

Medium-term Business Plan (Shoko Chukin Bank Management Reform Plan)

Summary

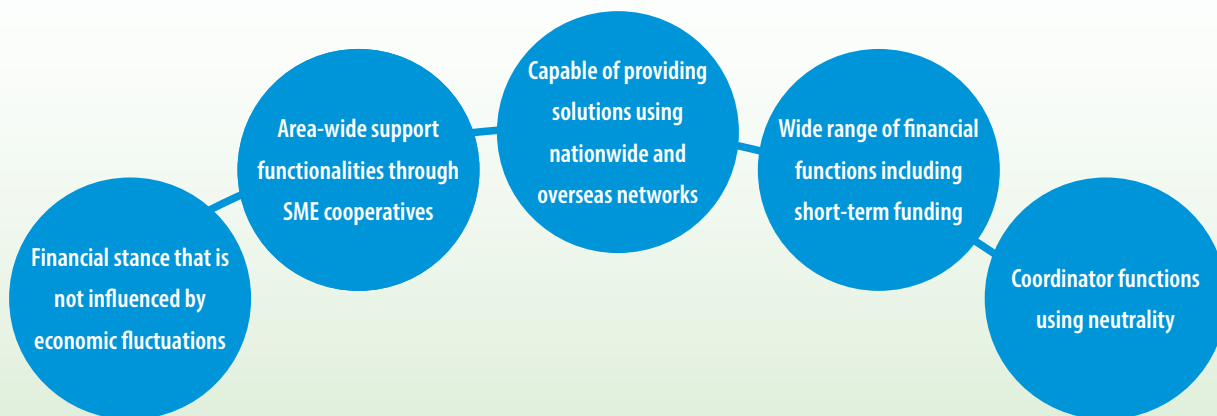
Position of the program

- The Medium-term Business Plan is an action plan for steadily implementing the contents of the Operation Improvement Plan that was submitted to the ministries in charge on May 22, 2018.
- Based on this plan, the Shoko Chukin Bank will return to its original mission and role as a financial institution for SMEs and shift to business operations arising from true of customer needs from a customer perspective.

Setting KPIs

- In order to develop a “comprehensive financial services business to support management” that takes advantage of the features of the Shoko Chukin Bank and establish a sustainable business model based on the Medium-term Business Plan, we have established KPIs regarding principal measures, and will report on our progress.
- The KPIs will be treated as indicators for monitoring our results in responding to the needs of customers, and the PDCA cycle will be implemented on these KPIs, as appropriate, to establish the business model.

Features of the Shoko Chukin Bank



Development of a Comprehensive Financial Services Business to Support Management

Basic views

Improve corporate value

By strongly supporting SMEs and SME cooperatives and building and deepening relationships of trust from a long-term perspective, without being influenced by economic fluctuations, we will effectively provide optimal solutions in accordance with true needs and challenges, and contribute to improvements in corporate value.

Sustainability

By securing the topline (net interest income, and fees and commissions) through operations with high added value, and pursuing the relentless streamlining of management, we will work to achieve an independent and sustainable business model and improve the corporate value of the Shoko Chukin Bank.

Structural reforms

In light of the increasingly challenging management environment facing the financial industry, officers and employees will share a sense of crisis, as they implement structural reforms in preparation for the future.

Resolution of social issues

We will contribute to the development of Japan through measures in response to regional and social issues, including SDGs.

Sharing issues

- We share issues through careful explanations and business dialogue with customers regarding the Shoko Chukin Bank's stance toward transactions, which is the premise for implementing our Medium-term Business Plan.
- Through this process, we will build strong relationships with our customers.

Stance of the Shoko Chukin Bank

- 1 Through financing and core business support based on business prospects evaluation for the purpose of contributing to improvements in the corporate value (= creation of shared value) of SMEs and SME cooperatives from a long-term perspective that is truly customer-oriented, we will work toward ongoing improvements in financial and operating cash flows.
- 2 We first gain an appropriate understanding of normal working capital (= the source of operating cash flow), which is the starting point for business prospects evaluation based on engagement with customers and field surveys, as we work to improve financing and operating cash flows.
- 3 We work to establish solid relationships of trust with customers in an ongoing manner by providing core business support aimed at improving financial cash flow as well as operating cash flow, with a stable and unwavering principle toward transactions.

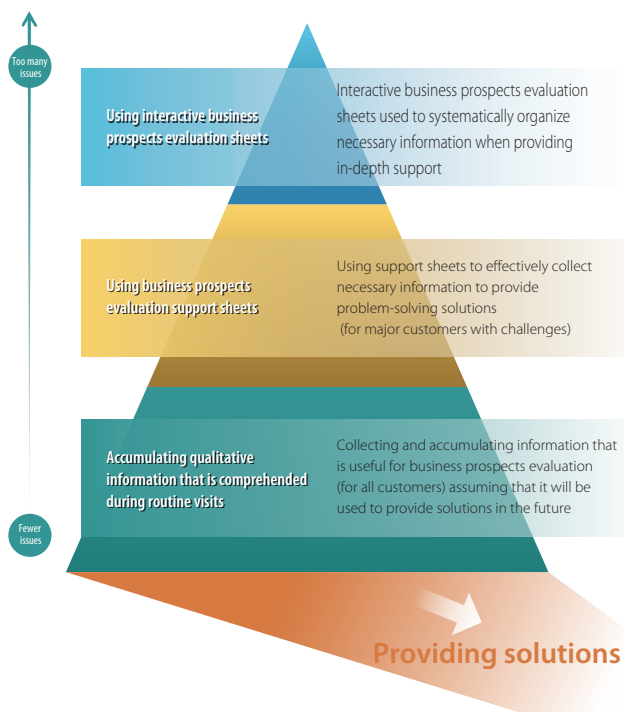
KPIs

- ◆ Number of customers sharing the Bank's business model
53,698/79.8% (Mar. 31/'19)
- ◆ Number of customers obtaining a grasp of their normal working capital, through business prospects evaluation
26,076/38.8% (Mar. 31/'19)

*These figures represent the percentages of customers with whom the Bank has found it necessary to share the Bank's business model.

Strengthening business prospects evaluation

- Business prospects evaluation are positioned as the starting point for the comprehensive financial services business to support management and will be strengthened as a company-wide initiative.



Business prospects evaluation initiatives

- Business prospects evaluation has been redefined as the starting point for the comprehensive financial services business to support management. We are working to refine the solutions provided by sharing challenges arising from the needs of customers, and systematically accumulating issues and information.
- We are strengthening training in collaboration with external organizations, and working to improve the business prospects evaluation skills of our employees, as we work to strengthen business prospects evaluation, such as through the use of business evaluation tools that reference local benchmarks.
- During fiscal 2018, business prospects evaluation (gaining an understanding of normal working capital) were conducted and challenges were shared for approximately 40% of our customers. We will continue to work to ensure that issues can be shared with all of our customers, at an early stage.

KPIs

- ◆ Number of challenges and needs shared with customers
85,491 (Mar. 31/'19)
- ◆ Number of local benchmark initiatives
*Will be announced from the next fiscal year, as this became a measure from fiscal 2019.
- ◆ Unsecured loan ratio based on the Guidelines for Management Guarantee (long-term loans) **35.8%** (Mar. 31/'19)

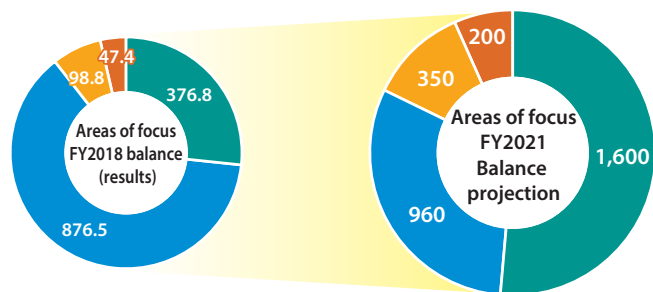
Finance support

Overview of initiatives

- Areas of focus are defined in Zones A through D. We focus on the provision of finance according to the needs and challenges of our customers, while taking advantage of the characteristics of the Shoko Chukin Bank.

Zone A	Zone B	Zone C	Zone D
Financial restructuring support We provide support for improving corporate value through core business support after implementing financial restructuring support, starting with business prospects evaluation.	Business revitalization and management improvement support We provide support for customers facing financial challenges, including insolvency and capital deficits, with business revitalization and management improvements through support including the formulation of management improvement plans.	Industrial structure transformation challenge support We provide support for industrial reorganization through M&As and overseas expansion, for companies engaged in industry consolidation and business model transformation (eliminating subcontracting, overseas expansion).	New industry challenges and establishment support We assist customers taking on challenges in frontier fields (aircraft, robots, advanced IT) and recent startup customers by integrating investment/loans and core business support, and work to refine our regional finance functions.

■ Zone A
 ■ Zone B
 ■ Zone C
 ■ Zone D
 (¥ billion)



KPI *All results are for Mar. 31/19

◆ Zone A support cases	4,331
Balance	¥376.8 billion
◆ Zone B support status	
Management improvement planning support cases	543
Refinance support cases	578
◆ Status of rank improvements for Zone B customers	
Customers with rank improvements	532 customers/13.7%
◆ Zone C support cases	238
Balance	¥98.8 billion
◆ Zone D support cases	309
Balance	¥47.4 billion

List of KPIs

- Solutions provision (finance support)

		FY2017	FY2018	FY2021 forecast
Zone A	Number of initiatives	—	4,331	4,000
	Initiative funding	—	¥433.5 billion	¥400 billion
	Loan balance	—	¥376.8 billion	¥1,600 billion
Zone B	Planning support	—	543	2,150
	Refinance	—	578	1,400
	Number/ratio of rank improvement	—	532/13.7%	—
	Loan balance	—	¥876.5 billion	¥960 billion
Zone C	Number of initiatives	—	238	750
	Initiative funding	—	¥39.4 billion	¥75 billion
	Loan balance	—	¥98.8 billion	¥350 billion
Zone D	Number of initiatives	—	309	800
	Initiative funding	—	¥11.2 billion	¥40 billion
	Loan balance	—	¥47.4 billion	¥200 billion

List of KPIs (other)

● Premise/business prospects evaluation

	FY2017	FY2018
Number of customers sharing the Bank's business model	—	53,698
Number of customers obtaining a grasp of their normal working capital through business prospects evaluation	—	26,076

	FY2017	FY2018
Number of challenges and needs shared with customers	—	85,491
Unsecured loan ratio based on the Guidelines for Management Guarantee	—	35.8%

● Solution provision (core business support)

	FY2017	FY2018
Number of business succession support projects	162	198
Number of M&A support projects	9	17
Number of business matching support projects	205	383
Number of grants of overseas credit	1,159	1,106
Number of cases in which needs and challenges for customers' local subsidiaries overseas have been identified	2,034	2,550
Number of meetings held by the Secretary General of cooperatives	4	86

● Systems/human resources

	FY2017	FY2018	FY2021 target
Number of visits to the bank (Corporate Business Solution Group)	2,926	4,469	—
Percentage having obtained external qualifications for business prospects evaluation	39.4%	60.2%	80.0%
Percentage having obtained external qualifications for business successions	30.7%	46.4%	80.0%
Number of employees obtaining internal qualifications (solutions)	88	122	130
Number of employees obtaining internal qualifications (management improvement)	—	93	80

● Cooperation/collaboration with regional financial institutions

	FY2017	FY2018
Number of visits to regional financial institutions	—	967
Number of idea exchange meetings with industry associations	—	10
Number of instances of cooperation and collaborations (solutions provision)	—	515
Number of cooperative loans	—	1,032

● Income/expense situation

	FY2017	FY2018
OHR	65%	71%
Income before income taxes and other	¥56.9 billion	¥30.7 billion

● Outcome (cash flow improvements)

	FY2017	FY2018
Number of operating cash flow improvements	—	147
Number of financing cash flow improvements	—	2,825

● Outcome (reduced credit costs)

	FY2017	FY2018
Below risk of bankruptcy ⇨ Above need special attention	—	¥(4.7) billion
Need special attention ⇨ Normal	—	¥(3.7) billion

Efforts in Areas of Focus

Zone A [Financial restructuring support]

The Shoko Chukin Bank has positioned its business prospects evaluation as a starting point for its comprehensive financial services business to support management. In order to deepen the relationship of mutual trust with customers, understand the businesses and grasp the potential for future growth, we conduct interviews based on the situation and understand sales channels, and utilize the systematically accumulated information to make judgments when determining credit limits or providing solutions.

Via business prospects evaluations through in-depth dialogue, the Shoko Chukin Bank precisely comprehends customers' challenges, and based on their needs, we conduct financial structural reforms through refinance leading to drastic solutions, and improve financing CF through overdrafts according to working capital demand and long-term bullet repayment financing, as well as deal with core business support leading to the improvement of operating CF through business matching.

(1) Financial restructuring support (formation of syndicated loans to perform coordination functions and pump-priming functions)

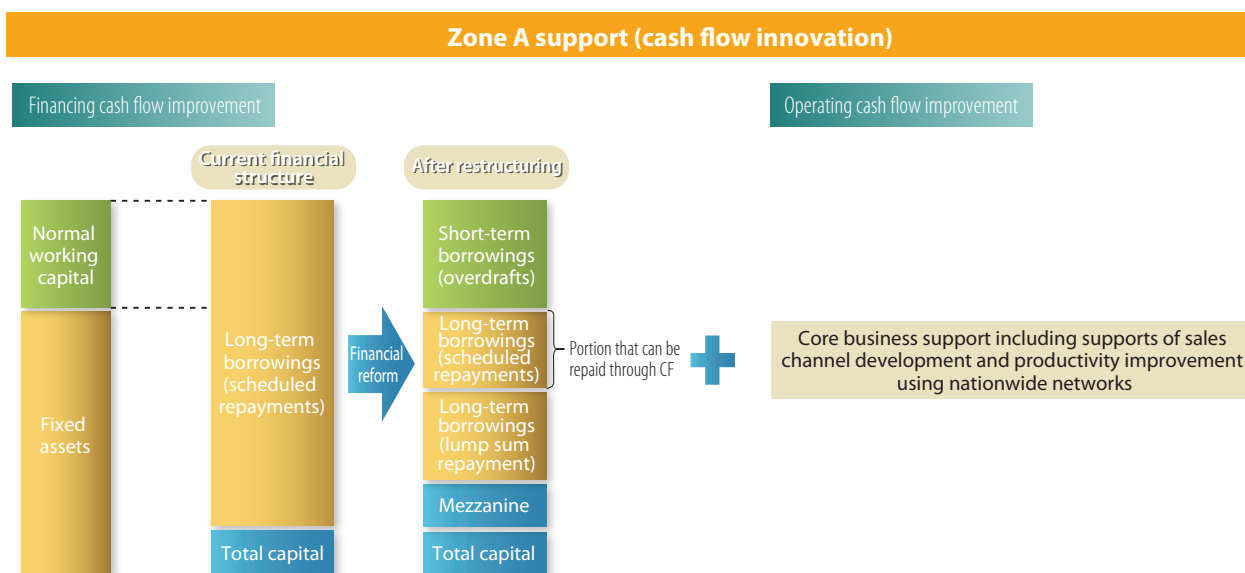
The Shoko Chukin Bank will switch customers' long-term borrowing with scheduled repayments to short-term borrowing such as commitment lines and overdrafts, resolve mismatches between cash flows and annual repayment amounts, and create an environment in which customers can focus on their core business. In addition, we use syndicated loans in cooperation with regional financial institutions, etc. in response to these types of financial improvement needs such as refinancing. To date, a total of 186 banks have been invited to participate in syndicated loans formed by the Shoko Chukin Bank.

(2) Business matching (support for expansion of sales channels and productivity)

The Shoko Chukin Bank will strive to strengthen business matching services that enhance the corporate value of business partners, by using the Bank's domestic and overseas network, as well as customer organizations (Chukin kai and Youth kai) to increase sales, reduce purchasing costs, etc.

*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.

*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 6,100 members.



Zone B [Business revitalization and management improvement support]

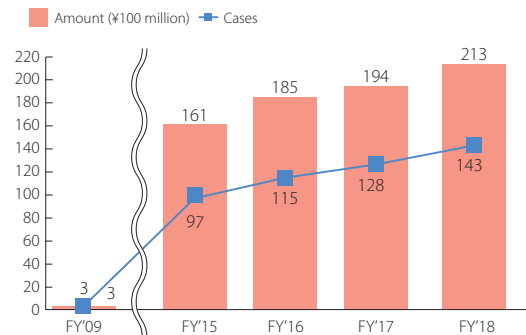
The Shoko Chukin Bank has consistently provided our customers with business revitalization and management improvement support. In addition, in the Medium-term Business Plan, the Shoko Chukin Bank selected roughly 4,000 companies as main and sub-main customers for the provision of active support and guidance. Going forward, we will continue to contribute to improving the corporate value of our customers, through the provision of support for appropriate solutions in consideration of management improvement plan formulation support as well as budget and results management.

In addition, we will strengthen coordination with business revitalization support organizations, such as the SME Revitalization Support Councils, and external organizations including regional support centers and tax accountant advisors, and work to improve the corporate value of our customers, including SMEs in cooperation with regional financial institutions.

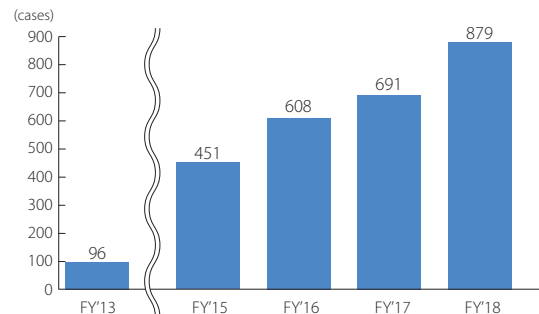
~Past initiatives to support business revitalization~

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 DDS efforts (cumulative)



<Results of refinancing system efforts (cumulative)>



Initiatives in the previous fiscal year: Revitalization Support Program (business revitalization know-how in a package)



Zone C [Industrial structure transformation challenge support]

Zone D [New industry challenges and establishment support]

The Shoko Chukin Bank will provide solutions using its nationwide network for efforts by core regional companies that have an influence on the regional economy and are entering high-risk businesses, and industries in which reorganization and new growth can be expected. In addition, to support the increasingly diverse overseas expansion needs of SMEs, the Bank has positioned North and Central America, ASEAN, and China as priority regions, and will strengthen coordination with regional financial institutions through its New York Branch, and strengthen alliances with local government agencies and local banks.

In addition to these efforts, we assist customers taking on challenges in frontier fields (aircraft, robots, advanced IT) and recent startup customers by integrating investment/loans and core business support, and work to refine our regional finance functions.

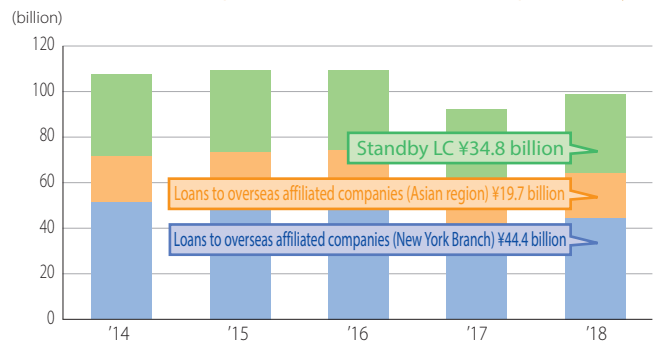
Support for Overseas Expansion

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."

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-subsidiary loans, etc., to the import and export-related trade and finance services.

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



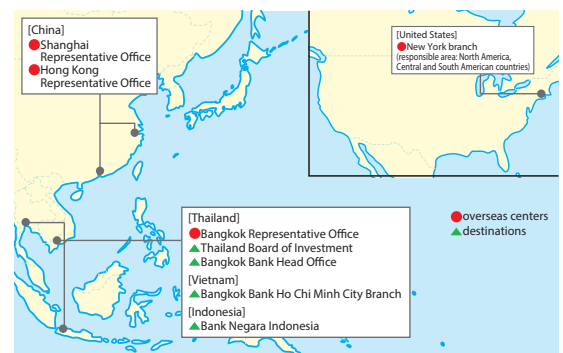
Networks of the Shoko Chukin Bank

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

Overseas co-operative financial institutions

- Thailand Board of Investment (BOI) • Department of Trade and Industry, Philippines (DTI)
- Foreign Investment Agency, Vietnam (FIA) • Standard Chartered Bank (United Kingdom)
- Bangkok Bank (Thailand) • Bank of Communications (China)
- Bank Negara Indonesia (Indonesia) • Rizal Commercial Banking Corporation (Philippines)
- Shanghai Foreign Investment Development Board (China)
- Nantong Economical and Technological Development Zone (China)
- Pinghu Economic-Technological Development Zone (China)
- Guangzhou Development District Investment Promotion Bureau (China)
- Nanhai Economy Promotion Bureau, Foshan City (China)

Overseas Centers and Destinations



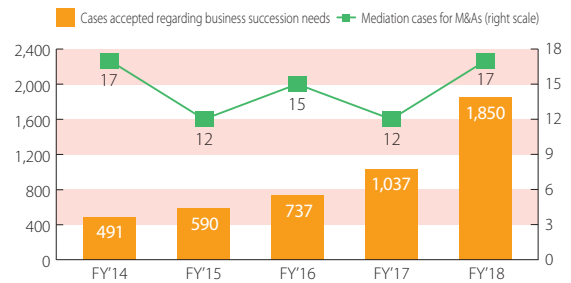
Business succession, M&A

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

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 and other external specialists.

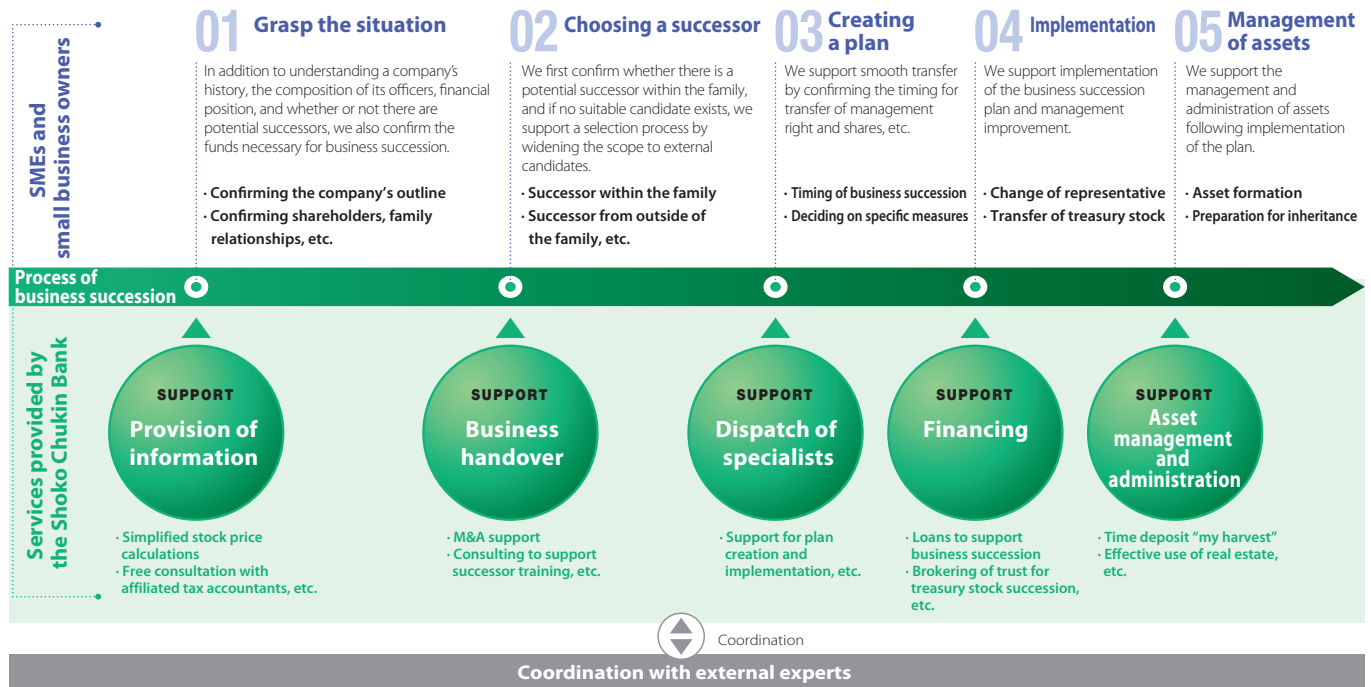
Number of cases accepted regarding business succession needs and mediation cases for M&As



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.

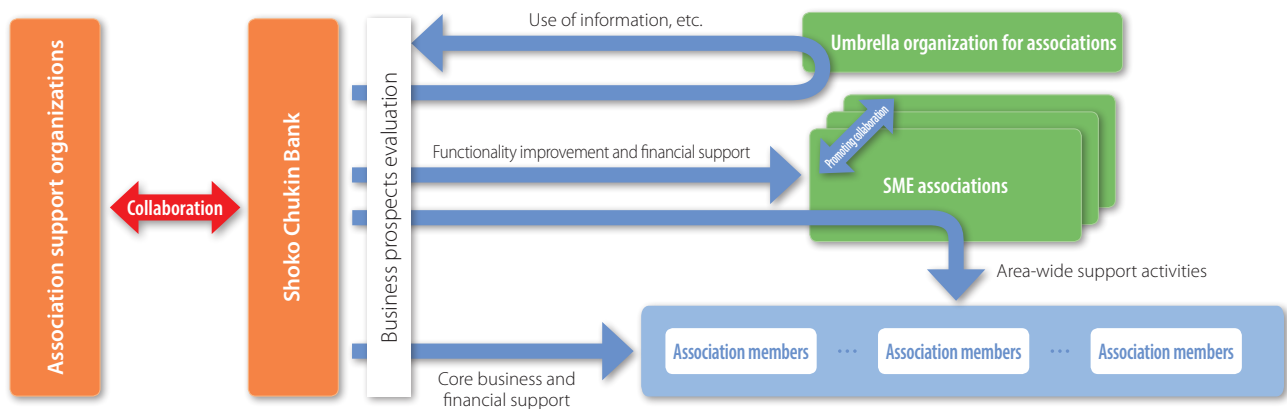


Support for Associations

The Association of SMEs plays an effective role in resolving challenges for revitalization of the regional economy, including increases in the productivity of individual members through the association of joint enterprises, development of external demand using regional resources, and dissemination of information.

While sharing challenges with SME associations and members through efforts to evaluate business prospects, the Shoko Chukin Bank works to enhance value for associations and members by providing solutions unique to the Shoko Chukin Bank in response to various needs, such as the smooth succession of businesses, productivity improvements, business revitalization, financial improvements, and expansion into new businesses.

In addition to responding to the above mentioned challenges and needs, in cooperation with association support organizations, such as the Federations of Small Business Associations and the Organization for Small and Medium Enterprises and Regional Innovation, we will engage in regional revitalization unique to the Shoko Chukin Bank while also supporting funding needs, including reconstruction and redevelopment for apartment associations.

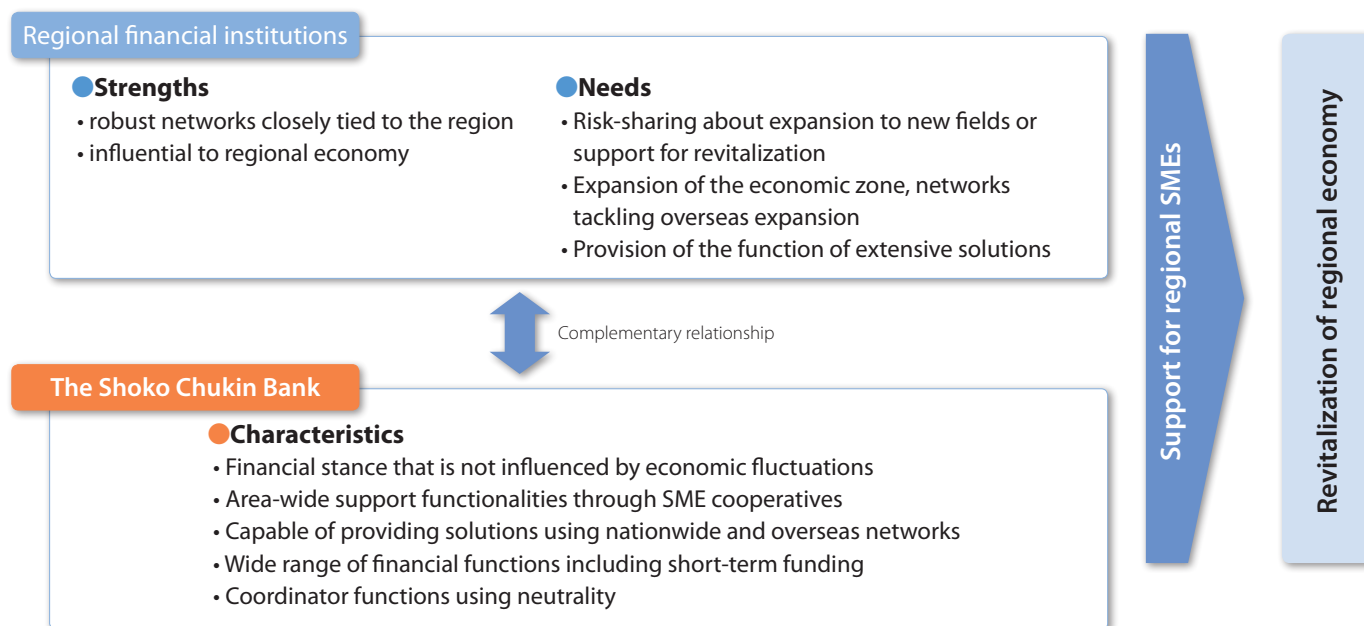


■ Collaboration and Cooperation with Regional Financial Institutions

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 2019)

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	40	259	146	509
No. of concluded agreements of business cooperation	61	39	240	113	453

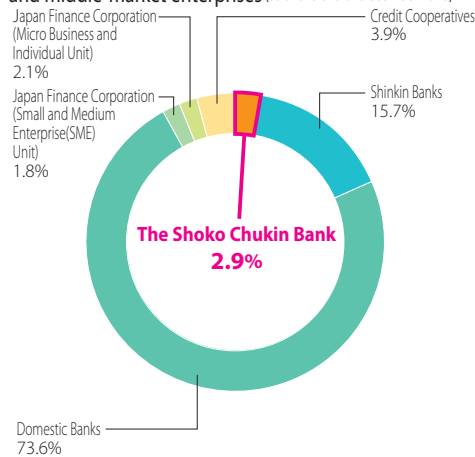
Fulfilling a Safety Net Function, Mainly in Crisis Response Measures

The Shoko Chukin Bank has been devoting its full efforts to supporting the cash flows of SMEs in response to natural disasters such as earthquakes and typhoons, as well as bankruptcies and business restrictions involving contractors, and other large-scale economic changes.

A Stable Transaction Stance

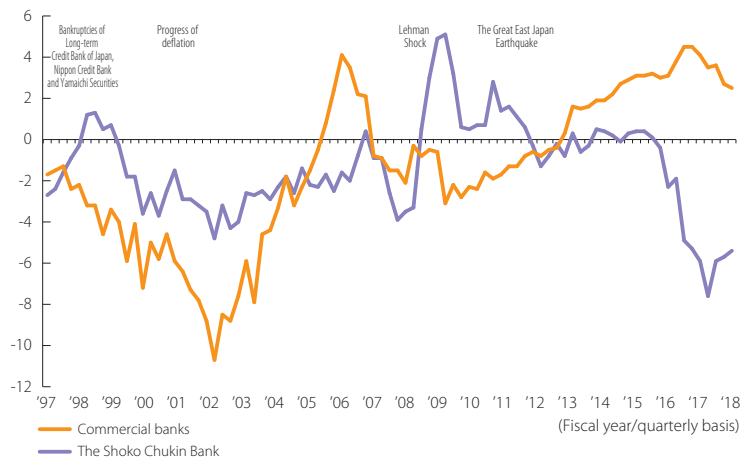
The Shoko Chukin Bank, through its day-to-day transactions with SMEs, not only looks at financial matters, but also takes the clients' operations, technology, and the abilities and enthusiasm of the executives into consideration. In this way, we strive to provide services that respond flexibly to corporate 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 2018)



· 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 2018.
Sources: Bank of Japan "Loans and Bills Discounted by Sector," Community Bank Shinyo Kumiai

Efforts by the Shoko Chukin Bank

The current fiscal year was plagued with many disasters, including the Northern Osaka Prefecture Earthquake, the Heavy Rain Event of July 2018 in western Japan, typhoon Jebi (No. 21 of 2018), and the Hokkaido Eastern Iburi Earthquake.

Faced by these disasters, the Shoko Chukin Bank has established special consultation desks upon the request of the ministries in charge, in addition to consultation desks voluntarily established by the Shoko Chukin Bank, in order to provide detailed and courteous support for persons affected by these disasters, and fulfill the safety net function through the establishment of financing programs including its own disaster recovery loan program.

Prompt, detailed, and courteous consultation responses

- Special consultation desks
- Consultation desks voluntarily established by the Shoko Chukin Bank

Cash flow support for SMEs

- Shoko Chukin Bank's own disaster recovery loan program
- Use of the Credit Guarantee Cooperation system

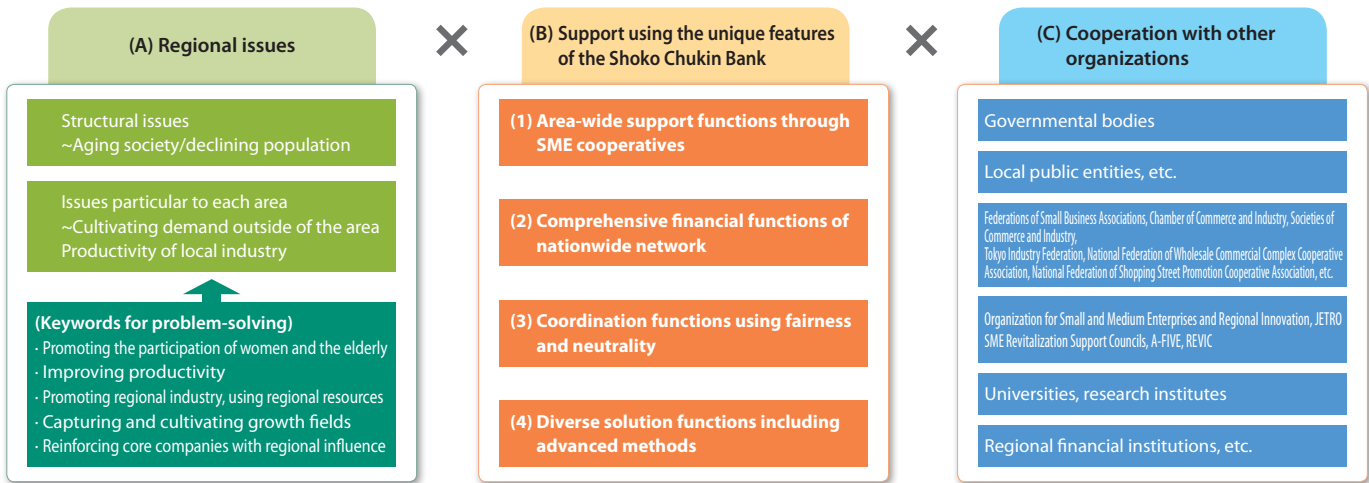
Support for the Corporate Value Improvement for the SMEs

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 establishment of a new cooperative for entering new business fields (Sakata Office)

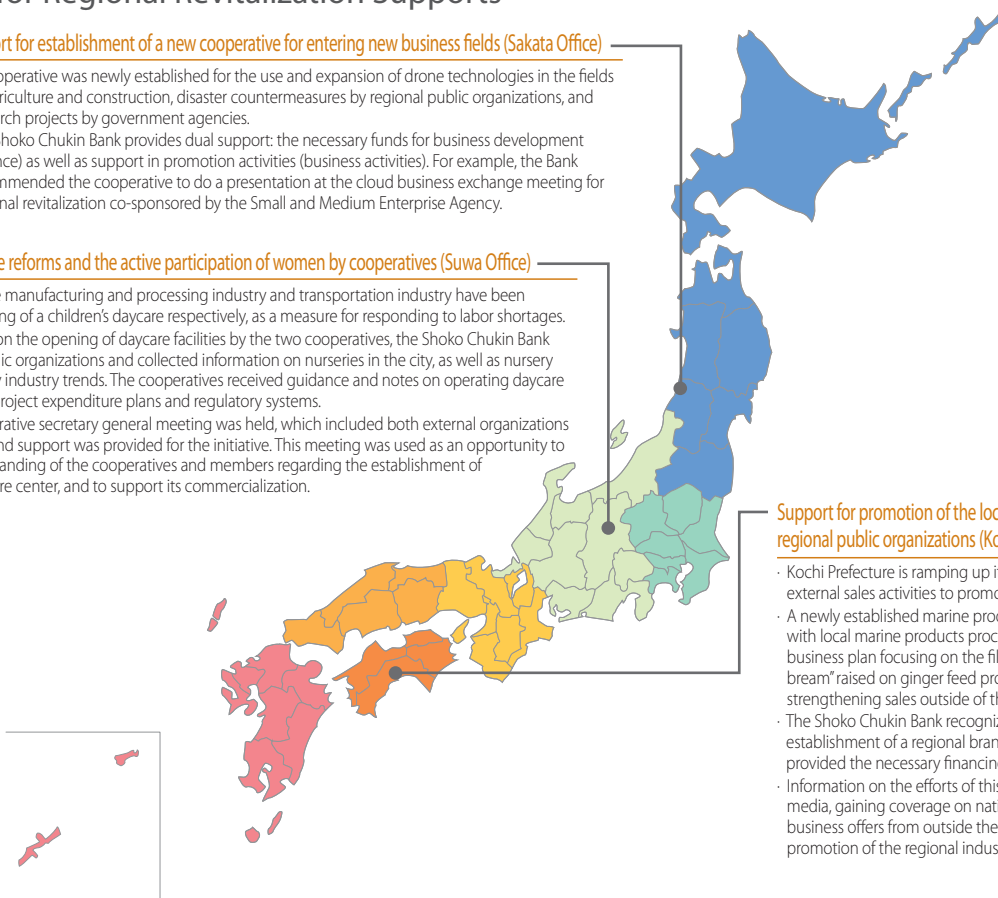
- A cooperative was newly established for the use and expansion of drone technologies in the fields of agriculture and construction, disaster countermeasures by regional public organizations, and research projects by government agencies.
- The Shoko Chukin Bank provides dual support: the necessary funds for business development (finance) as well as support in promotion activities (business activities). For example, the Bank recommended the cooperative to do a presentation at the cloud business exchange meeting for regional revitalization co-sponsored by the Small and Medium Enterprise Agency.

Support for workstyle reforms and the active participation of women by cooperatives (Suwa Office)

- Cooperatives for the manufacturing and processing industry and transportation industry have been exploring the opening of a children's daycare respectively, as a measure for responding to labor shortages.
- To facilitate studies on the opening of daycare facilities by the two cooperatives, the Shoko Chukin Bank visited regional public organizations and collected information on nurseries in the city, as well as nursery and childcare facility industry trends. The cooperatives received guidance and notes on operating daycare facilities, including project expenditure plans and regulatory systems.
- In addition, a cooperative secretary general meeting was held, which included both external organizations and professionals, and support was provided for the initiative. This meeting was used as an opportunity to deepen the understanding of the cooperatives and members regarding the establishment of a cooperative daycare center, and to support its commercialization.

Support for promotion of the local industry in coordination with regional public organizations (Kochi Office)

- Kochi Prefecture is ramping up its efforts in regional production/ external sales activities to promote regional industry.
- A newly established marine products wholesale operator cooperated with local marine products processing companies to formulate a business plan focusing on the fillet processing business for "ginger sea bream" raised on ginger feed produced in the prefecture, and strengthening sales outside of the prefecture.
- The Shoko Chukin Bank recognized that these efforts would lead to the establishment of a regional brand and regional revitalization, and provided the necessary financing in cooperation with Kochi Prefecture.
- Information on the efforts of this company were conveyed to the media, gaining coverage on national newspapers. It led to new business offers from outside the prefecture and contributed to the promotion of the regional industry.



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
Additional government funding	—	Possible <u>until March 2012</u>	Possible <u>until March 2015</u>	Possible <u>for the time being</u>
Review of the content	—	Subject to review <u>by March 2012</u>	Subject to review <u>by March 2015</u>	Subject to review <u>as appropriate</u>
Government-owned shares	Scheduled to <u>dispose all shares within five to seven years from October 2008</u>	Scheduled <u>not to dispose until March 2012</u> Scheduled to <u>dispose all shares within five to seven years from April 2012</u>	Scheduled <u>not to dispose until March 2015</u> 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> Scheduled, <u>for the time being, to retain shares as necessary</u>

■ Business Operation Policies for Fiscal 2019

- As a result of the continuing low interest rate environment, the business environment facing financial institutions has become increasingly challenging, and it has become necessary to further accelerate efforts aimed at establishing an independent and sustainable business model.
- The Shoko Chukin Bank will transform into a comprehensive financial services business to support management as all officers and employees work together to implement the various measures of the Medium-term Business Plan, deepen our relationships with customers, and provide optimal solutions for their true needs and challenges, under a basic stance of contributing to improvements in the corporate value of SMEs and SME cooperatives, from a long-term perspective that is truly customer-oriented.
- First, as focus area initiatives, we will gain a deep understanding of customers' challenges and needs through business prospects evaluation, which is the premise of our business model, and work to improve and advance structures for the provision of solutions that take advantage of the features of the Shoko Chukin Bank, while working in close cooperation and collaboration with regional financial institutions and external specialist organizations.
- In order to establish mechanisms to support our business model, we will pursue fundamental operational reforms in our sales and back office divisions, including the adoption of paperless and digitalized operations, reductions in branch operation costs through means such as office consolidation, and the establishment of sustainable financing methods.
- In addition, we will continue to work to restore compliance awareness and strengthen internal management systems, while establishing human resources systems that allow employees to perform to the best of their abilities in conjunction with the business model, and promoting diversity.
- 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 of even greater service to our customers. All of the officers and employees of the Bank will continue to enthusiastically work as one to achieve this goal.

Overview of Crisis Response Measures

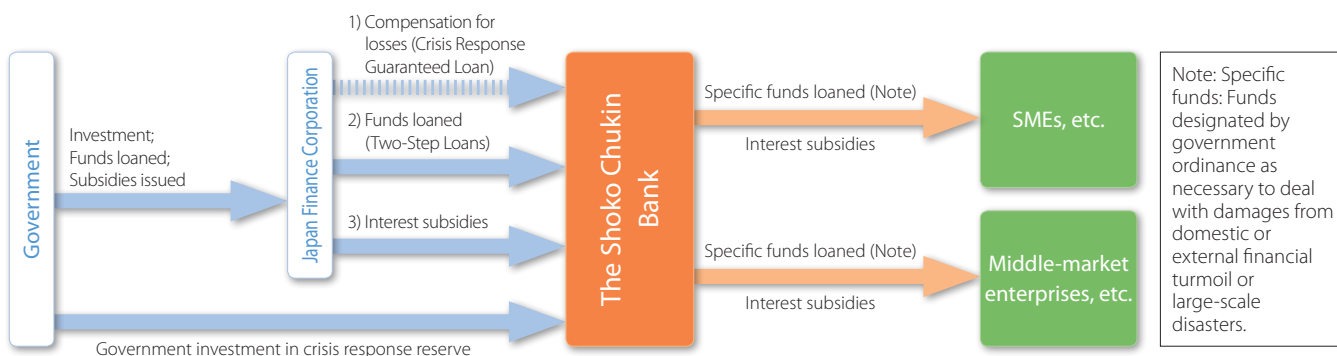
A new program for crisis response was developed after October 1, 2008, in order to deal with times of crisis, such as disasters and economic or financial turmoil.

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 18 Special Consultation Desks in response to the request of the ministries in charge, including the "Special Consultation Desk Concerning the Great East Japan Earthquake" and "Special Consultation Desk Concerning Damages Caused by the Kumamoto Earthquake in 2016," which are within the scope of crisis response operations, in addition to three 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.

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.
 - October 18, 2018 : Release of the Management Reform Plan (Medium-term Business Plan)

Results of the investigation on misconduct in our 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 4,634 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. If any misconduct, including falsification is discovered through an internal audit or whistleblowing, it will subsequently be announced under the advisory and guidance of the Compliance Committee. The above counts and numbers of individuals reflect the announcements made up to February 22, 2019.)

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.