

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

Summary

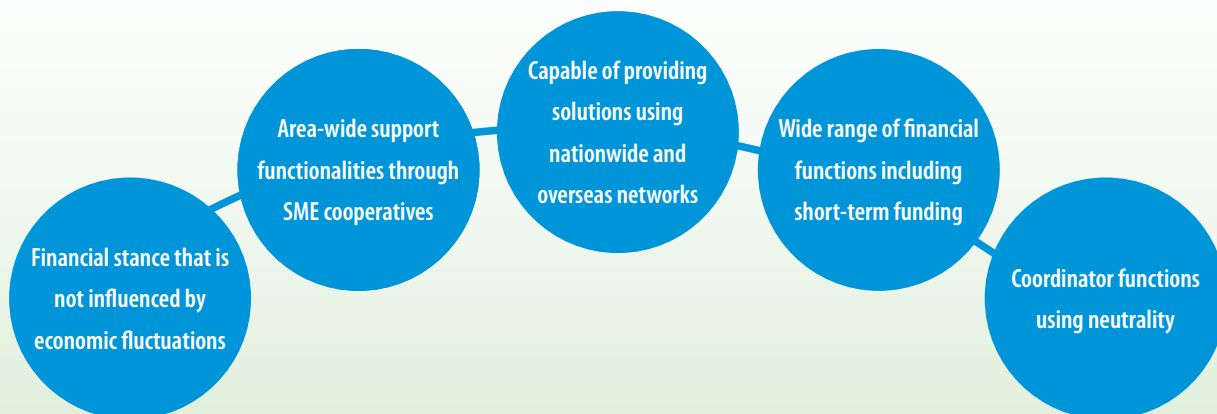
Position of the program

- 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.
- Although we finished compiling our KPIs in March 2020 because we shared challenges with nearly all of our customers, we will continue to repeatedly explain the approach of Shoko Chukin Bank, and strive to build relationships with them.

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.

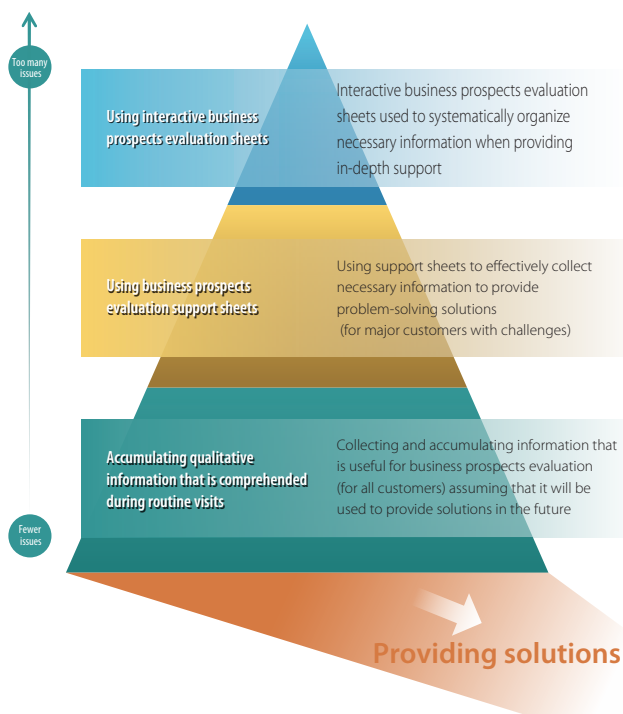
KPIs

- ◆ Number of customers sharing the Bank's business model
65,112/100.0% (Mar. 31/'20)
- ◆ Number of customers obtaining a grasp of their normal working capital, through business prospects evaluation
61,913/95.1% (Mar. 31/'20)

*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.
- From fiscal 2018 to fiscal 2019, business prospects evaluations (gaining an understanding of normal working capital) were conducted, and challenges were shared with nearly all of our customers. We will continue to provide solutions to solve these shared challenges.

KPIs

- ◆ Number of challenges and needs shared with customers
89,426 (Mar. 31/'20)
- ◆ Number of local benchmark initiatives
33,790 (Mar. 31/'20)
- ◆ Unsecured loan ratio based on the Guidelines for Management Guarantee (long-term loans) 41.2% (Mar. 31/'20)

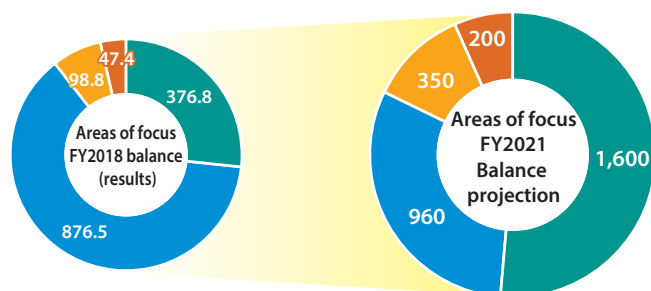
Finance support

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.

<p>Zone A</p> <p>Financial restructuring support</p> <p>We provide support for improving corporate value through core business support after implementing financial restructuring support, starting with business prospects evaluation.</p>	<p>Zone B</p> <p>Business revitalization and management improvement support</p> <p>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.</p>	<p>Zone C</p> <p>Industrial structure transformation challenge support</p> <p>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).</p>	<p>Zone D</p> <p>New industry challenges and establishment support</p> <p>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.</p>
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■ Zone A
 ■ Zone B
 ■ Zone C
 ■ Zone D
 (¥ billion)



KPI *All results are for Mar. 31/'20

◆ Zone A support cases	16,474
Balance	¥907.4 billion
◆ Zone B support status	
Management improvement planning support cases	642
Refinance support cases	635
◆ Status of rank improvements for Zone B customers	
Customers with rank improvements	544 customers/13.5%
Customers that improved management indicators	2,575 customers/76.0%
◆ Zone C support cases	568
Balance	¥166.8 billion
◆ Zone D support cases	1,048
Balance	¥58.5 billion

List of KPIs

- Solutions provision (finance support)

		FY2018	FY2019	FY2021 forecast
Zone A	Number of initiatives	4,331	16,474	4,000
	Initiative funding	¥433.5 billion	¥1,477.9 billion	¥400 billion
	Loan balance	¥376.8 billion	¥907.4 billion	¥1,600 billion
Zone B	Planning support (cumulative)	543	1,185	2,150
	Refinance (cumulative)	578	1,213	1,400
	Number/ratio of rank improvement	532/13.7%	544/13.5%	—
	Status of management indicator improvement	—	2,575/76.0%	—
	Loan balance	¥876.5 billion	¥938.4 billion	¥960 billion
Zone C	Number of initiatives	238	568	750
	Initiative funding	¥39.4 billion	¥98.5 billion	¥75 billion
	Loan balance	¥98.8 billion	¥166.8 billion	¥350 billion
Zone D	Number of initiatives	309	1,048	800
	Initiative funding	¥11.2 billion	¥37.9 billion	¥40 billion
	Loan balance	¥47.4 billion	¥58.5 billion	¥200 billion

List of KPIs (other)

● Premise/business prospects evaluation

	FY2018	FY2019
Number of customers sharing the Bank's business model	53,698	65,112
Number of customers obtaining a grasp of their normal working capital through business prospects evaluation	26,076	61,913

	FY2018	FY2019
Number of challenges and needs shared with customers	85,491	89,426
Number of local benchmark initiatives	—	33,790
Unsecured loan ratio based on the Guidelines for Management Guarantee	35.8%	41.2%

● Solution provision (core business support)

	FY2018	FY2019
Number of business succession support projects	198	308
Number of M&A support projects	17	20
Number of business matching support projects	383	615
Number of grants of overseas credit	1,106	1,090
Number of cases in which needs and challenges for customers' local subsidiaries overseas have been identified	2,550	2,748
Number of meetings held by the Secretary General of cooperatives	86	160

● Systems/human resources

	FY2018	FY2019	FY2021 target
Number of visits to the bank (Corporate Business Solution Group)	4,469	5,292	—
Percentage having obtained external qualifications for business prospects evaluation	60.2%	75.1%	80.0%
Percentage having obtained external qualifications for business successions	46.4%	71.1%	80.0%
Number of employees obtaining internal qualifications (solutions)	122	134	130
Number of employees obtaining internal qualifications (management improvement)	93	102	80

● Cooperation/collaboration with regional financial institutions

	FY2018	FY2019
Number of visits to regional financial institutions	967	1,458
Number of idea exchange meetings with industry associations	10	7
Number of instances of cooperation and collaborations (solutions provision)	515	583
Number of cooperative loans	1,032	2,160

● Income/expense situation

	FY2018	FY2019
OHR	71%	72%
Income before income taxes and other	¥30.7 billion	¥20.5 billion

● Outcome (cash flow improvements)

	FY2018	FY2019
Number of operating cash flow improvements	147	502
Number of financing cash flow improvements	2,825	7,825

*Numbers represent cumulative totals from fiscal 2018

● Outcome (reduced credit costs)

	FY2018	FY2019
Below risk of bankruptcy ⇨ Above need special attention	¥(4.7) billion	¥(5.3) billion
Need special attention ⇨ Normal	¥(3.7) billion	¥(2.9) 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)

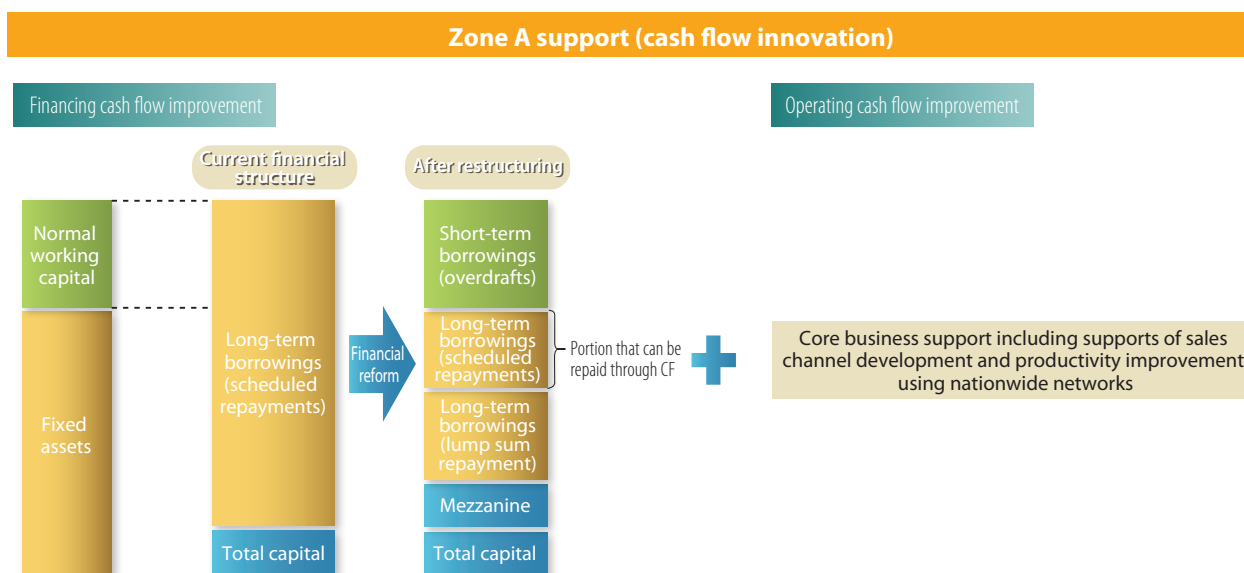
The Shoko Chukin Bank will switch customers' long-term borrowing with scheduled repayments to other types of borrowing, such as commitment lines and long-term bullet repayment financing, resolve mismatches between cash flows and annual repayment amounts, and create an environment in which customers can 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 201 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, customer organizations (Chukin kai and Youth kai), partner businesses and SME support organizations 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]

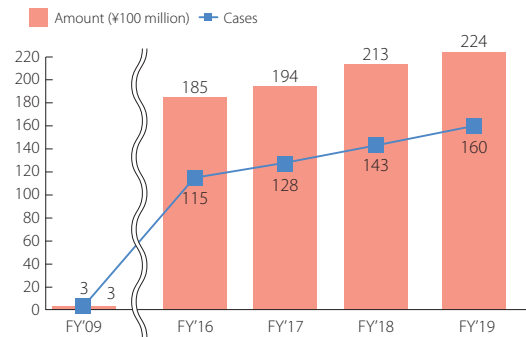
The Shoko Chukin Bank has consistently provided our customers with business revitalization and management improvement support. In addition, in the Medium-term Business Plan, the Shoko Chukin Bank selected roughly 4,000 companies as main and sub-main customers for the provision of active support and guidance. 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.

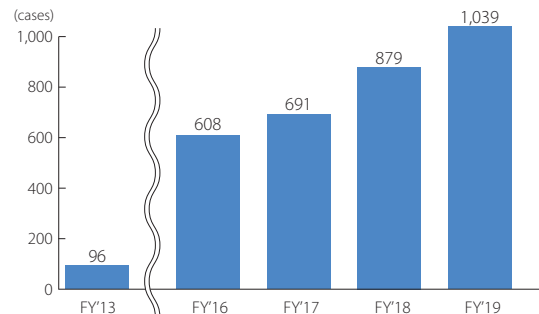
~Past initiatives to support business revitalization~

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]

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.

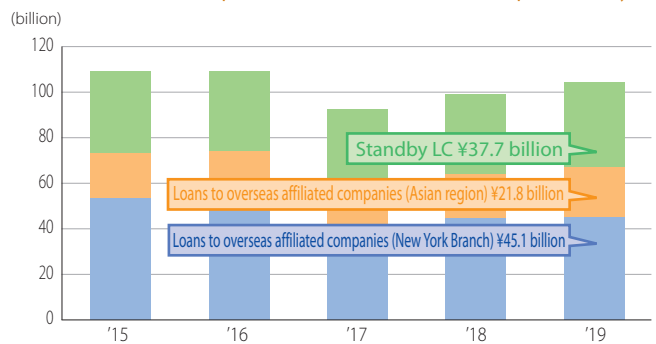
Support for Overseas Expansion

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)
- Indonesia Investment Coordinating Board (BKPM)
- 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)
- Danyang Economic Development Zone (China) • Canadian Department of Commerce

Overseas Centers and Destinations



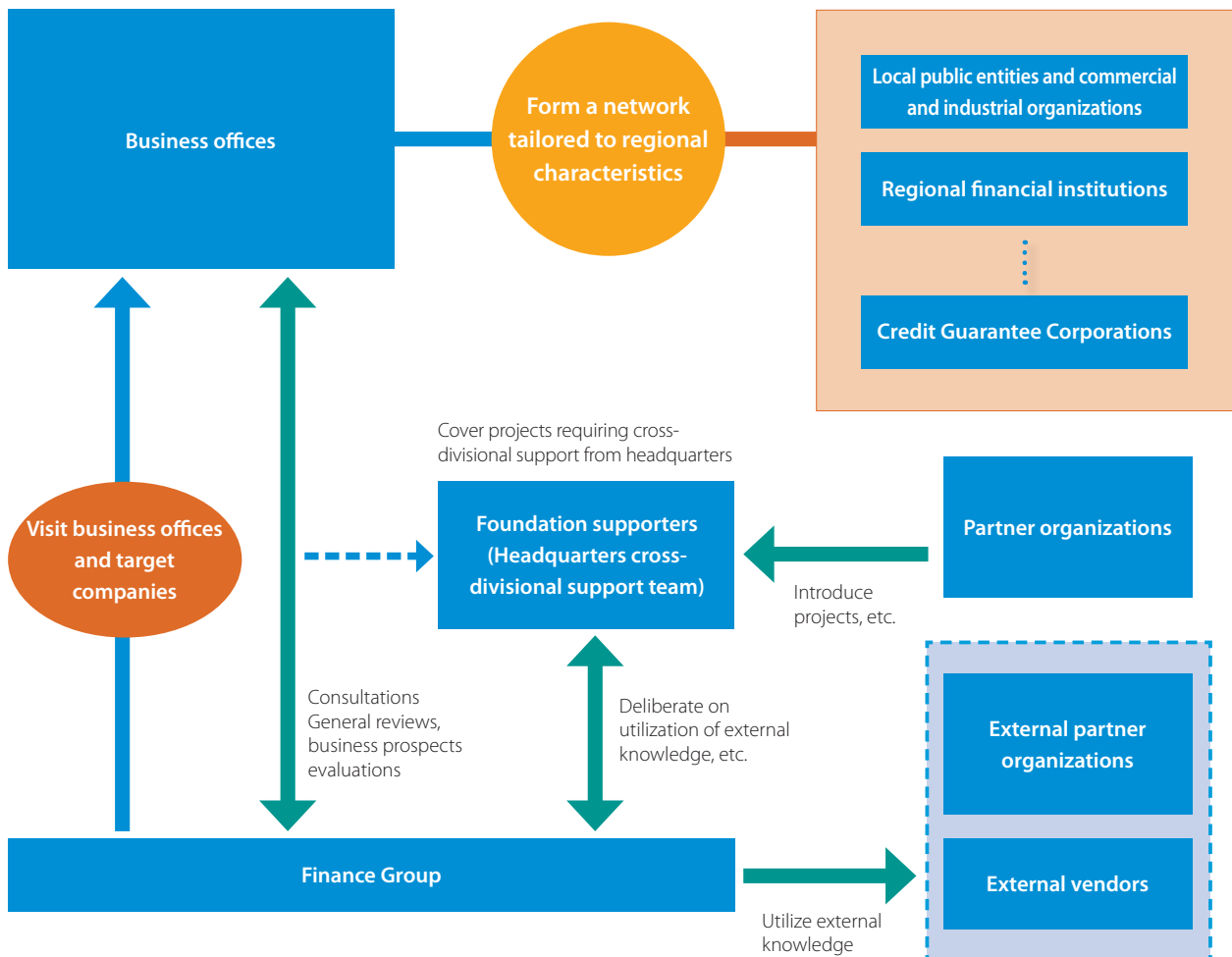
Zone D [New industry challenges and establishment support]

We assist recent startup customers and customers who are taking on challenges in frontier fields (aircraft, robotics, or advanced IT), by integrating investment/loans and core business support, and work to refine our regional finance functions.

Since providing support for frontier fields such as robotics and biotechnology in many cases requires supporting information and advanced knowledge, we work on enhancing business intelligence, including industry trends and industry analysis, as well as strengthening support in coordination with policies of external organizations and national and local governments.



Scheme for new industry challenges and establishment support



Approaches to Guidelines for Management Guarantee

The Shoko Chukin Bank has been proactively supporting SMEs by utilizing financing methods that are not overly reliant on management guarantees. The Study Group on Guidelines for Management Guarantee released the Guidelines for Management Guarantee on December 5, 2013, and the Special Provisions on Guidelines for Management Guarantee, which focus on business succession, on December 24, 2019. The Shoko Chukin Bank will respond appropriately in accordance with the Guidelines and Special Provisions.

[Response at the time of a change of the representative]

(Cases, %)

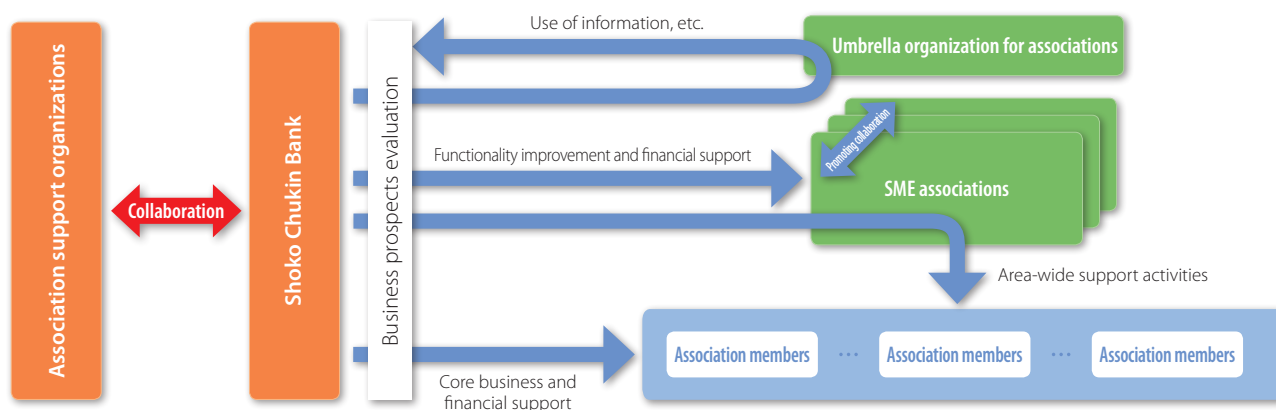
	FY2018		FY2019	
	No. of cases	Composition ratio	No. of cases	Composition ratio
1. Number of cases in which a guarantee contract with the former management was canceled and no guarantee contract was signed with the new management	718	11.0%	495	10.7%
2. Number of cases in which a guarantee contract with the former management was canceled and a guarantee contract was signed with the new management	1,192	18.3%	785	17.0%
3. Number of cases in which a guarantee contract with the former management was not canceled and no guarantee contract was signed with the new management	4,582	70.5%	3,309	71.7%
4. Number of cases in which a guarantee contract with the former management was not canceled and a guarantee contract was signed with the new management	6	0.1%	27	0.6%

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.



Cooperation/Collaboration 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.

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 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.



*Figures in circles indicate the number of comprehensive cooperation agreements in each area, as of March 2020.

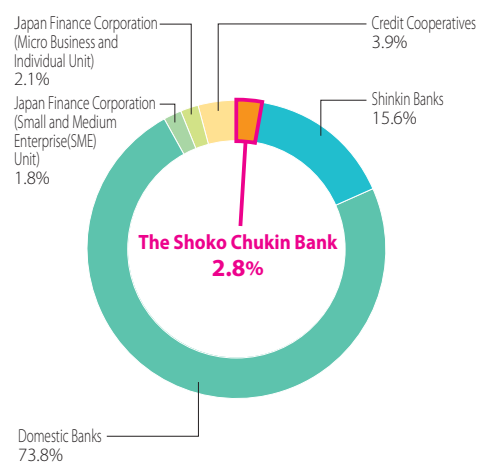
Fulfilling a Safety Net Function, Mainly in Crisis Response Measures

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

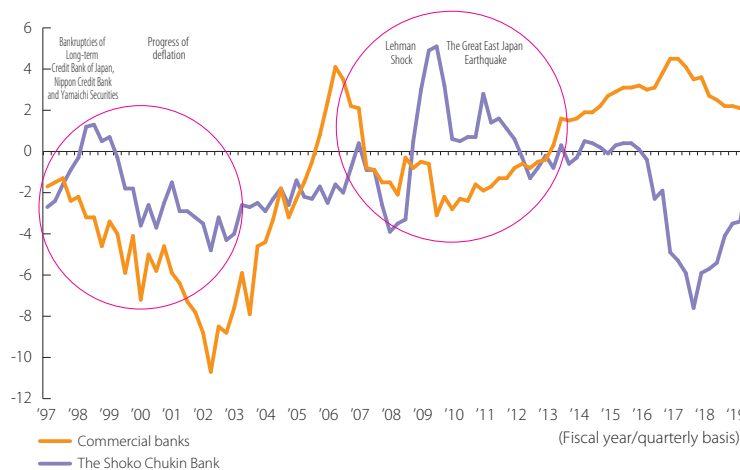
The Shoko Chukin Bank, through its day-to-day transactions with SMEs, not only looks at financial matters, but also takes the clients' operations, technology, and the abilities and enthusiasm of the executives into consideration. In this way, we strive to provide services that respond flexibly to corporate 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 2019)



· 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, %)



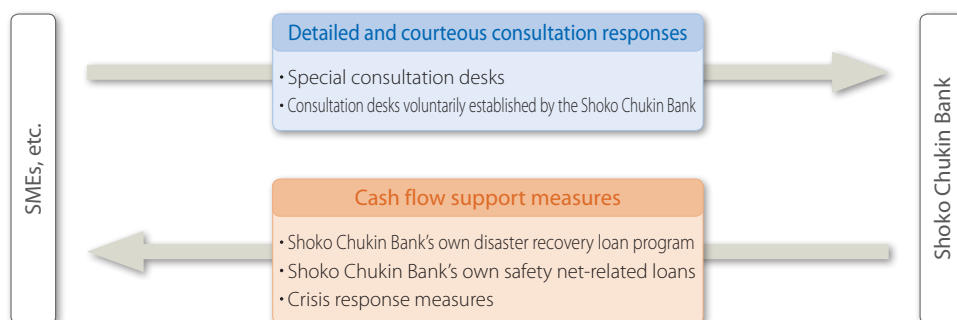
· Commercial banks include total for domestic banks, shinkin banks, and credit cooperatives. Figures used for domestic banks represent loans to SMEs and middle-market enterprises; for shinkin banks, corporate loans; for credit cooperatives, total loans.
· Graph shows changes up to third quarter of fiscal 2019.
Sources: Bank of Japan "Loans and Bills Discounted by Sector," Community Bank Shinyo Kumiai

Efforts by the Shoko Chukin Bank

The fiscal year ended March 31, 2020 was plagued with many disasters, including a heavy rainfall disaster in August 2019, Typhoon No. 15 in 2019 (Typhoon Faxai), and Typhoon No. 19 in 2019 (Typhoon Hagibis).

In addition, the business environment surrounding SMEs has been changing rapidly, as the spread of Covid-19 has constrained economic activities.

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



Shoko Chukin Bank Enabler Business

The Shoko Chukin Bank has named its core business support-integrated financial frontier business, which revives local economies and core regional industries, as the Shoko Chukin Bank Enabler Business (*), and commenced full-scale operation from the fall of 2019.

By providing advanced solutions such as the development of sales channels that take advantage of the features of the Shoko Chukin Bank, providing thorough hands-on support to SMEs, and supplying more risk money than ever before, we will help to solve the problems of SMEs in order to revitalize the Japanese economy, improve industrial competitiveness, and sustain the growth of the region.

In Shoko Chukin Bank's new business model as a comprehensive financial services business to support management, through initiatives that exhibit strong ripple effects on the entire region, the Headquarters and business offices will work together to create a standard framework (platform), and expand it nationwide.

*An enabler is a companion who makes the impossible possible.

Background of the enabler business

We are implementing the Medium-term Business Plan to support individual companies centered on our priority areas, while taking advantage of the five features of the Shoko Chukin Bank. As part of these efforts, through the three perspectives of an enabler, we will support initiatives that have strong ripple effects on the entire region, which will lead to economic revitalization, regional revitalization, and improvement in industrial competitiveness.



Round 1 projects

1. Revitalization support for core regional companies, etc.

Support core regional companies that are trying to recover from past difficulties, by providing them with another chance to normalize financial transactions.

2. Support for value creation in the hospitality and tourism industry

Provide comprehensive support for the creation of value in areas that have good tourism resources, but are struggling with the branding and marketing of the entire area for tourism.

3. Branding and marketing support for regional products

Provide comprehensive support for SMEs that have quality local products, but are unable to promote sales due to a lack of branding and marketing skills.

4. Support for productivity improvements through the promotion of IT

Support productivity improvements through the promotion of IT, by solving fundamental issues such as the development and utilization of specialized human resources.

5. Strategic support for SDGs

Promote awareness-raising activities regarding the SDGs for SMEs, and support initiatives with strong ripple effects throughout the region, through means such as impact evaluations.

Round 2 projects

Support for improving logistics productivity through warehouse sharing

Support for the stabilization of regional medical care through conversions of the functions of medical institutions, etc.

Support for SME business category transformations, including supply chain reform

Measures in Response to Covid-19 and Crisis Response Measures

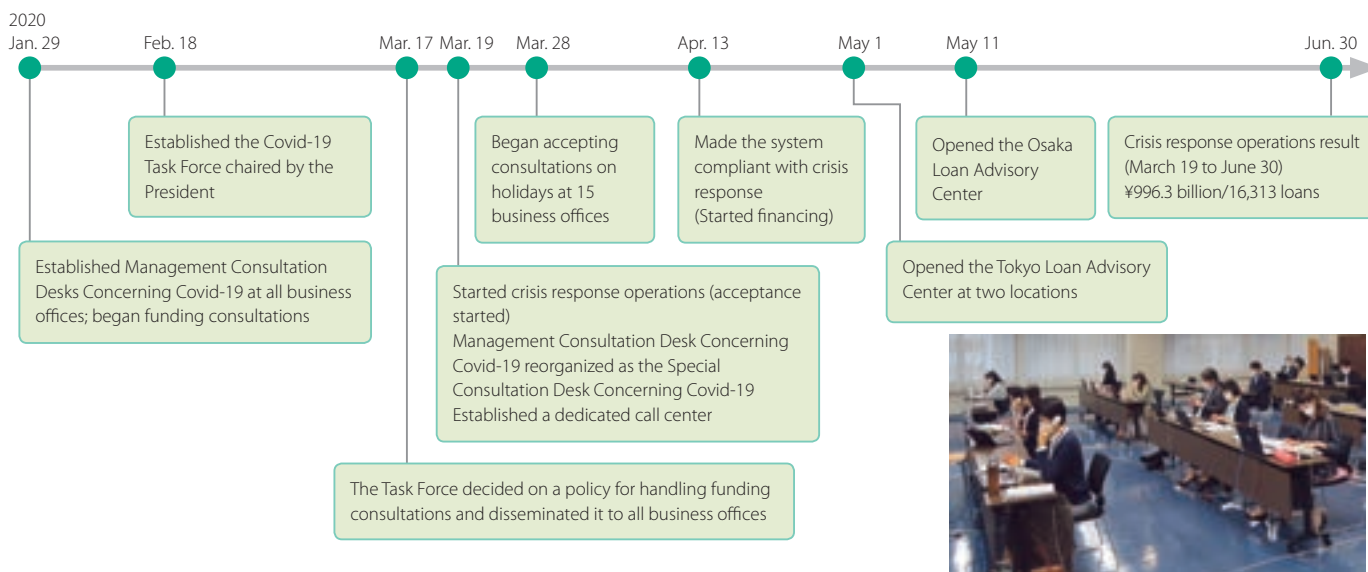
A new program for crisis response was developed after October 1, 2008, in order to deal with times of crisis, such as disasters and economic or financial turmoil. The Shoko Chukin Bank is a designated financial institution (*1) to implement financing for SMEs and middle-market enterprises in response to crisis.

In response to the spread of Covid-19, which has had a significant impact on global economic trends, the Shoko Chukin Bank established the Management Consultation Desk Concerning Covid-19 on January 29, to provide financial counseling to affected SMEs, and began the crisis response operations on March 19. Through this consultation, 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, based on the recommendations of the Board to Examine the Shoko Chukin Bank's Way of Being (*2), and we strictly distinguish such situations as a public service, and carry out appropriate business operations while ensuring compliance from the perspective of preventing fraud.

*1. 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.

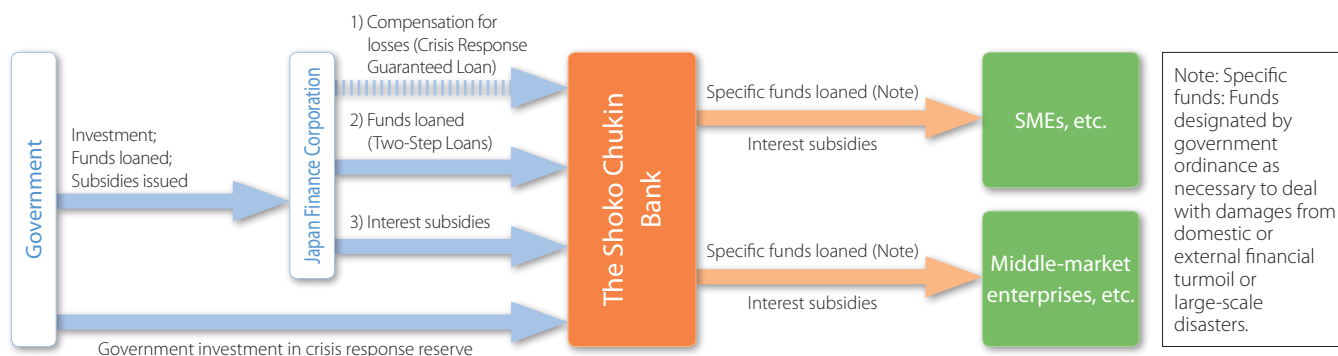
*2. Consultation desks for other crisis response operations: The Shoko Chukin Bank has established ten Special Consultation Desks in response to the request of the ministries in charge, including consultation desks for the Kumamoto Earthquake and the Great East Japan Earthquake, in addition to six consultation desks that were voluntarily established by the Shoko Chukin Bank.

Flow of consultations for funding in response to Covid-19



Dedicated call center

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** : 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.

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 2020

- With long-term interest rates remaining at low levels, in order to secure stable earnings amidst the current situation, we will further accelerate the sharing of issues and needs through dialogue with customer SMEs, along with 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 solutions to help solve their problems.
- For the time being, in light of the severity of the impact of Covid-19 over the near term, we will appropriately operate systems as a designated financial institution for crisis response operations, and respond quickly to the situations of those affected by Covid-19.
- At the same time, we will 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 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 to assist in management improvement of the customer SMEs.
- In order to make these efforts sustainable, 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 establish compliance awareness as the backbone of our business model and strengthen internal management systems, while also establishing human resources systems that allow employees to perform to the best of their abilities, 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.

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 4,637 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 January 2020.

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.