

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.

Shoko Chukin Bank provides comprehensive financial services business to support the management of SMEs and SME cooperatives, which are its business partners, and provides appropriate solutions by fully leveraging the characteristics of its financial stance, which is not affected by the economy, starting with a business prospects evaluation undertaken to understand various issues and needs through in-depth dialogue. We will contribute to increasing the corporate value of SMEs that support the local economy, by providing solutions that lead to the fundamental resolution of issues, including in-depth financial support, hands-on business improvement support, and M&A and business succession support for SMEs that (1) have a heavy borrowing burden and cash flow concerns, (2) have financial problems and balance challenges such as insolvencies or capital deficits, (3) plan overseas expansion or new business expansion that involves risks, or (4) have concerns regarding financing issues just after establishment. In addition, by steadily implementing future-oriented structural reforms, we will establish an appropriate personnel structure and cost structure, with the aim of sustainable growth.

Financial and Economic Environment

Although Japan's economy in fiscal 2019 was strong in the first half, primarily due to domestic demand, there was an increasing slowdown in the second half due to factors including a hike in the consumption tax rate and the spread of Covid-19.

In terms of business sentiment among SMEs, sentiment deteriorated for the manufacturing industry and improved for non-manufacturing industries in the first half of the fiscal year. However, towards the end of the fiscal year, the spread of Covid-19 caused the sentiment to worsen sharply for both the manufacturing industry and non-manufacturing industries. Going forward, there are concerns that business conditions may continue to deteriorate due to the spread of Covid-19.

In particular, a prolongation of the disruption of the global supply chain and a slowdown in overseas economies could lead to a further deterioration of business conditions in the manufacturing industry. In addition to the negative impact on tourism-related industries due to a sharp decline in the number of foreign visitors to Japan, negative impacts could also be felt across a wide range of industries, including the restaurant and service industries, as people in Japan refrain from going out. These customer trends could affect the earnings of domestic financial institutions due to factors such as increased credit-related expense.

Overview of Fiscal 2019

The Shoko Chukin Bank Management Reform Plan, which is our Medium-term Business Plan, defines

focused support for SMEs that have low productivity and are in need of management improvement, business revitalization, or business succession support, as well as SMEs that are about to embark on a high-risk business but are struggling, as priority areas in Zone A to Zone D.

Because initiatives in priority areas form the basis of our Medium-term Business Plan and are essential to its progress, the number of loans executed and loan balance are set as KPIs (key performance indicators; quantitative measure of target achievement) and released.

Although progress in fiscal 2019 was generally favorable, we believe we need to concentrate more on initiatives in priority areas in order to establish them as a business model.

In Zone A, which is a volume zone, while the loan balance was generally in line with our plan, we recognize the need to increase the corporate value of customer SMEs by providing more in-depth support, such as financial restructuring support and core business support.

In Zone B, where we provide management improvement support, we will continue to focus on supporting business revitalization and management improvement so that as many customers as possible can improve the level of their management.

In Zones C and D, although the loan balance fell short of the estimated pace in the plan due to the time required to disseminate the approach to our initiatives, the number of loans executed and the amount of loans executed began to follow an upward trend in the second half of the fiscal year, due in part to the development of a structure for implementation.

As a result of these initiatives, regarding our income and expenditure for fiscal 2019, income before income taxes and others was ¥20.5 billion while net income was ¥13.7 billion.

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

Future Operating Performance and Management

With long-term interest rates remaining at low levels, there has been downward pressure on the earnings of financial institutions in Japan, including the Shoko Chukin Bank. In order to secure stable earnings under these conditions, it is necessary to further accelerate the sharing of issues and needs through dialogue with customer SMEs, which is the foundation of our Medium-term Business Plan, as well as the provision of high value-added solutions through in-depth support. To this end, we will steadily build relationships with customer SMEs to discuss their issues and concerns, strengthen our business prospects evaluation capabilities to understand the background and nature of their problems and concerns, and provide more sophisticated solutions to help solve their problems.

The majority of our borrowers are SMEs that are susceptible to the external environment, and because the impact of Covid-19 is spreading to SMEs, in addition

to structural problems such as labor shortages, we will take all possible measures to support the cash flows of customer SMEs. In particular, for the time being, in light of the severity of the impact of Covid-19, we will respond promptly to affected SMEs in a cordial, courteous, and individualized manner, as a designated financial institution for crisis response operations. We will also reflect on the occurrence of misconduct in crisis response operations and operate systems appropriately.

At the same time, we need to strengthen our hands-on support systems and enhance the management of warning signs to identify impacts due to the external environment at an early stage, and provide advice and solutions to handle challenges in an appropriate manner. For SMEs with financial problems and balance challenges that require business revitalization or management improvement, we will collaborate with local financial institutions and utilize solutions that leverage the features of the Shoko Chukin Bank, in order to assist in management improvement of the customer SMEs that support the local economy, from a medium- to long-term perspective.

We will strive to make future-oriented business innovations and thoroughly reduce expenses in order to make these initiatives sustainable. While effectively utilizing non-face-to-face channels such as the Internet and smartphone apps to ensure customer convenience, we will also work to establish sustainable procurement methods and reduce store operating costs by consolidating stores and downsizing store functions. As we promote digitization, we will strengthen our efforts to support the core businesses of customer SMEs by digitizing and upgrading information, while increasing the amount of time we are able to spend on engagement with customer SMEs, by centralizing and streamlining paperwork through paperless and systematization processes.

In addition, we will continue to work on establishing compliance awareness as the backbone of our business model and strengthening our internal management systems, while also working on promoting diversity and constructing personnel systems that allow our employees to maximize their capabilities, as we strive to establish the business model that we aim to achieve in our Medium-term Business Plan.

In Closing

As a financial institution run by SMEs for SMEs, all of our employees will continue to work with all of our strength to ensure that we are trusted and supported by everyone, and to make certain that our services are more useful than ever.

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



July 2020

Masahiro Sekine

President

The Shoko Chukin Bank, Ltd.