

### 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.

The 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

In fiscal 2020, the Japanese economy showed signs of a recovery in the second half following a sharp deterioration in the first half in the wake of the global Covid-19 pandemic.

Looking at the business sentiment among SMEs, the business conditions index in the Shoko Chukin Bank's Quarterly Survey of SME Business Sentiment dropped dramatically in the June survey, but then started to pick up from the September survey onwards as the decline in sentiment hit a floor. On the other hand, the Bank's Survey of SME Capital Investment Trends suggests SMEs' persistently cautious approach to capital investment as uncertainties about future economic conditions continue to increase.

Conditions remain particularly severe for face-to-face service sectors, such as the restaurant and tourism-related industries. These customer trends could affect the earnings of domestic financial institutions due to factors such as increased credit-related expenses.

### Overview of Fiscal 2020

In fiscal 2020, the performance of many SMEs deteriorated sharply in the wake of the Covid-19 pandemic. We, therefore, worked extremely hard to support the cash flows of affected business operators as a designated financial institution for crisis response operations.

The Shoko Chukin Bank Management Reform Plan, which is our Medium-term Business Plan, defines focused support for SMEs that 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 the initiatives in the 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.

Responding to newly emerged issues and changing needs sparked by the impact of Covid-19 falls squarely under the remit of "providing comprehensive financial services business to support management" and, as such, we believe it is necessary to focus more firmly on priority area initiatives and establish them as our new business model.

In Zone A, which is a volume zone, we recognize the need to provide more in-depth support to SME customers who are witnessing worsening cash flows due to Covid-19.

In Zone B, where we provide management improvement support, we decided to take a medium- to long-term view and provide active support to SMEs, including those who have started experiencing problems with their finances, income and expenditure manifest in the wake of Covid-19. We will also utilize capital strengthening support measures designed to shrink the increased debt and encourage other management improvements by boosting SME income and expenditure position and increasing operating cash flow.

With regard to Zones C and D, given the large number of SMEs that have been forced to change their business and procurement plans due to the Covid-19 impact, we will strive to grasp the new needs that will enable SMEs to cope with these changes.

In terms of our own income and expenditure in fiscal 2020, the Shoko Chukin Bank reported income before income taxes and others of ¥7.6 billion and net income of ¥8.7 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 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.

SMEs, which make up the majority of our borrowers, are inherently susceptible to external factors and are now experiencing a worsening in their business

performance not only due to structural problems such as labor shortages, but also to the impact of Covid-19. We will continue to 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, while ensuring the accurate operation of systems, including the equity subordinated loans that we began offering in August 2020.

Furthermore, the challenges facing SMEs and their consequent needs are becoming increasingly diverse, amid a sharp increase in borrowings, changing new-normal business models and sales channels, or the necessity to adapt to industry reorganizations. Now more than ever, we need to 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. Also, 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, instilling a stronger awareness of inclusion, 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 2021

**Masahiro Sekine**

President

The Shoko Chukin Bank, Ltd.