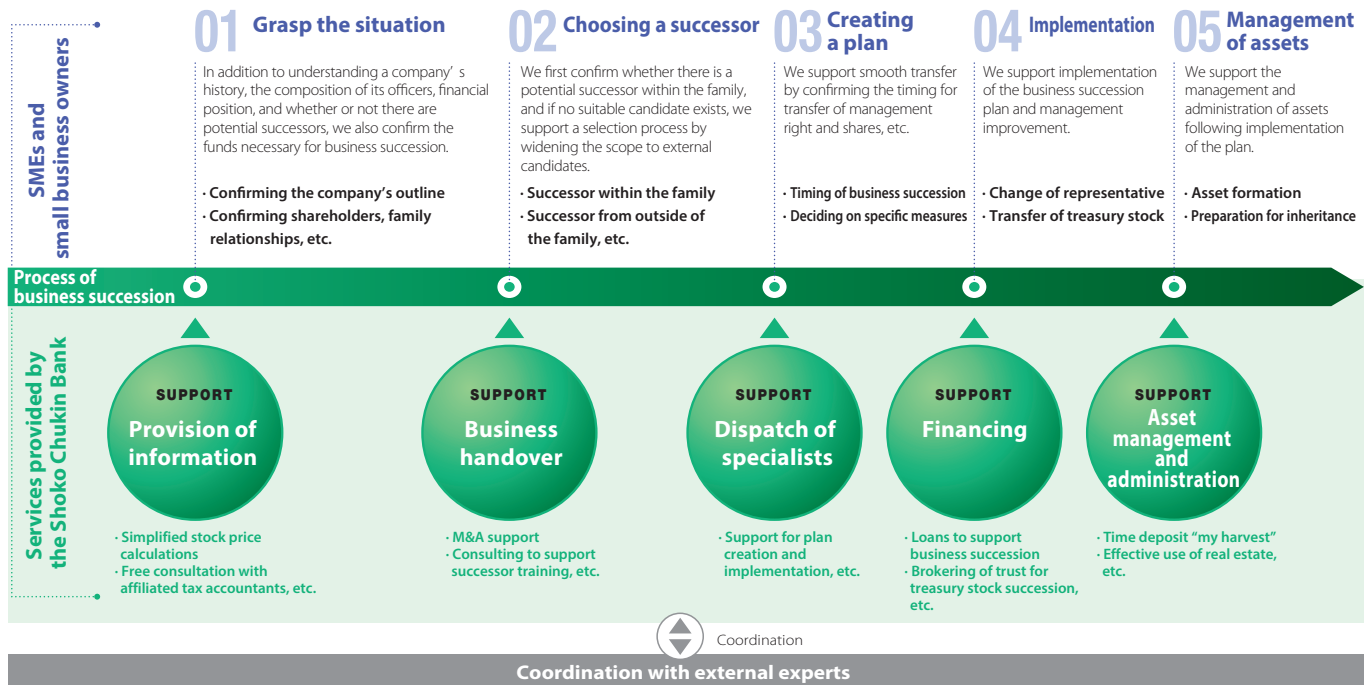


Notes: 1. The Youth kai is an organization comprising young executives of the Bank's business partners. There are 88 Youth kai branches across Japan with approximately 6,000 members.  
2. The Chukin kai is an organization of the Bank's business partners. There are 103 Chukin kai groups in Japan and abroad with approximately 17,000 corporate members.

### (1) Support for business succession and M&A

The Shoko Chukin Bank strives to address the business succession issues faced by SMEs and small business owners. In some cases, resolution of business succession issues requires a lengthy preparation period, and measures must be taken as part of the business owner's management plan.

The Shoko Chukin Bank will leverage the comprehensive capabilities of the Group to support smooth business succession of our customers through all the phases of support process.



**(2) Business matching (Support for expansion of sales channels/productivity improvement)**

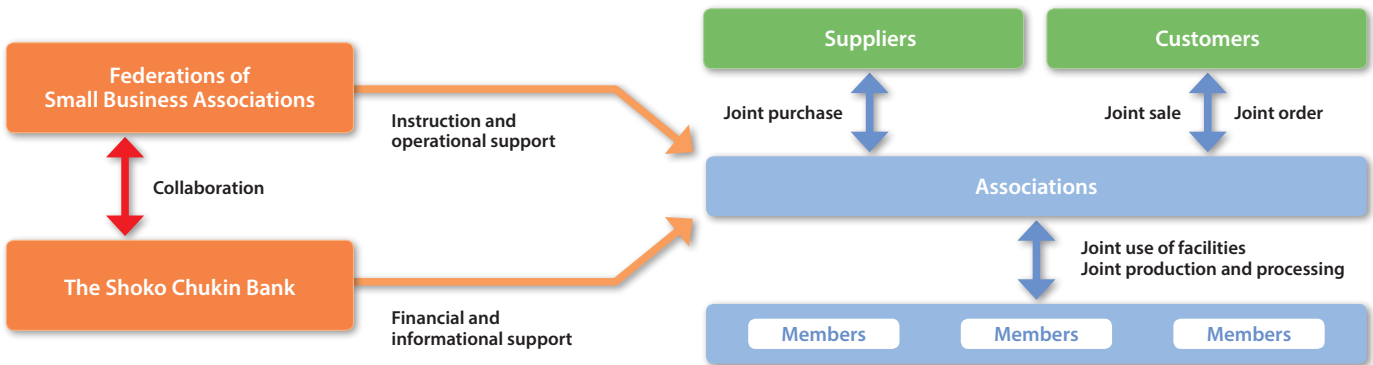
The Shoko Chukin Bank will strive to strengthen business matching services that enhance the corporate value of customers, by using the Bank’s domestic and overseas network to increase sales and reduce purchasing costs, etc.

**(3) Support for financial improvement (Forming syndicate loans utilizing the Bank’s coordinating and pump-priming functions, etc.)**

We will contribute to solving our customers’ issues by collaborating with regional financial institutions to address fund procurement and financial improvement needs, such as large-scale capital investment and refinancing. We collaborate with many regional financial institutions, and a total of 186 banks have been invited to participate in syndicate loans formulated by the Shoko Chukin Bank.

**Support for Associations**

The Association of SMEs helps individual enterprises overcome difficulties and plays an important and leading role in assisting the value-adding of the SMEs by increasing the members’ productivity through the association of joint enterprises and, as a collaborative institution, supporting new projects of the members, etc. The Shoko Chukin Bank collaborates with the Federations of Small Business Associations (an instruction institution of the Association of SMEs) and provides financial support such as the “Loan Recommendation System of the Federation” as well as informational support such as the information about the subsidiaries policy.



## Support for Overseas Expansion

The Shoko Chukin Bank is the only public financial institution that utilizes the “full-banking function” for the SMEs. Apart from the daily operation in the field of trade and finance, the Shoko Chukin Bank also provides parent-subsidary loans, loans for overseas affiliated companies, and also contributes to the fundraising for overseas affiliated companies through a method called “Standby Credit.” Further, we fully utilize the domestic and overseas co-operative institution networks which connect with overseas centers (New York branch, Hong Kong Representative Office, Shanghai Representative Office, Bangkok Representative Office) and are devoted to providing detailed information for the SMEs.

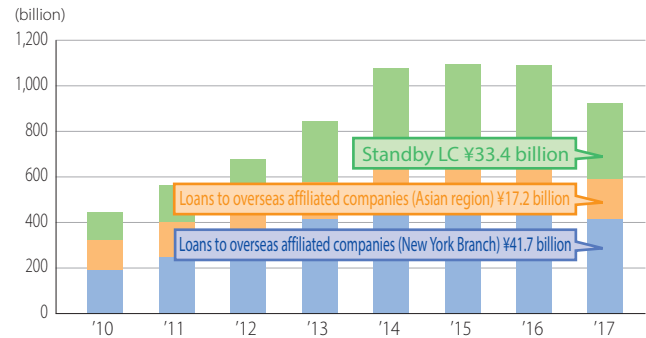
### Support for Overseas Expansion

As apart from financial support, the support for information provision also plays an important role in the overseas expansion of the SMEs. From 1996, we have combined “Information Provision” and “Financial Services” and established “Support for Overseas Expansion (Overseas 21).”

With regard to the information provision, our staff from the headquarter will visit our clients and give advice on overseas expansion, as well as offering informational support such as providing information about the investment environment. In addition, the Shoko Chukin Bank has constructed a co-operative support system with each overseas branch and the corresponding destination for overseas projects.

With regard to financial services, we provide diversified services ranging from financial support such as fundraising support through Standby Credit (utilization of the overseas co-operative financial institutions), direct loans to overseas affiliated companies, parent-subsidary loans, etc., to the import and export-related trade and finance services.

Balance for financial services provided overseas (loans to affiliated companies, standby LC)



### Overseas Expansion Support Desk

To flexibly and efficiently respond to the needs of the SMEs concerning overseas expansion such as related consultation, we established the “Overseas Expansion Support Desk for SMEs” in February 1, 2011. We have collaborated with related institutions in Japan such as JETRO (Japan External Trade Organization), the NEXI (Nippon Export and Investment Insurance), and the Organization for Small and Medium Enterprises and Regional Innovation, as well as overseas cooperative institutions such as the Thailand Board of Investment (BOI), in order to provide detailed support such as information provision to the SMEs. As of the end of March 2018, the cumulative number of cases of consultation related to the establishment of overseas centers, fundraising or trading settlement, etc. has reached 24,699 cases.

The Shoko Chukin Bank will continue to offer extensive support to the SMEs regarding overseas expansion.

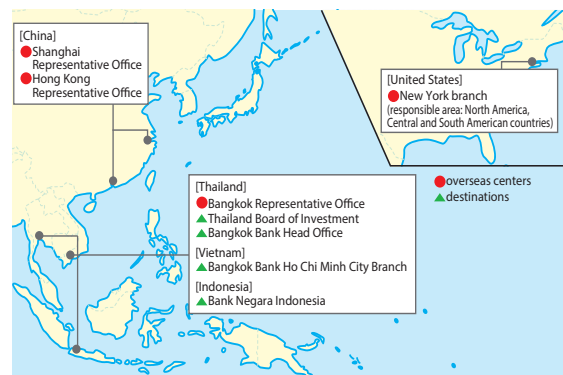
### Networks of the Shoko Chukin Bank

The Shoko Chukin Bank has altogether four overseas centers. Also, we collaborate with overseas government organizations and financial institutions and provide financial and informational support regarding overseas expansion.

#### Overseas co-operative financial institutions

- Thailand Board of Investment (BOI)
- Standard Chartered Bank (United Kingdom)
- Bangkok Bank (Thailand)
- Bank of Communications (China)
- Bank Negara Indonesia (Indonesia)

#### Overseas Centers and Destinations



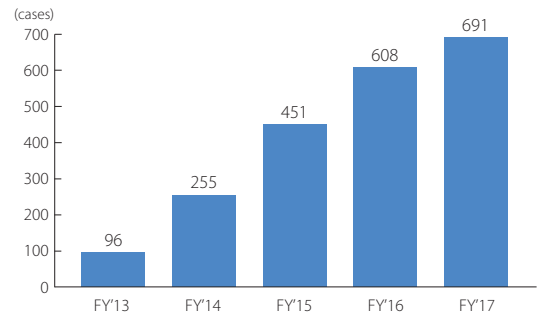
Support for Business Revitalization

Support for Business Revitalization

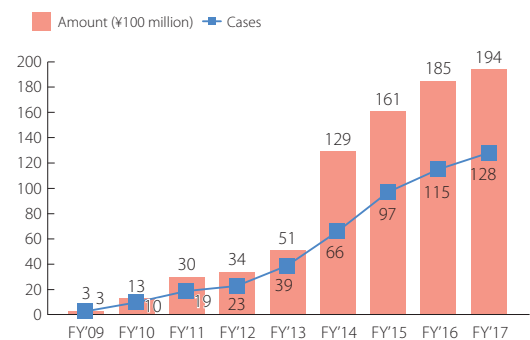
~Past initiatives to support business revitalization~

|               |   |
|---------------|---|
| July 2001     | Began providing business revitalization support loans (DIP financing) |
| January 2004  | Established Department for Business Restructuring                     |
| March 2004    | Conducted DDS Project No. 1 (first in Japan)                          |
| March 2006    | Began handling conditional redemption DES                             |
| November 2012 | Established Revitalization Support Program                            |
| October 2013  | Began handling refinancing system                                     |
| June 2018     | Established Corporate Support Division                                |

<Results of refinancing system efforts (cumulative)>



Results of DDS efforts (cumulative)

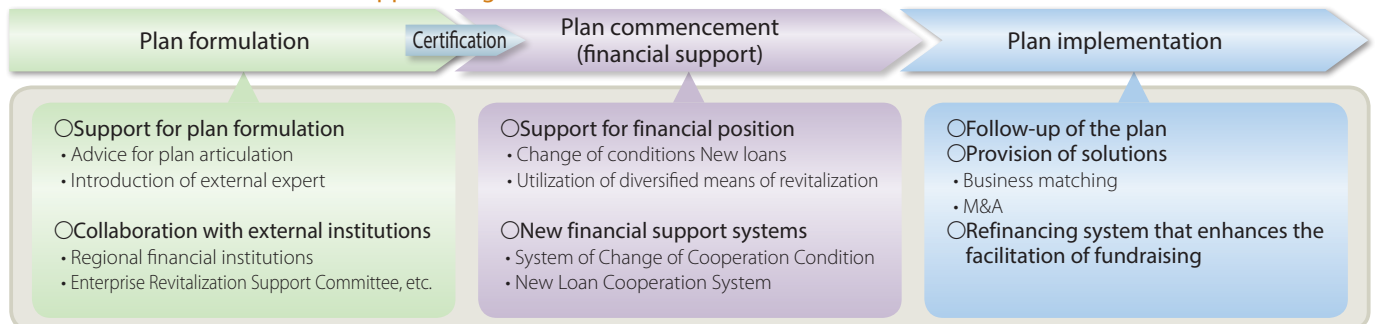


The Shoko Chukin Bank has been cultivating the knowledge of business revitalization. Taking one step further to actively formulate business improvement plans and hence lead them to success, the Shoko Chukin Bank established the “Revitalization Support Program” in November 2012 which offers a package of general support services.

Also, in October 2013, the program further expanded and a refinance system that enhances the facilitation of essential fundraising was established for those SMEs which have shown improvement in performance as a result of the implementation of the improvement plan.

In addition, through the collaboration with institutions that support business revitalization such as the SME Revitalization Support Councils, together with the cooperation with regional financial institutions, the Shoko Chukin Bank is devoting to the value-adding of the enterprises and regional regeneration and revitalization for the SMEs.

Flowchart of the Revitalization Support Program

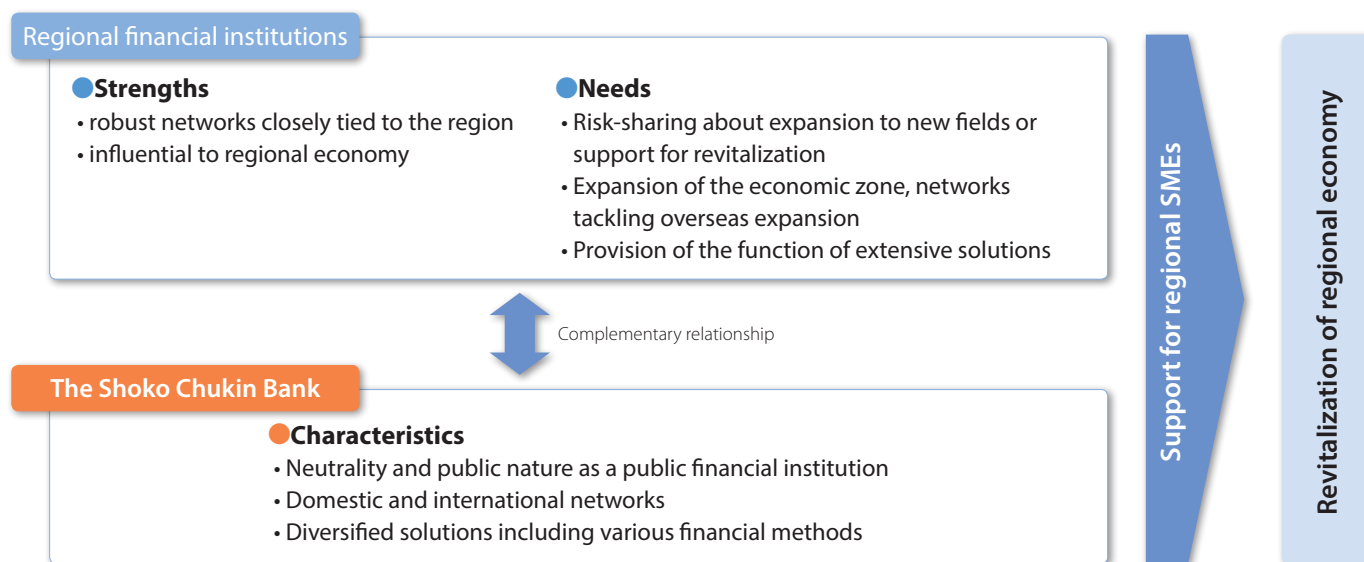


## Collaboration and Cooperation with Regional Financial Institutions

The Shoko Chukin Bank treats regional financial institutions and their industry groups as “partners who help to achieve the revitalization of the regional economy as well as the facilitation of regional finance, on the basis of coexistence and complementarity within the region.” We have pursued efforts based on collaboration with regional financial institutions as one of the fundamental parts of our business operations.

Going forward, we will promote further collaboration and cooperation by building relationships of trust with regional financial institutions through the “Contact Points” for regional financial institutions and local public entities established in each business office, with the Regional Collaboration Department established on June 21, 2018 playing the leading role.

Specifically, we will promote risk sharing through a review of the financial transactions in business revitalization support, new business development, large-scale investment, and management improvement support. In addition, we will pursue collaborations by using our operational know-how regarding syndicate loan agency, M&A, etc., sharing platforms for business matching and M&A, and leveraging our overseas centers.



### Performance of conclusion of agreement of business cooperation (As of March 2018)

| Status of conclusion of agreement of business cooperation | Regional banks | Second-tier regional banks | Shinkin Banks | Credit Cooperatives | Total |
|---|----------------|----------------------------|---------------|---------------------|-------|
| No. of regional financial institutions                    | 64             | 41                         | 261           | 148                 | 514   |
| No. of concluded agreements of business cooperation       | 61             | 40                         | 242           | 116                 | 459   |

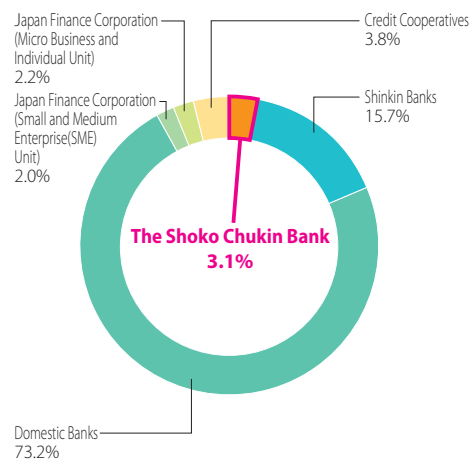
## Fulfilling a Safety Net Function, Mainly in Crisis Response Measures

In response to the financial crisis triggered by the sub-prime loan problem in the United States in the autumn of 2008, and the Great East Japan Earthquake of March 2011, crises were declared by the government, and the Shoko Chukin Bank, as the only legally designated financial institution for SMEs, has been devoting its full efforts to supporting the cash flows of SMEs.

### A Stable Transaction Stance

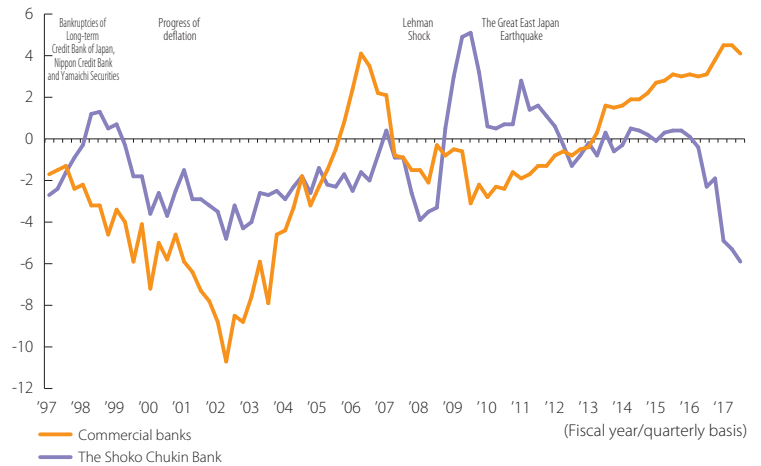
The Shoko Chukin Bank, through its day-to-day transactions with SMEs, not only looks at financial matters, but also takes the clients' operations, technology, and the abilities and enthusiasm of the executives into consideration. In this way, we strive to provide services that respond flexibly to corporate needs, not focusing on temporary management setbacks, but maintaining a stable transaction stance over the long-term.

#### The Shoko Chukin Bank's share of financing to SMEs and middle-market enterprises (as of the end of December 2017)



Domestic banks include city banks, regional banks, second-tier regional banks, trust banks, etc.  
Sources: Bank of Japan "Loans and Bills Discounted by Sector," Japan Finance Corporation, Community Bank Shinyo Kumiai

#### Year-on-year change in the Shoko Chukin Bank loans and commercial banks loans to SMEs and middle-market enterprises (year-on-year change, %)



Commercial banks include total for domestic banks, shinkin banks, and credit cooperatives. Figures used for domestic banks represent loans to SMEs and middle-market enterprises; for shinkin banks, corporate loans; for credit cooperatives, total loans. Graph shows changes up to third quarter of fiscal 2017.  
Sources: Bank of Japan "Loans and Bills Discounted by Sector," Community Bank Shinyo Kumiai

## The Shoko Chukin Bank: Fulfilling a Safety Net Function

Prior to transition to joint stock company

|  |   |  |
|--|---|--|
| <p>1997-2000<br/>Series of financial institution failures</p> <p>2001-2003<br/>Financial revitalization program<br/>Centralized disposal of non-performing loans</p> | <p><b>Government measures</b></p> <ul style="list-style-type: none"> <li>● (Special national loans) Safety net loan program</li> <li>● ¥30,000 billion for Special Credit Guarantee Program for Financial Stability</li> <li>● New guarantee program established                     <ul style="list-style-type: none"> <li>• Receivables-Backed Loan Guarantee Program</li> <li>• Refinancing Guarantee for Facilitation of Financing Program</li> </ul> </li> </ul> | <p><b>Efforts by the Shoko Chukin Bank</b></p> <ul style="list-style-type: none"> <li>● Implementation of measures at left</li> <li>● Establishment of the Shoko Chukin Bank's own program                     <ul style="list-style-type: none"> <li>• Collateral-free loans</li> <li>• Short-term working capital to support day-to-day cash flow</li> </ul> </li> <li>● Management improvement support                     <ul style="list-style-type: none"> <li>• Collaboration with SME Revitalization Support Councils</li> </ul> </li> </ul> |
|--|---|--|

After transition to joint stock company

|  |   |
|--|---|
| <p>October 2008<br/>Efforts made after transition to joint stock company</p> | <ul style="list-style-type: none"> <li>● <b>Crisis response measures:</b> Appropriate response as legally designated financial institution. 1) Crisis Response Guaranteed Loan, 2) Two-Step Loans, 3) Utilization of interest subsidizing program</li> <li>● <b>The Shoko Chukin Bank's own safety net loans</b></li> <li>● <b>Credit Guarantee Corporation:</b> Putting into action the Emergency Guarantee Program, and the "Great East Japan Earthquake Recovery Emergency Guarantee" Program</li> </ul> |
|--|---|



## Overview of Crisis Response Measures

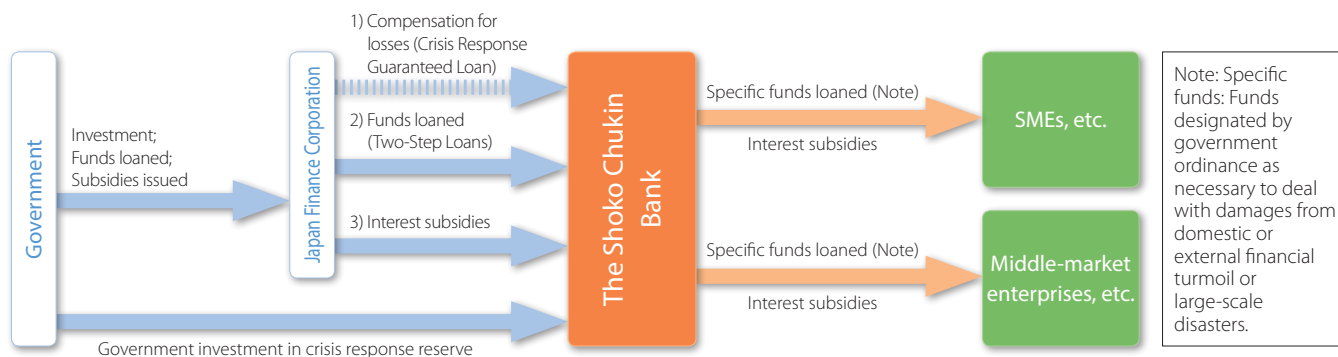
A new program for crisis response was developed after October 1, 2008, in order to deal with times of crisis, such as disasters and economic or financial turmoil.

The Shoko Chukin Bank is a designated financial institution\* to implement financing and other services for SMEs and middle-market enterprises in response to crisis.

The Shoko Chukin Bank has established 10 Special Consultation Desks in response to the request of the ministries in charge, including the “Special Consultation Desk Concerning the Great East Japan Earthquake,” “Special Consultation Desk Concerning Damages Caused by the Kumamoto Earthquake in 2016,” and “Special Consultation Desk Concerning Damages Caused by the Torrential Rain and Strong Winds from June 7 to July 27, 2017,” which are within the scope of crisis response operations, in addition to six consultation desks voluntarily established by the Shoko Chukin Bank. Through these consultation desks, the Bank does its utmost to fulfill its safety net function by providing prompt, detailed, and courteous responses to consultations from SMEs and middle-market enterprises. Crisis response operations are limited to truly critical situations, and we will strictly distinguish these as a public service, and carry out appropriate business operations in line with their intended purpose.

\* Designated financial institution: From private financial institutions that apply, the minister in charge designates those that meet certain criteria (the Shoko Chukin Bank, and Development Bank of Japan) to implement loans and other crisis response measures when the minister in charge has declared a crisis, and to receive risk supplements and other support from the treasury.

### Schematic diagram of crisis response measures



- 1) **Crisis Response Guaranteed Loan** : A system to loan specific funds, with supplemental credit from Japan Finance Corporation (partial compensation for amount of loss). Percentage of compensation: SME 80%; middle-market enterprise 70%
- 2) **Two-Step Loans** : The program to loan specific funds, with back finance based on resources from fiscal investment and loans, etc., from Japan Finance Corporation.
- 3) **Interest subsidies system** : The program of loans offered to customers at special interest rates by the Shoko Chukin Bank, or of paying the interest subsidies to customers at a later date, on the condition of receiving interest subsidies from Japan Finance Corporation.