

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.

As a plan to implement the Operation Improvement Plan Related to Our Business Model, etc., which was submitted to the ministries in charge on May 22, 2018, based on the misconduct in our crisis response operations; to formulate a business model that truly contributes to the region and SMEs and strengthen our governance system, Shoko Chukin Bank formulated the Shoko Chukin Bank Management Reform Plan.

Along with this plan, we developed the “Comprehensive financial services business to support management”, which makes good use of features unique to Shoko Chukin Bank, such as the achievements and know-how of financial institutions specializing in SMEs, as we focus on providing high value-added services that lead to problem solving for SMEs that are in need of management reform, business revitalization or business succession as well as SMEs that are facing challenges that involve bearing high amounts of risk.

For our mission, which does not change, we continue to change and will execute this plan quickly and steadily, as a financial institution run by SMEs for SMEs, to be trusted by, supported by, and more useful than ever to everyone, all of our employees will continue to work with all of our strength.

Financial and Economic Environment

In fiscal 2018, Japan's economy gradually recovered, but seemed to be slow during the second half of the year. While domestic demand gradually recovered along with a temporary slowdown due to natural disasters, external demand gradually weakened as overseas economies declined.

For small and medium enterprises trends, according to the Bank of Japan's Short-Term Economic Survey of Enterprises in Japan (Tankan), a sense of slowdown was felt for the business situations of the manufacturing industry, but the business outlook for non-manufacturing industries have maintained a high outlook. In Shoko Chukin Bank's Survey of SME Capital Investment Trends, SMEs were expected to improve their capital investments. On the other hand, there is a growing jobs shortage, and there are concerns about increased labor cost burdens.

Overview of Fiscal 2018

In fiscal 2018, we formulated the Shoko Chukin Bank Management Reform Plan, a Medium-term Business

Plan, and the executives visited all branches to share the reform philosophy. We have been working hard to realize a new business model as follows.

First, in response to efforts in areas of focus, starting from business prospects evaluation through deep dialogue, we supported improvements to corporate value by simultaneously performing financial restructuring and core business support in response to the financial support needs of our customers. For customers with a problem of insolvency, deficits, and financial affairs, or balance challenges, we supported business revitalization and management improvements through support for the formulation of management improvement plans. For customers working on industrial consolidation and business model reform, we provided solutions that utilize the domestic and international network of the Shoko Chukin Bank, including industrial reorganization, M&A and overseas expansion support. For customers expecting new growth or facing challenges in their field and for recently established businesses, we made efforts to provide loans and business support as well as to advance our regional financial functions.

In order to construct a structure to support the realization of our business model, we worked to establish a sustainable financing method based on our three pillars of recruitment bonds, corporate deposits and retail. Also, we established a project team for the early realization of reforms, and have considered streamlining the business by eliminating and optimizing existing operations, we reviewed our branch functions and are considering measures to streamline management, including reducing the cost of back office operations.

Moreover, as we prepare the conditions to realize our business model, we are strengthening our efforts to rebuild our compliance awareness and prevent frauds.

Concerning income and expenditure, due to a decrease in interest income, income before income taxes and other was ¥30.7 billion and net income was ¥14.4 billion.

We are grateful for the support of our shareholders and clients in enabling us to achieve these results.

Future Operating Performance and Management

While the economy is expected to continue its positive growth because of the growth of overseas economies, improved employment, and income situations, the business situation of SMEs seem to be improving in response to the economic slowdown. Also, with the continued low interest rate environment, the management environment around financial institutions

has become increasingly intense, and it is necessary to further accelerate efforts to independently build a sustainable business model.

Based on such situations, the entire management of the Shoko Chukin Bank has been making significant efforts to convert to a comprehensive financial services business to support management, and from a truly customer-oriented long-term perspective, to promote various measures under the Medium-term Business Plan under the basic concept of contributing to value improvements for SMEs and SME cooperatives, to deepen our relationships with customers, and to provide solutions that truly respond to customer needs and challenges.

First, with regards to our efforts in priority areas, we delve into the needs and challenges of our business partners through our business prospects evaluation, which is the premise of our business model, and work in close cooperation and collaboration with local financial institutions and external specialized organizations, to develop a wholesome system that can provide solutions that make the best of the resources of the Shoko Chukin Bank.

In order to construct a structure to support our business model, we work to reduce the cost of store operations and establish sustainable financing methods through drastic reforms of our sales departments and back office departments, such as through paperless operations and systemization, as well as branch consolidation.

Also, we will continue to reinforce our compliance awareness and strengthen our internal management systems, as well as working with the business model to construct personnel systems that allow our staff to demonstrate their abilities to the maximum extent and to promote diversity.

Through such efforts, as a financial institute run for SMEs by SMEs is trusted by, supported by, and more useful than ever to everyone, all of our employees will continue to work with all of our strength.

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, 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 2019

Masahiro Sekine

President

The Shoko Chukin Bank, Ltd.