

Achievements of the Shoko Chukin Bank Management Reform Plan

In accordance with the Medium-term Business Plan, the Shoko Chukin Bank Management Reform Plan, announced in October 2018, we have contributed to the improvement of corporate value of our customers by developing a comprehensive financial services business to support management that meets the expectations of SMEs and SME cooperatives and effectively provides optimal solutions that meet their genuine needs and challenges. Furthermore, by securing appropriate earnings through high value-added operations including priority areas, the Bank has also worked to enhance its corporate value by realizing a self-sustaining and sustainable business model through the pursuit of relentless streamlining of management.

In addition, we were also able to firmly engage in crisis response operations related to Covid-19, which was not originally planned, and as a result, we were able to achieve the initially formulated targets for all management indicators.

Basic views of the Management Reform Plan

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.

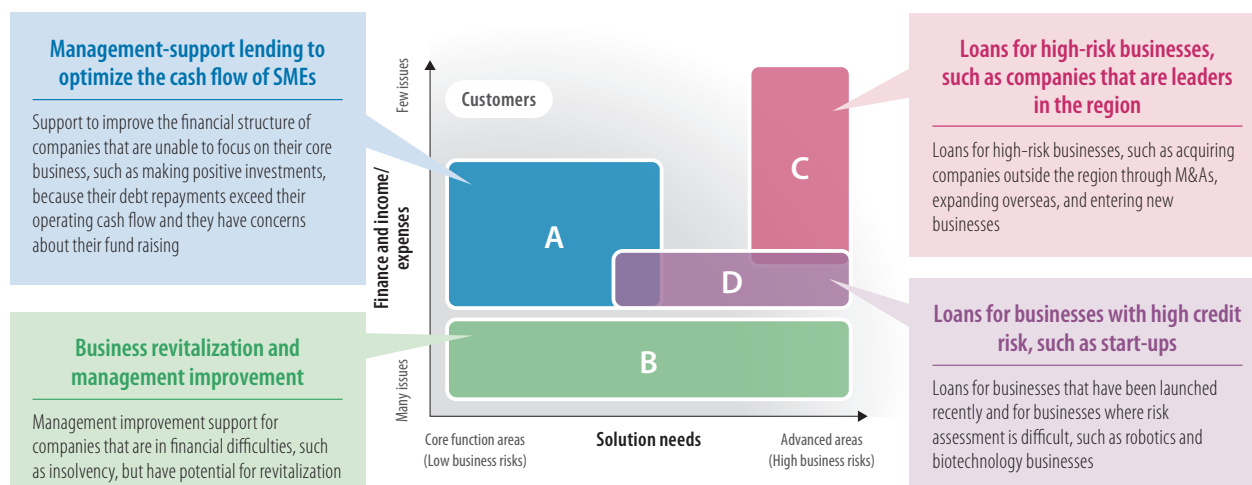
Resolution of social issues

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

Description of priority areas

Customer support – Priority area

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



Self-assessment of initiatives in priority areas

- We instilled initiatives based on business prospects evaluation in the organization. Most recently, we focused on supporting customers who are dealing with business changes due to the impact of Covid-19.
 - In Zone A, we provided in-depth support to customers with cash-flow problems or changes in business flows.
 - In Zone B, we proactively provided support from a medium- to long-term perspective to customers, including those with emerging financial and income/expenses balance issues, to help them reduce excessive debt by improving their balance of income and expenses and increasing their operating cash flow.
 - In Zone C and Zone D, many customers were forced to change their business and procurement plans due to the impact of Covid-19, and we provided support to meet the new needs to respond to these changes.

Evaluation from customers

- **Evaluation from customers** [Results based on customer questionnaires (sent out every fiscal year to approximately 20,000 companies, with a response rate of slightly less than 35%)]

The NPS (net promoter score), which measures customers' overall satisfaction, trust, and loyalty, is on an upward trend.

	Overall satisfaction	Level of trust	NPS
FY2021	84.2	93.4	(6.4)
FY2020	83.1	93.5	(7.7)
FY2019	80.8	90.9	(16.4)
FY2018	79.2	89.1	(21.7)

(Note) Overall satisfaction is the percentage of respondents who answered "5: Satisfied" or "4: Somewhat satisfied" on a 5-point scale (%).

(Note) Level of trust is the percentage of respondents who answered "5: Trust" or "4: Somewhat trust" on a 5-point scale (%).

(Note) NPS: The net promoter score, measured by promoters and detractors.

On an 11-point scale from 0 to 10, the percentage of promoters (9, 10) minus the percentage of detractors (0-6) (%).

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Description of results

■ Outstanding loans in priority areas

(Billions of yen)

	FY2021 results	FY2021 initial target	Difference
Total	9,638.6	8,820.0	+818.6
Priority area	2,531.3	3,110.0	(578.7)
Zone A	1,176.5	1,600.0	(423.5)
Zone B	1,171.7	960.0	+211.7
Zone C	380.2	350.0	+30.2
Zone D	70.4	200.0	(129.6)
Other areas	7,107.3	5,710.0	+1,397.3
Crisis responses	2,489.0	—	—

■ Management Indicators

(Billions of yen)

	FY2021 results	FY2021 initial target	Difference
Gross operating profit	118.9	Approx. 115.0	+3.9
Operating profit	52.8	Approx. 46.0	+6.8
Income before income taxes and other	30.2	Approx. 25.0	+5.2
Net income	18.3	Approx. 17.5	+0.8
OHR	55%	Approx. 60%	+5%

Note: The loan balance includes private placement bonds. Due to some overlaps in the priority areas, there are differences between the sums of the loan balances of Zones A to D and the figures for the Priority Area.

Starting from the business prospects evaluation, we will contribute to the security and safety of our customers as a partner of our customers

Priority areas (Zone A) x enabler business

FSX, Inc. (Tokyo)

Supporting financial structure reforms in collaboration with regional financial institutions

FSX, Inc. is a distributor of hand towels, rental towels, and other daily necessities. FSX offers antiviral and antibacterial hand towels using VB, a patented technology developed together with a joint venture from Tokyo Institute of Technology and Keio University that inhibits viruses and bacteria by at least 99.99%. In February 2020, VB hand towels were provided to the cruise ship Diamond Princess to help ensure the safety and security of essential workers and other personnel confronting Covid-19.

The Shoko Chukin Bank compiled an in-depth business prospects evaluation through on-site visits and interviews with management into a value improvement report, sharing the company's strengths and financial challenges. The Shoko Chukin Bank supported the development of a new business plan to resolve the business succession issues left over from previous years, while providing support in cooperation with other financial institutions.

Specifically, we arranged a syndicated loan totaling ¥1.05 billion. The syndicated loan was arranged by the Shoko Chukin Bank, with participation from the Seibu Shinkin Bank, the Tama Shinkin Bank, Higashi-Nippon Bank, and Kiraboshi Bank, and its structuring was made possible through collaboration with these regional financial institutions. In addition, a separate equity subordinated loan of ¥200 million was also provided to support the elimination of the mismatch between operating and financial cash flows, the increase in capital, and the further strengthening of the financial base.



[Thoughts from a member of the Shoko Chukin Bank]

Kentaro Masuda, Hachioji Office (at the time of interview)

President Fujinami is optimistic about the future of the business and has a strong will and energy. We have done our best to support the president, who is positively committed to the development of anti-viral products with a view to the maturation of the rental hand towel market.

What is the enabler business?

The enabler business supports initiatives with high ripple effects throughout the region that lead to economic revitalization, regional development, and improvement of industrial competitiveness through the perspectives of three enablers, taking advantage of the characteristics of the Shoko Chukin Bank.

Perspective of an enabler

Stance

- Breaking through financial practices
- Perspective of the entire region and industry
- Fundamental problem solving

Know-how and technology

- Establishing advanced support schemes
- Total planning
- Nationwide network

Risk-taking

- Credit and credit methods that defy precedents
- Operating beyond traditional industry standards
- A wide range of support for groups excluded from finance

BCP support

KUSATSU ELECTRIC CO., LTD. and the Shiga Denka Kogyo Kyodo Kumiai (Shiga Prefecture Electric Industry Cooperative)

Support to prepare for large-scale disasters such as earthquakes

KUSATSU ELECTRIC CO., LTD. is a manufacturer of small motors and pumps for industrial equipment and air conditioners. KUSATSU ELECTRIC has multiple business locations in Japan and overseas, develops its own manufacturing equipment, and conducts integrated production from equipment to finished products. The Shiga Prefecture Electric Industry Cooperative, for which the KUSATSU ELECTRIC's President serves as chairman, was supporting the formulation of a business continuity plan (BCP) to build a system that would enable its members to continue their business in the event of disasters that were occurring one after another across Japan. Furthermore, in order for the cooperative members to cooperate with each other and maintain the supply chain in the event of an emergency, the cooperative formulated a Collaborative Business Continuity Enhancement Plan and obtained certification in March 2021.

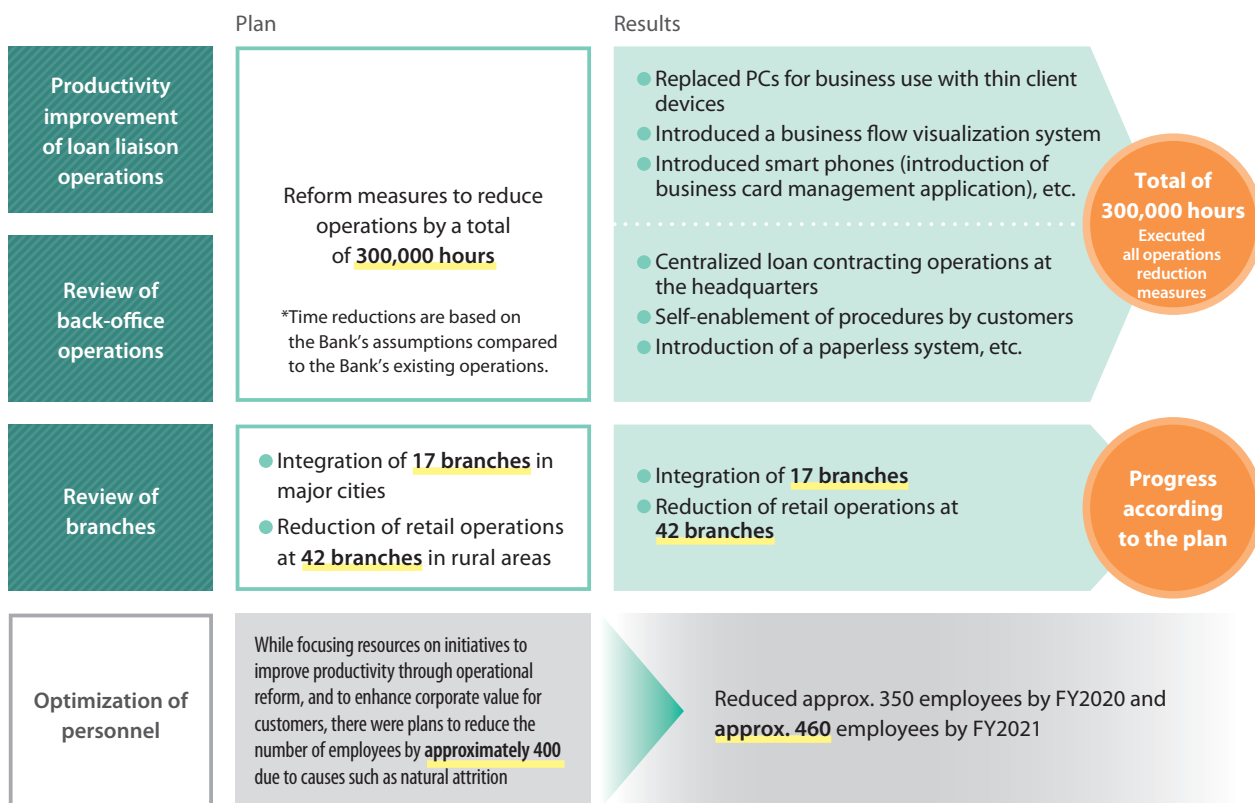
The Shoko Chukin Bank, in cooperation with the Organization for Small and Medium Enterprises and Regional Innovation, JAPAN (SME Support, JAPAN) and the Shiga Prefecture Federation of Small Business Associations, supported organizing the BCP seminars and other events that the cooperative was promoting, and provided information and other support tailored to the needs of each cooperative member. Having confirmed that the company, which has multiple locations, would be required by its customers to provide a stable supply even in the event of a disaster, the company established a disaster-response commitment line* that allows free access to funds in preparation for disasters in Shiga Prefecture and at its other locations. Through this, we have secured a smooth means of financing to enhance business continuity and increase the trust of our stakeholders.

*The agreement excludes disasters above a certain size from reasons for financial institutions' inability to provide loans, enabling prompt financing based on predetermined conditions within the commitment line, including in the event of an earthquake or other extraordinary event.



Operational reform initiatives

In order to reallocate resources to priority areas and optimize costs while maintaining our nationwide network, we have improved and upgraded the productivity of sales contact point operations (loan liaison department), streamlined back-office operations, and reviewed branch functions including full banking functions.



INTERVIEW

Execution of operational reforms and building momentum

The Project Team for Promotion of Branch and Operational Reform was one of the dedicated teams established to take on key management streamlining measures in the Shoko Chukin Bank Management Reform Plan. Through the introduction of various information systems and the review of operations, we worked to maintain a nationwide network by improving operational efficiency through the use of paperless system and the implementation of remote work, thereby improving convenience for our customers and reforming the work styles of our employees.

To implement operational reform, although it is necessary to accept a different way of doing things, everyone feels some anxiety about changing familiar ways of doing things. For this reason, for example, in our paperless initiatives, we took care to create momentum for reform by conducting a company-wide document sorting campaign every Friday evening.

We will continue to make steady progress in the spirit of our motto, "slow and steady wins the race", including the expansion of the Operations & Customer Services Center system, which is responsible for office consolidation.

Naoko Mizui, Project Team for Promotion of Branch and Operational Reform

